# TAKKT AG

BUSINESS EQUIPMENT SOLUTIONS

Annual Report 2003

**Key figures of the TAKKT Group in EUR million under IFRS**

| | 1999* | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Turnover | 627.5 | 762.8 | 824.1 | 783.7 | 713.9 |
| *Change in %* | *16.3* | *21.6* | *8.0* | *- 4.9* | *- 8.9* |
| EBITDA | 72.6 | 90.3 | 86.6 | 85.7 | 80.1 |
| *in % of turnover* | *11.6* | *11.8* | *10.5* | *10.9* | *11.2* |
| EBITA | 65.1 | 81.3 | 76.4 | 75.1 | 70.3 |
| *in % of turnover* | *10.4* | *10.7* | *9.3* | *9.6* | *9.8* |
| EBIT | 57.1 | 68.6 | 57.7 | 57.0 | 53.9 |
| *in % of turnover* | *9.1* | *9.0* | *7.0* | *7.3* | *7.5* |
| Profit for the year before taxes | 50.2 | 55.5 | 35.5 | 39.0 | 40.6 |
| *in % of turnover* | *8.0* | *7.3* | *4.3* | *5.0* | *5.7* |
| Profit for the year | 31.2 | 33.5 | 19.4 | 24.5 | 24.4 |
| *in % of turnover* | *5.0* | *4.4* | *2.4* | *3.1* | *3.4* |
| | | | | | |
| Cash flow | 46.7 | 55.1 | 48.3 | 53.0 | 50.6 |
| Capital expenditure** | 121.2*** | 169.1 | 24.0 | 8.6 | 9.8 |
| Depreciation | 15.5 | 21.6 | 28.9 | 28.7 | 26.2 |
| | | | | | |
| Cash flow per share in EUR | 0.63 | 0.75 | 0.65 | 0.72 | 0.68 |
| Earnings per share in EUR | 0.42 | 0.45 | 0.26 | 0.33 | 0.33 |
| Dividend per share in EUR | 0.05**** | 0.10 | 0.10 | 0.10 | 0.10 |
| | | | | | |
| Fixed assets | 254.7 | 407.7 | 414.6 | 358.6 | 311.8 |
| *in % of total assets* | *64.0* | *67.9* | *69.2* | *66.4* | *65.0* |
| Current assets and prepaid expenses | 137.7 | 186.0 | 175.2 | 170.6 | 158.5 |
| *in % of total assets* | *34.6* | *31.0* | *29.2* | *31.6* | *33.0* |
| Shareholder's equity | 105.3 | 135.9 | 148.4 | 149.6 | 157.2 |
| *in % of total assets* | *26.4* | *22.6* | *24.8* | *27.7* | *32.8* |
| Net financial liabilities | 220.2 | 374.0 | 353.0 | 285.7 | 234.3 |
| Employees (full-time equivalent) as of 31.12. | 1,546 | 1,931 | 1,964 | 1,914 | 1,860 |

*Pro-forma figures **incl. acquisitions and finance leases ***thereof 117.0 relates to spin-off ****Stub fiscal year

## ADDING VALUE SYSTEMATICALLY

TAKKT AG is the leading B2B mail order company for business equipment in Europe and North America.

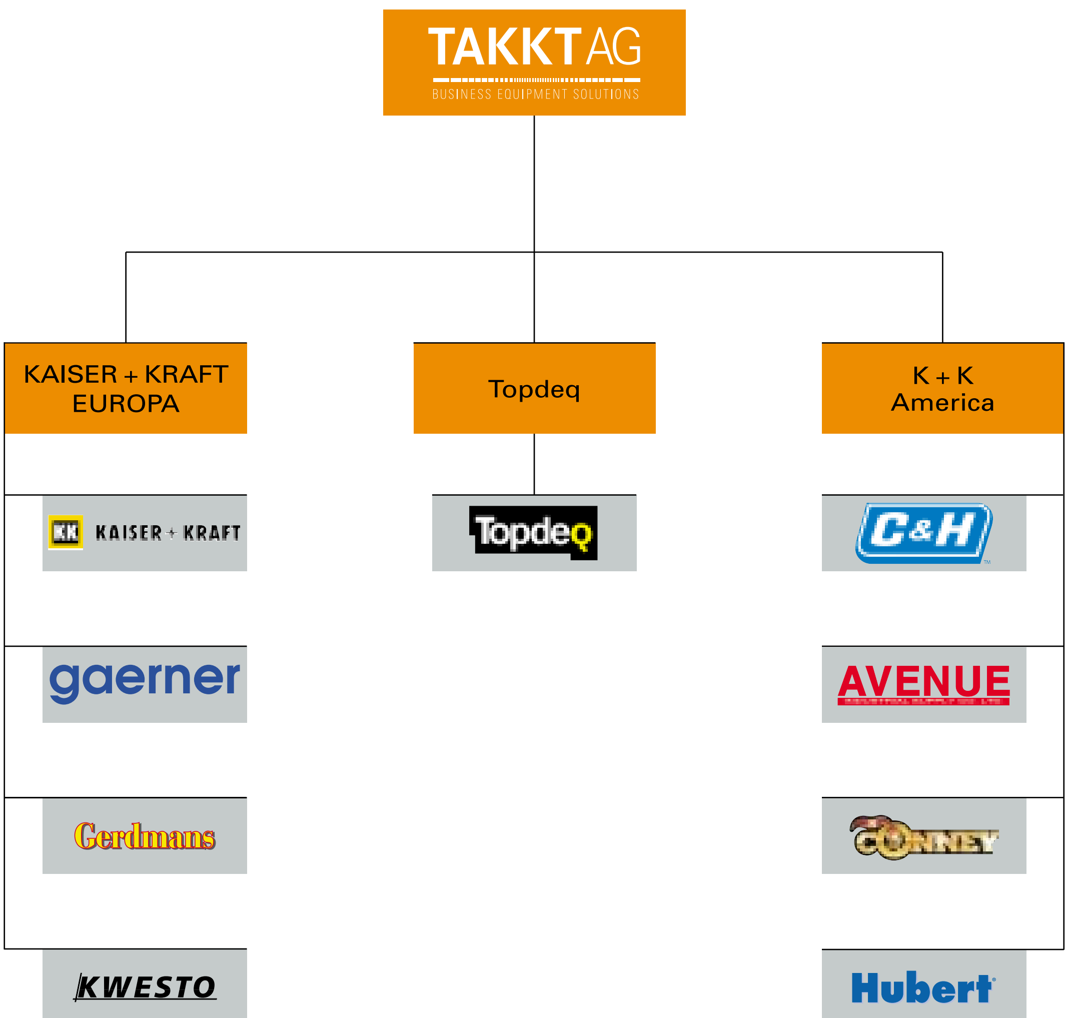
Our diversified product portfolio is geared to the requirements of our customers, who expect us to provide an effective one-stop shopping solution.

Our company owes its success to the fact that we have consistently refined and perfected an efficient and stable systems business.

The companies of the TAKKT Group establish an efficient connection between products from thousands of manufacturers and our 2.5 million customers. This way, we generate value for all market participants.

More than 100,000 high-quality products make our range unique in terms of width and depth. Our customers get the full equipment for their business from a single source, complemented by first-class service.

Our vision: to be the world's leading B2B mail order company for high-quality business equipment for our customers.


TAKKT AG
BUSINESS EQUIPMENT SOLUTIONS
KAISER + KRAFT EUROPA
Topdeq
K + K America
KAISER + KRAFT
gaerner
Gerdmans
KWESTO
Topdeq
C&H
AVENUE
CONNEY
Hubert

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Günther Hülse
Chairman of the Supervisory Board

# Ladies and Gentlemen,

In my capacity as Chairman of the Supervisory Board, I would like to thank all shareholders for the confidence placed in TAKKT AG in fiscal 2003. Our company operated successfully in what was again a weak economic environment. This clearly shows that the B2B mail order business model remains highly profitable and stable even in difficult times. Moreover, the TAKKT Group is excellently positioned thanks to its strong market presence and its balanced portfolio. The Supervisory Board is therefore convinced that the Group will show above-average growth again as soon as the economy recovers.

## BUSINESS PERFORMANCE IN 2003

Due to the poor economic situation and the weak US dollar, TAKKT was unable to reach its turnover targets in 2003 fully. In the course of the past fiscal year, the Group's Supervisory Board and management extensively discussed measures to mitigate the effects of the weak economy on the company's business. With a view to improving its operating results, TAKKT pursued a consistent strategy of bringing capacities in line with order volumes, cutting costs and optimising structures and processes. These measures helped us stabilise profit margins and cash flow on a high level. This was also made possible by the promising overall performance of the companies established in recent years. Low interest rates and a further reduction in liabilities also had positive effects.

## THE WORK OF THE SUPERVISORY BOARD

The Supervisory Board held one meeting per quarter. The list of the members of the Supervisory Board remained unchanged from the previous year. The Supervisory and Management Boards extensively discussed measures to minimise the effects of stagnation in some regions. In addition, the Supervisory Board closely monitored the development of the newly established companies. Other important topics included the presentation of the first financial statements of TAKKT AG and the first consolidated financial statements prepared according to International Accounting Standards (IAS). The Supervisory Board extensively discussed the changes resulting from IAS accounting with the Management Board and the auditors. The Management Board provided the Supervisory Board with detailed reports on the course of business as well as with well-founded information on all issues. All topics were discussed in sufficient detail. The Management Board provided all information requested and answered all questions comprehensively. The Supervisory Board members passed resolutions on all matters of day-to-day business requiring their approval. Between the Supervisory Board meetings, the Management Board kept the undersigned Chairman of the Supervisory Board informed about all important developments. Such information was provided to the other Supervisory Board members at the next respective meeting. The Supervisory Board's personnel committee met once to renew the contracts of the Management Board members.

I am convinced that the Supervisory Board monitored the management of the company in an appropriate manner and fulfilled its duties and obligations conscientiously.

### CORPORATE GOVERNANCE

TAKKT attaches great importance to responsible and transparent management. The Group has therefore expressly endorsed the regulations of the German Corporate Governance Code, whose recommendations we fulfil with only two exceptions. We still do not consider it necessary to establish an audit committee as the Supervisory Board is a relatively small body with only nine members. Also, we will not provide any information about individual Management Board and Supervisory Board members' compensation, given that such individualised information would objectively not be much more meaningful than the cumulative compensation and would also invade the members' privacy, which deserves protection.

In November 2003, we issued the first detailed questionnaire to review the efficiency of the Supervisory Board. It allowed the Supervisory Board members to systematically assess the work and competence of this body. The results of the questionnaire were discussed extensively at the December meeting, where the members identified only little need for improvement.

## DIVIDEND

We are pleased that TAKKT AG will again be able to pay out an appropriate dividend to its shareholders despite the difficult economic situation in the past fiscal year. Thanks to the good results, the dividend will remain unchanged at EUR 0.10 per share. The Group's high profitability means that sufficient financial resources will be available to repay debt as scheduled and to strengthen our equity ratio even after payment of the dividend.

## FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of TAKKT AG, the consolidated financial statements, the combined management report of TAKKT AG and the Group were audited by Dr. Ebner, Dr. Stolz und Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, and received their unqualified audit certificate. These financial statements, the combined management report and the auditors' audit report as well as the Management Board's profit appropriation proposal were submitted to all members of the Supervisory Board.

The Supervisory Board meeting convened for the discussion of the accounts was attended by the responsible auditors, who reported on the main results of their audit and provided detailed explanations to the Supervisory Board. The Supervisory Board agrees with the result of the audit. The Supervisory Board also reviewed the consolidated financial statements, the financial statements of TAKKT AG, the Group management report including the management report of TAKKT AG and the profit appropriation proposal. No objections were raised.

We have approved the financial statements of TAKKT AG and the consolidated financial statements, which are therefore final.

We agree with the Management Board's profit appropriation proposal. The Supervisory Board also accepts the combined management report, in particular the assessment of the Group's future development.

## DEPENDENCE REPORT

In view of the fact that Franz Haniel & Cie. GmbH, Duisburg-Ruhrort, retained a majority holding during the year under review, the Management Board submitted to the Supervisory Board the report on relations with affiliated companies for the financial year 2003 as required under section 312 of the German Stock Corporation Act, together with the related auditors' report prepared by Dr. Ebner, Dr. Stolz & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, in their capacity as auditors of the financial statements pursuant to section 313 of the German Stock Corporation Act. The auditors raised no objections and therefore issued the following unqualified report: "Having conducted a proper audit and appraisal, we hereby confirm that the facts set out in the report are correct and the compensation received by the company in connection with the legal transactions referred to in the report was not unduly high."

The Supervisory Board also reviewed the report on relations with affiliated companies and the corresponding auditors' report. We have no objections to the auditors' report and to the final declaration in the report of the Management Board.

The Supervisory Board would like to thank the Management Board and all employees of the TAKKT Group for their successful work in the financial year 2003.

Stuttgart, March 2004
The Supervisory Board

Günther Hülse, Chairman

# Supervisory Board

GÜNTHER HÜLSE, CHAIRMAN
Chairman of the Management Board of Franz Haniel & Cie. GmbH, Krefeld

DR. DIETER SCHADT, VICE CHAIRMAN
Former Chairman of the Management Board of Franz Haniel & Cie. GmbH, Mülheim an der Ruhr

WALTER FLAMMER
Head of Organisation at KAISER + KRAFT EUROPA GmbH, Esslingen

DIETER KÄMMERER
Former Chairman of the Management Board of Celesio (formerly GEHE) Aktiengesellschaft, Holzgerlingen

MICHAEL KLEIN,
Non-Executive Chairman of Rapp Collins Agency/Direct Friends, Hamburg

THOMAS KNIEHL
Logistics employee at KAISER + KRAFT GmbH, Stuttgart

JULIAN MATZKE
Logistics employee at KAISER + KRAFT GmbH, Stuttgart

PROF. DR. DRES. H.C. ARNOLD PICOT
University professor, Gauting

DR. KLAUS TRÜTZSCHLER
Member of the Management Board of Franz Haniel & Cie. GmbH, Gelsenkirchen

**Georg Gayer**
Chairman of the Management Board

# Ladies and Gentlemen,

We look back on a financial year that was characterised by a difficult economic environment. The expected upswing in Europe failed to materialise. Following a moderate recovery at the end of 2002, the economy lost in momentum again relatively quickly. The stagnation in Germany was particularly disappointing. While an upward trend has been in evidence in the USA since the third quarter of 2003, it was mainly driven by consumer spending. Overall, business was more volatile last year, both in Europe and in the USA.

The TAKKT Group nevertheless continued to strengthen its market position. We again generated high profit margins and increased the profit before taxes. The Group was able to mitigate the effects of the economic weakness somewhat, given that our business rests on a broad basis thanks to our proven growth and product portfolio strategy; TAKKT has a presence in over 20 countries as well as a diversified product portfolio and a large, well-balanced customer base.

On account of their core competencies – maximum product quality, comprehensive services, competent advice, speed and reliability – our companies were able to win many new customers. By complementing our unique product portfolio with exemplary service, we offer genuine value added – from the selection of the products, to planning and installation of the equipment to subsequent spare parts supplies. The results of surveys recently conducted by our companies show that our customers are highly satisfied with these integrated solutions.

## PROFITABILITY REMAINS STABLE AT A HIGH LEVEL

In addition to weak economic activity, the depreciation of the US dollar had a major impact on the TAKKT Group's turnover, which is reported in euros. The Group generated EUR 713.9 (783.7) million, down 8.9 percent on the previous year. If exchange rates had remained unchanged, the decline would have been only 1.1 percent.

Absolute earnings figures were also impacted by the weak US dollar. EBITA declined by 6.4 percent to EUR 70.3 (75.1) million. By contrast, the fluctuating exchange rates had hardly any effect on profitability. The EBITA margin rose from 9.6 to 9.8 percent, staying within the nine to eleven percent target band. We have been able to stabilise the Group's profitability at a relatively high level as the systems business enables us to adjust our capacities flexibly in response to changes in order volumes.

At EUR 40.6 million, the profit before taxes was up on the previous year's EUR 39.0 million. This result was not least due to the further decline in interest expenses.

The gross profit margin again increased to 40.5 (40.0) percent as TAKKT continued to expand the warehouse business, which generally generates higher profit margins than the drop shipment business. At the same time, we were able to improve our purchasing terms. Moreover, the weak economy led to a decline in large-scale orders, which are usually subject to discounts and rebates.

At EUR 50.6 (53.0) million, cash flow again reached a very good level. The 4.5 percent decline is also due to the fact that depreciation decreased for exchange rate reasons. The cash flow margin nevertheless climbed to 7.1 (6.8) percent. The high cash flow not only reflects the strong profitability of the TAKKT Group but also gives us financial scope to reduce our liabilities as scheduled and make inroads into new markets despite the weak economy.



## SUCCESSFUL ACQUISITION OF CUSTOMERS

The TAKKT Group won approximately 200,000 new customers in the past financial year. On December 31, 2003, our customer base thus comprised over 2.5 million businesses worldwide. This increase against the general trend is not least due to the fact that we did not scale down our advertising activities in this economically difficult phase. Our companies continue to use about half the number of their catalogues on average to win new customers. This important investment lays the foundation for future growth.

## HIGHLIGHTS IN 2003

In view of the economic environment, TAKKT focused on consolidating its activities and optimising its service in 2003. Overall, it was important to establish the companies that were founded in recent years in their respective markets and to expand their position. KAISER + KRAFT EUROPA, for example, added space for another 2,700 pallets to its Kamp-Lintfort mail order centre.

At the same time, the Group stuck to its growth strategy. In the past financial year, three new companies started operations in strategically important markets. The foundation of KAISER + KRAFT Japan marked TAKKT's first step into the Asian market. KWESTO, our specialist brand for Eastern Europe, opened a subsidiary in Hungary, which is the fourth following the ones in the Czech Republic, Poland and Slovakia. This means that the group has a presence in the most important accession countries even before EU enlargement. K + K America also continued to expand, with newly established C&H Mexico mailing their first Spanish catalogue in January 2003.

Finally, Hubert mailed its first catalogue of sales promotion items, which is targeted at a new customer group in the retail sector.

## GOOD PERFORMANCE IN EASTERN EUROPE

In 2003, KAISER + KRAFT EUROPA again accounted for about half of the Group's total turnover. Due to the weak economy, revenues were down slightly on the previous year. Business in the individual European markets developed disparately. German customers, in particular, placed fewer orders. Turnover also declined in the Netherlands and the UK. By contrast, KAISER + KRAFT and KWESTO in Eastern Europe developed favourably and presented good results.

## TOPDEQ SUBSIDIARIES EXPAND DELIVERY RANGE

The weak European market for office furniture adversely impacted the turnover of Topdeq, especially in Germany, Switzerland and the Netherlands. Many small and medium-sized service providers – the key target group of this TAKKT division – were reluctant to place orders in view of the economic situation. Moreover, the number of new businesses in Germany was again down noticeably on the previous year. Accordingly, the three Topdeq companies reported a drop in orders and a lower average order value. The number of new customers was also down on the previous year. In contrast, the US and French Topdeq subsidiaries again showed a promising performance. Both expanded their delivery ranges in the past fiscal year, which contributed to strong growth. Their good turnover was insufficient to offset the decline reported by the established Topdeq companies, though.

Topdeq initiated various measures to improve its competitiveness despite the difficult economic environment. In the past year, the company cut its costs significantly thanks to optimised structures and processes. Also, at the beginning of 2004, Topdeq introduced a new catalogue concept developed in 2003. We are confident that Topdeq will return to its former growth rates and profit margins as soon as a sustainable economic recovery is in evidence.

## ENLARGED PRODUCT PORTFOLIO

K + K America's turnover (in US dollars) remained almost unchanged from the previous year. Hubert, the US subsidiary specialising in equipment and supplies for retailers, the food service industry and the hotel market, again made a significant contribution to the operating result. The company expanded its product range in 2003, mailing a new catalogue with sales promotion items for the whole retail sectors to potential customers in August. K + K America also stepped up its activities in Latin America through the foundation of C&H Mexico and the mailing of a Spanish catalogue. Customers' response to date is giving cause for optimism.

## INCREASED FREE FLOAT

In the past fiscal year, our investor relations activities revolved around the conversion of the AXA bond. On November 12, the ten percent block of shares held by the AXA Group was absorbed by a large number of investors. As of December 31, 2003, the free float amounted to over EUR 100 million, making the TAKKT share more interesting to institutional investors.

## USA EXPECTED TO PROVIDE POSITIVE STIMULATION IN 2004

We hope that the world economy will recover in 2004, based on the development of the US economy. We assume there that, in addition to the consumer goods sector, the manufacturing and services sectors will continue to recover as well. It will take several months, however, for these effects to make themselves felt on the other markets of the TAKKT Group. Also, the geopolitical and economic risks to which the economy is exposed are difficult to assess. If the growth rates projected by economic researchers are achieved, we expect the TAKKT Group's like-for-like turnover to rise by three percent in exchange rate-adjusted terms.

Due to the relatively moderate outlook, TAKKT will initially focus on optimising its processes, services and advertising materials and expanding its position in different markets. For this purpose, the Group-wide "Perfect Service" project was launched in 2003. Apart from this, we will also make use of our growth opportunities, especially in the context of EU enlargement.

The companies established in recent years have particularly high potential. KWESTO and KAISER + KRAFT are well established in the most important Eastern European markets ahead of EU enlargement. The accession of Poland, the Czech Republic, Hungary and Slovakia to the European Union will clearly boost our growth in Eastern Europe in the medium term. Moreover, KAISER + KRAFT Japan and Topdeq USA will expand their delivery ranges in the coming years.

These growth opportunities, a successful and stable business model, high profitability, a strong international presence and a well-balanced portfolio mean that the TAKKT Group is excellently positioned. We are convinced that the Group will benefit from an economic recovery to an above-average extent.

Many people contributed to the TAKKT Group's satisfactory result in 2003, which was achieved despite weak economic activity. Our customers and our investors placed their confidence in us. Our employees were highly motivated and committed to ensuring the success of our company. And our suppliers were as cooperative and reliable as in the past. Our thanks is therefore extended to all our stakeholders.

Stuttgart, March 2004
The Management Board

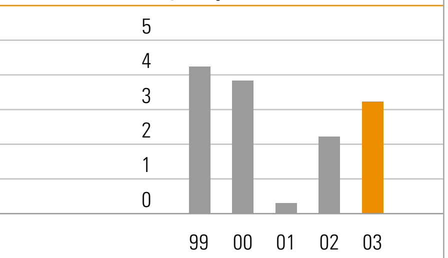
Georg Gayer, Chairman


## Management Board

| Georg Gayer | Alfred Milanello | Franz Vogel | Dr. Felix Zimmermann |
|---|---|---|---|
| Chairman | Information Technology and Organisation | Sales | Controlling and Finance |
| Eberdingen-Nußdorf | Ditzingen | Leinfelden-Echterdingen | Wachtendonk |
| born 1946 | born 1941 | born 1948 | born 1966 |

# Management Report of TAKKT AG and the Group

**GDP USA**
**Change in percent**




## ECONOMIC UPSWING FAILED TO MATERIALISE

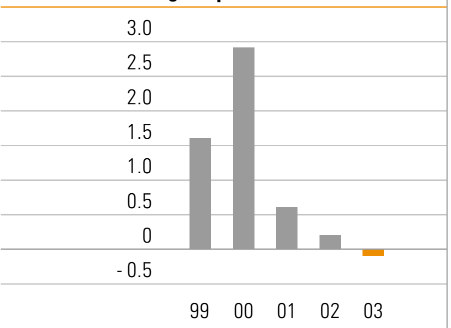
In financial year 2003, the activities of the TAKKT Group were again impacted by the weak global economy. The anticipated upswing in Europe failed to materialise. Expectations were disappointed, in particular by the stagnation in the German economy. While the US economy started to recover in the third quarter, this has not yet had any effect on the situation in Europe. Moreover, the strong changes in exchange rates – especially the depreciation of the US dollar against the euro – had an adverse impact on turnover and earnings, which are reported in euros.

