# Annual Report 2005

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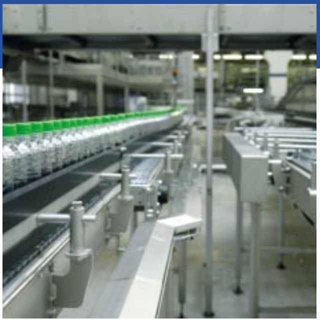


WCM

# 2005 Management Report

## Economic Environment

The global economy ended the year in a very healthy condition. Even high oil prices could not dampen the optimistic outlook. In China, currently the second most important engine driving the world economy after the USA, economic output is growing even more strongly than was forecast at the beginning of the year. However, India and the other emerging Asian countries are also continuing their dynamic development. Economic prospects have also revived significantly in Japan. A number of oil-exporting countries and a highly robust economic base in Central and Eastern Europe and Latin America provided further growth impetus. Of all the important economic regions, only the euro zone has failed to keep pace with the strong global economy.

While the German economy, still benefiting from a favourable working day effect, achieved some of its growth potential in 2004 with growth of 1.6%, at around 0.9%, the increase in gross domestic product was significantly weaker in 2005. Consequently, the production gap, the difference between potential and actual economic growth, widened further. High unemployment was a significant factor behind the weak economic growth. Large European countries in particular, including Germany, France and Italy, have yet to find a solution to the unemployment problem. Numerous market regulations and budgetary problems caused by an overburdened state sector are also holding back growth. In light of the above, the economy is not expected to stage a dramatic recovery in 2006. Economic growth is expected to increase only marginally to 1.6%.

The German economy emerged from its period of stagnation at the end of the second quarter of 2005. The positive development and sentiment indicators suggest that the economy will continue on its way to recovery. The marked increase in output in the industrial sector provides clear evidence in this respect. However, weak private consumption continued to constitute a major problem. Here, a gradual improvement is not expected until later in the year.

All industrial activities of WCM are combined in Klöckner-Werke AG. The subsidiaries of Klöckner-Werke AG are among the leading companies in their respective sectors in terms of industrial activities. The market volume in the Filling and Packaging Technology segment is estimated at around USD 29 billion worldwide. The companies of the Klöckner Group are internationally well equipped for the future through their own production and sales branches across the world.

At 4%, the year-on-year increase in incoming orders in the beverages and packaging machine sector was broadly in line with price-adjusted growth of the German machine and plant-manufacturing sector.

WCM Beteiligungs- und Grundbesitz-AG is the parent company of the WCM Group. The operating activities are performed by the individual subsidiaries.

## 2005 Financial Year

In 2005, after ceasing to trade in equity holdings and selling the entire residential real estate stock in the previous year, WCM's business activities were focused on the industrial activities of Klöckner-Werke AG as well as MATERNUS-Kliniken AG, which operates in the healthcare sector.

In the industrial sector (Klöckner-Werke AG), the year was characterised by strong price competition. This was a decisive factor behind restructuring initiatives in the various companies. The most important of these changes for the Group was undoubtedly "KHS 2010plus", a change process implemented in the KHS Group designed to further enhance the skills of the KHS Group and promote customer-driven orientation in the organisation structure.

In terms of the remaining loans and advances by banks to WCM in connection with the SIRIUS settlement, income of around EUR 20 million was generated. In addition, two other legal disputes were concluded in the past year, also by means of settlements. The legal dispute between REBON and WCM, in which REBON claimed damages of around EUR 80 million from WCM for "utilisation of the IVG shares by the insolvency administrator of SIRIUS GmbH", was ended amicably through the transfer of shares in third-party companies in the mid single-digit million range to REBON and an option to purchase further shares in third-party companies at market value, again in the mid single-digit million range, from WCM. Similarly, the claim of I. G. Farbenindustrie AG i.L. and Ammoniakwerke Merseburg GmbH for EUR 17 million was concluded in exchange for a payment of EUR 0.5 million.

In addition, some of the real estate and land held under the "Other financial Investments" segment was sold as planned.

At the end of the reporting year, the extension until mid-2007 of the loans due in January 2006 was agreed with our principal bank. At the same time, an extensive restructuring initiative aimed at improving the transparency of the Group and reducing the internal liabilities was announced.

## Restructuring

At the end of 2005, the WCM Group implemented an internal restructuring concept intended to reduce intra-group liabilities as far as possible.

This step was taken in order to address significant areas affecting the whole Group that have attracted criticism from the capital market. In addition to the documented past economic problems, these have included in particular the complex Group structure and the complicated internal financial interrelationships between Group companies.

Initially, on November 22, 2005, WCM AG purchased the remaining 94% of the shares in NB Beteiligungs AG from RSE Grundbesitz- und Beteiligungs-AG (RSE AG) at a purchase price of EUR 197.5 million. As a result of the amalgamation agreement dated December 22, 2005, NB Beteiligungs AG was amalgamated with WCM AG with retroactive effect from April 30, 2005.

In individual terms, the further measures implemented involved the bundling of all RSE shares (more than 97%) in Klöckner, with the option of a subsequent amalgamation, squeeze out or a sale of RSE AG and the termination of the option contract on RSE AG shares between WCM and Klöckner. The measures resulted in the reduction of the internal debt of the parent company WCM in relation to RSE and Klöckner from approx. EUR 551 million to approx. EUR 66 million.

As at November 30, 2005, WCM had commitments of EUR 264 million to RSE and EUR 287 million to Klöckner. The commitments to RSE were settled by the sale of Klöckner shares at a price of EUR 18 per share, which corresponds to a book value of EUR 264 million.

Klöckner realised receivables of EUR 236 million through the acquisition of RSE shares from WCM (EUR 8.15 per share).

Klöckner will indirectly receive treasury shares within the framework of the above measures. The shares are expected to be withdrawn at the Company's next Annual General Meeting in 2006. At the year-end, RSE AG acquired 14,652,000 Klöckner shares from WCM KG. As a result, Klöckner-Werke AG's free float thus increased to around 32% (previously: 22%).

The restructuring concept resulted in the realisation of significant steps that would also have been caused by an amalgamation. Although the current tax situation rules out an amalgamation for the time being, this remains an option for the future. Further details on the restructuring are presented in the Notes.

### Net Assets and Financial Position of WCM AG

On the assets side of the balance sheet, noncurrent assets fell to EUR 210.8 million (previous year: EUR 718.7 million), which results from the decrease in the reserves of WCM Beteiligungs- und Verwaltungs GmbH & Co KG and from the sale of RSE AG to Klöckner-Werke AG. Current assets were down EUR 73.0 million to EUR 309.0 million. The increase in shares in affiliated companies held as current assets from EUR 7.6 million to EUR 32.3 million stems mainly from the capital contribution and the increase in the shareholding at MATERNUS-Kliniken AG to the current level of 73.04%. Cash and cash equivalents were mainly used to repay liabilities due to banks in the financial year, and amounted to EUR 4.3 million after EUR 42 million in the previous year.

On the liabilities side, due to the net loss for the year, shareholders' equity fell from EUR 153.3 million in the 2004 financial year to EUR 110.3 million. Other provisions were reduced by EUR 121.5 million to EUR 24.2 million due to the discontinuation of the option agreements with Klöckner-Werke AG. In contrast, provisions for taxes rose by EUR 37.0 million. Additions to provisions for audit risks accounted for EUR 31.1 million of this. Liabilities due to banks fell from EUR 257.6 million to EUR 215.7 million. Repayment sources included the income from the settlement with the consortium of SIRIUS banks. Liabilities due to affiliated companies were reduced by EUR 420.2 million to EUR 101.5 million. A decisive factor in the decrease was the internal restructuring initiative with the significant reduction of intra-group receivables and liabilities.

Balance sheet total were down EUR 580.7 million to EUR 519.8 million.

### Results of Operations

The sales of WCM AG, which mainly stemmed from services for subsidiaries, rose from EUR 0.6 million last year to EUR 2.1 million in 2005. Other operating income was down year-on-year by EUR 178.6 million to EUR 36.9 million. This item includes write-ups on shares in MATERNUS-Kliniken AG and income from the derecognition of liabilities at the SIRIUS banks as well as income from the refund of bank charges. In the previous year, this item included sales of companies as part of the Blackstone transaction and the contribution of Klöckner shares to WCM Beteiligungs- und Verwaltungs GmbH & Co. KG with the realisation of hidden reserves of EUR 153 million. Other expenses fell by EUR 125.6 million to EUR 62.6 million. In addition to expenses from the disposal of residential property, expenses also resulted from the compensation to RSE Grundbesitz und Beteiligungs-AG in the previous year.

Staff costs were down from EUR 3.6 million to EUR 2.8 million. The financial result improved from EUR -129.6 million to EUR 7.4 million in the 2005 financial year. The main reason for the difference is the revaluation of the RSE shares in 2004, which had a significant negative impact on the financial result in the previous year. The result on ordinary activities amounted to EUR -19.3 million, an improvement of EUR 86.1 million on the previous year. In the financial year, extraordinary income of EUR 8.5 million resulted from the amalgamation of NB Beteiligungs AG. Tax expenses of EUR 32.0 million were incurred in the 2005 financial year, primarily as a result of the audit risks. After taxes, a net loss of EUR 43.0 million was generated for the 2005 financial year compared with EUR 117.5 million in the previous year.

### Equity Holdings

Via Klöckner-Werke AG, WCM has equity holdings in the Filling and Packaging Technology segment (KHS AG) and four equity holdings in specialist machine manufacturers for injection moulding technology, shoe soling machines, temperature regulation and robot technology as well as confectionary production in the Other Industrial Holdings segment. WCM also has several financial investments. All the figures for equity holdings presented below are reported in accordance with international standards (IFRS).

### Filling and Packaging Technology

The most important segment in the Group is Filling and Packaging Technology. The segment comprises the companies of the KHS Group and, with a sales share of around 76.6%, makes the biggest contribution to the company's sales. The parent company KHS AG, which is headquartered in Dortmund, is one of the world's leading providers of filling and packaging technology for the beverages industry and the food and non-food sector.

The KHS Group generated incoming orders of EUR 731 million in the preceding financial year and thus achieved growth of 10% compared with the previous year, despite operating in a challenging market.

KHS USA generated the strongest increase in incoming orders within the Group in the preceding financial year. With a total volume of EUR 154 million, incoming orders were 69% higher than in the previous year.

KHS AG continues to have a strong export focus. As in previous years, the percentage of exports made to Eastern European countries in particular remained high. Sales in Southern Europe/Middle East/Africa developed very positively.

In terms of individual sectors, customers in the beer industry dominated once again (41%). KHS's high sales share (52%) for solutions in the non-alcoholic and other alcoholic markets illustrates the company's wide spectrum of solutions in all beverages industry markets. 7% of sales were generated in the food and non-food segment.

The incoming orders and sales volumes reflect KHS's status as a recognised technology leader in the still developing aseptic cold filling (ACF) market. The Stute company, based in Paderborn, for example, demonstrated its confidence in KHS' expertise by placing three follow-up orders. Eckes-Granini Deutschland, Hansa-Heemann and Wesergold also placed orders for ACF lines in the preceding financial year.

