Financial Report 2005

Westag & Getalit AG

Contents

Balance sheet as of December 31, 2005 (according to IFRS)

Assets	Notes	Dec. 31, 2005	Dec. 31, 2004
		€	€ '000
A. Non-current assets			
I. Intangible assets	1		
Software, licences and other industrial property rights		**400,577.79**	**259.3**
II. Tangible assets	1		
Land and leasehold rights and buildings		19,776,270.59	19,677.6
Technical equipment and machinery		11,298,785.00	13,112.0
Other fixtures and fittings, plant and office equipment		7,452,504.51	7,756.9
Advance payments and assets under construction		5,961,332.15	1,702.9
		44,488,892.25	**42,249.4**
III. Financial assets	1	48,200.00	102.5
		44,937,670.04	**42,611.2**
B. Current assets			
I. Inventories	2		
Raw materials and supplies		13,985,079.00	13,801.9
Work in progress		3,368,684.00	3,379.0
Finished goods and merchandise		10,347,458.00	10,008.4
		27,701,221.00	**27,189.3**
II. Receivables and other assets	2		
Trade receivables		19,308,086.20	17,329.7
Other assets		563,456.30	691.2
		19,871,542.50	**18,020.9**
III. Cash and cash equivalents	2		
Securities		9,151,482.00	12,342.5
Cash at banks or on hand		10,345,586.10	8,436.3
		19,497,068.10	**20,778.8**
		67,069,831.60	**65,989.0**
C. Deferred tax assets	3	**90,132.52**	**76.6**
		112,097,634.16	**108,676.8**

Equity and liabilities	Notes	Dec. 31, 2005	Dec. 31, 2004
		€	€ '000
A. Equity and reserves			
I. Called-up share capital	4		
Ordinary shares		7,321,600.00	7,321.6
Preference shares		7,321,600.00	7,321.6
		14,643,200.00	**14,643.2**
II. Capital reserve	4	**24,344,572.38**	**24,344.6**
III. Revenue reserves	4		
Legal reserve		595,757.30	595.8
Other revenue reserves		31,315,548.22	29,056.5
		31,911,305.52	**29,652.3**
IV. Net profit for the year	4	**3,296,011.79**	**4,071.3**
		3,296,011.79	**4,071.3**
		74,195,089.69	**72,711.4**
B. Non-current liabilities	5		
Provisions for pensions and similar obligations		12,429,097.00	12,022.4
Other non-current provisions		3,132,442.00	2,486.0
		15,561,539.00	**14,508.4**
C. Current liabilities			
Trade payables	6	7,008,185.06	5,394.0
Other current liabilities	6	5,257,602.84	5,583.7
Current provisions	7	10,075,217.57	10,479.3
		22,341,005.47	**21,457.0**
		112,097,634.16	**108,676.8**

Development of non-current assets

(in €)	A. Gross values				
	Jan. 1, 2005 Acquisition/ manufacturing cost	Additions	Disposals	Reclassifications	Dec. 31, 2005 Acquisition/ manufacturing cost
I. Intangible assets					
Software, licences and other industrial property rights	1,005,517.05	296,861.00	47,480.43	0.00	1,254,897.62
	1,005,517.05	**296,861.00**	**47,480.43**	**0.00**	**1,254,897.62**
II. Tangible assets					
Land and leasehold rights and buildings	45,870,777.87	1,181,313.09	2,331.18	0.00	47,049,759.78
Technical equipment and machinery	76,130,542.52	1,187,530.11	1,191,461.71	544,552.86	76,671,163.78
Other fixtures and fittings, plant and office equipment	59,218,158.03	2,073,719.56	1,631,308.30	1,103,552.26	60,764,121.55
Advance payments and assets under construction	1,702,871.55	5,906,565.72	0.00	- 1,648,105.12	5,961,332.15
	182,922,349.97	**10,349,128.48**	**2,825,101.19**	**0.00**	**190,446,377.26**
III. Financial assets					
Other loans	102,458.36	51,129.18	105,387.54	0.00	48,200.00
	102,458.36	**51,129.18**	**105,387.54**	**0.00**	**48,200.00**
Non-current assets – total	**184,030,325.38**	**10,697,118.66**	**2,977,969.16**	**0.00**	**191,749,474.88**

B. Valuation adjustment				C. Net values (A-B)	
Jan. 1, 2005 accumulated depreciation	Additions depreciation current year	Disposals	Dec. 31, 2005 accumulated depreciation	Year under review Dec. 31, 2005 net book values	Previous year Dec. 31, 2004 net book values
746,170.26	155,451.00	47,301.43	854,319.83	400,577.79	259,346.79
746,170.26	**155,451.00**	**47,301.43**	**854,319.83**	**400,577.79**	**259,346.79**
26,193,152.10	1,080,337.09	0.00	27,273,489.19	19,776,270.59	19,677,625.77
63,018,533.52	3,545,306.97	1,191,461.71	65,372,378.78	11,298,785.00	13,112,009.00
51,461,259.52	3,388,473.82	1,538,116.30	53,311,617.04	7,452,504.51	7,756,898.51
0.00	0.00	0.00	0.00	5,961,332.15	1,702,871.55
140,672,945.14	**8,014,117.88**	**2,729,578.01**	**145,957,485.01**	**44,488,892.25**	**42,249,404.83**
0.00	0.00	0.00	0.00	48,200.00	102,458.36
0.00	**0.00**	**0.00**	**0.00**	**48,200.00**	**102,458.36**
141,419,115.40	**8,169,568.88**	**2,776,879.44**	**146,811,804.84**	**44,937,670.04**	**42,611,209.98**

Income statement for the year ended December 31, 2005 (according to IFRS)

	Notes	2005	2004
		€	€ '000
Sales	8	173,424,591.76	167,392.5
Changes in inventories of finished goods and work in progress	9	286,791.00	- 1,297.9
Other own work capitalised	10	269,396.82	325.4
Total performance		**173,980,779.58**	**166,420.0**
Other operating income	11	2,436,682.44	3,641.6
Cost of materials	12	82,751,875.85	75,783.0
Personnel expenses	13	57,086,131.97	57,165.0
Depreciation of intangible fixed assets and tangible assets	14	8,169,568.88	9,086.5
Other operating expenses	15	20,173,406.47	18,677.7
Other taxes	16	183,178.96	160.7
Operating result		**8,053,299.89**	**9,188.7**
Financial result	17	544,664.61	523.3
Earnings before income taxes		**8,597,964.50**	**9,712.0**
Taxes on income	18	3,370,890.33	3,764.5
Net profit		**5,227,074.17**	**5,947.5**

Notes

General information

Westag & Getalit AG is a manufacturer of wood and plastics products based in Rheda-Wiedenbrück, Westphalia. The stock corporation has been entered in the Commercial Register of Gütersloh under number HRB 5565.

Westag & Getalit AG is listed in the Prime Standard.

The individual financial statements of Westag & Getalit AG, Rheda-Wiedenbrück, as of December 31, 2005 have for the first time been established in accordance with all International Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, as applicable on the reporting date and all binding interpretations of the International Financial Reporting Interpretations Committee (IFRIC) for the fiscal year. The fiscal year corresponds to the calendar year and ended on December 31, 2005. Westag & Getalit AG is not required to establish consolidated financial statements.

All standards applicable to fiscal 2005 were taken into account. All accounting and valuation methods used comply with IFRS. The expenditure type of presentation was applied to the income statement. In addition to the income statement, the balance sheet and the cash flow statement, a statement of changes in equity has been included. Moreover, the notes comprise a segment report. In order to enhance their meaningfulness, individual items of the income statement as well as the balance sheet have been summarised and explained in the notes.