In the USA, GDP rose from 2.2 percent in 2002 to 3.2 percent in 2003 due to a strong increase in consumer spending. The US ISM Index, the monthly early indicator for the performance of the US economy, started at a promising level of 53.9 points in January 2003, mainly due to purchasing managers' optimistic expectations. By April, the index had declined to 45.4, however, and did not pass the 50 points mark before July. A level above 50 points indicates that the market volume is growing and that sales opportunities are improving as a consequence. A level below 50 points suggests, however, that the manufacturing sector, at the least, is shrinking. In December, the index reached 66.2 points, the highest level since early 2000. At the same time, US GDP rose by 7.2 percent in the third quarter. This increase was mainly due to higher consumer spending and increased defence spending. By contrast, the US corporate sector grew only moderately. This is also reflected in the turnover figures of K + K America, which remained largely unchanged from the previous year, when reported in US dollar.



The European economy failed to benefit from the stimulation provided by the USA in the past financial year. Euro-zone GDP growth slowed down from 0.8 percent in 2002 to 0.5 percent. It took until September 2003 for the European Purchasing Managers Index to clearly pass the 50 points mark.

**GDP Germany**
**Change in percent**



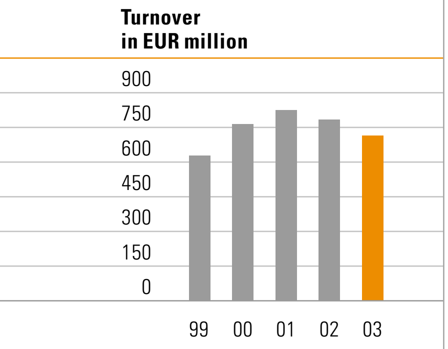

Within Europe, Germany posted the lowest growth rates for the third consecutive time. GDP declined by 0.1 percent, compared to 0.2 growth in the previous year. Capital spending was basically unchanged with 0.1(- 1.6) percent in comparison to the previous year. The German Purchasing Managers Index (EMI) did not pass the 50 points mark before September 2003.

In view of the disappointing development of the economy, German economic experts continued to downgrade their growth projections in the course of the year, which had an additional negative impact on economic sentiment. Accordingly, the customers of the TAKKT Group scaled down their investments and orders. When making its projections for fiscal 2003, TAKKT had assumed that European and German GDP would grow faster than in 2002.

The situation in the retail sector was inconsistent. The mail order sector performed quite well and continued to win market share from the wholesale and retail sectors. In this context, the efficiency of the order process plays an important role, especially in economically difficult times. Internet and e-procurement solutions help to cut transaction costs for the customer significantly. Online orders currently account for approximately five percent of TAKKT's total turnover.

The European office furniture market slumped, especially in Germany, the Netherlands and Switzerland. The situation in the manufacturing sector was also difficult, so that demand for plant and warehouse equipment declined in some regions.

The individual US markets have developed differently. Due to the lower number of employees in the manufacturing sector, demand for job safety products declined, which had an adverse impact on the turnover of Conney Safety Products. By contrast, the activities of Hubert developed favourably, as retailers as well as restaurant and hotel operators benefited from increased consumer spending.




## TAKKT GROUP MAINTAINS ITS POSITION

Despite the difficult economic environment, the TAKKT Group successfully maintained its position and reported consistently high profit margins also in 2003. This is mainly attributable to the Group's proven growth and portfolio strategy. In recent years, the TAKKT Group has steadily transferred its systems business to new markets and product segments. The Group today has a presence in 23 countries as well as a large, well-balanced customer base and a diversified product portfolio.

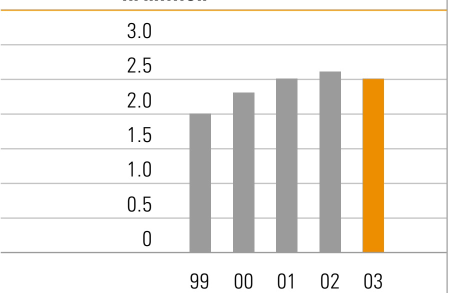
This has reduced TAKKT's exposure to economic activity in certain sectors or regions. In North America, for instance, Hubert's range of specialist products made a significant contribution to the stable overall business performance. The fragmented customer base enables the TAKKT Group to compensate for most of the effects of cyclical fluctuations in individual customer segments.

TAKKT generally benefits from the constant growth in the mail order sector, which has continuously gained market share from the wholesale and retail sectors in recent years.

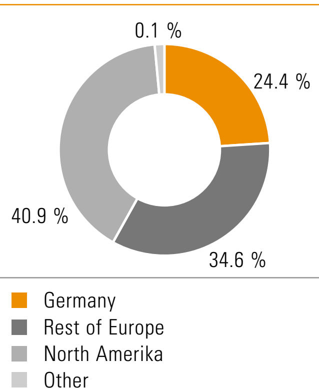
## SUCCESSFUL ACQUISITION OF CUSTOMERS

New customers, the buying frequency and the average order value are the three key parameters for TAKKT's mail order business. Increases in these figures also increase the company's turnover and value. In fiscal 2003, TAKKT was able to win roughly 200,000 new customers in an economically difficult market environment. In this context, the above-average growth achieved by the companies established in recent years had a particularly positive effect. TAKKT also benefited from the fact that its advertising activities were not scaled down. The group continues to mail about half of its catalogues to potential new customers. This way, the group wins new customers not only in newly developed markets but also in established markets. The TAKKT Group currently has a customer base of approximately 2.5 million companies.

**Customers TAKKT Group in million**




**Turnover by regions**




Customers' average buying frequency declined in 2003 due to the weak economy. Orders placed by new customers compensated for this decline, however, so that the total number of orders remained almost unchanged at two million. The average order value declined by 8.4 percent to EUR 349 (381), not least due to changes in exchange rates.

### TURNOVER WEIGHED DOWN BY WEAK ECONOMY AND EXCHANGE RATES

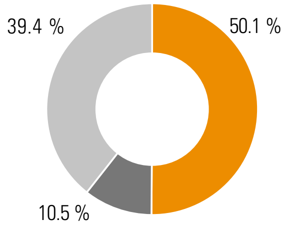
The lower average order value and the weakness of the US dollar against the euro had an adverse impact on the TAKKT Group's turnover, which declined by 8.9 percent to EUR 713.9 (783.7) million. If exchange rates had remained unchanged, the decline would have been only 1.1 percent.

The decline was particularly pronounced in Germany, where the company's activities clearly suffered from the difficult economic environment. Turnover dropped by 5.4 percent to EUR 174.0 (183.9) million. The decline was not as strong in the other European markets, where turnover was down 2.0 percent to EUR 247.1 (252.1) million. As a result of the weak dollar, TAKKT's turnover in North America was down 16.0 percent on the previous year to EUR 292.3 (347.8) million. A breakdown of turnover by divisions shows that KAISER + KRAFT EUROPA contributed 50.1 (46.9) percent, while Topdeq and K + K America contributed 10.5 (10.1) percent and 39.4 (43.0) percent, respectively.

### INCREASED PROFITABILITY AT KAISER + KRAFT EUROPA

KAISER + KRAFT EUROPA, which comprises KAISER + KRAFT, Gaerner, Gerdmans and KWESTO, generated EUR 357.9 (367.2) million in turnover, down 2.5 percent on the previous year. While the average order value declined, the number of orders remained constant. EBITA (earnings before interest, taxes and amortisation) increased by a moderate 1.7 percent to EUR 56.0 (55.1) million, while the EBITA margin rose to 15.7 (15.0) percent. This means that KAISER + KRAFT EUROPA again reported the highest sales and profitability of the three TAKKT divisions.

**Turnover**
**by business segments**




- KAISER + KRAFT EUROPA
- Topdeq
- K + K America

The situation differed from country to country. Customers' spending restraint was very much in evidence in Germany, the Netherlands and the UK, while business in Spain, Portugal and Belgium was promising. The KAISER + KRAFT subsidiaries in Poland, the Czech Republic and Austria also reported good results. KWESTO also posted strong growth rates, as the imminent enlargement of the European Union already made itself felt in these markets.

The division's most recent start-ups, KAISER + KRAFT Japan and KWESTO Hungary, fulfilled our expectations. The catalogues met with a good response in both countries. New business and repeat orders developed as planned and were in line with those reported by previous start-ups. Start-up losses were within the budget.

## TOPDEQ REPORTS STRONG GROWTH IN USA AND FRANCE

The Topdeq group's turnover dropped by 5.9 percent to EUR 74.6 (79.3) million. The decline is mainly attributable to the continued weakness of the office furniture market. In Germany, Switzerland and the Netherlands, many Topdeq customers placed fewer orders than in previous years due to the uncertain outlook in the future. Customers' spending restraint also led to at times a strong decline in the average order value. Moreover, the low number of new business start-ups had a negative effect on demand for office furniture and new business.

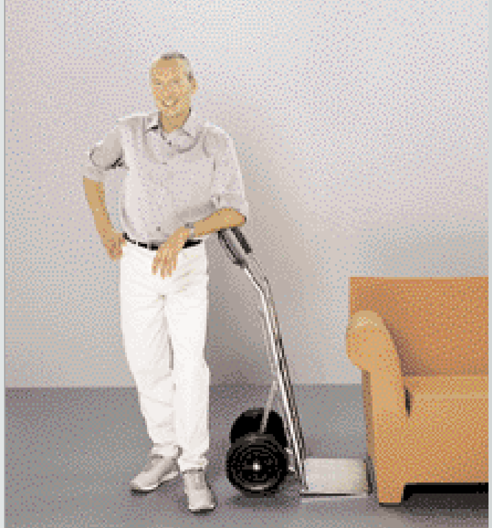
The well-established Topdeq companies nevertheless generated a profit, which was, however, insufficient to compensate for the expected start-up losses of the young companies in France and the USA. Accordingly, EBITA amounted to EUR - 1.2 (- 1.5) million. The EBITA margin stood at - 1.6 (- 1.9) percent.

Both companies developed very favourably. Thanks to the expansion of their delivery ranges and aggressive marketing, the two companies won many new customers. Turnover again increased noticeably over the previous year. Topdeq USA additionally benefited from its successful Internet presence, with online revenues accounting for over 15 percent of total revenues (compared to approximately ten percent for the whole Topdeq group).

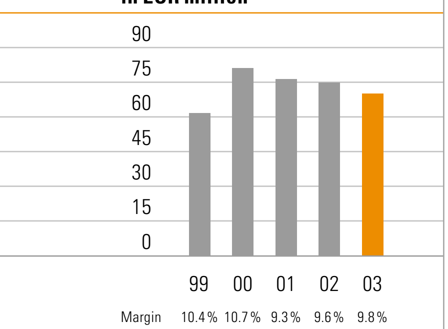
### K + K AMERICA: STABLE RESULTS IN 2003

At USD 317.7 (318.0) million, the turnover of K + K America, which comprises C&H Distributors, Avenue Industrial Supply, Conney Safety Products and Hubert Company, remained almost unchanged from the previous year. EBITA declined by 6.3 percent to USD 25.5 (27.3) million. Due to the depreciation of the US dollar, turnover and profits dropped noticeably in euro terms. Turnover was down 16.6 percent to EUR 281.4 (337.4) million, while EBITA dropped by 21.8 percent to EUR 22.6 (28.9) million. At 8.0 (8.6) percent, the EBITA margin was below the previous year.

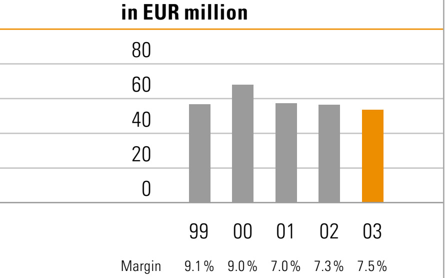
Hubert, which again reported very good figures, made a strong contribution to the results. The specialist mail order company expanded its product range in the past fiscal year, winning new customers from the retail sector. In the past, the company exclusively offered supplies and equipment for food retailers, the food service industry and the hotel market. In August 2003, Hubert mailed its first catalogue with equipment and sales promotion items for the entire retail sector. Avenue Industrial Supply also reported increased figures, whereas C&H Distributors and Conney Safety Products have not yet benefited from the recovery of the US economy. C&H Mexico, the new subsidiary, delivered a positive performance, with key figures in line with expectations.



**EBITA**
**in EUR million**




**EBIT**
**in EUR million**




## INCREASED GROSS PROFIT MARGIN AND EARNINGS BEFORE TAXES

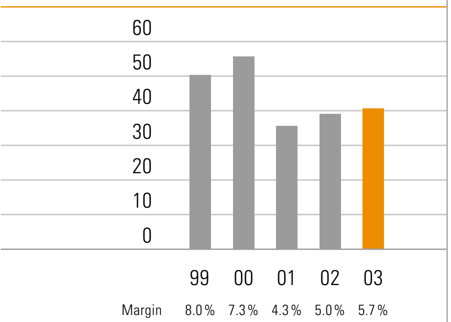
In the past fiscal year, TAKKT's gross profit margin rose to 40.5 (40.0) percent. In Europe, the Group benefited from the further expansion of the warehouse business, which generally generates higher gross profit margins than the drop shipment business. Moreover, the weak economy led to a decline in large-scale orders, which are usually subject to discounts and rebates.

EBITDA declined by 6.6 percent to EUR 80.1 (85.7) million, primarily due to changes in exchange rates. The exchange rate fluctuations only have little impact on the Group's profitability. The EBITDA margin even increased slightly to 11.2 (10.9) percent. The stable result is also due to the fact that TAKKT constantly adjusts part of its capacities to the business development and anticipated order volumes. These measures helped the Group maintain its profitability at a relatively high level. Start-up losses for new businesses were incurred in a similar amount as in the previous year. Expenses were in line with the company's plans.

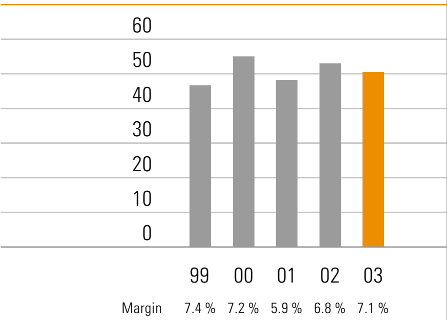
EBITA declined by 6.4 percent to EUR 70.3 (75.1) million. At 9.8 (9.6) percent, the EBITA margin was up on the previous year and stayed within the nine to eleven percent target band.

EBIT decreased by 5.5 percent to EUR 53.9 (57.0) million, while the margin rose to 7.5 (7.3) percent. Scheduled amortisation of goodwill remained more or less unchanged from the previous year; no unscheduled amortisation occurred. The changes shown are the result of currency translations and are due to the depreciation of the US dollar.

**Profit before tax**
**in EUR million**




**Cash flow**
**in EUR million**




At EUR 40.6 (39.0) million, earnings before taxes were up on the previous year as the Group benefited from a EUR 4.9 (4.2) million decline in interest expenses. This was due to scheduled debt repayments and lower interest rates in the market. In the currency translation to euros, the weaker US dollar also had a positive effect on interest expenses. The profit margin therefore increased somewhat more strongly to 5.7 (5.0) percent.

With the tax ratio slightly increased, the Group's earnings after taxes before minorities almost matched the previous year's level, coming in at EUR 24.4 (24.5) million. The margin reached 3.4 (3.1) percent.

## CASH FLOW AGAIN AT A HIGH LEVEL

As in the previous years, TAKKT generated a high cash flow of EUR 50.6 (53.0) million in 2003. The moderate 4.5 percent decline is mainly attributable to the currency translation related drop in depreciation. The cash flow margin climbed to 7.1 (6.8) percent.

**Cash flow in EUR million**

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Profit after tax* | 31.2 | 33.5 | 19.4 | 24.5 | 24.4 |
| Depreciation | 15.5 | 21.6 | 28.9 | 28.5 | 26.2 |
| Cash flow | 46.7 | 55.1 | 48.3 | 53.0 | 50.6 |

*before minority interest

Spending on maintenance and rationalisation remained in line with the long-term average of one to two percent of turnover, so that the free cash flow also reached an excellent level of EUR 40.8 (44.4) million again. This means that the TAKKT Group has sufficient cash to reduce its liabilities as planned and finance future growth, despite the difficult economic situation.

## IMPROVED BALANCE SHEET RATIOS

The consolidated balance sheet and the division's individual balance sheets are generally characterised by very stable and comparable structures. This means that currency effects do not lead to structural changes in the consolidated balance sheet.

The balance sheet ratios continued to improve thanks to the high cash flow as well as timely and active management of capacities, receivables and liabilities. The equity ratio increased as liabilities declined. As of December 31, 2003, total assets amounted to EUR 479.9 (540.4) million.

At EUR 26.2 (28.7) million, scheduled amortisation of goodwill and depreciation of tangible and intangible assets was slightly lower compared to the previous year. The Group's total fixed assets declined to EUR 311.8 (358.6) million, not least due to the weakness of the US dollar.

Trade receivables were down on the previous year only because of the changes in exchange rates. Customers' payment behaviour has remained almost unchanged despite the tight economic situation; the average accounts receivable collection period was 38 days. This good and relatively stable value is mainly attributable to strict credit reviews of both new and existing customers as well as to systematic accounts receivable management.

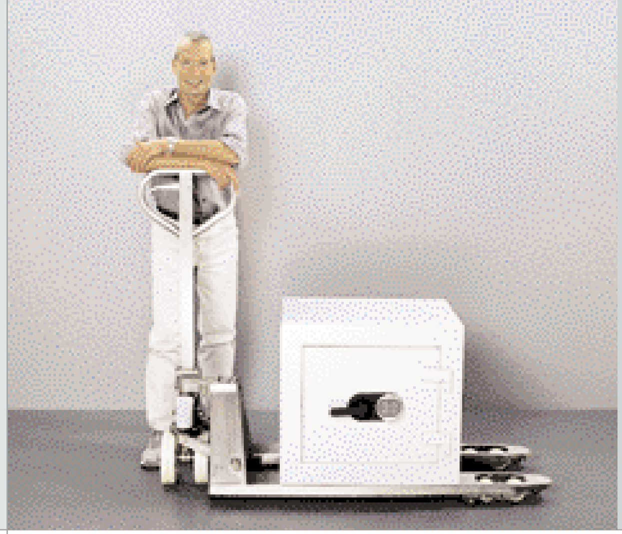
The high cash flow enabled TAKKT to reduce its financial liabilities by a scheduled amount of EUR 29.3 million. As of the balance sheet date, the Group's net financial liabilities amounted to EUR 234.3 (285.7) million. In the past fiscal year, financial liabilities declined by EUR 24.6 million due to currency effects.

Shareholders' equity also developed favourably. While it initially declined by 18.4 EUR million due to the distribution of the dividend for 2002 and the changes in exchange rates, it was later increased by net income (after minority interests) to EUR 157.2 (149.6) million. The equity ratio (excluding minority interests) reached 32.8 (27.7) percent.

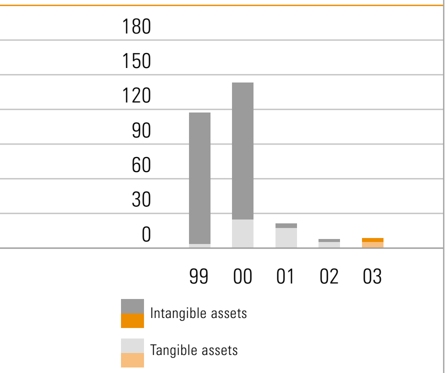
The financial ratios improved mainly thanks to the high cash flow and the resulting reduction in net financial liabilities. The deleveraging period was again down on the previous year, to 5.2 years. The gearing ratio declined from 1.9 to 1.5. Reduced interest expenses had a positive effect on interest coverage, i.e. the ratio between EBITA and interest expenses, which reached 5.3, compared to 4.2 in the previous year. All financial ratios were within the target band.

**Key figures**

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Equity ratio in % | 26.4 | 22.6 | 24.8 | 27.7 | 32.8 |
| Time needed to reduce liabilities (in years) | 3.4 | 4.2 | 7.5 | 6.1 | 5.2 |
| Interest coverage | 9.4 | 6.2 | 3.4 | 4.2 | 5.3 |
| Gearing | 2.1 | 2.8 | 2.4 | 1.9 | 1.5 |



**Capital expenditure in EUR million**




## CAPITAL EXPENDITURE STAYS AT NORMAL LEVEL

Every year, TAKKT invests approximately one to two percent of its turnover in the maintenance, rationalisation and expansion of its operations. In 2003, the group invested a total of EUR 9.8 (8.6) million to improve business processes and enhance the quality of its services. The Group also expanded its capacities to lay the foundation for international expansion and organic growth.

TAKKT invested EUR four million in the expansion of the Kamp-Lintfort mail order centre of KAISER + KRAFT EUROPA, where space for over 2,700 pallets was added to the existing high-bay warehouse. This enables the KAISER + KRAFT companies to supply even more products directly from stock.

Another focus was laid on the company's IT systems. After the inventory management system, the Topdeq group has also adopted KAISER + KRAFT EUROPA's merchandise information system, which will gradually be introduced at all Topdeq companies. This will make it easier and more cost-efficient for Topdeq to make inroads into new markets. At the same time, stock-keeping will become more efficient as the company can reduce its inventories and cut costs, for instance through the recent closure of the Dutch warehouse.

**Capital expenditure TAKKT Group in EUR million**

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Intangible assets | 109.3 | 144.3 | 2.6 | 0.9 | 1.3 |
| Tangible assets | 11.9 | 24.8 | 21.4 | 7.7 | 8.5 |
| **Total** | **121.2*** | **169.1** | **24.0** | **8.6** | **9.8** |
| Depreciation | 15.5 | 21.6 | 28.7 | 28.7 | 26.2 |

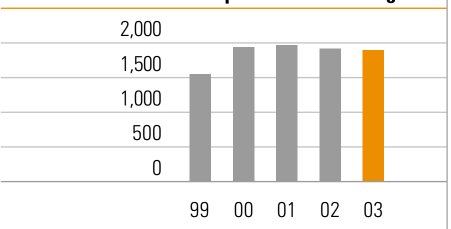
*117.0 spin-off related

KAISER + KRAFT EUROPA also introduced a new software. The CTI call centre system integrates the customer database with the telephone system. Customers calling are identified by their phone number, and the customer data will automatically be displayed on the service employee's monitor, making communication much easier and more efficient. The system can also be used to analyse customer data based on specific criteria, enabling K + K employees to offer their customers even faster and more personalised service.

In addition, KAISER + KRAFT developed a scaled-down version of its website, which can more easily be transferred to the different national markets. The effort for translation into the local languages has been reduced significantly. Since July 2003, the new website has been used successfully in Italy, Spain and Hungary, further increasing the division's online turnover.

The Group invested a total of EUR 8.5 (7.7) million in tangible assets, while EUR 1.3 (0.9) million were spent on intangible assets such as software.

**Employees TAKKT-Group**
**Full-time equivalents – average**




## EMPLOYEES PARTICIPATE IN COMPANY RESULTS

The TAKKT Group's number of permanent employees declined in 2003 as the established companies continued to adjust their headcounts to the course of business. The adjustment was almost exclusively achieved through natural fluctuation. By contrast, new jobs were created by the start-up companies. As of December 31, 2003, the Group employed a total of 1,860 (1,914) full-time employees. A breakdown by divisions shows that KAISER + KRAFT employed 844 (880) people, Topdeq employed 226 (235) and K + K America employed 764 (772), while the holding company, TAKKT AG, employed 26 (27) people. The average employee age was 40 years.

