Annual Report 2004

Shaping growth

H&R WASAG AG

Highlights 2004

January 2004: Takeover of the BP specialty refinery activities in Europe

As of January 2, 2004, we took over the BP specialty refinery activities. These operations included the specialty refinery Hamburg-Neuhof, as well as three conversion facilities in Great Britain and the Netherlands. In addition, the acquisition also comprises the respective BP sales organization that we have integrated into the Chemical-Pharmaceutical Raw Materials Division.

February 2004: Foundation of joint venture in China

On February 10, 2004, the agreements were signed on the foundation of a joint venture involving the Plastics Division. Production kicked off at the end of the year, while operations at our Taiwanese joint venture partner located in the vicinity of Shanghai will continue up to the second quarter of 2005.

March: H&R WASAG share obtains SDAX listing

As of March 4, 2004 the H&R WASAG share was admitted to the SDAX, the listing for small and medium-sized corporations. In line with this step, we have also considerably extended our investor relations activities. In the meantime, the interest shown in the share has increased steadily.

May: Negotiations commence with SNPE on joint venture

In May we took up negotiations with SNPE, the French chemicals corporation. The aim is to merge the industrial explosives activities of both parties as a joint venture establishing a leading explosives group in Europe.

July: Acquisition of BP's global specialty activities

Effective as of July 6, 2004, we acquired additional BP activities focusing on the production and sale of specialty products. The acquisition comprises conversion facilities in South Africa, Australia and Thailand, as well as the respective regional sales organizations.

Extraction capacities in Hamburg-Neuhof extended

In connection with the integration of BP's European specialty refinery activities, we immediately initiated measures for the targeted expansion of the capacities taken on board. The main focus was on expanding the extraction facilities at the Hamburg-Neuhof refinery for the production of marker-free softening agents for the tire industry.

September: Thermal waste treatment facility in Salzbergen comes on-stream

September 3, 2004 marked the official commissioning of the thermal waste treatment facility in Salzbergen (TAS). The new facility is being operated together with RWE Power AG and provides the basic load of steam for the operation of the Salzbergen refinery. With this new facility we have succeeded in considerably reducing the energy costs of the Salzbergen location.

October: Takeover of Sprengstoffwerke Gnaschwitz

In October we initiated the takeover of the explosives manufacturer Sprengstoffwerke Gnaschwitz. The approval of the regulatory authorities is still pending.

The Group in figures
(IFRS)

		2004	2003	2002
Net sales	€ m	497.1	211.2	191.6
Operating income (EBITDA)	€ m	32.9	24.0	20.6
EBIT	€ m	16.5	12.8	9.8
Income before income taxes and minority interests	€ m	9.8	10.6	8.2
Income before minority interests	€ m	7.5	5.8	4.4
Net income	€ m	6.5	4.9	4.4
Cash flow from operating activities	€ m	19.4	20.3	17.4
Earnings per share				
- basic earnings per share	€	0.34	0.26	0.23
- before amortization of goodwill	€	0.47	0.37	0.34
Dividend per share	€	*0.30	0.30	0.45
Balance sheet total	€ m	329.3	165.7	134.1
Shareholders' equity	€ m	80.5	79.4	68.7
Equity ratio	%	24	48	51
Employees (Dec. 31)		1,634	1,215	883

The Divisions in figures
(IFRS)

		2004	2003	2002
Sales				
Chemical/Pharmaceutical Raw Materials	€ m	409.1	139.0	146.5
Precision Plastics	€ m	34.9	33.0	32.7
Explosives	€ m	53.1	39.2	12.4
Operating income (EBITDA)				
Chemical/Pharmaceutical Raw Materials	€ m	20.4	12.0	15.2
Precision Plastics	€ m	5.2	6.2	5.9
Explosives	€ m	6.4	5.0	2.3

* Dividend proposal

Group

H&R WASAG AG operates and manages a number of subsidiaries involved in the development and production of highly specialized products serving various different industries. By concentrating on high-margin niche markets, the specialty group is benefiting from the ongoing, sustained outsourcing trend. The core activities are bundled in three divisions: Chemical-pharmaceutical raw materials (the production of crude oil based feed materials for the chemical and pharmaceutical industry), plastics (the manufacture of precision plastics parts based on injection molding techniques), and explosives (the development and production of industrial explosives). The diversification into three divisions and the activities in independent markets serve to buffer individual market risks. All three divisions are profitable and positioned to achieve organic growth, as well as accommodate additional acquisitions.

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M. E. Ostermann-Müller
CFO

N. H. Hansen
CSO

Dr. H. Hollstein
CEO

Foreword by the Executive Board

Dear ladies and gentlemen,
Dear shareholders,

The present annual report for 2004 bears the title, "Shaping growth". This title, however, does more than express what we have achieved in 2004, as it also sums up our program and objectives for the future.

First and foremost, increasing the value of the company for our shareholders takes top priority. There are, however, different ways of shaping growth. In order to translate growth into a lasting rise in the value of the company, expansion must be placed on a solid foundation and embedded in a systematic, long-term strategy.

The cornerstones of our strategy are concentration on the specialty chemistry niche markets, and the diversification of activities into mutually independent markets to offset any existing individual risks and the pursuit of international expansion. This strategy permits high earning power and offers considerable growth potential, while at the same time limiting the risks impacting the course of further growth.

The developments in the last year clearly documented the significance of this strategy for our group.

With the takeover of BP's special refinery activities, we more than doubled our sales at a stroke to € 497.1 m, and have thereby risen to become one of the world's largest suppliers of oil-based raw materials for the chemical and pharmaceutical industries. But we also paved the way for further growth in our two other divisions: in our precision plastics business by setting up a production facility in China, and in the explosives area by acquiring Sprengstoffwerke Gnaschwitz and starting collaboration talks with the French company SNPE.

At the same time as integrating our new activities, we have had to maintain our position in an extremely tough environment. The price of crude oil rose by 80% at its peak, and we were not able to pass on our increased raw material costs immediately. This development alone led to a negative effect on earnings amounting to € 26 m within the Chemical Pharmaceutical Raw Materials Division. We also incurred € 4 m of integration-related expenses in 2004.

Taking into account these overall conditions, we posted surprisingly good earnings. Operating earnings (EBITDA) rose by 37 % to € 32.9 m. Pre-tax earnings reached € 9.8 m which matched the level of the previous year and earnings per share rose to € 0.34. We owe this growth primarily to our diversification into different markets which enabled us to largely offset the increased burdens.

Today we already have efficient means of spreading the raw material price risk even within the Chemical Pharmaceutical Raw Materials Division. While our refinery activities were affected by the movements in the oil price, outside of Germany we increasingly operate as traders and no longer as producers. In these regions we are able to earn stable margins even when the markets are volatile. At the same time, our activities in the blending and filling of lubricants, together with our two other divisions, Plastics and Explosives, cushion the risk by providing stable earnings.

It is our declared aim to enable our shareholders to participate in this earnings growth. The Executive and Supervisory Boards will therefore propose to the shareholders' meeting to pay an unchanged dividend of € 0.30 per share.

In the coming years, too, we will achieve further growth - in all three divisions. The varied market structures will determine that the divisions expand at different rates and to differing extents. We see potential in the

Chemical Pharmaceutical Raw Materials Division through the acquisition of further special activities from major oil companies and through expansion in the oversea regions. In the Plastics Division, we will set up new production facilities in the important growth regions of the world, thereby ensuring organic growth. In the Explosives Division, on the other hand, we are pushing ahead with the construction of a European explosives group through acquisitions and alliances.

It is not possible to successfully shape growth without the enthusiasm and expertise of our employees. We thank all employees for the high level of commitment shown in 2004 which was especially put to the test by the integration process and the tough market environment.

Salzbergen, April 2005
The Executive Board

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

Report of the Supervisory Board


Bernd Günther
Chairman

Dear ladies and gentlemen,

In the financial year 2004, the Supervisory Board monitored the management of the group by the Executive Board in accordance with the tasks allocated to it, as laid down in law, the company's articles and its rules of procedure. We also provided advice to the Executive Board in the course of performing its duties. In the process, we took a detailed interest in the position of the company and the growth of the business.

The Executive Board kept all members of the Supervisory Board regularly, promptly and thoroughly informed both verbally and in writing as part of a monthly and quarterly reporting procedure. The Chairman of the Supervisory Board was also informed of all important business dealings on an ongoing basis. We were involved in decisions of major significance in good time.

There were five ordinary meetings of the Supervisory Board in total in the financial year 2004. The entire Supervisory Board was present in almost every meeting. In these meetings, we took a detailed interest in the current growth of the business, important individual incidents and the group's strategic alignment. All transactions requiring our agreement were dealt with in detail and all the required approvals were issued.

One focus of our discussions was the progress being made with integrating the former BP activities into the Chemical Pharmaceutical Raw Materials Division. The status of the integration process was discussed at each meeting, and we advised on the implementation of measures to realize any possible synergy effects. Discussions also centered on negotiations with the consortium banks when the long-term financial framework was put in place.

Analysis of oil price movements and the effects of high volatility on the earnings situation were also a focal point of the Supervisory Board's work. In this connection, the Board welcomed the strengthening of the trading business in the new overseas regions which is not susceptible to the oil price, and it favored future growth in these areas.

Further subjects of our discussions were the setting up of plastics production in China, the takeover of Sprengstoffwerke Gnaschwitz and the planned joint venture with SNPE in the Explosives Division.

In December 2004, a medium-term corporate plan was discussed in detail, including budgets, investment and liquidity planning. Particular emphasis was placed on showing the company's situation for different movements in the oil price by using scenarios.

In December, we also passed the annual declaration of conformity with the German Corporate Governance Code together with the Executive Board. This declaration confirms that the recommendations of the code have been met, except where variances in individual cases were regarded as relevant. The Supervisory Board was represented at the Corporate Governance Code meeting in Berlin.

The Mediation Committee pursuant to § 27 Section 3 MitbestG (Law on Co-determination) which was set up at the same time as a committee for personnel matters concerning the Executive Board, was not required to meet. The Committee for Capital Measures did not convene in 2004 either.

The firm of chartered accountants chosen by the shareholders' meeting, SUSAT & PARTNER OHG, Hamburg, audited the annual accounts and the consolidated financial statements as at December 31, 2004, as well as the combined management report for the financial year, and gave them its unqualified certificate of approval. The auditor confirmed that the consolidated financial statements are in compliance with the International Financial Reporting Standards and present a true and fair view of the net worth, financial position and results of the group's operations. H&R WASAG AG is thereby exempted from its obligation to prepare consolidated financial statements in accordance with German law in accordance with § 292a HGB.

The auditors also confirmed that the management board had fulfilled its obligation under § 91 Section 2 AktG (Companies Act) to set up an information and monitoring system reflecting the requirements of the company. This system is capable of detecting any developments which might endanger the continued existence of the company, at an early stage.

The auditors also audited the report prepared by the Executive Board in accordance with § 312 AktG on relationships with affiliated companies belonging to the Hansen & Rosenthal group, and confirms:

Report of the Supervisory Board

"After conducting our audit and making our assessment in accordance with our duties, we confirm that

1. *the payments of fact in the report are correct,*
2. *the performance of the company in the legal transactions listed in the report was not inappropriately high and*
3. *with regard to the measures detailed in the report, no circumstances point to a significantly different assessment than that submitted by the management board."*

In the balance sheet meeting on April 25, 2005, the auditor reported on the results of the audit, and all circumstances subject to reporting requirements under the Companies Act were discussed. After conducting its own inspection, the Supervisory Board raised no objections and it approved the result of the audit. We have approved the annual accounts of H&R WASAG AG and the consolidated financial statements as at December 31, 2004; the annual accounts are thereby certified. We also agree with the proposal to use the retained earnings to distribute a dividend of € 0.30 per share.

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

Hamburg, April 2005

On behalf of the Supervisory Board

Bernd Günther
- Chairman -

H&R WASAG share / Corporate Governance

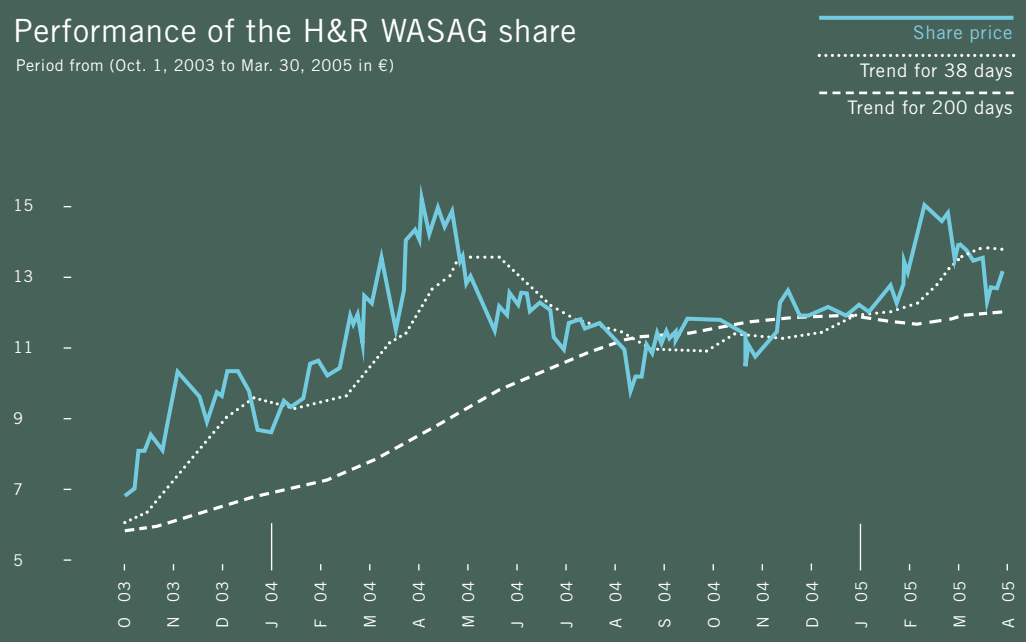
Basic data on the H&R WASAG share

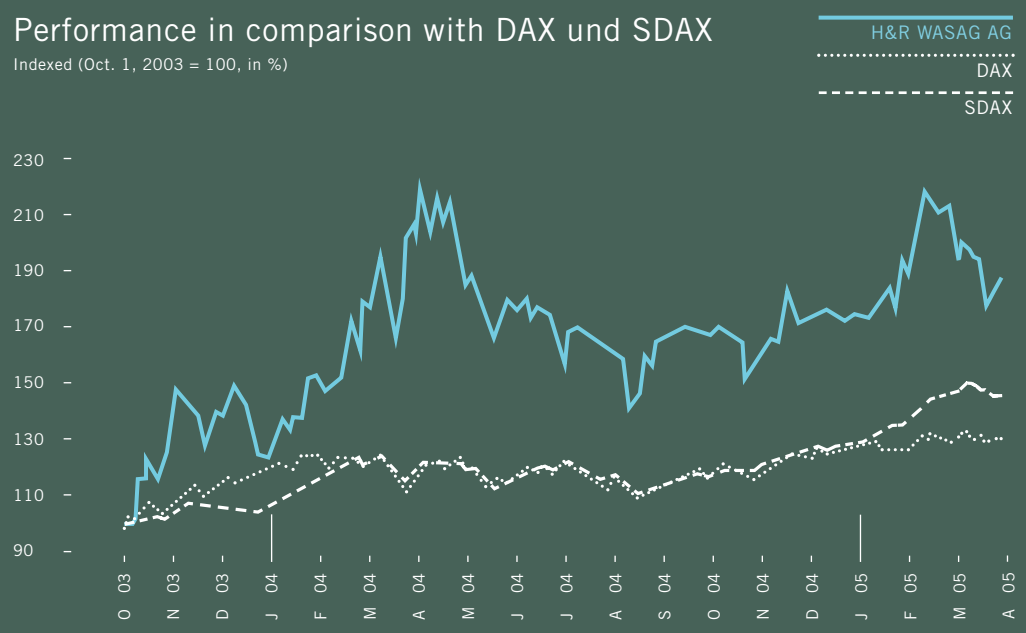
ISIN / WKN	DE0007757007 / 775700
Abbreviation	WAS
Type	No par ordinary bearer shares
Listings	Amtlicher Markt (Official Market) Frankfurt (Prime Standard), Hamburg and Düsseldorf; over-the-counter market Stuttgart and Munich
Indexes	SDAX, Prime Standard All Share, Classic All Share, Prime Chemicals and Prime IG Chemicals Speciality
Designated Sponsor	Concord Effekten Aktiengesellschaft

Key data

	2004	*2003*	*2002*
Number of shares	18,916,000	18,916,000	18,916,000
Dividend proposal	€ 0.30	€ 0.30	€ 0.45
Highest price in the year	€ 15.10	€ 10.25	€ 6.80
Lowest price in the year	€ 8.90	€ 5.55	€ 5.70
Average price	€ 11.68	€ 6.71	€ 6.28
Closing price on Dec., 30	€ 12.00	€ 8.53	€ 5.85
Market capitalization as per Dec., 30	€ 227.0 m	€ 161.4 m	€ 110.7 m

Performance of the H&R WASAG share





H&R WASAG share gains 33% in 2004

The stock market continued to show uneven growth in 2004. While the Deutsche Aktienindex DAX was only able to gain by just under 6 % in the course of the year, the index for small and medium-sized companies, SDAX – to which the H&R WASAG share also belongs – recorded a 19 % gain in total. The increases were recorded primarily in the second half of the year after prices had been mainly flat for the first six months.

In this environment, the H&R WASAG share once again showed better growth than the comparable indexes. In spite of the unusually difficult market environment and the corresponding pressures on earnings, the stock was up by 33 %. In the last two years (2003 und 2004), it achieved average growth of 47 %, and with respect to the last five years (2000 to 2004) it recorded an average growth rate of 18 % per year (without taking dividend payments into account).

Market environment determined price movements

The H&R WASAG stock was listed at € 8.90 at the beginning of the year, which also represented the low for the year. The price rose continuously in the following weeks, reaching its high for the year of € 15.10 at the beginning of April. These gains were favored primarily by positive news and the admission of the H&R WASAG stock to the SDAX. In the following months, the price consolidated and as a result of increasing pressures in the crude oil market, it fell to just under € 10.00 by the middle of August. By the end of the year, the stock had made significant gains again and it finished on € 12.00 on December 30, 2004. This growth at the end of the year was supported by a falling oil price and a positive outlook.

The trading volume also continued to rise. While the value of the average number of H&R WASAG shares traded in one day in 2003 was almost € 60,000, volume increased to over € 130,000 in 2004, which meant that it more than doubled.

Stable dividend

The Executive and Supervisory Boards will propose to the shareholders' meeting in 2005 to pay an unchanged dividend of € 0.30 per share. We are thereby maintaining our attractive dividend policy by which we endeavor to enable our shareholders to participate in the success of the company to a high degree. Our aim is to create added value for our shareholders through a stable dividend, in addition to the increases in company value and in the share price that we are striving to achieve

A payment of € 0.30 per share would correspond to a dividend return of 2.6 % in relation to the average price for 2004.

Investor Relations activities greatly expanded

In step with the growth of our business, we have also significantly expanded our investor relations activities. Supported by the admission of our stock to the SDAX, we have registered increasing interest on the part of the financial community in the course of the year.

The Executive Board explained the development of the business and the group's potential to institutional investors and analysts in numerous individual conversations as well as in the course of 15 road shows and by participating in capital market conferences. In the process, we presented our group for the first time to the financial centers in USA, London, Edinburgh and Paris. We continued this commitment in the new year with road shows to Scandinavia and Milan.

We kept private investors up-to-date through our website and our comprehensive mailing service. We also maintained close dialog with shareholders and interested investors in the course of our shareholders' meeting and the Hamburg stock exchange day, to name but two occasions.

Analysts' coverage has increased significantly

The number of analysts' reports published on the H&R WASAG share also increased dramatically in 2004. Five different research houses in total report regularly on our company. Nearly all the studies published in 2004 recommended our stock as a buy.

Declaration of conformity with German Corporate Governance Code

The Executive and Supervisory Boards passed the following declaration of conformity in December 2004:

"H&R WASAG AG complies with the recommendations for conduct issued by the government's Corporate Governance Commission in its German Corporate Governance Code in the version dated May 21, 2003 with the following exceptions:

– No own risk portions have so far been agreed for the existing D&O insurance contracts. It is intended to amend the contracts by incorporating a suitable own risk portion.

– The system of remuneration for the Executive Board is explained in the company's annual reports and at shareholders' meetings. This explanation enables a judgment to be reached on the suitability of the amounts received and the incentives created by the remuneration system. The remuneration is not shown on an individual basis.

– There are no age limits for members of the Executive Board or Supervisory Board. 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. It is not intended to define an age limit as a criterion for exclusion.

– The Supervisory Board did not set up 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.

– Disclosure of trading activities carried out by members of management bodies in shares of the company is made in accordance with the statutory regulations contained in §15a WpHG. It is not intended to make any more far-reaching disclosures.

– Due to the high number of subsidiaries included in the annual statement of accounts, it was not possible to publish the consolidated financial statements for the financial year 2003 until April 2004. Publication of the 3-month report (published on May 28) and the 9-month report (published on November 30) was also delayed. This delay was caused by the inclusion for the first time of the new activities as from January 2 and July 6, 2004 which required more time and organizational effort."

Positioning and strategy

Niche strategy ensures high earnings potential

Group activities are systematically aligned with our core areas of expertise. With our three divisions, we are engaged in niche markets for specialty chemicals, namely the production of highly refined, oil-based raw materials for the chemical and pharmaceutical industries, the development and production of precision plastic parts and the manufacture and application of civil explosives.

All our activities have in common the fact that they encompass a high value-added stage. The markets in which we operate are characterized by a small number of suppliers and high earnings potential at the same time. There are also relatively high barriers to entering the market due to the high capital intensity of the business and the need for special expertise and experience.

Leading market positions strengthen growth potential

We have positioned all three divisions very promisingly. In all our core activities, we are ranking either as one of the market leaders or one of the technology leaders. We are also outstandingly well structured in the areas in which we operate as service providers, where we are the cost leaders. We regard such leading market positions and the competitive advantages with which they are associated as essential prerequisites to enable us to operate and grow successfully in the long term.

Growth prospects result in particular from the fact that other suppliers are divesting their activities in these niche markets and concentrating purely on high volume core areas. We have put ourselves in an ideal position to take over further activities through our – now global – positioning. We know the regional markets and are in a position to quickly integrate new facilities.

Global presence opens up new perspectives

In addition, however, we also enjoy high, organic growth potential. This is based primarily on the high innovational strength of all three divisions and the implementation of superior quality standards. In particular, we aim to gain further market share in the coming years with rising sales volumes by concentrating on technology leading and innovative products. This is why we focus on constantly refining our expertise and our range of services – in all three divisions. We aim to shape progress in our markets from a leading position.

Through our presence on all continents, we are able to direct product streams and concentrate our activities in those regions in which we see high potential. Establishing our products in the growth regions of Asia occupies a particularly important place in our strategy.

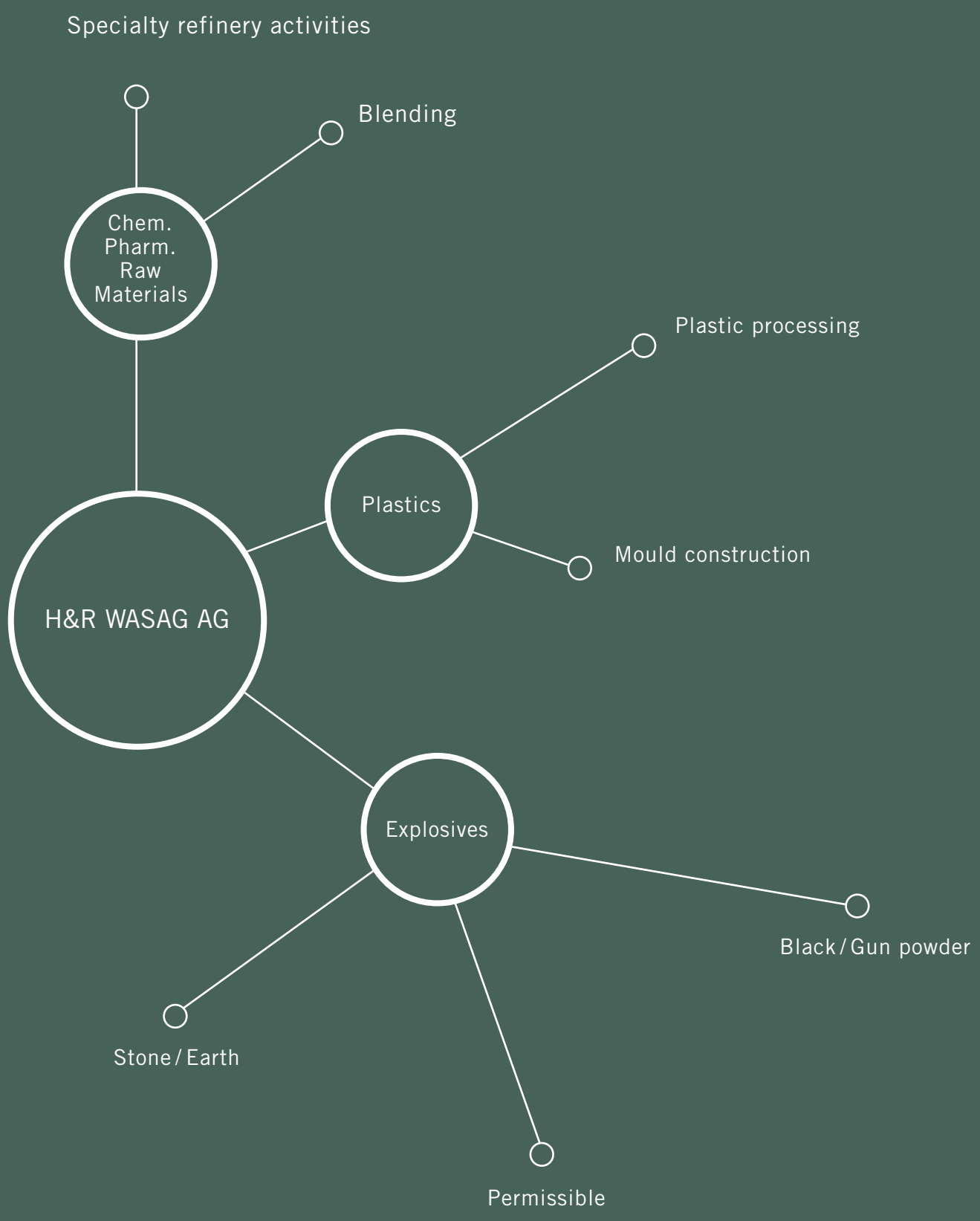
In regions where only one division is operating, there is generally potential for the activities of the other divisions. This will enable us to realize synergy effects between our operating divisions. Our existing market presence, above all overseas, serves as a basis for expanding our entire group business by selectively extending capacity.

