

**Annual Report**

**C. Bechstein Pianofortefabrik  
Aktiengesellschaft  
Berlin**

**Financial Statements and  
Management Report  
December 31, 2004**

## AUDIT OPINION

We have audited the annual financial statements, together with the bookkeeping system, and the management report of C. Bechstein Pianofortefabrik Aktiengesellschaft, Berlin, for the fiscal year from January 1 to December 31, 2004. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [in Deutschland] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. On the whole, the management report provides a suitable understanding of the Company's position and suitably presents the risks to future development.

Berlin, February 18, 2005

Ernst & Young AG  
Wirtschaftsprüfungsgesellschaft

(signed)  
Torsten Seidel  
Wirtschaftsprüfer  
[German Public Auditor]

(signed)  
Hubert Pilawa  
Wirtschaftsprüfer  
[German Public Auditor]

**C. Bechstein Pianofortefabrik Aktiengesellschaft, Berlin**  
**Balance Sheet as of December 31, 2004**

ASSETS	Dec. 31, 2004		Dec. 31, 2003	EQUITY AND LIABILITIES	Dec. 31, 2004		Dec. 31, 2003
	EUR	EUR	EUR k		EUR	EUR	EUR k
<b>A. FIXED ASSETS</b>				<b>A. EQUITY</b>			
<b>I. Intangible assets</b>				<b>I. Subscribed capital</b>	4,543,149.00		3,858,423.00
1. Software	133,863.78		152,179.82	<b>II. Capital reserve</b>	3,807,881.11		2,894,913.11
2. Goodwill	<u>258,134.92</u>		<u>365,054.35</u>	<b>III. Revenue reserves</b>	4,062,676.05		3,024,254.02
		391,998.70	517,234.17	<b>IV. Net income</b>	<u>1,004,079.13</u>		<u>1,424,264.33</u>
<b>II. Property, plant and equipment</b>					13,417,785.29		11,201,854.46
1. Land and buildings	6,452,145.19		6,228,494.42	<b>B. ACCRUALS</b>			
2. Technical equipment and machines	1,918,673.42		2,263,170.24	1. Accruals for pensions and similar obligations	829,626.00		903,757.00
3. Other equipment, furniture and fixtures	2,885,160.59		2,585,114.61	2. Other accruals	<u>622,947.01</u>		<u>696,663.00</u>
4. Payments on account and assets under construction	<u>25,261.13</u>		<u>262,755.58</u>				
		11,281,240.33	11,339,534.85		1,452,573.01		1,600,420.00
<b>III. Financial assets</b>				<b>C. LIABILITIES</b>			
1. Shares in affiliated companies	68,000.00		50,000.00	1. Liabilities to banks	9,689,764.09		9,250,800.92
2. Loans to affiliated companies	260,000.00		0.00	2. Payments received on account of orders	96,266.00		0.00
3. Equity investments	20,531.29		511.29	3. Trade payables	1,707,919.51		1,908,782.31
4. Receivable against insurance	228,900.44		165,394.00	4. Liabilities to affiliated companies	2,441,756.39		43,120.17
5. Funds	<u>77,235.57</u>		<u>69,508.70</u>	5. Other liabilities	<u>2,505,497.37</u>		<u>2,360,090.63</u>
		654,667.30	285,413.99				
		<u>12,327,906.33</u>	<u>12,142,183.01</u>		16,441,203.36		13,562,794.03
<b>B. CURRENT ASSETS</b>							
<b>I. Inventories</b>							
1. Raw materials, consumables and supplies	1,459,227.54		1,248,824.54				
2. Work in process	5,110,812.06		4,862,255.84				
3. Finished goods and merchandise	<u>4,810,782.66</u>		<u>3,992,049.60</u>				
		11,380,822.26	10,103,129.98				
<b>II. Receivables and other assets</b>							
1. Trade receivables	2,046,857.39		1,974,166.86				
2. Receivables from affiliated companies	2,688,001.72		790,618.03				
3. Other assets	<u>295,775.72</u>		<u>523,138.54</u>				
		5,030,634.83	3,287,923.43				
<b>III. Cash on hand, bank balances</b>		<u>2,311,228.33</u>	<u>505,162.72</u>				
		<u>18,722,685.42</u>	<u>13,896,216.13</u>				
<b>C. PREPAID EXPENSES</b>		260,969.91	326,669.35				
		<u>31,311,561.66</u>	<u>26,365,068.49</u>		<u>31,311,561.66</u>		<u>26,365,068.49</u>

