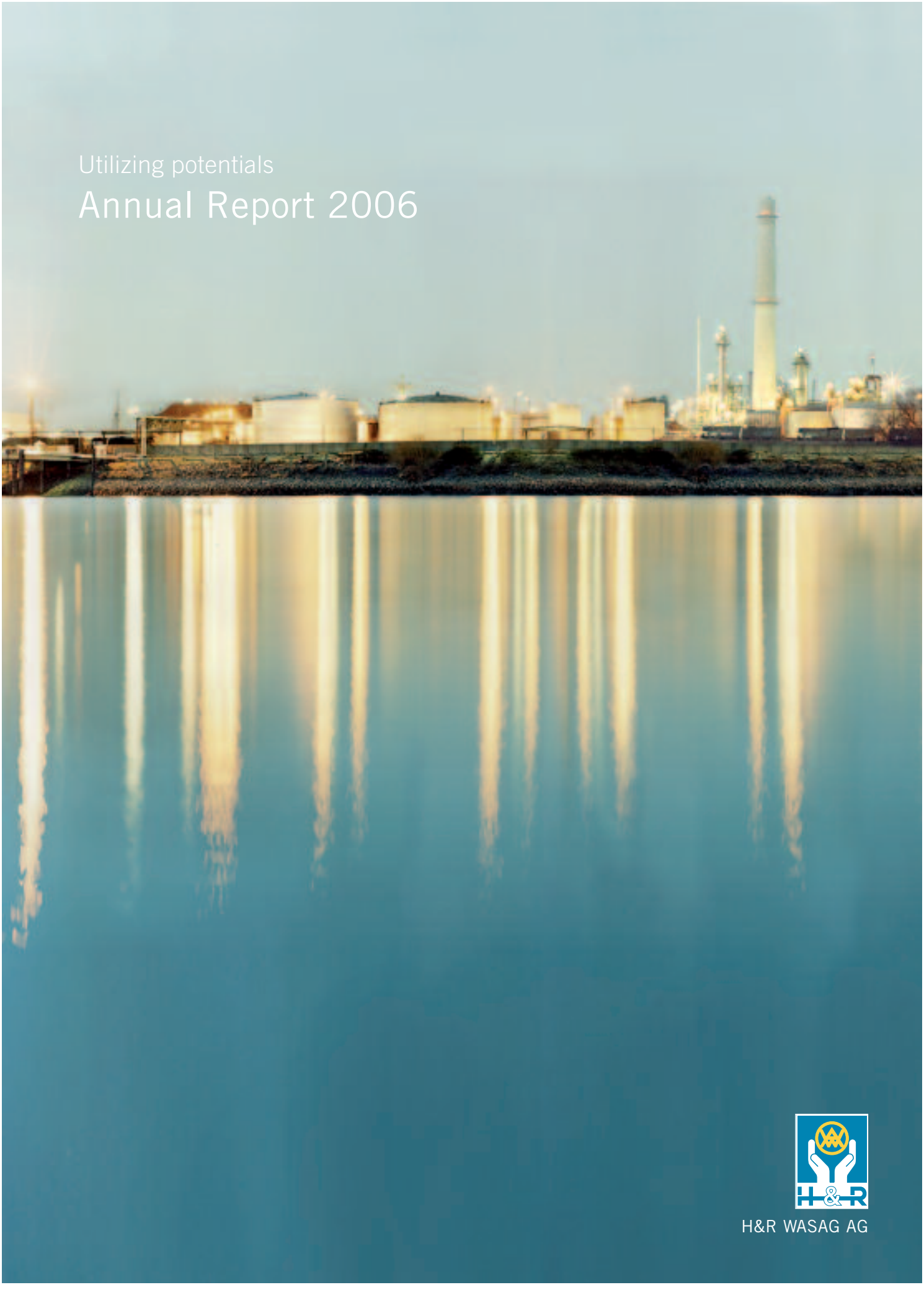
Utilizing potentials

Annual Report 2006



H&R WASAG AG

H&R WASAG group in figures
(IFRS)

		2006	2005	2004
Net sales	€ m	816.8	650.1	497.1
Operating income (EBITDA)	€ m	100.9	45.4	32.9
EBIT	€ m	84.0	28.0	16.5
Income before income taxes and minority interests	€ m	75.0	18.9	9.8
Income before minority interests	€ m	45.6	10.9	7.5
Net income	€ m	43.3	9.9	6.5
Cash flow from operating activities	€ m	59.2	20.5	16.6
Earnings per share	€	1) 1.63	1) 0.37	0.34
Dividend per share	€	2) 0.60	0.30	0.30
Balance sheet total	€ m	410.1	372.7	329.3
Shareholders' equity	€ m	118.4	75.0	84.3
Equity ratio	%	29	20	26
Employees (Dec. 31)		1,821	1,811	1,634

1) adjusted to effects arising from capital increase

2) dividend proposal

The divisons in figures
(IFRS)

		2006	2005	2004
Sales				
Chemical Pharmaceutical Raw Materials	€ m	700.5	556.8	409.1
Precision Plastics	€ m	43.0	38.0	34.9
Explosives	€ m	73.3	55.1	53.1
Operating income (EBITDA)				
Chemical Pharmaceutical Raw Materials	€ m	98.3	36.1	23.4
Precision Plastics	€ m	2.9	4.2	5.2
Explosives	€ m	5.5	8.5	7.0

Cover Photo: Refinery Hamburg

In the past year we have entered a new phase of our corporate development. The success in 2006 is impressive proof that our strategic orientation to chemical-pharmaceutical niche markets is capable of creating value. By concentrating on the growth potentials in our core business, we aim to further advance these developments over the long term.

In the 2006 business year we have been able to show our potential to its full extent for the first time, and we have already taken steps towards creating new potentials in the future.

In this annual report, we would like to show you how we have positioned ourselves strategically, and what potentials we perceived for future developments.

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Foreword by the Executive Board

Dear shareholders,

We are able to look back on an extremely successful 2006 financial year. We have added yet another important milestone to the history of H&R WASAG AG - the history of a company that is still young.

We have raised operating profits for the first time to over € 100 million, and quadrupled pre-tax earnings to € 75 million. Revenue rose to € 817 million. These record earnings have significantly exceeded our own original expectations.

The stockmarket has rewarded this development, and the shares registered a gain of 235% in 2006. This has boosted the company's market capitalization to a level exceeding € 1 billion for the first time.

The success of the company's development provides definitive confirmation of our strategy, with its concentration on niche markets in specialty chemicals. The manufacture of chemical-pharmaceutical specialties formed the basis of our growth in the past few years, and it also offers the Group further potential that we wish to exploit in coming years.

This is because 2006 not only represented the highest point so far achieved in the Group's history, it also marked the entry of the company into a new phase of its corporate development.

We have in the past focused intensively on giving the Group a promising future orientation both in its structure and in its strategic positioning. The conclusion of Project 18 marks the end of the integration process at the Hamburg refinery, and, with it, the transition to a new area.

The coming years will be dedicated entirely to achieving growth. We wish to further expand our activities globally, and to develop the Group into one of the world's leading suppliers of crude-oil-based specialty products.

The course has already been set for this development. For instance, the implementation of Project 40 will lead to a further significant increase in our output of primary products in Germany. The related focus will be mainly on products and product groups where we anticipate improved market conditions in the future. Two factors will play a role in this: the development of global demand, as well as an anticipated tightening of supply. We believe that this will bring about a further and constant improvement in our already leading market positions.

Dr. H. Hollstein
CEO

M. E. Ostermann-Müller
CFO

N. H. Hansen
COO

Even today, we are already envisaging what we shall implement after the conclusion of the new Project 40 in order to further expand the existing refining capacities, and adapt them in a targeted manner. Our long-term planning already comprises the implementation of further measures, and the related investments and growth potential.

We shall benefit from the continuing trend whereby other producers of crude-oil-based specialties are closing or selling their capacities. This development is being driven mainly by the world's leading oil companies that are focusing on their large-volume core businesses. This trend is being strengthened even further as the result of a technology shift in base oil production.

Along with the expansion of the refinery business in Germany, international expansion comprises a further pillar of the growth we are aiming for. We are already very favorably positioned today in our core markets in the regions of South Africa, Australia, and Southeast Asia. We aim to exploit this basis in order to gain further market shares in all regions.

We have already initiated various projects in order to achieve this objective. One focus region in this respect is Asia. Here we anticipate major rises in demand in the future as the result of forecast developments in the most important asien economies. Our plans in this respect comprise not only organic growth but also the acquisition of activities from other suppliers, as well as cooperation as part of joint-ventures or close cooperation ventures with partners that are already established locally.

The sale of the Explosives Division concluded in April 2007 comprises a further important step in the concentration on the core business' growth potential.

This disposal allows us to reduce the complexity of the Group, and lends H&R WASAG a sharper profile as a supplier of high quality, crude-oil-based specialties. At the same time, we are creating financial flexibility in order to drive growth further forward in the core business in coming years.

While the Explosives Division together with the Plastics Division activities represented an important pillar in a risk strategy in the past, today we have the freedom to reorientate our strategic risk strategy. The earnings and cash flows of both divisions in the last few years have contributed to offsetting the earnings burdens from the refinery business deriving from the volatility of the crude oil price. The Chemical-Pharmaceutical Raw Materials Division meanwhile has its own activities that are characterized by a relatively high degree of independence from the development of the price of crude oil. These are our overseas and service activities.

While we have a very clear picture of our medium and long-term objectives, and how to get there, we find it difficult to forecast short-term developments. The continued volatility of the crude oil market plays a role in this respect. This makes it even more important that we continue in future to manage the Group reliably, and that we ensure that we are not distracted from pursuing our long-term strategy. This will allow us to create the highest degree of stability in the long term.

We still have many plans for the years ahead, and we shall undoubtedly have many challenges to master on the way. The fact that we face this future full of confidence is above all a reflection of the strong commitment and abilities of our employees, to whom we extend our sincere thanks for the work they performed in 2006.

At the same time, we would also like to thank our shareholders, who have invested their trust in us, and whose expectations provide us with both an incentive and an obligation.

Yours sincerely

Salzbergen, April 2007
The Executive Board

Dr. H. Hollstein | M. E. Ostermann-Müller | N. H. Hansen

Report of the Supervisory Board

Bernd Günther
Chairman

Ladies and gentlemen,

As in previous years, the Supervisory Board occupied itself intensively with the company's position in the financial year just past, pursuing its tasks and obligations as laid down by both law and the company's Articles of Incorporation.

The Executive Board informed the Supervisory Board extensively, both in writing and verbally, concerning all relevant matters, particularly the company's earnings, financing, and assets positions, business development, important transactions, as well as strategic measures. Where the development of business diverged from budget, clarification was provided, and reports were delivered concerning measures that had been introduced or were in planning.

The Executive Board commented on all key topics at a total of five regular meetings of the Supervisory Board, and discussed these topics intensively with the Supervisory Board. As a rule, all Supervisory Board members participated at the meetings. Executive Board included us in all important decisions, and we gave our approval to all measures requiring our consent, and following detailed discussion.

There was also intensive and constant contact between the Chairman of the Supervisory Board and all Executive Board members, particularly the CEO. This allowed the Supervisory Board to receive continuous updates about important business transactions and strategic matters also between meetings.

Besides monitoring the management of the company, we have also advised and supported the Executive Board with respect to important individual measures.

Focus of Supervisory Board work

Board meetings at the start of the year focused on discussing the business development in 2005, and the 2006 budget.

Before the approval of the 2005 parent company and consolidated financial statements of H&R WASAG AG, the Executive Board presented the company's position and discussed key factors of influence. The Executive Board also presented the short and medium-term planning that was the subject of detailed consultations before being approved. Investment planning was included along with earnings and financial planning. The Group's long-term strategic orientation was also discussed in detail and confirmed.

The Executive Board subsequently provided written monthly reports to the Supervisory Board concerning the development of earnings. Extensive supplementary information was added to these reports at the meetings, and divergences from budget were discussed in detail. All three divisions enjoyed an equal degree of attention in this respect: both the very favorable development of business in the chemical-pharmaceutical specialties business as well as developments in the explosives and plastics divisions.

Intensive consultations were held during the entire year concerning the repositioning of the Group within the explosives business. The Executive Board informed us

concerning the progress of the process and forthcoming steps. We share the Executive Board's opinion that a restructuring is essential given the changes in market structures. This will allow the activities to perform successfully in the long-term in the European market. In this respect, we also informed ourselves about the effects of the various options for action on the Group's earnings, financing, and asset positions. We expressly welcome the conclusion in April 2007 of the process entailing the sale of the activities to the Maxam/Pravisani Group, and regard this as an important step in our focusing on the core business.

Intensive consultations were also held relating to the structure of the close cooperation between H&R WASAG Group companies and companies belonging to the Hansen & Rosenthal Group. These consultations concerned particularly the optimization of joint processing measures and related controlling mechanisms.

An important topic of Supervisory Board work was also the newly initiated Project 40 that represents an important pillar of the growth strategy. We informed ourselves in detail about measures designed to expand the existing refinery capacities, the related investment sums, and the sales opportunities for the greater production volumes.

Along with the expansion of refinery capacities, we also discussed the aims and progress relating to international expansion, both within the forum of the Supervisory Board meetings and together with the Executive Board. Our support for the focus on the Asian region is based on the economic development expected in this region.

The financing of this expansion was one of the reasons for the capital increase performed at the end of 2006, which was the focus of intensive discussions and consultations at one meeting. The capital increase is also designed to make our shares more tradeable on a sustainable basis. The mediation committee, which also functions as the committee for Executive Board personnel matters, held two meetings. The committee set up for capital measures did not meet. The capital increase introduced in 2006 was discussed and decided upon by the whole of the Supervisory Board.

Corporate Governance

Once again, the Supervisory Board concerned itself with corporate governance topics in 2006. We discussed the amendments incorporated in the course the year into the new version of the Corporate Governance Code, and we issued the annual declaration of conformity as per §161 of the Stock Corporation Act (AktG) in December 2006 that is published on the Internet and on page 22 of the annual report.

Further details about corporate governance can be found on pages 19 to 23 of the annual report.

Audit of the parent company and consolidated financial statements

The Shareholders' General Meeting on June 28, 2006 selected SUSAT & PARTNER OHG, Wirtschaftsprüfungsgesellschaft, Hamburg, as the auditor for the annual and consolidated financial statements for H&R WASAG AG for 2006. The auditor has examined the parent company financial statements, the consolidated financial statements, as well as the relevant management reports prepared by the Executive Board, and issued them with unrestricted audit certificates.

The auditor confirmed that the consolidated financial statements were compiled in compliance with the International Financial Reporting Standards (IFRS), and present a true and fair view of the net worth, financial position, and results of the Group's operations.

At its meeting held on April 19, 2007, which was attended by the company's auditor, the Supervisory Board discussed in detail with the key particularities of the parent company financial statements, the consolidated financial statements, as well as the dependent company report. The auditors present reported on the result of the audit, and responded to all additional questions. Following the conclusion of our own audit, we raise no objections, and concur with the result of the external audit.

Because of the expected sale in the short-term of the explosives activities, the decision was taken to wait for this transaction to go through before including the disposal in the reporting for the consolidated fin-ancial statements. This is why we did not approve the parent company and consolidated financial statements for December 31, 2006 until after the balance sheet meeting, and via circulation procedure. The annual financial statement have been approved as a consequence.

The auditor also audited the report on relationships with affiliated companies prepared by the Executive Board in accordance with § 312 of the German Stock Corporation Act (AktG). The auditor informed us about the result of its audit, and issued the following audit certificate:

"In accordance with the audit and assessment that we have carried out in accordance with our duties, we confirm that, 1. the actual disclosures of the reports are correct, 2. in the case of the legal transactions listed in the report, payments made by the company were of an appropriate level, and 3. in the case of the measures listed in the report, no circumstances speak for a significantly different assessment than the one provided by the Executive Board."

We examined the related auditor's report ourselves, we support the concluding declaration made by the Executive Board contained in the report, and we raise no objections.

Remarks concerning the disclosures in the management report in accordance with §§ 289, 315 HGB

The Executive Board has made disclosures according to §§ 289 Paragraph 4, 315 Paragraph 4 of the German Commercial Code (HGB) in the management reports of H&R WASAG AG, which the Supervisory Board has adopted, and some of which I wish to briefly comment on below.

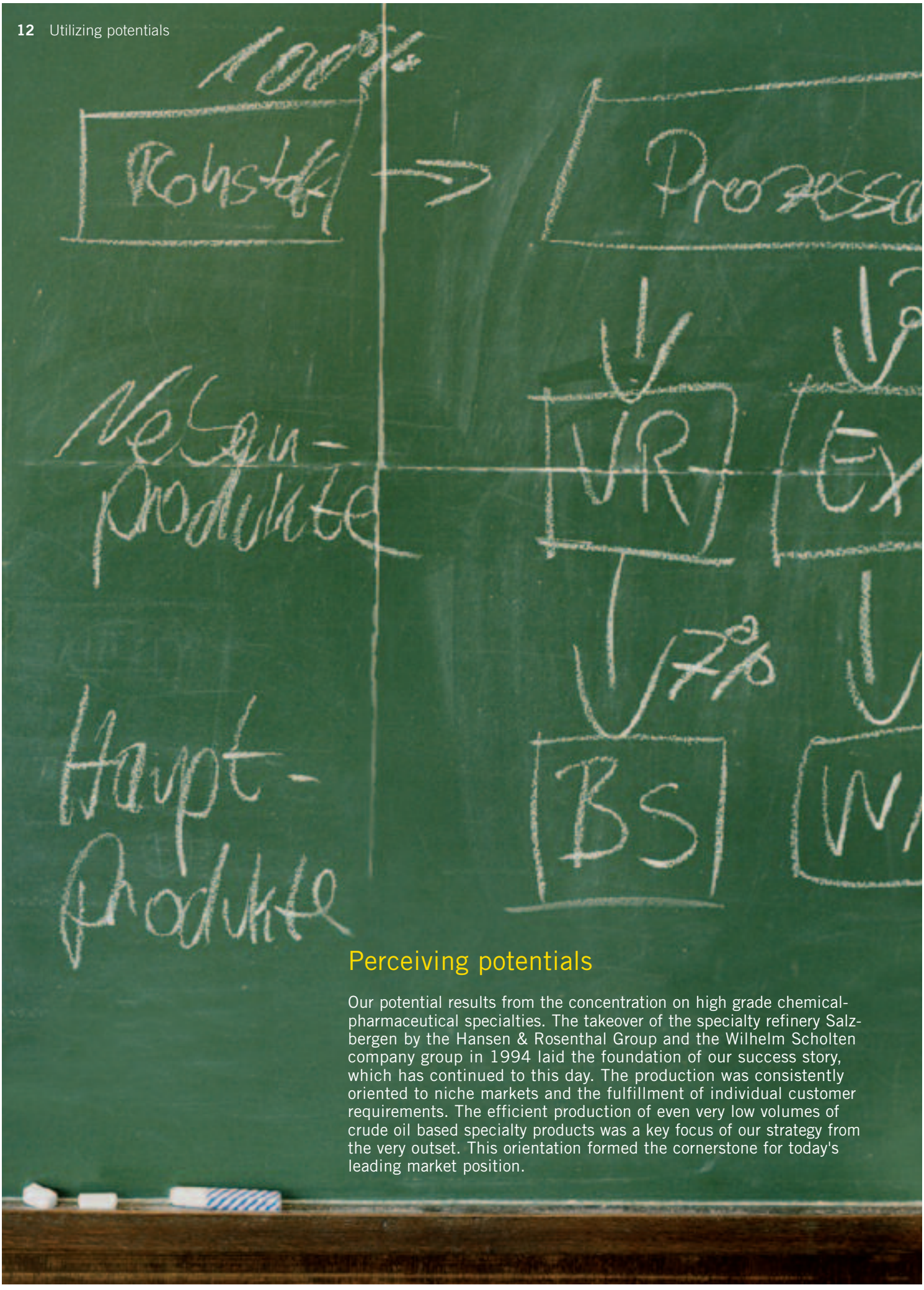
The authorizations for the Executive Board to issue new shares and to repurchase the company's own shares correspond to those of comparable companies, and are of a similar scope. The aim is that the company should be in a position, as a result of the existing body of resolutions concerning capital increases, to rapidly and flexibly exploit market opportunities as and when they arise. The authorization to repurchase the company's own shares in turn enables the return of capital to shareholders when it is not utilized within the company.

The employment agreements for members of the Executive Board contain no special regulations concerning payments to be made in the instance of the change of corporate control. The company's Articles of Incorporation also contain no special arrangements for the appointment or withdrawal of members of the Executive Board.

We would like to thank the Executive Board and all employees for their successful work in 2006.

Hamburg, April 2007
On behalf of the Supervisory Board

Bernd Günther



Perceiving potentials

Our potential results from the concentration on high grade chemical-pharmaceutical specialties. The takeover of the specialty refinery Salzbergen by the Hansen & Rosenthal Group and the Wilhelm Scholten company group in 1994 laid the foundation of our success story, which has continued to this day. The production was consistently oriented to niche markets and the fulfillment of individual customer requirements. The efficient production of even very low volumes of crude oil based specialty products was a key focus of our strategy from the very outset. This orientation formed the cornerstone for today's leading market position.

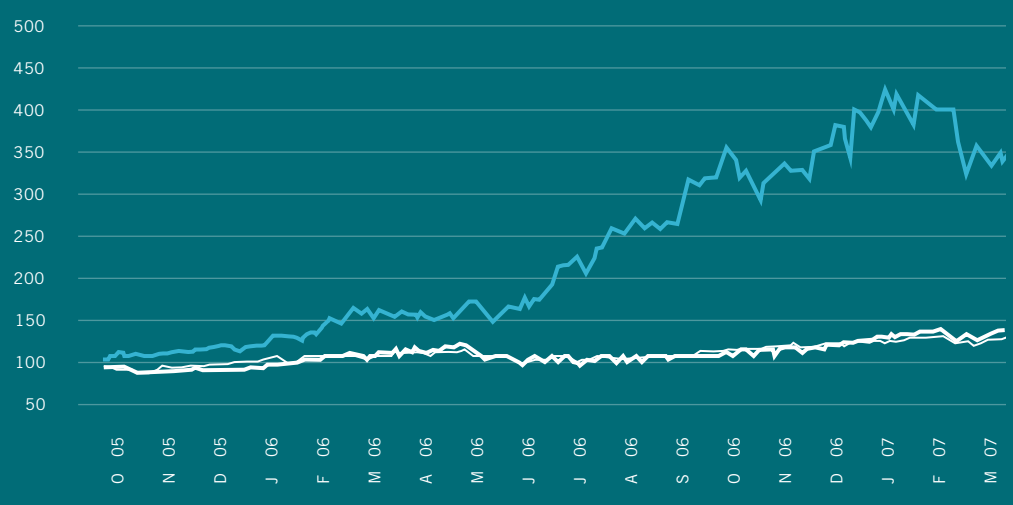
Extraction an distillation units

Performance of the H&R WASAG share

(share price, €, adjusted to effects arising from capital increase)

Performance in comparison with DAX and SDAX

(Indexed, Oct. 1, 2005 = 100, in %, adjusted to effects arising from capital increase)



H&R WASAG share

The H&R WASAG share benefited in the reporting year from the Group's very favorable business development, and was among the top performers of the 2006 stockmarket year with a capital appreciation of 235%. We have raised the number of shares in issue significantly as a result of the capital increase performed at the end of the year, and we have further improved the tradability of the shares.

Capital increase

On December 18, 2006, the Executive Board, with the approval of the Supervisory Board, resolved to perform a cash increase of H&R WASAG AG's issued share capital. For this purpose, 8,407,112 shares were offered from the Approved Capital to existing shareholders in a ratio of 9:4. The subscription period ran from December 22, 2006 to January 16, 2007. The subscription price per share of € 3.00 lay significantly below the share price prevailing at the time of the execution of the capital increase.

The company is pursuing two goals with the capital increase. The first aim is to provide the Group with funds earmarked to expand the expansion of activities in Asia in coming years. This is reasonable because the cash inflows from the operating business will in future be invested to a great extent in the expansion of the existing refinery capacities, and the company prefers to avoid a renewed expansion of indebtedness. The increase of the number of shares by over 44% to 27,323,112 ordinary shares and the issue at a very favorable price also helps to enable a sustained improvement in the stock's tradability.

Shareholders had exercised subscription rights for over 96% of the new shares by the end of the subscription period. The remaining, unsubscribed shares were sold on a discretionary basis as part of a private placing at market prices.

Until the new shares are granted stock exchange admission to the Official Market, scheduled to occur within the first half of 2007, and a related securities-technical harmonization has occurred with the existing shares of H&R WASAG AG already being traded, they will be reported with a separate securities identification number. Tradability is ensured within the over-the counter market.

Share price development

Equity markets developed positively in 2006. The DAX gained 22% and the SDAX small cap index appreciated by as much as 36%. The drivers behind this development were the positive macroeconomic environment as well as the improved margin situation at many companies compared with the previous year.

However, the development of stock markets was not stable, and showed a varied picture. The markets were burdened in the second quarter by a high degree of uncertainty relating to important raw materials and foreign currency markets, as well as interest-rate developments. The situation settled again by the middle of the year, and share prices made major gains towards the end of the year.

H&R WASAG AG's share developed impressively in 2006, independently of the development of the stock market environment. The quotation started the year at € 15.22, and rose to a level above € 20.00 by February. The share price then moved sideways during subsequent months. The price appreciated significantly in June, and in August reached an interim high of € 36.00, before climbing further in September. The stock price quotation then ran up to its year-high of € 53.00 on December 13, 2006, in very volatile trading developments.

The issue of new shares as part of the capital increase in December at a very low issue price resulted in a technical share price correction at the end of the year. The shares then closed on December 29, 2006 at a price of € 38.38.

After adjusting historical prices for the ex-rights factor arising from the capital increase, the price at the start of the year was € 11.46, and the year's high was reached on December 29, 2006 at € 39.47.

Adjusted for the technical effects related to the capital increase, the H&R WASAG share achieved growth of 235%, and the share has consequently more than tripled. This follows on from previous years' extremely gratifying developments where the annual growth rates of the share amounted to 26% in 2005, 35% in 2004 as well as 56% in 2003. The share price has risen by 587% between the start of 2003 and the end of the past business year.

The stock price development has been significantly influenced by the strong earnings growth we achieved in 2006. The improved assessments of our positive long-term growth prospects were also a contributing driver to our share price's rise.

Basic data on the H&R WASAG share

ISIN / WKN	DE0007757007 / 775700; DE000A0LR985 / A0LR98
Abbreviation	WAS; WAS1
Type	No par ordinary bearer shares
Listings (775700)	Official market Frankfurt (Prime Standard), Hamburg and Düsseldorf; over-the counter market Stuttgart and Munich
(A0LR98)	over-the counter market Stuttgart and Munich
Indexes	SDAX, Prime Standard All Share, Classic All Share, Prime Chemicals and Prime IG Chemicals Speciality
Designated Sponsors	Concord Effekten Aktiengesellschaft HSBC Trinkaus & Burkhardt KGaA WestLB AG

Market capitalisation and stockmarket turnover

The rise in the company's share price during the course of the year has led to a considerable increase in its market capitalization. Having started the year at € 288 million, the value of the company had risen to € 1,049 million by the end of the year, thereby exceeding the € 1 billion level for the first time.

The positive development of both the Group and its share price resulted in higher levels of turnover of our share in the stockmarket. Whereas average monthly turnover in the first half of the year was approximately € 23 million in terms of value, this figure rose to € 66 million in the second half of 2006. A total of over 17.2 million H&R WASAG shares were traded across all stockmarket locations during the reporting year.

We regard the tradability of our stock as a matter of high importance. This is apparent from the fact that we have mandated a total of three designated sponsors, who ensure that our shares are constantly tradable. The capital increase we performed at the end of the year is also primarily designed to expand and maximize the number of shares in issue.

The rise in our market capitalization and the higher level of stock turnover led to consistent improvements during the course of the year in our index rankings in the MDAX and SDAX of the Deutsche Börse. We improved our ranking 86 to 59 in the market capitalization index criterion, and from 97 to 59 with respect to stockmarket turnover.

The share in figures

(2004 – 2006)

	2006	2005	2004
Number of shares	27,323,112	18,916,000	18,916,000
Earnings per share	1) € 1.63	1) € 0.37	€ 0.34
Highest price in the year	1) € 39.47	€ 15.20	€ 15.10
Lowest price in the year	1) € 11.43	€ 10.88	€ 8.90
Average price	1) € 22.27	€ 13.27	€ 11.68
Closing price on Dec. 31	€ 38.38	€ 15.20	€ 12.00
Performance (without dividend)	+ 235%	+ 26%	+ 35%
Market capitalization on Dec. 31	€ 1,048.7 m	€ 287.5 m	€ 227.0 m
Dividend	2) € 0.60	€ 0.30	€ 0.30
Dividend return 3)	2.7%	2.3%	2.6%
Avarage daily trade volume	€ 2,197,393	€ 220,207	€ 203,229

1) adjusted to effects arising from capital increase
2) dividend proposal
3) in relation to the avarage share price of the year

Dividend

Our dividend policy is geared to taking both the interests of our shareholders and the interests of the company into account in an appropriate manner.

For the 2006 financial year, the executive and supervisory boards will propose to the Shareholders' General Meeting on July 19, 2007 to utilize the unappropriated retained earnings to distribute a dividend of € 0.60, following last year's payout of € 0.30 per share.

As a result of the increased number of shares and the dividend entitlement of the new shares arising from the capital increase, the dividend sum of € 16.4 million would lie currently above the previous year's distribution of € 5.7 million.

The payout would correspond to 38% of the consolidated net profit for 2006, and would leave the Group with enough financial flexibility to be able to finance out of its own liquidity and anticipated cash flow the extensive investment projects that we have commenced.

With respect to the adaptations relating to the capital increase, the dividend of € 0.60 would correspond to a yield of 2.7% expressed as a percentage of the adjusted year-an average price of the H&R WASAG share of € 22.27.

Investor relations

Investor relations activities were further expanded in 2006. The focus lay on explaining the earnings growth and presenting the Group's long-term potential. This particularly concerned Project 40 that was introduced during the summer.

We provided extensive reporting on the Group's development and its prospects for the future at numerous roadshows, analyst and investor events, shareholder fairs, as well as one-on-one meetings.

A total of eight banks and research houses regularly issued assessments of our stock in 2006, mostly connected with a buy recommendation.

Investor relations contact

Our investor relations team will be happy to help you with any questions about our Group all the H&R WASAG share:

H&R WASAG AG
Investor relations
Neuenkichener Strasse 8
48499 Salzbergen
Germany

Telephone: +49-(0)5976-945-300
Fax: +49-(0)5976-945-308

E-Mail: investor.relations@hur-wasag.de
Internet: www.hur-wasag.com

Corporate Governance

The company's management has obligated itself to achieve the objective of raising the corporate value in the long term. The executive and supervisory boards work closely together in order to achieve this goal. Good corporate governance is an important related prerequisite to create sustainable values.

Principles of corporate management

The executive and supervisory boards support the principles of responsible corporate management as formulated in the German Corporate Governance Code. Along with statutory regulations and the provisions of the company's articles of incorporation, the code forms an important building block for management activities.

The Executive Board manages the company independently, and takes the company's interest as its sole guide in this respect. Executive Board members are appointed by the Supervisory Board. The Executive Board consisted of three members during the entire financial year, who are listed on page 142 of the annual report. Rules of internal procedure exist that have been approved by the Supervisory Board and that regulate the division of responsibilities, among other things, within the board.

The Supervisory Board exercises two main functions: it monitors the management of the company by the Executive Board, and it advises the Executive Board. It exercises the right to approve certain transactions, but it is not authorized to perform business management measures of its own. The Supervisory Board consists of six members, four of whom are elected by representatives of the shareholders and two by employee representatives. The members are listed on pages 143 and 144 of the annual report. The Supervisory Board has set up two committees, the mediation committee, which also functions as the committee for Executive Board personnel matters, as well as the capital mea-sures committee.

The company's subscribed capital as of December 31, 2006 is split into 27,323,112 ordinary shares, each of which represents one vote at the Shareholders' General Meeting. We support our shareholders in the exercise of their rights, and offer them the opportunity to exercise their voting rights through a voting representative who is instructed to follow their personal instructions.

Annual Shareholder Meeting 2006

Our annual general meeting took place on June 28, 2006 in Hamburg, at which 66.8% of the issued share capital was represented.