Accounting and valuation principles

The following accounting and valuation principles were applied:

Non-current assets
Purchased intangible assets are capitalised at their acquisition costs in accordance with IAS 38. They are depreciated over their estimated useful economic lives of 3 to 8 years using the straight-line method.

Any further decline in economic usefulness is taken into account by means of non-scheduled depreciation. As a general rule, self-constructed intangible assets are not capitalised.

Tangible assets
Tangible assets are shown and valued at their acquisition or production costs less scheduled depreciation over their useful lives. Non-scheduled depreciation was not required in the year under review. The straight-line method is used for depreciation over the useful lives, unless the declining balance method has to be used to take actual usage into account.

The useful life of factory, business, residential and other buildings is mostly 25 to 50 years, of technical equipment and machinery up to 15 years and of other fixtures and fittings, plant and office equipment 3 to 10 years. The periods of depreciation and useful lives are reviewed annually.

Tangible assets with acquisition costs of less than € 410 are fully depreciated in the year of addition. In addition to the cost of materials at acquisition costs, the production costs of self-constructed assets comprise production labour as well as pro-rata production overhead costs including depreciation. Financing costs are not taken into account. A revaluation of tangible assets has not been performed.

Financial assets
Financial assets include interest-bearing loans as well as cooperative shares held to maturity. They are valued at their acquisition costs or at their lower fair values in accordance with IAS 39.

Current assets

Inventories
As a general rule, raw materials and supplies are valued at their average acquisition costs. If, on the balance sheet date, exchange or market prices result in lower values, they are depreciated to their fair values.

Work in progress and finished goods and merchandise are shown at their production costs. In addition to directly attributable costs, production costs include reasonable production-related portions of the necessary fixed and variable material and production overhead costs. Financing costs are not included in the acquisition and production costs.

Inventory risks resulting from the period of storage or reduced usability are taken into account by means of adequate depreciation. Lower values on the balance sheet date due to reduced proceeds on disposal are shown accordingly.

Receivables and other assets
Receivables and other assets are valued at their acquisition costs. Discernible risks are taken into account by means of adequate value adjustments. The general credit risk is taken into account by means of value adjustments based on past experience.

Existing receivables in foreign currencies are valued at the mean rate on the balance sheet date. Receivables with a remaining maturity of over one year are discounted.

Cash and cash equivalents
The securities shown in the balance sheet are held to maturity and valued at their respective fair market values on the balance sheet date.

Until realisation at the time of disposal, unrealised profits and losses resulting from valuation are included in other revenue reserves taking deferred tax assets into account. Means of payment are shown at their depreciated acquisition costs. Foreign currency assets are valued at the mean rate on the balance sheet date.

Deferred tax assets
Deferred tax assets are determined from temporary differences between the book values and the tax valuations of assets and liabilities in accordance with IAS 12. Deferred tax assets are based on a tax rate of 40 %.

Liabilities

Pension provisions
Pension provisions include obligations under a pension scheme for the company's employees. The provisions are calculated based on salary-independent monthly old-age and disability pension payments per full year of staff membership in the company. In addition, there are individual pension commitments. Provisions are set up for obligations under rights to future pension payments and current pension payments to active and former employees and their surviving dependants.

Provisions for pensions are valued using the projected unit credit method in accordance with IAS 19. This method takes into account not only the pensions and vested rights to future pension payments known on the balance sheet date but also careful estimates of future increases in pensions and salaries. The calculation is based on actuarial expert opinions relying on certain biometric assumptions.

The expected mortality and disability rates are based on the Prof. Dr. Klaus Heubeck 2005 (G) tables. The provisions were calculated on the basis of the new retirement ages stipulated by the German Pension Reform Act (BMF letter dated December 29, 1997). In deviation from the above, the retirement age of some individual pension commitments is the completion of the 65th year of age. Actuarial profits or losses are only recognised with an impact on the operating result if they exceed 10% of the volume of obligations. The company's pension schemes have been closed; new employees are not entitled to company pensions.

Other provisions

Provisions in accordance with IAS 37 are set up to the extent that there are current obligations from past events to third parties which are likely to result in a future outflow of resources that can be reliably estimated.

Provisions for guarantee claims are set up on the basis of past or estimated future claims. Other provisions are also taken into account in accordance with IAS 37 for all discernible risks and uncertain obligations in the amount of their probable occurrence. The amounts shown are a best possible estimate of the funds required to meet the obligations existing on the balance sheet date.

Provisions for obligations which are unlikely to burden resources already in the following year are set up in an amount equalling the present value of the expected outflow of resources using a discount rate of 5.5%. The valuation of provisions is reviewed on each balance sheet date. A distinction between non-current provisions and current provisions is made in the balance sheet.

Liabilities

At their first-time inclusion, liabilities are shown at their acquisition costs. In the following years, all liabilities are valued at their depreciated acquisition costs.

All foreign currency liabilities are valued at the mean rate on the balance sheet date.

Trade payables as well as other current liabilities are liabilities with a term of no more than twelve months.

Realisation of earnings and expenses

Sales revenues and other operating income are recognised as soon as ownership or risk pass to the customer or at the time when a service is performed. Sales revenues are shown less cash discounts, discounts, price reductions and bonuses. Changes in inventories of work in progress still in the production process on the balance sheet date are reported at their pro-rata production costs.

Operating expenses are recognised with an impact on income at the time of the use of the respective product or service.

Guarantee expenses are included at the time of realisation of the respective sales revenues. Interest income and interest expenses are recognised on an accrual basis using the effective rate method.

Expenses and earnings are translated at the average market price of the period.

Notes to the balance sheet

1.
Non-current assets

The breakdown of the non-current asset items summarised in the balance sheet and their development throughout fiscal 2005 have been recorded in the respective notes to the balance sheet. The investments are explained in the management report. Tangible assets are encumbered with land charges in an amount of € 6,800 thousand. No actual drawing existed on December 31, 2005.

2.
Current assets
2.1
Inventories

(in € '000)	2005	2004
Current assets inventories		
Raw materials and supplies	13,985.1	13,801.9
Work in progress	3,368.7	3,379.0
Finished goods and merchandise	10,347.4	10,008.4
Total	**27,701.2**	**27,189.3**

No value adjustments made in earlier years were reinstated to original values in the fiscal year. No inventories were transferred as security by Westag & Getalit AG.

2.2
Receivables and other assets

(in € '000)	2005	2004
Receivables and other assets		
Trade receivables	19,308.1	17,329.7
Other assets	563.4	691.2
Total	**19,871.5**	**18,020.9**

Default risks are taken into account through value adjustments in an amount of € 1,010 thousand (previous year: € 1,176 thousand). Receivables and other assets with a remaining maturity of over one year did not arise.

2.3
Cash and cash equivalents

(in € '000)	2005	2004
Cash and cash equivalents		
Securities	9,151.5	12,342.5
Current account balances	2,272.7	2,632.5
Time deposit account balances	8,072.9	5,803.8
Total	**19,497.1**	**20,778.8**

Bank guarantees in an amount of € 179 thousand have been obtained until August 15, 2011 as insolvency coverage for partial retirement working time credits. No other securities or bank deposits were pledged or assigned in the year under review as well as the previous fiscal year.

3.
Deferred tax assets

(in € '000)	2005	2004
Deferred tax assets		
Securities	0.1	- 52.3
Provisions	1,043.9	1,197.2
Special item with an equity portion	- 953.9	- 1,068.3
Total	**90.1**	**76.6**

Based on a tax rate of 40 %, deferred tax assets totalled to € 90.1 thousand on December 31, 2005.