**C. Bechstein Pianofortefabrik Aktiengesellschaft, Berlin**  
**Income Statement for Fiscal Year 2004**

	EUR	2004 EUR	2003 EUR
1. Sales		25,570,412.60	23,518,221.17
2. Increase in finished goods and work in process		169,777.28	1,130,419.75
3. Own work capitalized		809,433.58	595,237.11
4. Other operating income		647,014.49	3,184,933.31
		<u>27,196,637.95</u>	<u>28,428,811.34</u>
5. Cost of materials			
a) Cost of raw materials, consumables and supplies and of purchased merchandise	-10,516,344.63		-11,984,806.81
b) Cost of purchased services	-432,269.08		-168,993.93
		<u>-10,948,613.71</u>	<u>-12,153,800.74</u>
6. Personnel expenses			
a) Wages and salaries	-6,698,643.41		-6,538,621.01
b) Social security, pension and other benefit costs thereof for old-age pensions: EUR 122,471.02 (prior year: EUR 151,564.21)	-1,396,544.17		-1,450,051.60
		<u>-8,095,187.58</u>	<u>-7,988,672.61</u>
7. Amortization and depreciation on intangible assets and property, plant and equipment		-1,456,081.76	-1,350,041.33
8. Other operating expenses		-4,986,382.08	-4,901,680.64
9. Income from other investments and long-term loans		2,023.25	1,977.44
10. Other interest and similar income thereof from affiliated companies: EUR 866.67 (prior year: EUR 0.00)		19,124.23	96,371.26
11. Expenses from loss absorption		-2,199.74	0.00
12. Interest and similar expenses		<u>-707,428.34</u>	<u>-696,568.61</u>
13. <u>Result from ordinary activities</u>		1,021,892.22	1,436,396.11
14. Income taxes		-6,816.60	0.00
15. Other taxes		<u>-10,996.49</u>	<u>-12,131.78</u>
16. Net income for the year		1,004,079.13	1,424,264.33
17. Accumulated income		0.00	0.00
18. Balance Sheet profit		<u><u>1,004,079.13</u></u>	<u><u>1,424,264.33</u></u>

## C. Bechstein Pianofortefabrik Aktiengesellschaft, Berlin Notes to the Financial Statements for 2004

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### General Information

The annual report was prepared in accordance with the following:

- Sections 242 and 264 of the German Commercial Code;
- Regulations of the German Stock Corporation Law;
- Regulations for medium-sized stock corporations.

The income statement has been prepared using the type-of-expenditure format.

### Accounting and Valuation Methods

The following accounting and valuation methods were used in preparing the annual report:

**Fixed assets** and **tangibles** are capitalized at acquisition costs reduced by scheduled depreciations (if applicable).

**Goodwill** is amortized over 4 years, in accordance with common commercial principles.

Depreciations are performed over a period of 2 to 25 years, in accordance with the straight-line method and the Company's applicable depreciation range.

**Tangibles with acquisition costs of up to € 410** are written off in full in the year of acquisition and considered disposable. Depreciation on additions of other tangibles are generally charged pro rata temporis.

**Shares, securities** and other **financial assets** are recorded at acquisition costs, while loans and advances are always recorded at their nominal value.

**Stocks** are recorded at manufacturing costs or at their value at the end of the fiscal year.

**Raw materials** and **consumables** are recorded at acquisition costs. Acquisition costs are calculated from an average price subject to adjustment based on the most recently acquired supplies, and using the lower value method.

**Work in progress** and **finished goods** are recorded at manufacturing costs on the basis of a method developed by the company. This method takes into account a number of factors, including the direct material and labor costs, as well as a reasonable part of the production and material overhead costs and the machinery depreciation.

The value of the finished goods includes the costs for shipping the instruments to the Bechstein Centers.

**Third-party instruments** are reported at acquisition costs or lower market prices.

Stocks were valued at net realizable value.

