Proving strength Annual Report 2005

H&R WASAG AG

Highlights 2005

February 2005: Expansion in Australia

At the beginning of the year we expanded our Chemical Pharmaceutical Raw Materials Division by acquiring additional activities from a major mineral oil corporation. We took over the conversion facilities for paraffin, white oil and other specialty products from ExxonMobil, thereby improving our position in Australia by a substantial measure. In the coming years, the overseas markets will continue to rank as a key growth region for our specialty business.

May 2005: Production of plastic components comes on-stream in China

The joint venture for the manufacture of plastic parts and components, which had already been founded in the previous year, embarked on production activities in May. In completing this step, the Plastics Division is now maintaining a direct presence in one of the world's most dynamic growth areas. The parts turned out here are also being exported to the American continent, among other regions.

June 2005: Federal Antitrust Authorities approve takeover of Sprengstoffwerk Gnaschwitz

At the beginning of June, the Federal Antitrust Authorities approved the acquisition of Sprengstoffwerk Gnaschwitz GmbH. In October 2004, we had already purchased the Saxony-headquartered company that is also maintaining its own subsidiary in Scandinavia. The integration of Sprengstoffwerk Gnaschwitz expands the production capacities of the Explosives Division by the manufacture of dynamite products for the stone/earth market.

June 2005: Restructuring of activities in England initiated

Around the middle of the year we began restructuring our specialty refinery product activities in England. The aim of the measures is the concentration on our core activities and the sale of peripheral operations.

August 2005: Commissioning of expanded extraction facilities in Hamburg

The expansion of production capacities for label-free plasticizers, which was embarked on directly after the integration of the BP specialty refinery activities, was concluded in August. This positions us as the worldwide leading manufacturer of these innovative products, which will be particularly employed as a basic material in tire manufacturing. The product is being successfully marketed on a global scale.

December 2005: Project 18 exceeds expectations

Project 18, which was launched at the beginning of 2005, has exceeded our expectations in the course of the year. Especially the measures geared to increasing value creation and the leveraging of volume effects have exceeded the set targets. In the ongoing year and also in 2007, the Group-wide optimization of refinery activities will be generating additional earning potentials.

The Group in figures
(IFRS)

		2005	2004	2003
Net sales	€ m	650.1	497.1	211.2
Operating income (EBITDA)	€ m	44.9	32.9	24.0
EBIT	€ m	28.0	16.5	12.8
Income before income taxes and minority interests	€ m	19.6	9.8	10.6
Income before minority interests	€ m	11.5	7.5	5.8
Net income	€ m	10.5	6.5	4.9
Cash flow from operating activities	€ m	20.5	16.6	20.3
Earnings per share				
- basic earnings per share	€	0.55	0.34	0.26
- before amortization of goodwill	€	0.60	0.47	0.37
Dividend per share	€	*0.30	0.30	0.30
Balance sheet total	€ m	372.6	329.3	165.7
Shareholders' equity	€ m	89.9	84.3	81.1
Equity ratio	%	24	26	49
Employees (Dec. 31)		1,811	1,634	1,215

* Dividend proposal

The divisions in figures
(IFRS)

		2005	2004	2003
Sales				
Chemical Pharmaceutical Raw Materials	€ m	556.8	409.1	139.0
Precision Plastics	€ m	38.0	34.9	33.0
Explosives	€ m	55.1	53.1	39.2
Operating income (EBITDA)				
Chemical Pharmaceutical Raw Materials	€ m	35.7	23.4	12.0
Precision Plastics	€ m	4.2	5.2	6.2
Explosives	€ m	8.5	7.0	5.0

Proving strength

H&R WASAG is a growing corporation and a leading provider of crude oil based specialty products for the chemical and pharmaceutical industries. As key feedstock and basic materials, our highly refined and sophisticated products enter into countless products of everyday life. As a reliable partner we support our customers in maintaining and enhancing their success by offering individually tailored and innovative products. By concentrating on niche markets holding strong potential we are creating value over the long term in the interest of our employees and business partners – and for you, our shareholders.

Our success in the past and also our future potential are based on the concentration on our strengths. These strengths determine our positioning and strategy.

On the following pages we would like to familiarize you with the key elements of our success.

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Foreword by the Executive Board

Dr. H. Hollstein
CEO

M. E. Ostermann-Müller
CFO

N. H. Hansen
COO

Dear ladies and gentlemen,
Dear shareholders,

We look back on some notable achievements in the past business year:

- Sales rose by 31% to € 650.1 million.
- Group pre-tax earnings doubled to € 19.6 million.
- Earnings per share increased by 62% to € 0.55.

These successes are also reflected in the considerable gains in the share price. In the year under review, the H&R WASAG share moved up by a total of 26% and this trend has also continued in the first months of the new year. With these achievements in the past business year we have once again succeeded in attaining our primary goal, namely the sustained enhancement of corporate value.

In the course of the past year, however, we also had to come to grips with the extreme burdens arising from the hikes in raw materials prices. In 2005, these additional expenditures even exceeded the leaps experienced in the year before. The fact that we have nevertheless been able to achieve such gratifying results underscores the soundness of our strategic orientation once again.

On the one hand, we are striving to make the most of the growth and earnings opportunities that are presenting themselves to our Group. Indeed, we have more than trebled Group sales since 2002. In the same period of time, we have more than doubled our result against the backdrop of the extremely difficult environment we are operating in.

Moreover, we are also effectively restricting the risks associated with our business, as the successful developments during the crisis on the oil markets during the past two years have impressively documented.

What are the future strategic targets?

The Group is now entering a new development phase. From an external viewpoint, the past years have been determined by restructuring and consolidation activities. By implementing a host of different measures and projects, we have now established a structure that enables us to place the focus on global growth in our core areas.

We will be consistently concentrating our strengths and on our successful business model in niche markets. We aim to further expand our leading positions on world markets – both by organic growth as well as by selective acquisitions.

The optimization of our refinery capacities is one of the main drivers of our future development. The "Project 18" – launched in connection with the integration of the Hamburg refinery – has been running a promising course and has exceeded planned figures in the meantime. In the coming years too we expect further positive earnings effects to derive from the best possible coordination of our refineries. At the same time, we have launched programs geared to the continuous expansion of our production capacities, enabling us to once again increase volumes by a substantial measure in future.

The further expansion of our overseas activities is another key building block of growth. We perceive strong growth potential especially in the emerging Asian markets. But also in South Africa and in the Australian region we aim to stake out further market shares.

These projects are accompanied by our drive to advance service activities in the lubricants business. In this area too, we perceive potentials that will enable us to continuously increase sales and results and establish a global positioning.

With a look to the developments of the last two years, the Group's inherent performance potential becomes readily apparent. The further implementation of our strategy will generate additional impulses advancing sales and results. Moreover, additional effects will result from the adjustment of the performance portfolio.

We want our shareholders to participate in our success. In addition to the continuous enhancement in the value of our corporation and the associated increase in our share price, we are also offering an attractive dividend policy.

In this year we intend to maintain the dividend payment with € 0.30 on the same level as the year elapsed. Given the approval of this dividend disbursement proposal by the general meeting of shareholders on June 28, 2006, the out-

payment would represent 54% of the Group net profit. In addition, we will be able to retain substantial funds within the Group, which can be invested in future growth. In the coming years, however, we are aiming to increase the dividend payment in line with the development of Group performance.

With regard to the new business year, we expect sales to rise past the € 700 million mark, and pre-tax earnings to move up to a minimum of € 30 million, representing profit growth of 50%. In the upcoming years, we will continue to chart our course of profitable growth.

Without the strong commitment and the trust of our employees, however, we would not be able to achieve our sales and earnings targets. Therefore we would like to extend our most sincere thanks for their outstanding performance and dedication.

Salzbergen, April 2006
The Executive Board

Dr. H. Hollstein

M. E. Ostermann-Müller

N. H. Hansen

Report of the Supervisory Board

Bernd Günther
Chairman

Ladies and gentlemen,

In the 2005 financial year, the Supervisory Board monitored the management of the Group by the Executive Board in accordance with the tasks allocated to it, as laid down by law, the company's articles and its rules of procedure, as well as taking into account the provisions of the German Corporate Governance Code. In addition to this, we have provided advice to the Executive Board regarding the strategic development of the Group and the implementation of key measures.

In the five meetings that took place during the course of the financial year, all members of the Supervisory Board were informed extensively both in writing and verbally about the development of the Group, company policy and important business events. In addition, the Executive Board provided information to the Supervisory Board within the context of prompt monthly reporting about the business position of the Group, profitability as well as corporate planning. We were involved in decisions of major significance in good time and we discussed intensively all matters of business that required agreement. Outside the meetings, the Chairman of the Supervisory Board discussed the current business situation and important questions of company policy with members of the Executive Board. The entire Supervisory Board was present in almost every meeting.

In the 2005 financial year, developments in the crude oil markets as well as the effects of the extreme price increases for raw materials on the Chemical Pharmaceutical Raw Materials division were at the center of consultations.

Besides this, the Executive Board provided detailed reporting on the initiation of production of precision plastic parts in China. Further topics for consultations comprised the monopoly review connected with the acquisition of Sprengstoffwerke Gnaschwitz, as well as general developments in the European markets for explosives.

There were no problematic or extraordinary events.

In the course of the year just elapsed, discussions were also held on topics concerning Corporate Governance. In December 2005, together with the Executive Board, we passed the joint declaration of conformity and published it for our shareholders on the company website.

The Mediation Committee, which was set up at the same time as a committee for personnel matters concerning the Executive Board, met for one consultation in 2005. On the other hand, the Committee for Capital Measures did not convene.

Report of the Supervisory Board

The firm of chartered accountants chosen as auditor by the annual shareholders' meeting for the 2005 financial year, SUSAT & PARTNER OHG, Hamburg, audited the annual accounts and the consolidated financial statements of H&R WASAG AG as at December 31, 2005, 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 were compiled in compliance with the International Financial Reporting Standards (IFRS) and present a true and fair view of the net worth, financial position and results of the Group's operations.

In the accounting meeting on April 19, 2006, the above-mentioned financial statements were discussed comprehensively in the presence of the auditor, who provided a report on the main results of his audit. Subsequent to the conclusive result of our own audit, we raise no objections, and assent to 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, 2005; the annual accounts are thereby certified. We are in agreement with the recommendation of the Executive Board with respect to the appropriation of profits.

The auditors also audited the report prepared by the Executive Board in accordance with § 312 of the German Stock Corporation Act (AktG) on relationships with affiliated companies belonging to the Hansen & Rosenthal group, and awarded it the following unqualified certificate of approval: "In accordance with the audit and assessment that we have carried out in accordance with our duties, we confirmed that, 1. the actual disclosures of the reports are correct, 2. in the case of the legal transactions listed in the report, payments made by the company were of an appropriate level, and 3. in the case of the measures listed in the report, no circumstances would indicate a significantly different assessment than the one provided by the Executive Board."

The Supervisory Board has examined the report of the Auditor. It declared its agreement with the concluding declaration of the Executive Board contained in the report and the result of the audit carried out by the external auditor and raised no objections.

We should like to thank the Executive Board and all members of staff for their high degree of commitment and the work that they carried out in 2005 in a particularly difficult environment.

Hamburg, May 2006
On behalf of the Supervisory Board

Bernd Günther
Chairman

H&R WASAG share

Basic data on the H&R WASAG share

ISIN / WKN	DE0007757007 / 775700
Abbreviation	WAS
Type	No par ordinary bearer shares
Listings	Amtlicher Markt 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 Sponsors	Concord Effekten Aktiengesellschaft HSBC Trinkaus & Burkhardt KGaA WestLB AG

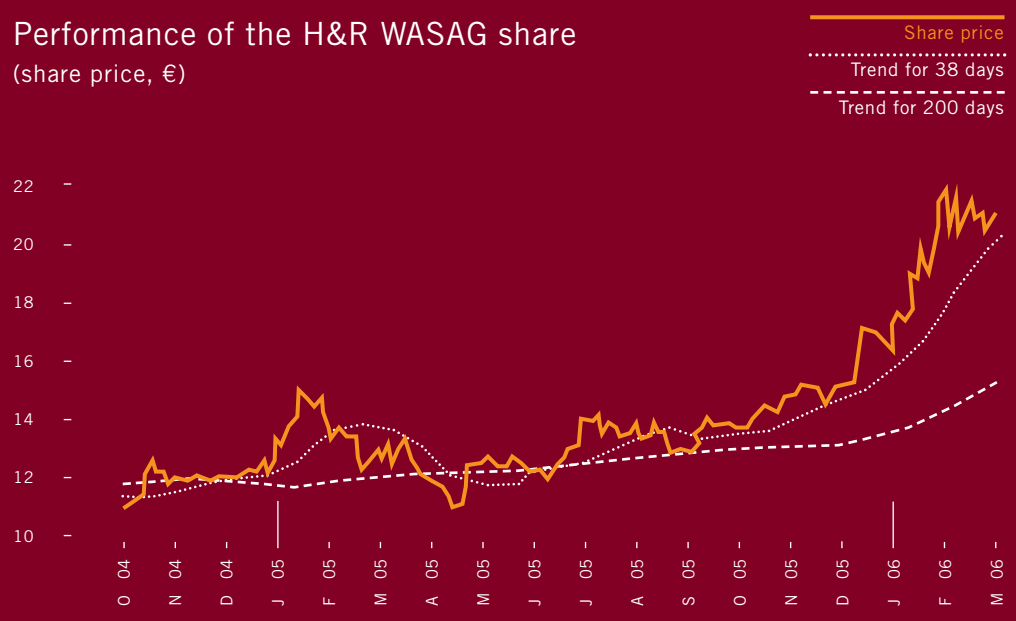
The share in figures

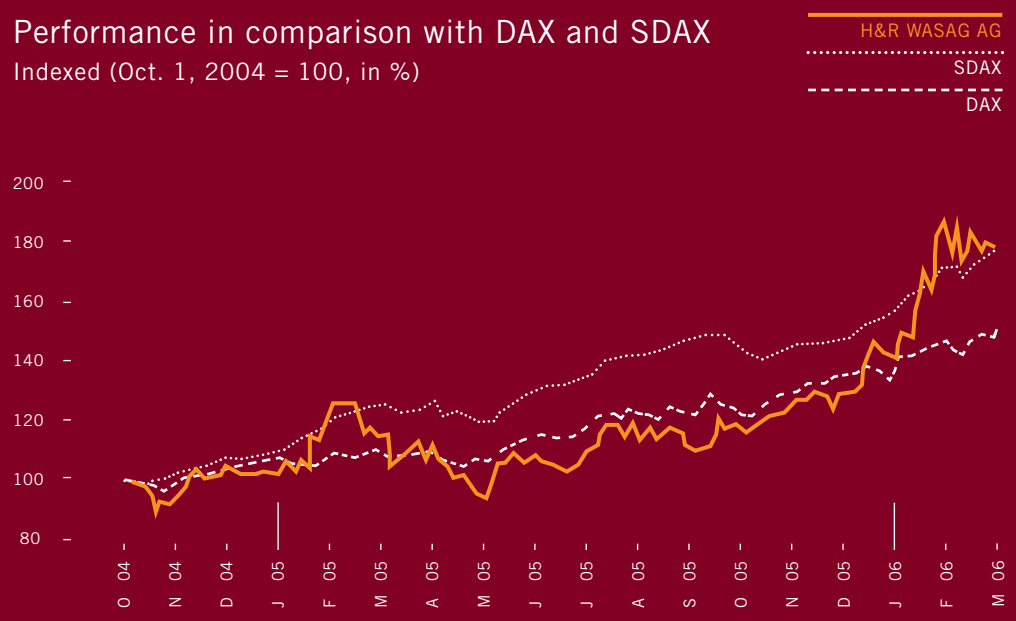
	2005	*2004*	*2003*
Number of shares	18,916,000	18,916,000	18,916,000
Earnings per share	€ 0.55	€ 0.34	€ 0.26
Earnings per share before amortization of goodwill	€ 0.60	€ 0.47	€ 0.37
Highest price in the year	€ 15.20	€ 15.10	€ 10.25
Lowest price in the year	€ 10.88	€ 8.90	€ 5.55
Average price	€ 13.27	€ 11.68	€ 6.71
Closing price on Dec. 31	€ 15.20	€ 12.00	€ 8.53
Performance (without dividend)	+26%	+35%	+56%
Market capitalization on Dec. 31	€ 287.5 m	€ 227.0 m	€ 169.0 m
Dividend	[1] € 0.30	€ 0.30	€ 0.30
Dividend return [2]	2.3%	2.6%	4.5%
Avarage number of shares traded in one day	€ 220,206.80	€ 203,228.83	€ 100,786.52

1) Dividend proposal

2) in relation to the avarage share price of the year

Performance of the H&R WASAG share





Another significant rise in the share price

The German stock market developed in a clearly positive manner in 2005. The DAX share index rose by 27%, while the SDAX index for smaller and medium-sized companies increased by as much as 35%.

The H&R WASAG share was able to register strong price growth for the third year in a row. During the course of the year, the share's quote rose 26%, after having clearly outperformed the index in previous years with rates of growth of 35% in 2004 and 56% in 2003.

At the start of the year, our share stood at € 12.10 and by the end of February had risen to a level of just under € 15.00. The continued crisis in the markets for crude oil and the negative expectations that resulted from this led to pressure on the share price in the following weeks and, in May 2005, the share reached its year's low at € 10.88.

In subsequent months, the share price continued to increase and, by the end of December, had reached its year high of € 15.20. The reasons for the positive share price development in the second half of the year lay, on the one hand, in the increasing awareness that we are able to compensate to a surprisingly high degree for pressures from the difficult crude oil market. On the other hand, the relaxation that made itself felt in the crude oil markets in September led to rising expectations from operating business developments.

In the new year, the positive share price development has continued. By the end of February, the quote has increased to just under € 22.00 and since then has been moving sideways in a bandwidth between € 20.00 and € 22.00.

Dividend proposal to be held at the previous year's level

The Executive Board and the Supervisory Board will propose to the Annual General Meeting on June 28, 2006 to distribute a dividend of € 0.30 per share. The dividend yield at 2.3%, based on the year-average share price for 2005 and on the assumption that the recommended dividend is accepted, is at the level of the previous year (2004: 2.6%).

Given the fact that the development of cash flows has been burdened in 2005 by raw materials markets, an increase in the distribution would not be advisable for the company. Also in future, we wish to generate strong organic and acquisition-led growth in core areas. For this reason, we shall be unable to continue the high payout ratio from previous years on a permanent basis. In 2005 we distributed 87% of the net result for 2004 and in 2004 we even distributed 116% of the net profit of 2003. The recommended distribution would be the equivalent of a payout ratio of 54%.

However, we do intend to use the expected positive development in results in coming years to also distribute a higher dividend.

Investor relations activities continue at a high level

In the 2005 financial year, we have also continued our investor relations activities at a high level. The aim of such activities is to provide our shareholders with information about the company and the development of business, as well as to address potential investors with a view to a continuous increase in the interest of the financial community in the shares of H&R WASAG.

In the financial year just past, we have presented ourselves at over ten road shows in international financial centers. Besides this, we have showcased the Group at six analyst and investor conferences in Europe. In the context of such meetings, we have been engaged in question and answer sessions with numerous institutional investors.

The number of active analysts that analyze our company on a regular basis and publish studies has continued to grow. Most research houses recommend our shares as a buy.

In 2005, we also offered private investors the opportunity of informing themselves directly via the extensive posted material service and also within the scope of the Annual General Meeting and investor conferences.

Share trading volumes increase significantly

As a result of the intensive investor relations activities and the rising share price, stock exchange turnover of our shares has continued to increase. The average daily trading volume in our shares on all exchanges has increased to € 220,207 (2004: € 203,229).

Investor relations contact

The investor relations team would be very glad to respond to any queries and looks forward to your suggestions:

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

Telephone: +49-5976-945300
Telefax: +49-5976-945308
E-mail: investor.relations@hur-wasag.de

Corporate Governance

Good Corporate Governance as the guiding principle

Corporate Governance bundles together corporate management and control measures that are aimed at long-term value creation. Along with the existing laws and company bylaws, the German Corporate Governance Code forms an important building block in ensuring responsibility-conscious and transparent corporate management. Processes and structures that are key to management and controlling are subject to regular scrutiny and, if required, optimization.

At the end of December, in accordance with §161 of the German Stock Corporation Act (AktG), we issued the following statement of conformity to the German Corporate Governance Code that was updated by the Government Commission in June 2005. We have made it permanently accessible on the Internet at www.hur-wasag.de. Previous years' declarations are also lodged for a period of at least five years on the internet.

"H&R WASAG AG complies with the recommended behavior of the Corporate Governance Government Commission, the German Corporate Governance Code, in the version of June 2, 2005 with the following exceptions:

– In the case of the existing D&O insurance agreements, no deductibles have been agreed. It is intended to amend the contracts by incorporating a suitable own risk portion.

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

– There are no age limits for members of the Executive Board and of the 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 has not appointed an audit committee. The subjects proposed in the Government Commission's Corporate Governance Code for such an audit committee are keenly debated within the entire Supervisory Board at H&R WASAG AG.

– 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 of the Securities Trade Act (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 2004 until May 2005. Publication of the three-month report was also delayed (published on May 31).

Executive Board and Supervisory Board of H&R WASAG AG
Salzbergen, December 27, 2005"

Directors' dealings and shareholdings

We immediately publish announcements on our Internet pages about share transactions that are notified to us in accordance with § 15 of the Securities Trade Act (WpHG). In the 2005 financial year, 15 notifiable transactions were reported to us, which comprised the disposal of a total of 70,000 shares at prices between € 13.93 and € 15.00 by a member of the Supervisory Board.

According to notifications presented to us in accordance with § 21 of the Securities Trade Act (WpHG), as of April 1, 2002, a total of 39.37% of the voting rights in H&R WASAG AG were attributable to Supervisory Board member Nils Hansen.

Executive Board remuneration

Remuneration of members of the Executive Board comprises a fixed component and a variable component. The variable remuneration component is related to the Group net profit for the year, adjusted for acquisition-related one-off effects. Company cars are provided for two members of the Executive Board. The current members of the Executive Board do not have pension entitlements.

Executive Board remuneration corresponds to the size and economic position of the company, both in terms of extent and structure. The remuneration system is also related to the tasks of individual board members and offers incentives to contribute to the enduring accretion of corporate value.

