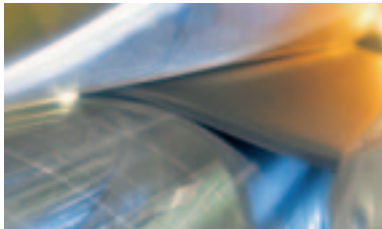


SIMONA

Interim Report 2006



Consolidated financial statements – financial position, financial performance and cash flows

Overall, the global economy gained momentum in the first six months of 2006. This also proved beneficial to Germany's highly export-oriented plastics industry. On the back of a 2.9 per cent rise in production volumes and revenue growth of 5.3 per cent for plastics manufacturers in 2005, the upward trend within this sector continued over the course of the first half of 2006. Mechanical engineering, the chemicals sector as well as the automobile and electronics industries recorded a particularly substantial increase in orders, thus driving demand for plastics in the first six months. German-based plastics processing companies recorded revenue growth of 3.6 per cent in the period under review, which fell slightly short of the figures achieved by producers; this was due to the fact that some operations were relocated to neighbouring countries in Eastern Europe. Irrespective of this, processing companies in Germany and Central Europe reported a solid level of incoming orders in the first six months. SIMONA reaped the rewards of favourable market conditions and further bolstered its position in the respective sales regions covered by the company.

Consolidated revenue and earnings

Consolidated revenue: Revenue generated within the SIMONA Group increased in all three market segments, i.e. Germany, Rest of Europe & Africa as well as Asia, America & Australia. In total, revenue amounted to 125.0 million in the period under review, compared with revenue of 230.6 million for the full 2005 financial year. As the interim report for the first six months was prepared on the basis of International Financial Reporting Standards (IFRS) for the first time, year-on-year comparability is not possible. In Germany, sales volumes as well as revenues were driven by resurgent domestic demand, coupled with the continued dynamism of exports within the processing sector. The 10.9 per cent growth in domestic revenue, taking this figure to 44.7 million, was attributable largely to a buoyant chemical engineering sector. Domestic revenue in relation to total revenue for the Group was 35.8 per cent, as opposed to 37.6 per cent a year ago.

In Europe & Africa revenue amounted to 65.4 million, which corresponds to a 52.3 per cent share of total revenue. The company's subsidiaries made a significant contribution to growth by expanding their business in the respective countries. The only exception was the UK, which recorded a decline in volumes. However, it should be noted that the UK's portfolio is dominated by products used within the construction industry – an area which remained sluggish in the period under review.

Sales volumes and revenues developed well in Asia, America & Australia, propelled upwards by the general buoyancy of world markets. Having said that, the weaker dollar has been putting pressure on margins in Asia as well as America. Marketing measures initiated in 2005 with the express purpose of building the company's market presence in Asia have been bearing fruit, thus contributing to a significant rise in sales volumes and revenue. Overall, the SIMONA Group generated revenues of 14.9 million in Asia, America & Australia in the period under review. This corresponds to 11.9 per cent of total revenue.

Consolidated EBIT: Earnings before interest and taxes (EBIT) amounted to 10.0 million in the first six months. Thus, the EBIT margin was 8.0 per cent, which lies within the targeted range of 7 to 10 per cent. Group revenue increased to 125.0 million, while material expenses stood at 70.1 million. This corresponds to an increase of approx. 8.0 per cent and is attributable to higher sales volumes as well as spiralling raw material prices. Staff costs amounted to 25.9, a slight year-on-year rise prompted by higher staffing levels. In contrast, other operating expenses remained virtually unchanged compared with the previous year as a result of the company's more stringent expenditure policy – despite increased volumes as well as higher energy costs and freight charges. Benefiting from this, the EBIT margin rose to 8.0 per cent in the first half of 2006, compared with 5.4 per cent for the 2005 financial year as a whole.

Consolidated EBIT also includes a positive earnings contribution by SIMONA AMERICA. Having already reached break-even in November 2005, SIMONA AMERICA maintained its forward momentum over the course of the first six months of 2006. In contrast, the loss incurred by SIMONA AMERICA in 2005 had amounted to 1.1 million.

Net finance income: At 30 June 2006 interest income from short-term investments totalled 0.4 million. Interest expense amounted to 0.2 million and was mainly attributable to a loan of US\$5.0 million

Earnings before taxes/Net profit for the period: Earnings of 10.3 million before taxes on income were only slightly higher than EBIT due to the negligible effect of net finance income. The consolidated net profit, after taxes, amounted to 6.6 million. Calculated on this basis, the return on equity was 10.1 per cent, while the return on sales (after taxes) amounted to 5.3 per cent.