The changes in inventory reported in the income statement include leased instruments that were sold during the fiscal year and reported as fixed assets, and whose sales price was included in the revenue.

Stocks are entirely mortgaged to banks. Moreover, suppliers have mercantile liens on delivered goods in accordance with business custom.

**Receivables** and **other assets** are stated at their nominal values considering a specific allowance required for bad debts. A general allowance was set aside for general credit risks.

Existing foreign credit insurances, payments subsequent to the date of the balance sheet, and changes in distribution structures and in conditions of payment were taken into account when determining the amount of the provision required.

**Accruals** were set aside for obligations arising from **early retirement** and the **company pension scheme**. The reserves were determined in accordance with Section 6a of the German Income Tax Law using an interest rate of 6% and the mortality rate of 1998.

The **other accruals** include all other obligations, and are recorded at the amounts required according to prudent business judgment.

**Liabilities** are recorded at the amount repayable.

**Foreign currency receivables** are valued at their selling rate as of the date of issue, or at a lower rate.

**Foreign currency liabilities** are valued at their selling rate as of the date of issue, or at a higher rate as of the date of the balance sheet.

## Notes on the Balance Sheet

### Fixed assets

The changes in the **fixed assets** and depreciations for fiscal 2004 are presented on page 9.

### Financial Assets

	Currency	Interest %	Capital €k	Operating result €k
<b>Germany</b>				
C. Bechstein Finanzservice GmbH, Berlin	€	100	50	-2
<b>Netherlands</b>				
C. Bechstein Center Nederland B.V., Woerden*	€	100	90	-

\* The figures represent the issued share capital in accordance with the Articles of Association. As of 31 December 2004, the shareholders had paid up €18k of the subscribed capital. The affiliated company communicated no balance sheet as the annual report was being prepared.

Under the terms of an agreement between C. Bechstein Pianofortefabrik AG and C. Bechstein Finanzservice GmbH, the latter company must transfer its profits to C. Bechstein Pianofortefabrik AG since of 1 January 2004.

In fiscal 2004, C. Bechstein Finanzservice GmbH made a deficit amounting to €2,199.74.

The issued capital of C. Bechstein Finanzservice GmbH is fully paid up.

C. Bechstein Pianofortefabrik AG granted a 4-year, interest-bearing loan in the amount of €260k to C. Bechstein Center Nederland B.V.

### Fund Shares

Fund shares amounting to €77k were acquired to secure the rights of part-time senior personnel. The fund shares are not available for business activities, however.

### Prepaid Expenses

In accordance with Section 250-3 of the German Commercial Code, the item includes a debt discount of €224k, which is to be written off over the running time of the loans.

The Company signed a cap agreement in the amount of €3m which remains in force until 10 September 2007. The interests amount to 4% per year (EURIBOR). The agreement's market value amounts to €5k as of the balance sheet date.

## Liabilities

### Equity Capital

The **Company's share capital** is fully paid up. On 31 December 2004, it amounted to €4,543,149.00, in 1,514,383 individual share certificates.

In accordance with the Articles of Association, the Executive Board is authorized (subject to approval by the Supervisory Board) to perform a capital increase of €1,244,484 by issuing 414,828 new nominal shares in return for cash deposits or non-cash capital contributions by 30 June 2006. The Supervisory Board provided the necessary approval on 26 June 2004.

The **capital reserves** changed as follows during the fiscal year:

	€
Capital reserves on 1 January 2004	2,894,913.11
Agio from the capital increase (€4.00 per share)	<u>912,968.00</u>
Capital reserves on 31 December 2004	3,807,881.11

The **profit reserves** changed as follows during the fiscal year:

	€
Profit reserves on 1 January 2004	3,024,254.02
Transfer of the 2003 profit in accordance with shareholders' decision of 25 June 2004	1,038,422.03
Profit reserves on 31 December 2004	<u>4,062,676.05</u>

The **profits carried forward** changed as follows during the fiscal year:

	2004	2003
	€	€
Profits carried forward on 1 January	0.00	0.00
Profits of the previous year	1,424,264.33	1,195,484.94
Transfer to other profit reserves	1,038,422.03	681,025.54
Dividends	<u>385,842.30</u>	<u>514,456.40</u>
Profits carried forward on 31 December	0.00	0.00

### Other Accruals

The other accruals are mainly accruals for annual paid holidays not taken and for employer's liability insurance association dues (€243k), royalties (€179k), warranty obligations (€1k), and audit and accounting costs (€40k).

