# We equip the World

Annual Report 2005

TAKKT AG
BUSINESS EQUIPMENT SOLUTIONS

## Key figures of the TAKKT Group in EUR million under IFRS

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Turnover | 824.1 | 783.7 | 713.9 | 727.6 | 773.2 |
| Change in % | 8.0 | –4.9 | –8.9 | 1.9 | 6.3 |
| EBITDA | 86.6 | 85.7 | 80.1 | 87.2 | 98.4 |
| in % of turnover | 10.5 | 10.9 | 11.2 | 12.0 | 12.7 |
| EBITA | 76.4 | 75.1 | 70.3 | 78.2 | 88.9 |
| in % of turnover | 9.3 | 9.6 | 9.8 | 10.7 | 11.5 |
| EBIT | 57.7 | 57.0 | 53.9 | 62.5 | 88.9 |
| in % of turnover | 7.0 | 7.3 | 7.5 | 8.6 | 11.5 |
| Profit before tax | 35.5 | 39.0 | 40.6 | 51.5 | 78.7 |
| in % of turnover | 4.3 | 5.0 | 5.7 | 7.1 | 10.2 |
| Profit | 19.4 | 24.5 | 24.4 | 33.0 | 50.4 |
| in % of turnover | 2.4 | 3.1 | 3.4 | 4.5 | 6.5 |
| | | | | | |
| Cash flow | 50.3 | 53.3 | 51.8 | 60.5 | 65.5 |
| Capital expenditure (incl. finance leasing) | 24.0 | 8.6 | 9.8 | 8.6 | 8.9 |
| Depreciation | 28.9 | 28.7 | 26.1 | 24.7 | 9.5 |
| | | | | | |
| Cash flow per share in EUR | 0.69 | 0.73 | 0.71 | 0.83 | 0.90 |
| Earnings per share in EUR | 0.26 | 0.33 | 0.33 | 0.44 | 0.68 |
| Dividend per share in EUR | 0.10 | 0.10 | 0.10 | 0.15 | 0.15 |
| | | | | | |
| Non-current assets | 414.6 | 358.6 | 321.7 | 291.3 | 310.3 |
| in % of total assets | 69.2 | 66.4 | 67.0 | 63.6 | 62.1 |
| Shareholders' equity | 148.4 | 149.6 | 157.2 | 181.1 | 230.6 |
| in % of total assets | 24.8 | 27.7 | 32.8 | 39.6 | 46.1 |
| Net borrowings | 353.0 | 285.7 | 234.3 | 182.3 | 156.5 |
| Employees (full-time equivalent) as of 31.12. | 1,964 | 1,914 | 1,860 | 1,840 | 1,868 |

# Adding
# Value globally

TAKKT AG is the leading B2B mail order company for office, plant and warehouse equipment. Our success is based on continuing to perfect our highly efficient multipliable system business. The TAKKT Group companies pool the product range of hundreds of suppliers and create an assortment with more than 100,000 high-end products. More than two million customers world-wide benefit from our services, because they can order the entire equipment for their company from one single source and enjoy our truly first-class customer service – before, during and after receiving their goods. Companies in more than 25 countries have chosen to make use of our services. We are going to be transferring our business model to new, promising markets in the future to continue our dynamic growth story. Our objective is to be the globally leading B2B mail order company for business equipment.

# Growing Globally – Acting Locally

Looking beyond your own picket fence is part of TAKKT's strategy. We have always been expanding our business into interesting markets. And 2005 saw us spreading out five times: we set up companies in Belgium, Canada, China, Romania and Turkey.

Belgium
May 2005

Canada
July 2005

These countries are very different from each other, culturally as well as economically. TAKKT took this into consideration. Even if we have a system business model we approached every market entry differently, and this was the secret of our success.

Would you like to find out more about how we started up in our new TAKKT countries? Then read our specials from page 32 onwards.

China
October 2005

Ladies and Gentlemen

Our objective is to be the leading global B2B mail order company for business equipment. This objective is already a reality in many European countries and North America and we are dedicated to enhancing this position. 2005 saw TAKKT AG taking its successful business model and applying it in five extremely promising markets: Belgium, Canada, China, Romania and Turkey. The acquisition of the leading US office furniture mail order company National Business Furniture (NBF) was another strategic success. By making this acquisition in January 2006 we have perfectly complemented our portfolio in the USA.

### Turnover up significantly

Investing in new markets pays-off in the long-term and stimulates growth. The past years have seen us increase our turnovers, not least because of the new companies we have founded. At the beginning of last year we announced currency adjusted growth of three percent for 2005, in actual fact growth reached 5.9 percent. This means that we are growing at a significantly higher rate than the economies in which we are operating. A great success, which is all the more remarkable as we have achieved it despite generally lacklustre economic conditions prevailing.

### TAKKT wins new customers

In 2005 we continued to focus on our tried-and-tested strategy and enhanced our high-quality product range and excellent service levels. Our “Perfect Service” initiative made a valuable contribution to improving our services throughout the company. TAKKT’s steady investment into expanding its customer base in the last years paid off despite soft economic conditions. In total we were able to increase our three key value and growth drivers in our business. In the year under review we gained many new customers and once again increased the number of orders and the average order value.

TAKKT AG’s good results in 2005 can once again be attributed to all three divisions’ successful work: KAISER + KRAFT EUROPA, Topdeq and K + K America again reported rises in turnover and improved margins.

### Key figures improved

TAKKT Group generated a turnover of EUR 773.2 (727.6) million, which is an increase of 6.3 percent against the previous year. In currency adjusted terms turnover was up by 5.9 percent.

Earnings before interest, tax and amortisation were up by 13.8 percent from EUR 78.2 to EUR 88.9 million. Our EBITA margin increased to 11.5 (10.7) percent, which means that we are slightly above our target range of between nine to eleven percent. We are extremely pleased with our cash flow, which increased from EUR 60.5 to EUR 65.5 million in the year under review and has enabled us to reduce our liabilities while also funding our global growth.

**Georg Gayer**
Chairman of the Management Board

## Growth driven by service-focus and internationalisation

We are going to continue to optimise our existing business in 2006. To do so it is vital we continue our "Perfect Service" initiative. As the mail order business is a distance business, providing excellent service is the key to retaining existing customers and attracting new accounts.

In the past TAKKT has been successful in showing steady growth. Economic conditions may impact the business of TAKKT companies, but three factors have a stabilising effect on business development: firstly, we already carry a wide range of products, which appeals to customers from different industries. Secondly, our broad customer base assures independence from individual accounts. Thirdly, by operating in different regional markets we are able to compensate economic downturns in individual countries. TAKKT is going to continue to drive its internationalisation to further leverage these strategic advantages. Gaerner in France, Topdeq in Austria and KAISER + KRAFT in China are prime examples of this approach and are all starting operating business in 2006. By acquiring NBF we are also expanding our office furniture business in the USA.

## Positive forecast for 2006

I believe it is likely that the European economy is going to see a slight upturn in 2006. In the USA we are expecting the economy to cool down. Nonetheless, I am convinced that we are going to see good double-digit growth in currency adjusted terms in 2006. Our acquisition of NBF, our sound regional positioning, our updated product range as well as the operations we have established in the recent years, are all going to contribute.
A detailed forecast for 2006 and 2007 is included in our forecast report from page 30 onwards.

## Thank you for the cooperation

We are delighted that so many customers entrusted us with their business. We would also like to express our gratitude to our business partners for their great cooperation.

Our internationalisation drive also means that we are employing people in more countries. TAKKT Group employs a total of about 2,000 members of staff. They have all contributed to the success of the Group and we would like to thank them all most sincerely!

Stuttgart, March 2006

Georg Gayer, Chairman of the TAKKT Management Board

"Our successful business model has one key advantage: it can be easily applied in new markets. As we are exploiting this advantage we can reach growth without any significant risk. This safeguards our succes and makes us a reliable partner for customers, suppliers and shareholders."

**Georg Gayer**
Chairman of the Managemant Board, Eberdingen-Nußdorf

"TAKKT is growing dynamically while being highly profitable. We can achieve this by following one simple principle: everything we do has to be measurable. This is how we can secure our long-term success – be it with new companies or individual catalogues."

**Dr Florian Funck**
Controlling and Finance, Stuttgart

"World-wide B2B mail order cannot be successful without a polished logistics and IT infrastructure. In both cases TAKKT has created a basis which makes efficient and organic growth across regions and product ranges possible. Establishing five new companies on three continents in 2005 is the best proof."

**Alfred Milanello**
Information Technology and Organisation, Ditzingen

"Customers today demand a one-stop-shop. We meet this demand with the extensive product range we offer from one source in our catalogues and on the internet. This makes mail order the most efficient way of purchasing these products and therefore the number of customers will continue to increase in the future."

**Franz Vogel**
Sales, Leinfelden-Echterdingen

# Management Report



**Romania**
Bucharest – Piata Unirii

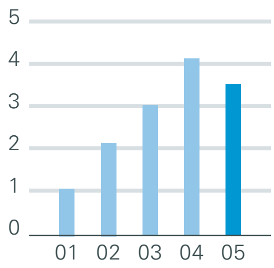
# TAKKT AG and Group Management Report

TAKKT Group has significantly enhanced its market positioning, while optimising its service levels and product range. This strategy has once again resulted in better key figures, to which all three divisions have contributed. Thanks to these successes the Management Board of TAKKT AG is optimistic for 2006.

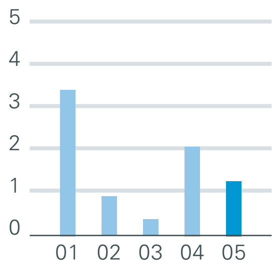
## Economic Environment and Business Development

**The global economy has only seen subdued growth. Even so TAKKT has significantly improved its key figures: the Group is benefiting from its diversified product range as well as its focus on broadening its customer base.**

GDP USA
Change in percent




GDP Europe
Change in percent




### Economic environment without impulses

The economy lost momentum in 2005 again after comparatively good growth rates in 2004. The upturn in TAKKT's key regions slowed particularly in the second half of the year. Once again Germany's economy showed comparatively sluggish growth. Overall no distinct economic trend became apparent.

GDP growth for 2005 was down against the previous year in TAKKT's key economic regions. While GDP in the USA was up 3.6 (4.2) percent Europe's growth rate only reached 1.3 (2.1) percent. In TAKKT's largest European market Germany GDP was merely up by 0.9 (1.6) percent.

TAKKT also relies on a number of purchasing manager indices as leading indicators in addition to GDP growth rates. The company derives economic forecasts for the next three to eight months from these indicators. Figures above 50 points indicate that the volume of the respective market is growing and that sales opportunities are improving. The US purchasing manager index ISM averaged 55.6 points, in 2004 this figure was above 60 points. Corresponding indices for Europe and Germany even fell below the 50 point threshold.

### Focussing is a competitive advantage

TAKKT's business model focuses on the mail order sale of durable goods retailing at steady prices. The fact that TAKKT has opted for this focus has a number of advantages: specialised mail order companies serving particular market segments have been developing better than multi-range generalists. Studies conducted by financial analysts prove that specialised companies are driving the mail order business as a whole. Specialised mail order companies, such as TAKKT, have a number of advantages against specialised brick and mortar retailers. They carry a huge range of products as a single source, which is clearly laid out in printed or electronic catalogues. The majority of goods are in stock and immediately available to customers. Customers can also rely on enjoying excellent service when they order smart solutions, which are tailored to their needs. B2B mail order is the most efficient way to buy business equipment.

## Positive business development

Despite the lacklustre economic situation, the strategic advantages highlighted above have ensured that TAKKT can look back on a good year. The company had growth rates above those of the countries in which it is operating. Four new companies have started operating business in very promising markets and will be contributing to the Group's dynamic growth in the future.

TAKKT's intense efforts to expand its customer base are paying off once again. KAISER + KRAFT has optimised its catalogue strategy and is now mailing three main catalogues a year instead of two. The brand is following the lead of other companies in the Group who have seen more frequent customer contact having a positive effect on orders and profitability. Improved products and services coupled with new companies being founded in recent years have further stimulated growth.

## Events after the balance sheet date

TAKKT took over the operations of the National Business Furniture (NBF) Group at the beginning of 2006. The contract was signed on 11 November 2005. The Group invested about USD 80 million in the acquisition, which was financed with existing credit lines.

NBF Group is based in the US state of Wisconsin and has five brands. The main brand is National Business Furniture, which sells traditional American office furniture to a broad base of companies. The Alfax and Dallas Midwest brands focus on non-profit organisations such as schools, universities and public authorities. OfficeFurniture.com and FurnitureOnline.com are also part of NBF Group and exclusively sell their products via the internet. NBF's product range includes more than 11,000 items.

TAKKT is optimising its portfolio in three ways with the new acquisition, which is now part of K + K America. Firstly, it is boosting sales volumes in the US office equipment segment. Until now K + K America's positioning in this segment was comparatively weak. Secondly, TAKKT is broadening its customer base by accessing more buyers from the service sector, which is experiencing above-average growth. Thirdly, TAKKT is continuing to diversify its regional spread of operations. In 2006 the turnover of K + K America is almost going to reach the level of KAISER + KRAFT EUROPA.

Istanbul

"Overall we had a smooth start to 2005. Only the address market was not as we know it in Western European countries, but we have mastered this obstacle. Now we are very pleased to be gaining new customers every single day."

**Mine Mamikoğlu**
KAISER + KRAFT, Turkey

## Effective management tools

TAKKT managers direct all operating companies using the same system of key figures. This is only possible as the TAKKT business model is comparable across regions and product ranges. Thanks to these management tools operating responsibility can be delegated to the divisions and subsidiaries.

Individual companies inform the TAKKT Management Board about order levels and turnover developments on a daily basis. Gross profit margins are also monitored carefully.

In the future, TAKKT will no longer be using EBITA to gauge operating profitability, but will be relying on EBITDA margins, making it easier to compare the profitability of existing and newly acquired companies. According to IFRS 3 goodwill accounted for in the course of a business combination now has to be allocated to intangible assets as far as possible. Such assets could be customer lists, which are then depreciated. As this only applies to new acquisitions it is becoming increasingly difficult to compare the new companies on an EBITA basis with existing companies. TAKKT will be using the EBITDA margin as a key figure in all Group divisions and subsidiaries. The Group has defined a long-term target of ten to twelve percent for this figure. In order to ensure that analysts and shareholders can compare new figures with previous quarterly and annual reports the Group will continue reporting the development of the EBITA margin as well.

## Divisions shaping the situation of TAKKT AG

The Group's controlling company is TAKKT AG, which operates as a management holding taking on strategic management roles. Operating business itself is conducted in three divisions. The health of TAKKT AG's earnings and financial position as well as opportunities and risks in its future development are very much dependent on the results of its subsidiaries and divisions.

## Dependence report issued

Franz Haniel & Cie. GmbH in Duisburg-Ruhrort is the majority owner of TAKKT AG. The Management Board has provided the Supervisory Board with a report on relations with affiliated companies, as stipulated in section 312 of the German Stock Corporation Act. The Dependence Report comes to the following conclusion:

"In summary we can state that TAKKT AG received adequate consideration for transactions undertaken in the circumstances known to us at the time. We also state that we are convinced that the company was not put at a disadvantage by the transactions reported."

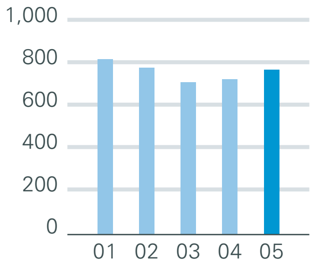
## Turnover and Earnings Situation

**TAKKT pools many companies under one common umbrella. The fact that this broad positioning is beneficial was demonstrated once again in 2005. All divisions operated successfully, which further improved the Group's turnover and earnings figures.**

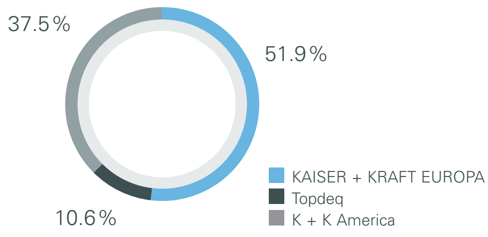
### Turnover up significantly

TAKKT Group's turnover was up by 6.3 percent in the year under review and reached EUR 773.2 (727.6) million. In currency-adjusted terms the increase was 5.9 percent. These good figures were based on the fact that TAKKT's key value and growth drivers picked up: new customers, number of orders and average order value. All three divisions contributed to this positive development in turnover.

Turnover
in EUR million




Turnover
by division




Nearly all companies in the KAISER + KRAFT EUROPA division improved their figures. Subsidiaries in Japan, Scandinavia and France developed particularly well. In total KAISER + KRAFT EUROPA generated a turnover of EUR 401.3 (379.5) million, which is up 5.7 percent on the previous year. The division contributed 51.9 (52.2) percent to the Group's overall turnover.

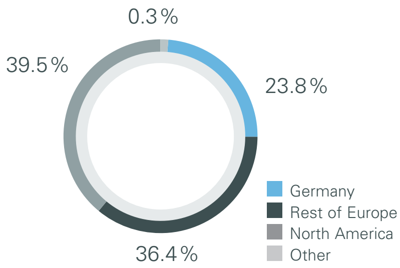
The figures of the Topdeq division are particularly positive. The company's turnover increased by 10.0 percent to EUR 82.1 (74.6) million. In currency-adjusted terms the increase is 10.1 percent. With the exception of Topdeq Germany all countries contributed to this success. Topdeq generated 10.6 (10.2) percent of the Group's turnover.

The division K + K America increased its turnover by 6.0 percent to USD 360.2 (339.8) million. Business was extremely good at its subsidiaries Avenue Industrial Supply in Canada, Hubert Company in the USA and C&H Productos Industriales in Mexico. Translated into the reporting currency of EUR turnover was EUR 290.0 (273.5) million, which is 6.0 percent more than in 2004. K + K America contributed 37.5 (37.6) percent to TAKKT's total turnover.