Executive Board remuneration

	2005		*2004*		*2003*	
	T€	*%*	*T€*	*%*	*T€*	*%*
Fixed remuneration	958	47	923	75	654	46
Variable remuneration	1,100	53	300	25	758	54
Total remuneration	**2,058**	**100**	**1,223**	**100**	**1,412**	**100**

Remuneration of the Supervisory Board

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

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

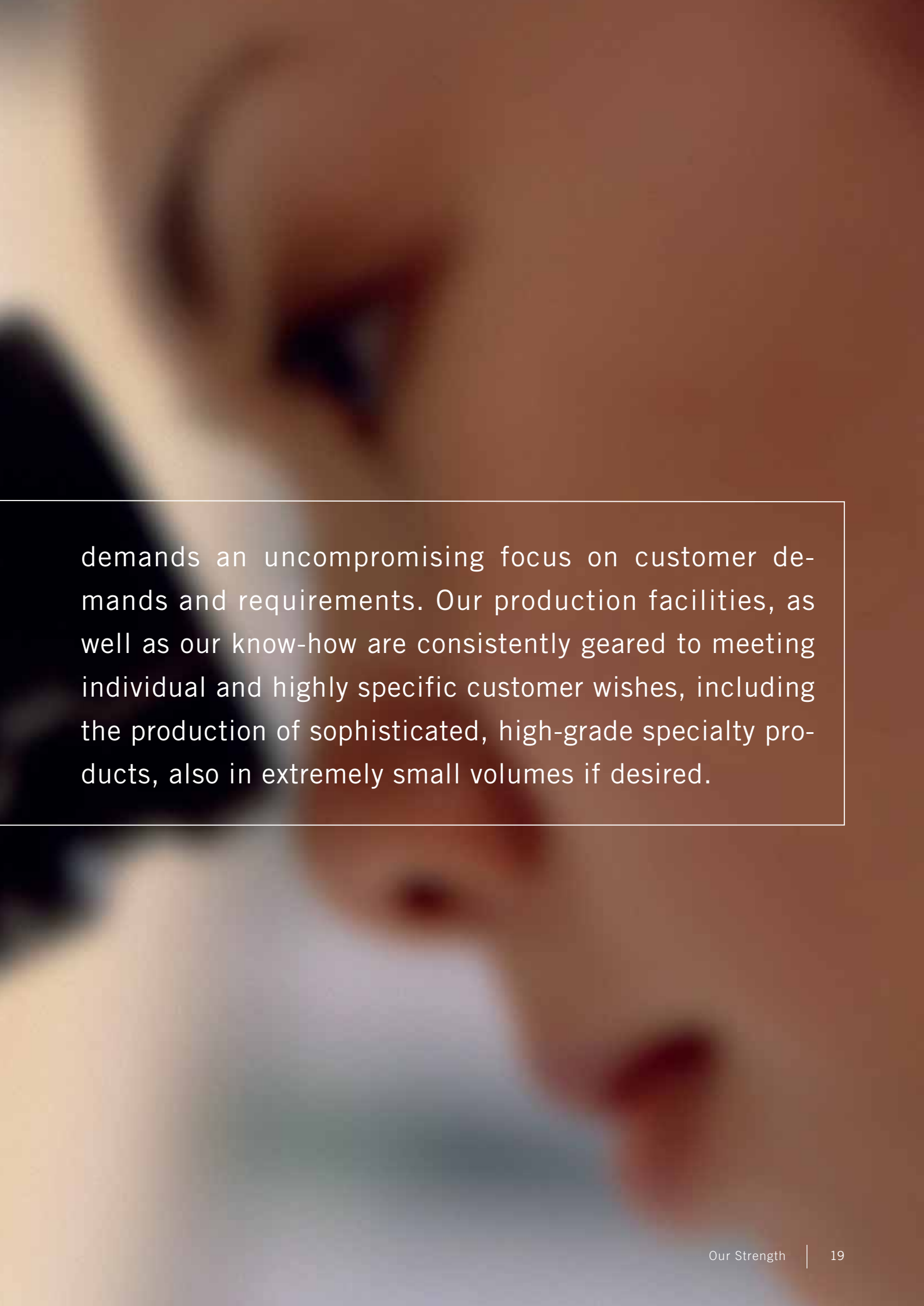
For their committee work, members of the Supervisory Board received an additional € 3,000.00. This remuneration is doubled for members of the Supervisory Board who are active as a Chairman of a board.

Remuneration of the Supervisory Board

	2005		*2004*		*2003*	
	T€	*%*	*T€*	*%*	*T€*	*%*
Fixed remuneration	102	69	46	54	46	54
Variable remuneration	45	31	39	46	39	46
Total remuneration	**147**	**100**	**85**	**100**	**85**	**100**

Concentration on niches

We define our core activities on the foundation of our know-how. In this context, we concentrate on the profitable niches in the markets. We only invest in activities in which we already hold a leading position today, or will be able to stake out major market shares over the medium term. The concentration on specialty product markets



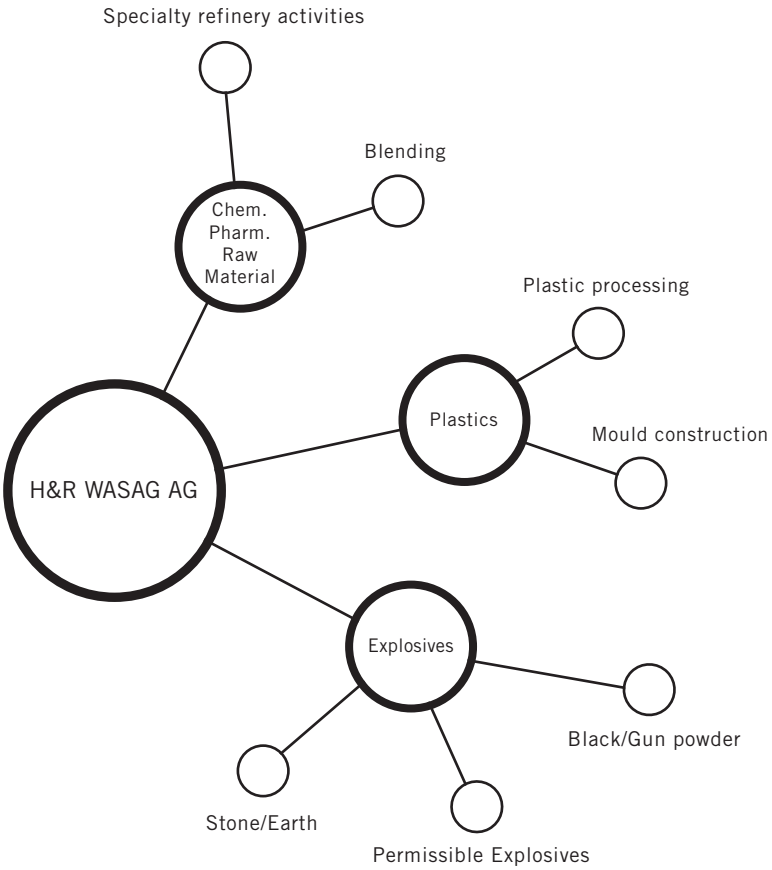
demands an uncompromising focus on customer demands and requirements. Our production facilities, as well as our know-how are consistently geared to meeting individual and highly specific customer wishes, including the production of sophisticated, high-grade specialty products, also in extremely small volumes if desired.

Group structure and business activities

Organizational structure

H&R WASAG AG is a holding company, whose subsidiaries are engaged in the provision of products and services for various industries. The individual Group companies conduct their business in a legally independent manner, whereby the majority of the holdings are directly or indirectly majority holdings of H&R WASAG AG.

The activities are bundled into three divisions, which represent segments eligible for reporting in the meaning of IFRS. In addition, the holding company, as well as individual companies that either are only active within the Group, or perform non-operational administrative functions, are reported as an independent area.



The operational divisions

The largest and most significant division – the Chemical Pharmaceutical Raw Materials Division – develops and produces crude oil based specialty products as input material for the chemical and pharmaceutical industries. In many product segments, the Group ranks as one of the largest providers worldwide. The manufacture of specialty products is mainly conducted in two specialty refineries in Salzbergen as well as in Hamburg. In these facilities large volumes of crude oil derivatives are processed for many different industries. The development of business is influenced, among other factors, by the volatility in the costs of raw materials, which in turn are strongly dependent on the development of crude oil prices and the euro/US$ exchange rate.

In addition to the refineries in Germany, the company is also operating conversion facilities in Great Britain, the Netherlands, South Africa, Australia and Thailand, where specialty products are refined and marketed.

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

The development and production of plastic parts and components by injection molding processes are bundled under the Plastics Division. Here, the Group's activities are located in Coburg, Germany, and Wuxi, China and focus on the manufacture of high-precision plastic parts for the automotive supplier industry. In addition to the actual injection molding processes, this division is also engaged in the production of injection molds (so-called tools) that account for a major share of the high technology know-how.

The Explosives Division comprises the development, manufacture and application of explosives used in civil engineering. At a total of seven locations in Europe, various types of explosives are produced that are mainly finding use in quarries, mines, as well as in road-building and tunnel construction. Thanks to various acquisitions, this division has risen to a position among the major providers in Europe. Moreover, the Group commands leading technology know-how in this segment, as reflected by a number of innovative patents.

As a holding company, H&R WASAG AG assumes the strategic guidance and management of the Group companies that are organized as divisions, and decides on the efficient allocation of funds and resources within the Group. Moreover, the holding performs central administrative functions, and provides management capacities. The steering and management of the divisions is based on the analysis of results in the various areas, which are recorded without factoring in the taxes on earnings.

H&R WASAG Group
Sites

AMERICA

USA
– Detroit (CP)
– Arlington (EX)

EUROPE

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

Austria
– Eisenerz (EX)

Hungary
– Peremarton (EX)

Poland
– Duninów (EX)

England
– Tipton (CP)

Czech Republic
– Prague (CP)
– Prague (EX)

Romania
– Miercurea-Ciuc (EX)

Italy
– Sirmione (EX)

Luxembourg
– Kockelscheuer (EX)

Belgium
– Brussels (EX)

Netherlands
– Nuth (CP)

AFRICA

South Africa
– Johannesbourgh (CP)
– Durban (CP)

ASIA

China
– Wuxi (PL)
– Guangzhou (CP)

Hong Kong
– Hong Kong (CP)

Thailand
– Si Racha (CP)
– Bangkok (CP)

Malaysia
– Kuala Lumpur (CP)

AUSTRALIA

Australien
– Melbourne (CP)

New Zealand
– Auckland (CP)

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

Long-term strategic orientation

Business activities are geared to the objective of achieving a sustained increase in the value of the corporation, while reducing risks relating to the earning, financial and asset situation at the same time.

In fielding its product and service offerings, the Group is concentrating on profitable niche markets that hold attractive growth potential and perspectives. The business portfolio is continuously adapted in order to enhance the value of the corporation over the long term and to minimize the risks ensuing from individual market developments on a Group level.

A key component of this superordinate strategy consists of the efficient safeguarding and hedging of the Group result vis-à-vis market cycles and price developments on individual raw materials markets. The orientation of Group activities to sales and procurement markets that are independent of each other is also part of this strategic objective. The same holds true for regional presence, which is evenly distributed between saturated markets and emerging markets.

The focus of the competitive strategy, in turn, is on the positioning of corporate activities within their markets. The individual Group companies must either rank among the market leaders or generate competitive advantages in their markets by way of technology and or cost leadership. It is only when these positions can be maintained, or attained, over the medium term, that investments are committed to expanding existing activities or the entry into new markets. This strategy enables the realization of high growth and profitability targets, and/or the generation of short pay-off periods.

The clear focus on customer demands and requirements is a key element of the niche strategy. All of the divisions are characterized by a high degree of specialization, which enables them to develop and offer customer and market specific solutions. High innovation capabilities are the basic precondition in order to hold a leading position in niche markets over the long term.

Business environment

Market developments remain low-key

In 2005, Germany was once again the major sales market, followed by the remaining European countries and the overseas markets.

In 2005, developments on the domestic market continued to progress on a modest level. Subsequent to price adjustments, gross domestic product in Germany rose by 0.9%, following on an increase of 1.6% in the year before. The difference is mainly attributable to the deviation in the number of working days.

In the year under review, the overall economic developments in Germany partially lagged behind the dynamics of other major national economies by a considerable measure. As in previous years, the restrained developments were caused by a weak construction sector and the general reticence in consumer spending. The export sector remained on a sound growth course, and in the past year profited once again from the general upswing of the global economy.

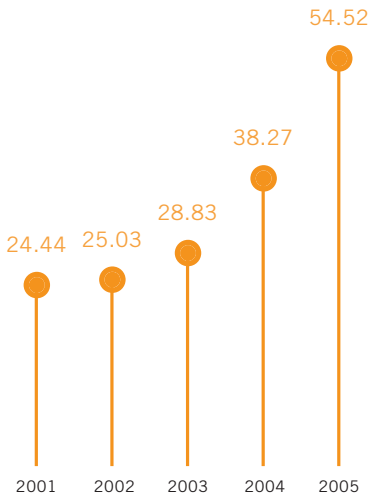
While the economic development throughout the entire eurozone advanced at a modest pace of +1.3%, countries in Central and Eastern Europe showed considerably more dynamic gains in gross domestic product at around an average of 5%. Especially the new EU member nations recorded above average growth rates.

Overseas, many of the major economies succeeded in stabilizing the developments that had set in over the previous years. In the United States, the economy grew by 3.5%, while the emerging markets of China and India recorded gains of 9.3% and 7.1%. Most of the remaining relevant economies worldwide showed attractive growth rates.

Extreme developments on the crude oil market also in 2005

The developments of the previous year continued on the key markets for raw materials. Driven by the strong demand emanating from the Asian growth markets, considerable price increases for industrial raw materials had to be absorbed in the course of the past year.

Crude oil price 2001 – 2005
(yearly average Brent US$/Barrel)



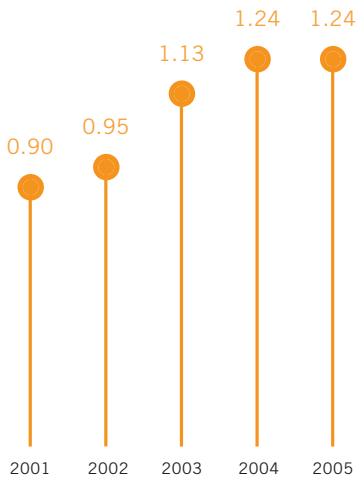
Once again, crude oil markets were especially strongly affected. From the beginning of the year through to the beginning of September, the price per barrel of North Sea Brent shot up by 75% to set a new record level above US$ 70. As in 2004, the occurrence of these increases was uneven, and progressed in various increments. It was only in the last four months of the year under review that the situation relaxed in a more sustained manner. During this time the price notations per barrel moved laterally in a band between US$ 60 and 70 per barrel. With these developments, the price trends that have persisted since January 2004 were substantially interrupted for the first time.

In 2005, the average price of a barrel of Brent stood at US$ 54.52 (2004: US$ 38.27), which is +43% above the previous year. In 2004, an increase of 31% had already been registered over 2003.

Development of currency relations

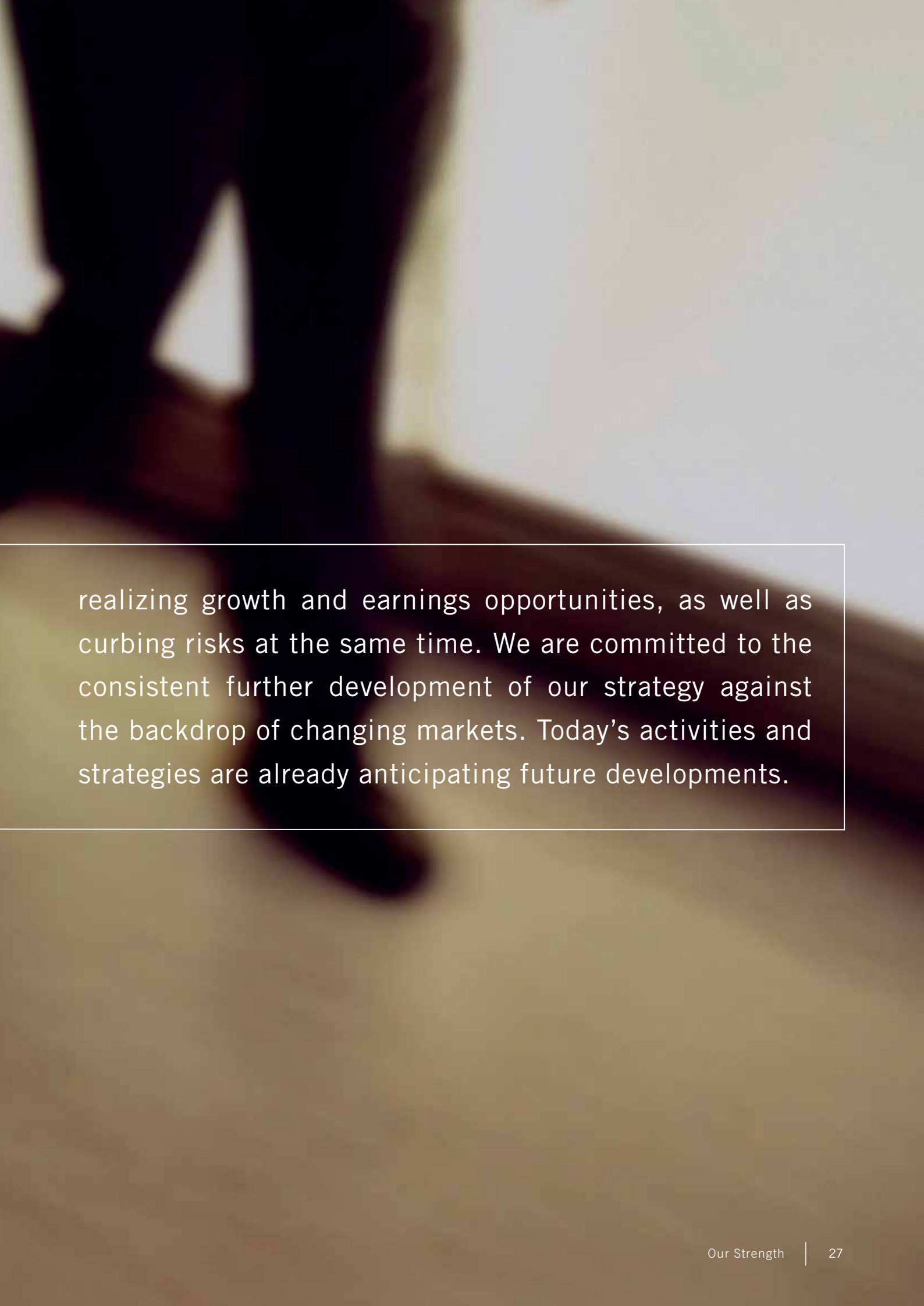
In parallel to the boom on the raw materials markets, the US$ steadily gained in value over the euro. At the beginning of January 2005, one euro was still valued at US$ 1.36. In the course of the year the euro depreciated steadily and reached a low around mid November of 1.17 US$/euro. In spite of the considerable depreciation of the euro in the course of the year, the exchange rate on average stood at the level of the previous year at US$/euro 1.24 (2004: US$ 1.24).

Currency relation 2001 – 2005
(yearly average US$/€)



Strategic orientation

Strategy forms the foundation of our course of action. We have a clear idea of which measures and instruments we will employ in creating value. In the interest of our customers, business partners and employees, our strategic guidelines serve to ensure a healthy balance between



realizing growth and earnings opportunities, as well as curbing risks at the same time. We are committed to the consistent further development of our strategy against the backdrop of changing markets. Today's activities and strategies are already anticipating future developments.

Business development and earnings situation

Sales increase based on price developments

In spite of what were partially tremendous burdens presented by the economic environment, business activities have developed in a positive manner. All of the key earnings figures and ratios have considerably improved over the prior year and the budgeted targets have been achieved.

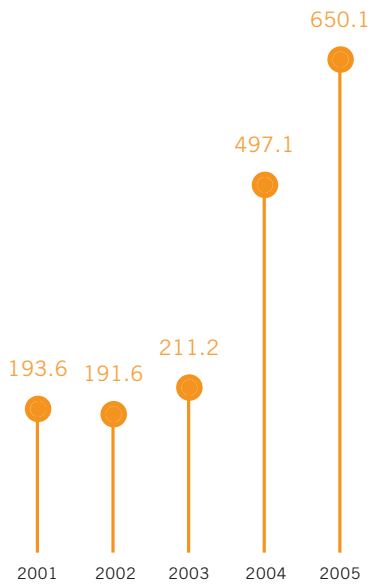
Group sales were up by 31% to € 650.1 million (2004: € 497.1 million). Growth was mainly based on the markedly increased price level in the course of the year for products sold by the Chemical Pharmaceutical Raw Materials Division. These higher prices followed the increases in raw materials prices at a certain time delay.

In addition, expanded volumes and acquisition effects also resulted in an increased level of revenue. All three divisions reported stronger demand and rising sales volumes. For the most part, this development was mainly attributable to the business with chemical-pharmaceutical raw materials, although the plastics and explosives divisions also succeeded in boosting their sales volume.

The acquisition effects consist on the one hand of the overseas activities that the Group took over from the mineral oil corporation BP around the middle of 2004. On the other hand, the activities in Australia acquired from ExxonMobil were consolidated as of May 1, 2005. The takeover of Sprengstoffwerk Gnaschwitz GmbH did not result in any effects on sales or results, as the company was consolidated for the first time on the balance sheet reference date December 31, 2005.

Sales growth on the Group level is mainly reflected by the largest operating area, the Chemical Pharmaceutical Raw Materials Division. Here, sales in the 2005 business year were up by 36% to € 556.8 million (2004: € 409.1 million). In addition, the Plastics Division boosted sales revenues by 9% to € 38.0 million (2004: € 34.9 million), while the sales level of the Explosives Division rose by 4% to € 55.1 million (2004: € 53.1).

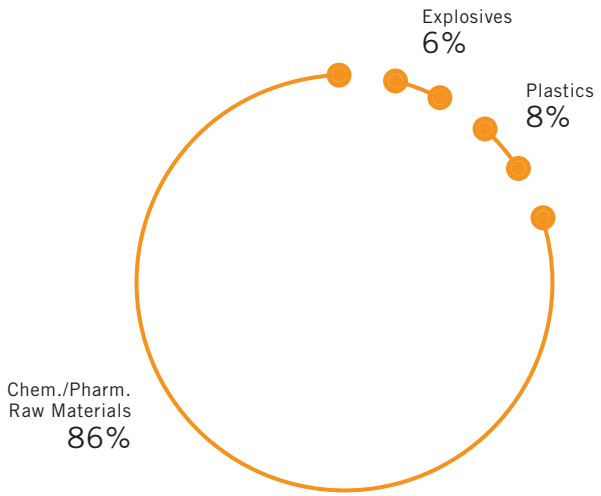
Net sales 2001 – 2005
(€ m)



In the course of the expansion of international activities the regional sales distributed changed. Revenues generated on the domestic German market were up by 18% to € 377.9 million (2004: € 321.3 million) and accounted for a share of 58% (2004: 64%) of total Group sales. The sales share accounted for by the remaining European markets increased by 32% to a total of € 184.7 million (2004: € 139.6 million). With this result, the share of sales in this region stabilized at 28% (2004: 28%).
Due to the acquisition effects, the revenues generated on the remaining world markets came in at € 87.4 million (2004: € 36.2 million), representing an increase by 141%. As a result, the share that overseas regions contribute to Group sales increased to 13% (2004: 7%).

Sales by divisions

(%)



Marked EBITDA increase in spite of additional burdens

The strong rises in raw materials prices in the course of the year led to considerably higher material costs that had to be absorbed by the corporation. Expenditures on materials increased by € 138.0 million, which marked a rise by 41%. Of this sum, € 101.7 million alone were due to higher expenditures in the Chemical Pharmaceutical Raw Materials Division, which were exclusively driven by the crude oil price developments. The comparison between the year 2005 and 2004 shows that the development of the US$/Euro currency relations only induced marginal changes in basic raw materials price levels.