Further orders, e.g. a glass line for beer for Inbev and two complete can systems for Rauch, bear witness to the company's wide production capacity.

At EUR 713 million, sales calculated in accordance with IFRS exceeded the comparable prior-year value by EUR 26 million (3.7%), while, at EUR 315 million, orders on hand at the end of the year were 6% higher than the previous year.

The strong competition that characterised the previous year continued in to the 2005 financial year bringing with it unchanged price pressure. Although the quality of revenue improved slightly during the course of the year, this development provides clear evidence that the restructuring process initiated at the end of the 2004 financial year was urgently required. EBITDA totalled EUR 27.1 million, compared to EUR 33.6 million in the previous year. The EBIT figure was EUR 14.1 million (previous year: EUR 20.1 million).

"KHS 2010$^{plus}$", a change process implemented in the KHS Group, is intended to generate revenue growth that will at least equate to market growth, and which will significantly improve profitability. To this end the technological skills of the KHS Group are being further strengthened and a customer-driven orientation is being promoted in all processes and throughout the organisation structure. However, the intended improvements in positioning and consistent cultivation of the existing market opportunities planned for the future were offset by costly restructuring processes that tied up a high level of personnel resources, with the result that the 2005 financial year was ultimately a year of corporate consolidation.

### Investments

A total of EUR 15.8 million was invested in intangible assets and property, plant and equipment. In addition to the planned machinery renewals at various global production locations, a new production hall was built in Waukesha in the USA. In India, work commenced on the construction of a new factory with a considerably expanded capacity. The factory is scheduled to be completed in the third quarter of 2006. KHS AG invests in selected, promising development projects in order to guarantee future success. In setting up KHS China, KHS further expanded its investment in activities in Asia.

### Quality Management

At the end of 2005, work commenced on the systematic examination and improvement of internal business processes in connection with the change in organisation structure implemented in Autumn 2005. The resulting projects will generate an improvement in performance and profitability across the whole of the Group.

The monitoring and more rapid processing of complaints continued to play a central role in quality management during the financial year. This was implemented both on an individual order basis and by further adapting and extending the SAP complaints module to suit the needs of the organisation. An extra feedback control system was also implemented at management level.

Along with the further development of processes, the acknowledged high product quality naturally remained a further important goal for KHS AG. High quality is guaranteed by a series of controls ranging from the goods inwards function through interim processes to the final delivery of each machine.

### Other Industrial Holdings

The companies in the Other Industrial Holdings segment comprise Klöckner DESMA Elastomertechnik, Klöckner DESMA Schuhmaschinen, REMAK and Klöckner Hänsel Processing.

### Klöckner DESMA Elastomertechnik (KDE)

Headquartered in Fridingen, Klöckner DESMA Elastomertechnik GmbH specialises in the manufacture of rubber and silicon injection moulding machines. The product range is rounded off with end-to-end product solutions with tools, cold runners, and automation and peripheral equipment. In addition to its German head office, Klöckner DESMA Elastomertechnik is also represented through branches in China, India, Slovakia and in the USA.

The 2005 financial year was characterised by an uncertainty in the automobile industry that also affected the automobile supply industry. The market is suffering in particular as a result of crises at major automobile companies including GM, Ford, Fiat, VW, etc. This critical market situation led to the implementation of the extensive restructuring program, where the focus was on the optimisation of internal processes, the intensification of the company's international orientation and alignment, along with the restructuring of the domestic distribution network.

Trends in the electrical and construction industries developed counter to the automobile industry. Pleasing developments were recorded in particular in the emerging industrial nations such as China, India, Eastern Europe and Russia. Here, developments are being driven above all by a desire to expand and improve infrastructures.

The company generated incoming orders of EUR 42 million in the 2005 financial year (previous year: EUR 47.8 million). Sales totalled EUR 44.3 million (previous year: EUR 47.8 million), with EBITDA of EUR -0.6 million (previous year: EUR 2.6 million) and EBIT in 2005 of EUR -1.8 million (previous year: EUR 1.6 million).

In recent years, market weightings have shifted significantly and a number of new markets have formed. Traditional markets are facing, or already undergoing, structural transformation.

KDE, as a manufacturer of machines and end-to-end systems for elastomer injection moulding, has embraced this challenge. With foreign locations in the USA, India, China and Slovakia, KDE has established a presence in the important locations of Western and Eastern Europe, America and Asia.

Overall, KDE is forecasting a stable market, which, in the case of European machine manufacturers, will not grow. Therefore in particular market cultivation in Eastern Europe, Southern Europe, Asia and other markets will be further reinforced. We will also continue our strategy of expanding mould construction activities and attempt to increase customer loyalty by reinforcing market processing in the area of modifications/retrofits for older machines.

### Klöckner DESMA Schuhmaschinen (KDS)

Klöckner DESMA Schuhmaschinen GmbH, which is headquartered in Achim, in greater Bremen, specialises in manufacturing injection moulding machines for the direct soling of shoe soles and moulded soles. Complementary automation systems and production tools are offered for all machine classes. Polyurethane, rubber and various thermoplastic materials are processed at the production sites. Alongside Far Eastern countries, the main markets are in Southern and Central America and Europe.

The 2005 financial year was a difficult year. Incoming orders in 2005 totalled EUR 26.5 million, after EUR 32.4 million in the previous year. Sales amounted to EUR 27.5 million (previous year: EUR 29.2 million). The main reason for the decrease in sales was the weak order book in the Asian region, in particular in China. Customers' propensity to invest in this region was restricted due to the threatened imposition of import restrictions on the Chinese textile industry by the EU. The Chinese market did not recover again until the second half of the year.

However, high levels of incoming orders were recorded in the South America and Eastern Europe regions. In particular in Brazil and Russia, incoming orders were higher than expected.

Performance in Central and North America was disappointing. Both regions suffered as a result of cheap imports from Asia. Western Europe also failed to meet expectations. However, the increase in incoming orders in Germany was a positive development that proves that shoes can still be manufactured profitably in a high-wage country such as Germany.

As in the previous year, the majority of sales were generated at the direct soling plants through the manufacture of shoes with polyurethane (PU)/PU or thermoplastic polyurethane soles (TPU)/PU. Sales of mould tools for the manufacture of direct-soled shoes were very successful. Here, incoming orders increased by 50%. Concrete measures were introduced to increase earnings. One such measure involved entering into a cooperation with another shoe machine manufacturer. This collaboration has since enabled us to offer customers a wider range of machines for the manufacture of shoes. Initiatives designed to capture new sales areas for DESMA technology were also reinforced, the first successes of which are now being realised.

In the 2005 financial year, EBITDA amounted to EUR 1.7 million (previous year: EUR 0.8 million). EBIT improved from EUR -0.3 million in 2004 to EUR 0.7 million in the reporting year.

KDS is expecting sales to increase by around 4% in 2006. This forecast is based on the improved economic situation in the target markets and the favourable project situation. Based on the good costs structure and further optimisation measures planned, the company expects to achieve EBIT in excess of EUR 1.0 million in 2006.

### REMAK Group

The REMAK Group develops, constructs and builds handling systems, temperature regulation and impulse cooling appliances for the commercial manufacture of parts made from plastic at its site in Reinheim in Odenwald. REMAK's product range is split into the areas of robot technology and temperature regulation technology. Satisfied customers include globally renowned companies in the automobile and automobile supplier industry.

REMAK's relevant injection moulding technology markets developed unfavourably in the 2005 financial year. REMAK's incoming orders fell from EUR 13.8 million in the previous year to EUR 8.8 million in the 2005 financial year as a result of a significant market slump in the robot technology sector, and despite developments in the newly developed export markets, the acquisition of many new customers and the growth in the temperature regulation technology sector, the company was unable to re-establish order levels prior to the slump. On the procurement side, the company also had to accept price increases from a number of suppliers as a result of rising oil prices and high raw material costs in 2005. After adjusting incoming orders of the previous year for the effects of non-recurring projects, incoming orders in 2005 fell by around 20% compared to the previous year.

Sales and earnings developed strongly until the end of August 2005 as a result of the high level of orders on hand at the start of the year. From September, the low level of incoming orders generated in the financial year started to impact, resulting in unsatisfactory sales and results in the last four months of the year. Despite this development, annual sales increased to EUR 11.6 million, a rise of around 10% compared to the previous year. EBITDA improved from EUR -1.1 million in 2004 to EUR 0.3 million in 2005. EBIT amounted to EUR 0.1 million (previous year: EUR -1.4 million).

REMAK has extensive measures planned for the 2006 financial year. The capturing of new growth markets is planned on the sales side. In the area of robot technology, all important production series have been completely revamped during the last 18 months. A further robot production series is available in a new segment as a result of a cooperation with a competitor. New products were also developed in the area of temperature regulation technology. In the 2006 financial year, these will cover new market segments and, together with the various measures mentioned above, will ensure growth.

### Klöckner Hänsel Processing (KHP)

Klöckner Hänsel Processing is a plant and systems provider for the confectionary industry. The company offers everything that is required to manufacture confectionary, from individual machines to complete manufacturing systems.

KHP realised around three quarters of its sales in Europe in the preceding financial year, and generated outstanding figures in Germany and Russia in particular. As in the previous years, the hard sweets area was particularly successful. The company maintained its market lead in this area.

The first project was jointly implemented with an alliance partner in the bar systems sector. The project represents an important step on the way back into the previously abandoned area of bar production.

Competition remains fierce. This can be seen in particular in the development of prices. The trend for customers to wish to acquire system concepts from one source, which resulted in a very high share of trade goods in the preceding financial year, is still discernible. This also impacted income.

Overall, incoming orders in the financial year were higher than forecast. While poor market prospects necessitated a reduction in staff numbers as recently as the beginning of the financial year, at least in terms of sales and incoming orders, developments in the second half of the financial year were significantly more successful than had been forecast. Incoming orders of EUR 21.8 million were generated in the 2005 financial year (previous year: EUR 22.2 million). Sales improved from EUR 20.9 million in 2004 to EUR 22.5 million in 2005. However, earnings developed less positively due to the large share of trade goods and strong price competition in our markets. EBITDA in 2005 amounted to EUR 0.5 million (previous year: EUR 0.5 million). EBIT was balanced.

The company is looking to the future with confidence. A number of interesting developments were presented at this year's Interpack. The newly developed fondant machine in particular resulted in several new orders. Further developments in the area of mixing and delivery systems in the hard sweets line also helped to maintain a sizable order book in Germany.

### MATERNUS-Kliniken AG (MATERNUS)

The MATERNUS Group is one of the leading private providers in the old people's homes, care homes and rehabilitation clinics sectors. The growth of MATERNUS is planned in the context of the "MATERNUS 2010" restructuring project, and is aligned towards further acquisitions of existing or new old people's homes as well as the implementation of new medical and care concepts. In this respect, there are plans to expand the Old People's Homes and Care Homes segment by approx. 500 beds per year over the next few years. The corporate group currently has a total capacity of 3,784 beds (previous year: 3,771).

