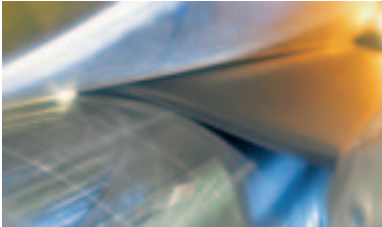


**SIMONA**

Annual Report 2005

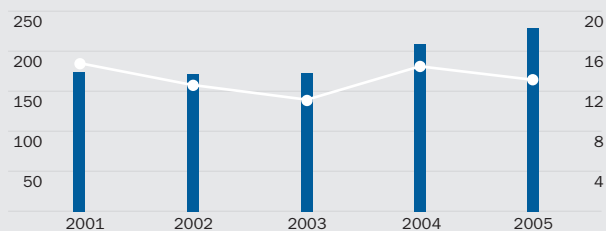


## At a glance

SIMONA Group		2005	2004	2003
		acc. to IFRS	acc. to IFRS	acc. to HGB
Revenue	EUR m	230.6	212.8	173.8
Year-on-year change	%	8.4	22.4	0.5
Abroad revenue	EUR m	143.8	130.3	101.1
Abroad revenue	%	62.4	61.2	58.2
Staff costs	EUR m	48.8	47.4	45.5
Earnings before taxes on income	EUR m	13.0	15.1	11.5
Net profit	EUR m	7.8	10.2	6.4
Return on sales	%	3.4	4.8	3.7
Cash flow from operating activities	EUR m	17.1	12.2	17.4
EBITDA	EUR m	25.0	25.8	23.2
EBITDA	%	10.8	12.1	13.4
<hr/>				
Balance sheet total	EUR m	210.5	199.2	145.8
Shareholders equity	EUR m	128.6	125.3	96.7
Non-current assets	EUR m	85.8	88.3	49.2
Investments in intangible assets	EUR m	7.2	7.5	12.1
Depreciation in intangible assets	EUR m	12.4	11.2	9.2
Employees at year end		1.044	1.050	1.020
Average number of employees for the year		1.043	1.052	1.032
Revenue per employee	EUR '000	221	202	168

**Revenue and EBT**  
SIMONA Group in EUR m

■ Revenue  
● EBT



until 2003, acc. to HGB (German Commercial Code),  
from 2004, acc. to IFRS

SIMONA AG		2005	2004	2003
		acc. to HGB	acc. to HGB	acc. to HGB
Revenue	EUR m	201.8	190.1	162.0
Year-on-year change	%	6.1	17.3	- 0.5
Abroad revenue	EUR m	117.6	108.1	88.9
Abroad revenue	%	58.3	56.9	54.9
Staff costs	EUR m	43.0	41.2	40.6
EBT	EUR m	18.3	14.7	10.8
Net profit	EUR m	11.0	9.9	5.9
Return on sales	%	5.5	5.2	3.7
Cash flow	EUR m	17.7	17.4	16.7
EBITDA	EUR m	26.2	22.3	22.4
EBITDA	%	13.0	11.7	13.9
Balance sheet total	EUR m	158.8	148.9	140.3
Shareholders equity	EUR m	109.2	102.7	97.1
Fixed assets	EUR m	54.3	53.2	49.1
Investments in intangible assets	EUR m	6.2	6.6	10.0
Depreciation in intangible assets	EUR m	7.5	7.4	8.9
Employees at year end		912	914	891
Average number of employees for the year		910	906	893
Revenue per employee	EUR '000	222	210	181

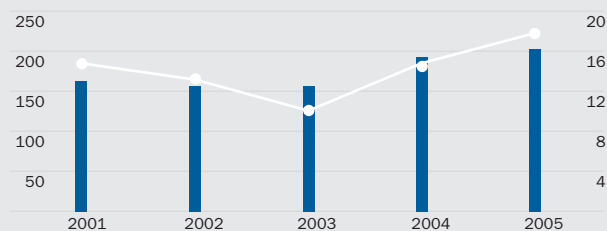
		2005	2004	2003
Earnings per share <sup>1</sup>	EUR	13.03	17.03	10.80
Dividend	EUR	7.50	7.50	7.00
Dividend yield		3.1	3.5	3.5
Price-earnings ratio		22.1	12.7	18.6
Market capitalisation over equity <sup>1</sup>		1.14	1.03	1.24
<b>Share prices as at 31.12.</b>	<b>EUR</b>	<b>245</b>	<b>216</b>	<b>201</b>

<sup>1</sup> calculated on group basis

#### Revenue and EBT SIMONA AG in EUR m

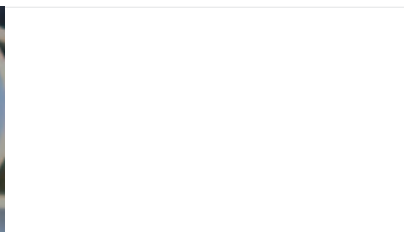
■ Revenue  
● EBT

acc. to HGB (German Commercial Code)

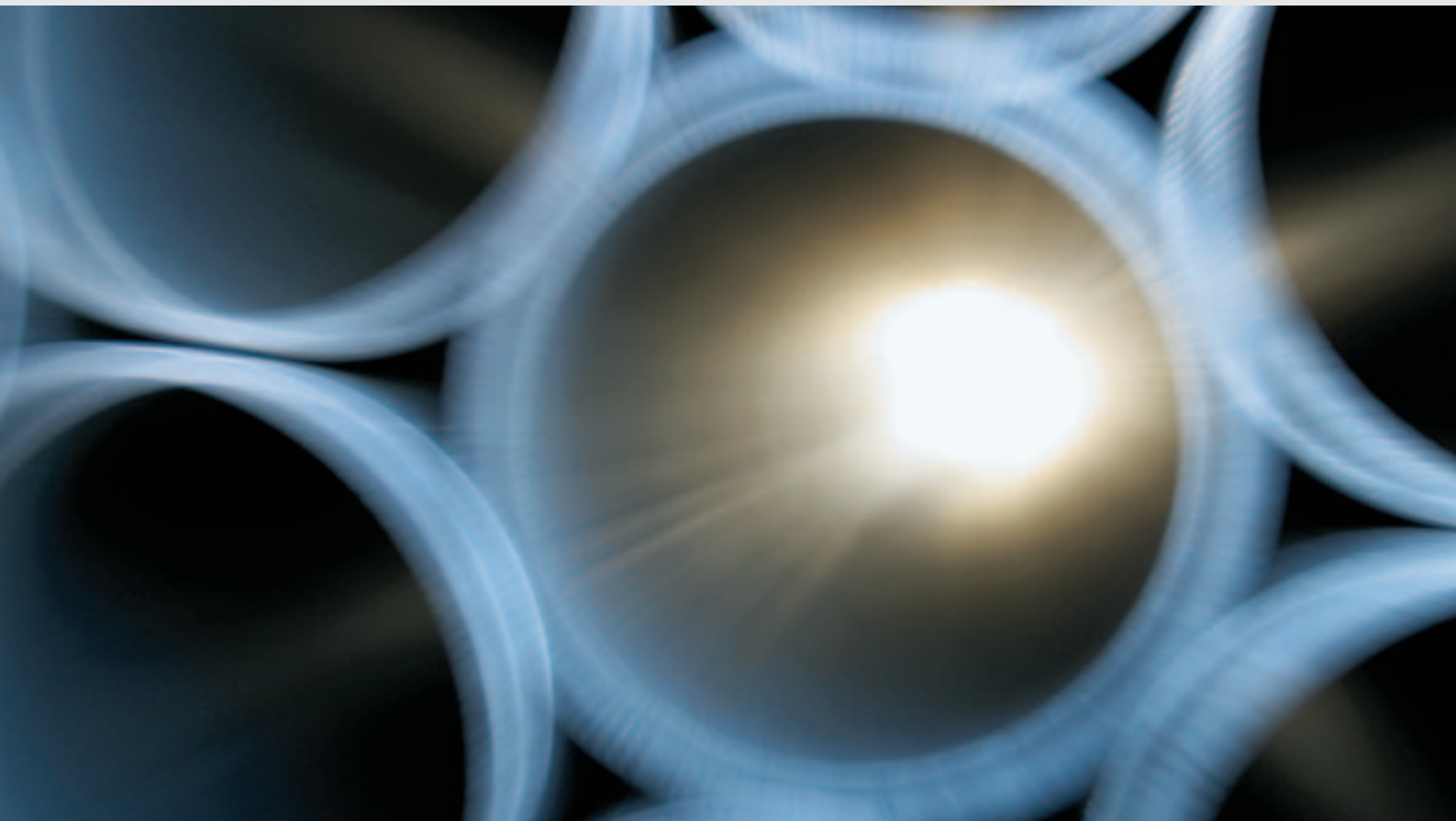


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## Annual Report 2005



SIMONA AG is recognised as one of the world's leading manufacturers of thermoplastic semi-finished products. This premier position within the international arena is a tribute to our commitment to quality, our comprehensive product portfolio, our customer-orientated consulting and manufacturing activities as well as our all-embracing service offering. Drawing on these strengths, we successfully held our ground in a year that was generally characterised by challenging market conditions for the plastics industry as a whole. The following sections provide in-depth facts and figures on our performance in the 2005 financial year.

## Dear Shareholders,

### Letter to Shareholders

Kirn, May 2006

Overall, 2005 proved to be a difficult year for Germany's plastics industry. In contrast to many other sales markets driven forward by a buoyant export sector, the plastics industry recorded a slight decline in production volumes over the course of the year.

Despite the challenging economic conditions, the SIMONA Group and SIMONA AG were able to deliver a solid performance. At Group level we registered revenue growth of 8.4 per cent, taking this figure to €230.6 million, while revenue for the AG, i.e. the parent company, grew by 6.1 per cent to €201.8 million. Furthermore, in achieving a slight increase in sales volume of 0.5 per cent, we were able to outperform the plastics industry as a whole.

Yet again, foreign sales proved to be our most potent growth driver in the year under review, with revenues rising by 9.1 per cent to €143.8 million. At 62.4 per cent, the export ratio within the Group reached a new high. This trend clearly underlines the highly successful approach to international marketing, as well as providing us with the inspiration to accelerate the process of expansion within the global arena.

Profit from ordinary activities improved by 25.5 per cent to €18.3 million in the AG. Return on sales stood at 8.5 per cent, i.e. well with the target range of 7 to 10 per cent. Consolidated net profit, calculated on the basis of IFRS for the first time, amounted to €13.0 million.

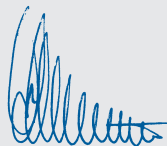
Owing to the changeover to International Financial Reporting Standards (IFRS), the Group figures associated with the financial statements of preceding years are not fully comparable. For details regarding the application of IFRS and the thus resulting differences to HGB financial reporting, please refer to the notes to the consolidated financial statements.

The forecast for the 2006 financial year is based on the assumption that business performance in our core markets remains positive. At Group level, revenue is expected to grow by 4 per cent to €240 million, while earnings before interest and taxes on income (EBIT) are forecast to improve to €15 million.

The economic outlook is favourable, and by gearing our activities more directly towards our markets, we have created a solid foundation for continued growth. Within this context, we are committed to further international expansion and the penetration of additional future-oriented market segments to attract new customers and gain forward momentum.



Wolfgang Moyses  
Chief Executive Officer (CEO)



Dirk Möller



Jochen Feldmann



**Wolfgang Moyses**  
CEO

Member of the Management Board since 1999.

Responsible for Sales, Logistics, Marketing and Applications Technology as well as Legal Affairs and Human Resources, Kirn.



**Dirk Möller**  
COO

Member of the Management Board since 1993.

Responsible for Production, Research & Development, as well as Occupational Safety, Kirn.