As the additional expenditures can only be passed on to the markets at a certain time delay, the materials expenditure ratio (relationship between materials expenditures and sales) moved up from 67% in the past year to 73% in 2005.

By contrast, the personnel expenditure ratio (relationship between personnel expenditures and sales) declined due to the very strongly price-driven sales expansion and stood at 12% in 2005 (2004: 14%).

In spite of the high burdens resulting from the raw materials price developments, the Group succeeded in improving operating results (EBITDA – earnings before financial results, taxes on earnings and depreciation) to € 44.9 million (2004: € 32.9 million), which represents a gain of 36%.

Group results before taxes on earnings doubled

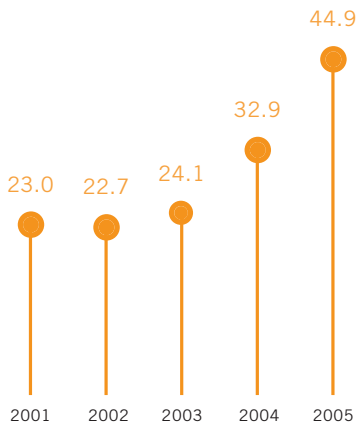
The EBIT result (earnings before financial results and taxes on earnings) even increased by 70% and reached the figure of € 28.0 million (2004: € 16.5 million). The more favorable development over EBITDA is due to the fact that depreciations over the previous year of € 17.0 million (2004: € 16.4 million) rose only marginally. Here, two opposite developments entered the picture. On the one hand, the depreciations on fixed assets increased due to the high investment activities, while on the other hand, due to the first-time application of IFRS 3 in 2005, there were no scheduled goodwill amortizations. In 2005, however, one non-scheduled goodwill amortization amounting to € 0.9 million was made in the case of one company belonging to the Chemical Pharmaceutical Raw Materials Division.

The extreme raw materials developments are also reflected in the Group's financial results. Due to the strong liquidity requirements and the associated indebtedness to banks, the interest expenses have increased. On account balance, the interest result of € -8.4 million declined compared with the previous year (2004: € -6.6 million). Of this sum, € -2.0 million (2004: € -2.6 million) were accounted for by the accumulation of existing pensions.

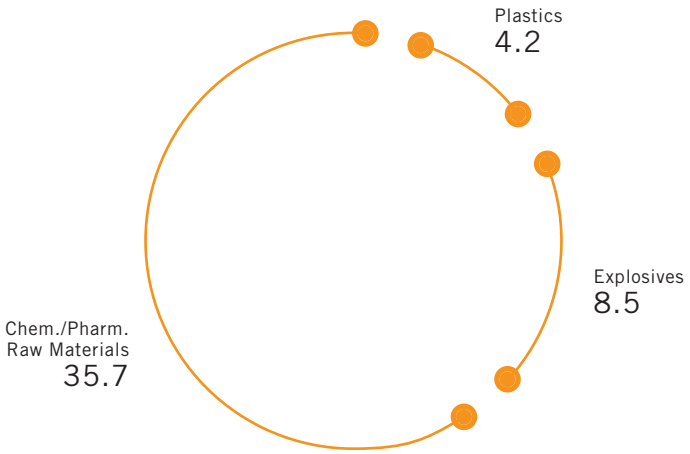
The result before taxes on earnings has doubled at € 19.6 million (2004: € 9.8) and has thereby reached the budgeted level. By comparison with 2004 the tax ratio increased to 41% (2004: 24%).

The result contributions of minority shareholders reduced Group profits – as in the prior year – by € -1.0 million (2004: € -1,0).

Operating result 2001 – 2005
(EBITDA in € m)



Operating result by divisions
(EBITDA, € m)



All in all, the Group generated a net result (consolidated surplus of the shareholders of H&R WASAG AG) amounting to € 10.5 million (2004: € 6.5 million). The corresponding net earnings per share rose to € 0.55 (2004: € 0.34).

Stable dividend payment

In 2005, the Group parent company H&R WASAG AG generated sales revenues of € 1.8 million (2004: € 2.9 million). The declining proceeds resulted mainly from the discontinuation of management work in 2004 that had been performed for Group companies in connection with the integration of the former BP activities.

Shareholding earnings also declined over the previous year to € 2.3 million (2004: € 4.1 million). This drop was due to lower earnings from existing profit and loss transfer agreements as well as to higher transfers of losses.

Due to the declining sales revenues and reduced shareholding earnings the annual surplus of H&R WASAG AG of € 1.1 million (2004: € 1.4) failed to match the previous year's figure. In connection with profit carried forward of € 18.3 million the net profit for the year of H&R WASAG AG came in at € 19.4 million as per December 31, 2005 (December 31, 2004: € 23.9 million).

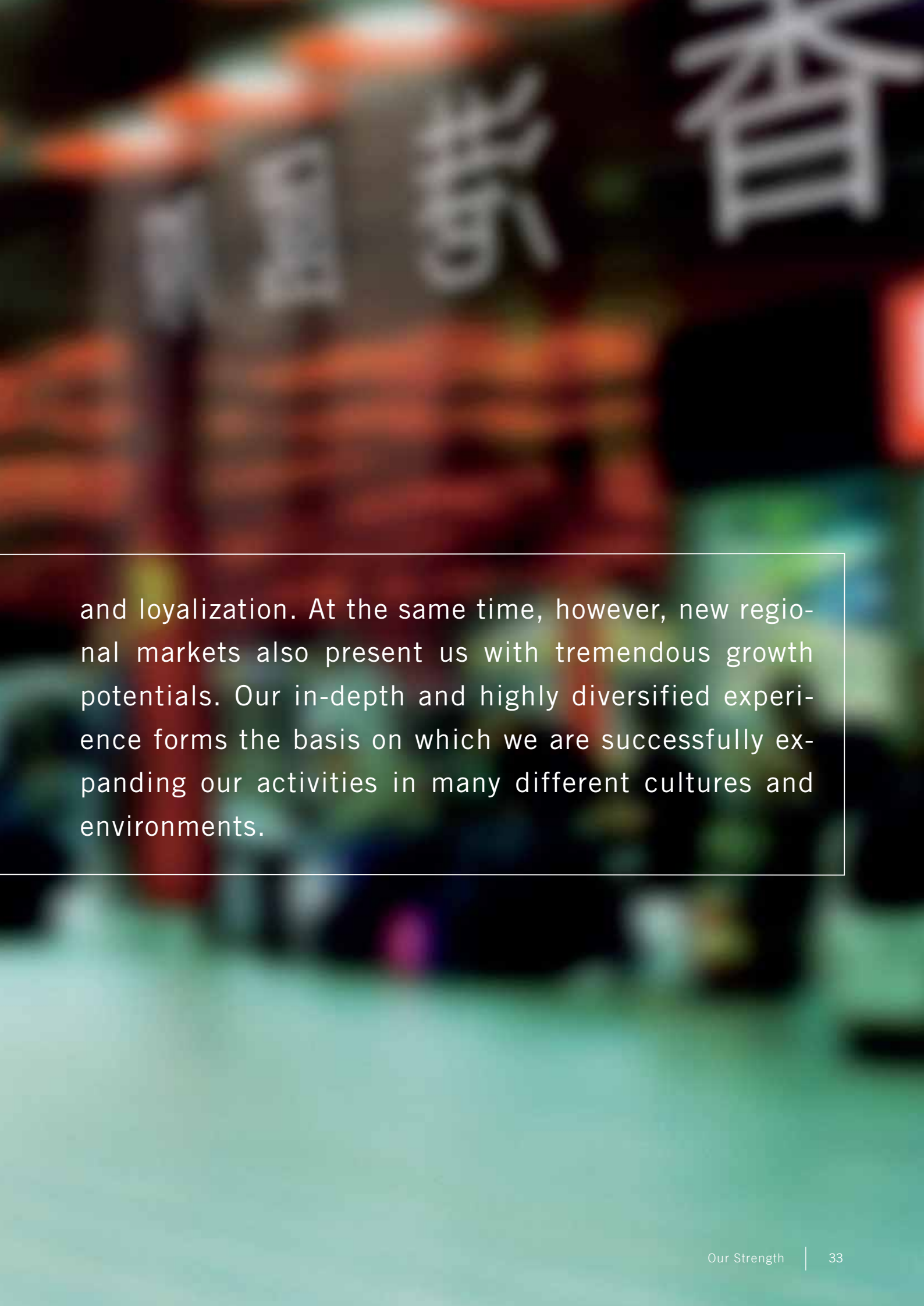
The Supervisory Board and the Executive Board will propose to the Annual General Meeting of Shareholders to maintain the dividend payment of € 0.30 per share (2004: € 0.30) on the same level as the previous year.

Results of the H&R WASAG Group

(€ m)	*2005*	*2004*	*Changes, %*
Net sales	650.1	497.1	+31
Operating income (EBITDA)	44.9	32.9	+6
EBITA	28.9	19.2	+51
EBIT	28.0	16.5	+70
Earnings before income taxes	19.6	9.8	+100
Net income before minority interests	11.5	7.5	+53
Return on equity in %	12.8	8.9	+3.9%-Pts.
Return on total capital in %	7.5	5.0	+2.5%-Pts.
Return on Capital Employed (ROCE) in %	10.1	6.5	+3.6%-Pts.

Global presence

To a high degree, our markets are globally organized and our products deployed worldwide. Many of our customers are active on a number of different continents and must be served with the same quality wherever they operate. Therefore, the expansion of our international presence is a key element in customer bonding



and loyalization. At the same time, however, new regional markets also present us with tremendous growth potentials. Our in-depth and highly diversified experience forms the basis on which we are successfully expanding our activities in many different cultures and environments.

Developments in the divisions

The Chemical Pharmaceutical Raw Materials Division

Due to the developments on the crude oil markets this division had to cope with high burdens in the course of the year. In spite of this, the activities in the development, production and worldwide sale of crude oil based specialty products for the chemical and pharmaceutical industries reflected a successful business year.

Sales rose to € 556.8 million (2004: € 409.1 million) while the operating result (EBITDA) moved up by 53% to € 35.7 million (2004: € 23.4 million). The result before taxes on earnings and neutral depreciations at Group level stood at € 16.8 million (2004: € 7.8 million).

Sales growth was based mainly on price hikes that had been asserted at a resulting time delay in the course of the development of raw material prices. This course was supported over the last months of the business year especially due to the tangible scarceness of offerings in individual product groups. This was mainly attributable to the shutdown of specialty refineries in Europe, as well as production losses that were also caused by the hurricanes in the Golf of Mexico region.

In addition, however, the volume of the specialty products produced and sold increased once again. By comparison with the year 2004, the two refineries in Salzbergen and Hamburg have further boosted their output of specialty products. The volume of products manufactured at these locations were marketed mainly throughout Europe.

In the course of the year the Group restructured the division's activities in the UK. The activities acquired from BP in 2004 had been continued at two locations to date. Due to the shutdown of a BP specialty refinery, which was supplying the Group's UK locations with raw materials only up to the end of 2005, and in connection with the concentration of core products, activities were sold. In addition,

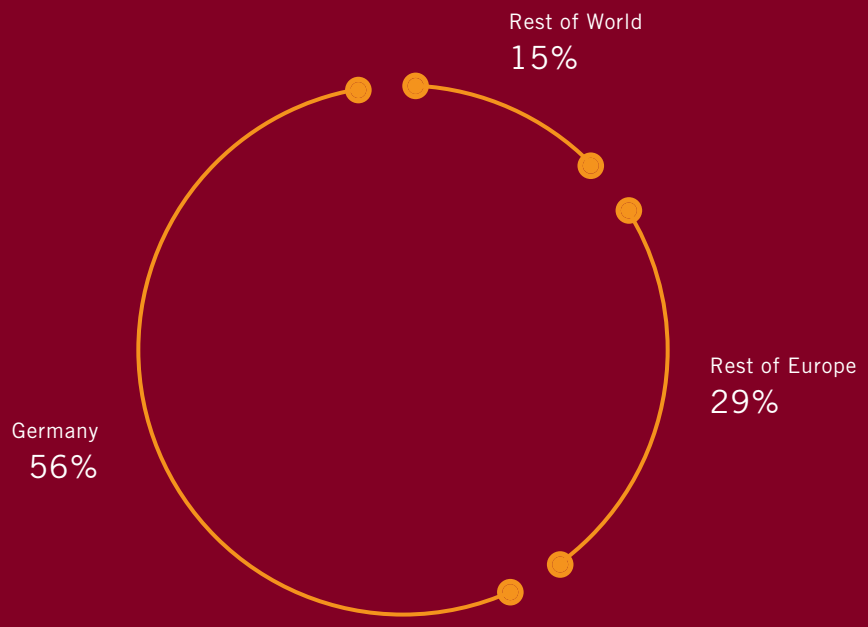
Sales and income

(€ m)	*2005*	*2004*	*Changes, %*
Net sales	556.8	409.1	+36
Operatng income (EBITDA)	35.7	23.4	+53
(% from net sales)	6.4	5.7	+0.7%-Pts.
Income before income taxes*	16.8	7.8	+115
(% from net sales)	3.0	1.9	+1.1%-Pts.

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

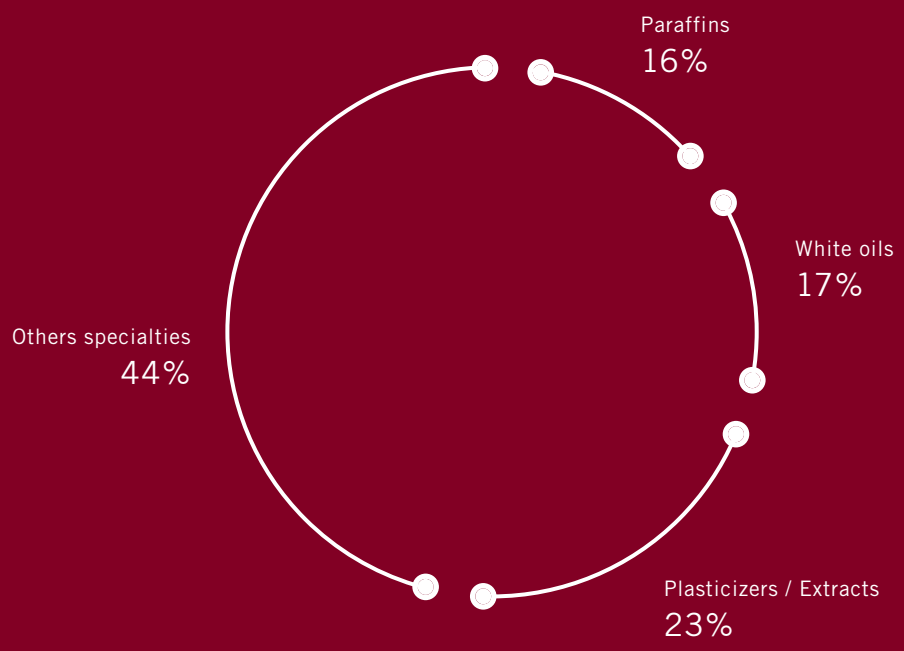
Sales by geographical area

(%)



Refinery production
Main product groups

(%)



the remaining production activities were bundled at a single location. The sale concerns business activities that generated sales of € 6.3 million in 2005.

The sales proceeds almost fully covered the restructuring expenditures and depreciation associated with the sale and site concentration. Restructuring resulted in a deficit of € 0.4 million.

Business activities outside of Europe have developed in a very positive manner. The locations in South Africa, Australia and Thailand all registered rising sales and positive earnings trends. The respective Group companies in these regions are not operating own refineries but conversion facilities, in which specialty products are blended and filled according to customer specifications. In these activities, the overseas companies also source materials and products from third party specialty refineries.

As of May 1, 2005, the Group expanded the division by taking over the Australian specialty product activities of the mineral oil corporation ExxonMobil that had generated annual sales of around € 10 million with crude oil based specialty products. In addition, in the second quarter, the division also took over a facility for the production of vaseline from BP. Due to delays caused by the respective authorities, it was not possible to consolidate these operations in the course of the integration of the overseas BP activities around mid 2004. The Group was able, however, to operate the facility in South Africa over the past months.

In addition to the production and sale of specialty refinery products, the activities concerned with the blending and filling of lubricants remain the division's second pillar. The blending facilities in Salzbergen and Hamburg succeeded in further increasing their output over the previous year. Moreover, new both locations succeed in attracting new customers. While the activities in Hamburg focus on the production of lubricants for marine technologies and ships, the Salzbergen site mainly turns out lubricants for industrial applications and the automotive industry. In the course of the year the blending and filling plant in Salzbergen was further expanded in order to be able to handle additional volume in future.

Following the discontinuation of a customer order for the Neustadt-an-der-Weinstrasse location, the Group has decided to shut down activities at this location. The remaining volume of product to be blended and filled was shifted to Salzbergen. The goodwill of the company of € 0.9 million was written down in 2005.

The optimization program initiated in connection with the integration of the former BP refinery in Hamburg exceeded expectations in 2005. The implementation of the so-called "Project 18" is geared to boosting the earnings potential of both refineries by a total of € 18 million by the year 2007. Already in 2005, the implementation of individual measures had already generated earnings effects of € 6.6 million, which are especially attributable to better capacity utilization and increased value creation. In addition, tangible cost reductions were also achieved.

In addition to the continuous optimization of the cost foundation, key elements of the "Project 18" include the capacity utilization of the new facility for the production of label-free plasticizers, increasing value creation in the area of ensuing side products, as well as expanding the Hamburg site to form a Marine Lubricants Center for the

production of marine lubricants.

The expansion of production facilities for the manufacture of label-free plasticizers in Hamburg that was initiated in 2004 was concluded in the third quarter of 2005. This innovative product is a further development of the plasticizer generation currently employed as a basic material for tire compounds. In view of the objections against the currently employed softening agents, the legislative situation will tighten considerably in many regions of the world. Thanks to the expansion of production capacities the Group is already in a position today to offer tire manufacturers alternatives to conventional materials enabling them to adjust their products to future requirements. The demand for the new softening agent generation exceeded expectations in 2005.

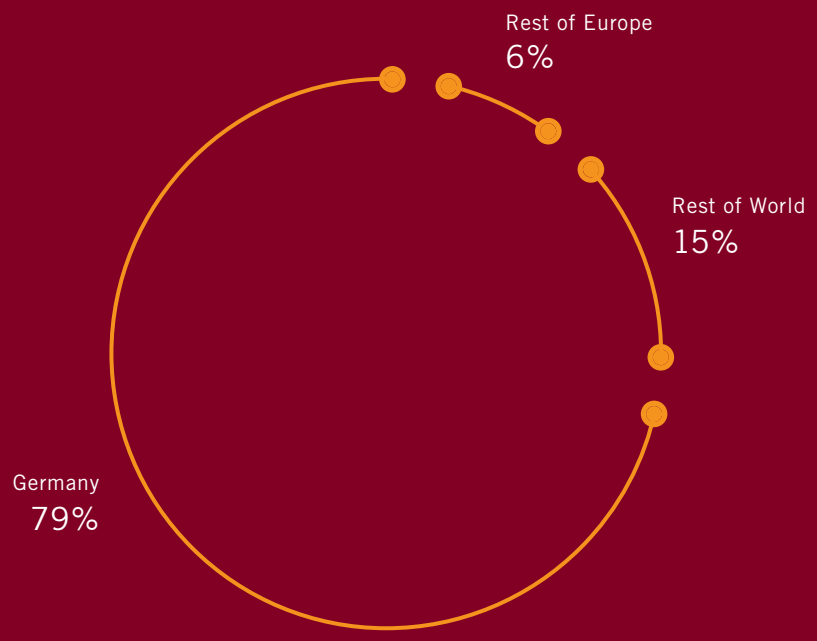
In view of the extreme burdens imposed by the oil price developments, additional cost reduction measures were taken over and beyond the implementation of measures from the Project 18 initiative. These were related to the deferral of maintenance and ongoing maintenance projects, as well as replacement investments.

Another cost advantage results from the operation of the thermal waste treatment facility in Salzbergen. The plant supplies the Group's refinery with steam that is utilized in power generation as well as for processes. The waste incineration largely replaces the oil-fired furnace formerly in operation. Against the backdrop in increased crude oil prices, considerable cost savings were already notched up in the first full year of operations.

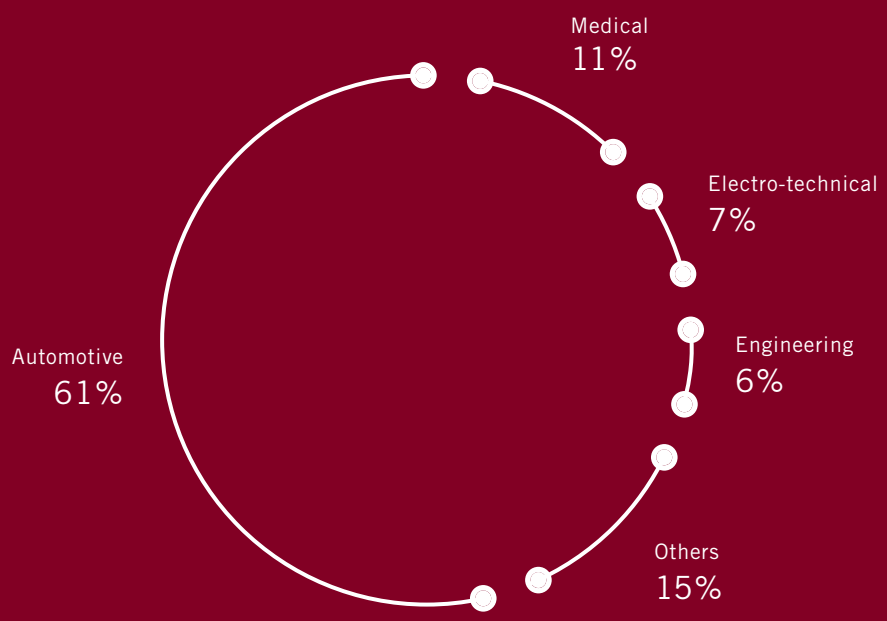
The division's research and development activities are mainly focused on the further development of the new plasticizer generation. Production technologies were analyzed and optimized, as well as the optimal utilization options and potential of the product in customer applications. The aim is to be able to offer specific products for the various marked demands and requirements.

The analysis of adjustments of production techniques and processes at the specialty refineries with the aim of maximizing yield formed another key focus point. This also includes increasing value creation in ensuing complementary products.

Sales by geographical area
(%)



Sales by customer segments
(%)



The Plastics Division

In addition to the persisting price pressures on the markets, the Plastics Division most notably had to absorb one-time expenditures resulting from the start-up of production activities in China.

In 2005 the division boosted sales by 9% to € 38.0 million (2004: € 34.9). The operating result (EBITDA) dropped to € 4.2 million, however, (2004: € 5.2 million) and earnings before taxes on income of € 1.8 million (2004: € 3.0) failed to match the good level achieved in the previous year.

Sales growth was mainly based on expanded activities for the automotive industry. These developments were driven by the trend reversal in the European automotive industry that set in around mid-year. In addition to increased manufacturing activities of carmakers, the higher equipment levels of new vehicles with comfort and safety relevant functions resulted in stronger component sourcing. As one of the technology leaders in precision parts the division was able to profit by an above average measure.