In the 2005 financial year, MATERNUS generated sales of EUR 101.8 million (previous year: EUR 99.3 million). The year-on-year increase of 2.7% is predominantly attributable to the improved utilisation of occupancy in the Rehabilitation segment. Even so, the Old People's Homes and Care Homes and Rehabilitation segments performed very differently. Both segments performed positively in the reporting year, although the Rehabilitation segment did not quite reach the high forecast figures for capacity utilisation and earnings. This is because application levels for medical services remain low.

In the reporting year 2005, based on IFRS, the MATERNUS Group generated EBT of EUR 12.5 million (previous year: EUR -6.3 million). The earnings figures for 2005 include the income from the WCM debt waiver of EUR 18.0 million as a positive non-recurring effect. The consolidated net income after non-recurring effects and before minority interests totalled EUR 12.0 million (previous year: EUR -12.0 million).

The total number of employees at the MATERNUS Group fell year-on-year by 2.3% from 2,110 to an average of 2,063.

As a result of the "MATERNUS 2010" restructuring programme, the market position was improved through new REHA concepts and services. This became clear in the Rehabilitation segment at the beginning of 2006. Capacity utilisation improved by 1.1% in the first quarter of 2006 compared with the comparable prior-year period. Overall, the development of capacity in the REHA segment is not yet satisfactory.

For the Old People's Homes and Care Homes segment, MATERNUS expects a moderate increase in capacity utilisation and sales. Capacity utilisation at the beginning of the first quarter of 2006 remains at a high level. In addition, the acquisition of new homes is likely to lead to higher bed capacity and thus an overall improvement in the net result for the year.

### Other Financial Investments

All equity holdings that do not belong to the industrial core business are reported in this segment. It is planned to sell all companies of the Other Financial Investments segment in the short to medium term.

### RSE Grundbesitz und Beteiligungs-AG (RSE)

RSE Grundbesitz und Beteiligungs-AG owns a commercial property portfolio in Germany via the 80% equity holding in RSE Projektmanagement AG (RSE PM). The portfolio includes the "Phoenix" office centre in the Rhine-Main region, currently being expanded, and the Borsigturm and PHOENIX business incubator in the "Am Borsigturm" industrial estate in Berlin. The termination of the framework agreement with Eurobalken S.A. at the end of 2005 marked the end of RSE's foreign activities. The other assets of the RSE Group will also be sold in the short to medium term.

RSE AG generated sales from rent and leases of EUR 0.2 million and other operating income of EUR 12.5 from the sale of equity holdings. Much of the other operating expenses of EUR 16.3 million stemmed from individual value adjustments on receivables. Net income of EUR 9.3 million was generated in the 2005 financial year, following a loss of EUR 14.2 million in the previous year.

### ALLBODEN Allgemeine Grundstücks-Aktiengesellschaft (ALLBODEN)

ALLBODEN holds land and land rights that currently cover approx. 700,000 m². The aim of the company is to develop the land and property to market maturity and then sell it. The business area covers the whole of Germany, concentrating on Northern and Western Germany. In the preceding financial year, revenues from sales of land and property totalled around EUR 1.2 million. As at December 31, 2005, ALLBODEN had shareholders' equity of EUR 10.6 million. In the 2005 financial year, sales of EUR 1.8 million (previous year: EUR 2.8 million) were generated. The result on ordinary activities amounted to EUR 43 thousand after EUR -1,183 thousand in the previous year.

### BHE Beteiligungs-AG (BHE)

BHE currently manages approx. 58,000 m² of land, for which there are various designated uses.

Following the successful conversion of the sites of the company in the 2003 financial year, the sales negotiations for individual properties were continued in the preceding financial year. For instance, two stations and several undeveloped sites were successfully sold in the 2005 financial year. The sites covered around 24,000 m2.

Sales fell year-on-year from EUR 61 thousand to EUR 52 thousand. The result on ordinary activities in the 2005 financial year decreased from around EUR 55 thousand to EUR -140 thousand due to the establishment of a 6b reserve of EUR 438 thousand. The net loss for the year amounted to EUR 130 thousand.

### YMOS AG (YMOS)

The main activity of YMOS is the rental and management of properties at the company's location in Obertshausen. In addition, the company has equity holdings in properties that are rented to MATERNUS as care homes. Overall, rental agreements for a total area of 12,500 m² were in place as at the end of 2005. In the 2005 financial year, a result according to IFRS of EUR -1.6 million was generated with sales of EUR 0.7 million. For 2006, there are plans to cover ordinary operating expenses and pension expenses through corresponding income.

### Human Resources

The WCM Group's future business development depends on the knowledge and experience of its employees. All our employees demonstrated continued high levels of commitment and productivity in the past financial year. The desire to achieve common goals, which is evident throughout the Group, is a driving force that will enable the Group to survive and prosper in the face of competition in the long term.

The average number of employees at WCM AG during the year was 14. As part of the realignment of the Corporate Group and the concentration on the industrial activities, many operations were moved directly to the Klöckner-Werke holding company. This process also saw most of the employees transferred to Klöckner-Werke.

The Management Board would like to thank all employees for their whole-hearted commitment to the success of the Corporate Group. The rapid restructuring of the Group would not have been possible without their efforts. The Management Board would also like to thank the employee representatives. They have constantly provided critical yet constructive support for the Group and thereby contributed to the achievement of our corporate goals.

## Risk Report

For WCM, it is essential to effectively counter the corporate risks arising from its business activities and thus make a major contribution to protecting the company.

The risk structure within the WCM Group focuses heavily on the risks in the machine and plant construction sector. In addition, there continue to be economic risks from business activities in the commercial property market and the healthcare market. There are also liquidity and tax risks at the level of WCM AG.

WCM operates a suitable risk management system for proper and responsible corporate management in accordance with the German Corporate Governance Code. To identify and assess risks in good time, WCM uses integrated planning, management and control systems and continually enhances them. The goal of the Group-wide risk management system is to identify changed risk situations at an early stage and counter negative developments. Our interpretation of this is an extensive documented system covering all corporate activities that, in addition to the internal monitoring and controlling systems, comprises a systematic and permanent process in respect of risk inventories, risk controlling and risk reporting.

On the basis of uniform Group guidelines, the risk management system is geared towards reporting all identifiable material risks to the Group management at an early stage. The individual operating subsidiaries of the Group monitor, identify and report the risks as part of the planning and control processes. In this respect, all identifiable material risks are reported to the Group management at an early stage in order to immediately instigate coordinated control measures for the specific risk concerned. The functionality of the risk management system is regularly checked.

A key component of risk management is the regular planning process, which covers the reporting year and the two subsequent years as well as the extensive reporting from the business areas of the Group.

## Risks and Risk Management in the Industrial Sector

In the Filling and Packaging Technology and Other Industrial Holdings segments, the company is exposed to typical risks facing manufacturers of machines and systems. Material risks arise from economic developments and the competitive environment that impact on the industrial subsidiaries in the form of demand fluctuations. Price and volume risks feature strongly here. Risk diversification is achieved through our market presence in different sectors and countries, which are generally also characterised by different economic and competition risks. In particular due to the still stagnating domestic market, the boom regions in Asia and Eastern Europe are already gaining in importance. India and China are set to play major roles here. Furthermore, the risk is also diversified as a result of the product range and the customer structure. Settlement risks in relation to complex and technologically demanding systems supplement the various risk categories.

In the operating area, risks relate above all to technological developments. On the one hand, the company is exposed to market entry risks with completely new technologies. Here, risks primarily arise from incorrect estimates of the market potential and product acceptance among customers. On the other hand, there is a risk in the inadequate utilisation of opportunities on the market and technological developments.

There are still financial and contract risks that can primarily arise in connection with transactional financing and settlement risks in relation to complex and technologically demanding systems. Foreign currency fluctuations are also a key factor here, in particular the performance of the US dollar against the euro. The settlement of high-value orders is also subject to special checking and approval procedures.

Fluctuations in energy costs and raw material prices since the beginning of 2005, which have had a negative impact on contribution margins, have a significant impact on economic developments at the Group. The dependency on or insolvency of suppliers who deliver components that can only be replaced with difficulty cannot be ruled out. Appropriate backup measures have been devised for the cases identified.

The subsidiaries in the Filling and Packaging Technology and Other Industrial Holdings divisions have risk management systems that are tailored to the special features of the respective sectors.

The data is evaluated and put together by Corporate Controlling. Scheduled and actual variances of the performance indicators are set out in detail for all companies in a monthly report. Comments on market data, liquidity, results performance, opportunities and risks as well as instigated measures supplement the overall situation and are indicators for early risk detection. Furthermore, Klöckner-Werke has a Risk Committee that simultaneously acts as the highest risk monitoring body for the industrial section.

### Risks and Risk Management in the Other Financial Investments Division

Risks arise in this segment within the companies held in the financial investments sector. These are holding companies within the WCM Group and various companies that mainly manage property.

The main risks stem from the competitive situation and the economic developments of the respective sectors and markets. For companies or properties for which there is an intention to sell, a fundamental market price risk exists. Risks for the commercial properties and land in the Group stem from the market development of the individual regional property markets and location risks. Environmental pollution can negatively impact on the value of the land.

MATERNUS is affected by impacts on the German healthcare market that continue to lead to poor capacity utilisation of the REHA clinics. With increasing success, this is being offset by the geriatric care sector, which constitutes a growing market and the core business as a result of the demographic and socio-economic trends in Germany (increasing ageing of the population, decline in multi-generation households).

In addition, the running of a care home is subject to numerous regulatory requirements and inspections. If deficiencies are identified here, extensive requirements can be imposed by the authorities.

Risk reporting for the companies in the financial investments sector primarily consists of monthly standard reports on the subjects of results performance, liquidity status and planning for the next six months with comments that enable the Management Board of WCM to make a precise assessment of the situation. Reporting is carried out on a quarterly basis and covers the extensive compilation of performance indicators, income and accounting indicators as well as comments. Regular reporting can be supplemented by ad-hoc reports during the year.

### Liquidity Risks and Risks to Continued Existence

The Finance department in the Group holding company monitors liquidity and ensures that the WCM Group is able to pay at all times. With individual subsidiaries, the WCM Group has a payment and settlement management system. Cash flows in the Group are optimised on the basis of daily cross-Group liquidity reports. Trend deviations are identified through daily queries and monthly financial reports, which also include an analysis of the loans portfolio.

In January 2006, WCM AG received a further 18-month extension of its bank loans. Most of the money that was lent by subsidiaries in the context of the cash management system was returned by December 31, 2005 as part of the restructuring concept. The remaining cash management balances are collateralised and can become due daily as a result of the existing agreements.