**Jochen Feldmann**  
CFO

Member of the Management Board since 1 January 2006

Responsible for Finance, Purchasing, Controlling, Quality Management as well as IT and Organisation, Kirn

**Members of the Management Board**

**Dr. Wolfgang Bürkle**  
Chairman of the Supervisory Board  
† 18 August 2005  
  
Manager, Kirn

**Hans-Wilhelm Voss**  
Chairman of the Supervisory Board  
from 7 September 2005  
  
Manager, Simmertal

**Roland Frobel**  
  
Tax Consultant,  
Langenhagen

**Members of the Supervisory Board**

**Hans-Werner Marx**  
Deputy Chairman of the Supervisory Board  
from 7 September 2005  
  
Manager, Kirn

**Bernd Meurer**  
Employee Representative  
  
Fitter,  
Hennweiler

**Karl-Ernst Schaab**  
Employee Representative  
  
Commercial Clerk,  
Bergen

**Economic Committee**

**Dr. Wolfgang Bürkle**  
† 18 August 2005

**Hans-Wilhelm Voss**

**Hans-Werner Marx**

**Roland Frobel**  
from 7 September 2005

**Supervisory Board Committees**

**Personnel Committee**

**Dr. Wolfgang Bürkle**  
† 18 August 2005

**Hans-Wilhelm Voss**

**Hans-Werner Marx**

**Roland Frobel**  
from 7 September 2005



## Company profile



**SIMONA can look back on a rich and varied history dating back to the middle of the 19th century. In 1857, Theodor and Heinrich Simon established the leather factory Carl Simon Söhne, located in the German town of Kirn. Today, SIMONA AG is recognised as one of the leading European manufacturers and distributors of semi-finished thermoplastics.**

### **Plastics by SIMONA – truly ubiquitous**

Our standard product range consists of extruded and pressed sheets, solid and hollow rods, profiles and welding rods, as well as pipes and fittings, electrofusion sockets and valves. The materials used in production include polyethylene (PE), polypropylene (PP), polyvinyl chloride (PVC-U) compact and foamed, polyethylene terephthalate glycol (PETG), polyvinylidene fluoride (PVDF) and ethylene-chlorotrifluoroethylene (E-CTFE), as well as specialist materials.

SIMONA AG is based in Kirn, a town located in the German state of Rhineland-Palatinate. The Kirn-based plant produces sheets, rods, profiles, and welding rods. Pipes and fittings are manufactured at the company's facility in Ringsheim, in the German state of Baden-Württemberg. Products destined for the American market are manufactured at SIMONA's plant in Mountaintop, Pennsylvania, USA. Supported by extensive storage capacities at the two central warehouses in Kirn and Ringsheim, as well as decentralised distribution units, SIMONA is committed to efficient and on-time delivery of its products.





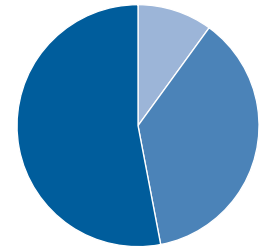
In addition, the company has established a global network of subsidiaries and sales partners, thus guaranteeing a professional, customer-oriented service on all continents. The SIMONA Group includes subsidiaries in the Czech Republic, France, Hong Kong, Italy, Poland, Spain, Switzerland, the United Kingdom and the USA; the company is also represented in Shanghai.

### Made by SIMONA – quality at its best

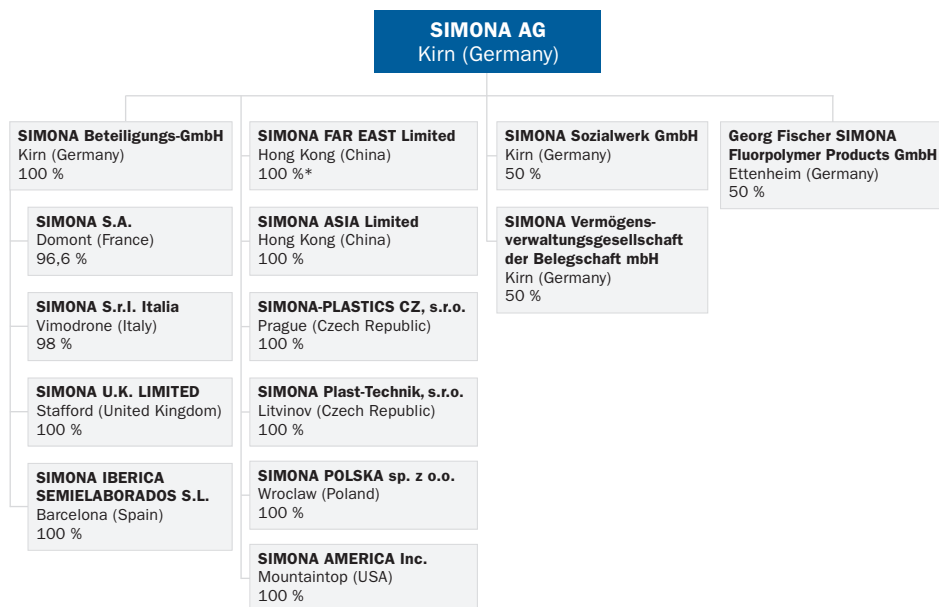
One of the traditional areas of application for SIMONA products is chemical instrument engineering. The high level of resistance of SIMONA semi-finished plastics to a broad range of aggressive chemicals, thus providing superior environmental protection, has proved to be a formidable source of competitive advantage within this area. By developing next-generation plastics and modifying existing solutions, e.g. by means of co-extrusion of various materials, the company has opened up new opportunities for applications within the field of construction and car manufacturing.

Quality "made by SIMONA" is also appreciated within the area of civil engineering – e.g. when it comes to drinking water supply, waste-water disposal and refuse-site technology – as well as in the field of structural engineering, advertising or mechanical engineering. Increasingly, SIMONA is positioning itself as a provider of professional solutions for a diverse range of applications, particularly within the area of industrial pipeline construction, environmental management and sewage-system redevelopment.

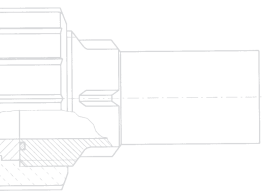
**SIMONA Group  
Revenue by region  
(in %)**



Germany	37.0
Europe and Africa	53.0
America und Asia	10.0



\* 100 % from 1 April 2005; 51 % to 31 March 2005



### **Slight growth in revenues for plastics-processing industry**

Following a lacklustre first half, the second half of 2005 proved to be a slightly more buoyant period for the German economy. Supported by a new record level of exports, the country's gross domestic product (GDP) grew by 0.9 per cent. In spite of this favourable trend, GDP fell short of expectations and remained well below the figure of 1.6 per cent achieved in the preceding year. Indeed, Germany was among the economic laggards in a European comparison, with real GDP growth reaching 1.3 per cent in the Eurozone.

The economic upturn witnessed in the third and fourth quarters was driven yet again by German exports, which rose by almost €60 billion year on year to €900 billion overall. In contrast, the level of gross capital investments remained unchanged for the third year in succession. It was not until the fourth quarter that domestic demand showed slight signs of improvement.

The plastics-processing industry, which had recorded production growth of 1.7 per cent and revenue growth of 3.6 per cent in 2004, produced 0.5 per cent less in 2005, in net terms, than in the year before. This downward trend was attributable to the reduction in inventory levels and the relocation of manufacturing activities to other countries.



Despite the downturn in net production, revenues grew by approx. 1.2 per cent due to the significant increase in prices for many plastic products.

Production figures within the area of semi-finished plastics fluctuated greatly over the course of 2004 and 2005. Having reached solid levels in the third quarter of 2004, orders declined sharply in the fourth quarter of the same year and improved only slightly in the subsequent period after a slump in the first quarter of 2005. It was not until the fourth quarter of 2005 that the level of orders improved significantly, registering an 8 per cent increase compared with the same period a year ago. Despite this, overall annual production declined by 1.5 per cent in the year under review. Within this area, too, reductions in inventory levels and higher prices contributed to a slightly more dynamic revenue performance, with a growth rate of one per cent.

#### Plastics industry fails to benefit from growth in key sales markets

The above-par revenue performance recorded by the plastics-processing industry in the period under review was supported almost entirely by the 4 per cent increase in foreign revenues. Within the area of semi-finished products, however, overseas demand remained weak in the first three quarters of 2005, which had an adverse effect on the overall performance of this sector in the period under review. Having said that, the 8 per cent increase in incoming orders from abroad recorded in the fourth quarter of 2005 produced a small glimmer of hope for semi-finished plastics.

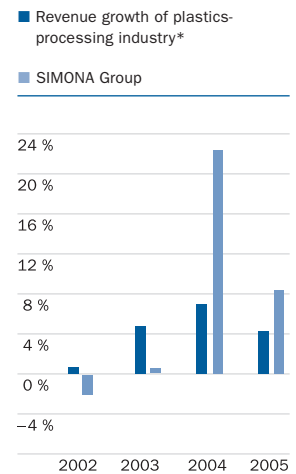
In contrast to the situation witnessed in previous years, the plastics-processing industry in general, which includes the subsegment of semi-finished plastics, failed to tap into and profit from the high-growth, export-orientated markets associated with the chemical industry and mechanical engineering.

The chemical industry recorded production growth of approx. 6 per cent in 2005. It was driven, in particular, by strong overseas demand that generated revenue growth in excess of 8 per cent. Revenue levels also benefited from adjustments to manufacturer prices, which rose by 3 per cent on average in 2005. While higher supply-side prices were reflected in the surge in raw material costs for polymers in the third quarter, higher demand had only a small effect on plant investments by manufacturing companies and thus on demand for semi-finished plastics used in industrial plant engineering. Domestic investment spending increased by just 2 per cent after a period of two years in which investments had actually stagnated.

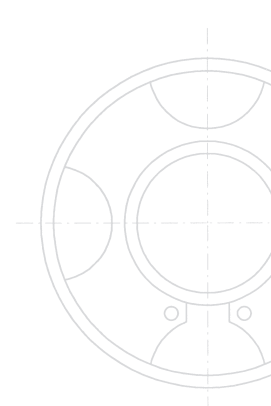
Mechanical and plant engineering recorded growth of 4.5 per cent in 2005. Within this context, the level of incoming orders was 12 per cent higher at the end of 2005 than in December 2004, fuelled by a more pronounced increase in domestic business in relation to foreign demand.

The financial position, financial performance and cash flows of the Group are determined to a large extent by the operating activities of SIMONA AG. With this in mind, the following section provides an overview of the business performance of SIMONA AG, as well as outlining the market conditions under which the parent company operated in the reporting period. The balance sheet and the income statement of SIMONA AG have been prepared in accordance with the statutory provisions set out in the German Commercial Code (Handelsgesetzbuch – HGB).

Revenue performance of plastics-processing industry (in %)



\* Sheets, foils, hoses/tubing, profiles. Source: GKV



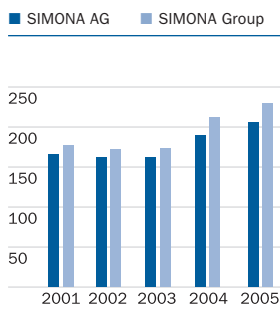


Following an extremely weak performance in the year 2003, the exhibition design industry improved slightly in 2004. This positive trend continued in 2005, albeit at a reduced pace. The sector as a whole saw a rise in the number of trade fairs and total exhibition space. In contrast, the general malaise witnessed in the construction industry remained unchanged in 2005. Economic performance within this area receded for the sixth year in succession. At the same time, public and municipal investment volumes declined in 2005. In combination, this had a detrimental effect on the building supplies segment, which recorded a fall in production volumes of over 6 per cent.