Diversification and assets secure stability

By occupying leading positions in the market, we are able to control market risks and competitive threats very well. Moreover, by diversifying into three mutually independent divisions, and into partially independent market niches within those divisions, we are able to diversify risks. This enables us to counteract the negative effects of individual risks and to stabilize growth, also under tough market conditions.

In addition, the group also possesses high asset values. These relate primarily to real estate and the existing silica sand reserves in Sythen. Here, there are over 13.5 m t of high-quality silica sand which is to be mined from 2007. Neither these reserves nor the high real estate values are included in the balance sheet.

Group structure



Chemical Pharmaceutical Raw Materials Division

Group is one of the leading suppliers worldwide

Following the takeover of BP's activities, we are one of the world leaders in the production of oil-based specialty products for the chemical and pharmaceutical industries. Here we concentrate primarily on the production and sale of white oils, paraffins, extracts / softening agents and printing ink oils. While these product groups represent our core expertise, the major oil companies - which have also been active in these product areas for historical reasons – are turning their backs on these markets. We aim to play a decisive role in the increasing consolidation process over the coming years.

The main focus here will be on overseas regions. Here we are strengthening our presence by adding additional volume and setting up new capacity. In Europe, however, we also perceive attractive growth potential. Rising market volumes are being created for our products, particularly as a result of growth in Eastern European economies, both in the consumer sector and in industrial applications. There is worldwide potential in the sales of a new generation of softeners for the tire industry. On the basis of existing patents and ongoing capacity expansion, we are striving to make a major contribution to the conversion of tire production to environmentally compatible raw materials.

Growth targeted in trading and blending business

The growth we are targeting will enable us to further reduce the division's susceptibility to movements in the oil price. By contrast with our refinery activities in Germany, we are not involved in production ourselves in other countries, but procure special products from non-group refineries. We are therefore not exposed in these regions to the increased risk of raw material price rises.

We will also expand our activities in the blending and filling of lubricants in order to strengthen our trading business. Here we are among the cost leaders in Europe. Utilization of capacity at the existing facilities for producing automotive and industrial lubricants in Salzbergen and Hamburg is to be further expanded in the coming years. In the process, the Hamburg facility will focus increasingly on the supply of lubricants to the marine industry. In addition to organic growth, there is also an opportunity in the lubricants business to take over more facilities if other suppliers concentrate solely on developing and marketing lubricants.

Plastics Division

Leading technology expertise worldwide

The Plastics Division is engaged in the development and production of high quality moulds and precision plastic parts. These are products that are characterized by a high number of critical measurements. Experience and expertise are of decisive importance in the production of tools and precision parts.

Thanks to our long experience and extensive specialist knowledge in this market sector, we are one of a small group of suppliers operating in this market worldwide. The division has been specified as a strategic supplier by all the major customers. This means that we are included in the development work for new parts. Further competitive benefits flow from our high quality standards and the excellent reliability of our production and delivery capabilities: essential factors in maintaining a leading position in the important competition to achieve increasingly shorter cycles.

Focus on growth regions

The focus in the Plastics Division is on the international expansion of our activities. The new production plant in China will already be running at a high level of capacity in 2005. Besides our expansion in the Far East, we intend to ensure above-average growth in Eastern Europe and the NAFTA zone in the coming years by establishing new capacity.

In addition, the existing markets will also continue to grow. The division will profit from the trend of modern plastics continuing to increase their shares in many areas. The continuous improvement of raw material properties is allowing metals to be steadily substituted by plastics. Besides the automotive supply industry, the focus for growth prospects is on medical engineering, in particular.

Explosives Division

Technology leader with very good market position in Central Europe

The Explosives Division produces explosives for industrial applications and also offers drilling and blasting services. Our group companies are among the leading suppliers in Germany, Poland and Hungary in this highly specialized market. The comprehensive range of products and services is in particularly high demand with quarries and companies engaged in road and tunnel construction. We also hold a leading position in the niche markets for permissible explosive (for the coal mining industry) and black/gun powder.

In terms of technology, we rank as the leaders in several product sectors. Thanks to our expertise in the production and application of modern emulsion explosives, we are in a position to exert a decisive influence on the development of the civil explosives market. In the coming years, safe and efficient emulsions will be increasingly replacing traditional explosives.

Establishment of a European group is a necessity

For historical reasons, the European explosives market is highly fragmented in small regional markets. However, as Europe increasingly converges, this will require the competitive situation to adapt to these changes. In future, the European explosives market will have to consolidate in order to keep the pace of the global market.

We have led the way in the last few years in driving this process forward. In 2003, we acquired the Westspreng group, thereby establishing a leading position in Central Europe. Last year, the takeover of Sprengstoffwerke Gnaschwitz followed (approval from the Federal Cartel Office is still awaited), and the start of collaboration talks with the French SNPE group.

By working with partners and through acquisitions, our aim is to build a European explosives group which can survive in the long term in competition with global suppliers. Such a European company has growth potential in several areas. On the one hand, a larger group can expand its existing presence in the growth markets of Eastern Europe even more forcefully. On the other, technology leadership can be leveraged to gain new market share even in the saturated markets of Western and Southern Europe by supplying innovative products. In particular, however, a European company will benefit from the fact that other European suppliers will join it.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Milton Keynes
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South Africa
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H&R WASAG AG group

as of Dec. 31, 2004

Economic environment

Extreme rise in crude oil prices

2004 was marked by a high degree of volatility on the crude oil market. In the course of the year, the price of a barrel of Brent shot up by almost 80 % at its peak, reaching a record level of 52.03 US$/barrel at the end of October. And this rise was uneven and happened in stages. In 2004, the average price stood at 38.27 US$/barrel which was 31% or 9 US$/barrel above the figure for the previous year (2003: 28.83 US$/barrel).

The background to these movements in the crude oil market was a marked rise in demand which coincided with a supply situation that could not be expanded at short notice. The principle driving factor behind the worldwide increase in demand was China, whose requirements for oil were up by 16 % in 2004. But the demand for crude oil also firmed up further due to the positive growth of other economies in South East Asia and USA. At the same time, psychological factors also repeatedly led to rapid market reactions, e.g. in connection with the political developments in the Near East.

Crude oil market undergoing structural change

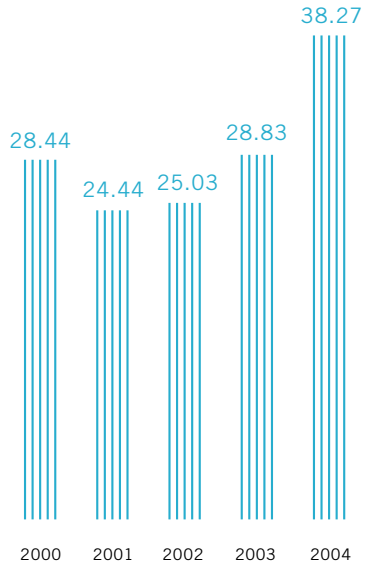
While in the past it was especially OPEC that was able to react to such movements in demand by quickly increasing its production output, in 2004 there was scarcely any potential for increasing supply. To complicate matters, there were sudden interruptions to production caused by hurricane Ivan (US gulf coast, Mexico) and a general strike in Venezuela. It also proved impossible to restart production in Iraq as quickly as had been expected.

An analysis of the movements in the price and the major factors triggering them clearly shows that the crude oil market is undergoing a structural change and the oil price failed to establish a new equilibrium in 2004. The only thing which seems to be certain is that any new price stability will be at a high level - by comparison with previous years.

The level at which balanced volatility with compensatory price movements will be established, depends mainly on the time frame in which the announced supply-side expansion can be realized. The rise in the oil price has renewed interest in production sites which until now it

Crude oil price 2000–2004

(yearly average US$/Barrel)



would not have been profitable to exploit. Besides drilling for new oil sites and using the worldwide reserves of gas and coal as a means of energy, the focus is also on using alternative methods of obtaining oil on a major industrial scale. For example, large facilities for obtaining oil-based liquids from natural gas are being built in the Persian Gulf (the so-called gas-to-liquid procedure), and in China an increasing amount of oil will be obtained from coal in the future.

Positive growth of world economy

In spite of the enormous increase in the price of oil and rises in the price of other important global raw materials, the world economy grew in 2004. The pace of growth slowed slightly in the second half of the year due to movements in the raw materials markets. Worldwide gross domestic product gained by 4 %, favored above all by a sharp rise in world trade. Many economies profited from China's increasingly strong demand for raw materials, goods and services. Besides the growth region represented by China, where economic output was up by over 9 % in 2004, the USA was also a driving force, putting in economic growth of 4.4 %.

Eurozone countries were only able to profit from this growth to a modest degree. Gross domestic product advanced by somewhat less than 2 % here, and was based entirely on higher exports. Contrary to initial fears, however, the strength of the euro did not have any significant braking effect. The below-average pace of growth in the eurozone was due instead to the slow rise in domestic demand, which in turn was caused by the weak growth of private consumption. In addition, companies increasingly invested outside the eurozone, thereby exporting growth.

Only modest growth in Germany

The lack of impetus from the private sector was also the main reason for the only slight recovery of 1.6% in the domestic market. This growth already contains a calendar effect of +0.5% based on the fact that there were five additional working days by comparison with the previous year.

The tough situation in the labor market together with nervousness with regard to the financial and social framework had a braking effect on consumption and again led to a high savings ratio in Germany. As a result, domestic investment was well below the average for the eurozone which in particular further exacerbated the crisis in the domestic construction industry. Companies were only able to expand their investments abroad, with the focus particularly on the new EU member states in Eastern Europe and on South East Asia. It was only the continuing strength of exports which formed the basis for the economic growth achieved in Germany.

Course of business

Focus on takeover of BP's activities

For the H&R WASAG group the financial year 2004 was marked by the integration of the special refinery activities taken over from oil company BP, and by extreme movements in the market for crude oil. .

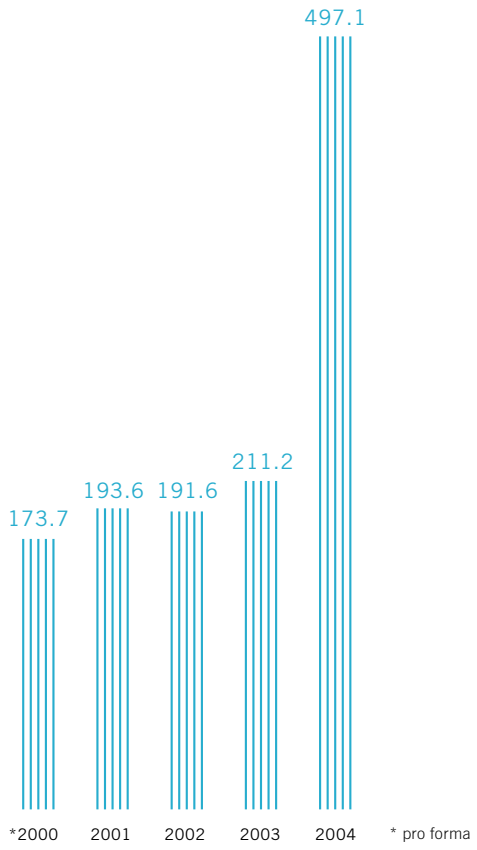
With effect from January 2, 2004, H&R WASAG acquired the European special refinery activities of the British oil company, thereby considerably expanding its production of oil-based specialty products. The prize of the acquisition is the special refinery in Hamburg-Neuhof. Smaller blending and filling plants for chemical pharmaceutical raw materials were also integrated in Great Britain and the Netherlands. As a second step, H&R WASAG acquired further conversion plants in South Africa, Australia and Thailand with effect from July 6, 2004, thereby successfully expanding its presence in important overseas regions. Sales units corresponding to the production facilities were also acquired.

However, the other two divisions also expanded their activities in the last financial year with an eye to the future. The Plastics Division has been producing precision plastic parts in China since the end of 2004 as part of a joint venture. The Explosives Division took over Sprengstoffwerke Gnaschwitz in October, thereby extending its activities to include the production of dynamite for the stone / earth market. Approval of this acquisition is still awaited from the Federal Cartel Office, and it was not consolidated in 2004.

In May 2004, H&R WASAG started talks with the French chemical company, SNPE, with the aim of forming a European explosives group, and these talks are still in progress. The intention is to set up a joint venture which will encompass both parties' civil explosives activities.

Net sales 2000-2004

(€ m)



Group sales more than doubled

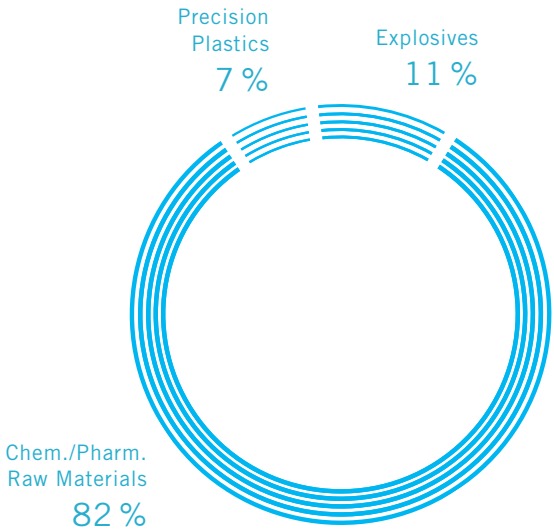
As a result of integrating the former BP activities, group turnover rose to € 497.1 m (2003: € 211.2 m) and more than doubled in the process. The new activities in the Chemical Pharmaceutical Raw Materials Division were responsible for € 252.4 m of this rise when consolidated. Consequently, the turnover for the entire division moved up to € 409.1 m (2003: € 139.0 m), and represented 82 % (2003: 66 %) of group turnover. The Plastics Division posted sales of € 34.9 m (2003: € 33.0 m) or 7 % (2003: 16 %) of group turnover. Sales in the Explosives Division also increased, totaling € 53.1 m in 2004 (2003: € 39.2 m) or 11 % (2003: 19 %) of group turnover. In regarding the Explosives Division, however, it must be taken into account that the Westspreng group was only consolidated in 2003 with effect from May 1. A major part of the sales growth shown in this division is due to the fact that the Westspreng group was included in the consolidated figures for the whole year for the first time.

You will find further information on the growth of divisional sales in the section covering developments in individual divisions (pages 42 to 59).

There was a shift in the regional distribution of sales in the course of the expansion of the group's activities. Germany was responsible for sales amounting to € 321.3 m in 2004 (2003: € 187.5 m), while other countries in Europe posted sales of € 139.6 m (2003: € 7.8 m), with sales in the rest of the world amounting to € 36.2 m (2003: € 15.9 m).

Sales by divisions

(%)



Earnings and financial position

Increase in crude oil prices impacts business

Earnings in 2004 were affected by one-off integration costs and above all by the unusual movements in the market for crude oil.

In the division with the strongest sales, the Chemical Pharmaceutical Raw Materials division, oil derivatives are processed to form raw materials for the chemical and pharmaceutical industries. Changes in crude oil prices therefore have a direct effect on raw material expenses within the division. The increased costs cannot be passed on immediately on the sales side, as prices with customers are usually fixed for several weeks. Even though it was possible to further reduce this fixed period in the course of the year, there is nevertheless a period during which there is no scope for normal price adjustments. The fact that the production process within the refinery takes up to another six weeks represents an additional factor.

Consequently, increases in the price of raw materials can only be passed on in the form of price hikes with some delay. For this reason, times of rising oil prices produce so-called windfall-losses which can be compensated in phases of falling raw material prices by windfall-profits. The phases of rapidly rising and suddenly falling oil prices normally correlate to an equilibrium price. This equilibrium price is in turn only exposed to slow, medium-term movements and forms an important budget variable for the group in calculating its sustained profit trend.

Imbalance in the oil market resulted in extraordinary burdens

However, the structural change in the relationship between supply and demand caused the oil price to deviate significantly from the existing level of equilibrium in 2004. It was not possible to benefit from windfall profits in order to compensate for the windfall losses caused by the sharp price rises as there were no phases of price stability or lasting price falls in the oil market. These effects led to weak earnings, in particular in the third quarter, as the oil price rose by almost 40 % in the period from July to September alone, and it was not possible to pass on the increased raw material costs directly by adjusting sales prices. These negative effects totaled over € 26 m for the Chemical Pharmaceutical Raw Materials Division in 2004 by comparison with the budget, and it was not possible to make up for them through price increases.

The activities of the other divisions were also affected by rising raw material costs which could not be offset directly by higher prices.

Burdens on earnings surprisingly well compensated

As a result of the disproportionate rise in raw material costs by comparison with sales, material costs (expenditure on raw materials and supplies and for purchased services) increased to 67 % of sales (2003: 56 %). The gross margin fell accordingly to 33 % (2003: 44 %).

Personnel expenses (wages and salaries as well as social security payments and expenses on pensions and support) stood at 14 % (2003: 22 %). This reduction was primarily the result of consolidating the former BP refinery in Hamburg and the fact that the refinery business in general is characterized by low staff ratios.

The integration of the former BP facilities and sales units tied up a lot of financial and personnel capacity in the past financial year. The expenses incurred in direct connection with this integration process totaled € 4.0 m in 2004. The costs in 2003 already amounted to € 1.1 m, and therefore the total cost of integrating the BP activities came to € 5.1 m.

Operating earnings climb again

In spite of the extraordinary burdens resulting from the movement of the oil price and the integration process, the group succeeded in increasing its operating earnings (earnings before interest, tax, depreciation and amortization - EBITDA) by 37 % to € 32.9 m (2003: € 24.0 m). The EBITDA margin, however, fell to 7 % (2003: 11 %).

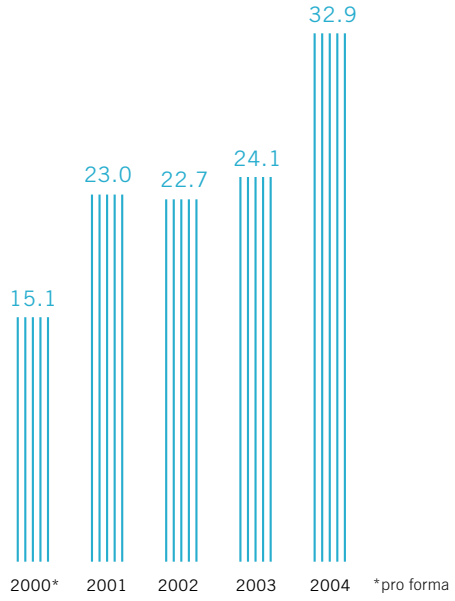
All operating divisions deliver positive contribution to earnings

In view of the extraordinary negative effects caused by the movement in the oil price and the integration process, the Chemical Pharmaceutical Raw Materials Division achieved more than satisfactory results, posting an EBITDA figure of € 20.4 m (2003: € 12.0 m).

The Plastics Division recorded operating earnings of € 5.2 m (2003: € 6.2 m) and results were characterized chiefly by increased raw material and energy costs with persistent pressure on prices in the market at the same time.

Operating result 2000-2004

(EBITDA in € m)

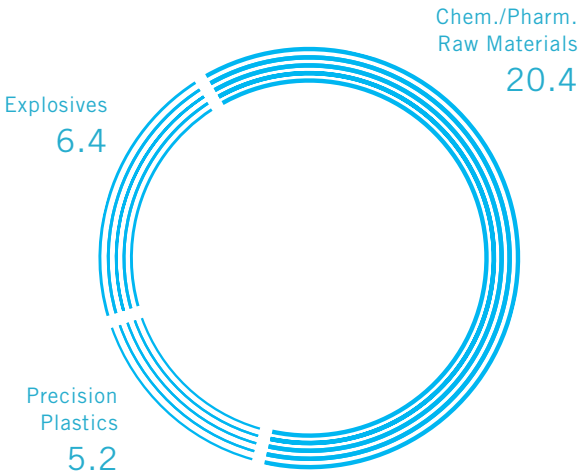


On the other hand, contributions to earnings by the Explosives Division grew pleasingly, showing a rise to € 6.4 m (2003: € 5.0 m) in spite of the persisting crisis in the construction industry. The growth in earnings becomes even clearer by taking into consideration that the Westspreng group, which was acquired in 2003, was not consolidated until May 1 of the previous year, and therefore the negative results of the winter period at the beginning of the year which are normal for the industry, are not contained in the results for 2003.

The operating earnings from the three core divisions totaled € 32.0 m in 2004 (2003: € 23.1 m). Operating earnings from the Other Activities Division – comprising almost exclusively the holding company – stood at € -2.2 m (2003: € 0.5 m).

Income before income taxes by divisions

(€ m)



Further information on the growth of divisional results is available in the section on divisional developments (pages 42 to 59).

Goodwill depreciation increases

Depreciation increased as a result of integrating the new activities to € 13.7 m (2003: € 9.2 m). The two refineries in Salzbergen and Hamburg accounted for the major share of this amount.

Earnings before interest, tax and goodwill amortization (EBITA) increased by 29 % to € 19.2 m (2003: € 14.9 m).

There was a rise in depreciation on acquired goodwill which represented € 2.7 m in total in 2004 (2003: € 2.1 m). The background to this rise is the first-time inclusion of the Westspreng group for a whole year, as well as the assumption of new goodwill through the BP acquisition. Consolidated earnings before interest and tax (EBIT) therefore reached € 16.5 m (2003: € 12.7 m), representing gains of 29 %.

Financing of BP acquisition increases interest expenses considerably

The group borrowed extensively in order to finance the BP acquisition, and by far the largest share of these loans served to finance the inventories and customer payables acquired. This is also reflected in a significant increase in interest expenses in the course of the year. Interest earnings in 2004 stood at € -6.6 m (2003: € -2.2 m), whereby € -3.1 m of this figure (2003: € -1.6 m) was due to calcula-

ted interest expense for pension and anniversary provisions.

Consolidated earnings before tax (EBT) reached € 9.8 m (2003: € 10.6 m), which led to an EBT margin of 2 % (2003: 5 %).

Taxes on income and earnings across the group totaled € -2.3 m (2003: € -4.8 m), and the tax rate was therefore 23% (2003: 45 %). The reduction in the tax rate by comparison with the previous year is based on the fact that payments for previous years were still being made in 2003, while in 2004 it proved possible to release tax provisions made for previous years and the first-time consolidation of BP's activities.

Net income for the year before deducting minority interests totaled € 7.5 m in 2004 (2003: € 5.8 m). The expenses for the profit shares of non-group minority interests stood at € -1.0 m (2003: € -0.9 m), which matched last year's level. This relates to minority shareholders in companies within the Explosives Division.

Earnings per share +31 %

Consolidated earnings (net income for the year after profit shares of non-group minority interests) reached € 6.5 m (2003: € 4.9 m) and were therefore above the comparative figure for 2003. .

Earnings per share rose by comparison with the previous year to € 0.34 (2003: € 0.26) or, excluding goodwill depreciation, to € 0.47 (2003: € 0.37).

The extraordinary negative effects affecting the financial year are reflected in the major profitability indices. The return on capital employed - ROCE - only reached 7.0 % (2003: 10.9 %), which is due on the one hand to the weaker earnings and on the other to the significant expansion of capital employed. The same development led to a decline in the overall capital return before tax from 7.7 % in 2003 to 5.0 %, while the return on equity which stood at 8.9 % in 2004 (2003: 7.1 %), was above the level of the previous year.

Result of the H&R WASAG group

	2004	*2003*	*Changes, %*
(€ m)			
Net sales	497.1	211.2	+135
Operating income (EBITDA)	32.9	24.0	+37
EBITA	19.2	14.9	+29
EBIT	16.5	12.8	+29
Earnings before income taxes	9.8	10.6	-8
Net income before minority interests	7.5	5.8	+29

Renewed payment of € 0.30 dividend

H&R WASAG AG posted sales of € 2.9 m (2003: € 1.3 m) in 2004. Earnings from participating interests fell to € 4.1 m (2003: € 8.1 m) due to the negative effects from the chemical pharmaceutical activities. As a result of these developments, the holding company's net income for the year fell to € 1.4 m (2003: € 4.7 m). Taking into account the profits of € 22.5 m carried forward, retained earnings reached € 23.9 m.