The TAKKT Group offers traineeships for wholesale, export and import merchants, office clerks, information scientists, technical drawers, industrial mechanics and specialist packers. The company employs a total of 22 trainees in Germany as well as six part-time enrolled students.

The success of the TAKKT Group hinges on the competence and knowledge of its staff. It is therefore extremely important for the company to constantly improve the know-how of its employees. Despite the company's cost-cutting efforts, employees were trained in a number of seminars such as sales seminars, PC training and individualised training measures. Executives were offered special employee appraisal interview seminars.

Above-average commitment must be rewarded. TAKKT's performance-based remuneration systems therefore offer special incentives for managers and executives. Senior managers' salaries are based on cash flow and economic value added (EVA), while the salaries of middle-level executives are a function to their company's results and the achievements of objectives.

Using tax concessions available in Germany TAKKT issues employee shares to support employees' wealth formation efforts. Some 46 percent of the eligible employees participated in this program in the past fiscal year and acquired a total of 34,359 shares. TAKKT's employees in Germany will be offered a similar scheme in fiscal 2004.

## R&D – FOCUS ON THE CUSTOMER

As a B2B mail order company, TAKKT does not perform research and development in the narrower sense of the word. However, the TAKKT companies constantly adjust their product ranges, services and advertising materials – catalogues, mailings and websites – to new trends and changing market requirements. They regularly conduct surveys to determine their customers' wishes and requirements. To ensure that the results of such surveys are comparable, all companies use the same survey methodology. In fiscal 2003, an internationally renowned agency interviewed a representative sample of 1,200 customers of Conney Safety Products and KAISER + KRAFT Germany about their satisfaction with services, products and advertising materials.

The results of the survey were pleasing, as customers rated the product ranges and services as being superior to the industry average. Comparisons with previous surveys also revealed that customer satisfaction has increased constantly in recent years. This will encourage TAKKT to become even better and to set its own standards even higher in future. At the same time, customers' comments provide TAKKT with important information on how to improve the product ranges, services and advertising materials of the individual Group companies.

The surveys have also shown that growing use of the Internet increases customer retention. This applies, in particular, to the e-procurement projects implemented by TAKKT for its key accounts. The Group will therefore consistently expand its e-commerce and e-procurement offerings, which already account for over five percent of its total turnover – and rising.

## ENVIRONMENTAL PROTECTION SYSTEM

Preserving our natural resources for present and future generations is one of the most important social challenges – a challenge that affects politicians, companies and citizens alike. The TAKKT Group takes its responsibility for environmental protection very seriously. In the context of its business activities, TAKKT takes care to use natural resources sparingly and avoid environmental hazards. The company invests only in ecologically acceptable projects.

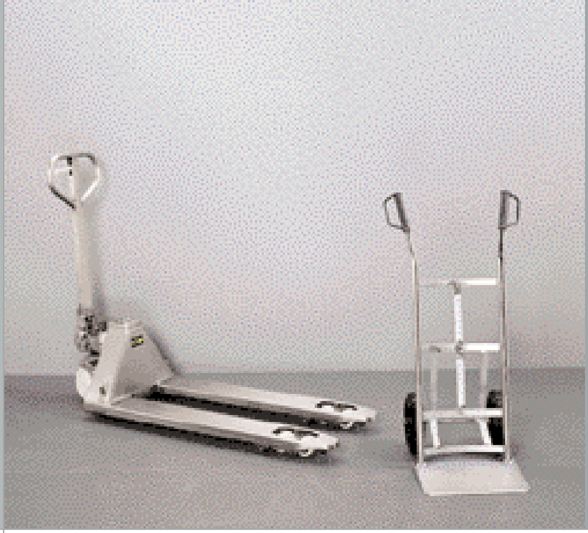
All products are reviewed for their ecological soundness before they are included in the TAKKT catalogues. The production activities of the EURO*KRAFT* brand in Haan, Germany, are also subject to strict ecological control. TAKKT does not buy, use or sell products containing hazardous substances. The Group companies exclusively use environmentally compatible packaging materials that are suitable for recycling. Social aspects also play an important role in the Group's procurement activities; to our knowledge, no item in our range is produced by child labour.

In the long term, only an integrated approach will be successful. This is why the TAKKT Group's suppliers are involved in the company's environmental protection efforts. Catalogues, for instance, are printed only by companies that are certified to ISO and comply with the German Eco-Audit. The materials used for catalogue production must meet specific ecological criteria; for instance, all catalogues are printed on paper bleached in a chlorine-free process.



## ISO CERTIFICATION

TAKKT also attaches great importance to quality assurance. Already in 2002, the branches of the KAISER + KRAFT group in Germany, Austria, Switzerland, the UK, Belgium, the Netherlands (Vink Lisse brand) and France (Frankel) as well as the Gaerner companies in Germany, Austria, Switzerland and the Netherlands (Hoffmann) were certified to DIN EN ISO 9001:2000 or similar standards.





## SPECIAL EVENTS OCCURRING DURING AND AFTER 2003

On January 1, 2003, Topdeq adopted a new, more efficient corporate structure, similar to that of KAISER + KRAFT EUROPA. As a result of the new structure, decision-making lines have been shortened and administrative costs cut, while the financial structure has become more transparent.

Also with effect from January 1, 2003, TAKKT AG merged the operating activities of its US subsidiaries under the umbrella of TAKKT America Holding with a view to exploiting existing synergies more effectively.

January 2003 saw KAISER + KRAFT mail its first catalogue in the Japanese market. The product ranges, which comprise tried-and-tested items, met with good customer response. Start-up losses were in line with expectations. Due to the positive response, the company will finish its test phase earlier than planned and gradually expand within the Japanese market in the coming years.

The same month saw C&H Mexico mail its first Spanish catalogue, which mainly targets small and medium-sized businesses in Mexico. The new company can use nearly all existing systems and processes of C&H Distributors, which reduces the costs and risks of this expansion. The results achieved were in line with expectations.

In March 2003, the employees of the Stuttgart branch, who were previously spread across different buildings, moved into a new head office, which houses TAKKT AG as well as the headquarters of KAISER + KRAFT EUROPA and KAISER + KRAFT Germany. This will make the relationships between the Group holding company and the two companies even more efficient.

Since May 2003, products of the KWESTO brand are available in Hungary. Response to the new catalogue, which is mainly targeted at small and medium-sized businesses, has been good. The subsidiary of KAISER + KRAFT EUROPA now has a presence in four Eastern European markets. With its products specifically tailored to the region, KWESTO is excellently positioned to benefit from EU enlargement.

In August 2003, Hubert for the first time targeted non-food retailers with a catalogue which mainly comprises shop fittings and sales promotion items. About half the products in the catalogue were adopted from the existing range, while another 3,000 new items were added to the range.

The convertible bond issued by AXA in March 1998 became due on November 12, 2003. In the context of the conversion, the TAKKT shares held by AXA were absorbed by a large number of investors. In August and September 2003, AXA already sold all TAKKT shares that were not needed for conversion. The conversion increased the free float, which stood at 27.45 percent at the end of the year.

The extension to the high bay warehouse of KAISER + KRAFT EUROPA's mail order centre was completed according to schedule in November 2003. Space for an additional 2,700 pallets is now available, allowing the division to supply even more products directly from stock.



In December 2003, all service activities of the KWESTO group were pooled in a service company established for this purpose, with a view to optimising the group's internal processes. The new structures, which are comparable to those of KAISER + KRAFT EUROPA and Topdeq, are also more transparent. The KWESTO group is thus well prepared for further expansion in Eastern Europe.

## RISK MANAGEMENT SYSTEM – FOR A SAFE FUTURE

Companies are exposed to numerous risks in their day-to-day operations. For instance, inventories could be destroyed or computer systems fail. TAKKT uses a sophisticated system to identify, assess and avoid such risks. Detailed planning, timely reporting, internal audits and a number of early warning systems serve to protect the company's effectiveness and efficiency. The effectiveness of the entire system is constantly reviewed and modified whenever required, so that it is always up to date.

The TAKKT Group's risk management system comprises several stages. At the first stage, all subsidiaries list and assess their risks using the same forms. On this basis, the holding company prepares a "risk map" and a list of tasks for the whole Group. The list specifies measures for reducing risks and mitigating their effects – e.g. by taking out insurance. This list is mandatory for the individual companies. Implementation is discussed at the annual planning sessions and are reviewed regularly by the internal audit department. Additonally, auditors audit the books and systems. Risk management is thus an integral element of the reporting and planning process. The company's management is regularly informed and actively involved in all important processes.

Acquisitions and start-ups such as KAISER + KRAFT Japan, KWESTO Hungary and C&H Mexico are immediately integrated into the risk management system and must fulfil the same strict reporting requirements as the large, established companies.

No new or changed risks were identified in the past fiscal year. The Management Board therefore considered the existing measures and initiatives to be sufficient. As in previous years, the risk management system was audited by Dr. Ebner, Dr. Stolz & Partner, Stuttgart, which raised no objections.

## GENERAL ECONOMIC RISKS

The TAKKT Group's growth and product portfolio strategy has proven its worth in today's difficult economic environment. TAKKT's business operations are broad based, as the Group has a presence in over 20 countries as well as a well-balanced customer base and a diversified product portfolio. This greatly helps to stabilise the course of business and mitigate economic risks, reducing the Group's exposure to the economic development in individual sectors or countries. Going forward, TAKKT will continue to develop new markets and product groups, thus further reducing the effects of cyclical fluctuations on its business activities.

## INDUSTRY RISKS

The industry risk in the B2B mail order segment for business equipment is low. The fragmented customer and supplier structure and the services offered make mail order the most efficient distribution channel in this segment. Via this channel, each supplier reaches a large number of customers, while the customer, in turn, can use the catalogue to choose indirectly from a large number of suppliers. This is why the mail order sector has steadily gained market share from the wholesale and retail sectors.

The mostly small to medium-sized manufacturers rely on the mail order companies for distribution. Building up their own distribution structure would be too time-consuming and labour-intensive. Given that these manufacturers are often highly specialised, there is no risk of consolidation. The fragmented supplier structure and the large choice of products offer the TAKKT companies numerous alternatives. Should one of the main suppliers fail to deliver, they can quickly switch to the products of another company.

## PRODUCTION AND DISTRIBUTION OF CATALOGUES

Advertising materials are the lifeblood of mail order companies. They must be produced punctually and flawlessly and delivered promptly. To protect itself against damage to or destruction of its advertising materials in the production process, the TAKKT Group has its catalogues and mailings produced by six different printers. Each of them has several branches, so that the risk of a complete loss is reduced to a minimum. Additionally, the companies of the TAKKT Group have taken out special insurance cover for their catalogues.

The addresses of existing and potential customers are equally important for TAKKT's business activities. They are saved by the subsidiaries on high-availability systems and regularly backed up. The risk of data being lost can therefore virtually be ruled out.

## RECEIVABLES

The risk of a loss of receivables is relatively low, given that TAKKT constantly reviews the credit status of existing and new customers. This is also reflected in the fact that customers' payment behaviour has remained almost unchanged despite the difficult economic situation; as in the previous year, the average accounts receivable collection period was 38 days. The average loss of receivables accounts for less than 0.5 percent of turnover. The highly fragmented customer base also means that there are no significant individual risks.

## CENTRAL WAREHOUSING

Central warehouses offer substantial cost advantages for a mail order company. On the other hand, storing all inventories in a single place also entails certain risks such as the destruction of the complete inventories by a fire. These risks and advantages must be carefully weighed against each other. Following thorough consideration, the three divisions of the TAKKT Group decided to operate large mail order centres. Additional regional warehouses are established wherever this is required to ensure a perfect delivery service.

KAISER + KRAFT EUROPA's central warehouse in Kamp-Lintfort, for instance, serves nearly all European countries in which the division has a presence. Only two subsidiaries operate large regional warehouses; the Gerdmans group serves the entire Scandinavian region from the Swedish town of Markaryd, while KWESTO distributes some of its products through a warehouse in the Czech Republic.

Topdeq maintains a mail order centre in Pfungstadt as well as regional warehouses in Switzerland, France and the USA.

C&H, the K + K America subsidiary, maintains a large national distribution centre in Milwaukee as well as four warehouses spread throughout the USA. Conney Safety Products operates a central warehouse in Madison, which handles over 80 percent of the turnover. Hubert ships approximately 95 percent of its products from its central warehouse in Harrison, Ohio, to customers throughout North America. Avenue Industrial Supply has a mail order centre in Toronto and a regional warehouse in Calgary.

The TAKKT companies regularly review their warehouses for safety, delivery quality, speed and efficiency and adjust them to new requirements whenever needed. Should interruptions in any of the warehouses result in bottlenecks, the majority of the products can be delivered on a drop shipment basis. The Group has taken out insurance against operational failure as well as product liability insurance to cover against all major risks.



### CURRENCY AND INTEREST RATE RISKS

Products are usually sourced and sold within the same currency area. This allows risks resulting from changes in exchange rates to be reduced substantially. Cross-currency transactions – e.g. between the euro-zone and the USA – account for less than ten percent of the Group's turnover. Up to 75 percent of these transactions are regularly hedged using derivative financial instruments.

The consolidated balance sheet and the consolidated profit and loss account are subject to risks resulting from the translation of foreign subsidiaries' financial statements into the reporting currency. These risks have a relatively low impact on TAKKT, given that the balance sheet structures of the individual companies are quite similar. Changes in exchange rates, especially of the US dollar, do, however have an effect on the absolute figures reported in euros.

Investments are always funded in the same currency in which they are made in order to minimise the long-term currency translation risks for the Group. This approach is part of a strategy that aims to meet certain covenants on a sustained basis. These covenants primarily include the ratios between earnings figures and net financial liabilities and the resulting interest expenses.

Interest rate risks result from changes in market rates. TAKKT uses interest rate swaps and interest rate caps to hedge against such risks. More detailed information is provided in the notes on page 103 of this Annual Report.

### IT RISKS

Reliable and efficient IT systems are essential to ensure smooth operation of the TAKKT companies. The protection of data and functions therefore plays an important role in the risk management system. KAISER + KRAFT EUROPA and Topdeq, for instance, use high availability systems. While the regular business operations are handled by a central server, a special software is used to copy all programs and data to a back-up system. Should the server fail, the back-up computer can take over immediately. Similar back-up solutions are used for archives and fax systems as well as wireless networks. The TAKKT companies are thus protected effectively against loss of data and functional failures. Powerful firewalls and virus scanners additionally prevent the IT systems from being abused by third parties.

Internal departments and external specialists regularly check whether the IT systems fulfil the legal security requirements. In 2002, for instance, they began to review the systems of all K + K America companies for proper functioning, reliability, security and data recovery. This multi-tier process continued in 2003. No objections have been raised so far.

The KAISER + KRAFT EUROPA companies introduced new security standards in 2003. These provide detailed instructions on how available technologies, such as e-mail or the Internet, should be used by employees. Top priority is attached to all data being treated confidentially and saved effectively. All employees signed a document to confirm that they will comply with these regulations. This new concept was also audited by external consultants, who raised no objections.

Availability by phone is another important factor. TAKKT has established detailed contingency plans to protect itself against line and power failures and malfunctions of the telephone systems, e.g. with the help of back-up systems and interruption-free power supply. It is also possible to have phone numbers diverted to other locations. TAKKT has its telephone availability measured regularly.

### LEGAL RISKS

In the context of their ordinary business activities, the companies of the TAKKT Group are involved in litigations as plaintiffs or defendants. None of these individual cases nor the sum of these cases will have a material impact on the financial situation of the TAKKT Group.



### OTHER RISKS

The companies of the TAKKT Group are exposed to only minor other risks, which is not least attributable to their high diversification in terms of products, customers and branches.

## CORPORATE GOVERNANCE

In February 2002, the first German Corporate Governance Code was published by a government commission of the same name. The purpose of the Code is to provide national and international investors with a comprehensible summary of the corporate governance rules applicable in Germany. The third edition of the Code was adopted on May 21, 2003, and became effective upon publication in the electronic Federal Gazette on June 30, 2003.

The Code makes a distinction between compulsory "recommendations" and non-compulsory "suggestions". While listed companies are not legally obliged to comply with these "recommendations", they must disclose any non-compliance and explain it ("comply or explain").

Under the new Section 161 of the German Stock Corporation Act (AktG), for instance, the Management Board and the Supervisory Board of a listed company are obliged to declare each year to what extent the company complied with the mandatory recommendations. Clause 3.10 of the Code additionally stipulates that all deviations from the Code must be explained.

Pursuant to Section 285 No. 16 and Section 314 Paragraph 1 No. 8 of the German Commercial Code, this "declaration of conformity" by the Management Board and the Supervisory Board under Section 161 of the German Stock Corporation Act must be included in the financial statements and the consolidated financial statements and be reviewed by the auditors. Under Section 325 Paragraph 1 of the German Commercial Code, it must also be disclosed and made permanently available to the shareholders and the public. TAKKT published the declaration of conformity in the present Annual Report as well as on the company's website.

## IMPLEMENTATION OF THE THIRD EDITION OF THE GERMAN CORPORATE GOVERNANCE CODE AT TAKKT

The currently applicable third edition of the Code entailed some major changes, which have been implemented by TAKKT as follows:

### Discussion of the structure of the Management Board compensation system

At the proposal of the personnel committee, the full Supervisory Board shall discuss and regularly review the structure of the Management Board compensation system (clause 4.2.2 of the Code).

- TAKKT AG already complies with this recommendation and will continue to do so in future.

### Stock option cap

Stock options and comparable instruments, if granted as compensation components, shall be related to demanding, relevant comparison parameters . For extraordinary, unforeseen developments a possibility of limitation (cap) shall be agreed for by the Supervisory Board (clause 4.2.3 of the Code).

- TAKKT has not issued any stock options and does not intend to do so in future. The EVA Certificates (see page 42) offered to executives for purchase do not constitute compensation components as the persons eligible to subscription use their own assets to buy them. This recommendation of the Code is therefore not relevant for TAKKT.



### Publication of the salient points of the Management Board compensation system

The salient points of the compensation system shall be published on the company's website in plainly understandable form and be detailed in the Annual Report. This shall include the concrete form of a stock options scheme or comparable instruments for components with long-term incentive effect and risk elements (clause 4.2.3 of the Code).

- The salient points of the Management Board compensation system and the form of TAKKT's EVA Certificate program are explained in this Annual Report (see page 41). They are also published on www.takkt.de under "Share/Corporate Governance".

Outlining the compensation system to the General Meeting

The Chairman of the Supervisory Board shall outline the salient points of the compensation system and any changes thereto to the General Meeting (clause 4.2.3 of the Code).

- This will be done by TAKKT at the General Meeting on May 4, 2004.

Individualised disclosure of the compensation of the Management Board and the Supervisory Board

The compensation of the members of the Management Board and the Supervisory Board shall be reported subdivided according to individual components. The figures shall be individualised (clause 4.2.4 of the Code).

- TAKKT will not publish the compensation in individualised form. Such individualised information would objectively not be much more meaningful than the cumulative compensation and would also invade the members' privacy, which deserves protection. Incidentally, this same approach is pursued by a large number of major listed companies.

## DECLARATION OF CONFORMITY

TAKKT complies almost fully with the Code. Apart from the exceptions explained above, there is only one other exception: In view of its size, the Supervisory Board, which has nine members, does not consider it necessary to establish an audit committee recommended in clause 5.3.2 of the Code.

Against this background, TAKKT issued the following declaration of conformity pursuant to Section 161 of the German Stock Corporation Act on December 31, 2003 (original wording of the English translation):

"The Board of Management and the Supervisory Board declare that on 31 December 2003 the recommendations of the "German Corporate Governance Code Government Commission" ("Code") in its 3rd edition as of 21 May 2003, published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, are being met apart from the following exceptions:

1. Clause 4.2.4 phrase 4 and clause 5.4.5 para. 3 phrase 1 of the Code
The compensation paid to members of the Board of Management and of the Supervisory Board shall not be reported individually.

2. Clause 5.3.2 of the Code
No audit committee of the Supervisory Board has been established and it is not envisaged to establish such a committee in future.

Since the declaration pursuant to § 161 Stock Corporation Act (AktG) given on 31 December 2002 TAKKT AG has complied with the Code in its 2nd edition as of 26 November 2002 apart from those two exceptions, which were mentioned in that declaration: (a) No audit committee of the Supervisory Board (clause 5.3.2 of the Code) and (b) No compensation for the membership in a Supervisory Board's committee (clause 5.4.5 of the Code).



The Annual General Meeting of TAKKT AG has, however, by means of an amendment of the articles of association of the company adopted on 6 May 2003 a separate compensation for members, the chairman and the vice-chairman of a Supervisory Board's committee. After these amendments have come into effect, TAKKT has thus complied with any recommendations of the Code apart from that one to establish an audit committee of the Supervisory Board."

The examination of the Supervisory Board's efficiency recommended in clause 5.6 of the Code was conducted prior to the December 2003 Supervisory Board meeting by means of a comprehensive questionnaire. The members of the Supervisory Board used this questionnaire to systematically assess the work and competence of this body. The topics of the questionnaire ("Meetings", "Involvement of the Supervisory Board by the Management Board", "Internal processes and corporate governance", "Personnel competence", "Risk management and audit" and "General assessment of the activity of the Supervisory Board") were discussed extensively at the December meeting. The Supervisory Board identified only little need for improvement, which was addressed accordingly.

## COMPENSATION FOR THE MANAGEMENT BOARD

Corporate success hinges on the competence and commitment of its Management Board members. It is therefore important for the success of a company that the top managers receive a compensation that is in line with their tasks and responsibilities as well as with general market practice. The compensation of the individual Board members must also be in an appropriate relation to their achievements and the financial situation of TAKKT AG. The total compensation of the Management Board must also fulfil these criteria.

Against this background, the personnel committee of TAKKT AG's Supervisory Board has adopted a compensation system that comprises a fixed and a variable component. The fixed component depends on the experience and achievements of the Board member and reflects general market standards. The variable component comprises a performance bonus and a strategy bonus. The performance bonus is based on the TAKKT Group's cash flow. The cash flow reflects the company's profitability, has a long-term effect and is an incentive for the Management Board to increase growth and profitability. To determine the amount of this bonus, the cash flow of a fiscal year is compared with the planned cash flow and with the cash flow generated in the previous year.

The strategy bonus is based on the economic value added (EVA). This performance indicator shows to what extent the company has exceeded the rate of return expected by investors. To determine the strategy bonus, the EVA of a fiscal year is compared with the previous year's EVA. This provides a strong incentive for value-oriented management.

### LONG-TERM INCENTIVE SYSTEMS WITH RISK COMPONENTS

TAKKT has not issued stock options and does not intend to do so in future. However the company offers subscriptions of so-called EVA Certificates to Management Board members and other executives. The holders of these bonds provide the company with capital. The amounts repaid depend on the development of the company's value, which means that the certificates include a risk component. The value development may be positive or negative. Profits for the certificate holders represent a certain expenditure for the company.

Management Board members may use their own taxed assets to subscribe to EVA Certificates up to an annual amount of EUR 50,000. The maximum amount for other senior executives of the TAKKT Group is EUR 30,000.

EVA Certificates have a term of ten years. Certificate holders may withdraw their certificates for the first time after five years. Premature redemption is permissible in the case of the holder's death, occupational disability, invalidity or leaving the company. The market value of the EVA Certificates is dependent on three factors:

- the absolute value added, which is calculated using the formula: (Return On Capital – cost of capital) x capital employed,
- the change in EVA over the previous year,
- a risk premium on the capital employed.