## Liabilities

The breakdown of liabilities is presented on page 10.

The liabilities to banks were secured as follows:

Deutsche Industriebank (IKB)

- Enforceable land charges of €4.222k, of which €1.023k are assigned to the ING BHF-Bank, together with 18% annual interest and 5% one-time collateral performance, recorded in the register of land titles, Seifhennersdorf, Page 1827, Parcels 48/, 48/2, 45/1, 48/4, 50/1, 53/5, 1546/3 and 1546b.

ING BHF Bank

- Assignment of coequal €1,023k together with pro rata interest of the land charge of €4,222k recorded on Page 1827 in Department III/1 of the register of land titles at the local court in Zittau / Seifhennersdorf for the benefit of the IKB.

SEB-Bank AG

- Chattel mortgage of the entire inventory
- Blanket assignment of all present and future claims arising from delivery of goods and services
- Lien on all licenses, trademarks and trademark rights registered for the benefit of C. Bechstein Pianofortefabrik AG within Germany
- Assignment of all claims from the all-risk insurance
- Lien on all accounts with other banks

**Additional Financial Obligations**

The Company provided a guarantee amounting to €36,592.50 for the rental of the premises of C. Bechstein Center Nederland B.V., Woerden, Netherlands.

Further obligations arose from the following rental agreements:

1. The annual rent (including incidental costs) for the premises in Prinzenstrasse, Berlin (piano repair and sales) amounts to €165k. Further financial obligations arising from this lease, expiring 30 September 2006, total €289k (previous year: €155k).
2. Contracts were signed for the rental of business properties in Berlin and Düsseldorf in fiscal 1999. These contracts can be terminated as of 30 June 2005, and 15 October 2009, respectively. Obligations arising from these leases total €641k (previous year: €1,028k).
3. A contract for the expansion of the premises in Kantstrasse, Berlin (“stilwerk”) was signed in fiscal 2003. This lease expires on 30 November 2009. Obligations arising from this lease total €703k (previous year: €845k).
4. Contracts for rental of business properties in Frankfurt am Main and Cologne were signed in fiscal 2002. These contracts can be terminated as of 30 September 2006, and 31 October 2012, respectively. Obligations arising from these leases total €1,581k (previous year: €2,043k).

5. A contract for the rental of business properties in Tübingen was signed in fiscal 2003. This contract can be terminated as of 31 August 2008. Obligations arising from this lease total €15 (previous year: €21k).

Further financial obligations amounting to €1,457k arose from material supplies in the first quarter of 2005.

C. Bechstein Pianofortefabrik AG and Samick Musical Instruments Co. Ltd, Incheon, Korea, signed a cooperation agreement concerning a production plant located in Shanghai, China. Obligations of up to \$400k could arise from this agreement. More detailed information was not available by the report deadline, however.

C. Bechstein Pianofortefabrik AG is the sole shareholder of C. Bechstein Center Nederland B.V.'s capital, which amounts to €90k. In fiscal 2004, the Company paid up €18k of this capital, which means that it still must pay €72k of the subscribed capital. The corresponding document was not available as the annual report was being prepared.

C. Bechstein Pianofortefabrik AG and C. Bechstein Finanzservice GmbH signed a profit transfer agreement effective as of 1 January 2004. Under this agreement, C. Bechstein Finanzservice GmbH is to transfer all profits, after deduction of the legal reserves, to C. Bechstein Pianofortefabrik AG. In accordance with Section 302 of the German Stock Corporation Law, C. Bechstein Pianofortefabrik AG must compensate any deficit of the affiliated company as long as the agreement remains in effect, provided such deficit is not compensated from reserves.

C. Bechstein Pianofortefabrik AG compensated a deficit of €2,199.74 during fiscal 2004.

## **Miscellaneous**

### **Executive Board**

Members of the Executive Board in fiscal 2004:

Mr Karl Schulze, Berlin, Chairman

Mr Leonard Duricic, Berlin

Mr Karl-Heinz Geishecker, Berlin

Two members of the Executive Board or one member of the Board with a proxy from a second member are authorized to represent the Company. The regulations of Section 181 of the German Commercial Code do not apply to Mr Schulze, who is authorized to represent the Company alone.