All in all, some 61% of the manufactured plastic parts were delivered to the automotive segment. Medical technology accounted for an additional 11%, while a further 7% went to the electro-technical sector.

During the entire year the division was subject to tough competition. In all business segments prices were under persistent pressure. At the same time the rising expenditures on materials driven by the booming raw materials markets resulted in declining margins.

In addition, the division was faced with additional burdens on performance that resulted from the launch of production activities in China. Apart from one-time start-

Sales and income

	2005	*2004*	*Changes, %*
(€ m.)			
Net sales	38.0	34.9	+9
Operating income (EBITDA)	4.2	5.2	-19
(% from net sales)	11.1	14.9	-3.8%-Pts.
Income before income taxes	1.8	3.0	-40
(% from net sales)	4.7	8.6	-3.9%-Pts.

up costs led to a negative result at the joint venture company, especially those attributable to delayed customer orders, creating a deviation from budgeted volumes. It was only in the last quarter of the business year elapsed, that the sales level almost matched the planned and budgeted volume.

The financing of the division's China engagement also resulted in increased interest expenditures, as well as a currency-linked depreciation of a loan in foreign currency.

The division is countering the market situation by expanding development work for innovative products and by entering new markets. The leading technology know-how will mainly be used for opening up new application areas for plastics. Here, the development department is cooperating closely with customers and suppliers, in order to ensure the comprehensive orientation to market requirements. In the past business year the entry into insertion technology and the development of new products in gear and worm gear technology were taken successfully.

The Explosives Division

During the period under report the Group companies in the Explosives Division were able to continue the positive developments of the previous year. The rising demand for explosives for civil engineering resulted in increased sales volumes and an advantageous product mix.

Sales moved ahead to € 55.1 million (2004: € 53.1 million) and the operating result improved disproportionately to € 8.5 million (2004: € 7.0 million). The result before tax on earnings reached € 4.0 million (2004: € 1.1 million) and has thereby more than trebled. Of this growth in results, € 0.4 million are attributable to the reversal of provisions formed due to redundancy obligations.

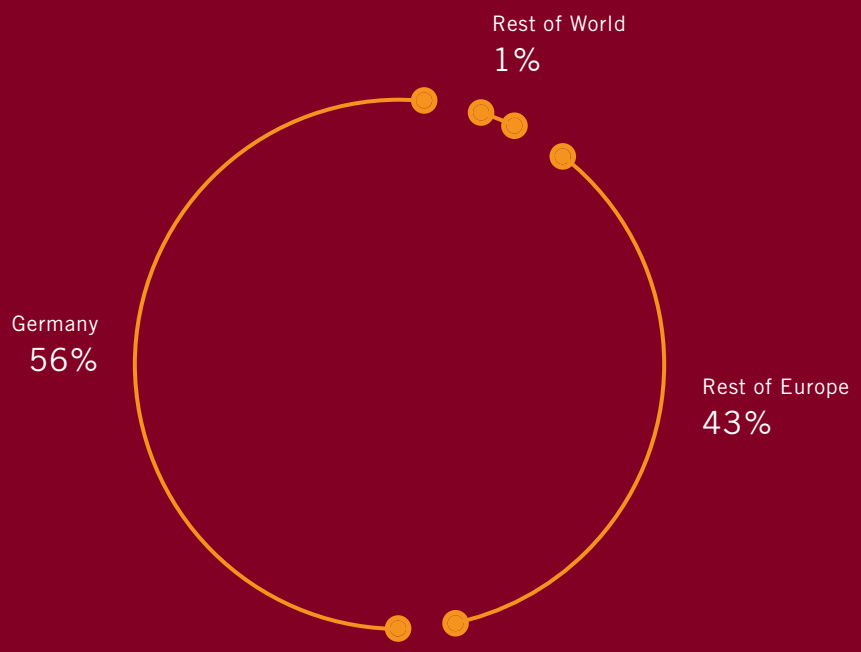
Excluding this one-time effect on results, however, the division was also able to achieve gratifying gains in performance. The Group companies profited especially from the excellent positioning on the Eastern European growth markets, as well as from leading technology know-how in emulsion technology.

While the course of business still ran a very modest course against the backdrop of the persisting recession on the construction market, activities in Eastern Europe were expanded. Here, the focus was also on new regional markets, on which the Group had not been active to date. Moreover, additional product volumes were sold in connection with tunnel projects in the Alpine regions.

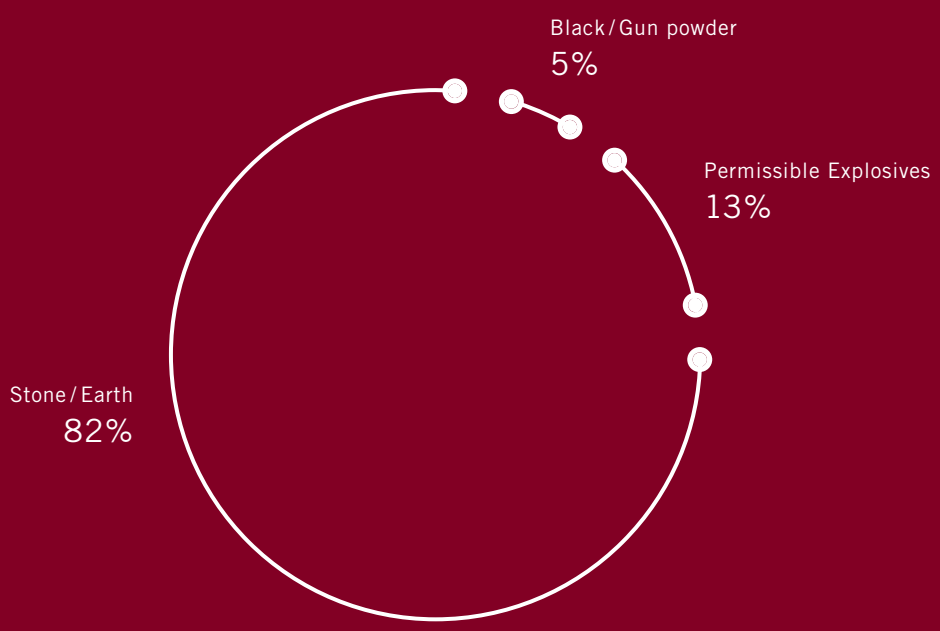
Sales and income

	2005	*2004*	*Changes, %*
(€ m)			
Net sales	55.1	53.1	+4
Operating income (EBITDA)	8.5	7.0	+21
(% from net sales)	15.4	13.2	+2.2%-Pts.
Income before income taxes	4.0	1.1	+264
(% from net sales)	7.3	2.1	+5.2%-Pts.

Sales by geographical area
(%)



Sales by product groups
(%)



The services portfolio was expanded in all regional markets. In addition to explosives and the relevant ancillary products, the division also succeeded in placing more drilling and blasting services with customers. In this context the Group companies take over all of the respective activities and work at client mines and quarries as well as at tunnel construction sites. Starting with planning and measuring, this extends all the way through to the preparation work and conducting the actual blasting.

Once again, an increased volume of modern pump emulsions was deployed here. The application of these products enables customers to achieve considerable efficiency gains. In this area the Group has repeatedly developed innovations over the past years that have continuously expanded the utilization scope of this safe explosive.

In the fourth quarter of 2005, the exclusive supply agreements involving so-called safety explosives for the German hard coal mines was successfully extended for an additional five years. A leading position is held thanks to the quality and safety characteristics of this explosive, also over and beyond Europe.

Activities in the production of black powder continued to develop along relatively low-key lines. Competitive pressure exerted by rising imports from the Far East is persisting and placing domestic fireworks customers under pressure. By contrast, export business recorded sales growth.

The takeover of Sprengstoffwerke Gnaschnitz that had already been initiated in 2004 was concluded towards the end of the year. The integration of the company was delayed due to a protracted procedure imposed by the Federal Antitrust Authorities that only granted approval of the merger in connection with conditions and obligations. The latter consisted mainly of the disposal of sales locations. Subsequent to the fulfillment of these obligations the new company was consolidated as of December 31, 2005, and consequently, there are no ensuing sales and earnings effects for the past business year.

Following the conclusion of the takeover, a new organization in terms of corporate structure within the division was already initiated in the fourth quarter of 2005. The German production locations will be bundled in a single company, ensuring the optimal coordination of all production activities.

The research and development activities conducted in the 2005 business year were concentrated on expanding the leading technology position in the emulsion explosives area. Here, activities were focused on the optimization of formulas of liquid emulsions for utilization in mining, as well as the further development of cartridged emulsions offering enhanced temperature stability.

The preparations for the exploitation of the extensive quartz sand deposits on the site of a subsidiary in Haltern were also advanced in 2005. The general framework operations plan necessary for the exploitation will be submitted to the respective authorities in the summer of 2006. The winning of quartz sand is scheduled to commence in 2007.

Financial position

Operating cash flow on the previous year's level

The burdens caused by the developments in raw material prices also impacted the Group statement of cash flows. In spite of the increase in trade receivables, as well as rises in inventory, operating cash flow (inflow of funds from ongoing, current business activities) stood at € 20.5 million (2004: € 19.4 million) and exeeded the level of the previous year.

However, the generated cash flow did not suffice to fully cover the investments undertaken. All in all, the out-flow of capital resulting from investments throughout the Group amounted to € -34.2 million (2004: € -107.3 million). At some € 26.9 million (2004: € 20.0 million) the investments in fixed assets were considerable above the previous year. In addition, there were € 12.3 million for the acquisition of companies (2004: € -82.5 million), comprising the takeover of Sprengstoffwerke Gnaschwitz as well as the Australian ExxonMobil activities.

The most significant individual item in terms of investments in fixed assets involved the expansion of the extraction unit for the production of softening agents in Hamburg. The products following in terms of value, namely the takeover of vaseline production in South Africa and the modernization of the blending and filling facilities in Salzbergen, are assigned to the Chemical Pharmaceutical Raw Materials Division. All in all, the division invested € 17.9 million (2004: € 14.9 million) in fixed assets. In 2005, the Plastics Division committed investments to

Cash flow (summary)

	2005	*2004*
(€ m)		
Cash flow from operating activities	20.5	19.4
Cash flow from investing activities	-34.2	-107.3
Cash flow from financing activities	9.4	95.0
Cash and cash equivalents as of Dec. 31	13.8	17.9

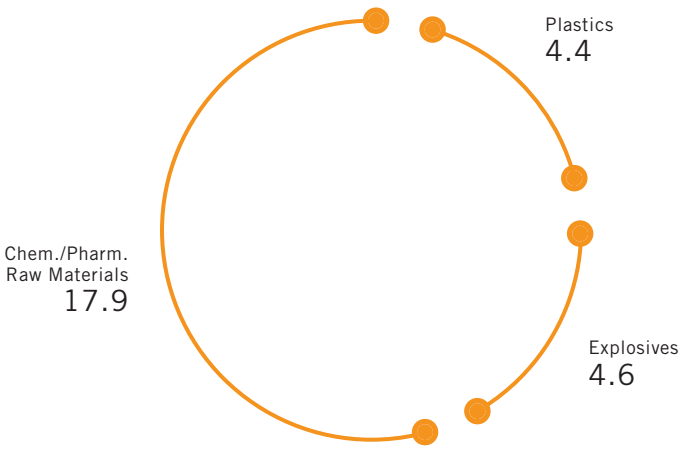
the replacement and expansion of equipment and machinery totaling € 4.4 million (2004: € 1.3 million). The Explosives Division invested € 4.6 million (2004: € 3.8 million). The major share was put down for the purchase of drilling equipment and the expansion of production facilities.

In order to cover the increased financing requirements, the Group drew on a rising volume of bank loans. In this context, the capital inflow from financing activities stood at € 9.4 million (2004: € 95.0 million).

All in all, cash in hand and liquid assets changed by € -4.3 million in the course of the year (2004: € 7.1 million) and stood at € 13.8 million as of balance sheet cut-off date (December 31, 2004: € 17.9 million), with additional consideration given to the adjustment resulting from changes in the consolidated Group.

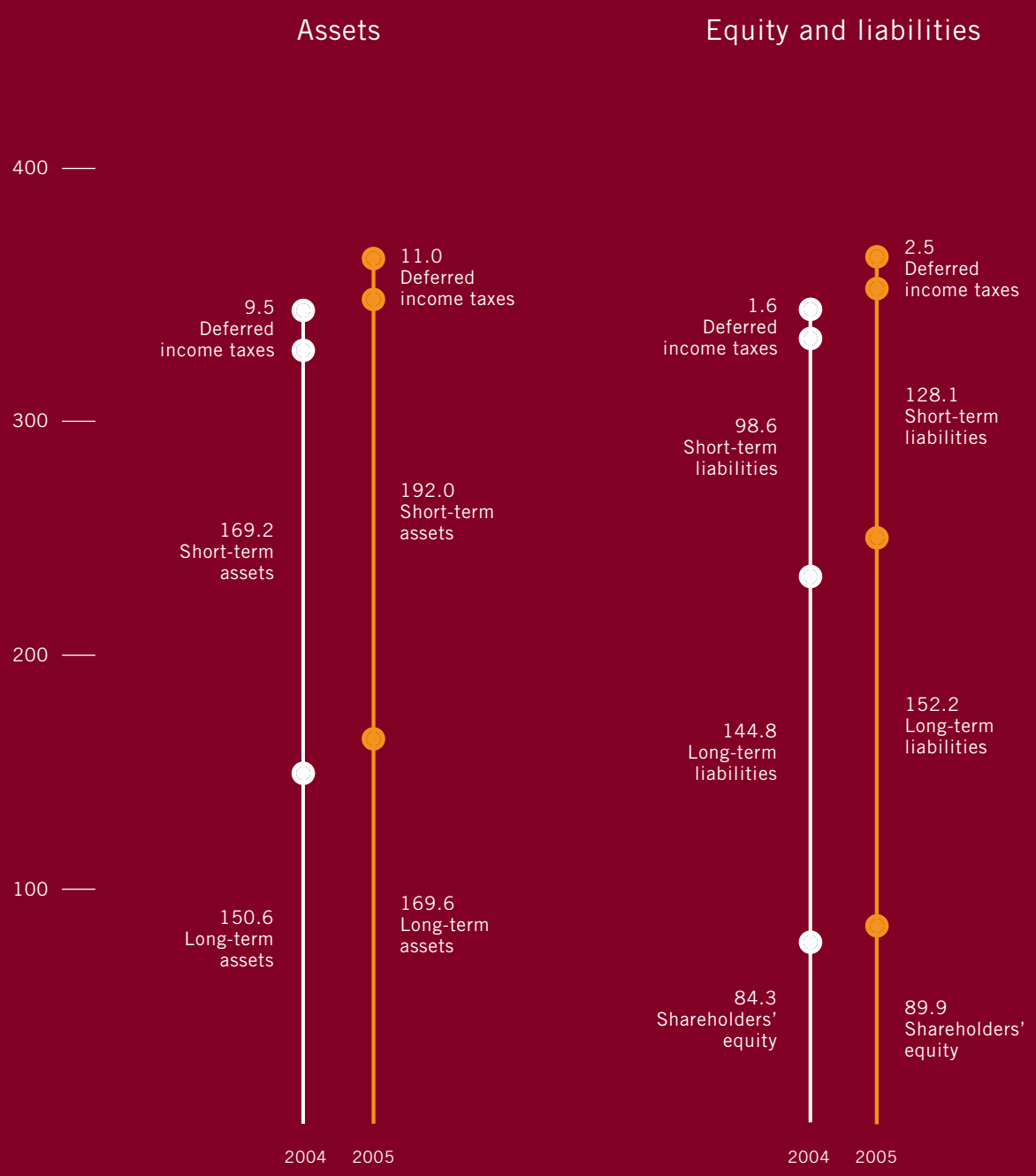
Investments by divisions

(€ m)



Balance sheet of H&R WASAG Group

(as of Dec. 31, € m)



Balance sheet total expands once again

Also in 2005 the strong growth of the corporation resulted once again in an increase of the balance sheet total. At € 372.6 million (December 31, 2004: € 329.3 million) the sum of assets as per December 31, 2005 was 13% above the previous year's figure.

The main reason for this growth was primarily the strong increase of the working capital within the Group. Both the trade receivables as well as the inventories have risen in connection with the developments in raw materials prices and sales prices. Together, both items add up to € 167.7 million (December 31, 2004: € 137.2 million) which represents by far the major share of short-term assets.

With regard to long-term assets, fixed assets increased to a current € 103.9 million (December 31, 2004: € 88.8 million) in connection with the extensive investment activities. Due to the acquisition of companies, goodwill also rose and stood at € 49.9 million on balance sheet cut-off date (December 31, 2004: € 44.2 million).

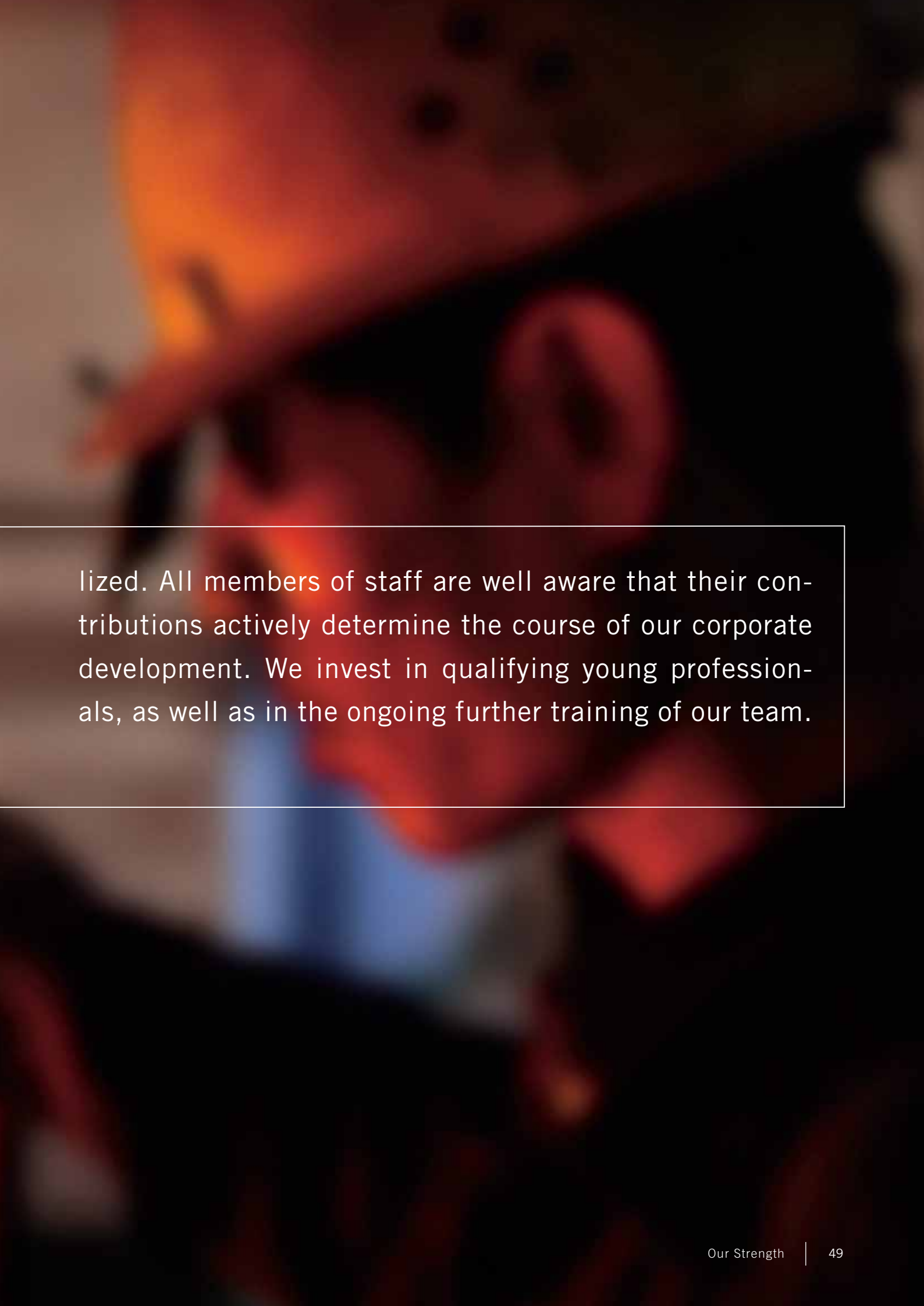
The liabilities are mainly determined by the financing of the higher volume of working capital. Short-term as well as long-term liabilities have both moved up accordingly and amounted to € 135.8 million as of December 31, 2005 (December 31, 2004: € 117.8 million). In order to reduce the interst expenditure, the financial instrument of factoring (sale of receivables) was applied involving a volume of € 14.5 million. Factoring in liquid assets, as of balance sheet cut-off date the net finance debt had increased to € 122.1 million (December 31, 2004: € 99.9 million), marking a rise over the prior year's figure.

Due to the increased net profit for the year, equity capital moved up to € 89.9 million (December 31, 2004: € 84.3 million) and thereby reached a share of 24% (December 31, 2004: 26%). According to the first-time application of IAS 27.33, the minority participations are stated under equity capital.

The net debt-equity ratio, or net gearing, (ratio of net interest-bearing debt to equity capital) moved up to 136% (December 31, 2004: 119%). As per December 31, 2005, the Group's equity capital covered 50% (December 31, 2004: 53%) of the long-term assets.

Our people

Our people hold the decisive know-how, and their dedication and performance determine the success of the Group. As an attractive employer with a keen sense of responsibility, we are creating an environment for excellence and top performance. Our flat organization is highly decentra-



lized. All members of staff are well aware that their contributions actively determine the course of our corporate development. We invest in qualifying young professionals, as well as in the ongoing further training of our team.

Personnel

Workforce continues to grow

As of December 31, 2005 the number of employees active across the Group stood at 1,811, following on 1,634 members of staff at the same date the prior year. The increase is mainly attributable to the consolidation of Sprengstoffwerke Gnaschwitz.

As of the balance sheet cut-off date, the subsidiaries of the Chemical Pharmaceutical Raw Materials Division employed 766 members of staff (December 31, 2004: 785 employees) and thereby account for major share of the workforce.

The reduction in the number of employees is the result of the new structuring of the Group-wide IT activities, which had been assigned to the division to date, and were integrated into an independent company in the course of the year. The aim of the new organization is to achieve an even more efficient deployment of IT resources and services within the Group.

Due to the commissioning of the new production location in China, the workforce at the Plastics Division increased to 399 members of staff (December 31, 2004: 358).

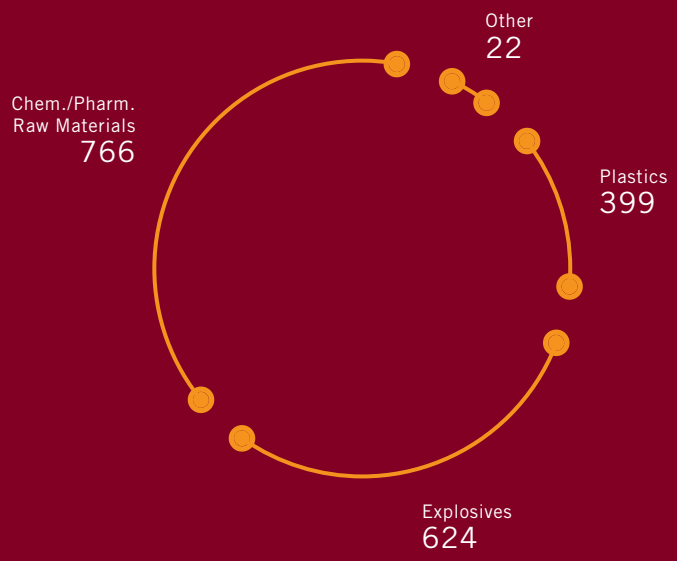
In connection with the first-time consolidation of Sprengstoffwerke Gnaschwitz, the number of employees active at the Explosives Division rose to 624 (December 31, 2004: 486).