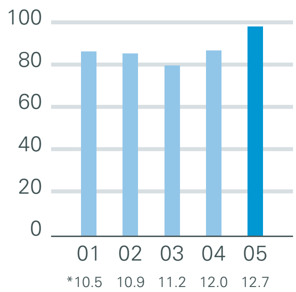
There were no major structural changes in the regional distribution of the Group's turnover. Turnover in Germany was up at EUR 184.0 (180.4) million, which is 23.8 (24.8) percent of the total turnover. TAKKT companies in other European markets increased their turnover even more. Here turnover was EUR 281.7 (261.7) million, which is 36.4 (36.0) percent of the Group's turnover. North American companies saw their proportion of turnover remain relatively stable. TAKKT generated EUR 305.1 (284.5) million, which is 39.5 (39.1) percent of total turnover. In other regions the company generated EUR 2.4 (1.0) million, which is 0.3 (0.1) percent of total turnover.

2005 also saw the number of internet orders increase. The Group generated EUR 69.9 (53.8) million of its turnover online

Turnover
by region




EBITDA
in EUR million (margin %*)




and with e-procurement. This corresponds to 9.0 (7.4) percent of turnover. Topdeq USA has the highest online share of all subsidiaries. The company receives about 30 percent of its orders via the internet.

### Number of customers and orders up

TAKKT has more than two million customers and in the year under review the company gained around 100,000 new customers. In 2005 TAKKT changed the way orders are counted. Adjusted for the technical change, the number of orders in the year under review is up by 1.3 percent to 2.0 million. At the same time average order values went up by 5.3 percent and reached EUR 375.

TAKKT's sales and marketing strategy is the driving-force behind the positive development of its key figures. Despite the economy having been sluggish in the last years the Group has continued to increase the number of catalogues it produces and has mailed about 50 percent of all catalogues to potential customers. As a result the Group has increased its customer base even further and established a sound base for future growth. The rationale behind this step is that as soon as the economy picks up the number of orders increases as does the average order value per customer.

### Profits remain strong

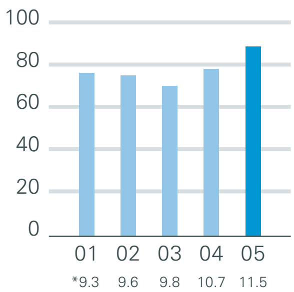
TAKKT Group's key earnings figures saw another improvement in 2005. The gross profit margin was up slightly at 41.4 (40.8) percent. This was mainly driven by better purchasing terms and structural effects. Companies with high gross profits such as Hubert and Topdeq grew over-proportionately. Higher oil and steel prices had no adverse effect on earnings as TAKKT usually publishes its catalogues three times a year and can react to any price changes for raw materials at short notice. TAKKT's good gross profit margin is the basis for an increase in all other key earnings figures.

As planned, expenses for setting up new companies were higher in the year under review than in 2004. Even though, earnings before interest, taxes, depreciation and amortisation, EBITDA, were up by 12.9 percent at EUR 98.4 (87.2) million. At 12.7 (12.0) percent the EBITDA margin is above the long-term target level of ten to twelve percent, despite increased advertising expenses at KAISER + KRAFT EUROPA and costs incurred for the start-up of new companies.

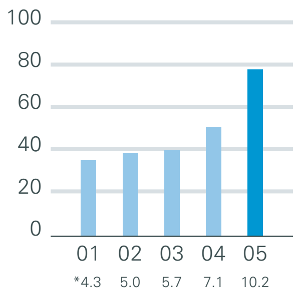
Earnings before interest, taxes and amortisation, EBITA, reached EUR 88.9 (78.2) million, which is an increase of 13.8 percent against the previous year. The EBITA margin is 11.5 (10.7) percent.

With the application of IFRS 3 from the financial year 2005 on, goodwill is no longer amortised. In the previous year amortisation on goodwill was EUR 15.7 million. Therefore earnings before interest and taxes, EBIT, were up significantly by 42.3 percent reaching EUR 88.9 (62.5) million. The EBIT margin improved to 11.5 (8.6) percent. Profit before tax increased by 52.7 percent to EUR 78.7 (51.5) million. The profit margin was 10.2 (7.1) percent. The fact that TAKKT continues to steadily reduce its debt and therefore improves its interest result is having a positive effect.

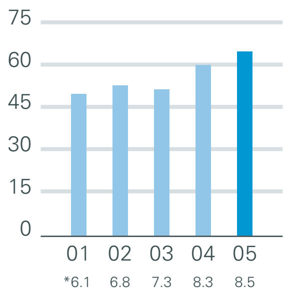
EBITA
in EUR million (margin %*)




Profit before tax
in EUR million (margin %*)




Cash flow
in EUR million (margin %*)




Goodwill amortisation no longer being permissible generally results in TAKKT having a lower tax rate. Nonetheless, at 36 percent it was still at the level of the previous year, as a one-off tax refund reduced the tax rate in 2004.

Profit was recorded at EUR 50.4 (33.0) million, of which EUR 0.7 (0.6) million were minority interests and EUR 49.7 (32.4) million can be attributed to shareholders. At a stable number of 72.9 million shares earnings per share were 68 (44) cent, which is over 50 percent more than in 2004.

### Cash flow increased again

Cash flow has seen another increase, despite having already been at a high level. It increased by 8.3 percent to EUR 65.5 (60.5) million. Calculating cash flow has been modified with the introduction of IFRS 3, in order to eliminate distortive effects from non-cash deferred tax. As already announced in the annual report 2004, cash flow is now being calculated as profits plus depreciation and deferred tax affecting profit.

| Cash flow calculation in EUR million | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Profit | 19.4 | 24.5 | 24.4 | 33.0 | 50.4 |
| Depreciation | 28.9 | 28.5 | 26.1 | 24.7 | 9.5 |
| Deferred tax affecting profit | 2.0 | 0.3 | 1.3 | 2.8 | 5.6 |
| **Cash flow** | **50.3** | **53.3** | **51.8** | **60.5** | **65.5** |

## Financial Situation

**Cash flow and the equity ratio have increased, while financial liabilities have fallen: the financial situation is the basis for dynamic growth and for good ratings with banks.**

### Sound financial structure reflected in Group balance sheet

The balance sheet structure has further improved in 2005. On the balance sheet date, 31 December 2005, TAKKT AG held assets of EUR 499.9 (457.8) million. Its non-current assets were EUR 310.3 (291.3) million. Goodwill is the largest item in non-current assets with EUR 227.5 (211.4) million. The application of IFRS 3 stipulates that goodwill is no longer amortised, but that an impairment test is applied yearly. Due to TAKKT's strong cash flow there was no impairment needed on goodwill. The changes in this item against the previous year are due to currency translation.

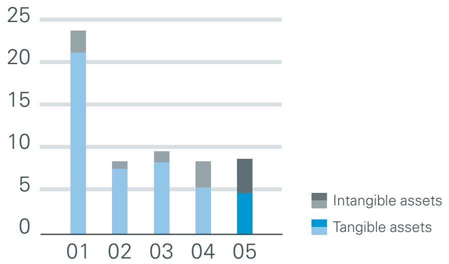
Current receivables and assets have increased slightly against last year. Higher turnover volumes resulted in an increase in trade receivables. Collection periods remained steady during the year and, as in the previous year, the average collection period was around 40 days. The ratio for non-payment was also extremely low at below 0.5 percent of the Group's turnover. This is mainly due to the fact that TAKKT checks its customers' credit-worthiness very carefully and also manages receivables very efficiently.

In line with the previous year TAKKT increased its inventory levels slightly, which ensures that the company can continue to improve its delivery service.

Healthy profits also increased shareholders' equity, which was 230.6 EUR (181.1) million. The equity ratio without minority interest reached 46.1 (39.6) percent.

TAKKT Group's net borrowings amounted to EUR 156.5 million on 31 December 2005, on the balance sheet date of the year before this figure was EUR 182.3 million. TAKKT generally finances itself based on the expected cash flow in the local currency. As a result this item also changes due to currency effects. Currency effects, especially the US dollar, increased net borrowings by EUR 17.0 million. Net repayments of EUR 41.6 million were made out of cash flow.

Capital expenditure
in EUR million




Thanks to the high cash flow TAKKT was able to fund start-up costs for newly founded companies. Dividends for shareholders and minority interest were paid from cash flow. TAKKT Group's cash flow statement is included in the notes on page 71 and provides more detailed information about the use of cash flow.

| Key figures | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Equity ratio in % | 24.8 | 27.7 | 32.8 | 39.6 | 46.1 |
| Debt repayment in years | 7.2 | 6.0 | 5.0 | 3.5 | 2.6 |
| Interest cover | 3.4 | 4.2 | 5.3 | 7.2 | 8.6 |
| Gearing | 2.4 | 1.9 | 1.5 | 1.0 | 0.7 |

TAKKT has established a highly efficient trade payables management system and as a rule makes use of cash discounts.

Other financial key figures have also improved. The debt repayment period, i.e. the ratio between average net borrowings and cash flow, fell to 2.6 (3.5) years. The ratio between net borrowings and shareholders' equity, also known as gearing, fell from 1.0 to 0.7. Interest cover describes the ratio between EBITA and interest expense and reached a healthy figure at 8.6 (7.2).

Thanks to sound financial health and its assets, TAKKT is excellently positioned to operate successfully and grow dynamically, as is the case in 2006 with the NBF Group acquisition; a fact banks are rewarding by indicating that good ratings can be expected once again.

### Investing in more efficient processes

As planned, investment in 2005 was slightly higher than the previous year. In total TAKKT invested EUR 8.9 (8.6) in rationalising, expanding and maintaining its operations. The capital expenditure is in line with the long-term target of one to two percent of the Group's turnover.

Larger-scale projects were initiated and continued in IT. In the second half of 2005 KAISER + KRAFT EUROPA started the transition to internet telephony, so-called Voice over IP, in Germany. In the coming years these telephone systems are also to be introduced in the remaining European countries. K + K America continued an IT project, which is scheduled to last a number of years. Step by step the division is rolling-out new IT systems throughout its companies, which will base financial accounting, inventory management and marketing on a common software platform. In 2005 K + K America invested about USD 2.9 million in this project.

| Capital expenditure TAKKT Group in EUR million | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Intangible assets | 2.6 | 0.9 | 1.3 | 3.1 | 4.0 |
| Tangible assets | 21.4 | 7.7 | 8.5 | 5.5 | 4.9 |
| **Total** | **24.0** | **8.6** | **9.8** | **8.6** | **8.9** |
| Amortisation of goodwill | 18.6 | 18.1 | 16.4 | 15.7 | 0.0 |
| Other depreciation | 10.3 | 10.6 | 9.7 | 9.0 | 9.5 |

## Research and Quality Assurance

What do customers expect of B2B mail order? TAKKT conducts extensive market research to find out just that. The Group uses its findings to fine-tune its business to customer demands.

### Catalogues meeting customer demands

As a B2B mail order company TAKKT does not have its own research and development activities as such. The Group's companies however do continue to tune their product ranges, services and catalogues to customer needs by selecting new and improved products, which they then carry in their catalogues.

TAKKT relies on systematic market research to identify customer needs and wishes. In order to ensure that the results are comparable internationally, TAKKT always contracts the same market research company, which conducts the research based on a standardised survey system. Experts conduct surveys on a regular basis, as was the case as they interviewed Topdeq customers in Germany and Frankel customers in France: a representative number of customers from both companies were asked how satisfied they were with products, service levels and catalogues in comparison to competitors.

The results again confirmed that TAKKT is on track with its product and service-based strategy. Topdeq and Frankel customers reported above average levels of satisfaction. Surveys conducted in the past years have shown that TAKKT's customer retention levels are higher than those of other companies in the industry. This is reflected in the sales growth displayed by both Topdeq and Frankel in comparison to their competition.

### E-business optimised further

TAKKT is also reinforcing its customer retention levels by providing e-procurement services. In this category of e-business the Group creates electronic catalogues that are directly integrated into customers' IT systems. Both parties have tangible benefits from this arrangement. While customers can issue orders more conveniently, cut lead times and reduce costs, TAKKT increases customer retention and turnover. The Group is extremely successful with the e-procurement services on offer. The KAISER + KRAFT EUROPA division has set up projects for more than 200 customers.

TAKKT Group continues to refine the websites of brands. In addition to its traditional web shop KAISER + KRAFT has been offering its German and Swiss customers an online PDF catalogue for some months. The product range is presented in the same way as the printed edition. Customers can scroll through the pages and order goods directly using links in the PDF document. Topdeq developed a new website for all its companies in 2005.

### ISO certification guarantees high quality

TAKKT is convinced that quality products and high service levels are top priority. The Group is committed to strict quality assurance in all units.

All complaints in TAKKT Group companies are recorded in an IT system, categorised and analysed. Based on the results suppliers may have to improve their packaging or product descriptions in catalogues may have to be revised.

Many European TAKKT companies are certified according to DIN EN ISO 9001:2000 or comparable standards. These standards guarantee that a company adheres to specific quality standards, e.g. in processing orders and complaints. Non-certified companies are raised to the level of certified companies by being given internal targets, training and undergoing checks. Certification is a clear competitive advantage for TAKKT. Some customers only purchase goods from companies complying with ISO standards.

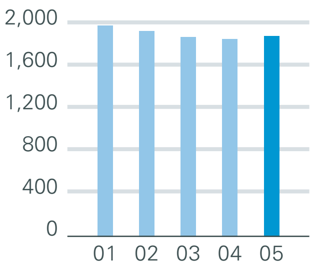
## Members of Staff and Social Responsibility

**TAKKT develops its members of staff and lets them participate in the company's success. The Group not only acts responsibly as an employer, but is also committed to society and the environment.**

### TAKKT investing in training and education

The number of full-time employees working for TAKKT Group has increased in the wake of new companies being founded and increased business volumes. On 31 December 2005 the Group employed 1,868 (1,840) full-time members of staff. 854 (846) of those were employed by KAISER + KRAFT EUROPA, 209 (214) at Topdeq and 778 (754) at K + K America. The TAKKT AG Holding had 27 (26) members of staff. On average employees are 40 years of age.

Employees TAKKT Group
Full-time equivalents as of 31.12.




Well trained and motivated members of staff are critical to the success of the company. TAKKT is therefore committed to first-rate training and education. Every year the Group offers a basket of different types of trainings. Seminars aimed at improving the ability of sales staff to provide professional advice are just one example. TAKKT also relies on local skills for its training and education programmes. In the so-called Sales Coaching Programme members of staff from the telephone sales unit undergo train-the-trainer instruction in customer service and dealing with complaints. They then pass on this know-how to their colleagues in internal training sessions.

In some areas, such as purchasing and IT, TAKKT draws on the skills of external trainers and institutes. The company also makes use of the educational programmes provided by the Haniel Academy. Specialists and managers can hone their skills there according to their individual needs. For example they can either attend seminars about leadership or expand their business know-how.

TAKKT Group also provides vocational training in a range of areas. In Germany these include e.g. clerical jobs, which focus on wholesales/export, office communications and administration, jobs of a technical nature include training engineering draughtsmen/women, production mechanics as well as warehouse clerks and warehouse staff. In the year under review the company employed 35 apprentices, of which eight were enrolled in a part-time degree programme.

### Members of staff participate in the company's success

TAKKT Group encourages motivation and commitment in its employees by making sure that they participate in the company's success. Performance-based compensation systems have been established for managers. Top-management is compensated according to the cash flow generated and the EVA® (Economic Value Added®). Middle managers' pay depends on operating results in their company and if they have fulfilled individually agreed targets. Bonuses are also granted to allow all employees to participate in the company's success, as is the case when a respective company meets or exceeds its targets.

In Germany TAKKT Group employees are eligible to buy employee shares. 57.8 percent of all entitled employees bought shares in the year under review. Staff bought a total of 27,660 shares. A similar programme will be available in 2006.

# Tokyo

"Japanese customers have the highest quality and service expectations. KAISER + KRAFT is so successful here because we offer just that. And that's despite the fact that B2B mail order was almost unheard of in Japan until a few years ago."

**Koji Toritani**
KAISER + KRAFT, Japan

## Dedicated to society and environment

Social and economic problems and protecting the environment affect all levels of society. This applies to the government, the business community as well as the single citizen. Only by joining forces can long-term solutions to looming challenges be found. Companies are called upon to understand social responsibility as part of their business. TAKKT publicly accepts this responsibility. Management checks carefully to which extent activities affect society, business and the environment.

## Environmental protection: checking all processes

Throughout the company TAKKT acts diligently to avoid any environmental harm being caused or any resources being wasted. This starts as early as procurement. Before any company in the Group is allowed to carry a product it is generally checked for its environmental compatibility. All products manufactured in Haan for the EURO*KRAFT* private label are subjected to strict ecological tests. TAKKT has dedicated itself to not procuring, using or selling goods containing toxic materials. This includes all subsidiaries exclusively using environmentally friendly or reusable packaging. Social aspects are also considered very carefully in procurement: TAKKT strictly rejects items produced using child labour.

In order for environmental protection to be truly effective it has to span the entire supply chain, which goes far to explain why TAKKT involves its suppliers. This also applies to the production of catalogues. In Germany TAKKT only issues orders to ISO certified printing companies which comply with the eco-management and audit scheme. All materials used in printing have been ecologically approved. Throughout the Group catalogues are printed on non-chlorine bleached paper only.

## Risk Report

**TAKKT has developed effective systems to identify and manage risks, which may affect future business development. Risk management is understood to be a vital management task and is integrated in the management process.**

### Pro-active risk prevention

TAKKT continually analyses the market and competitive environment of its divisions and companies as well as its own potential. Systematic monitoring means that potential risks can be identified and evaluated at an early stage. Measures are then defined to contain or avoid risks.

Timely and comprehensive reporting is also essential. Reports on order entry and key service figures of individual Group companies are submitted to the Management Board on a daily basis. TAKKT also analyses economic indicators such as growth rates of economies or purchasing manager indices. The Group is then able to identify indicators that may have an adverse affect on implementing its strategy.

Internal and external auditors are integrated into risk management. They check the processes of all Group companies to ensure they are effective, efficient and in compliance with internal guidelines.

All newly founded companies and acquisitions are immediately integrated into TAKKT's controlling and risk management system. They have to meet the same stringent requirements as the well-established companies within the Group.

TAKKT is continually enhancing its risk management system and adapting it to meet new demands. The external auditor has confirmed that the risk management system is suitable.

The risk environment has not changed in the year under review. Risks threatening the company's existence as well as material risks exceeding usual business risks were not identified.

### Minimising economic risks

TAKKT has deliberately diversified its customer and product portfolio. Currently the Group is operating in over 25 countries. More than 100,000 products are being carried to address companies from different industries: from small service providers, caterers and retailers to hospitals, public authorities and manufacturing. Being active in a broad range of sectors means that TAKKT has made itself less dependent on how the economy is developing in specific industries and regions. The Group is continuing to focus on new products and markets to further soften the impact of any economic lows.