This market value is determined on the balance sheet date of each year. The EVA market value is confirmed by the auditors in the context of their annual audit.



The use of the economic value added as a form of profit participation for executives is based on the idea that each investment must generate an appropriate return. The aim is to generate a return that exceeds the total cost of capital, i.e. the expectations of the investors. This way, a value added is generated which primarily benefits our shareholders.

The EVA Certificates issued by the TAKKT Group are carried as interest-bearing liabilities in a total amount of EUR 2,740,000. Of this total, EUR 1,694,000 are accounted for by members of the Management Board. Due to the increase in the value of these certificates in 2003, expenses amounted to EUR 392,000 of which EUR 242,000 were accounted for by Management Board members.

## OUTLOOK: GOOD STARTING POSITION FOR 2004

The development of the US economy towards the end of 2003 suggests that the world economy is about to recover. Both GDP and the ISM purchasing managers index climbed noticeably. Economic researchers therefore expect the US economy to grow by 5.0 percent in 2004. In the TAKKT Group's other markets, these effects will probably be felt only several months later. Experts project 2.0 percent growth for the European economy, with German GDP expected to grow by approximately 2.0 percent.

Whether these growth rates will actually be achieved will depend on the development of the global political situation and the economic environment in the individual countries. There are certain factors of uncertainty that might have a negative impact on economic activity and, hence, on the B2B mail order sector.



TAKKT's position in the future will nevertheless be stronger. The company has successfully mastered the economically difficult phase in recent years and continued to improve its equity ratio. A free cash flow of more than EUR 33 million (after distribution of the dividend) and an equity ratio in excess of 30 percent mean that the company has sufficient financial strength to finance its further expansion. The good operating cash flow will also fund TAKKT's long-term organic growth.

The successful business model, the strong international presence and the balanced customer and product portfolios mean that the TAKKT Group is excellently positioned. Moreover, the company uses a distribution channel – B2B mail order – that is constantly winning market share. TAKKT stands a good chance of benefiting from an economic recovery to an above-average extent. Despite the weak economic activity seen in recent years, the group has a broad, constantly growing customer base. The average order value and customers' buying frequency will increase noticeably as the economy recovers, which will have a positive, direct effect on turnover. The growing use of the company's e-commerce and e-procurement offerings will also contribute to continued growth.

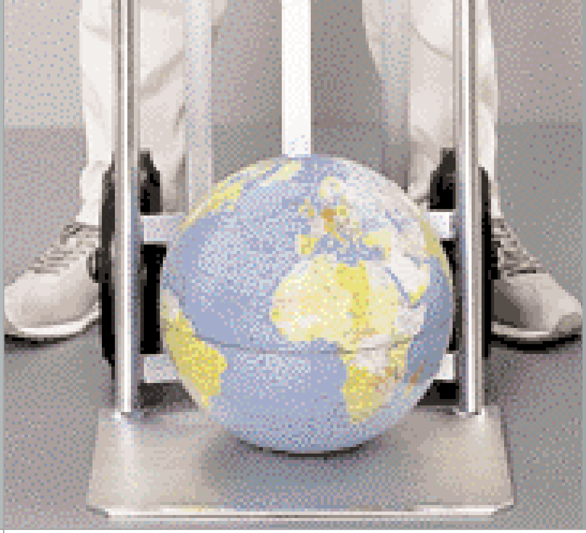
TAKKT has considerable organic growth potential. In Eastern Europe, KAISER + KRAFT and KWESTO will grow dynamically, while KAISER + KRAFT Japan and Topdeq USA will consistently expand their respective delivery ranges in the two countries. Major capacity expansions are not planned at present, so that capital expenditure will be approximately at the previous years' level.

Moreover, TAKKT will continue to diversify its product range with a view to reducing its cyclicality. In view of its strong international presence, the Group will continue to internationalise its product procurement efforts. This will entail major cost advantages.

At the same time, the company will use the communication possibilities of the Internet age even more effectively for its marketing activities and efficiency-enhancing measures.



While expansion through acquisitions will not be TAKKT's main priority in 2004, the company will make use of interesting acquisition opportunities as they arise. TAKKT is therefore closely monitoring the market and its competitors. Thanks to the company's solid balance sheet structure and the high cash flow, minor acquisitions can be financed without accessing the capital market. Sufficient unused credit lines are available for this purpose from several first-class banks.



Based on the economic forecasts mentioned above, TAKKT expects currency-adjusted organic growth of approximately three percent in 2004. Absolute turnover figures in euros will depend on the US dollar exchange rate. This will not have any effect on earnings margins, however. The Group will again target an EBITA margin of nine to eleven percent. Provided that exchange rates remain stable, earnings before taxes will increase over 2003, not least thanks to reduced interest expenses.

## DEPENDENCE REPORT

In view of the fact that TAKKT AG is majority-owned by Franz Haniel & Cie. GmbH, Duisburg-Ruhrort, the Management Board properly reported on relations with affiliated companies under Section 312 of the German Stock Corporation Act. The dependence report ends with the following statement:

"We state that, according to the circumstances known to us at the time the legal transactions were effected, TAKKT AG received appropriate compensation for each legal transaction. We also state that we are convinced that the company was not put at a disadvantage in any of the legal transactions reported."

# The TAKKT share

## TIMELY REPORTING

TAKKT's investor relations activities focused on open and timely communication of the company's business performance, strategies and outlook. The Group attaches great importance to the continuity of this information policy towards private and institutional investors. All shareholders are reached via the TAKKT website, on which interim reports and press releases are posted immediately upon their publication. Additionally, all publications are mailed to shareholders upon request.

TAKKT's listing in the Prime Standard requires the company to publish quarterly reports. At the same time, the adoption of IFRS (International Financial Reporting Standards) is recommended. The company meets these requirements. TAKKT adopted the international accounting standards in 2002.

## ROADSHOWS TWICE A YEAR

Twice a year, the TAKKT Management Board goes on roadshows to visit local investors. The first roadshow usually takes place after the annual accounts press conference, while the second is held in the autumn, usually after the publication of the nine-month results. The November 2003 roadshow attracted particular attention as it came just ahead of the conversion of the AXA convertible bond. The roadshows took the Board members to Frankfurt am Main, London, Paris, Edinburgh and Vienna, where they outlined the company's strategy as well as its earnings and growth prospects to interested investors. 2003 also saw the company's second US presentation since its IPO, which was targeted at institutional investors in New York and Denver.



Many investors sought information on the phone or in visits to the Stuttgart offices. On the occasion of each quarterly report, TAKKT organised a phone conference, at which the Management Board answered the questions of analysts and investors. Overall, more than 50 institutional investors were informed about the potential of the TAKKT share.

In November 2003, TAKKT presented itself at the German Mid Cap Conference and the German Equity Forum. Both events were attended by a large number of institutional investors and multipliers.

## GROWING INTEREST IN TAKKT SHARE

The number of analysts who monitor and regularly comment the business activities of TAKKT AG continued to grow in the past fiscal year. New financial experts provided their first comprehensive reports about the company. Compared to other public listed companies of a similar size, TAKKT thus generates above-average interest among international investors, which was already evident at the autumn roadshow.

## ALL RESOLUTIONS APPROVED BY GENERAL MEETING

The fourth ordinary General Meeting of TAKKT AG was held on May 6, 2003. Some 400 shareholders and guests were welcomed by the Management Board and the Supervisory Board. All resolutions proposed by the management were approved by a large majority of the shareholders. These resolutions referred, for instance, to the payment of a dividend of EUR 0.10 per share for 2002 and the stock repurchase program. No use was made of the stock repurchase program in the past financial year.

## INCREASED FREE FLOAT

The conversion of the AXA bond on November 12, 2003, has changed TAKKT AG's shareholder structure. The ten percent stake held by the AXA Group was absorbed by a large number of investors. Private and institutional investors now hold 27.45 percent of the shares. The interest held by Franz Haniel & Cie. GmbH, Duisburg, stood at 72.55 percent.

## MANAGEMENT CONTINUITY

At the Annual General Meeting, the shareholders were informed that the Supervisory Board had reappointed the Management Board members in March 2003. The terms of office of Chairman Georg Gayer and the members Franz Vogel and Dr. Felix Zimmermann were extended to February 28, 2009. Alfred Milanello, Director of Information Technology and Organisation, will remain in office until 2006, when he will turn 65.

## CONSTANT DIVIDEND FOR 2003

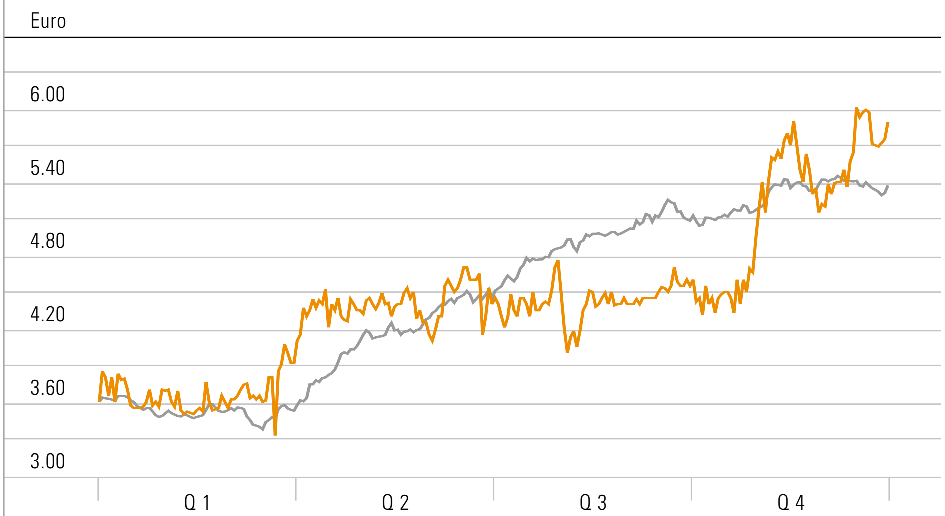
Stable earnings and the high cash flow enable TAKKT to offer its shareholders an appropriate share in the company's performance in fiscal 2003. The Management Board will therefore propose to the Annual General Meeting that a dividend of EUR 0.10 be paid out to the shareholders again. This represents a dividend yield of 30.8 percent.

**Key figures for the TAKKT share IFRS**

| | Pro forma 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Earnings per share (EPS) in EUR | 0.42 | 0.45 | 0.26 | 0.33 | 0.33 |
| Cash flow per share (CPS) in EUR | 0.63 | 0.75 | 0.65 | 0.72 | 0.68 |
| EBITA in EUR million | 65.1 | 81.3 | 76.4 | 75.1 | 70.3 |
| Equity ratio in % | 26.4 | 22.6 | 24.8 | 27.7 | 32.8 |
| Dividend per share in EUR | 0.05* | 0.10 | 0.10 | 0.10 | 0.10 |
| Dividend rate in % | 11.9 | 22.3 | 39.0 | 30.7 | 30.8 |
| Number of shares in millions | 72.9 | 72.9 | 72.9 | 72.9 | 72.9 |
| Share price in EUR (31.12.) | 6.50 | 9.18 | 5.85 | 3.51 | 5.90 |
| Highest price in EUR | 7.00 | 12.05 | 10.50 | 7.30 | 6.01 |
| Lowest price in EUR | 5.15 | 5.90 | 4.40 | 3.45 | 3.50 |
| Market capitalisation in EUR million (31.12.) | 473.9 | 669.2 | 426.5 | 255.9 | 430.1 |

*Sub fiscal year


**Performance of the TAKKT Share, 52 weeks comparision**




TAKKT Share SDAX (indexed)

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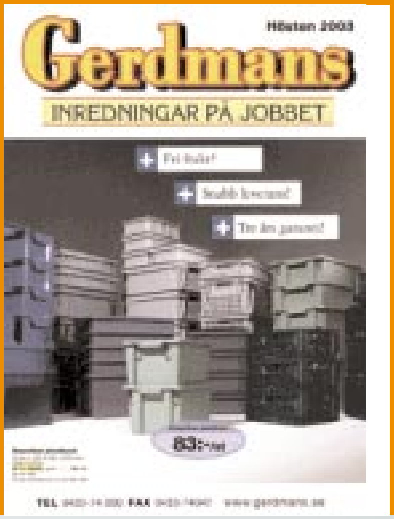
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## KAISER + KRAFT EUROPA

KAISER + KRAFT
Gaerner
Gerdmans
KWESTO

33,000 products
9,500,000 customers
20 countries

# KAISER + KRAFT EUROPA:
# A pioneer with a long tradition

KAISER + KRAFT EUROPA, the largest division of the TAKKT Group, which also generates the highest turnover, has many years of experience in the B2B mail order sector. The company has marketed high-quality office, business and warehouse equipment products for over 55 years. With its close to one million customers, it is today the leading company in this sector in Europe. The division's brands – KAISER + KRAFT, Gaerner, Gerdmans and KWESTO – have a presence in 19 European countries as well as Japan. They offer their customers an extremely varied range of more than 30,000 products, which include everything from office swivel chairs, workshop cranes and fully furnished office containers to simple bag trucks.

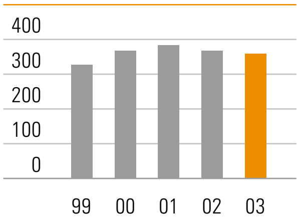
## STABLE EARNINGS IN A DIFFICULT ENVIRONMENT

In fiscal 2003, KAISER + KRAFT EUROPA's turnover declined by a moderate 2.5 percent to EUR 357.9 (367.2) million. Adjusted for currency effects, the decline would have been only 1.2 percent. This development was mainly due to the continued difficult economic environment. The business performance in other European markets was disparate. In the UK and the Netherlands, customers placed fewer orders than in the previous year, whereas the Spanish, Portuguese and Belgian subsidiaries reported good turnover. Gratifying growth was also achieved by the companies established in recent years, with the Eastern European companies, in particular, expanding their activities noticeably. Overall, KAISER + KRAFT EUROPA's results improved slightly. EBITA increased by 1.7 percent to EUR 56.0 (55.1) million. The EBITA margin rose from 15.0 to 15.7 percent. As of December 31, 2003, the KAISER + KRAFT EUROPA group employed 844 (880) full-time employees.



KAISER+KRAFT EUROPA

**Turnover in EUR million**



## WELL-POSITIONED TO BENEFIT FROM EU ENLARGEMENT

The dynamic markets in the Eastern European EU accession countries currently offer excellent growth opportunities for KAISER + KRAFT EUROPA. The company therefore continued to expand its presence in the region in 2003. KWESTO opened a subsidiary in Hungary, which is the fourth following the ones in the Czech Republic, Poland and Slovakia. The first Hungarian catalogue was mailed in May 2003. It is targeted primarily at small and medium-sized businesses, whose response has been positive. The KAISER + KRAFT and KWESTO brands now have a presence in the most important Eastern European markets. The development of the KWESTO brand vindicates the decision to develop a brand specifically for Eastern Europe. The company is well positioned to benefit from the imminent EU enlargement.

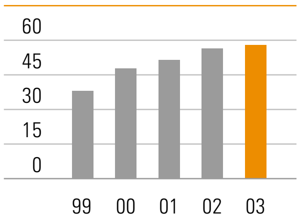
## SETTING THE COURSE FOR THE FUTURE

KAISER + KRAFT Japan also had a promising first year in business. The company will finish the test phase – originally set at two years – earlier than planned. The company will now focus on intensifying its activities through an enlarged product range and on gradually expanding its delivery range.

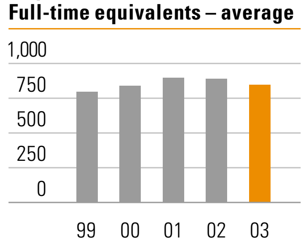
In terms of infrastructure, KAISER + KRAFT EUROPA has also set the course for the future. The division invested roughly EUR 4 million in the expansion of the high bay warehouse at the Kamp-Lintfort mail order centre, which now offers space for an additional 2,700 pallets. This will enable KAISER + KRAFT EUROPA to deliver even more products directly from stock.



**EBITDA**
**in EUR million**




**Employees**
**Full-time equivalents – average**

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Topdeq

2,000 products
400,000 customers
5 countries

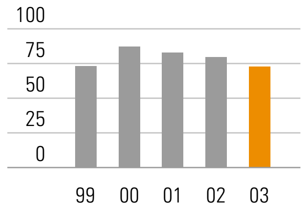
# Topdeq:
# Design for the highest standards

Chairs by Philippe Starck, a series of desks by Sir Norman Foster, the famous lamp by Wilhelm Wagenfeld – such high-quality designer products are the trademark of Topdeq. The TAKKT division offers an exclusive selection of approximately 2,000 office furniture items and accessories. But Topdeq is setting standards not only with regard to product quality but also in terms of service – with comprehensive advice, 24-hour delivery and long guarantee periods. This kind of service is appreciated by over 400,000 customers in Germany, the Netherlands, Switzerland, France and the USA.

In the past fiscal year, however, the continued weakness of the European office furniture market again put a damper on Topdeq's activities. Small and medium-sized service providers, which are one of the company's main target groups, were reserved to place orders in view of the difficult economic situation. The good results achieved in France and the USA were insufficient to offset the decline in turnover in Germany, Switzerland and the Netherlands. Total turnover of the Topdeq group decreased by 5.9 percent to EUR 74.6 (79.3) million, adusted for currency effects the decline would have been 2.6 percent. This development was attributable to several factors, including the decline in the number of orders and the average order value, which was due to the weak economy, as well as the changes in the exchange rates of the US dollar and the Swiss franc against the euro. EBITA amounted to EUR - 1.2 (-1.5) million, the EBITA margin stood at - 1.6 (- 1.9) percent. As of December 31, 2003, the Topdeq group employed 226 (235) people on a full-time basis.



**Turnover in EUR million**



## DELIVERY RANGE IN THE USA EXPANDED

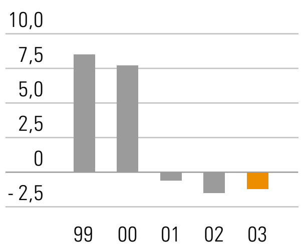
Topdeq USA continues to deliver a very promising performance. Aggressive marketing and the expansion of the delivery radius to 48 hours have helped the company to win many new customers. Topdeq USA's Internet activities are also particularly successful, accounting for roughly over 15 percent of total turnover – the highest percentage of all TAKKT companies. Designer products "made in Europe" are very much in demand in US offices. The market potential is far from being exploited. This is a good basis for further expansion in the coming years. Topdeq France has also expanded its delivery range. The company mailed its first catalogues to the south of the country, which will give it access to further sources of growth.

## NEW SOFTWARE FACILITATES FUTURE EXPANSION

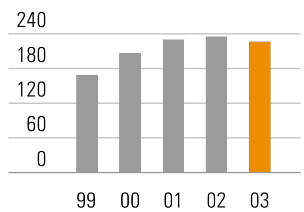
The Topdeq group optimised its IT systems in the past fiscal year. After the inventory management system, the division has also adopted KAISER + KRAFT EUROPA's merchandise information system. The new system is able to process order data in different languages centrally in Pfungstadt and to supply Topdeq customers within a 24-hour delivery radius directly. The system will gradually be introduced at all Topdeq companies. This will make it easier and more cost-efficient for Topdeq to make inroads into new European markets. At the same time, stock-keeping will become more efficient as the company can reduce its inventories and cut costs.



**EBITA**
**in EUR million**




**Employees**
**Full-time equivalents – average**

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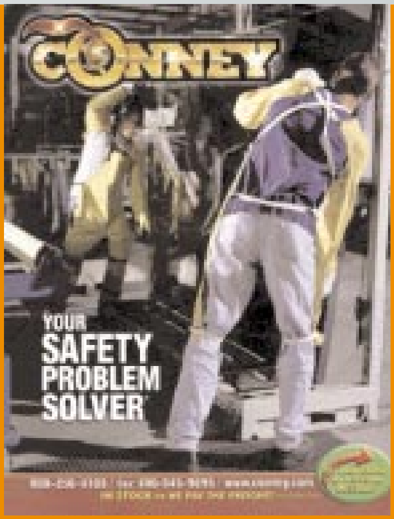
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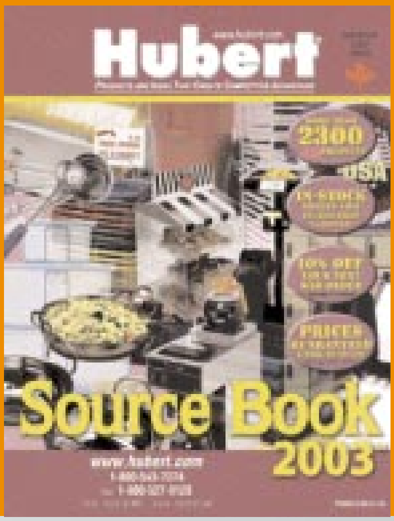
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# K + K America:
# The right product for all businesses

Variety is one of the main strengths of K + K America, whose product range is truly unique in terms of both width and depth. Customers of C&H Distributors, Avenue Industrial Supply, Conney Safety Products and Hubert Company can choose from over 71,000 items. C&H and Avenue mainly sell business and warehouse equipment, while Conney has specialised in industrial safety products. Hubert primarily offers sales promotion items and equipment for retailers, the food service industry and the hotel market. K + K America's customer base comprises some 1.2 million businesses in the USA, Canada and Mexico.

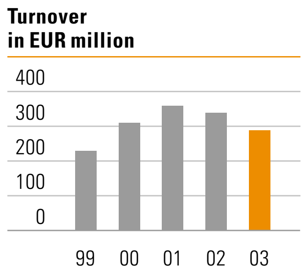
## KEY FIGURES IN US DOLLAR REMAIN STABLE

At USD 317.7 (318.0) million, the division's turnover remained almost unchanged in 2003. EBITA also remained more or less stable at USD 25.5 (27.3) million. In euro terms, however, the key figures were down noticeably on the previous year due to the depreciation of the US dollar. Turnover was down 16.6 percent to EUR 281.4 (337.4) million, while EBITA decreased by 21.8 percent to EUR 22.6 (28.9) million. The EBITA margin declined to 8.0 (8.6) percent.

As in the previous years, Hubert again made a significant contribution to the division's results. Avenue, Canada, also reported an increase in turnover and profits. By contrast, C&H has not yet benefited from the recovery of the US economy, as the latter is mainly attributable to increased consumer spending. As of December 31, 2003, the K + K America group had 764 (772) employees on a full-time basis.



K+K America Corporation



## GROWTH POTENTIAL FOR HUBERT

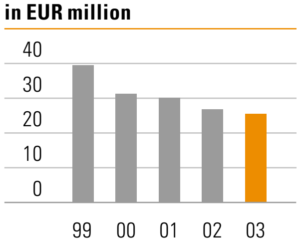
K + K America continues to expand its product portfolio with a view to tapping new customer groups. Take Hubert, for example – in August 2003, the company mailed its first catalogue featuring shop fittings and sales promotion items for the general retail sector to existing and potential customers. The enlarged product range not only means that Hubert will be less exposed to the development in the food retail sector, the food service and hotel market but also offers huge growth potential, as the general retail market comprises some 650,000 businesses, which makes it more than twice as big as the food retail, food service and hotel markets combined.

## SUCCESSFUL START OF C&H IN MEXICO

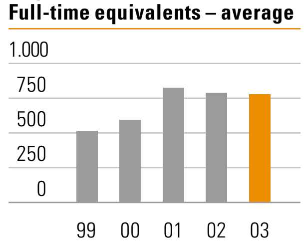
To push ahead its activities in Mexico, K + K America established a subsidiary in the Latin American country. In January 2003, the company mailed the first Spanish catalogue to small and medium-sized businesses in Mexico. The costs and risks of this expansion are relatively low, given that the company can use nearly all existing systems and processes of C&H Distributors. The results achieved were in line with expectations.