Remuneration of the Executive Board members in fiscal 2004 amounted to €29k, including €24k in fixed salaries and €205k in variable remuneration.

## Supervisory Board

Members of the Supervisory Board in fiscal 2004:

Mr Wolfgang Fiebach, Berlin, Chairman

Mr Jong Sup Kim, Chairman of Samick Musical Instruments, Incheon, Korea, Vice Chairman

Mr Kyo Hoon Chu, Vice Chairman of Samick Musical Corporation, Los Angeles, USA

Remuneration of the Supervisory Board members in fiscal 2004 amounted to €14k, including €1k in fixed salaries and €13k in variable remuneration.

Advances amounting to €14k were paid to the Supervisory Board.

## Employees

The number of employees in fiscal 2004 was as follows:

	31 December 2004	Average
Production	153	160
Clerical	61	60
Management (proxies)	4	4
	<u>218</u>	<u>224</u>

Furthermore, the staff included 15 trainees as of 31 December 2004 (average for the year: 14), while the Executive Board had 3 members throughout the year.

## Relationships Within the Group

The annual report of the Company is to be integrated to the annual report of the Samick Group. In accordance with Section 293-1 of the German Commercial Code, C. Bechstein Pianofortefabrik AG is not required to prepare a group annual report on 31 December 2004 due to the Company's size.

## Proposed Allocation of Profits

The Executive Board proposes that the net profit be distributed as follows:

	€
Net profit as of 31 December 2004	1,004,079.13
Transfer to other profit reserves	549,764.23
Dividends	454,314.90

The dividends are distributed to shareholders from the deposit account. Under this procedure, dividends do not form part of the taxable interest income.

**Information in Accordance with Section 160-1-8 of the German Stock Corporation Law**

Pursuant to Section 20-1 of the German Stock Corporation Law, Samick Musical Instruments & Co. Ltd, Incheon, Korea, informed the Company in January 2003 that it directly controlled more than one fourth of C. Bechstein Pianofortefabrik AG's share capital. Furthermore, Samick Musical Instruments & Co. Ltd also informed the Company that it formed a majority holding within C. Bechstein Pianofortefabrik AG under the terms of Section 20-4 of the German Stock Corporation Law.

However, since the capital increase performed in fiscal year 2004 and recorded in the Trade Register on 27 December 2004, Samick is no longer the majority shareholder.

