

# SEMPERIT

LETTER TO SHAREHOLDERS 1<sup>ST</sup> QUARTER 2006



**SEMPERIT**  Aktiengesellschaft Holding

## DEAR SHAREHOLDERS,

Vigorous global economic growth continued in the beginning of 2006. Asia remained the principal source of this growth, and profited particularly from China's continued strong economic expansion. In the USA, however, the growth trend turned downward again temporarily in the fourth quarter of 2005. Investment activity in the euro zone intensified, but the autumn upswing in industrial production did not hold into December and January.

### SEMPERIT REMAINS ON ITS PATH OF GROWTH

The Semperit Group continued to grow in the first quarter of 2006. Group sales were up by 13.5 % year-on-year to EUR 141.6, and the net profit grew by 3.2 % to EUR 8.4 million. The pre-tax profit (result on ordinary activity), however, fell by 11.0 % to EUR 11.1 million.

### SEMPERIT AT A GLANCE

	1-3/2003	1-3/2004	1-3/2005	1-3/2006	Diff. 06 zu 05
Sales in EUR million	115.0	118.6	124.8	141.6	+ 13.5 %
Profit before tax (PBT) in EUR million	10.5	11.6	12.5	11.1	- 11.0 %
Net profit in EUR million	5.8	6.6	8.2	8.4	+3.2 %
Number of employees as of 31 <sup>st</sup> March	5,818	5,679	5,935	6,639	+ 11.9 %

In spite of the especially difficult business conditions, the development of the Group's result was satisfactory. Exorbitant price increases for natural and synthetic rubber, for other important raw materials and for power negatively impacted earnings. The weakening of the US dollar vis-à-vis the euro and especially vis-à-vis the Thai baht had a negative effect on invoicing and also impacted competition. Our export-oriented production units in Thailand were hit hardest.

The external cost factors that are beyond our control are an additional challenge for our traditionally highly disciplined cost management system. In order to successfully meet the requirements of this system, we have invested considerable effort in increasing efficiency in all of our production operations and have thereby secured a lasting trend of profit-oriented productivity increase. The massive increases in costs are reflected in a substantial increase in materials as a percentage of total costs.

Sales volumes increased again considerably thanks to the Group's continuing global cost leadership in most product groups, and as a result of market share gains and expansion onto new markets. This allowed us to further bolster our position as one of the leaders of the international rubber industry.

### SEMPERMED INCREASES SALES

Production capacities for examination gloves were fully utilised in the reporting period thanks to the high level of orders from Europe and Asia. Significant sales volume and revenue increases were also recorded for operation gloves. However, these gains could not entirely prevent a narrowing of margins in these segments as a result of further sharp increases in the price of latex. Extensive price increases and cost-cutting measures are planned for the remainder of the year to compensate for these negative effects, and should also quickly boost earnings.

Strong markets in Europe made it possible for Semperit Technische Produkte GmbH & Co KG (STP) to achieve dynamic sales volume and sales revenue growth for medical gloves from its Wimpassing plant. The gains in the operation gloves segment were especially encouraging, whereby demand for the higher-quality supreme segment was especially good. Gradual price increases were made to compensate for the significantly increased raw materials prices, but the unsatisfactory prices that applied for the fulfilment of existing contracts still had a negative impact on the quarter's results. Earnings are expected to improve in the second quarter.

The utilisation of production capacities at the Siam Sempermed plants in Thailand remained good. The virtually unpredictable massive increase in latex prices negated the immediate positive effects of the introduced cost-cutting programme for product design, material use, power and personnel, but these measures should bring sustainable earnings improvements. The latest gains that the Thai baht made against the US dollar and euro also had a negative effect on the operating results.

The Chinese subsidiary Shanghai Foremost, which specialises in the manufacture of non-latex examination gloves, reported continued full production capacity utilisation, especially thanks to good demand from the USA. However, temporary problems with a raw materials supplier resulted in short-term delivery delays that affected sales and earnings for the quarter.