4.
Equity
4.1
Called-up share capital

(in € '000)	2005	2004
Called-up share capital		
Ordinary shares	7,321.6	7,321.6
Preference shares	7,321.6	7,321.6
Total	**14,643.2**	**14,643.2**

Bearer shares

Number of share certificates	Number of individual share certificates	Amount in € '000
Ordinary shares		
12.250	2,450,000	6,272.0
14.000	280,000	716.8
13.000	130,000	332.8
	2,860,000	**7,321.6**
Preference shares		
286.000	2,860,000	7,321.6
	2,860,000	**7,321.6**
Total number and amount of ordinary and preference shares		
	5,720,000	**14,643.2**

The development of equity is shown in the enclosed statement of changes in equity.

All of the company's shares are registered for trade and officially quoted at the Düsseldorf and Frankfurt stock exchanges. The ordinary shares are full voting shares, while the preference shares are nonvoting. Preference shareholders receive a preferred dividend of € 0.12 per preference share out of the net profit for the year. If the distributable net profit for the year is not sufficient to pay out a dividend of € 0.12 per preference share, the deficit must be paid, without interest, out of the net profit for the year generated during the subsequent years in such a way that the older deficits are paid before the newer ones and the preferred amounts payable for the year out of the same year's profit are paid subsequent to the repayment of all deficits.

Subsequent to the distribution of a dividend of € 0.12 per ordinary share, the preference shareholders receive an extra dividend, which may not be paid retroactively, of € 0.06. Both preference and ordinary shareholders participate in a further distribution in the proportion of their prorate shares in the capital stock. The company reserves the right to issue further preference shares which, with respect to a distribution of profit or of company assets, are either of equal rank or take priority over the existing nonvoting preference shares. On August 9, 2005, the Annual General Meeting authorised the Management Board to increase, by August 8, 2010 and with the Supervisory Board's approval, the capital stock once or several times, by way of issuing new bearer shares and/or nonvoting preference shares by up to € 5,840,000.00 (approved capital I) in return for cash deposits. The shareholders are generally entitled to the usual subscription right. However, the Management Board has been authorised to exclude, with the Supervisory Board's approval, peak amounts from the shareholders' subscription rights.

The board has furthermore been authorised to exclude the shareholders' subscription right up to a nominal value of € 300,000 in order to issue employee shares and to exclude the subscription right of holders of one type of shares to subscribe to shares of the other types while simultaneously issuing ordinary and preference shares and preserving the existing shareholder relationships within both share types. In addition, further approved capital (capital II) exists which amounts to up to € 1,460,000.00. The Management Board has been authorised to increase, by August 8, 2010 and with the Supervisory Board's approval, the capital stock to said amount by way of issuing, once or several times, new nonvoting ordinary and/or preference shares in return for cash or non-cash capital contributions. The board is furthermore entitled to exclude, with the Supervisory Board's approval, the shareholders' subscription right

a) insofar as the new shares' issue amount is not substantially lower than the market price,
b) in order to acquire companies or participations if this is in the company's interest,
c) insofar as this is required in order to offer ordinary shareholders exclusively new ordinary shares and preference shareholders exclusively nonvoting preference shares in equal proportions.

This authorisation also includes the entitlement to issue preference shares which, with respect to a distribution of profit or of company assets, are equal in rank with the existing nonvoting preference shares.

4.2
Capital reserve

(in € '000)	2005	2004
Capital reserve	24,344.6	24,344.6
Total	**24,344.6**	**24,344.6**

The capital reserve consists of the premiums of earlier capital increases.

4.3
Revenue reserves

(in € '000)	2005	2004
Revenue reserves		
Legal reserves	595.8	595.8
Other revenue reserves	31,315.5	29,056.5
Total	**31,911.3**	**29,652.3**

Revenue reserves contain the past results of Westag & Getalit AG to the extent they have not been distributed. In fiscal 2005, € 2,400 thousand were allocated to the revenue reserves in accordance with Section 58 (2) AktG (German Stock Corporation Act). In addition to the legal reserves and other revenue reserves, the adoption of IFRS accounting principles resulted in a negative change in equity in an amount of € 141.0 thousand that has no impact on the operating result.
As authorised by the Annual General Meeting on August 9, 2005, the company purchased own shares (preference shares) in fiscal 2005. In detail:

Number/purchase	73,500 share certificates
Portfolio as of Dec. 31, 2005	73,500 share certificates
Share in the capital stock	0.01 %
Time of purchase	August - December 2005
Purchase price (average)	9.32 €/per share certificate

The own shares in an amount of € 685 thousand held on the balance sheet date were netted with the net profit for the year without any impact on the operating result.

5.
Non-current provisions

5.1
Provisions for pensions

(in € '000)	2005	2004
Development of the balance sheet item		
As of Jan. 1	12,022.4	15,566.9
Current expenditure as detailed below	950.8	1,170.5
Profits and losses from scheme settlement	0.0	- 3,943.8
Current pension payments	- 544.1	- 771.2
As of Dec. 31	**12,429.1**	**12,022.4**
Composition of the balance sheet item		
Present value of the pension obligations on the balance sheet date	15,014.8	13,461.1
Actuarial losses not included in the balance sheet	- 2,585.7	- 1,438.7
As of Dec. 31	**12,429.1**	**12,022.4**

The income statement of fiscal 2005 includes the following expenses for pension obligations as personnel expenses:

(in € '000)	2005	2004
Current service cost	319.5	374.8
Interest expenses	625.8	795.7
Amortised actuarial losses	5.5	0.0
Total	**950.8**	**1,170.5**

The amount of provisions is calculated using actuarial methods based on the following assumptions:

(in %)	2005	2004
Discount factor	4.25	5.25
Rate of pension progression	1.50	1.50

5.2 Other non-current provisions

Non-current provisions for long-term guarantees, partial retirement and anniversary benefits are recognised at their settlement amount discounted to the balance sheet date. In 2005, non-current provisions developed as shown below:

(in € '000)	As of Jan. 1, 2005	Use	Reversal	Addition	As of Dec. 31, 2005
Provisions for personnel	1,472.0	94.1	0.00	11.5	1,389.4
Other provisions	1,014.0	511.8	0.00	1,240.8	1,743.0
Non-current provisions	**2,486.0**	**605.9**	**0.00**	**1,252.3**	**3,132.4**

6. Liabilities

6.1 Trade payables

(in € '000)	2005	2004
Trade payables	7,008.2	5,394.0
Total	**7,008.2**	**5,394.0**

6.2 Other current liabilities

(in € '000)	2005	2004
Other current liabilities		
Liabilities to employees	1,778.7	1,798.7
Liabilities for social security	1,397.6	1,447.8
Income tax on wages and salaries	1,172.8	1,326.4
Value-added tax	436.6	548.0
Advance payments received	211.4	188.1
Debtors classed as creditors	107.5	112.8
Others	153.0	161.9
Total	**5,257.6**	**5,583.7**

7.
Current provisions

(in € '000)	As of Jan 1, 2005	Use	Reversal	Addition	As of Dec. 31, 2005
Steuerrückstellungen	2,136.5	2,118.4	18.1	1,960.8	1,960.8
Personalrückstellungen	1,858.7	905.6	57.4	1,407.1	2,302.8
Sonstige Rückstellungen	6,484.1	4,701.6	637.1	4,666.2	5,811.6
Kurzfristige Rückstellungen	**10,479.3**	**7,725.6**	**712.6**	**8,034.1**	**10,075.2**

Provisions for personnel include provisions for outstanding vacation obligations, royalties, time credits and contributions to social insurance against occupational accidents. Other current provisions include provisions for guarantee obligations, bonuses, environmental protection measures, insurance premiums and other provisions.