The Executive Board and the Supervisory Board are proposing to the shareholders' meeting to pay an unchanged dividend of € 0.30 per share.

Non-oil-dependent business stabilizes earnings growth

Viewed against the background of extreme circumstances in the oil market, earnings are still at a satisfactory level. A large share of the extra burden was offset by price adjustments and cost savings. The alignment of the group with its focus on non-interdependent markets and activities also proved that it was possible to a certain degree to offset the oil price risk - as well as other individual risks.

While the refinery business of the Chemical Pharmaceutical Raw Materials Division is exposed to pressures when prices for raw materials fluctuate due to its position at the end of an oil-based value added chain, other group activities are able to post stable earnings even at such times.

Besides the contributions from the Plastics and Explosives Divisions, some activities in the Chemical Pharmaceutical Raw Materials Division are now also characterized by a high degree of independence from movements in the market for crude oil. Facilities in Great Britain, South Africa, Australia, Thailand and the Netherlands are not involved themselves in the production of oil-based specialty products but procure them from non-group refineries on the basis of long-term supply contracts. As they are more engaged in trading than production activities, their business is not directly dependent on the market for crude oil.

The division is also engaged as a service provider in the blending and filling of automotive and industrial lubricants for oil companies. This area earns margins which are not affected by volatile oil prices.

The earnings achieved show that this diversification within the division succeeded surprisingly well in cushioning the effects of the extreme oil market in 2004 if you take into consideration that by far the largest share of the division's sales relates to the refinery activities which are exposed to movements in the price of oil.

Operating cash flow falls by comparison with previous year

The capital inflow from operating activities in 2004 was € 19.4 m (2003: € 20.3 m) which was therefore below last year's figure.The background to this development was a significant increase in inventories and trade receivables as a result of the rise in the price of oil.

The takeover of BP's activities significantly increased the outflow of capital resulting from the investment, the figure rising to € - 107.3 m (2003: € - 10.8 m). The largest share of the money spent related to taking over inventories and receivables.

Apart from the BP acquisition, € 20.0 m (2003: € 10.1 m) was invested in tangible assets across the group. You will find details of the investments made by division in the section on investments and financing (pages 36 to 39).

Long-term bank loans taken out for the first time

As part of the BP takeover, the group took out long-term bank loans for the first time. These serve to finance the assets acquired and the working capital. It must be borne in mind here that the existing inventories and receivables within the Chemical Pharmaceutical Raw Materials Division make up the largest share of the group's working capital in terms of value. The value of this item in the balance sheet depends in turn to a large degree on movements in the price of oil and in sales prices. In order not to restrict the group's flexibility, the credit line provided by a well-known bank consortium is designed to cope with significantly higher oil prices than those reached in 2004. Overall, the inflow of funds from financing activity in 2004 rose to € 95.0 m (2003: € - 3.6 m)..

Liquid assets increased in the course of the year by € 7.1 m (2003: € 6.0 m) to € 17.9 m (Dec. 31, 2003: € 10.8 m). Liquid assets therefore make up almost 5 % (2003: 6%) of all assets as at the balance sheet reference date.

Cash flow (summary)

	2004	*2003*	*Changes, %*
(€ m)			
Cash flow from operating activities	19.4	20.3	- 4
Cash flow from investing activities	- 107.3	- 10.8	> - 100
Cash flow from financing activities	95.0	- 3.6	> + 100
Cash and cash equivalents as of Dec. 31	17.9	10.8	+ 66

Investment and finance

Investments reach new record

Investments in tangible assets totaled € 20.0 m (2003: € 10.1 m) across the group in 2004, and therefore doubled by comparison with the previous year. The investment cover (ratio of depreciation of tangible assets to additions) in the group stood at 69 % (2003: 87 %).

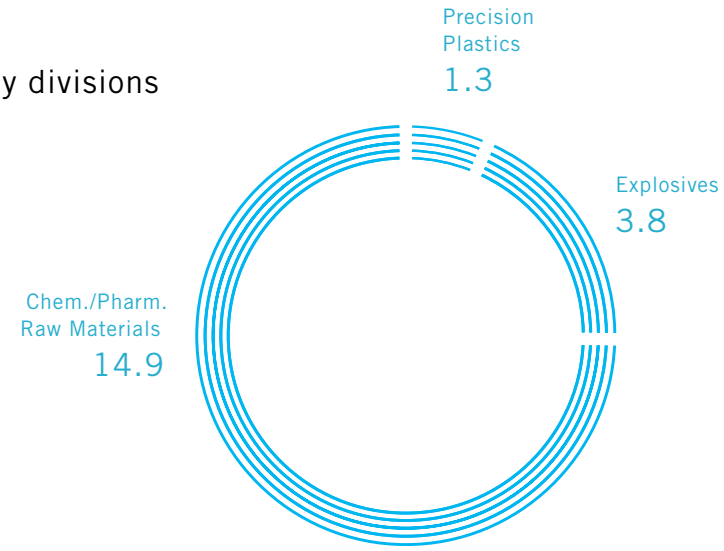
The largest share of the investment budget was the € 14.9 m (2003: € 4.5 m) which was spent on the activities of the Chemical Pharmaceutical Raw Materials Division and in particular on the two refineries in Salzbergen and Hamburg. The most important individual projects comprised the conversion of the blending and filling facilities in Salzbergen which will continue into 2005, as well as the expansion of the Hamburg refinery to accommodate the production of label-free softening agents for the tire industry. There was also extensive investment in the constant refinement of environmental protection measures. The construction of a new residual gas incineration unit in Salzbergen deserves special mention in this context.

At total of € 1.3 m (2003: € 1.7 m) was spent in the Plastics Division in the last financial year on expanding activities. The largest share of this figure related to setting up the production facility in China, which is operated as a joint venture with a local partner. The existing machinery was also continuously expanded and adapted to reflect the latest technical developments, both in mold making and in the injection molding area.

The Explosives Division showed investments of € 3.8 m (2003: € 3.8 m), which primarily comprised the construction of special vehicles for the deployment of modern pump emulsions. .

Investments by divisions

(€ m)



Balance sheet structures significantly changed by growth

The acquisition of BP's activities has a major effect on balance sheet items and structures. Total assets had almost doubled by December 31, 2004, reaching € 329.3 m (Dec. 31, 2003: € 165.7 m).

On the assets side, this expansion of the balance sheet is reflected primarily in a marked rise in trade receivables and inventories. Trade receivables and inventories with a value of almost € 80 m were acquired from BP during the integration of its European special refineries and overseas locations. As a result and due to the sharp rise of the oil price, working capital as at December 31, 2004 rose to € 70.6 m (Dec. 31, 2003: € 16.9 m) or 21% (Dec. 31, 2003: 10 %) of total assets.

It is intended to optimize trade receivables and inventories. The tools to be used for this purpose include efficient receivables management, as well as joint planning of inventory volumes at both refinery facilities of Salzbergen and Hamburg. Total short-term assets stood at € 169.2 m as at the balance sheet reference date in 2004 (Dec. 31, 2003: € 60.8 m).

Long-term fixed assets also rose in parallel to € 150.6 m (Dec. 31, 2003: € 95.2 m). This rise was due entirely to an increase in tangible assets of € 35.1 m to € 88.8 m (Dec. 31, 2003: € 53.7 m) and the consolidation of goodwill as part of the BP takeover. As at December 31, 2004, goodwill totaled € 44.2 m (Dec. 31, 2003: € 30.7 m).

Increase in financial liabilities through BP acquisition

On the liabilities side, financing the BP acquisition has led to significant changes by comparison with the previous year. Overall, bank liabilities had risen to € 117.8 m on the balance sheet reference date (Dec. 31, 2003: € 17.9 m) or 36 % (Dec. 31, 2003: 11 %) of total assets. The loans shown in the previous year mainly comprised bank loans taken out as a result of integrating the Westspreng group into the consolidated financial statements. The increase in 2004 results from financing the BP takeovers which were finalized on January 2 and July 6, 2004. The majority of the money spent relates to the acquisition of trade receivables and inventories and here primarily the inventories of the Hamburg refinery.

The group has re-aligned its finance policy in the course of the BP takeover. The bank loans which have been taken out serve the principal purpose of securing the long-term financing of the existing working capital in the group and the assets acquired. The finance framework agreed is also designed to reflect the possible volatility of these items.

It had been intended to use the second half of the year to incrementally reduce the loans which had been utilized at the beginning or in the middle of the year. However, the extreme rise in oil prices led to a marked increase in inventories and receivables in the course of the year which in turn necessitated higher financing. It was therefore not possible to reduce the amounts owed to banks, and in fact the utilization of credit rose.

Balance sheet of H&R WASAG Group

(as of Dec. 31, € m)

By the end of the year, the net debt (finance debts after deducting securities and liquid assets) had risen to € 99.5 m (2003: € 6.7 m).

Pension provisions have also increased

Existing pension obligations were assumed in the course of the BP takeovers. This led to a marked increase in pension provisions which totaled € 50.8 m (Dec. 31, 2003: € 28.8 m) on the balance sheet reference date. No new pension commitments were made when the workforce was transferred to the H&R WASAG group.

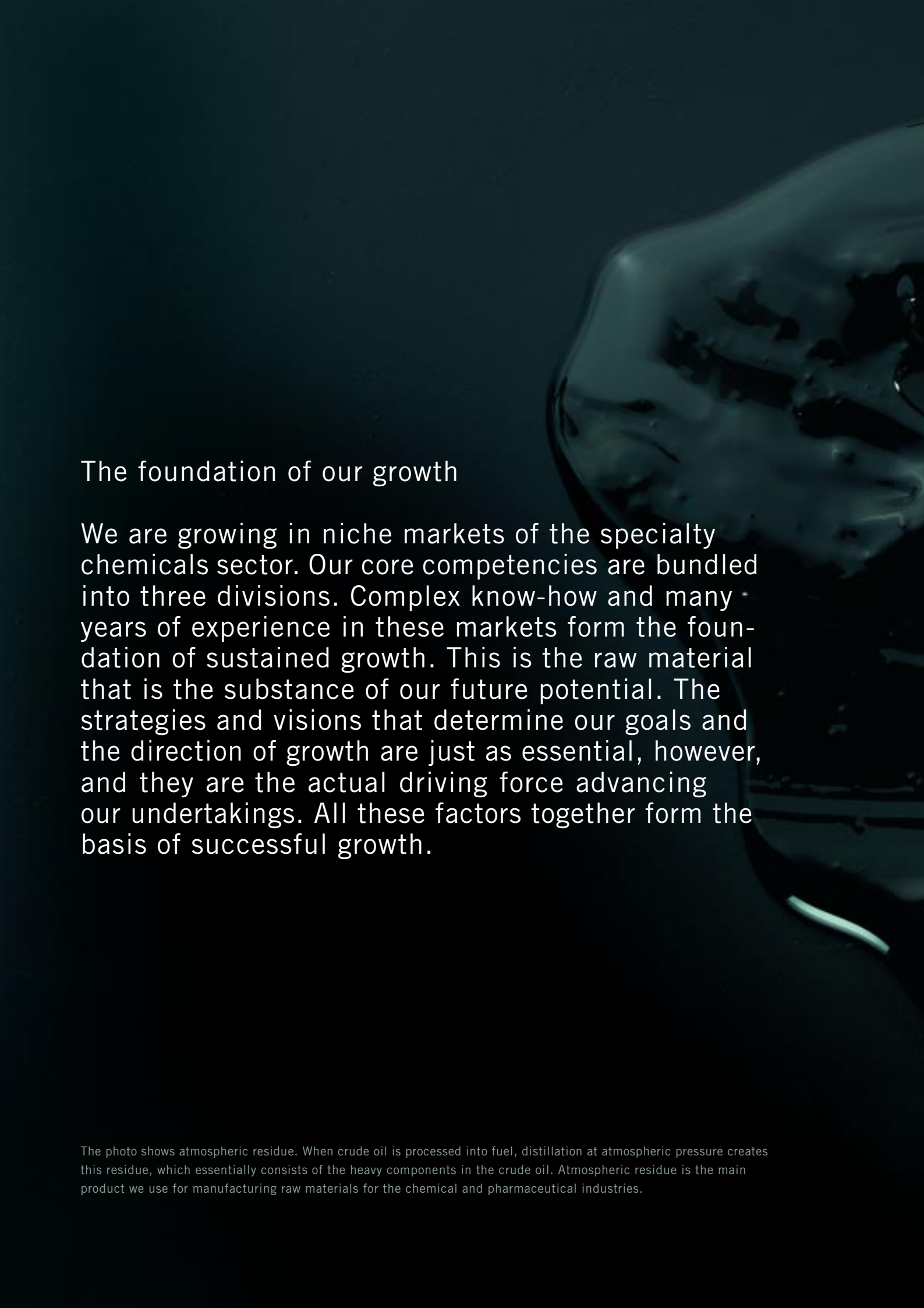
Other provisions also increased in line with the expansion of the business.

Shareholders' equity almost unchanged

Short-term debts increased overall to € 98.6 m (Dec. 31, 2003: € 44.0 m), and long-term debts to € 144.8 m (Dec. 31, 2003: € 39.5 m). As at the balance sheet reference date, they made up 44 % (Dec. 31, 2003: 24 %) of total liabilities.

Shareholders' equity - not including the shares of non-group minority interests - stood at € 80.5 m as at December 31, 2004 (Dec. 31, 2003: € 79.4 m), which is in line with the previous year. Due to the increase in payables and provisions, the equity ratio fell, however, to 24 % after having amounted to 48 % in the previous year. The net gearing figure (ratio of net financial debt to consolidated equity) rose to 118 % (2003: 8 %).

56 % (2003: 85 %) of long-term fixed assets were covered by consolidated equity, and the degree of cover was 152% (2003: 127 %) taking into account long-term borrowings.



The foundation of our growth

We are growing in niche markets of the specialty chemicals sector. Our core competencies are bundled into three divisions. Complex know-how and many years of experience in these markets form the foundation of sustained growth. This is the raw material that is the substance of our future potential. The strategies and visions that determine our goals and the direction of growth are just as essential, however, and they are the actual driving force advancing our undertakings. All these factors together form the basis of successful growth.

The photo shows atmospheric residue. When crude oil is processed into fuel, distillation at atmospheric pressure creates this residue, which essentially consists of the heavy components in the crude oil. Atmospheric residue is the main product we use for manufacturing raw materials for the chemical and pharmaceutical industries.

Developments in the divisions

Chemical Pharmaceutical Raw Materials Division

Integration of BP activities successful

The Chemical Pharmaceutical Raw Materials Division expanded its activities significantly with the BP takeover, and now occupies a leading position internationally. From an organizational viewpoint, the past financial year was dominated by the process of integrating the new facilities and units. All the major functions (accounts, controlling, IT structure, personnel management, etc.) had to be reorganized and set up as they had been performed centrally in the BP group.

Taking into account the size of the business acquired and the number of different locations worldwide, the integration process proceeded smoothly and without delays. Following integration, the first measures for optimizing the new activities had already been taken in the course of the past financial year. The aim is to increase the earning power of the entire division through efficient allocation and control of product streams.

Realizing extensive synergy effects

One concrete project in this process comprises capitalizing on the synergy effects resulting from the integration of the former BP refinery in Hamburg-Neuhof. Working together with the special refinery at Salzbergen, the joint earnings potential of both refineries is to be more than doubled in the coming three years by implementing cost savings, raising value added and increasing the quantity of main products. In implementing this program, the group can call on the experience gained in restructuring the Salzbergen specialty refinery in the mid 90s. At the time, a turnaround was achieved within one year.

Sales and income

	2004	*2003*	*Chances, %*
(€ m)			
Net sales	409.1	139.0	+194
Operating income (EBITDA)	20.4	12.0	+70
(% from net sales)	5.0	8.6	-3.6%-Pts.
Income before before income taxes*	7.8	7.2	+ 8
(% from net sales)	1.9	5.2	-3.3%-Pts.

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

Division rises to the ranks of worldwide leading suppliers

The integration of the new activities led to a marked increase in sales within the division. The Chemical Pharmaceutical Raw Materials Division posted total sales of € 409.1 m in 2004 (2003: € 139.0 m), which is almost a trebling of its business volume. Of this figure, sales of € 252.4 m are accounted for by former BP activities. The Salzbergen refinery also succeeded in expanding its sales by a gratifying measure.

Uneven market growth

The most important product markets showed varying patterns of growth. The lack of a recovery in demand for consumer goods led to stagnation in the market volume for white oils, whereby medical white oils for use in the cosmetics industry were particularly affected. High imports from China resulted in an over-supply of paraffins in Europe. This affected mainly standard goods, however, and not niche products. By contrast, the demand for softening agents rose steadily throughout the year, supported in particular by the tire industry.

All product groups also showed the effects of the strong euro in 2004. It was possible to supply products from North America at competitive prices in Europe which triggered general pressure on prices.

Crude oil market burdened refinery activities

The earnings of the division were affected by the extremely volatile crude oil market with the result that the increase in sales is not reflected in earnings. The prices for the products which are used within the refineries as raw materials, long residue and vacuum gas oil, move in line with the price of crude oil. Due to existing price agreements with customers, however, there is a time delay before the division can pass on increased raw material costs.

While the absolute level of raw material costs does not have any direct effect on earnings, such effects are only seen in times of rapid price movements: when raw material costs suddenly rise, margins fall and so-called windfall losses occur; when raw material costs fall rapidly, windfall profits result if the sales prices already reflected the increased raw material costs. In the past, phases of rapidly rising or falling oil prices have largely cancelled each other out. In 2004, however, the oil price mainly increased without any counteracting reductions in the price.

Crude oil price reached new record high in 2004

At the beginning of the year, Brent oil was priced at approx. 30 US$/barrel and by May it had risen by over 20 % to a level of 38 US$/barrel. In the middle of the year, the situation briefly eased and the price at the end of the first half of the year stood at 34 US$/barrel. At this point, the division's sales prices had been largely adjusted to reflect the increased level of raw material prices. In July and August, the oil price then climbed by over 30 % in six weeks, reaching 45 US$/barrel, only to decline again to almost 40 US$/barrel by the end of August. This was followed by another price leap to a new record high of just over 52 US$/barrel in October. By the end of the year, the price of Brent had dropped again in stages to a level of 40 US$/barrel.

The division was unable to benefit from high sales prices in phases when the price of raw materials eased, as it was not possible to adjust the price level for the main products to reflect the previously attained highs in raw material prices due to the time delay.

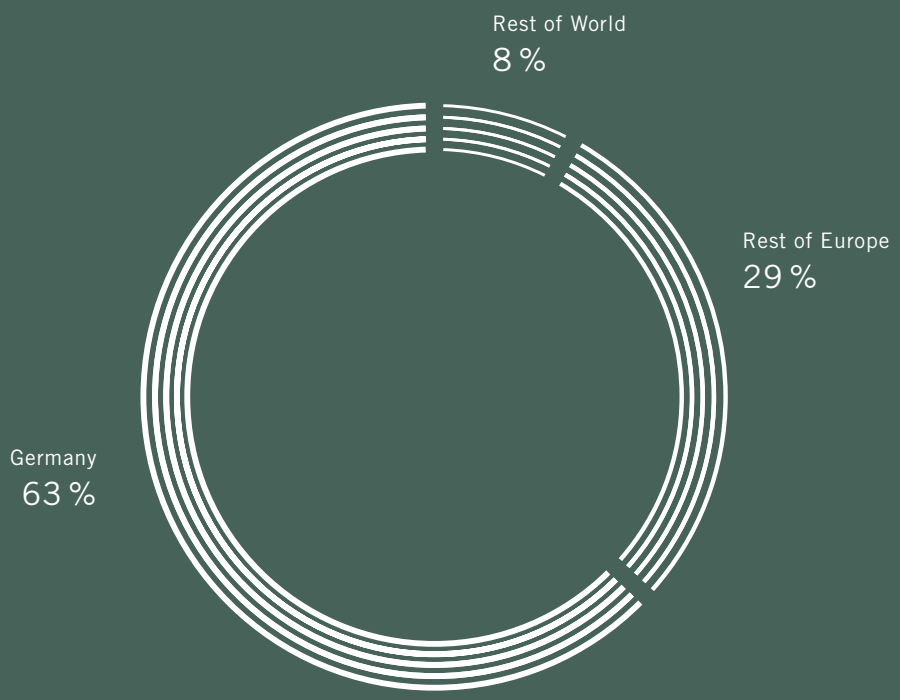
Positive earnings achieved in spite of extreme burdens

The pressures resulting from the movements in the price of oil led to increased raw materials expenses at both refineries amounting to over € 26 m by comparison with the budget. This extra burden already contains the positive foreign exchange effect resulting from the movement in the euro/US$ exchange rate. As the division buys raw materials on a US$ basis, a weak US$ has a positive effect on raw material costs.

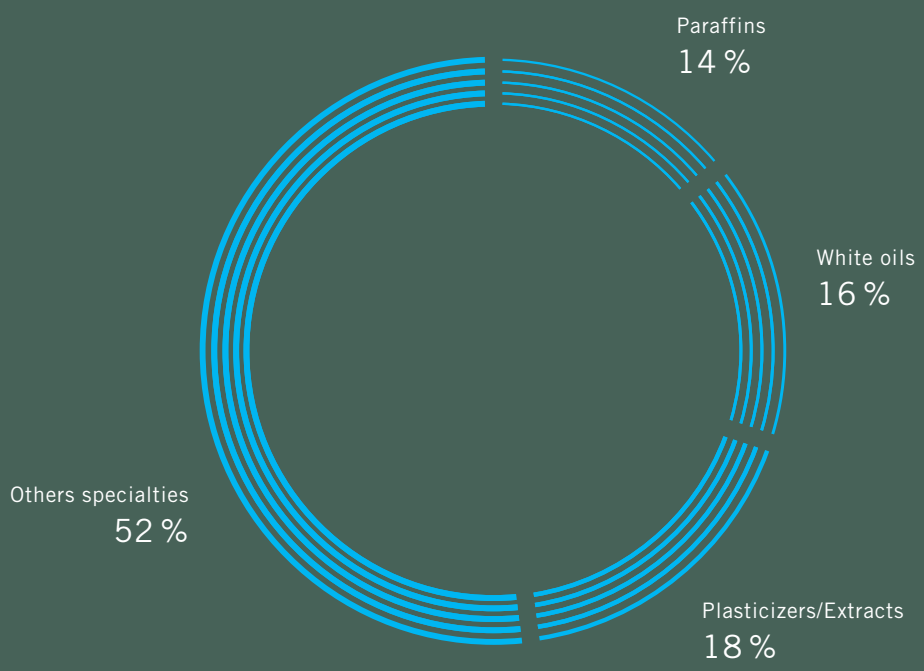
It was only possible to offset the increased material costs of the refineries through higher sales prices to a limited extent due to existing price agreements and the market situation. In addition, the division was burdened with costs of € 4.0 m in 2004 resulting from integrating the BP activities. In spite of these extraordinary extra expenses, the division posted gratifying operating earnings (EBITDA) of € 20.4 m (2003: € 12.0 m). Earnings before taxes on income and on the consolidation level neutral write-offs reached € 7.8 m (2003: € 7.2 m), which corresponded to a return on sales of 2 % (2003: 5 %).

The reasons for this development lie on the one hand in cost reduction measures which were introduced at short notice and in adjustments made to the investment budget. On the other, the activities which are not directly allocatable to refinery production, posted good earnings contributions which helped to stabilize results.

Sales by geographical area
(%)



Refinery production
Main product groups
(%)



Overseas activities show profitable developments

The activities acquired from BP in the middle of the year in South Africa, Australia and Thailand recorded good earnings, as expected, in the second half of the year. These companies procure their products from non-group special refineries, and sell them in their regional markets. Certain product groups can be refined at the companies' own blending and filling plants and prepared in accordance with the requirements of the market. These activities are not affected by movements in the price of oil.

The overseas locations exceeded their budget targets in the past financial year. They succeeded in maintaining their sales volumes at a high level in spite of higher prices - caused by the movements in oil prices.

Sales in Europe were also stable. The conversion plants acquired from BP in Great Britain and the Netherlands operated at their budgeted capacity level. The imminent closure of a BP refinery in Great Britain from which these locations will continue to be supplied with specialty products until the end of 2005, requires a restructuring of local activities. One production facility in England was already shut down in 2004. The existing plants and product streams will be further optimized in 2005.

Blending activities further expanded

The Chemical Pharmaceutical Division was able to further expand its activities in the blending and filling of automotive and industrial lubricants in 2004. Lubricants are now produced for several large oil companies at the Salzbergen facility in accordance with their individual formulas. Further investment was made in 2004 in designing the plant to accommodate additional volumes in view of the division's recognized cost leadership in this service business.

The division has also taken over lubricant activities at the Hamburg location. The decision was taken in 2004 to align this facility more closely with the requirements of the shipping industry and to set up a centre for marine lubricants in Hamburg.

The niche activities in the doped lubricants business showed stable growth in 2004.

The entire blending activities produce stable service revenues, and are therefore characterized by their high degree of independence from the price of crude oil. Together with trading activities with chemical pharmaceutical specialty products, the blending and filling activities represent a stabilizing influence on the earnings of the whole division. As a result, it proved possible to a large degree to offset the effect on earnings caused by the volatile oil price in 2004 within the division itself.