In the holding area, which comprises the staff of H&R WASAG AG, as well as the IT activities, 22 employees were active as of the balance sheet reference date.

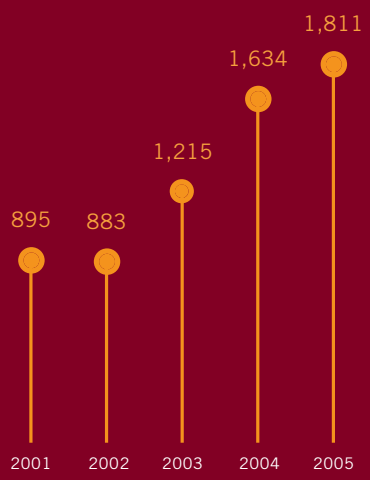
All in all, the number of staff active abroad increased to 502 as of December 31, 2005 (December 31, 2004: 405).

As of December 31, 2005 70 (December 31, 2004: 66) young people were trained within the group.

Employees by divisions
(as of Dec 31, 2005)



Employees
(2001 - 2005)



Risk management

Strategic orientation offers extensive opportunities

The H&R WASAG Group is favorably positioned as market leader in earnings-strong niches. The leading know-how in the development and production of specialty products enables further growth and the consistent, ongoing enhancement of corporate value.

Key opportunities for future development will result primarily from the advancing globalization of corporate activities through organic growth and acquisitions. The market and production strategies realized in core regions can be extended to new markets and regions, in order to open up additional earnings potential. In this context, the Group intends to profit from the continuing trend of large-scale corporations divesting their niche activities in order to concentrate on their core business.

By strengthening the Group's core areas, it will in turn be possible to generate extensive synergies. The conceived and successfully advanced Project 18 following on the acquisition of the BP activities aptly documents the earnings potentials that can be generated by the takeover of new activities.

Risk awareness sharpened

The balancing and reconciliation of growth and earnings opportunities on the one hand, as well as the risks impacting the earnings, financial and assets situation on the other is an integrated part of the Group strategy and value-oriented corporate management.

A risk management system that has been implemented in key Group companies enables the systematic identification and evaluation of risks. This process is supported by comprehensive information and finance reporting that furnishes the foundation of monthly analyses of budgeted and actual figures and status. In addition, regularly convened management and strategy meetings form key elements of the risk management policy.

The identified risks are evaluated in terms of their probability of occurrence and the anticipated volume of damage that can be determined by the analysis of event and progression scenarios. This yields the so-called value-at-risk, i.e. the individual assessment of a risk from a financial standpoint.

Risks are subdivided into the following groups: strategic risks, value creation risks, market risks, financial and currency risks, personnel risk as well as legal risks and environmental risks.

Raw materials markets hold considerable risks

The earnings and financial situation of the Group is considerably impacted by price developments on the raw materials markets. Especially in refinery production activities in the largest division, the Chemical Pharmaceutical Raw Materials Division, rapid price hikes in processed crude oil derivatives cannot be promptly passed on to the markets. This is to be understood against the background of the price agreements in place with customers that are valid for a fixed period of time, which usually comprises three months.

In addition to the individual supply and demand situation on the procurement markets, the raw materials prices are mainly determined by the development in crude oil prices and the US$/Euro currency relation. Sudden leaps in crude oil prices or an incremental devaluation of the euro over the US$ depreciate the gross yield margin. This results in so-called windfall losses, which, in ideal cases, can be offset by windfall profits when the adjustment of sales prices is followed by a reverse movement on the raw materials markets. In 2005, the expenditures on raw materials for refinery production operations increased by a total of € 101.7 million due to the rises in crude oil prices and the currency relations. These additional expenditures could only be passed on to the markets at a certain time delay.

In addition to the negative effects on the earnings situation, rapid hikes in raw materials expenditures also results in an increase in the inventory levels tied up at the company and the volume of trade receivables. This is associated with increased liquidity requirements, which in most instances has to be covered by taking on bank loans.

The Group counters these risks by diversifying its activities. Already within the Chemical Pharmaceutical Raw Materials Division a substantial share of sales is already being generated outside of the conventional refinery production operations, which contributes to stabilizing the development in results in connection with volatile procurement markets. These activities consist primarily in the regional distribution of production and sales activities. The strengthening of global presence results in a rising degree of independence from the procurement situation at the two German refineries, as the overseas locations are also capable sourcing their requirements locally.

In addition, the continuous expansion of the service business in the blending and filling of lubricants also contributes to the stabilization of the result situation.

The Group's development in the past two years has demonstrated that H&R WASAG AG is very capable of compensating the burdens resulting from extreme hikes in raw materials prices. Over and beyond this situation, the planned expansion of overseas activities and the services portfolio will further reduce this division's exposure to the volatility of the crude oil and currency markets over the next years.

Activities in the Explosives Division are also determined by the individual procurement markets. Here, the availability and price developments of the raw material ammonium nitrate and of detonators impact the segment's result. In view of the significance of this division on the European explosives market the buying conditions have consistently improved.

With the conclusion of the takeover of Sprengstoffwerke Gnaschwitz in 2005, the positioning of the Explosives Division has improved once again by a considerable measure. In future, the division will continue to extend its market position in Europe by the targeted expansion of activities, especially on the higher growth markets in Eastern Europe.

Monitoring of personnel and project risks

Securing an individual wage and salary policy is another risk area. Several Group companies have an innovative profit participation scheme in place, according to which employees benefit from a fixed share of company profits. As wages and salaries are not linked to the industry-wide collectively bargained wages, personnel expenditures are partially flexible and enable the corporation to buffer burdens on performance. In future, this model is to be transferred to additional Group locations.

A return to industry-wide collectively bargained wages or the failure of the planned transfer of the profit participation model to other Group companies could result in personnel expenditures rising over the long term that would reduce earnings strength. The transfer options are currently being discussed in cooperation with the works councils of the individual Group companies and the respective unions.

The future earnings development of the Chemical Pharmaceutical Raw Materials Division is strongly dependent on the realization of the so-called Project 18, as well as sales of the new plasticizers products. The failure to attain the planned targets may result in a loss of profit contributions. The developments evident to date, however, would indicate that the anticipations would tend to be exceeded in a positive sense.

The Group-wide introduction of new ERP software has been planned and budgeted with a project duration of up to the year 2009. In connection with this conversion and the new organization of IT, activities risks arise that relate to the availability and functional capabilities of the IT systems, as well as the costs involved in the implementation of the project.

In the case of individual Group companies there are dependencies on large-scale customers accounting for more than 10% of the company's sales. In most instances, however, the respective customer relations comprise joint research and development activities, which favor the continuation of business relations over the long term. In addition, the expansion of the customer base is being advanced in a dynamic manner.

The Chemical Pharmaceutical Raw Materials Division sells the major share of the specialty products produced at the two refineries via external sales companies, which are active under the umbrella of the Hansen & Rosenthal Group. For further details on this please refer to the notes to the Group accounts.

Due to the presence of the Plastics Division in China in connection with a joint venture, there is the risk of know-how losses to competitors. Consequently, the Group continues to maintain the focus of know-how intensive development work, and the tool-making operations essential for realizing technology leadership in Germany. Moreover, key positions within the joint venture are staffed by Group employees.

By relocating activities to China, the Group expects to improve profitability over the medium term. On the one

hand, cost advantages can be utilized. On the other hand, the Chinese and Southeast Asian markets offer promising perspectives for expanding activities to new customer groups and markets.

Financial risks restricted

Foreign currency risks mainly impact the procurement in the Chemical Pharmaceutical Raw Materials Division, as well as the conversion of items on the balance sheet and the profit and loss account from Group companies outside of the euro-zone to the euro as the reporting currency.

Against the backdrop of the fundamental long-term conception of activities the conversion risk is negligible, but may result in fluctuations in results over the short term. Moreover, the conversion of net assets items may also incur temporary effects on Group equity.

The existing dependence of liquidity requirements on the development of raw material markets results in high volatility in this area. In order to keep the scope for action flexible, also under extreme burdens, the Group has arranged comprehensive credit facilities with a bank consortium that would also be sufficient to cope with further, substantial rises in the raw materials price levels. In addition, H&R WASAG AG would be able to generate a flow of capital to finance additional growth by issuing new shares.

Interest risks arise in connection with the bank loans taken out. In the majority of instances the respective interest payments are linked to Euribor. A rise in general interest levels would imply higher interest expenditures. Certain tranches of the consortium loans have already been backed by interest hedging transactions. The conclusion of additional hedging and safeguarding measures is in planning.

Moreover, the development of key Group figures determines the volume of interest margins. A disadvantageous development in the earnings situation or the structure of own funds would consequently result in higher interest burdens.

Declaration regarding affiliated companies

The Executive 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 2005:

"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."

Dynamics

The H&R WASAG Group is characterized by continuous change and dynamic growth. In pursuing our course of active change we are responding to the constant evolution and further devlopments of the markets. Our benchmarks today are set to the anticipated market conditions of tomorrow. We strive to actively shape and design the mar-

kets we operate in. Innovations are a driving force of our growth in established and new markets. Here, we are proceeding in close cooperation with our customers in order to develop the answers to the needs of tomorrow at the earliest possible stage.

Addendum and outlook

Events of particular significance for the earnings, financial and asset situation of the Group have not been recorded after the balance sheet reference date.

Development at the divisions

The new 2005 business year got off to a good start. By comparison with the previous months the situation on the crude oil markets has been increasingly relaxed. Prices tend to still be characterized by high volatility, but on a more balanced level. The Chemical Pharmaceutical Raw Materials Division in particular is benefiting from these lateral movements. In the meantime it has been possible to adjust many sales prices to the higher levels in raw materials prices.

In the ongoing year the refinery capacities will be fully utilized for the first time. Against this backdrop, a capacity expansion program was launched at both the Salzbergen and Hamburg locations. The aim is to expand the identified bottleneck units and systems at the refineries by way of focused investments, and thereby increase the entire output once again.

The demand for the new plasticizers generation has also continued to increase. Many tire manufacturers are currently in the testing phase for formulas that will include the new product. In the course of the year, the Group plans to commence the production of these products in Southeast Asia as licensor. In order to be able to serve the globally active tire industry on a worldwide scale in future, the establishment of additional production facilities in other regions is currently in planning.

In the next years, the Group aims to expand overseas activities in a continuous ongoing manner. In this context, the acquisition of existing activities of other providers and market players is also conceivable. The trend of especially the major mineral oil corporations discontinuing and divesting their specialty business remains unbroken.

Also in the ongoing year the Project 18 will be generating additional performance effects. According to planning, an additional earnings potential of € 12 million will be achieved over 2004, of which € 6.6 million have already been notched up in 2005.

All in all, the aim is to further reduce the dependence of the results of the Chemical Pharmaceutical Raw Materials Division on crude oil and materials prices in 2006 and the upcoming years. This will be achieved by strengthening the overseas regions as well as by expanding services business involved with the blending and filling of lubricants.

In the Plastics Division the innovative activities in the new markets were also successfully advanced in the first months of 2006. The realization of technology leadership in new products and application areas is geared to once again improving the profitability of activities over the medium term. Moreover, the aim is also to improve the cost situation.

The internationalization that had commenced last year with the commissioning of production activities in China will be continued. The focus here will be on Eastern Europe and the NAFTA region.

At the beginning of the year the Explosives Division reflected the usual developments typical of the branch. Due to seasonal factors, the demand for products and services declines, as many of the quarries do not conduct any work involving explosives.

Following the integration of Sprengstoffwerke Gnaschwitz the focus in the current year will be on the optimization of production and sales activities that have already been initiated in connection with the new organization in terms of company structure.

Moreover, the division is called on to achieve a forward-looking, future-oriented positioning on a European explosives market that is undergoing considerable changes.

Considerable gains in earnings expected once again

Also in the ongoing year, the consolidated result is expected to increase once again by a marked measure. Based on the assumption that crude oil prices will develop in stable manner within a more or less balancing volatility bandwidth, and the US$/€ currency relation does not fluctuate too strongly, the Executive Board expects a pre-tax result of around € 30 million, in connection with increased sales in excess of € 700 million.

The medium term performance target is to attain a pre-tax profit on sales of 5%. On the basis of the ongoing growth and restructuring processes, this target figure is likely to be set at a higher level.

This report contains forward-looking, future oriented statements, i.e. information on events and processes that lie in the future. These statements are based on current expectations of the Executive Board on the basis of presently available information. The future developments and results are dependent on a multitude of factors and entail various risks and imponderables. Consequently, these forward looking, future oriented statements cannot be regarded in any way as furnishing a guarantee of the future developments and results stated therein.

Consolidated finanicial statements for the fiscal year ended December 31, 2005

H&R Wasag AG, Salzbergen

Consolidated balance sheet
as of December 31, 2005 (IFRS)

Assets

	Notes	Dec. 31, 2005 T€	Dec. 31, 2004 T€
Cash and cash equivalents	1	13,773	17,880
Marketable securities		506	457
Trade accounts receivable	2	74,549	68,798
Receivables due from participation companies	3	3,097	3,634
Income tax claims		2,678	1,772
Inventories	4	93,110	68,423
Short-term prepaid expenses and other short-term assets	5	4,272	8,266
Short-term assets		**191,985**	**169,230**
Property, plant and equipment / Fixed assets	6	103,862	88,777
Intangible assets	7	605	1,004
Goodwill	8	49,871	44,157
Shares in at-equity reported shareholdings	9	428	717
Other financial assets	9	7,321	7,738
Long-term prepaid expenses and other long-term assets	10	7,545	8,236
Deferred income taxes	11	11,009	9,478
Long-term assets		**180,641**	**160,107**
Total Assets		**372,626**	**329,337**

Equity and liabilities

	Notes	Dec. 31, 2005 T€	Dec. 31, 2004 T€
Short-term debt and current portion of long-term debt	12	44,319	32,859
Trade accounts payable	13	34,376	28,297
Receivables from companies in which there is a participating interest	14	146	11
Advanced payments received		225	19
Income tax liabilities		4,961	2,055
Short-term provisions	15	32,227	23,323
Other short-term liabilities	16	11,695	11,939
Short-term deferred income	17	127	116
Short-term liabilities		**128,076**	**98,619**
Trade accounts payable		0	155
Long-term debt	18	91,520	84,938
Pension provisions	19	50,844	50,837
Other long-term provisions	20	8,847	8,433
Other long-term liabilities		519	0
Long-term deferred income	21	497	477
Defferred income taxes	11	2,471	1,551
Long-term liablities		**154,698**	**146,391**
Subscribed capital	22	48,358	48,358
Capital reserve	23	2,823	2,823
Other reserves	24	14,559	14,676
Consolidated retained earnings	25	19,618	14,826
Foreign currency translation adjustments		1,374	-189
Minority interests	26	3,120	3,833
Shareholders' equity		**89,852**	**84,327**
Total Shareholders' equity and liabilities		**372,626**	**329,337**

Consolidated income statement

for the fiscal year ended December 31, 2005

	Notes	*2005* *T€*	*2004* *T€*
Net sales	29	**650,073**	**497,069**
Other operating income	30	25,953	18,900
Changes in inventories of finished goods and work in progress		7,644	-221
Production of own fixed assets capitalized		604	343
Material costs	31	-471,550	-333,509
a) Raw materials and supplies		-449,159	-314,339
b) Purchased services		-22,391	-19,170
Personnel expenses	32	-78,409	-69,949
a) Wages and salaries		-65,774	-57,054
b) Social security payments and expenses for pensions and for support		-12,635	-12,895
Depreciation and amortization		-16,075	-13,714
Amortization of goodwill	8	-882	-2,724
Other operating expenses	33	-88,509	-78,312
Other taxes	34	-1,046	-1,411
Income from operations		**27,803**	**16,472**
Net interest result	35	-8,435	-6,632
Result of at-equity reported shareholdings		149	0
Other income and expenses		39	4
Income before income taxes and minority interests		**19,556**	**9,844**
Taxes on earnings and income	36	-8,063	-2,332
Income before minority interests		**11,493**	**7,512**
Minority interests		-1,026	-987
Net income		**10,467**	**6,525**
Basic earnings per share	37	€ 0.55	€ 0.34
Diluted earnings per share	37	€ 0.55	€ 0.34

Consolidated cash flow statement

for the fiscal year ended December 31, 2005

			2005 T€	2004 T€
1.		**Income before income taxes, minority interests and interest result**	**27,991**	**16,477**
2.	+/-	Depreciation of fixed assets	16,957	15,715
3.	+/-	Changes in long-term provisions	-2,986	3,592
4.	+/-	Net interest result	-5,908	-443
5.	+/-	Income taxes	-1,500	-8,403
6.	+/-	Other non-cash expenses and income	--	240
7.	+/-	Changes in short-term provisions	6,871	3,208
8.	-/+	Result from disposals of fixed assets	-3,932	1
9.	-/+	Changes in inventories and trade receivables and other assets not attributable to investing or financing activities	-20,196	-33,448
10.	+/-	Changes in trade payables and other liabilities not attributable to investing or financing activities	3,197	22,491
11.	**=**	**Cash flow from operating activities** (Sum of 1 to 10)	**20,494**	**19,430**
12.	-	Acquisitions (asset deal + share deal)	-12,349	-82,531
13.	+	Proceeds from disposals of property, plant and equipment	7,286	775
14.	-	Capital expenditures for property, plant and equipment	-26,863	-20,018
15.	+	Proceeds from disposal of intangible assets	--	1
16.	-	Capital expenditures for intangible assets	-3,601	-1,570
17.	+	Proceeds from disposals of financial assets	600	45
18.	-	Capital expenditures for finanical assets	--	-537
19.		Currency conversion	710	-642
20.		Net interest result	--	-2,825
21.	**=**	**Cash flow from investing activities** (Sum 12. to 20.)	**-34,217**	**-107,302**
22.	-	Payment of H&R WASAG dividend	-5,675	-5,675
23.	+	Proceeds/expenditures by minority shareholders'	-1,918	1,128
24.	-	Repayment of financial liabilities	-17,752	-18,407
25.	+	Proceeds from financial liabilities	34,767	117,952
26.	**=**	**Cash flow from financing activities** (Sum 22. to 25.)	**9,422**	**94,998**
27.	+/-	Net change in cash and cash equivalents (Sum 11., 21., 26.)	-4,301	7,125
28.	+	Cash and cash equivalents at the beginning of year	17,880	10,755
29.	+	Change to group of consolidated companies	194	--
30.	**=**	**Cash and cash equivalents (short and long-term)**	**13,773**	**17,880**

Consolidated statement of changes in shareholders' equity

for the fiscal year ended December 31, 2005

2005

	Subscribed capital T€	*Capital reserves T€*	*Valuation of financial assets T€*	*Retained earnings T€*	*Accumu-lated profit/loss T€*	*Foreign currency translation adjust-ments T€*	*Minority interests T€*	*Total T€*
As of Dec. 31, 2004	**48,358**	**2,823**	**62**	**14,614**	**14,826**	**- 189**	**3,833**	**84,327**
Foreign currency trans-lation adjustments	--	--	--	--	--	1,563	180	1,743
Valuation of financial assets	--	--	-117	--	--	--	--	-117
Disposals	--	--	--	--	--	--	- 34	-34
Net income	--	--	--	--	10,467	--	1,026	11,493
Dividends	--	--	--	--	-5,675	--	-1,885	-7,560
As of Dec. 31, 2005	**48,358**	**2,823**	**-55**	**14,614**	**19,618**	**1,374**	**3,120**	**89,852**

2004

	Subscribed capital T€	*Capital reserves T€*	*Valuation of financial assets T€*	*Retained earnings T€*	*Accumu-lated profit/loss T€*	*Foreign currency translation adjust-ments T€*	*Minority interests T€*	*Total T€*
As of Dec. 31, 2003	**48,358**	**2,823**	**62**	**14,614**	**13,823**	**-276**	**1,718**	**81,122**
Dividends	--	--	--	--	-5,675	--	-160	-5,835
Valuation of financial assets	--	--	0	--	--	--	-- --	0
Foreign currency trans-lation adjustments	--	--	--	--	153	87	--	240
Net income	--	--	--	--	6,525	--	987	7,512
Additions from first-time consolidation	--	--	--	--	--	--	1,280	1,280
Transfer of loan into capital	--	--	--	--	--	--	8	8
As of Dec. 31, 2004	**48,358**	**2,823**	**62**	**14,614**	**14,826**	**- 189**	**3,833**	**84,327**

Notes to the consolidated financial statements

as of December 31, 2005 (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 have been prepared in accordance with IFRS, as applied in the EU, and the applicable rules as set out in § 315a paragraph 1 of the German Commercial Code (HGB). The consolidated financial statements also correspond to all IFRS rules that came into force up to and including the reporting date.

To the extent that revised or new IASB standards are compulsory from January 1, 2006, they have not been voluntarily used in advance.

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

The consolidated financial statements for 2005 were prepared in Euros (€). All the values shown are in thousands of Euros (T€) unless specified otherwise.

These financial statements refer to the 2005 financial year (January 1 to December 31).

Change in accounting and valuation methods

The International Accounting Standards Board (IASB) has adopted a series of modifications to the existing International Financial Reporting Standards (IFRS) as well as some new IFRS, whose application becomes mandatory from January 1, 2005.

The following IFRS are being applied for the first time in the reporting year in the H&R WASAG Group.

IAS 1 (2003) "Presentation of financial statements"
IAS 2 (2003) "Inventories"
IAS 8 (2003) "Accounting policies, changes in accounting estimates and errors"
IAS 10 (2003) "Events after the balance sheet date"

IAS 16 (2003) "Property, plant and equipment"
IAS 17 (2003) "Leases"
IAS 21 (2003) "The effects of changes in foreign exchange rates"
IAS 24 (2003) "Related party disclosures"
IAS 27 (2003) "Consolidated and separate financial statements"
IAS 28 (2003) "Investments in associated companies"
IAS 32 (2003) "Financial instruments: disclosure and presentation"
IAS 33 (2003) "Earnings per share"
IAS 39 (2004) "Financial instruments: recognition and measurement"
IFRS 5 "Non-current assets held for sale and discontinued operations"

The first time application of the above-mentioned IFRS has primarily have the following effects on the H&R WASAG Group financial statements as of December 31, 2005:

IAS 1 (2003) concerns the presentation of the financial statements. As a matter of principle, deferred taxes must be presented in the balance sheet as long-term; both assets-side and liabilities-side deferred taxes are reported under the items "long-term assets" and "long-term liabilities".

For reasons of clarity, income tax claims and income tax liabilities are reported separately. In the income statement, earnings from at-equity capitalized shareholdings are reported separately from other shareholding earnings. Financial income is presented separately from financial expenses.