Notes to the income statement

8.
Sales

Breakdown of sales according to geographic regions:

(in € '000)	2005	2004
Sales		
Domestic	137,930.3	139,762.1
Abroad	35,494.3	27,630.4
Total	**173,424.6**	**167,392.5**

9.
Changes in inventories of finished goods and work in progress

(in € '000)	2005	2004
Increase/decrease in inventories of finished goods and work in progress	286.8	- 1,297.9
Total	**286.8**	**- 1,297.9**

10.
Other own work capitalised

(in € '000)	2005	2004
Other own work capitalised	269.4	325.4
Total	**269.4**	**325.4**

11.
Other operating income

(in T€)	2005	2004
Other operating income		
Income from reversal of provisions	771.8	1,527.8
Income unrelated to accounting period	520.4	468.4
Remuneration in kind-cars	193.9	194.2
Employment subsidies	191.8	302.2
Income from disposal of non-current assets	156.3	109.6
Payment of damages	79.4	557.1
Other income	523.1	482.3
Total	**2,436.7**	**3,641.6**

12.
Cost of materials

(in € '000)	2005	2004
Cost of materials		
Raw materials and supplies	62,881.3	57,141.2
Merchandise	11,085.0	10,903.1
Energy costs and packaging material	7,231.0	6,148.5
Cost of services	1,554.6	1,590.2
Total	**82,751.9**	**75,783.0**

13.
Personnel expenses

(in € '000)	2005	2004
Personnel expenses		
Wages and salaries	46,344.5	46,105.3
Social security contributions	8,491.8	8,657.9
Other social expenditure	1,182.9	1,141.1
Expenses for pension costs and other benefits	1,067.0	1,260.7
Total	**57,086.2**	**57,165.0**

On an annual average, Westag & Getalit AG's staffing levels were as follows:

	2005	2004
Number of staff (excl. trainees)		
Employees	314	323
Industrial employees	853	866
Total	**1,167**	**1,189**

14.
Depreciation and amortisation non-current assets

(in € '000)	2005	2004
Depreciation and amortisation non-current assets		
Intangible assets	155.5	164.2
Tangible assets	8,014.1	8,922.3
Total	**8,169.6**	**9,086.5**

15.
Other operating expenses

(in € '000)	2005	2004
Other operating expenses		
Freight out	8,057.6	7,446.9
External cost of repair and maintenance	3,378.0	3,146.6
Insurance, contributions and fees	1,211.3	1,337.7
Advertising and trade fair expenses	1,471.2	1,195.1
External production labour and overhead	1,232.1	962.6
Consulting fees including IT consulting	856.5	864.2
Commissions	278.7	656.9
Postage, stationery, office supplies and telephone	564.9	656.5
Travel and mileage allowance	606.4	520.6
Car cost	362.3	365.7
Other expenditure	2,154.4	1,524.9
Total	**20,173.4**	**18,677.7**

16.
Other taxes

(in € '000)	2005	2004
Other taxes	183.2	160.7
Total	**183.2**	**160.7**

Other taxes mainly comprise real property tax and vehicle license tax.

17.
Financial result

(in € '000)	2005	2004
Financial result		
Interest income	553.9	674.6
Income from securities held as current assets	1.6	3.2
Interest expenses	- 5.1	- 154.5
Depreciation of securities held as current assets	- 5.7	0.0
Total	**544.7**	**523.3**

18.
Taxes

	2005 € '000	% [1]	2004 € '000	% [1]
Taxes on income				
Income tax expenses fiscal 2005	3,394.4	39.5	3,572.3	36.8
Income tax expenses previous years	0.0	0.0	20.1	0.2
Deferred tax assets	- 23.5	- 0.3	172.1	1.8
Total	**3,370.9**	**39.2**	**3,764.5**	**38.8**
[1] of earnings before income taxes in an amount of	8,598.0		9,712.0	

Based on a tax rate of 40 %, deferred tax assets are derived as follows:

(in € '000)	2005	2004
Provisions for pensions	-28.4	298.5
Non-current provisions for personnel	119.4	26.9
Special item with an equity portion in accordance with the Income Tax Act	- 114.5	- 153.3
Summe	**- 23.5**	**172.1**

19.
Result per share

in T€	2005	2004
Result per share		
Net profit in €	5,227,074.17	5,947,560.37
Ordinary shares entitled to dividend	2,860,000.00	2,860,000.00
Preference shares entitled to dividend [1]	2,674,500.00	2,860,000.00
Dividend per ordinary share in €	0.48	0.48
Dividend per preference share in €	0.54	0.54
Result per share in €	0.94	1.04

[1] at the time of preparation of the balance sheet

Other information

Other information

Westag & Getalit AG's segment reporting is based on a breakdown into geographic regions by customers domiciled in Germany and abroad.

20.1
Segment reporting

(in € '000)	Domestic	Abroad	Westag total
Fiscal 2005			
Sales	137,930.3	35,494.3	173,424.6
Profit contribution	38,596.3	9,225.1	47,821.4
Fixed cost	32,056.1	7,167.3	39,223.4
Result	6,539.3	2,058.7	8,598.0
Fiscal 2004			
Sales	139,762.1	27,630.4	167,392.5
Profit contribution	41,545.2	7,057.2	48,602.4
Fixed cost	33,137.3	5,753.0	38,890.3
Result	8,407.1	1,304.9	9,712.0

(in € '000)	Domestic	Abroad	Westag total
Fiscal 2005			
Segment assets	97,182.6	14,915.2	112,097.8
Segment liabilities	32,859.4	5,043.1	37,902.5
Segment investments	9,273.8	1,423.3	10,697.1
Segment depreciation	7,082.6	1,087.0	8,169.6
Fiscal 2004			
Segment assets	97,014.2	11,662.6	108,676.8
Segment liabilities	32,105.8	3,859.6	35,965.4
Segment investments	5,704.3	685.8	6,390.1
Segment depreciation	8,111.4	975.1	9,086.5

Segment assets include all operating assets used by a segment, in particular non-current assets, inventories, receivables as well as cash and cash equivalents. Segment liabilities comprise all operating liabilities and consist primarily of liabilities and provisions.

Segment investments include all investments in non-current operating assets. The breakdown into segments is largely based on the respective sales shares.

20.1
Contingencies

(in € '000)	2005	2004
Contingencies		
Bill commitments	0.0	4.0
Total	**0.0**	**4.0**

20.2
Other financial obligations

(in € '000)	2005	2004
Other financial obligations		
Purchase commitments in connection with capital expenditure	3,194.9	445.0
Rental and lease contracts	404.7	516.0
Other financial obligations	239.6	278.0
Total	**3,839.2**	**1,239.0**

20.4
Information about relationships with affiliated companies

According to information supplied by Syntalit AG on December 6, 2000, Syntalit holds the majority of our company's ordinary shares (73.8 %). Since then, we have received no notification of a change in shareholdings subject to reporting requirements. With regard to our relationships with affiliated companies, we would like to point out that we did not conduct any legal transactions with Syntalit AG.

The respective report required under Section 312 AktG (German Stock Corporation Act) concludes with the following declaration: "Transactions which are subject to reporting requirements did not take place."

20.6 Supervisory Board and Management Board compensation

	2005	2004
	€	€
Total Supervisory Board compensation	67,500.00	52,500.00
Total Management Board compensation	1,436,829.16	1,572,090.01
Total compensation received by former Management Board members and their surviving dependants	120,145.68	118,326.45
Pension provisions for former Management Board members and their surviving dependants Consulting services	740,097.00	770,758.00
Consulting services	0.00	0.00

The names of the Management Board and Supervisory Board members appear separately on the cover page.
No advances, loans or guarantees were granted to Supervisory Board or Management Board members.

21. Corporate Governance Code

Westag & Getalit AG has issued the compliance declaration regarding the recommendations made by the German Corporate Governance Code government commission that is required under Section 161 AktG (German Stock Corporation Act) and has given shareholders access to this declaration via the Internet.