Expansion of production capacity in growth niches

Directly after taking over BP's special refinery in Hamburg, the group decided to expand the facility's production capacity. A start was made in 2004 on extending the existing extraction plant to include the production of label-free softening agents. The product is supplied to the tire industry in particular, and is will be in increasing demand over the coming years. The background to this development is the necessary conversion in tire production from raw materials which have been used until now to more environmentally compatible products.

Besides the BP activities, the group also acquired patents for an innovative procedure for making such label-free softening agents, and is consequently positioned as the technology leader in this segment of the market.

Thermal waste treatment plant in Salzbergen comes on-stream

After two years of construction, the thermal waste treatment plant Salzbergen (TAS) came into operation in the spring of 2004. The plant is operated by SRS EcoTherm GmbH in which the H&R WASAG group has a 10% stake; the main shareholder is RWE Power AG.

The plant supplies the Salzbergen refinery with the steam it needs for operation. As a result, operation of the existing oil-fired power station can be scaled down significantly. Besides a major reduction in emissions, the new energy concept also leads to a reduction in energy costs. The price of the steam supplied by the waste incineration plant is significantly below the cost of generating the alternative oil-fired power. Depending on the level of the alternative costs as determined by the price of oil, the savings represent up to three million euros per year.

This enables the refinery to offset the disadvantage of its location. By comparison with other special refineries, the Salzbergen facility has to bear higher costs in the supply of raw materials. While competitive refineries procure their raw materials via ship or pipeline, the Salzbergen refinery has to transport its supplies by rail or inland waterways to the southern Emsland region.

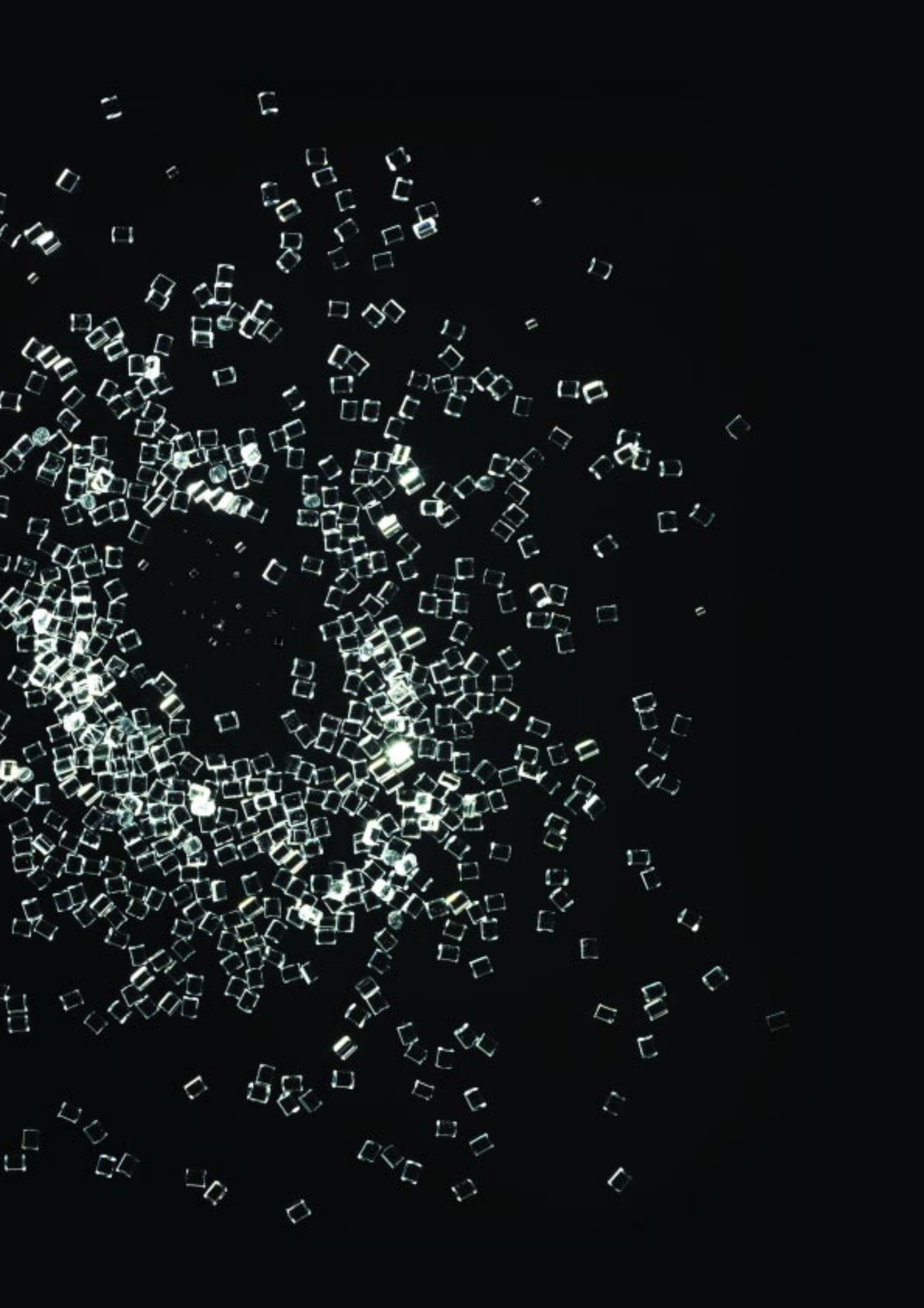
Practical research and development

The ongoing or newly begun research and development projects in 2004 served to adapt the product portfolio to meet current or expected market developments. Individual projects comprised tests for optimizing the raw materials base for the production of label-free softening agents as well as catalytic converter trials for the production of medical white oils with special cold properties and viscosity characteristics. In addition, sophisticated oil emulsifying agents were developed or refined for a wide variety of applications.

The significance of our growth

We do not regard growth simply as a means to an end. The sole purpose of growth is securing the sustained enhancement of corporate value. This benefits our shareholders and ensures our long-term success at the same time. Naturally, vigorous growth dynamics also spell a process of permanent change for us. We perceive the constant adaptation to altered structures and markets as an essential precondition enabling us to always remain one step ahead of the market. According to our definition, growth means getting closer to the aims and objectives we have defined. At the same time, we redefine our goals and set new targets with every growth step we take.

The photo shows PMMA granulate Crystal Clear (polymethylmethacrylate). The Polymers Division employs this material to produce optical fibers and transparent covers in vehicle dashboards. PMMA has excellent electrical properties and absorbs virtually no moisture.



Plastics Division

Production facility successfully set up in China

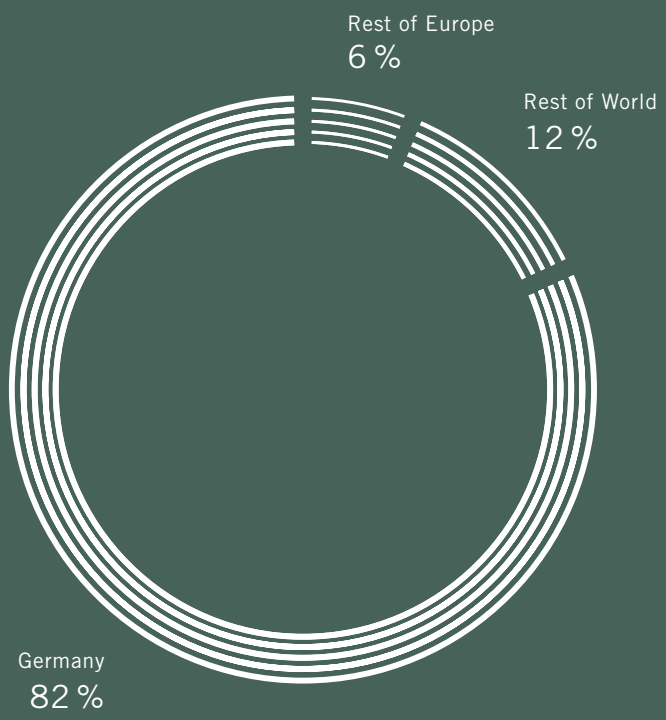
In the year under review plastics devision emitiated the internationalization of its activities. After a joint venture was formally founded in February 2004, production in China started in the first quarter 2005. The H&R WASAG group holds 51% of the joint venture, and the remaining 49% belongs to a group with its headquarters in Taiwan which is already operating in the international plastics market.

The order situation for China is showing healthy growth, as was expected. Full operating capacity is secured until 2007 whereby in the first few years the plant will concentrate in particular on mass production for excisting customers. But some new customers were also won in China.

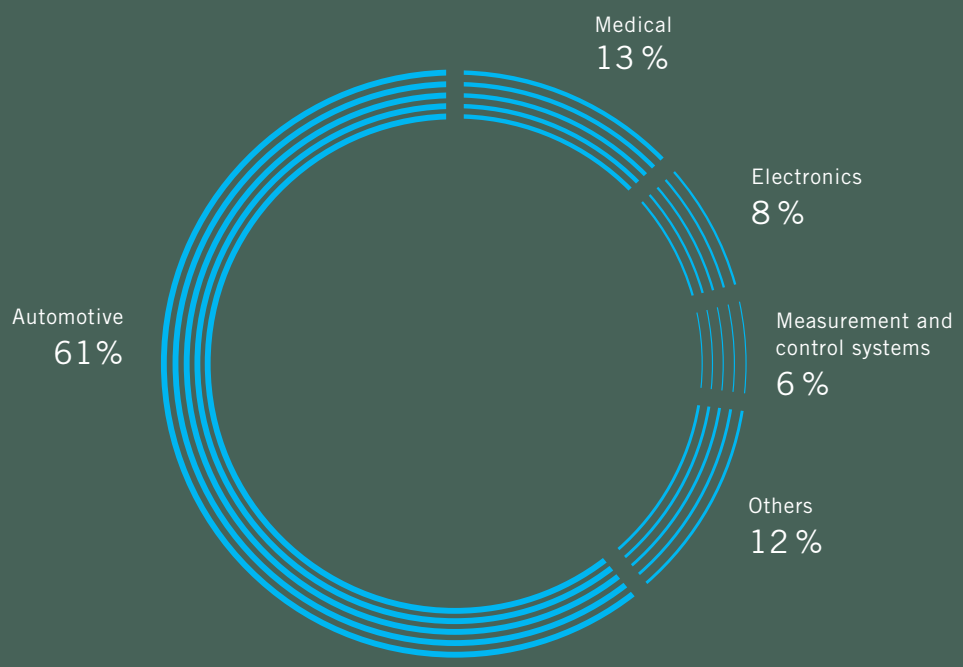
Sales and income

(€ m)	*2004*	*2003*	*Chances, %*
Net sales	34.9	33.0	+6
Operating income (EBITDA)	5.2	6.2	-16
(% from net sales)	14.9	18.8	-3.9 %-Pts.
Income before income taxes	3.0	3.8	-20
(% from net sales)	8.6	11.5	-2.9 %-Pts.

Sales by geographical area
(%)



Sales by customer segments
(%)



Growth trend maintained

The division was again able to increase sales in the past financial year. Revenues in 2004 totaled € 34.9 m (2003: € 33.0 m) which corresponds to growth of 6 %. Business within the division was uneven. While plastics processing succeeded in expanding its share of sales significantly, sales in mold making fell slightly.

The focus lay on production for the automotive supply industry, which accounted for 61% of sales. The demand for plastic parts for use in cars rose steadily in 2004 as it had in previous years. The background to this development is the continuing substitution of metals in order to reduce the weight and therefore the fuel consumption of vehicles. As the properties of plastics will improve continuously in the coming years, this trend will persist in the future. Medical engineering was responsible for 13 % of sales, electronics for 8 % and customers from the field of measurement and control technology for 6 % of the division's overall sales.

Persistent economic weakness and strong euro affect earnings

The market has been subject to serious pressure on prices for several years caused by the persistent weakness of the economy and increasing global competition. In 2004, the strength of the euro also made exports to the US$ zone more expensive. These developments meant that it was not possible to pass on increases in energy costs and higher purchase prices for metals to customers in their entirety.

The Plastics Division posted operating earnings (EBITDA) of € 5.2 m (2003: € 6.2 m) and earnings before taxes on income reached € 3.0 m (2003: € 3.8 m). In spite of the pressures caused by a tough market environment and one-off expenses from setting up production in China, the return on sales before taxes in 2004 was 9 % (2003: 12%) which was still a pleasing result. In particular, measures introduced at short notice aimed at increasing productivity and the growth in sales achieved, both contributed to these results.

At the end of the year, orders stood at just over € 20 m and therefore remain at an outstanding level.

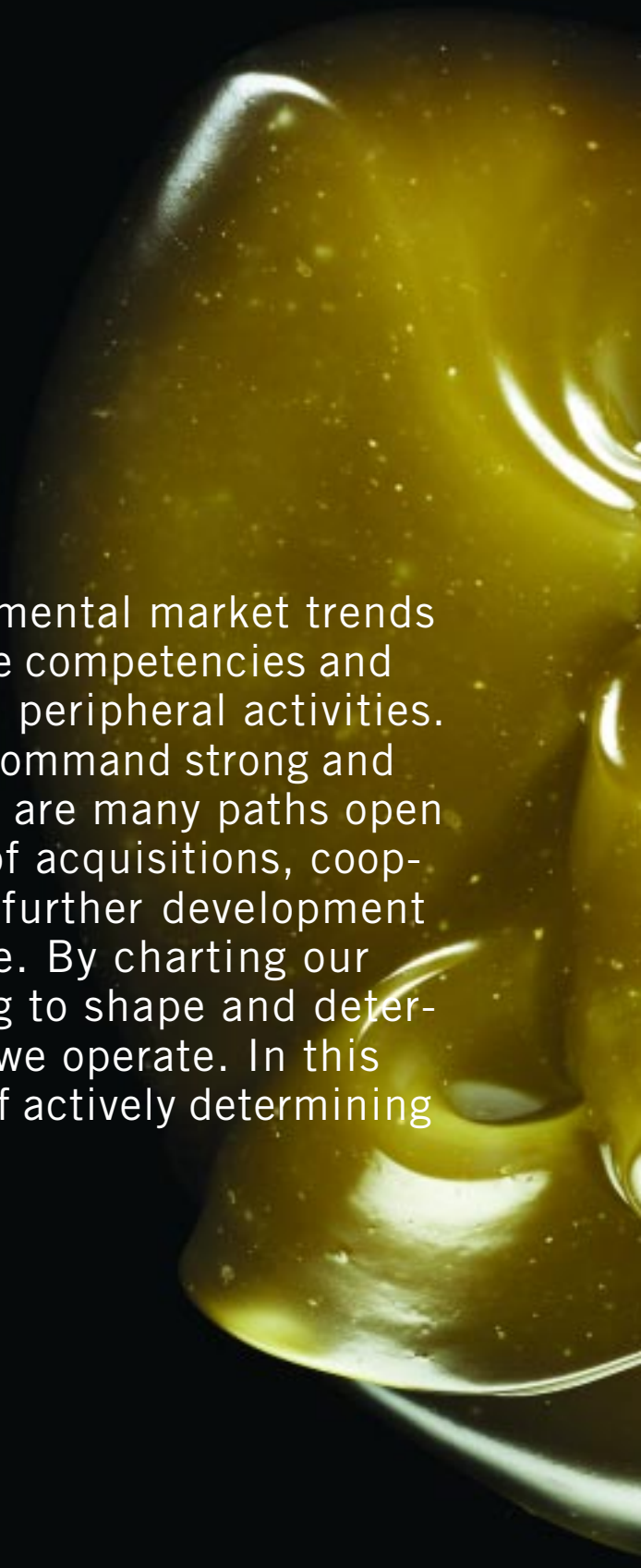
New technologies gain in importance

Satisfactory profitability is an important precondition of being able to offer highly precise, innovative services in the plastics market. It ensures that the necessary capital inflows are earned for forward-looking investment and continuous, high level development work.

The Plastics Division benefited again in 2004 from its technology leadership. In particular, demand increased for products and services in the areas of insert technology, toothed wheel technology and systems construction. Confirming our high level of application-specific expertise, various products were honored by the umbrella federation for the plastic processing industry as outstanding technical developments in 2004.

The future of our growth

We are benefiting from the fundamental market trends involving the concentration on core competencies and the divestment of specialized and peripheral activities. As a specialist in niche areas, we command strong and long-term growth potential. There are many paths open for our continued growth: by way of acquisitions, cooperation activities and by organic further development we will continue to grow in future. By charting our growth course, we are also aiming to shape and determine the basic markets in which we operate. In this way we are meeting our objective of actively determining the growth process.



The photo shows an emulsion matrix for an underground explosive. This matrix forms the basis for emulsion explosives. It is a watery solution of nitrate salts mixed with mineral oil and an emulgator for stabilizing and adjusting viscosity. In the next stage, the matrix is chemically sensitized with the addition of gas formers and becomes an explosive suitable for applications.

Explosives Division

Further growth via acquisitions and alliances

In the past financial year, the focus was once again on expanding business activities within the Explosives Division. After the group took up a leading position in the civil European explosives market at a stroke in 2003 with the acquisition of the Westspreng group, in 2004 the division strengthened its positioning in Europe further, expanding its range of products and services in the process to meet customer needs.

In October, the group initiated the takeover of Sprengstoffwerke Gnaschwitz. This company, which has its headquarters in Saxony, mainly produces dynamite for the stone / earth market, and therefore represents an ideal complement to the division's activities. By integrating the company, the division will be able to realize a series of synergy effects aimed at further strengthening earning power.

The company will not be consolidated until 2005 when the Federal Cartel Office has issued its approval of the takeover. A decision from the regulatory authorities is expected in the second quarter of the new year.

Focus on setting up European explosives group

In May, the group started talks with the French special chemicals group, SNPE. The intention is to examine the possibility of setting up a joint venture comprising the total civil explosives activities of both partners. SNPE is the market leader in France and Belgium through subsidiaries.

Sales and income

	2004	*2003*	*Chances, %*
(€ m)			
Net sales	53.1	39.2	+35
Operating income (EBITDA)	6.4	5.0	+28
(% from net sales)	12.1	12.8	-0.7 %-Pts.
Income before income taxes	1.7	1.4	+21
(% from net sales)	3.2	3.6	-0.4 %-Pts.

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

A joint venture would be outstandingly well positioned as one of the market leaders in Europe, and would also have the necessary capital resources to efficiently and rapidly expand its activities in the Eastern European growth markets. The joint venture would also be able to generate further growth through more acquisitions and alliances with other suppliers in Europe. There is a whole series of potential partners due to the high degree of fragmentation in the European explosives market. Furthermore, the joint venture could use the technology leadership brought to the group by Westspreng to win further market share even in saturated markets.

The takeover of Sprengstoffwerke Gnaschwitz necessitates a delay in the talks with SNPE. Negotiations can only enter a new phase when the decision of the Federal Cartel Office has been reached.

Increase in sales in spite of continuing crisis in construction industry

The Explosives Division increased sales in 2004 to € 53.1 m (2003: € 39.2 m). Most of the increase in sales described is due to the fact that the Westspreng group was only included in the consolidated financial statements from May 1, 2003. The comparative figures for the previous year do not therefore include the whole year for the company in the Explosives Division with the strongest sales. If the Westspreng group is included for the whole of 2003, sales in 2004 grew by almost 4 %.

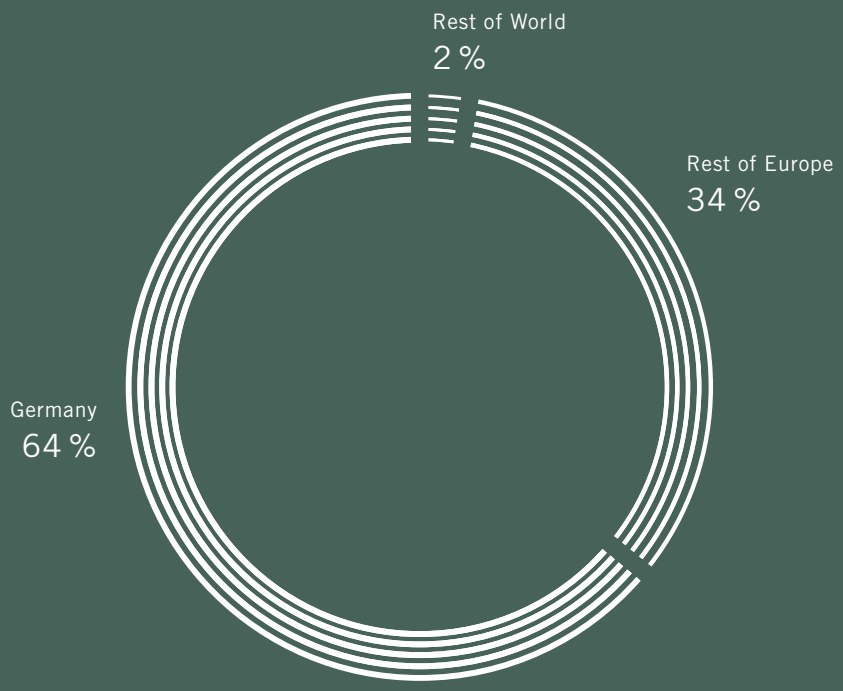
The division therefore expanded its business further – in spite of the continuing crisis in the construction industry in Germany. The driving forces behind this growth were principally increased quantities of explosives sold in Poland and Hungary, participation in important tunnel projects and a rise in service sales in Germany and Poland. Greater concentration on the supply of complete service packages (including drilling and blasting services) enabled new customers to be won and sales with existing customers to be expanded.

Marked improvement in profitability achieved

Divisional earnings also improved further in the last financial year. Operating earnings (EBITDA) stood at € 6.4 m (2004: € 5.0 m) which corresponds to a rise of 28 %. Earnings before taxes and write-offs which are neutral at the consolidation level reached € 1.7 m (2003: € 1.4 m) and the corresponding return on sales was 3 % (2003: 4 %). On the other hand, when regarding these results it must be kept in mind that the months of January to April for the Westspreng group were not contained in the comparative figures for 2003. As a result, the earnings in 2003 were not affected by the losses which normally occur in this industry in the weak months at the beginning of the year. The rise in earnings should therefore be even more highly rated.

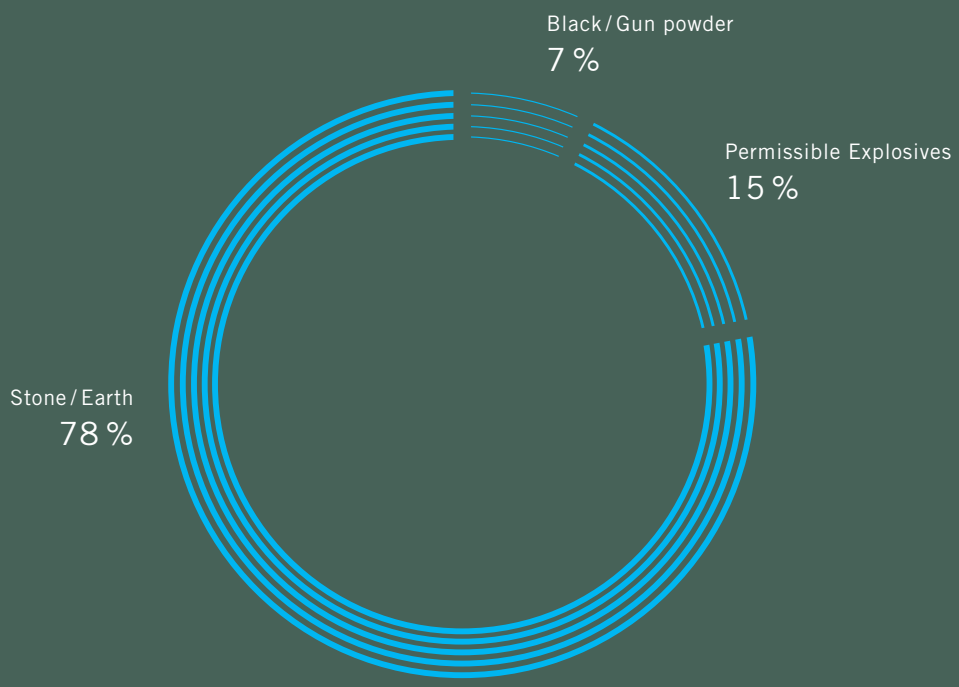
Sales by geographical area

(%)



Sales by product groups

(%)



Product mix improved and cost reduction measures put in place

The positive growth in earnings is based on various factors. The improvement in the product mix in the stone / earth segment of the market by comparison with the previous year had a major effect on earnings. While greater use was made of powdered alternatives to the technically superior emulsion explosives in 2003 due to the very dry, warm summer, this ratio reversed again in 2003. More emulsions had to be used during the long periods of moist weather. The expansion of the division's sophisticated service activities also had a positive effect on margins.

In addition, the negative effects resulting from the devaluation of the Polish zloty and the Hungarian forint in the previous year, no longer applied. There were even slight exchange rate gains In 2004.

Far-reaching cost saving measures were also implemented within the Westspreng group, measures which included shifting production quantities from Germany to Eastern Europe.

Sales of permissible explosives above budget

The permissible explosives segment of the market for coal mining posted stable sales quantities in contrast to the budget. The background to this development is increased demand for high-quality coking coal which is again being mined in greater volumes. Other special explosives (including avalanche explosives) were also sold in greater amounts.

Activities in the production of black powder were affected by increased imports of Chinese pyrotechnics. The price pressure in the market led to declining production of fireworks in Germany with the result that the demand for black powder has also fallen. Against this, sales in the USA showed pleasing growth.