Accounting treatment of CO_2 emissions trading rights. Since January 1, 2005 the H&R WASAG Group has been subject to the European emissions trading system. As part of the system, the affected companies received CO_2 emissions trading rights, which must be returned to the relevant authority within four months following the end of a calendar year, corresponding to the actual CO_2 output of the year. If actual CO_2 emissions exceed the allocated rights per year, the missing rights need to be purchased.

In the consolidated financial statements, CO_2 rights are reported as short-term intangible assets at historical costs, and rights acquired free of charge are reported at a value of € 1.00. A provision is created to reflect the obligation to return the emissions rights, which are valued using the book value of the capitalized CO_2 rights. If a portion of the obligation is not covered by available rights, the provision of this portion of the obligation is valued using the market price of the rights on the reporting date.

In accordance with IAS 27.33, claims of minority shareholders are now entered as a separate item within equity. The figures from the previous year were adapted correspondingly.

The other modifications resulting from new or reviewed standards led to no material changes compared with the previous year.

New accounting regulations

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have adopted further standards and interpretations that are not yet mandatory for the 2005 financial year. They were not applied prematurely by the H&R WASAG Group. The H&R WASAG Group does not expect any major effects on the consolidated financial statements to emerge from the application of these rules.

These IFRS will not be applicable until the EU gives them full recognition, which is still outstanding.

– IFRS 6 "Exploration for and evaluation of mineral resources" is implemented for financial years that begin on or after January 1, 2006.

– In IFRS 7 "Financial instruments: disclosures" and the new rules in IAS 1 are implemented for financial years that begin on or after January 1, 2007.

– IAS 19 Modification (2004) "Actuarial gains and losses, group plans and disclosures" is implemented for financial years that begin on or after January 1, 2006.

– IFRIC 4 "Determining whether an arrangement contains a lease" is applied for financial years that commence on or after January 1, 2006.

– IFRIC 5 "Right to interests arising from decommissioning, restoration and environmental funds" is implemented for financial years that begin on or after January 1, 2006.

– IFRIC 6 "Liabilities arising from participating in a specific market - waste electrical and electronic equipment" is implemented for financial years that begin on or after December 1, 2005.

– IFRIC 7 "Applying the restatement approach under IAS 29 financial reporting in hyperinflationary economies" is implemented for financial years that begin on or after March 1, 2006.

– The IASB has adopted further amendments to IAS 39 (fiar value option, cashflow hedge accounting, financial guarantee contracts) that will be applied for financial years that commence on or after January 1, 2006.

Consolidation methods

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

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

Associated companies are reported according to the equity method. Four companies were treated by this method in the financial year 2005. In accordance with IAS 39, other shareholdings are reported at market value or at historical costs if a market value can not be obtained.

Group of consolidated companies

A total of 25 domestic subsidiaries and 25 foreign subsidiaries were fully consolidated in the consolidated financial statements as of December 31, 2005.

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, United Kingdom,

– H&R European Special Products Sales Limited, Milton Keynes, United Kingdom and
– H&R European Special Products Tipton Limited, Milton Keynes, United Kingdom.

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

Acquisitions

In 2005 financial year, the following subsidiaries were acquired or founded:

– Sprengstoffwerk Gnaschwitz GmbH, Schlungwitz (acquisition)
– Allmex AB, Karlstadt, Sweden (acquisition)
– WASAGCHEMIE Marketing GmbH, Hamburg (startup)
– H&R ChemPharm (UK) Ltd., Milton Keynes, United Kingdom (startup)

The acquisition for the shares in Sprengstoffwerk Gnaschwitz GmbH, Schlungwitz includes also its subsidiaries Allmex AB, Karlstadt, Sweden.

	Percentage of shares acquired	*Company activity*	*Time of realisation of merger*
Company			
Sprengstoffwerk Gnaschwitz GmbH, Schlungwitz	100%	Development production and sales of civil explosives	31.12.2005
Allmex AB, Karlstadt	100%	Sales of civil explosives	31.12.2005

The acquisition of Sprengstoffwerk Gnaschwitz GmbH, Schlungwitz was approved by the Federal Cartel Office on June 2, 2005. However, the decision was tied to conditions that were not fulfilled until December 2005, so that Sprengstoffwerke Gnaschwitz GmbH was not consolidated for the first time until December 31, 2005.

Furthermore in Australia activities in the field of specialty refinery products were acquired from ExxonMobil as part of a asset deal.

The purchase price for the acquisitions amounted to T€ 12,744.

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

	T€
Balance sheet	
Liquid assets	194
Receivables and other short-term assets	2,203
Inventories	3,298
Goodwill	4,148
Other assets	4,961
Deferred tax assets	2,926
Provisions	1,002
Liabilities	3,980
Deferred tax liabilities	4

Goodwill was calculated through comparing acquired assets and liabilities with the acquisition price.

There were no effects on the income statement since the first time consolidation of the companies acquired 2005 was carried out on December 31, 2005.

As part of the integration of all explosives activities of the H&R WASAG Group into one company, Sprengstoffwerk Gnaschwitz GmbH, Schlungwitz and Westspreng GmbH, Sprengstoff + Sprengtechnik, Finnentrop-Fretter were merged into WASAGCHEMIE Sythen GmbH, Haltern (new: Westspreng GmbH, Sprengstoffe + Sprengtechnik, Haltern).

Disposals

With effect from October 31, 2005, Nitrex S.r.k., Sirmione, Italy was sold at a disposal price of T€ 28. The company is active in the area of consulting and services. At the disposal, a terminal consolidation profit of T€ 0 resulted.

Consolidation methods

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

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

Capital consolidation

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

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

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

As the acquisition of various locations and companies from BP in 2004 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 balance resulted in goodwill of € 3 million).

Other consolidation methods

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

Currency conversion

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

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

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

	Balance sheet exchange rate 2005	*Balance sheet exchange rate 2004*	*Average exchange rate for year 2005*	*Average exchange rate for year 2004*
Australian dollars	1.6145	1.7489	1.6326	1.7176
British pound	0.6870	0.7071	0.6840	0.6787
Polish zloty	3.8686	4.0877	4.0321	4.5424
South African rand	7.4890	7.6793	7.9164	7.8147
Thai baht	48.6150	53.0750	50.0860	51.3387
Hungarian forint	252.6650	245.7750	248.0626	251.7900
US Dollar	1.1834	1.3640	1.2451	1.2434

Accounting and valuation methods

Liquid assets

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.

Trade receivables, receivables from companies with which a participation relationship exists

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

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

The H&R WASAG Group sells trade receivables with short-term maturities to banks on a revolving basis as part of a factoring agreement. The receivables are booked out as soon as the companies have transferred their contractual rights from the financial assets (equitable assignment) and essentially all opportunities and risks connected with the property have been transferred. Receivables amounting to € 14.5 million have been transferred as of December 31, 2005.

Inventories

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

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

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

Fixed assets

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

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

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

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

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

Borrowing costs

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

Leasing

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.

Goodwill as well as other 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 using the straight line method. Amortization of intangible assets, with the exception of goodwill, is carried out over three years using the straight line method. Long-lasting value impairments are reflected through extraordinary write-offs. If the reasons for unscheduled write-offs no longer apply, corresponding write-ups are applied.

In the instance of goodwill that arose before March 31, 2004, residual book values as of December 31, 2004 are used as historical costs. The intrinsic value of goodwill is reviewed annually by means of an impairment test according to IFRS 3.79. Goodwill is allocated to cash generating units. As a rule, a cash generating unit is formed by a segment as presented in the segmental reporting. In the case of the Chemical Pharmaceutical Raw Materials division, a further subdivision was carried out into the so-called "Old Area" and the business activities acquired from BP in 2004 as well as Paul Fütterer GmbH. The discounted cash flow method is used to calculate the achievable value of a cash generating unit. This method discounts cash flows on the basis of medium-term business planning.

Shares in at-equity reported shareholdings

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

Other financial assets

Other financial assets comprise other shareholdings, long-term investments and other loans.

Other shareholdings are shown at the cost of acquisition as it is not possible to determine a reliable market value, in accordance with IAS 39.

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.

Other 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.

Liabilities

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

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

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

Provisions

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

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

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

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

Pensions and similar obligations

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

Pension provisions are determined by the projected unit credit method for performance-related pension schemes in accordance with IAS 19, taking into account future movements in salaries. If the actuarial gains and losses resulting from the modification of the actuarial parameters exceed 10% of pension obligations at the start of the financial year, the amount exceeding the 10% limit is booked against income over the timeframe of the average residual service period of the active employees.

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

Minority interests

In accordance with IAS 27.33, minority interests are no longer reported as a separate item between equity and liabilities, but as a separate item within equity. The figures from the previous year were adapted correspondingly.

Profit and loss account

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

Realization of sales

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

Contributions and subsidies

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

Deferred taxes

Deferred taxes are taken into account in accordance with IAS 12 for temporary differences between the balance sheet valuations of assets and liabilities and their valuations in the tax balance sheet. They are determined by means of the liability method based on the balance sheet. Deferred tax assets 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 38.02% 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 1.70.

Contingent liabilities

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

Procedure for impairment tests worldwide

In accordance with IAS 36 (Impairment of assets) and IAS 38 (Intangible Assets), goodwill and intangible assets with an undetermined useful life are subject to an annual test for value impairment. If events or changes in circumstances occur, which indicate a potential impairment of value, the impairment test should also be carried out more frequently. Schedule depreciation of such intangible assets is not permitted.

As part of the impairment test of assets in the H&R WASAG Group, the residual book values of the individual cash generating units are compared with their relevant recoverable amounts, in other words, the higher of either the fair value less disposal costs or value in use.

As a rule, a cash generating unit is formed by a segment as presented in the segmental reporting. In the case of the Chemical Pharmaceutical Raw Materials division, a further subdivision was carried out into the so-called "Old Area" and the business activities acquired from BP in 2004 as well as Paul Fütterer GmbH.

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

When calculating the recoverable amount, the present value is based on future payments that can be expected on the basis of continued use. The forecast payments are based on current medium-term H&R WASAG Group budgets that cover a period of three years. The estimated cash flow series are discounted using a standard discount rate of 9%.

Discretionary decisions and estimates

The application of accounting methods entails discretionary decisions. In particular, this applies for the following circumstances:

– Financial assets should be allocated to the categories "Financial investments held until maturity", "Credits and receivables", "Financial assets available for disposal" and "Financial assets to be booked through income at fair value".

– For the valuation of pension provisions and similar obligations there are different ways to report actuarial gains and losses.

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

Estimates and assessments made by the Executive Board. The preparation of the consolidated financial statements according to IFRS requires that assumptions and estimates be made that affect the valuation of reported assets and liabilities, income and expenses as well as the disclosure of contingent liabilities.

Among other things, these assumptions and estimates relate to the reporting evaluation of provisions where the discount rate applied to pension provisions and similar obligations has a significant impact on the estimated value.

Furthermore, the impairment test for goodwill is based on key, future-related assumptions. From a current perspective, changes in these key assumptions will not lead the book values of the cash generating units to exceed their achievable value, which would lead to an adjustment of the book values in the coming financial year.

All assumptions and estimates are based on assessments of circumstances prevailing on the balance sheet reporting date. In addition, with respect to the expected future development of the business, the future development of the commercial environment in the sectors and regions in which the Group is active, which is regarded at this juncture as realistic, was taken into account. The actual outcomes of these amounts may differ from the estimated values as a result of developments of determining factors that deviate from these assumptions. In such instances, the assumptions and, if required, book values of the affected assets and liabilities are adjusted correspondingly.

At the time of the preparation of the consolidated financial statements, no significant modification of the underlying assumptions and estimates are expected, so that, from the current perspective, no major adjustments of the book values of the reported assets and liabilities are to be expected in the 2006 financial year.

Other disclosures

Reporting of financial instruments

The financial instruments include both original and derivative financial instruments.

The original financial instruments comprise on the assets side primarily other financial investments, receivables, short-term securities as well as cash and cash equivalents. Financial assets available for disposal are reported at fair value. Other financial assets are reported at historical costs. The fair values are derived from stock market prices or on the basis of recognized valuation methods. On the liabilities side, original financial instruments contain mainly liabilities valued at historical costs.

The stock of original financial instruments is reported in the balance sheet. The level of the financial assets corresponds to the maximum default risk. Insofar as default risks are identifiable with respect to financial assets, these risks are reported using value adjustments.

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

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

The Group companies are subject to strict risk management. Dealing authorizations, responsibilities and supervision procedures are established on a binding basis in internal guidelines. In this respect, derivative financial instruments may not, as a matter of principle, be implemented for speculative purposes but instead serve to hedge against risks in connection with the operating business.

Credit risk exposure to contractual partners is investigated systematically at the time of signing a contract and monitored on an ongoing basis. In addition to this, credit risk is reduced using appropriate types of security. Balance sheet hedging transactions as per IAS 39 exist primarily to hedge against foreign exchange liabilities and interest-rate risks from long-term liabilities.

Cash flow hedges exist mainly to hedge variable-rate liabilities against risks from changes in interest rates. These result in particular from a syndicated loan that has a variable rate of interest (EURIBOR + margin). The rate of the margin depends on covenants (net debt/EBITDA and economic equity ratio), where changes in the key indicators of the covenants in a bandwidth of 1.2% to 2.4% or 0.9% to 2.0% can lead to reductions or increases in the interest expense.

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

Nominal volume T€	*Type*	*Currency*	*Term*	*Attributable current market value T€*
1,400	Interest rate SWAP	US$	01.03.2005 – 04.09.2012	12
14,800	Interest limitation transaction	€	31.08.2005 – 26.02.2010	156
14,800	Interest limitation transaction	€	04.07.2005 – 28.02.2010	149
6,000	Interest limitation transaction	€	30.09.2005 – 28.02.2010	61
6,175	SWAP bandwidths – Version Floater	€	13.07.2005 – 30.09.2010	-3

Changes to the fair values of implemented hedging transactions are booked neutrally in equity until the underlying transaction has been realized. At the time of the realization of the underlying transaction, the resultant contribution from the hedging transactions is booked out of equity and into the income statement.

Notes to the consolidated balance sheet

(1) Liquid assets

	Dec. 31, 2005 *T€*	*Dec. 31, 2004* *T€*
Liquid assets		
Cash in hand	55	33
Checks	92	546
Bank balances	13,626	17,301
Total	**13,773**	**17,880**

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

(2) Trade receivables

Total allowances on trade accounts receivable as at December 31, 2005 stood at T€ 695 (previous year: T€ 521).

Of trade accounts receivable, T€ 41,493 (previous year: T€ 30,190) has been pledged as collateral for loans.

Receivables from related parties are disclosed under Explanation 44.

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

	Dec. 31, 2005 *T€*	*Dec. 31, 2004* *T€*
Receivables from companies with which a participation relationship exists		
Schuetzen Powder L.L.C.	112	221
Schmidtmann GmbH	15	--
SRS EcoTherm GmbH	2,176	2,730
Westfalen Chemie GmbH & Co. KG	793	683
Total	**3,097**	**3,634**

(4) Inventories

	Dec. 31, 2005 *T€*	*Dec. 31, 2004* *T€*
Inventories		
Raw materials and supplies	33,423	21,911
Work in progress	21,325	16,400
Finished goods	38,262	30,112
Advance payments on inventories	100	--
Total	**93,110**	**68,423**

The book value of inventories reported at fair value minus sales expenses amounts to T€ 8,376 (previous year: T€ 5,812).

Value adjustments of T€ 684 were reported as expenditure in the reporting period in accordance with IAS 2.34.

Inventories with a value of T€ 65,204 (previous year: T€ 21,879) have been pledged as security for liabilities.

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

	Dec. 31, 2005 *T€*	*31.12.2004* *T€*
Prepaid expenses and deferred charges and other short-term assets		
Short-term prepaid expenses and deferred charges	484	246
Other short-term assets	3,788	8,020
Total	**4,272**	**8,266**

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

Individual allowances amounting to T€ 95 (previous year: T€ 106) had been made for other short-term assets as of December 31, 2005.

(6) Fixed Assets

	Land / buildings T€	*Technical equipment / machinery T€*	*Other equipment T€*	*Prepayments and construction in process T€*	***Total €***
Developments 2005					
Acquisition and production costs					
as of Jan. 1, 2005	51,992	123,781	30,213	7,620	**213,606**
Currency fluctuations	262	364	143	31	**800**
Change to group of consolidated companies	2,316	1,664	166	58	**4,204**
Additions	1,237	18,925	2,434	4,913	**27,509**
Disposals	-33	-1,260	-1,102	-568	**-2,963**
Transfers	408	3,678	1,168	-5,686	**-432**
as of Dec. 31, 2005	56,182	147,152	32,022	6,368	**242,724**
Cumulative depreciation					
as of Jan. 1, 2005	19,701	82,505	22,623	--	**124,829**
Currency fluctuations	25	162	81	--	**268**
Change to group of consolidated companies	--	--	--	--	**--**
Additions	2,448	10,237	2,997	--	**15,682**
Disposals	-21	-1,111	-785	--	**-1,917**
Write-ups	--	--	--	--	**--**
Transfers	--	-68	68	--	**--**
as of Dec. 31, 2005	22,153	91,725	24,984	--	**138,862**
Net book values					
as of Dec. 31, 2005	34,029	55,427	8,038	6,368	**103,862**
as of Dec. 31, 2004	32,291	41,276	7,590	7,620	**88,777**

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

Land belonging to group subsidiary SYTHENGRUND Wasagchemie Grundstücksverwertungsges. Halter mbH, Haltern holds underground silica sand reserves. Current investigations have shown that there are reserves of approx. 13.5 m t on the plot of land. The overall operation plan will be finished in 2006. It is due to be submitted to the responsible Board of Mines afterwards. 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.

Property, plant and equipment reported under changes in the scope of consolidation result from the purchase of shares in Sprengstoffwerke Gnaschwitz GmbH, Schlungwitz and Allmex AB, Karlstadt, Sweden.

The additions in 2005 relate in particular to investments in a new extraction unit and a new process controlling system in the Hamburg refinery, the modernization of the blending plant in Salzbergen, the purchase of new facilities to produce vaseline in South Africa and a conversion facility in Australia.

Additions to the payments and construction protests relate in particular to a residual gas combustor in Salzbergen.

Transfers relate in particular to the investments capitalized under construction progress in 2004 for the extraction unit in Hamburg, which went into operation in 2005, as well as a repair workshop, pump module and a prepayment for a piece of land in the Explosives Division.

As of December 31, 2005, T€ 17,200 was secured through land charges.

The book value of moveable assets assigned as a charge amounted to T€ 7,600 as of December 31, 2005.

Leasing

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

In the case of financing lease agreements, these are technical equipment as well as machinery and operating and office equipment (for example vehicle lease contracts for special construction trucks, drilling equipment). 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. This is referred to as special leasing. Besides this, the rental term criterion for financing leasing is fulfilled.

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

	Technical equipment T€	*Operating and office equipment T€*	***Total €***
Leased assets			
Acquisition costs			
as of Jan. 1, 2005	--	319	**319**
Additions	343	38	**381**
Disposals	--	-185	**-185**
Change to group of consolidated companies	344	291	**635**
as of Dec. 31, 2005	687	463	**1,150**
Cumulative depreciation			
as of Jan. 1, 2005	--	74	**74**
Additions	32	28	**60**
Disposals	--	-53	**-53**
Change to group of consolidated companies	66	209	**275**
as of Dec. 31, 2005	98	258	**356**
Net book values			
as of Dec. 31, 2005	589	205	**794**
as of Dec. 31, 2004	--	245	**245**

As a result of financing lease agreements, in subsequent periods the following leasing payments become due. The variable leasing installments have been extrapolated on the basis of the last prevailing rate of interest:

	Up to 1 year *T€*	*1 to 5 years* *T€*	*Longer than 5 years* *T€*
Minimum lease	276	357	--
Of which interest component	38	23	--
Lease liabilities (Present value)	238	334	--

In addition to this, a finance leasing agreement was concluded with Deutsche Leasing AG, Bad Homburg for an integrated ERP system for a total volume of € 2 million for a period of 48 months commencing on July 1, 2007.

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

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

	Up to 1 year *T€*	*1 to 5 years* *T€*	*Longer than 5 years* *T€*
Land / buildings	1,730	5,088	840
Technical equipment / Machinery	797	1,281	--
Other equipment	1,146	930	--

(7) Intangible assets

	Software / Concessions / Property rights T€	
Intangible assets		
Acquisition and production costs		
as of Jan. 1, 2005	4,283	
Currency fluctuations	4	
Change to group of consolidated companies	2	
Additions	409	
Disposals	-952	
Transfers	--	
as of Dec. 31, 2005	3,746	
Cumulative depreciation		
as of Jan. 1, 2005	3,279	
Currency fluctuations	3	
Additions	393	
Disposals	-534	
Transfers	--	
as of Dec. 31, 2005	3,141	
Net book values		
as of Dec. 31, 2005	605	
as of Dec. 31, 2004	1,004	

The intangible assets relate mainly to production and user software.

The disposal concerns licenses to ERP software with a book value of T€ 413, which was sold to a leasing company.

(8) Goodwill

	T€
Goodwill	
Acquisition and production costs	
as of Jan. 1, 2005	57,313
Currency fluctuations	521
Change to group of consolidated companies	--
Additions	7,339
Disposals	-1,845
Transfer	433
as of Dec. 31, 2005	**63,761**
Cumulative depreciation	
as of Jan. 1, 2005	**13,156**
Currency fluctuations	22
Additions	882
Disposals	-170
Transfers	--
as of Dec. 31, 2005	**13,890**
Net book values	
as of Dec. 31, 2005	49,871
as of Dec. 31, 2004	44,157

The goodwill item is made up as follows:

	Dec. 31, 2005 *T€*	*Dec. 31, 2004* *T€*
Goodwill		
resulting from the first time consolidation and asset deals		
Goodwill resulting from the capital consolidation of companies in the Chemical/Pharmaceutical Raw Materials Division ("Old area")	16,738	16,738
Paul Fütterer GmbH	--	882
Goodwill due to the takeover of BP business	18,291	15,843
Goodwill resulting from the capital consolidation of companies in the Westspreng group	14,842	10,694
Total	**49,871**	**44,157**

The goodwill from the acquisition of the BP business is already netted off against negative differences resulting from the national allocation of the purchase price.

The increase in goodwill due to the acquisition of the BP business results from the takeover of the Jelly Plant in South Africa. The increase in goodwill from the capital consolidation of the Westspreng Group companies is attributable to the acquisition of Sprengstoffwerk Gnaschwitz GmbH.

As a result of foreign exchange rate effects, there was an increase in the book values of goodwill of T€ 500.

In accordance with IAS 36 (Impairment of assets) and IAS 38 (Intangible Assets), goodwill and intangible assets with an undetermined useful life are subject to an annual test for value impairment. If events or changes in circumstances occur that indicate a potential impairment of value, the impairment test should also be carried out more frequently.

In the 2005 financial year, unscheduled depreciation of goodwill of T€ 882 was required. This concerned the Paul Fütterer GmbH cash generating unit.

In the previous year, there was no unscheduled depreciation of goodwill.