### **Slight increase in sales volumes and higher revenues**

SIMONA AG performed solidly within the economic arena in 2005. Achieving a slight year-on-year increase in sales volumes of 0.4 per cent, the company was able to extricate itself from the negative production spiral generally associated with the plastics industry in the period under review. While sales volumes improved only slightly, revenues generated by SIMONA AG were propelled upwards by €11.7 million, i.e. 6.2 per cent, to €201.8 million in 2005. The growth in revenues was attributable to price adjustments prompted by higher raw material costs, as well as being driven by the company's product mix.

Revenue performance  
SIMONA AG and Group  
(in €m)



Overall, business performance was bifurcated in 2005, with the first half producing hardly any momentum and the second half generating more buoyant demand. The degree of hesitancy within the chemical industry as regards capital expenditure, in terms of both new and replacement investments, was reflected in the significant decline in orders for semi-finished PE, PP and PVC plastics used in chemical engineering.

Indeed, even the tangible improvements witnessed in the second half of the year were not enough to counterbalance the decline recorded in the first half. In contrast, business activities associated with the advertising and display industry remained very stable in the period under review. Sales of these products were driven by the general improvement in economic conditions in the third quarter, which also extended to the advertising and exhibition design industry, whereas the construction sector was dominated by the weak economic performance associated with many of the regional markets. Business within the area of pipes and fittings developed well in 2005, thus emulating the performance of the preceding year.

### **Stabilised domestic demand**

The gradual recovery of the domestic economy in the course of the first half was reflected in the solid levels of incoming orders. In Germany, demand was driven by overseas contracts secured in particular by enterprises operating in the chemical engineering industry. In addition, the slight improvement in domestic demand had a favourable impact on sales volumes associated with semi-finished plastics. As a result, domestic sales volumes remained stable at an elevated level. Business performance within the area of pipes and fittings was extremely encouraging in the period under review due to



a number of project-related orders. Indeed, pipes and fittings contributed significantly to total revenue growth in Germany, up by 2.6 per cent to €84.1 million.

### Continued growth in foreign sales

Revenue from foreign sales amounted to €117.6 million for the AG (Aktiengesellschaft), i.e. the parent company. The proportion of revenue generated abroad in relation to total revenue increased by 1.4 percentage points to 58.3 per cent.

### Europe and Africa

In the United Kingdom, the considerable decline in investment spending witnessed in the private housing sector – prompted mainly by a less buoyant economy – resulted in lower sales of SIMONA® PRODOOR products. Market activity within other areas proved insufficient in terms of offsetting the above-mentioned shortfall. In contrast, business performance in Southern Europe was more encouraging, as underlined by growth in both sales volumes and revenues.

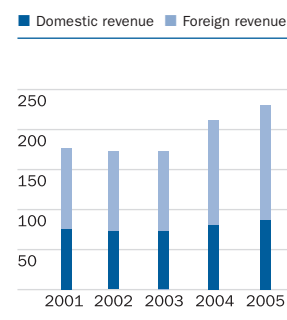
Growth continued unabated in Central and Eastern Europe over the course of 2005. Within this context, sales of semi-finished plastics benefited in particular from tangible demand for products deployed in the construction sector. The same applied to sheets used in the advertising industry, although these products are currently having to compete against low-price solutions developed in the Far East. In the period under review, the chemical engineering sector gradually gained momentum in Eastern Europe, thus contributing to growth within the area of polyethylene, polypropylene and polyvinyl chloride. The pipe sector was hampered by severe winter conditions at the beginning of 2005, as well as tentative investment spending in Poland in the run-up to the country's general elections in mid-2005. Overall, revenues increased to €103.2 million in Europe in the period under review.

### Asia and America

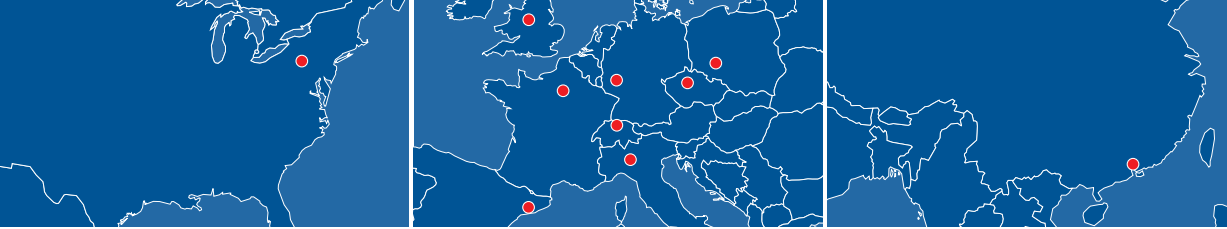
Business development in Asia was characterised by increasing competition from domestic players with access to less expensive raw materials and significantly lower wage structures; prices for semi-finished products came under considerable pressure as a result of these market conditions. Furthermore, enterprises without local production facilities are generally at a disadvantage due to customs duties and freight charges. This situation had a detrimental effect on sales volumes and revenues in the period under review.

Overseas business gained considerable momentum as a result of the outstanding performance of the company's subsidiary SIMONA AMERICA Inc. Sales volumes of products manufactured in Kirm/Germany – complementing the product range for the US market – rose noticeably in the period under review. Revenues generated by the AG in the Asian and American regions amounted to €14.5 million in 2005.

Development of revenue  
SIMONA Group (in €m)







**The forward momentum produced by the company's subsidiaries contributed significantly to revenue growth at SIMONA AG in 2005. Sales generated abroad represented 58.3 per cent of total revenue.**

### **Overall performance of subsidiaries remains positive**

The company's French subsidiary SIMONA S.A. performed admirably in 2005, despite the weak domestic market. The campaign of high-impact marketing activities launched in 2004 was taken to the next level in the year under review, thus prompting a significant improvement in bottom-line results.

Italy recorded the lowest level of economic growth in the EU over the course of 2005, with industrial production figures actually declining by 1.8 per cent. Despite this challenging economic climate, the volume of sales attributable to **SIMONA ITALIA** remained stable. Owing to intense competition and the thus resulting pressure on prices for semi-finished plastics, earnings were slightly below par.

**SIMONA UK**'s business performance was dominated by the decline in sales volumes associated with the construction industry. Against the backdrop of sluggish economic growth, the private housing sector came under considerable pressure in 2005. As a result, the market for door and wall units contracted significantly in the period under review. Sales within the area of chemical equipment engineering proved insufficient when it came to counterbalancing the above-mentioned decline in volumes.

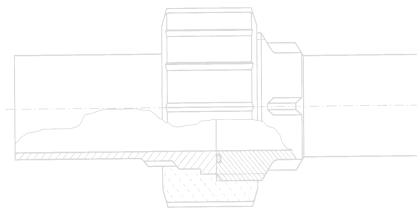
**SIMONA POLSKA** continued with its programme of growth in the year under review. However, investment spending within the area of plant engineering and piping systems fell short of expectations as a result of adverse weather conditions at the beginning of the year. This applied in particular to project-related orders within the area of wastewater disposal, which had been scheduled to take place but were not implemented. The level of sales volumes stabilised in the second half of the year, allowing SIMONA POLSKA to increase both sales and earnings.

In the Czech Republic **SIMONA PLASTICS CZ** was able to emulate its outstanding performance of previous years. Revenues were impacted by the shift towards lower cost materials within the overall product mix. SIMONA-PLASTICS CZ posted above-par results.

The company's Spanish subsidiary **SIMONA IBERICA SEMIELABORADOS** recorded positive results in all segments of the market, benefiting from intensive marketing activities and consistent efforts to structure the product mix.

**SIMONA FAR EAST** was unable to match the improvements in sales volumes recorded in 2004. The local competition stepped up its activities within the marketplace, prompting a reduction in prices for PP and PVC semi-finished products, which are mainly deployed within the area of chemical engineering. Furthermore, the competitiveness of products manufactured in Germany is restricted by customs duties and freight charges, as well as foreign exchange risks. This resulted in a decline in both sales volumes and revenues.

The company's US subsidiary **SIMONA AMERICA Inc.** succeeded in doubling its revenues in the period under review. Despite this positive trend, bottom-line results remained below break-even. This was attributable mainly to intense competition and



substantial market-entry costs. Having said this, earnings performance improved in the course of the financial year, culminating in the first break-even results in November and December.

### Improvement in AG earnings

In raising sales volumes by 0.4 per cent, we managed to outperform the plastics industry in 2005. Against the backdrop of price increases, prompted by higher raw material costs, as well as changes to the product mix, revenue amounted to €201.8 million. While revenues rose by 6.1 per cent, the cost of materials increased by 6.6 per cent to €111.3 million. In percentage terms, the gross profit margin fell from 45.1 per cent to 44.8 per cent. This clearly underlines that the increase in prices for semi-finished plastics was not sufficient to offset spiralling raw material costs in 2005.

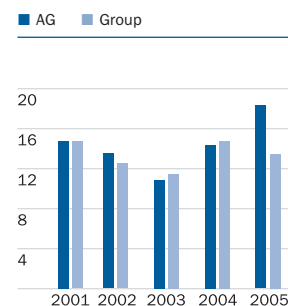
Wages and salaries rose by €2.0 million to €34.6 million in the 2005 financial year. This was attributable to collective pay increases as well as higher provisions for part-time employment of staff approaching the retirement age. Social security costs declined slightly by €0.2 million to €8.4 million due to lower allocations to SIMONA Sozialwerk GmbH.

Other operating expenses were scaled back to €25.8 million thanks to the introduction of a more stringent spending policy. Increased packaging and freight-related costs were offset by lower foreign exchange losses, reduced trade fair and exhibition costs as well as a fall in expenses for external labour.

Profit from ordinary operations rose by €3.6 million, i.e. 24.5 per cent, to €18.3 million. However, this figure includes other operating income, which rose by €2.5 million year on year due to the reversal of provisions and as a result of exchange rate gains.

The EBIT margin improved by 1.4 percentage points to 8.5 per cent and was thus within the range of 7 to 10 per cent originally targeted. The return on sales, calculated on the basis of profit from operations, improved by 0.3 percentage points to 7.4 per cent.

Earnings before taxes  
SIMONA AG and Group \*  
(in €m)



\* Group acc. to HGB until 2003; acc. to IFRS from 2004







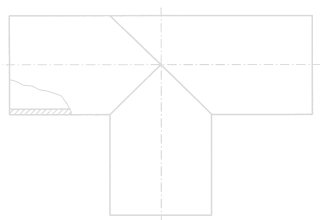
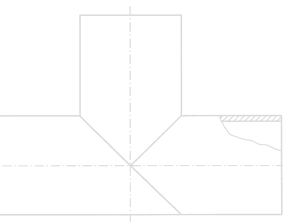
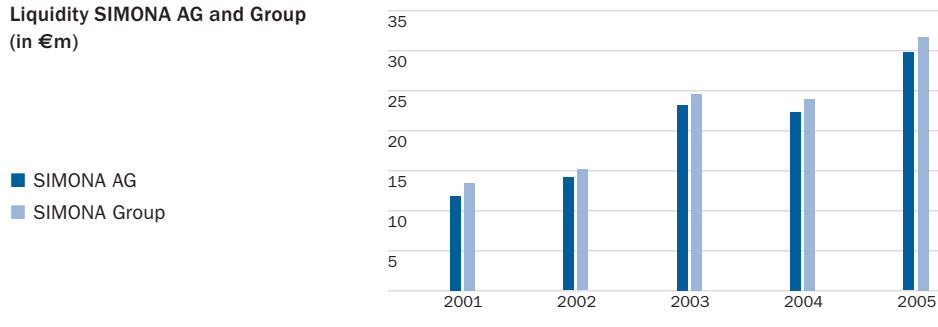
### Increase in liquidity levels

The balance sheet total of the AG rose by 6.7 per cent to €158.8 million in 2005. Within the category of non-current assets, intangible items rose by €1.6 million following the purchase of licences associated with the introduction of SAP in the areas of production planning, sales and logistics. The increase in total assets was mainly attributable to the expansion of current assets. Inventories declined by €2.0 million to €28.5 million, while receivables and other current assets rose by €3.4 million.