#### GROWTH AT SEMPERFLEX CONTINUES

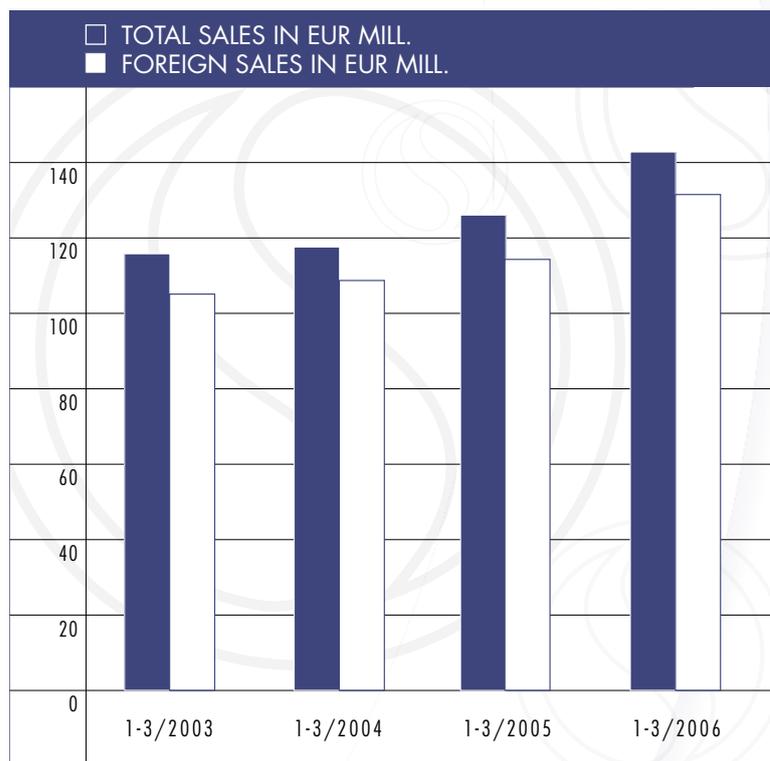
The Semperflex division continued its successful expansion. In contrast to last year, the greatest increase in demand was recorded for industrial hoses, and not hydraulic hoses. Encouraging increases were recorded for the sales of industrial hoses in most markets in year-on-year comparison.

The orders at the main plant in Wimpassing reflected this trend, with encouraging increases for industrial hoses and declining demand for hydraulic hoses. Business volume for elastomer sheeting increased in the first quarter.

The Czech hose factory Semperflex Optimit reported higher sales than for last year. However, earnings at this plant were negatively impacted by the massive increases in raw materials prices.

Sales and earnings for the Italian hose manufacturer Roiter remained stable at 2005 levels in the reporting period. The poor economic conditions in Italy were countered by increasing sales through the distribution channels of STP Wimpassing and the marketing company in Spain.

The Thai subsidiary Semperflex Asia increased sales volume and revenue in the first quarter, but did not entirely meet its operational targets. Changes in the demand structure on the markets made it necessary to adapt the product mix; these adjustments together with the gains made by the baht vis-à-vis the US dollar cut into the unit's earnings.



## POSITIVE SURPRISE AT SEMPERFORM

The Semperform division reported surprisingly positive business development in the first quarter. This growth can be attributed primarily to the Deggendorf, Sopron and Wimpassing plants.

The trend of increasing sales volume and revenue continued at STP in the reporting period. Increases in raw materials costs were balanced out to a large extent by price increases. Business in moulded parts and elastomer profiles developed according to plan, with the product groups cable-car loops, pipe installation products and rail wagon products again at the forefront. In the rail superstructure segment, a number of new major projects are expected to bring good sales volumes over the course of the year.

In spite of the fact that many escalator manufacturers have relocated their production facilities to lower-wage countries, the technical components segment slightly surpassed its sales volume and revenue figures for the same period last year. However, the fierce competition between escalator manufacturers has led to increasing pressure on the prices of escalator components.

Sales volume and revenue at Gummiwerk Deggendorf developed according to plan in the first quarter. In addition to orders from Germany, the majority of the growth in the quarter can be attributed to exports. The price increases that were necessary to counter significant jumps in the cost of power and raw materials were implemented gradually.