22. Agreed auditor's fee

The agreed auditor's fee as defined in Section 319 (1) HGB (German Commercial Code) is comprised as follows:

(in € '000)	2005
Agreed auditor's fee	
Audit	94
Tax consulting services	35
Other services	31
Total	**160**

23.
Net profit
reconciliation 2005
HGB-IAS/IFRS

(in € '000)	2005	2004
Equity reconciliation HGB-IAS/IFRS		
Equity according to HGB	74,951.6	72,464.0
Own shares	- 685.2	0.0
Cash and cash equivalents	- 0.3	130.7
Deferred tax assets	90.1	76.6
Provisions for pensions	- 2,545.8	- 2,474.8
Special item with an equity portion	2,384.7	2,670.9
Others	0.0	-156.0
Total	**74,195.1**	**72,711.4**

23.2
Net profit
reconciliation 2005
HGB-IAS/IFRS

(in € '000)	2005	2004
Net profit reconciliation HGB-IAS/IFRS		
Net profit according to HGB	5,404.8	5,756.7
Other operating income	- 341.1	362.9
Personnel expenses	- 71.0	0.0
Other operating expenses	210.9	0.0
Taxes on income	23.5	- 172.1
Total	**5,227.1**	**5,947.5**

Events after the
balance sheet date

No events having a material impact on the financial statements have occurred after the balance sheet date.

Financial, currency and credit risks
Westag & Getalit AG is exposed to a moderate extent to financial and currency risks related to the procurement of materials from foreign currency countries. These risks are mitigated in individual cases and to a small extent by concluding hedging transactions while monitoring currency trends.

No such transactions existed on the balance sheet date. In order to eliminate default risks, we have taken out insurance cover for most of our accounts receivable.

24. Proposal regarding the appropriation of the net profit for the year

The 2005 net profit for the year according to HGB amounts to € 3,282,859,79 and is composed as follows:

	€
Net profit 2005	5,404,775.13
Previous year's appropriated retained earnings brought forward	963,266.25
Allocation to the reserve for own shares	- 685,181.59
Allocation to other revenue reserves in accordance with Sect. 58 (2) AktG	- 2,400,000.00
Net profit for the year	**3,282,859.79**

We submit to the Annual General Meeting the following proposal regarding the appropriation of the net profit for the year:

	€
Distribution of a dividend of	
€ 0.48 per ordinary share	1,372,800.00
€ 0.54 per preference share	1,444,230.00
	2,817,030.00
Residual profit to be brought forward to new account	465,829.79
Net profit for the year	**3,282,859.79**

Ordinary shares consist of 2,860,000 no par shares and preference shares consist of 2,674,500 no par shares.

For the proposal regarding the appropriation of the net profit for the year, the number of own shares held at the time of preparation of the balance sheet (185,500 share certificates) was deducted from the total number of preference shares.

Rheda-Wiedenbrück, February 17, 2006

Westag & Getalit Aktiengesellschaft
Management Board

Holzinger Beckers Dr. Paulitsch Volmer

Statement of changes in equity

	Subscribed capital	Capital reserve	Revenue reserve	Net profit for the year	Total
As of Jan. 1, 2004	**14,643**	**24,345**	**26,895**	**2,577**	**68,460**
Change in other reserves			- 43		- 43
Sale of own shares				120	120
Addition in accordance with Sect. 58 II AktG			2,800	- 2,800	0
Dividend				- 1,773	- 1,773
Net profit				5,947	5,947
As of Dec. 31, 2004	**14,643**	**24,345**	**29,652**	**4,071**	**72,711**
As of Jan. 1, 2005	**14,643**	**24,345**	**29,652**	**4,071**	**72,711**
Change in other reserves			- 141		- 141
Acquisition of own shares				- 685	- 685
Addition in accordance with Sect. 58 II AktG			2,400	- 2,400	0
Dividend				- 2,917	- 2,917
Net profit				5,227	5,227
As of Dec. 31, 2005	**14,643**	**24,345**	**31,911**	**3,296**	**74,195**

Cash flow statement 2005

Cash flow statement 2005	2005	2004
	€ '000	€ '000
Operating result/EBIT	**8,053**	**9.189**
Income tax payments	- 3,569	- 3,113
Depreciation and amortisation	8,170	9,087
Result from asset retirements	- 154	- 97
Change in current assets	593	- 2,628
Change in liabilities	2,112	- 2,640
Cash flow from operating activities	**15,205**	**9,798**
Investment in tangible and intangible assets	- 10,646	- 6,390
Change in financial assets	54	13
Income from asset retirements	250	231
Cash flow from investment activities	**- 10,342**	**- 6,146**
Interest income	660	740
Interest expenses	- 11	- 155
Repayment of non-current financial liabilities	0	- 2,270
Acquisition/sale of own shares	- 685	120
Dividend payments	- 2,917	- 1,773
Cash flow from financing activities	**- 2,953**	**- 3,338**
Change in cash and cash equivalents	**1,910**	**314**
Cash and cash equivalents as of January 1	8,436	8,122
Cash and cash equivalents as of December 31	10,346	8,436

The cash flow statement shows the origin and use of cash flows in the fiscal years 2005 and 2004. A distinction is made between cash flows from operating activities as well as from investment and financing activities using the indirect method.

Cash and cash equivalents shown in the cash flow statement comprise all cash and cash equivalents recognised in the balance sheet. Securities are not included.

Corporate Governance

Westag & Getalit AG complies with the requirements of the German Corporate Governance Code with a few exceptions.

The term "corporate governance" refers to the responsible and transparent management and control of a company on the basis of long-term value creation. This promotes the shareholders', business partners', employees' and public's trust in the management and supervision of the company. The Management Board and the Supervisory Board of Westag & Getalit AG comply with the recommendations of the German Corporate Governance Code save for a few exceptions deemed appropriate by the company's boards.

In accordance with Section 161 AktG (German Stock Corporation Act), the Management Board and the Supervisory Board of Westag & Getalit AG declare that the company complies with the recommendations of the German Corporate Governance Code government commission as amended on June 2, 2005 save for the following exceptions:

1. The D&O insurance taken out by Westag & Getalit AG for the members of the Management Board and the Supervisory Board does not include a deductible (Clause 3.8 (2) of the Code).

2. The Management Board and the Supervisory Board report on the company's corporate governance in the annual financial report but do not provide a detailed description of any deviations from the recommendations and suggestions of the Code (Clause 3.10 phrases 2 and 3 of the Code).

3. In the notes to the financial statements, the compensation of the members of the Management Board is not reported in individualised form and not subdivided according to fixed, performance-related and long-term incentive components (Clause 4.2.4 of the Code).

4. The company's articles of incorporation do not provide for the compensation of the members of the Supervisory Board to reflect the exercising of the chair and membership in committees (Clause 5.4.5 (1) phrase 3 of the Code). The compensation of the members of the Supervisory Board does not take into account the performance of the company (Clause 5.4.5 (2) of the Code). Payments made or advantages extended by the company to the members of the Supervisory Board for services provided, in particular consulting or agency services, are not listed separately in the notes to the financial statements (Clause 5.4.5 (3) phrase 2 of the Code).

5. Given that Westag & Getalit AG is not required to establish consolidated financial statements, this is not done. As of fiscal 2005, the financial statement and interim reports are prepared to international standards (Clause 7.1.1 to 7.1.5 of the Code).

The declaration of conformity is available to shareholders at: www.westag-getalit.de/corporate-governance.