We recorded a significant increase in liquidity within the company. The level of other securities rose by €3.7 million to €5.1 million, while cash and bank deposits increased by €3.8 million to €24.7 million. Thus, cash and cash equivalents amounted to €29.8 million.

Trade payables increased by €0.8 million to €6.5 million. This was attributable to specific debit agreements with suppliers and the shifts in the date of direct debiting at the end of the year. At the same time, provisions for pensions were scaled back by €1.5 million in the 2005 financial year. The unappropriated surplus ("Bilanzgewinn", also referred to as net retained profits) increased by €1.0 million to €9.3 million.

Liquidity SIMONA AG and Group  
(in €m)



## Capital expenditure



In the course of the 2005 financial year, SIMONA AG invested €6.2 million in the further expansion and modernisation of its production facilities. Alongside investments in machinery aimed at raising productivity and quality levels, we focused on optimising the ventilation system for our extrusion facility. Based on a technical survey, the new ventilation system was installed in the fourth quarter of 2005 and put into operation in February 2006.

Within the area of pipe extrusion, new pipe production lines were introduced in order to increase output. In addition, a new injection moulding machine with robot-controlled extraction and finishing technology was put into operation.

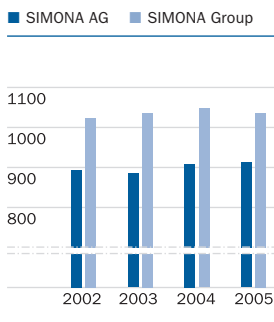
In terms of intangible assets, the introduction of SAP in the area of production planning/control, sales and logistics – the second project within the overall SAP phase-in – meant an investment of €1.6 million. Within this context, licences and software, as well as the requisite server structure, represented the largest expense items.

**The introduction of SAP is designed to support SIMONA's strategy of international expansion at operational level by providing a solid IT base for the optimisation of business processes.**

# Employees



**Staff employed within SIMONA Group and AG (annual average)**



The overall number of employees fell by two in 2005, from 914 to 912 members of staff at the end of the year; the average headcount stood at 910. The number of staff absences due to illness decreased slightly in the period under review. As a result, the average staff absence ratio fell to 4.14 per cent, the lowest level ever recorded.

In the year under review, 20 apprentices successfully completed their training at SIMONA. In total, 16 apprentices were offered positions with the company. At present, 6 apprentices are attending integrated part-time degree courses as part of the programme established with the Ludwigshafen University of Applied Sciences.

In total, 9 members of staff are on parental leave. By the end of 2005, the number of employees who had opted for part-time employment until they are eligible for retirement increased by 9, taking the total number to 41. 16 members of staff were released from employment duties, while eight members of the team went into retirement upon completion of a period of part-time employment.



We also staged a number of specialist training events designed to enhance our employees' qualifications. These measures included special shift-related training sessions for the respective manufacturing units, cross-departmental seminars, as well as subject-specific product and application workshops.

### Introduction of SAP in production, sales and logistics

At the beginning of 2004, management made the decision to introduce SAP as an enterprise software solution. One of the prime objectives of SAP deployment is to support SIMONA's strategy of international growth and create a solid IT foundation for process optimisation within the area of operations. After the Accounting, Controlling, Purchasing and Materials Management modules had "gone live" at the beginning of 2005, the next step was to introduce the Production Planning, Sales and Logistics modules as well as the new warehousing software at the end of the financial year. A number of comprehensive training seminars were staged for this purpose. Thanks to the committed contribution of all staff members involved in these measures – in many cases the additional workload was considerable –, the second phase of our SAP transition programme within the areas of production, sales and logistics was successfully completed at the end of the year and thus within the specified time frame.

The third phase involves introducing SAP in the respective subsidiaries in order to reap the rewards of a consistent enterprise software solution throughout the entire Group.

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**In 2005, 62 school-leavers took part in the following trainee programmes**

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Process Mechanics in Plastics and Rubber Technology

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Electricians specialising in operations technology

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Industrial Mechanics specialising in operations technology

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Specialists in Warehouse Logistics

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Industrial Clerks

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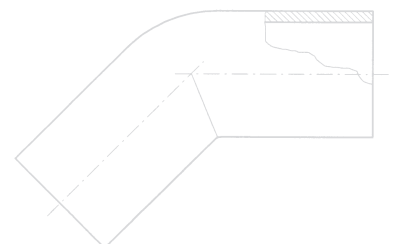
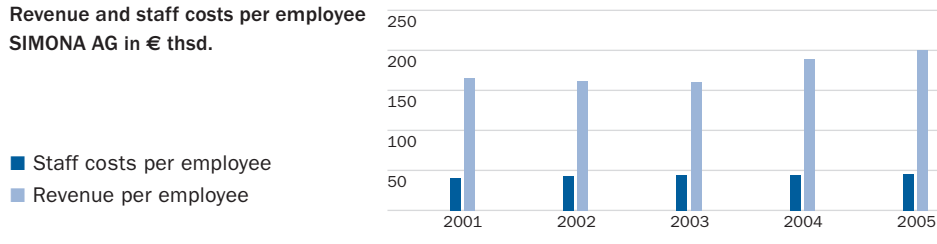
Bachelor of Science as part of an integrated part-time degree course

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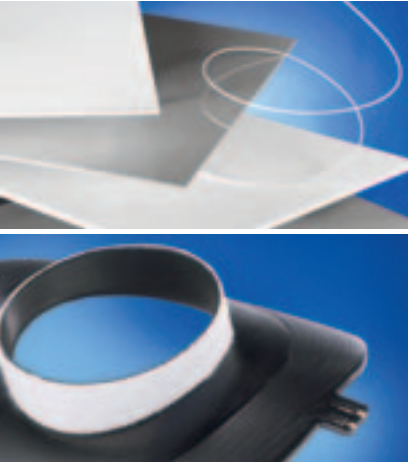
Computer Specialists

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Revenue and staff costs per employee  
SIMONA AG in € thsd.



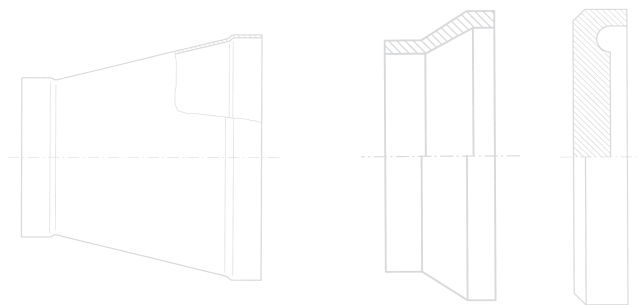
## Research and development



The main focus of our research and development activities in the year under review was on process optimisation within the area of multilayer extrusion, operational improvements relating to the production of foamed and compact PVC sheets, the next-generation development of PC-Blend products for use in door fabrication, the development of foamed sheets as well as enhancements to formulae used within the area of polyvinyl chlorides.

We also channelled a great deal of time and effort into product classification activities relating to the new European standard EN 13823: 2002, the so-called Single Burning Item Test (SBI test). The new SBI test method published by the European Commission in February 2005 constitutes a harmonised system for the classification of flame resistance of products used in the construction industry. In accordance with these guidelines, SIMONA products are tested on the basis of the new SBI method and are evaluated with regard to their fire behaviour. Based on these findings, we shall be able to assess whether the fire behaviour of our products can be further improved by deploying new flame protection agents.

Despite European harmonisation, the process of optimising fire ratings will remain an important and complex issue, as official approval of products is still dependent to a large extent on fulfilling national fire testing standards. Furthermore, non-European markets are becoming increasingly important, which means that products have to be optimised to meet a broad range of national standards.





## Quality and environmental management

Alongside customer orientation, profitability and environmental protection, quality is one of the foremost corporate priorities at SIMONA AG. Committed to these principles, SIMONA AG further extended its integrated quality management system comprising "Quality Management ISO 9001" and "Environmental Management ISO 14001".

In April 2005, certification of our QM system in accordance with ISO/TS 16949:2002 for the automotive industry was completed successfully. The requirements of ISO/TS 16949:2002 regarding consistent quality targets for all areas of the company engaged in activities that may influence quality were addressed accordingly. In 2005, we extended to all areas the process of defining specific quality targets for the respective departments and sections.

### Successful certification of SIMONA products

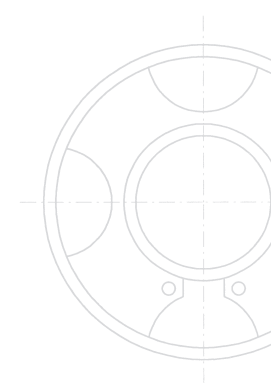
Furthermore, several customer- and application-specific certifications were completed in the period under review. The Federal Institute for Materials Research and Testing (Bundesanstalt für Materialwirtschaft – BAM) issued a General Test Certificate (a so-called "Allgemeines bauaufsichtliches Prüfzeugnis") in accordance with DIN 16738 for PE-HWU-B sheets used for the lining and sealing of prefabricated cellars against pressing water. In view of the changes to DIBt testing (Deutsches Institut für Bautechnik) – the emphasis being on semi-finished products as opposed to raw materials – in accordance with the provisions set out in Section 19 of the Federal Water Act (Wasserhaushaltsgesetz), we commissioned long-term tests for the relevant semi-finished plastics; they are to be completed in the course of 2006.

One of the key performance ratios within our quality-orientated manufacturing enterprise is the so-called complaints ratio. The complaints ratio, representing justified complaints in relation to revenue, stood at 0.2 per cent in 2005. Thus, both the complaints ratio and the associated complaints-related expenses remained unchanged year on year.

The protection of the environment and the conservation of natural resources are essential components of our corporate philosophy. The environmental report compiled by SIMONA for the first time in the period under review is to be seen as a major step towards raising staff awareness of environmental issues. In addition, we introduced measures to scale back energy consumption. These included the transition from medium voltage to high voltage as well as the introduction of an electricity control system and staff training.



**Market- and application-related certification of individual products in accordance with country-specific as well as internationally recognised standards forms an integral part of SIMONA's philosophy of delivering all-embracing customer solutions.**



## Risk report

**Diversification is the key to minimising risk: an international presence, the ability to operate in a diverse range of market segments, financial independence and a comprehensive customer portfolio are constituent elements of this approach.**

The risk management system is centred around an Intranet-based information system that spans the entire company. As part of this system, possible risks are documented from a corporate and a departmental perspective; potential damages associated with these risks are quantified accordingly. These risks are permanently monitored, evaluated and ranked as part of a three-tier risk management report. Within this context, the company has defined early-warning indicators which are able to identify risks as soon as specific thresholds have been exceeded. Appropriate measures are initiated to counteract the risks identified within the system. The Management Board and the Supervisory Board are kept informed of all risks and evaluations as part of comprehensive quarterly reports, which are an integral part of the company's active risk management.

Neither risks that are considered to jeopardise the company as a going concern nor concentration of risks associated with the company's trading environment and sector are deemed to have existed in the period under review or at the time the management report was published.

Risks relating to the company's trading environment and sector are limited chiefly to economic risks such as the general performance of specific industries as well as product portfolios associated with the respective sectors in which the company operates. In particular, the relocation of production facilities to Asia and Eastern Europe constitutes a potential risk, but also an opportunity in terms of the future progression of the company. As part of mid- to long-term strategic planning, we have been assessing the growth potential of regional markets and the opportunity of participating in this growth with company-owned production units in Eastern Europe and China.