**EBITDA**
**in EUR million**




**Employees**
**Full-time equivalents – average**



# Adding value, systematically

HIGH AND STABLE PROFIT MARGINS – EVEN IN ECONOMICALLY DIFFICULT TIMES. WHAT SOUNDS LIKE A DREAM TO MANY COMPANIES IS REALITY FOR THE TAKKT GROUP. BUT WHAT MAKES THE COMPANY'S ACTIVITIES SO PROFITABLE?

**As a mail order company, TAKKT has an important interface function – we establish a connection between a highly efficient range of products from thousands of manufacturers and our 2.5 million customers. This way, we generate value for all market participants.**

The companies of the TAKKT Group integrate the product offerings of many manufacturers. They select high-quality products which they offer to customers through catalogues and on the Internet. This way, they can offer the mostly small to medium-sized manufacturers an efficient distribution channel with a greater reach which they themselves would be unable to establish. For our customers, mail order is the most convenient way of buying business equipment. The TAKKT catalogues are delivered by mail or courier and are permanently available on the Internet. A simple phone call, fax or a few mouse clicks are all it takes for customers to place their orders. Our sophisticated logistics system ensures that product delivery is reliable and punctual.

More than 100,000 products make our range unique in terms of width and specialisation. Whether our customers need designer furniture, special transport devices, canteen fittings or customised solutions – we offer them the full equipment for their business from a single source. The long-lived commodities and special items are complemented by first-class service, which ranges from planning and advice through installation to subsequent spare parts supply. Our integrated solutions make day-to-day business so much easier for our customers.

## A superior system

TAKKT's clear competitive advantage over wholesalers and retailers lies in the value we add for our customers. We also benefit from the fact that the mail order sector has structural advantages over the other two distribution channels. Distribution through wholesale and retail channels requires relatively high staff numbers, which means it gets more expensive as wage costs increase. Catalogue-based distribution, in contrast, allows for relatively stable costs and clearly benefits from economies of scale. Moreover, mail order companies have a virtually unlimited catchment area. All they have to do is accommodate local languages and observe legal regulations.

From a certain size, a mail order company also has advantages in terms of product availability. Many wholesalers and retailers do not maintain large stocks for financial reasons, which means they have to depend on their suppliers maintaining adequate stocks. Large, efficient mail order companies have their own warehouses and can therefore offer their customers better services, such as on-the-day delivery, additional quality controls, standardised terms and conditions and extended guarantee periods.

## Stable structures ensure success

Within the mail order sector, TAKKT focuses on the B2B segment, which offers particularly favourable conditions for success. For instance, the address market – on which the mail order is highly dependent – is very well organised. Moreover, customer's credit standings are easy to check.

The B2B segment also offers logistical advantages. It hardly ever happens that a customer is not present upon delivery or that products are ordered for inspection and then returned.
Stable long-term structures and systems also make the B2B mail order business highly profitable. For many years, TAKKT's gross profit margin has remained more or less stable at around 40 percent. This is due to the fact that we sell products with stable prices. Tables, chairs, cabinets and bag trucks are almost timeless products and will always be needed. They are therefore not exposed to seasonal price fluctuations or fashion trends.
Our cost structures have also remained stable for many years. Advertising materials, human resources and other expenses each account for about ten percent of our turnover. Thanks to this combination of a steadily high gross profit margins and stable cost structures, we have generated good profit margins throughout the years – even in phases of weak economic activity.
Add to this the fact that our business is not very capital-intensive. On a long-term average, we invest only one to two percent of our annual turnover in the maintenance, rationalisation and expansion of our capacities. As a result, TAKKT has generated a constantly high free cash flow. These funds are used to transfer the profitable B2B mail order system by establishing new companies in other interesting markets. This way, our business model generates sustainable added value for investors.



## Our business is predictable

In the mail order sector, the effects of all corporate initiatives can be measured – from the return rate of a catalogue mailing to the development of the average order value and customers' buying frequency to the turnover of a product or a catalogue page. Expenses – such as the cost per order, catalogue or new customer – can also be determined, controlled and optimised.
With a track record of over 55 years in the B2B mail order business, we have built an enormous wealth of experience. The high number of more than two million orders per year has provided us with a highly valid and authoritative database. We can therefore predict exactly how customers will respond to a certain measure and what the cost-benefit ratio will be – e.g. when increasing the catalogue circulation. This enables us to manage our business very efficiently.

## A wealth of experience

It is one of the special strengths of the TAKKT Group that we continue to optimise the B2B mail order systems and processes throughout the years. Highly developed merchandise information systems ensure smooth processes and efficient stock-keeping. This reduces the input of resources and allows cost-efficient order-picking and delivery. On the marketing side, a sophisticated address management system and our excellent knowledge of customers' behaviour enable us to use our advertising materials very effectively.
Thanks to our experience we know how to cope with economically difficult times. We know not only the effects of cyclical fluctuations on our business but also

the actions that must be taken to respond fast and effectively. Accordingly, we adjust our resources and capacities to market developments and requirements at an early stage. This allows us to generate stable results also in phases of economic weakness.
Passing this acquired knowledge on throughout the company is of major importance for the success of the TAKKT Group. The TAKKT holding company makes the know-how of the individual companies available to the entire Group. Newly established companies can use this wealth of experience to develop their markets efficiently.

## Ready for the future

The TAKKT Group owes its success to the fact that we have consistently improved a profitable and stable business – B2B mail order of business equipment – to perfection. We are excellently prepared for the future. Thanks to our wealth of experience, we can make a reliable assessment about how our business will develop. This means reliability for our customers, our employees, our investors and our business partners.

# The future of B2B mail order

INTELLIGENT MARKETING, CUSTOMISED SOLUTIONS, ELECTRONIC ORDERING, PERFECT SERVICE - THE B2B MAIL ORDER BUSINESS MODEL IS NOT ONLY PROFITABLE AND STABLE BUT ALSO INNOVATIVE AND FUTURE-ORIENTED. GEORG GAYER, CHAIRMAN OF THE MANAGEMENT BOARD OF TAKKT AG, OUTLINES THE OPPORTUNITIES AWAITING US IN THE COMING YEARS AS WE CONTINUE TO IMPROVE OUR SYSTEM BUSINESS.

## What will be the future trends in the B2B mail order sector?

The rapid advances in information technology will have a strong impact. For instance, customer and product data, which are of particular importance for our activities, can be made available and exchanged ever faster and more comprehensively. At the same time, we have access to new, very powerful marketing, sales and logistics tools,

## Can you give us a few examples?

Let me address two points. So-called individualised marketing, where selected customers are specifically addressed by their names, is an important trend. In this area, new software and printing technologies such as print-on-demand will make it possible to integrate customer data and advertising materials much more effectively than in the past. This way, we enhance the direct customer approach and, hence, the effectiveness of our advertising materials.

Automation of the process chain is another trend. A typical order involves 19 different steps, from order-taking to the review of the credit standing and final payment.

Our near term objective is to automate the processes for a large number of orders in order to become even better and more efficient.

## Will the catalogue remain the No. 1 advertising material?

Absolutely. A comprehensive, carefully designed catalogue is the best tool to target a customer and encourage them to place an order. The catalogue illustrates our expertise in a way that cannot yet be matched by a website. The physical presence also plays a role in this context – similar to a book. You can touch a catalogue, leaf through it and see the products well structured on a double page. A thick catalogue tells the reader at a glance that the product range is very comprehensive. With a website – as well designed as it may be – you have to scroll and click to find it out. What is more, the catalogue is a classical push medium that has a clear advantage over a pull medium such as the Internet. The Internet will therefore be unable to replace the catalogue in the foreseeable future.

## So what role will the Internet play for the B2B mail order sector?

The Internet will gain in importance as an ordering channel and an additional source of information. Customers expect high service quality – they want to order and pay for the products as quickly and conveniently as possible. These requirements are met by the Internet. The available product range can be seen at any time throughout the world. Customers can order the desired products online and pay by credit card, for instance. For us, the Internet is an ideal distribution channel as it allows us to make comprehensive product information available to our customers at low cost.

### So the Internet will account for a growing percentage of the total turnover?

Yes. Today already, more than five percent of TAKKT's turnover is generated online, with some companies even reporting a share clearly in excess of ten percent. We expect this percentage to double in the coming years.

The situation is similar with regard to e-procurement. In this case, we produce online catalogues for renowned companies and corporations that are tailored to their specific requirements and integrate them into their IT systems. This approach pays off for both parties. Customers can place their orders more conveniently, quickly and cost-efficiently, while we increase customer retention and sales volumes. Over 120 e-procurement projects in Europe alone mean that TAKKT is the industry leader in this area.

The growing standardisation of information structures and processes, e.g. with electronic product catalogues, will reduce costs even further and provide an additional boost to e-business.

### You mentioned customers' service expectations. What will mail order companies have to keep an eye on in future?

We have noticed that customers' service expectations continue to grow as technological possibilities evolve. And so they should!

Today's standards include a large selection of high-quality products, value for money, efficient ordering, fast delivery and solid guarantee services. In addition, customers expect services that allow them to focus on their business. These services include, for instance, the installation of the equipment on their premises, swift and efficient after-sales service and long-term availability guarantees. At the same time, there is growing demand for competent advice. Our services range from selecting the products and planning the fittings to ensuring compliance with job safety regulations.

### What role does international procurement play for a good price-performance ratio?

It is becoming increasingly important. The advantages are easy to see – international procurement means that we have a much larger number of manufacturers to choose from. This way, we benefit from better purchasing terms, which we can pass on to our customers. Asia and Eastern Europe, especially the EU accession countries, are the procurement markets of the future. International procurements has its limits, however, wherever important criteria such as guarantees, quality standards and long-term availability are not met in full. We will not make any compromise here, as good service and top quality are critical in our business.

### Stock-keeping is an important factor in the mail order sector. What are the trends in this area?

Maintaining stocks is necessary and makes economic sense not only because of the growing internationalisation of our procurement activities. The amounts saved as a result of increased order volumes and international procurement are higher than the additional inventory costs. Also, maintaining stocks helps us to offer a better service as we can perform additional quality controls and deliver products faster. We therefore aim to increase the share of the warehouse business from its current level of approximately 50 percent to roughly 60 percent. With transport logistics becoming increasingly efficient, there will be a trend towards centralised stock-keeping anyway.

### We have talked a lot about the advantages of new technologies. Will technological know-how be the critical success factor for the B2B mail order business of the future?

This know-how is important but it is not the only skill a company needs to be successful in the B2B mail order sector. Many mail order companies that were established during the Internet boom were perfect in terms of technology. But they quickly disappeared from the market because they were lacking other core competencies. The success of a mail order company hinges on efficient address marketing, high product and service quality and efficient logistics. Last but not least, good brand management and an excellent advice is very important.

### Let's look into the future. Where will TAKKT be ten years from now?

Our development in the coming years will be positive. TAKKT generally benefits from the fact that the mail order sector – thanks to its advantages such as efficiency, customer convenience and low labour costs – continues to gain market share from the wholesale and retail sectors. We will make our portfolio even more balanced by adding new products in growth segments, which will help us target new customer groups. The share of products for the services sector will probably clearly outgrow the share of products for the manufacturing sector.

At the same time, our brands will continue to expand into attractive markets. Topdeq, for instance, continues to roll out its business in Europe and will eventually cover the complete US market. Product groups currently sold in the USA will be marketed in Europe. And we will expand our presence in Asia. As we make use of these options, it will be up to us to determine the future pace of growth with stable profit margins.

# Consolidated financial statements TAKKT AG, Stuttgart

## Consolidated Profit and Loss Account of TAKKT AG, Stuttgart, for the year ended 31 December 2003 IFRS

(in EUR '000)

| | Notes | 2003 | 2002 |
|---|---|---|---|
| Turnover | (1) | 713,898 | 783,749 |
| Changes in inventories of finished goods and work in progress | | 68 | - 157 |
| Own fixed assets capitalised | | 55 | 33 |
| **Gross performance** | | **714,021** | **783,625** |
| Cost of sales | | 425,198 | 469,787 |
| **Gross profit** | | **288,823** | **313,838** |
| Other income | (2) | 8,657 | 8,813 |
| Personnel expenses | (3) | 95,039 | 101,132 |
| Other operating expenses | (4) | 122,388 | 135,854 |
| **EBITDA** | | **80,053** | **85,665** |
| Depreciation of other intangible and tangible assets | (5) | 9,737 | 10,572 |
| **EBITA** | | **70,316** | **75,093** |
| Amortisation of goodwill | (6) | 16,445 | 18,115 |
| **EBIT** | | **53,871** | **56,978** |
| Share of associate's result | | 0 | 0 |
| Other finance result | (7) | - 81 | 35 |
| Net interest | (8) | - 13,158 | - 18,050 |
| **Financial result** | | **- 13,239** | **- 18,015** |
| **Profit before tax** | | **40,632** | **38,963** |
| Income taxes | (9) | 16,265 | 14,477 |
| **Net income before minority interest** | | **24,367** | **24,486** |
| Minority interest | | 672 | 708 |
| **Net income** | | **23,695** | **23,778** |

## Consolidated Balance Sheet of TAKKT AG, Stuttgart, as of 31 December 2003 IFRS

(in EUR '000)

| Assets | Notes | 2003 | 2002 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | (10) | 240,219 | 283,118 |
| Tangible assets | (11) | 71,464 | 75,428 |
| Investment in associate (valued at equity) | | 17 | 17 |
| Other financial assets | (12) | 86 | 86 |
| | | **311,786** | **358,649** |
| **Current assets** | | | |
| Stocks | (13) | 55,342 | 60,648 |
| Trade and other debtors | (14) | 83,831 | 88,196 |
| Cash and cash equivalents | (15) | 4,219 | 5,524 |
| | | **143,392** | **154,368** |
| **Deferred taxes** | **(16)** | **9,608** | **11,205** |
| **Prepaid expenses** | **(17)** | **15,107** | **16,212** |
| **Total assets** | | **479,893** | **540,434** |

| Equity and liabilities | Notes | 2003 | 2002 |
|---|---|---|---|
| **Shareholders' equity** | **(18)** | | |
| Issued capital | | 72,900 | 72,900 |
| General reserves | | 64,313 | 60,066 |
| Other comprehensive income | | - 3,732 | - 7,167 |
| Retained earnings | | 23,695 | 23,778 |
| | | **157,176** | **149,577** |
| **Minority interest** | **(19)** | **3,397** | **3,745** |
| **Provisions** | **(20)** | **29,318** | **29,327** |
| **Liabilities** | | | |
| Short and long-term borrowings | (21) | 238,567 | 291,256 |
| Trade and other liabilities | (22) | 51,435 | 66,529 |
| | | **290,002** | **357,785** |
| **Total equity and liabilities** | | **479,893** | **540,434** |

**Consolidated Fixed Assets of TAKKT AG**

(in EUR '000)

| | Cost | | | | | |
|---|---|---|---|---|---|---|
| | 01.01.2003 | Currency translation | Additions | Reclassi-fications | Disposials | 31.12.2003 |
| **Intangible assets** | | | | | | |
| Concessions, industrial and similar rights | 40,336 | - 5,473 | 1,148 | 278 | 70 | 36,219 |
| Goodwill | 290,895 | - 30,704 | 0 | 0 | 0 | 260,191 |
| Payments on account | 322 | 0 | 101 | - 278 | 0 | 145 |
| Goodwill on consolidation | 56,531 | 0 | 7 | 0 | 0 | 56,538 |
| | **388,084** | **- 36,177** | **1,256** | **0** | **70** | **353,093** |
| **Tangible assets** | | | | | | |
| Land, landrights and buildings including buildings on third-party land | 69,923 | - 4,860 | 122 | - 1 | 138 | 65,046 |
| Technical equipment and machinery | 1,525 | 0 | 23 | 0 | 59 | 1,489 |
| Other factory and office equipment | 36,005 | - 1,828 | 8,395 | 1 | 1,707 | 40,866 |
| Payments on account | 127 | - 21 | 0 | 0 | 106 | 0 |
| | **107,580** | **- 6,709** | **8,540** | **0** | **2,010** | **107,401** |
| **Financial assets** | | | | | | |
| Investment in associate | 17 | 0 | 0 | 0 | 0 | 17 |
| Long-term investments | 87 | 0 | 0 | 0 | 0 | 87 |
| | **104** | **0** | **0** | **0** | **0** | **104** |
| | **495,768** | **-42,886** | **9,796** | **0** | **2,080** | **460,598** |

| Cumulative depreciation | | | | | | Net book value | |
|---|---|---|---|---|---|---|---|
| 01.01.2003 | Currency translation | Additions | Write-ups | Disposals | 31.12.2003 | 31.12.2003 | 31.12.2002 |
| | | | | | | | |
| | | | | | | | |
| 34,124 | - 4,836 | 2,036 | 1 | 71 | 31,252 | 4,967 | 6,212 |
| 47,773 | - 5,665 | 13,827 | 0 | 0 | 55,935 | 204,256 | 243,122 |
| 0 | 0 | 0 | 0 | 0 | 0 | 145 | 322 |
| 23,069 | 0 | 2,618 | 0 | 0 | 25,687 | 30,851 | 33,462 |
| **104,966** | **- 10,501** | **18,481** | **1** | **71** | **112,874** | **240,219** | **283,118** |
| | | | | | | | |
| | | | | | | | |
| 13,587 | - 752 | 2,522 | 0 | 135 | 15,222 | 49,824 | 56,336 |
| 903 | 0 | 163 | 0 | 59 | 1,007 | 482 | 622 |
| 17,662 | - 1,388 | 5,016 | 0 | 1,582 | 19,708 | 21,158 | 18,343 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 127 |
| **32,152** | **- 2,140** | **7,701** | **0** | **1,776** | **35,937** | **71,464** | **75,428** |
| | | | | | | | |
| 0 | 0 | 0 | 0 | 0 | 0 | 17 | 17 |
| 1 | 0 | 0 | 0 | 0 | 0 | 86 | 86 |
| **1** | **0** | **0** | **0** | **0** | **1** | **103** | **103** |
| | | | | | | | |
| **137,119** | **- 12,641** | **26,182** | **1** | **1,847** | **148,812** | **311,786** | **358,649** |

## Consolidated Statement of Changes in Shareholders' Equity of TAKKT AG

(in EUR '000)

| | Share capital | Capital-reserves | Other comprehensive income | Total equity |
|---|---|---|---|---|
| **Balance at 01.01.2003** | **72,900** | **83,844** | **- 7,167** | **149,577** |
| Currency translation differences | 0 | - 12,241 | 1,173 | - 11,068 |
| Dividend | 0 | - 7,290 | 0 | - 7,290 |
| Other changes | 0 | 0 | 0 | 0 |
| Net income for the period | 0 | 23,695 | 0 | 23,695 |
| Changes in derivative financial instruments | 0 | 0 | 2,262 | 2,262 |
| **Balance at 31.12.2003** | **72,900** | **88,008** | **- 3,732** | **157,176** |

| | Share capital | Capital-reserves | Other comprehensive income | Total equity |
|---|---|---|---|---|
| **Balance at 01.01.2002** | **72,900** | **80,879** | **- 5,350** | **148,429** |
| Currency translation differences | 0 | - 13,523 | 820 | - 12,703 |
| Dividend | 0 | - 7,290 | 0 | - 7,290 |
| Other changes | 0 | 0 | 0 | 0 |
| Net income for the period | 0 | 23,778 | 0 | 23,778 |
| Changes in derivative financial instruments | 0 | 0 | - 2,637 | - 2,637 |
| **Balance at 31.12.2002** | **72,900** | **83,844** | **- 7,167** | **149,577** |

## Consolidated Cash Flow Statement of TAKKT AG

(in EUR '000)

| | 01.01.2003 – 31.12.2003 | 01.01.2002 – 31.12.2002 |
|---|---|---|
| Net income (incl. minority interests) | 24,367 | 24,486 |
| Depreciation and amortisation / revaluation of fixed assets | 26,182 | 28,500 |
| **Cash flow** | **50,549** | **52,986** |
| Change in provisions | 1,272 | 7,553 |
| Other income/expenditure not affecting the movement of funds | - 1,676 | - 1,685 |
| Profit/loss on disposal of fixed assets | - 102 | - 36 |
| Change in stocks | - 349 | - 6,674 |
| Change in trade debtors and other assets not part of investing and financing activities | - 2,165 | 228 |
| Change in trade liabilities and other liabilities not part of investing and financing activities | - 4,727 | - 54 |
| **Net cash flow from operating activities** | **42,802** | **52,318** |
| Proceeds from disposal of tangible and intangible assets | 335 | 223 |
| Investment in tangible and intangible assets | - 9,796 | - 8,632 |
| **Net cash flow from investing activities** | **- 9,461** | **- 8,409** |
| Change in gross borrowings | - 25,881 | - 33,872 |
| Dividends to group shareholders and minority interests | - 8,295 | - 8,238 |
| Other changes in shareholders' equity | - 89 | - 50 |
| **Net cash flow from financing activities** | **- 34,265** | **- 42,160** |
| Net change in funds | - 924 | 1,749 |
| Effects of exchange rate changes | - 381 | - 162 |
| Funds at beginning of period | 5,524 | 3,937 |
| **Funds at end of period** | **4,219** | **5,524** |

## Notes to the cash flow statement

The cash flow statement shows the changes in TAKKT AG's cash resources resulting from cash flows in the course of the year; it has been derived from the consolidated financial statements. In accordance with IAS 7, a distinction has been made between cash flows from operating activities and cash flows from investing and financing activities. To adjust for exchange rate effects, the opening balance sheet for the fiscal year was translated at the exchange rates prevailing on the reporting date of the closing balance sheet.

The change in cash flow from operating activities is mainly influenced by the following: Compared to the previous year the amount of stocks is similar. In 2002 stocks were increased due to the expansion of the central warehous in Kamp-Lintfort. The liabilities to suppliers declined due to the developement of business. The addition to accruals was lower than in the year 2002.

Cash flow from operating activities includes interest income of EUR 390,000 (EUR 180,000) and interest expenses of EUR 14,374,000 (EUR 19,248,000). Income tax payments totalled EUR 15,747,000 (EUR 10,068,000) in 2003. Cash flow from investing activities has remained at a normal level. Capital expenditure focused on maintenance and rationalisation measures. No assets were acquired by way of finance leasing.

The stable cash flow of EUR 50,549,000 (EUR 52,986,000) was sufficient to finance scheduled debt repayments. Gross borrowings include all interest-bearing liabilities; please refer to page 99 for more details. In 2003, dividends in an amount of EUR 7,290,000 (EUR 7,290,000) were distributed to the shareholders of TAKKT AG.

The funds at the end of the period shown as of the reporting date are the sum total of cash in hand, cash at banks and cheques. They were not netted out against short-term liabilities on current account.