The executive and supervisory boards reported on the parent company and consolidated financial statements for 2005, and the Executive Board commented on current business development and the Group's strategic orientation.

The meeting resolved to distribute a dividend of € 0.30 per share, and discharged the members of the executive

and supervisory boards for the 2005 financial year. The company was also authorized to acquire its own shares, and the meeting selected the auditor for the 2006 financial year.

The meeting also authorized the Executive Board, to decide, with the approval of the Supervisory Board, concerning the issue of employee shares (Approved Capital 2006) and to issue convertible and/or option bonds, and in this connection to make a conditional increase of the subscribed capital (Conditional Capital 2006).

Please refer to the management report as well as the notes to the consolidated financial statements for details concerning the capital resolutions and the authorization to purchase own shares.

One modification to the company's Articles of Incorporation concerned the restriction of the right to speak and to submit questions, which was enabled through the Corporate Integrity and Modernization of the Right of Challenge Act (UMAG). This authorization is designed to ensure that the annual general meeting is conducted properly and within an appropriate timeframe.

The meeting approved all items on the agenda almost unanimously.

Directors' dealings and shareholdings

We received four announcements concerning share transactions by members of the executive and supervisory boards in 2006.

Three concerned Bohlen Industrie GmbH, which is closely related to Supervisory Board member Eckbert von Bohlen und Halbach. The company sold 10,000 shares in H&R WASAG AG on January 5, 2006, representing a transaction volume of € 153,250. Bohlen Industrie GmbH

Pipework

reported to us on June 1, 2006 that it had acquired 2,000 shares for a total amount of € 43,300. Bohlen Industrie GmbH reported to us on December 20, 2006 that it had transferred 265,500 shares to Bohlen Handel GmbH. Bohlen Handel GmbH is also closely related to Supervisory Board member Eckbert von Bohlen und Halbach.

H&R Beteiligung GmbH also communicated to us that it had acquired 889,000 shares of the transaction volume of € 23,469,600 on July 19, 2006. The company is closely related to Supervisory Board member Nils Hansen.

We received no communications regarding exceeding or falling below the voting rights thresholds according to §21 of the Securities Trading Act (WpHG) in the 2006 business year. A total of 39.27% of the voting rights in H&R WASAG AG were attributable to Supervisory Board member Nils Hansen as of April 1, 2002 according to notifications presented to us. A total of 6.65% of the voting rights also attributable to Wilhelm Scholten as of May 15, 2002; Wilhelm Scholten is not closely related to H&R WASAG AG as per §15a of the Securities Trading Act (WpHG).

Executive Board remuneration

The extent and structure of Executive Board remuneration is based on the size and economic situation of the company. The remuneration system is also related to the tasks of individual board members, and offers incentives to contribute to the enduring accretion of corporate value.

Executive Board remuneration comprises a basic remuneration component, payments in kind, as well as a variable component.

The fixed basic remuneration component is paid to all members of the Executive Board in equal monthly installments. Payments in kind granted comprised non-cash benefits arising from the provision of company cars in 2006. The variable remuneration component is related to the Group net profit for the year, adjusted for special effects. A special regulation relates to Executive Board member Niels H. Hansen, who has declined to take up his claims to the variable remuneration component as a result of his position within the Hansen & Rosenthal Group.

No stock option programs or similar securities-oriented incentive systems exist. The current members of the Executive Board do also not have pension entitlements.

Executive Board remuneration (In € '000)	Basic remuneration	Payments in kind	Variable remuneration	Total
Dr. Horst Hollstein, CEO	506	9	2,204	2,719
Maria-Elisabeth Ostermann-Müller	216	13	1,243	1,472
Niels H. Hansen	216	--	--	216
Total	**938**	**22**	**3,447**	**4,407**

Supervisory Board remuneration

Remuneration of members of the Supervisory Board is determined by the company bylaws. Remuneration of members of the Supervisory Board also comprises a fixed component and a variable component.

This provides an annual fixed salary of € 12,000.00 per member of the Supervisory Board. For every € 0.01 paid in excess of € 0.10 per ordinary share, this remuneration increases by € 300.00. The Chairman of the Supervisory Board receives twice this amount, and the Vice-Chairman one and half times this figure.

For their committee work, members of the Supervisory Board receive an additional € 3,000.00. This remuneration is doubled for members of the Supervisory Board who are active as chairman of a committee.

Declaration of conformity as per § 161 of the Stock Corporation Act (AktG)

The executive and supervisory boards issued the following declaration of conformity as per § 161 of the Stock Corporation Act (AktG) in December 2006:

„H&R WASAG AG complies with the recommended behavior of the Corporate Governance Government Commission, the German Corporate Governance Code, in the version of June 12, 2006 with the following exceptions:

– No deductibles have been agreed for the existing D&O insurance agreements.

– The remuneration systems for the executive and supervisory boards were clarified in the company's annual report and at the annual general meeting. This presentation enables a judgment to be reached on the suitability of the amounts received and the incentives created by the remuneration system. The remuneration was not shown on an individual basis in 2006. Executive Board

Supervisory Board remuneration (In € '000)	Fixed remuneration	Remuneration for committee work	Variable remuneration	Total
Bernd Günther, Chairman	24	6	30	60
Eckbert von Bohlen und Halbach, Deputy Chairman	18	3	23	44
Nils Hansen	12	3	15	30
Günter Papenburg	12	--	15	27
Reinhold Grothus	12	--	15	27
Dieter Obert	12	--	15	27
Total	**90**	**12**	**113**	**215**

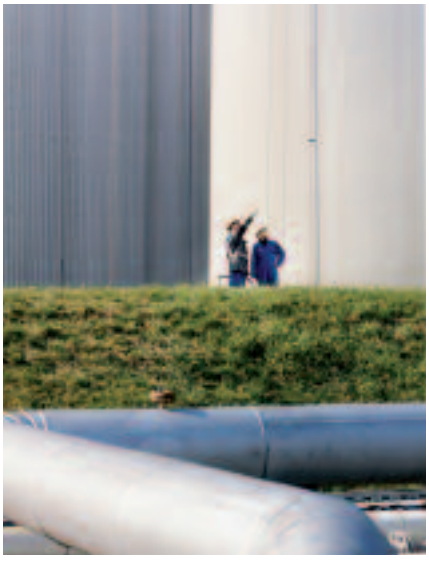
remuneration will be reported on an individual basis from the 2007 financial year on.

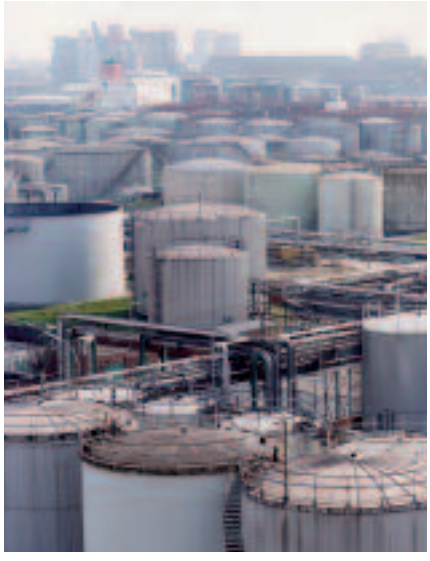
– There are no age limits for members of the executive and supervisory boards. The choice of persons proposed for election to the Supervisory Board is made on the basis of the knowledge, skills, and technical experience required for the task. The appointment of members of the Executive Board by the Supervisory Board also follows the same criteria. We do not intend to define an age limit as a criterion for exclusion.

– The Supervisory Board has not appointed an audit committee. The subjects proposed in the Government Commission's Corporate Governance Code for such an audit committee are keenly debated within the entire Supervisory Board at H&R WASAG AG.

– The disclosure of shareholdings held by members of the executive and supervisory boards is performed in accordance with legal regulations. We do not intend to make any more far-reaching disclosures.

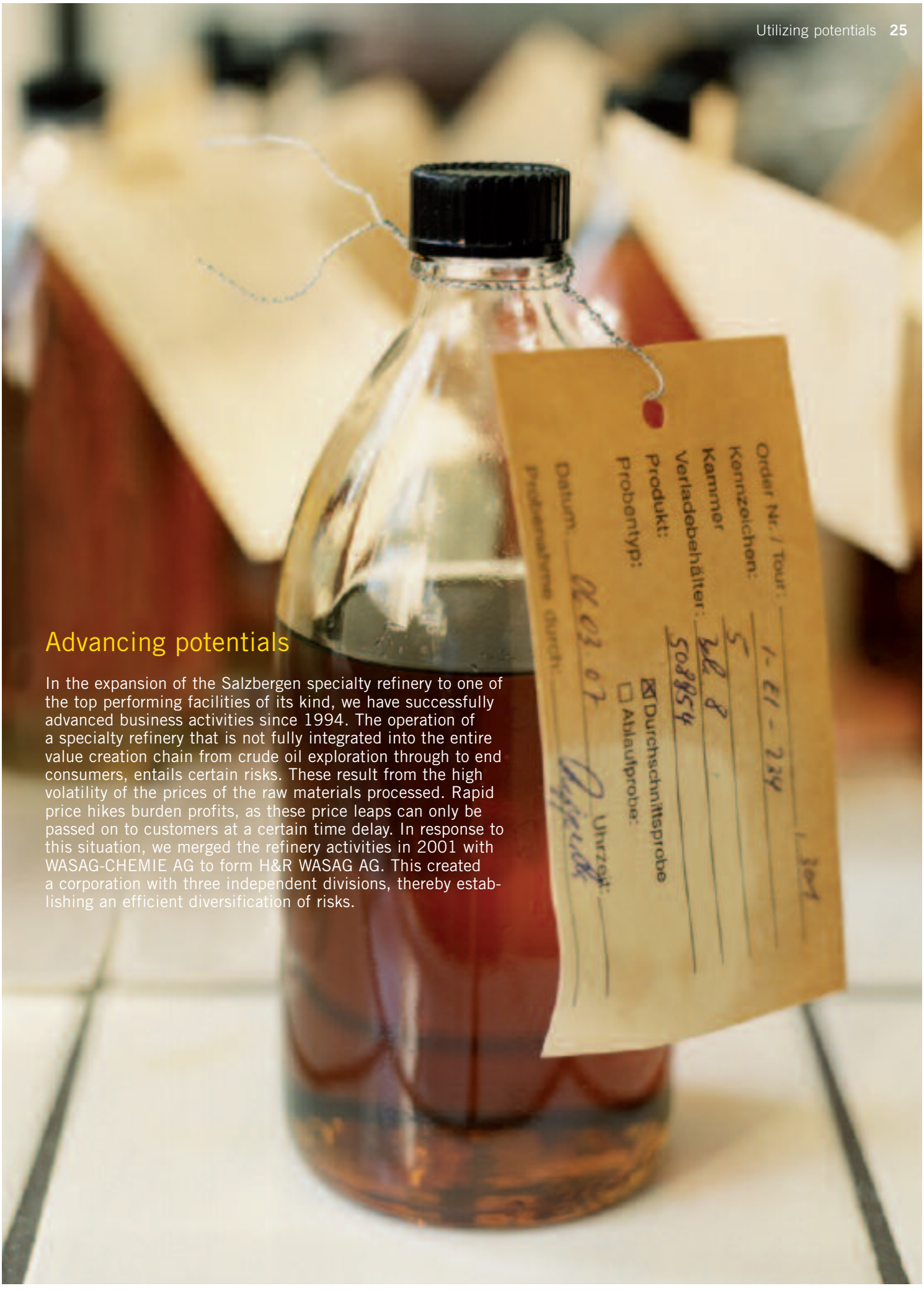
– It was not possible to publish the consolidated financial statements for the financial year 2005 until May 2006 due to the high number of subsidiaries included in the annual statement of accounts."





Tankfarm refinery Hamburg

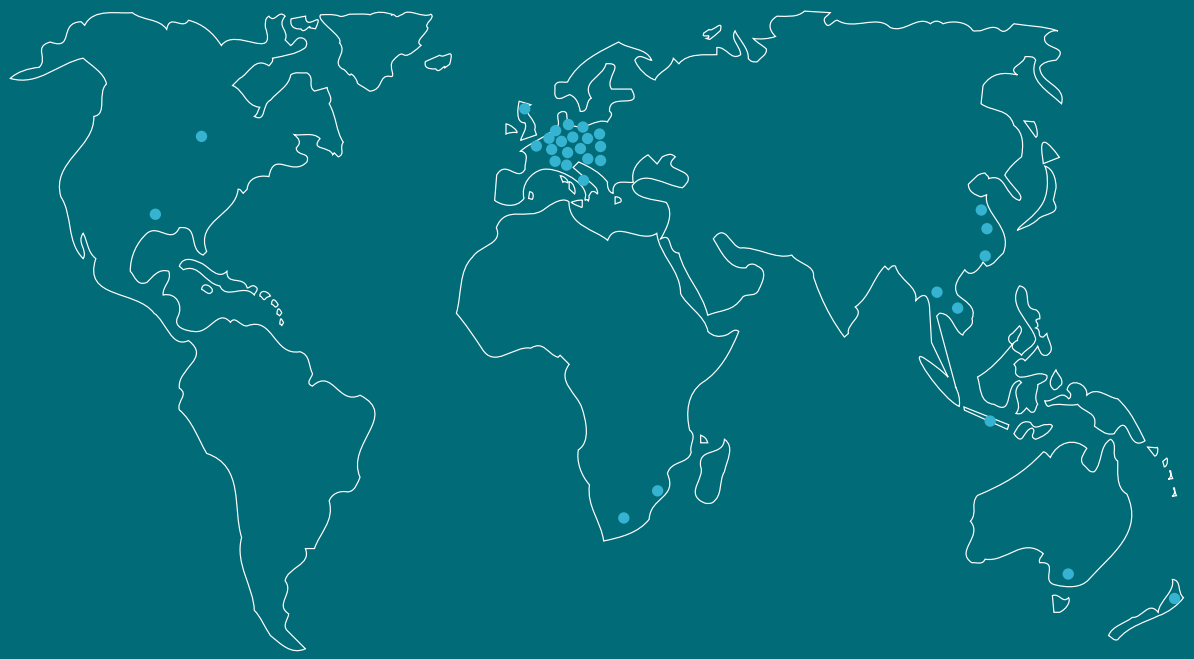
Vacuum distillation Salzbergen



Advancing potentials

In the expansion of the Salzbergen specialty refinery to one of the top performing facilities of its kind, we have successfully advanced business activities since 1994. The operation of a specialty refinery that is not fully integrated into the entire value creation chain from crude oil exploration through to end consumers, entails certain risks. These result from the high volatility of the prices of the raw materials processed. Rapid price hikes burden profits, as these price leaps can only be passed on to customers at a certain time delay. In response to this situation, we merged the refinery activities in 2001 with WASAG-CHEMIE AG to form H&R WASAG AG. This created a corporation with three independent divisions, thereby establishing an efficient diversification of risks.

H&R WASAG Group



America

USA
- Detroit (CP)
- Arlington (EX)*

Europe

Germany
- Sythen (EX)
- Coburg (PL)
- Schellroda (EX)*
- Bad Sobernheim (EX)*
- Pölzig (EX)*
- Liebenburg (EX)*
- Hamburg (CP)
- Salzbergen (CP)
- Finnentrop-Fretter (EX)*

Austria
- Eisenerz (EX)*

Hungary
- Peremarton (EX)*

Poland
- Duninów (EX)*
- Swierki (EX)*

England
- Tipton (CP)

Czech Republic
- Prag (CP)
- Prag (EX)*

Romania
- Miercurea-Ciuc (EX)*

Croatia
- Zagreb (EX)*

Luxembourg
- Kockelscheuer (EX)*

Belgium
- Brüssel (EX)*

Netherlands
- Nuth (CP)

Africa

South Africa
- Johannesburg (CP)
- Durban (CP)

Asia

China
- Wuxi (PL)
- Guangzhou (CP)

Hong Kong
- Hong Kong (CP)

Thailand
- Si Racha (CP)
- Bangkok (CP)

Malaysia
- Kuala Lumpur (CP)

Australia

Australia
- Melbourne (CP)

New Zealand
- Auckland (CP)

(CP) Divison Chemical Pharmaceutical Raw Materials
(PL) Divison Plastics
(EX) Divison Explosives*

* sold in April 2007

Business activity and corporate management

H&R WASAG is an internationally active specialty chemicals group. Our business areas occupy leading market positions and are oriented towards continued growth and constant profitability enhancement. Our strategy is geared to further improving our positioning in niche markets and establishing the Group as a globally leading supplier of crude-oil-based specialty products.

Business activity

H&R WASAG AG is the management and parent company of the H&R WASAG Group. The company holds investments in legally independent subsidiaries that perform the Group's operating functions. As parent company, H&R WASAG AG assumes the strategic guidance and management of business activities and manages the efficient allocation of funds and resources within the Group. The company also provides management resources, and performs central, administrative tasks for Group companies.

Our activities are bundled into three divisions. These comprise the divisions Chemical-Pharmaceutical Raw Materials, Plastics and Explosives. The IFRS mandatory reporting segments were reported accordingly.

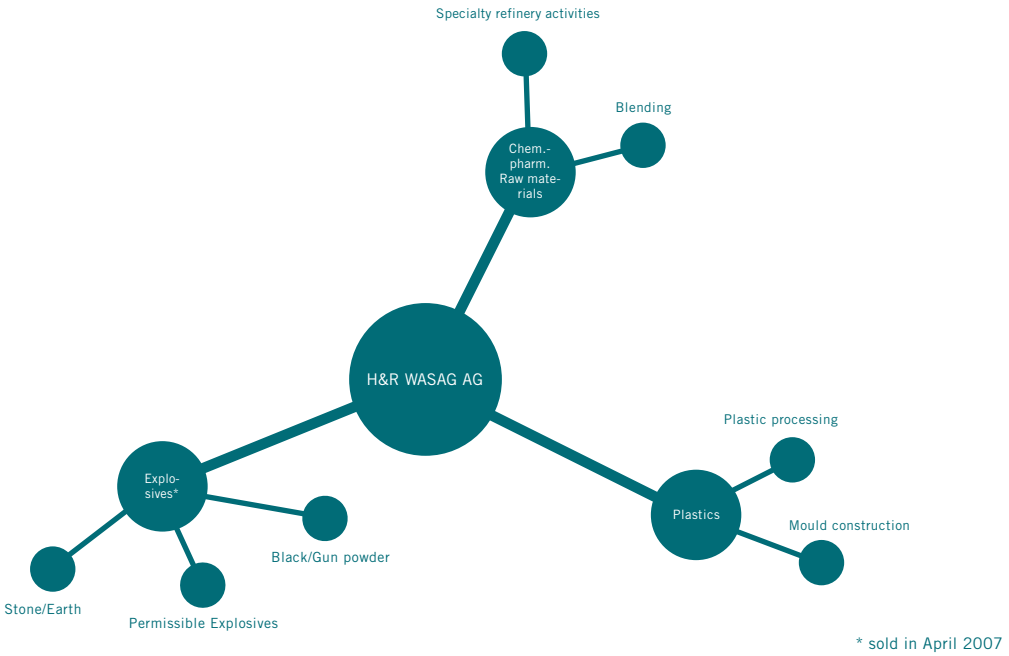
The most significant division – the Chemical-Pharmaceutical Raw Materials Division – develops and produces crude-oil-based specialty products as input materials for the chemical and pharmaceutical industries. Specialty products are manufactured mainly in our two specialty refineries: Salzbergen (Emsland) and Hamburg. Large volumes of crude oil derivatives are refined into specialty products in these facilities.

Besides the refineries in Germany, the division also operates conversion facilities in England, the Netherlands, South Africa, Australia, and Thailand, which process and distribute specialty chemicals. We do not have our own refineries in these regions, and consequently we do not have the degree of vertical range of manufacturing that we have in Germany. We cover our requirements for largely refined products via regional procurement markets.

This division is one of the leading suppliers of crude-oil-based specialty products in Germany and Europe. In some product groups, we also enjoy globally leading market positions.

In addition, lubricants for the automotive industry, marine lubricants, and industrial lubricants are blended, filled and packaged according to customer specifications and assignments at the refineries in Salzbergen and Hamburg.

The key sales markets for the division's products comprise the pharmaceuticals and cosmetics sectors as well as the industries for tires and plastics. Above and beyond this, large volumes of these products are utilized also in the pro-



duction of lubricants and candles. The division generates the majority of its revenue with customers in Germany, followed by other European markets.

Sales and commission agreements exist with Hansen & Rosenthal Group companies. These concern the sale of products produced in Salzbergen on a commission basis, as well as the commission business for products produced at the Hamburg location, which is performed on a fixed transaction fee basis. Individual regulations also applied for proprietary transactions conducted by Hansen & Rosenthal Group companies.

Business developments are primarily affected by the volatility of raw materials costs, which are in turn determined by the development of crude oil prices and the euro/US dollar currency relationship. Rapid changes in raw materials costs can be passed on only with a time delay due to fixed-price arrangements with customers.

The development and production of plastic parts and components by injection molding processes are bundled under the Plastics Division. Here, our activities are located in Coburg, Germany, and Wuxi, China, and focus on the manufacture of high-precision plastic parts. These parts are characterized by very exact, high precision dimensioning. In addition to the actual injection molding process, this division is also engaged in the production of injection moulds (so-called tools).

Producing precision plastic components requires a high degree of know-how and many years of experience. We are among the global technology leaders in this market segment that comprises only a fraction of the general market for plastics.

We are suppliers, in particular, to the automotive supply industry as well as to medical technology companies. The greater proportion of the Plastic Division's revenue is also generated in Germany. Further important sales markets include Mexico and China.

The Explosives Division comprises the development, manufacture, and application of explosives used in civil engineering. At a total of seven locations in Europe, various types of explosives are produced that are mainly utilized in quarries, mines, as well as in road-building and tunnel construction.

Our Group companies in this segment offer an extensive range of explosives, which was expanded in 2006 to include the strategically important product group of detonators.

The division occupies a position of technology leadership, particularly in modern emulsion explosives. At the same time, the Group is a market leader in both Germany and Poland - the majority of sales are also attributable to these countries - and the Group enjoys very promising market positions in the entire growth region of Eastern Europe.

Following the conclusion of the acquisition of Sprengstoffwerk Gnaschwitz GmbH at the end of 2005, we merged the two main operating companies in Germany, Westspreng GmbH and Sprengstoffwerk Gnaschwitz GmbH, into WASAGCHEMIE Sythen GmbH and then reincorporated the latter into Westspreng GmbH in 2006. This merger aims to realize synergies related to market profile and administration, as well to optimally coordinate production capacities and product range.

The merger of the largest competitors in Europe and the consequent change in the market structure has prompted us to conduct a review of our position in the explosives business. A process was put in train towards the end of 2006 that encompasses, among other things, negotiations with potential co-operation partners. The aim is to integrate the company's explosives activities into a larger organization in order to raise competitiveness and to optimally exploit expansion opportunities in Eastern Europe.

Given the changes, the Explosive Division's subsidiaries affected by the restructuring are reported in the annual financial statements as "Discontinued activities".

The subsidiaries remaining in the Explosives Division either administer land that is also used to produce explosives or have so far performed general administrative tasks for the Explosives Division's companies.

Besides the three operating divisions, the Other Activities Division comprises the holding company as well as Group companies that either act on a purely Group-internal basis or perform non-operating administrative functions.

It is intended that the subsidiaries remaining in the Explosives Division following the conclusion of the repositioning in the explosives business will be allocated in future to the Other Activities Division.

Strategy and management

Group activities are managed on the basis of strategic objectives set by the Executive Board. The main objective is value-oriented growth that takes into account sales, profitability, and financial security. Key financial management benchmarks are based on: sales, operating earnings (EBITDA), earnings before tax, and leverage.

In order to ensure that all activities are oriented towards the primary objective, there are various strategic aims that are set down for the divisions in operating companies on a differentiated basis.

A core element of Group strategy in this respect is the focus of activities on specialty and niche markets. We concentrate mainly on market segments where we envisage structural changes in the market environment in coming years from which we can benefit as a result of our strate-

gic orientation. In doing so, we analyze the various current and anticipated trends in the development of global supply and demand according to specific products and product groups. This approach also encompasses potential changes in production technologies that might have an influence on the structure of supply in the market.

The concentration on specialty products necessitates the consistent focus of production and product philosophies to customer requirements. We do not produce mass products, but rather niche products or specialties individually tailored to particular customer requirements. All Group companies have to maintain in order to respond rapidly and in a targeted manner to changes in requirements and wishes. This is also reflected in partnership-based research and development work.

Not only the analysis of the future market environment but also expected customer needs represent the most important prerequisites for the expansion of our market position in relevant markets. In doing so, we concentrate mainly on markets where we anticipate an advantageous development in the supply structure accompanied by rising demand. Potential is opening up in the core Chemical-Pharmaceutical Raw Materials Division as a consequence of the continuing trend among major oil groups to withdraw from niche markets. This trend will be further bolstered through the introduction of new technologies in the refineries business.

We are already among the market leaders in Germany and Europe in many product groups. We now wish to use this as a basis for projecting the Group on an increasingly global basis, and to strengthen our activities in other regions. It is above all Southeast Asia that represents the focus of our efforts in this respect, since we already enjoy a very promising position and have oriented ourselves to further growth in this region.

The various business activities are managed and controlled on the basis of an extensive reporting system and close communications between the holding company and Group companies. Managing directors of the main companies inform the Executive Board at regular divisional meetings concerning current developments, ongoing projects, and business prospects. Subsequently, they together develop targets for individual business segments based on the strategic guidelines.

Besides the strategic management of Group activities, the allocation of funds and resources is the Group management's second key instrument. H&R WASAG AG bundles capital procurement, and takes decisions concerning the employment of both equity and borrowed funds, as part of short, medium, and long-term investment planning. Investment projects are subject to high benchmarks in terms of return on investment and payback periods, which are regarded as the most important criteria for capital employment.

Business development

The 2006 financial year was by far the most successful in our history. We benefited both from the outstanding positioning of the Group activities, and from market conditions that were better than the previous year. As it is our aim that our shareholders benefit from this extremely gratifying development, we are therefore proposing to increase the volume of dividend payments almost threefold.

Macroeconomic environment

The economic environment was mixed in 2006. Almost all major economies reported stable growth, albeit with notable regional variations. While Europe continued to gain momentum, growth slowed in other important economic regions.

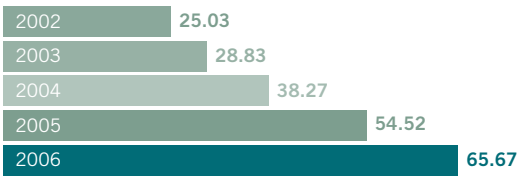
The GDP growth of the Eurozone was 2.7% in 2006, and is based on various factors. The main driver was the private sector, where spending on consumer goods increased significantly. However, spending on investment goods and exports also witnessed further growth compared with the previous year. Germany's gross domestic product growth of 2.7% was equivalent to the European average, while representing a strong increase compared with the previous year.

By way of contrast, growth in the USA and Japan weakened slightly, although it remained at a very good level. Economic performance has risen considerably in the growth markets of China and India.

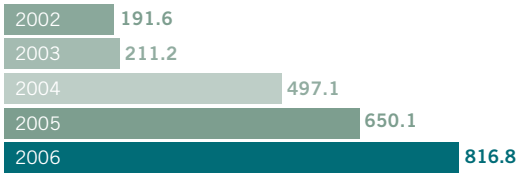
Key exchange rate relations reflected this trend. The US dollar appreciated against the euro during 2006.

Currency relation 2002 – 2006
(yearly average €/US$)

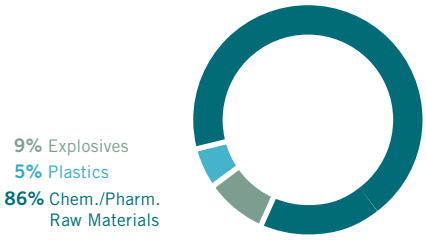
Crude oil price 2002 – 2006
(yearly average Brent US$/Barrel)



Net sales 2002 – 2006
(€ m)



Sales by divisions
(%)



Important raw materials markets ran a volatile course throughout the year. The price of crude oil reached a new record level in August, before falling signi-ficantly in the following months to end the year at a level that was below that of the previous year. On a year-average basis, however, the price for a barrel of Brent crude was 20% above the previous year's level. Many other raw materials markets stagnated or fell, mainly as a result of the slowing economic growth in key economies.

Acquisitions and divestments

Few acquisitions or divestments were performed during the financial year. Those that were performed had no major effects on the Group's asset, financing, or earnings positions in 2006.

While Sprengstoffwerke Gnaschwitz GmbH, which was acquired in 2005, was consolidated for the first time from as early as December 31, 2005, the company was not included in the consolidated income statement until the financial year just past.

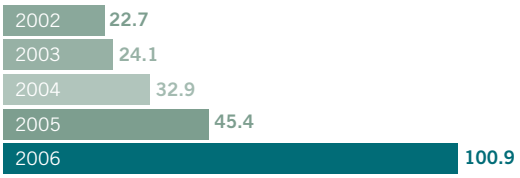
One divestment concerned a production facility for chemical-pharmaceutical specialties in Great Britain that we acquired from BP in 2004. We sold the company via a management buyout, and we have repositioned the remaining activities in Great Britain. The purchase price for the sale of the company was financed via a loan agreement on a long-term basis. Key company assets serve as collateral.

Profitability

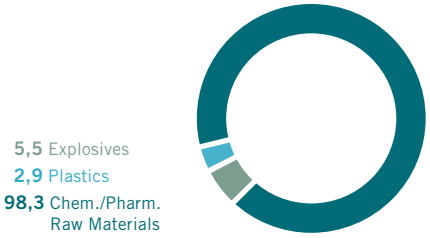
In the 2006 financial year, the H&R WASAG Group generated total revenue of € 816.8 million (2005: € 650.1 million). Of this amount, € 743.5 million (2005: € 595.0 million) was attributable to the continuing business areas, excluding the activities affected by the potential re-positioning within the Explosives Division.

All divisions raised their revenue contributions compared with the previous year. The overall increase in revenue of 26%, or 25% when considering only the continuing activities, is based mainly, however, on the growth within the

Operating result 2002 – 2006
(EBITDA in € m)



Operating result by divisions
(EBITDA in € m)



chemical-pharmaceutical specialties business. The division achieved revenue growth of 26% to € 700.5 million (2005: € 556.8 million), which contains both price and volume effects. This core division contributed 86% of total Group turnover in the financial year just past, and 94% of the turnover of continuing activities.

The Plastics Division also contributed a pleasing level of revenue growth, with an increase of 13% to € 43.0 million (2005: € 38.0 million), which reflected both the expansion of activities in plastic parts production as well as revenue growth in tools production. The share of this division's sales in the Group total in 2006 was 5%, or 6% of continuing activities.

Mainly as a result of the first-time integration of Sprengstoffwerke Gnaschwitz, Explosives Division revenue in 2006 rose by 33% to a total of € 73.3 million (2005: € 55.1 million), all of which is attributable to non-continuing activities. As a consequence, the division contributed a share of 9% to Group total turnover in 2006.

Shifts occurred also in the regional distribution of turnover. A large proportion of the expansion of revenue is attributable to Germany due to the existing sales structure in the Chemical-Pharmaceuticals Raw Materials Division with its concentration on the Hansen & Rosenthal Group companies based in Germany.

The Group generated total revenue in Germany of 66% of the consolidated total, or 67% expressed in terms of the continuing business activities. Sales equivalent to 21% (of total), or 20% of continuing activities, were attributable to other European countries, and 13% was generated in the remaining regions of the world, expressed both in terms of the current consolidated total as well as in terms of the continuing business activities.

The gratifying development of revenue formed a basis for the earnings growth we achieved in 2006.

Group operating earnings (EBITDA; earnings before interest, tax, depreciation and amortization) reached € 100.9 million (2005: € 45.4 million) and has thereby more than doubled compared with the previous year. Of this amount,

€ 94.1 million was attributable to the continuing business activities (2005: € 37.6 million). The EBITDA margin improved to 12.4% (2005: 7.0%), or 12.7% (2005: 6.3%) in terms of the remaining activities.

The rise compared to the previous year is based mainly on an improved gross margin (taking into account the inventory of finished goods and work in progress). The gross margin reached 32% in 2006, following 28% in 2005. Continuing business activities generated a gross margin of 30% (2005: 25%). The increase is attributable solely to the improved market environment in the Chemical-Pharmaceuticals Raw Materials Division, after core activities were heavily burdened in 2005 by the extreme developments in the crude oil market.