Mining of silica sand reserves in preparation

Further progress was also made in 2004 with the planned mining of silica sand reserves in Sythen/Haltern. Based on the latest information available, up to 13.5 m t of high-quality silica sand can be mined under land assigned to the Explosives Division. The environmental compatibility test which is required before mining can begin, was completed in 2004. A new area development plan for the region - which allows the silica sand to be mined – was also passed and announced in 2004. Mining is scheduled to start in 2007.

Personnel and integrated management

BP takeover leads to an increase in the workforce

As at the balance sheet reference date, all the group companies together employed 1,634 members of staff (Dec. 31, 2003: 1,215). The increase in the workforce was due purely to the integration of the former BP activities. The new facilities employed a total of 409 people as at December 31, 2004. There was also an accompanying change in the regional distribution of employees. Of the 405 people employed abroad (Dec. 31, 2003: 188), just over half were part of the new activities in the Chemical Pharmaceutical Raw Materials Division.

The Chemical Pharmaceutical Raw Materials Division employed a total of 785 people at the end of the year (Dec. 31, 2003: 356), which represented the biggest workforce in the group. No major personnel adjustments were made within the division in the course of the year. The workforce acquired from BP corresponds to the personnel requirements in the new facilities.

The Plastics Division employed 358 people on the balance sheet reference date (Dec. 31, 2003: 360), almost unchanged from the previous year.

The size of the workforce in the Explosives Division fell by 2% to 486 (Dec. 31, 2003: 496) in the course of the year. The background to this development is the concentration of production processes in a few locations and the resulting closure of one plant.

Number of trainees reaches new record

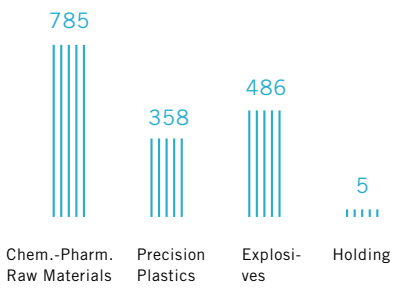
As at the end of the year, H&R WASAG was training 66 (Dec. 31, 2003: 56) young people in Germany. The level of training has therefore reached a new record, in particular through the inclusion of the BP refinery in Hamburg. The trainee ratio stood at 4 % (2003: 5%), which is still an above-average figure.

The training focus is on the vocational skills of chemist, machine-toolist, chemical laboratory assistant and process engineer. Overall, trainees in technical areas numbered 59 as at December 31, 2004; there were seven trainees in the commercial fields of business economics and industrial business studies..

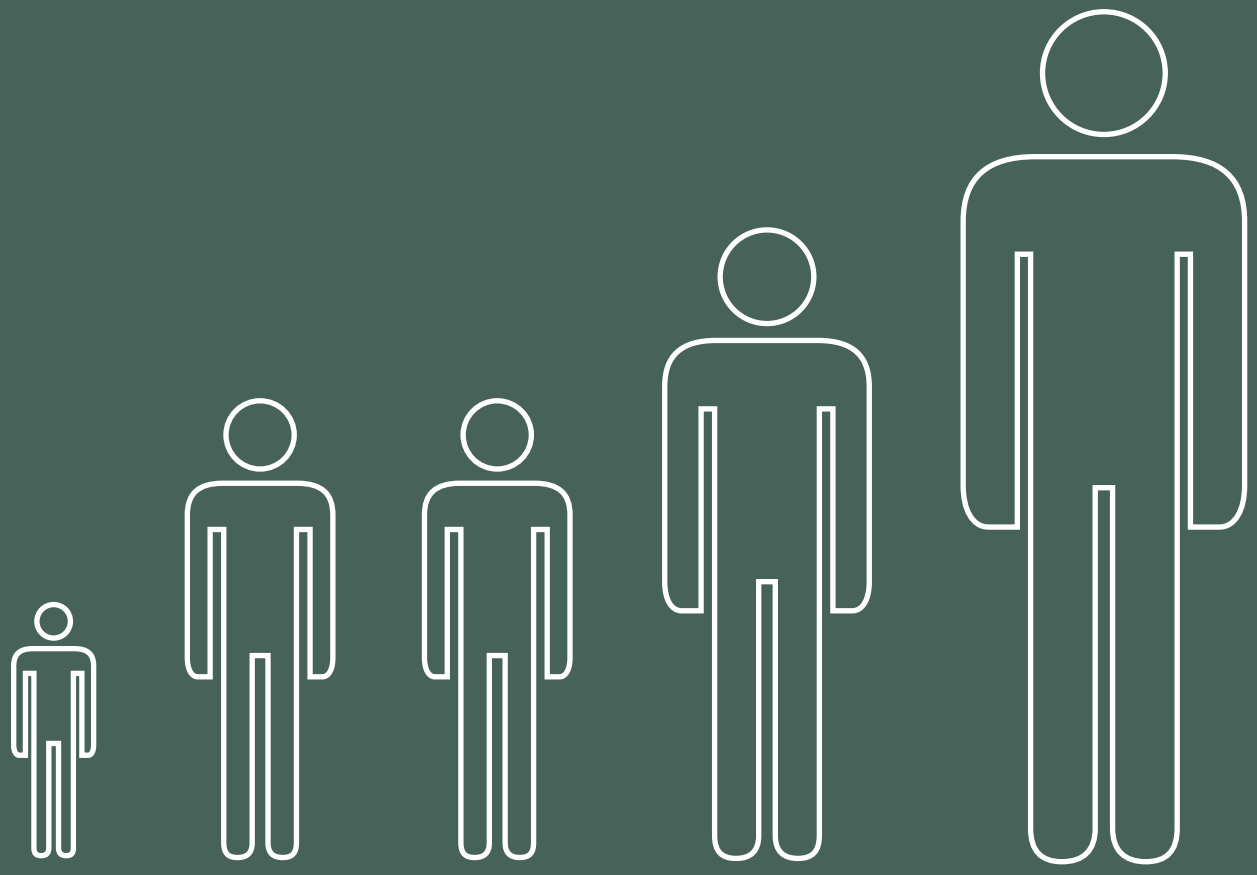
There is a foundation in the group which sponsors degrees. Working with different universities and technical colleges, specific students are selected who are then supported financially during their time at college. A total of 15 students were sponsored in this way in 2004.

Employees by divisions

(as of Dec 31, 2004)



Employees
(2000 – 2004)



Key personnel data improved

Sales per employee (as an annual average) rose to almost € 313,500 (2003: € 172,000) in 2004, which was due in particular to the consolidation of the Hamburg refinery. The refinery business is less personnel-intensive than other group activities. This is also the reason why the personnel expense ratio (ratio of personnel expenses to sales) has fallen to 14 % (2003: 22 %). Total personnel expenditure, however, rose to € 69.9 m (2003: € 46.0 m) as a result of the growth of the company. Of this figure, € 57.1 m (2003: € 38.2 m) was spent on wages and salaries, and € 12.9 m (2003: € 7.8 m) on social security payments and expenditure on pensions and support. The figure for pensions alone in 2004 was € 1.6 m (2003: € 0.2 m).

Motivation via individual collective agreements with profit sharing

Progress was also made in 2004 in designing flexible collective agreements. The aim is to structure the collective framework of every subsidiary to meet the specific needs of the particular location. This relates especially to payment and working time regulations.

Nearly all major group companies have now drawn up local collective agreements, which include a results-based remuneration system. In this way the group creates attractive working conditions and promotes quality and efficiency of performance.

The decentralized management structure in the group also led to stronger commitment and motivation on the part of managers in 2004.

Integrated management system secures competitiveness

Besides promoting training, the group has also made a binding commitment to other areas of social responsibility in its corporate policy. The knowledge that successes result from quality and safety management, as well as from environmental and health protection, form the basis for corporate success, runs through all group activities.

The coordination of all requirements is optimized by an integrated management system which was again continuously refined in 2004 and implemented in further group locations. The norms and recommendations in this system are aligned with sophisticated, internationally recognized rules and regulations. The individual management systems have been certified by outside bodies to the norms DIN EN ISO 9001:2000 (quality management), DIN EN ISO 14001 (environmental protection) and OHSAS 18001 (work and health protection). In addition, the group's laboratory facilities are certified to DIN EN ISO/IEC 17025. The Plastic Division's German production facility is certified to ISO/TS 16949. Integration of the new facilities into the existing management systems is running to schedule.

Risk management

Focus on an active approach to risks

The aim of risk management in the H&R WASAG group is to actively control risks. This comprises, on the one hand, avoiding negative effects on the company's assets, earnings and financial position, and on the other, exploiting opportunities which present themselves.

The basis for controlling risks in the group is to identify developments through a thorough reporting an information system. In addition to regular comparisons between budget and actual figures, strategy and control meetings at the level of individual divisions or subsidiaries form the basis for analyzing risks. Risks which are identified are then examined with regard to their potential damage in the course of analytical scenarios, and specific measures for minimizing the effects are implemented.

Any damage or liability risks which are identified as significant and which rest with the group are secured through insurance policies

Diversification is an important tool

Individual risks which are identified, are divided into the following risk categories: strategic risks, value added risks, financial risks, legal risks and environmental risks.

The effects of specific individual risks are minimized by structuring the group into three independent divisions. Various activities or independent market segments are also bundled within divisions which already serves to negate risks at the level of individual divisions.

Susceptibility to movements in the price of crude oil

The continuing dependence on movements in the price of oil contains risks for the activities of the Chemical Pharmaceutical Raw Materials Division. In particular, rapid and unexpected price increases in the oil market or sudden changes in the US$/Euro exchange rate can lead to temporary losses within refinery activities which cannot be compensated directly by opposing developments. The risk potential in this regard has increased in the group as a result of the takeover of a second refinery.

Raw material purchases which are dependent on the price of oil are not secured by the futures market. On the one hand, hedging for the volumes required is risky and uneconomic because of the sizeable share represented by raw materials of the group's value added, and on the other, the large number of customers and business transactions makes it impossible to efficiently secure individual transactions. Individual hedges are only arranged in the area of foreign exchange.

Potential negative effects resulting from movements in the oil price are cushioned at a group level by diversifying into markets which are not susceptible to the price of oil. The group is also posting steady growth in business areas which are independent of the oil price. As developments in 2004 showed, it is already to a large degree possible to efficiently offset the raw material price risk in the existing structure of the group. The group also has a financial framework which offers a high degree of financial flexibility even if oil prices continue to rise.

Risks from investment and acquisition activities

The integration of BP's activities has been completed at an operating level. Integrating the new units into the reporting and information system now enables variances from the budget to be detected and managed at an early stage. Financial risks only result from the requirement to restructure activities in Great Britain, but these are minimized by carefully testing different scenarios of action.

Integration of Sprengstoffwerke Gnaschwitz which is due to take place in 2005 after approval from the Federal Cartel Office, has also been prepared in detail. The decisive question here is in what timeframe and to what extent the expected synergy effects with the existing activities of the Explosives Division can be realized. The general acquisition risk is minimized in the process by means of high synergy potential which comprises numerous individual projects.

The largest running individual investment is currently the expansion of capacity at the extraction plant for producing marker-free softening agents in Hamburg. A detailed examination of the sales opportunities for the increased product volumes in advance of the investment decision showed that a high degree of profitability will be achieved even if there are significant variances between actual developments and the volumes and revenues budgeted.

Setting up a joint venture producing precision plastic parts in China contains the risk represented by the transfer of know-how. Appropriate rules governing processes and authority have been set up here which significantly reduce this risk. Added to this is the fact that important production know-how also remains at the German production facility.

Broad customer base guarantees stability

In nearly all its activities, the group has a broad customer base with the result that negative effects from the loss of customers can be cushioned. The loss of individual customers is also minimized by a strong focus on quality of product and performance. The winning of new customers is given greater emphasis in those areas where single customers or a group of customers make up a significant share of the business.

The group meets general market and competitive risks by constantly refining its group-wide range of services and by concentrating heavily on maintaining quality and service standards.

There are potential risks in some areas due to a dependence on only a few suppliers.

High standards minimize production and liability risks

There are increased safety risks for man and the environment both in connection with the production of explosives and within refinery activities, due to the handling of hazardous materials. Specific risks of downtime or accidents are minimized here by setting and implementing high safety standards and the regular maintenance of individual production systems.

High quality standards reduce potential risks from product liability. In addition, new products and processes are tested extensively for application risks.

Risks from regulations and the environment

Due to the realignment of the policy towards chemicals in the EU, chemical substances will in future have to be registered, assessed and approved. The introduction of the new guideline is not expected before 2007, however, and it is impossible to gauge the specific cost as the measures to be implemented have not yet been spelt out.

No major expenses are expected for group facilities from the introduction of emissions trading.

Further changes in general or specific environmental regulations may, however, lead to burdens for the group in the future.

Assessment of overall risk

On the basis of current information, the H&R WASAG group is not exposed to any existential risks which are likely to occur with any significant degree of probability.

Declaration regarding affiliated companies

The management board makes the following statement in its Dependence Report pursuant to § 312 of the Companies Act with regard to the group's collaboration with affiliated companies from the Hansen & Rosenthal group in the financial year 2004:

"H&R WASAG received appropriate consideration for all the legal transactions and measures listed in this report in accordance with the circumstances known to us at the time when the legal transaction was enacted or the measure taken or omitted, and was therefore not disadvantaged by the fact that such measures were taken or omitted. H&R WASAG did not incur any disadvantages from any relationship with the controlling company or companies affiliated with it."

Addendum and outlook

Beginning of 2005 affected by renewed rise in oil prices

The high degree of volatility in the oil market continued at the beginning of the new financial year, with rapidly rising prices. At the beginning of the year, the price for Brent crude was still just under 40 US$/barrel. In the first quarter, the oil price showed rapid inflation, rising by almost 40% to over 55 US$/barrel within a period of twelve weeks. This growth is comparable to the extreme rise in the third quarter of 2004.

The first months of 2005 also saw no significant improvement in the economic environment in Germany or Europe. The persistently tough consumer climate is having a decisive effect on economic growth and is lowering industry's willingness to invest.

Business growth in the first quarter

The difficult market environment affected the refinery business in the Chemical Pharmaceutical Raw Materials Division. Even stable results from the other areas in the division were unable to prevent earnings targets being missed.

In February, the group further strengthened the division by taking over activities in Australia. Two facilities were acquired from ExxonMobil for the storage and refining of specialty products which excellently complement the existing activities on this continent.

The Plastics Division posted pleasingly stable results. The start of production in its own plants in China is scheduled for the beginning of the second quarter. Until then, manufacturing orders will continue to be fulfilled in the joint venture partner's plants.

Demand for civil explosives is normally low in the first few months of a year in the industry. Activities in some quarries come to a halt due to the cold weather. Viewed against this background, business in the Explosives Division was on budget.

In the first quarter of 2005, further preparations were made for mining silica sand reserves. The required framework plan of operation is to be submitted to the responsible authorities this summer. Excavation activities are due to start in 2007.

Further growth expected in 2005

No noticeable change in the overall economic situation is expected for 2005. This means that the general pressure on prices will continue in all markets.

Movements in the price of oil and exchange rates cannot be predicted which makes it difficult to make a general prediction for sales and earnings in the group's largest division, Chemical Pharmaceutical Raw Materials.

An average oil price of 35 US$/barrel and an average US$ exchange rate of 1.20 US$/euro have been assumed for 2005 for budgetary purposes. It should be taken into account here that the absolute level of raw material costs does not have a direct effect on earnings but that it is only rapid changes in prices which lead to windfall profits or windfall losses.

If there are no severe pressures from the raw materials side, sales are expected to rise to over € 530 m, and earnings before tax to double to at least € 20 m.

Expansion aimed for in chemical pharmaceutical activities

The chemical pharmaceutical specialty business is to be further expanded in 2005. This is to be achieved, on the one hand, by acquiring individual facilities, and on the other, by means of targeted, organic growth. There is high growth potential, primarily in the Asian / Pacific region.

The strategy in Europe will focus on realizing synergy effects resulting from the integration of the Hamburg refinery, and on restructuring the activities in Great Britain.

Start of production in China

The Plastics Division is concentrating on expanding its new activities in China. The intention is also to identify target regions in which further production plants can be set up. The Eastern European region and the NAFTA zone appear to be of particular interest.

Further measures for reducing costs will be implemented in view of the continuing pressure on prices and the constantly rising prices of raw materials. Further aims comprise raising the share of sales contributed by new technologies and strengthening the medical engineering segment of the market.

Growth too in the explosives business

The growth strategy in the Explosives Division begun with the takeover of Sprengstoffwerke Gnaschwitz and the initiation of talks with SNPE, will be continued in 2005. The decision of the Federal Cartel Office on the takeover of Sprengstoffwerke Gnaschwitz is expected in the second quarter after which the negotiations with SNPE will be able to enter a more concrete phase.

Consolidated finanicial statements for the fiscal year ended December 31, 2004

H&R Wasag AG, Salzbergen

Consolidated balance sheet
as of December 31, 2004 (IFRS)

Assets

	Notes	Dec. 31, 2004 T€	Dec. 31, 2003 T€
Cash and cash equivalents	1	17,880	10,755
Marketable securities	2	457	458
Trade accounts receivable	3	68,798	15,239
Receivables due from affiliated companies	4	--	300
Receivables due from participation companies	5	3,634	2,801
Inventories	6	68,423	28,574
Short-term prepaid expenses and other short-term assets	7	10,038	2,706
Short-term assets		**169,230**	**60,833**
Property, plant and equipment / Fixed assets	8	88,777	53,711
Intangible assets	9	1,004	1,071
Goodwill	10	44,157	30,659
Financial assets	11	2,197	2,231
Financial assets (equity)	11	717	732
Loans	11	5,541	5,050
Long-term prepaid expenses and other long-term assets	12	8,236	1,689
Long-term assets		**150,629**	**95,152**
Deferred income taxes	13	**9,478**	**9,752**
Total Assets		**329,337**	**165,737**

Equity and liabilities

	Notes	Dec. 31, 2004 T€	Dec. 31, 2003 T€
Short-term debt and current portion of long-term debt	14	32,859	10,957
Trade accounts payable	15	28,297	8,775
Receivables from companies in which there is a participating interest	16	11	--
Advanced payments received	17	19	361
Short-term provisions	18	25,378	16,910
Other short-term liabilities	19	11,939	6,847
Short-term deferred income	20	116	120
Short-term liabilities		**98,619**	**43,970**
Trade accounts payable		155	259
Long-term debt	21	84,938	6,951
Pension provisions	22	50,837	28,831
Other long-term provisions	23	8,433	2,865
Long-term deferred income	24	477	593
Long-term liablities		**144,840**	**39,490**
Minority interests	25	**3,833**	**1,718**
Subscribed capital	26	48,358	48,358
Additional paid-in capital		2,823	2,823
Earnings reserves	27	14,676	14,676
Consolidated retained earnings	28	14,826	13,823
Foreign currency translation adjustments		-189	-276
Shareholders' equity		**80,494**	**79,404**
Deferred income taxes	29	**1,551**	**1,155**
Total Shareholders' equity and liabilities		**329,337**	**165,737**

Consolidated income statement

for the fiscal year ended December 31, 2004

	Notes	*2004* *T€*	*2003* *T€*
Net sales	30	**497,069**	**211,151**
Other operating income	31	18,900	10,433
Changes in inventories of finished goods and work in progress		-221	-1,916
Production of own fixed assets capitalized		343	27
Material costs	32	-333,509	-119,104
a) Raw materials and supplies		-314,339	-111,824
b) Purchased services		-19,170	-7,280
Personnel expenses	33	-69,949	-45,964
a) Wages and salaries		-57,054	-38,176
b) Social security payments and expenses for pensions and for support		-12,895	-7,788
Depreciation and amortization		-13,714	-9,223
Amortization of goodwill		-2,724	-2,106
Other operating expenses	34	-78,312	-30,059
Other taxes	35	-1,411	-534
Income from operations		**16,472**	**12,705**
Net interest result	36	-6,632	-2,179
Other income and expenses	37	4	81
Income before income taxes and minority interests		**9,844**	**10,607**
Income taxes	38	-2,332	-4,824
Income before minority interests		**7,512**	**5,783**
Minority interests		-987	-908
Net income		**6,525**	**4,875**
Basic earnings per share (€)		0.34	0.26
Diluted earnings per share (€)		0.34	0.26

Consolidated cash flow statement

for the fiscal year ended December 31, 2004

			2004 T€	2003 T€
1.		**Income before income taxes, minority interests and interest result**	16,477	12,786
2.	+/-	Depreciation of fixed assets	15,715	11,324
3.	+/-	Changes in long-term provisions	3,592	-624
4.	+/-	Net interest result	-443	-2,179
5.	+/-	Income taxes	-8,403	-817
6.	+/-	Other non-cash expenses and income	240	-9
7.	+/-	Changes in short-term provisions	3,208	-392
8.	-/+	Result from disposals of fixed assets	1	32
9.	-/+	Changes in inventories and trade receivables and other assets not attributable to investing or financing activities	-33,448	9,623
10.	+/-	Changes in trade payables and other liabilities not attributable to investing or financing activities	22,491	-9,458
11.	=	**Cash Flow from operating activities** (Sum of 1 to 10)	**19,430**	**20,286**
12.	-	Purchase of Westspreng GmbH (minus cash acquired)	--	-1,877
13.	-	Purchase of BP activities (minus cash acquired)	-82,531	--
14.	+	Proceeds from disposals of property, plant and equipment	775	1,912
15.	-	Capital expenditures for property, plant and equipment	-20,018	-10,073
16	+	Proceeds from disposals of disposals of financial assets	1	0
17.	-	Capital expenditures for intangible assets	-1,570	-420
18.	+	Proceeds from disposals of financial assets	45	49
19.	-	Purchase of financial assets	-537	-345
20.		Foreign currency for translation investments	-642	--
21.	+/-	Net interest result	-2,825	--
22.	=	**Cash Flow from investing activities** (Sum 12 to 21)	**-107,302**	**-10,754**
23.	-	Payment of H&R WASAG dividend	-5,675	-8,512
24.	+	Proceeds/expenditures by minority shareholders'	1,128	--
25.	-	Repayment of financial liabilities	-18,407	--
26.	+	Proceeds from financial liabilities	117,952	4,936
27.	=	**Cash Flow from financing activities** (Sum 23 to 26)	**94,998**	**-3,576**
28.		Net change in cash and cash equivalents (Sum 11, 22, 27)	7,125	5,956
29.	+	Cash and cash equivalents at the beginning of year	10,755	4,799
30.	=	**Cash and cash equivalents at end of year** (Sum 28 to 29)	**17,880**	**10,755**

Consolidated statement of changes in shareholders' equity

for the fiscal year ended December 31, 2004

2003

	Issued capital T€	*Additional paid-in capital T€*	*Valuation of financial assets T€*	*Retained earnings T€*	*Accumulated profit/loss T€*	*Foreign currency translation adjustments T€*	*Total T€*
As of Dec. 31, 2002	**48,358**	**2,823**	**71**	**--**	**17,460**	**--**	**68,712**
Dividend	--	--	--	--	-8,512	--	-8,512
Valuation of financial assets	--	--	-9	--	--	--	-9
Westspreng/Schneider Sprengtechnik	--	--	--	14,614	--	--	14,614
Foreign currency translation adjustments	--	--	--	--	--	-276	-276
Net income	--	--	--	--	4,875	--	4,875
As of Dec. 31, 2003	**48,358**	**2,823**	**62**	**14,614**	**13,823**	**-276**	**79,404**

2004

	Issued capital T€	*Additional paid-in capital T€*	*Valuation of financial assets T€*	*Retained earnings T€*	*Accumulated profit/loss T€*	*Foreign currency translation adjustments T€*	*Total T€*
As of Dec. 31, 2003	**48,358**	**2,823**	**62**	**14,614**	**13,823**	**-276**	**79,404**
Dividend	--	--	--	--	-5,675	--	-5,675
Valuation of financial assets	--	--	0	--	--	--	0
Foreign currency translation adjustments	--	--	--	--	153	87	240
Net income	--	--	--	--	6,525	--	6,525
As of Dec. 31, 2004	**48,358**	**2,823**	**62**	**14,614**	**14,826**	**-189**	**80,494**

Notes to the consolidated financial statements

as of December 31, 2004 (IFRS)

Principles and methods

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 of H&R WASAG AG have been prepared in accordance with the International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) of the International Accounting Standards Board (IASB), use of which was compulsory as of the balance sheet reference date. To the extent that revised or new IASB standards are compulsory from January 1, 2005, they have not been voluntarily used in advance.

The conditions of § 292a HGB (German Commercial Code) governing exemption from the obligation of preparing consolidated financial statements in accordance with German commercial law, assessed on the basis of the German Accounting Standard No. 1 (DRS 1) published by the German Standardization Council, have been met.

The consolidated financial statements for 2004 were prepared in Euros (€). All the values shown are in thousands of Euros (T€) unless specified otherwise.