**Primary reporting by segments 2003**

(in EUR '000)

| 01.01.2003 – 31.12.2003 | K + K EUROPA | Topdeq | K + K America | TAKKT-Holding/ Consolidation | Group total |
|---|---|---|---|---|---|
| **Total turnover** | **357,892** | **74,650** | **281,389** | **- 33** | **713,898** |
| Sales to third parties | 357,410 | 74,611 | 281,374 | 0 | 713,395 |
| Sales to affiliates | 482 | 39 | 15 | - 33 | 503 |
| EBITDA | 61,087 | 543 | 25,407 | - 6,984 | 80,053 |
| EBITA | 56,038 | - 1,206 | 22,627 | - 7,143 | 70,316 |
| EBIT | 49,372 | - 2,633 | 14,275 | - 7,143 | 53,871 |
| Profit before tax | 43,962 | - 3,025 | 6,133 | - 6,438 | 40,632 |
| Net income before minority interest | 28,375 | - 3,315 | 3,511 | - 4,204 | 24,367 |
| | | | | | |
| Depreciation | 11,714 | 3,176 | 11,133 | 159 | 26,182 |
| Material non-cash expenses (excl. depreciation) | 3,942 | 1,533 | 1,805 | 1,685 | 8,965 |
| Share of associate's result | 0 | 0 | 0 | 0 | 0 |
| | | | | | |
| Segment assets | 227,898 | 46,504 | 201,344 | - 6,297 | 469,449 |
| Thereof investment in associate | 17 | 0 | 0 | 0 | 17 |
| Income taxes and deferred taxes | 3,089 | 2,782 | 3,936 | 637 | 10,444 |
| | | | | | |
| **Total assets** | **230,987** | **49,286** | **205,280** | **- 5,660** | **479,893** |
| | | | | | |
| Segment liabilities | 159,611 | 21,957 | 145,253 | - 46,350 | 280,471 |
| Income taxes and leasing liabilities | 32,888 | 426 | 3,803 | 1,732 | 38,849 |
| | | | | | |
| **Total liabilities** | **192,499** | **22,383** | **149,056** | **- 44,618** | **319,320** |
| | | | | | |
| Capital expenditure | 6,846 | 964 | 1,181 | 805 | 9,796 |
| Average no. of employees (full-time equivalent) | 861 | 226 | 775 | 26 | 1,888 |
| Number of employees as of the reporting date (full-time equivalent) | 844 | 226 | 764 | 26 | 1,860 |

## Primary reporting by segments 2002

(in EUR '000)

| 01.01.2002 – 31.12.2002 | K + K EUROPA | Topdeq | K + K America | TAKKT-Holding/ Consolidation | Group total |
|---|---|---|---|---|---|
| **Total turnover** | **367,156** | **79,306** | **337,358** | **- 71** | **783,749** |
| Sales to third parties | 366,737 | 79,294 | 337,296 | 0 | 783,327 |
| Sales to affiliates | 419 | 12 | 62 | - 71 | 422 |
| EBITDA | 60,516 | 188 | 32,331 | - 7,370 | 85,665 |
| EBITA | 55,120 | - 1,516 | 28,933 | - 7,444 | 75,093 |
| EBIT | 48,436 | - 2,943 | 18,929 | - 7,444 | 56,978 |
| Profit before tax | 42,038 | - 4,025 | 7,389 | - 6,439 | 38,963 |
| Net income before minority interest | 27,479 | - 4,474 | 4,816 | - 3,335 | 24,486 |
| | | | | | |
| Depreciation | 12,080 | 3,131 | 13,402 | 73 | 28,686 |
| Material non-cash expenses (excl. depreciation)* | 3,659 | 1,737 | 1,880 | 1,995 | 9,271 |
| Share of associate's result | 0 | 0 | 0 | 0 | 0 |
| | | | | | |
| Segment assets | 234,378 | 60,592 | 249,534 | - 16,217 | 528,287 |
| Thereof investment in associate | 17 | 0 | 0 | 0 | 17 |
| Income taxes and deferred taxes | 2,704 | 3,260 | 5,427 | 756 | 12,147 |
| | | | | | |
| **Total assets** | **237,082** | **63,852** | **254,961** | **- 15,461** | **540,434** |
| | | | | | |
| Segment liabilities | 163,536 | 37,683 | 190,336 | - 44,276 | 347,279 |
| Income taxes and leasing liabilities | 33,506 | 466 | 3,536 | 2,325 | 39,833 |
| | | | | | |
| **Total liabilities** | **197,042** | **38,149** | **193,872** | **- 41,951** | **387,122** |
| | | | | | |
| Capital expenditure | 1,758 | 6,044 | 766 | 64 | 8,632 |
| Average no. of employees (full-time equivalent) | 886 | 235 | 784 | 27 | 1,932 |
| Number of employees as of the reporting date (full-time equivalent) | 880 | 235 | 772 | 27 | 1,914 |

*the reported figures for the previous year included the addition to tax accruals.

## Segment information

In the context of segment reporting to IAS 14, the activities of TAKKT AG are broken down into divisions (primary reporting) and regions (secondary reporting). The breakdown into primary segments follows the management approach and takes account of internal controlling and reporting as well as of the organisational structure. In the secondary report, a distinction is made between Germany, other countries in Europe, North America and other countries (Japan and Mexico). Segment reporting uses the same accounting standards as the consolidated financial statements. Intra-group transfers are shown at internal prices calculated on the basis of the cost-plus method. The cost-plus method complies with OECD principles. The same approach was applied in the previous year.

## Primary reporting by divisions

### KAISER + KRAFT EUROPA

KAISER + KRAFT EUROPA GmbH, Stuttgart, comprises KAISER + KRAFT, Gaerner, Gerdmans and KWESTO. The distribution companies of these sub-groups maintain a total of over 40 branches in 19 European countries. In 2002, the KAISER + KRAFT group established a company in Japan to pave the way for the development of the Asian market. The companies offer over 30,000 products via catalogue and, in part, through the Internet. KAISER + KRAFT EUROPA GmbH, Stuttgart, operates a national mail order centre in Kamp-Lintfort and three additional warehouses as well as production facilities for durable transport equipment (platform trucks, sack trucks, trolley jacks, etc.) located in Haan, near Düsseldorf. The self-produced products are marketed under the "EURO*KRAFT*" brand name. Besides the standard range, the company also manufactures customised products and carries out small-batch production orders in accordance with customer specifications. This segment focuses on the following product groups: transport, storage, environment, workshop and office equipment.

### Topdeq

The Topdeq group sells design-oriented office furniture and accessories through a mail order catalogue and through the Internet in Germany, Switzerland, the Netherlands, France and the United States. The division's main customers are small to medium-sized companies from the services sector. Topdeq offers a special 24-hour delivery service and a ten-year warranty. If requested, orders received before 12:30 p.m. are delivered to the customer on the same day, subject to a surcharge. Topdeq operates warehouses in Germany, Switzerland, France and the United States. The Topdeq group's product portfolio comprises some 2,000 items.

### K + K America

K + K America Corporation, Milwaukee, comprises C&H Distributors, Conney Safety Products and Avenue Industrial Supply. These companies sell over 45,000 products (catalogue and Internet) for the transport, storage, business, plant, job safety and packaging sectors to customers in the United States, Canada and Mexico. Hubert Company LLC, Harrison/USA, sells approx. 23,000 products for retail grocery stores and the food service industry and since August 2003 with another 3,000 products for non-food retailers. The K + K America group operates two mail order centres in the USA (Hubert, Conney and C&H), four regional warehouses in the USA and two regional warehouses in Canada.

**Secondary reporting by regions 2003**

(in EUR '000)

| 01.01.2003 – 31.12.2003 | Germany | Rest of Europe | North America | Other | Group total |
|---|---|---|---|---|---|
| Sales to third parties | 173,708 | 246,905 | 292,266 | 516 | 713,395 |
| Total assets | 203,959 | 59,598 | 204,754 | 1,138 | 469,449 |
| Additions to fixed assets | 7,660 | 915 | 1,182 | 39 | 9,796 |

**Secondary reporting by regions 2002**

(in EUR '000)

| 01.01.2002 – 31.12.2002 | Germany | Rest of Europe | North America | Other | Group total |
|---|---|---|---|---|---|
| Sales to third parties | 183,602 | 251,918 | 347,807 | 0 | 783,327 |
| Total assets | 210,371 | 61,774 | 254,069 | 2,073 | 528,287 |
| Additions to fixed assets | 7,183 | 592 | 838 | 19 | 8,632 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

## 1. General principles

### a) Accounting principles

The consolidated financial statements of TAKKT AG have been prepared in accordance with the regulations issued by the International Accounting Standards Board (IASB); the interpretations (SIC) by the International Financial Reporting Committee have been taken into account. All International Financial Reporting Standards (IFRS) agreed and published before 31 December 2003 have been taken into account. IAS 39 has been applied for the fiscal years from 1999.

The consolidated financial statements comply with the EU Directive on consolidated accounting (Directive 83/349/EWG). To ensure consistency with consolidated financial statements under HGB, all information and explanations required under HGB but not required under IFRS have been provided. The requirements for exemption from the preparation of consolidated financial statements to German GAAP outlined in Section 292a HGB have been fulfilled. The assessment of such requirements was based on the German Accounting Standard 1 (DRS 1) published by the German Standardisation Council. In accordance with Section 292a HGB, the consolidated financial statements have been complemented by additional explanations to fulfil the requirements for exemption from the requirement to prepare consolidated financial statements under German law.

The consolidated financial statements were prepared in euros. Unless specified otherwise, all amounts are shown in EUR '000.

For the sake of clarity, certain items in the balance sheet and the profit and loss account have been combined. These are presented in detail in the notes.

The profit and loss account was prepared in accordance with the type of expenditure method, with the gross profit shown separately.

The consolidated financial statements are based on the same accounting and valuation principles as in the previous year.

### b) Scope of consolidation

TAKKT AG, Stuttgart, which is registered under HRB 19962 with the German Commercial Register of the Stuttgart local court, is the group's parent company. TAKKT AG is a b-to-b mail order group for office, plant and warehouse equipment and has a presence in more than 20 countries. Besides TAKKT AG, six domestic and 39 (34) foreign companies are included in the consolidated financial statements. One associated company is included in the consolidated financial statements at acquisition cost.

TAKKT AG is a 72.55 percent subsidiary of Franz Haniel & Cie. GmbH, Duisburg, and the TAKKT Group is therefore included in the latter's consolidated accounts.

### c) Consolidation policies

The consolidated financial statements as well as all individual financial statements included in the consolidated financial statements were prepared as of 31 December 2003.

According to IAS 27, the financial statements of the domestic and foreign subsidiaries included in the consolidated financial statements were prepared using the same accounting and valuation principles. In accordance with IAS 27, capital consolidation was effected using the carrying value method by netting the cost of acquisition with the parent's portion of equity at the time of acquisition. Positive differences arising on consolidation were treated as goodwill and amortised over their expected useful life using the straight-line method.

In accordance with IAS 22, negative goodwill was shown separately from the positive goodwill and written back as scheduled.

Intra-group profits and losses, turnover, expenses and income as well as all debtors and liabilities between the consolidated subsidiaries were eliminated. Unrealised intercompany profits in fixed assets and stocks were eliminated provided they were not material.

Differences arising on the elimination of group debtors and liabilities were written off to the profit and loss account. Debtors and liabilities to third parties were consolidated on the condition that such balances with third parties were reciprocal and could be set off against each other.

Minority interests in a subsidiary's equity and profits are shown under "Minority interests".

In accordance with IAS 12, deferred taxes were provided for consolidation measures shown in the profit and loss account, with the exception of the amortisation of goodwill on consolidation which is not tax deductible.

#### d) Currency translation

TAKKT AG's reporting currency is the euro. In accordance with IAS 21, translation was effected using the functional currency method. Given that all companies manage their business independently, the respective local currency is the functional currency. Under the functional currency method, the assets and liabilities of all subsidiaries that do not report in euros are converted using the average closing rate, equity capital is converted using historical rates prevailing at the time of acquisition, and income and expenses using the average rate for the year. Goodwill on consolidation is calculated using the average rate prevailing at the time of acquisition. The currency adjustment of EUR 3,823,000 (EUR - 1,594,000) was allocated to general reserves with no effect on profits.

The TAKKT Group has no subsidiaries in high-inflation countries.

In the individual financial statements of TAKKT AG and its subsidiaries, transactions in foreign currencies are translated at the rate prevailing on the day of the transaction. Assets and liabilities in foreign currencies are translated at the rate prevailing on the balance sheet date. Translation differences are recognised in the profit and loss account under "Other income" or "Other operating expenses".

The table below shows the development of the exchange rates of the currencies used in the consolidated financial statements against 1 euro:

### Currency translation

| | | Closing rates | | Average rates | |
|---|---|---|---|---|---|
| Currency | Country | 2003 | 2002 | 2003 | 2002 |
| CAD | Canada | 1.6234 | 1.6550 | 1.5807 | 1.4800 |
| CHF | Switzerland | 1.5579 | 1.4524 | 1.5203 | 1.4670 |
| CZK | Czech Republic | 32.4100 | 31.5770 | 31.8413 | 30.7874 |
| DKK | Denmark | 7.4450 | 7.4288 | 7.4307 | 7.4305 |
| GBP | UK | 0.7048 | 0.6505 | 0.6916 | 0.6286 |
| HUF | Hungary | 262.5000 | 236.2900 | 253.3285 | 242.9184 |
| JPY | Japan | 135.0500 | 124.3900 | 130.8502 | 117.9924 |
| MXN | Mexico | 14.0174 | - | 12.1704 | - |
| NOK | Norway | 8.4141 | 7.2756 | 7.9909 | 7.5033 |
| PLN | Poland | 4.7019 | 4.0210 | 4.3925 | 3.8465 |
| SEK | Sweden | 9.0800 | 9.1528 | 9.1233 | 9.1601 |
| SKK | Slovakia | 41.1700 | 41.5030 | 41.4855 | 42.6670 |
| USD | USA | 1.2630 | 1.0487 | 1.1290 | 0.9426 |

(1) ## 2. NOTES TO THE PROFIT AND LOSS ACCOUNT

**Turnover**

(in EUR '000)

| | 2003 | 2003 |
|---|---|---|
| Turnover with third parties | 713,395 | 783,327 |
| Turnover with affiliated companies | 503 | 422 |
| | **713,898** | **783,749** |

Turnover with affiliated companies refers to companies of the majority shareholder that are not included in TAKKT AG's consolidated financial statements. Most of this turnover was generated with the sister companies of the Celesio group (formerly GEHE group) to the amount of EUR 274,000. Turnover with affiliated companies accounts for less than one percent of the total turnover.

A breakdown of turnover by segments and regions is included in the segment report on page 79.
Turnover is reported at the time the goods are delivered.

(2) **Other income**

(in EUR '000)

| | 2003 | 2002 |
|---|---|---|
| Operating income | 2,771 | 2,826 |
| Release of provisions | 1,589 | 1,854 |
| Income prior years | 2,032 | 1,210 |
| Reduction of provisions on assets | 363 | 445 |
| Disposal of fixed assets | 277 | 92 |
| Rental income | 67 | 59 |
| Other | 1,558 | 2,327 |
| | **8,657** | **8,813** |

Other income includes income of EUR 4,347,000 (EUR 4,020,000) from prior years, most of which results from the release of provisions.

## (3) Personnel expenses

(in EUR '000)

| | 2003 | 2002 |
|---|---|---|
| Wages and salaries | 76,458 | 83,592 |
| Social insurance costs | 15,897 | 14,582 |
| Pension costs | 2,684 | 2,958 |
| | **95,039** | **101,132** |

The number of group employees is shown in the segment report on page 79.

## (4) Other operating expenses

(in EUR '000)

| | 2003 | 2002 |
|---|---|---|
| Loss on disposal of fixed assets | 175 | 56 |
| Write-offs and provisions for current assets/bad debts | 1,911 | 2,215 |
| Expenses from affiliated companies | 956 | 1,934 |
| Rent | 9,425 | 9,211 |
| Operating leasing | 1,142 | 908 |
| Operating taxes | 852 | 739 |
| Administrative expenses | 20,195 | 24,137 |
| Other | 87,732 | 96,654 |
| | **122,388** | **135,854** |

Expenses from affiliated companies are from companies of the majority shareholder which are not included in TAKKT AG's consolidated financial statements. Most of these expenses are rent as well as operating and administrative charges with sister companies, the Celesio group (formerly GEHE group) (EUR 541,000) and the companies of the majority shareholder, Franz Haniel & Cie. GmbH (EUR 415,000).
Other operating expenses include expenses of EUR 891,000 (EUR 1,261,000) relating to prior years.

### (5) Depreciation of other intangible and tangible assets

(in EUR 000')

| | 2003 | 2002 |
|---|---|---|
| Intangible assets | 2,036 | 2,934 |
| Tangible assets | 7,701 | 7,638 |
| | **9,737** | **10,572** |

### (6) Amortisation

(in EUR '000)

| | 2003 | 2002 |
|---|---|---|
| Goodwill | 13,827 | 15,479 |
| Goodwill on consolidation | 2,618 | 2,636 |
| | **16,445** | **18,115** |

For more details on goodwill, please refer to page 90.

### (7) Other finance result

(in EUR '000)

| | 2003 | 2002 |
|---|---|---|
| Expense (income in previous year) from the market valuation of financial instruments for group loans | - 81 | 35 |

For detailed information, see paragraph 4 "Derivative financial instruments" on page 102.

## (8) Net interest

(in EUR '000)

| | 2003 | 2002 |
|---|---|---|
| Income from other securities and long-term loans | 4 | 4 |
| Other interest and similar income | | |
| - Haniel Finance companies | 158 | 9 |
| - other | 228 | 171 |
| | **390** | **184** |
| Writedown of long-term investments | 0 | 0 |
| Interest and similar charges | | |
| - Haniel Finance companies | - 382 | - 398 |
| - interest on finance leasing | - 1,475 | - 1,617 |
| - interest on finance leasing of affiliated companies | - 178 | - 188 |
| - interest on pension accruals | - 479 | - 443 |
| - other | - 11,034 | - 15,588 |
| | **- 13,548** | **- 18,234** |
| | **- 13,158** | **- 18,050** |

## (9) Income taxes

Tax expenses include income taxes paid and/or payable as well as deferred taxes in the individual countries. Deferred taxes were calculated using the specific local tax rates. Changes in the tax rates decided on the balance sheet date have been taken into account. The income tax rates applied ranged from 16.7 percent to 40.9 percent.

### Breakdown of tax charge

(in EUR '000)

| | 2003 | 2002 |
|---|---|---|
| Income taxes | 14,972 | 14,175 |
| Deferred taxes | 1,293 | 302 |
| | **16,265** | **14,477** |

The difference between actual tax charge and the calculated tax charge that would arise if a tax rate of 40.0 (39.3) percent were used for TAKKT AG is made up as follows:

**Tax reconciliation**

(in EUR '000)

| | 2003 | 2002 |
|---|---|---|
| Group earnings before taxes | 40,632 | 38,963 |
| Calculated tax charge | 16,253 | 15,312 |
| Non-deductible goodwill | 1,047 | 1,036 |
| Changes in tax rates | - 321 | 33 |
| Difference between local taxes and group tax rate | - 2,722 | - 2,542 |
| Non-deductible expenses | 3,490 | 757 |
| Tax-free income | - 1,196 | - 1,145 |
| Use of tax losses | - 1,526 | - 413 |
| Deferred taxes on losses not capitalised | 350 | 787 |
| Taxes unrelated to the accounting period | 242 | - 72 |
| Other differences | 619 | 426 |
| Trade tax corrections | 29 | 298 |
| **Income taxes shown in the consolidated profit and loss account** | **16,265** | **14,477** |

The calculated tax charge is based on the tax rates currently applicable in Germany. Apart from the corporate income tax rate of 26.5 percent, the solidarity surcharge of 5.5 percent and the average trade tax rate in the group were used to calculate the tax charge.

**Earnings per share**

| | 2003 | 2002 |
|---|---|---|
| Number of shares issued (in thousand) | 72,900 | 72,900 |
| Weighted number of shares issued (in thousand) | 72,900 | 72,900 |
| Group result after minority interests in EUR '000 | 23,695 | 23,778 |
| Earnings per share in EUR | 0.33 | 0.33 |
| Cash flow per share in EUR | 0.68 | 0.72 |

Earnings per share are calculated by dividing group profits (after minorities) by the weighted number of shares issued. Cashflow per share is calculated similar.

## 3. NOTES TO THE BALANCE SHEET

### Fixed assets

The schedule presentation of fixed assets (see page 74) is an integral part of the notes to the consolidated financial statements. Items in the profit and loss account were translated at average rates. The difference between the mean rate and the closing rate is included in the currency translation.

### (10) Intangible assets

**Goodwill**

Some of the past acquisitions were made as so-called "asset deals". In an asset deal, all assets are acquired separately by the buyer. Where the cost of acquisition exceeded the fair value of the net assets, the difference was capitalised as goodwill in the individual balance sheet of the acquiree. According to IFRS, capitalised goodwill is usually amortised over a period of 20 years. For tax purposes, it continues to be capitalised over a period of 15 years. The resulting deferred taxes amounted to EUR 6,904,000 as of the reporting date.

In the context of the spin-off of GEHE AG (today's Celesio AG), the respective goodwill for the German business activities has been capitalised.

Some of the goodwill of C&H Distributors, USA is amortised over a period of 25 years. In the context of the revaluation effected in conjunction with the acquisition in 1988, customer lists and brand names, which are usually included in total goodwill, were capitalised separately. Shorter amortisation periods were chosen for these items. Overall amortisation period are less than 20 years. No revaluation subsequend to acquisition was performed for reasons of expense and recoverability purposes.

As of 31 December 2003, the goodwill of C&H Distributors, which is amortised over a period of 25 years, had a net book value of EUR 1.7 million (EUR 2.2 million).

No un-scheduled amortisation has been provided for.

In preparation of the consolidated balance sheet goodwill included individual balance sheets is translated into reporting currency Euro. The book value of goodwill in the consolidated balance sheet can therefore be affected by changes in exchange rates.

**The remaining book values of goodwill in the respective segments are as follows:**

(in EUR '000)

| | 2003 | 2002 |
|---|---|---|
| KAISER + KRAFT EUROPA | 84,854 | 90,328 |
| Topdeq | 0 | 0 |
| K + K America | 119,402 | 152,794 |
| **Total** | **204,256** | **243,122** |

Where acquisitions were made as so-called "share deals", the pro-rata acquisition costs exceeding the fair value of the net assets were capitalised as goodwill on consolidation. At group level, this goodwill is also amortised over a period of 20 years. Amortisation takes places off the individual balance sheet that is relevant for the taxable base. No deferred taxes arise on goodwill on consolidation. Goodwill on consolidation with a remaining book value only relates to European companies, so that a review under to US-GAAP was not necessary.

In the context of the 1 July 1999 spin-off of GEHE AG (today's Celesio AG), goodwill of EUR 278 million was directly set off against the equity capital transferred.

**The remaining book values of goodwill on consolidation in the respective segments are as follows:**

(in EUR '000)

| | 2003 | 2002 |
|---|---|---|
| KAISER + KRAFT EUROPA | 16,581 | 17,765 |
| Topdeq | 14,270 | 15,697 |
| K + K America | 0 | 0 |
| **Total** | **30,851** | **33,462** |

At the time the financial statements for the year ended 31 December 2003 were compiled, the new IFRS impairment test regulations had not yet become effective. Going forward, it can be expected that scheduled amortisation of goodwill from previous acquisitions will no longer be required. Instead, an impairment test must be performed and goodwill be amortised if required. For the year 2004 TAKKT will post the regular amortisation charges to profit and loss account. TAKKT expects to apply the new effective IFRS 3 from 2004 onwards.

### Other intangible assets

Other intangible assets, which mainly consist of computer software, are disclosed at acqusition costs, plus incedental expences. These are based on scheduled useful lives of usually two to five years. Research and development expenses which are to be expensed are negligible due to the company's business activity. As in the previous year, intangible assets were not subject to any restraints on disposal or ownership.

## (11) Tangible assets

Tangible assets used for more than one year are carried at the cost of acquisition or production less scheduled depreciation. Unscheduled depreciation to IAS 36 was not required. In accordance with IAS 23.11, borrowing costs are not capitalised. Tangible assets are mainly written off using the straight-line method in line with their respective useful lives.