(9) Shares in at-equity reported shareholdings and other financial assets

	Shares in at-equity reported shareholdings (9.1) T€	*Other financial assets*				*Total €
		Shares in affiliated companies (9.2) T€	*Other shareholdings (9.3) T€*	*Long-term investments (9.4) T€*	*Other loans (9.5) T€*	
Shares in at-equity reported shareholdings and other financial assets						
Acquisition and production costs						
as of Jan. 1, 2005	758	23,087	1,300	898	5,541	**31,584**
Currency fluctuations	10	--	--	--	13	**23**
Change to group of consolidated companies	--	--	-17	--	--	**-17**
Additions	--	--	2	--	--	**2**
Disposals	-609	--	--	-15	-168	**-792**
Transfer	233	--	-233	--	--	**--**
as of Dec. 31, 2005	392	23,087	1,052	883	5,386	**30,800**
Cumulative depreciation						
as of Jan. 1, 2005	42	23,087	--	--	--	**23,129**
Currency fluctuations	--	--	--	--	--	**--**
Additions	6	--	--	--	--	**6**
Disposals	-84	--	--	--	--	**-84**
Write-ups	--	--	--	--	--	**--**
as of Dec. 31, 2005	-36	23,087	--	--	--	**23,051**
Net book values						
as of Dec. 31, 2005	428	0	1,052	883	5,386	**7,749**
as of Dec. 31, 2004	716	0	1,300	898	5,541	**8,455**

(9.1) Shares in at-equity reported shareholdings

Shares in domestic and international 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.

	2005 *T€*	*2004* *T€*
Westfalen Chemie Verwaltungsgesellschaft mbH	28	28
Westfalen Chemie GmbH & Co. KG	0	0
Schmidtmann GmbH	76	82
Sprewa Sprengmittel GmbH	-	606
Schuetzen Powder LLC, Arlington TX, USA	324	--
Total	**428**	**716**

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

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

As a result of requirements imposed by the Federal Cartel Office in connection with the takeover of Sprengstoffwerk Gnaschwitz GmbH, Schlungwitz, the shareholding in Sprewa Sprengmittel GmbH was sold in 2005.

Shares in Schuetzen Powder LLC, Arlington TX, USA were entered for the first time in the accounts in 2005 using the at-equity method. In previous years, 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 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:

	2005 *T€*
as of Jan. 1, 2005	446
pro-rata net income	- 201
as of Dec. 31, 2005	245

(9.2) Shares in affiliated companies

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

(9.3) Other shareholdings

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

The transfer concerns the shareholding in Schuetzen Powder LLC, Arlington TX, USA, where, in previous years, it was decided not to adapt the book value of the shareholding to an at-equity valuation due to its insignificance and which has been reported for the first time in 2005 among the at-equity valued shareholdings.

The participating interests are shown at the cost of acquisition as these financial assets have no market price listed on an active market.

(9.4) Long term investments

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

(9.5) Other loans

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%. Pledge agreements were concluded on securities in order to secure the loan.

(10) 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€ 421 (previous year: T€ 87) relate to IT maintenance fees and rental down-payments.

Other long-term assets consist mainly of a receivable from BP International for T€ 4,847. In the course of the acquisition of the BP specialty products business in 2004, mutual understandings were reached regarding the release of those pensioners who, although being attributable either economically or contractually to one of the partners to the agreement, remained attributable from the perspective of labor law, however, to the relevant other partner to the agreement.

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 (T€ 3,258) was shown in accordance with IAS 1.33. The remaining amount of T€ 1,588 results from a claim for reimbursement for further acquired personnel provisions.

In addition the item includes reinsurance policies amounting (T€ 1,687).

(11) Deferred taxes

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

From the total amount of the gross value of deferred tax assets and liabilities, T? 2,219 will be realized within twelve months.

The composition of the deferred tax assets formed for value differences in the balance sheets is portrayed in Note 36 on income taxes.

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

Short-term bank borrowings are composed as follows:

	Dec. 31, 2005 *T€*	*Dec. 31, 2004* *T€*
Short-term credits	38,677	28,532
Short-term portion of long-term loans	4,565	1,707
Drawings on current accounts	428	2,087
Interest deferrals	58	289
Other bank borrowings	591	244
Total	**44,319**	**32,859**
of which secured	43,512	30,683

Short-term credits

The interest-rates of short-term credits lie between 3.722% and 5,58%. A credit of T€ 1,529 is secured through guarantees provided by minority shareholders. With respect to the collateralization of the short-term credits of the bank consortium, please refer to our explanations to the long-term credits.

Short-term portion of long-term loans

The short-term portion of long-term loans relates to repayment installments for medium-term and long-term loans due within the next 12 months. With respect to the interest rates and collateralization of the short-term portion of long-term credits, please refer to our explanations to the long-term credits.

Drawings on current accounts

All the current accounts are collateralized using land charges.

(13) Trade accounts payable

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

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

	Dec. 31, 2005 *T€*	*Dec. 31, 2004* *T€*
Schmidtmann GmbH	--	4
Westfalen Chemie GmbH & Co. KG	146	7
Total	**146**	**11**

(15) Short-term provisions

	Position Jan. 1, 2005 T€	*Change in group of consolidation companies T€*	*Currency variances T€*	*Used T€*	*Released €*	*Added Position T€*	*Position Dec. 31, 2005 T€*
Short-term provisions							
Personnel provisions	9,678	207	60	-7,165	-238	7,181	9,723
Other provisions	13,645	234	244	-11,427	-415	17,625	19,906
Provisions for restructuring	--	--	--	--	--	2,598	2,598
Total	**23,323**	**441**	**304**	**18,592**	**-653**	**27,404**	**32,227**

Changes in the scope of consolidation relate to the addition of Sprengstoffwerk Gnaschwitz GmbH as of December 31, 2005.

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

In the United Kingdom, the H&R WASAG locations were restructured. As a result of the closure of a BP special refinery, from which the UK H&R WASAG locations were still supplied until the end of 2005, production activities belonging to the core business were consolidated at one location.

The reported provisions for restructuring comprise mainly measures for the socially acceptable reduction of personnel resulting from this restructuring. This restructuring programme was largely concluded in January 2006.

(16) Other short-term liabilities

	Dec. 31, 2005 *T€*	*Dec. 31, 2004* *T€*
Tax liabilities	7,719	1,486
Social security liabilities	1,646	1,657
Amounts owed to former shareholders	78	--
Payment of BP purchase price	--	6,580
Liabilities to employees	724	606
Non-borrowing debtors	405	327
Others	1,123	1,283
Total	**11,695**	**11,939**

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

(17) Short-term prepaid expenses and deferred charges

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

The position relates mainly to investment subsidies as well as fees received in advance for software usage and IT maintenance costs. For further explanations, we refer to the prepaid expenses and deferred charges shown under long-term liabilities (Comment 21).

(18) 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, 2005			
	Residual maturity 2007 – 2010 T€	*Residual maturity after 2010 T€*	*Dec. 31, 2005 Book value T€*	*Dec. 31, 2004 Book value T€*
Loans with banks				
Bank consortium	4,476	74,040	78,516	60,978
Other loans	12,231	773	13,004	23,960
Total	**16,706**	**74,814**	**91,520**	**84,938**
of which secured			90,012	65,871

Interest rates

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 (Net debt/EBITDA and structure of own funds). A change of the financial data can result in the change of the margin in a corridor between 1.2% to 2.4% resp. 0.9% to 2.0% and can insofar increase or decrease the interst rate. The adaptation is carried out in each case at the end of the quarter. In 2005 in an average margin for tranche 1 of 1.6% and for the other tranches of 1.35% were recorded.

In 2005, an interest-rate hedge was implemented whose details can be found among the general comments.

The other credits have been agreed with fixed interest rates, with fixed interest periods or dependent on EURIBOR, LIBOR and WIBOR. The interest-rate of credits with fixed interest rates lay between 2.50% and 6.60% per annum. Credits with fixed interest periods were agreed with interest rates of between 7.00% and 7.05% per annum.

Currency

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

Security

The loans with the bank consortium (please also refer to the portion reported in the short-term bank borrowings) have been secured using land charges of T€ 10,226. These loans are also secured through the blanket assignment of trade receivables with a book value of T€ 41,493 as of December 31, 2005 as well as a space security assignment contract for warehouses with varying stocks. The book value of the inventories on the balance sheet date is T€ 65,204.

A long-term loan of T€ 19,000 was granted from the KfW "Kapital für Arbeit" program via the IKB, of which T€ 9,500 is subordinated.

Further loans from the IKB with a book value of T€ 7,600 (long-term portion T€ 6,000) are secured through the assignment of an extraction plant.

The long-term portion of the old loans of the Westspreng Group of T€ 4,207 (previous year: T€ 4,960) is secured by land charges of T€ 3,436 and the book value of the assets transferred as their floating charge was T€ 412 as of December 31, 2005. The book value of the short-term portion of these loans was secured, as of December 31, 2005, by land charges of T€ 1,208 and movable assets of T€ 176. A loan of T€ 719 (with a short-term portion of T€ 203) reported in the consolidated financial statements for the first time as part of the first time consolidation of Sprengstoffwerk Gnaschwitz GmbH is secured not only through the land charges but also through guarantees.

A loan taken out in 2005 within the Plastics Division was secured through land charges of T€ 1,182 as of December 31, 2005.

(19) Pension provisions

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

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

Ongoing contribution payments are reported as expenditure in the relevant year in the operating results. In the 2005 financial year they amounted to T€ 725.

All other retirement provisions are performance-based.

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

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

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

In accordance with the pension agreement at GAUDLITZ-WERK GmbH (now Gaudlitz GmbH) in the version of December 18, 1978, all employees who joined the company by June 10, 1978 and whose contracts of employment had not

been terminated, had the right to a company pension. The size of the pension depends on the number of pensionable years of service and the pensionable salary in 1978. For those drawing pensions, claims in some cases are based on earlier versions of the pension agreement.

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

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

- Pension regulations for employees of ARAL AG on non-union rates dated 24.06.1991
- Pension scheme for employees of ARAL AG on union rates dated 15.10.1985
- ARAL AG pension regulations 1999
- Pension statutes dated 01.01.1980 pursuant to central works agreement dated 30.11.1979
- Additional pension for shift work in accordance with letter F of the Pension Statute of 01.01.1980 pursuant to the central works agreement dated 30.11.1979
- Pension Statute 1988 on the basis of central works agreement dated 02.12.1987
- Pension statutes dated 01.01.1988, paragraphs 40-46 pension related to shift work pursuant to the central works agreement dated 02.12.1987
- Pension plan of Burmah Oil (Deutschland) GmbH dated 01.01.1992
- Salary conversion in accordance with the ARAL pension regulation model 1999
- Transitional payment regulations RAAB KARCHER dated 01.03.1989
- Central works agreement dated 01.02.1993 (pension plan 1975)
- Central works agreement dated 01.01.1993 (pension plan 1986)
- Central works agreement dated 01.02.1993 (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 Services 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 WASAG.

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€ 7,408 (see Comment 10). 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€ 11,252 which also arose as part of the takeover of the specialty products business (see Comment 10). The net receivable of T€ 3,844 is shown under other long-term assets.

The following provisions were formed for individual groups as of December 31, 2005:

	Dec. 31, 2005 *T€*
Group 1	11,779
Group 3	11,252

There is an exemption right against BP in the case of pension obligations towards employees in Group 3 amounting to T€ 11,252.

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

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

Pension provisions changed as follows:

	2005 *T€*	*2004* *T€*
Brought forward Jan. 1	50,837	28,831
Change to group of consolidated companies	140	20,972
Additions	3,489	3,325
Released / used	-2,261	-2,291
Neutral disposals	-1,363	--
Currency fluctuations	2	--
Final position on Dec. 31	**50,844**	**50,837**

Under "Change to group of consolidated companies", the addition from the first time consolidation of Sprengstoffwerk Gnaschwitz GmbH, Schlungwitz is reported.

The amounts shown under "Change to group of consolidated companies" in 2004, 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€ 11,252 (previous year: T€ 11,156).

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

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

	2005 *T€*	*2004* *T€*
Provision		
Present value	60,517	57,780
Unrealized actuarial gains and losses	-9,673	-6,943
Total	**50,844**	**50,837**

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

	2005 *T€*	*2004* *T€*
Additions		
Current service period expenditure	861	683
Amortized actuarial profits / losses	309	--
Compound interest on expected pension obligations	1,977	2,642
Losses from disposals	246	--
Changes in reimbursement rights	96	--
Total	**3,489**	**3,325**

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, 2005 *T€*	*Dec. 31, 2004* *T€*
Interest rate	4.0%	4.5% – 5.0%
Payment trends	2.0%	2.0% / 2.5%
Entitlement trend	0.6% / 2.0%	0.6%
Pensions trend	0.9%	0.9% / 1.5%
Pension age	60 / 61 / 63 / 65	60 / 61 / 63 / 65
Fluctuation probability	5% / 0%	5% / 0%

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

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

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

(20) Long-term deferred income

	Position Jan. 1, 2005 T€	*Change to group of consolidation companies T€*	*Neutral Disposals T€*	*Used T€*	*Disposals T€*	*Added T€*	*Position Dec. 31, 2005 T€*
Other provisions							
Other provisions							
a) Personnel	3,733	175	-69	-444	-61	1,007	4,166
b) Others	4,700	--	--	-445	-864	1,115	4,681
Total	**8,433**	**175**	**-69**	**-889**	**-925**	**2,122**	**8,847**

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

The long-term provisions were discounted by T€ 300 in the reporting year.

The changes in the scope of consolidation are attributable to the addition of Sprengstoffwerk Gnaschwitz GmbH as of December 31, 2005. The neutral disposals result from the transfer of personnel provisions to the purchaser in connection with the disposal of a warehouse.

(21) Long-term prepaid expenses and deferred charges

	2005 *T€*	*2004* *T€*
Long-term prepaid expenses and deferred charges		
Investment subsidies	481	461
Fees received in advance for the use of software and IT maintenance fees	16	16
Total	**497**	**477**

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

(22) 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.

In the 2005 financial year, no new shares were issued.

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 pas-

sed 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 2005.

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

The shareholders are to be granted stock options. However, the Executive Board is entitled with the approval of the Supervisory Board to exclude shareholders from stock options for residual amounts. The Executive Board is also 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 of the German Stock Corporation Act (AktG). The Executive Board is also authorized with the approval of the Supervisory Board to exclude shareholders from stock options if the rights issue against contributions in kind is carried out for the purpose of acquiring companies or participating in companies, or to the extent that the exclusion of stock options is required in order to give the owners of the company options for the quantity of convertible bonds or loans or warrants still to be issued, to which they would be entitled after exercising their option or conversion rights. Where the simultaneous issue of ordinary and preferred shares takes place while retaining the existing participating relationships of both share classes, the Executive Board is furthermore authorised, with the approval of the Supervisory Board, to exclude the owners of one share class to be entitled to rights to the other share class.

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

The shareholders are to be granted stock options. However, the Executive Board is entitled with the approval of the Supervisory Board to exclude shareholders from stock options for residual amounts. The Executive Board is also 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 Executive Board is also authorized with the approval of the Supervisory Board to exclude shareholders from stock options if the rights issue against contributions in kind is carried out for the purpose of acquiring companies or participating in companies, or to the extent that the exclusion of stock options is required in order to give the owners of the company options for the quantity of convertible bonds or loans or warrants still to be issued which they would be entitled to after exercising their option or conversion rights.

Finally, the Executive 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 2002). Shareholders are excluded from subscribing.

The Executive Board did not make use of its existing authorizations in the financial year 2005.

Authorization to acquire treasury shares

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

The company did not acquire any treasury shares in the financial year 2005.

(23) Capital reserve

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

(24) Other reserves

This item primarily reports capital increases carried out by the subsidiaries, which subsequently leads to a change in Group equity. These comprise the attributable market value of the shares granted in SYTHENGRUND Wasagchemie Grundstücksverwertungsges. Haltern mbH 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.

In addition to this, other reserves contain reserves arising from market valuations.

(25) Consolidated retained earnings

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

	2005 *T€*	*2004* *T€*
Position at the start of the financial year	14,826	13,823
Currency adjustment	--	153
Dividend payment	-5,675	-5,675
Consolidated net income for the financial year	10,467	6,525
Position at the end of the financial year	**19,618**	**14,826**

The shareholders' meeting on August 29, 2005 passed on the resolution that T€ 5,675 are paid to the shareholders as a dividend of € 0.30 per share.

(26) Minority interests

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

Minority interests concern third-party shareholders of SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH (43.32%), Westspreng GmbH (5.81%), Romblast S.R.L. (0.0045%), Grundstücksverwaltungs-Beteiligungsgesellschaft mbH (25.96%), MEDEX s.r.l. (30%), Dussek Campell (Proprietary) Ltd. (49%), as well as GAUDLITZ Green Point Precision Technology (Wuxi) Co. Ltd. (49%).

In accordance with IAS 27.33, claims of minority shareholders are now entered as a separate item within equity. Previous years' figures were adjusted accordingly since these claims, as of December 31, 2004, were still reported as a separate item between liabilities and equity.

	2005 T€	2004 T€
Development of minority interests		
As of 1.1.	3,833	1,718
Addition/disposal from first-time consolidation	- 33	1,280
Foreign exchange differences	179	--
Outgoing payments	-1,885	-160
Transfer of loan to the capital reserve	--	8
Share of results	1,026	987
As of 31.12.	**3,120**	**3,833**

Notes on profit and loss account

(27) Comparability with previous year

With respect to the comparability of the income statement with the figures of the previous year, it should be noted that the activities in South Africa, Australia and Asia acquired from BP were consolidated for the first time in the H&R WASAG AG Group financial statements on July 6, 2004.

(28) Research and development costs

Expenditure for research and development costs arose mainly in the Chemical Pharmaceutical Raw Materials division. In this area, the research and development activities of the Group are concentrated mainly on the further development of the new generation of plasticizers and the analysis of production process adaptations. Expenses incurred in 2005 for research and development amounted to T€ 1,479 (2004: T€ 1,241).

(29) 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 38).

(30) Other operating income

	2005 *T€*	*2004* *T€*
Operating income		
Income from passing on costs	7,687	7,903
Services	1,776	4,155
Income from the disposal of a magazine and spare parts warehouse	1,269	--
Other operating income	3,054	1,121
	13,786	**13,179**
Neutral income		
Exchange rate gains from foreign currency items	5,249	2,011
Profits from the disposal of fixed assets	4,362	187
Release of provisions	1,574	721
Income from write-ups	1	724
Other neutral income	981	1,771
	12,167	**5,414**
Revenue from the receipt of a negative differential amount	--	307
Total	**25,953**	**18,900**

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.

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

Income from the disposal of fixed assets was achieved primarily from the disposal of activities in the United Kingdom (please refer to comments in the Management Report).

(31) Material costs

	2005 *T€*	*2004* *T€*
Raw materials	397,276	286,186
Supplies	14,525	13,400
Trade goods	37,358	14,753
Expenditure on raw materials and supplies and for all merchandise	**449,159**	**314,339**
Energy costs	20,965	17,931
Other outside services	1,426	1,239
Total expenditure on purchased services	**22,391**	**19,170**
Total	**471,550**	**333,509**

(32) Personnel expenses

	2005 T€	2004 T€
Wages and salaries	65,774	57,054
Social security payments and expenditure for pensions and support	12,635	12,895
(of which for pensions)	(2,061)	(1,574)
Total	**78,409**	**69,949**

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

	2005	2004
Average number of employees		
Manual workers	916	863
Salaried employees	573	555
Employees on fixed-term contracts	158	106
Trainees	61	61
Total	**1,708**	**1,585**

(33) Other operating expenses

	2005 *T€*	*2004* *T€*
Other operating expenses		
Freight costs, dispatch systems and other distribution costs	19,479	17,677
Third party repairs and maintenance	14,998	11,559
Third party supplies and services	7,853	9,323
Insurance premiums, fees and contributions	5,488	4,723
Costs passed on	5,117	5,316
Other personnel costs	4,821	4,864
Rents and leases	4,604	4,274
Legal and consultancy costs, costs for year-end accounts and shareholders' meeting	4,577	4,324
IT costs	1,731	1,977
Travel expenses	1,511	1,429
Lease installments	1,453	1,185
Waste disposal and charges	1,403	947
Slop volumes	1,315	1,444
Communication costs	1,056	836
Commissions	1,022	537
Amortization and value impairments of receivables	457	257
Losses from the disposal of fixed assets	430	188
Others	4,239	4,455
Neutral expenses and expenses relating to other periods		
Exchange rate losses from foreign currency items	5,501	2,539
Others	1,454	114
Total	**88,509**	**78,312**

(34) Other taxes

Other taxes concern primarily mineral oil, electricity and ground taxes as well as vehicle taxes.

(35) Interest result

	2005 *T€*	*2004* *T€*
Income from other securities and loans	292	340
Other interest and similar income	806	983
Other interest and similar expenditure	-9,533	-7,955
Interest result	**-8,435**	**-6,632**

The interest result contains mainly the interest expenditure arising from financial borrowings. Besides this, interest expenditure also includes changes in value connected with interest-rate hedging transactions as well as expenditure from the discounting of interest-bearing provisions.

(36) 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:

	2005 *T€*	*2004* *T€*
Income tax expense	5,908	1,451
Audit / previous years	-135	-612
Deferred taxes	2,290	1,493
Total	**8,063**	**2,332**

The net income for the year of German companies is subject to a uniform corporation tax rate of 25%. In addition, there is a solidarity surcharge of 5.5% on the corporation tax rate. With a trade tax burden of 15.9% this gives a total income tax rate of 38.02% (previuous year: 36.48%) in Germany.

The increase of the tax rate results from changes in trade tax collection rates. Income tax rates for companies abroad are between 15% and 39.50%.

Besides the deferred tax loss carry forward assets there are also corporation tax and trading tax loss carry forwards of T€ 2,828, whose realization is not sufficiently ensured, and, for this reason, no deferred tax claims have been reported. The tax loss carry forwards are nonforfeitable.

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

	2005 *T€*	*2004* *T€*
Pre-tax earnings	**19,556**	**9,844**
Expected tax expense (38.02%)	**7,435**	**3,591**
Effects from tax rate differences of German and foreign sovereignties as well as effects from the adaptation of deferred taxes due to tax rate changes	-248	-110
Tax expense from allocation of income from partnerships to joint-stock company	-52	--
Previous years' taxes	-135	-612
Tax effects from first-time consolidation	--	-1,438
Reduction in tax due to netting off with tax loss carry forwards	-12	-402
Non-capitalized deferred taxes on losses	784	517
Non-deductible operating expenses	1,127	155
Tax-free income	-102	--
Catch-up on previous years' deferred taxes	402	--
Amortization of non tax-deductible goodwill	--	768
Tax-deductible amortization of goodwill	--	-228
Permanent tax deferrals	-1,088	--
Additional taxes of minority shareholders	111	--
Other	-159	91
Actual tax expenditure	**8,063**	**2,332**

The permanent tax liability results from the consolidation of the tax-effective amortization of separately entered goodwill in the national individual accounts in the United Kingdom, which, from the point of view of the Group, represents parts of a uniform goodwill item of the H&R ESP cash generating unit.