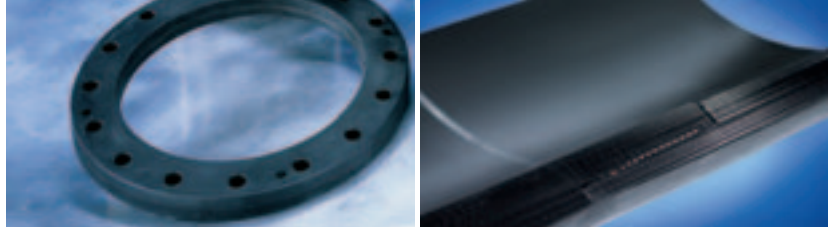
Exchange rates constitute an inherent risk within the international business environment, particularly when an increasing proportion of sales is generated outside the euro area. Within this context, one of the main issues to be addressed is currency-related volatility vis-à-vis the US dollar. In expanding the production activities of SIMONA AMERICA, we have reduced the price risk relating to foreign currency exchange rates – a risk we had previously been exposed to as a producer within the European Economic Area.

The increase in raw material prices continues to represent a latent risk in terms of future earnings performance, although this issue was addressed partially by means of price adjustments for semi-finished plastics in 2005.

There were no risks related to corporate strategy within the area of investments or locations in the year under review. SIMONA AMERICA performed in line with corporate planning. The losses were scaled back over the course of the year, as a result of which the months of November and December produced the first above-par results.

The risks associated with the introduction of SAP in the areas of production planning/control, sales and logistics, e.g. operational reliability, ability to supply or consistent invoicing, were assessed within the framework of the risk management system, and appropriate measures were taken to prevent such risks from occurring. The launch of SAP was performed within the specified time frames and without any disruptions that





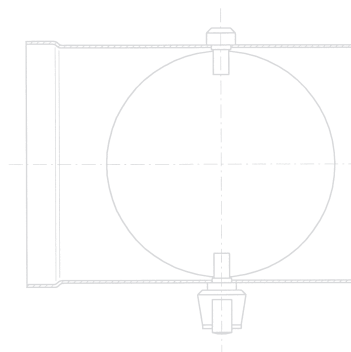
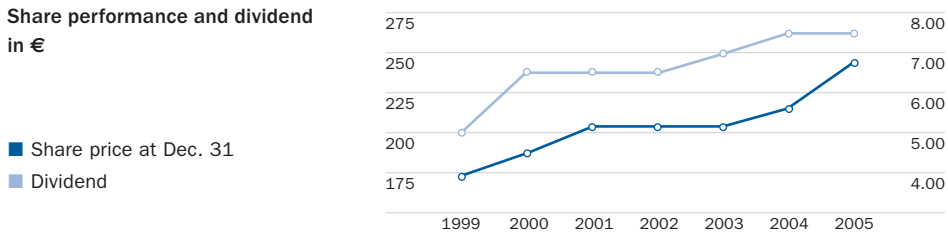
may have jeopardised the overall project; after a short period of time the operational reliability of the system and processes was sufficiently stable to proceed with full-scale operation.

In the financial year under review, there was no evidence of performance-related risks subject to disclosure requirements. The risk arising from receivables remains low, which is a tribute to thorough credit ratings and monitoring of our domestic and foreign customers. Default-related risk associated with specific customers was limited by credit insurance and the timely cut-off of deliveries in the case of outstanding payments. The carrying amounts of inventories were assessed on a regular basis, and adjustments in the form of allowances were made for specific products.

There were no personnel-related risks associated with fluctuation or resignation in key positions in the financial year under review. Appropriate succession plans and provisions have been defined as part of our HR risk management system.

There were no significant financial risks requiring specific disclosure in 2005. Risks attributable to exchange rate fluctuations were addressed by means of hedging instruments insofar as this was possible within the commercial framework. The company was not exposed to other risks, in particular those relating to legal proceedings and organisational structures or risks due to the complete or partial lack of control and management systems.

**Share performance and dividend  
in €**



## Outlook

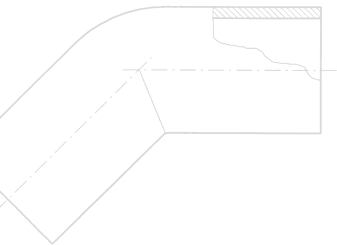


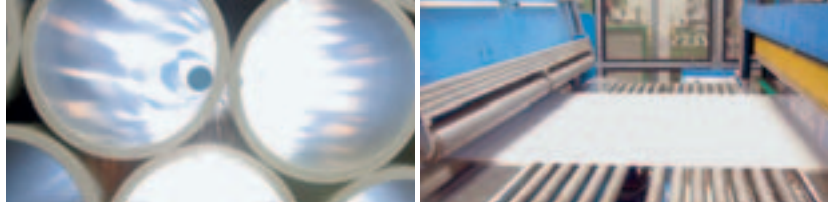
The global economy continued to gain momentum in the course of 2005, a trend that persisted at the beginning of 2006. Despite the surge in oil prices, world production expanded in the second half of 2005. This also applied to the Eurozone, despite the fact that its growth rate was less pronounced than that of the world economy as a whole. In the United States expansion has continued unabated, and production figures in Asia and Eastern Europe have also risen considerably in recent months.

Against this backdrop, it would appear that the economic climate for the Eurozone will remain favourable. Moreover, companies based in the Eurozone have been able to extend their international competitiveness as a result of the devaluation of the euro in relation to the dollar. Thus, export business looks set to prosper. Higher capacity utilisation and growth in earnings are likely to fuel investment spending.

### **Subdued domestic demand and high export ratio**

The domestic economy is expected to be less buoyant. Although Germany's economic climate improved over the course of the year, in international terms the country remains





among the laggards, a plight it shares with France and Italy. In the year just ended, growth was driven almost entirely by exports, while domestic demand remained lacklustre. Domestic demand is expected to improve only slightly in 2006, whereas export business is likely to provide significantly more impetus. The GDP growth forecasts published by the various economic research institutes range from 1.5 to 2.0 per cent.

Based on these figures, the outlook for our key sales markets would appear to be favourable, albeit at a restricted level. Business conditions for the German chemical industry were solid at the end of 2005. Chemical production is forecast to grow by 2.5 per cent in 2006 and investment spending is expected to increase. Having said that, most of this growth is likely to occur abroad. The mechanical engineering sector is forecast to expand by two per cent in 2006. However, the order backlog recorded in the first months of 2006 was significantly higher than in previous years, and therefore the above-mentioned growth forecast is probably to be viewed as being relatively conservative.

#### **Stable growth in sales volumes and revenues**

The level of incoming orders in the months of January and February 2006 is a reflection of the general economic situation. The aggregate figures relating to sales volumes and revenues in the first two months of 2006 were slightly higher than in the same period a year ago. Having said this, it should be borne in mind that the first two months of 2005 were considered relatively weak. Based on the current forecast, sales growth is expected to be slightly above 3 per cent for the AG, i.e. the parent company. Provided that prices for semi-finished plastics remain stable and the overall product mix improves, revenue growth is expected to amount to 4 per cent in the AG.

These growth forecasts have been calculated on the basis of current economic data and on the assumption that we gain access to new markets with an extended product range, expand our sales activities in the growing regional markets of Eastern Europe, capture additional market share in the US and implement measures for improved market penetration in Asia.

Earnings performance will be influenced to a large extent by raw material prices. The high price for crude oil remains a source of considerable risk as regards the future prices of raw materials. This situation has eased slightly. However, future hikes in raw material prices are expected. In addition, higher energy and wage costs are likely to have an impact on earnings.

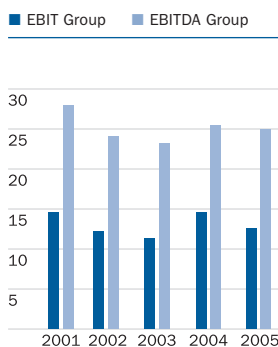
Committed to an incisive capital expenditure policy – focusing mainly on efficiency and quality improvements within the area of production – as well as a well-judged approach to HR management and the ongoing enhancement of internal workflow, we intend to bolster the company's earnings performance.

These measures are designed to improve net profit from ordinary activities. Within this context, our target is to achieve growth of 10.4 per cent, taking the total figure to €20.2 million.

## Financial and business review for the SIMONA Group



**EBIT and EBITDA SIMONA Group\***  
(in €m)



\* until 2003, acc. to HGB; from 2004, acc. to IFRS

### **SIMONA AMERICA treibt Wachstum im Konzern voran**

The SIMONA Group succeeded in expanding revenues by €17.8 million to €230.6 million in the 2005 financial year. This corresponds to a year-on-year increase of 8.4 per cent. Growth was attributable to higher revenues generated by SIMONA AG as well as the considerable forward momentum gained by SIMONA AMERICA, a subsidiary established in 2004.

In its second year of operations, SIMONA AMERICA Inc. managed to exceed its targets both in terms of sales volumes and revenues. Benefiting from favourable economic conditions, SIMONA AMERICA Inc. managed to take growth to the next level by enhancing customer relations and capturing a larger share of the market.

Domestic revenue rose by 7.2 per cent, amounting to €86.8 million overall, while foreign sales revenue increased by 9.1 per cent to €143.8 million. The export ratio, calculated on the basis of revenue, increased by 0.7 percentage points to 62.4 per cent within the Group.

The regional business trends and the performance of SIMONA's other subsidiaries, which are structured as sales organisations, have been outlined in the management report for the parent company. Segment Reporting is performed on the basis of geographical regions, comprising Germany, Europe and Africa as well as America and Asia. Owing to the disparate economic conditions within the respective regions, the country-specific market requirements and competitive climate as well as the various growth forecasts, primary segmentation by geographical region is considered appropriate in terms of conveying the business performance of the company.

### **Higher costs affect consolidated net profit**

The improvement in revenue at Group level was contrasted by the higher cost of materials of €125.6 million due to spiralling raw material prices. The gross profit margin fell from 48.7 per cent to 45.3 per cent. Higher staff costs of €1.5 million, more substantial depreciation/amortisation expense of €1.2 million and increased other operating expenses of €1.0 million had an impact on consolidated net profit, which contracted by €2.0 million to €12.5 million in 2005.

Although SIMONA AG represents a substantial proportion of the Group, comparability of the financial performance of the Group and the AG is limited due to divergent provisions regarding financial reporting and accounting policies (IFRS and HGB) as well as differences in the date of recognition of certain business transactions.

Consolidated earnings before interest and taxes on income (EBIT) declined by €2.1 million to €12.5 million, compared with a total of €14.6 million recorded in 2004.

The number of staff employed within the Group fell from 1,050 to 1,044 at the end of 2005.

### Outlook for the Group – EBIT target of €15 million

Against the backdrop of solid growth in Eastern Europe and the expansion of business achieved by SIMONA AMERICA Inc., we have targeted a 4 per cent increase in Group revenue, taking the total to €240 million.