Disclosures in accordance with § 292a Section 2 No. 4 HGB (German Commercial Code)

The present consolidated financial statements contain the following material accounting, valuation and consolidation methods differing from German law:

– In accordance with IAS 37, provisions are only formed for current legal obligations or actual past obligations for which it is probable that an event requiring fulfillment of the obligation will lead to an outflow of resources and where a reliable estimation of the size of the obligation can be made

– Intangible assets are shown in the balance sheet as goodwill in accordance with IAS 38

– The valuation of pension reserves in accordance with the fiscal going concern method is not permitted under IFRS – the projected unit credit method pursuant to IAS 19 was applied taking into account future salary growth

– The valuation of anniversary provisions must be made by the projected unit credit method pursuant to IAS 19, and the going concern method is not permitted

– The straight line method of depreciation was chosen for the depreciation of fixed assets instead of the declining balance method, as it corresponds to the curve of use in accordance with IAS 16

– No scheduled depreciation is applied to goodwill acquired after March 30, 2004 in accordance with IFRS 3; this goodwill was subjected to an impairment test

– According to IAS 12, deferred taxes must be formed for all temporary differences between tax balance sheet valuations and those contained in the consolidated balance sheet; this also includes deferred taxes on loss carryforwards if it is sufficiently sure that they will be used

– With regard to raw materials and supplies as well as for finished and unfinished products, certain allowances permitted under HGB were corrected for valuation to IAS 2

– Rented items of fixed assets which are to be allocated to the beneficial ownership of the lessee in accordance with the criteria of IAS 17, must be capitalized and the resulting payables shown as liabilities

– Payables and receivables in foreign currencies must be converted under IFRS at the mean rate of exchange on the balance sheet reference date as opposed to the principle of imparity under HGB. The resulting profits and losses are shown with their due effect on net income

– Under IFRS, long-term provisions must be discounted which results in a lower valuation in the balance sheet

– Long-term and short-term security investments must be valued at their attributable current market value in compliance with IAS 39

Consolidation methods

Group of consolidated companies

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, exercises overall management and is able to derive a benefit from the activities of the company concerned due to its power of control.

The cut-off date for initial consolidation is the time of acquisition.

A total of 25 domestic subsidiaries and 20 foreign subsidiaries were fully consolidated in the consolidated financial statements as of December 31, 2004. A list of these companies is given in the list of consolidated subsidiaries and equity interest.

17 companies were admitted for the first time to the group of consolidated companies in the financial year 2004, the majority of them as part of the takeover of BP's European special refinery activities and overseas facilities.

The following mergers took place in the reporting year:

– Takeover of BP's European Special Products (ESP) and Global Special Products (GSP) activities
– GAUDLITZ Green Point Precision Technology (Wuxi) Co. Ltd. Wuxi, China

With regard to the takeover of the ESP/GSP activities, we refer to the section, Acquisition BP.

The registered capital of GAUDLITZ Green Point Precision Technology (Wuxi) Co. Ltd. Wuxi, China, is US$ 3,000,000. 51% of the shares in this company which was founded in July 2004 are held by a subsidiary which is included in the consolidated financial statements. The remaining 49 % of the shares are shown under minority interests. The company did not engage in any business activities in the reporting year.

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.

In October 2004, the group took over Sprengstoffwerk Gnaschwitz GmbH, Schlungwitz. The company is predominantly engaged in the production of dynamite for the stone / earth market in Saxony. The acquisition is still subject to the approval of the Federal Cartel Office. The first-time consolidation of this company will follow approval from the Federal Cartel Office.

The following companies were not consolidated due to their secondary importance in showing the group's net worth, finances, and earnings position: WAFA Kunststofftechnik Verwaltungs. GmbH, Augsburg, i. K., WAFA Kunststofftechnik GmbH & Co. KG, Augsburg, i. K. H&R European Special Products Chorley Limited, Milton Keynes, Great Britain, H&R European Special Products Sales Limited, Milton Keynes, Great Britain und H&R European Special Products Tipton Limited, Milton Keynes, Great Britain.

Acquisition BP

In an agreement signed in October 2003 (signing), the European ESP activities of BP were acquired with financial effect from January 2 (closing), 2004. Besides the sales organization, trademarks and patents, the acquisition comprised the purchase of fixed assets, inventories and receivables as well as shareholdings in companies.

In April 2004, the group took over further BP production facilities in South Africa, Australia, Thailand and Great Britain with financial effect from July 6, 2004.

As a result of the takeover of BP's ESP/GSP activities, there were liabilities towards BP amounting to € 6.6 m on the balance sheet reference date. This liability was settled in January 2005.

The following assets were acquired as part of the takeover of these activities from BP:

	T€
Assets acquired	
Fixed assets	25,681
Goodwill	33,552
Inventories	34,694
Trade accounts receivables	26,961
Shares	255
Total	**121,143**

The purchase price for the shares is allocated to the following companies:

	Percentage of voting rights acquired	*Activity of the company*	*Date on which merger takes effect*
Company			
H&R Ölwerke Schindler GmbH, Hamburg	100 %	Refinery	Jan. 2, 2004
H&R ESP Nuth B.V., Nuth, Holland	100 %	Blending and filling operation	Jan. 2, 2004
Dussek Campbell (Proprietary) Limited, Durban, South Africa	51 %	Blending and filling operation	July 6, 2004

The companies were consolidated using the acquisition method. Here the acquired share of the attributable current market values of identifiable assets and liabilities is set off against the acquisition costs. As the acquisition of various locations and companies was effected through one single contractual agreement, and one overall purchase price was agreed, the positive and negative goodwill resulting from the national allocation of the purchase price, were combined for consolidation purposes. The net goodwill was € 3.0 m.

The first-time consolidation of H&R Ölwerke Schindler GmbH, Hamburg, was conducted on the basis of interim accounts as of January 2, 2004. The agreements with BP with regard to individual assets and liability items were taken into account in this context if they led to any adjustments in the balance sheet. Deferred taxes were accrued on the adjustments affecting net income.

The following adjustments to the interim balance sheet as on January 2, 2004 were taken into account for the purposes of capital consolidation:

	T€
Shareholders' equity as of Dec. 31, 2003	16,963
Pension provision adjustment	-3,216
Environmental provision adjustment	1,130
Personnel provision	-1,345
Tax provision	-1,505
Deferred taxes in accordance with IAS 12.19 and 12.66	823
Receivable from BP	3,842
Shareholders' equity as of Jan. 2, 2004	**16,692**

In 2004, H&R ESP Sales GmbH, Hamburg, was merged with H&R Ölwerke Schindler GmbH, Hamburg. Against this background, the goodwill acquired from H&R ESP Sales GmbH, Hamburg, was spread across the fixed assets acquired from H&R Ölwerke Schindler GmbH, Hamburg, as part of the asset deal, on a pro-rata basis in accordance with their current market values. Furthermore, BP's GSP activities were acquired in April 2004 (signing). The takeover was completed with effect from July 6, 2004 (closing).

The customer base acquired for the GSP division which was reclassified as goodwill in accordance with IAS 38.16 was only subjected to one impairment test pursuant to IFRS 3.

The GSP takeover contained one production plant in UK which neither the seller nor the buyer intended to continue to operate. The extraordinary expenses to be expected from the closure and abandonment of the plant (impairment of fixed assets, provisions for lasting obligations) were taken into consideration in the process of the initial consolidation (T€ 729).

The GSP takeover contained a petroleum jelly plant in South Africa which it was not possible to include in the final deal due to a delay in obtaining approval from the Durban Port Authority. There is an obligation to take over the plant when conditions have been met.

The BP activities are bundled in the subgroup, ESP International. The following table shows the effect of the takeover on the balance sheet as of Dec. 31, 2004 and the 2004 profit and loss account:

	T€
Balance sheet	
Fixed assets	48,861
Inventories	34,342
Receivables and other assets	66,571
Liquid assets	14,001
Provisions	44,124
Liabilities	117,278
Profit and loss account	
Sales revenues	283,719
Other operating income	8,800
Material costs	217,134
Personnel expenses	20,565
Other taxes	602
Depreciation	3,270
Interest earnings	-3,894
Other operating expenses	44,490
Earnings before income tax	1,565

Capital consolidation

The annual accounts of the companies included in the consolidated financial statements were prepared in accordance with uniform accounting and valuation methods.

The capital consolidation is conducted using the acquisition method in accordance with IAS 22. Here the acquisition costs of the shareholdings acquired are set off against the shareholders' equity accruing to the parent company. The positive differences from company acquisitions before Mar. 31, 2004 created by the set-off are capitalized as goodwill and written off over their estimated useful life of generally 10 years on a pro-rata basis over time.

With regard to the special circumstances surrounding the first-time consolidation of H&R Ölwerke Schindler GmbH, Hamburg and H&R ESP Nuth B.V., Nuth, Holland, we refer to our comments under Acquisition BP.

The provisions of IFRS 3 are to be used for the acquisition of shareholdings after Mar. 30, 2004. No scheduled depreciation was applied to goodwill from these transactions. The intrinsic value of this goodwill is reviewed annually by means of an impairment test in accordance with IAS 36.

Any remaining negative goodwill is booked immediately to other operating income with a corresponding effect on operating results.

Other consolidation methods

The effects of intercompany transactions have been eliminated in accordance with IAS 22. Receivables and payables are netted off, intercompany profits and losses eliminated and intercompany income is set off against the corresponding expenditure. The tax accruals and deferrals on temporary differences resulting from consolidation required by IAS 27 have been made pursuant to IAS 12.

Receivables and payables resulting from foreign exchange differences in the individual balance sheets of foreign subsidiaries or of WASAG AG were not neutralized in the course of consolidation in accordance with IAS 21.34. However, to the extent that receivables and payables were to be treated as part of the net investment in the foreign entity, the conversion differences were recorded in shareholders' equity with no effect on the P&L in accordance with IAS 21.32.

Affiliated companies are shown in the balance sheet by the equity method if the participating interest is between 20 % and 50 % or H&R WASAG AG is able to exercise a determining influence on the company. Four companies were trea-

ted by this method in the financial year 2004. Other participating interests are shown at the cost of acquisition. No special use was made of IAS 31 due to insignificance.

A list of significant subsidiaries, affiliated companies and participating interests is attached.

Currency conversion

The consolidated financial statements for 2004 were prepared in Euros.

Payables and receivables in foreign currencies have in all cases been converted at the rate on the day of reference in the single company accounts.

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 monthly rates. Any conversion differences resulting from this procedure are shown in a separate item under equity.

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

	Balance sheet exchange rate 2004	*Balance sheet exchange rate 2003*	*Average exchange rate for year 2004*	*Average exchange rate for year 2003*
Australian dollars	1,7489	--	1,7176	--
British pound	0,7071	--	0,6787	--
Polish zloty	4,0877	4,7019	4,5424	4,3996
South African rand	7,6793	--	7,8147	--
Thai baht	53,0750	--	51,3387	--
Hungarian forint	245,7750	261,25	251,7900	253,62

Accounting and valuation methods

Liquid assets

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.

Short-term security investments

The short-term investments are assets available for sale in accordance with IAS 39. These are valued at their market value on the date of the balance sheet. Changes are shown against net income.

Receivables and other short-term assets

Trade receivables, receivables from affiliated companies and companies in which the group has a participating interest as well as other short-term assets are shown at their cost of acquisition minus individual bad debt allowances which are determined by the likely risk of non-payment.

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

Inventories

The inventories item contains raw materials and supplies, work in progress as well as finished products. They are shown at the cost of acquisition, determined by the sliding average method or at the cost of manufacture. Manufacturing costs include the individual material and production costs directly attributable to the manufacturing process as well as a suitable share of materials and production overheads and production-related administration overheads.
Finance costs are not taken into account.

Valuation on the date of the balance sheet is made at the cost of acquisition or manufacture or the net sales price achievable - whichever is lower. The net sales price achievable is given by the expected sales price minus sales costs to be incurred. In addition, individual allowances are made for inventory risks.

Fixed assets

Tangible assets which are to be used in the company for longer than one year are valued at their cost of acquisition or manufacture minus scheduled, straight line depreciation. The economic useful life for buildings and tank farms is usually 25 years, for technical systems and machines 10 to 15 years and for other systems, fixtures, furniture and office equipment 3 to 6 years. Low value items with an acquisition cost of less than € 410 are written off in full in the year of acquisition.

Leasing

In accordance with IAS 17, the lessee is credited with the beneficial ownership of assets if the lessee essentially bears all the risks and opportunities in connection with the object of the lease (finance lease).

If group companies are to be credited with the beneficial ownership of assets, they are capitalized at their attributable current value or the cash value of minimum lease payments whichever is the lower, plus any incidental expenses to be borne by the lessee. The methods of depreciation used correspond to those for comparable assets owned by the company.

Intangible assets

Intangible assets acquired against payment are shown in the balance sheet at the cost of acquisition and written off over their planned useful life of 3 years by the straight line method.

Goodwill that was acquiert before March 31, 2004 is capitalized and written off over its probable useful life of max. 10 years by the straight line method. The intrinsic value of the goodwill is reviewed on a regular basis. If required, any permanent impairment is taken into account. No scheduled depreciation is applied to goodwill acquired after March 30, 2004. Its intrinsic value is reviewed annually as part of the impairment test.

The GSP goodwill comprises the customer base acquired and requalified in accordance with IAS 38.16.

Financial assets

Participating interests and long-term security investments are shown under financial assets.

Participating interests are shown at the cost of acquisition as it is not possible to determine a reliable market value.

Long-term investments are to be classified as financial assets available for sale in accordance with IAS 39, and are valued at their market price on the date of the balance sheet. Changes are shown in a separate item under equity.

Financial assets shown by the equity method

These are shown in the balance sheet at their share of equity in accordance with IAS 28.

Loans

Loans are to be classified as financial investments to be held until final maturity in accordance with IAS 39, and are shown at their cost of acquisition.

Impairment of value

If there are indications of a loss of value for a particular asset in accordance with IAS 36, i.e. the achievable income for the asset falls below its book value, unscheduled depreciation is applied. The achievable income is the net sales value of the asset or the cash value of the estimated inflow of funds resulting from its continued use and its retirement at the end of its useful life, whichever is the higher. If the reasons for unscheduled write-offs no longer apply, corresponding write-ups are applied. No write-ups are conducted on goodwill.

Liabilities

Liabilities are shown at their nominal value or at the rate of repayment on the balance sheet date if higher. Foreign exchange liabilities are valued at the rate on the date of the balance sheet.

Liabilities from the BP takeover of activities were discounted.

Provisions

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

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. If one of the criteria specified is not met, the obligation is shown as a contingent liability.

Long-term provisions are shown in the balance sheet at their fulfilment amount discounted on the balance sheet reference date if the interest effect resulting from such discounting is significant.

Pension provisions

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.

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

Minority interests

The shareholdings of other shareholders in the equity of subsidiaries are shown in the consolidated balance sheet as a separate item between borrowed capital and shareholders' equity.

Realization of sales

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

Contributions and subsidies

An investment subsidy was granted to H&R Lube Blending GmbH, Salzbergen by the Land of Niedersachsen (Lower Saxony) in 1998. The subsidy is 15 % of the investment sum and is shown under deferred income. The subsidy is taken on a pro rata basis over time in accordance with the particular useful life of the subsidized assets. Income subsidies are released over the term of the contract.

Research and development costs

In accordance with IAS 38, research costs cannot be capitalized but are treated as expenditure. Development costs can be capitalized if certain, precisely defined conditions are met, but otherwise they must be treated as expenditure. Capitalization is always required if it is sufficiently likely that the development activity will lead to future income. In addition, various criteria with regard to the development project must also be cumulatively fulfilled. As in previous years, the conditions are not given.

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 36.48 % was used for the present consolidated financial statements. 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 12.70.

Financial instruments and hedging policy

Original financial instruments which also include trade account receivables and payables as well as other financial receivables and payables under IAS 32, can be taken from the balance sheet. Due to their short terms, the market values of the relevant items do not differ significantly from their book values. For financial assets, the risk of non-pay-

ment is limited to the amounts shown on the assets side of the balance sheet. Foreign exchange risks from operating business activity exist mainly due to their influence on the price of raw materials. The risk of changing interest rates which exists in particular for long-term financial debts as a result of the takeover of BP's specialty products business with no fixed interest agreements covering the full term, is essentially offset by interest rate hedging tools with the signing of the syndicate agreement in March 2005.

In 2004 no company in the group used any derivative financial instruments which would have to be accounted for in accordance with IAS 39 in order to safeguard itself against financial risks.

Contingent liabilities

Contingent liabilities pursuant to IAS 37 are given in the Notes as long as the outflow of funds is not unlikely and the size of the obligation can be reliably estimated.

Explanations to the consolidated balance sheet

(1) Liquid assets

	Dec. 31, 2004 *T€*	*Dec. 31, 2003* *T€*
Liquid assets		
Cash in hand	33	39
Checks	546	153
Bank balances	17,301	10,563
Total	**17,880**	**10,755**

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

(2) Short-term security investments

The amount shown of T€ 457 (previous year: T€ 458) relates exclusively to securities at H&R WASAG AG.

For shares for which a hedge exists, the hedge is valued at the cost of acquisition (T€ 374). All further shares were valued at their market value on the balance sheet date according to movements in their share price.

(3) Trade accounts receivable

Total allowances on trade accounts receivable as at December 31, 2004 stood at T€ 521 (previous year: T€ 323).

Of trade accounts receivable, T€ 30,190 (previous year: T€ 4,828) has been pledged as collateral for loans.

(4) Receivables from affiliated companies

The amount of T€ 300 shown in the previous year related to an amount owed to H&R WASAG AG by H&R ESP Sales Limited from an intercompany clearing arrangement.

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

	Dec. 31, 2004 *T€*	*Dec. 31, 2003* *T€*
Receivables from companies with which a participation relationship exists		
Schuetzen Powder L.L.C.	221	114
Schmidtmann GmbH	--	9
SRS EcoTherm GmbH	2,730	2,119
Westfalen Chemie GmbH & Co. KG	683	559
Total	**3,634**	**2,801**

(6) Inventories

	Dec. 31, 2004 *T€*	*Dec. 31, 2003* *T€*
Inventories		
Raw materials and supplies	21,911	7,958
Work in progress	16,400	8,028
Finished goods	30,112	12,425
Advance payments on inventories	--	163
Total	**68,423**	**28,574**

The book value of the inventories shown at their lower net sales value is T€ 5,812 (previous year: T€ 1,940). Inventories amounting to T€ 21,879 (previous year: T€ 17,603) have been pledged as collateral.

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

	Dec. 31, 2004 *T€*	*Dec. 31, 2003* *T€*
Prepaid expenses and deferred charges and other short-term assets		
Short-term prepaid expenses and deferred charges	246	165
Other short-term assets	9,792	2,541
Total	**10,038**	**2,706**

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.

The other short-term assets contain T€ 7,358 of tax claims from the Tax Office.

Individual allowances amounting to T€ 106 (previous year: T€ 100) had been made for other short-term assets as of December 31, 2004.

(8) Fixed assets

	Land / buildings T€	*Technical equipment / machinery T€*	*Other equipment T€*	*Prepayments and construction in process T€*	*Total T€*
Movement of fixed assets					
Acquisition and production costs					
as of Jan. 1, 2004	42,451	95,660	24,463	2,525	**165,099**
Currency fluctuations	334	409	299	16	**1,058**
Change to group of consolidated companies	657	309	4,205	--	**5,171**
Additions	8,577	26,178	2,800	8,049	**45,604**
Retirements	-39	-919	-2,330	-295	**-3,583**
Reclassifications	12	2,144	775	-2,675	**256**
as of Dec. 31, 2004	51,992	123,781	30,212	7,620	**213,605**
Cumulative depreciation					
as of Jan. 1, 2004	17,668	75,164	18,556	--	**111,388**
Currency fluctuations	37	257	121	--	**414**
Change to group of consolidated companies	368	216	3,204	--	**3,788**
Additions	1,642	8,381	2,746	--	**12,769**
Retirements	-15	-789	-2,004	--	**-2,808**
Write-ups	--	-724	--	--	**-724**
as of Dec. 31, 2004	19,701	82,505	22,623	--	**124,829**
Net book values					
as of Dec. 31, 2004	32,291	41,276	7,589	7,620	**88,777**
as of Dec. 31, 2003	24,783	20,496	5,907	2,525	**53,711**

The fixed assets shown under Change to group of consolidated companies (acquisition costs of T€ 5,171, cumulative depreciation of T€ 3,788 and a book value of T€ 1,383) result from the purchase of shares in companies which were acquired as part of the takeover of BP's activities.

The fixed assets acquired as part of the BP asset deal amounting to T€ 25,681 are shown under additions.

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

Technical equipment and machines refer to production equipment. The additions in 2004 relate to the BP asset deal, and also in particular to the construction of a new process control system and first investments in a new extraction plant in the Hamburg refinery as well as the modernization of the blending plant (with a total investment volume of € 8 m) in Salzbergen.

Additions to prepayments and construction in process relate mainly to an extraction plant in Hamburg and a residual gas incineration plant in Salzbergen.

Land belonging to group subsidiary SYTHENGRUND holds underground silica sand reserves. Current investigations have shown that there are reserves of approx. 13.5 m t on the Sythengrund plot of land. The environmental compatibility check had been completed by the balance sheet reference date. The overall operation plan will be drawn up after the area development plan has been published and a written plan certification decision issued. It is due to be submitted to the responsible Board of Mines in the summer of 2005. Taking into account the valuation conducted at the time of the vitrification assessment in 2001 and allowing for the updated volume of 13.5 m t, the current market value can be assumed to be € 13.5 m.

Finance leases

The assets to be allocated to the lessee in accordance with IAS 17, total T€ 245 (previous year: T€ 340). These are vehicle lease contracts for special construction trucks at the Westspreng group. These assets are shown under plant and equipment in the analysis of fixed assets. The lease contracts normally have a fixed basic rental term of 54 months and cannot be terminated during this period. The usual useful life of the vehicles is between 5 and 9 years. When the non-terminable term of the lease runs out, the lessor can demand that the lessee buys the vehicles at their calculated residual value. The lease contracts fulfill the conditions for finance leases and for special leases.

	2005	*2006-2009*	*nach 2009*
	T€	*T€*	*T€*
Leasing			
Lease payments	69	161	--
Share of interest contained in this figure	11	5	--
Lease liabilities	58	156	--

Operating Leases

Besides the finance lease contracts, lease and rental contracts were concluded which 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 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.

(9) Intangible assets

	Software / Concessions / Property rights T€	*Prepayments T€*	*Total T€*
Movement of intangible assets			
Acquisition and production costs			
as of Jan. 1, 2004	3,290	259	**3,549**
Currency fluctuations	70	--	**70**
Change to group of consolidated companies	--	--	**--**
Additions	1,136	--	**1,136**
Retirements	-214	--	**-214**
Reclassifications	1	-259	**-258**
as of Dec. 31, 2004	4,283	--	**4,283**
Cumulative depreciation			
as of Jan. 1, 2004	2,478	--	**2,478**
Currency fluctuations	69	--	**69**
Change to group of consolidated companies	--	--	**--**
Additions	945	--	**945**
Retirements	-213	--	**-213**
Write-ups	0	--	**0**
as of Dec. 31, 2004	3,279	--	**3,279**
Net book values			
as of Dec. 31, 2004	1,004	--	**1,004**
as of Dec. 31, 2003	812	259	**1,071**

The intangible assets relate mainly to production and user software.

The reclassification to prepayments related to the consultancy payment capitalized as incidental acquisition costs in 2003 in H&R ESP Sales GmbH in connection with the purchase of BP's European special refinery activities which were capitalized in the reporting year under technical equipment.

(10) Goodwill

	Total *T€*
Changes in goodwill	
Acquisition and production costs	
as of Jan. 1, 2004	41,090
Currency fluctuations	--
Change to group of consolidated companies	--
Additions	16,223
Retirements	--
Reclassifications	--
as of Dec. 31, 2004	57,313
Cumulative depreciation	
as of Jan. 1, 2004	10,431
Currency fluctuations	1
Change to group of consolidated companies	--
Additions	2,724
Retirements	--
Write-ups	--
as of Dec. 31, 2004	13,156
Net book values	
as of Dec. 31, 2004	44,157
as of Dec. 31, 2003	30,659

The increase in goodwill in 2004 is due mainly to the acquisition of BP's specialty products business.

The addition shows this goodwill already netted off against negative differences resulting from the national allocation of the purchase price. With regard to the special circumstances, we refer to our comments under Acquisiton BP.

The goodwill item is made up as follows:

	Dec. 31, 2004 *T€*	*Dec. 31, 2003* *T€*
Goodwill		
Goodwill resulting from the capital consolidation of companies in the Chemical Pharmaceutical Raw Materials Division	16,738	18,215
Paul Fütterer GmbH	882	953
Goodwill due to the takeover of BP business	15,843	--
Goodwill resulting from the capital consolidation of companies in the Westspreng group	10,694	11,491
Total	**44,157**	**30,659**

Depreciation of goodwill in the reporting year totaled T€ 2,724 of which T€ 1,477 is for goodwill from the already in the past existing companies in the Chemical Pharmaceutical Raw Materials Division, T€ 805 for goodwill from the Westspreng group, T€ 71 for Paul Fütterer GmbH and T€ 371 for goodwill resulting from the new BP business.

The goodwill due to the takeover of BP business also includes the customer base acquired for the GSP division in accordance with IAS 38.16.

(11) Financial assets, financial assets and loans shown by the equity method

	Shares in affiliated companies T€	*Shares in associated companies T€*	*Participating interests T€*	*Long-term investments T€*	*Other loans T€*	*Total T€*
Movement in financial assets						
Acquisition and production costs						
as of Jan. 1, 2004	23,087	774	1,332	899	5,050	**31,142**
Currency fluctuations	--	--	--	-1	--	**-1**
Change to group of consolidated companies	--	--	-50	--	--	**-50**
Additions	--	--	18	--	520	**538**
Retirements	--	-16	--	--	-29	**-45**
Reclassifications	--	--	--	--	--	**--**
as of Dec. 31, 2004	23,087	758	1,300	898	5,541	**31,584**
Cumulative depreciation						
as of Jan. 1, 2004	23,087	42	--	--	--	**23,129**
Currency fluctuations	--	--	--	--	--	**--**
Change to group of consolidated companies	--	--	--	--	--	**--**
Additions	--	--	--	--	--	**--**
Retirements	--	--	--	--	--	**--**
Write-ups	--	--	--	--	--	**--**
as of Dec. 31, 2004	23,087	42	--	--	--	**23,129**
Net book values						
as of Dec. 31, 2004	0	716	1,300	898	5,541	**8,455**
as of Dec. 31, 2003	0	732	1,332	899	5,050	**8,013**

Shares in domestic 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.