### Limited industry risk

The industry risk in the B2B mail order segment with office, plant and warehouse equipment is low: barriers to entry are high, because building a customer base is time-consuming and costly.

TAKKT is not dependent on any one supplier. A number of manufacturers are available for almost all products listed in catalogues. Should one manufacturer be unable to deliver, Group companies are able to fall back on the products of other manufacturers. In the long-term this situation should not change, as it is unlikely for the supplier base to consolidate significantly. Any dependence on individual customers is equally limited. With a customer base of over two million customers TAKKT business is spread over a broad base.

### Flexibly reacting to price risks

Given that Group companies generally revise their catalogues three times a year they are able to flexibly react to any changes in purchasing prices. If costs for raw materials such as steel increase it is possible to adjust prices at short notice or offer alternative products.

### Catalogues and addresses secured

Printed catalogues and mailings are TAKKT's key sales vehicles. The Group therefore protects itself against its catalogues being damaged or destroyed in production or distribution. TAKKT has its catalogues produced by nine printing companies operating in several locations. This reduces the risk of loss to a minimum. Any loss of catalogues is also covered by special insurance policies.

TAKKT prints over 55 million catalogues every year. Paper and printing prices are an important cost factor. In order to ensure that short-term price fluctuations cannot impact earnings the Group has also signed fairly long-term contracts.

Customer addresses are the basis of TAKKT Group's business. Group companies therefore protect address material of existing and potential customers. Stored data is continually backed-up. Data loss can almost be ruled out. Access and processing are screened by security systems.

### Few risks in warehousing and logistics

Risks emanating from inventories are low, which applies to obsolescence and price deterioration. Items such as tables, chairs, cabinets and pushcarts are always in demand. They are not prone to seasonal swings or short-term fads.

TAKKT is continually optimising and updating its product range. Under certain circumstances it may be possible for an item to be dropped from the catalogue in the medium term, but stock to be in the warehouse. In cases such as these TAKKT generally falls back on contractual returns clauses arranged with suppliers for remaining stock.

TAKKT Group's three divisions store the majority of their goods in large mail order centres, which has great advantages: the divisions generally have to store less inventory and order goods from manufacturers less frequently as would be the case if they were operating small warehouses. Large warehouses also make efficient international procurement feasible. TAKKT Group can choose from a larger base of suppliers and products and buys at more favourable terms, which is also to the benefit of customers.

These advantages by far outweigh possible risks, for example fire, which are a result of centralised warehousing. The divisions also establish smaller regional warehouses if this is in the interest of ensuring perfect delivery. Of course smaller warehouses are also insured against fire or business disruptions.

TAKKT Group's companies regularly review their warehouse concepts. This ensures that standards for security, delivery quality, speed and efficiency remain at a high level, if necessary locations are adapted to new conditions. Should disruptions in a warehouse cause bottle-necks most companies can ship the majority of the goods by drop shipment. TAKKT has insurance covering business disruption.

### TAKKT's warehouses at a glance

- KAISER + KRAFT EUROPA operates a mail order centre in Kamp-Lintfort and a warehouse in Haan for in-house production goods. These supply almost all European countries in which the divisions' brands are operating. Only the subsidiaries Gerdmans in Scandinavia and KWESTO in Eastern Europe operate larger regional warehouses.
- Topdeq operates a mail order centre in Pfungstadt and one regional warehouse in Switzerland, France and the USA.
- K + K America's subsidiary C&H operates five warehouses throughout the USA. The central warehouse of Conney Safety Products is located in Madison. Hubert Company dispatches almost all products from Harrison in Ohio. Avenue Industrial Supply has a central warehouse in Toronto and a regional warehouse in Calgary.

TAKKT contracts external forwarders to deliver goods. As competition between forwarders is tight the Group can negotiate favourable terms with its business partners. This also explains why the sharp increase in oil prices in the year under review has hardly affected the company's earnings. In general terms, oil prices and toll fees only have a slight impact on TAKKT's profitability, as shipping costs only account for less than ten percent of turnover.

### Low write-offs on trade receivables

The level of default at TAKKT is extremely low and only accounts for less than 0.5 percent of sales. This can be attributed to the Group carefully checking customers' creditworthiness.

TAKKT sells durable products which are generally not prone to breakdowns, which is why only few customers made use of warranties, guarantees and returns. Rates in this area have remained stable for years. TAKKT has additionally agreed return conditions with most suppliers as a further precaution. The Group has also insurance against product liability risks.

### IT systems operating smoothly and safely

The Group depends on a number of high-end IT systems to run its business, e.g. servers, order management software and product management systems. A central task of risk management is therefore to ensure the integrity of data and the smooth operation of IT.

As a measure to protect data and operations the divisions KAISER + KRAFT EUROPA and Topdeq use central high-availability systems: a server processes day-to-day business while special software continually copies all programmes and data to a back-up system. If the server should fail, the second system takes over.

TAKKT regularly checks the performance and security of its IT systems, which also applies to its subsidiaries. External specialists check their systems to test if they are running reliably, are safe against unauthorised access and if data can be recovered easily. In the year under review no issues were reported.

# Bucharest

"Romania is a high-growth country making it an attractive location. Increasing numbers of Western European companies are investing here, so there are plenty of customers for our product range. That's exactly why we are in Bucharest: KWESTO is wherever the customers are."

**Laura Gaiu**
KWESTO, Romania

High security standards also apply in using IT. TAKKT has strict guidelines governing the use of e-mail, the internet and other IT systems. All members of staff agree in writing to adhere to these rules. At K + K America the functionality of the IT systems are backed up by regular data saving and external hardware capacities as required.

Besides TAKKT having a smoothly operating IT system, it is also essential that its companies can always be reached by phone. The Group relies on special back-up systems as well as uninterruptible power supplies to protect itself against any defects in lines, power cuts or technical malfunctions in its telephone system. If necessary, calls can be rerouted to other locations. TAKKT regularly has checks conducted to establish how easily its companies' sales units can be contacted by customers. If required, the company can flexibly tune its telesales capacities to business volume.

### Financial risks under control

Risks affecting TAKKT's business result from changes in exchange rates and interest rate levels. The company is taking measures to mitigate any effects from these fluctuations. As a rule divisions in the Group buy and sell products in the same currency. Transactions in different currencies, such as between the Eurozone and the USA, only account for less than ten percent of turnover. The majority of these transactions are hedged with derivatives.

TAKKT also avoids risk exposure in its financing activities. Financing is undertaken in the same currency as future cash flows and repayments are going to be generated.

Translation risks are relevant for TAKKT Group's balance sheet and its profit and loss account. These risks arise when consolidating the balance sheets of foreign subsidiaries and translating their currency into the reporting currency of euro. As the balance sheet structures of individual companies are extremely similar these translation risks hardly affect the structure of the Group balance sheet. Nevertheless, fluctuations in exchange rates, especially in the US dollar, do affect the absolute value of key figures.

## Mexico City

"We are closing a gap with our business model in Mexico: in the past companies had to buy their equipment from many individual manufacturers or small retailers. Today, they have access to an extensive product range from one single source. Thanks to our excellent warehouse infrastructure in the USA, all products are available here at short notice."

**Alfonso del Campo**
C&H Productos Industriales, Mexico

TAKKT monitors and manages the health of its financial structure using so-called covenants, such as equity ratios and debt repayment periods. TAKKT has defined critical internal thresholds which should not be exceeded or fallen short of. An explanation of the covenants and the actual values can be found in the glossary on pages 111 onwards and on page 20 of this annual report.

Lacking availability of debt capital is not a risk for TAKKT. The Group is mainly funded by long-term loans. In addition, it always has sufficient existing credit lines, which allows TAKKT Group to continue to drive its external growth at favourable conditions. Accordingly the acquisition of NBF Group was funded easily with existing credit lines.

Interest risks arise through changing market interest rates. TAKKT hedges these risks with interest rate swaps and interest rate caps. These hedges are usually used for the duration of the loan contract, so that interest rates for long-term loans are also hedged long-term. Different hedging methods are explained in detail on page 101 onwards in the notes to this annual report.

By making use of instruments to hedge currencies and interest rates TAKKT has no material risks emanating from changes in prices, default or liquidity.

### Legal and other risks not material

TAKKT Group's companies are involved in litigation in day-to-day business as plaintiff and defendant. These cases individually or taken together do not have any impact on the economic situation of the Group. All other risks for the business of TAKKT can be described as limited.

## Forecast Report

TAKKT is going to continue to optimise and expand its business in 2006 and 2007. It is already foreseeable that the Group is going to continue the top-line growth it demonstrated in the past years based on this strategy.

### Only slight economic growth

Experts are expecting the economy in Europe only to improve slightly. After growth rates of 1.3 percent in 2005 they are expecting the economy to grow by 1.8 percent in 2006 and 2007 respectively. In Germany economic growth is to reach 1.5 percent in 2006. The football World Cup could have a positive impact on the economy as could increased domestic demand in the run up to the planned VAT increase. As these one-off effects will not affect 2007, economic growth in Germany is likely to fall back to 1.0 percent.

Economists are predicting economic growth of 3.3 percent in 2006 for North America, while they are only expecting 2.5 percent in 2007. This forecasted decline is due to the effect of recent interest rate increases and the expected normalisation in the real estate market.

### Realistic turnover targets

TAKKT has seen its turnover increase in the past 20 years by an average of twelve percent annually. Half of this increase can be attributed to acquisitions while the other half can be traced back to organic growth. TAKKT aims to stick to this growth track in the long-term. The basis of organic growth is improved product range and new customers for the established companies on one hand and the newly-started companies on the other hand. TAKKT has done its homework; however economic growth in several regions is still unsatisfactory. On the basis of this TAKKT expects for 2006 an organic and currency-adjusted growth of four to five percent. Including the NBF acquisition Group turnover will improve by at least 18 percent. For 2007 the management reckons with an organic growth of at least three percent.

### US dollar may affect key figures

After TAKKT's takeover of NBF the Group will be generating approximately half of its turnover in North America from 2006 on. This explains why the exchange rate of the US dollar is going to increasingly affect the Group's euro key figures. A strong dollar translated into the reporting currency of euro leads to higher turnover. Accordingly a weak dollar causes the Group's turnover to be lower. The actual impact of US dollar volatility can be highlighted in two scenarios: if the dollar increased by five percent against 2005. The increase in turnover converted into euro would be about 2.5 percentage points above currency-adjusted growth. If the dollar fell by five percent, the currency-adjusted turnover growth would be about 2.5 percentage points below the growth rate reported in euros.

As a measure to eliminate distorting currency effects and report an accurate picture of business development, TAKKT will not only be reporting growth rates in the disclosure currency, but will also be publishing currency-adjusted turnover figures. This applies to quarterly reports as well as the annual report. Also TAKKT's turnover forecast is based on currency-adjusted figures.

### Raw material prices and gross profit margins remain stable

Experts assume that the prices for raw materials like oil and steel will stabilise at high levels in the coming two years. As outlined in the risk report, this will hardly have an impact on TAKKT AG's profitability. The plan is therefore to keep TAKKT Group's gross profit margins above 40 percent in 2006 and 2007.

### Profitability staying at high levels

TAKKT has very effective cost management tools at its disposal. These put the Group in a position to reach an EBITDA margin within its target range of ten to twelve percent despite the economy slowing. For 2006 TAKKT management is expecting a margin at the top range of the target corridor, despite planned start-up costs for newly established companies.

### TAKKT investing in infrastructure

TAKKT's investment volume in 2006 will be about one to two percent of Group turnover, while 2007 will see investment in warehouse infrastructure. The objective is to expand capacities in line with continually growing business volumes and to further optimise delivery times. The total sum invested in 2007 could increase to about three percent of Group turnover. Investment in 2008 should be back to between one to two percent.

### Divisions' development

In 2006 the division KAISER + KRAFT EUROPA will continue to grow at a higher rate than the increase in the respective gross domestic products. As a result of the anticipated downturn of economic growth in North America, also the organic growth of K + K America will decline slightly. TAKKT however expects growth above that of the respective economies. Including the NBF acquisition, turnover of the division will increase by about 40 percent in US dollar. For KAISER + KRAFT EUROPA and K + K America, TAKKT strives in spite of the cautious economic forecast for a growth of at least three percent in 2007. With this growth rate the profitability of the Group can be maintained at a high level.

In the case of Topdeq, management is expecting an annual increase in turnover of more than five percent for 2006 and 2007. This will be possible as the division will profit from its strong growing young companies.

In the coming two years EBITDA margins at KAISER + KRAFT EUROPA will continue to be well above the current TAKKT target of ten to twelve percent. Topdeq is planning to reach the long-term target corridor by 2010 at the latest. The EBITDA increase could slow down if higher expenses are incurred for new markets than currently planned. At K + K America the takeover of NBF in 2006 is going to result in EBITDA margins initially falling to between nine and ten percent. TAKKT management is however confident that K+K America will be reporting double-digit EBITDA margins in the following years.

### Warranty

This annual report includes forward-looking statements and information. These forward-looking statements are estimates, which are based on the information available today. Should the basic assumptions not come true or additional risks arise, the actual results can differ significantly from the expected results. Management cannot accept any liability for these statements.

## Estonia

"We have been operating in Estonia since 2004. It's a prime example in demonstrating that comparatively small countries hold great potential for our business. The Estonian economy is developing extremely well. EU accession has contributed to annually increasing GDP by on average six to seven percent in the last five years."

**Anti Aedna**
Gerdmans, Estonia

KAISER + KRAFT EUROPA

**China**
Shanghai Pudong – Oriental Pearl Tower

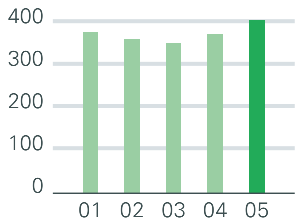
# Satisfied Customers Driving Growth

KAISER + KRAFT EUROPA is continuing to work on increasing its customer retention levels. This was a success in 2005 because of an optimised mailing strategy. From this year on all companies are revising their main catalogue three times a year, which has contributed to the success of the largest TAKKT divisions.

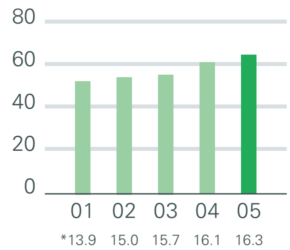
### Significant increase in turnover

Despite generally sluggish economic conditions, the KAISER + KRAFT EUROPA division was extremely successful in 2005 and generated a turnover of EUR 401.3 (379.5), 5.7 percent more than in the previous year. Currency-adjusted growth was 5.5 percent. Almost all companies in the KAISER + KRAFT EUROPA division contributed to this success. Subsidiaries in Japan, Scandinavia and France developed particularly well. Profitability in the division as such is up once again. KAISER + KRAFT Europa improved its EBITDA from EUR 65.9 to 70.4 million. The EBITDA margin is at 17.5 percent compared to 17.4 percent one year earlier. EBITA increased from EUR 61.2 to 65.6 million. The EBITA margin increased from 16.1 to 16.3 percent.

Turnover
in EUR million




EBITA
in EUR million (margin %*)




### More catalogues, more orders

After Gerdmans, Gaerner and KWESTO changing their catalogue strategy KAISER + KRAFT followed suit in 2005 and made the transition from two catalogues to three catalogues per year. This measure increased the number of orders, while at the same time enhancing customer retention. The commercial benefit outweighs the expense for producing an additional catalogue. KAISER + KRAFT Japan raised the number of catalogues it produces as well as the number of pages and has doubled its turnover.

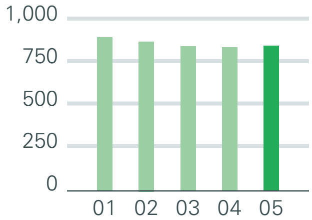
In the course of the "Perfect Service" initiative all companies worked on increasing customer satisfaction in 2005. KAISER + KRAFT EUROPA was even awarded a prize for its efforts. In February 2005, its Dutch subsidiary Vink Lisse was awarded the "Sterkste Schakel 2005" prize. The Alpen/Rhine region awards prizes to companies who excel in customer satisfaction and service. Vink Lisse won the category Office and Automation as well as the overall award spanning all industries.

### Systematically expanding business

KAISER + KRAFT EUROPA successfully expanded into new markets in 2005. KAISER + KRAFT is now also selling its products in Turkey. Its company is based in the metropolitan city of Istanbul. The company is covering the economically vibrant region between Istanbul, Izmir and Ankara from this base. Customers in China can now also order quality office and warehouse equipment. At the end of October 2005, Chinese authorities approved a company being founded in Shanghai. KAISER + KRAFT EUROPA mailed its first catalogues in the first quarter of 2006.

2005 also saw KAISER + KRAFT EUROPA expanding with other brands. KWESTO started operating business in Romania in the year under review. The mail order company is also preparing to expand into other Eastern European countries in the coming years. Furthermore Gaerner Group is currently planning its French market entry.

Employees
Full-time equivalents – 31.12.




# Shanghai

"With growth around ten percent, the Chinese economy is currently booming. Our product range addresses a broad base of customers. The first catalogue was published in February, just after the Chinese new year festivities."

**Kurt Chang**
KAISER + KRAFT, China

## A success story lasting 60 years

In 1945 Walter Kaiser and Helmut Kraft founded a company, which was to pioneer B2B mail order in Germany. About 20 years later the founders started the regional expansion of their business model. Their first base abroad was across the border in the Netherlands. Today the company has operations in 20 European countries as well as in Japan and China. This not only makes KAISER + KRAFT EUROPA the European market leader in business equipment mail order, but the largest and economically most successful division within TAKKT AG.

- KAISER + KRAFT EUROPA includes the brands KAISER + KRAFT, Gaerner, Gerdmans and KWESTO.
- Its product range includes about 33,000 products – from stepladders and rack systems to mobile cranes.
- KAISER + KRAFT EUROPA has its in-house production of transport equipment, which are produced under the EURO*KRAFT* label. It can produce custom products, mini series and products in the customer's corporate design.
- 854 members of staff around the world process the orders of 980,000 customers.

# Taming the Chinese Dragon

"China's Gate to the World" is the poetic epithet used to describe the port city of Shanghai. KAISER + KRAFT EUROPA is using this gate to branch out into the region. The mail order company is using Shanghai as a base to access the rapidly growing Chinese market. TAKKT board member Dr Florian Funck highlights which risks and opportunities expansion entails.