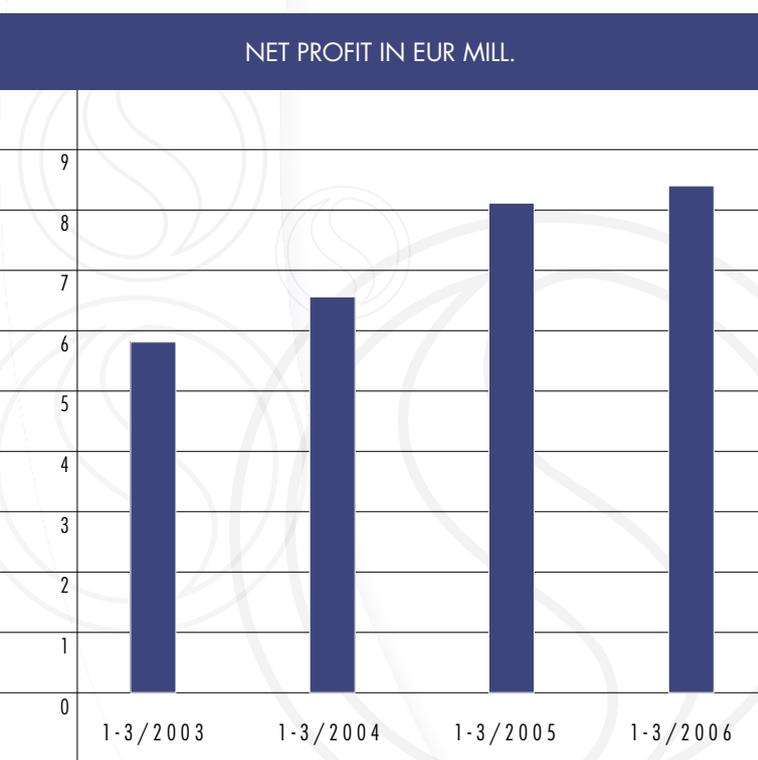
Business development at Semperform Hungary was positive again after a lengthy downturn. All figures came in at or slightly above target. The rationalisation measures implemented in 2005 were strictly enforced over the quarter to ensure continued positive growth.

## DYNAMIC EXPANSION AT SEMPERTRANS

All sites contributed to marked gains in sales volume and revenue and a further improvement in earnings in the Sempertrans division.

The top performer was the Sempertrans Belchatow plant in Poland, which came in well above target. In manufacturing, the focus remained on utilising the capacity of the new 3.2 metre wide press; in marketing, efforts focused on expanding business in the growth markets in Eastern Europe, Asia and Australia.

The French conveyor belt manufacturer SFBT reported significant increases in sales volume and revenue in the first quarter, which came primarily from additional orders in connection with major projects. Whether or not these positive impulses can gain sufficient momentum to bring a



trend reversal will depend in great part on whether or not production volume targets can be met and whether or not a stable quality level can be maintained over the long term.

Sempertrans Nirlon reported gains in sales volume and revenue for the first quarter. Earnings also developed according to plan.

### SIGHTS SET ON IMPROVED EARNINGS IN 2006

The global economic upswing should continue through 2006. Overall economic growth for the year in the euro zone is expected to come in at roughly 2.1 %. Worldwide production is forecast to grow by +4.5 % in real terms, and global trade by nearly twice this amount.

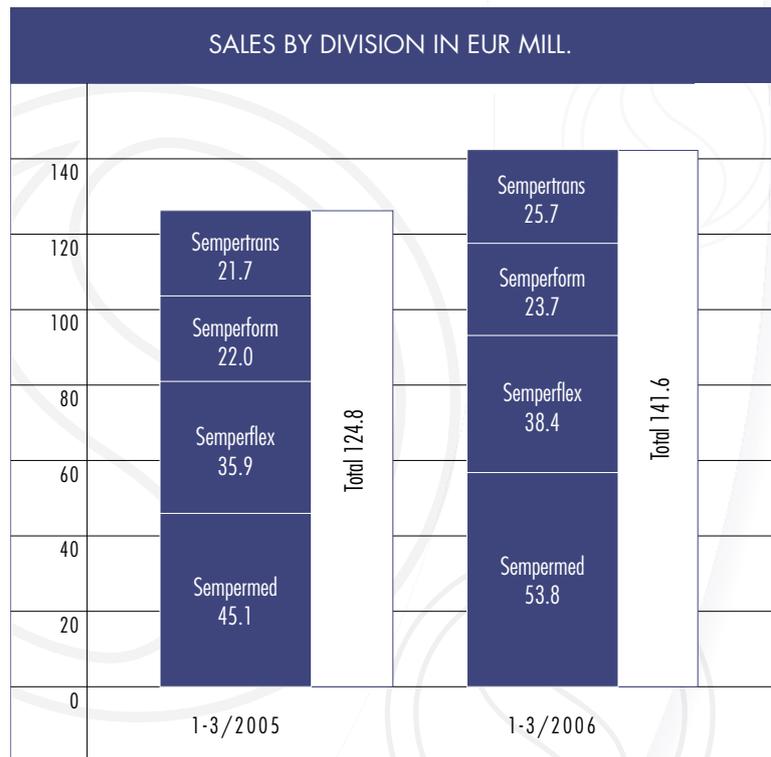
Semperit management is confident that further increases in sales combined with the implemented measures will result in increased earnings for the year. However, it is not possible to predict the development of a number of relevant factors, especially because of the continued volatility of the US dollar and the Thai baht, as well as the speculative price increases for latex and other raw materials.