Divisional earnings experienced varied developments. The Chemical-Pharmaceutical Raw Materials Division raised operating profit from € 36.1 million in 2005 to € 98.3 million in 2006 as a result of strong growth and the improved market environment.

The two other divisions, however, recorded declines in earnings. The plastics activities generated operating profit of € 2.9 million (2005: € 4.2 million), which were burdened mainly by rising or materials costs that could not be passed on to customers in 2006.

Earnings from the Explosives Division were impacted negatively, primarily through extraordinary expenses for the ongoing restructuring. However, business activity also fell short of the previous year's development. The division overall achieved operating profit of € 5.5 million (2005: € 8.5 million). Activities earmarked for disposal generated earnings of € 6.9 million (2005: € 7.8 million).

Group earnings before interest and taxes (EBIT) of € 84.0 million were over three times as high as those achieved in the prior year (2005: € 28.0 million). Consolidated EBIT of € 81.2 million was attributable to the continuing activities (2005: € 23.4 million).

Result of the H&R WASAG Group

(€ m)

	2006	2005	Changes, %
Net sales	816.8	650.1	+26
Operating income (EBITDA)	100.9	45.4	+122
EBIT	84.0	28.0	+200
Earnings before income taxes	75.0	18.9	+297
Net income before minority interests	45.6	10.9	+318
Return on equity in %	38.5	14.5	+24.0%-Pts
Return on total capital in %	20.5	7.5	+13.0%-Pts
Return on Capital Employed (ROCE) in %	31.0	10.7	+20.3%-Pts

The repeated higher level of EBIT growth when compared with EBITDA growth reflects the fact that depreciation in 2006 rose only slightly compared with the previous year, and its rate of growth fell short of that of operating earnings.

The net interest result of € -9.0 million was only slightly better than that of the previous year (2005: € -9.1 million). A large portion of this amount was due to the activities intended for disposal within the Explosives Division. When considering solely the continuing business areas, the net interest result of € -7.5 million was significantly better than that of the prior year (2005: € -8.3 million).

Consolidated earnings before tax reached € 75.0 million (2005: € 18.9 million). This is equivalent to growth of almost 300% compared with the previous year. This increase was almost 400% when considering the continuing activities alone (2006: € 73.7 million; 2005: € 15.1 million). The pre-tax margin improved to 9.2% (2005: 2.9%), or 9.9% (2005: 2.5%) in terms of the remaining activities.

The tax rate in 2006 was 39% (2005: 43%) for the entire Group, and 40% (2005: 41%) with respect to the ongoing activities.

Relative earnings growth in terms of consolidated net profit was once again higher as a result of the lower tax rate. This figure rose by 318% to € 45.6 million (2005: € 10.9 million) with respect to all activities operated in the 2006 financial year, and € 44.6 million (2005: € 8.9 million) for the continuing areas.

The portion of earnings attributable to minority shareholders moved up to € 2.3 million (2005: € 1.0 million). The increase is mainly the result of payments made to minority shareholders of SYTHENGRUND Wasagchemie Grundstücksverwertungsges. Haltern mbH, who received a dividend-dependent equalization payment.

Earnings per share for the overall company reached €1.63 (2005: € 0.37) and are mainly characterized by the capital increase performed in December. We were required to retrospectively adjust the number of shares used in the 2005 calculation since the issue price for the new shares was significantly below the stock market price. This also resulted in an increased number of average shares in issue for the 2006 calculation, which considerably exceeded the actual number. Earnings per share attributable to the continuing areas amounted to € 1.60 (2005: € 0.30).

The Executive and Supervisory boards are proposing to the Shareholders' General Meeting on July 19, 2007 to increase the dividend payment per share from € 0.30 in 2005 to € 0.60 in 2006. Assuming that the resolution is accepted, the total dividend payout at € 16.4 million (2005: € 5.7 million) would be almost three times that of the previous year as a result of the increased number of shares following the capital increase.

This would still leave the Group with sufficient financial flexibility to fund the investment programs planned for the coming years. In this respect, it is intended that individual major projects will also be backed in future by external financing.

Financial position

Strong earnings growth has resulted in significant improvements in key aspects of the cash flow statement compared with the previous year.

Cash flow from operating activities rose to € 59.2 million (2005: € 20.5 million). Of this amount, € 59.4 million (2005: € 13.2 million) was attributable to continuing activities. The higher level of cash flow was utilized for both investments as well as for the repayment of Group liabilities.

Cash outflows for investments of € 25.9 million were below the level of the prior year (2005: € 34.7 million). Of this amount, € 19.7 million was attributable to the continuing business areas (2005: € 19.6 million). The main reason for the decline is the lower level of cash outflows for acquisitions. Cash outflows for corporate acquisitions in 2006 failed to reach the level of the previous year, which was influenced by the purchase of Sprengstoffwerke Gnaschwitz as well as the activities of ExxonMobil in Australia.

The greatest portion of investments was made in the expansion of the refinery locations at Salzbergen and Hamburg. Important projects comprised the expansion of the tank farm, and the modernization of the blending operation for lubricants in Salzbergen, as well as the creation of a new process control system at the location in Hamburg. Investments totaling € 16.8 million (2005: € 20.4 million) in tangible and intangible fixed assets were attributable to the Chemical-Pharmaceutical Raw Materials Division.

Investments made by the Plastics Division of € 4.4 million were at exactly the same level as the previous year (2005: € 4.4 million). The division invested mainly in the replacement and renewal of the injection molding production plant.

The Explosives Division expanded its investment activity. Expenditure on both tangible and intangible fixed assets totaled € 6.4 million in 2006 (2005: € 4.6 million), relating entirely to activities earmarked for disposal and comprising mainly the acquisition of new mixing and pumping vehicles.

A higher level of cash flow accompanied by a similarly high level of investment allowed for significant reduction in bank borrowings during the course of the year. The total cash outflow resulting from financing activity in 2006 was € 32.8 million (2005: cash inflow of € 9.4 million), or € 39.5 million (2005: cash inflow of € 1.6 million) relating to the continuing activities. On a net basis, € 31.9 million or € 38.7 million of this amount was used for the reduction of bank borrowings (2005: increase of bank borrowings of € 17.0 million or € 9.0 million).

Cash flow – summary

(€ m)

	2006	2005
Cash flow from operating activities	59.2	20.5
Cash flow from investing activities	-25.9	-34.7
Cash flow from financing activities	-32.8	9.4
Financial resources as of Dec. 31	13.7	13.8

Product samples

The cash inflow from financing activity also contains the funds from the capital increase that had been subscribed for as of the reporting date. The capital increase was not completed as of December 31, 2006. These totaled € 5.1 million. The total cash inflow from the capital increase, including the amounts already received in 2006, amounted to € 25.2 million in January 2007.

Asset and capital structure

Total assets were up by 10% to € 410.0 million as of the reporting date (December 31, 2005: € 372.7 million). Explosives Division assets earmarked for disposal totaled € 66.5 million as of the reporting date, so that total assets adjusted for this item amount to € 343.6 million, almost 8% below the previous year's level.

As of the reporting date, current assets amounted to € 264.2 million (December 31, 2005: € 190.0 million), representing 64% of total assets (December 31, 2005: 51%). The increase is due mainly to the fact that the Explosives Divisions assets reported as non-current in the previous year have now been reclassified under current assets due to the ongoing repositioning.

When adjusted for the assets intended for disposal, current assets amount to € 197.7 million, equivalent to 58% of total adjusted assets.

Working capital (total of inventories and trade receivables) of € 166.4 million (December 31, 2005: € 167.7 million) remained at the previous year's level. Net working capital (working capital minus trade payables) of € 132.6 million also stayed at the prior year level (December 31, 2005: € 133.3 million).

Non-current assets fell to € 145.9 million (December 31, 2005: € 182.7 million) as a result of the reclassification of the Explosive Divisions assets, and comprise 36% of total assets as of the reporting date (December 31, 2005: 49%), or 43% of total assets when adjusted for the assets held for disposal.

The reclassification of Explosive Division non-current assets as current assets intended for disposal resulted in a significant reduction in both goodwill and fixed assets. Major changes in both individual and sheet items and in the overall balance sheet structure also occurred on the liabilities side.

Balance sheet of H&R WASAG Group
(as of Dec. 31, € m)

Despite the reclassification as current of all liabilities intended for disposal, total current liabilities fell to € 128.3 million (December 31, 2005: € 132.2 million). In this case, the disposal concerns liabilities of € 22.1 million, which means that the current liabilities of the continuing businesses amount to € 106.2 million. As a consequence, current assets as of the reporting date comprise 31% of total assets (December 31, 2005: 36%), or 27% of total assets in terms of the remaining activities.

Current bank borrowings fell markedly: from € 44.3 million at the end of 2005 to € 18.6 million as of the 2006 reporting date.

The factoring financing instrument (sale of receivables) was utilized in an amount of € 16.9 million.

Non-current financial liabilities were also reduced. These amounted to € 84.2 million as of December 31, 2006 (December 31 2005: € 91.5 million). Overall non-current liabilities fell to € 163.3 million, and comprised 40% of total liabilities. Non-current liabilities are equivalent to 42% of total equity and liabilities after adjustment for the liabilities related to the assets held for disposal.

Total current and non-current bank borrowings amounted to € 102.8 million (December 31, 2005: € 135.8 million). As a consequence, net financial liabilities totaled € 85.9 million (December 31, 2005: € 122.1 million).

Equity rose by 58% to € 118.4 million (December 31, 2005: € 75.0 million) as a result of the strong earnings growth and the partially completed cash inflows as of the reporting date from the capital increase. The equity ratio rose to 29% (December 31, 2005: 20%). The net debt ratio (net gearing - ratio of net financial debt to equity) fell to 73% (December 31, 2005: 163%).

Production units Salzbergen

Utilizing potentials

Already in 2001, the H&R WASAG group held a promising strategic positioning. The three divisions concentrated on high-grade niche and specialty markets. In the following years, we consistently expanded all activities. The most significant step was taken in 2004 with the acquisition of the specialty refinery activities of BP. With the acquisition of the specialty refinery Hamburg-Neuhof, we have expanded our market position as one of the leading producers of chemical-pharmaceutical raw materials in Europe. In addition, with the integration of former BP activities in England, South Africa, Australia and Southeast Asia, we have gained a global orientation. Following on the years 2004 and 2005, which were characterized by exceptional developments on the crude oil markets and therefore by the resulting burdens on earnings, we were able to demonstrate the full potential of the Group for the first time in the past business year.

Development in the divisions

The Group focuses its activities on niche and specialty markets. Both last year's success and the extensive areas of growth potential identified for the future are based on this strategic orientation. All divisions are also characterized by a strong focus on customer requirements.

Chemical-Pharmaceutical Raw Materials Division

The Chemical-Pharmaceutical Raw Materials Division formed the basis of last year's significant growth at Group level. Its contribution to revenue rose 26% to € 700.5 million (2005: € 556.8 million).

This increase is due to a significant extent to the refinery locations in Hamburg and Salzbergen. Revenue at both of these locations benefited not only from the higher sales prices resulting from the crude oil price development, but also from an expansion of sales volumes that covered all products and product groups. The Hamburg location was also fully utilized for the first time.

Volumes of chemical-pharmaceutical specialty products sold rose by 15% to over 680,000 tons across both facilities. The label-free plasticizer product group developed particularly gratifyingly, with sales volumes doubling. Already today, we are feeling the effects of more stringent legislation that will come into effect in a few years, and that will significantly limit the extent to which the old generation of plasticizers can be implemented. The new generation of plasticizers that we manufacture is characterized by a high degree of quality accompanied by very favorable environmental characteristics, and finds particular use as an additive in tire production.

Chem./Pharm. Raw Materials – Sales and income
(€ m)

	2006	2005	Changes,%
Net sales	700.5	556.8	+26
Operating income (EBITDA)	98.3	36.1	+172
(% from net sales)	14.0	6.5	+7.5% Pts
Income before taxes*	82.2	16.9	+386
(% from net sales)	11.7	3.0	+8.7% Pts

* before write-offs which are neutral at the consolidation level

Sales by geographical area
(%)

Refinery production main product groups
(%)

The development of the division's activities abroad was mixed. We experienced a significant decline in sales volumes of over 70% in England. This drop, however, was in line with expectations. The background to this development was the closure of a third-party specialty refinery in England that had previously supplied us with products.

We have commenced with the restructuring of the local activities ahead of the closure. The first step was the relocation of the administration operation together with a major adjustment of the administrative workforce. In the summer of 2006, we also sold our production facility in Chorley as part of a management buyout. We have concentrated the remaining activities in the English market at the location in Tipton, and have bundled all of our production facilities there.

By way of contrast to the revenue decline in England in 2006, overseas regions developed favorably. Sales grew significantly in South Africa, Australia, and Southeast Asia. Growth was strongest in Asia. Organic sales growth in this region totaled 50%, while other regions benefited also from acquisitions. The expansion of sales in Australia was also due to the acquisition of activities from the oil group ExxonMobil that took place in 2005, but that were not recognized in the accounts on a full-year basis until 2006. The acquisition effect in South Africa relates to the acquisition of a Vaseline production plant that occurred in 2005.

Service activities involving the blending and filling of lubricants developed steadily. However, contrary to expectations, we were unable to win any significant new customers in this area.

At € 98.3 million, divisional operating earnings (EBITDA) reached a new record level (2005: € 36.1 million). Earnings growth lay significantly above revenue growth with an increase of 172%. Earnings of € 82.2 million before tax and depreciation which is neutral at Group level were even almost six times as high as those of the previous year (2005: € 16.9 million). This gratifying development is based in turn on the performance of both refinery locations in Hamburg and Salzbergen, which, along with the higher level of sales volumes, also benefited from an improved margin situation compared with the previous year.

Supply constraints in many product groups had already resulted in higher prices towards the end of 2005, and this trend continued in 2006. Production capacities in the USA and in the Gulf of Mexico were shut down until late in the previous year enabling work to be performed in the wake of the heavy storms in the autumn of 2005. In addition, major oil companies had closed specialty refineries in Europe in 2006, which had an impact on the situation in many countries. There are two main reasons for these closures.

On the one hand, facilities were shut down as the consequence of strategic considerations, whereby major oil companies are focusing increasingly on their large volume core businesses. Secondly, the introduction of new technologies in the production of base oil means that existing specialty refineries are being replaced by new facilities. These new facilities, however, concentrate only on the production of base oil without the production process generating as byproducts the specialties we distribute as core products.

A further key reason for the positive development in earnings lies in the focused implementation of Project 18, which was brought about through the integration of the former BP refinery in Hamburg. This project comprises a bundle of measures to optimize capacity utilization across both refineries, to increase value creation, and to lower the fixed cost base. The project aims to raise the earnings potential of both refineries by € 18 million by 2008. We have exceeded this goal already in 2006 as a result of the significant expansion of production volumes, with the by far the largest proportion of the additional earnings contribution due to the Hamburg location as planned. The project will come to an end during the course of the new business year.

The successor project was introduced in spring 2006. Since one objective of Project 18, namely higher capacity utilization, was achieved as early as the past year with the attainment of full capacity utilization in Hamburg, we are now concentrating on the expansion of capacities. The first step towards the goal of the new project, our so-called Project 40, is to establish a further significant expansion of existing capacities in Salzbergen and Hamburg through the selective extension of existing facilities.

This de-bottlenecking process is concentrating solely on those capacities within the refineries that limit the overall capacity of the locations through their throughput capacity. We are making targeted investments in these facilities that we have identified in order to raise their throughput rate and thereby directly expand the overall capacity of refinery production.

The project aims at raising the volume of primary products by a further 200,000 tons. The project should deliver earnings enhancements of € 40 million until 2009, both through concentrating on product groups where we see a higher future demand, and through the fact that the expansion will create a fixed cost base that rises at a lower rate. Investments totaling over € 50 million have been earmarked for the implementation of the measures.

We also pushed ahead in 2006 with the establishment of a marine lubricant centre on the site of the Hamburg refinery. We entered into an agreement with a cooperation partner to set up a logistics centre on the refinery site to load marine lubricants. The favorable location will provide us with great opportunities to acquire additional volumes.

The Salzbergen refinery location was certified in mid-2006 according to the ISO TS 16949 automotive norm. This satisfies the automotive industries highest regulatory norms. We are also planning the certification of the Hamburg location in parallel, which is scheduled for mid-2007.

The division focused its research and development activities in 2006 on further development and innovations in particular product groups, as well as on the optimization of production processes. Product-related activities comprised mainly researching the further development of the new label-free generation of plasticizers as well as the motor oil product group. With respect to the optimization of production processes, the aim in 2006 was also the exploitation and value creation of primary products occurring as part of the coupled production processes.

Plastics Division

The Plastics Division was burdened in 2006 by extraordinary developments, the effects of which could not be offset by the resumed acceleration of revenue growth.

The division outstripped the growth dynamics achieved in recent years with an increase in revenue of 13% to € 43.0 million (2005: € 38.0 million). The higher level of turnover was attributable both to the location in Coburg as well as to the joint-venture company in Wuxi/China, which generated 3% of the division's revenue in 2006. Both of the division's segments, plastic components production and machine tool manufacturing, contributed to this development. New orders received reached a new record level in 2006, and orders in hand are also at the highest level ever achieved.

Customers in the automotive supply industry continue to account for the major share of business activity by a wide margin. This customer group also forms the driving force behind revenue growth, especially due to the continuing trend to increasingly use plastic substitutes to replace metal components in the development of new vehicles.

Plastics – Sales and income

(€ m)

	2006	2005	Changes, %
Net sales	43.0	38.0	+13
Operating income (EBITDA)	2.9	4.2	-31
(% from net sales)	6.7	11.1	-4.4%-Pts
Income before taxes	-0.2	1.8	> -100
(% from net sales)	--	4.7	--

Sales by geographical area
(%)

Sales by customer segments
(%)

However, the gratifying expansion of sales failed to result in an improvement in earnings in 2006. Operating profit (EBITDA) of € 2.9 million (2005: € 4.2 million) was even significantly below that of the previous year, and the division closed the financial year with a loss of € -0.2 million (2005: € 1.8 million) at the pre-tax level.

Earnings were burdened partly by markedly higher expenses for plastics granules and purchased parts, which we failed to pass on to customers due to the prevailing competitive and pricing pressure as well as due to long-term supply agreements..

Divisional earnings were burdened further by the fact that the division had still not expanded production activities in China to a degree that allows the joint-venture location to deliver a positive earnings contribution. Capacity utilization lay significantly below expectations. This is due to the fact that important customer orders in China were not submitted on time since our customers had not yet received supply allocations from their customers.

The founding of a joint-venture in the Czech Republic has allowed the division to lay the foundation stone for the next step of internationalization. A production location in Eastern Europe is intended to expand access to regional automotive supply operations.

The division continued in 2006 to focus its development work on innovative products and production technologies in order to continue to increase the range of new, higher margin products. Activities concerned mainly developments in the gearing, punching lattice, insert, module and sub-assembly technology areas.

In 2006, we achieved our first success with the acquisition of an extensive order to manufacture electrical parking brakes that will be manufactured and assembled as a module in China.

Explosives Division

The first-time consolidation of Sprengstoffwerk Gnaschwitz GmbH, which was acquired at the end of 2005, has a major impact on the division's financial situation.

Further acquisitions also took place during the 2006 financial year that had no significant effects, however, on the reporting year just past. For instance, the division has expanded its capacities in the area of drilling and explosives services with the acquisition of a majority shareholding in the company K&N. Although the company has its headquarters in Poland, it offers its services also in Germany and the Czech Republic. A further acquisition concerned the Croatian company Detines that manufactures detonator systems, among other products. This acquisition has allowed the division to expand its activities into this important segment. Group companies have so far been required to make external purchases of all the systems they have required, which has resulted in a high degree of dependency.

Mainly as a result of the integration of Sprengstoffwerke Gnaschwitz, 2006 revenue rose to € 73.3 million (2005: € 55.1 million). The entirety of this turnover relates to activities intended for disposal. Besides the acquisition effect, the division generated a rising sales contribution from the expansion of business activities in Eastern European regions. This was due to, among other things, project transactions that served to facilitate our entrance into new markets.

The development of the service business was also gratifying. Demand for service packages that include all services related to explosives continues to grow. Customers in this area are able to generate costs and benefits from the outsourcing of drilling and explosives services. We have expanded this area with an eye to the future through the acquisition of the company K&N. In Poland we have also significantly added to our fleet of underground mining vehicles that carry pump emulsions.

By way of contrast, the division experienced falling capacity utilization in explosives production. This reflects the long period of cold weather at the start of the year that led to revenue shortfalls in the quarries business. Greater competitive pressure was felt in some regions that abated distinctly, however, towards the end of the year. These regions concerned the trading areas in Germany of the three warehouse locations used formerly by the division, which were relinquished to satisfy antitrust requirements as part of the acquisition of Sprengstoffwerk Gnaschwitz GmbH. The tunnel market in Austria was also affected.

Explosives – Sales and income

(€ m)

	2006	2005	Changes, %
Net sales	73.3	55.1	+33
Operating income (EBITDA)	5.5	8.5	-35
(% from net sales)	7.5	15.4	-7.9%-Pts
Income before taxes	-0.5	4.0	-4,5
(% from net sales)	--	7.3	--

Sales by geographical area
(%)

Sales by product groups
(%)

The cold weather period that lasted into the spring, as well as the regionally predominant intensification of competitive pressure, led to a decline in earnings. Operating earnings (EBITDA) fell to € 5.5 million (2005: € 8.5 million). On the basis of the activities intended for disposal alone, however, operating earnings of € 6.9 million (2005: € 7.8 million) almost reached the level of the previous year. The negative difference between the result of the entire division and that from the activities intended for disposal is based particularly on cost burdens from the ongoing repositioning process that have been incurred at the Group company SYTHENGRUND, among others. This company will remain within the Group, and is still allocated to the Explosives Division.

Pre-tax earnings of € -0.5 million (2005: € 4.0 million) also failed to reach the prior year level and were also significantly below expectations. Activities earmarked for disposal generated pre-tax earnings of € 1.3 million (2005: € 3.9 million) that were also affected by a higher interest expense arising from the financing of the acquisitions that were made.

The merger of the three main German divisional companies effected in 2005 failed to result in the earnings improvements budgeted for 2006. We anticipate positive synergy effects in this respect from the optimization of production capacities and the centralization of individual administrative areas. The delay in implementing the requisite steps resulted from the fact that the repositioning process absorbed extensive personnel resources, the fact that important synergy realization measures cannot be implemented until the repositioning has been concluded, and the new structure and co-operation partners have been established.

The division's extensive research and development activities comprise an important building block in our future success. Both the various explosives products as well as the production and application technologies are, to a high degree, individually tailored to the requirements of both customers and companies. We shall continue to further develop and adapt these.

Our research development in 2006 focused on optimizing technology for pumping vehicles that are used underground and are thus required to satisfy extreme require-

ments. Progress was also made in the production area with the automated production of boosters. The further development of explosives products focused on gelatinous explosive materials produced at the Gnaschwitz location. With respect to basic research, we signed a cooperation agreement with a university that provides know-how and research technologies.

The divisional company SYTHENGRUND has extensive silica sand reserves that we intend to extract and market in coming years. The extensive approvals process for the extraction of the sand was furthered in 2006 with the submission of the framework operating plan. We intend to process initial volumes in 2008.

The company is currently conducting negotiations with potential co-operation partners to secure the efficient processing and refinement of the raw sand and its subsequent marketing on a long-term basis.

Tank

Extraction unit refinery Hamburg

Developing potentials

We aim to position the Group as a worldwide leading provider of crude oil based specialty products. Many steps in this direction have already been taken. In 2006 we initiated a project for the expansion of existing refinery capacities in Salzbergen and Hamburg in order to achieve a further, considerable boost in production volume. At the same time, we are advancing growth in overseas regions. In addition to organic growth, the focus is also on taking over peripheral activities from major mineral oil corporations and on close cooperation with local companies. In the expansion of refinery production in Germany, as well as in our international expansion, our strategy will emphasize the products of the new generation of label-free plasticizers. The additional financial flexibility we have gained by discontinuing the civil explosives operations will be harnessed to expand the chemical-pharmaceutical core business. Today, we are already planning measures and investments geared to driving further growth in the next decade.

Employees

Our international expansion and the Group's future are based on the quality of our workforce. As a globally active growth company, we must ensure that our employees have the requisite expertise to meet our daily challenges.

The Group-wide number of employees rose only slightly, and ended the year at 1,821 (December 31, 2005: 1,811). Of this number, 506 were employed at foreign Group locations (December 31, 2005: 502).

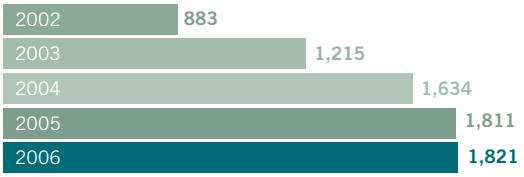
Furthermore, the 686 employees of the Chemical-Pharmaceutical Raw Materials Division (December 31, 2005: 766) comprised the largest share of the Group workforce. The decline in the number of employees in this division is mainly due to the restructuring of activities in England performed in 2006. This development also meant that the number of persons employed abroad in this division fell to 148 as of the reporting date (December 31, 2005: 222).

The number of employees within the Plastics Division rose markedly. Staff members employed in Coburg and in Wuxi/China rose almost 11% year-on-year to reach 441 as of December 31, 2006 (December 31, 2005: 399). The main reason for this increase was the expansion of activities in China. Employees abroad totaled 67 (December 31, 2005: 39).

The Explosives Division also expanded its workforce, with the number of employees as of the reporting date totaling 665 (December 31, 2005: 624). As with the Plastics Division, the expansion of the employee base within the explosives activities is focused on companies abroad. The number of persons employed abroad within the division rose to 291 as a result of the expansion in Eastern Europe (December 31, 2005: 241).

The number of young people undergoing training as of December 31, 2006 reached 74 (December 31, 2005: 70).

Employees
(2002 – 2006)



Disclosures in accordance with §§ 289 Paragraph 4, 315 Paragraph 4 of the German Commercial Code (HGB)

The largest shareholder of H&R WASAG AG is the Hansen & Rosenthal Group, which has its headquarters in Hamburg. The family-owned company has been active for several generations in the trading of crude-oil-based specialty products. Hansen & Rosenthal Group coordinate the distribution of most of our specialties produced in our specialty refineries.

Subscribed capital and shareholdings

H&R WASAG AG is a stock-exchange-listed company whose shares are traded in Frankfurt, Hamburg, and Düsseldorf, among other locations.

The subscribed capital of H&R WASAG AG amounted to € 69,850,426.68 as of December 31, 2006 and was divided into 27,323,112 ordinary bearer nil-par shares. Each share grants entitlement to one vote.

Since the placing of a capital increase was occurring at the time of the 2006/2007 financial year transition, the subscribed capital was not yet fully paid up as of the reporting date. As of December 31, 2006, deposits outstanding totaled € 16,111,888.87. These items are presented on a net basis in the consolidated balance sheet.

The 8,407,112 new ordinary shares arising from the capital increase that were entered in the commercial register on December 20, 2006 were underwritten by Dresdner Bank Aktiengesellschaft, Frankfurt am Main, with the obligation to offer them to shareholders of the company. The payment of the deposits outstanding occurred after the conclusion of the subscription period in January.

Mr. Nils Hansen held 39.37% of the voting rights as of April 1, 2002 on the basis of announcements as per § 21 of the Securities Trading Act (WpHG). Of this proportion, 34.95% was attributable to a shareholding held by Hansen & Rosenthal KG and its subsidiary H&R Beteiligung GmbH. Mr. Nils Hansen is the majority shareholder of Hansen & Rosenthal KG. Since this announcement, the company has received no further announcement from either Nils Hansen or Hansen & Rosenthal KG concerning either exceeding or falling below voting right thresholds as per § 21 of the Securities Trading Act (WpHG).

As a consequence of his position as a member of the Supervisory Board of the company, Nils Hansen announced, as per § 15 of the Securities Trading Act (WpHG), the purchase of 889,000 shares as of July 19, 2006 via H&R Beteiligung GmbH, as well as the subscription to 3,727,240 new shares from the capital increase on January 22, 2007 via H&R Beteiligung, and of 239,062 new shares from the capital increase on January 22, 2007 via his own person.

Since the Hansen & Rosenthal group, despite its minority shareholding, represents a stable majority of the voting rights based on average attendances at shareholders' general meetings of H&R WASAG AG, a relationship of dependence was assumed to exist also for the 2006 financial year, and a dependent company report was prepared in accordance with §312 of the Stock Corporation Act (AktG). There are no control or profit-transfer agreements for the benefit of a company belonging to the Hansen & Rosenthal Group.

At the conclusion of the dependent company report, the Executive Board of H&R WASAG AG makes the following statement: "H&R WASAG AG received an appropriate counter-performance for all legal transactions and measures listed in this report according to the circumstances that were known to us at the time when the legal transaction or measure was performed, or was not performed, and the company has not been disadvantaged by the fact that measures were performed or not performed. No disadvantage has arisen for H&R WASAG AG as the result of any relationship with the controlling or associated company."

Existing authorizations for capital resolutions

According to the company's Articles of Incorporation, the Management Board is authorized, with the consent of the Supervisory Board, to increase the issued capital by up to € 1,507,559.45 through the issue of one or several tranches of ordinary or preference nil-par bearer shares for cash or payment in kind by August 28, 2010, and to decide concerning the terms of the share issue with the agreement of the Supervisory Board (Approved Capital 2005). As a matter of principle, subscription rights must be granted to shareholders.

The Management Board is furthermore entitled, with the approval of the Supervisory Board, to increase the issued capital by up to € 1,000,000.00 through the issue of one or several tranches of ordinary or preference nil-par bearer shares for cash until June 27, 2011 for the purpose of issuing shares to employees of the company or its associated companies, and to decide, with the approval of the Supervisory Board, concerning terms of the share issue (Approved Capital 2006). In this case, subscription rights are excluded to shareholders.

The authorized share capital has been conditionally increased by up to € 7,500,000.00 through the issue of up to 2,933,745 new ordinary bearer shares (Conditional Capital 2002). The conditional rights issue will only be carried out to the extent that the bearers of convertible and/or option bonds which have been issued against cash until August 20, 2007 by the company or its direct or indirect domestic subsidiaries on the basis of the authorizing resolution passed by the shareholders' meeting on August 21, 2002, make use of their conversion or option rights, or the bearers of convertible bonds obliged to convert fulfill their obligation to convert, and to this extent no treasury shares are used to service the operation.

The Shareholders' General Meeting of June 20, 2006 resolved to cancel the above-mentioned conditional capital increase, and to replace it with a new conditional capital increase of up to € 7,500,000.00 through the issue of up to 2,933,745 new ordinary or preference nil-part bearer shares (Conditional Capital 2006). The entry in the commercial register has yet to be performed.

The issued capital can be conditionally increased by up to € 7,349,820.79 by the issue of up to 2,875,000 new preference shares with an arithmetic nominal value of approximately € 2.56 per share at an issue price of € 7.20 per share, which shall be dividend-entitled from the start of the financial year in which they are issued. The preference

shares are bearer shares. The total issue amount is € 20,700,000.00.This entails an exclusion of shareholder subscription rights. The conditional capital increase is intended to prepare for the merger of H&R WASAG AG with SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH, entered in the commercial register of the District Court of Gelsenkirchen under HR B 5757, through the acquisition of minority shares of SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH by way of a share exchange into preference shares of H&R WASAG AG.

The capital increase will be performed only to the extent that the minority shareholders exercise their rights to convert shares into preference shares. The Executive Board is authorized, with the approval of the Supervisory Board, to determine further details concerning the conditional capital increase and its execution.

The company is authorized, as the result of a resolution of the Shareholders' General Meeting of June 28, 2006, to acquire, with the approval of the Supervisory Board, its own ordinary and/or preference shares up to a total of 10% of the issued capital until December 27, 2007. The authorization may be exercised either by the company or by third parties on the company's behalf either wholly or in tranches, once or on several occasions, for either one single or several purposes. The acquired shares, together with other treasury shares in the company's ownership, or together with shares which are attributable to the company in accordance with §§ 71 a ff. of the Stock Corporation Act (AktG), may at no time exceed 10% of the issued share capital. Treasury shares may not be utilized for trading purposes.