Periods of depreciation:

| | |
|---|---|
| Buildings | 10 – 50 years |
| Plant and machinery | 3 – 15 years |
| Other fixtures and fittings, tools and equipment | 3 – 13 years |

Residual values to IAS 16.46 did not have to be considered in the determination of the depreciable amount.

In accordance with IAS 17, rented or leased tangible assets whose commercial risk and benefits are borne by the respective group company (finance lease) are capitalised at the fair value or the lower cash value of the minimum lease payments and written off over the estimated useful life of the leased asset or the shorter term of the lease. To determine the cash value, an interest rate of seven percent or, in the case of special leases, the interest rate on which the lease contract is based was used. Payment obligations resulting from future leasing instalments are carried as liabilities.

As of the balance sheet date, tangible assets with a book value of EUR 22,266,000 (EUR 24,336,000) were capitalised in the context of finance leases. In the current year there were no additions or disposals.

Leased assets of EUR 17,825,000 (EUR 18,943,000) and EUR 4,441,000 (EUR 5,393,000), respectively, are shown under "Land, land rights and buildings" and "Factory and office equipment".

Finance leases were concluded for a general term of between three and 22 years; some of the agreements include renewal options at market conditions.

In the case of special leases or land or building leases, the lessee is usually entitled to exercise a purchase option at the end of the term. The option price is usually identical with the residual book value.

As in the previous year, tangible assets legally and beneficially owned by the company were not subject to any restraints on disposal or ownership.

Maintenance costs are directly shown as expenses unless subject to capitalisation.

## (12) Other financial assets

Long-term investments are valued at net acquisition costs and mainly comprise securities used to cover provisions for staff costs that are mandatory in Austria.

## (13) Stocks

(in EUR '000)

| | 31.12.2003 | 31.12.2002 |
|---|---|---|
| Raw materials, consumables and supplies | 664 | 728 |
| Work-in-progress | 651 | 604 |
| Finished goods and purchased merchandise | 54,027 | 59,316 |
| | **55,342** | **60,648** |

Stocks are always shown at the cost of acquisition or production or the lower net sales value. Normally, an average value or a value determined according to the FIFO approach (first in, first out) is shown. The cost of production includes not only the materials used for production and wages but also appropriate portions of the material and production overhead as well as production-related depreciation. Borrowing costs were not capitalised given that no direct relationship as required under IAS 23 existed.
Merchandise whose sale is expected to generate proceeds that are lower than the book value of the stocks is written down over the expected sell-down period of the inventories. The net sales value is the expected sales proceeds less costs that will be incurred up to the sale.
When the reasons for the writedowns no longer apply, the original values are reinstated.
Unrealised intercompany profits of EUR 291,000 (EUR 460,000) have been eliminated from stocks.

## (14) Trade and other debtors

(in EUR '000)

| | 31.12.2003 | 31.12.2002 |
|---|---|---|
| Trade debtors | 76,172 | 80,487 |
| Amounts owed by affiliated companies | 27 | 47 |
| Other assets | 7,632 | 7,662 |
| | **83,831** | **88,196** |
| Thereof with a term of > 1 year | 308 | 265 |

Trade debtors and other assets are carried at their nominal value. Apart from the required individual value adjustments, trade debtors are subject to general allowances to cover identifiable credit risks based on past experience.
Amounts owed by affiliated companies are due from companies of the main shareholder that are not included in TAKKT AG's consolidated accounts. Most of these amounts are owed by companies of the Celesio group (formerly GEHE group). They are shown at their nominal value and were not subject to any value adjustments.
Other assets comprise tax refund claims and bonuses due from suppliers.

## (15) Cash and cash equivalents

(in EUR '000)

| | 31.12.2003 | 31.12.2002 |
|---|---|---|
| Cheques, cash balances | 948 | 655 |
| Bank balances | 3,271 | 4,869 |
| | **4,219** | **5,524** |

Bank balances are made up of short-term funds with a term of up to three months.

## (16) Deferred taxes

In accordance with IAS 12, deferred taxes are determined using the liability method, under which expected future tax liabilities and taxable profits are recognised for temporary differences between the book values shown in the consolidated financial statements and the tax values of assets and liabilities. Tax savings expected to result from the use of realisable loss-carryforwards are capitalised.

Deferred tax assets from deductible temporary differences and tax losses carried forward that exceed deferred tax liabilities from temporary differences are recognised only to the extent that it is sufficiently probable that the respective company will generate sufficient taxable profit against which the unused tax losses/credits can be utilised.

No deferred taxes were recognised for losses carried forward of EUR 9,494,000 (EUR 9,474,000). Time limits for tax loss-carryforwards were taken into account.

### Breakdown of carryforward time limits:

(in EUR '000)

| up to 1 year | 1 to 5 years | over 5 years | Total |
|---|---|---|---|
| 288 | 163 | 9,043 | 9,494 |

Deferred tax assets and liabilities relead to valuation differences for the following balance sheet items:

**Deferred tax assets and liabilities**

(in EUR '000)

| | 31.12.2003 assets | 31.12.2003 liabilities | 31.12.2002 assets | 31.12.2002 liabilities |
|---|---|---|---|---|
| Goodwill | 0 | 6,904 | 0 | 5,975 |
| Other intangible and tangible assets | 340 | 9,261 | 170 | 9,821 |
| Stocks | 624 | 518 | 772 | 525 |
| Trade and other debtors | 1,383 | 1,431 | 1,508 | 1,781 |
| Pension provisions | 508 | 3 | 497 | 22 |
| Other provisions | 1,372 | 66 | 1,614 | 35 |
| Derivative financial instruments neutral to profit and loss account | 2,505 | 104 | 4,570 | 16 |
| Loss carryforwards | 3,296 | 0 | 3,855 | 0 |
| Liabilities | 10,373 | 26 | 11,080 | 0 |
| Other | 670 | 672 | 25 | 652 |
| **Subtotal** | **21,071** | **18,985** | **24,091** | **18,827** |
| Offsetting | - 11,463 | - 11,463 | - 12,886 | - 12,886 |
| **Consolidated balance sheet** | **9,608** | **7,522** | **11,205** | **5,941** |

Deferred taxes on market values of derivative financial instruments, which have not been charged to the profit and loss account, result from market values of derivatives used to hedge future cash flows which have not been charged to the profit and loss account. The market values of the derivatives are shown under other receivables or other liabilities.

## (17) Prepaid expenses

Prepaid expenses of EUR 15,107,000 (EUR 16,212,000) mainly include catalogue stocks and prepaid catalogue and advertising expenses of the following years. Intercompany profits of EUR 1,433,000 (EUR 1,472,000) were eliminated from catalogue assets.

## (18) Shareholders' equity

For changes in shareholders' equity, refer to the statement of changes in shareholders' equity.
The share capital of TAKKT AG remained unchanged at EUR 72,900,000 and is divided into 72,900,000 bearer shares.
The Management Board is authorised, until 31 May 2005, to increase the share capital subject to the approval of the Supervisory Board, once or several times, by up to EUR 36,450,000 by issuing new bearer shares. The Annual General Meeting authorised the Mangament and Supervisory Boards to repurchase own shares. No use was made of this program, the company held no own shares at the reporting date.
In the past financial year, German employees again had the opportunity to buy employee shares. Shares acquired at the stock exchange for this purpose were sold to employees subsidised in accordance with Section 19a EstG. A total of 34,359 shares were acquired by 360 employees, which means that 46 percent of all eligible employees made use of this option.
General reserves include the retained earnings contributed by group companies since their acquisition, the corresponding translation adjustments to present values arising from the currency conversion of assets and liabilities not shown in the profit and loss account, as well as the total of the consolidation and tax adjustments shown in the profit and loss account.
Other comprehensive income includes all accumulated profits and losses from changes in the market values of derivatives used to hedge future cash flows. The effects in an amount of EUR - 3,732,000 (EUR - 7,167,000) were booked with no effect on profits, taking account of deferred taxes.
The shareholders have a claim to the profit provided that the latter is not excluded from distribution to the shareholders by law or statutes by way of a shareholders' resolution or as additional charge due to the profit appropriation proposal.
The Management Board proposes to pay out EUR 7,290,000 (EUR 7,290,000) from general reserves, which would be equivalent to a dividend of EUR 0.10 per share.

## (19) Minority interests

(in EUR '000)

| | 31.12.2003 | 31.12.2002 |
|---|---|---|
| Share in capital and reserves | 2,725 | 3,037 |
| Share in profit for the year | 672 | 708 |
| | **3,397** | **3,745** |

Minority interests are held in KAISER + KRAFT N.V., Diegem/Belgium and Vink Lisse B.V., Lisse/Netherlands. All other companies are wholly owned. A list of the shareholdings of TAKKT AG is shown on page 108f.

## (20) Provisions

### Pension provisions

Liabilities from direct pension commitments are determined using the projected unit credit method taking future changes in salaries and pensions into account. The service cost for the beneficiaries is a function of the scheduled development of the provisions for the vested benefits. Differences between scheduled pension obligations and the present value of the pensions at year-end are distributed over the average remaining term of office of the eligible employees provided that they exceed ten percent of the total pension obligations.

Direct pension commitments in Germany are determined using Prof. Dr. Klaus Heubeck's biometric calculation tables of 1998. International commitments are determined using specific local accounting principles and parameters.

**Parameters**

(in percent)

| | 2003 | 2002 |
|---|---|---|
| Assumed rate of interest | 5.7 | 5.3 |
| Salary trend | 2.5 | 2.8 |
| Pension trend | 1.5 | 1.5 |

**Changes in the present value of benefit obligation**

(in EUR '000)

| | 2003 | 2002 |
|---|---|---|
| Present value of benefit obligations at 01.01. | 8,032 | 7,628 |
| Service cost | 366 | 294 |
| Interest expenses | 479 | 443 |
| Actuarial profits and losses | 33 | 0 |
| Pension payments | - 348 | - 333 |
| Transfer of commitments | 0 | 0 |
| **Present value of benefit obligations at 31.12.** | **8,562** | **8,032** |

Pension expenses from direct pension commitments include personnel expenses, calculated insurance gains and losses, and interest expense shown under net interest (interest share of direct pension commitments). Pension expenses are as follows:

**Pension expenses**

(in EUR '000)

| | 2003 | 2002 |
|---|---|---|
| Service cost | 366 | 294 |
| Interest expense | 479 | 443 |
| Amortisation of actuarial profits and losses | 33 | 0 |
| | **878** | **737** |

Some foreign companies, especially in North America, have voluntary, contribution-based plans for the payment of benefits after the termination of employment. Once an employee has been with the company for ninety days, one year or two years, respectively, these companies pay old-age contributions to an external fund. The amounts are limited to one percent and five percent, respectively, of the employee's salary. The companies cannot derive any claims from their contribution payments; accordingly, no such assets have been capitalised by these companies. Expenses incurred by the North American companies in this context amounted to EUR 1,922,000 (EUR 2,113,000) in the past fiscal year.

## Other provisions

Other provisions are established for statutory or factual obligations towards third parties that are based on transactions or incidents in the past, which will probably lead to an outflow of assets and can be determined with sufficient reliability. Based on thorough consideration of all discernible risks, they are valued at their most likely amount and not offset against recourse claims.

**Other provisions**

(in EUR '000)

| | 01.01.2003 | Currency translation | Utilisation | Release | Additions | Reclassi-fication | 31.12.2003 | Thereof with term of up to 1 year |
|---|---|---|---|---|---|---|---|---|
| Tax provisions | 6,915 | - 488 | 5,746 | 21 | 4,944 | 0 | 5,604 | 5,604 |
| Deferred taxes | 5,941 | - 903 | 0 | 126 | 2,610 | 0 | 7,522 | 0 |
| Personnel obligations | 3,720 | - 128 | 2,842 | 255 | 3,872 | 19 | 4,386 | 3,232 |
| Other short-term provisions | 4,719 | - 223 | 1,994 | 1,334 | 2,095 | - 19 | 3,244 | 3,244 |
| | **21,295** | **- 1,742** | **10,582** | **1,736** | **13,521** | **0** | **20,756** | **12,080** |

Tax provisions were established in the amount of the income taxes payable by the consolidated companies for taxes that are comparable with German corporate income tax and trade tax.
Obligations under personnel expenses include management bonuses, old-age part-time and compensation for loss of office payments.
Other short-term provisions mainly comprise credits to be granted to customers for turnover generated in 2003.
Items in the profit and loss account were translated at average rates. The difference between the mean average and closing rates is included in the currency translation.

## (21) Short and long-term borrowings

Borrowings comprise all interest-bearing liabilities of the TAKKT Group that existed on the balance sheet date.

### Changes in interest-bearing liabilities

(in EUR '000)

| | 01.01.2003 | Currency-translation | Additions | Disposal | Repayments | 31.12.2003 |
|---|---|---|---|---|---|---|
| Liabilities to banks | 255,100 | - 24,611 | 0 | 0 | 27,545 | 202,944 |
| Leasing liabilities | 27,339 | 0 | 0 | 0 | 1,489 | 25,850 |
| Financial liabilities to affiliated companies | 6,458* | 0 | 575 | 0 | 0 | 7,033 |
| Other | 2,359 | 0 | 651 | 0 | 270 | 2,740 |
| | **291,256** | **- 24,611** | **1,226** | **0** | **29,304** | **238,567** |

* Net liability of Haniel Finance B.V. Venlo/NL (debtor of EUR 1,357,000) and Haniel Finance Deutschland GmbH, Duisburg

Except for liabilities under finance lease contracts, which were reported to IAS 17, all liabilities were reported at the amount repayable or the amount payable. Average net financial liabilities for 2003 amounted to EUR 260,447,000 (EUR 321,670,000). Liabilities were weighted by months and translated using the average-rate method, which was also used for the profit and loss account.

### Financial liabilities by repayment terms

(in EUR '000)

| | Remaining term of up to 1 year | Remaining term of 1 to 5 years | Remaining term of over 5 years | 31.12.2003 |
|---|---|---|---|---|
| Liabilities to banks | 16,341 | 71,758 | 114,845 | 202,944 |
| Leasing liabilities | 972 | 4,534 | 20,344 | 25,850 |
| Financial liabilities to affiliated companies | 7,033 | 0 | 0 | 7,033 |
| Other | 1,187 | 1,553 | 0 | 2,740 |
| | **25,533** | **77,845** | **135,189** | **238,567** |

The remaining terms of the liabilities to banks reflect the underlying financing commitments and are geared to the projected future cash flow of the TAKKT Group. To reduce the exchange rate risk, the key currencies are reviewed separately with regard to cash flow and indebtedness. Additionally, TAKKT AG has unused credit lines.
The table below provides a breakdown of financial liabilities by key currencies and interest hedges. Interest rate swaps and caps are used in the context of the interest hedging strategy. As a general rule, approx. 70 to 80 percent of the interest expense is hedged (for more details, please refer to "Interest rate management" on page 103).

Liabilities under finance lease contracts refer to two properties comprising land and buildings as well as IT systems. The resulting payment obligations are disclosed as liabilities and paid back in leasing instalments to IAS 17 over the term of the lease. To determine the present value, an interest rate of seven percent was used; in the case of special lease contracts, the underlying interest rate was used.

Liabilities towards affiliated companies refer to companies of the majority shareholder that are not included in the consolidated financial statements of TAKKT AG. These include Haniel Finance Deutschland GmbH to the amount of EUR 1,318,000 (7,815,000) and Haniel Finance B.V. to the amount of EUR 5,713,000 (receivable EUR 1,357,000). This balance is the result of the current clearing transactions and the existing cash management system. By participating in the euro cash management system, the TAKKT Group exploits potential economies of scale for the euro-zone.

**Financial liabilities coverage by currencies and interest hedges**

| | 31.12.2003 | Share in total liabilities | Weighted remaining term | Average interest rate |
|---|---|---|---|---|
| | (in EUR '000) | (in percent) | (in years) | (in percent) |
| US Dollar hedged by interest rate swap | 81,156 | 34.0 | 2.5 | 7.2 |
| US Dollar unhedged | 45,771 | 19.2 | 5.3 | 1.8 |
| **Subtotal of USD liability** | **126,927** | **53.2** | | |
| EURO hedged by interest rate cap | 76,129 | 31.9 | 5.4 | 3.2 |
| EURO unhedged | 5,904 | 2.5 | 5.4 | 3.2 |
| Accrued leasing liabilities | 25,850 | 10.8 | 8.1 | 6.3 |
| **Subtotal of EURO liability** | **107,883** | **45.2** | | |
| **Other** | **3,757** | **1.6** | **n/a** | **n/a** |
| | **238,567** | **100.0** | | |



Other financial liabilities have an average remaining term of less than one year and comprise a large number of different currencies.

Changes in market interest rates may have an effect on the TAKKT Group's future interest payments. Interest rate derivatives are used to reduce this risk. Based on the market interest rates applicable at year-end, the residual risk can be estimated taking the inflow of funds projected for 2004 into account. In order to respond flexibly to the requirements of the individual group companies, short-term finance is raised in the market from time to time.

A 1.0 percent change in the 3-month USD libor (1.15 percent at year-end) would result in changed interest expenses of approx. USD 555,000. A one percent change in the 3-month EURIBOR (2.15 percent at year-end) would result in changed interest expenses of EUR 770,000. EUR interest rate caps are used to reduce the risk to an EURIBOR rate of five and six percent, respectively. Where market values are determined for the individual liabilities (financial instruments), no major differences against the book values occurred. For the sake of simplification, the respective book value is used as an approximate value for liabilities with a term of less than one year.

## (22) Trade and other liabilities

(in EUR '000)

| | 31.12.2003 | 31.12.2002 |
|---|---|---|
| Payments on account | 350 | 482 |
| Liabilities<br>- to trade creditors | 20,569 | 30,931 |
| - on bills drawn | 0 | 0 |
| - on own bills issued | 0 | 0 |
| Other liabilities | 30,516 | 35,116 |
| | **51,435** | **66,529** |
| Thereof with a term of > 1 year | 0 | 0 |

Liabilities are reported at their respective repayment amounts. With regard to trade liabilities, most of the goods delivered are subject to customary ownership retention rights.

### Other liabilities

(in EUR '000)

| | 31.12.2003 | 31.12.2002 |
|---|---|---|
| Tax liabilities | 4,150 | 3,556 |
| Social security contributions | 1,548 | 1,595 |
| Market values of derivative financial instruments | 6,558 | 11,953 |
| Interest | 2,318 | 3,144 |
| Customer credit balances | 1,754 | 2,290 |
| Wages and salaries | 2,866 | 3,129 |
| Liabilities relating to leave not yet taken | 2,005 | 2,231 |
| Miscellaneous | 9,317 | 7,218 |
| | **30,516** | **35,116** |

Derivative financial instruments may have a short term or a long term. The term chosen depends on the hedging purpose. Derivative financial instruments used to hedge long-term underlying transactions had a market value of EUR 6,243,000 (EUR 11,333,000). Also see page 104.

## 4. DERIVATIVE FINANCIAL INSTRUMENTS

Fluctuations in exchange rates and interest rates in the international money and capital markets represent the greatest price risks for the TAKKT Group. Derivatives are used not only to reduce this risk but also to make use of potential opportunities.
The group's risk management system takes the uncertainties of the future development of the financial markets into account. It is designed to reduce the negative effects of such risks on the group's financial performance.
A central Treasury Department supports the individual divisions in identifying, assessing and hedging financial risks; in this context, the general principles and guidelines approved by the Management Board are complied with.

### Application of IAS 39

All derivatives used to hedge future cash flows are carried at their fair values under other assets or other liabilities. Derivatives used to hedge intra-group receivables and liabilities are shown in the consolidated financial statements. The TAKKT Group does not hold any material financial assets classified as "available for sale" or "held for trading". The total nominal value of all derivative financial instruments can be higher than the secured volume. As part of a continous hedging strategy derivatives are implemented sequentially in a certain time lapse. For a total of the nominal value the maturity dates are not relevant.

### Currency management

The TAKKT Group has its own distribution companies in over 20 countries; approximately 50 percent of the consolidated turnover is generated in a currency other than the reporting currency.
To minimise risks, the TAKKT Group preferably manages payments in the local currency. Where the key currencies are concerned, purchases and product sales are generally conducted in the same currency in order to minimise currency risks. For under ten percent of group sales from intercompany transactions there is risk remaining.
These remaining risks are usually borne by the delivering entity. The foreign currency amounts to be sold as of the respective dates are determined based on the turnover projections of the individual companies and hedged for 60 to 70 percent with derivatives, preferably currency forwards. The projected turnover and payments are usually considered for one catalogue cycle; other periods are chosen under certain conditions.
All currency instruments used by the TAKKT Group to hedge foreign exchange turnover classify as cash flow hedges. Derivatives were reported at their respective fair values with no effect on profits. According to hedge accounting provisions, all effective hedging relationships were documented. Deferred taxes were calculated on the market values with no effect on profits, taking the specific local tax rates into account.
All derivatives used in the past fiscal year were effectively related to an underlying transaction. On TAKKT Group level only market values from derivative financial instruments related to intercompany loans had to be posted to profit and loss account.
Intra-group loans involving more than one currency are hedged using forex swaps so that the group is not exposed to any risk resulting from changes in exchange rates. While the individual company can establish a relation between the derivative and the underlying transaction, so that the derivative may be booked with no effect on profits, the underlying transaction is eliminated in the context of the group's debt consolidation. From the group's viewpoint, the derivative used is no longer earmarked for hedging purposes and is therefore booked with an effect on profits.

Contracts used to hedge future expected turnover or intra-group finance have terms of between one and twelve months. Currency derivatives were not netted.

**Derivative financial instruments (Exchange risks)**

(in EUR '000)

| | Nominal value 31.12.2003 | Market value 31.12.2003 | Nominal value 31.12.2002 | Market value 31.12.2002 |
|---|---|---|---|---|
| Currency derivative financial instruments | 40,148 | 216 | 38,464 | - 83 |
| Thereof from intra-group finance | 14,587 | - 45 | 11,451 | 36 |

## Interest rate management

Interest payments on liabilities are protected against the negative effects of rising interest rates. The aim normally is a risk corridor that limits the negative effects of interest rate increases while at the same time offering the possibility to benefit from interest rate cuts. The amount of the risk corridor is mainly determined by the future free cash flow available to repay financial liabilities. Interest rate derivatives are mainly used for floating-rate liabilities; the TAKKT Group currently uses interest rate swaps and interest rate caps. The table below shows the hedged nominal volume and the market values of the respective interest rate hedges. The market value represents the present value of all cash payments for the difference between the closing rate and the rate on the balance sheet date.

These deals are not netted as they generally do not represent opposite positions.

**Interest rate hedges**

(in EUR '000)

| | Nominal value 31.12.2003 | Market value 31.12.2003 | Nominal value 31.12.2002 | Market value 31.12.2002 |
|---|---|---|---|---|
| Interest rate swaps | 81,156 | - 6,243 | 118,691 | - 11,463 |
| Interest rate caps | 96,129 | 104 | 76,129 | 2 |
| | **177,285** | **- 6,139** | **194,820** | **- 11,461** |

All interest rate derivatives used by the TAKKT Group classify as cash flow hedges.

## Breakdown of derivative financial instruments

(in EUR '000)

| | Remaining term of up to 1 year | Remaining term of 1 to 5 years | Remaining term over 5 years | 31.12.2003 |
|---|---|---|---|---|
| Currency forwards | 40,148 | 0 | 0 | 40,148 |
| Interest rate swaps | 11,481 | 69,675 | 0 | 81,156 |
| Interest rate caps | 51,129 | 25,000 | 20,000 | 96,129 |
| | **102,758** | **94,675** | **20,000** | **217,433** |

## Additional information on derivative and hedge accounting

Derivatives are carried in the balance sheet at their fair values. On the day the contract is signed, at the latest, a hedging relationship is established between the derivative and an underlying transaction.