**Until now TAKKT's business model was easily transferred to other countries. Does this also apply to China?**
The demand for our products is extremely high, especially in the region around Shanghai, because many Asian and international groups are based there. Until now they have only been able to either import their office and warehouse equipment or buy it directly from different manufacturers, but they have not been able to buy everything from one source via mail order. We are filling the gap with our business model as we have done so often in other countries, even if the prevailing conditions are vastly different from those in Europe.

**What kind of differences are there between China and Europe?**
Sometimes it's just details that have a huge impact. A Chinese letter in the alphabet requires twice as much storage capacity as a German letter. So we need an IT system which can process Chinese characters. We were able to implement this quite quickly because we could adapt the system already in use in Japan.

The greater challenge was obtaining the permission to set up a company in China. This process is protracted and unpredictable and had the effect that we were not able to mail our catalogue in autumn 2005 but had to wait until February 2006. Despite a small delay we are proud that we are the first western company in B2B mail order to have been granted a licence for all of China.

**Talking about protracted, does this also apply to negotiations with potential suppliers?**
Many manufacturers were initially sceptical and not convinced that it was worthwhile working with us. Asian manufacturers are used to producing huge volumes for export. We in contrast need a broad range of products in comparatively small quantities. In the end they were convinced by the great potential a business relationship with KAISER + KRAFT EUROPA would offer them. We are not only carrying two thirds of local products in our Chinese catalogue but also plan to sell Asian items in other countries in the longer-term.

**China is well-known for its low-end products. How can you still guarantee high quality?**
We have selected our suppliers very carefully and our products are all double-checked before they are dispatched from our Chinese warehouse. Experienced members of staff from Europe trained and supported local staff on-site, because the same thing applies for China that applies for all other countries in which we are operating: the core competence of KAISER + KRAFT is and will always be dispatching high-quality office, plant and warehouse equipment.

**China**
Shanghai – Yan'an Road
(urban motorway)

- The market system prevailing in the People's Republic of China is officially market socialism. This blend of socialism and market economy has boosted the importance of the private sector in the past years.
- The Chinese currency is called Renminbi, which means as much as "the people's currency". It has three units: Yuan, Jiao and Fen.
- Experts believe that in 2010 about 50 million Chinese will have purchasing power of USD 25,000 each. This would be five times the number of people today.
- China was the first country world-wide to introduce Special Economic Zones (SEZ) in 1980. In some cities and regions – such as Shanghai – special tax breaks apply. This is to increase the foreign investments. Special Economic Zones (SEZ) now also exist in some African and Latin American countries.

## Management shortage

"The greatest challenge for a multinational company is to develop a group of skilled local managers." This is the conclusion the European Centre for Research in Purchasing and Supply (ERPS) comes to in a study about China. KAISER + KRAFT EUROPA was well aware of the challenges in finding suitable executives and chose a very focussed approach. Its efforts were rewarded and, in time for the operational start of the company, a Chinese professional who had spent many years working in Germany was found to take charge as director. With a team of ten members of staff he has organised mailing the first Chinese catalogue and is now responsible for expanding the business.

Topdeq

**Belgium**
Brussels – Heysel Atomium

# Soaring Turnover for Designer Furniture Experts

In the last years Topdeq's business developed moderately as a result of a depressed market in the office furniture sector. This changed in 2005. Thanks to expansion and an improved product range the division has generated a considerable increase in turnover.

### Trend reversed

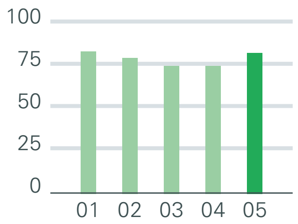
2005 was an excellent year for the Topdeq division. Topdeq increased its turnover from EUR 74.6 to 82.1 million. This marks a significant increase of 10.0 percent, 10.1 percent in currency-adjusted terms. All companies with the exception of Topdeq Germany generated higher turnovers. The companies in the USA and France generated above-average growth rates, while business in the Netherlands and Switzerland also developed well.

In the year under review Topdeq achieved an EBITDA of EUR 2.8 (–0.4) million. The EBITDA margin also increased substantially, up from –0.6 to 3.4 percent. EBITA increased from EUR –2.2 to 1.0 million and the EBITA margin was 1.3 (–2.9) percent. Higher profitability was achieved by improving capacity utilisation. Topdeq has also continued to optimise its processes and successfully revised its product range.

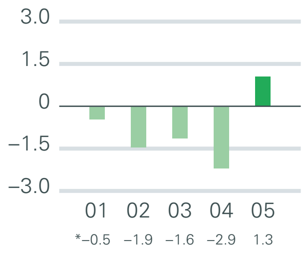
### Further market entries planned

Topdeq started operating business in Belgium in May 2005 as planned. Belgian customers are supplied from Germany, which also increases the capacity utilisation of the mail order centre in Pfungstadt. Topdeq is going to be continuing its expansion strategy in the future, with a focus on the USA and Europe. A market entry into Austria is already being planned.

Turnover
in EUR million




EBITA
in EUR million (margin %*)

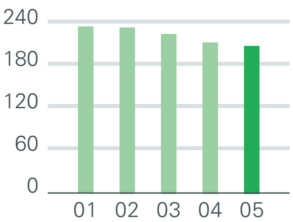



### Number of online orders increasing

Toqdeq designed a new website for all international companies which makes online shopping both informative and efficient. The site also includes extensive search options and designer profiles. Customers can also look at products from different perspectives. This improved site has also contributed to boosting online orders by 50 percent against the previous year. Now Topdeq receives every seventh order electronically.

# Brussels

Employees
Full-time equivalents – 31.12.




"After starting off in Brussels we came to realise that our Belgian customers prefer to issue their orders differently compared to German companies. We get 25 percent more telephone orders here than in Germany, while only half as many orders are issued in writing."

**Mike De Koster**
Topdeq, Belgium

## Products for a stylish office

A desk series by Sir Norman Foster, chairs by Philippe Starck or a famous table lamp by Wilhelm Wagenfeld: Topdeq carries furniture and accessories for sleek offices. The division has been part of TAKKT Group since 1994. Topdeq started its expansion into neighbouring countries such as Switzerland, the Netherlands and France. Design lovers in the US have been choosing from the extensive product range for the past five years. In the year under review Topdeq founded a new company in Belgium.

- The Topdeq product range comprises 3,000 designer products. Products are sold via catalogues and the internet.
- About 480,000 customers, particularly from the service sector, rely on the mail order company.
- Order today, delivery tomorrow – Topdeq guarantees its customers a 24-hour delivery service. The logistics network safeguards perfect delivery quality. Its cornerstone is the mail order centre in Pfungstadt.
- Topdeq employs 209 members of staff (full-time equivalent).

# German-
# Belgian Border Crossers

Pfungstadt in the German state of Hessen is only around 320 kilometres away from Brussels. Topdeq is using this proximity for some cross-border cooperation. While members of staff in the new company in the Belgian capital are providing excellent customer service, German experts are in charge of quickly delivering products from the German central warehouse.

Among other things Brussels is home to the EU Commission and the NATO headquarters. These magnets have drawn numerous international groups, associations and cultural institutions. “The Belgian service sector is very strong. So there are many potential buyers for our office furniture”, explains Mike De Koster, Sales Manager of Topdeq Belgium. This explains why the design experts founded a new company in Belgium at the beginning of 2005. The company had already mailed its first catalogue by May.

### Strong partnership

Starting the Belgian business so quickly was only possible because the logistics are managed completely from the central warehouse in Pfungstadt. Processes are structured so efficiently, that Belgian orders can be integrated without any difficulty. Team work between Belgium and Germany not only simplifies work in Brussels, but has also boosted the utilisation of the central warehouse.

Shipping goods from Germany by no means has the effect that Belgian customers have to wait longer for their office furniture. Berlin or Brussels, the same applies: if orders reach Topdeq by 4.30pm, products are delivered within 24 hours at the latest. “The only way we can guarantee this level of service is by working with an extremely professional and, more importantly, reliable Belgian forwarder”, outlines De Koster.

### Belgian spending spree

Topdeq is being received extremely well in Belgium. The company generated around 1,000 customers by December 2005. At the end of 2006 this figure is to be several times that. “We are benefiting from the high purchasing power of Belgians”, explains De Koster. “Our Belgian customers spend almost twice as much per order as German companies.”

**Belgium**
Antwerp – Grote Markt

- Belgium generates around 75 percent of its gross domestic product with exports. Germany is its most important export counterpart. In 2004 Belgian companies exported goods worth about EUR 31bn to Germany.

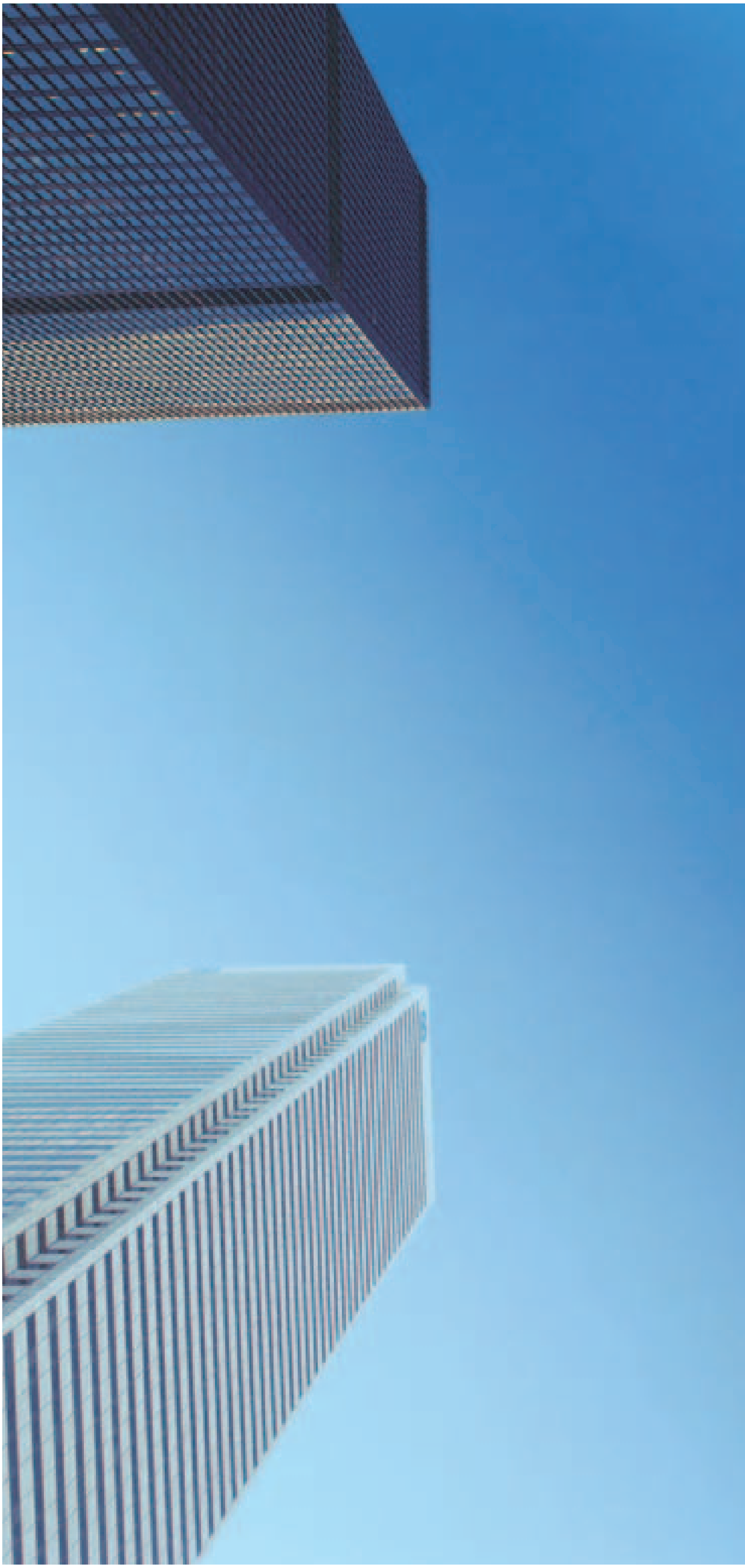
- The service sector is the largest part of the Belgian economy with 71 percent.

- Belgium has a sophisticated infrastructure. The rail network is as dense as nowhere else in Europe and its above-average number of motorways, which are lit up at night, even create an interesting oddity: just like the Great Wall of China, Belgium's road network is also visible from space. NASA has dubbed this phenomenon "The Belgian Window".

## Growing up bilingually

French or Flemish? Topdeq's customers can choose, because every member of staff is bilingual. This also applies to the catalogue. It is published in French and Flemish, which is less work than it sounds. Topdeq Belgium took the French text from the company in its neighbouring country. The Flemish edition was based on the Dutch catalogue. The languages are almost identical so only minor changes were required. Topdeq's team is well versed in this process: catalogues are also produced in two languages in Switzerland.

K + K America

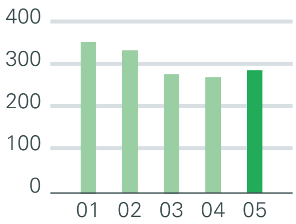


**Canada**
Toronto – Financial District

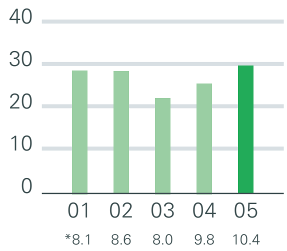
# The NBF Acquisition Driving Success

K + K America has also invested in optimising its services in 2005 and has further improved its IT systems. These measures are to ensure that the division can continue its success story of the past years.

Turnover
in EUR million




EBITA
in EUR million (margin %*)




**All companies better than 2004**

K + K America once again increased its turnover and earnings in 2005, despite the US economy floundering. In total the division generated USD 360.2 (339.8) million, which is an improvement of 6.0 percent. Converted into the reporting currency of euro the division generated a turnover of EUR 290.0 (273.5) million, which is also an increase of 6.0 percent. K + K America increased its profitability as well: EBITDA was EUR 32.9 (29.5) million. The EBITDA margin increased from 10.8 to 11.3 percent. EBITA was up to EUR 30.1 (26.9) million. The EBITA margin improved from 9.8 to 10.4 percent.

K + K America's good figures can be attributed to higher average order values. The segment is remaining on its growth track. All subsidiaries contributed to this increase in turnover. Hubert in the USA, Avenue in Canada and C&H in Mexico developed particularly well. Growth did however slow at C&H Distributors and Conney in the USA in the second half of the year. The companies are therefore in line with indicators, which are pointing towards the US economy slowing down.

The launch of the new Hubert company in Canada went according to plan. In July 2005 the company took over all sales responsibilities for the Canadian market, which was previously covered by Hubert in the USA.

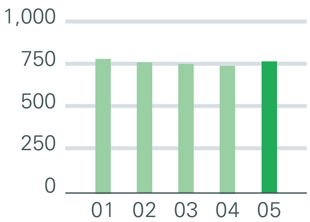
In order to increase its reach in the American office furniture market K + K America took over the US market leader for office furniture mail order National Business Furniture on 2 January 2006. NBF Group sells its products to about half a million customers, including numerous non-profit organisations such as schools, hospitals, churches and public authorities. This means that the Group is reaching into a customer base predominantly from the service sector, making TAKKT less dependent on the manufacturing sector. Further information about the NBF acquisition is provided on page 104 of this annual report.

**Boosting efficiency with new IT**

In 2004 K + K America subsidiaries started with the implementation of a new IT platform for financial accounting, marketing and inventory management. This so-called MIS project is continuing according to plan. The new module for financial accounting is already being used by staff and the inventory management system is to be rolled-out across individual companies step by step from mid 2006. The objective of the project is to increase the efficiency of business processes, analyse customer information more carefully and continue to develop service.

# Toronto

Employees
Full-time equivalents – 31.12.




"Our customer structure here in Canada is very varied: we supply large companies and small companies alike. We generally benefit from the fact that our service has been established in the USA for so long. Many US retailers and hotel owners run operations in Canada and issue orders locally."

**Fabien Houri**
Hubert, Canada

## Success based on a broad product range

K + K America carries more than 70,000 items, providing the broadest range in TAKKT Group. Subsidiaries have specialised in different product ranges. The largest company, C&H Distributors, sells office, plant and warehouse equipment. The same applies to Avenue Industrial Supply and the Mexican company C&H Productos Industriales. Conney Safety Products is specialised in occupational safety. Hubert Company sells equipment for retailers and the food service industry. The portfolio is being complemented by NBF Group since the beginning of 2006: the company is the market leader for office furniture mail order in the USA.

- K + K America is the market leader for business equipment for retailers and the food service industry in North America.
- Subsidiaries sell their products to about 960,000 customers in the USA, Canada and Mexico.
- K + K America employs 778 members of staff (full-time equivalents).
- The division operates nine warehouses in the USA and Canada.

# Home Advantage in Maple Leaf Country

"Slowly but surely" the saying goes. K + K America has proven that it is wise to take your time. Since August 2001 its subsidiary Hubert has also been selling its products for catering and food retailing in Canada. July 2005 saw a separate company being established in Toronto. Thanks to long-standing local experience it had a smooth start.

Hubert benefits greatly from the fact that its range is already well established in Canada. Around 3,000 food retailers, hotels, canteens and restaurants were already ordering their goods displays or equipment from the mail order company in the USA before the Canadian subsidiary was actually founded. With a product range of 23,000 items Hubert is almost unrivalled in Canada. The products continue to be shipped from the distribution centre in Ohio.

### Local flavour is good for business

The know-how about the Canadian market has meant that Hubert has been able to retain all logistic processes after founding the company. But still a lot has changed since July because the company has been able to increase customer loyalty by operating locally. "There is a difference between a Canadian calling the USA or Toronto", explains Fabien Houri, Sales Manager of Hubert, Canada. "Conversations are much more personal if service staff and customers are looking forward to the same holidays – such as "Canada Day" which is celebrated on 1 July."

But naturally service levels have to be right as well. In order to ensure that customers are getting the same high standard of advice as in the USA, the four Canadian members of staff worked for Hubert in Ohio for six weeks to start. There they learned about the order process. This time was also important to help them identify with the company. Back in Canada, Canadian staff could draw on management support from the USA at the beginning.