The Executive Board may choose to acquire shares either via the stock market or via a public purchase offer. If the shares are purchased via the stock market, the amount paid by the company may diverge by no more than 15% from the average share prices (closing price of the H&R WASAG share in Xetra trading or a comparable successor system to the Xetra system on the Frankfurt Securities Exchange) for the last five stock exchange days before the acquisition of the shares. If the purchase is made via a public purchase offer, the amount offered by the company may diverge by no more than 20% from the average share prices (closing price of the H&R WASAG share in Xetra trading or a comparable successor system to the Xetra system on the Frankfurt Securities Exchange) for the last five stock exchange days before the announcement of the offer. Allocations must be pro rata if the purchase offer is oversubscribed. Preferential allocations may be made for small quantities of shares up to 100 shares offered per shareholder.

The Executive Board is entitled, among other things, to withdraw its own shares with the approval of the Supervisory Board and without a further resolution on the part of the Shareholders' General Meeting.

There are currently no stock repurchase plans in place.

Further information concerning equity capital and the existing capital resolutions can be found in the notes to the consolidated financial statements.

Management and controlling

Executive Board members are appointed and recalled in accordance with §§ 84, 85 of the Stock Corporation Act (AktG). Modifications to the Articles of Incorporation are performed on the basis of §§ 133, 179 of the Stock Corporation Act (AktG). However, the Supervisory Board is entitled to make resolutions concerning modifications to the Articles of Incorporation that concern only the wording without the approval of the Shareholders' General Meeting.

The overall remuneration of the Executive Board members comprises both a fixed and a variable component. The variable remuneration component is based on the Group's annual profit, adjusted for special effects. A special regulation relates to Management Board member Niels H. Hansen, who has declined to take up his claims to the variable remuneration component as a result of his position within the Hansen & Rosenthal Group. There are no pension claims currently outstanding with respect to the Executive Board members.

The extent and structure of Executive Board remuneration is based on the size and economic situation of the company. The remuneration system is oriented to the responsibilities of individual Executive Board members and provides an incentive for them to raise the value of the company on a sustainable basis.

Remuneration of Supervisory Board members is determined by the Shareholders' General Meeting, and is set out in § 15 of the Articles of Incorporation. The remuneration of the Supervisory Board also comprises fixed and variable components.

The Articles of Incorporation provide for an annual fixed salary of € 12,000.00 for Supervisory Board members. This remuneration rises by € 300.00 for each € 0.01 of dividend distributed in excess of € 0.10 per ordinary share. The Chairman of the Supervisory Board receives double these amounts, and the Deputy Chairman receives one and a half times these amounts.

Supervisory Board members additionally receive € 3,000.00 for committee activities. This amount doubles for Supervisory Board members who chair committees.

The remuneration of Executive Board and Supervisory Board members is set out on an individual basis and is broken down according to individual remuneration components for the 2006 financial year in the notes to the financial statements and on pages 21 and 22 in the annual report.

Additional disclosures

The syndicated loan agreement is the only significant agreement made by H&R WASAG AG that comprises an extraordinary right of cancellation in the instance of a significant change in the shareholder structure. In particular, the participating banks may cancel the agreement in the instance where a change in the shareholder structure results in a deterioration of credit quality when appraised on the basis of normal banking benchmarks.

Risk management

The syndicated loan agreement is the only significant agreement made by H&R WASAG AG that comprises an extraordinary right of cancellation in the instance of a significant change in the shareholder structure. In particular, the participating banks may cancel the agreement in the instance where a change in the shareholder structure results in a deterioration of credit quality when appraised on the basis of normal banking benchmarks.

Risk management system

The H&R WASAG Group is focusing on the expansion and exploitation of earnings and growth potential. Opportunities are compared against the related risks, such risks being inseparable from commercial activities. Where the company assumes significant risks, the aim is to minimize or to pass on potential damages as far as possible.

Balancing growth and earnings opportunities on the one hand with the risks pertaining to the company's earnings, financial, and assets positions on the other, forms an integral component of Group strategy and its value-oriented corporate management.

Risks must be identified and assessed at an early stage if they are to be managed efficiently. H&R WASAG utilizes a risk management system that allows the Executive Board to identify risks at an early stage that might jeopardize the company's existence, and to introduce the measures required to minimize related damage.

This involves attributing a potential level of damage and a related event risk to each key risk. These are calculated using probability scenarios, among other methods. Identical risks are aggregated.

Risks identified in individual Group companies are surveyed on annual basis and processed within the central risk controlling function. When new risks arise or risk parameters change, the risk catalogue is supplemented immediately. This means that it is always up-to-date.

In addition to this specific reporting system, current business developments are constantly compared with budgeted expectations at individual Group company level. This is based on detailed monthly earnings reporting. The Executive Board is also informed regularly at divisional meetings with business managers from key Group companies concerning current events as well as the risks and opportunities related to future developments.

The following section explains the key areas of risks related to our business operations and comments in further detail on the most important individual risks arising from the operating business. We focus on looking at prospective opportunities related to our future development in the outlook of the management report.

Key areas of risk

The risks have been divided into the following groups: strategic risks, value creation risks, market risks, financing and currency risks, personnel risks, as well as legal risks and environmental risks.

Our business is affected by a number of conditions that also relate to the overall business environment. Changes in the economic or other commercial conditions may affect sales markets and, as a consequence, also the Group's earnings, asset, or financial positions. Although the Group generates the majority of its sales in Germany, this reflects the existing sales cooperation with the companies of the Hansen & Rosenthal Group. The regional structure of the end-buyers is more diversified and is more strongly distributed among different regions.

With respect to sectors in which our own divisions are active, individual market developments may have effects on sales volumes and prices. These may particularly result from new production technologies and the introduction of alternative products or substitutes. We are constantly monitoring relevant markets, and, as a result of our close contact with the users of our products, we have the opportunity to react at an early stage to market developments as they emerge. We regard ourselves as able to react faster and in a more focused manner than the competition to potential changes in demand behavior as a result of the high degree of know-how we possess with respect to production and applications. The diversification of our product portfolio and the large number of various buyer industries also secures our independence from individual sector developments.

Competitive risks concern mainly the arrival of new suppliers on the global markets, as well as the expansion of existing suppliers in regional sales markets that are relevant for us. Suppliers might also initiate predatory competitive practices using aggressive sales policies to win market share. Our concentration on niche and specialty markets, and the leading positions that we hold in these markets, already provide us with a high degree of protection from the incursion of new competitors. In many instances, the customer-specific manufacturing of relevant products requires a high degree of know-how and many years of experience. Technology also comprises a further key a barrier to entry in related markets.

We operate production facilities around the world that in many cases are subject to extensive general and specific environmental requirements. Various rules and regulations also exist relating to production processes and products. A tightening of such regulations may result in rising investments or higher operating costs in order to adjust to the new situation.

Expansion through the acquisition of companies or production facilities also always entails risks that result from the integration of new activities into existing Group structures.

Significant specific risks

The following section describes the important specific risks relating to the operating business.

Most supply agreements concluded with customers relating to specialty products manufactured by the Chemical-Pharmaceutical Raw Materials Division's specialty refineries incorporate prices fixed for a period of maximum three months. A specialty refinery's production process, from the delivery of raw materials to the supply of the finished product to the customer, can last six to eight weeks. This means that rapid increases in raw materials costs cannot be passed on immediately to markets but only with a time delay. This may lead to a fall in both margins and earnings.

The raw materials processed in both Group refineries are crude-oil derivatives that are purchased on a US dollar basis. Raw materials costs are therefore predominantly dependent on developments in the crude oil markets, as well as changes in the US dollar/euro exchange rate. Raw materials expenses rose by € 80 million year-on-year in 2006 as a result of price developments, while the year-on-year development of exchange rates led to a reduction in raw materials expenses compared with 2005 of € 3 million.

Besides the negative effects on profitability, rising raw materials expenses also led to an increase in Group capital tied up in inventories and trade receivables (working capital), which can be financed through supplier credit facilities to only a limited extent. This gives rise to higher liquidity requirements. These are covered, as a rule, on a short-term basis through the drawdown of bank borrowings. Working capital, adjusted for the sale of receivables we conducted and the reclassification of items intended for disposal, continued to rise last year as a result of the development of raw materials prices. The related cash requirement was more than offset, however, by the higher, earnings-related cash flow.

The cartel office of the European Union initiated an investigation of suppliers in the market for paraffin in 2005. The measures have been justified on the basis of an initial suspicion concerning collusion that contravenes cartel law. Group company documents were also examined as part of this investigation, and interviews were held during the course of the past business year. It is currently impossible to issue specific statements regarding the status of inquiries or regarding the timing of the ending of investigations. As the result of a current legal opinion, we formed no provision as of December 31, 2006 for risks relating to the cartel procedure.

Several Group companies have profit-participation models that allow employees to receive a fixed portion of the company's profit in the form of wage and salary components. Since wages and salaries are not coupled to the development of area collective agreements, personnel expenses are partly flexible, allowing for a buffering of earnings burdens. We aim to extend these models to include further Group locations in the future.

A return to the area collective wage agreement or the failure of the planned introduction of profit-sharing models in other companies within the Group may result in lower profitability as a result of long-term rises in personnel expenses. The level of profit-sharing distribution reached a new record level as a result of the very favorable development of earnings, and the degree of acceptance of the remuneration system among the workforce has risen further.

Subsoil contaminated with harmful explosive-type materials was discovered already some time ago on a piece of land belonging to a Group company, which is used to produce explosive materials. These result from the periods of the First or Second World Wars when the site was placed under the auspices of the army and used to produce military explosives. The respective soil layers were removed and disposed of some years ago. However, the concentration of pollutants on the site over several decades resulted in contamination of groundwater that is gradually spreading. The company concerned is currently negotiating with the relevant authorities concerning further procedure. This entails the examination of various cleanup measures. The risk exists that these investigations or later cleanup measures will result in earnings burdens. The first measures were introduced in 2006 to examine potential decontamination instruments. These investigations are continuing in 2007.

The Chemical-Pharmaceutical Raw Materials Division's activities in Great Britain were restructured last year. Among other things, these measures included the sale of one production location. The remaining activities were given a new strategic direction and bundled at one location. The success of the restructuring depends on how rapidly the management can implement the measures required to secure the positioning of the activities. The risk cannot be excluded that the company fails to generate the positive earnings contributions that have been budgeted for coming years. The newly repositioned company failed to reach its earning target in 2006.

Assessment of the risk position

The overall risk position has not changed significantly during the past business year. We do not currently identify any developments that might jeopardize the company's continued existence, or that might negatively affect the company's earnings, financing, or asset positions on a sustainable basis. Despite this, the existence of such risks cannot be excluded entirely.

Key events following the reporting date

H&R WASAG AG successfully concluded the capital increase introduced in December 2006. Shareholders subscribed for over 96% of the shares on offer during the subscription period up to January 16, 2007. The remaining shares were sold on a discretionary basis as part of a private placing.

The company received a cash inflow from the capital increase of € 25.2 million on a gross basis. We intend to use these funds for the expansion of core activities in Asia.

We are pushing further ahead in the new business year with the process of repositioning in the explosives business. Specific negotiations have started with various parties.

On April 26, 2007, we sold with immediate effect the Group companies Westspreng GmbH and WANO Schwarzpulver GmbH to the Spanish-Italian Maxam/ Pravisani group. The purchase price is based on an enterprise value exceeding € 80 million.

We shall utilize the financial flexibility we have gained to push further forward with the expansion of the chemical-pharmaceutical core business.

Outlook

In 2006, we steered the Group into a new phase of its development that will be mainly oriented to expansion. The focus will be on the expansion of production capacities for chemical-pharmaceutical raw materials in our German refineries as well as the widening of international activities.

Opportunity and success factors

We will strongly orient activities in coming years to the growth potential offered by the Chemical-Pharmaceuticals Raw Materials Division. Our Group companies in this segment enjoy leading market positions and are oriented to further growth.

The related growth opportunities are based mainly on the fact that demand for our core products is constantly rising, while market supply is tending to decline. This is due to the fact is, on the one hand, that other suppliers are relinquishing these product areas on the basis of strategic considerations, since they represent for them only marginal activities and the companies are preferring to concentrate on their large volume core businesses. In many instances, the widespread introduction of new technologies for base oils will result in a situation whereby the core products important for us will no longer be produced at other companies that have been active as suppliers to date. As a result of these developments, we expect that we shall also be able to sell the volumes arising from the capacity expansions in the relevant markets.

A further key success factor remains our customer-orientation in connection with our ability to advance further product developments and innovations rapidly and in a focused manner. Many other suppliers in other markets concentrate solely on a few standard products that they sell in relatively large quantities, while we have positioned our production strategy and configuration facilities with a very strong focus on the flexible and efficient production even of smaller volumes.

The expansion of our regional presence plays a further important role in our future development. This also means that we need to secure our access to raw materials and specialty products in other regions in order to be successfully positioned in markets in the long term.

We are able to expand regionally through the acquisition of local production capacities, the acquisition of trading activities comprising the securing of regional supplies of raw materials, cooperation ventures with companies that are already active on a local basis, or through supplies from other regions. Depending on region and variations in management mentality, we perceive advantages for particular approaches that we have identified and wish to implement in the future.

The expansion of the service business in the Chemical-Pharmaceutical Raw Materials Division offers additional and significant opportunities. The related activities involving the blending and filling of lubricants provide greater potential for growth since we command a favorable cost

structures in this business. Major lubricants manufacturers are able to benefit from these cost advantages through entering into cooperation activities with us.

The expansion of this segment provides us with the advantage of an earnings component that is largely independent of the development of the crude oil price and that can thereby stabilize the overall profitability of the Group.

Developments in the business divisions

The focus for the current business year in the Chemical-Pharmaceutical Raw Materials Division is Project 40 as well as the expansion in Asia.

We aim to push ahead vigorously with the expansion of refinery capacities in order to be able to deliver additional volumes as fast as possible and thereby generate additional earnings potential. In doing so, we shall work together with a number of different suppliers and service providers that help us with the implementation of the measures identified.

A number of suppliers have already informed us of delays in the provision of plant components, particularly due to the shortage of metals and other raw materials in the global market. This means that the first capacity expansions will are expected to realized as of 2008.

The expansion of existing activities in Asia will be pursued by various courses of action. Firstly, we are planning the acquisition of further activities from major oil companies and, secondly, we wish to increase our range of specialty products in cooperation with local companies.

We shall focus in this respect on the label-free plasticizers product group. Greater sales potential exists for our new generation of plasticizers as a result of the upcoming changes in legislation in many Asian countries. Our aim is to produce the volumes required for the Asian market locally.

With respect to services activities, we aim to acquire new customers, in particular for the production of marine lubricants at the Hamburg location.

The division's earnings will depend largely on the development of the profit margin. This in turn will be affected mainly by the development of raw materials prices and the competitive situation.

While we are unable to forecast the development of raw materials prices as a result of the unpredictable volatility in crude oil markets, we anticipate a further increase in competitive pressure in 2007 compared with the previous year, since other suppliers' capacities that were temporarily withdrawn from the market are back in production again. We also note that Eastern European suppliers are making great efforts to distribute their products in Western Europe. It is impossible to predict the extent to which these trends can be compensated by other developments.

In 2007 the Plastics Division will concentrate on the implementation of measures to boost profitability.

The very pleasing level of the order book leads us to assume that the division will increase revenue once again in the new business year, which should create the basis for a turnaround in the earnings position.

Our aim for 2007 in this respect is to pass on as quickly as possible to customers the anticipated increase in the cost basis for granules and purchased components (in particular metals), in order to prevent a further deterioration in margins. The Plastic Division's earnings in 2007 will be particularly affected by the extent and timing of our ability to implement the price adjustments required.

We are aiming at the same time to make greater use of our competitive advantages based on Group companies' extensive know-how, and the increased marketing of innovative product and production technologies. We intend to counter declining margins for products in saturated markets through the expansion of our range of products in the gearing, punching lattice, insert, module and sub-assembly technology areas.

The high level of the order book for the location in China means that we anticipate that the joint-venture company will make a positive earnings contribution in the new financial year.

Overall statement concerning prospective developments

The medium- and long-term growth prospects for revenue and earnings are based on projects that are already underway or are planned. We aim, for instance, to almost double our earnings potential in the Chemical-Pharmaceutical Raw Materials Division alone in the next few years.

The development of the earnings in the individual financial years will depend, however, on external factors on which the Group can exert no influence.

As a result of the uncertainty with respect to the effects arising from various market movements, the Executive Board does not yet regard itself in a position to issue a specific forecast for revenue and earnings for the new business year.

This report contains future-oriented statements; in other words, information concerning events that lie in the future. These future-oriented statements can be identified by the use of formulations such as "expect", "intend", "plan", "aim", "become", "be able", "should" or similar terminology. These statements are based on current expectations and assumptions made by the Executive Board on the basis of information currently available.

Future developments and results depend on a number of factors, and contain various risks and uncertainties. For this reason, future-oriented statements should not be understood as guarantees with respect to the developments and results to which they make reference. H&R WASAG AG undertakes no obligation to realize these future-oriented statements or to be held liable for developments that differ from those expected.

Consolidated finanicial statements for the fiscal year ended December 31, 2006

H&R Wasag AG, Salzbergen

Consolidated balance sheet

as of December 31, 2006 (IFRS)

Assets	Notes	Dec. 31, 2006 T€	Dec. 31, 2005* T€
Short-term assets			
Cash and cash equivalents	1	16,831	13,773
Marketable securities		484	506
Trade accounts receivable	2	59,913	74,549
Receivables due from participation companies	3	1,275	1,148
Income tax claims		1,592	2,678
Inventories	4	106,439	93,110
Short-term prepaid expenses and other short-term assets	5	11,196	4,272
Discontinued activities	44	66,460	0
Short-term assets, total		**264,190**	**190,036**
Long-term assets			
Property, plant and equipment / Fixed assets	6	89,583	105,889
Goodwill	7	35,142	49,871
Other intangible assets	7	1,179	605
Shares in at-equity reported shareholdings	8	29	428
Other financial assets	8	6,107	7,321
Long-term prepaid expenses and other long-term assets	9	7,111	7,545
Deferred income taxes	10	6,718	11,009
Long-term assets, total		**145,869**	**182,668**
Total Assets		**410,059**	**372,704**

* previous year adjusted

Equity and liabilities	Notes	Dec. 31, 2006 T€	Dec. 31, 2005* T€
Short-term liabilities			
Short-term borrowings and current portion of long-term borrowings	11	18,561	44,319
Trade accounts payable	12	33,796	34,376
Liabilities due to companies in which a participating interest is held		--	146
Advanced payments received		439	225
Income tax liabilities		4,766	4,961
Short-term provisions	13	31,179	32,227
Other short-term liabilities	14	17,382	15,770
Short-term deferred income	15	72	127
Liabilities connected with discontinued activities	44	22,126	0
Short-term liabilities, total		**128,321**	**132,151**
Long-term liablities			
Trade accounts payable		104	--
Long-term borrowings	16	84,218	91,520
Pension provisions	17	49,775	50,844
Other long-term provisions	18	9,703	8,847
Other long-term liabilities	19	11,460	11,414
Long-term deferred income	20	317	497
Defferred income taxes	10	7,714	2,471
Long-term liablities, total		**163,291**	**165,593**
Shareholders' equity			
Subscribed capital	21	53,739	48,358
Capital reserve	22	2,580	2,823
Other reserves	23	685	255
Consolidated retained earnings	24	56,625	19,030
Foreign currency translation adjustments		72	1,374
Minority interests	25	4,746	3,120
Shareholders' equity, total		**118,447**	**74,960**
Total Shareholders' equity and liabilities		**410,059**	**372,704**

Consolidated income statement

for the fiscal year ended December 31, 2006 (IFRS)

		Continuing activities		Discontinued activities		Total	
	Notes	Jan. 1 - Dec. 31, 2006 T€	Jan. 1 - Dec. 31, 2005 T€	Jan. 1 - Dec. 31, 2006 T€	Jan. 1 - Dec. 31, 2005 T€	Jan. 1 - Dec. 31, 2006 T€	Jan. 1 - Dec. 31, 2005 T€
Net sales	27	**743,472**	**594,979**	**73,345**	**55,094**	**816,817**	650,073
Other operating income	28	19,904	24,275	2,786	2,282	22,690	26,557
Changes in inventories of finished goods and work in progress		29,382	7,459	555	185	29,937	7,644
Material costs	29	-538,847	-449,746	-33,940	-21,350	-572,787	-471,096
a) Raw materials and supplies		-516,475	-428,880	-31,819	-20,279	-548,294	-449,159
b) Purchased services		-22,372	-20,866	-2,121	-1,071	-24,493	-21,937
Personnel expenses	30	-71,860	-62,273	-20,791	-16,136	-92,651	-78,409
a) Wages and salaries		-59,716	-52,764	-16,598	-13,010	-76,314	-65,774
b) Social security payments and expenses for pensions and for support		-12,144	-9,509	-4,193	-3,126	-16,337	-12,635
Depreciation and amortization		-12,886	-13,327	-4,025	-3,144	-16,911	-16,471
Amortization of goodwill		--	-882	--	--	--	-882
Other operating expenses	31	-87,058	-77,118	-15,096	-12,437	-102,154	-89,555
Income from operations		**82,107**	**23,367**	**2,834**	**4,494**	**84,941**	**27,861**
Net interest result	32	-7,483	-8,311	-1,540	-790	-9,023	-9,101
Result of at-equity reported shareholdings		--	1	-3	148	-3	149
Other financial result		-914	39	--	--	-914	39
Income before income taxes and minority interests		**73,710**	**15,096**	**1,291**	**3,852**	**75,001**	**18,948**
Taxes on earnings and income		-29,126	-6,239	-296	-1,824	-29,422	-8,063
Income before minority interests		**44,584**	**8,857**	**995**	**2,028**	**45,579**	**10,885**
Minority interests	33	-2,132	-1,026	-177	--	-2,309	-1,026
Net income		**42,452**	**7,831**	**818**	**2,028**	**43,270**	**9,859**
Basic earnings per share, €	34	1.60	0.30	0.03	0.07	1.63	0.37
Diluted earnings per share, €	34	1.60	0.30	0.03	0.07	1.63	0.37

Consolidated cash flow statement

for the fiscal year ended December 31, 2006 (IFRS)

		Jan. 1 – Dec. 31, 2006			Jan. 1 – Dec. 31, 2005		
		Discontinued activities T€	Continuing activities T€	Total T€	Discontinued activities T€	Continuing activities T€	Total T€
1.	Income before income taxes, minority interests and interest result	2,835	81,189	84,024	2,008	25,375	27,383
2. +/-	Depreciation / write-ups of fixed assets	4,025	12,887	16,912	3,143	14,210	17,353
3. +/-	Changes in long-term provisions	-67	1,127	1,060	1,056	-4,042	-2,986
4. +/-	Interest received/paid	-1,506	-4,174	-5,680	-789	-5,119	-5,908
5. +/-	Income tax received/paid	-295	-18,842	-19,137	-1,831	331	-1,500
6. +/-	Other non-cash expenses and income	-41	1,024	983	0	0	--
7. +/-	Changes in short-term provisions	-718	-2,235	-2,953	-1,722	8,593	6,871
8. -/+	Result from disposal of fixed assets	-312	-132	-444	-170	-3,762	-3,932
9. -/+	Changes in inventories and trade receivables as well as other assets not attributable to investing or financing activities	-847	-19,703	-20,550	-2,086	-18,564	-20,650
10. +/-	Changes in trade payables and other liabilities not attributable to investing or financing activities	-3,290	8,269	4,979	7,699	-3,836	3,863
11. =	**Cash-flow from operating activities**	**-216**	**59,410**	**59,194**	**7,308**	**13,186**	**20,494**
12. -	Acquisitions (asset and share deal)	-3,020	-2,477	-5,497	-10,260	-2,089	-12,349
13. +	Disposal of companies	398	0	398	-323	323	--
14. +	Proceeds from disposal of property, plant and equipment	302	1,200	1,502	112	7,174	7,286
15. -	Capital expenditures for property, plant and equipment	-3,914	-17,394	-21,308	-4,479	-22,384	-26,863
16. +	Proceeds from disposal of intangible assets	0	0	--	0	0	--
17. -	Capital expenditures for intangible assets	-41	-1,238	-1,279	-36	-3,565	-3,601
18. +	Proceeds from disposal of financial assets	0	0	--	-91	691	600
19. +	Proceeds from financial assets	54	49	103	0	0	--
20. +/-	Currency conversion	-14	148	134	9	252	261
21. =	**Cash-flow from investing activities (Sum 12. to 20.)**	**-6,235**	**-19,712**	**-25,947**	**-15,068**	**-19,598**	**-34,666**
22. -	Payment of H&R WASAG AG dividend	0	-5,675	-5,675	0	-5,675	-5,675
23. +	Capital increase	0	5,138	5,138	0	0	--
24. +/-	Income/expenditure relating to minority shareholders	-160	-254	-414	-160	-1,758	-1,918
25. -	Repayment of financial liabilities	-1,394	-60,134	-61,528	-1,689	-16,063	-17,752
26. +	Proceeds from financial liabilities	8,195	21,455	29,650	9,711	25,055	34,766
27. =	**Cash flow from financing activities (Sum 22. to 26.)**	**6,641**	**-39,470**	**-32,829**	**7,862**	**1,559**	**9,421**
28. +/-	Net change in financial resources	190	228	418	102	-4,853	-4,751
29. +	Financial resources at the beginning of year	896	12,877	13,773	496	17,384	17,880
30. +/-	Changes due to currency conversion	2	-504	-502	0	449	449
31. +	Change to group of consolidated companies	15	-1	14	297	-103	194
32. =	**Financial resources at the end of year**	**1,103**	**12,600**	**13,703**	**895**	**12,877**	**13,772**
	Short-term financial resources	1,103	16,832	17,935	895	12,878	13,773
	Overdraft	0	-4,232	-4,232	0	-1	-1
	Financial resources	**1,103**	**12,600**	**13,703**	**895**	**12,877**	**13,772**

Consolidated statement of changes in shareholders' equity[1)]

for the fiscal year ended December 31, 2006 (IFRS)

2006	Subscribed capital T€	Capital reserves T€	Other reserves: Valuation of financial assets T€	Other reserves: Cash-Flow-Hedges in T€	Other reserves: Other reserves T€	Consolidated retained earnings T€	Currency conversions T€	Minority interests T€	Total T€
As of Jan. 1, 2006	**48,358**	**2,823**	**60**	**-115**	**310**	**19,030**	**1,374**	**3,120**	**74,960**
Dividends	--	--	--	--	--	-5,675	--	-1,235	**-6,910**
Capital increase	5.381	[2)]-243	--	--	--	--	--	--	**5,138**
Valuation of finacial assets	--	--	-19	397	--	--	--	--	**378**
Currency conversions	--	--	--	--	--	--	-1,302	-183	**-1,485**
Net income	--	--	--	--	--	43,270	--	2,309	**45,579**
First-time consolidation and disposals	--	--	--	--	52	--	--	735	**787**
As of Dec. 31, 2006	**53,739**	**2,580**	**41**	**282**	**362**	**56,625**	**72**	**4,746**	**118,447**

2005	Subscribed capital T€	Capital reserves T€	Other reserves: Valuation of financial assets T€	Other reserves: Cash-Flow-Hedges in T€	Other reserves: Other reserves T€	Consolidated retained earnings T€	Currency conversions T€	Minority interests T€	Total T€
As of Jan. 1, 2005	**48,358**	**2,823**	**62**	**0**	**14,614**	**14,826**	**-189**	**3,833**	**84,327**
Adjustments IAS 8	--	--	--	--	-14,304	20	--	--	-14,284
As of Jan. 1, 2005 after adjustments IAS 8	**48,358**	**2,823**	**62**	**0**	**310**	**14,846**	**-189**	**3,833**	**70,043**
Dividends	--	--	--	--	--	-5.675	--	-1,885	**-7,560**
Valuation of finacial assets	--	--	-2	-115	--	--	--	--	**-117**
Currency conversions	--	--	--	--	--	--	1,563	180	**1,743**
Net income	--	--	--	--	--	9,859	--	1,026	**10,885**
Disposals	--	--	--	--	--	--	--	-34	**-34**
As of Dec. 31, 2005	**48,358**	**2,823**	**60**	**-115**	**310**	**19,030**	**1,374**	**3,120**	**74,960**

1) Previous year adjusted

2) Transaction costs

Notes to the consolidated financial statements

as of December 31, 2006 (IFRS)

Basic information

The listed company, H&R WASAG AG with its head office in Salzbergen (Germany), operates in various specialty chemicals markets through its subsidiaries. Activities comprise the production of chemical/pharmaceutical raw materials, the manufacture of precision, injection molded plastic parts and the development and production of industrial explosives.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as applied in the EU, and the applicable rules as set out in § 315a paragraph 1 of the German Commercial Code (HGB). The consolidated financial statements also correspond to all IFRS rules that came into force up to and including the reporting date.

To the extent that revised or new standards issued by the International Accounting Standards Board (IASB) are compulsory from January 1, 2006, they have not been voluntarily used in advance.

Besides the income statement, the balance sheet and the statement of cash flows, a statement of changes in equity is also included. In addition, information provided in the appendix contains segmental reporting.

The consolidated financial statements for 2006 were prepared in Euros (€). All the values shown are in thousands of Euros (T€) unless specified otherwise.

These financial statements refer to the 2006 financial year (January 1 to December 31).

Consolidation methods

All significant domestic and foreign subsidiaries controlled by H&R WASAG AG, have been included in the consolidated financial statements of H&R WASAG AG, i.e. where H&R WASAG AG has a direct or indirect majority of the voting rights and is able to derive a benefit from the activities of the company concerned due to its power of control.

H&R WASAG holds shares in some companies via trusts. These direct shareholdings are also consolidated fully, to the extent that a controlling relationship exists. The shareholding relationships are set out in the Appendix to the Notes to the Accounts.

Associated companies are reported according to the equity method. Four companies were treated by this method as at December 31, 2006. In accordance with IAS 39, other shareholdings are reported at market value or at historical costs if a market value can not be obtained.

Group of consolidated companies

A total of 25 domestic subsidiaries and 27 foreign subsidiaries were fully consolidated in the consolidated financial statements as of December 31, 2006.

Disclosures concerning indirect and direct subsidiaries of H&R WASAG AG, valued using the equity method, are presented in a separate appendix to the Notes to the Accounts.

Acquisitions

In 2006 financial year, the following subsidiaries were acquired or founded:

- Detines d.o.o., Zagreb, Croatia (Acquisition)
- SLOVBLAST s.r.o., Spiska Nova VES, Veches, Slovenia (Foundation)
- Przedsiebiorstwo Uslug Gorniczych „K&N“ Sp. z o.o., Swierki, Poland (Acquisition)
- Westera Ltd., Dniepropetroska, Ukraine (Foundation)

These companies were consolidated in financial 2006 for the first time. Due to the fact that the companies belong to the Explosives division, which is reported among "discontinued activities", their assets and liabilities were reported at the end of the financial year among "Assets held for disposal" and "Liabilities connected with assets held for disposal", in accordance with IFRS 5.

Company	Percentage of shares acquired	Activity	Time of realization of merger
Detines d.o.o., Zagreb, Croatia	100 %	Production of detonators	Jul. 1, 2006
SLOVBLAST s.r.o., Spiska Nova VES, Veches, Slovenia	100 %	Sale of explosives	Apr. 1, 2006
Przedsiebiorstwo Uslug Gorniczych „K&N“ Sp. z o.o., Swierki, Poland	65%	Drilling and blasting services	Apr. 1, 2006
Westera Ltd., Dniepropetroska, Ukraine	55%	Sale of explosives	Jun. 30, 2006

The purchase price for the acquisitions amounted to T€ 3,020.

The following assets and liabilities transferred to the H&R WASAG Group:

	T€
Cash and cash equivalents	15
Receivables and other assets	728
Inventories	152
Goodwill	2,730
Other assets	1,195
Liabilities	-1,815
	3,005
Minority interests	15
Purchase price	**3,020**

Goodwill was calculated through comparing acquired assets and liabilities with the acquisition price. The company entered the important market segment of detonator production through the acquisition of Detines d.o.o., Zagreb, Croatia, which is connected with considerable synergy effects in terms of the company's own consumption. The purchase of K&N allowed the company to enter the promising services business of drilling and blasting in the Polish and Czech markets.

The effects on the income statement arising from the first-time consolidation of the companies included for the first time in 2006 were of an immaterial scope. The result for the merged companies amounted to T€ -84 for the reporting period,

based on the assumption that the time of acquisition for all corporate mergers within this period lay at the start of this reporting period. The turnover for the merged companies amounted to T€ 2,682 for the reporting period, based on the assumption that the time of acquisition for all corporate mergers within this period lay at the start of this reporting period.