The liquidity situation of WCM AG initially improved at the beginning of 2006 as a result of the loan extension. In contrast, the financial plans for WCM AG that were updated in April show a strained liquidity situation. Due to a lack of recurrent income, existing obligations arising from the management of the company, expected back-payment of taxes (excluding a tax risk from the transfer of a loss carryforward), interest on loans and the necessary covering of the financial requirements of the subsidiary MATERNUS-Kliniken AG can only be met through sales of assets such as equity holdings, securities and developed and undeveloped land, in some cases via subsidiaries. These measures are accompanied by deferment of interest by the lenders. As the net assets position suggests, necessary loan repayments can only be achieved through extensive sales of assets. There is a particular risk in that the planned sales of assets cannot be attained at the planned times or, more pertinently, at the planned values. In these cases, we are aware that the risk to the company consists primarily of inability to pay and secondarily of over-indebtedness if the recognised values are not achieved. Despite this existing threat to the company's existence, we have continued to prepare the annual financial statements with a view towards continuation as a result of the positive signals from the lenders who are supporting us.

### Foreign Exchange Risks

Foreign exchange risks within the WCM Group arise on two levels. Firstly, some of the borrowing was taken out in foreign currencies, which can lead to increased expenses at the time of loan repayment if the currency parities change. In this respect, there is a loan in US dollars that was taken out on favourable terms. Secondly, the subsidiaries in the industrial sector are exposed to currency fluctuations in exporting and in purchasing. The increased euro rate – particularly in relation to the US dollar – currently constitutes a risk shared by all export-oriented companies at present. A key advantage is that the WCM Group also has production locations in the USA. If hedging of the foreign exchange risks associated with actual transactions is commercially sensible, these risks will be hedged with derivative financial instruments.

### Tax Risks

A tax audit for 1997 has been in progress at the subsidiary HM Vermögensverwaltungsgesellschaft mbH & Co. Beteiligungs-KG, Wackerow, since 2003. Following a discussion of the disputed items with WCM's consultants in 2003, the German Tax Office gave notification in February 2005 that this complied with its interpretation of the application of Section 50 c (11) of the German Income Tax Act (EStG). The Management Board called on other consultants who, after a preliminary audit, shared the view of the Management Board that the legal opinion of the German Tax Office is incorrect. On this basis, the Management Board will continue the negotiations with the financial authorities with its consultants. The audit is not yet complete. The audit originally centred on the planned determination of additional taxes of EUR 106.8 million at WCM and EUR 13.1 million at a subsidiary, plus interest currently amounting to approx. EUR 39.9 million. The further discussions with the financial authorities led to a change in the risk assessment that the Management Board took into account by setting up a reserve of EUR 15.0 million for additional taxes and interest. No other risks from this audit are expected.

In the context of the audit performed at WCM, the Hesse tax authorities disputed the use of the loss carryforward of Cockerill Sambre Beteiligungsgesellschaft mbH (CSB). This company was acquired by WCM and merged with WCM with retroactive effect from 1998 as permitted by tax legislation. Its tax loss carryforward was transferred to WCM in accordance with the statutory regulations in force at the time. The financial authorities did not recognise the use of the loss carryforward and issued an amended corporation tax assessment notice for 1998 in March 2006. This resulted in additional payments of corporation tax including solidarity surcharge of EUR 17.3 million and interest of EUR 5.8 million. The company has appealed against the assessment notice and applied for an unsecured suspension of execution. According to our calculations, in the case of non-recognition of the transfer of the total loss carryforward, the additional tax and interest payments for various years total around EUR 87 million.

At the same time, a legal opinion was obtained from Dr Widmann, chief judge at the German Federal Finance Court. Like WCM's tax consultants, he concluded that the determined loss carryforward of CSB was transferred to WCM in the context of the merger. In addition to the possible unconstitutionality of enforcement of the regulation in question and the resultant loss transfer according to the previous legal situation, the legal opinion also states that application of the amended Section 12 (3) sentence 2 of the German Reorganisation Tax Act (UmwStG) does not constitute a barrier to the loss transfer. According to the expert, the loss carryforward has been transferred to WCM. The opinion was made available to the financial authorities in its entirety.

Although the Management Board and the legal and tax consultants assume that the view expressed by the German Tax Office is incorrect and the amounts in question should not be paid, there remains a residual risk in the context of the emerging legal conflict with the financial authorities. According to the HGB accounting regulations that apply to the single entity financial statements and the prudence principle contained therein, provisioning is required for such risks, even if they are deemed to have only a slight subjective probability of occurring. The company has taken this into account insofar as a provision for the audit risk has been set up to the amount of the back-payment of taxes arising from the existing amended tax assessment notice for 1998.

### Risks arising from the Restructuring Measures

The restructuring measures carried out at the end of 2005 are subject to conditions subsequent, the occurrence of which cannot be fully ruled out at present. In the event of reversal, the liabilities to Klöckner would rise by EUR 236 million and those to

RSE would rise by EUR 264 million. At the same time, WCM AG would again have 70.7% of the share capital of RSE and would post amounts due from WCM KG of around EUR 264 million. A subsequent settlement of the receivables and liabilities could only carried out using the liquidity gained from sale of Klöckner shares.

### Legal Risks

Drestate Wohnen has submitted a claim against GAB Gladbacher Baugesellschaft mbH (GAB) regarding the payment of the purchase price from the sale of the 94% shareholding in Gladbau Nordenham KG. WCM AG has an indemnity obligation in relation to GAB. In the first instance (Hamburg district court), the court allowed the claim on October 21, 2005. The court did not share the view of GAB that the claim was no longer valid due to offsetting. GAB has lodged an appeal against the verdict. Consequently, the matter has now been referred to the Hanseatic Higher Regional Court of Hamburg. We expect the verdict of the court of first instance to be overturned and the legal opinion of GAB to be confirmed.

### Forecast Report

High oil prices represent a major risk for the global economy over the short term. There is much to suggest that, in isolation, the significantly increased energy prices will only moderately dampen the global economy. However, larger economic problems would result if the increased energy prices were to have significant second-round effects on consumer prices. Such a development could in turn result in global inflationary trends and higher interest rates. However, moderate wage agreements alleviate this risk to some extent.

In the medium term, macro-economic imbalances, in particular the high current account deficit in the USA, represent risks for the global economy. At the same time, from today's perspective – particularly in light of the recent stabilisation of the oil markets – there are grounds to expect that the global economy will continue to thrive.

However, behind economic developments in Germany there is a fragmented economic situation in which strong export growth continues to be offset by weak internal demand. In 2006, buoyed by a solid global economy, the German economy is expected to continue its moderate recovery and generate growth of between 1.5% and 1.8%. Exports are expected to continue to be the principal growth drivers. The rate of growth is expected to slightly weaken again in 2007.

Global machine and plant construction is also set to grow in 2006. Positive development is also forecast for the packaging industry for the years to 2010. Total global sales, which amounted to EUR 24.3 billion in 2005, are expected to increase to an estimated EUR 32.2 billion by 2010. Within the next five years, global sales in the packaging industry will rise by around EUR 7.9 billion, which represents an annual average growth rate of around 6.5%. This offers two areas of growth potential for KHS AG, the largest subsidiary in WCM: On the one hand, KHS AG can benefit from growth in the core market. Secondly, as KHS AG currently only operates in the beverage sector, which accounts for approx. 23% of the total market, any extension of activities outside the beverage sector would promise further realisable earnings potential.

Aided by a higher growth rate, we therefore expect business to develop positively for KHS in 2006, and anticipate particular growth potential in the areas of dry aseptic, cleaning machines and pasteurisation. We also forecast a significant increase in earnings, in particular as a result of the performance of KHS AG. The improvements will be primarily attained through a restriction of quality costs and a renewed focus following the reorganisation and strategic realignment.

We expect to see a similar slight improvement in general trading conditions in 2006 for the companies in the Other Industrial Holdings segment. Intensive cultivation of existing and new sales markets, for example in China, Southern Europe and South America, is planned. In light of the improvements in earnings as a result of the cost reduction measures implemented in 2005, we expect to see an increase in earnings in this segment in 2006.

In 2006 and 2007, WCM AG will primarily pursue the goal of maintaining solvency and thus fulfilling its existing obligations. To this end, efforts to sell assets will be stepped up. Other Financial Investments will all be sold in the short to medium term. These primarily include the companies in the property sector as well as one company in the healthcare sector. Borrowings are to be reduced further with the sale proceeds. It is still necessary to restrict and minimise any tax risks that arise. As a purely holding company, WCM AG has plans for a further cost reduction. A negative result in the low double-digit million range before possible non-recurring effects from the sale of assets or changed risk assessments is expected for 2006 and 2007.

### Supplementary Report

There have been no important changes in the general trading conditions in the industrial activities divisions since the end of the financial year. The financial environment did not change in such a way as to have a material impact on our business activities and the industry situation was not significantly different in comparison to December 31, 2005.

The following changes took place in the Supervisory Board: Professor Dieter H. Vogel stood down as Chairman of the Supervisory Board on January 31, 2006. Mr Robert Buchalik has been appointed as an additional member of the Supervisory Board by the Frankfurt local court. On February 2, 2006, the Supervisory Board was reconstituted and the membership of the committees was changed. Mr Rainer Laufs was elected as Chairman of the Supervisory Board and Mr Joachim Kletzin was confirmed as Vice Chairman of the Supervisory Board.

The final signing of the financing loan extension contract took place on January 31, 2006.

Frankfurt am Main, June 2006
The Management Board

Roland Flach
Chairman

Valentin Reisgen

## Balance sheet

| Assets | Note | Dec 31, 2005 €T | Dec 31, 2004 €T |
|---|---|---|---|
| **Noncurrent assets** | 1 | | |
| Intangible assets | | 43 | 491 |
| Property, plant and equipment | | 410 | 507 |
| Financial assets | | 210,341 | 717,669 |
| | | **210,794** | **718,667** |
| **Current assets** | | | |
| Accounts receivable and other assets | 2 | 265,253 | 317,964 |
| Securities | 3 | 39,400 | 21,880 |
| Cash and cash equivalents | | 4,330 | 42,000 |
| | | **308,983** | **381,844** |
| **Total assets** | | **519,777** | **1,100,511** |
| | | | |
| **Liabilities** | | | |
| **Shareholders' equity** | | | |
| Subscribed capital | 4 | 288,825 | 288,825 |
| Capital reserves | | 221,683 | 221,683 |
| Net accumulated losses | | -400,236 | -357,252 |
| | | **110,272** | **153,257** |
| **Provisions** | | | |
| Pension provisions | 5 | 7,287 | 1,200 |
| Provisions for taxes | 6 | 55,011 | 18,121 |
| Other provisions | 7 | 24,173 | 145,655 |
| | | **86,471** | **164,976** |
| Liabilities | 8 | | |
| Liabilities due to banks | | 215,689 | 257,585 |
| Other liabilities | | 107,344 | 524,692 |
| | | **323,033** | **782,278** |
| **Total liabilities** | | **519,777** | **1,100,511** |

## Income statement

| | Note | 2005 €T | 2004 €T |
|---|---|---|---|
| Sales | 9 | 2,092 | 640 |
| Other operating income | 10 | 36,930 | 215,503 |
| Staff costs | 11 | -2,840 | -3,568 |
| Depreciation and amortisation on intangible equipmentand tangible assets | | -250 | -210 |
| Other operating expenses | 12 | -62,585 | -188,221 |
| Financial result | 13 | 7,370 | -129,556 |
| **Result from ordinary activities** | | **-19,283** | **-105,412** |
| Extraordinary income | 14 | 8,498 | 0 |
| Taxes on income | 15 | -31,981 | -12,011 |
| Other taxes | | -219 | -117 |
| **Net loss for the year** | | **-42,985** | **-117,540** |
| Accumulated losses carried forward | | -357,252 | -239,712 |
| **Net accumulated losses** | | **-400,236** | **-357,252** |