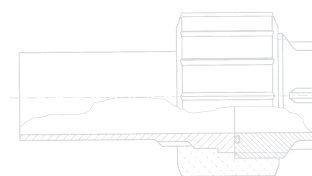
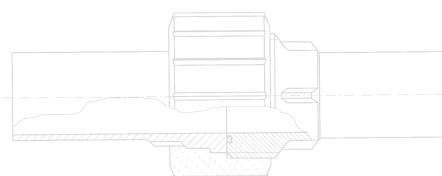
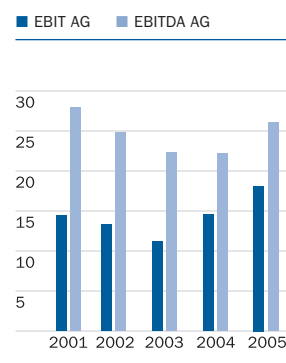
In January 2006, we defined a set of medium-term goals as well as suitable strategies designed to attain them. These include the consistent alignment of the company and its organisational structure with the requirements of SIMONA's customers and markets. We also aim to double consolidated revenue by the year 2010, based on the figure recorded in 1999. Other goals include positioning SIMONA as a leader in its core market of industrial equipment and plant engineering and stepping up the process of international growth in line with continuing globalisation. Growth is to be achieved, in particular, by expanding our market presence and capturing additional market share abroad. Within this context, the realignment of our organisational structure according to market segments is to be seen as an important step forward. Having introduced the business units Industrial Plant Engineering, Advertising and Construction, Mechanical Engineering and Transport Technology as well as Drinking-Water Supply, Waste-Water Disposal and Industrial Piping Systems, we shall be able to respond with greater speed and flexibility to the demands of our customers and bolster our position within the respective markets.

In view of the situation outlined above as well as the positive earnings contributions by the company's subsidiaries, earnings before interest and taxes on income (EBIT) are forecast to rise to €15.0 million.

Drawing on our technological prowess built up over the past years as well as our incisive strategic positioning and our commitment to international growth, SIMONA AG and the SIMONA Group are well equipped to achieve these goals.



EBIT and EBITDA SIMONA AG  
(in €m)



The consolidated financial statements of SIMONA AG and the entities included in the scope of consolidation have been prepared in accordance with applicable International Financial Reporting Standards (IFRS). IFRS also encompass International Accounting Standards (IAS), which remain valid.

# Corporate Governance Report of the Supervisory Board and the Management Board of SIMONA AG



Germany has implemented a legal framework designed to make corporate governance and reporting systems of exchange-listed companies more transparent and more efficient. This framework is based on the German Corporate Governance Code, as adopted by the Cromme Commission, in the revised version of May 21, 2003. SIMONA AG has met the majority of requirements specified within the Code. The Supervisory Board and the Management Board reacted to the legal requirements of the Code by implementing appropriate measures within the Company, insofar as these were necessary to supplement the corporate governance system already in place at SIMONA.

## **Departures from the German Corporate Governance Code**

There are several Company-specific characteristics which preclude SIMONA AG from adopting all the points outlined in the Code.

## **Transparency of Management Board and Supervisory Board compensation**

- “The compensation of the members of the Management Board shall be comprised of a fixed salary and variable components. Variable compensation should include one-time and annually payable components linked to the business performance as well as long-term incentives. In particular, stock options or comparable instruments (e.g. phantom stocks) serve as variable compensation components with a long-term incentive.”

The compensation package of the members of the Management Board of SIMONA AG comprises a fixed salary and variable components linked to the long-term performance of the Company. SIMONA AG has not established a stock option plan.

- “Compensation of the members of the Management Board shall be reported in the Notes to the Consolidated Financial Statements, subdivided according to fixed, performance-related and long-term incentive components. These details should be presented in an individualised format.”

Details regarding Management Board compensation are disclosed in the Compensation Report, subdivided according to fixed and performance-related components. In addition, the principles of the Company's remuneration system as well as the specific structure of remuneration components with a long-term incentive and attendant risks are published on the corporate website and discussed in the Compensation Report.

However, in contrast to the Corporate Governance Commission, the Company does not believe that an individualised disclosure of Management Board emoluments would be of any particular benefit.

On August 3, 2005, the German Bundestag adopted the Gesetz über die Offenlegung der Vorstandsvergütungen (Act Concerning the Disclosure of Management Board Compensation – VorstOG). Pursuant to Section 285 sentence 1 no. 9 (a) of the German Commercial Code (Handelsgesetzbuch – HGB), the emoluments of each member of the Management Board of an exchange-listed stock corporation shall be disclosed separately,



specifying the name of the individual and detailing fixed, performance-related and long-term incentive components. Disclosure in the format outlined above is not required if so resolved by the General Meeting. The Management Board and Supervisory Board are in full agreement that the individualised disclosure of compensation impinges disproportionately on the personality rights of Management Board members. The Management Board and Supervisory Board will therefore put forward the proposal to the General Meeting that the individualised disclosure of details set out in Section 285 sentence 1 no. 9 (a) sentences 5 to 9 shall be omitted for a period of five years up to the year-end financial statements and consolidated accounts for the 2010 financial year. This shall apply accordingly for the disclosure requirements specified in Section 314 (1) no. 6 (a) sentences 5 to 9.

- “Members of the Supervisory Board shall receive fixed as well as performance-related compensation. Performance-related compensation should also contain components based on the long-term performance of the enterprise. Supervisory Board compensation shall be reported in the Notes to the consolidated financial statements, using an individualised format which outlines the specific components.”

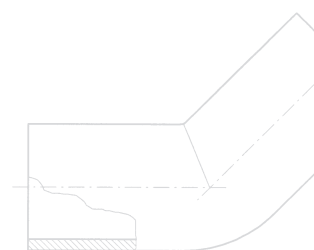
The method of Supervisory Board compensation is to be amended in accordance with a proposal by the Supervisory Board and the Management Board to be submitted to this year's General Meeting of Shareholders. In accordance with the provisions set out in the German Corporate Governance Code, the additional workload associated with activities in committees is to be taken into account. Furthermore, the General Meeting of Shareholders shall be authorised to introduce variable compensation for the Supervisory Board, with this form of remuneration being linked to the attainment of specific performance targets. Supervisory Board compensation is disclosed as part of the Compensation Report, using an individualised format.

#### **Structure of the Supervisory Board and its Committees**

- “The Supervisory Board shall set up an Audit Committee which, in particular, addresses issues of accounting and risk management, the necessary independence required of the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points and the fee agreement. The Chairman of the Audit Committee should not be a former member of the Management Board of the company.”

The Business Committee established within the Supervisory Board is responsible for the same issues as an Audit Committee. The entire Supervisory Board of SIMONA AG is regularly furnished with detailed information related to the Company's reporting and risk management; it also holds in-depth discussions with the auditors as regards the Company's financial statements.

Our area of business calls for comprehensive knowledge of products, markets and processes. Therefore, the Supervisory Board is of the opinion that the appointment of a







former member of the Management Board as Chairman of the Business Committee is beneficial to the efficient running of the Committee rather than counterproductive.

#### **Disclosure of shareholdings, annual financial statements and interim financial statements for the first six months**

- "The shareholdings, including options and derivatives, held by individual Management Board and Supervisory Board members shall be disclosed if these directly or indirectly exceed 1 per cent of the shares issued by the Company. If the entire holdings of all members of the Management Board and Supervisory Board exceed 1 per cent of the shares issued by the Company, these holdings shall be disclosed separately for the Management Board and the Supervisory Board."

The specific shareholdings of Supervisory and Management Board members are disclosed as part of the consolidated financial statements. In addition, this information is published on the internet.

- "The Consolidated Financial Statements and Interim Reports shall be prepared under observance of internationally accepted accounting principles."

The Supervisory Board and the Management Board of SIMONA AG have decided to apply internationally accepted accounting principles from the 2005 financial year onwards. The 2005 consolidated financial statements for the Group were prepared in accordance with International Financial Reporting Standards for the first time, while the financial statements for the AG were prepared in accordance with national regulations (Handelsgesetzbuch – HGB), i.e. the German Commercial Code.

- "The Consolidated Financial Statements shall be publicly accessible within 90 days of the end of the financial year; interim reports shall be publicly accessible within 45 days of the end of the reporting period."

SIMONA AG will make the consolidated financial statements and the interim reports available to the public within the statutory time frames. In applying internationally acceptable accounting principles, the Company shall endeavour to bring the date of disclosure forward.

#### **Disclosure on the internet**

SIMONA AG also publishes its declaration of conformity, compensation report and corporate governance report on the internet. In addition, all facts deemed to be of relevance are disclosed on our website in order to reach a broad audience and establish a level playing field for shareholders, analysts and other stakeholders.

# Compensation Report of SIMONA AG



Our compensation report outlines the key principles applied when determining remuneration levels for the Management Board of SIMONA AG. It also presents the structure and extent of compensation for the Management Board. In addition, this report outlines the general principles applied and the extent of compensation for the Supervisory Board, as well as providing details regarding shareholdings of Management Board and Supervisory Board members.

## **I. Compensation of the Management Board**

### **1. Determining Management Board compensation**

The Personnel Committee within the Supervisory Board is responsible for determining the level of compensation for the Management Board. The members of the Personnel Committee were the Chairman of the Supervisory Board Dr. Wolfgang Bürkle (until his death on 18 August 2005), the Deputy Chairman of the Supervisory Board Hans-Wilhelm Voss as well as the Member of the Supervisory Board Hans-Werner Marx. Following the death of Dr. Wolfgang Bürkle, Roland Frobel was appointed to the Personnel Committee since 7 September 2005.

## **2. Structure of Management Board compensation**

Compensation for the members of the Management Board of SIMONA AG is calculated on the basis of the size of the Company, its commercial and financial position, as well as the level and structure of compensation granted to Management Board members of similar enterprises. In addition, the duties and the contribution of the respective Management Board members are taken into account.

Management Board compensation is performance-orientated. It is comprised of a fixed level of remuneration as well as a variable component in the form of a bonus. Both of the aforementioned components are assessed on an annual basis. In addition, both components are subject to thorough analyses in intervals of two to three years, based on a comparison with compensation figures applicable to executive staff of similar enterprises. The most recent assessment was conducted in 2004.

The target remuneration defined for the 2005 financial year was comprised of a fixed component of compensation (salary) of 70 per cent and a variable component (bonus) of 30 per cent.

The fixed component of compensation is paid as a salary on a monthly basis. In addition, the members of the Management Board receive a bonus, the level of which is dependent on attaining specific financial targets which are mainly calculated on the basis of the Company's revenue and earnings performance.

## **3. Management Board compensation for the 2005 financial year**

Total compensation for the Management Board amounted to €649 thousand (FY 2004: €802 thousand). This figure was comprised of €434 thousand in fixed-level compensation and €215 thousand in bonus payments.

The Company does not grant loans to members of the Management Board.

## **II. Supervisory Board compensation**

Supervisory Board compensation has been determined by the General Meeting of Shareholders. It is subject to the provisions of the Articles of Association. Supervisory Board compensation is calculated according to the size of the company, as well as the duties and responsibilities of the Supervisory Board members. The Chairman and the Deputy Chairman receive supplementary compensation.

Supervisory Board compensation is comprised solely of fixed components: members of the Supervisory Board receive a fixed amount of €7,500. The Chairman of the Supervisory Board receives an amount equivalent to double the standard level of compensation; the Deputy Chairman receives an amount equivalent to one and a half times the standard level of compensation. All expenses associated directly with a position on the Supervisory Board, as well as sales tax, are reimbursed.



In 2005, Supervisory Board compensation amounted to €53.5 thousand (FY 2004: €56.2 thousand) in the AG and 82.6 thousand (FY 2004: €87.0 thousand) in the Group. The distribution of compensation was as follows:

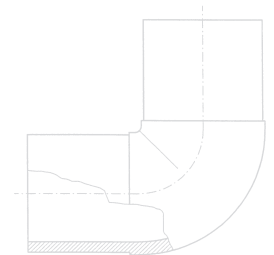
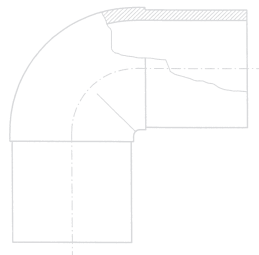
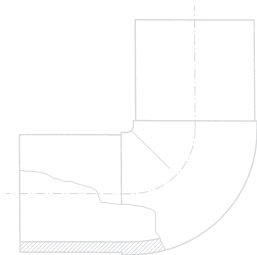
	Group	of which AG
Dr. Wolfgang Bürkle, Vorsitzender	€23.1 thsd.	€9.5 thsd.
Hans-Wilhelm Voss, Stellvertreter	€28.1 thsd.	€12.6 thsd.
Hans-Werner Marx	€8.9 thsd.	€8.9 thsd.
Roland Frobél	€7.5 thsd.	€7.5 thsd.
Bernd Meurer	€7.5 thsd.	€7.5 thsd.
Karl-Ernst Schaab	€7.5 thsd.	€7.5 thsd.