Further shares also acquired in an already fully consolidated subsidiary on the basis of a tranche of a put option exercised by minority shareholders in 2006. The purchase price for these shares amounted to T€ 2,477. The corresponding liability for this purchase price was booked retrospectively in 2006 in accordance with IAS 32 (please also refer to remarks under "Modifications to accounting policies"), so that the payment of the purchase price was booked against this liability.

Disposals

In 2006, we sold a company in Italy that sells explosives, as well as a company based in the United Kingdom that was owned by the Chemical-Pharmaceutical Raw Materials Division. At the disposal, a terminal consolidation profit of T€ -297 resulted. The acquisition price for the sale of the company in Great Britain was financed using a long-term loan.

The following assets and liabilities were disposed of in this connection:

	T€
Cash and cash equivalents	1
Receivables and other assets	2,205
Inventories	2,203
Other assets	1,522
Liabilities	-504

A purchase price of T€ 4,115 was generated in this connection, of which T€ 398 was to be paid for in cash. The discounted receivable from this portion of the purchase price amounted to T€ 3,717, to the extent that the purchase price was converted into a loan. A terminal consolidation loss of T€ 1,469 resulted on disposal.

Consolidation methods

The financial statements included in the consolidated financial statements have been drawn up using uniform accounting principles. The reporting date is the reporting date of the parent company.

For first-time consolidated companies, the time of transfer of control is the reporting date of the first time consolidation.

Capital consolidation

For subsidiaries consolidated for the first time in the Group financial statements, after March 31, 2004, capital consolidation in accordance with the acquisition method as per IFRS 3 has been carried out. In doing so, the purchase price is compared with the proportional revalued equity of the subsidiary at the time of the acquisition.

An assets-side differential amount remaining from this procedure is reported as an intangible asset in the goodwill item in the balance sheet.

Capitalized goodwill is not amortized systematically but is subject to an impairment test not only every year but also whenever there is reason to believe that an impairment of value has taken place.

Other consolidation methods

Receivables and payables are netted off, intercompany profits and losses eliminated and intercompany income is set off against the corresponding expenditure. Tax accruals and deferrals on temporary differences resulting from consolidation have been made correspondingly.

Currency conversion

Conversion of the financial statements of subsidiaries included in the consolidated statements and which have been prepared in foreign currencies is made in accordance with IAS 21 on the basis of the functional currency concept. As the subsidiaries work independently from a financial, economic and organizational point of view, the functional currency is the national currency of these companies in each case. The assets and liabilities are therefore converted in the consolidated financial statements at the mean rate of exchange on the balance sheet reference date, equity at historical rates and expenses and income at average rates. Any conversion differences resulting from this procedure are shown in a separate item under equity.

Conversion differences from monetary items of the parent company, which are categorised as part of the net investments in the foreign units, are booked against equity corresponding to IAS 21.32.

The main exchange rates used for the currency conversion were as follows:

	Balance sheet exchange rate 2006	Balance sheet exchange rate 2005	Average exchange rate 2006	Average exchange rate 2005
Australian dollars	1.6681	1.6145	1.6665	1.6326
British pound	0.6714	0.6870	0.6819	0.6840
Polish zloty	3.8413	3.8686	3.9035	4.0321
South African rand	9.2150	7.4890	8.5221	7.9164
Thai baht	46.7650	48.6150	47.5808	50.0860
Hungarian forint	251.675	252.6650	264.1697	248.0626
US Dollar	1.3181	1.1834	1.2559	1.2451

Accounting and valuation methods

Presentation of the balance sheet

The balance sheet is presented according to maturity and corresponding to IAS 1. Assets are reported as current assets if they are held for trading purposes, are intended for sale within the normal course of business within the business cycle, or it is expected that they will be realized within a period of 12 months following the reporting date. Liabilities are classified as current by way of analogy.

Cash and cash equivalents

Cash and cash equivalents (bank balances and cash in hand) are shown at their face value in the balance sheet.

Foreign exchange is valued at the rate of exchange on the date of the balance sheet.

Receivables and other assets

Trade receivables and receivables from companies with which a participation relationship exists are reported at historical costs. Identifiable risks are taken into account using appropriate value impairment adjustments.

Foreign exchange receivables are valued at the rate on the date of the balance sheet.

Sales of receivables are treated in the Group according to the guidelines of IAS 39 "Financial Instruments: Recognition and Measurement". This accounting standard stipulates that financial assets should be booked out if the contractual rights to the cash flows from these assets expire or the financial asset has been transferred. The H&R WASAG Group sells trade receivables with short-term maturities to banks on a revolving basis as part of factoring agreements. The receivables are booked out as soon as the companies have transferred their contractual rights from the financial assets (equitable assignment) and essentially all opportunities and risks connected with the property have been transferred.

Inventories

In accordance with IAS 2, those assets are reported among inventories, which are held for sale during the normal course of business (finished goods and merchandise), which are in the process of production for sale (work in progress) or which are consumed as part of the production or rendering of services (raw materials, consumables and supplies).

The valuation of inventories is carried at the lower of either historical costs, calculated on the basis of the sliding average method, or their realizable net disposal value, in other words, the disposal value achievable in the normal course of business minus estimated production and sales costs.

Manufacturing costs include the individual material and production costs directly attributable to the manufacturing process as well as an appropriate share of materials and production overheads and production-related administration overheads. Finance costs are not taken into account.

Assets held for disposal

"Assets held for disposal"/"discontinued activities" comprise assets that can be sold in their current condition and whose disposal is highly probable. These may be individual non-current assets, groups of assets (disposal groups), or components of companies.

Liabilities that are intended for disposal along with the assets in a sale transaction form a component of the disposal group or discontinued activity, and are also reported separately as "Liabilities connected with assets held for disposal".

Non-current assets held for disposal are no longer amortized, but recognized instead at fair value minus disposal costs, to the extent that this is lower than the carrying value.

Results from the measurement of individual assets or asset groups held for disposal are reported until the final disposal among the earnings from continuing activities.

In accordance with IFRS 5.32a, a subsidiary acquired solely with the intention of further disposal is qualified as a discontinued operation, and its assets and liabilities are reported separately on the asset and liability sides of the balance sheet respectively.

To the extent that an acquired subsidiary originally purchased without the intention of selling it, is later intended for disposal, the general criteria of IFRS 5 must be applied to assess whether it has the characteristics of a business area.

Fixed assets

Property, plant and equipment are reported at historical costs, minus scheduled, utilization-related depreciation as well as extraordinary value adjustments.

Depreciation of property, plant and equipment is carried out using the straight-line method. The following Group-wide useful lives are used for scheduled depreciation:

Buildings	25 years
Tank farms	25 years
Technical equipment and machinery	10 to 15 years
Other facilities	3 to 6 years
Operating and office equipment	3 to 6 years

Prospectively long-lasting value impairments, in excess of the utilization-related consumption of value, are reflected through extraordinary write-offs. Where the reason for an extraordinary write-off lapses, a corresponding write-up is carried out; in this instance, the increased book value resulting from the write-up is not permitted to exceed historical costs.

If property, plant and equipment is sold, decommissioned or scrapped, the profit or loss resulting from the disposal of facilities (the difference between the residual book value and the sales proceeds) is reported with other operating income or other operating expenditure.

Borrowing costs

Borrowing costs are booked through expenses in the period in which the borrowing expenditure arose. Borrowing costs are not capitalised.

Leasing

A lease is an agreement in which the lessor transfers to the lessee the right to use an asset for a specific period of time in return for payment or a series of payments.

The Group leases certain assets (leasing objects). Leases are classified as finance leases where the Group bears significant risks and benefits arising from the ownership of the leasing object. Finance lease assets are capitalized at the start of the lease and the lower of fair value of the leasing object or the present value of the minimum lease payments.

A lease liability of the same amount is recognized among non-current liabilities. Each is installment is split into an interest component and a redemption component, so that the lease liability is subject to a constant rate of interest. The interest component of the lease installment is recognized as an expense in the income statement. The asset held as part of the finance lease is depreciated over the shorter of the two following periods: the useful economic life of the asset or the duration of the lease.

Leases where a significant portion of the risks and opportunities connected with the ownership of the lease object remain with the lessor are classified as operating leases. Payments rendered as part of an operating lease are reported on a straight line basis over the duration of the lease in the income statement.

Goodwill as well as other intangible assets

Intangible assets are entered at cost in the balance sheet. Goodwill arising before March 31, 2004 is recognized according to IFRS 3.79 (in other words, the residual book values applying as of December 31, 2004 are utilized as cost).

All intangible assets except goodwill have determinable useful lives and are therefore amortized on a scheduled basis over their useful lives. Software is amortized on a straight line basis over three years. Long-lasting value impairments are reflected through extraordinary write-offs. If the reasons for unscheduled write-offs no longer apply, corresponding write-ups are applied that may not exceed amortized costs.

In accordance with IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), goodwill and intangible assets with an undetermined useful life are subject to an annual test for value impairment. Where events occur or circumstances chan-ge that may indicate potential value impairment, the value impairment test is also performed more regularly (please see also the remarks contained in Note 7). Value impairments to goodwill arising from impairment tests are reported immediately through the income statement in the depreciation item. Such write-downs may not be reversed at a later point.

Shares in at-equity reported shareholdings

Shares in at-equity reported shareholdings are initially reported at historical costs. In subsequent periods they are reported using updated proportional net asset valuations. As part of this process, the book values are adjusted every year to take into account proportional shares of results, dividends paid out and other adjustments in equity. Reported goodwill is shown in the valuation of the shareholding. Scheduled depreciation is not carried out for goodwill. Companies reported according to the equity method are subject to unscheduled write-downs if the achievable value the company is less than the book value.

Other financial assets

Other investments, securities held as fixed assets, and other loans are reported among other financial assets. Recognition for normal purchases or sales is on the trade date.

Other participating interests are shown at cost of acquisition in accordance with IAS 39 as it is not possible to determine a reliable market value insofar as these financial assets have no actively quoted market price, and other valuation methods failed to supply a more reliable fair value.

Securities held as fixed assets are classified as financial assets available for disposal in accordance with IAS 39. They are recognized at fair value both when first entered in the balance sheet as well as in subsequent periods. Measurement of fair value is performed as a rule by a third-party expert. The first-time valuation is performed on the trade date. Unrealized gains and losses are reported in a separate item within equity. The gain or loss is booked through the income statement on disposal.

Financial assets reported under Other loans are subject to IAS 39, and are classified as loans and receivables. These are valued at amortized cost. Amortized costs comprise the value of the first-time recognition minus redemptions, plus or minus cumulative amortization, any potential difference between the original amount and the amount repayable at maturity using the effective interest rate method, as well as minus any reductions for value impairments or non-collectibility.

Derivative financial instruments

Derivative financial instruments are reported in the balance sheet at market values under Other assets or under Other liabilities (please also refer to further remarks contained in Note 37).

Liabilities

Liabilities comprise financial liabilities, trade payables as well as other liabilities and deferred charges.

When liabilities are reported for the first time, they are entered at fair value. In subsequent periods, liabilities, with the exception of derivative financial instruments, are reported at historical costs. Liabilities related to finance leasing agreements are entered on the liabilities side of the balance sheet at the fair value of the leasing object or, if it is lower, the cash value of the minimum lease installments.

The deferred charges item includes primarily investment subsidies as well as fees received for the use of software and IT maintenance costs.

Provisions

In accordance with IAS 37, other provisions are only formed if a current legal or actual obligation exists as a result of a past event, an outflow of resources in connection with the fulfillment of this obligation is probable, and the size of the obligation can be reliably estimated.

Non-current provisions are reported at the discounted amount required to satisfy the provision on the reporting date.

The anniversary provisions are valued by the projected unit credit method in compliance with IAS 19.

Contractual obligations arising from rental agreements (e.g. demolition, renovation or clearance) are recognized as provisions, to the extent that a reliable estimate of the cost is possible, and the related resources will probably be utilized.

Restructuring provisions are created in accordance with IAS 37.70ff as soon as a company is able to present a detailed, formal restructuring plan and has given rise to the justified expectation among those affected that the restructuring measures will be carried out with respect to those affected through the start of the implementation of the plan or through the announcement of its key components.

Pensions and similar obligations

H&R WASAG Group retirement provisions, both contribution-based as well as performance-related, are carried out in accordance with the legal, fiscal and business circumstances in the relevant countries as required.

Pension provisions are determined by the projected unit credit method for performance-related pension schemes in accordance with IAS 19, taking into account future movements in salaries. If the actuarial gains and losses resulting

from the modification of the actuarial parameters exceed 10% of the higher amount of pension obligations at the start of the financial year, the amount exceeding the 10% limit is booked against income over the timeframe of the average residual service period of the active employees.

The interest portion contained in the transfer of the pension reserve is shown in interest result.

Minority interests

In accordance with IAS 27.33, minority interests are reported as a separate item within equity.

Profit and loss account

The profit and loss account has been prepared using the nature of expense method.

Realization of sales

Sales asr realized on the provision of the service or when the claim arises.

Contributions and subsidies

In accordance with IAS 20.24, public subsidies for assets are presented in the balance sheet as liabilities-side deferred items.

Deferred taxes

Deferred taxes are taken into account in accordance with IAS 12 for temporary differences between the balance sheet valuations of assets and liabilities and their valuations in the tax balance sheet. They are determined by means of the liability method based on the balance sheet. Deferred tax credits on loss carryforwards are capitalized to the probable value to which they can be used in future.

The calculation for determining deferred taxes is based on the expected tax rates at the time of their probable realization. A tax rate of 37.65% (previous year: 38,02%) was used for the present consolidated financial statements. The deferred tax of foreign companies was calculated using 29% as well as 30%. Deferred taxes are divided between

tax assets (deferred tax assets) and tax liabilities (deferred tax liabilities). They are always deemed to be long-term in accordance with IAS 1.70.

Contingent liabilities

Contingent liabilities are potential obligations towards third parties or current obligations where an outflow of resources is unlikely or whose extent cannot be determined reliably. As a matter of principle, contingent liabilities are not reported in the balance sheet. The obligation volumes for contingent liabilities detailed in the Notes to the Accounts correspond to the scope of liability existing on the balance sheet reporting date.

Discretionary decisions and estimates

The preparation of the consolidated financial statements entails, to a certain extent, making assumptions and estimates that have effects on the reported measurements of assets, liabilities, income, and expenses, as well as contingent liabilities during the reporting period.

In the case of assets intended for disposal it should be determined whether the assets can be sold in their current condition and whether their disposal is very probable. If this is the case, the assets and, as required, related borrowings should be reported and valued as "Assets or liabilities intended for disposal".

Among other things, these assumptions and estimates relate to the assessment of the value of intangible assets, the Group-standard determination of economic lives for tangible fixed assets, the collectability of receivables, as well as the accounting treatment and measurement of provisions, where the discount factor for pension provisions and similar obligations has a significant impact on the estimated value.

The assumptions and estimates are based on premises reflecting the current state of knowledge. This also reflects a currently realistic assessment of the future development of the commercial environment in the sectors and regions in which the Group is active. The actual outcomes of these amounts may differ from the estimated values as a result of developments of determining factors that deviate from these assumptions. In such instances, the assumptions and, if required, carrying values of the affected assets and liabilities are adjusted correspondingly.

We are not expecting any significant modification of the underlying assumptions and estimates at the time of the preparation of the consolidated financial statements, so that no major adjustments of the book values of the reported assets and liabilities are to be expected in the 2006 financial year from our current perspective.

Change in accounting and valuation methods

The International Accounting Standards Board (IASB) has adopted a series of modifications to the existing International Financial Reporting Standards (IFRS) as well as some new IFRS and IFRICs, whose application becomes mandatory from January 1, 2006.

The following IFRS were used for the first time in the H&R WASAG Group in the reporting year, and previous year's figures have been adapted according to IAS 8 in the instance that the new standard has an effect on the consolidated financial statements:

IFRS 6 Exploration for and Evaluation of Mineral Resources

Reported exploration and evaluation assets should be examined for value impairment in accordance with IFRS 6 and IAS 36. Amounts reported in the financial statements for the exploration and evaluation mineral resources as well as the related accounting and valuation methods should also be disclosed and explained in the notes to the financial statements. Disclosures are also required regarding liabilities, income and expenses, as well as cash flows from operating and investment activities arising from the exploration for, and evaluation of, mineral resources.

The first-time application of IFRS 6 had no effect on the consolidated financial statements of H&R WASAG AG.

IAS 19 Amendment (2004) Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures

This amendment primarily introduces an additional option for the reporting of actuarial gains and losses for particular pension plans. Actuarial gains and losses may accordingly be fully reported in a statement of recognized income and expense (SoRIE) outside the income statement, in other words, directly in equity.

More extensive disclosures in the notes to the accounts will also be required for pension obligations in the future.

Amendments regarding group plans and disclosures are mandatory, and require retrospective application for reporting periods beginning on or after January 1, 2006 in accordance with IAS 8.

We have elected initially not to exercise the "SoRIE option" that requires retrospective application in accordance with IAS 8. Apart from the required expansion of the disclosures in the notes the accounts, the first-time application of the amended version of IAS 19 has no effect on the consolidated financial statements of H&R WASAG AG.

IAS 32 Financial Instruments: Disclosure and Presentation

According to IAS 32, agreements that obligate a company to purchase its own equity instruments represent a financial liability to an amount equal to the present value of the purchase price. This also applies if the obligation is satisfied only by the exercise of an option right by the contractual partner, and irrespective of the probability of exercise.

H&R WASAG AG has been applying this standard since January 1, 2006, in harmony with the development in international accounting practice, and analogously to the accounting treatment of minority shareholders furnished with put options.

The figures from the previous year were adapted correspondingly. This gave rise to a reduction of equity capital of T€ 14,304 and a corresponding increase in other liabilities (of which non-current other liabilities: T€ 10,229 and T€ 4,075 other current liabilities) as of January 1, 2005.

Recognition is under current liabilities to the extent that the options can be exercised in 2007. The put options are limited by the conversion into preference shares, planned as part of conditional capital, to an exercise period up to December 31, 2010. The liability for the portion of the option that can be exercised from 2008 is reported among non-current liabilities (please also refer to Notes 14, 19, 23, 32).

IFRIC 4 Determining whether an Arrangement contains a Lease

Contracts legally designated as lease agreements must be examined to see whether they implicitly grant the purchaser a right of use to one or several specific assets. This interpretation applies in particular to transactions in the area of data processing outsourcing, the provision of network capacities in telecommunications agreements, as well as so-called take-or-pay agreements. Take-or-pay agreements obligate the purchaser to certain payments irrespective of whether the purchaser acquires the contractually determined products or utilizes the related services. These agreements occur within the group particularly in connection with energy, steam, and similar media and utility supply agreements. IAS 17 must be applied for the related classification and accounting treatment to the extent that the contract or a part of a contract is deemed to comprise a lease.

The interpretation is mandatory for financial years that begin on or after January 1, 2006.

The first-time application of this interpretation has no major effects on the consolidated financial statements of H&R WASAG AG with respect to the retrospectively adapted previous year's figures, and was limited as of January 1, 2005 mainly to the reclassification from receivables due from companies with which a participation relationship exists to fixed assets (€ 2.2 million). As of December 31, 2006, the first-time application resulted in an increase in capitalized assets and lease liabilities of € 2.8 million.

IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

This interpretation regulates the accounting treatment of investments in, and claims to, funds that were established to service obligations relating to reclamation, or the satisfaction of a decommissioning obligation. If the company controls, jointly controls, or exercises a significant degree of influence on the fund, the company's shares in the fund must be reported according to the relevant standards (IAS 27, IAS 28, IAS 31, SIC 12). If the company does not control, does not jointly control, or does not exercise a significant degree of influence on the fund, and the obligation to bear the cleanup costs lies with the company, the company must recognize the reimbursement claimed from the fund as a reimbursement in accordance with IAS 37.

The interpretation is mandatory for financial years that begin on or after January 1, 2006.

The first-time application of this interpretation had no effect on the consolidated financial statements of H&R WASAG AG.

IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

This interpretation takes up the decommissioning obligations for manufacturers of electrical and electronic equipment regulated in the European Union's Directive on Waste Electrical and Electronic Equipment (WE&EE), and discusses the question of when the provision for such obligations should be recognized. IFRIC 6 exclusively regulates the decommissioning of historical waste devices that have been sold to private households before August 13, 2005. The interpretation determines that, as far as waste devices are concerned, it is not the manufacture or sale of the historical household equipment that determines the obligation to form a provision on the part of the manufacturer, but rather the later active market participation that occurs when the EU guideline is implemented.

The application of IFRS 6 is mandatory for financial years that begin on or after December 1, 2005.

IFRIC 6 does not cover the question of the formation of provisions for historical waste equipment for commercial users, or of new waste equipment from private households. For this purpose there is, however, Interpretation RIC 2 of the Accounting Standards Committee of Germany (DRSC) "Obligation to decommission electrical and electronic equipment".

The first-time application of this interpretation had no effect on the consolidated financial statements of H&R WASAG AG.

Other amendments to IAS 39 (Cash-Flow Hedge Accounting, Financial Gurantee Contracts)

Amendments to IAS 39, Financial Instruments: Recognition and Measurement und IFRS 4, Insurance Contracts – Financial Guarantee Contracts.

The regulations resulting from the amendments of IAS 39 and IFRS 4 entail the recognition of liabilities in the balance sheet of the obligated company for obligations arising as part of financial guarantees in accordance with IAS 39.

A financial guarantee is defined as an agreement that obligates the guarantor to reimburse the warrantee either wholly or in part for damages arising from the default of its creditors. When the financial guarantee is first entered in the accounts, it is measured at fair value corresponding with IAS 39.43 in combination with IAS 39.AG4 (a). If the financial guarantee was issued as part of a normal market transaction, the fair value corresponds to the fee paid for the granting of the financial guarantee (even if it is still outstanding).

Subsequent measurement is performed in accordance with IAS 39.47 (c) in combination with IAS 39.AG4 (a) according to the higher amount of either the measurement as per IAS 37 of the measurement as per IAS 39.43 as part of first-time valuation, and amortized as per IAS 18.

The following exceptions exist with respect to the application of the above-described regulations concerning the accounting treatment of financial guarantees:

- Financial guarantees issued as part of the transfer of a financial asset (cf IAS 39.29-37 and IAS 39.AG47-AG52)

- Financial guarantees unconnected to the creditor's inability to pay in the narrow sense (credit derivatives according to IAS 39.3 and IAS 39.AG4 (b))

- In the case of financial guarantees where the guarantor has already declared earlier that it regards these guarantees as insurance contracts, and has already recognized them as insurance contracts as per IFRS 4, the guarantor can choose whether each financial guarantee is recognized according to IAS 39 or IFRS 4. The accounting method applied, however, is consequently irreversible (cf IAS 39.2 (e) in combination with IAS 39.AG4A as well as IFRS 4.4 (d)).

Amendments to IAS 39, Financial Instruments: Recognition and Measurement: Cash Flow Hedge Accounting of Forecast Intragroup Transactions

According to IAS 39, hedging transactions are permissible as a matter of principle only with third-party business partners. The modification also permits hedging transactions for group-internal transactions if the transaction currency is different from the functional currency of the contractual partner entering into the transaction, and an earnings effect arises in the IFRS consolidated financial statements.

The interpretation is mandatory for reporting periods that begin on or after January 1, 2006.

The first-time application of these amendments had no effects on the consolidated financial statements of H&R WASAG AG.

Amendment to IAS 21, The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation

This modification clarifies the requirements of IAS 21 with respect to the company's net investments in a foreign business operation. This means that the related requirements are also applicable, for example, to loans made by any subsidiaries (and not only by the parent company) to the foreign operation (IAS 21.15A). The same also applies if the net investment is effected in a currency that is neither the functional currency of the reporting company nor that of the foreign operation (IAS 21.33).

The amendment is mandatory for reporting periods that begin on or after January 1, 2006.

The first-time application of these amendments had no effects on the consolidated financial statements of H&R WASAG AG.

Other modifications

For reasons of clarity and to provide a better overview, "Other tax expenses" of T€1,249 (2005: T€ 1,046) were reported among Other operating expenses, and "Other capitalized services rendered for own account" of T€ 372 (2005: T€ 604) were reported among Other operating income. The figures from the previous year were adapted correspondingly.

New accounting regulations

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have adopted further standards and interpretations that are not yet mandatory for the 2006 financial year. They were not applied prematurely by the H&R WASAG Group. The H&R WASAG Group does not expect any major effects on the consolidated financial statements to emerge from the application of these rules. The analysis of the effects of the first-time application has not yet been concluded.

The following should be noted with respect to reporting periods commencing on or after January 1, 2007:

IFRS 7, Financial Instruments: Disclosures

This new IFRS standard concerns extensive disclosures in the notes to the accounts in connection with financial instruments that have hitherto been regulated by IAS 30 and (partially) IAS 32. It also contains numerous new disclosures in the notes concerning the qualitative and quantitative segmental reporting on risks connected with financial instruments. These new disclosures comprise particularly the extent of risks and their origin, the objectives, guidelines, and processes of the risk management system, as well as the valuation methods. Quantitative disclosures are required at least with respect to credit, liquidity, and market risks. Such disclosures should be based on information used for internal reporting for a company's key management (executive board level) (management approach).

The amendment is mandatory for reporting periods that begin on or after January 1, 2007. Earlier application is encouraged. The H&R WASAG Group has not yet concluded its analysis but assumes that no further major effects will result for the consolidated financial statements above and beyond the extensive additional disclosure requirements.

Amendment to IAS 1, Presentation of Financial Statements: Capital Disclosures

The amendment of IAS 1 obligates all companies (even those that are not financial services providers) to make disclosures in the notes the accounts concerning the management of equity capital (IAS 1.124A - 124C). Among other things, disclosure must be made concerning what the company regards as equity, whether it pursues its own objectives for equity capital, whether there is external regulation for equity, and whether these regulations are observed.

The amendment is mandatory for reporting periods that begin on or after January 1, 2007. Earlier application is encouraged. The H&R WASAG Group has not yet concluded the analysis but it assumes that there will be no further significant effects on the consolidated financial statements above and beyond the additional reporting requirements.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

This interpretation covers two special problems arising from the first-time application of IAS 29: the indexation of non-monetary assets and liabilities, as well as the corresponding adaptation of deferred tax to these items for the reporting and previous years. Since the requirements of IAS 29 should be applied as if the company had always operated in a hyperinflationary environment, non-monetary items in the opening balance sheet of the earliest reporting period should be adapted in such a way that account is taken of the effects of inflation from the time from which these items were entered until the accounting date of the reporting period. Indexation is performed on the basis of the price level prevailing on the reporting date. While deferred tax related to non-monetary items as of the reporting date should be reported and measured according to IAS 12, the non-monetary items should first be calculated on the basis of the price level of the previous year for the measurement of the deferred tax of the previous year. This should be used as the basis in a second step to calculate the temporary differences and resultant deferred tax to adapt the deferred tax to the price level of the reporting date.

The interpretation is mandatory for reporting periods commencing on or after March 1, 2006. The first-time application will have no major effects on the consolidated financial statements of H&R WASAG.

IFRIC 8, Scope of IFRS 2

IFRIC 8 applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. IFRS 2, Share-based Payment, therefore applies. The interpretation also concerns the measurement of unidentifiable goods or services received as part of share-based payment.

The interpretation is mandatory, and must be applied retrospectively, for periods commencing on or after May 1, 2006 as per IAS 8. Earlier application is encouraged. There are no share-based payment systems in place at H&R WASAG. The first-time application will have no major effects on the consolidated financial statements of H&R WASAG.

IFRIC 9, Reassessment of Embedded Derivatives

This interpretation of IAS 39 considers the questions as to whether and when a reassessment of the requirement to separate embedded derivatives is called for, and whether a first-time adopter of IFRS should make its assessment on the basis of the conditions that existed when the entity first became a party to the contract, or those prevailing when the entity adopts IFRS for the first time. This interpretation makes it clear that subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

The interpretation is mandatory for reporting periods commencing on or after June 1, 2006. The interpretation must be applied retrospectively. The first-time application will have no major effects on the consolidated financial statements of H&R WASAG.

IFRIC 10, Interim Financial Reporting and Impairment

This interpretation addresses the contradiction between IAS 34 and regulations concerning the treatment of value impairments to goodwill and certain financial assets. The interpretation establishes that impairments performed in interim reports to goodwill, equity instruments classified as held for disposal, as well as listed equity instruments not measured at fair value, may no longer be reversed in subsequent financial statements (annual or interim financial statements). IFRIC 10 should not be expanded by way of analogy to other areas with potential contradictions between IAS 34 and other standards.

The application of IFRIC 10 is mandatory for reporting periods beginning on or after November 1, 2006. Earlier application is encouraged. Application is retrospective. For goodwill, however, its application applies only for periods following the first-time application of the current IAS 36, and for the financial assets considered, application is not made until the first-time application of the measurement criteria of IAS 39. The first-time application will have no major effects on the consolidated financial statements of H&R WASAG.

IFRIC 11, IFRS 2 - Group and Treasury Share Transactions

This interpretation considers questions surrounding the treatment of share-based remuneration agreements where a company's own shares or shares issued by other group companies are granted by a company or its shareholders. IFRIC 11 sets out that the purchase of own shares by third parties in order to service obligations arising from share-based commitments has no effect on their categorization as equity-settled. IFRIC 11 also regulates that, where parent company shares are granted to employees of a subsidiary, a distinction should be made between whether the transaction is equity-settled or cash-settled, irrespective of whether the parent company's shares were granted by the parent company itself or a subsidiary. The interpretation will be applied prospectively for reporting periods commencing on or after March 1, 2007, and retrospectively in accordance with IAS 8. Earlier application is encouraged. There are no share-based payment systems in place at H&R WASAG. The first-time application will have no major effects on the consolidated financial statements of H&R WASAG.

Explanations to the consolidated balance sheet

(1) Cash and equivalents

	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Cash in hand	45	55
Checks	79	92
Bank balances	16,707	13,626
Total	**16,831**	**13,773**

Foreign currency balances are valued at the rate of exchange on the date of the balance sheet.

(2) Trade receivables

	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Trade receivables, gross	60,088	75,244
Value adjustments	-175	- 695
Total	**59,913**	**74,549**

Of trade accounts receivable, T€ 37,755 (previous year: T€ 41,493) has been pledged as collateral for loans.

Receivables from related parties are disclosed under Explanation 40.

The H&R WASAG Group sells trade receivables with short-term maturities to banks on a revolving basis as part of a factoring agreement. Transferred receivables amounted to € 16.9 million as of December 31, 2006 (2005: € 13.9 million).

(3) Receivables from companies with which a participation relationship exists

	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Schuetzen Powder L.L.C.	-- *)	112
Schmidtmann GmbH	-- *)	15
SRS EcoTherm GmbH	374	228
Westfalen Chemie GmbH & Co. KG	901	793
Total	**1,275**	**1,148**

*) reported under "Assets held for disposal"

(4) Inventories

	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Raw materials and supplies	23,507	33,423
Work in progress	35,139	21,325
Finished goods	47,700	38,262
Advance payments on inventories	93	100
Total	**106,439**	**93,110**

The book value of inventories reported at fair value minus sales expenses amounts to T€ 4,337 (previous year: T€ 8,376).

Value adjustments of T€ 1,763 (previous year: T€ 684) were reported as expenditure in the reporting period in accordance with IAS 2.34.

Inventories with a value of T€ 20,010 (previous year: T€ 65,204) have been pledged as security for liabilities.

(5) Prepaid expenses and deferred charges and other short-term assets

	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Loans	5,000	--
Receivables due from Deutsche Leasing AG	1,889	1,882
Executive Board bonus prepayment	1,500	--
Receivables due from the tax authorities arising from other tax	793	627
Short-term prepaid expenses and deferred charges	338	484
Other short-term assets	1,676	1,279
Total	**11,196**	**4,272**

The loan reported for the first time among current receivables in 2006 has a term of five years and ends on September 18, 2007. For this reason it was reclassified in 2006 from non-current financial assets to current financial assets. The loan carries an interest-rate consisting of 12-month EURIBOR plus a margin of 3.5%. Pledge agreements were concluded on securities in order to secure the loan.

Further information concerning receivables due from Deutsche Leasing AG can be found under Note 6.