Audit certificate

We have audited the individual financial statements of Westag & Getalit Aktiengesellschaft, Rheda-Wiedenbrück, - consisting of balance sheet, income statement, statement of changes in equity, cash flow statement and notes - including the accounting and the management report, for the financial year starting on January 1 and ending on December 31, 2005. The legal representatives of the company have to ensure that the individual financial statements and the management report are established in accordance with IFRS as applicable in the EU, the supplementary commercial law regulations to be applied in accordance with Section 324a HGB (German Commercial Code) as well as the supplementary provisions of the company's articles of incorporation. It is our responsibility to form an opinion, based on our audit, on the individual financial statements and the management report. We were moreover commissioned to assess the general compliance of the individual financial statements with IFRS.

We have conducted our audit in accordance with Section 317 HGB (German Commercial Code), based on the principles of proper auditing laid down by the "Institut der Wirtschaftsprüfer in Deutschland e. V. (IDW)". According to this, the audit is to be planned and carried out in such a way that misrepresentations and infringements that significantly affect the picture of the financial and earnings position as given in the individual financial statements and the management report, prepared with due regard to the principles of proper bookkeeping, are detected with a sufficient degree of certainty.

Knowledge of the business activities and the economic and legal environment of the company as well as expectations of possible errors are taken into account when the audit procedure is laid down. During the audit, the effectiveness of the accounting-related internal control system as well as the proof for statements made in the accounting, the individual financial statements and the management report are evaluated on the basis of sample audits. The audit includes an evaluation of the accounting principles applied, as well as an appraisal of the legal representatives' principal judgements and an assessment of the overall presentation of the individual financial statements and the management report. In our opinion, our audit forms a sufficiently reliable basis for our evaluation.

No objections were raised in response to our audit.

It is our conviction that, based on the findings of our audit, the individual financial statements comply with IFRS as applicable in the EU, the supplementary commercial law regulations to be applied in accordance with Section 324a HGB (German Commercial Code) as well as the supplementary provisions of the company's articles of incorporation as well as with IFRS in general and, with due regard to the principles of proper bookkeeping, convey a correct picture of the company's financial and earnings position. In general, the management report is in line with the individual financial statements, presents a true and fair view of the company's position and gives a fair representation of the opportunities and risks concomitant with future development.

Hanover, February 20, 2006

Peters & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Michael Peters
Auditor

Elke Reil
Auditor

Management Report

Strong export growth drives sales. High pressure on selling prices coupled with rising raw material costs.

Business development in 2005

The declining trend in the German construction sector continued in 2005. According to the Federal Statistical Office, incoming orders in the building construction sector fell by 3.6 % in the year under review, meaning that construction activity decreased for the 11th consecutive year.

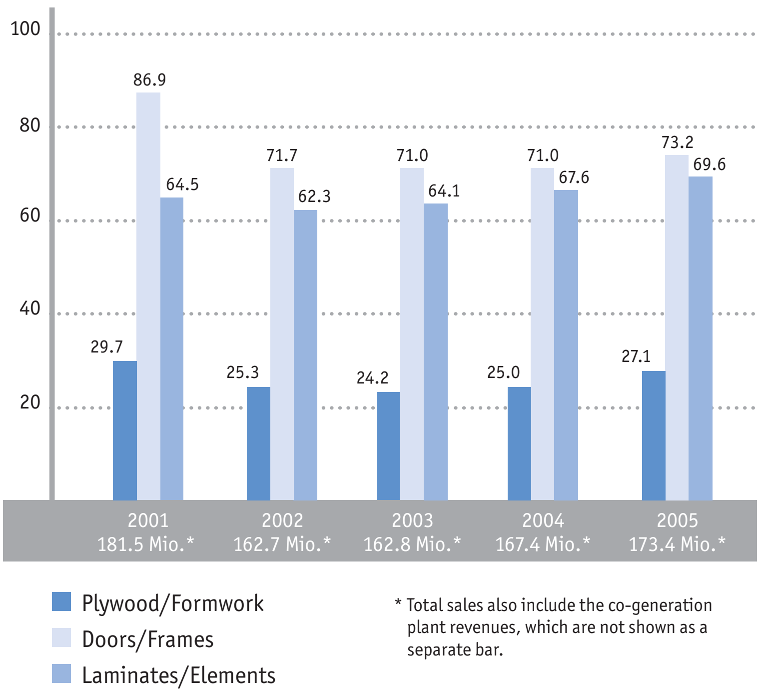
Westag & Getalit AG defied this trend and completed 2005 with a 3.6 % increase in sales which rose to € 173.4 million (previous year: € 167.4 million). This growth was exclusively driven by higher exports, which surged by 25.7 % to € 35.5 million. All three divisions reported double-digit export sales growth rates. At € 137.9 million, domestic sales remained almost constant.

While sales still declined slightly (-0.9 %) in the first half of 2005, they improved significantly in the second half of the year. Sales from July to December were up 9.1 % on the same period of the previous year.

Plywood/Formwork

The Plywood/Formwork Division boosted its sales by 8.4 % to € 27.1 million in fiscal 2005, continuing the positive trend of the previous year. Successful export activities drove this gratifying growth. Export sales surged by 40.8 % to € 8.9 million in 2005. The export share amounted to 33.0 % (previous year: 25.4 %). This extraordinary growth rate was achieved through the acquisition of foreign manufacturers of formwork systems, plywood exports for our German formwork system customers as well as higher sales in the European vehicle construction sector.

Sales performance of the divisions
€ million



* Total sales also include the co-generation plant revenues, which are not shown as a separate bar.

Doors/Frames

The Doors/Frames Division was able to increase its sales by 3.0 % to € 73.2 million in 2005. This growth was also mainly attributable to the export sector where the measures taken in the past are increasingly having a positive effect. As a result, export sales grew by 31.7 % to € 7.5 million.

Given that the efforts made to boost our exports in the last three years are long-term measures that will be continuously expanded, we expect our export sales to grow further in the coming years.

The domestic market remained under the influence of two negative trends. On the one hand, total demand for doors decreased as a result of reduced construction activity, while on the other hand, we observed a trend towards lower-priced product ranges. These two factors resulted in a decline of door industry sales.

The additional surface variants added to our product range last year continued to develop very favourably. In order to meet the demand for these products and reduce our unit costs, we invested in a new varnishing line last year. Our blank production also developed positively. It helped us cut processing times significantly by using prefabricated components for customer orders.

At the beginning of 2005, we agreed more flexible working hours with the employees of the Doors/Frames Division which enable us to respond to fluctuations in capacity utilisation. This allows us to reduce working time to 32 hours per week in periods of lower capacity utilisation. Given that we failed to reach a consensus with the trade union, as already mentioned in the 2004 Annual Report, we concluded a direct agreement with our employees.

Laminates/Elements

The Laminates/Elements Division was able to increase its sales by 2.9 % to € 69.6 million in 2005. Here, too, exports were the main success factor, while domestic sales declined slightly. Export sales rose by € 2.9 million to € 19.0 million, which corresponds to an export share of 27. 4% (previous year: 23.9 %). There was particularly strong demand for our mineral materials.

The Laminates/Elements Division was most affected by the increase in raw material prices. In addition to significantly higher purchase prices for particle boards, our production costs were driven up by higher prices of oil-based chemicals. Intense competition made it very difficult to pass on these cost increases to our customers. The growing focus on prices, especially in the DIY market, played an important role here.

Exports

The efforts made to boost our exports in the past years resulted in substantial sales increases in 2005. While our exports sales already grew gradually in the previous years, it is particularly gratifying to be able to report a sales increase of over 25 %. Consequently, our export share surged from 16.9 % to 20.5 %. The highest growth rates in 2005 were posted in Russia, Poland, Ireland as well as Switzerland.

The further expansion of our foreign activities remains a key element of our business strategy. We are confident that we can tap additional potential.