## Statement of changes in fixed assets

| | | | | | Carrying amounts | | |
|---|---|---|---|---|---|---|---|
| | Jan. 1, 2005 €T | Additions/ Reclassification (R) €T | Disposals/ Reclassification (R) €T | Depreciation and amortisation (cumulative) €T | Jan. 1, 2005 €T | Dec 31, 2004 €T | Depreciation and amortisation during the financial year €T |
| **Intangible assets** | | | | | | | |
| | | | -3 (R) | | | | |
| Software | 306 | 0 | -26 | -234 | 43 | 215 | 143 |
| Advance payments | 276 | 0 | -276 | 0 | 0 | 276 | 0 |
| | **582** | **0** | **-305** | **-234** | **43** | **491** | **143** |
| | | | | | | | |
| **Tangible assets** | | | | | | | |
| | | 3 (R) | | | | | |
| Operating and office equipment | 1.231 | 21 | -14 | -831 | 410 | 507 | 107 |
| | **1.231** | **24** | **-14** | **-831** | **410** | **507** | **107** |
| **Financial assets** | | | | | | | |
| Shares in affiliated companies | 1,018,761 | 202,873 | -708,691 | 317,941 | 195,002 | 702,330 | 1,510 |
| Loans to affiliated companies | 15,339 | 0 | 0 | 0 | 15,339 | 15,339 | 0 |
| | **1,034,100** | **202,873** | **-708,691** | **-317,941** | **210,341** | **717,669** | **1,510** |
| **Total assets** | **1,035,913** | **202,897** | **-709,010** | **-319,006** | **210,794** | **718,667** | **1,760** |

# Notes

## General Information

The Company is domiciled in Frankfurt am Main and entered in the commercial register of the Frankfurt Local Court in Section B under no. 55 695.

The 2005 annual financial statements of WCM AG were prepared by the Management Board in accordance with the accounting regulations of the German Commercial Code and the German Stock Corporation Act. Assets and liabilities are measured using the going concern principle.

In accordance with Article 267 (3) of the German Commercial Code, WCM AG is a large corporation as it participates in an organised market within the meaning of Article 2 (5) of the German Securities Trading Act with securities it has issued. The purpose of the Company is the acquisition and management of German and foreign equity holdings and financial assets in its own name and for its own account.

The income statement is classified in accordance with the nature of expense method.

The individual items in the balance sheet and the income statement, as well as the tables showing the breakdown of items contained in the notes, are stated in thousands of euros (€T). Marginal differences or apparent errors in addition are due to rounding differences.

All the mandatory information that may be stated in the balance sheet, the income statement or the notes in accordance with the relevant legislation is disclosed in the notes.

## Notes on Accounting Policies

The following accounting policies were applied in preparing the balance sheet and the income statement:

Intangible assets and tangible assets are carried at cost less depreciation and amortisation. Depreciation and amortisation are recognised on a straight-line basis in accordance with the maximum tax rates. Additions to tangible assets are written down pro rata temporis in the year of acquisition. Low-value assets are written off in full in the year of acquisition and, for simplification, are reported as disposals in the statement of changes in noncurrent assets. Financial assets are carried at the lower of cost or fair value.

Accounts receivable and other assets are carried at their nominal value less necessary valuation allowances. Investment securities are carried at the lower of cost or fair value at the balance sheet date.

Reversals of write-downs in accordance with Article 280 of the German Commercial Code are performed as required. Shares in affiliated companies that are classified as current assets are reported in investment securities.

In calculating pension provisions, present values and net present values are determined on the basis of actuarial principles using an interest rate of 6 percent. The 1998 and 2005 mortality tables compiled by Prof. Klaus

Heubeck form the basis for calculation. Other provisions take account of all discernible risks and uncertain obligations, and are recognised in the amount required by prudent business judgement.

Liabilities are reported at their repayment amounts.

### Restructuring of the WCM Group

In order to simplify the Group structure and the financial relationships within the Group, the following measures were implemented in the 2005 financial year:

Firstly, WCM AG acquired the remaining 94 percent of the shares in NB Beteiligungs AG from RSE Grundbesitz und Beteiligungs-AG (RSE AG) on November 22, 2005 for a purchase price of EUR 197.5 million.

By way of a merger agreement dated December 22, 2005, NB Beteiligungs AG was merged into WCM AG with retroactive effect from April 30, 2005.

At the merger date, the assets and liabilities of NB Beteiligungs AG were as follows:

| | € million | | € million |
|---|---|---|---|
| Current assets | 241.4 | Shareholders' equity | 212.1 |
| | | Provisions | 18.4 |
| | | Liabilities | 10.9 |
| | 241.4 | | 241.4 |

The current assets of NB Beteiligungs AG contained a receivable from WCM AG in the amount of EUR 235.3 million that was eliminated in the course of the merger. The merger resulted in a gain of EUR 8.5 million, which is reported as extraordinary income.

The following agreements on the further restructuring of the Group were entered into on December 29 and 30, 2005:

1. WCM Beteiligungs- und Verwaltungs GmbH & Co. KG, a wholly-owned subsidiary of WCM AG, sold 14,652,000 shares in Klöckner-Werke AG, representing approximately 32 percent of Klöckner-Werke AG's share capital, to RSE AG for a purchase price of around EUR 264 million. This corresponds to a price of EUR 18.00 per share. The purchase price claim of WCM Beteiligungs- und Verwaltungs GmbH & Co. KG arising from this sale was assigned to WCM AG under the terms of a corresponding agreement and offset against WCM AG's existing liabilities to RSE AG in the amount of around EUR 264 million.

2. The option agreement between Klöckner-Werke AG and WCM AG, under which Klöckner-Werke AG has the right to sell 10.7 million shares in RSE to WCM AG (put option), was terminated. Klöckner-Werke AG did not exercise this put option and received an equalisation claim against WCM AG in the amount of the difference between the purchase price that Klöckner-Werke AG would have generated by exercising the put option and the value of the RSE shares of EUR 8.15 per share. The settlement amount totalled around EUR 176 million.

3. Klöckner-Werke AG acquired RSE shares from WCM AG representing around 70.7 percent of RSE's share capital for an initial purchase price of EUR 236 million. This corresponds to a price of EUR 8.30 per RSE share. The purchase price was offset against the existing equalisation claims in accordance with 2 above (totalling around EUR 288 million). Following the examination of the value of RSE's shares under the terms of the contractually agreed adjustment clause, the price was reduced to EUR 8.15 per share and an equalisation claim of EUR 6 million was recognised.

The restructuring measures described under 1 and 3 are subject to the following conditions subsequent:

a) The Annual General Meeting of Klöckner-Werke AG does not pass an effective resolution on the withdrawal of the shares to be withdrawn in the required majority by September 30, 2006.

b) The effective resolution on the withdrawal of the shares to be withdrawn passed in the required majority by the Annual General Meeting of Klöckner-Werke AG is declared void res judicata, or

c) under the terms of the lien rights of the shares to be withdrawn, HSH Nordbank AG is entitled to realise these shares and actually effects this realisation.

The restructuring measures listed above have already been recognised in the 2005 annual financial statements in accordance with the principle of substance over form, as the existing majority interests of WCM AG mean that it can ensure that a corresponding resolution is passed at the Annual General Meeting of Klöckner-Werke AG.

Following the implementation of the measures described in 1 to 3 above, WCM AG has a remaining liability to Klöckner-Werke AG of approximately EUR 58 million.

# Notes to the Balance Sheet

## 1 Noncurrent assets

The development of noncurrent assets is shown in the statement of changes in noncurrent assets. Shares in affiliated companies include the following equity holdings:

| Name and registered office of company | Equity interest in % |
|---|---|
| ALLBODEN Allgemeine Grundstücks-Aktiengesellschaft, Hannover | 100.0 |
| BETA Vermögensverwaltungsgesellschaft mbH & Co. Beteiligungs-KG, Wackerow | 100.0 |
| BETA Vermögensverwaltungsgesellschaft mbH, Wackerow | 100.0 |
| BHE Beteiligungs-Aktiengesellschaft, Frankfurt | 82.0 |
| WCM Finance B. V. i. L., Amsterdam | 100.0 |
| WCM Beteiligungs- und Verwaltungs GmbH, Frankfurt | 100.0 |
| WCM Beteiligungs- und Verwaltungs GmbH & Co. KG, Frankfurt | 100.0 |
| YMOS AG, Obertshausen | 95.2 |

In compliance with Article 287 of the German Commercial Code, the full list of equity holdings in accordance with Article 285 no. 11 of the German Code as of December 31, 2005 has been filed with the registration court of the Company.

At EUR 179.6 million, the equity holding in WCM Beteiligungs- und Verwaltungs GmbH & Co. KG is the largest item contained in shares in affiliated companies. Following the restructuring measures described above, the affiliated company now holds around 68 percent of the shares in Klöckner-Werke AG. WCM AG contributed this equity holding, which was actuarially valued at EUR 18.00 per share, to WCM Beteiligungs- und Verwaltungs GmbH & Co. KG at the end of 2004. As of December 31, 2005, a new actuarial valuation was obtained under the terms of the restructuring concept. This confirmed the value of the shares contributed. The valuation was based on the following significant assumptions:

- the three-year plan approved by the Supervisory Board of Klöckner-Werke AG;
- the implementation of a comprehensive package of measures aimed at increasing sales and profit margins;
- an increase in the long-term EBIT margin within the planning horizon;
- the disposal of assets not used in operations in the short to medium term.

The corporate value is at the upper end of the permitted range.

In the 2005 financial year, the carrying amounts of shares in affiliated companies fell by EUR 507.3 million, largely as a result of intragroup restructuring measures. Of this figure, EUR 236.0 million was attributable to the shares in RSE AG sold to Klöckner-Werke AG and EUR 263.7 million was attributable to the withdrawal from the capital reserves of WCM Beteiligungs- und Verwaltungs GmbH & Co. KG.

Loans to affiliated companies include a loan to YMOS AG in the amount of EUR 15.0 million. Of this figure, EUR 5.1 million has been subject to a subordination agreement since 1999.

### 2 Receivables and other assets

| | Dec. 31, 2005 €T | Dec. 31, 2004 €T |
|---|---|---|
| Receivables from affiliated companies | 238,540 | 295,890 |
| Other assets | 26,712 | 22,073 |
| Total | 265,253 | 317,964 |

Receivables from affiliated companies result from transactions with affiliated companies as part of Group-wide cash management and other financial transactions. This item consists primarily of receivables from WCM Beteiligungs- und Verwaltungs KG in conjunction with the contribution of shares in Klöckner-Werke AG in 2004 (EUR 200.0 million), as well as receivables from WCM Beteiligungs- und Verwaltungs GmbH and MATERNUS-Kliniken AG.