The short-term prepaid expenses and deferred charges item contains pre-paid amounts for which the associated expenditure has to be allocated to the following year. The amount shown for this financial year relates essentially to insurance premiums, rental down-payments, and accrued IT maintenance fees.

Individual allowances amounting to T€ 72 (previous year: T€ 95) had been made for other short-term assets as of December 31, 2006.

(6) Fixed Assets

Developments 2006	Land / buildings T€	Technical equipment / machinery T€	Other equipment T€	Prepayments and construction in process T€	**Total T€**
Acquisition and production costs					
as of Jan. 1, 2006	56,182	150,239	33,022	6,368	**245,811**
Currency fluctuations	-131	-677	23	-2	**-787**
Purchases	-1,639	-1,073	-422	-302	**-3,436**
Sales	410	251	67	--	**728**
Additions	533	10,737	2,804	13,016	**27,090**
Disposals	-611	-2,849	-1,105	-86	**-4,651**
Transfers	158	6,527	421	-7,112	**-6**
re-classification IFRS 5	-20,878	-35,201	-18,230	-1,542	**-75,851**
as of Dec. 31, 2006	34,024	127,954	16,580	10,340	**188,898**
Cumulative depreciation					
as of Jan. 1, 2006	22,153	92,785	24,984	--	**139,922**
Currency fluctuations	-8	-75	35	--	**-48**
Sales	-921	-700	-295	--	**-1,916**
Additions	1,818	10,783	2,875	--	**15,476**
Disposals	-14	-2,561	-1,022	--	**-3,597**
Value adjustments according to IAS 36	--	805	--	--	**805**
Transfers	--	702	-702	--	**--**
re-classification IFRS 5	-9,838	-28,201	-13,288	--	**-51,327**
as of Dec. 31, 2006	13,190	73,538	12,587	--	**99,315**
Net book values					
as of Dec. 31, 2006	20,834	54,416	3,993	10,340	**89,583**
as of Dec. 31, 2005	34,029	57,454	8,038	6,368	**105,889**

Developments 2005	Land / buildings T€	Technical equipment / machinery T€	Other equipment T€	Prepayments and construction in process T€	**Total T€**
Acquisition and production costs					
as of Jan. 1, 2005	51,992	126,609	30,213	7,620	**216,434**
Currency fluctuations	262	364	143	31	**800**
Change to group of consolidated companies	2,316	1,664	166	58	**4,204**
Additions	1,237	19,184	2,434	4,913	**27,768**
Disposals	-33	-1,260	-1,102	-568	**-2,963**
Transfers	408	3,678	1,168	-5,686	**-432**
as of Dec. 31, 2005	56,182	150,239	33,022	6,368	**245,811**
Cumulative depreciation					
as of Jan. 1, 2005	19,701	83,168	22,623	--	**125,492**
Currency fluctuations	25	162	81	--	**268**
Change to group of consolidated companies	--	--	--	--	**--**
Additions	2,448	10,634	2,997	--	**16,079**
Disposals	-21	-1,111	-785	--	**-1,917**
Write-ups	--	--	--	--	**--**
Transfers	--	-68	68	--	**--**
as of Dec. 31, 2005	22,153	92,785	24,984	--	**139,922**
Net book values					
as of Dec. 31, 2005	34,029	57,454	8,038	6,368	**105,889**
as of Dec. 31, 2004	32,291	43,441	7,590	7,620	**90,942**

Land and buildings relates mainly to production facilities belonging to group subsidiaries and technical equipment and machinery relates mainly to production facilities.

Land belonging to group subsidiary SYTHENGRUND holds underground silica sand reserves. Investigations have shown that there are reserves of approximately 13.5 million tons on the Sythengrund plot of land. The Group is anticipated to participate in the extraction work during 2008. The related master operating plan was forwarded to the relevant mining authorities in 2006. Taking into account the valuation conducted at the time of the vitrification assessment in 2001, and allowing for the updated volume of 13.5 million tons, the current market value can be assumed to be € 13.5 million. "Purchases" in 2006 includes tangible fixed assets acquired as part of the purchase of shares in Detines d.o.o., Zagreb,

Croatia and K&N Sp.z.o.o., Swierki, Poland, and under "Sales" in 2006 tangible fixed assets are reported that was sold as part of the disposal of shares in H&R ESP Limited, Miton Keynes, UK and Medex S.r.l., Sirmione, Italy.

Additions in 2006 comprise in particular investments for the conversion to sour gas and the new purchase of the process control system in the chemical-pharmaceuticals area (Hamburg refinery), the purchase of new injection-molding machines in the plastics area, as well as the acquisition of new drilling equipment in the explosives area.

Additions to prepayments rendered and plant under construction concern mainly the renovation of the lending operation in Salzbergen, the renewal of the process control system of the refinery in Hamburg, as well as the expansion of the tank and warehouse capacities in Australia.

The transfers relate predominantly to the investments in the residual gas combustion plant capitalized in 2005 as plant in construction (T€ 3,702), and the modernization of the blending operation in Salzbergen (T€ 546), as well as new production facilities, pumping vehicles, and mining vehicles belonging to the Explosives Division in Poland.

The disposals relate to the disposal of a developed piece of land in Australia and various items of office and operating equipment in the Explosives Division.

As of December 31, 2006, T€ 11,304 was secured through land charges (December 31, 2005: T€ 17,200). Movable non-current assets served as of December 31, 2006 in an amount of T€ 6,000 as collateral for bank borrowings (December 31, 2005: T€ 7,600).

Depreciation as per IAS 36 relates in an amount of T€ 800 to higher expenses as per IAS 36 for the production of a functionable residual gas combustion plant in the chemical-pharmaceutical division. The fair value was calculated on the basis of a defects report.

Leasing

The H&R WASAG Group has different financing and operating leasing agreements for technical equipment and operating and office equipment.

Finance leases concern mainly an agreement that does not have the legal form of a lease but satisfies the criteria of IFRIC 4, and is related to the supply of energy and water. The agreement has a term of approximately 20 years and ends on June 30, 2023.

Finance leases also relate to injection-molding machines in the Plastics Division, as well as to drilling equipment and various trucks in the Explosives Division. Extension options exist with respect to the injection-molding machines. If we do not exercise these options, we are obliged to acquire the machines.

The sum of leased assets economically attributable to the H&R WASAG Group according to IAS 17 is presented as follows:

Leasing	Technical equipment T€	Operating and office equipment T€	**Total T€**
Acquisition costs			
as of Jan. 1, 2006	3,774	462	**4,236**
Additions	4,498	1,919	**6,417**
Disposals	--	--	**--**
Change to group of consolidated companies	--	--	**--**
Currency fluctuations	-17	-5	**-22**
re-classification IFRS 5	-1,223	-2,376	**-3,599**
as of Dec. 31, 2006	7,032	--	**7,032**
Cumulative depreciation			
as of Jan. 1, 2006	1,158	257	**1,415**
Additions	641	154	**795**
Disposals	--	--	**--**
Change to group of consolidated companies	--	--	**--**
Currency fluctuations	2	--	**2**
re-classification IFRS 5	-207	-411	**-618**
as of Dec. 31, 2006	1,594	--	**1,594**
Net book values			
as of Dec. 31, 2006	5,438	--	**5,438**
as of Dec. 31, 2005	2,616	205	**2,821**

The following lease payments fell due in subsequent periods as a result of finance lease agreements (excluding the relinquished business area). The variable leasing instalments have been extrapolated on the basis of the last prevailing rate of interest.

	Up to 1 year		1 to 5 years		Longer than 5 years	
	Dec. 31, 2006 T€	Dec. 31, 2005 T€	Dec. 31, 2006 T€	Dec. 31, 2005 T€	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Minimum lease instalments	752	276	2,506	357	655	--
Future financing costs from finance leases	120	38	343	23	73	--
Present value of finance lease liability	632	238	2,163	334	582	--

A finance leasing agreement was also concluded with Deutsche Leasing AG, Bad Homburg, for an integrated ERP system for a total volume of € 4.5 million. The duration of the first leasing tranche of € 2.0 million commences on July 1, 2007.The maximum duration is 60 months depending on when the second tranche is drawn down (explanation 38).

Besides the finance lease contracts, lease and rental contracts were concluded that are to be classified as operating lease contracts by virtue of their contents, as the object of the lease or rental agreement is to be allocated to the lessor. These are mainly property, hardware, cars, fork-lift trucks, office equipment and tank wagons. The terms are between 2 and 5 years. The contracts usually end automatically after the contractual term expires.

Future minimum lease payments based on non-cancelable operating lease agreements become due in the subsequent periods as follows:

	Up to 1 year		1 to 5 years		Longer than 5 years	
	Dec. 31, 2006 T€	Dec. 31, 2005 T€	Dec. 31, 2006 T€	Dec. 31, 2005 T€	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Land / buildings	1,701	1,730	4,639	5,088	721	840
Technical equipment / Machinery	730	797	782	1,281	--	--
Other equipment	1,756	1,146	1,728	930	--	--

(7) Goodwill and Other intangible assets

Developments 2006	Goodwill T€	Other intagible assets: Concessions, trademarks T€	Software T€	Licences, franchises T€	Prepayments T€	Total T€	Total T€
Acquisition and production costs							
as of Jan. 1, 2006	63,761	1,142	1,928	676	--	3,746	67,507
Currency fluctuations	112	2	--	--	--	2	114
Acquisitions	--	481	--	--	--	481	481
Additions	2,730	332	404	172	363	1,271	4,001
Disposals	--	0	-466	-8	--	-474	-474
Transfers	--	6	--	--	--	6	6
re-classification IFRS 5	-19,179	-1,077	--	--	--	-1,077	-20,256
as of Dec. 31, 2006	**47,424**	**886**	**1,866**	**840**	**363**	**3,955**	**51,379**
Cumulative depreciation							
as of Jan. 1, 2006	13,890	975	1,658	508	--	3,141	17,031
Currency fluctuations	--	6	--	--	--	6	6
Change to group of consolidated companies	--	-2	--	--	--	-2	-2
Additions	--	119	369	142	--	630	630
Disposals	--	-2	-461	-6	--	-469	-469
Transfers	--	--	--	--	--	--	--
re-classification IFRS 5	-1,608	-530	--	--	--	-530	-2,138
as of Dec. 31, 2006	**12,282**	**566**	**1,566**	**644**	**--**	**2,776**	**15,058**
Net book values							
as of Dec. 31, 2006	35,142	320	300	196	363	1,179	36,321
as of Dec. 31, 2005	49,871	167	270	168	--	605	50,476

Developments 2005	Goodwill T€	Other intagible assets: Concessions, trademarks T€	Software T€	Licences, franchises T€	Total T€	Total T€
Acquisition and production costs						
as of Jan. 1, 2005	57,313	1,011	2,316	956	4,283	61,596
Currency fluctuations	521	4	--	--	4	525
Change to group of consolidated companies	--	2	--	--	2	2
Additions	7,339	174	157	78	409	7,748
Disposals	-1,845	-7	-571	-374	-952	-2,797
Transfers	433	--	--	--	--	433
as of Dec. 31, 2005	**63,761**	**1,184**	**1,902**	**660**	**3,746**	**67,507**
Cumulative depreciation						
as of Jan. 1, 2005	13,156	920	1,869	490	3,279	16,435
Currency fluctuations	22	3	--	--	3	25
Additions	882	57	200	136	393	1,275
Disposals	-170	-2	-413	-119	-534	-704
Transfers	--	--	--	--	--	--
as of Dec. 31, 2005	**13,890**	**978**	**1,656**	**507**	**3,141**	**17,031**
Net book values						
as of Dec. 31, 2005	49,871	206	246	153	605	50,476
as of Dec. 31, 2004	44,157	91	447	466	1,004	45,161

The goodwill item is composed as follows:

Goodwill relating to the first time consolidation of the following companies and asset deals	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Companies in the Chemical/Pharmaceutical Raw Materials Division (“Old area”)	16,738	16,738
Acquisition of BP business	18,404	18,291
Explosives division	--*)	14,842
Total	**35,142**	**49,871**

*) reported under "Assets held for disposal"

The rise in the goodwill of the Westspreng Group reflects the acquisition of Detines d.o.o., Zagreb, Croatia and Przedsiebiorstwo Uslug Gorniczych „K&N“ Sp. z o.o., Swierki, Poland. Since these companies belong to the Explosives Division, which is reported according to IFRS 5 as of December 31, 2006, this goodwill is reported at the end of the financial year in accordance with IFRS 5 among "Assets intended for disposal".

As a result of foreign exchange rate effects, there was an increase in the book values of goodwill of T€ 112.

Goodwill is not amortized but is reviewed annually by means of an impairment test in accordance with IFRS 3.79. Its intrinsic value is reviewed at the level of the cash generating unit to which it is allocated.

In accordance with the definition of a cash generating unit, the strategic business units are used as cash generating units that represent the reporting level below the reporting segments.

As part of the impairment test of assets, the residual book values at the individual cash generating units are compared with their relevant recoverable amounts, in other words, the higher of either the fair value less disposal costs or value in use. The present value of future payments expected on the basis of continued use is used as a basis for calculating the recoverable amount. The forecast of payments is based on current medium-term H&R WASAG Group budgets that cover a period of three years, which corresponds to the standardized Group planning system, and a subsequent constant pension. Related significant planning assumptions take the development of raw materials prices into account.

In cases where the book value of the cash generating unit is higher than its recoverable amount, the extent of the difference represents an impairment loss. In an initial step, the goodwill of the affected strategic business unit is amortized by the amount of the calculated impairment, which is booked through expenses. A residual amount is distributed proportionally to its book value among the other assets of the relevant strategic business unit. The value impairment applied to the goodwill is reported separately in the income statement.

Other intangible assets

The intangible assets relate mainly to production and user software as well as production and process controlling licences.

Intangible assets reported among modifications to the scope of consolidation result from the disposal of shares in Medex S.r.l., Sirmione, Italy, as well as from the sale of shares in Detines d.o.o., Zagreb, Croatia.

The disposal concerns in particular software.

(8) Shares in at-equity reported shareholdings and Other financial assets

Developments 2006	Shares in at-equity reported shareholdings (8.1) T€	Other financial assets: Shares in affiliated companies (8.2) T€	Other financial assets: Other shareholdings (8.3) T€	Other financial assets: Long-term investments (8.4) T€	Other financial assets: Other loans (8.5) T€	Other financial assets: Total T€	Total T€
Acquisition and production costs							
as of Jan. 1, 2006	392	23,087	1,052	883	5,386	30,408	30,800
Currency fluctuations	--	--	--	--	-70	-70	-70
Additions	--	--	--	--	4,002	4,002	4,002
Disposals	--	--	--	-39	-104	-143	-143
Transfer to short-term assets	--	--	--	--	-5,000	-5,000	-5,000
IFRS 5 re-classification	-321	--	--	-3	--	-3	-324
as of Dec. 31, 2006	**71**	**23,087**	**1,052**	**841**	**4,214**	**34,194**	**29,265**
Cumulative depreciation							
as of Jan. 1, 2006	-36	23,087	--	--	--	23,087	23,051
Currency fluctuations	12	--	--	--	--	--	12
Additions	48	--	--	--	--	--	48
Disposals	-9	--	--	--	--	--	-9
IFRS 5 re-classification	27	--	--	--	--	--	27
as of Dec. 31, 2006	**42**	**23,087**	--	--	--	**23,087**	**23,129**
Net book values							
as of Dec. 31, 2006	29	0	1,052	841	4,214	11,107	6,136
as of Dec. 31, 2005	428	0	1,052	883	5,386	7,321	7,749

Developments 2005	Shares in at-equity reported shareholdings (8.1) T€	Other financial assets: Shares in affiliated companies (8.2) T€	Other financial assets: Other shareholdings (8.3) T€	Other financial assets: Long-term investments (8.4) T€	Other financial assets: Other loans (8.5) T€	Other financial assets: Total T€	Total T€
cquisition and production costs							
as of Jan. 1, 2005	758	23,087	1,300	898	5,541	30,828	31,584
Currency fluctuations	10	--	--	--	13	13	23
Change to group of consolidated companies	--	--	-17	--	--	-17	-17
Additions	--	--	2	--	--	2	2
Disposals	-609	--	--	-15	-168	-183	-792
Transfer	233	--	-233	--	--	-233	--
as of Dec. 31, 2005	**392**	**23,087**	**1,052**	**883**	**5,386**	**30,408**	**30,800**
Cumulative depreciation							
as of Jan. 1, 2005	42	23,087	--	--	--	23,087	23,129
Currency fluctuations	--	--	--	--	--	--	--
Additions	6	--	--	--	--	--	6
Disposals	-84	--	--	--	--	--	-84
Write-ups	--	--	--	--	--	--	--
as of Dec. 31, 2005	**-36**	**23,087**	--	--	--	**23,087**	**23,051**
Net book values							
as of Dec. 31, 2005	428	0	1,052	883	5,386	7,321	7,749
as of Dec. 31, 2004	716	0	1,300	898	5,541	7,739	8,455

(8.1) Shares in at-equity reported shareholdings

Shares in domestic and foreign corporations and partnerships for which H&R WASAG AG and its subsidiaries own between 20 and 50 percent of the voting rights, or where the company is able to exercise a significant influence on the corporate policy of the associated company, are shown as financial assets in the balance sheet by the equity method.

Shares in at-equity reported shareholdings	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Westfalen Chemie Verwaltungsgesellschaft mbH	29	28
Westfalen Chemie GmbH & Co. KG	0	0
Schmidtmann GmbH	*)	76
Schuetzen Powder LLC, Arlington TX, USA.	*)	324
Total	**29**	**428**

*) reported under "Assets held for disposal"

Westfalen Chemie GmbH & Co. KG with its partner company, Westfalen Chemie Verwaltungsgesellschaft mbH, operates a hydrogen production and filling plant at the Salzbergen facility.

Schmidtmann GmbH is engaged in the sale of explosives and blasting agents.

Schuetzen Powder LLC, Arlington TX, USA, trades gunpowder and other explosives.

The participating interests valued at equity result in pro-rata deficits which must be offset by the future profits of these participations. These deficits have changed as follows:

	T€
as of Jan. 1, 2006	245
pro-rata net income	13
as of Dec. 31, 2006	**258**

(8.2) Shares in affiliated companies

Shares have been reported in five companies that are not included in the scope of consolidation.

(8.3) Other shareholdings

Shareholdings have been reported in SRS EcoTherm GmbH, Salzbergen, (T€ 1,050) and the operating company Silbersee II Haltern am See, Essen (T€ 2).

The participating interests are shown at the cost of acquisition as these financial assets have no market price listed on an active market and other valuation methods have proved unable to supply more reliable fair values.

(8.4) Long term investments

Securities held as part of non-current assets contains, in particular, units in the funds Correntafonds I und II. These assets are valued at their market value on the date of the balance sheet. Changes are shown in a separate item under equity.

(8.5) Other loans

The addition to the loans in 2006 is related to the sale of H&R ESP Ltd. The loan has a term of five years and ends in July 2011. This loan was discounted at a rate of 7% using the effective interest rate method since it does not incur interest payments.

The reclassification to current assets concerns a loan maturing on September 18, 2007 (please refer to note 5).

(9) Long-term prepaid expenses and deferred charges and other long-term assets

	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Receivable due from BP	4,290	4,847
Counterinsurance	1,595	1,687
Derivatives	1,033	377
Deferred maintenance fees	36	421
Other	157	213
Total	**7,111**	**7,545**

Receivables due from BP International

Mutual agreements concerning job layoffs as part of the acquisition of the BP specialty business in 2004 were made with respect to those retirees allocable either in economic or contractual terms to one of the parties to the agreement, but who remained with the relevant other party to the agreement in terms of labor law. Corresponding to the contractual collective agreement with BP, which comprised all receivables and liabilities related to layoffs, and which was drawn up taking into account the aim of the contractual parties to achieve overall offsetting of receivables and liabilities, liabilities and receivables enjoying the same legal ground were amalgamated on the basis of the economic and legal contents of the business transaction, and reported as a balance (T€ 3,215) according to IAS 1.33. The remaining amount of T€ 1,075 results from a compensation claim for further pension provisions acquired.

Detailed information concerning derivatives can be found under Note 37.

(10) Deferred income taxes

Deferred taxes result from temporary differences between IFRS and tax accounts of the individual companies as well as from consolidation processes. Deferred tax assets comprise claims for reductions in taxes resulting from the anticipated the use of existing tax loss carry forwards in subsequent years. Capitalization is carried out if their realization is sufficiently ensured.

The composition of the deferred tax assets formed for value differences in the balance sheets is portrayed in Note 33 on income taxes.

(11) Short-term liabilities to banks and short-term component to long-term loans

Short-term bank borrowings are composed as follows:

	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Short-term loans	6,730	38,677
Short-term portion of long-term loans	3,209	4,565
Drawings on current accounts	5,665	428
Interest deferrals	773	58
Other bank borrowings	2,184	591
Total	**18,561**	**44,319**
of which secured	14,235	43,512

Short-term loans

The fixed interest rates of the current loans lie between 5.85% and 6.44%, and the variable interest-rate are calculated using EURIBOR, plus a margin of 1.10%-Pts. Two loans totalling T€ 1,258 are collateralized through guarantees provided by a third-party bank. Please refer to our remarks concerning long-term loans regarding the collateralization of short-term syndicated bank loans.

Short-term portion of long-term loans

The short-term portion of long-term loans relates to repayment installments for medium-term and long-term loans due within the next 12 months.

Please refer to our remarks concerning long-term loans with respect to interest rates and the collateralization of the short-term portion of long-term loans.

Drawings on current accounts

The current accounts are collateralized to an amount of T€ 4,232 (previous year: T€ --) through storage assignment of goods with varying balances. The interest rate is based on EONIA plus 1.75%-Pts percentage points.

(12) Trade accounts payable

The trade accounts payable have a term of up to one year. They are secured by the usual retentions of title.

(13) Short-term provisions

Short-term provisions	Personnel provisions T€	Other provisions T€	Provisions for restructuring T€	Total T€
as of Jan. 1, 2006	9,723	19,906	2,598	32,227
Sales	-73	--	--	-73
Other neutral disposals	-2	--	--	-2
Currency fluctuations	-82	-996	60	-1,018
Transfers	124	-377	--	-253
Used	-7,968	-14,913	-2,658	-25,539
Released	-254	-470	--	-724
Additions	15,230	13,452	47	28,729
Re-classification IFRS 5	-1,123	-1,045	--	-2,168
Total	**15,575**	**15,557**	**47**	**31,179**

a) Personnel provisions

The personnel provisions relate mainly to bonuses, severance payments, profit shares, outstanding holidays, flexi-time credit and social insurance contributions.

Employees in the Salzbergen and Haltern facilities receive a profit share not subject to collective bargaining, but related to each employee's current salary. The profit share refers to the profits made at each facility.

The change in the scope of consolidation is based on the disposal of H&R ESP Limited, Milton Keynes, UK.

b) Other provisions

Other provisions contain mainly provisions for complaints and guarantees, waste disposal, emissions and environmental rights, invoices outstanding, annual report and archiving costs, as well as provisions for rebates and price discounts.

(14) Other short-term liabilities

Other short-term liabilities	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Tax liabilities	11,443	7,719
Put option	4,075	4,075
Liabilities to employees	590	724
Leasing liabilities	632	238
Social security liabilities	266	1,646
Others	376	1,368
Total	**17,382**	**15,770**

Tax liabilities relate mainly to current VAT and wage tax liabilities.

(15) Short-term prepaid expenses and deferred charges

Portions due to be repaid within 12 months are shown under short-term accruals and deferrals.

The item relates to the current component of the investment subsidy granted by the State of Lower Saxony.

For further explanations, we refer to the prepaid expenses and deferred charges shown under long-term liabilities (Note 20).

(16) Long-term loans

The following table contains the conditions for long-term finance debts as well as their book values with the due dates of repayment obligations:

	Dec. 31, 2006		
Long-term loans	Book value T€	Residual maturity 2008 - 2011 T€	Residual maturity after 2011 T€
Syndicated loan	55,817	55,817	--
Other loans	28,401	13,893	14,508
Total	**84,218**	**69,710**	**14,508**
of which secured	70,155	--	--

	Dec. 31, 2005		
Long-term loans	Book value T€	Residual maturity 2007 - 2010 T€	Residual maturity after 2010 T€
Syndicated loan	78,516	4,476	74,040
Other loans	13,004	12,231	773
Total	**91,520**	**16,706**	**74,814**
of which secured	90,012	--	--

Interest rates

The interest rates on the syndicated loan are based on the EURIBOR plus a margin. The margin is tied to financial covenants (Net debt/EBITDA and economic equity ratio). A change of the financial covenants can result in the change of the margin in a corridor between 1.2% to 2.4% respectively 0.9% to 2.0% and can to this extent increase or decrease the interest payments. The adaptation is performed in each case after the submission of quarterly and annual financial statements. In 2006 an average margin for facility 1 up to November 15 of 1.6% and afterwards of 1.4% was registered. In the case of the other facilities, the rate was 1.35% up to November 15, 2006, and subsequently 1.10%.

Further fixed interest rate arrangements were added to those already existing in the reporting year, details of which can be found under Note 37.

The other credits have been agreed with fixed interest rates, with fixed interest periods or dependent on EURIBOR and LIBOR. The interest rate of loans with fixed interest rates lay between 3.90% and 5.77% per annum.

Currency

The greater part of this loan has been agreed in euros.

Security

The syndicated loan (please see also the portion reported among current bank borrowings) and the non-current loan amounting to T€ 8,313 from the KfW "Capital for Work" program, granted by the IKB and regulated by the collateral pool agreement, are collateralised by land charges of T€ 10,226. These loans are also secured through the blanket assignment of trade receivables with a book value of T€ 44,015, as well as a storage assignment of goods with varying balances amounting to T€ 20,010.

Further loans from the IKB with a book value of T€ 6,000 (long-term portion T€ 4,400) are secured through the assignment of an extraction plant.

A loan concluded within the Plastics Division with a carrying value of T€ 1,062 (long-term: T€ 885) was collateralized as of December 31, 2006 through land charges, and a further loan of T€ 1,745 was collateralized through minority shareholder guarantees.

(17) Pension provisions

Operating retirement provisions in the Group are not only contribution-based but also performance-based.

In the case of the contribution-based retirement provisions (defined contribution plans) the Group pays contributions to state or private pension schemes on the basis of legal or contractual provisions, or on a voluntary basis. Following payment of the contributions, the Group's obligations in this area are fulfilled. Defined contribution pension plans exist particularly in the international companies of the Chemical-Pharmaceutical Raw Materials Division.

All other retirement provisions are performance-based.

As a result of the works agreement on October 7, 1986, all employees taken on by SRS GmbH from Wintershall, have a right to company pension benefits in accordance with the Wintershall pension agreement dated January 1, 1987. The works agreement of March 9, 1994 terminated the works agreement of October 7, 1986 with effect from June 30, 1994, and thereby enacted the pension agreement for the new arrivals. The level of benefits agreed depends essentially on the length of service and the last salary drawn. After the termination of the works agreement of October 7, 1986, the entitlements earned were frozen. The pension entitlements of some people drawing pensions are based on the older Wintershall pension charter.

All employees at Wasag-Chemie AG have a right to a company pension in accordance with the pension agreement in the version dated January 1, 1986, last changed by the works agreement of June 4, 1998. For those drawing pensions, their rights in some cases are based on earlier versions of the pension agreement. The level of the pension depends on the number of pensionable years of service and the pensionable salary in the last year before leaving the company. Some employees receive so-called contractual pensions due to individual contractual commitments. The requirements and calculation of benefits differ in individual agreements.

The active managers of Westspreng GmbH at the time of the takeover by the H&R WASAG group each have a pension commitment in accordance with the guidelines of the GHH Association. Benefits are only granted if the person is still in the company's service when he or she reaches pensionable age or if his/her entitlement is non-forfeitable in accordance with statutory provisions if he/she leaves the company early.

In accordance with the pension agreement at GAUDLITZ-WERK GmbH (now Gaudlitz GmbH) in the version of December 18, 1978, all employees who joined the company by June 10, 1978 and whose contracts of employment had not been terminated, had the right to a company pension. The size of the pension depends on the number of pensionable years of service and the pensionable salary in 1978. For those drawing pensions, claims in some cases are based on earlier versions of the pension agreement.

Pension obligations for a total of 183 employees were transferred to H&R Ölwerke Schindler with effect from Jan. 1, 2004 with the takeover of BP's special product activities.

Due to various mergers and takeovers, there are a total of 13 different sets of rules and addenda which may apply to these 183 employees. The principles are defined in the following pension regulations, statutes, pension schemes, pension plans among others:

- Pension regulations for employees of ARAL AG on non-union rates dated June 24, 1991
- Pension scheme for employees of ARAL AG on union rates dated October 15, 1985
- ARAL AG pension regulations 1999
- Pension statutes dated January 1,1980 pursuant to central works agreement dated November 30, 1979
- Additional pension for shift work in accordance with Letter F of the Pension Statute of January 1, 1980 pursuant to the central works agreement dated November 30, 1979

– Pension Statute 1988 on the basis of central works agreement dated December 2, 1987
– Pension plan of Burmah Oil (Deutschland) GmbH dated January 1, 1992
– Salary conversion in accordance with the ARAL pension regulation model 1999
– Transitional payment regulations RAAB KARCHER dated March 1, 1989
– Central works agreement dated February 1, 1993 (pension plan 1975)
– Central works agreement dated January 1, 1993 (pension plan 1986)
– Central works agreement dated February 1, 1993 (pension plan 1990)

H&R Ölwerke Schindler has not only assumed pension obligations for employees of the company with entitlements (Group 1) but has also agreed an exemption obligation for some former employees of BP Lubes GmbH (pensioners and employees who left the company, Group 3). The company is entitled to reimbursement from BP for the obligations towards the aforementioned categories of people. A further category (Group 2) comprises employees of BP who were not taken on by H&R.

For this group of people, H&R Ölwerke Schindler has agreed to reimburse BP for the relevant pension obligations which remain with BP, for an amount of T€ 8,087 (see Comment 9). These obligations were netted off in accordance with IAS 1.33 against a receivable from BP from a reimbursement claim for pension obligations assumed amounting to T€ 11,815 which also arose as part of the takeover of the specialty products business (see Note 9). The net receivable of T€ 3,215 is shown under other long-term assets.

The following provisions were formed for individual groups as of Dec. 31, 2006:

	T€
Group 1	13,295
Group 3	11,815

There is an exemption right against BP in the case of pension obligations towards employees in Group 3 amounting to T€ 11.815.

The pension provisions are determined by the projected unit credit method as a performance-related pension scheme in accordance with IAS 19. Future obligations are calculated using actuarial methods, taking into account any future salary increases and other adjustments to benefits to the extent that they are salary-dependent.

The scope of the obligations can fluctuate due to changes in the actuarial assumptions. Any actuarial profits or losses arising in the process are treated by the 10 percent corridor rule. If the actuarial gains and losses resulting from the modification of the actuarial parameters exceed 10% of the higher amount of pension obligations at the start of the financial year, the amount exceeding the 10% limit is booked against income over the timeframe of the average residual service period of the active employees.

Pension provisions changed as follows:

	2006 T€	2005 T€
Brought forward Jan. 1	**50,844**	**50,837**
Change to group of consolidated companies	--	140
Additions	4,114	3,489
Released / Used	-2,256	-2,261
Neutral disposals	-11	-1,363
Transfers	253	0
Currency fluctuations	0	2
Re-classification IFRS 5	-3,169	--
Final position on Dec. 31	**49,775**	**50,844**
- of which not financed via a fund	**49,775**	**50,844**

The IFRS 5 reclassification relates to pension provisions connected with the disposal of the Explosives Division that will be relinquished in future.

The amounts reported 2005 under changes in the scope of consolidation concern the addition from the first time consolidation of Sprengstoffwerk Gnaschwitz GmbH, Schlungwitz.

The pension obligations are matched by receivables due from BP International amounting to T€ 11,815 (2005: T€ 11,252).

Neutral disposals of T€ 1,363 in 2005 concern the transfer of pensions in connection with the disposal of a warehouse.

The value of the balance sheet provision is derived as follows:

	2006 T€	2005 T€
Present value	57,405	60,517
Unrealized actuarial gains and losses	-4,461	-9,673
Re-classification IFRS 5	-3,169	--
Provision	49,775	50,844

The addition to pension provisions contained in the profit and loss account results as follows:

	2006 T€	2005 T€
Current service period expenditure	872	861
Amortized actuarial profits / losses	468	309
Compound interest on expected pension obligations	2,288	1,977
Increase/Decrease of staff	360	246
Changes in reimbursement rights	126	96
Addition (total)	**4,114**	**3,489**

The current service period expenditure and the amortized actuarial profits are shown as personnel expenses, and the compound interest on the expected pension obligations as interest expense.