Latex prices and the baht/US dollar exchange rate will be dominating factors in determining the Sempermed division's bottom line. Nevertheless, sales and production will continue to grow.

In spite of continuing difficulties in connection with the cost of raw materials and the disadvantageous euro/US dollar exchange rate, it is likely that a high degree of utilisation can be maintained for the additional capacity created for the Semperflex division in 2004/05. An aggressive marketing policy and the achievement of market share and cost targets are expected to bring further sustainable increases in sales. The good orders position, especially in the industrial hoses segment, is expected to continue.

The healthy business growth at the Semperform division is also expected to continue.

By adapting its range of conveyor belt products to the actual needs of the market and by developing attractive new products, the Sempertrans division has established an especially advantageous market position, and will be able to maintain its positive growth and good earnings position over the remainder of the year. The capacity limits have been reached at Sempertrans Nirlon in spite of good progress in improving productivity; investments must be made in additional production capacity to increase the plant's output further.



## BALANCE SHEET

### Assets

in TEUR	31.12.2005	31.03.2006
Intangible assets	3,830.5	3,619.7
Property, plant and equipment	142,158.3	149,005.7
Financial assets	44,829.2	34,607.6
Non-current trade receivables	19.8	13.4
Other non-current receivables	835.5	833.1
Other deferred charges	629.4	549.4
Deferred tax	6,649.9	6,540.5
<b>NON-CURRENT ASSETS</b>	<b>198,952.6</b>	<b>195,169.4</b>
Inventories	83,499.6	82,185.0
Current trade receivables	75,018.3	84,694.3
Other current receivables	11,450.0	10,535.0
Cash and cash equivalents	36,574.2	59,141.4
Marketable securities	6,677.3	0.0
Other deferred charges	1,088.5	1,320.6
Deferred tax	1,656.3	2,147.6
<b>CURRENT ASSETS</b>	<b>215,964.2</b>	<b>240,023.9</b>
<b>TOTAL ASSETS</b>	<b>414,916.8</b>	<b>435,193.3</b>

### Equity and liabilities

Issued capital	21,359.0	21,359.0
Share premium	21,503.2	21,503.2
Retained earnings	180,720.9	189,093.1
Currency translation	1,335.4	2,029.0
Minority interest	43,736.0	44,747.2
<b>EQUITY</b>	<b>268,654.5</b>	<b>278,731.5</b>
Provisions for pensions and severance payments	45,231.2	44,964.9
Provisions for deferred taxes	1,700.9	1,779.1
Other non-current provisions	11,668.3	11,821.8
Non-current liabilities due to banks	8,317.4	7,519.3
Non-current trade payables	2.1	1.4
Other non-current payables	2,218.1	2,248.3
Deferred charges	344.2	285.5
<b>NON-CURRENT PROVISIONS AND LIABILITIES</b>	<b>69,482.2</b>	<b>68,620.3</b>
Provisions for current taxes	146.5	1,142.8
Other current provisions	12,186.4	13,693.9
Current liabilities due to banks	16,830.4	19,059.8
Current trade payables	30,051.0	35,304.0
Prepayments	592.2	367.0
Other current payables	16,574.9	18,082.9
Deferred charges	398.7	191.1
<b>CURRENT PROVISIONS AND LIABILITIES</b>	<b>76,780.1</b>	<b>87,841.5</b>
<b>EQUITY AND LIABILITIES</b>	<b>414,916.8</b>	<b>435,193.3</b>