Other assets relate almost exclusively to receivables from the tax authorities. The tax relief claims result from the external tax audit for the assessment periods 1991 to 2000.

Accounts receivable and other assets with a remaining term of more than one year amount to EUR 793 thousand (previous year: EUR 0 thousand).

### 3 Investment securities

| | Dec. 31, 2005 €T | Dec. 31, 2004 €T |
|---|---|---|
| Shares in affiliated companies | 32,348 | 7,554 |
| Other securities | 7,052 | 14,325 |
| Total | 39,400 | 21,880 |

Shares in affiliated companies include 85.6 percent of the shares in MEDICO Grundstücksgesellschaft mbH & Co. Bayerwald-Klinik KG and 74.3 percent of the shares in MATERNUS-Kliniken AG.

In 2005, the equity holding in MATERNUS-Kliniken AG was written up to fair value in the amount of EUR 1,654 thousand.

Other securities include an equity holding in a cooperative bank and shares in various listed companies.

Third parties were granted options for shares with a carrying amount of EUR 3.0 million. Restrictions on title therefore apply to these shares. The exercise price is the carrying amount of the shares at the balance sheet date.

### 4 Subscribed capital

The subscribed and fully paid-up capital remained unchanged year-on-year at EUR 288.8 million and was divided into 288,825,380 no-par value shares, some of which are evidenced by global certificates.

Authorised capital

The Annual General Meeting on June 9, 2005 resolved the creation of authorised capital in the amount of EUR 144.4 million. The Management Board is hereby authorised, with the approval of the Supervisory Board, to increase the share capital by up to EUR 144.4 million through the issue on one or more occasions of a total of up to 144,412,690 no-par value shares against cash or non-cash contributions up until June 9, 2010. Shareholders are granted statutory subscription rights. However, the Management Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights in order to eliminate fractional amounts.

In addition, the Management Board may, with the approval of the Supervisory Board, exclude shareholders' subscription rights, either in full or in part, in order to allow it to offer the new shares of the Company to third parties against non-cash contributions as consideration in the course of business combinations, the acquisition of companies or parts of companies, or the acquisition of assets relating to such plans.

The Management Board is also authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights if the capital increase against cash contributions does not exceed a total of EUR 28,882,538 and the issue price of the new shares is not significantly lower than the market price of the shares of the same category that are already listed on the date on which the issue price is finally determined (Article 203 (1) sentence 1 in conjunction with Article 186 (3) sentence 4 of the German Stock Corporation Act).

Contingent capital

In accordance with Article 4 (5) of the Articles of Association, there is contingent capital of up to EUR 30 million (contingent capital I). Any contingent capital increase may only be implemented to the extent that conversion rights or options or conversion obligations on convertible bonds or warrant bonds have been exercised or granted. Convertible bonds and warrant bonds may be issued by the Company up to and including June 5, 2006.

The Annual General Meeting on July 20, 2000 also resolved to establish a stock option plan and to create contingent capital II for this purpose. As a result, the Management Board was authorised, with the approval of the Supervisory Board, to issue stock options for up to 2,000,000 new bearer shares with a term to June 30, 2010 to members of the Management Board and managers of the WCM Group until July 19, 2005.

A total of 1,330,000 stock options were issued; adjusted for options that have already expired, 534,333 options were still outstanding as of December 31, 2005. Any contingent capital increase is only implemented to the extent that the holders of stock options exercise these options. No options have been exercised to date.

The beneficiaries have the option of acquiring shares of WCM AG at a specific basic price. As of July 20, 2000, this basic price was EUR 29.17 per share, corresponding to the mean of the spot prices of the shares on the Frankfurt Stock Exchange during a reference period of ten trading days prior to the date of the Annual General Meeting.

In order for the options to be exercised, the average spot price of the Company's shares on the Frankfurt Stock Exchange when the options are exercised must exceed the basic price by at least 10 percent in the first year in which the options can be exercised and by at least an additional 5 percent in each subsequent year. Options may only be exercised during a twice-yearly subscription window that is limited to a period of three weeks from the day after the financials press conference and the day after the Annual General Meeting respectively.

In the event of a capital increase from retained earnings, the merger of the Company into another company, the conversion of the Company or similar measures affecting the rights of the beneficiaries due to a change in the shares or their withdrawal, the basic price is adjusted accordingly and/or the option is replaced by the right to acquire at the same basic price (adjusted as applicable) the number of shares, equity interests or other holdings that corresponds to the stock options held by the respective beneficiary. The basic price was adjusted after the capital measures were implemented and now amounts to EUR 15.94 per ordinary share.

**5 Pension provisions**

Pension provisions cover obligations to one former and one current member of the Management Board and to former employees of NB Beteiligungs AG, among other things. The increase is primarily due to the merger of NB Beteiligungs AG.

**6 Provisions for taxes**

Provisions for taxes primarily relate to trade tax (EUR 12.1 million), corporation tax and the solidarity surcharge (EUR 42.8 million). EUR 6.8 million of the increase as against the previous year is attributable to the merger of NB AG.

Following discussions with the tax authorities on the external tax audit of the subsidiary HM Vermögensverwaltungsgesellschaft mbH & Co. Beteiligungs-KG, which has been in progress since 2003, there was a change in the assessment of the risk situation, with the result that EUR 11.8 million was added to provisions for taxes and EUR 3.2 million to other provisions due to interest. No additional risks are expected to arise from this external audit.

In addition, provisions for taxes increased considerably due to a risk arising from the ongoing external tax audit of the Company. The Hessian tax authorities dispute the legal validity of the transfer of a loss carryforward from the merger of Cockerill Sambre Beteiligungsgesellschaft mbH (CSB) in 1998. Accordingly, an amended corporation tax assessment for 1998 has been issued with a demand for backpayments of corporation tax and solidarity surcharge totalling EUR 17.3 million and interest in the amount of EUR 5.8 million. The tax authorities have yet to reach a final decision on the Company's contestation of this assessment and its application for the suspension of enforcement without the furnishing of security. According to the Company's own calculations, if the loss carryforward was not recognised in full, the tax and interest payments for several assessment periods would total around EUR 87 million. In order to assess the tax consequences of this case, the Company has obtained a legal opinion from a prominent former leading judge at the German Federal Finance Court. This opinion fully supports the view of the Management Board and its tax advisors, namely that the tax carryforward of CSB was transferred to WCM AG in the course of the merger. As there are additional risks due to potential legal proceedings, which appear likely and which may potentially only be settled at the court of final instance, a provision in the amount of the tax and interest prepayments set out in the assessment issued was recognised in the balance sheet as of December 31, 2005 in accordance with the prudence principle. The Company and its legal and tax advisors do not expect the view of the Hessian tax authorities to be confirmed, or that it will be required to pay these amounts.

**7 Other provisions**

Other provisions include banking provisions (EUR 7.6 million), provisions for onerous contracts (EUR 3.0 million) and interest provisions (EUR 11.7) relating in particular to expected backpayments of taxes.

Other provisions fell significantly as against the previous year due to the termination of the option agreement between Klöckner-Werke AG and WCM AG (previous year: EUR 139.2 million).

## 8 Liabilities

| | Total | With a residual term of | | | Secured |
|---|---|---|---|---|---|
| | | less than 1 year | 1 to 5 years | more than 5 years | |
| | €T | €T | €T | €T | €T |
| Liabilities due to banks | 215,689 | 215,689 | 0 | 0 | 215,689* |
| Previous year | 257,585 | 257,585 | 0 | 0 | 257,585* |
| Trade payables | 287 | 287 | 0 | 0 | 0 |
| Previous year | 2,104 | 2,104 | 0 | 0 | 0 |
| Liabilities to affiliated companies | 101,534 | 101,534 | 0 | 0 | 92,213* |
| Previous year | 521,742 | 521,742 | 0 | 0 | 204,233 |
| Other liabilities | 5,523 | 5,523 | 0 | 0 | 0 |
| Previous year | 846 | 846 | 0 | 0 | 0 |
| **Total** | **323,033** | **323,033** | **0** | **0** | **307,902** |
| Previous year | 782,278 | 782,278 | 0 | 0 | 461,818 |

* Assignment of securities portfolios

Liabilities to affiliated companies related primarily to Klöckner-Werke AG (EUR 58.2 million), YMOS AG (EUR 19.1 million) and RSE AG (EUR 7.6 million). They fell by EUR 420.2 million year-on-year, largely due to restructuring measures.

Other liabilities include liabilities from taxes of EUR 4,849 thousand (previous year: EUR 150 thousand) and social security liabilities of EUR 8 thousand (previous year: EUR 45 thousand).

# Notes to the Income Statement

## 9 Sales

Sales are the result of services charged in the area of financing and accounting for subsidiaries and the oncharging of office costs.

## 10 Other operating income

Income from the reversal of valuation allowances on receivables, the reversal of provisions and the derecognition of liabilities amounted to EUR 24.9 million. Income of EUR 3.3 million resulted from the reversal of write-downs on investment securities, while gains of EUR 2.3 million were generated from the sale of securities. The oncharging of costs resulted in income of EUR 6.0 million. EUR 335 thousand was generated from the sale of intangible assets.

The prior-period figures contain significant income from the sale of residential property.

## 11 Staff costs

| | 2005<br>€T | 2004<br>€T |
|---|---|---|
| Wages and salaries | 2,285 | 3,172 |
| Social security, post-employment and other employee benefit costs | 555 | 396 |
| of which in respect of old age pensions | 400 | 175 |
| Total | 2,840 | 3,568 |

The Company employed an average of 14 people in the 2005 financial year (previous year: 21).

## 12 Other operating expenses

Other operating expenses include expenses for losses on the disposal of financial assets and investment securities in the amount of EUR 10.0 million (previous year: EUR 42.4 million) and expenses for valuation allowances on Accounts receivable and other assets in the amount of EUR 24.1 million (previous year: EUR 1.3 million). Expected losses from onerous contracts and contractual risks resulted in expenses of EUR 12.3 million (previous year: EUR 60.7 million). This includes expenses of EUR 10.7 million relating to the agreement on the put option for RSE's shares in the 2005 financial year. In the previous year, other operating expenses included EUR 55.0 million for transactions performed by RSE AG on behalf or in the interests of WCM AG which constituted detrimental legal transactions on the part of RSE AG.

Miscellaneous other operating expenses include expenses for office space, insurance, bank charges, financing costs, travel expenses, Supervisory Board remuneration, year-end closing costs, consultancy fees, agency fees and settlement costs.

## 13 Financial result

| | 2005 €T | 2004 €T |
|---|---|---|
| Income from equity holdings | 27,313 | 7,397 |
| Income from profit transfer agreements | 0 | 56,929 |
| Expenses from the assumption of losses | 0 | -4,818 |
| Income from other securities and loans classified as financial assets | 492 | 664 |
| Other interest and similar income | 16,804 | 7,390 |
| Amortisation of financial assets and investment securities | -2,976 | -139,301 |
| Interest and similar expense | -34,263 | -57,817 |
| **Total** | **7,370** | **-129,556** |

Income from equity holdings includes dividends, profit distributions and profit shares from affiliated companies. In the 2005 financial year, this item primarily consisted of the dividend from Klöckner-Werke AG that was recognised by WCM Beteiligungs- und Verwaltungs KG.