	Dec. 31, 2004 *T€*	*Dec. 31, 2004* *T€*
Westfalen Chemie Verwaltungsgesellschaft mbH	28	28
Westfalen Chemie GmbH & Co. KG	0	0
Schmidtmann GmbH	82	82
Sprewa Sprengmittel GmbH	606	622
Total	**716**	**732**

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 and Sprewa Sprengmittel GmbH are engaged in the sale of explosives and blasting agents. There are requirements announced by the Federal Cartel Office in connection with the takeover of Sprengstoffwerk Gnaschwitz GmbH, Schlungwitz, namely to sell the shareholding in Sprewa Sprengmittel GmbH.

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, 2004	534
pro-rata net income	88
as of Dec. 31, 2004	**446**

Financial assets contain participating interests in SRS EcoTherm GmbH, Salzbergen and Schuetzen Powder LLC, Arlington TX, USA. As in the previous year, it was decided not to change the book value of the participating interest in Schuetzen Powder LLC, Arlington TX, USA, to an "at equity valuation" due to its insignificance. The participating interests are shown at the cost of acquisition as these financial assets have no market price listed on an active market.

Fund units in Correnta funds I and II still represent a major item in long-term assets under financial assets. These assets are valued at their market value on the date of the balance sheet. Changes are shown in a separate item under equity.

Other loans relate mainly to a loan of T€ 5,000 granted by H&R WASAG AG in a contract dated October 16, 2002. The loan has a term of five years and ends on September 18, 2007. An extension to the term is possible. Interest was charged on the loan at a 6 month EURIBOR rate plus a surcharge of 3.5% until June 30, 2004. Thereafter interest is charged at a 12 month EURIBOR rate plus a surcharge of 3.5% until June 30, 2005. Pledge agreements were concluded on securities in order to secure the loan.

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

The prepaid expenses and deferred charges shown under long-term assets and totaling T€ 87 (previous year: T€ 116) relate to IT maintenance fees accrued until October 31, 2008.

Other long-term assets consist mainly of a receivable from BP International for T€ 6,472. This receivable results essentially from taking over BP's pension provisions with the acquisition of Ölwerke Schindler GmbH, which was netted off against an exemption obligation towards BP (see Comment 22).

An exemption obligation was taken over from BP for a total of 36 employees of H&R Ölwerke Schindler who left the preceding company, BPLSG, before the takeover date of Jan. 2, 2004 (Group 3, see Comment 22).

In return, H&R Ölwerke Schindler agreed to reimburse BP for pension obligations amounting to T€ 7,194 with regard to Group 2 as part of the takeover of the specialty products business (see Comment 22).

In accordance with the overall contractual agreement with BP which comprised all exemption demands and obligations, and taking into account the objective of the contracting parties to offset all receivables and payables against each other, the payables and receivables arising from the same legal basis were combined due to the financial and legal content of the business transaction, and the net amount was shown in accordance with IAS 1.33.

In addition the other long-term assets include reinsurance policies amounting to T€ 1,536 at Gaudlitz GmbH to cover pension claims from all married male employees as well as T€ 102 at BST Bohr- und Sprengtechnik GmbH & Co KG.

(13) Deferred taxes

The deferred tax credits contain temporary differences from consolidation measures as well as timing valuation differences in group companies resulting from non-deductible provisions for anticipated losses and other valuation differences in IFRS. The composition of the deferred tax assets formed for value differences in the balance sheets is portrayed in Note 38 on income taxes.

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

The short-term liabilities to banks are composed of current account overdrafts totaling T€ 2,087, accrued interest amounting to T€ 289, short-term loans of T€ 28,532, other amounts owed to banks of T€ 244 and the short-term component to long-term loans totaling T€ 1,707. This relates to repayment installments for medium-term and long-term loans due within the next 12 months. The interest rates for the short-term loans are between 2.906 % and 3.45 %.

The book value of the secured, short-term financial liabilities is T€ 30,683.

Of the short-term loans of T€ 28,532, an amount of T€ 20,700, the accrued interest on it of T€ 114 and the other amounts owed to banks of T€ 244 are secured by registered land charges of T€ 10,226. The residual book value of the encumbered property is T€ 7,220 as of Dec. 31, 2004. These loans are also secured through the blanket assignment of trade receivables with a book value of T€ 8,790 as of Dec. 31, 2004 as well as a space security assignment contract for warehouses with differing stocks. The book value of the inventories on the balance sheet date is T€ 21,879.

We refer to section 21 on long-term loans for an explanation of the collateral for the short-term loans of T€ 7,100 and T€ 732 and the remaining accrued interest of T€ 174 as well as the short-term component of long-term loans.

(15) Trade accounts payable

The trade accounts payable totaling T€ 28,297 (previous year T€ 8,775) have a term of up to one year. They are secured by the usual retentions of title.

(16) Receivables from companies in which there is a participating interest

	Dec. 31, 2004 T€	*Dec. 31, 2004 T€*
Receivables from companies in which there is a participating interest		
Schmidtmann GmbH	4	--
Westfalen Chemie GmbH & Co. KG	7	--
Total	**11**	--

(17) Payments received on account

Payments received on account amounting to T€ 19 only apply to Gaudlitz GmbH.

(18) Short-term provisions

	Position Jan. 1, 2004 T€	*Change to group of consolidation companies T€*	*Acquisition GSP T€*	*Currency variances T€*	*Used T€*	*Released T€*	*Added T€*	*Position Dec. 31, 2004 T€*
Other provisions / tax provisions								
Other								
- Personnel	5,689	3,341	--	--	-7,492	-626	8,766	9,678
- Others	2,894	207	--	2	-2,168	-95	12,805	13,645
- Restructuring	--	--	729	--	-729	--	--	--
Tax provisions	8,327	1,505	--	--	-7,353	-1,823	1,399	2,055
Total	**16,910**	**5,053**	**729**	**2**	**-17,742**	**-2,544**	**22,970**	**25,378**

The other provisions give due reflection to all identifiable risks.

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 provisions are made taking into account the payments already made.

The takeover of the GSP activities contained one production plant in Great Britain which neither the seller nor the buyer intended to continue to operate. The extraordinary expenses to be expected from the shutdown and closure of the plant (impairment of fixed assets, provisions for lasting obligations) were taken into consideration in the process of the initial consolidation (T€ 729).

The Others item mainly contains provisions for complaints, warranties, outstanding invoices, year-end accounting costs, anticipated losses from pending sales transactions and archiving costs.

The tax provision contains amounts for taxes from financial years not yet assessed. The income from the release of tax provisions is based mainly on the use of losses carried forward which were classed as doubtful, as well as on the reduction of the tax provision formed as part of the first-time consolidation of H&R Ölwerke Schindler.

(19) Other short-term liabilities

	Dec. 31, 2004 T€	*Dec. 31, 2003 in T€*
Other short-term liabilities		
Tax liabilities	1,486	1,863
Social security liabilities	1,657	1,175
Amounts owed to former shareholders	--	2,177
Payment of BP purchase price	6,580	--
Liabilities to employees	606	535
Others	1,610	1,097
Total	**11,939**	**6,847**

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

(20) Short-term prepaid expenses and deferred charges

Portions due to be repaid within 12 months are shown under short-term accruals and deferrals. The amount of T€ 76 shown relates mainly to the investment subsidy granted to H&R Lube Blending GmbH by the Land of Lower Saxony as well as fees received in advance for software usage and IT maintenance costs totaling T€ 38. For further explanations, we refer to the prepaid expenses and deferred charges shown under long-term liabilities (Comment 24).

(21) 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, 2004 Book value T€	*2006–2009 Residual term T€*	*after 2009 Residual term T€*
Long-term loans			
Contratcs with consortium banks	60,978	--	60,978
Contracts with fixed rates of interest over the term: 2.50 % - 6.60 % p.a.	22,678	8,040	14,638
Contract with limited fixed interest term: 7.00 % – 7.05 % p.a.	937	682	255
Contracts with interest rates dependent on the EURIBOR: 6-month EURIBOR plus 0.9 % p.a.	345	307	38
Total	**84,938**	**9,029**	**75,909**

The amount of T€ 84,938 shown relates mainly to financing the takeover of BP's international special product activities. A consortium of reputable banks provided T€ 60,978 to finance the deal. A futher long-term loan of T€ 19,000 was granted through the IKB from the "Capital for Work" program. Half of the CfW funds, i.e. T€ 9,500, are subordinated. Further long-term loans of T€ 4,960 relate to old loans belonging to Westspreng group.

The loans provided by the bank consortium are to be seen as long-term funds. The loan contract was already successfully negotiated with the banks by Dec. 31, 2004. The loans were already treated as long-term funds on the balance sheet reference date, as there were no reservations on the part of the syndicate on the balance sheet reference date with regard to the granting of the loan or its terms and conditions. The key data in the 2004 year-end accounts and the budgets for the years 2005 to 2007 which were presented to the banks and recognized by them as sound, show that the financial covenants of the consortium loan contract will be adhered to and a long-term loan can therefore be assumed to be safe.

The interest rates on the long-term funds from the bank consortium are based on the EURIBOR plus a margin which is tied to key financial data. An interest rate hedge will be conducted in 2005.

The book value of secured, long-term liabilities is T€ 65,871.

There are registered land charges totaling T€ 20,049 of which T€ 10,226 are explained in item 14. The remaining land charges amounting to T€ 9,823 serve to secure both short-term and long-term financial liabilities on the balance sheet date. The book value of the land and buildings encumbered by these land charges is T€ 6,572 as of Dec. 31, 2004.

Furthermore, short and long-term liabilities towards banks are secured by assignment of financial investments and non-real estate tangible assets. The book value of investments assigned as security is T€ 715 on the balance sheet date; the book value of movable assets assigned as security is T€ 1,961.

Long-term financial debts, the short-term loan of T€ 7,100 and an interest accrual of T€ 170 are also secured by the assignment of receivables with a book value as of Dec. 31, 2004 of T€ 21,400 and by the assignment of goods. The book value of the inventories on the balance sheet date is T€ 21,879.

(22) Pension provisions

Some group subsidiaries have company pension commitments towards employees.

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. 2, 2004 with the takeover of BP's special product activities.

Due to various mergers and takeovers, there are a total of 14 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 statutes dated January 1, 1988, Section 13 (§§ 40 – 46) shift pension in accordance with central works agreement dated December 1, 1987
– Pension plan of Burmah Oil (Deutschland) GmbH dated January 1, 1992
– Salary conversion in accordance with the ARAL pension regulation model 1999
– Conversion of cash payments (new BP – model)
– 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€ 7,194 (see Comment 12). 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€ 11,156 which also arose as part of the takeover of the specialty products business (see Comment 12). The net receivable of T€ 3,962 is shown under other long-term assets.

The following provisions were formed for individual groups as of December 31, 2004:

	T€
Group 1	11,385
Group 3	11,156

There is an exemption right against BP in the case of pension obligations towards employees in Group 3 amounting to T€ 11.156.

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.

Pension provisions changed as follows:

	2004 *T€*	*2003* *T€*
Brought forward Jan. 1	28,831	29,000
Change to group of consolidated companies	20,972	432
Additions	3,325	1,715
Released / used	-2,291	-2,292
Obligations assumed	--	-24
Final position on Dec. 31	**50,837**	**28,831**

The amounts shown under Change to group of consolidation companies, relate to the pension provisions of H&R Ölwerke Schindler taken over from BP at the Hamburg facility. Against these obligations, there are receivables from BP International amounting to T€ 11.156.

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

	2004 *T€*	*2003* *T€*
Expenses in working time	683	195
Amortized actuarial profits / losses	--	- 65
Compound interest on expected pension obligations	2,642	1,585
Addition (total)	**3,325**	**1,715**

Expenses in working time 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, 2004	*Dec. 31, 2003*
Interest rate	4,5 % -5,0 %	4,8 % - 5,7 %
Expected inflation	2,0 % / 2,5 %	1,1 %
Entitlement trend	0,6 %	0,6 % / 2,0 %
Pensions trend	0,9 % / 1,5 %	0 % / 0,9 %
Pension age	60 / 61 / 63 / 65	61 / 63 / 65

The likelihood of leaving is based on the Heubeck guideline tables from 1998.

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.

(23) Other long-term provisions

The long-term provisions relate to part-time working regulations for older employees, anniversaries and a price agreement for the supply of natural gas, 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).

The long-term provisions were discounted by T€ 278 in the reporting year.

(24) Long-term prepaid expenses and deferred charges

This item contains an investment subsidy granted to H&R Lube Blending GmbH by the Land of Niedersachsen (Lower Saxony) amounting to T€ 461. 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.

The accrued expenses item also contains an amount of T€ 16 for fees received in advance for the use of software and IT maintenance fees.

(25) Minority interests

Shares of minority shareholders include shares of earnings and capital held by third party shareholders. At the same time, the share of goodwill attributable to minority shareholders was set off against minority interests.

Minority interests relate to two outside shareholders (43.4 %) in SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH, one outside shareholder (6.96 %) in Westspreng GmbH, one shareholder in Nitrex S.r.L. (30 %), one shareholder in Romblast S.R.L. (0.0045 %), one outside shareholder (25.96 %) in Grundstücksverwaltungs-Beteiligungsgesellschaft mbH, one outside shareholder (30 %) in MEDEX s.r.l., one outside shareholder in Dussek Campell (Proprietary) Ltd. (49 %) and one shareholder in GAUDLITZ Green Point Precision Technology (Wuxi) Co. Ltd. (49 %).

	T€
as of Jan. 1, 2004	1,718
Addition from first-time consolidation	1,280
Distribution of profits / assumption of losses	- 160
Conversion of loans to capital reserves	8
Share of earnings 2004	987
as of Dec. 31, 2004	**3,833**

(26) Subscribed capital

The subscribed capital amounts to € 48,357,986.13. It is divided into 18,916,000 ordinary bearer shares with an accounting par value of € 2.56 each.

		€	Shares	to be issued by
Subscribed capital and contingent resolutions				
Subscribed capital	1)	48,357,986.13	18,916,000	
Conditional capital				
– conditional capital 2002	2)	7,500,000.00	2,933,745	Aug. 20, 2007
– conditional capital 2003	3)	7,349,820.79	2,875,000	
Approved capital				
– approved capital I	4)	15,000,000.00	5,867,490	Jul. 30, 2006
– approved capital II	5)	8,000,000.00	3,129,328	Jul. 24, 2008
– approved capital III	6)	1,000,000.00	391,166	Jul. 30, 2007

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

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 convertible 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. No conversion and/or option bonds were issued in the financial year 2004.

In a resolution passed by the shareholders' meeting on July 24, 2003, the authorized share capital was conditionally increased by up to € 7,349,820.79 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

The Management 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 in total against contributions in cash or in kind by issuing new ordinary bearer shares by July 30, 2006 (Approved Capital I), and with the approval of the Supervisory Board to decide on the conditions of the share issue. The shareholders are to be granted stock options. However, the Management Board is entitled with the approval of the Supervisory Board to exclude shareholders from stock options for residual amounts. The Management 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 which they would be entitled to after exercising their option or conversion rights.

The Management 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 II), and with the approval of the Supervisory Board to decide on the conditions of the share issue. The shareholders are to be granted stock options. However, the Management Board is entitled with the approval of the Supervisory Board to exclude shareholders from stock options for residual amounts. The Management Board is also authorized, 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 AktG (Companies Act). The Management 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 e xtent 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 which they would be entitled to after exercising their option or conversion rights.

Finally, the Management Board is authorized with the approval of the Supervisory Board to increase the share capital once or several times by up to € 1,000,000.00 in total against contributions in cash by issuing new ordinary bearer shares by July 30, 2007 for the purpose of issuing employee shares to employees of the company or affiliated companies (Approved Capital III). Shareholders are excluded from subscribing.

The Management Board did not make use of its existing authorizations in the financial year 2004.

Authorization to acquire treasury shares

The company was authorized with the approval of the Supervisory Board to acquire up to 10% of the capital stock in treasury shares by December 31, 2004. 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 2004.

(27) Earnings reserves

The amounts shown basically reflect the movements in net equity relating to the group caused by the rights issues of subsidiaries. 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.

(28) Consolidated retained earnings

Movements in the group's retained earnings were as follows:

	2004 *T€*	*2003* *T€*
Position at the start of the financial year	13,823	17,460
Currency adjustment	153	--
Dividend payment	-5,675	-8,512
Consolidated net income for the financial year	6,525	4,875
Position at the end of the financial year	**14,826**	**13,823**

(29) Deferred tax liabilities

The deferred taxes result from temporary differences between valuations in the tax balance sheets and book values in the consolidated balance sheet. The composition of the deferred tax liabilities formed for value differences in the balance sheets is shown in the table in Comment 38 on income taxes.

Explanatory comments on profit and loss account

Two important factors have to be taken into account with regard to the comparability with the previous year's figures.

On the one hand, BP's European special refinery activities were acquired in 2004 with financial effect from January 2, 2004, and further production facilities belonging to BP in South Africa, Australia, Asia and Great Britain were taken over with effect from July 6, 2004.

In order to show the effects of these new activities on the profit and loss account for 2004, details of the revenues earned and the expenses incurred by the subgroup H&R ESP International GmbH (subgroup ESP), in which these activities are bundled, have been added to the following explanatory comments.

On the other, it should be noted with regard to the previous year's figures that the former shareholders of Westspreng GmbH contributed their shares to SYTHENGRUND with legal effect from January 1, 2003 in a contract dated April 28, 2003. The Westspreng group which was included in the consolidated financial statements for the first time, was consolidated from May 1, 2003. The corresponding companies did not produce interim accounts to April 30, 2003 with the result that it was only possible to determine individual amounts for items in the profit and loss account by making allocations after the event. In the process, the amounts assigned to the period from January to April 2003 were determined by means of an objective estimation and shown under the relevant items as "Correction Westspreng".

(30) 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 Comment 44).

The subgroup ESP is responsible for sales revenues amounting to T€ 283,719.

(31) Other operating income

The other operating income in the consolidated financial statements is made up as follows:

	2004 *T€*	*2003* *T€*
Operating income		
Income from passing on costs	7,903	6,211
Insurance claims	383	626
Services	4,155	--
Other operating income	738	1,540
	13,179	8,377
Neutral income		
Income from write-ups	724	54
Release of provisions	721	1,380
Profits from the disposal of fixed assets	187	116
Exchange rate gains from foreign currency items	2,011	115
Income unrelated to period	193	467
Other neutral income	1,578	392
	5,414	2,524
Income from booking negative goodwill	307	--
Correction for Westspreng Jan. 1 – Apr. 30, 2003	--	-468
Total	**18,900**	**10,433**

The income from passing on costs results mainly from reinvoicing consumption taxes to the companies in which there is a participating interest, Westfalen Chemie GmbH & Co. KG and SRS EcoTherm GmbH as well as from reinvoicing gas supplies to Westfalen Chemie GmbH & Co. KG. The income from services results from service contracts with BP for the provision among others of caretaker, laboratory and handling services. The exchange rate gains from foreign currency items originate from the internationalization of the group. We refer also in this context to the other operating expenses for currency conversions amounting to T€ 2,539.

The subgroup ESP accounts for T€ 8,800 of other operating income.

(32) Material costs

	2004 *T€*	*2003* *T€*
Material costs		
Raw materials	286,186	102,197
Supplies	13,400	8,693
Trade goods	14,753	5,587
Correction for Westspreng Jan. 1-Apr. 30, 2003	--	- 4,653
Expenditure on raw materials and supplies and for all merchandise	**314,339**	**111,824**
Energy costs	17,931	6,534
Other outside services	1,239	1,034
Correction for Westspreng Jan. 1 – Apr. 30, 2003	--	- 288
Total expenditure on purchased services	**19,170**	**7,280**
Total	**333,509**	**119,104**

The subgroup ESP accounts for T€ 214,959 of material costs.

(33) Personnel expenses

	2004 T€	2003 T€
Personnel expenses		
Wages and salaries	57,054	41,052
Correction for Westspreng Jan. 1 – Apr. 30, 2003	--	-2,876
	57,054	**38,176**
Social security payments and expenditure for pensions and support	12,895	8,450
Correction for Westspreng Jan. 1 – Apr. 30, 2003	--	-662
	12,895	**7,778**
of which for pensions	1,574	196
Total	**69,949**	**45,964**

	2004	2003
Average number of employees		
Manual workers	863	799
Salaried employees	555	329
Employees on fixed-term contracts	106	45
Trainees	61	53
Total	**1,585**	**1,226**

The subgroup ESP accounts for T€ 20,565 of personnel expenses.

(34) Other operating expenses

	2004 *T€*	*2003* *T€*
Other operating expenses		
Third party repairs and maintenance	11,559	7,191
Third party supplies and services	9,323	3,893
Legal and consultancy costs, costs for year-end accounts and shareholders' meeting	4,324	2,086
Insurance premiums, fees and contributions	4,723	2,170
Rents and leases	4,274	1,823
Freight costs, dispatch systems and other distribution costs	17,677	1,652
Slop volumes	1,444	1,190
Other personnel costs	4,864	1,241
IT costs	1,977	724
Costs passed on	5,316	3,423
Lease installments	1,185	574
Travel expenses	1,429	541
Communication costs	836	394
Waste disposal and charges	947	339
Others	5,781	2,481
	75,659	**29,722**
Currency conversion	2,539	499
Other neutral expenses	114	1,271
	2,653	**1,770**
Total	**78,312**	**31,492**
Correction for Westspreng Jan. 1 – Apr. 30, 2003	--	- 1,433
Total	**78,312**	**30,059**

The rise in outbound freight, shipping systems and other distribution costs results primarily from the takeover of BP's activities. The increase in currency conversions expenses results mainly from the internationalization of the group. We refer to our remarks on other operating income in Comment 31.

The subgroup ESP accounts for T€ 44,490 of other operating expenses.

(35) Other taxes

Other taxes relate mainly to oil, electricity and land taxes as well as to land purchase taxes for the purchase of the Westspreng shares.

The subgroup ESP accounts for T€ 602 of other taxes.

(36) Interest earnings

	2004 *T€*	*2003* *T€*
Interest earnings		
Income from other securities and loans in financial assets	340	377
Other interest and similar income	983	202
Correction for Westspreng Jan. 1 – Apr. 30, 2003	--	- 1
	983	**201**
Of which to affiliated companies	--	- 1
Other interest and similar expenditure	- 7,955	- 3,036
Correction for Westspreng Jan. 1 – Apr. 30, 2003	--	279
	- 7,955	**- 2,757**
Of which to affiliated companies	0	0
Total	**- 6,632**	**- 2,179**

The subgroup ESP accounts for interest earnings of T€ - 3,894.

(37) Other expenditure and income

Other expenditure and income amounts to T€ 4 which is made up of T€ 8 of income from participating interests and T€ 4 of depreciation on financial assets and on short-term security investments.

(38) 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:

	2004 *T€*	*2003* *T€*
Income tax expense	1,451	2,391
Audit / previous years	-612	1,083
Deferred taxes	1,493	1,350
Total	**2,332**	**4,824**

Tax accruals and deferrals result as follows from individual items in the balance sheet:

	Dec. 31, 2004		Dec. 31, 2003	
	Deferred tax credits T€	*Deferred tax liabilities T€*	*Deferred tax credits T€*	*Deferred tax liabilities T€*
Intangible assets	11	--	366	--
Fixed assets	618	1,652	854	1,574
Financial assets	0	134	4	23
Inventories	219	275	554	400
Receivables and other assets	138	964	10	92
Others	695	--	--	--
Pension provisions	2,549	--	967	--
Other provisions	877	457	699	206
Liabilities	--	--	175	43
Loss carryforwards	8	--	--	--
Consolidation measures	6,393	99	7,306	--
	11,508	3,581	10,935	2.388
Net amounts	-2,030	-2,030	-1,183	-1,183
Total	**9,478**	**1,551**	**9,752**	**1,155**

A tax asset of T€ 823 was accrued neutrally as part of the interim accounts of H&R Ölwerke Schindler GmbH as of January 2, 2004.

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.

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. This means that the overall corporation tax rate in 2004 is 26.4%. With a trade tax burden of 14.0% this gives a total income tax rate of 36.48% in Germany.

The reasons for the difference between expected and actual tax expense in the group are as follows:

	2004 *T€*	*2003* *T€*
Transition account		
Pre-tax earnings	**9,844**	**10,607**
Expected tax expense	**3,591**	**3,875**
Previous years' taxes / audit	-612	1,083
Depreciation of non-tax-deductible goodwill	768	736
Tax deductible depreciation on goodwill	-228	--
Share of earnings Westspreng capital consolidation	--	-22
Tax effect from first time consolidation	-1,438	--
Non-capitalized deferred taxes on losses	517	--
Tax reduction from use of losses carried forward	-402	-865
Effect of different tax rates in foreign territories	-110	--
Non-deductible operating expenses	155	--
Others	91	17
Actual tax expense	**2,332**	**4,824**

Tax provisions formed in the financial year 2003 due to additional payments identified in a tax audit were able to be partially released in the current financial year. Tax losses carried forward which for reasons of prudence were not taken into account in the previous year, but were now able to be used, represented the determining factor in this development.