This may serve

- to hedge the fair value of an asset or liability carried in the balance sheet or
- to hedge a planned transaction (cash flow hedging).

Derivative transactions are not held for trading or for reasons of speculation.

Changes in the fair value of an effective derivative used to hedge the fair value of an asset or liability are shown in the profit and loss account just like changes of the fair value of the underlying transaction. These normally contrary changes offset each other in the profit and loss account.

Changes in the fair value of an effective derivative used to hedge future cash flows are shown under shareholders' equity with the effect not shown in the profit and loss account (cf. Consolidated statement of changes in shareholders' equity, page 76).

Changes in the fair value of derivatives that do not fulfil the requirements for hedge accounting are shown in the profit and loss account. Accordingly, changes in the fair value from intra-group hedges of EUR - 81,000 (EUR 35,000) were recognised in the profit and loss account. No other recognitions had to be made.

The group documents all relationships between hedges and the underlying transactions. As part of this approach, a relationship is established between all derivatives used as hedging instruments and specific assets, liabilities, firm commitments or projected future transactions. Moreover, the group evaluates and documents, on an ongoing basis, whether the derivatives used continue to classify as effective with a view to the compensation for changes in the fair values or cash flows of the items hedged.

The default risk from derivatives is the risk of default of a contractual partner so that the maximum amount at risk is that of the positive market values recognised less negative market values with the same contractual partner. Given that financial deals are entered into only with first-class counterparties, the actual risk of default is considered to be low.

## Determination of fair value



The fair values of publicly traded derivatives, securities and other financial investments are based on the publicly available market values prevailing on the balance sheet date. These are market prices or valuations issued by banks in the context of OTC trading (Over-the-Counter).

## 5. OTHER NOTES

### Contingencies

(in EUR '000)

| | 31.12.2003 | 31.12.2002 |
|---|---|---|
| Right of recourse out of lease assignment | 690 | 830 |

Letters of comfort for special purpose leasing companies are not disclosed (change compared to previous year) when these are already included in financial liabilities.

### German Corporate Governance Code

The declaration on the recommendations made by the "Government Commission on the German Corporate Governance Code" required under section 161 of the German Stock Corporation Act was issued and made available to the shareholders on www.takkt.de (see page 36).

### Leasing and other financial obligations

(in EUR '000)

| | up to 1 year | 1 to 5 years | over 5 years | Total |
|---|---|---|---|---|
| **Finance leases** | | | | |
| **Minimum lease payments** | **2,548** | **10,192** | **22,242** | **34,982** |
| Remaining debt | 0 | 0 | 6,527 | 6,527 |
| Discounting | - 1,576 | - 5,658 | - 8,425 | - 15,659 |
| Cash value | 972 | 4,534 | 20,344 | 25,850 |
| Thereof minimum lease payments to affiliated companies | 354 | 1,417 | 886 | 2,657 |
| **Operate leases** | | | | |
| **Minimum lease payments** | **1,738** | **1,705** | **0** | **3,443** |
| Thereof minimum lease payments to affiliated companies | 12 | 0 | 0 | 12 |
| **Other financial commitments** | **8,104** | **23,173** | **15,061** | **46,338** |
| Thereof to affiliated companies | 120 | 20 | 0 | 140 |
| **Total** | **12,390** | **35,070** | **37,303** | **84,763** |
| Thereof to affiliated companies | 486 | 1,437 | 886 | 2,809 |

Most of the lease contracts are subject to purchase options at the fair value or renewal options at market leasing rates. Other financial commitments primarily refer to obligations under rental agreements.

## Commitments for capital expenditure

(in EUR '000)

| | 31.12.2003 | 31.12.2002 |
|---|---|---|
| Due in following year | 753 | 1,826 |

## Contingent claims and liabilities

At 31 December 2003 there was a contingent receivable in connection with early retirement. The amounts were negligible. No material contingent liabilities are to be reported.

## Accounting methods differing from HGB methods

Outlined below are the main differences between the accounting, valuation and consolidation methods used in the present consolidated financial statements and the methods previously used under German law.

- Goodwill from the individual companies is amortised over 20 years and charged to the profit and loss account (according to HGB for 15 years).
- Goodwill resulting from the first-time consolidation of subsidiaries is no longer set off against shareholders' equity with no effect on the profit and loss account but amortised over a period of 20 years, with the effect shown in the profit and loss account.
- The straight-line method of depreciation is used as the standard depreciation method.
- In accordance with IAS 17 (Leases), leased tangible assets are carried as assets and the resulting liabilities carried as liabilities, provided that the companies of the TAKKT Group are the beneficial owners of the assets.
- Unlike HGB accounting, no general allowance was made for trade debtors. Based on past experience, appropriate general allowance was made for discernible risks.
- Deferred taxes were established for all temporary and quasi-permanent differences between tax valuations and IFRS valuations. Capitalised deferred taxes are taken into account for losses carried forward provided that they can be used with sufficient certainty.
- Unlike HGB accounting, catalogues not yet mailed are not shown under stocks but carried as prepaid expenses. Catalogue costs are no longer charged against profits at the time of mailing but are capitalised as prepaid expenses and charged against profits on a pro-rata-temporis basis.
- Minority interests are not included in shareholders' equity but shown as a separate item.
- Accruales with a high degree of certainty as specified in IAS 37 are transferred to trade or other liabilities. Unlike HGB accounting, no general accruales are made. Based on past experience, provisions of the best estimated amount were established for discernible risks.
- In accordance with IAS 19, pension provisions were established using the projected unit credit method taking future increases in salaries and pensions into account.
- Derivative financial instruments are used to minimise the potential effects of interest and currency risks resulting from operating activities. The TAKKT Group only uses derivatives to hedge future cash flows. In accordance with IFRS, the respective fair value is shown in the balance sheet. They have no material effect on the profit and loss account and are shown under shareholders' equity as other comprehensive income.

## Relationships with closely associated companies and persons

Given that TAKKT AG is majority owned by Franz Haniel & Cie. GmbH, the Management Board is required, under section 312 of the German Stock Corporation Act, to report on the company's relationships with affiliated companies. This report outlines the TAKKT Group's relationships with Franz Haniel & Cie. GmbH and its affiliated companies as defined in section 15 of the German Stock Corporation Act including the financial effects of such relationships. This so-called "dependence report" was audited by the auditors of TAKKT AG, who raised no objections. No material business relationships existed with other closely associated persons as defined by IAS 24, in particular the Management Board and the Supervisory Board.

TAKKT AG, or any of its group companies, received appropriate compensation for all legal transactions concluded with such companies. The Management Board is convinced that the TAKKT Group was not put at a disadvantage in any of these legal transactions. All transactions with closely associated companies were contractually agreed and effected on the basis of international price comparisons at terms that are customary for transactions with third parties outside the TAKKT Group.

The business relationships mainly focus on the provision of general services.

The claims and liabilities resulting from such transactions are shown by amounts and types in the explanations of the respective asset and liability items in the notes to the consolidated balance sheet. Income and expenses resulting from the financing are shown in the financial result. Turnover, other income and other operating expenses of affiliated companies are broken down under the respective items.

## Total remuneration of the Management Board and the Supervisory Board

The total remuneration of the Management Board amounted to EUR 1,806,000 at group level. Of this amount, EUR 724,000 represented fixed remuneration, while EUR 1,082,000 represented variable remuneration. Variable remuneration depends on the development of cash flow, and economic value added against prior year and budget.

The Supervisory Board of TAKKT AG received remuneration of EUR 9,000. In addition, EUR 235,000 were deferred as liabilities to cover remuneration payments.

There are no other amounts outstanding to or from members of the Supervisory Board.

As of 31 December 2003, the Management Board members of TAKKT AG held 7,826 shares, while the Supervisory Board members held 34,451 shares.

With the exception of the EVA Certificates of EUR 1,694,000 and amounts due under employment contracts, no further liabilities or claims existed towards members of the Management Board. Contributions to pension plans for Management Board members in the past fiscal year amounted to EUR 207,000.

## Exemption from disclosure obligations

Pursuant to Section 264 para. 3 HGB, the following companies are exempt from the obligation to disclose their financial statements:

KAISER + KRAFT EUROPA GmbH, Stuttgart
KAISER + KRAFT GmbH, Stuttgart
Gaerner GmbH, Duisburg
Topdeq Service GmbH, Pfungstadt
Topdeq GmbH, Pfungstadt

For this reason, the present consolidated financial statements are filed with the Commercial Registers of the cities in which these companies have their head offices.

## Subsidiaries of TAKKT AG as of 31 December 2003

As of the balance sheet date, TAKKT AG, Stuttgart – marked as No. 1 in the table below – held investments in the following companies. The indirect percentage of shares held is shown in the case of indirect investments.

| No. | Affiliated companies | held by No. | Percentage of shares held |
|---|---|---|---|
| 1 | TAKKT AG, Stuttgart/Germany | | |
| 2 | KAISER + KRAFT EUROPA GmbH, Stuttgart/Germany | 1 | 100.00 |
| 3 | KAISER + KRAFT GmbH, Stuttgart/Germany | 2 | 100.00 |
| 4 | KAISER + KRAFT Gesellschaft m.b.H., Hallwang/Austria | 2 | 100.00 |
| 5 | KAISER + KRAFT N.V., Diegem/Belgium | 2 | 50.00 |
| | | 14 | 42.00 |
| 6 | KAISER + KRAFT AG, Cham/Switzerland | 2 | 100.00 |
| 7 | KAISER + KRAFT s.r.o., Prague/Czech Republic | 2 | 99.80 |
| | | 26 | 0.20 |
| 8 | KAISER + KRAFTS.A., Barcelona/Spain | 2 | 100.00 |
| 9 | Frankel S.A.S., Morangis/France | 2 | 100.00 |
| 10 | KAISER + KRAFT Ltd., Watford/Great Britain | 2 | 100.00 |
| 11 | Powell Mail Order Ltd., Llanelli/Great Britain | 2 | 100.00 |
| 12 | KAISER + KRAFT Kft., Budaörs/Hungary | 2 | 100.00 |
| 13 | KAISER + KRAFT S.p.A., Lomazzo/Italy | 2 | 100.00 |
| 14 | Vink Lisse B.V., Lisse/Netherlands | 2 | 83.33 |
| 15 | KAISER + KRAFT S.A.,Lisbon/Portugal | 2 | 100.00 |
| 16 | KAISER + KRAFT Sp.z o.o., Warsaw/Poland | 2 | 100.00 |
| 17 | Gaerner GmbH, Duisburg/Germany | 2 | 100.00 |
| 18 | Gaerner Gesellschaft m.b.H., Elixhausen/Austria | 2 | 100.00 |
| 19 | Gaerner AG, Baar/Switzerland | 2 | 100.00 |
| 20 | Hoffmann Bedrijfsuitrusting B.V., Zeist/Netherlands | 2 | 100.00 |
| 21 | Gerdmans Inredningar AB, Markaryd/Sweden | 2 | 100.00 |
| 22 | Gerdmans Kontor-og Lag.A/S, Nivaa /Denmark | 21 | 100.00 |
| 23 | Gerdmans Innredninger A/S, Sandvika/Norway | 21 | 100.00 |
| 24 | Gerdmans OY, Espoo/Finland | 21 | 100.00 |
| 25 | KWESTO Service s.r.o., Prag/Czech Republic | 2 | 99.93 |
| | | 7 | 0.07 |
| 26 | KWESTO s.r.o., Prag/Czech Republic | 2 | 99.93 |
| | | 7 | 0.07 |
| 27 | KWESTO Kft., Györ/Hungary | 2 | 99.80 |
| | | 12 | 0.20 |
| 28 | KWESTO Sp.z o.o., Bratislava/Poland | 2 | 100.00 |
| 29 | KWESTO s.r.o., Nitra/Slovakia | 2 | 99.70 |
| | | 26 | 0.30 |
| 30 | KAISER + KRAFT K.K., Chiba/Japan | 2 | 100.00 |
| 31 | Topdeq Service GmbH, Pfungstadt/Germany | 1 | 100.00 |
| 32 | Topdeq Ltd., London/Great Britain | 31 | 100.00 |
| 33 | Topdeq GmbH, Pfungstadt/Germany | 31 | 100.00 |
| 34 | Topdeq AG, Hünenberg/Switzerland | 31 | 100.00 |

| | | | |
|---|---|---|---|
| 35 | Topdeq S.A.S., Tremblay en France/France | 31 | 100.00 |
| 36 | Topdeq B.V., Mijdrecht/Netherlands | 31 | 100.00 |
| 37 | Topdeq Corporation, Cranbury/USA | 38 | 100.00 |
| 38 | America Design Holding Inc., Cranbury/USA | 39 | 100.00 |
| 39 | TAKKT America Holding Inc., Milwaukee/USA | 1 | 100.00 |
| 40 | K+K America Corporation, Milwaukee/USA | 39 | 100.00 |
| 41 | C&H Distributors LLC, Milwaukee/USA | 40 | 100.00 |
| 42 | Avenue Industrial Supply Co. Ltd., Toronto/Canada | 40 | 100.00 |
| 43 | Conney Safety Products LLC, Madison/USA | 40 | 100.00 |
| 44 | Hubert Company LLC, Harrison/USA | 40 | 100.00 |
| 45 | C&H Productos Industriales SRLCV, Mexico City/Mexico | 40 | 99.97 |
| | | 41 | 0.03 |

| No. | Associated companies | held by No. | Percentage of shares held |
|---|---|---|---|
| 46 | Simple System GmbH & Co.KG, Munich/Germany | 2 | 30.00 |

## Members of the Management and the Supervisory Boards

### Supervisory Board

- Günther Hülse (Chairman), Krefeld
  Born 21 November 1942
  Chairman of the Management Board of Franz Haniel & Cie. GmbH, Duisburg
  Chairman of the Supervisory Board of Celesio AG (former GEHE AG), Stuttgart
  Chairman of the Supervisory Board of Metro AG, Düsseldorf, since May 2003
  Member of the Supervisory Board of Allianz Lebensversicherungs-AG, Stuttgart, since April 2003
- Dr. Dieter Schadt (Vice Chairman), Mülheim an der Ruhr
  Born 6 March 1936
  Former Chairman of the Management Board of Franz Haniel & Cie. GmbH, Duisburg
  Member of the Supervisory Board of Delton AG, Bad Homburg
  Member of the Supervisory Board of Exxon Mobil Central Europe Holding GmbH, Hamburg
  Member of the Supervisory Board of Esso Deutschland GmbH, Hamburg
  Member of the Supervisory Board of Lufthansa Service Holding AG, Kriftel
  Member of the Supervisory Board of RWE Umwelt AG, Essen
- Walter Flammer, Esslingen
  Born 9 February 1947
  Manager Organisation at KAISER + KRAFT EUROPA GmbH, Stuttgart
- Dieter Kämmerer, Holzgerlingen
  Born 6 March 1936
  Former Chairman of the Management Board of GEHE AG, Stuttgart
  Member of the Supervisory Board of GEHE Pharma Handel GmbH, Stuttgart
  Member of the Supervisory Board of Allianz Private Krankenversicherungs AG, München
- Michael Klein, Hamburg
  Born 5 April 1956
  Non-Executive Chairman of Rapp Collins Agentcy/Direct Friends, Hamburg

- Thomas Kniehl, Stuttgart
  Born 11 June 1965
  Logistics employee at KAISER + KRAFT GmbH, Stuttgart
  Chairman of the full works council of KAISER + KRAFT GmbH and KAISER + KRAFT EUROPA GmbH, Stuttgart
- Julian Matzke, Stuttgart
  Born 2 October 1962
  Logistics employee at KAISER + KRAFT GmbH, Stuttgart
- Prof. Dr. Dres. h. c. Arnold Picot, Gauting
  Born 28 December 1944
  University professor
  Chairman of the Supervisory Board of datango AG, Berlin
  Chairman of the Supervisory Board of Sartorius AG, Göttingen
  Member of the Supervisory Board of wunder media GmbH, Munich
- Dr. Klaus Trützschler, Gelsenkirchen
  Born 11 December 1948
  Member of the Management Board of Franz Haniel & Cie. GmbH, Duisburg
  Member of the Supervisory Board of Bilfinger Berger AG, Mannheim
  Member of the Supervisory Board of Gerling Industrieservice AG, Cologne, until March 2003
  Member of the Supervisory Board of Heitkamp-Deilmann-Haniel GmbH, Herne
  Member of the Supervisory Board of Readymix AG, Ratingen

**Management Board:**

- Georg Gayer (Chairman), Eberdingen-Nußdorf
  Vice Chairman of the Supervisory Board of Rectus AG, Eberdingen-Nußdorf
- Alfred Milanello (Information Technology and Organisation), Ditzingen
- Franz Vogel (Sales), Leinfelden-Echterdingen
- Dr. Felix A. Zimmermann (Controlling and Finance), Wachtendonk

## Post balance sheet events

No events occurred after the balance sheet date which have a material impact on the net worth, financial or earnings position, of the group.

Stuttgart, 27 February 2004

TAKKT AG

The Management Board

## Audit Report

We have audited the consolidated financial statements prepared by TAKKT AG, Stuttgart, for the year ended 31 December 2003. The preparation and contents of the consolidated financial statements are the responsibility of the company's Management Board. Our responsibility is to express an opinion as to whether the consolidated financial statements comply with International Financial Reporting Standards (IFRS).

We conducted our audit of the consolidated financial statements in accordance with German audit regulations and the standards for the audit of financial statements promulgated by the German "Institut der Wirtschaftsprüfer (IDW)", also in accordance to the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit in a way which gives reasonable assurance that the financial statements are free from material misstatement. Evidence supporting valuations and information disclosed in the consolidated financial statements is examined on a random sample basis. The audit includes a review of the accounting principles used and significant estimates made by the legal representatives as well as an evaluation of the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net worth, financial and earnings position of the group in accordance with IFRS.

Our audit, which also covered the Management Report of TAKKT AG and the group for the year ended 31 December 2003, raised no objections. In our opinion, the management report of TAKKT AG and the group provides a fair view of the situation of TAKKT AG and the group, while presenting an adequate description of future risks as well. We also confirm that the consolidated financial statements and the management report of TAKKT AG and the group for the year ended 31 December 2003 fulfil the requirements for the company's exemption from the duty to prepare consolidated financial statements and a group management report under German law.

Stuttgart, 27 February 2004
Dr. Ebner, Dr. Stolz und Partner GmbH
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

| | |
|---|---|
| Gerhard Weigl | Wolfgang Berger |
| Auditor | Auditor |

# Glossary

## AVERAGE ORDER VALUE

The average order value is the number of all orders in relation to the value of incoming orders. The average order value is influenced by the product range featured in the catalogue and by the economic development. Exchange rate changes also influence the calculation of the average order value for the TAKKT Group.

## B2B OR BUSINESS-TO-BUSINESS

Supplier and customer relationships are deliberately established only between corporate customers.

## CORPORATE GOVERNANCE

Company management according to specific rules, regulations, statutes and recommendations, with a special focus on shareholder relations and communication.

## DEBT REPAYMENT PERIOD

This figure defines the arithmetical duration of debt repayment in years. At TAKKT AG, it is defined as "average net financial liabilities/cash flow".

## DERIVATIVE FINANCIAL INSTRUMENTS

Certificate or contract which is not an asset but refers to another – usually tradable – asset. These derivative financial instruments are usually also tradable. Derivatives include interest rate swaps, currency forwards and currency options.

## DUPLICATING SYSTEM BUSINESS

Ideally, product programs, processes and IT systems are transferred to new customer groups or regions without modification. In the TAKKT Group, existing catalogues are "duplicated" to other regions by transferring the existing catalogue to the language and currency of the target country, where it is then mailed. All other systems, e.g. the mail order centre in Kamp-Lintfort and the IT systems, can thus be utilised more effectively.

## EBIT

Earnings before interest and taxes.

## EBITA

Earnings before interest, taxes and amortisation.

## EBITDA

Earnings before interest, taxes, depreciation and amortisation.

## E-COMMERCE

Commerce via the Internet; also includes e-procurement in the wider context of the word.



## ECONOMIC VALUE ADDED (EVA)

The result generated is seen in relation to the total cost of capital, i.e. the cost of equity and outside capital. If the company generates a return that exceeds the cost of capital, value is added.

## E-PROCUREMENT

The electronic catalogue available on the Internet is edited for Intranet use by selected customers. This procurement approach allows the customer to save transaction costs.

### FINANCE LEASE
Leasing agreement under which the lessor is mainly responsible for financing. Operating expenses are borne by the lessee.

### GEARING
Debt to equity ratio, calculated by dividing debt capital by equity capital. This figure plays an important role in the Anglo-Saxon countries, in particular.

### HGB
German Commercial Code.

### HEDGING
Protection against interest rate, currency and price risks, etc. through the use of derivatives such as option or forward deals which (largely) cover the risks of the underlying transaction.

### HIGH AVAILABILITY
IT hardware and network system in which two identical systems work in parallel to ensure high performance and data integrity. The central provision of the system reduces service and maintenance costs and ensures that a standardised system is used in the affiliated companies.

### IAS
International Accounting Standards (now IFRS).

### IFRS
International Financial Reporting Standards (formerly IAS).

### INTEREST COVER
Relation between an earnings figure, e.g. EBITA, and net interest expenditure. Together with net financial liabilities, this figure can be used to estimate the reliability of future interest payments.

### INTEREST RATE CAP
A guaranteed interest rate limit acquired against payment of a premium. If the interest rate exceeds the cap, the seller of the interest rate cap pays the difference to the acquirer.

### INTEREST RATE SWAP
An agreement between two parties to swap interest payments on the basis of different interest rates. For instance, floating interest rates may be exchanged for fixed interest rates.

### INVENTORY MANAGEMENT SYSTEM
Software which manages and documents all inventories, movements of goods and business processes. Open orders are constantly monitored for their status. Upon delivery, all necessary delivery notes and invoices are produced automatically.

### MAIL ORDER CENTRE
Apart from the warehouse function, i.e. taking goods into or out of stock, a mail order centre also fulfils other functions such as strict quality control. Moreover, typical drop shipment items ordered by international customers are combined with stocked items for delivery to the customer, thus optimising the transport channels.

### MARKET VALUES
Balance sheet items are recognised at the value that can be realised in a market – e.g. the stock exchange – as of the reporting date.

### NET FINANCIAL LIABILITIES
Net financial liabilities is the balance of all interest-bearing liabilities and liquid funds reported in the balance sheet.

### OPERATING LEASE
Leasing agreement under which the lessor is not only responsible for financing but also bears all other costs relating to the leased asset.

### ORDER PICKING
Compilation of different items into a single shipment to the customer.

### OTC (OVER-THE-COUNTER)
Unofficial market for securities not admitted to official trading.

### RESPONSE (RATE)
Reaction of the (potential) customer to advertising materials. The response rate establishes a relation between the orders received and the number of advertising materials mailed.

### RISK MANAGEMENT
Systematic approach to identifying and assessing potential risks for a company and choosing and implementing measures to avoid these risks and to reduce the potential negative effects.

### WAREHOUSING BUSINESS
Goods ordered by the customer are delivered directly from the warehouse. Products are kept in stock by the TAKKT companies.

# Financial calendar 2004

| | |
|---|---|
| 23 March | Financial statements press conference in Stuttgart |
| 24 March | DVFA analyst conference in Frankfurt/Main |
| 29 April | Interim report for the 1st quarter |
| 4 May | Annual general meeting in Ludwigsburg |
| 5 August | Interim report for the 1st and 2nd quarter |
| 4 November | Interim report for the 1st–3rd quarter |

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