## STATEMENT OF CASH FLOWS

in TEUR	1.1.-31.3.2005	1.1.-31.3.2006
Cash-flow from result	16,952.1	15,447.3
Changes in working capital	-8,671.5	831.0
Cash-flow from operating activities	8,280.6	16,278.3
Cash-flow from Purchase of property, plant and equipment and intangible assets	-5,532.8	-11,112.1
Cash-flow from Investments in financial assets	-1,309.8	16,633.5
Cash-flow from investing activities	-6,842.6	5,521.4
Cash-flow from financing activities	2,617.8	767.5
<b>CHANGES IN CASH AND CASH EQUIVALENTS</b>	<b>4,055.8</b>	<b>22,567.2</b>
Cash and cash equivalents at the beginning of the 1 <sup>st</sup> quarter	64,859.3	36,574.2
Cash and cash equivalents at the end of the 1 <sup>st</sup> quarter	68,915.1	59,141.4

## PROFIT AND LOSS ACCOUNT

in TEUR	1.1.-31.3.2005	1.1.-31.3.2006
<b>SALES</b>	<b>124,796.4</b>	<b>141,625.4</b>
Differences between opening and closing stocks	1,292.1	2,184.6
Own work capitalised	49.9	257.3
<b>OPERATING REVENUES</b>	<b>126,138.4</b>	<b>144,067.3</b>
Other operating income	4,658.4	2,690.4
Cost of materials	- 63,944.1	- 81,616.3
Personnel expenses	-24,090.0	- 24,036.5
Depreciation	- 5,778.9	- 5,766.2
Other operating expenses	- 25,173.0	- 24,533.7
<b>OPERATING PROFIT (EBIT)</b>	<b>11,810.8</b>	<b>10,805.0</b>
Income from companies in which group has a participating interest	0.0	0.0
Interest results	198.8	- 153.2
Other financial results	488.2	470.8
<b>FINANCIAL RESULTS</b>	<b>687.0</b>	<b>317.6</b>
<b>PROFIT BEFORE TAX (PBT)</b>	<b>12,497.8</b>	<b>11,122.6</b>
Taxes on income	- 2,518.9	- 2,305.2
<b>PROFIT AFTER TAX</b>	<b>9,978.9</b>	<b>8,817.4</b>
Minority interest	- 1,789.5	- 369.6
<b>NET PROFIT FOR THE PERIOD</b>	<b>8,189.4</b>	<b>8,447.8</b>
Earnings per share in EUR	0.40	0.41
Weighted average number of shares	20,462,785	20.573.434

## CAPITAL AND RESERVES

in TEUR	Issued-capital	Share premium	Retained earnings	Revaluation provision	Treasury shares	Currency-translation	Minority Interest	<b>Total</b>
Balance on 31.12.2004	21,359.0	21,503.2	148,176.6	98.3	-1,349.9	-7,679.3	35,570.8	<b>217,678.7</b>
Net profit			8,189.4				1,789.5	9,978.9
Reclassification of badwill			10,086.2					10,086.2
Dividend								0.0
Currency translation adjustments						2,003.8	1,794.5	3,798.3
Balance on 31.03.2005	21,359.0	21,503.2	166,452.2	98.3	-1,349.9	-5,675.5	39,154.8	<b>241,542.1</b>

in TEUR	Issued-capital	Share premium	Retained earnings	Revaluation-provision	Treasury shares	Currency-translation	Minority Interest	<b>Total</b>
Balance on 31.12.2005	21,359.0	21,503.2	180,596.5	124.4	0.0	1,335.4	43,736.0	<b>268,654.5</b>
Net profit			8,447.8				369.6	8,817.4
Valuation gains/losses for financial assets				-75.6				-75.6
Dividende								0.0
Currency translation adjustments						693.6	641.6	1,335.2
Balance on 31.03.2006	21,359.0	21,503.2	189,044.3	48.8	0.0	2,029.0	44,747.2	<b>278,731.5</b>

# FINANCIAL CALENDAR

**General Meeting 01. 06. 2006**  
**Quotation ex-dividend (ex-day) 06. 06. 2006**  
**Dividend payment 12. 06. 2006**

**Quarterly reports 2006**  
**2. quarter 25. 08. 2006**  
**3. quarter 24. 11. 2006**

**Interim profit 2006**  
**9th week 2007**

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