The Company does not grant loans to members of the Supervisory Board.

### III. Shareholdings of the Management Board and the Supervisory Board

As at 24 June 2005, members of the Management Board held a total of 69,826 shares; this corresponds to approx. 11.64 per cent of the share capital of SIMONA AG. Members of the Supervisory Board held 190,039 shares, which corresponds to 31.7 per cent of the share capital. As part of a notification dated 25 August 2005, Mrs. Anita Bürkle informed the company, pursuant to Section 21 WpHG, that the voting rights attributable to her late husband, Dr. Wolfgang Bürkle, had been transferred to her within the framework of universal succession, that the threshold of 10 and 25 per cent had thus been exceeded, and that, as of the aforementioned date, she held 30.66 per cent of the voting rights in the company. Thus, effective from 18 August 2005, the shareholding of members of the Supervisory Board was reduced to 5,300 shares. This corresponds to an ownership interest of 0.9 per cent.

In accordance with Section 15a of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG), the members of the Supervisory Board and the Management Board, as well as related parties, are legally obliged to disclose all significant acquisitions or disposals of shares in SIMONA AG. In the period under review, no transactions of this kind were reported to the company.



## Financial statements of the SIMONA Group and SIMONA AG



The financial statements of the SIMONA Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The balance sheet and income statement of SIMONA Aktiengesellschaft (AG – parent company) have been prepared in accordance with national regulations (German Commercial Code – HGB).

Individual items of the balance sheet and income statement have been combined for the purpose of improving financial analysis. Due to the rounding of figures to the next highest or lowest value in thousands of euros (€ '000), rounding differences may occur between the balance sheet and income statement of the Group and the Aktiengesellschaft (parent company).

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## Income Statement SIMONA Group for the year ended 31 December 2005

EUR '000	01.01. - 31.12.2005	01.01. - 31.12.2004
Revenue	230,586	212,783
Other operating income	3,841	3,141
Changes in inventories of finished goods and work in progress	-441	6,792
Cost of materials	125,602	115,991
Staff costs	48,845	47,360
Depreciation of property, plant and equipment, and amortisation of intangible assets	12,440	11,197
Other operating expenses	34,574	33,591
Interest income	619	646
Interest expenses	188	104
<b>EBT</b>	<b>12,956</b>	<b>15,119</b>
Income taxes	5,138	4,906
<b>Net profit for the year</b>	<b>7,818</b>	<b>10,213</b>

of which attributable to:

Shareholders of the parent company	7,807	10,203
Minority interest	11	10

### Earnings per share: in EUR

- basic, calculated on the basis of net profit for the year attributable to ordinary shareholders of the parent company	13.03	17.03
- diluted, calculated on the basis of net profit for the year attributable to ordinary shareholders of the parent company	13.03	17.03

## Balance sheet SIMONA Group as at 31 December 2005

Assets EUR '000	31.12.2005	31.12.2004
Intangible assets	4,293	2,349
Property, plant and equipment	81,244	85,844
Investments	30	30
Deferred taxes	192	82
<b>Non-current assets</b>	<b>85,759</b>	<b>88,305</b>
Inventories	45,235	46,166
Trade receivables	40,564	36,152
Other assets and prepaid expenses	7,209	4,430
Securities	4,996	1,327
Cash resources	26,772	22,797
<b>Current assets</b>	<b>124,776</b>	<b>110,872</b>
<b>Total Assets</b>	<b>210,535</b>	<b>199,177</b>
Equity and liabilities EUR '000	31.12.2005	31.12.2004
Issued capital	15,474	15,474
Capital reserves	15,032	15,032
Revenue reserves	97,611	94,205
Other reserves	354	170
Minority interests	120	457
<b>Shareholders' equity</b>	<b>128,591</b>	<b>125,338</b>
Financial liabilities	4,238	0
Retirement benefit obligations	33,078	31,943
Other provisions	5,174	5,345
Other liabilities	119	98
Deferred taxes	10,690	12,784
<b>Non-current liabilities</b>	<b>53,299</b>	<b>50,170</b>
Financial liabilities	121	279
Retirement benefit obligations	1,388	1,560
Other provisions	1,909	1,427
Trade payables	9,456	7,520
Other liabilities	15,771	12,883
<b>Current liabilities</b>	<b>28,645</b>	<b>23,669</b>
<b>Total Equity and liabilities</b>	<b>210,535</b>	<b>199,177</b>



## SIMONA Group Segment reporting

Segmentation by region	Germany		Rest of Europe and Africa		Asia, America and Australia		Eliminations		Group	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
EUR '000										
External sales	86,811	82,492	122,864	115,178	24,156	17,971	-3,245	-2,858	230,586	212,783
Inter-segment sales	0	0	43,547	42,541	5,372	5,005	-48,919	-47,546	0	0
Segment revenue									<b>230,586</b>	<b>212,783</b>
Segment result	7,123	10,051	5,869	5,007	-548	-814	-57	17	12,386	14,261
Segment assets	135,893	144,839	26,003	22,774	10,479	6,618			172,375	174,231
Segment liabilities	56,417	56,004	3,332	2,363	6,613	1,406			66,362	59,773
Segment investments	8,799	8,053	266	208	694	990			9,759	9,251
Depreciation	11,994	10,810	237	274	209	113			12,440	11,197
Significant non-cash expenses (other than depreciation)	4,141	5,651	103	71	12	10			4,256	5,732

Segmentation by product area	Semi-finished plastics		Pipes und Fittings		Eliminations		Group			
	2005	2004	2005	2004	2005	2004	2005	2004		
EUR '000										
External sales	159,547	149,139	74,284	66,502			-3,244	-2,858	230,586	212,783
Segment assets	119,892	121,510	52,483	52,721					172,375	174,231
Segment investments	6,032	5,335	3,727	3,916					9,759	9,251

## Consolidated Cash Flow Statement of SIMONA AG

EUR '000	01.01. – 31.12.2005	01.01. – 31.12.2004
Earnings before interest and taxes	12,525	14,577
Income taxes paid	-7,342	-4,931
Depreciation of property, plant and equipment, and amortisation of intangible assets	12,440	11,197
Other non-cash expenses and income	-302	126
Change in pensions	963	2,387
Result from disposal of assets	-115	-56
Change in inventories	931	-10,439
Change in trade receivables	-4,412	-3,391
Change in other assets	-2,779	1,679
Change in liabilities and other provisions	5,156	1,001
<b>Cash flows from operating activities</b>	<b>17,065</b>	<b>12,150</b>
Investments in intangible assets and property, plant and equipment	-9,759	-9,251
Investments in financial assets	0	-7
Proceeds from disposal of assets	238	532
<b>Cash flows from investing activities</b>	<b>-9,521</b>	<b>-8,726</b>
Change in financial liabilities	4,238	0
Dividends paid for preceding year	-4,492	-4,193
Interest received	619	646
Interest paid and similar expenses	-188	-104
<b>Cash flows from financing activities</b>	<b>177</b>	<b>-3,651</b>
Effects of exchange rate changes on cash and cash equivalents	81	-10
<b>Change in cash and cash equivalents</b>	<b>7,802</b>	<b>-237</b>
Cash and cash equivalents at January 1	23,845	24,082
Cash and cash equivalents at December 31	31,647	23,845
<b>Change in cash and cash equivalents</b>	<b>7,802</b>	<b>-237</b>

# Consolidated Statement of Changes in Equity of SIMONA AG

	Issued capital		Capital reserves		Revenue reserves					Other Reserves	Minority interest	Total equity	
	Share-capital	Treasury shares	Total	Legal Reserves	Reserves for treasury shares	Other revenue reserves	Treasury shares	Accumulated profit	Total				
EUR '000													
Balance at 01.01.2004	15,500	-26	15,474	15,032	397	2,847	52,750	-107	32,308	88,195	0	464	119,165
Appropriations to other revenue reserves	0	0	0	0	0	0	2,960	0	-2,960	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	-4,193	-4,193	0	0	-4,193
Profit attributable to minority shareholders	0	0	0	0	0	0	0	0	0	0	0	-8	-8
Translation difference	0	0	0	0	0	0	0	0	0	0	170	-9	161
Consolidated net profit for the year	0	0	0	0	0	0	0	0	10,203	10,203	0	10	10,213
<b>Balance at 31.12.2004</b>	<b>15,500</b>	<b>-26</b>	<b>15,474</b>	<b>15,032</b>	<b>397</b>	<b>2,847</b>	<b>55,710</b>	<b>-107</b>	<b>35,358</b>	<b>94,205</b>	<b>170</b>	<b>457</b>	<b>125,338</b>
Balance at 01.01.2005	15,500	-26	15,474	15,032	397	2,847	55,710	-107	35,358	94,205	170	457	125,338
Appropriations to other revenue reserves	0	0	0	0	0	0	4,925	0	-4,925	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0	-4,492	-4,492	0	0	-4,492
Profit attributable to minority shareholders	0	0	0	0	0	0	0	0	0	0	0	-75	-75
Changes in composition of consolidated group	0	0	0	0	0	0	0	0	0	0	0	-273	-273
Translation difference	0	0	0	0	0	0	0	0	91	91	184	0	275
Consolidated net profit for the year	0	0	0	0	0	0	0	0	7,807	7,807	0	11	7,818
<b>Balance at 31.12.2005</b>	<b>15,500</b>	<b>-26</b>	<b>15,474</b>	<b>15,032</b>	<b>397</b>	<b>2,847</b>	<b>60,635</b>	<b>-107</b>	<b>33,839</b>	<b>97,611</b>	<b>354</b>	<b>120</b>	<b>128,591</b>

## Income Statement SIMONA AG for the year ended 31 December 2005

EUR '000	2005	2004
1. Revenue	201,754	190,089
2. Reduction (previous year: increase) in inventories of finished goods	-942	14
3. Other operating income	4,897	2,392
	<b>205,709</b>	<b>192,495</b>
4. Cost of materials		
a. Raw materials and consumables used, and goods purchased	111,187	104,253
b. Cost of services purchased	93	116
	<b>111,280</b>	<b>104,369</b>
5. Staff costs		
a. Wages and salaries	34,606	32,644
b. Social security, post-employment and other employee benefit costs – of which relating to old age pensions EUR 1,692 thsd. (previous year: EUR 1,955 thsd.)	8,442	8,556
	<b>43,048</b>	<b>41,200</b>
6. Depreciation of property, plant and equipment, and amortisation of intangible assets	8,271	7,399
7. Other operating expenses	25,784	25,957
8. Income from long-term equity investments – of which from affiliated companies EUR 304 thsd. (previous year: EUR 390 thsd.)	304	390
9. Other interest and similar income – of which from affiliated companies EUR 98 thsd. (previous year: EUR 75 thsd.)	713	769
10. Income from profit and loss absorption agreements	47	0
11. Interest and similar expenses	42	18
<b>12. Profit from ordinary operations</b>	<b>18,348</b>	<b>14,711</b>
13. Income taxes	7,141	4,733
14. Other taxes	215	127
<b>15. Net profit for the year</b>	<b>10,992</b>	<b>9,851</b>
16. Accumulated profit brought forward	8,338	7,605
17. Dividend payment	4,493	4,193
18. Allocation to other revenue reserves	5,495	4,925
<b>19. Unappropriated surplus</b>	<b>9,342</b>	<b>8,338</b>