### Good neighbours

Today Toronto and Ohio are staying in touch with video and telephone conferences. It is during these discussions that the Canadians can report their great success stories: "We generated 600 new customers between July and December 2005", says Houri. By the end of 2007 he is expecting at least 3,000 new customers. "Then we would have more than doubled the number of customers in only two and a half years."

**Canada**
Toronto – Skyline

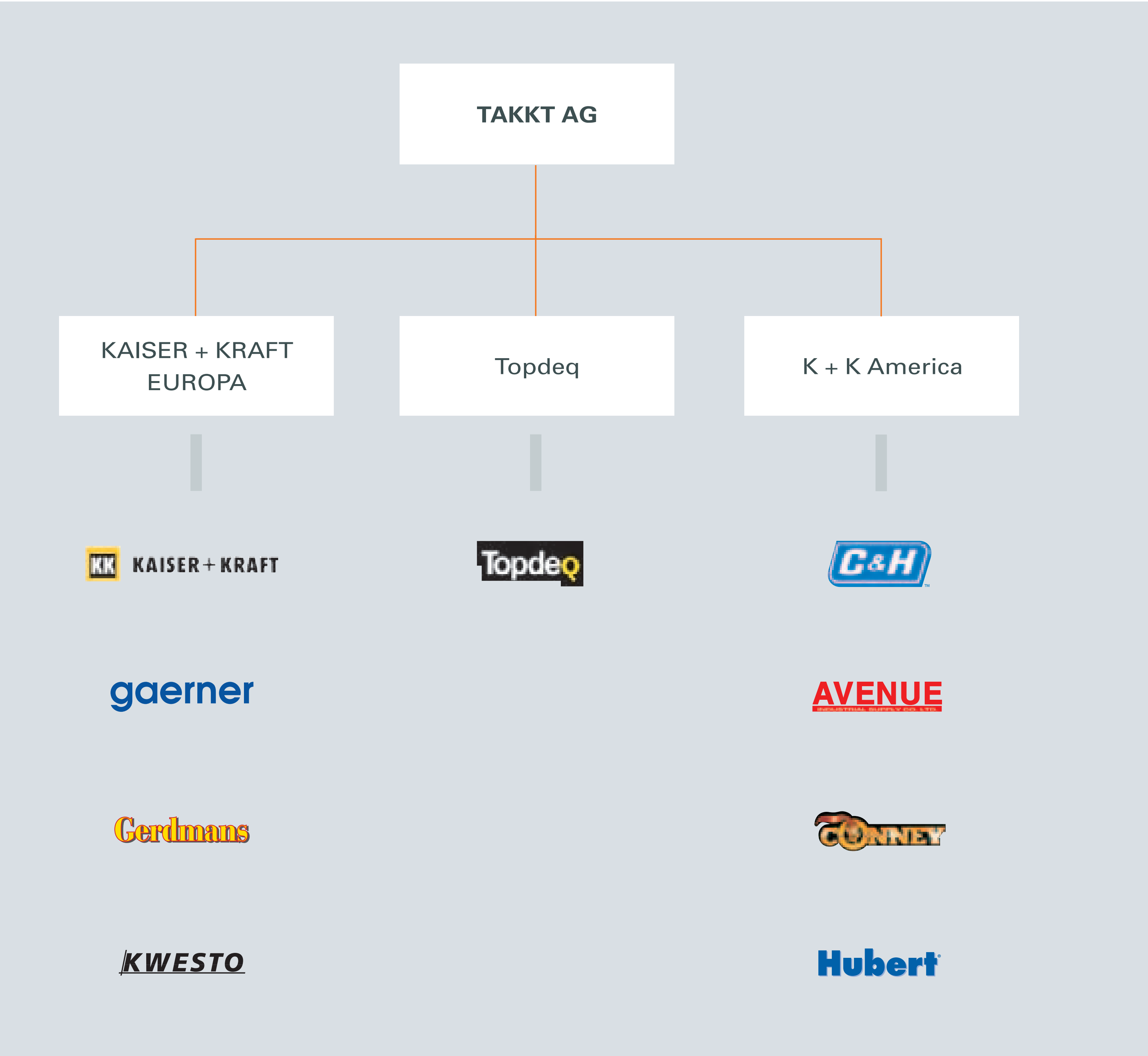
- Canada's economy has been growing without interruption for the last twelve years. Experts are forecasting economic growth of at least three percent for 2006.
- The gross domestic product per capita has increased by 25 percent in the last ten years to about USD 31,600.
- Almost two thirds of Canadian imports are from the USA. Canada ships about 85 percent of exports to the USA. On any given day the neighbours trade goods worth an average of USD 1.3bn.

## Long distances – no problem

Canada is the largest country in the world after Russia, so distances between cities can be considerable. Take for example Toronto and Vancouver, which are nearly 3,400 kilometres apart. These distances make it particularly challenging for retailers and restaurant owners with several outlets to equip their operations. Buying centrally is all but impossible because it is too laborious to ship the products to the individual outlets. This explains why Hubert's reliable delivery service is providing Canadian customers with real added value. In contrast to brick and mortar retailers the mail order company can ship its product range to every part of the country quickly and at a reasonable price. Logistics are taken care of by forwarders who specialise in particular regions. This guarantees a reliable delivery service – right up to the polar circle.

# The Structure of TAKKT Group

TAKKT Group comprises three divisions: KAISER + KRAFT EUROPA, Topdeq and K + K America. Each company addresses a particular target group with its broad product range. TAKKT AG acts as a knowledge manager and ensures that successful products and processes are available throughout the Group.



**1945**

Foundation of KAISER + KRAFT in Stuttgart

**1957**
Start of in-house production

**1967**
Acquisition of Vink en Zonen (Netherlands)

**1973**
Acquisition of Frankel (France)

**1974**
Foundation of K + K, Belgium, Great Britain and Switzerland

**1983**
Foundation of K + K, Austria

**1986**
Foundation of K + K, Italy

**1987**
Acquisition of Gaerner Group (Germany, Austria, Switzerland, Netherlands)

**1988**
Acquisition of C&H (USA)

**1989**
Foundation of K + K, Spain

**1990**
Foundation of K + K, Hungary

**1992**
Foundation of K + K, Poland

**1993**
Foundation of K + K, Czech Republic

**1994**
Acquisition of Topdeq (Germany)
Acquisition of Avenue (Canada)
Foundation of Topdeq, Switzerland

**1995**
Foundation of Topdeq, Netherlands

**1996**
Acquisition of POWELL Mail Order (Great Britain)

**1997**
Opening of mailorder centre Kamp-Lintfort

**1998**
Acquisition of Gerdmans Group (Sweden, Denmark, Norway, Finland)
Acquisition of Conney (USA)

**1999**
Spin-off/ initial public offering;
Foundation of Topdeq, France
Foundation of KWESTO, Czech Republic

**2000**
Foundation of Topdeq, USA
Acquisition of Hubert (USA)

**2001**
Foundation of K + K, Portugal
Foundation of KWESTO, Poland

**2002**
Foundation of K + K, Japan
Foundation of KWESTO, Slovakia

**2003**
Foundation of C&H, Mexico
Foundation of KWESTO, Hungary

**2004**
Foundation of Gerdmans, Estonia

**2005**
Foundation of K + K, Turkey and China
Foundation of KWESTO, Romania Foundation of Topdeq, Belgium
Foundation of Hubert, Canada

# TAKKT Share

**Japan**
Tokyo – Skyline Tokyo Bay

# Full Financial Communications

TAKKT AG's investor relations activities revolve around treating all shareholders equally, ensuring swift and clear communications while pro-actively addressing capital markets. TAKKT understands this to be the cornerstone of sound financial communications – now and in the future.

## Non-preferential communications

TAKKT operates according to the principle of treating all players in capital markets equally. This applies to shareholders, potential investors, banks and financial analysts. Institutional and private investors receive information from the Group at the same time. Information is provided as soon as possible. Quarterly reports are issued five weeks after the end of the quarter at the latest. TAKKT mainly uses its website www.takkt.de to publish information. Interested parties can find press releases and ad-hoc releases, financial reports, presentations from roadshows and information about the Group's corporate governance on this site. Investors can also request additional information by e-mail or phone from TAKKT.

## Clear information

In order to ensure clear and transparent communications TAKKT safeguards that shareholders can find information about topics of interest at the same place and in the same format. If there should be differences in year-on-year reporting or if one-off effects should have a material impact on figures, TAKKT will provide explanations for the item in question. Example: The Group provided a detailed explanation of the effect of applying the new IFRS 3 accounting standard in every quarterly report in 2005 and the effects on items such as earnings before interest and tax, EBIT. This also applies to this annual report, which includes a respective explanation. By doing this TAKKT helps its investors to better understand the development of EBIT.

## Immediate contact to investors

A key component of TAKKT investor relations activities is to keep addressing investors and analysts in key financial centres around the world. This central task is taken on by TAKKT's management and the investor relations department. During roadshows they provide information about the advantages of B2B mail order as well as TAKKT's potential and strategy. In 2005 two roadshows were conducted each in Frankfurt, London and Paris. Investors in Edinburgh and Zurich were visited once.

TAKKT reported on the company's development in 2004 at a financial statements press conference and an analyst confer-

### Key figures for the TAKKT Group under IFRS

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| Earnings per share (EPS) in EUR | 0.26 | 0.33 | 0.33 | 0.44 | 0.68 |
| Cash flow per share (CPS) in EUR | 0.69 | 0.73 | 0.71 | 0.83 | 0.90 |
| EBITA in EUR million | 76.4 | 75.1 | 70.3 | 78.2 | 88.9 |
| Equity ratio in % | 24.8 | 27.7 | 32.8 | 39.6 | 46.1 |
| Dividend per share in EUR | 0.10 | 0.10 | 0.10 | 0.15 | 0.15 |
| Dividend rate in % | 39.0 | 30.7 | 30.8 | 33.8 | 22.0 |
| Number of shares in millions | 72.9 | 72.9 | 72.9 | 72.9 | 72.9 |
| Share price in EUR (31.12.) | 5.85 | 3.51 | 5.90 | 7.75 | 9.50 |
| Highest price in EUR | 10.50 | 7.30 | 6.01 | 7.95 | 9.70 |
| Lowest price in EUR | 4.40 | 3.45 | 3.50 | 5.92 | 7.25 |
| Market capitalisation in EUR million (31.12.) | 426.5 | 255.9 | 430.1 | 565.0 | 692.6 |

### Investor Relations Award for TAKKT

Are financial communications credible? Is management communicating its targets transparently and reporting current developments? In TAKKT's case about 550 analysts and fund managers gave positive responses to these questions. In a large-scale survey among finance experts TAKKT was awarded the renowned Investor Relations Prize, which is annually awarded by the business magazine "Capital" in conjunction with the German Association for Financial Analysis and Asset Management (Deutsche Vereinigung für Finanzanalyse und Asset Management – DVFA). Experts gave marks for the financial communications of 197 of the largest German and European companies in four categories: credibility, quality, timeliness and corporate governance. TAKKT scored well in all areas and came in third in the category of SDAX companies.

ence in March 2005. Capital market conferences are also an important opportunity for TAKKT to address investors and potential investors. In January 2005 the company took part at the Cheuvreux German Corporate Conference and attended the German Equity Forum (Deutsches Eigenkapitalforum) in November.

Numerous investors seized the opportunity to get information first hand about the current business development and the long-term strategy. Telephone conferences were set up on issuing quarterly reports and on announcing the NBF acquisition. Investors and analysts could pose their questions to the Management Board of TAKKT AG.

### AGM approves higher dividend

The sixth ordinary AGM took place on 3 May 2005 in Ludwigsburg with 550 shareholders and guests attending. Shareholders approved the proposal of TAKKT AG to increase the dividend for 2004 by 50 percent to 15 cent per share with a large majority. In total a dividend of EUR 10.93 million was paid.

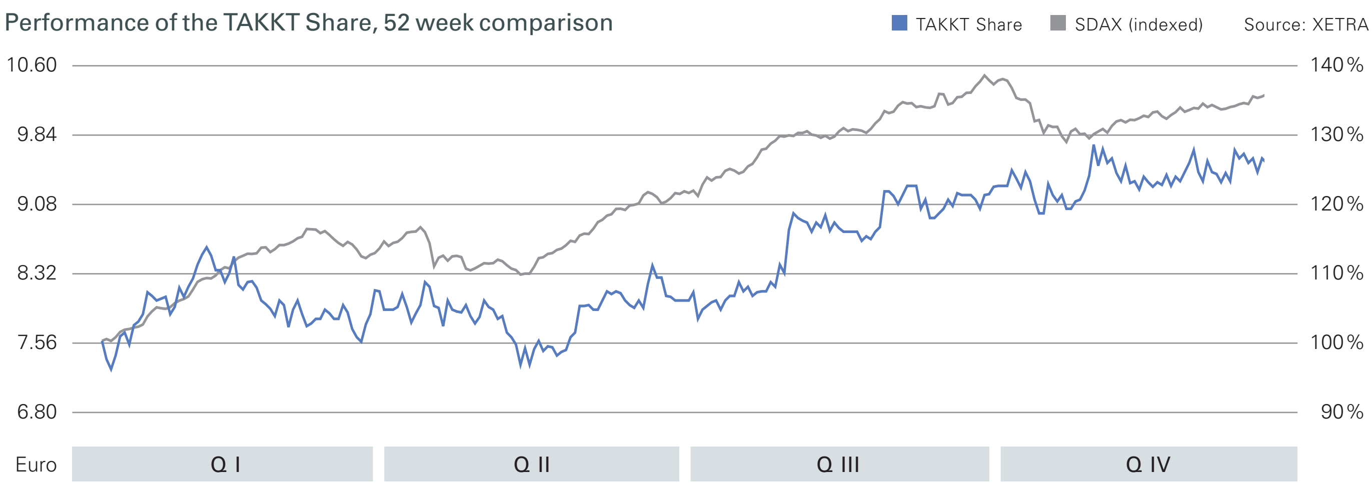
The AGM also had to vote in the Supervisory Board. All members of the Supervisory Board were reelected. Professor Dr Theo Siegert was elected in to succeed Günther Hülse who passed away last year.

The AGM authorised the Management Board to buy back up to ten percent of the company's shares if required. The meeting also voted on creating EUR 36.5 million authorised capital, which means issuing shares to this amount if necessary. TAKKT now has the financial scope for larger-scale acquisitions. The Management Board has not made use of either option.

### Shareholders are to participate in success

The company is continuing its reliable and predictable dividend policy: at the coming AGM on 31 May 2006 the Management Board and the Supervisory Board will be proposing a dividend of 15 cent per share, which is the same amount as last year. This ensures that shareholders continue to participate in positive results, while leaving the company with enough scope for future growth.

### Performance of the TAKKT Share, 52 week comparison



# Corporate Management



**Mexico**
Mexico City – View from the Latinoamericano tower

# Responsible Corporate Management at TAKKT

For an international company such as TAKKT good corporate governance is a critical success factor. It is not solely focussed on the Management Board and the Supervisory Board, but comes to life throughout the Group in open communications and a management culture focussing on clear targets.

### Compliance declaration submitted

TAKKT expressly supports the objectives of the German Corporate Governance Codex. In December 2005, TAKKT's Management Board and Supervisory Board jointly issued a Declaration of Compliance in accordance with section 161 of the German Stock Corporation Act (Aktiengesetz) in respect to the recommendations made by the Governmental Commission German Corporate Governance Codex: please find this declaration in the original below.

### Providing shareholders with extensive information

TAKKT believes that a key part of its corporate governance is to involve shareholders with timely and in-depth information. This information can either be provided in the Annual General Meeting, in quarterly reports or in ad-hoc reports. Additional information about TAKKT AG's investor relations work is included in this annual report and can be found from page 54 on.

### Management Board's compensation

No changes were made to the Management Board's compensation in the year under review. TAKKT has established a value and performance-driven compensation system for the members of its Management Board. Salaries have to reflect managers' tasks and the responsibility they carry while at the same time appropriately considering the company's economic situation.

The total compensation granted to the Management Board has to reflect these criteria. Compensation paid to members of the Management Board is made up of a base salary and a variable component. The base component depends on the experience and track record of the members and also reflects general market standards. The variable component comprises a performance and strategy bonus.

### Declaration of Compliance according to § 161 of the German Stock Corporation Act (AktG): dated 31 December 2005:

"TAKKT AG's Management Board and Supervisory Board declare, that the recommendations made by the "Governmental Commission German Corporate Governance Codex" ("Codex") and published by the Federal Ministry of Justice in the official part of the electronic Bundesanzeiger in the version dated 2 June 2005, were complied with in the entire financial year 2005 and will be complied with in the future, with the exception of the following:

#### 1. Relating to number 4.2.4 clause 2 and number 5.4.5 (3) of the Codex:

Information about the compensation of Management Board and Supervisory Board members is not personalised.

#### 2. Relating to number 5.3.2 of the Codex:

An audit committee was not formed.

Stuttgart, 31 December 2005
On behalf of the Supervisory Board and Management Board of TAKKT AG
Dr Klaus Trützschler – Chairman of the Supervisory Board, Georg Gayer – Chairman of the Management Board."

The performance bonus is calculated on the basis of the cash flow, which reflects the company's profitability. This is an incentive for the Management Board to improve growth and profitability. To determine the amount of this bonus, the cash flow of a financial year is compared to the planned cash flow and the cash flow generated in the previous year.

The strategy bonus is based on the Economic Value Added® (EVA®). This performance indicator shows to what extent the company has exceeded the rate of return expected by investors. To determine the strategy bonus, the EVA® of a financial year is compared with the previous year's EVA®.

Variable compensation based on EVA® provides a strong incentive to increase the value of the company on a sustainable, long-term basis, which will benefit the company's shareholders, in particular.

### Share ownership and compulsory notification

The cumulated share ownership of members of the Management and Supervisory Board in the year under review was significantly less that one percent of shares issued by the company. According to section 15a of the German Securities Trading Act (WpHG), persons who perform management functions at a company that is an issuer of shares as well as natural and legal persons closely related to that person must notify both the issuer and the Federal Banking Supervisory Office of their own dealings involving the issuer's shares or related financial instruments.

TAKKT AG received the following notifications for the year under review: Thomas Kniehl, member of the Supervisory Board, has informed us that he sold TAKKT AG shares to an amount of EUR 5,452 in 2005. TAKKT AG published this notification immediately.