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

	Dec. 31, 2005		*Dec. 31, 2004*	
	Deferred tax credits T€	*Deferred tax liabilities T€*	*Deferred tax credits T€*	*Deferred tax liabilities T€*
Intangible assets	9	726	11	--
Fixed assets	803	1,996	618	1,652
Financial assets	20	92	0	134
Inventories	182	49	219	275
Receivables and other assets	-3	1,394	138	964
Others	--	37	695	--
Pension provisions	2,845	--	2,549	--
Other provisions	576	91	877	457
Liabilities	394	8	--	--
Loss carryforwards	2,856	--	8	--
Consolidation measures	5,297	48	6,393	99
	12,979	**4,441**	**11,508**	**3,581**
Net amounts	-1,970	-1,970	-2,030	-2,030
Total	**11,009**	**2,471**	**9,478**	**1,551**

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.

In 2005, T€ 58 of deferred taxes were netted off directly against equity in accordance with IAS 12.81.

(37) Earnings per share

	2005	*2004*
Undiluted / diluted earnings per share in €	0.55	0.34
Group profits in T€	10,467	6,525
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, 2005.

Other notes

(38) 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.

	Chemical Pharmaceutical Raw Materials		*Plastics*		*Explosives*		*Other Activities*		*Consolidations*		*Total*	
	2005 T€	*2004 T€*	*2005 T€*	*2004 T€*	*2005 T€*	*2004 T€*	*2005 T€*	*2004 T€*	*2005 T€*	*2004 T€*	*2005 T€*	*2004 T€*
External sales	556,841	409,140	37,955	34,870	55,095	53,060	182	--	--	--	650,073	497,069
Internal group sales	232	247	--	--	--	--	3,643	2,877	-3,875	-3,124	--	--
Total sales	557,073	409,387	37,955	34,870	55,095	53,060	3,825	2,877	-3,875	-3,124	650,073	497,069
Depreciation	13,774	11,530	1,982	1,943	3,260	3,862	59	0	-3,000	-3,621	16,075	13,714
Goodwill amortization	882	1,919	--	--	--	805	--	--	--	--	882	2,724
Interest income	1,011	1,085	20	28	330	281	6,154	2,836	-6,417	-2,907	1,098	1,323
Interest expense	8,231	6,274	463	327	1,545	1,554	5,709	2,708	-6,415	-2,908	9,533	7,955
Results of at-equity-reported shareholdings	1	--	--	--	148	--	--	--	--	--	149	--
Other fincial result	1	--	38	--	--	4	282	--	-282	--	39	4
Pre-tax earnings (EBT)	13,806	4,781	1,812	2,970	3,987	1,070	-1,340	-2,380	1,291	3,403	19,556	9,844
EBIT	210,026	9,970	2,255	3,269	5,202	2,343	-1,785	-2,508	1,293	3,402	27,991	16,476
EBITDA	35,682	23,419	4,237	5,212	8,462	7,010	-1,726	-2,508	-1,707	-219	44,948	32,914
Liabilities	214,344	204,756	22,339	17,769	44,570	39,107	141,224	65,993	-147,092	- 84,166	275,385	243,459
Assets	281,318	258,468	27,284	23,139	73,526	64,896	223,204	153,352	-246,393	-179,996	359,939	319,859
Expenditure on fixed assets	18,330	14,889	4,424	1,338	4,607	3,791	557	--	--	--	27,918	20,018

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

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

The sum of external and internal sales provides segmental sales.

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

Secondary segments (geographical regions)

	Germany		*Rest of Europe*		*Rest of the world*		*Consolidations*		***Total***	
	2005 T€	*2004 T€*	*2005 T€*	*2004 T€*	*2005 T€*	*2004 T€*	*2005 T€*	*2004 T€*	*2005 T€*	*2004 T€*
External sales	377,915	321,274	184,709	139,586	87,449	36,209	0	--	**650,073**	**497,069**
Assets	321,475	291,731	50,889	61,253	44,832	45,977	58,257	79,102	**358,939**	**319,859**
Expenditure on fixed assets	17,870	17,459	3,380	2,203	6,668	356	--	--	**27,918**	**20,018**

(39) Notes on the consolidated statement of cash flows

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

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

The financial funds shown correspond to the Liquid assets item in the balance sheet and comprise cash in hand, checks and bank balances. The statement of cash flows is complemented by a transition to the Liquid assets.

All bank borrowings are reported as financial debt in the sense used in the financing calculation.

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

The composition of Cash and cash equivalents, the general form of presentation of the statement of cash flows as well as the utilization of reporting options, are unchanged in comparison with the previous period.

In the 2005 financial year, the H&R WASAG Group acquired shares in Sprengstoffwerk Gnaschwitz GmbH, Schlungwitz including its subsidiary Allmex AB, Karlstadt, Sweden as well as the specialty refinery product business in Australia.

For the acquisition of the shares and of the operating business a total purchase price of T€ 12,744 was paid.

The following individual assets and liabilities, each valued at fair value, were acquired:

	T€
Liquid assets	194
Receivables and other short-term assets	2,203
Inventories	3,298
Non-current assets	9,109
Deferred tax assets	2,926
Provisions	1,002
Liabilities	3,980
Deffered tax liabilities	4

As of the balance sheet reporting date, there were outstanding liabilities of T€ 395 from the acquisition of these companies.

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

	T€
Purchase price to be paid	12,744
Purchase price not yet paid	- 395
Cash outflow	12,349

(40) Contingent liabilities

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

	Dec. 31, 2005 T€	*Dec. 31, 2004 in T€*
Guarantees	2,010	4,571
Deposits for guarantees	1,187	1,187
Joint liability for pensions	298	584
Other contingent liabilities	431	1,739
Total	**3,926**	**8,081**

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

The outstanding liability contributions concern Westfalen Chemie GmbH & Co. KG. The joint liability for pensions concerns pension obligations transferred to WNC Nitrochemie Aschau GmbH, Aschau.

Other contingent liabilities show a relationship resembling a guarantee with H&R Wax Company Vertrieb GmbH with a value of T€ 198 (previous year: T€ 100).

(41) Other financial obligations

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

	Dec. 31, 2005 *T€*	*Dec. 31, 2004* *T€*
of which due within one year	7,398	5,159
of which due > 1 year and < 5 years	11,330	4,824
of which due > 5 years	942	462
Total	**18,670**	**10,445**

A further T€ 1,932 (previous year: T€ 14,626) in the group relates to order commitments for investments.

(42) Management bodies of H&R WASAG AG

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

Supervisory Board	Membership of supervisory or advisory boards
Bernd Günther	
– Chairman of the Supervisory Board – – Chief Executive of Hamburger Getreidelagerhaus AG, Hamburg	– 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 (till September 22, 2005) – 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	
– Vice-Chairman of the Supervisory Board – – Chief Executive of Bohlen Industrie GmbH, Essen – Chief Executive of Bohlen Handel GmbH, Essen – Geschäftsführer der Prosecur Holding GmbH, Munich	– Chairman of the Supervisory Board of Feierabend AG Onlinedienste für Senioren, Frankfurt/Main – Member of the Supervisory Board of W.P. Stewart/Hartmann Ltd., New York/Bermuda
Nils Hansen	
– President of Hansen & Rosenthal KG, Hamburg – President of TUDAPETROL Mineralölerzeugnisse Nils Hansen KG, Hamburg – President of Klaus Dahleke KG, Hamburg	– Member of the Supervisory Board of Otto M. Schröder Bank Aktiengesellschaft, Hamburg

Günter Papenburg	
– Chief Executive of GP Günter Papenburg AG, Schwarmstedt	– Member of the Supervisory Board of AVA Allgemeine Handelsgesellschaft der Verbraucher AG, Bielefeld – Member of the Supervisory Board of Ravensberger Bau-Beteiligungen AG i.I., Berlin – Chairman of the Advisory Board of Readymix Beton Saale GmbH & Co. KG, Halle (Saale) – 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	
Chairman of workers' council of H&R ChemPharm GmbH, Salzbergen	
Dieter Obert	
Electrician Gaudlitz GmbH, Coburg	

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

Total remuneration paid to the Executive Board in the financial year 2005 was T€ 2,058 (previous year: T€ 1,223), of which T€ 958 (previous year: T€ 923) was a fixed, and T€ 1,100 (previous year: 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€ 339 (previous year: T€ 325); the pension provisions formed for this group of people totaled T€ 3,400 (previous year T€ 3,441) as at December 31, 2005.

By resolution of the General Meeting of June 18, 2004, the H&R WASAG AG bylaw concerning Supervisory Board remuneration was modified. In the 2005 financial year, for the first time, the new remuneration basis was used.

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

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

For the 2005 financial year, remuneration of T€ 147 (previous year: T€ 85) was made for Supervisory Board. Of this, the fixed component comprised T€ 102 (previous year: T€ 46) and the variable component T€ 45 (previous year: T€ 39).

The loan of T€ 24 to a member of the Supervisory Board reported in the previous year was no longer in existence as of December 31, 2005.

The remuneration of the members of the Executive and Supervisory Boards is not shown on an individual basis.

(44) Disclosures of relationships with related parties according to IAS 24

The following supplies and services were provided for other related companies and parties, or utilized by them:

	Volume of services provided Hansen & Rosenthal		*Volume of services received Hansen & Rosenthal*	
	2005 T€	*2004 T€*	*2005 T€*	*2004 T€*
Supplies and services				
Supply of chem. pharm. products	138,369	111,009	2,884	357
- Salzbergen	119,129	99,435		
- Hamburg	19,240	11,574		
Incidental expenses from the supply relationship (freight costs, toll charges, etc.)	431	436	7,048	2,152
Commission fees	--	--	402	129
Other services and third party costs (IT services, personnel costs etc.)	265	99	645	613

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

The increase in the cost transfers and cost reimbursements is attributable primarily to the transferred costs of the commission business.

As of December 31, 2005, the following receivables and liabilities existed:

	Receivables from Hansen & Rosenthal		*Liabilities to Hansen & Rosenthal*	
	Dec. 31, 2005 T€	*Dec. 31, 2004 T€*	*Dec. 31, 2005 T€*	*Dec. 31, 2004 T€*
Receivables and liabilities				
Supplies and services	10,755	7,090	1,681	124
Others	5,585	3,867	0	0
Total	**16,340**	**10,957**	**1,681**	**124**

Other receivables concern receivables from the commission business, where Hansen & Rosenthal, as commission agent, receives payments from customers and forward them to H&R WASAG AG. As of the time of the preparation of the financial statements, the corresponding amount except for € 1.2 million had been forwarded.

There is a quasi-guarantee relationship to H&R Wax Company Vertrieb GmbH, which belong to the Hansen & Rosenthal Group, comprising T€ 198 (previous year: T€ 100).

The joint and several debt guarantee reported in the previous year (T€ 1,639) was no longer in existence as of December 31, 2005.

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

	Volume of services provided		*Volume of services received*	
	2005	*2004*	*2005*	*2004*
	T€	*T€*	*T€*	*T€*
Supplies and services				
Delivery of explosives	1,140	--	--	--
Purchase of hydrogen and steam	--	--	1,380	1,373
Interest income	39	30	96	--
Rental income	40	41	--	--
Services	218	95	--	--
Total	**1,437**	**166**	**1,476**	**1,373**

As of December 31, 2005, receivables were valued at T€ 921 (previous year: T€ 643).The liability, as of December 31, 2005, amounted to T€ 146 (previous year: T€ 7).

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

The fees paid as part of consultancy contracts and for sales activities to BOWAS Group and BOHLEN Handel GmbH totaled T€ 234 (previous year: T€ 165) in 2005. This results in liabilities of T€ 89 (previous year: T€ 41) as of December 31, 2005. As an offsetting item, in 2005, services of T€ 59 were rendered.

The fees paid and third party costs invoiced as part of the consultancy contract with Idunahall Verwaltungs-Gesellschaft m.b.H. totaled T€ 20 (previous year: T€ 20) in 2005.

The remuneration paid to the Executive Board and the Supervisory Board is detailed in Comment 43.

(45) 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 2005 and made available to shareholders. The text of the declaration can be found in the 2005 annual report on page 15 and on the company's website on the Internet at www.hur-wasag.com.

(46) Group audit expenses recorded as expenditure in the financial year

In the financial year the following fees were reported as expenditure for the Group auditor:

	Group auditor T€	*Auditor companies working internationally in association with the Group auditor T€*	*Total T€*
Audits	466	211	677
Other certification or evaluation services	73	29	102
Tax consultancy services	235	59	294
Other services provided for the parent company or subsidiaries	309	33	342
Total	**1,083**	**332**	**1,415**

Tax consulting in Germany in the reporting year comprised the current tax consulting including tax declarations as well as the fiscal analysis of various concepts.

Other services concerned diverse projects, in particular mergers and acquisitions sales processes and advice on joint-venture negotiations.

(47) Release from disclosure requirement

As of December 31, 2005, the following companies have elected to make use of the opportunity to be released from the requirement of disclosure in accordance with § 264 paragraph 3 in connection with § 325 of the German Commercial Code (HGB): H&R Chemisch-Pharmazeutische Spezialitäten GmbH, Gaudlitz GmbH, H&R Lube Blending GmbH, H&R LubeTech GmbH, H&R ChemPharm GmbH, H&R Lube Trading GmbH, Paul Fütterer GmbH, H&R ESP International GmbH, H&R InfoTech GmbH, H&R GSP South Africa GmbH, SYTHENGRUND Wasagchemie Grundstücksverwertungsgesellschaft Haltern mbH.

(48) Events after the date of the balance sheet

The Executive 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€ 19,374 be distributed in the form of a dividend of € 0.30 per share. T€ 13,699 is to be carried forward to a new account.

Salzbergen, April 28, 2006
Executive Board

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

Consolidated subsidiaries and equity interest

	Division	*Shareholders' equity T€*	*Participation Ratio %*	*Earnings T€*
Consolidated Companies				
H&R Chemisch-Pharmazeutische Spezialitäten GmbH, Salzbergen, Germany	a	25,988	100.00	EAV [2]
H&R Lube Blending GmbH, Salzbergen, Germany	a	1,927	100.00	EAV [2]
H&R LubeTech GmbH, Salzbergen, Germany	a	25	100.00	EAV [2]
H&R ChemPharm GmbH, Salzbergen, Germany	a	53,636	100.00	EAV [2]
H&R LubeTrading GmbH, Salzbergen, Germany	a	473	100.00	EAV [2]
Paul Fütterer GmbH, Neustadt an der Weinstraße, Germany	a	144	100.00	EAV [2]
H&R EcoClean GmbH, Salzbergen, Germany	a	-62	100.00	-6
H&R ESP International GmbH, Hamburg, Germany	a	25	100.00	EAV [2]
H&R Ölwerke Schindler GmbH, Hamburg, Germany	a	17,655	100.00	3,430
H&R InfoTech GmbH, Salzbergen, Germany	d	25	100.00	EAV [2]
H&R ESP Nuth B.V., Nuth, Niederlande, Holland	a	2,152	100.00	140
H&R ESP Limited, Milton Keynes, Great Britain	a	9,269 [5]	100.00	-5,273 [5]
H&R ESP Sales Limited, Milton Keynes, Great Britain	a	3,225 [5]	100.00	919 [5]
H&R ESP Tipton Limited, Milton Keynes, Great Britain	a	5,562 [5]	100.00	-6,939 [5]
H&R ChemPharm (UK) Ltd., Milton Keynes, Great Britain	a	0	100.00	0
H&R GSP Inc., Detroit, USA	a	-430	100.00	-439
H&R ESP s.r.o., Prag, Czech Republic	a	40	100.00	33
H&R GSP Pty Ltd, Victoria, Australia	a	4,814	100.00	1,033
H&R Global Special Products Co. Ltd., Bangkok, Thailand	a	910	100.00 [1]	622
H&R Global Special Products Sdn. Bhd. Kuala Lumpur, Malaysia	a	52	100.00 [1]	47
H&R GSP Co. Ltd., Bangkok, Thailand	a	-6	100.00 [5]	-2
H&R GSP Co. (HK) Limited, Hongkong	a	-340	100.00	-214
H&R Global Special Products (Proprietary) Limited, Durban, South Africa	a	1,109	100.00	168
H&R GSP South Africa GmbH, Hamburg, Germany	a	14,025	100.00	EAV [2]
H&R Global Special Products (Proprietary) Sales Limited, Durban, South Africa	a	2,163	100.00	505
Dussek Campbell (Proprietary) Limited, Durban, South Africa	a	909	51.00	354

H&R Grundstücksverwaltungs GmbH, Salzbergen, Germany	a	7,280	98.68	230
H&R Grundstücksverwaltungs-Beteiligungsgesellschaft mbH, Salzbergen, Germany	a	5	74.04	2
GAUDLITZ GmbH, Coburg, Germany	b	4,502	100.00	EAV [2]
GAUDLITZ Green Point Precision Technology (Wuxi) Co., Ltd, Wuxi, China	b	1,876	51.00	-688
WANO Schwarzpulver GmbH, Liebenburg, Germany	c	276	100.00	95
WANO Entertainment GmbH, Liebenburg, Germany	c	-193	100.00	7
Allmex AB, Karlstad, Sweden	c	106	100.00	-17
SYTHENGRUND Wasagchemie Grundstücksverwertungsges. Haltern mbH, Haltern, Germany	c	3,833	56.68 [4]	EAV [2]
Westspreng GmbH Sprengstoff + Sprengtechnik, Haltern [6], Germany	c	13,855	60.53	2,065
Detona Sprengstoff-Vertrieb Beteiligungs GmbH, Finnentrop-Fretter, Germany	c	40	60.53	2
BST Bohr- und Sprengtechnik GmbH & Co. KG, Pölzig, Germany	c	52	60.53	412
Ipari Robbanóanyagot Gyártó KFT, Peremarton, Hungary	c	466 [5]	60.53	12 [5]
BLASTEXPOL Sp.z o.o., Lubin, Czech Republic	c	5,717 [5]	60.53	1,103 [5]
LA POUDRERIE s.a., Kockelscheuer, Luxemburg	c	118 [5]	60.53	-330 [5]
POUDRERIE DE LESSINES s.a., Brüssel, Belgium	c	89 [5]	60.53	0 [5]
ALPSPRENG Bohr- und Sprengtechnik GmbH, Eisenerz, Austria	c	212	60.53	102
Schneider Sprengtechnik GmbH, Bad Sobernheim, Germany	c	391	60.53	253
Romblast S.R.L., M-Ciuc, Romania	c	-155 [5]	60.52	-222 [5]
CS Blast Servis spol s.r.o., Prag, Czech Republic	c	-161 [5]	42.37	-88 [5]
MEDEX s.r.l., Sirmione, Italy	c	99 [5]	42.37	-88 [5]
WASAG CHEMIE Marketing GmbH, Hamburg, Germany	c	25	100.00	0
H&R Eurospreng GmbH, Salzbergen, Germany	c	23	56.68	-2
GRA Grundstücks-Verwaltungsges. mbH, Hamburg, Germany	d	22	100.00	-1
B.-H. Beteiligungs- und Handelsges. mbH, Essen, Germany	d	-44	100.00	-25
Financial assets shown by the equity method				
Westfalen Chemie GmbH & Co. KG, Salzbergen, Germany	a	-2,118	50.00	349
Westfalen Chemie Verwaltungsgesellschaft mbH, Salzbergen, Germany	a	57	50.00	1
Schmidtmann GmbH Sprengstoffhandel, Anröchte, Germany	c	[3]	15.74	[3]
Schuetzen Powder LLC, Arlington TX, USA	c	79	50.00	82

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	d	4,105	10.00	-1,463
Betreibergesellschaft Silbersee II Haltern am See mit beschränkter Haftung, Essen, Germany	c	25	4.53	0

1) Including shares held in trust: Shares in the following companies are only held indirectly through trustees: H&R WASAG AG holds 49 % of shares in H&R Global Special Products Co., Ltd., Bangkok, Thailand, via subsidiaries, and 51% is managed for the Group by trustees. H&R Global Special Products Co., Ltd. in turn holds 60.98% of H&R GSP Co., Ltd., Bangkok, Thailand. A further 38.98% is held by a subsidiary which is wholly owned by H&R WASAG AG. The remaining 0.04% is held for the Group in trust. The Group has a direct 30% stake in H&R Global Special Products Sdn. Bhd., Kuala Lumpur, Malaysia. The remaining 70 % is held for the Group in trust.
2) EAV = Profit and loss agreement
3) For these companies, no year-and-accounts are available as of Dec. 31, 2005.
4) The shares of minority shareholders do not carry voting rights.
5) Preliminary
6) This concerns the former WASAGCHEMIE Sythen GmbH, which changed its name as part of the merger of Westspreng GmbH und Sprengstoffwerk Gnaschwitz GmbH.

Divisions:
a) Chemical Pharmaceutical Raw Materials
b) Plastics
c) Explosives
d) Other activities

Auditors’ report

„Auditors’ report

We have audited the consolidated financial statements prepared by H&R WASAG Aktiengesellschaft, Salzbergen, consisting of the balance sheet, profit and loss account, movements in net equity, cash flow statement and Notes, for the financial year from January 1 to December 31, 2005. The preparation of the consolidated financial statements in accordance with IFRS, as applied in the EU, and the applicable rules as set out in § 315a paragraph 1 of the German Commercial Code (HGB) lies within the scope of responsibility of the legal representatives of the company. It is our task, on the basis of the audit that we have conducted, to provide an assessment of the consolidated financial statements and the Group management report.

We have conducted our audit of the consolidated financial statements in accordance with § 317 of the German Commercial Code taking into account the German principles of proper auditing defined by the Institute of Auditors (IDW). Accordingly, the audit should be planned and carried out in such a way that incorrect statements and infringements are identified with sufficient confidence that have an effect on the presentation of the net worth, financial position and the results of operations as conveyed by the consolidated financial statements, taking into account applicable accounting principles, as well as by the Group management report. The scope of the audit was planned taking into account our understanding of business operations, the Group's economic and legal environment and any potential errors expected. As part of the audit, the effectiveness of the accounting-related internal control system, as well as documented evidence for the disclosures made in the consolidated financial statements and in the consolidated management report was subject to evaluation on the basis of random checks. The audit comprises the assessment of the annual financial statements of companies included in the consolidated financial statements, the delimitation of the scope of consolidation, the accounting and consolidation principles applied, key estimates made by the legal representatives, as well as an evaluation of the overall presentation of the consolidated financial statements and of the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has led to no objections.

In our opinion, on the basis of knowledge gained as part of our audit, the consolidated financial statements have been prepared in accordance with IFRS, as applied in the EU, and the applicable commercial law rules as set out in § 315a of the German Commercial Code paragraph 1 (HGB) and, taking these principles into account, they convey a picture of the net worth, financial position and the results of operations of the Group that corresponds to the actual circumstances. The Group management report harmonizes with the consolidated financial statements, conveys an overall appropriate picture of the situation of the Group and appropriately represents the opportunities and risks related to future development.

Hamburg, April 30, 2006
SUSAT & PARTNER OHG
Wirtschaftsprüfungsgesellschaft

Dr. Roser
Auditor

Bischoff
Auditor“

Financial Calender

May 12, 2006	Q1 Report 2006
June 28, 2006	Annual Shareholder Meeting in Hamburg
August 11, 2006	Q2 Report 2006
October 7,2006	Hamburg Investors fair
November 10, 2006	Q3 Report 2006

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 our Investor Relations Team:

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Glossar

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 income.

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 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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