The following assumptions were made in order to determine the pension obligations:

	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Interest rate	4.25%	4.0%
Payment trends	0.0%/2%	2.0%
Entitlement trend	0.0%/0.6%	0.6%
Pensions trend	0.0%/1.01%	0.9%
Pension age	60/61/63/65	60/61/63/65
Fluctuation probability	5%/0%	5%/0%

The likelihood of leaving is based on the Heubeck guideline tables from 2005G.

An age-dependent staff turnover probability has been built into the pension provision for employees of H&R Ölwerke Schindler for which tables designed by internal experts have been used.

By not taking the likelihood of fluctuations into account, the assumption is made by way of simplification that no employee will leave the company before the non-forfeitability deadlines are met, and that thereafter the non-forfeitable right to a pension will be exactly financed by the existing provision in each case.

The present value of the obligation is composed as follows:

	2006 T€	2005 T€
Present value of the obligation on January 1	**60,517**	**57,793**
Current service period expenditure	872	840
Interest expense relating to the obligation	2,288	2,714
Increase / decrease of staff	517	-1,363
Current pension payments	-2,998	-2,869
Actuarial gains/losses	-3,791	3,402
Present value of the obligation on December 31	**57,405**	**60,517**

An experience-related adjustment to the present value of the pension obligations amounting to T€ -3,702 occurred in the reporting year (previous year: T€ 2,079).

(18) Other long-term provisions

	Personnel provisions T€	Other provisions T€	Total T€
As of Jan. 1, 2006	4,166	4,681	8,847
Neutral additions / disposals	-21	--	-21
Compounding/discounting	75	5	80
Currency fluctuations	--	4	4
Used	-731	-1,659	-2,390
Released	-89	-40	-129
Additions	1,091	2,687	3,778
Re-classification IFRS 5	-198	-268	-466
As of Dec. 31, 2006	**4,293**	**5,410**	**9,703**

The long-term provisions relate to part-time working regulations for older employees and anniversaries as well as provisions due to legal obligations arising from the directive concerning systems for handling substances harmful to the water supply, and specialized plants (VawS).

(19) Other long-term liabillities

	2006 T€	2005 T€
Put option	8,715	10,895
Leasing liabilities	2,745	334
Others	0	185
Total	**11,460**	**11,414**

When the put option was booked for the first time as of January 1, 2005, equity was reduced by T€ 14,304, which was offset by a corresponding increase in other liabilities (of which other non-current liabilities T€ 10,229 and other current liabilities T€ 4,075). To the extent that the options are exercised in each case in the subsequent year, recognition is among current liabilities. The liability for the other portion of the option is reported among non-current liabilities. The put options are limited to an exercise period up to December 31, 2010 (for more information please see "Modifications

arising from accounting policies", "Acquisitions", as well as notes 14, 19, 23 and 32). The liability arising from the put option was discounted to the time of the first-time reporting, and is now compounded annually.

Please refer to additional disclosures under Note 6 with respect to leasing liabilities.

(20) Long-term prepaid expenses and deferred charges

	2006 T€	2005 T€
Investment subsidies	317	481
Fees received in advance for the use of software and IT maintenance fees	--	16
Total	**317**	**497**

The item Investments subsidies contains primarily an investment subsidy granted to H&R Lube Blending GmbH by the State of Lower Saxony. The subsidy was applied for in 1996, approved in 1998, and amounts to 15% of the investment sum. The subsidy was granted on the condition that the company provides evidence of where the subsidy is, and the use to which it is put, fulfils reporting obligations, and creates 58 permanent jobs. The subsidy is taken on a pro rata basis over time in accordance with the particular useful life of the subsidized assets. For information concerning the current portion of this subsidy, please refer to Note 15.

(21) Subscribed capital

The Executive Board of H&R WASAG AG on December 18, 2006, with an approval granted on the same day by the Supervisory Board, utilized the authorizations as per § 4 Paragraphs 4 and 5 of the Articles of Incorporation, and resolved to increase the issued share capital of the company by T€ 21,492 in exchange for cash deposits, from T€ 48,358, consisting of 18,916,000 ordinary shares, to T€ 69,850, through the issue of 8,407,112 new nil-part ordinary bearer shares with an arithmetic share of the issued share capital of around € 2.56 per share (new ordinary share).

The capital increase was entered in the commercial register on December 20, 2006.

The new ordinary shares were underwritten by Dresdner Bank Aktiengesellschaft, Frankfurt am Main, with the obligation to offer them to shareholders of the company in a ratio 9:4. The subscription right could be exercised until January 16, 2007.

	T€	Shares	Issued until
Subscribed capital[1]	69,850	27,323,112	
– of which outstanding	16,112		
Conditional capital			
– Conditional Capital 2002[2]	7,500	2,933,745	Aug. 20, 2007
– Conditional Capital 2003[3]	7,350	2,875,000	
Approved capital			
– Approved Capital I [4]	1,508	589,706	Aug. 28, 2010
– Approved Capital II	0	0	
– Approved Capital III[5]	1,000	391,166	Jun. 27, 2011

1) ordinary shares
2) through the issue of new ordinary bearer shares
3) through the issue of new bearer preferred shares
4) against contributions in cash or in kind through the issue of new ordinary bearer shares
5) through the issue of new bearer ordinary or preferred shares

The following reconciliation shows shares in issue at the start and end of the reporting period:

	2006 Shares	2005 Shares
Opening position January 1, 2006	18,916,000	18,916,000
Capital increase	8,407,112	--
Closing position December 31, 2006	**27,323,112**	**18,916,000**

Conditional capital

The authorized share capital has been conditionally increased by up to € 7,500,000.00 through the issue of up to 2,933,745 new ordinary bearer shares (Conditional Capital 2002). The conditional rights issue will only be carried out to the extent that the bearers of convertible and/or option bonds which have been issued against cash until August 20, 2007 by the company or its direct or indirect domestic subsidiaries on the basis of the authorizing resolution passed by the shareholders' meeting on August 21, 2002, make use of their conversion or option rights, or the bearers of convert-

ible bonds obliged to convert fulfill their obligation to convert, and to this extent no treasury shares are used to service the operation. The new shares participate in profits from the beginning of the financial year in which they are created through conversion or option rights being exercised or conversion obligations being fulfilled. The shareholders' meeting of June 28, 2006 resolved to cancel the above-mentioned conditional capital, and to create new conditional capital of up to T€ 7,500. The entry in the commercial register has yet to be performed.

No conversion and/or option bonds were issued in the financial year 2006.

In a resolution passed by the shareholders' meeting on July 24, 2003, the authorized share capital was conditionally increased by up to T€ 7,350 through the issue of up to 2,875,000 new preferred shares with an accounting par value of approx. € 2.56 per share each at an issue price of € 7.20 per share with a dividend entitlement from the beginning of the current financial year in which they are issued (Conditional Capital 2003). The preferred shares are bearer shares. The total issue amount is € 20,700,000.00. Shareholders are excluded from subscribing. The conditional rights issue serves the purpose of preparing the merger of H&R WASAG AG with SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH through the acquisition of the shareholdings of the outside shareholders of SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH as part of the contribution in kind to be swapped for preferred shares in H&R WASAG AG. The contribution in kind relates to the shareholdings of the outside shareholders of SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH with a par value of € 23,000.00 in total. 6,250 preferred shares will be issued from the conditional capital for a notional shareholding of € 50.00. The conversion right must be exercised by December 31, 2006 at the earliest. The rights issue will only be carried out to the extent that the outside shareholders make use of their option to swap their shareholdings for preferred shares

Approved capital

Due to a resolution passed by the shareholders' meeting on June 28, 2006, the Executive Board is entitled, with the approval of the Supervisory Board, to increase the issued capital by up to T€ 1,000 through the issue of one or several tranches of ordinary or preference nil-par bearer shares for cash until June 27, 2011 for the purpose of issuing shares to employees of the company or its associated companies (Approved Capital 2006). In this case, subscription rights are excluded to shareholders.

The Executive Board is authorized with the approval of the Supervisory Board to increase the share capital once or several times by up to € 15,000,000.00 against contributions in cash and/or in kind by issuing new ordinary or preferred no par bearer shares by August 28, 2010, and with the approval of the Supervisory Board to decide on the conditions of the share issue (Approved Capital 2005).

The shareholders are to be granted stock options. However, the Executive Board is entitled with the approval of the Supervisory Board to exclude shareholders from stock options for residual amounts.The Executive Board is also autho-

rized, with the approval of the Supervisory Board, to exclude shareholders from stock options for rights issues against contributions in cash if the par value of the new shares does not exceed 10 of the existing capital stock at the time the authorization comes into force, nor 10% of the existing capital stock at the time the new shares are issued, and the issue price of the new shares is not significantly below the market price as defined by § 186 Section 3 Sentence 4 of the German Stock Corporation Act (AktG). The Executive Board is also authorized with the approval of the Supervisory Board to exclude shareholders from stock options if the rights issue against contributions in kind is carried out for the purpose of acquiring companies or participating in companies, or to the extent that the exclusion of stock options is required in order to give the owners of the company options for the quantity of convertible bonds or loans or warrants still to be issued, to which they would be entitled after exercising their option or conversion rights. Where the simultaneous issue of ordinary and preferred shares takes place while retaining the existing participating relationships of both share classes, the Management Board is furthermore authorised, with the approval of the Supervisory Board, to exclude the owners of one share class to be entitled to rights to the other share class.

Following partial utilisation, the approved capital of August 29, 2005 (Approved Capital 2005) still amounts to T€ 1,508.

The Executive Board is also authorized with the approval of the Supervisory Board to increase the share capital once or several times by up to € 8,000,000.00 in total against contributions in cash or in kind by issuing new ordinary or preferred no par bearer shares by July 24, 2008 (Approved Capital 2003), and with the approval of the Supervisory Board to decide on the conditions of the share issue.

The capital authorized as a result of resolution of July 24, 2003 (Approved Capital 2003) has expired following its utilization in 2006.

Authorization to acquire treasury shares

In a resolution passed by the shareholders' meeting on August 29, 2005 the company was authorized with the approval of the Supervisory Board to acquire up to 10% of the capital stock in treasury shares. Trading in its own shares is not permitted as a reason for doing so. The countervalue for the acquisition of these shares may not be more than 15% below or 15% above the mean share price (closing price of the H&R WASAG AG stock on the Frankfurt securities exchange) on the last five trading days before the shares are acquired.

This authorization to purchase own shares was cancelled with effect from June 28, 2006.

In a resolution passed by the shareholders' meeting on June 28, 2006 the company was authorized with the approval of the Supervisory Board to acquire up to 10% of the capital stock in treasury shares till December 27, 2007. Trading in its own shares is not permitted as a reason for doing so. The countervalue for the acquisition of these shares may not be more than 15% below or 15% above the mean share price (closing price of the H&R WASAG AG stock on the Frankfurt securities exchange) on the last five trading days before the shares are acquired.

The company did not acquire any treasury shares in the financial year 2006.

(22) Capital reserve

The capital reserve of T€ 2,823 results from the merger of Schmierstoffraffinierie Salzbergen GmbH with WASAG-CHEMIE AG in 2001. The amount is composed of a sum of T€ 21,972 (§ 272 of the German Commercial Code, paragraph 2 number 1 [HGB]) minus withdrawals of T€ 19,149 (§ 150 paragraph 4 number 2).

The costs associated with the capital increase that formed the subject of a resolution of December 18, 2006 were deducted in equity in accordance with IAS 32.37, reduced for the non-tax-deductible amount. The capital increase itself was not completed until January 16, 2007.

(23) Other reserves

This item primarily reports capital increases carried out by the subsidiaries, which subsequently leads to a change in Group equity. These comprise the attributable market value of the shares granted in Sythengrund GmbH resulting from the acquisition of Westspreng GmbH (T€ 13,232), to the extent that this value exceeds the capital shares, as well as the attributable market value of the shares granted in Westspreng GmbH from the acquisition of Schneider Sprengtechnik GmbH (T€ 1,382), to the extent that this value exceeds the capital shares. In each case the amounts accrue to H&R WASAG AG. The relevant share of minority shareholders (T€ 10,145 or T€ 103) is shown under minority interests.

According to IAS 32, agreements that obligate a company to purchase its own equity instruments represent a financial liability to an amount equal to the present value of the purchase price. This also applies if the obligation is satisfied only by the exercise of an option right by the contractual partner, and irrespective of the probability of exercise. H&R WASAG AG has been applying this standard since January 1, 2006 in harmony with the development in international accounting practice and analogously to the accoubnting treatment of minority shareholders furnished with put options. This resulted in a reduction of the reserve by T€ 14,304 on January 1, 2005. This value amounted to T€ 14,252 as of December 31, 2006. The change in the reserve in 2006 is connected with the first tranche of this put option drawn down in 2006.

Other reserves also contain reserves arising from the market valuation of securities amounting to T€ 41 (2005: T€ 60), and from cash flow hedges amounting to T€ 282 (2005: T€ -115), both in consideration of deffered taxes which are to be booked on a neutral basis through equity.

(24) Consolidated retained earnings

A total of T€ 5,675 was distributed in 2006 on the basis of a resolution made by the Shareholders' Meeting on June 28, 2006. This corresponds to a dividend of € 0.30 per share.

The statement of changes in equity presents the development of the Group's unappropriated retained earnings

Proposal for the appropriation of the earnings

The Executive Board and the Supervisory Board of H&R WASAG AG propose to the Shareholders' Meeting that T€ 16,394 of the total retained earnings of H&R WASAG AG of T€ 29,472 be distributed in the form of a dividend of € 0.60 per share, and to carry T€ 13,078 forward to a new account. A liability is reported in the financial statements as soon as the Shareholders' General Meeting has passed a resolution concerning the dividend.

(25) Minority interests

Shares of minority shareholders include shares of earnings and capital held by third-party shareholders.

Development of minority interests	2006 T€	2005 T€
As of Jan. 1	3,120	3,833
Addition from first-time consolidation	735	- 33
Foreign exchange differences	-183	179
Outgoing payments	-1,235	-1,885
Share of results	2,309	1,026
As of Dec. 31	**4,746**	**3,120**

Explanatory comments on the income statement

(26) Research and development costs

Research and development activities in the chemical-pharmaceuticals area concentrated in 2006 on the further development of product qualities in the product areas of doped oils, paraffins, and white oils. Research and development costs were incurred in the Plastics Division for testing and experiments concerning new materials in the plastics area, as well as research concerning a higher level of implementation of plastic components in various sectors.

Expenses incurred in 2006 for research and development amounted to T€ 1,116 (previous year: T€ 1,479).

(27) Sales revenues

Sales revenues are realized – less sales deductions – at the time when the service is provided or on the passage of risk to the customer. The segment report gives an overview of the growth of sales revenues by division and by geographical segments (see Note 35).

(28) Other operating income

	2006 T€	2005 T€
Income from passing on costs	7,488	7,687
Exchange rate gains from foreign currency items	5,284	5,249
Services	2,404	1,776
Release of provisions	853	1,574
Income from insurance compensation	651	127
Profits from the disposal of fixed assets	551	4,362
Income from rents and leases	439	317
Income from the disposal of the spare parts warehouse	220	1,269
Others*	4,800	4,196
Total	**22,690**	**26,557**

* Adapted prior year figure/reclassification of capitalized services rendered for own account (see page 89).

The income from passing on costs results mainly from reinvoicing consumption taxes, project related costs and other costs to the companies in which there is a participating interest, Westfalen Chemie GmbH & Co. KG and SRS Eco-Therm GmbH.

The income from services results from service contracts for the provision among others of caretaker, laboratory and handling services as well as IT services.

(29) Material costs

	2006 T€	2005 T€
Raw materials	485,487	397,276
Supplies	15,676	14,525
Trade goods	47,131	37,358
Expenditure on raw materials and supplies and for all merchandise	**548,29**	**449,159**
Energy costs	22,692	20,511
Other outside services	1,801	1,426
Total expenditure on purchased services	**24,493**	**21,937**
Total	**572,787**	**471,096**

(30) Personnel expenses

	2006 T€	2005 T€
Wages and salaries	76,814	65,774
Social security payments	13,240	10,428
Defined benefit plan expenses	1,826	1,336
Defined contribution plan expenses	526	725
Other social expenses	245	146
Total	**92,651**	**78,409**

Amounts arising from the discounting of personnel provisions, particularly pension provisions, are not reported as personnel expenses. These form part of the financial result and are reported with the interest result.

Average number of employees	2006	2005
Manual workers	925	916
Salaried employees	582	573
Employees on fixed-term contracts	220	158
Trainees	66	61
Total	**1,793**	**1,708**

(31) Other operating expenses

	2006 T€	2005 T€
Freight costs, dispatch systems and other distribution costs	19,417	19,479
Third party repairs and maintenance	17,483	14,998
Third party supplies and services	9,903	7,853
Costs passed on	6,639	5,117
Loss from foreign currency translation	6,404	5,501
Rents and leases	5,613	4,604
Legal and consultancy costs, costs for year-end accounts and shareholders' meeting	5,513	4,577
Other personnel costs	5,063	4,821
Insurance premiums, fees and contributions	4,870	5,488
Lease installments	2,438	1,453
Slop volumes	2,038	1,315
IT costs	1,882	1,731
Travel expenses	1,530	1,511
Commissions	1,421	1,022
Waste disposal and charges	1,224	1,403
Other taxes*	1,249	1,046
Communication costs	1,158	1,056
Amortization and value impairments of receivables	223	457
Losses from the disposal of plant	106	430
Others	7,980	5,693
Total	**102,154**	**89,555**

*Adapted prior year figure/reclassification of other taxes (see page 89).

(32) Net interest result

	2006 T€	2005 T€
Interest income from short-term bank deposits	477	630
Income from loans	320	292
Income from compounding non-interest-bearing long-term loans	125	--
Other interest and similar income	198	176
Interest income	**1,120**	**1,098**
Interest expense relating to loan interest	5,899	5,242
Interest expense from compounding arising from liabilities associated with a put option	294	666
Interest expense from the compounding of pension provisions	2,288	3,005
Interest expense from the compounding of other long-term personnel provisions	75	88
Other interest and similar income	1,587	1,198
Interest expense	**10,143**	**10,199**
Net interest result	**-9,023**	**-9,101**

(33) Taxes on earnings and income

Taxes on income paid or owed in individual countries as well as tax accruals and deferrals are shown as income taxes.

These are made up as follows:

Taxes on earnings and income	2006 T€	2005 T€
Income tax expense for the fiscal year	22,584	5,908
Income tax expenses for the previous years	-652	-135
Deferred taxes	7,490	2,290
Total	**29,422**	**8,063**

The net income for the year of German companies is subject to a uniform corporation tax rate of 25%. In addition, there is a solidarity surcharge of 5.5% on the corporation tax rate. With a trade tax burden of 15.3% this gives a total income tax rate of 37.65% (2005: 38.02%) in Germany. The reduction of the tax rate results from changes in trade tax collection rates. Income tax rates for companies abroad lie between 15% and 34%.

The tax effect arising from the loss carryforward existing on the reporting date is capitalized in accordance with IAS 12.34 if enough taxable earnings will probably be available in future to offset against the losses.

Besides the capitalized deferred tax loss carryforward assets there are also corporation tax loss carryforwards* of T€ 4,191 (2005: T€ 2,828) and trade tax loss carryforwards* of T€ 425 (2005: T€ 2,229), whose realization is not sufficiently ensured and, for this reason no deferred tax claims have been recognized. The loss carryforwards are nonforfeitable according to the current legal situation.

The following table presents the transition from the expected to the actually reported tax expenditure:

	2006 T€	2005 T€
Pre-tax earnings	**75,001**	**18,948**
Expected tax expense 37.65% (2005: 38.02%)	**28,239**	**7,204**
Effects from tax rate differences of German and foreign sovereignties and effect from the adaptation of deferred taxes due to tax rate changes	-460	-248
Previous years' taxes	-652	-135
Reduction in tax due to netting off with tax loss carry forwards	-341	-12
Non-capitalized deferred taxes on losses	1,139	784
Non-deductible operating expenses	938	1,127
Tax-free income	-263	-102
Catch-up on previous years' deferred taxes	95	402
Outside basis differences	435	--
Permanent tax deferrals	264	-857
Tax expense from allocation of income from partnerships to joint-stock company	-108	-52
Other	136	-48
Actual tax expenditure	**29,422**	**8,063**

* excluding discontinued activities

The deferred tax items result as follows from the individual balance sheet items:

	Dec. 31, 2006		Dec. 31, 2005	
	Deferred tax credits T€	Deferred tax liabilities T€	Deferred tax credits T€	Deferred tax liabilities T€
Intangible assets	--	1,499	9	726
Fixed assets	268	2,564	803	1,996
Financial assets	4	64	20	92
Inventories	45	2,140	182	49
Receivables and other assets	311	1,287	-3	1,431
Pension provisions	3,427	62	2,845	--
Other provisions	855	614	576	91
Liabilities	909	--	394	8
Loss carryforwards	2,343	--	2,856	--
Consolidation measures	4,846	3,856	5,297	48
	13,008	**12,086**	**12,979**	**4,441**
Net amounts	-3,453	-3,453	-1,970	-1,970
Total	**9,555**	**8,633**	**11,009**	**2,471**
Re-classification IFRS 5	-2,837	-919	--	--
Total	**6,718**	**7,714**	**11,009**	**2,471**

The change in deferred tax assets and liabilities in the reporting year is calculated as follows:

	Tax assets T€	Tax liabilities T€
Jan. 1, 2006	11,009	2,471
Release/addition	-1,448	6,042
Neutral expense in equity	12	170
Currency conversion	-18	-50
Reclassification IFRS 5	-2,837	-919
Dec. 31, 2006	6,718	7,714

The tax deferral resulting from consolidation measures is mainly based on the internal sale of the customer base in 2002 and the supply agreements for the doped lubricants business. The item will be released over the depreciation period for the customer base.

(34) Earnings per share

	2006			2005		
	Discontinued activities	Continuing activities	Total company	Discontinued activities	Continuing activities	Total company
Undiluted/diluted earnings per share in €	0.03	1.60	1.63	0.07	0.30	0.37
Consolidated earnings in T€	818	42,452	43,270	2,028	7,831	9,859
Number of shares	26,505,433	26,505,433	26,505,433	26,482,400	26,482,400	26,482,400

In harmony with IAS 33, earnings per share for the previous year were adapted to the new number of shares on the basis of the capital increase of H&R WASAG AG performed on December 20, 2006 below the fair value of the shares (please refer to Note 21 "Subscribed capital"). 2006 earnings per share were € 1.63 (2005 adapted: € 0.37). Earnings per share without special effects amounted to € 1.64 (2005: € 0.40).

Since though no financial instruments outstanding that can be exchanged into ordinary shares, diluted earnings per share are the same as undiluted earnings per share.

Other explanations

(35) Reporting by segment

The activities of the H&R WASAG Group are bundled in three divisions that correspond to the three mandatory IFRS 14 reporting segments.

The most significant division – the Chemical-Pharmaceutical Raw Materials Division – develops and produces crude-oil-based specialty products as input materials for the chemical and pharmaceutical industries. The Explosives Division comprises the development, manufacture, and application of explosives used in civil engineering. The development and

production of plastic parts and components by injection moulding processes are bundled under the Plastics Division. In addition, both the holding company and individual companies that either perform activities within the Group or perform non-operating administrative functions are reported as a separate segment. The list of shareholdings shows to which division each group company belongs.

The discontinued activities in 2006 are allocated to the explosives division. The continuing part of this division exercised solely general and administrative tasks for the Explosives Division in the past, and administered real estate assets.

The operating growth of the divisions is explained in the management report.

Remarks concerning segmental data

In the primary segment reporting, Group-internal sales report the level of sales between the divisions. Sales and revenues between the divisions are always posted at prices which would also have been agreed with third parties.

The sum of external and internal sales provides the segmental sales.

The consolidation column contains eliminations of all Group-internal transactions as well as intra-divisional receivables and liabilities.

The following table shows the reconciliation of gross assets/gross liabilities to segmental assets/segmental liabilities:

Segmental assets	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Reported gross assets	410,059	372,704
Income tax claims	-1,798	-2,678
Deferred tax assets	-9,555	-11,009
Total	**398,706**	**359,017**

Segmental liabilities	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Reported gross liabilities	291,612	297,744
Tax provisions	-5,174	-4,919
Deferred tax liabilities	-8,633	-2,470
Total	**277,805**	**290,355**

In the secondary reporting, revenues have been allocated on the basis of the country in which the customer is located. The assets and investments are located on the basis of the domicile of the company to which they relate.

Primary segments (divisions)

	Chemical Pharmaceutical Raw Materials		Plastics		Explosives: Continuing activities		Explosives: Discontinued activities		Explosives: Total		Other Activities		Consolidations		Total	
	2006 T€	2005 T€	2006 T€	2005 T€	2006 T€	2005 T€	2006 T€	2005 T€	2006 T€	2005 T€	2006 T€	2005 T€	2006 T€	2005 T€	2006 T€	2005 T€
Net sales	700,506	556,841	42,965	37,955	--	--	73,346	55,095	73,346	55,095	--	182	--	--	816,817	650,073
Internal group sales	374	232	--	--	--	--	--	--	--	--	--	3,643	-374	-3,875	--	--
Total sales	700,880	557,073	42,965	37,955	--	--	73,346	55,095	73,346	55,095	--	3,825	-374	-3,875	816,817	650,073
Depreciation	12,326	14,170	2,272	1,982	106	116	4,020	3,144	4,126	3,260	382	59	-3,000	-3,000	16,106	16,471
Extraordinary depreciation	800	882	--	--	--	--	5	--	5	--	--	--	--	--	805	882
Result of at-equity reported shareholdings	1	1	--	--	--	--	-4	148	-4	148	--	--	--	--	-3	149
Other financial result	-958	1	44	38	--	--	--	--	--	--	--	282	--	-282	-914	39
Pre-tax earnings (EBT)	79,223	13,864	-155	1,812	-1,746	132	1,291	3,855	-455	3,987	-8,818	-2,006	5,206	1,291	75,001	18,948
EBIT	85,145	21,084	603	2,255	-1,508	558	2,831	4,644	1,323	5,202	-8,251	-1,785	5,204	1,293	84,024	28,049
EBITDA	98,271	36,136	2,875	4,237	-1,402	674	6,856	7,788	5,454	8,462	-7,869	-1,726	2,204	-1,707	100,935	45,402
Liabilities	232,247	214,344	26,883	22,339	8,567	6,990	45,207	39,180	53,774	46,170	159,196	154,594	-194,295	-147,092	277,805	290,355
Assets	323,824	281,396	31,491	27,284	12,116	18,525	67,289	55,001	79,405	73,526	253,036	223,204	-289,050	-246,393	398,706	359,017
Expenditure on fixed assets	16,750	18,589	4,363	4,424	--	--	6,341	4,607	6,341	4,607	907	557	--	--	28,361	28,177

Secondary segments (Geographical regions)

	Germany		Rest Europe		Rest of the world		Consolidations		Total	
	2006 T€	2005 T€	2006 T€	2005 T€	2006 T€	2005 T€	2006 T€	2005 T€	2006 T€	2005 T€
Net sales of continuing activities	496,100	345,806	145,215	162,353	102,157	86,819	--	0	743,472	594,978
Net sales of discontinuedactivities	45,086	32,109	27,552	22,356	707	630	--	--	73,345	55,095
Total net sales	**541,186**	**377,915**	**172,767**	**184,709**	**102,864**	**87,449**	**--**	**0**	**816,817**	**650,073**
Assets of continuing activities	300,280	288,323	45,248	35,307	43,822	44,832	-62,355	-67,161	326,995	301,301
Assets of discontinued activities	35,342	33,230	21,211	15,582	--	--	15,158	8,904	71,711	57,716
Total assets	**335,622**	**321,553**	**66,459**	**50,889**	**43,822**	**44,832**	**-47,197**	**-58,257**	**398,706**	**359,017**
Expenditures on fixed assets continuing activities	19,020	16,278	513	670	2,486	6,668	--	--	22,019	23,616
Expenditures on fixed assets discontinued activities	3,266	1,851	3,076	2,710	--	--	--	--	6,342	4,561
Total expenditures on fixed assets	**22,286**	**18,129**	**3,589**	**3,380**	**2,486**	**6,668**	**--**	**--**	**28,361**	**28,177**

(36) Explanations on the consolidated statement of cash flows

The statement of cash flows is prepared in accordance with the provisions of IAS 7.

The statement of cash flows is divided into the three areas of operating business, investment activity and financing activity. In the instance of a hybrid business events, an allocation to several areas of activity is carried out, as required. The presentation of cash flows from operating activities is performed using the indirect method.

The reported financial resources consist of cash positions, checks, and bank deposits, as well as an overdraft since 2006 that represents an integral component of the cash resources. Securities and shares in funds are not taken into account since they are not only subject to immaterial fluctuations in valuation but also serve hedging purposes. Loans have a residual term of over three months, and for this reason are not included in financial resources.

The cash flow statement is supplemented by a cash reconciliation.

All bank borrowings were reported as finance debt in the sense of a statement of changes in financial position (except for the overdraft mentioned above).

Interest received unpaid is reported in the operating activity area, while dividend payments are included among cash flows arising from financing activities.

Tax payments are reported to their full extent in the area of the operating business, since it is not practicable to allocate tax payments to individual business areas.

The composition of Cash and cash equivalents, the general form of presentation of the statement of cash flows as well as the utilization of reporting options, are unchanged in comparison with the previous period. IFRIC 4 and IAS 32 give rise to adaptations of previous year's figures (please refer to the comments above). The previous year was also adapted as far as the presentation of exchange rate adjustments in liquid funds was concerned.

In the 2006 financial year, the H&R WASAG Group acquired shares in Detines d..o., Zagreb Croatia, in Slovblast s.r.o., Spiska Nova VES, Veches, Slovenia, and in Przedsiebiorstwo Uslug Gorniczych "K&N" Sp. z o.o., Swierski, Poland.

A total purchase price of T€ 3,020 was paid for the acquisition of the shares and operating business.

The following assets and liabilities transferred to the H&R WASAG Group:

	T€
Cash and cash equivalents	15
Receivables and other short-term assets	728
Inventories	152
Goodwill	2,730
Other assets	1,195
Liabilities	-1,815
Total	**3,005**
Minority interest	15
Purchase price	**3,020**

In the statement of cash flows, acquisitions in the area of investment activity have been reported as follows:

	T€
Purchase price to be paid	3,020
Purchase price not yet paid	--
Cash outflow	3,020

Further shares also acquired in an already fully consolidated subsidiary on the basis of a tranche of a put option exercised by minority shareholders in 2006. The purchase price for these shares amounted to T€ 2,477.

This purchase is also reported in the cash flow statement in investment activities.

The following assets and liabilities were disposed of in connection with sales of subsidiaries:

	T€
Cash and cash equivalents	1
Receivables and other assets	2,205
Inventories	2,203
Other fixed assets	1,522
Liabilities	-504

A purchase price of T€ 4,115 was generated in this connection, of which T€ 398 was to be paid for in cash. The discounted receivable from this portion of the purchase price amounted to T€ 3,717, to the extent that the purchase price was converted into a loan.

(37) Reporting of financial instruments

The financial instruments include both original and derivative financial instruments.

The original financial instruments comprise on the assets side primarily other financial investments, receivables, short-term securities as well as cash and cash equivalents. Financial assets available for disposal are reported at fair value. Other financial assets are reported at historical costs. The fair values of financial assets available for disposal and derive from the stockmarket prices or are calculated on the basis of recognized valuation methods. In the case of other financial assets, we work on the basis that fair value corresponds to the carrying value. On the liabilities side, original financial instruments contain mainly liabilities valued at historical costs. The stock of original financial instruments is reported in the balance sheet. The level of the financial assets corresponds to the maximum default risk. Insofar as default risks are identifiable with respect to financial assets, these risks are reported using value adjustments.

As an internationally active company, the H&R WASAG Group is exposed, as part of its normal business activity, to risks pertaining to raw materials prices as well as changes in interest rates and foreign exchange rates. These risks are limited using a systematic risk management system. Among other things, the risks are managed using hedging transactions.