# "Corporate Governance has to be on the Social Agenda"

Transparent and responsible management has always been at the top of TAKKT's agenda. Chairman of the TAKKT Management Board Georg Gayer explains how the Management and Supervisory Boards are the guardians of good corporate governance.

### Mr Gayer, how can transparent management be identified?

In listed companies such as TAKKT AG there is one sound indicator: serious investor relations work. The point however is not to drum up as much attention for the company as possible. Responsible management really means ensuring continual and reliable communications with all players in capital markets. This has been second nature at TAKKT for years, which is substantiated by TAKKT being awarded the Investor Relations Award in 2005.

A further criterion for responsible corporate management is communicating with staff and encouraging people to think independently and take initiative. We are able to achieve this by creating clear structures and by clearly communicating our strategy.

### TAKKT complies with the German Corporate Governance Codex, but still you make some exceptions …

This does not mean that we have reservations against transparent corporate management. In reality openness, dependability and equal treatment have always guided our actions. There are however good reasons for not complying with the recommendation to publish the Management Board's compensation individually. We believe that the value of publishing these figures does not outweigh the damage potentially caused. TAKKT already publishes the total sum of the Board's compensation. Breaking down this figure to each individual would hardly provide more information, but would be a violation of the privacy of the Board's members. I believe that transparency has to end at the point where personal privacy is affected. This also applies to company secrets, which I believe should not be sacrificed in the interest of transparent communications. Especially, if other market players stand to gain from this information.

In addition we are not following the recommendation to install an audit committee, which I do not see as a disadvantage because our Supervisory Board is comparatively small. We are convinced that there is no need for an audit committee.

### From 2006 on publishing the Management Board's compensation is mandatory. Where do you stand on this?

Of course we will comply with legal requirements, but as I have already mentioned, I do not see any value in individually publishing Board member's compensation. There are of course advocates who hope that compensation will fall. Others are of the opinion that publishing these figures will improve management culture in Germany. I have my doubts about both, particularly as only listed companies are expected to publish these figures. Management Board members in other companies as well as public corporations only publish their compensation and discretionary earnings partially, if at all. The same applies to politicians. If transparency is a concern, then it has to apply to all areas equally.

## Despite criticising some aspects of the German Corporate Governance Codex: What is your general opinion?

It is a huge success that criteria for responsible corporate management have been defined. The Codex also helps to clearly define the role of the Supervisory Board in supervising the Management Board. Hopefully raising standards will not only apply to listed companies. I am convinced that corporate governance has to be on the social agenda.

**Georg Gayer**
Chairman of the
Management Board

### Definition

In the 1930s business scholars started to look into conflicts of interests between shareholders and management. The term corporate governance as such was only coined in 1976. In the wake of the responsible management discussion, mainly British business scholars developed corporate governance principles. They govern corporate management as well as management's supervision. However, a difference has to be made between legislation and general recommendations on financial disclosure or the activities of Supervisory Boards. Principles of good corporate management and supervision in Germany are stated in the German Corporate Governance Codex. It was passed in September 2002 by a governmental commission, which was set up by the Federal Justice Ministry.

*Ladies and Gentlemen*

This is the first time that the Supervisory Board Report is sharing a chapter with Corporate Governance, which highlights the fact that the Supervisory Board is a crucial element of responsible and transparent management.

### Successful cooperation

Cooperation between the Supervisory Board and the Management Board have been truly exemplary in 2005. The Management Board provided the Supervisory Board with extensive information about current business developments and future plans. It assembled all information required by legislation as well as extensive and in-depth information in addition. Requests for further information were responded to immediately. Supervisory and Management Board discussed all relevant subject matters in due length. The Supervisory Board passed resolutions on matters requiring its approval. In addition the Management Board informed the Supervisory Board in a brief written monthly report about the current business development. Information about important developments between Board meetings were reported to the Chairman of the Supervisory Board by the Management Board. This information was then shared with members of the Supervisory Board in the next meeting.

As the Chairman of the Supervisory Board I am convinced that the Supervisory Board has undertaken all its tasks and fulfilled its responsibilities conscientiously.

The Annual General Meeting elected Professor Dr Theo Siegert into the Supervisory Board on 3 May 2005. Mr Siegert is succeeding Günther Hülse who passed away in November 2004.

### Scope for additional growth

The Supervisory Board is delighted by the fact that TAKKT's turnover and profits have exceeded expectations. TAKKT's great profitability is the bedrock for further growth, which includes newly founded companies as well as acquisitions such as NBF Group in January 2006.

### New markets at the top of the agenda

The Supervisory Board advised the Management Board during 2005 and supported it in continuing to improve turnover and profits. Five Supervisory Board meetings were scheduled. Discussing general business development, planning and developing new and young companies was at the top of the agenda. Supervisory Board members approved the acquisition of NBF Group in an extraordinary Supervisory Board meeting in November. The Supervisory Board's personnel committee met once in the year under review.

### Corporate governance is a top priority

From page 58 in this annual report we would like to inform you about TAKKT AG's corporate governance. We are also explaining the basics of the Management Board's compensation system as well as changes that have been made. This chapter also includes a Declaration of Compliance pertaining to the recommendations of the governmental commission German Corporate Governance Codex according to § 161 of the German Stock Corporation Act (AktG). In December 2005 this declaration was updated and made permanently available on the TAKKT AG website.

**Dr Klaus Trützschler**
Chairman of the Supervisory Board

### Board's efficiency increased

In November 2005 we again reviewed the efficiency of the Supervisory Board. Members evaluated the Supervisory Board's work and its level of expertise in detailed questionnaires. The findings of this survey were discussed in detail in December. We came to the conclusion that the efficiency of the Supervisory Board has increased against 2004.

### Dividend remains stable

The Management Board and Supervisory Board will propose to distribute a dividend of 15 cent per share at the Annual General Meeting. This ensures that shareholders benefit appropriately from good profits and the high cash flow. At the same time it leaves the company enough scope for further growth.

### Supervisory Board approves consolidated financial statement

The Annual General Meeting reappointed Dr Ebner, Dr Stolz & Partner GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, as the auditors for the financial year 2005. The auditors have audited the TAKKT AG financial statements, the consolidated financial statements and the management report of TAKKT AG and the Group which have received an unqualified audit opinion. The audit also included TAKKT's risk management system, which was found to be suitable.

The auditors in charge took part in the Supervisory Board's annual accounts meeting and provided members with information about all key findings of their audit and answered questions fielded at this occasion. The Supervisory Board accepted the auditor's findings. In addition the Supervisory Board also reviewed the consolidated financial statements, the TAKKT AG financial statements, the management report of TAKKT AG and the Group as well as the profit appropriation proposal. No objections were put forward by the Supervisory Board. The Supervisory Board also approved TAKKT AG's financial statements as well as the consolidated financial statements prepared by the Management Board, which means that TAKKT AG's financial statements are now final. The Management Board's profit appropriation proposal was approved by the Supervisory Board. It also approved the combined management report and in particular the assessment of the Group's future development.

### Dependence Report: audited and approved

In the year under review Franz Haniel & Cie. GmbH in Duisburg-Ruhrort retained a majority holding in TAKKT AG's shares. The Management Board therefore issued a report on relations with affiliated companies for the financial year 2005 as required under § 312 of the German Stock Corporation Act (AktG). In compliance with § 313 of the AktG the auditor Dr Ebner, Dr Stolz & Partner GmbH, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, has issued an auditors' report. As the audit was concluded without any reservations, the auditor issued the following unqualified report: "Having conducted a proper audit and appraisal, we hereby confirm that the facts set out in the report are correct and the payments made by the company in connection with the legal transactions referred to in the report were not unduly high."

The Supervisory Board also reviewed the report on relations with affiliated companies and the corresponding auditors' report. The Supervisory Board had no objections against this report and the closing statement of the Dependence Report, which is reproduced in the management report on page 16.

### Excellent work

We would like to thank all TAKKT's members of staff for their excellent work in 2005. Their commitment is the cornerstone of the Group's success. We would also like to express our thanks to the Management Board for its exemplary cooperation.

Stuttgart, March 2006

Klaus Trützschler

Dr Klaus Trützschler, Chairman of the Supervisory Board

## Members of the Supervisory Board (as of 31 December 2005)

**Dr Klaus Trützschler**
Chairman
Member of the Management Board of Franz Haniel & Cie. GmbH

**Dr Dieter Schadt**
Vice Chairman
Former Chairman of the Management Board of Franz Haniel & Cie. GmbH

**Walter Flammer**
Section Manager Organisation at KAISER + KRAFT EUROPA GmbH

**Dieter Kämmerer**
Former Chairman of the Management Board of GEHE AG

**Michael Klein**
Non-Executive Chairman of Rapp Collins GmbH, Direct Marketing Agency

**Thomas Kniehl**
Logistics employee at KAISER + KRAFT GmbH

**Julian Matzke**
Logistics employee at KAISER + KRAFT GmbH

**Prof Dr Dres h.c. Arnold Picot**
University professor

**Prof Dr Theo Siegert**
Chairman of the Management Board of Franz Haniel & Cie. GmbH

# Consolidated Financial Statements



**Turkey**
Istanbul – Beyoglu at night


TREK

## Consolidated income statement of TAKKT Group, Stuttgart, 1 January 2005 to 31 December 2005 under IFRS

(in EUR '000)

| | Notes | 2005 | 2004 |
|---|---|---|---|
| Turnover | (1) | 773,238 | 727,628 |
| Changes in inventories of finished goods and work in progress | | 287 | –47 |
| Own work capitalised | | 96 | 100 |
| **Gross performance** | | **773,621** | **727,681** |
| Cost of sales | | 453,669 | 431,072 |
| **Gross profit** | | **319,952** | **296,609** |
| Other income | (2) | 5,252 | 5,454 |
| Personnel expenses | (3) | 98,466 | 95,657 |
| Other operating expenses | (4) | 128,336 | 119,241 |
| **EBITDA** | | **98,402** | **87,165** |
| Depreciation of property, plant and equipment and other intangible assets | (5) | 9,493 | 9,012 |
| **EBITA** | | **88,909** | **78,153** |
| Amortisation of goodwill | (6) | 0 | 15,675 |
| **EBIT** | | **88,909** | **62,478** |
| Income from at-equity investments | | 0 | 0 |
| Other financial result | (7) | 72 | –27 |
| Interest result | (8) | –10,299 | –10,921 |
| **Financial result** | | **–10,227** | **–10,948** |
| **Profit before tax** | | **78,682** | **51,530** |
| Income taxes | (9) | 28,301 | 18,491 |
| **Profit** | | **50,381** | **33,039** |
| attributable to TAKKT AG shareholders | | 49,649 | 32,399 |
| attributable to minority interest | | 732 | 640 |
| | | | |
| Earnings per share (in EUR) | | 0.68 | 0.44 |

## Consolidated balance sheet of TAKKT Group, Stuttgart, at 31 December 2005 under IFRS

(in EUR ’000)

| Assets | Notes | 2005 | 2004 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | (10) | 68,032 | 68,049 |
| Goodwill | (11) | 227,481 | 211,411 |
| Other intangible assets | (12) | 9,306 | 6,338 |
| Investments in associates | | 24 | 17 |
| Other financial assets | (13) | 428 | 385 |
| Deferred tax | (14) | 5,066 | 5,072 |
| | | **310,337** | **291,272** |
| **Current assets** | | | |
| Inventories | (15) | 66,022 | 56,745 |
| Trade receivables | | 95,888 | 82,752 |
| Other receivables and assets | (16) | 23,243 | 21,424 |
| Income tax assets | | 91 | 1,604 |
| Cash and cash equivalents | (17) | 4,309 | 3,968 |
| | | **189,553** | **166,493** |
| **Total assets** | | **499,890** | **457,765** |

| Equity and liabilities | Notes | 2005 | 2004 |
|---|---|---|---|
| **Shareholders’ equity** | (18) | | |
| Issued capital | | 72,900 | 72,900 |
| Reserves | | 108,516 | 76,999 |
| Other comprehensive income | | –501 | –1,241 |
| Profit attributable to shareholders | | 49,649 | 32,399 |
| | | **230,564** | **181,057** |
| **Minority interest** | (19) | **2,449** | **2,977** |
| **Total equity** | | **233,013** | **184,034** |
| **Non-current liabilities** | | | |
| Borrowings | (20) | 150,040 | 164,801 |
| Deferred tax | (14) | 13,719 | 6,922 |
| Provisions | (21) | 12,370 | 10,764 |
| | | **176,129** | 182,487 |
| **Current liabilities** | | | |
| Borrowings | (20) | 12,196 | 21,477 |
| Trade payables | (22) | 28,173 | 26,386 |
| Other liabilities | (23) | 28,448 | 27,097 |
| Provisions | (24) | 10,455 | 9,141 |
| Income tax liabilities | | 11,476 | 7,143 |
| | | **90,748** | **91,244** |
| **Total equity and liabilities** | | **499,890** | **457,765** |

## Consolidated statement of changes in total equity of TAKKT Group, Stuttgart

(in EUR '000)

| | Issued capital | General reserves | Currency reserves | Other comprehen-sive income | Share-holders' equity | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at 01.01.2005** | **72,900** | **127,065** | **–17,667** | **–1,241** | **181,057** | **2,977** | **184,034** |
| Effect of currency changes | 0 | 0 | 10,053 | –217 | 9,836 | 0 | 9,836 |
| Dividends paid | 0 | –10,935 | 0 | 0 | –10,935 | –1,260 | –12,195 |
| Profit | 0 | 49,649 | 0 | 0 | 49,649 | 732 | 50,381 |
| Changes in derivative financial instruments | 0 | 0 | 0 | 957 | 957 | 0 | 957 |
| **Balance at 31.12.2005** | **72,900** | **165,779** | **–7,614** | **–501** | **230,564** | **2,449** | **233,013** |

| | Issued capital | General reserves | Currency reserves | Other comprehen-sive income | Share-holders' equity | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at 01.01.2004** | **72,900** | **101,956** | **–13,948** | **–3,732** | **157,176** | **3,397** | **160,573** |
| Effect of currency changes | 0 | 0 | –3,719 | 277 | –3,442 | 0 | –3,442 |
| Dividends paid | 0 | –7,290 | 0 | 0 | –7,290 | –1,060 | –8,350 |
| Profit | 0 | 32,399 | 0 | 0 | 32,399 | 640 | 33,039 |
| Changes in derivative financial instruments | 0 | 0 | 0 | 2,214 | 2,214 | 0 | 2,214 |
| **Balance at 31.12.2004** | **72,900** | **127,065** | **–17,667** | **–1,241** | **181,057** | **2,977** | **184,034** |

## Consolidated cash flow statement of TAKKT Group, Stuttgart

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Profit | 50,381 | 33,039 |
| Depreciation of non-current assets | 9,493 | 24,687 |
| Deferred tax affecting profit | 5,653 | 2,776 |
| **Cash flow** | **65,527** | **60,502** |
| Other non-cash expenses and income | 7,157 | 1,877 |
| Profit and loss on disposal of non-current assets | –3 | –33 |
| Change in inventories | –5,496 | –4,233 |
| Change in trade receivables | –9,898 | –9,519 |
| Change in other assets not included in investing and financing activities | 315 | 222 |
| Change in short and long-term provisions | 2,578 | 4,272 |
| Change in trade payables | 165 | 6,028 |
| Change in other liabilities not included in investing and financing activities | 2,446 | 753 |
| **Cash flow from operating activities** | **62,791** | **59,869** |
| Proceeds from disposal of non-current assets | 165 | 233 |
| Capital expenditure on non-current assets | –8,949 | –8,562 |
| **Cash flow from investing activities** | **–8,784** | **–8,329** |
| Proceeds from borrowings | 20,290 | –14,779 |
| Repayment of borrowings | –61,943 | –58,355 |
| Dividends to TAKKT AG shareholders and minority interest | –12,195 | –8,350 |
| Other changes in shareholders' equity | 0 | 84 |
| **Cash flow from financing activities** | **–53,848** | **–51,842** |
| Net change in cash and cash equivalents | 159 | –302 |
| Effect of exchange rate changes | 182 | 51 |
| Cash and cash equivalents at 01.01. | 3,968 | 4,219 |
| **Cash and cash equivalents at 31.12.** | **4,309** | **3,968** |

The cash flow statement has been prepared from the consolidated financial statements using the indirect method and has been prepared according to IAS 7. To adjust for exchange rate effects the items of the opening balance sheet were translated at the respective exchange rates on the reporting date. These figures were compared with the previous closing balance sheet. Any non-cash expenses and income items were also adjusted.

The cash flow figure is used in all financial communications. Under IRFS 3 TAKKT defines this as the profit plus depreciation plus deferred tax affecting profit. It is shown as a subtotal within the cash flow from operating activities.

The cash flow from operating activities includes interest cash inflows of EUR 180,000 (EUR 181,000) and interest cash outflows of EUR 9,907,000 (EUR 10,992,000). In 2005 income taxes of EUR 18,379,000 (EUR 14,926,000) were paid.

Capital expenditure relates to maintenance, rationalisation and expansion measures. Assets of EUR 0 (EUR 984,000) were acquired by means of a finance lease.

Borrowings include all interest-bearing liabilities; please see page 94 onwards for further details. EUR 10,935,000 (EUR 7,290,000) dividends were paid to TAKKT AG shareholders in the year under review. This constitutes EUR 0.15 (EUR 0.10) per share.

Cash and cash equivalents stated at the balance sheet date include cash, bank balances and cheques. This was not netted off with short-term borrowings.