Capital expenditure

The first half of 2006 was dominated by investments in the expansion and optimisation of production systems as well as the transition to SAP with all the associated adjustments to existing applications.

Investments in property, plant and equipment: Investments in property, plant and equipment within the Group amounted to 3.5 million in the first six months. One of the focal points was the installation of an air-conditioning system in the sheet extrusion unit. Together with the extension of manufacturing capacities, which included the installation of new injection-moulding machines in Ringsheim and the expansion of solid-rod extrusion in Kirn, the total investment in production optimisation and capacity enhancement amounted to over 1.1 million. Another key area was the integration of existing applications within the new company-wide SAP system introduced at the beginning of the year as well as the introduction of new servers and networks required within this area.

Balance sheet

Compared with the year-end of 2005, the balance sheet total increased by 8.9 million to 219.4 million. This is attributable mainly to substantial raw material and merchandise inventories, which in turn are due to factors relating to the reporting date, in addition to an increase in trade receivables by almost 9.0 million. Cash and cash equivalents declined by 6.7 million. The increase in revenue reserves by 5.5 million was due to the allocation of net profit of SIMONA AG from the 2005 financial year. Non-current bank borrowings increased by 2.3 million following the utilisation of an additional tranche of the US\$ 8.0 million loan granted to the company. As a result of staff-related payables due to end-of-period factors, non-current liabilities increased by 3.1 million compared with the figure posted at 31 December 2005.

Cash flows: Due to factors relating to the reporting date, cash flow from operating activities receded by 17.5 million to minus 0.1 million. As the interim report for the first six months was prepared on the basis of IFRS for the first time, year-on-year comparability is not possible. The decline in cash flow was attributable to the build-up of raw material inventories, prompted by the continuing rise in prices, and the increase in inventories of finished goods in order to make provisions for plant holidays in the third quarter. Furthermore, trade receivables increased substantially in the period under review as a result of higher revenues.

Risk management

Risk of strategic investments: There were no risks related to corporate strategy within the area of investments or locations in the period under review. SIMONA AMERICA performed in line with corporate planning and was subject to continuous monitoring. The subsidiary recorded positive bottom-line results in the first six months of the current financial year. Results for the second half will be affected by costs associated with the relocation to company-owned manufacturing premises in August.

Market risks: 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. The global performance of key market segments was favourable in the first six months. At present, there are no signs of economic stagnation or depression in any of the relevant markets or industries. Owing to the company's broad product portfolio and our operations in a diverse range of non-related industries and geographic markets, we have achieved sufficient risk diversification in response to potential economic cycles associated with the respective industries and markets.

Procurement risks: Buoyant demand over the course of the first six months prompted a rise in prices within all areas of the raw material market. The supply-side situation may deteriorate towards September. In the wake of the current political crisis in the Middle East crude oil prices have already reached record levels this year. This problem is compounded by the fact that ethylene production – ethylene is the raw material used for PE and PVC – will be scaled back due to maintenance-related downtimes of major production plants in September and October. This may lead to supply-side shortages and, consequently, higher prices.

Product quality: In the interest of our customer base, we are thoroughly committed to manufacturing premium-quality products. As part of our efforts within the area of quality monitoring and complaints management, we recorded a slight increase in the number of incoming complaints over the course of the first three months. We are currently looking to counteract this trend by introducing a far-reaching catalogue of measures and installing specialist quality circles. The declared aim is to establish zero-error tolerance throughout the Group.

Other operational risks: There was no evidence of risks subject to disclosure requirements. Although trade receivables increased in the first half, the related risk remains

negligible due to the extensive assessment and monitoring of credit ratings for all domestic and non-domestic customers. Default-related risks associated with specific customers have been contained by means of 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.

We recorded sporadic delays in order processing as part of the introduction of SAP. Deficiencies were identified and eliminated by applying an approach of continuous process improvements and ongoing monitoring. Workflow is being further optimised by investing in efficiency improvements for the SAP system and by integrating existing solutions into the overall SAP framework. As a result of these measures, the speed of order processing will also be improved significantly. The next phase of the project involves integration of our foreign subsidiaries, the aim being to establish consistent, optimised information systems and processes throughout the Group.

Legal risks: Risks associated with product liability are covered by insurance policies to the greatest extent possible. Sufficient provisions have been made to cover those potential claims not covered by insurance policies.

Risks associated with financial instruments: The SIMONA Group is exposed to risks associated with changes in foreign exchange rates and interest rates. Foreign exchange risks are attributable to trade receivables as well as payables denominated in foreign currencies; these have been addressed to the greatest extent possible by hedging transactions.

Overall risk: The Group's overall risk is low and has not deteriorated in comparison to the 2005 financial year.