Berlin, 7 February 2005

The Executive Board,  
C. Bechstein Pianofortefabrik AG

Karl Schulze  
Chairman

Leonard Duricic

Karl-Heinz Geishecker

## Analysis of Fixed Assets for Fiscal Year 2004

	Acquisition and production cost					Accumulated amortization/depreciation				Net book values	
	Jan. 1, 2004 EUR	Additions EUR	Disposals EUR	Reclassifications EUR	Dec. 31, 2004 EUR	Jan. 1, 2004 EUR	Additions EUR	Disposals EUR	Dec. 31, 2004 EUR	Dec. 31, 2004 EUR	Dec. 31, 2003 EUR
<b>I. Intangible assets</b>											
1. Software	188,450.00	51,143.50	0.00	0.00	239,593.50	36,270.18	69,459.54	0.00	105,729.72	133,863.78	152,179.82
2. Goodwill	427,554.35	0.00	0.00	0.00	427,554.35	62,500.00	106,919.43	0.00	169,419.43	258,134.92	365,054.35
	616,004.35	51,143.50	0.00	0.00	667,147.85	98,770.18	176,378.97	0.00	275,149.15	391,998.70	517,234.17
<b>II. Property, plant and equipment</b>											
1. Land and Building	7,694,286.05	272,776.09	0.00	245,805.30	8,212,867.44	1,465,791.63	294,930.62	0.00	1,760,722.25	6,452,145.19	6,228,494.42
2. Technical equipment and machines	4,843,727.97	81,786.66	174,186.91	9,683.84	4,761,011.56	2,580,557.73	433,659.16	171,878.75	2,842,338.14	1,918,673.42	2,263,170.24
3. Other equipment, furniture and fixtures	4,904,207.10	1,599,702.77	1,871,356.37	0.00	4,632,553.50	2,319,092.49	551,113.01	1,122,812.59	1,747,392.91	2,885,160.59	2,585,114.61
<i>therefrom leased instruments</i>	1,548,800.78	1,293,417.97	710,091.24	0.00	2,132,127.51	4,776.17	203,227.70	45,521.70	162,482.17	1,969,645.34	1,544,024.61
4. Payments on account and assets under construction	262,755.58	17,994.69	0.00	-255,489.14	25,261.13	0.00	0.00	0.00	0.00	25,261.13	262,755.58
	17,704,976.70	1,972,260.21	2,045,543.28	0.00	17,631,693.63	6,365,441.85	1,279,702.79	1,294,691.34	6,350,453.30	11,281,240.33	11,339,534.85
<b>III. Financial assets</b>											
1. Shares in affiliated companies	50,000.00	18,000.00	0.00	0.00	68,000.00	0.00	0.00	0.00	0.00	68,000.00	50,000.00
2. Loans to affiliated companies	0.00	260,000.00	0.00	0.00	260,000.00	0.00	0.00	0.00	0.00	260,000.00	0.00
3. Equity investments	511.29	20,020.00	0.00	0.00	20,531.29	0.00	0.00	0.00	0.00	20,531.29	511.29
4. Receivable against insurance	165,394.00	63,506.44	0.00	0.00	228,900.44	0.00	0.00	0.00	0.00	228,900.44	165,394.00
5. Funds	69,812.41	7,726.87	0.00	0.00	77,539.28	303.71	0.00	0.00	303.71	77,235.57	69,508.70
	285,717.70	369,253.31	0.00	0.00	654,971.01	303.71	0.00	0.00	303.71	654,667.30	285,413.99
	18,606,698.75	2,392,657.02	2,045,543.28	0.00	18,953,812.49	6,464,515.74	1,456,081.76	1,294,691.34	6,625,906.16	12,327,906.33	12,142,183.01

## Schedule of Liabilities as of December 31, 2004

	December 31, 2004			December 31, 2003		
	Due in		Total	Due in		Total
	up to 1 year EUR	more than 5 years EUR		up to 1 year EUR	more than 5 years EUR	
1. Liabilities to banks	6,901,357.82	713,100.00	9,689,764.09	5,894,281.66	1,188,800.00	9,250,800.92
2. Payments received on account of orders	96,266.00	0.00	96,266.00	0.00	0.00	0.00
3. Trade payables	1,707,919.51	0.00	1,707,919.51	1,908,782.31	0.00	1,908,782.31
4. Liabilities to affiliated companies	2,441,756.39	0.00	2,441,756.39	43,120.17	0.00	43,120.17
5. Other liabilities	1,688,799.51	0.00	2,505,497.37	1,382,018.12	0.00	2,360,090.63
- thereof for taxes			227,336.37			169,173.57
- thereof for social security			193,698.35			191,585.44
	12,836,099.23	713,100.00	16,441,203.36	9,228,202.26	1,188,800.00	13,562,794.03

## C. Bechstein Pianofortefabrik Aktiengesellschaft, Berlin Management Report 2004

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### 1. Business Development

- **Sales**

In spite of the general economic trend, fiscal year 2004 was generally positive for C. Bechstein Pianofortefabrik AG. In brief, we were able to sell 4,622 instruments, including third-party products. This total surpasses the number of instruments sold in the previous year by 637.

- **Operating Revenues, Costs and Result**

Total operating revenues came to €27.2m, which is below last year's level of €28.4m. Costs, at roughly €24.0m, were likewise below last year's figure (€25.0m) by some €1.0m, so that all in all, taking the year's depreciation of €1.4m (previous year: €1.4m) and net interest income of –€0.7 m (previous year: –€0.6m) into consideration, the resulting net profit after taxes is about €1.0m.

The figures to date for the first quarter of 2005 permit an optimistic outlook on further business developments.