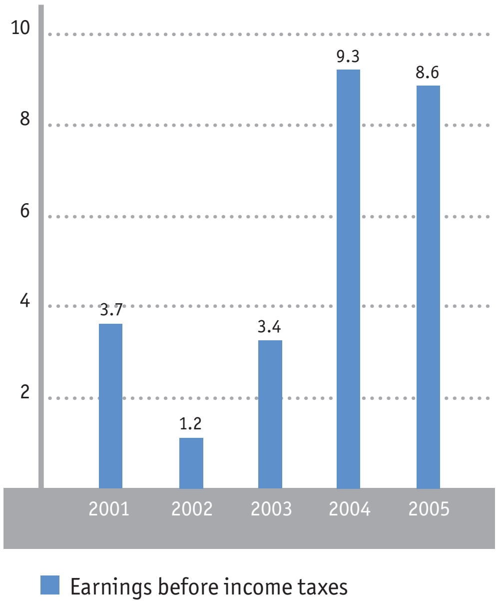
Results

Westag & Getalit AG's earnings before income taxes amounted to € 8.6 million (previous year: € 9.7 million) in the year under review. The increase in our raw material costs, in particular of particle boards and oil-based chemicals, was much higher than the decline in earnings. Electricity prices also rose considerably. Unfortunately, we could adjust our selling prices only partly and at a delay. In the Doors/Frames segment, we even had to give in to industry-wide price pressure. As a result of these two factors, the cost of materials ratio increased from 45.6 % in 2004 to 47.6 % in 2005.

Thanks to better capacity utilisation and the staff measures already partly mentioned above, we generated a 4.5 % higher gross performance, with personnel expenses remaining at the same level as in the previous year (€ 57.1 million) in spite of a 1.5 % increase in standard wages. As a result of this improvement in efficiency the staff cost ratio declined noticeably to 32.8 % in 2005 (previous year: 34.3 %).

Depreciation was down € 0.9 million on the previous year because most of the investments made in 2005 will only become productive in 2006. Other operating expenses rose by almost € 1.5 million in the year under review. This increase was mainly attributable to higher freight charges (sales increase, diesel price, introduction of trucking tolls in Germany) and a provision for future environmental measures. Other operating income was down € 1.2 million on the previous year, which was largely due to special effects in 2004. Net profit amounted to € 5.2 million (previous year: € 5.9 million). DVFA/SG earnings per share came to € 0.96 (previous year: € 1.00).

Earnings before income taxes
€ million



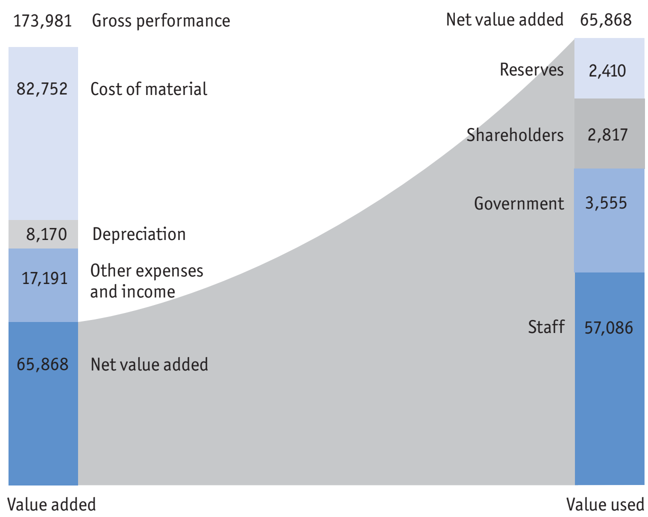
Value added

In 2005, Westag & Getalit AG's net value added declined by 1.4 % to € 65.9 million (previous year: € 66.8 million) due to the significant increase of the cost of materials ratio to 47.6 % as a result of higher raw material prices. After allocation of an amount of € 2.4 million to the revenue reserve, the financial basis for dividend payments remains at the previous year's level.

Staff

We continued our restrictive personnel policy in the year under review. Accordingly, the number of employees declined to 1,189 as at December 31, 2005 (previous year: 1,224). A direct agreement concluded with the employees of our Doors/Frames Division enabled us to adapt the annual working hours and their distribution over the year to the order situati-

Value added
€ '000



on and thereby avoid redundancies. A new working time arrangement for the employees of all divisions took effect on January 1, 2006 (see Outlook).

Balance sheet structure

As a result of higher capital expenditure, non-current assets increased by € 2.4 million. At the same time, receivables and other assets increased by € 1.8 million due to the sales growth. Both factors led to an increase in total assets from € 108.6 million in the previous year to € 112.1 million in 2005 as well as a slight decline in cash and cash equivalents by € 1.3 million to € 19.5 million.

The increase in total assets resulted in a slightly lower equity ratio (66.2 % in 2005 compared to 66.8 % in 2004).

In view of our very high liquidity, our good equity ratio and no liabilities to banks, Westag & Getalit AG benefits from ample flexibility when it comes to funding future activities.

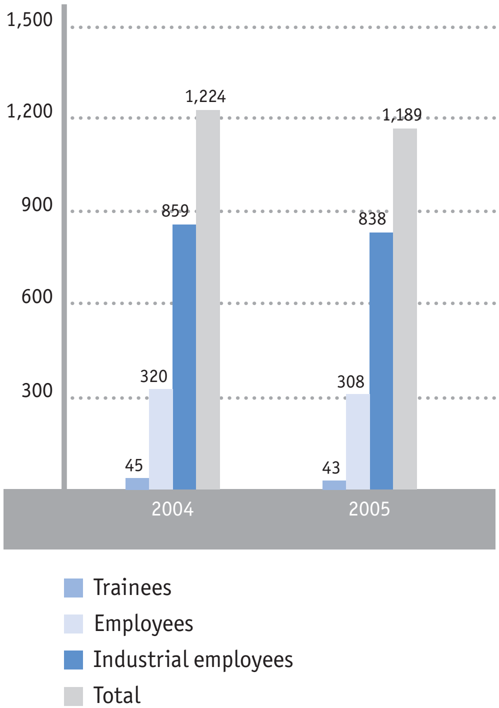
Repurchase of own shares

Due to our high liquidity and the relatively low price of our shares which were trading below book value, the company decided in mid-2005 to start repurchasing own shares. As of the balance sheet date, Westag & Getalit AG already held 73,500 of its preference shares. The programme will continue in the current fiscal year.

Capital expenditure

Capital expenditure in 2005 has to be seen in connection with capital expenditure in 2006 because it primarily consists of major projects which could not be completed in the year under review. € 10.6 million were invested in 2005 and investment of a further € 13.6 million is planned for 2006. The focus was on a machine for the continuous production of high pressure laminated boards (HPLC process), a thermal laminator for the coating of substrates with HPLC precursor materials, a new flexible edge processing line for doors as well as various replacement and rationalisation investments.

Number of staff
As at December 31



Research and development

Westag & Getalit AG continued to refine its product range and processes in the past fiscal year with a view to responding to future market requirements and developing new markets through the consistent use of our know-how.
The Plywood/Formwork Division focused on the development of new surfaces with improved product properties such as scratch and UV resistance which enable us to enter additional markets.
Development activity in the Doors/Frames Division focused on meeting the requirements of export markets which partly differ from those of the German market. The division therefore conducted extensive development work which resulted in country-specific solutions. Moreover, it presented prototypes of innovative door concepts for the German high-end and DIY market segments.

The development focus in the Laminates/Elements Division was on the preparations for our new HPLC production, the further improvement of our market-leading digital print quality as well as technical evolutions in the field of mineral materials in order to create additional sales opportunities.