An interim balance sheet as of January 2, 2004 (closing date) was also prepared for the purposes of the first-time consolidation of the ESP division. Tax accruals were made in this interim balance sheet (tax provision T€ 1,505) which led to counter effects in the course of 2004 (income released T€ 901).

(39) Earnings per share

	2004	*2003*
Undiluted / diluted earnings per share in €	0.34	0.26
Group profits in T€	6,525	4,875
Weighted average number of shares	18,916,000	18,916,000

Undiluted earnings per share

The undiluted earnings per share are determined by dividing the group profit by the weighted average number of shares in circulation during the financial year.

Diluted earnings per share

In order to determine the diluted earnings per share, potential ordinary shares are added to the number of shares in circulation. The calculation is then made by dividing the group profit, possibly corrected to take account of interest and dividends from the conversion of potential ordinary shares, by the weighted average number of ordinary shares in circulation plus the weighted average of potential ordinary shares. There was no dilution effect to be taken into account as at December 31, 2004.

Other explanations

(40) Explanations on the consolidated statement of cash flows

The statement of cash flows shows how the liquid assets of the group have changed in the reporting period. A distinction is made in accordance with IAS 7 between the cash flow from current operations and the payment streams from investment and finance activities. The financial funds shown correspond to the Liquid assets item in the balance sheet and comprise cash in hand, checks and bank balances.

The takeover of BP's activities principally comprised trade receivables and inventories. Liquid assets amounting to T€ 40,799 were acquired in the course of this takeover.

(41) Events after the date of the balance sheet

The Management Board and the Supervisory Board of H&R WASAG AG propose to the shareholders' meeting that T€ 5,675 of the total retained earnings of H&R WASAG AG of T€ 23,928 be distributed in the form of a dividend of € 0.30 per share. T€ 18,253 is to be carried forward.

In February the group took over activities belonging to ExxonMobil in Australia. This relates to two production and tank storage facilities near Melbourne which generate annual sales of approx. € 10 m through the sale of oil-based specialty products. Once the local competition authorities have approved the acquisition, the activities will be consolidated from May 1, 2005.

(42) Contingent liabilities

On the date of the balance sheet, there were contingent liabilities of T€ 584 resulting from secondary liability for pensions (previous year: T€ 584), T€ 4,571 from third party guarantees (previous year: T€ 2,071), T€ 1,187 from outstanding liability contributions (previous year: T€ 1,187), and T€ 1,739 from other contingent liabilities (previous year: T€ 2,304).

The liability for pension obligations transferred to WNC Nitrochemie Aschau GmbH, Aschau, corresponds to the last state of knowledge of H&R WASAG AG.

The liabilities from guarantees relate to a guarantee in favor of Westfalen Chemie GmbH & Co. KG made to Commerzbank AG as well as a guarantee in favor of Bohlen Industrie GmbH made to the sellers of Sprengstoffwerk Gnaschwitz GmbH.

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

Other contingent liabilities show the joint and several liability for two loans from Kreditanstalt für Wiederaufbau (KfW) in favor of Hansen & Rosenthal KG towards Commerzbank AG and Deutsche Bank AG for a total of T€ 1,639 (previous year: T€ 2,004) as well as a relationship resembling a guarantee with H&R Wax Company Vertrieb GmbH with a value of T€ 100 (previous year: T€ 300).

(43) 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:

	2004 *T€*	*2003* *T€*
Other financial obligations		
Obligations from lease and rental contracts and other obligations lasting several years		
of which due within one year	5,159	2,805
of which due > 1 year and < 5 years	4,824	4,788
of which due > 5 years	462	760
Total	**10,445**	**8,353**

A further T€ 14,626 in the group relates to order commitments for investments which will all be paid out in 2005.

(44) Reporting by segment

The H&R WASAG group operates in three major divisions: Chemical Pharmaceutical Raw Materials, Plastics and Explosives. The operating growth of the divisions is explained in the management report. All further activities are combined in the Other activities item. These include primarily the activities of group administration.

The list of shareholdings shows to which division each group company belongs.

Primary segments (divisions)

	Chemical-Pharmaceutical Raw Materials		*Plastics*		*Explosives*		*Other Activities*		*Consoli-dations*		*Total*	
	2004 T€	*2003 T€*	*2004 T€*	*2003 T€*	*2004 T€*	*2003 T€*	*2004 T€*	*2003 T€*	*2004 T€*	*2003 T€*	*2004 T€*	*2003 T€*
External sales	409,139	139,016	34,870	32,985	53,060	39,150	--	--	--	--	497,069	211,151
Internal group sales	108,783	229	--	--	10,997	--	2,877	1,331	-122,657	1,560	--	--
Net sales	517,922	139,245	34,870	32,985	64,057	39,150	2,877	1,331	-122,657	1,560	497,069	211,151
Depreciation	13,449	9.491	1,943	2,094	4,667	2,743	0	1	-3,621	-3,000	16,438	11,329
Income from participating interests	--	16	--	--	8	36	--	294	--	-310	8	36
Earnings from affiliated companies	--	--	--	--	--	44	--	--	--	--	--	44
Interest income	1,085	223	28	48	281	290	2,496	1,376	-2,907	-1,736	983	201
Interest expense	6,274	1,568	327	280	1,554	1,230	2,708	1,413	-2,908	-1,734	7,955	2,757
Pre-tax earnings	4,781	4,190	2,970	3,833	1,070	1,412	-2,380	446	3,403	726	9,844	10,607
Liabilities	204,756	40,719	17,769	11,785	39,107	37,907	65,993	35,879	-84,166	-41,675	243,459	84,615
Assets	258,468	100,207	23,139	20,398	64,896	54,383	153,352	120,310	-179,996	-29,561	319,859	165,737
Expenditure on fixed assets	14,889	4,484	1,338	1,671	3,791	4,260	--	--	--	-352	20,018	10,063

Sales and revenues between the divisions are always posted at prices which would also have been agreed with third parties. Administrative services are calculated as cost allocations.

For sales revenues, the consolidation column contains the eliminated sales posted between separate divisions. The earnings consolidations relate mainly to the effects of relationships between the divisions affecting net income. On the assets side, the consolidation contains the eliminated receivables and liabilities between divisions as participation book values eliminated as part of the capital consolidation.

Secondary segments (geographical regions)

	Germany *T€*	*Rest of Europe* *T€*	*Rest of World* *T€*	*Consolida-tions* *T€*	*Total* *T€*
Net sales	321,274	139,586	36,209	--	497,069
Assets	291,731	61,253	45,977	79,102	319,859
Investments in tangible assets	17,459	2,203	356	--	20,018

45 Management bodies of H&R WASAG AG

Management Board	Membership of supervisory or advisory boards
Dr. Horst-Rüdiger Hollstein	
– Chairman Jesteburg	– Member of the Supervisory Boards 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
Maria-Elisabeth Ostermann-Müller	
– Chief Financial Officer Lingen (Ems)	
Niels H. Hansen	
– Vice-President Sales Hamburg	

Supervisory Board	Membership of other supervisory or advisory boards
Bernd Günther	
– President of Hamburger Getreidelager-haus AG, Hamburg – Chairman of the Supervisory Board	– Member of the Supervisory Board of Real AG, Kelkheim – Chairman of the Supervisory Board of Ravensberger Bau-Beteiligungen AG i.I., Berlin– Vorsitzender des Aufsichtsrats der Ravensberger Bau-Beteiligungen AG i.I., Berlin

Supervisory Board	Membership of other supervisory or advisory boards
Bernd Günther	
– Vorstand der Hamburger Getreidelagerhaus AG, Hamburg – Vorsitzender des Aufsichtsrats	– 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 – Chairman of the Supervisory Board of Patrio Plus AG, Hamburg – 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
Nils Hansen	
– Partner in Hansen & Rosenthal KG with personal liability – Partner in TUDAPETROL Mineralölerzeugnisse Nils Hansen KG with personal liability – Partner in Klaus Dahleke KG with personal liability	
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 Boards of Ravensberger Bau-Beteiligungen AG i.I., Berlin
– Chairman of the advisory board of Readymix Beton Saale GmbH & Co. KG, Halle (Saale)
– 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, Hannover
– 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
Chemical foreman
H&R ChemPharm GmbH, Salzbergen

Dieter Obert
Electrician
Gaudlitz GmbH, Coburg

(46) Total remuneration paid to Supervisory Board and Executive Board

Total remuneration paid to the Executive Board in the financial year 2004 was T€ 1,223 (pre vious year T€ 1,412), of which T€ 923 was a fixed, and T€ 300 a variable remuneration component. The basis for calculating the variable remuneration is annual earnings adjusted for one-off effects from the purchase of companies.

Former members of the Executive Board and their surviving dependants received total remuneration of T€ 325 (previous year T€ 325); the pension provisions formed for this group of people totaled T€ 3,441 (previous year T€ 3,411) as at December 31, 2004.

The Supervisory Board received T€ 85 (previous year T€ 85) of which the fixed component was T€ 46 and the variable T€ 39. Apart from being compensated for their out-of-pocket cash expenses, each member of the Supervisory Board receives an annual fee of € 6,135.50. The Chairman of the Supervisory Board receives twice this amount, and the Vice-Chairman one and half times this figure. The fee increases by € 766.94 for each percentage of dividend exceeding the rate of 5 %. One member of the Supervisory Board was granted a loan which is shown at T€ 24 on the balance sheet reference date. The rate of interest for this loan is 5% p.a. The amount of the loan is set off against the remuneration as a member of the Supervisory Board.

(47) Disclosures of relationships with related parties

The following disclosures on relationships with related parties are made in accordance with IAS 24.

– The following services were provided for or by companies in the Hansen & Rosenthal group in the financial year 2004:

	Volume of services provided T€	*Volume of services received T€*
Services		
Supplies of chemical pharmaceutical products	99,435	357
incidental expenses from the supply relationship as well as services and third party costs	535	2,894

The services provided involve the supply of chemical pharmaceutical products. The supply of Hansen & Rosenthal from the Salzbergen refinery is based on a long-term supply contract (sales volume € 46.0 m). The Hansen & Rosenthal group's own business with Salzbergen refineries represented a volume of € 53.4 m. The special products business at the Hamburg refinery acquired from BP International AG with effect from Jan. 2, 2004 has been handled as commission business since Sep. 1, 2004. Previously, the business had been conducted through the company's own sales organization.

The commission business has been handled since September 1, 2004 on the basis of cost reimbursement; Hansen & Rosenthal will not request a commission fee until the bank loan from the ESP/GSP acquisition has been repaid. Hansen & Rosenthal KG has pointed out that sales should only be handled on a commission basis for a transitional period. Once financing from the bank has been completed, the ESP/GSP business is also to be converted to the sales contract already in existence for Salzbergen (with the exception of the overseas area). Conversion would affect the sales structure (sales to be made in the name and for the account of Hansen & Rosenthal instead of in the name of Hansen & Rosenthal but for the account of H&R WASAG) as well as the sales margin. Negotiations have not yet been completed. Both sides are expecting to reach an agreement.

The services used comprise the supply of raw materials by companies in the Hansen & Rosenthal group. All supplies were made at market prices.

The services provided are wide-ranging, such as passing on personnel costs, logistics costs and IT services. The auxiliary services used in the supply relationship mainly comprise passing on freight costs incurred in connection with the commission business. Services predominantly comprise commission fees, IT consultancy costs as part of the integration of the ESP/GSP business and other IT costs.

Services were invoiced at the market rates for such services. Third party costs are passed on without any mark-up.

Receivables from the various subsidiaries of the Hansen & Rosenthal group stood at T€ 10,957 as of Dec. 31, 2004 of which H&R Ölwerke Schindler accounts for T€ 5,456.

The liabilities towards companies in the Hansen & Rosenthal group totaled T€ 124 as of Dec. 31, 2004, of which H&R Ölwerke Schindler accounted for T€ 102.

Other contingent liabilities show the joint and several liability for two loans from Kreditanstalt für Wiederaufbau (KfW) in favor of Hansen & Rosenthal KG towards Commerzbank AG and Deutsche Bank AG for a total of T€ 1,639 as well as a relationship resembling a guarantee with H&R Wax Company Vertrieb GmbH with a value of T€ 100.

– The following services were provided for the associated company Westfalen Chemie GmbH & Co. KG in the financial year 2004, or utilized by it:

	Volume of services provided T€	*Volume of services received T€*
Services		
Purchase of hydrogen and steam	--	1,373
Interest income	30	--
Rental income	41	--
Services	95	--

The receivables from Westfalen Chemie GmbH Co.KG stood at T€ 643 as of December 31, 2004. Liabilities as of December 31, 2004 were T€ 7.

– Fees of T€ 59 were paid in 2004 as part of consultancy contracts with BOWAS AG.

– The fees paid and third party costs invoiced as part of the consultancy contract with Idunahall Verwaltungs-Gesellschaft m.b.H. totaled T€ 20 in 2004.

– Fees of T€ 106 were invoiced by Bohlen Handel GmbH for sales activities.This results in liabilities of T€ 41 as of December 31, 2004 .

– One member of the Supervisory Board was granted a loan. The rate of interest on this loan is 5 % p.a. The loan amount is T€ 24 as at December 31, 2004 and is set off against the remuneration as a member of the Supervisory Board.

– The remuneration paid to the Management Board and the Supervisory Board is detailed in Comment 46.

(48) 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 2004 and made available to shareholders. The text of the declaration can be found in the 2004 annual report on page 17 and on the company's website on the Internet at www.hur-wasag.de

Salzbergen, April 29, 2005

The Executive Board

Dr. H. Hollstein

M. E. Ostermann-Müller

N. H. Hansen

Consolidated subsidiaries and equity interest

	Division	*Shareholders' equity* [1] *T€*	*Participation Ratio %*	*Earnings* [1] *T€*
Consolidated companies				
H&R Chemisch-Pharmazeutische Spezialitäten GmbH, Salzbergen, Germany	a	25,988	100.00	[2]
H&R Lube Blending GmbH, Salzbergen, Germany	a	1,927	100.00	[2]
H&R LubeTech GmbH, Salzbergen, Germany	a	25	100.00	[2]
H&R ChemPharm GmbH, Salzbergen, Germany	a	53,636	100.00	[2]
H&R LubeTrading GmbH, Salzbergen, Germany (in former times J.P.S. Schmierstoffvertrieb GmbH, Salzbergen, Germany)	a	473	100.00	[2]
Paul Fütterer GmbH, Neustadt an der Weinstraße, Germany	a	144	100.00	[2]
H&R EcoClean GmbH, Salzbergen, Germany	a	-50	100.00	-6
H&R ESP International GmbH, Hamburg , Germany	a	23	100.00	[2]
H&R Ölwerke Schindler GmbH, Hamburg, Germany	a	15,801	100.00 [6]	-7,187 [7]
H&R InfoTech GmbH, Salzbergen, Germany	d	25	100.00 [6]	--
H&R ESP Nuth B.V., Nuth, Holland	a	2,078	100.00 [6]	348
H&R ESP Limited, Milton Keynes, Great Britain	a	11,392	100.00 [6]	-2,736
H&R ESP Sales Limited, Milton Keynes, Great Britain	a	12,890	100.00 [6]	-1,238
H&R ESP Tipton Limited, Milton Keynes, Great Britain	a	3,134	100.00 [6]	894
H&R GSP Inc., Detroit, USA	a	28	100.00 [6]	-119
H&R ESP s.r.o., Prag, Czech Republic	a	7	100.00 [6]	0
H&R GSP Pty Ltd, Victoria, Australia	a	3,450	100.00 [6]	162
H&R Global Special Products Co. Ltd., Bangkok, Thailand	a	47	100.00 [5] [6]	-3
H&R Global Special Products Sdn. Bhd., Kuala Lumpur, Malaysia	a	20	100.00 [5] [6]	-37
H&R Global Special Products (Proprietary) Limited, Durban, South Africa	a	908	100.00 [6]	61
H&R GSP South Africa GmbH, Hamburg, Germany	a	14,025	100.00 [6]	[2]
H&R Global Special Products (Proprietary) Sales Limited, Durban, South Africa	a	1,583	100.00 [6]	341
H&R GSP Co. Ltd., Bangkok, Thailand	a	2	100.00 [5] [6]	209
H&R GSP Co. (HK) Limited, Hongkong	a	1	99.90 [6]	-108
H&R Grundstücksverwaltungs GmbH, Salzbergen, Germany	a	7,348	94.90	287
H&R Grundstücksverwaltungs-Beteiligungsgesellschaft mbH, Salzbergen, Germany	a	3	74.04	-12
Dussek Campbell (Proprietary) Limited, Durban, South Africa	a	[3]	51.00 [6]	[3]
GAUDLITZ GmbH, Coburg, Germany	b	4,502	100.00	[2]
GAUDLITZ Green Point Precision Technology (Wuxi) Co., Ltd., Wuxi, China	b	--	51.00 [6]	--
WASAGCHEMIE Sythen GmbH, Haltern, Germany	c	3,087	100.00	924
WANO Schwarzpulver GmbH, Liebenburg, Germany	c	181	100.00	179

WANO entertainment GmbH, Liebenburg, Germany	c	-200	100.00	-15
SYTHENGRUND Wasagchemie Grundstücksverwertungsges. Haltern mbH, Haltern, Germany	c	2,523	56.60 [4]	[2]
Westspreng GmbH, Sprengstoff + Sprengtechnik, Finnentrop-Fretter, Germany	c	7,565	52.66	356
Detona Sprengstoff-Vertrieb Beteiligungs GmbH, Finnentrop-Fretter, Germany	c	38	52.66	2
BST Bohr- und Sprengtechnik GmbH & Co. KG, Pölzig, Germany	c	52	52.66	486
Ipari Robbano Kft, Peremarton, Ungary	c	459	52.66	175
BLASTEXPOL Sp.z. o.o., Lubin, Poland	c	4,122	52.66	648
LA POUDRERIE s.a., Kockelscheuer, Luxembourg	c	89	52.66	3
POUDRERIE DE LESSINES s.a., Brussels, Belgium	c	397	52.66	94
ALPSPRENG Bohr- und Sprengtechnik, Eisenerz, Austria	c	110	52.66	94
Schneider Sprengtechnik GmbH, Bad Sobernheim, Germany	c	337	52.66	208
Romblast S.R.L., M-Ciuc, Rumania	c	61	50.03 [6]	10
CS Blast Servis, Prag, Czech Rebublic	c	-64	36.86 [6]	-62
MEDEX S.r.l., Sirmione, Italy	c	99	36.86	-30
Nitrex S.r.l., Sirmione, Italy	c	32	36.86 [6]	-8
GRA Grundstücks-Verwaltungsges. mbH, Hamburg, Germany	d	23	100.00	-1
B.-H. Beteiligungs- und Handelsges. mbH, Essen, Germany	d	-19	100.00	-19
H&R Eurospreng GmbH, Salzbergen, Germany	c	25	100 [6]	0
Financial assets shown by the equity method				
Westfalen Chemie GmbH & Co. KG, Salzbergen, Germany	a	-2,466	50.00	38
Westfalen Chemie Verwaltungsgesellschaft mbH, Salzbergen, Germany	a	56	50.00	4
Schmidtmann GmbH, Anröchte, Germany	c	[3]	13.69	[3]
Sprewa Sprengmittel GmbH, Nördlingen, Germany	c	[3]	13.22	[3]
Non-consolidated companies				
WAFA Kunststofftechnik GmbH & Co. KG, Augsburg, i. K., Germany	b	[3]	100.00	[3]
WAFA Kunststofftechnik Verwaltungs GmbH, Augsburg, i. K., Germany	b	[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	5,568	10.00	-2,689
Schuetzen Powder LLC, Arlington TX, USA	c	150	50.00	85

1) In accordance with HGB.
2) Profit and loss agreement.
3) For these companies, no year-end accounts are available as of Dec. 31, 2004.
4) The shares of minority shareholders do not carry voting rights.
5) Including shares of trustee.
6) First time consolidation in 2004.
7) Temporary.

Diviosions:
a) Chemical-Pharmaceutical Raw Materials
b) Plastics
c) Explosives
d) Other Activities

Auditors' report

We have audited the consolidated financial statements prepared by H&R WASAG Aktiengesellschaft, Salzbergen, and 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, 2004. The Executive Board of the company is responsible for preparing the consolidated financial statements and for their contents. Our task is to assess on the basis of our audit whether the consolidated

financial statements meet the International Financial Reporting Standards (IFRS). We have conducted our audit of the consoli-dated financial statements in accordance with German auditing regulations and in compliance with the German principles of proper auditing defined by the Institute of Auditors (IDW). Those principles require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. 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. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes an assessment of the accounting principles used and significant estimates made by the company's legal representatives as well as an evaluation of the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements are in compliance with IFRS and present a true and fair view of the net worth, financial position and results of operations of the group as well as of the cash flows during the financial year. Our audit which also extends to the combined management report prepared by the Executive Board for the financial year from January 1 to December 31, 2004, has not led to any reservations. In our opinion, the combined manage

ment report together with the other disclosures contained in the consolidated financial statements, provide in their entirety a suitable understanding of the group's position and suitably present the risks to future development. We also confirm that the consolidated financial state-ments and combined management report for the financial year from January 1 to December 31, 2004 satisfy the conditions required for the company's exemption from its obligation to prepare consolidated financial statements and a combined management report in accordance with German law.

Hamburg, April 30, 2005
SUSAT & PARTNER OHG
Wirtschaftsprüfungsgesellschaft

Dr. Roser
– Auditor –

Bischoff
– Auditor –

Finanical Calender

May 31, 2005	Q1 Report 2005
August 11, 2005	Q2 Report 2005
August, 2005	Annual Shareholder Meeting in Hamburg
October 29, 2005	Hamburg Investors fair
November 11, 2005	Q3 Report 2005

Note:

This report contains forward-looking statements, which are based on current expectations, estimates and projections of the management and currently available information. They are not guarantees of future performance, involve certain risks and uncertainties that are difficult to predict and are based upon assumptions as to future events that may not prove to be accurate. Many factors could cause the actual results, performance or achievements of H&R WASAG to be materially different from those that may be expressed or implied by such statements. We do not assume any obligation to update the forward-looking statements contained in this report.

Contact

If you should have further questions concerning our company or if you like to sign up for the company mailing list please contact:

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Glossary

Barrel
Unit of measurement for liquid; in relation to oil products, a barrel contains 159 liters.

Blending
In the production of lubricants, blending refers to the mixing of oil and additives to form automotive and industrial lubricants.

Brent
Leading type of oil from the North Sea

Cash flow
Key financial figure: cash balance of inflow and outflow of funds; split between current operations, investment activity and financing activity.

German Corporate Governance Code
Recommendations and suggestions on conduct from the governmental commission of the same name on corporate management and supervision for listed companies in Germany.

EBIT
(Earnings before interest and taxes) – Key financial figure: defined as consolidated earnings before interest earnings and taxes on income.

EBITA
Earnings before interest, taxes and amortization) – Key financial figure: defined as consolidated earnings before interest earnings, taxes on income and amortization of goodwill.

EBITDA
(Earnings before interest, taxes, depreciation and amortization) – Key financial figure: defined as consolidated earnings before interest earnings, taxes on income as well as depreciation on tangible assets and amortization of goodwill. In the case of H&R WASAG, operating earnings.

Equity ratio
Key financial figure: shows the ratio of equity to total assets and represents the finance structure.

Return on equity
Key financial figure: ratio of profit (net income for year before third party profit shares) to equity (including minority interests); reveals investors' rate of interest on their capital.

Earnings per share
Key financial figure: net income for year divided by the weighted average number of outstanding shares; shows how high the profit is for each share.

Extract
Product of special refinery production: extracts are used as softening agents in the rubber and caoutchouc industry (in particular in tire production)

Return on total capital
Key financial figure: ratio of EBIT to total capital (equity and borrowed capital); reveals the rate of interest on the total capital used.

Investment cover
Key financial figure: ratio of depreciation on tangible assets to additions to tangible assets; shows to what extent depreciation amounts are reinvested.

Marine lubricant
special lubricant for use in ships' motors.

Net finance debt
Key financial figure: finance debts minus the balance sheet items, short-term security investments and liquid assets; reveals the level of debt if all liquid assets were used to pay it off.

Net gearing
Key financial figure: ratio of net financial debt to equity; shows the relationship between finance provided by third parties and that provided by the company owners.

Paraffin
Product of special refinery production: Paraffin is oil-based wax which is used in over 100 different industries and sectors for manufacturing a wide variety of products.

Return on capital employed (ROCE)
Key financial figure: ratio of EBIT to capital employed (equity including minority interests plus net finance debt and pension provisions); shows the earning power of a company.

Special refinery activities
Production of highly refined raw materials for the chemical and pharmaceutical industries using oil-based materials.

Stone / earth
Segment of the civil explosives market: area of application for explosives in the above-ground and underground mining of mineral raw materials.

White oil
Product of special refinery production: highly refined and purified oil which is used especially as an input material in the cosmetics and polystyrene industries.

Permissible explosives
Product group in the civil explosives market: designates special explosives which are used in underground mining and which are explosion-proof (no ignition of dust or gas).

Tool
designation for the injection mold in the manufacture of plastic parts.

Value added
increase in value of goods used in the production process.

Working capital
Key financial figure: calculated from current assets minus short-term liabilities; shows the share of current assets covered by long-term borrowings.

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