- **Procurement**

As a matter of principle, C. Bechstein maintains medium-term contracts to ensure the supply of raw materials, auxiliary products and third-party instruments. To prevent interruptions in the delivery of supplies, there is at least one additional supplier for almost all important materials. Furthermore, we are working on increasing our vertical scope of manufacturing.

Business relations with our main suppliers for third-party instruments (partner Samick and pianomaker Petrof) are bound by contract for 2005.

- **Personnel**

The total number of employees as of 31 December 2004 is 236. These are distributed as follows between the Berlin premises and the Seifhennersdorf production site:

	31/12/04	31/12/03
Employees, Berlin (incl. Bechstein Center)	47	50
Employees, Seifhennersdorf	171	179
Trainees, Berlin (incl. Bechstein Center)	0	1
Trainees, Seifhennersdorf	15	17
Executive Board	3	3
Total	<b><u>236</u></b>	<b><u>250</u></b>

The staff reduction results from both natural fluctuation and the required adjustment of the staff structure to new production conditions. Traineeship is especially important at C. Bechstein.

- **Investments**

Investments of more than €14.5m had been made at the Seifhennersdorf production site by 2003. The new plants set up by means of those investments meet the highest requirements.

Further investments were made in 2004 to supplement and replace existing machinery.

In 2005, investment is planned exclusively for the replacement of certain machines.

ISO 9001:2000 certification was performed in the second half of 2003 and confirmed in February 2004. This certification is a trendsetting measure in response to the international demand for quality products from high-profile manufacturers.

- **Subsidiaries**

C. Bechstein Pianofortefabrik AG offers financing for a significant portion of sales to end customers, both at the C. Bechstein Centers and through our specialized retail partners. These financing offers are accepted with increasing frequency.

In order to improve processing and increase the transparency of these transactions, C. Bechstein Finanzservice GmbH was established in 2003 as a wholly-owned subsidiary of C. Bechstein Pianofortefabrik AG. As of the beginning of 2004, the subsidiary handles all past transactions and all future financing agreements.

Another subsidiary, C. Bechstein Center Nederland B.V., based in Woerden, Netherlands, was founded in March 2004 in order better to serve the Benelux market. Operations officially began in September 2004. A clear increase in the sales figures can be reasonably expected for the current fiscal year.

## 2. Company's Situation

- **Revenues**

Overview of individual business areas (in thousands of euros):

<u>Business area</u>	<u>2004</u>	<u>2003</u>
Specialized trade, Bechstein-built grands	3,809	3,521
Specialized trade, Bechstein-built uprights	7,287	7,439
C. Bechstein Centers	7,096	6,849
Wholesale with third-party instruments	6,963	4,972
Other revenues	1,283	1,485
Sales deductions / discount	-923	-748
Turnover	25,570	23,518
Other revenues / change in inventory / work performed for own purpose and capitalized	1,627	4,911
Operating revenues	<u><b>27,197</b></u>	<u><b>28,429</b></u>

Last year's other revenues include the dissolved investment support grant of €1,680k and its direct accounting for €1,177k.

Taking the dissolved other revenue of €25,860k into account, C. Bechstein Pianofortefabrik AG's operating revenues have increased by 3% compared with the previous year. Turnover likewise increased by 7% compared with the previous year.

Meanwhile, adjusted operating costs increased by 1%.

The result is a profit of €1,004k.

The **adjusted** operative result of €1,432k (after deduction of the neutral revenues and costs) was thus significantly improved over the previous year (€26k).

- **Net Worth Position**

C. Bechstein Pianofortefabrik AG's net worth increased over the previous year. The equity ratio is now 45% (previous year: 43%). The net worth is made up of fixed assets (€12,328k), stocks (€1,381k) and receivables (€5,031). Receivables from affiliated companies considerably increased after the foundation and takeover of C. Bechstein Center Nederland B.V, Woerden, Netherlands.

- **Financial Situation**

Various factors, including the operating result for the fiscal year, the capital increase, and the restructuring of bank debts, led to an improvement in the Company's financial situation over the previous year.

- **Capital Increase, Share Price**

On 8 June 2004, the Executive Board decided, with the approval of the Supervisory Board, to increase the Company's share capital to €5,787,633 by issuing 643,070 new nominal shares. The first phase of the capital increase procedure was performed in the fourth quarter with an issue of 228,242 share certificates for a total value of €684,726. The second phase is to be performed in the first half of 2006.