Income from profit transfer agreements and expenses from the assumption of losses in the previous year related to the Company's residential property activities, which have been sold.

Amortisation of financial assets and investment securities related to write-downs on the shares in WCM Beteiligungs- und Verwaltungs GmbH in the amount of EUR 1,510 thousand and on securities of AGOR AG due to a fall in market prices.

Net interest expense improved from EUR -50.4 million in the previous year to EUR -17.5 million in the year under review due to the reduction in liabilities.

Income from other securities and loans classified as financial assets contain income from affiliated companies in the amount of EUR 0.5 million (previous year: EUR 0.7 million).

EUR 12.6 million of interest income is attributable to affiliated companies (previous year: EUR 4.8 million).

Interest expense contains interest and similar expenditure relating to affiliated companies in the amount of EUR 15.8 million (previous year: EUR 24.8 million).

## 14 Extraordinary income

Extraordinary income of EUR 8.5 million resulted from the merger of NB AG.

## 15 Taxes on income

Expenditure for taxes on income resulted from the EUR 32.0 million increase in provisions for taxes.

# Additional Disclosures

### Other Financial Obligations

Following the termination of the option agreement on the RSE shares, there are no further financial obligations (previous year: EUR 88.8 million).

### Contingent Liabilities

In the previous year, the Company assumed joint and several liability and, in some cases, provided collateral to secure the liabilities of former affiliated companies. As a result, the Company was liable for a total of EUR 106.7 million. It also issued three letters of comfort (previous year: 5), under which it is liable for a total of EUR 22.1 million (previous year: EUR 206.2 million); of this figure, EUR 22.1 million is attributable to contingent liabilities for affiliated companies (previous year: EUR 22.7 million).

The Company is liable to affiliated companies under the terms of guarantee agreements for a total of EUR 6.6 million (previous year: EUR 26.6 million). The Company has also assumed two guarantees (previous year: 7). The liabilities secured under these guarantees amounted to EUR 31.5 million at the balance sheet date (previous year: EUR 88.1 million). No time deposits were provided as collateral for these liabilities as of the balance sheet date (previous year: EUR 10.0 million). In addition, time deposits of EUR 2.6 million were provided as collateral for third-party liabilities (previous year: EUR 8.5 million).

### Below-the-Line Items

The two legal disputes involving some of the shareholders of SIRIUS Beteiligungs-Gesellschaft mbH i. I. (in insolvency) and I. G. Farbenindustrie AG i. I. were settled in the 2005 financial year.

### Remuneration of Executive Bodies

In 2005, the Management Board received remuneration of EUR 1,123 thousand (previous year: EUR 1,688 thousand) for the performance of its duties at the parent company. Payments totalling EUR 5 thousand (previous year: EUR 105 thousand) were made to former members of the Management Board of the parent company and their surviving dependants. The corresponding provision amounts to EUR 30 thousand (previous year: EUR 30 thousand).

### Remuneration of the Management Board

| | Fixed component<br>€ | Bonus<br>€ | Total<br>€ |
|---|---|---|---|
| Roland Flach, Chairman | 640,000 | 300,000 | 940,000 |
| Valentin Reisgen | 93,000 | 90,000 | 183,000 |
| **Total** | **733,000** | **390,000** | **1,123,000** |

The remuneration received by Valentin Reisgen, who is a member of the Management Board of both Klöckner-Werke AG and WCM AG, is split between the two companies. The disclosures relate to the share attributable to WCM AG.

In 2005, the Supervisory Board received remuneration of EUR 332 thousand (previous year: EUR 315 thousand) for the performance of its duties, of which EUR 32 thousand (previous year: EUR 21 thousand) was attributable to the Audit Committee and Executive Committee.

In accordance with Article 11 of the Articles of Association, the members of the Supervisory Board receive fixed remuneration of EUR 20,000 for each member, EUR 30,000 for the Deputy Chairman of the Supervisory Board and EUR 40,000 for the Chairman of the Supervisory Board. The remuneration paid to members of the Supervisory Board does not contain a variable component. Members of the Supervisory Board who also serve on a committee each receive fixed annual remuneration of EUR 3,000 in addition to the abovementioned remuneration. The Chairman of the respective committee receives twice this amount.

## Remuneration of the Supervisory Board

| | Fixed component * € | Audit-committee € | Executive committee € | Total € |
|---|---|---|---|---|
| Prof. Dr.-Ing. Dieter H. Vogel, Chairman | 46,400 | | 6,960 | 53,360 |
| Joachim Kletzin, Deputy Chairman | 34,800 | | 3,480 | 38,280 |
| Erich Bach | 23,200 | 3,480 | | 26,680 |
| Josef H. Boquoi | 23,200 | | | 23,200 |
| Karl Ehlerding | 23,200 | 1,955 | | 25,155 |
| Kurt Hallmann | 20,000 | | | 20,000 |
| Marina E. König | 23,200 | | | 23,200 |
| Rainer Laufs | 23,200 | 6,960 | 1,955 | 32,115 |
| Dr. Jochen Melchior | 13,030 | | | 13,030 |
| Dr. Jörg Pluta | 23,200 | | | 23,200 |
| Karl-Ernst Schweikert | 5,992 | 899 | 899 | 7,790 |
| Peter Söpper | 20,000 | | | 20,000 |
| Helmut Weber | 20,000 | 3,000 | 3,000 | 26,000 |
| **Total** | **299,422** | **16,294** | **16,294** | **332,010** |

* in some cases including VAT

Remuneration of EUR 12 thousand was paid to the members of the Supervisory Board of NB AG.

No advances, loans, guarantees or warranties were extended to members of the Management Board or Supervisory Board in the financial year. No members of the Supervisory Board performed any paid consultancy services.

The members of the Supervisory Board and Management Board and their memberships of other bodies are shown under "Further information".

### Miscellaneous

The Company received the following notices in accordance with Articles 21 and 22 of the German Securities Trading Act in 2005:

1. Centaurus Capital Limited, London, general partner of Centaurus Capital Limited Partnership, London, informed us that it exceeded the threshold of 5 percent of the voting rights in WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, Frankfurt/Main, on October 29, 2004.

   It now has 5.1 percent of the voting rights. These are allocable to the company in accordance with Article 22 (1) sentence 1 no. 6 of the German Securities Trading Act.

2. Centaurus Capital Limited Partnership, London, informed us that it exceeded the threshold of 5 percent of the voting rights in WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, Frankfurt/Main, on October 29, 2004. It now has 5.1 percent of the voting rights. These are allocable to the company in accordance with Article 22 (1) sentence 1 no. 6 of the German Securities Trading Act.

3. Mr. Bernard Oppetit, London, Chairman, CEO and CIO/sole shareholder of Centaurus Capital Limited, London, general partner of Centaurus Capital Limited Partnership, London, informed us that he exceeded the threshold of 5 percent of the voting rights in WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, Frankfurt/Main, on October 29, 2004. He now has 5.1 percent of the voting rights. These are allocable to him in accordance with Article 22 (1) sentence 1 no. 6 of the German Securities Trading Act.

   For clarification, WCM would like to stress that the notice on the voting rights held by Centaurus Capital Limited was published on November 6, 2004 and that the voting rights are allocable to the aforementioned persons and companies subject to disclosure requirements in accordance with Article 22 (1) sentence 1 no. 6 of the German Securities Trading Act.

4. Centaurus Capital Limited Partnership, London, informed us that it fell below the threshold of 5 percent of the voting rights in WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, Frankfurt/Main, on September 30, 2005. It now has 4.78 percent of the voting rights. These are allocable to the company in accordance with Article 22 (1) sentence 1 no. 6 of the German Securities Trading Act.

5. Centaurus Capital Limited, London, general partner of Centaurus Capital Limited Partnership, London, informed us that it fell below the threshold of 5 percent of the voting rights in WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, Frankfurt/Main, on September 30, 2005. It now has 4.78 percent of the voting rights. These are allocable to the company in accordance with Article 22 (1) sentence 1 no. 6 of the German Securities Trading Act.

6. Mr. Bernard Oppetit, London, Chairman, CEO and CIO/sole shareholder of Centaurus Capital Limited, London, general partner of Centaurus Capital Limited Partnership, London, informed us that he fell below the threshold of 5 percent of the voting rights in WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, Frankfurt/Main, on September 30, 2005. He now has 4.78 percent of the voting rights. These are allocable to him in accordance with Article 22 (1) sentence 1 no. 6 of the German Securities Trading Act.

7. Schroders plc, London, United Kingdom, issued us with the following notice on September 9, 2004 (received on March 8, 2006) in accordance with Article 21 (1) of the German Securities Trading Act:

   Schroders plc is the parent company of Schroder Holdings plc, which is in turn the parent company of Schroder Investment Management Limited. The registered office of all three companies is at 31 Gresham Street, London EC2V 7QA, United Kingdom.

   Schroders plc and Schroder Holdings plc informed us in accordance with Article 21 (1) of the German Securities Trading Act that their share of the voting rights in WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft exceeded the threshold of 5 percent on August 26, 2004 and that they now hold 5.88 percent of the voting rights. These are allocable to them in accordance with Article 22 (1) sentence 1 no. 6 and sentences 2 and 3 of the German Securities Trading Act.

   Schroder Investment Management Limited informed us in accordance with Article 21 (1) of the German Securities Trading Act that its share of the voting rights in WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft exceeded the threshold of 5 percent on August 26, 2004 and that it now holds 5.88 percent of the voting rights. These are allocable to the company in accordance with Article 22 (1) sentence 1 no. 6 of the German Securities Trading Act.

8. Schroders plc, London, United Kingdom, issued us with the following notice on April 21, 2006 (received on April 26, 2006) in accordance with Article 21 (1) of the German Securities Trading Act:

   Schroders Administration Limited is a newly formed Group company that is wholly owned by Schroder Holdings plc. Schroder Investment Management Limited became a wholly owned subsidiary of Schroders Administration Limited on June 1, 2004. The registered office of all three companies is at 31 Gresham Street, London EC2V 7QA, United Kingdom.

   Schroders Administration Limited informed us in accordance with Article 21 (1) of the German Securities Trading Act that its share of the voting rights in WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft exceeded the threshold of 5 percent on August 26, 2004 and that it now holds 5.88 percent of the voting rights. These are allocable to the company in accordance with Article 22 (1) sentence 1 no. 6 and sentences 2 and 3 of the German Securities Trading Act.

9. Correction to the notice published in the Börsen-Zeitung on May 4, 2005: Schroders plc, London, United Kingdom, issued us with the following notice on April 28, 2005 (received on May 3, 2005) in accordance with Article 21 (1) of the German Securities Trading Act:

   Schroders plc is the parent company of Schroder Holdings plc, which is in turn the parent company of Schroder Administration Limited, which is in turn the parent company of Schroder Investment Management Limited The registered office of all four companies is at 31 Gresham Street, London EC2V 7QA, United Kingdom.