Derivative financial instruments are employed to hedge foreign exchange risks from the operating business and risks from changes in interest rates related to financing transactions. The types of instruments employed concerned primarily foreign currency forward transactions as well as interest-rate hedging transactions such as caps and interest-rate swaps.

The Group companies are subject to strict risk management. Dealing authorizations, responsibilities and supervision procedures are established on a binding basis in internal guidelines. In this respect, derivative financial instruments may not, as a matter of principle, be implemented for speculative purposes but instead serve to hedge against risks in connection with the operating business. Credit risk exposure to contractual partners is investigated systematically at the time of signing a contract and monitored on an ongoing basis. In addition to this, credit risk is reduced using appropriate types of security. Balance sheet hedging transactions as per IAS 39 exist primarily to hedge against foreign exchange liabilities and interest-rate risks from long-term liabilities.

Cash flow hedges exist mainly to hedge variable-rate liabilities against risks from changes in interest rates. These result from a syndicated loan with a variable rate of interest (EURIBOR + margin), where the level of the margin depends on covenants (net debt/EBITDA and economic equity ratio), and where changes to covenant ratios may result in reductions or increases in the interest expense.

On December 31, 2006, the following derivative financial instruments were in force to hedge against changes in interest rates:

Nominal volume	Type	Currency	Term	Attributable current market value T€
TUS$ 1,400	Interest rate SWAP	US$	Mar. 1, 2005 – Sep. 4, 2012	21
T€ 14,800	Interest rate transaction	€	Aug. 31, 2005 – Feb. 26, 2010	345
T€ 14,800	Interest rate transaction	€	Jul. 4, 2005 – Feb. 28, 2010	351
T€ 6,000	Interest rate transaction	€	Sep. 30, 2005 – Feb. 28, 2010	137
T€ 4,875	Bandwidth swap - floater version	€	Jul. 13, 2005 – Sep. 30, 2010	35
T€ 3,000	Interest rate transaction	€	May 26, 2006 – Feb. 26, 2010	43
T€ 3,000	Interest rate transaction	€	Apr. 26, 2006 – Feb. 26, 2010	36
T€ 4,000	Interest rate transaction	€	May 26, 2006 – Feb. 26, 2010	48
T€ 5,000	Interest rate transaction	€	May 31, 2006 – Feb. 28, 2010	55

On December 31, 2005, the following derivative financial instruments were in force to hedge against changes in interest rates:

Nominal volume	Type	Currency	Term	Attributable current market value T€
TUS$ 1,400	Interest rate SWAP	US$	Mar. 1, 2005 – Sep. 4, 2012	12
T€ 14,800	Interest rate transaction	€	Aug. 31, 2005 – Feb. 26, 2010	156
T€ 14,800	Interest rate transaction	€	Jul. 4, 2005 – Feb. 28, 2010	149
T€ 6,000	Interest rate transaction	€	Sep. 30, 2005 – Feb. 28, 2010	61
T€ 6,175	Bandwidth swap - floater version	€	Jul. 13, 2005 – Sep. 30, 2010	-3

They are reported in the balance sheet among Other assets. These derivatives are recognised when the related contracts are concluded. Derivative financial instruments are reported at fair value irrespective of their purpose. Measurement is performed by third-party experts using recognised option pricing models.

To the extent that the derivative serves effective hedging purposes, a fair value modification of these cash flow hedges is reported earnings-neutrally in equity until the underlying transaction is realized. The ineffective portion of these hedging transactions is reported in each case through the income statement in interest earnings. The result from the hedging transaction is booked out of equity and through the income statement at the time when the underlying transaction is realized.

(38) Contingent liabilities

As of the balance sheet reporting date, the following contingent liabilities existed:

	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Guarantees	1,635	2,010
Deposits for guarantees	1,187	1,187
Joint liability for pensions	282	298
Other contingent liabilities	72	431
Total	**3,176**	**3,926**

The liabilities from guarantees relate to a guarantee in favor of Westfalen Chemie GmbH & Co. KG made to Commerzbank AG.

The outstanding liability contributions concern Westfalen Chemie GmbH & Co. KG.

The joint liability for pensions concerns pension obligations transferred to WNC Nitrochemie Aschau GmbH, Aschau.

Investment expenses for which contractual obligations exist on the reporting date but which have not yet been incurred amount to:

	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Fixed assets	10,530	1,932
Intangible assets	--	--
Total	**10,530**	**1,932**

Subsoil contaminated with harmful explosive-type materials was discovered already some time ago on a piece of land belonging to a Group company, which was used to produce explosive materials. These result from the periods of the First or Second World Wars when the site was placed under the auspices of the army and used to produce military explosives. The respective soil layers were removed and disposed of some years ago. However, the concentration of pollutants on the site over several decades resulted in contamination of groundwater that is gradually spreading. The

company concerned is currently negotiating with the relevant authorities concerning further procedure. This entails the examination of various cleanup measures. The risk exists that these investigations or later cleanup measures will result in earnings burdens. The first measures were introduced in 2006 to examine potential decontamination instruments. These investigations are continuing in 2007. Provisions of T€ 667 were formed to match the level of identifiable risks; due to a lack of reliable information, we have elected not to create a provision for incalculable risks extending beyond this level.

The cartel office of the European Union initiated an investigation of suppliers in the market for paraffin in 2005. The measures have been justified on the basis of an initial suspicion concerning collusion that contravenes cartel law. Group company documents were also examined as part of this investigation, and interviews were held during the course of the past business year. It is currently impossible to issue specific statements regarding the status of inquiries or regarding the timing of the ending of investigations. Specific information that might justify the measures of the cartel office is not available. As the result of a current legal opinion, we formed no provision as of December 31, 2006 for risks relating to the cartel procedure.

Operational land is partially rented. Cleanup obligations apply when the rental contract ends. It is unclear whether and to what extent potential contamination exists. The expected costs can also not be estimated reliably.

Such rental agreements also mean that the lessee is obligated to demolish and remove buildings and operating plant. A provision has not been formed since it is currently unclear whether and to what extent contamination exists. The expected costs can also not be estimated reliably. Compensation claims arise if long-term rental agreements are ended by the lessor, or are not extended. These compensation claims exclude an outflow of resources from today's perspective.

Other financial obligations

The financial obligations resulting from long-term rental and lease contracts as well as other obligations stretching over several years, can be seen from the following table:

	Dec. 31, 2006 T€*	Dec. 31, 2005 T€
of which due within one year	8,899	7,398
of which due > 1 year and < 5 years	14,991	11,330
of which due > 5 years	158	942
Total	**24,048**	**19,670**

* excluding discontinued activities

Financial obligations include, among other things, a finance leasing agreement concluded with Deutsche Leasing AG, Bad Homburg, for an integrated ERP system for a total volume of € 4.5 million. The duration of the first leasing tranche of € 2.0 million commences on July 1, 2007.The maximum duration is 60 months depending on when the second tranche is drawn down.

(39) Management bodies of H&R WASAG AG

Executive Board	Membership of supervisory or advisory boards
Dr. Horst-Rüdiger Hollstein	
– Chief Executive Officer Jesteburg	– Member of the Supervisory Board of Ravensberger Bau-Beteiligungen AG i.I., Berlin – Member of the Supervisory Board of Otto M. Schröder Bank Aktiengesellschaft, Hamburg – Member of the Supervisory Board of New-York Hamburger Gummi-Waaren Compagnie AG, Hamburg (until August 9, 2006)
Maria-Elisabeth Ostermann-Müller	
– Chief Financial Officer Lingen (Ems)	
Niels H. Hansen	
– Chief Operating Officer Hamburg	

Supervisory Board	Membership of supervisory or advisory boards
Bernd Günther	
– Chief Executive of Hamburger Getreide-lagerhaus AG, Hamburg – Chairman of the Supervisory Board	– Member of the Supervisory Board of Real AG, Kelkheim – Member of the Supervisory Board of Göttinger Brauhaus AG, Göttingen – Chairman of the Supervisory Board of Ravensberger Bau-Beteiligungen AG i.I., Berlin – Memeber of the Supervisory Board of Kremlin AG, Hamburg (since August 31, 2006) – Chairman of the Supervisory Board of Maschinenfabrik Heid AG, Stockerau, Austria – Chairman of the Supervisory Board of New-York Hamburger Gummi Waaren Compagnie AG, Hamburg
Eckbert von Bohlen und Halbach	
– Chief Executive of Bohlen Industrie GmbH, Essen – Chief Executive of Bohlen Handel GmbH, Essen – Chief Executive of Prosecur Holding GmbH, Munich – Vice-Chairman of the Supervisory Board	– Chairman of the Supervisory Board of Feierabend AG Onlinedienste für Senioren, Frankfurt/Main – Member of the Supervisory Board of W.P. Stewart/Hartmann Ltd., New York/Bermuda
Nils Hansen	
– President of Hansen & Rosenthal KG, Hamburg	– Member of the Supervisory Board of Otto M. Schröder Bank Aktiengesellschaft, Hamburg

Günter Papenburg	
– Chief Executive of GP Günter Papenburg AG, Schwarmstedt	– Member of the Supervisory Board of AVA Allgemeine Handelsgesellschaft der Verbraucher AG, Bielefeld – Member of the Supervisory Board of Ravensberger Bau-Beteiligungen AG i.I., Berlin – Chairman of the Advisory Board of Readymix Beton Saale GmbH & Co. KG, Halle (Saale) (until December 31, 2006) – Member of the Advisory Board of Arena Hannover GmbH, Hannover – Member of the Advisory Board of Heide Transportbeton GmbH & Co. KG, Soltau – Member of the Advisory Board of Mitteldeutsche Baustoffe GmbH, Sennewitz – Member of the Advisory Board of Norddeutsche Landesbank Girozentrale, Hanover – Member of the Advisory Board of Poller Steinbrüche GmbH & Co. KG, Vahlbruch – Member of the Advisory Board of Sindelfinger Asphalt-Mischwerk GmbH & Co. KG, Sindelfingen
Supervisory Board (Workers' representatives)	
Reinhold Grothus	
– Chairman of workers' council of H&R ChemPharm GmbH, Salzbergen	
Dieter Obert	
– Electrician Gaudlitz GmbH, Coburg	

(40) Disclosures of relationships with related parties

The following supplies and services are rendered or utilized for related persons who might exercise a significant degree of influence.

	Volume of services provided Hansen & Rosenthal		Volume of services received Hansen & Rosenthal	
Supplies and services	2006 T€	2005 T€	2006 T€	2005 T€
Supplies of chemical pharmaceutical products	206,916	138,369	4,763	2,884
– Salzbergen	165,234	119,129	--	--
– Hamburg	41,682	19,240	--	--
Incidental expenses from the supply relationship (freight costs, toll charges etc.)	179	431	9,283	7,048
Commission fees	80	--	726	402
Other services and third party costs (IT-Services, personnel costs etc.)	640	265	500	645

The supplies and the commission business are based on contractual agreements that regulate both, the terms of supply as well as their processing.

As of December 31, 2006 the following receivables und liabilities existed:

	Receivables from Hansen & Rosenthal		Liabilities to Hansen & Rosenthal	
Receivables und liabilities	Dec. 31, 2006 T€	Dec. 31, 2005 T€	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Supplies and services	3,301	10,755	1,653	1,681
Others	7,594	5,585	--	0
Total	**10,895**	**16,340**	**1,653**	**1,681**

Other receivables concern receivables from the commission business, where Hansen & Rosenthal, as commission agent, receives payments from customers and forward them to H&R WASAG AG.

The services were rendered for associated companies, or utilized by them:

	Volume of services provided		Volume of services received	
Services	2006 T€	2005 T€	2006 T€	2005 T€
Delivery of explosives	1,403	1,140	--	--
Purchase of hydrogen and steam	--	--	1,598	1,380
Interest income	39	39	--	96
Rental income	41	40	--	--
Services	233	218	--	--
Total	**1,716**	**1,437**	**1,598**	**1,476**

As of December 31, 2006 the following receivables und liabilities existed:

	Receivables from associated companies		Liabilities to associated companies	
Receivables und liabilities	Dec. 31, 2006 T€	Dec. 31, 2005 T€	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Supplies and services	382	921	--	146
Others	859	0	--	--
Total	**1,241**	**921**	**--**	**146**

The following services were rendered for members of management bodies, or utilized by them:

The fees invoiced as part of consultancy contracts and for sales activities to BOWAS Group and BOHLEN Handel GmbH totaled T€ 348 (previous year: T€ 293) in 2006.

The fees paid and third party costs invoiced as part of the consultancy contract with Idunahall Verwaltungs-Gesellschaft m.b.H. totaled T€ 26 (previous year: T€ 20) in 2006.

Total remuneration paid to the Executive Board in the financial year 2006 was T€ 4,407 (previous year: T€ 2,058), of which T€ 960 (previous year: T€ 958) was a fixed, and T€ 3,447 (previous year: T€ 1,100) a variable remuneration component. The basis for calculating the variable remuneration is annual earnings adjusted for one-off effects from the purchase of companies.

	Fixed components T€	Performance-related components T€	**Total remuneration T€**
Dr. Horst-Rüdiger Hollstein	515	2,204	**2,719**
Maria-Elisabeth Ostermann-Müller	229	1,243	**1,472**
Niels H. Hansen	216	--	**216**

A total of T€ 1,500 was paid to members of the Executive Board in December 2006 as a prepayment for the bonus. This prepayment consequently entails a loan granted as per § 89 Paragraph 1 Clause 4 of the Stock Corporation Act (AktG) for which there is a corresponding Supervisory Board resolution. The prepayments will be deducted from the bonus payments in 2007.

On conclusion of the Executive Board agreement, Executive Board member Niels H. Hansen has elected not to accept a variable remuneration component for the benefit of the company.

There are no pension claims currently outstanding with respect to the Executive Board members.

Former members of the Executive Board and their surviving dependants received total remuneration of T€ 328 (previous year: T€ 339); the pension provisions formed for this group of people totaled T€ 2,666 (previous year T€ 3,400) as at December 31, 2006.

Supervisory Board remuneration provides an annual fixed salary of € 12,000.00 per member of the Supervisory Board. For every € 0.01 paid in excess of € 0.10 per ordinary share, this remuneration increases by € 300.00. The Chairman of the Supervisory Board receives twice this amount and the Vice-Chairman one and half times this figure.

For their committee work, members of the Supervisory Board received an additional € 3,000.00. This remuneration is doubled for members of the Supervisory Board who are active as a Chairman of a board.

For the 2006 financial year, remuneration of T€ 215 (previous year: T€ 147) was made for Supervisory Board. Of this, the fixed component comprised T€ 102 (previous year: T€ 102) and the variable component T€ 113 (previous year: T€ 45).

The remuneration shares are distributed among the members of the Supervisory Board as follows:

	Fixed components T€	Performance-related components T€	**Total remuneration T€**
Bernd Günther	30	30	**60**
Eckbert von Bohlen und Halbach	21	23	**44**
Nils Hansen	15	15	**30**
Günter Papenburg	12	15	**27**
Reinhold Grothus	12	15	**27**
Dieter Obert	12	15	**27**

The following receivables and liabilities existed as of December 31, 2006:

	Receivables due from board members		Liabilities to board members	
Forderungen und Verbindlichkeiten	Dec. 31, 2006 T€	Dec. 31, 2005 T€	Dec. 31, 2006 T€	Dec. 31, 2005 T€
Supplies and services	--	--	69	89
Bonus prepayment *	1,500	--	--	--
Bonus liability	--	--	3,446	800
Supervisory Board remuneration	--	--	215	147
Total	**1,500**	**--**	**3,730**	**1,036**

* Please also refer to the remarks above

(41) Declaration of conformity in accordance with § 161 AktG

The declaration on the German Corporate Governance Code specified by § 161 of the Companies Act was submitted in December 2006 and made available to shareholders. The text of the declaration can be found in the 2006 annual report on page 22 and on the company's website on the Internet at www.hur-wasag.com.

(42) Group audit expenses recorded as expenditure in the financial year

In the financial year the following fees were reported as expenditure for the Group auditor:

	2006			2005
	Group auditor T€	Auditor companies working internationally in association with the group auditor T€	**Total T€**	**Total T€**
Audits	410	120	**530**	**677**
Other certification or evaluation services	7	2	**9**	**102**
Tax consultancy services	227	61	**288**	**294**
Other services provided for the parent company or subsidiaries	592	0	**592**	**342**
Total	1,236	183	**1,419**	**1,415**

Tax consulting in Germany in the reporting year comprised the current tax consulting including tax declarations as well as the fiscal analysis of various concepts.

Other services concerned mainly support provided for the preparation for, and implementation of, an M&A process for a strategic disposal.

(43) Release from disclosure requirement

As of December 31, 2006, the following companies have elected to make use of the opportunity to be released from the requirement of disclosure in accordance with § 264 paragraph 3 in connection with § 325 of the German Commercial Code (HGB): H&R Ölwerke Schindler GmbH, H&R Chemisch-Pharmazeutische Spezialitäten GmbH, Gaudlitz GmbH H&R Lube Blending GmbH, H&R LubeTech GmbH, H&R ChemPharm GmbH, H&R Lube Trading GmbH, Paul Fütterer GmbH, H&R ESP International GmbH, H&R InfoTech GmbH, H&R GSP South Africa GmbH, SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH.

(44) Discontinued activities as per IFRS 5

The assets and liabilities of the Explosives Division, which will be relinquished in the future, are reported among assets held for disposal, and liabilities related to the disposal:

	T€
Cash and cash equivalents	1,104
Receivables and other assets	10,341
– thereof long-term	(896)
Inventories	9,185
Fixed assets *	24,524
Goodwill *	17,571
Other intangible assets *	547
Financial assets *	351
Deffered taxes *	2,837
Total	**66,460**

* long term

	T€
Financial debt	6,041
– of which long-term	(3,094)
Trade accounts payable	4,054
Pension provisions *	3,169
Other liabilities *	7,943
– of which long-term	(2,968)
Deferred tax *	919
Total	**22,126**

* long term

The inventory representing a value of T€ 5,465 and the accounts receivable from sales and services of T€ 6,260 have, as of December 31, 2006, within the context of the cash pooling, have been pledged to the credit institutes of the continued group division.

The group is pushing further ahead in the new business year with the process of repositioning in the explosives business. Specific negotiations have started with various parties.

On April 26, 2007, we sold with immediate effect the Group companies Westspreng GmbH and WANO Schwarzpulver GmbH to the Spanish-Italian Maxam/Pravisani group. The purchase price is based on an enterprise value exceeding € 80 million.

The group wants to utilize the financial flexibility gained to push further forward with the expansion of the chemical-pharmaceutical core business.

(45) Risk management policy and hedging measures

But the operating business as well as the financing transactions of the H&R WASAG Group, as an internationally active concern, are subject to financial risks. These concern risks arising particularly from liquidity risks, counterparty default risks, raw materials price risks, exchange-rate fluctuations, and changes in levels of interest rates. The risk management system of H&R WASAG AG, which is implemented across the Group, entails the identification, analysis, and evaluation of these risks before implementing measures to avoid or limit them. Derivative financial instruments are also utilized in this connection. The purchase of derivative financial instruments for speculative purposes is not permitted. All transactions with derivative financial instruments must be approved by the Executive Board.

Liquidity risk

The H&R WASAG Group ensures sufficient liquidity through the daily monitoring of its liquidity status and unutilized financing facilities.

Default risk

The H&R WASAG Group supplies predominantly to customers of first-class credit quality, which results in extremely few instances of receivables default. Receivables that are uncollectible according to current knowledge are covered through write-downs.

Raw materials price risk

The H&R WASAG Group is exposed to price fluctuation risk among other things in the purchasing of raw materials, particularly the purchasing of atmospheric residue and vacuum gas oil. Most supply agreements concluded with customers relating to specialty products manufactured by the Chemical-Pharmaceutical Raw Materials Division's specialty refineries incorporate prices fixed for a period of at least three months. A specialty refinery's production process, from the delivery of raw materials to the supply of the finished product to the customer, can last six to eight weeks. This means that rapid increases in raw materials costs cannot be passed on immediately to markets but only with a time delay. Relevant price developments are subject to constant monitoring and analysis. Rising raw materials prices may result in windfall losses in earnings, and falling raw materials prices may lead to windfall profits, which balance out over long periods, as a rule. As a consequence, the main risk arises from ensuring liquidity for periods of rising raw materials costs (please see above).

Foreign currency risks

The international orientation of the H&R WASAG Group means that its operating activities gives rise to, among other things, currency risks that result from exchange-rate fluctuations between the company's currency and other currencies. These arise particularly in the purchasing area as a result of US-dollar transactions. Such risks are hedged using forward transactions in the trading business. No hedging is performed in the production process, since the length of time entailed in the production process means that the intended hedge may be reversed by the time that the currency forward transaction has concluded.

Interest-rate risks

The H&R WASAG Group utilizes, among other things, variable interest-rate facilities as part of its financing activity. Interest hedging instruments are implemented to limit risks arising from changes in market interest rates. These concern interest-rate caps and interest-rate swaps. Such transactions may be entered into on a decentralized basis within the H&R WASAG Group but require the prior approval of the Executive Board.

Further information concerning financial instruments Note 37.

(46) Events after the date of the balance sheet

H&R WASAG AG pressed ahead in the new financial year with the process of repositioning in the explosives business (for further details please refer to Note 44).

H&R WASAG AG in January successfully concluded the capital increase that it had introduced in December 2006. Over 96% of the shares offered were subscribed for by shareholders during the subscription period that lasted until January 16, 2007. The remaining shares were sold on a discretionary basis as part of a private placing.

The company received a gross cash inflow from the capital increase of € 25.2 million, which it is intended will be invested in the expansion of core activities in Asia in coming years.

Salzbergen, April 26, 2007
Executive Board

Dr. H. Hollstein | M. E. Ostermann-Müller | N. H. Hansen

Consolidated subsidiaries and equity interest

	Division	Shareholder's equity T€ [1]	Partizipation Ratio %	Earnings T€ [1]
Consolidated Companies				
H&R Chemisch-Pharmazeutische Spezialitäten GmbH, Salzbergen, Germany	a	25,988	100.00	EAV[2]
H&R Lube Blending GmbH, Salzbergen, Germany	a	1,927	100.00	EA[2]
H&R LubeTech GmbH, Salzbergen, Germany	a	25	100.00	EAV[2]
H&R ChemPharm GmbH, Salzbergen, Germany	a	53,636	100.00	EAV[2]
H&R LubeTrading GmbH, Salzbergen, Germany	a	473	100.00	EAV[2]
Paul Fütterer GmbH, Neustadt an der Weinstraße, Germany	a	144	100.00	EAV[2]
H&R EcoClean GmbH, Salzbergen, Germany	a	-70	100.00	-8
H&R ESP International GmbH, Hamburg, Germany	a	25	100.00	EAV[2]
H&R Ölwerke Schindler GmbH, Hamburg, Germany	a	22,986	100.00	EAV[2]
H&R InfoTech GmbH, Salzbergen, Germany	d	25	100.00	EAV[2]
H&R Benelux B.V., Nuth, Niederlande, Germany	a	2,162	100.00	10
H&R ESP Sales Limited, Milton Keynes, Great Britain	a		100.00	[3]
H&R ESP Tipton Limited, Milton Keynes, Great Britain	a		100.00	[3]
H&R ChemPharm (UK) Ltd., Milton Keynes, Great Britain	a	-6,823	100.00	-6,718
H&R GSP Inc., Detroit, USA	a	159	100.00	572
H&R ESP s.r.o., Prag, Czech Republic	a	57	100.00	14
H&R GSP Pty Ltd, Victoria, Australia	a	6,086	100.00	1,428
H&R Global Special Products Co. Ltd., Bangkok, Thailand	a	-9	100.00	-5
H&R Global Special Products Sdn. Bhd. Kuala Lumpur, Malaysia	a	210	100.00	215
H&R GSP Co. Ltd., Bangkok, Thailand	a	1,702	100.00	743
H&R GSP Co. (HK) Limited, Hongkong	a	-486	100.00	-191
H&R Global Special Products (Proprietary) Limited, Durban, South Africa	a	1,541	100.00	692
H&R GSP South Africa GmbH, Hamburg, Germany	a	14,025	100.00	EAV[2]
H&R Global Special Products Sales (Proprietary) Limited, Durban, South Africa	a	1,310	100.00	315
Dussek Campbell (Proprietary) Limited, Durban, South Africa	a	799	51.00	64
H&R Grundstücksverwaltungs GmbH, Salzbergen, Germany	a	7,199	100.00	268
H&R Grundstücksverwaltungs-Beteiligungsgesellschaft mbH, Salzbergen, Germany	a	1	74.04	-3
GAUDLITZ GmbH, Coburg, Germany	b	4,502	100.00	EAV[2]
GAUDLITZ Green Point Precision Technology (Wuxi) Co., Ltd, Wuxi, China	b	2,407	51.00	-931
WANO Schwarzpulver GmbH, Liebenburg, Germany	c	428	100.00	152
WANO Entertainment GmbH, Liebenburg, Germany	c	-196	100.00	-3
Allmex i. AB, Karlstad, Sweden	c	588	100.00	32[5]
SYTHENGRUND Wasagchemie Grundstücksverwertungsges. Haltern mbH, Haltern, Germany	c	3,833	77.72	EAV[2]
Westspreng GmbH, Sprengstoff + Sprengtechnik, Finnentrop-Fretter[6], Germany	c	11,592	94.19	-2,103

1) Including shares held in trust: Shares in the following companies are only held indirectly through trustees: H&R WASAG AG holds 49 % of shares in H&R Global Special Products Co., Ltd., Bangkok, Thailand, via subsidiaries, and 51% is managed for the Group by trustees. H&R Global Special Products Co., Ltd. in turn holds 60.98% of H&R GSP Co., Ltd., Bangkok, Thailand. A further 38.98% is held by a subsidiary which is wholly owned by H&R WASAG AG. The remaining 0.04% is held for the Group in trust. The Group has a direct 30% stake in H&R Global Special Products Sdn. Bhd., Kuala Lumpur, Malaysia. The remaining 70 % is held for the Group in trust.
2) EAV = Profit and loss agreement
3) For these companies, no year-and-accounts are available as of Dec. 31, 2006.

SLOVBLAST S.r.o., Spiska Nova VES, Slovenia	c	5	100.00	-10[5]
Westera Ltd., Dniepropetroska, Ukraine	c	50	51.00	0
Detona Sprengstoff-Vertrieb Beteiligungs GmbH, Finnentrop-Fretter, Germany	c	40	100.00	3
BST Bohr- und Sprengtechnik GmbH & Co. KG, Pölzig, Germany	c	52	100.00	574
Ipari Robbanóanyagot Gyártó KFT, Peremarton, Hungary	c	459	100.00	-46[5]
BLASTEXPOL Sp.z o.o., Lubin, Poland	c	6,980	100.00	762[5]
Przedsiebiorstwo Uslug Gorniczych „K&N“ Sp. z o.o., Swierki, Poland	c	4	65.00	68[5]
LA POUDRERIE S.A.., Kockelscheuer, Luxembourg	c	118	100.00	5[5]
POUDRERIE DE LESSINES S.A., Brüssel, Belgium	c	89	100.00	0[5]
ALPSPRENG Bohr- und Sprengtechnik GmbH, Eisenerz, Austria	c	212	100.00	-186
Schneider Sprengtechnik GmbH, Bad Sobernheim, Germany	c	391	100.00	247
Romblast S.R.L., M-Ciuc, Romania	c	-169	99.99	-151[5]
CS Blast Servis spol s.r.o., Prag, Czech Republic	c	-175	70.00	-79[5]
Detines d.o.o., Zagreb, Croatia	c	738	100.00	-57[5]
WASAG CHEMIE Marketing GmbH, Hamburg, Germany	c	24	100.00	0
H&R Eurospreng GmbH, Salzbergen, Germany	c	22	100.00	-1
GRA Grundstücks-Verwaltungsges. mbH, Hamburg, Germany	d	21	100.00	-1
B.-H. Beteiligungs- und Handelsges. mbH, Essen, Germany	d	-71	100.00	-27
Financial assets shown by the equity method				
Westfalen Chemie GmbH & Co. KG, Salzbergen, Germany	a	-2,206	50.00	-88
Westfalen Chemie Verwaltungsgesellschaft mbH, Salzbergen, Germany	a	59	50.00	1
Schmidtmann GmbH Sprengstoffhandel, Anröchte, Germany	c	[3]	26.00	[3]
Schuetzen Powder LLC, Arlington TX, USA	c	202	50.00	-29
Non consolidated companies				
WAFA Kunststofftechnik GmbH & Co. KG, Augsburg, i. K., Germany		[3]	100.00	[3]
WAFA Kunststofftechnik Verwaltungs GmbH, Augsburg, i. K., Germany		[3]	100.00	[3]
H&R European Special Products Chorley Limited, Milton Keynes, Great Britain	a	[3]	100.00	[3]
H&R European Special Products Sales Limited, Milton Keynes, Great Britain	a	[3]	100.00	[3]
H&R European Special Products Tipton Limited, Milton Keynes, Great Britain	a	[3]	100.00	[3]
Participating interests				
SRS EcoTherm GmbH, Salzbergen, Germany	a	4,266	10	161
Betreibergesellschaft Silbersee II Haltern am See mit beschränkter Haftung, Essen, Germany	c	[3]	8	[3]

4) The shares of minority shareholders do not carry voting rights.
5) Preliminary
6) This concerns the former WASAGCHEMIE Sythen GmbH, which changed its name as part of the merger of Westspreng GmbH und Sprengstoffwerk Gnaschwitz GmbH.

Divisions:
a) Chemical Pharmaceutical Raw Materials b) Plastics c) Explosives d) Other activities

Auditor's report

„Auditor's report

We have audited the consolidated financial statements prepared by H&R WASAG Aktiengesellschaft, Salzbergen, consisting of the balance sheet, profit and loss account, movements in net equity, cash flow statement and Notes, for the financial year from January 1 to December 31, 2006. The preparation of the consolidated financial statements in accordance with IFRS, as applied in the EU, and the applicable rules as set out in § 315a paragraph 1 of the German Commercial Code (HGB) lies within the scope of responsibility of the legal representatives of the company. It is our task, on the basis of the audit that we have conducted, to provide an assessment of the consolidated financial statements and the Group management report.

We have conducted our audit of the consolidated financial statements in accordance with § 317 of the German Commercial Code taking into account the German principles of proper auditing defined by the Institute of Auditors (IDW). Accordingly, the audit should be planned and carried out in such a way that incorrect statements and infringements are identified with sufficient confidence that have an effect on the presentation of the net worth, financial position and the results of operations as conveyed by the consolidated financial statements, taking into account applicable accounting principles, as well as by the Group management report. The scope of the audit was planned taking into account our understanding of business operations, the Group's economic and legal environment and any potential errors expected. As part of the audit, the effectiveness of the accounting-related internal control system, as well as documented evidence for the disclosures made in the consolidated financial statements and in the consolidated management report was subject to evaluation on the basis of random checks. The audit comprises the assessment of the annual financial statements of companies included in the consolidated financial statements, the delimitation of the scope of consolidation, the accounting and consolidation principles applied, key estimates made by the legal representatives, as well as an evaluation of the overall presentation of the consolidated financial statements and of the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has led to no objections.

In our opinion, on the basis of knowledge gained as part of our audit, the consolidated financial statements have been prepared in accordance with IFRS, as applied in the EU, and the applicable commercial law rules as set out in § 315a of the German Commercial Code paragraph 1 (HGB) and, taking these principles into account, they convey a picture of the net worth, financial position and the results of operations of the Group that corresponds to the actual circumstances. The Group management report harmonizes with the consolidated financial statements, conveys an overall appropriate picture of the situation of the Group and appropriately represents the opportunities and risks related to future development.

Hamburg, April 27, 2007
SUSAT & PARTNER OHG
Wirtschaftsprüfungsgesellschaft

Dr. Roser
Auditor

Bischoff
Auditor"

Financial Calender

May 31, 2007	Q 1 Report 2007
July 19, 2007	Annual Shareholder Meeting in Hamburg
August 10, 2007	Q 2 Report 2007
November 12, 2007	Q 3 Report 2007

Contact

If you should have any further questions concerning our company or if you like to sign up for the company mailing list please contact our Investor Relations Team:

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Imprint

Published by:	H&R WASAG AG Neuenkirchener Strasse 8 48499 Salzbergen Germany
Concept/Design:	Saints, Munich
Photos:	Oliver Jung, Munich
Translation:	Baker & Harrison, Munich
Lithography:	Medienprinzen GmbH, Munich
Printing:	Blueprint AG, Munich

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