## Primary segment reporting 2005 of TAKKT Group, Stuttgart

(in EUR ’000)

| 01.01.2005 – 31.12.2005 | K+K EUROPA | Topdeq | K+K America | Others/ consolidation | Group total |
|---|---|---|---|---|---|
| Segment turnover | 401,266 | 82,067 | 290,022 | –117 | 773,238 |
| Segment share of Group turnover | 51.9 % | 10.6 % | 37.5 % | 0.0 % | 100.0 % |
| EBITDA | 70,417 | 2,756 | 32,881 | –7,652 | 98,402 |
| EBITA | 65,573 | 1,045 | 30,082 | –7,791 | 88,909 |
| EBIT | 65,573 | 1,045 | 30,082 | –7,791 | 88,909 |
| Profit before tax | 60,348 | 583 | 23,638 | –5,887 | 78,682 |
| Profit | 39,988 | 346 | 14,479 | –4,432 | 50,381 |
| | | | | | |
| Scheduled depreciation of segment assets | 4,844 | 1,711 | 2,799 | 139 | 9,493 |
| Other non-cash expenses and income | 671 | 127 | 3,167 | 3,192 | 7,157 |
| Income from at-equity investments | 0 | 0 | 0 | 0 | 0 |
| | | | | | |
| Segment assets | 227,529 | 46,601 | 234,784 | –14,181 | 494,733 |
| thereof book value of assets valued at-equity | 24 | 0 | 0 | 0 | 24 |
| Deferred tax and income tax assets | 1,525 | 2,376 | 1,110 | 146 | 5,157 |
| **Total assets** | **229,054** | **48,977** | **235,894** | **–14,035** | **499,890** |
| | | | | | |
| Segment liabilities | 40,042 | 8,874 | 24,630 | 5,900 | 79,446 |
| Deferred tax and income tax liabilities | 9,149 | 840 | 9,403 | 5,803 | 25,195 |
| Borrowings (short and long-term) | 136,434 | 8,476 | 114,130 | –96,804 | 162,236 |
| **Total liabilities** | **185,625** | **18,190** | **148,163** | **–85,101** | **266,877** |
| | | | | | |
| Segment capital expenditure | 2,714 | 984 | 4,909 | 342 | 8,949 |
| Average no. of employees (full-time equivalent) | 839 | 209 | 774 | 26 | 1,848 |
| Employees (full-time equivalent) at the reporting date | 854 | 209 | 778 | 27 | 1,868 |

## Primary segment reporting 2004 of TAKKT Group, Stuttgart

(in EUR '000)

| 01.01.2004 – 31.12.2004 | K + K EUROPA | Topdeq | K + K America | Others/ consolidation | Group total |
|---|---|---|---|---|---|
| Segment turnover | 379,547 | 74,608 | 273,496 | –23 | 727,628 |
| Segment share of Group turnover | 52.2 % | 10.2 % | 37.6 % | 0.0 % | 100.0 % |
| EBITDA | 65,883 | –440 | 29,451 | –7,729 | 87,165 |
| EBITA | 61,243 | –2,168 | 26,910 | –7,832 | 78,153 |
| EBIT | 54,584 | –3,595 | 19,321 | –7,832 | 62,478 |
| Profit before tax | 49,620 | –4,038 | 12,679 | –6,731 | 51,530 |
| Profit | 32,419 | –4,501 | 7,661 | –2,540 | 33,039 |
| Scheduled depreciation of segment assets | 11,298 | 3,155 | 10,131 | 103 | 24,687 |
| Other non-cash expenses and income | 1,493 | 1,410 | –2,612 | 1,586 | 1,877 |
| Income from at-equity investments | 0 | 0 | 0 | 0 | 0 |
| Segment assets | 219,667 | 44,331 | 196,840 | –9,749 | 451,089 |
| thereof book value of assets valued at-equity | 17 | 0 | 0 | 0 | 17 |
| Deferred tax and income tax assets | 919 | 2,537 | 3,239 | –19 | 6,676 |
| **Total assets** | **220,586** | **46,868** | **200,079** | **–9,768** | **457,765** |
| Segment liabilities | 36,297 | 8,493 | 22,734 | 5,864 | 73,388 |
| Deferred tax and income tax liabilities | 6,700 | 874 | 4,575 | 1,916 | 14,065 |
| Borrowings (short and long-term) | 141,194 | 8,474 | 111,329 | –74,719 | 186,278 |
| **Total liabilities** | **184,191** | **17,841** | **138,638** | **–66,939** | **273,731** |
| Segment capital expenditure | 2,920 | 972 | 4,529 | 141 | 8,562 |
| Average no. of employees (full-time equivalent) | 839 | 220 | 767 | 25 | 1,851 |
| Employees (full-time equivalent) at the reporting date | 846 | 214 | 754 | 26 | 1,840 |

## Segment information

In the scope of segment reporting under IAS 14, the activities of TAKKT AG are broken down into divisions (primary reporting) and regions (secondary reporting). The breakdown into primary segments follows the management approach and takes account of internal controlling and reporting as well as of the organisational structure. The secondary reporting differentiates between Germany, rest of Europe, North America and other countries (Japan, Mexico and China). Segment reporting uses the same accounting standards as the consolidated financial statements. Intra-group transfers are valued at internal prices calculated on the basis of the cost-plus method. This method complies with OECD principles. The same approach was pursued in the previous year.

## Primary reporting by division

### KAISER + KRAFT EUROPA

KAISER + KRAFT EUROPA GmbH, Stuttgart, comprises the groups KAISER + KRAFT, Gaerner, Gerdmans and KWESTO in more than 20 European countries and two Asian countries. The KAISER + KRAFT Group formed companies in Japan and China in 2002 and 2005 to cover the Asian market. The companies of the division offer approximately 33,000 products via catalogue and, mostly, via internet. KAISER + KRAFT EUROPA operates a European mail order centre in Kamp-Lintfort and one regional warehouse for each of the Gerdmans and the KWESTO Group, as well as a production facility for durable transport equipment (platform trucks, sack trucks, trolley jacks, etc.) and a warehouse in Haan, near Düsseldorf.

The self-produced products are marketed under the "EURO*KRAFT*" brand. In addition to the standard range, the company also manufactures tailor-made products and carries out small-batch production orders in accordance with customer specifications.

This segment focuses on the following product groups: transport, storage, environment, workshop and office equipment.

### Topdeq

Topdeq Group sells designer office furniture and accessories via mail order catalogue and the internet in Germany, Switzerland, the Netherlands, France, the United States and Belgium. The division's main customers are predominantly small to medium-size companies from the service sector. Topdeq offers a special 24-hour delivery service and at least a five-year warranty. Topdeq operates warehouses in Germany, Switzerland, France and the United States. The Topdeq Group's product portfolio comprises some 3,000 products.

### K + K America

K + K America Corporation, Milwaukee, comprises C&H Distributors, C&H Productos Industriales, Conney Safety Products and Avenue Industrial Supply. These companies sell over 45,000 products (via catalogue and internet) from the transport, storage, workshop, office, job safety and packaging sectors to customers in the United States, Canada and Mexico. Hubert sells approximately 26,000 products to the retail trade and the restaurant and hotel sector in the USA and Canada. K + K America Group operates nine warehouses in the USA and Canada.

### Secondary segment reporting by region 2005 of TAKKT Group, Stuttgart
(in EUR '000)

| 01.01.2005 – 31.12.2005 | Germany | Rest of Europe | North America | Other | Group total |
|---|---|---|---|---|---|
| Segment turnover | 183,958 | 281,756 | 305,152 | 2,372 | 773,238 |
| Segment share of Group turnover | 23.8 % | 36.4 % | 39.5 % | 0.3 % | 100.0 % |
| Segment assets | 163,172 | 100,000 | 229,833 | 1,728 | 494,733 |
| Segment capital expenditure | 2,680 | 1,121 | 5,121 | 27 | 8,949 |

### Secondary segment reporting by region 2004 of TAKKT Group, Stuttgart
(in EUR '000)

| 01.01.2004 – 31.12.2004 | Germany | Rest of Europe | North America | Other | Group total |
|---|---|---|---|---|---|
| Segment turnover | 180,407 | 261,691 | 284,481 | 1,049 | 727,628 |
| Segment share of Group turnover | 24.8 % | 36.0 % | 39.1 % | 0.1 % | 100.0 % |
| Segment assets | 166,616 | 91,629 | 192,487 | 357 | 451,089 |
| Segment capital expenditure | 2,678 | 1,208 | 4,657 | 19 | 8,562 |

# Notes to the consolidated financial statements for the year ended 31 December 2005

## 1. General principles

### a) Accounting principles

The consolidated financial statements of TAKKT AG have been drawn up in accordance with the regulations issued by the International Accounting Standards Board (IASB) and § 315a German Commercial Code (HGB); the interpretations (IFRIC and SIC) by the International Financial Reporting Interpretations Committee have been taken into account. All International Financial Reporting Standards (IFRS) valid at 31 December 2005 have been applied. The IAS standards 32 and 39 (both revised) and IFRS 2 and 3 have been adopted with effect from 1 January 2005. With the exception of IFRS 3, there were no material changes as a result of their adoption. The possibility of applying new standards, which should be applied with effect from 1 January 2006 or later, was not taken. An earlier application would not have had any material effect on the accounts. Otherwise, the consolidated financial statements have been prepared using the same accounting and valuation principles as in the previous year.

The consolidated financial statements comply with the European Union Directive on consolidated accounting (Directive 83/349/EEC).

The consolidated financial statements have been prepared in euros. Unless otherwise noted, all amounts are quoted in EUR ‘000.

In order to improve clarity, certain items are aggregated in the balance sheet and income statement. A breakdown of the individual amounts is provided in the notes. The balance sheet has been divided into short and long-term items in accordance with IAS 1.

Contrary to the previous year, changes to non-current assets are shown in the notes.

The income statement was prepared in accordance with the type of expenditure format with the separate disclosure of gross profit.

### b) Scope of consolidation

TAKKT AG, Stuttgart, which is registered under HRB 19962 with the German Commercial Register of the Stuttgart local court, is the Group’s controlling company. The consolidated financial statements at 31 December 2005 in accordance with IFRS, the Group management report and the TAKKT AG individual financial statements according to HGB will be deposited with the local court.

TAKKT AG is a B2B mail order company for office, plant and warehouse equipment and has a presence in more than 25 countries. Besides TAKKT AG, five domestic (previous year: five) and 46 foreign (previous year: 40) companies are included in the consolidated financial statements.

The increase in the number of companies all result from the foundation of companies. The inclusion of these companies does not impair the comparability to the previous year.

One domestic associated company exists.

TAKKT AG is a 72.7 percent subsidiary of Franz Haniel & Cie. GmbH, Duisburg. TAKKT Group is therefore included in the latter’s consolidated accounts.

### c) Consolidation principles

The consolidated financial statements as well as all individual financial statements included in the consolidated financial statements have the same balance sheet date, 31 December 2005. According to IAS 27, the financial statements of the domestic and foreign subsidiaries included in the consolidated financial statements were prepared using uniform accounting and valuation principles.

In accordance with IAS 27, capital consolidation was prepared using the carrying value method by netting acquisition costs with the share in equity of the controlled company at the time of acquisition. Positive differences arising from first-time consolidation are recognised as goodwill and were amortised over its estimated useful life on a straight-line basis until 31 December 2004. With effect from 1 January 2005 goodwill shall undergo an annual impairment test under IFRS 3 in conjunction with IAS 36.

Intercompany profits and losses, turnover, expenses and income as well as all receivables and liabilities between the Group subsidiaries were eliminated. Unrealised intercompany profits in current and non-current assets were eliminated provided they were not immaterial.

Differences arising from the debt consolidation were written off to the income statement, if they individually exceeded EUR 10,000.

Receivables and liabilities to third parties were consolidated on the condition that such balances with third parties were mutually effective and could be netted off against each other. Minority interests in a subsidiary's equity and profits are disclosed in the position minority interest within the total equity section.

In accordance with IAS 12, deferred tax was provided on all consolidation measures affecting the income statement.

### d) Currency translation

TAKKT AG's reporting currency is euro. In accordance with IAS 21, currency is translated using the functional currency concept. Since all companies manage their businesses autonomously, the respective local currency is identical to the functional currency. Under the functional currency concept, assets and liabilities of all subsidiaries which do not report in euro are translated using the closing rate, whereas income and expenses are translated using the average exchange rate for the year. The goodwill on consolidation was calculated applying the exchange rate to the consolidated equity at the time of acquisition.

TAKKT Group has no subsidiaries in high-inflation countries, with the exception of KAISER + KRAFT Turkey. The adjustments according to IAS 29 were made based on the concept of historical acquisition and production costs. The effects of these are not material.

In the individual financial statements of the TAKKT Group companies transactions in foreign currencies are translated at the rate prevailing on the date of the transaction. Assets and liabilities in foreign currencies are translated at the rate prevailing on the balance sheet date. Exchange differences are recognised in the individual financial statements and in the income statement under other operating expenses.

### Currency translation

| | | Closing rate | | Average rate | |
|---|---|---|---|---|---|
| Currency | Country | 2005 | 2004 | 2005 | 2004 |
| USD | USA | 1.1797 | 1.3621 | 1.2421 | 1.2425 |
| CHF | Switzerland | 1.5551 | 1.5429 | 1.5483 | 1.5436 |
| GBP | UK | 0.6853 | 0.7051 | 0.6837 | 0.6784 |
| SEK | Sweden | 9.3885 | 9.0206 | 9.2793 | 9.1236 |

### e) Accounting and valuation principles

**Turnover** includes sales from products and services, less allowances and discounts. Turnover from sales is realised with the transfer of ownership and risk to the customer. Provisions are made to allow for customers' rights to refunds.

**Other income** is accrued if the economic benefit is likely and the amount can be determined reliably.

**Property, plant and equipment** are capitalised at acquisition or manufacturing costs less scheduled depreciation. There are no material self-produced property, plant and equipment items because of the business activity.

Property, plant and equipment is depreciated using the straight-line method over its useful economic life. Scheduled depreciation is based on the following useful lives in the Group:

Buildings: 10 to 50 years

Plant, machinery and office equipment: 3 to 15 years

The requirements of **finance leasing** pursuant to IAS 17 are satisfied if TAKKT Group bears all substantial opportunities and risks in leasing transactions as lessee and can therefore be considered economic owner. In these cases items in property, plant and equipment are capitalised at fair value or at the lower cash value of the minimum leasing payments and subject to straight-line depreciation during its useful life or the shorter duration of the leasing contract, which is between two and 22 years. The cash value of obligations for future lease instalments is disclosed under short and long-term borrowings. Property and equipment under a finance lease contract generally include a purchase option at market price at the end of the general lease term. The option price usually corresponds to the residual book value. An interest rate of 3.65 percent was used to calculate the cash value. In the case of special leases the interest rate, on which the lease contract was based, was applied.

As well as finance leases TAKKT Group also concluded rental contracts, where the economic ownership of the rental goods remains with the lessor (Operative Leasing). Leasing payments are expensed. Depending on the subject of the lease, typical lease and pre-emptive purchase rights apply.

The book value of goodwill is reviewed once a year pursuant to IAS 36 using the so-called cash generating units. The impairment test is based on a detailed plan of future cash flows before interest and tax less capital expenditure for a period of five years. In calculating perpetuity future company growth is considered and based on the average market growth. The cash flows calculated are discounted with the weighted average cost of capital (WACC) determined for every cash generating unit, in order to calculate the market value of the cash generating unit. The TAKKT Group applies weighted average costs of capital rates of between 10.1 and 10.9 percent. The market value is then compared to the respective book value. If the market value is below the book value of the cash generating unit, an impairment charge is made on the goodwill and other assets, if required.

Other intangible assets, which mainly consist of computer software and customer lists, are disclosed at acquisition cost plus incidental acquisition cost less straight-line depreciation. These are based on estimated useful lives of usually two to five years for computer software and 15 years for customer lists. Research and development costs are not incurred on account of the business activity.

Inventories are recognised at acquisition or manufacturing costs or the lower of net realisable value. An average value is generally applied or a value based on the FIFO method ("first in, first out"). The manufacturing costs include not only the directly attributable materials used for production and wages but also appropriate portions of the indirect material and production overheads. Obsolescence reserves were made on purchased merchandise, taking into account the expected sell-down period of the inventories. If the reasons for the write-downs no longer apply, the original reserves are released. Financing costs are not capitalised since no direct relationship exists as required by IAS 23.

Trade receivables and other assets are reported at their nominal value or if applicable their respective fair values on the settlement date. Risks are taken into consideration by valuation allowances. Apart from the required individual value adjustments, they are subject to general allowance to cover identifiable credit risks based on past experience. This allowance is necessary because of the large number of trade debtors in the mail order business.

Catalogues, which generate sales in the following year, are treated as a prepayment on the balance sheet date at their acquisition and production cost.

Derivative financial instruments such as forward deals and swaps are basically used for hedging purposes to reduce currency and interest risks from operating activities or the financing requirements resulting from these activities.

Accounting for financial derivatives occurs as soon as purchases or sales contracts are made. According to IAS 39 all derivatives have to be reported at their fair value, regardless of the purpose or intention motivating their purchase. Changes in the fair value of derivatives, for which hedge accounting is applied, are either reported in profit or equity if it is a cash flow hedge, with consideration of deferred tax as part of cumulative changes in equity, with no effect on profit.

Fair value hedge derivatives are used to hedge balance sheet items. The fair values of derivatives and their underlying transactions are included in the income statement.

Derivatives used to hedge against future cash flow risks from existing or planned transactions are referred to as cash flow hedges. The hedge-effectiveness portion of the change in the fair value of the derivatives is initially shown with a neutral effect in other comprehensive income under equity. A transfer to the income statement is made at the time of the profit-effect of the underlying hedged item in earnings. The (hedge-ineffectiveness) portion of the changes in fair value not covered by the underlying hedged item is immediately recognised in earnings.

**Deferred tax** is recognised for all temporary differences between the tax balance sheet and the consolidated IFRS balance sheet – with the exception of goodwill on consolidation, which is not tax deductible – as well as for loss carry-forwards. For the probable use of losses the five year budget of the individual company is considered. Deferred tax assets are only included if their realisation can be expected with a significant degree of confidence. Deferred tax was calculated using the respective local tax rates. Tax rate changes determined on the balance sheet date have been taken into account for the calculation of deferred tax.

In accordance with IAS 19, **pension provisions** and similar obligations are recognised using the actuarial projected unit credit method. In this procedure prevailing long-term capital market interest rates as well as assumptions about future salary and pension increases are considered in addition to biometric calculation bases. Actuarial profits and losses are only recorded with an effect on profit if they deviate by more than ten percent of the higher amount of the discounted cash value of the obligation and the current value of the plan assets (corridor). The excess amount is expanded over the average residual service life of the workforce. The interest portion of pension expense is disclosed in the interest result. Direct pension commitments in Germany are derived using Prof Dr Klaus Heubeck's biometric calculation tables of 2005 G.

With the exception of other personnel-related provisions calculated in accordance with IAS 19, **other provisions** are made on the basis of IAS 37, if a statutory or factual obligation exists, which is based on transactions or incidents in the past. The outflow of resources must be probable and calculable.