Relationships with affiliated companies

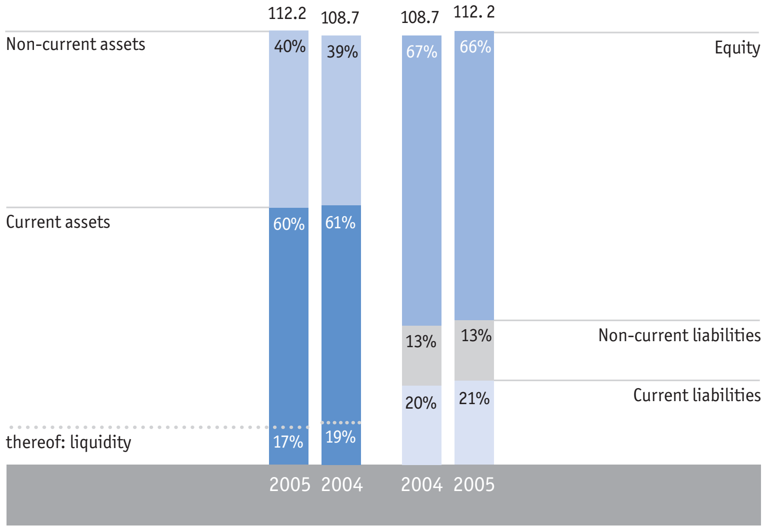
According to information supplied by Syntalit AG on December 6, 2000, Syntalit holds the majority of our company's ordinary shares (73.8 %). Since then, we have received no notification of a change in shareholdings subject to reporting requirements. With regard to our relationships with affiliated companies, we would like to point out that we did not conduct any legal transactions with Syntalit AG. The respective report required under Section 312 AktG (German Stock Corporation Act) concludes with the following declaration: "Transactions which are subject to reporting requirements did not take place."

Risk management

Risk management
Any entrepreneurial activity inevitably involves taking business opportunities and risks. Our risk management system therefore aims to identify and minimise these risks at an early stage and to exploit our opportunities. In addition to ongoing monitoring of the industry and economic environment, our SAP-based controlling and reporting ensures continuous control and ongoing further development of our business activities.

Balance sheet structure

€ million



Sales risks

As in the previous years, the main risk we have to face is the ongoing decline in the construction and building supply industry. As a result, selling prices remain under pressure while purchase prices increase. We address these risks through stringent cost management. Moreover, we consistently expand our export markets as well as product and service range for the German market.

In view of the large number of bankruptcies in our industry, we pursue a consistent receivables management strategy and take out appropriate insurance cover for most of our accounts receivable.

Supplier risks

Our main risk in this field is the availability of input materials and energy at competitive prices.

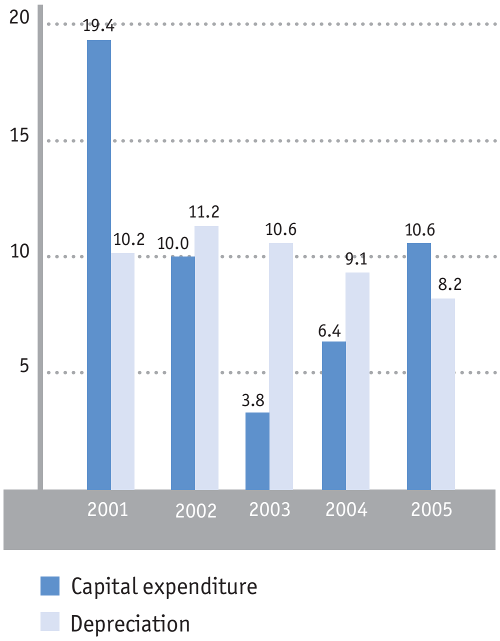
We mitigate this risk through the monitoring of our procurement markets, the conclusion of appropriate contract terms and, if necessary, the development of new suppliers.

Operational risks

Due to the numerous different production processes, the availability of our plants and the management of the production procedures are of special importance for Westag & Getalit AG. In response to this challenge, we ensure that our plants are serviced and monitored regularly, have taken out appropriate insurance cover against damage by natural forces and train our staff on an ongoing basis. We do this in the context of a continuous improvement process, which we regard as an important tool for protecting the level of performance achieved as well as for ongoing optimisation.

Information technology has steadily gained in importance in the past years. The resulting integration of sub-processes into our business processes leads to risks which we minimise by continuously adapting our existing systems to new security standards.

Capital expenditure and depreciation
€ million



Personnel risks
We recognise that the success of our company hinges on the qualification and commitment of our employees. In response to the need for increasing know-how, we offer suitable training initiatives to ensure our employees and executives will be able to master the tasks of the future.

Financial and exchange risks
Due to the high equity ratio and settlement of most transactions in euro, financial and exchange risks play only a minor role for Westag & Getalit AG. We mitigate these risks by monitoring current exchange rate trends and using rate-hedging instruments, if required.

Basic information about the compensation system

The compensation of the members of the Management Board comprises fixed and variable components. The variable components for the Board members responsible for the production divisions depend, on the one hand, on the annual profit of the respective division and, on the other hand, on the annual profit of the company. The company's annual profit is its net profit before corporation income taxes less any loss carried forward from the previous year and the amounts to be allocated to open reserves by law and the articles of incorporation. The variable component for the Board members in charge of the central division is based exclusively on the annual profit of the company. In order to create incentives for a high annual profit, the profit shares increase disproportionately if certain profit levels are exceeded. The percentage of total compensation accounted for by variable components varies with the realised annual profit. In case of extraordinary, unpredicted developments, the variable component can be limited. The company has not concluded any agreements with the members of the Management Board about the granting of shares in the company, share options or similar forms of compensation.

Management report - Outlook

Even though we do not expect the parameters of the German construction industry to change materially in 2006, we are confident with respect to the development of our company. We expect the further expansion of our export business as well as the regained competitiveness through the new working time model agreed with our employees to have positive effects.

The economy in 2005

General economic indicators have been pointing to a gradual recovery of the economy since the middle of last year. So far, the construction sector has not joined this positive trend. However, there are vague signs that the downturn of the German construction industry now lasting for eleven years may at least be slowed down or even be about to bottom out.

Outlook for Westag & Getalit AG

Our projections for 2006 see a slight increase in domestic sales which we should be able to achieve if the construction volume stabilises at the current low level. We intend to further improve our market share by expanding our product range as well as by building new distribution channels. Our export business, which will be systematically expanded, is again expected to provide strong stimulation. Our medium-term target is to reach an export share of 30 %.

In view of the excess supply, our selling prices are likely to remain under high pressure in 2006. In particular, competition among DIY chains is fierce. Unfortunately, low prices seem to be virtually the only means of competitive differentiation in this retail sector.

The purchase prices of our raw materials are increasing again, and an end is not in sight. The described relation of prices and costs forces us to reduce our personnel expenses. An important measure in this context is the increase in working hours from 35 to 38 hours per week without pay compensation for our industrial employees as of January 1, 2006. The minimum number of weekly working hours of our white-collar employees was already raised to 38.75 in the year under review. The model is based on an extremely flexible normal weekly working time. We expect this model to result in greater flexibility and a further noticeable decline of the staff cost ratio.

Stake in AKP Acrylkantenprofis GmbH

Westag & Getalit AG acquired a 49 % stake in AKP Acrylkantenprofis GmbH with retrospective effect from January 1, 2006. Based in Meiningen in the federal state of Thuringia, AKP specialises in the production and marketing of worktops. Fitted kitchen retailers make up the main customer group of AKP. The objective of this cooperation is to intensify our marketing efforts. AKP employs 59 people and generated approximately € 5.5 million in sales in 2005.

Income

The above information described the challenges we faced and the plans we had at the beginning of 2006. Compared to the previous year, the development to date has been quite positive. Our results in 2006 will depend on our capacity utilisation as well as the price trends on our sales and procurement markets. We intend to improve our capacity utilisation by further expanding our export activities.