Schroders plc, Schroder Holdings plc and Schroder Administration Limited informed us in accordance with Article 21 (1) of the German Securities Trading Act that their share of the voting rights in WCM Beteiligungs- und Grundbesitz-AG fell below the threshold of 5 percent on April 22, 2005 and that they now hold 2.58 percent of the voting rights. These are allocable to them in accordance with Article 22 (1) sentence 1 no. 6 and sentences 2 and 3 of the German Securities Trading Act.

Schroder Investment Management Limited informed us in accordance with Article 21 (1) of the German Securities Trading Act that its share of the voting rights in WCM Beteiligungs- und Grundbesitz-AG fell below the threshold of 5 percent on April 22, 2005 and that it now holds 2.58 percent of the voting rights. These are allocable to the company in accordance with Article 22 (1) sentence 1 no. 6 of the German Securities Trading Act.

### Auditors' Fees

The fees (including incidental costs) paid to the auditor HANSA PARTNER GmbH in the 2005 financial year amounted to EUR 438 thousand.

# Declaration in Accordance with the German Corporate Governance Code

In 2005, the Management Boards and Supervisory Boards of all listed stock corporations in the WCM Group issued their declarations of compliance in accordance with Article 161 of the German Stock Corporation Act and made them permanently accessible to shareholders as follows:

| Company | Declaration of compliance dated | Permanently accessible at |
|---|---|---|
| WCM Beteiligungs- und Grundbesitz-AG | April 15, 2005 and December 9, 2005 | www.wcm.de |
| BHE Beteiligungs-AG | November 24, 2005 | www.bhe-ag.de |
| Klöckner-Werke AG | November 30, 2005 | www.kloeckner-werke.de |
| RSE Grundbesitz und Beteiligungs-AG | November 24, 2005 | www.rse-ag.de |
| YMOS AG | November 22, 2005 | www.ymos-ag.de |
| MATERNUS-Kliniken AG | February 14, 2005 | www.maternus.de |

### Events after the Balance Sheet Date

With the expiry of the previous loan commitment, a new loan agreement was concluded with HSH Nordbank AG, Hamburg, with effect from January 31, 2006. Under the terms of this agreement, WCM AG was granted a loan facility totalling EUR 221.9 million in several tranches until July 31, 2007 at the latest; of this figure, EUR 219.1 million had been utilised as of 31 January 2006. There is no fixed repayment structure, and the loan will be repaid using excess income from the sale of assets held by the WCM Group. The corresponding liability is primarily secured by the shares in Klöckner-Werke AG and MATERNUS-Kliniken.

With effect from February 1, 2006, HSH Nordbank AG sold a portion of the loan receivable from WCM AG amounting to EUR 30.0 million to KPE Holding GmbH, Hamburg, which is a related party of WCM AG.

On 22 March 2006, the Company and RSE AG agreed to amend the share purchase and transfer agreement dated December 29, 2005. This amendment stipulates that the agreed price for the Klöckner shares acquired will be examined by way of a new actuarial valuation by June 2007 at the latest. If the value thus determined is lower, RSE AG will obtain an equalisation claim with retroactive effect from the acquisition date.

Frankfurt, June 2, 2006
The Management Board

Roland Flach
Chairman

Valentin Reisgen

## Auditors' report

We have audited the annual financial statements, together with the bookkeeping system, of WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, Frankfurt/Main and the management report contained in the report on the position of the Company and the Group for the financial year from 1 January to 31 December 2005. The maintenance of the books and records and the preparation of the annual financial statements and the management report contained in the report on the position of the Company and the Group in accordance with the German Commercial Code and the supplementary provisions of the Articles of Association are the responsibility of the Management Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report contained in the report on the position of the Company and the Group based on our audit.

We conducted our audit of the annual financial statements in accordance with Article 317 of the German Commercial Code and the generally accepted standards for the audit of financial statements in Germany promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and the management report contained in the report on the position of the Company and the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report contained in the report on the position of the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and the management report contained in the report on the position of the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not given rise to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. On the whole, the management report contained in the report on the position of the Company and the Group provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Without qualifying our opinion, we refer to the disclosures in the notes and the management report contained in the report on the position of the Company and the Group.

In the notes (under "Additional Disclosures") and in the management report contained in the report on the position of the Company and the Group, the risk report ("Tax risks" and "Legal risks") states that the Company is subject to tax risks due to an external tax audit at HM Vermögensverwaltungsgesellschaft mbH & Co. Beteiligungs-KG and to legal risks arising from SIRIUS Beteiligungsgesellschaft mbH i. l..

In the management report contained in the report on the position of the Company and the Group, the risk report ("Liquidity risks") states that the Company's financing depends on maintaining short-term loans, and that the Company intends to improve the strained liquidity situation by selling assets not forming part of its core industrial operations.

Hamburg, June 2, 2006

HANSA PARTNER GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| (Drüen) | ppa. (Schmidt-Gottschalk) |
| Certified Public Accountant | Certified Public Accountant |

# Supervisory Board and Management Board

and their Mandates

## Supervisory Board

Since the end of the Annual General Meeting on June 6, 2001, the Supervisory Board has consisted of six shareholder and six employee representatives.

Members of the Supervisory Board and their mandates

**Prof. Dr.-Ing. Dieter H. Vogel, Düsseldorf,**
**Managing Partner at LGB & Vogel GmbH, Chairman until January 31, 2006**

Membership of Supervisory Boards required by law:
- Bertelsmann AG, Chairman
- MobilCom AG, Chairman
- Wacker Construction Equipment AG, Chairman

Comparable mandates:
- Ernst & Young AG, Advisory Council
- Gerling-Konzern Versicherungs-Beteiligungs AG, Administrative Board
- HSBC Trinkaus & Burkhardt KGaA, Administrative Board

**Rainer Laufs, Kronberg im Taunus, independent consultant, Chairman since February 2, 2006**

Membership of Supervisory Boards required by law:
- Klöckner-Werke AG (Chairman of the Supervisory Board since 1 April 1, 2006)
- LANXESS AG

Comparable mandates:
- LANXESS DEUTSCHLAND GmbH

**Joachim Kletzin, Berlin, Director of IG Metall training establishment, Deputy Chairman***
Membership of Supervisory Boards required by law:
- KHS AG, Deputy Chairman
- Klöckner-Werke AG, Deputy Chairman

Comparable mandates:
- BIB Bildungs- und Beschäftigungsgesellschaft mbH, Chairman of the Advisory Board

**Erich Bach, Frankfurt/Main, union secretary at IG Metall***
Membership of Supervisory Boards required by law:
- KHS AG
- Klöckner-Werke AG

**Josef H. Boquoi, Straelen, Chairman of the Shareholders' Committee of the bofrost family companies**

**Robert Buchalik, Düsseldorf, Lawyer and Managing Director of mbb consult GmbH, since February 2, 2006**

**Karl Ehlerding, Hamburg, Managing Director of KG Erste "Hohe Brücke 1" Verwaltungs-GmbH & Co.**
Membership of Supervisory Boards required by law:
- Deutsche Real Estate AG
- KHS AG
- Klöckner-Werke AG
- MATERNUS-Kliniken AG

Comparable mandates:
- Deutsche Bank AG, Advisory Board – Northern region

* Employee representative

**Kurt Hallmann, Kleve, Chairman of the Works Council at KHS AG, Kleve plant***

**Marina E. König, Glashütten, Head of the Management Board office at WCM Beteiligungs- und Grundbesitz-AG and Klöckner-Werke AG***
Membership of Supervisory Boards required by law:
- ALLBODEN Allgemeine Grundstücks-AG, until December 31, 2005
- KHS AG, until January 31, 2006
- RSE Projektmanagement AG
- YMOS AG

**Dr. Jochen Melchior, Essen, independent business consultant, since June 9, 2005**
Membership of Supervisory Boards required by law:
- AXA Service AG
- KHS AG
- LOGIKA AG, Chairman
- National-Bank AG

Comparable mandates:
- Mattson Technology, Inc., Chairman
- University Hospital of Essen

**Dr. Jörg Pluta, Maisach, lawyer at the Bergheim + Pluta law firm**
Membership of Supervisory Boards required by law:
- e-m-s-new media AG

**Karl-Ernst Schweikert, Männedorf (Switzerland), until June 9, 2005**
Membership of Supervisory Boards required by law:
- KHS AG
- Klöckner-Werke AG
- MATERNUS-Kliniken AG
- RSE Grundbesitz und Beteiligungs-AG

* Employee representative

**Peter Söpper, Dortmund, Deputy Chairman of the Works Council at KHS AG***
Membership of Supervisory Boards required by law:
- KHS AG

**Helmut Weber, Fröndenberg, Chairman of the Group Works Council at KHS AG***
Membership of Supervisory Boards required by law:
- KHS AG
- Klöckner-Werke AG

* Employee representative

## Supervisory Board Committees

Executive Committee
**Rainer Laufs, Kronberg im Taunus, Chairman since February 2, 2006**
**Prof. Dr.-Ing. Dieter H. Vogel, Düsseldorf, Chairman until January 31, 2006**
**Joachim Kletzin, Berlin***
**Robert Buchalik, Düsseldorf, since February 2, 2006**
**Helmut Weber, Fröndenberg***

Audit Committee
**Karl Ehlerding, Hamburg, Chairman since February 2, 2006**
**Rainer Laufs, Kronberg im Taunus, Chairman until February 2, 2006**
**Erich Bach, Frankfurt am Main***
**Helmut Weber, Fröndenberg***

* Employee representative

## Management Board

Members of the Management Board and their mandates

**Roland Flach, Kronberg im Taunus, Chairman of the Management Board**
Membership of Supervisory Boards required by law:
- BHE Beteiligungs AG, Chairman**
- KHS AG, Chairman**
- Klöckner-Werke AG, Chairman**, until March 31, 2006
- MATERNUS-Kliniken AG**
- RSE Grundbesitz und Beteiligungs-AG, Chairman**
- RSE Projektmanagement AG, Chairman**
- YMOS AG, Chairman**

Comparable mandates:
- KHS USA, Inc., Chairman**

**Valentin Reisgen, Neuss, member of the Management Board**
Membership of Supervisory Boards required by law:
- ALLBODEN Allgemeine Grundstücks-AG, Chairman**
- BHE Beteiligungs AG, Deputy Chairman**
- MATERNUS-Kliniken AG**
- RSE Grundbesitz und Beteiligungs-AG, Deputy Chairman**
- YMOS AG**

Comparable mandates:
- KHS America, Inc. (USA)**
- KHS Asia Pte. Ltd. (Singapore)**
- KHS Industria de Maquinas Ltda. (Brazil) **
- KHS Machinery Pvtl. Ltd. (India)**
- KHS Manufacturing Pty. Ltd. (South Africa)**
- KHS Mexico S.A. de C.V. (Mexico)**
- KHS Pacific Pty. Ltd. (Australia)**
- KHS USA, Inc. (USA)**

** Group mandate

# Imprint

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