# Balance sheet SIMONA AG

## as at 31 December 2005

Assets		31.12.2005	31.12.2004
EUR '000			
<b>A. Non-current assets</b>			
<b>I. Intangible assets</b>			
Industrial property rights and similar rights		3,692	2,009
<b>II. Property, plant and equipment</b>			
1. Land, leasehold rights and buildings	18,987		19,997
2. Technical plant and machinery	17,718		14,222
3. Other plant, operating and office equipment, furniture and fixtures	4,822		8,797
4. Prepayments and assets under construction	577		451
		<b>42,104</b>	<b>43,467</b>
<b>III. Financial assets</b>			
1. Interests in affiliated companies	6,461		5,702
2. Investments	2,023		2,023
		<b>8,484</b>	<b>7,725</b>
		<b>54,280</b>	<b>53,201</b>
<b>B. Current assets</b>			
<b>I. Inventories</b>			
1. Raw materials and consumables	9,128		10,181
2. Finished goods	19,385		20,327
		<b>28,513</b>	<b>30,508</b>
<b>II. Receivables and other assets</b>			
1. Trade receivables	18,484		17,360
2. Receivables from affiliated companies	20,964		20,508
3. Receivables from enterprises in which the company has a participating interest	1,323		2,059
4. Other current assets	5,404		2,837
		<b>46,175</b>	<b>42,764</b>
<b>III. Securities</b>			
1. Treasury shares	133		133
2. Other securities	4,997		1,327
		<b>5,130</b>	<b>1,460</b>
<b>IV. Cash, bank balances and cheques</b>		<b>24,653</b>	<b>20,875</b>
<b>C. Prepaid expenses</b>		<b>57</b>	<b>71</b>
		<b>158,808</b>	<b>148,879</b>

**Equity and liabilities**

EUR '000	31.12.2005	31.12.2004
<b>A. Shareholders' equity</b>		
<b>I. Issued capital</b>	15,500	15,500
<b>II. Capital reserves</b>	15,032	15,032
<b>III. Revenue reserves</b>		
1. Legal reserves	397	397
2. Reserves for treasury shares	133	133
3. Statutory reserves	2,847	2,847
4. Other revenue reserves	65,997	60,502
	<b>69,374</b>	<b>63,879</b>
<b>IV. Unappropriated surplus</b>	9,342	8,338
	<b>109,248</b>	<b>102,749</b>
<b>B. Special item with reserve component</b>	229	229
<b>C. Provisions</b>		
1. Retirement benefit obligations	23,690	25,216
2. Provisions for taxes	4,014	1,265
3. Other provisions	11,113	9,654
	<b>38,817</b>	<b>36,135</b>
<b>D. Liabilities</b>		
1. Trade payables	6,530	5,679
2. Payables to enterprises in which the company has a participating interest	1	3
3. Other liabilities – of which taxes EUR 761 thsd. (previous year: EUR 762 thsd.) – of which relating to social security EUR 1,403 thsd. (previous year: EUR 1,300 thsd.)	3,983	4,084
	<b>10,514</b>	<b>9,766</b>
	<b>158,808</b>	<b>148,879</b>
<b>E. Contingent liabilities</b>	4,325	41



# SIMONA AG Consolidated Statement of Changes in Fixed Assets

	Purchase or conversion costs			Accumulated depreciation and amortisation			Net book value			
	01.01.05	Additions	Disposals	Reclassifications	31.12.05	01.01.05	Additions	Disposals	31.12.05	31.12.04
EUR '000										
<b>I. Intangible assets</b>										
Industrial property rights and similar rights	3,803	2,456	0	0	6,259	1,794	773	0	2,567	2,009
<b>II. Property, plant and equipment</b>										
Property/leasehold rights and buildings	44,933	195	0	0	45,128	24,936	1,205	0	26,141	19,997
Technical plant and machinery	93,631	3,896	590	4,391	101,328	79,409	4,791	590	83,610	14,222
Other plant, operating and office equipment, furniture and fixtures	63,360	1,635	643	-4,019	60,333	54,563	1,502	554	55,511	8,797
Prepayments and assets under construction	451	498	0	-372	577	0	0	0	0	451
	<b>202,375</b>	<b>6,224</b>	<b>1,233</b>	<b>0</b>	<b>207,366</b>	<b>158,908</b>	<b>7,498</b>	<b>1,144</b>	<b>165,262</b>	<b>43,467</b>
<b>III. Financial assets</b>										
Interests in affiliated companies	7,934	759	0	0	8,693	2,232	0	0	2,232	5,702
Investments	2,023	0	0	0	2,023	0	0	0	0	2,023
	<b>9,957</b>	<b>759</b>	<b>0</b>	<b>0</b>	<b>10,716</b>	<b>2,232</b>	<b>0</b>	<b>0</b>	<b>2,232</b>	<b>7,725</b>
	<b>216,135</b>	<b>9,439</b>	<b>1,233</b>	<b>0</b>	<b>224,341</b>	<b>162,934</b>	<b>8,271</b>	<b>1,144</b>	<b>170,061</b>	<b>53,201</b>

## Details of shareholdings

Company	Ownership interest	Equity	Results of the last financial year
	%	EUR '000	EUR '000
<b>Indirect</b>			
SIMONA S.A., Domont/France	96.6	3,076	329
SIMONA S.R.L., Vimodrone/Italy	98.0	765	- 37
SIMONA U.K. Limited, Stafford/United Kingdom	100.0	- 633	27
SIMONA IBERICA SEMIELABORADOS S.L., Barcelona/Spain	100.0	- 163	96
<b>Direct</b>			
SIMONA-PLASTICS CZ, s.r.o., Prag/Czech Republic	100.0	175	24
SIMONA FAR EAST LTD, Hong Kong/China	100.0	752	- 47
SIMONA POLSKA Sp. z o.o., Wroclaw/Poland	100.0	462	205
SIMONA Sozialwerk GmbH, Kirn (2004)	50.0	11,272	478
SIMONA Vermögensverwaltungsgesellschaft der Belegschaft mbH, Kirn (2004)	50.0	1,766	496
SIMONA Beteiligungs GmbH, Kirn	100.0	1,834	0
SIMONA AMERICA Inc., Mountaintop/USA	100.0	1,644	- 1,085
Simona Plast-Technik s.r.o., Litvinov/Czech Republic	100.0	6	0
SIMONA ASIA Limited, Hong Kong/China	100.0	1	0
Georg Fischer SIMONA Fluoropolymer Products GmbH, Ettenheim	50.0	3,965	345

## Report of the Supervisory Board

Over the course of the 2005 financial year, the Supervisory Board informed itself thoroughly about the state of affairs and the performance of the company as part of joint quarterly meetings with the Management Board held on 24 February 2005, 21 April 2005, 21 July 2005 and 8 November 2005. In addition, an extraordinary Supervisory Board meeting was convened on 7 September 2005 following the death of the Chairman of the Supervisory Board Dr. Wolfgang Bürkle. The Supervisory Board was fully represented at the majority of meetings.

At the meeting on 7 September 2005 Hans-Wilhelm Voss was elected as Chairman of the Supervisory Board and Hans-Werner Marx as Deputy Chairman of the Supervisory Board. In accordance with Section 13 of the Articles of Association, the Supervisory Board and Management Board agreed to appoint a new member to the vacant Supervisory Board position as part of the General Meeting of Shareholders in 2006. As part of its constitutive meeting held in the 2004 financial year, the Supervisory Board had already formed a Personnel Committee as well as an Economic Committee. The members of both committees were Dr. Wolfgang Bürkle, Hans-Wilhelm Voss and Hans-Werner Marx. Mr. Roland Frobel was appointed to both committees as a successor.

The Chairman furnished regular reports to the Supervisory Board as regards the activities of the Economic and Personnel Committees.

Insofar as the consent of the Supervisory Board was required for decisions to be made by the Management Board, the Supervisory Board assessed the proposals during in-depth discussions with the Management Board and granted its authorisation insofar as this was required by law, Articles of Association or resolution. The Supervisory Board was directly involved in all decision-making processes deemed to be of fundamental importance to the company.

Both the Chairman of the Supervisory Board and his Deputy received a copy of the minutes of all Management Board meetings. Both communicated with each

other on a regular basis, thereby ensuring that a consistent flow of information and an exchange of opinions between the Supervisory Board and the Management Board were maintained at all times. The Chairman of the Supervisory Board was also kept informed on a regular basis of all significant events and measures by maintaining a direct contact with the Chairman of the Management Board.

The Supervisory Board was furnished with detailed information on all fundamental issues pertaining to corporate planning, with particular emphasis on sales, financial, investment and human resources planning, as well as risk management. During its meetings it assessed the extent to which the respective corporate goals agreed upon with the Management Board had been complied with and implemented. The Management Board regularly reported on the sales and financial performance of the company and its subsidiaries at short intervals scheduled by both boards. There were no fundamental departures from the specified targets in 2005, as a result of which no adjustments to corporate planning were necessary. The Supervisory Board closely monitored the revenue and earnings performance of SIMONA AMERICA Inc.

Moreover, the Supervisory Board was informed of all measures regarding staff planning; as regards personnel-related decisions affecting senior management, the Supervisory Board was briefed on a case-by-case basis. The Supervisory Board received the company risk report on a quarterly basis and, when required, requested information regarding measures implemented by the Management Board for the purpose of averting current risk and preventing future risk.

The Supervisory Board also deliberated on the implementation of the German Corporate Governance Code within the company and, where applicable, initiated measures aimed at fulfilling the new requirements, working in close cooperation with the Management Board. The Supervisory Board does not concur with all aspects of

the Corporate Governance Code. A summary of deviations was made available to the shareholders via the company's website as part of the updated Declaration of Conformity, dated 16 February 2006 and issued pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz – AktG). Furthermore, the relevant points were explained as part of the Corporate Governance Report.

The Economic Committee dealt with aspects relating to the financial and consolidated financial statements. It discussed the interim report for the first six months of the financial year, issued an audit mandate to the auditor and defined the focal points of the audit, as well as determining the level of remuneration. The auditors furnished the Supervisory Board with detailed information pertaining to their audit activities.

The financial statements of the SIMONA Group and SIMONA AG for the financial year from 1 January 2005 to 31 December 2005, prepared by the Management Board in accordance with the provisions set out in the International Financial Reporting Standards (IFRS) and the German Commercial Code (Handelsgesetzbuch – HGB), as well as the combined management report for the AG and the Group were audited by Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Frankfurt, in accordance with the resolution passed by the General Meeting of Shareholders on 24 June 2005 and the subsequent audit mandate issued by the Economic Committee. The auditing firm confirmed that the financial and consolidated financial statements as well as the management report were in conformity with the accounting records and that they complied with the statutory provisions. Based on these findings, an unqualified audit opinion was granted.

No objections were raised by the Supervisory Board following its examination of the separate financial statements, the consolidated financial statements and the management report for the AG and the Group. The Supervisory Board concurred with the unqualified audit opinion issued by the auditing firm and approved the separate

financial statements and the consolidated financial statements in its meeting on 28 April 2006. In accordance with Section 172 sentence 1 AktG, they have thus been adopted.

The Supervisory Board examined the proposal put forward by the Management Board as regards the appropriation of the "Bilanzgewinn" (unappropriated surplus, also referred to as net retained earnings). It concurs with the Management Board's proposal of a dividend in the amount of EUR 7.50 per share. Having concluded its final examination, the Supervisory Board raises no objections.

The Supervisory Board wishes to thank the Management Board and all employees for their committed contribution, as a result of which SIMONA AG was able to perform admirably in the financial year just ended.



Kirn, 5 May 2005

The Supervisory Board

Hans-Wilhelm Voss, Chairman

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