Opportunities of future corporate development

By pursuing a strategy focused on sustained, value-based growth, SIMONA has been able to unlock a number of business opportunities.

In America we have achieved break-even, as well as having laid the foundation for business expansion. The relocation to our own manufacturing plant in August 2006 provides the basis for greater flexibility and higher production in the US. Moreover, this strategic move will allow us to implement the SIMONA philosophy of unrivalled quality. We consider this to be an essential prerequisite when it comes to capturing an additional share of one of the world's largest markets for plastics.

Registering the highest growth rates, China continues to hold pole position in terms of plastics consumption. The consumer goods and automotive industries were among the first to relocate their operations to China; now European chemical companies and their suppliers are following suit. Their requirements: high-quality semi-finished plastics for the purpose of chemical equipment engineering. Demand for such products outstrips local supply. These developments have opened up new market opportunities for SIMONA. In view of this, we have strengthened our position in Asia as part of an incisive marketing strategy, thus diligently working towards our goal of establishing our own manufacturing facility in China in 2007.

In Europe, our newly created Business Development Team, which has a strong technical background, is currently evaluating the possibilities of new fields of application for our plastics, e.g. within the area of Life Sciences.

Outlook

Provided that the global economy remains stable and taking into account a slight general decline in revenues due to the holiday season in the second half, we are of the opinion that our forecast of revenue growth to 240 million, as issued at the end of the 2005 financial year, is attainable. Consolidated EBIT is forecast to exceed the result for 2005, with the EBIT margin falling within the target range of 7 to 10 per cent set by the company. Within this context, at present the Group is expected to meet its EBIT target of 15.0 million. However, this will depend to a large extent on the future development of raw material markets.

Research and development

In the first half, research and development activities were targeted at new products and product variants as well as optimisation of specific production processes.

Staff

The number of staff employed within the Group rose from 1,044 at the 31 December 2005 to 1,056 at the end of the first half. This increase is due to higher production volumes as well as the reorganisation of our business units and stronger emphasis on market presence, which prompted a recruitment drive to enhance our staff capacities within the technical field.

Investing activities

The single largest investment carried out in the first half was for an air-conditioning and ventilation system in sheet extrusion. The new system was installed for the purpose of regulating temperatures in the building and thus reducing the effects of temperature fluctuations on production processes. We also installed new robotic injection-moulding machines at our Ringsheim plant, thereby expanding capacities within the area of injection moulding. The new machines have been designed to reduce cycle times, and thanks to the robot-controlled retrieval of items from the system, manual processing can also be scaled back.

Kirn, August 2006

The Management Board

Income Statement SIMONA Group



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. 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.

EUR '000	01.01. – 30.06.2006	01.01. – 31.12.2005
Revenue	124,992	230,586
Other operating income	1,976	3,841
Changes in inventories of finished goods and work in progress	4,590	(441)
Cost of materials	70,131	125,602
Staff costs	25,858	48,845
Depreciation of property, plant and equipment, amortisation of intangible assets	8,596	12,440
Other operating expenses	16,934	34,574
Interest income	415	619
Interest expenses	175	188
EBT	10,279	12,956
Income taxes	3,703	5,138
Net profit for the year	6,576	7,818
of which attributable to:		
Shareholders of the parent company	6,566	7,807
Minority interest	10	11

Balance sheet SIMONA Group



Assets EUR '000	30.06.2006	31.12.2005
Intangible assets	4,004	4,293
Property, plant and equipment	76,670	81,244
Investments	30	30
Deferred taxes	180	192
Non-current assets	80,884	85,759
Inventories	54,002	45,235
Trade receivables	49,431	40,564
Other assets and prepaid expenses	10,033	7,209
Securities	5,034	4,996
Cash resources	19,988	26,772
Current assets	138,488	124,776
Total Assets	219,372	210,535
Equity and liabilities EUR '000	30.06.2006	31.12.2005
Issued capital	15,474	15,474
Capital reserves	15,032	15,032
Revenue reserves	99,387	97,611
Other reserves	56	354
Minority interests	130	120
Shareholders' equity	130,079	128,591
Financial liabilities	6,295	4,238
Retirement benefit obligations	33,207	33,078
Other provisions	5,310	5,174
Other liabilities	194	119
Deferred taxes	9,134	10,690
Non-current liabilities	54,140	53,299
Financial liabilities	181	121
Retirement benefit obligations	1,450	1,388
Other provisions	2,519	1,909
Trade payables	11,429	9,456
Other liabilities	19,574	15,771
Current liabilities	35,153	28,645
Total Equity and liabilities	219,372	210,535