Regular press releases and very frequent reports in both print and broadcast media enabled us to inform a broad segment of the public about company developments.

Investors' justifiable interest in increasing the price per share has been accommodated in a sustainable manner. The net asset value of shares is clearly above their current market value.

The share price fluctuated considerably during the fiscal year, but ultimately reached the same value as at the beginning of 2004.

- **Brand Presence in Germany and Abroad**

C. Bechstein Centers in Germany have achieved retail sales of about €7,1m (almost 40% of the domestic sales). It is equally important to note that our specialized retail partners benefit from the concentration of products in the C. Bechstein Centers. Furthermore, the reinforced brand presence and the multifaceted public relations work performed by the C. Bechstein Centers contribute to improve the sales environment of the regional retailers.

- **Strategic Alliance: C. Bechstein/Samick**

Our integration into the Samick group—one of the largest instrument manufacturers in the world—has resulted in cooperation agreements for the manufacture and development of instruments, as well as for the coordination of marketing activities. Such agreements open up substantial opportunities for C. Bechstein to gain a foothold in new markets, increase sales in the USA, and expand the Company's market position in Europe.

### **3. Risks in Future Developments**

The altered situation of the world economy and concomitant changes in consumer behavior continue to sharpen competition. The measures taken and the results achieved demonstrate that C. Bechstein, together with its worldwide network of partners, is well prepared to face its competitors.

The investments performed in the previous years ensure further increases in the Company's effectiveness. Introduction of new production methods and facilities, increasingly vertical manufacturing, and further network development enable us to respond even more rapidly to changes in the market.

A cap agreement was signed to guard against possible interest risks. The agreement, which remains in effect through the 2007 fiscal year, sets a maximum interest rate for the financing of the required business investments.

The Company's finances are supported by long and short-term loans and by the operating cash flow. An open-end bank credit of €7.00m was complemented by another credit of €3.50m issued by another bank upon signature of an agreement on 7 January 2005. This credit agreement is valid until 15 December 2005. Extension or replacement of both lines of credit is a prerequisite for the Company's further development. The efforts made by the sales department, the trend to cost reduction, and the results expected for 2005 will ensure C. Bechstein Pianofortefabrik AG's financing after 15 December 2005.

- **Risks Management**

The management of C. Bechstein Pianofortefabrik AG identifies, analyzes and manages entrepreneurial risks. The information system in place enables the Executive Board to monitor all fields of activity continuously, and to take appropriate measures when necessary.

The risk management system is based on monthly reports that include both critical success factors and a comparison between the expected and the actual monthly results. Analyzing the differences provides the Executive Board with a powerful management tool. The monthly reports are regularly communicated to the Supervisory Board so that it is continuously informed of the Company's situation.

#### **4. Report in Conformance with Section 289-2 of the German Stock Corporation Law**

- **Events of Particular Importance**

No event of particular importance occurred after the end of the fiscal year.

- **Research and Development**

We are constantly improving the sound and playability of our instruments through regular contact with musicians, pianists, universities and technicians, as well as through implementation of the latest CAD technology. Several specialists are concentrating exclusively on these areas at the Seifhennersdorf production site.

## **5. Executive Board Statement on Relationships with Affiliated Companies**

The Executive Board's report on relationships with affiliated companies includes the following statement, in conformance with Section 312-3-3 of the German Stock Corporation Law:

“We certify that fair compensation was paid in all legal transactions between the Company and affiliated companies that took place during the fiscal year and of which we were informed. During the fiscal year, the Company neither performed nor avoided other transactions.”

## **6. Proposed Allocation of Profits**

The Executive Board proposes to the Shareholders that the net profit be distributed as follows:

- a. Dividends: €454,314.90 (€0.30 per share)
- b. Transfer to other reserves: €549,764,23.

The dividends are distributed to shareholders from the deposit account. Under this procedure, dividends do not form part of the taxable interest income.

Berlin, 7 February 2005

The Executive Board,  
C. Bechstein Pianofortefabrik AG

Karl Schulze  
Chairman

Leonard Duricic

Karl-Heinz Geishecker