**Liabilities** are reported at their nominal value and with the exception of derivatives valued at their amortised cost. There are no liabilities which serve trading purposes. Liabilities from finance lease contracts are disclosed at the cash value of future lease instalments. Foreign currency liabilities are converted at the closing exchange rate.

When preparing the consolidated financial statements assumptions have been made and **estimates** used, which have an effect on the value and disclosed valuation allowances and debts, income and expenses and the contingent liabilities. The assumptions and estimates relate primarily to the useful lives used for property, plant and equipment and intangible assets, the performance of annual impairment tests and the valuation of provisions. The actual future values may deviate from the assumptions and estimates made.

The short-term portion of long-term assets and liabilities with a remaining term of less than one year are disclosed under short-term balance sheet positions. Pension provisions are an exception, as the short-term component is not material and all pension provisions are therefore classified as long-term.

## 2. Notes to the income statement

### (1) Turnover
(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Turnover with third parties | 772,675 | 726,879 |
| Turnover with affiliated companies | 563 | 749 |
| | **773,238** | **727,628** |

Turnover with affiliated companies relates to the majority shareholder Franz Haniel & Cie. GmbH, Duisburg, as well as companies of the majority shareholder, which are not included in the consolidated financial statements of TAKKT AG. A list of these can be found in related party transactions on page 105 onwards.

A breakdown of turnover by segment and geographical region is shown in the segment reports on page 73 onwards.

### (2) Other income
(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Rental income | 272 | 282 |
| Income from the release of valuation allowances | 361 | 361 |
| Income from disposal of non-current assets | 22 | 60 |
| Operating income | 2,196 | 2,331 |
| Other | 2,401 | 2,420 |
| | **5,252** | **5,454** |

### (3) Personnel expenses

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Wages and salaries | 80,643 | 77,743 |
| Social security costs | 15,108 | 14,656 |
| Retirement and welfare costs | 2,824 | 3,065 |
| Release of personnel-related provisions | –615 | –175 |
| Other | 506 | 368 |
| | **98,466** | **95,657** |

The segment reports on page 73 onwards refer to the number of employees of the Group.

### (4) Other operating expenses

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Losses from disposal of non-current assets | 19 | 17 |
| Valuation allowances on current assets | 1,546 | 1,791 |
| Income from the release of provisions | –75 | –77 |
| Operating leasing and rents | 10,805 | 10,587 |
| Exchange differences | –1,078 | –212 |
| Operating taxes | 1,028 | 932 |
| Operating expenses | 99,751 | 91,941 |
| Administrative expenses | 16,340 | 14,262 |
| | **128,336** | **119,241** |

A major part of other operating expenses is catalogue costs. Operating taxes include real estate tax, car tax, tax on capital and assets and the French "taxe professionnelle".

### (5) Depreciation of property, plant and equipment and other intangible assets

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Property, plant and equipment | 7,826 | 7,326 |
| Other intangible assets | 1,667 | 1,686 |
| | **9,493** | **9,012** |

## (6) Amortisation of goodwill

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Goodwill | 0 | 13,064 |
| Goodwill on consolidation | 0 | 2,611 |
| | **0** | **15,675** |

For more details on goodwill, please refer to page 88.

## (7) Other financial result

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Expense from the valuation of intercompany loans and financial derivatives relating thereto | 72 | –27 |

More details on the use of derivative financial instruments are disclosed on page 99 onwards.

## (8) Interest result

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| **Interest income** | | |
| Income from other long-term assets | 2 | 4 |
| Interest and similar income | 180 | 177 |
| | **182** | **181** |
| **Interest expense** | | |
| Haniel Finance companies | –258 | –133 |
| Interest portion of finance leases | –1,526 | –1,604 |
| Interest portion of pension provisions | –551 | –493 |
| Interest on bank borrowings | –8,146 | –8,872 |
| | **–10,481** | **– 11,102** |
| | **–10,299** | **–10,921** |

## (9) Income taxes

Tax expense includes income taxes paid and taxes due as well as deferred taxes of the individual countries. The income tax rates applied range up to 40.9 percent.

### Breakdown of tax charge

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Income taxes | 22,648 | 15,715 |
| Deferred tax | 5,653 | 2,776 |
| | **28,301** | **18,491** |

Deferred tax includes a charge for a valuation allowance on deferred tax assets amounting to EUR 957,000 (EUR –66,000).

The difference between the actual tax expense and the calculated tax expense calculated at a tax rate of 38.9 (38.9) percent for TAKKT AG, comprises the following:

### Tax rate reconciliation

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Profit before tax | 78,682 | 51,530 |
| Expected average tax expense (tax rate of 38.9%) | 30,607 | 20,045 |
| Non-deductible amortisation of goodwill | 0 | 1,016 |
| Changes in tax rates | 216 | 209 |
| Differences between local and Group tax rates | –4,396 | –3,712 |
| Non-deductible expenses | 738 | 1,384 |
| Non-taxable income | –10 | –41 |
| Allowance for deferred tax on loss carry-forwards and other | 1,027 | 563 |
| Taxes relating to prior years | –101 | –1,674 |
| Other differences | 190 | 639 |
| Corrections for municipal trade tax | 30 | 62 |
| **Actual income tax expense per the income statement** | **28,301** | **18,491** |

The calculated tax rate is based on the tax rates currently applicable in Germany. Apart from the corporate income tax of 25.0 percent, the solidarity surcharge of 5.5 percent and the average municipal trade tax rate for the German Group companies were taken into account.

## Earnings per share

| | 2005 | 2004 |
|---|---|---|
| Number of shares issued (in thousand) | 72,900 | 72,900 |
| Weighted number of shares issued (in thousand) | 72,900 | 72,900 |
| Profit attributable to the shareholders of TAKKT AG (in EUR '000) | 49,649 | 32,399 |
| Earnings per share (in EUR) | 0.68 | 0.44 |
| Cash flow (in EUR) | 65,527 | 60,502 |
| Cash flow per share (in EUR) | 0.90 | 0.83 |

So-called potential shares (mainly stock options and convertible bonds), which could dilute the earnings per share, were not issued. The diluted and undiluted earnings per share therefore correlate.

## 3. Notes to the balance sheet

### (10) Property, plant and equipment

(in EUR '000)

| | Land, buildings and similar assets | Plant, machinery and office equipment | Payments on account | Total |
|---|---|---|---|---|
| **Acquisition costs** | | | | |
| Balance at 01.01.2005 | 63,531 | 43,661 | 416 | 107,608 |
| Currency translation | 3,262 | 1,573 | 60 | 4,895 |
| Additions | 339 | 4,325 | 205 | 4,869 |
| Transfers | –14 | 518 | –533 | –29 |
| Disposals | –2 | –2,238 | 0 | –2,240 |
| **Balance at 31.12.2005** | **67,116** | **47,839** | **148** | **115,103** |
| **Cumulative depreciation** | | | | |
| Balance at 01.01.2005 | 17,287 | 22,272 | 0 | 39,559 |
| Currency translation | 633 | 1,217 | 0 | 1,850 |
| Additions | 2,472 | 5,354 | 0 | 7,826 |
| Transfers | –13 | 13 | 0 | 0 |
| Disposals | –1 | –2,163 | 0 | –2,164 |
| **Balance at 31.12.2005** | **20,378** | **26,693** | **0** | **47,071** |
| **Net book values** | | | | |
| **Balance at 31.12.2005** | **46,738** | **21,146** | **148** | **68,032** |
| **Balance at 01.01.2005** | **46,244** | **21,389** | **416** | **68,049** |

The depreciation included in the tangible assets development were translated at average rates as in the income statement. The difference to the closing rate is included in currency translation.

The depreciation principles (methods, useful lives and net book values) were reviewed at the balance sheet date. There were no significant changes to the parameters used. Unscheduled depreciation according to IAS 36 was not required.

At the balance sheet date property, plant and equipment with a book value of EUR 19,221,000 (EUR 21,235,000) acquired under a finance lease have been capitalised. This includes disposals during the year with acquisition costs of EUR 984,000 (net book value EUR 0) for office equipment. There were no additions during the year. Leased assets of EUR 15,587,000 (EUR 16,705,000) are shown under land, buildings and similar assets and EUR 3,634,000 (EUR 4,530,000) under plant, machinery and office equipment.

Since the transfer of the assets capitalised as finance leases at the end of the leasing period continues to be insufficiently reliable, the finance lease properties continue to be depreciated over the lease period. Overall there is no need to change the parameters used.

As in the previous year, tangible assets, legally and economically owned by the company, are not subject to any restraints on disposal or ownership rights. Maintenance costs are recognised directly as expenses, insofar as they do not have to be capitalised.

## (11) Goodwill

(in EUR '000)

| | Goodwill | Goodwill on consolidation | Total |
|---|---|---|---|
| **Acquisition costs** | | | |
| Balance at 01.01.2005 | 249,259 | 56,538 | 305,797 |
| Currency translation | 21,541 | 0 | 21,541 |
| Additions | 0 | 22 | 22 |
| Netting cumulative amortisation | –71,581 | –28,298 | –99,879 |
| Disposals | 0 | 0 | 0 |
| **Balance at 31.12.2005** | **199,219** | **28,262** | **227,481** |
| **Cumulative amortisation** | | | |
| Balance at 01.01.2005 | 66,088 | 28,298 | 94,386 |
| Currency translation | 5,493 | 0 | 5,493 |
| Additions | 0 | 0 | 0 |
| Netting cumulative amortisation with cost | –71,581 | –28,298 | –99,879 |
| Disposals | 0 | 0 | 0 |
| **Balance at 31.12.2005** | **0** | **0** | **0** |
| **Net book values** | | | |
| **Balance at 31.12.2005** | **199,219** | **28,262** | **227,481** |
| **Balance at 01.01.2005** | **183,171** | **28,240** | **211,411** |

Cumulative amortisation of goodwill results from scheduled depreciation up to 31 December 2004 prior the introduction of IFRS 3 from 1 January 2005.

Some of the past acquisitions were made as so-called "asset deals". In asset deals, all assets are acquired separately by the buyer. If the cost of acquisition exceeded the fair value of the individual identifiable assets, the difference was capitalised as goodwill in the individual balance sheet of the respective acquirer.

### Net book value of goodwill
(in EUR ’000)

| Cash generating units | 2005 | 2004 |
|---|---|---|
| KAISER + KRAFT EUROPA | 79,379 | 79,379 |
| Topdeq | 0 | 0 |
| Industrial equipment | 2,400 | 2,079 |
| Safety products | 29,637 | 25,668 |
| Food service and general retail equipment | 87,803 | 76,045 |
| | **199,219** | **183,171** |

If acquisitions were made as so-called “share deals”, proportionate acquisition costs exceeding equity at the time of purchase were capitalised as goodwill on consolidation.

### Net book value of goodwill on consolidation
(in EUR ’000)

| Cash generating units | 2005 | 2004 |
|---|---|---|
| KAISER + KRAFT EUROPA | 15,410 | 15,397 |
| Topdeq | 12,852 | 12,843 |
| | **28,262** | **28,240** |

### Subsequent consolidation
In accordance with IFRS 3, from 1 January 2005 goodwill is no longer amortised on a straight-line basis but subject to an annual impairment test. No impairment charges were made in the financial year.

For tax purposes, the goodwill is still depreciated over a period of 15 years. The resulting deferred tax liability amounts to EUR 15,308,000 (EUR 8,117,000) as of the reporting date.

No deferred tax has resulted from goodwill on consolidation.

## (12) Other intangible assets

(in EUR '000)

| | Customer lists | Licences and similar rights | Payments on account | Total |
|---|---|---|---|---|
| **Acquisition costs** | | | | |
| Balance at 01.01.2005 | 19,930 | 15,055 | 2,195 | 37,180 |
| Currency translation | 3,082 | 828 | 327 | 4,237 |
| Additions | 0 | 1,566 | 2,412 | 3,978 |
| Transfers | 0 | 849 | –820 | 29 |
| Disposals | 0 | –77 | –55 | –132 |
| **Balance at 31.12.2005** | **23,012** | **18,221** | **4,059** | **45,292** |
| **Cumulative depreciation** | | | | |
| Balance at 01.01.05 | 18,123 | 12,719 | 0 | 30,842 |
| Currency translation | 2,818 | 735 | 0 | 3,553 |
| Additions | 297 | 1,370 | 0 | 1,667 |
| Transfers | 0 | 0 | 0 | 0 |
| Disposals | 0 | –76 | 0 | –76 |
| **Balance at 31.12.2005** | **21,238** | **14,748** | **0** | **35,986** |
| **Net book values** | | | | |
| **Balance at 31.12.2005** | **1,774** | **3,473** | **4,059** | **9,306** |
| **Balance at 01.01.2005** | **1,807** | **2,336** | **2,195** | **6,338** |

The depreciation included above was translated at average exchange rates as in the income statement. The difference to the closing rate is included in currency translation.

As in the previous year, intangible assets were not subject to any restraints on disposal or ownership.

## (13) Other financial assets

Other financial assets include securities to match statutory personnel obligations in Austria. These securities are valued at fair value.

This also includes loans to employees, deposits and a pension plan reinsurance.

The loans to employees and deposits are valued according to the redemption amount. The pension plan reinsurance is derived from an actuarial valuation.

### (14) Deferred tax

Allowances on deferred tax on loss carry-forwards amount to EUR 5,459,000 (EUR 4,314,000).

### Permissibility of adjusted loss carry-forwards

(in EUR '000)

| | up to 1 year | 1 to 5 years | over 5 years | Total |
|---|---|---|---|---|
| | 0 | 1,285 | 13,634 | 14,919 |

Deferred tax assets and liabilities are recognised for valuation differences for the following balance sheet items:

### Deferred tax assets and liabilities

(in EUR '000)

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Property, plant and equipment and other intangible assets | 414 | 275 | 7,721 | 8,517 |
| Goodwill | 0 | 0 | 15,308 | 8,117 |
| Inventories | 370 | 335 | 857 | 403 |
| Trade receivables and other assets | 854 | 803 | 1,649 | 1,632 |
| Pension provisions | 951 | 457 | 14 | 3 |
| Other provisions | 1,452 | 1,388 | 128 | 71 |
| Market value of derivative financial instruments | 338 | 974 | 73 | 152 |
| Loss carry-forwards | 3,252 | 3,569 | 0 | 0 |
| Borrowings | 9,276 | 9,965 | 0 | 26 |
| Other | 235 | 8 | 45 | 703 |
| **Subtotal** | **17,142** | **17,774** | **25,795** | **19,624** |
| Netting | –12,076 | –12,702 | –12,076 | –12,702 |
| **Consolidated balance sheet** | **5,066** | **5,072** | **13,719** | **6,922** |

Deferred tax on the market value of the derivative financial instruments classified as cash flow hedges, amounted to EUR 312,000 (EUR 794,000) and did not affect profit.

As long as the requirement under IAS 12.74 that the deferred tax could be netted off is satisfied, deferred tax assets and liabilities are netted at the level of the individual company or at an integrated tax group level.

## (15) Inventories

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Raw materials and supplies | 738 | 739 |
| Work in progress | 802 | 591 |
| Finished goods and purchased merchandise | 64,482 | 55,415 |
| | **66,022** | **56,745** |

An obsolescence reserve of EUR 5,601,000 (EUR 5,313,000) has been made on purchased merchandise, taking into account the expected sell-down period of the inventories. Unrealised inter-company profits of EUR 611,000 (EUR 444,000) have been eliminated.

## (16) Other receivables and assets

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Receivables from affiliated companies | 1,421 | 173 |
| Market value of derivative financial instruments | 276 | 913 |
| Catalogue costs of the following year | 13,552 | 14,364 |
| Other | 7,994 | 5,974 |
| | **23,243** | **21,424** |

A list of receivables from affiliated companies can be found in related party transactions on page 105 onwards. These were not subject to any allowance.

Inter-company profits of EUR 1,405,000 (EUR 1,257,000) were eliminated from catalogue costs of the following year. Other assets includes supplier bonuses.

## (17) Cash and cash equivalents

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Cheques, cash balances | 245 | 394 |
| Cash at banks | 4,064 | 3,574 |
| | **4,309** | **3,968** |

Cash at banks comprise funds with a maturity of up to three months.

## (18) Shareholders' equity

For the consolidated statement of changes in total equity, refer to page 70.

The issued capital of TAKKT AG remained unchanged at EUR 72,900,000 and is divided into 72,900,000 nameless no-par shares. In accordance with the resolution of the Annual General Meeting on 3 May 2005, the Management Board is authorised to increase the issued capital subject to the approval of the Supervisory Board, once or several times, by an amount of up to EUR 36,450,000 by issuing new bearer shares until 7 May 2010 taking stockholders pre-emptive right into account. The Annual General Meeting authorised the Management and Supervisory Boards to purchase its own shares. No use was made of this right.

Reserves include the earnings reserves contributed by Group companies since acquisition, the corresponding translation adjustments to present values arising from the currency conversion of assets, as well as liabilities not recognised in the income statement, as well as the total of the consolidation and tax adjustments shown in the income statement.

Other comprehensive income includes changes in the market values of derivatives used to hedge future cash flows. Effects of EUR –501,000 (EUR –1,241,000) were recognised with no effect on profits, taking into account deferred taxes of EUR 313,000 (EUR 794,000).

The shareholders have a claim to the unappropriated profits available for distribution by TAKKT AG provided that the latter is not excluded from distribution to the shareholders by law or statutes by way of a shareholders' resolution or as additional charge due to the profit appropriation proposal.

The Management Board proposes to pay a dividend of EUR 10,935,000 (EUR 10,935,000). This would be equivalent to a dividend of EUR 0.15 (EUR 0.15) per share.

## (19) Minority interest

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Share in capital and reserves | 1,717 | 2,337 |
| Share in profit | 732 | 640 |
| | **2,449** | **2,977** |

Minority interests exist at KAISER + KRAFT N.V., Diegem/Belgium and Vink Lisse B.V., Lisse/Netherlands. All other Group companies are wholly owned.

## (20) Short and long-term borrowings

(in EUR '000)

| | Remaining term | | | | |
|---|---|---|---|---|---|
| | up to 1 year | 1 to 5 years | over 5 years | 31.12.2005 | 31.12.2004 |
| Liabilities to banks | 8,608 | 39,073 | 86,808 | 134,489 | 156,181 |
| Finance leases | 1,097 | 5,120 | 17,629 | 23,846 | 25,379 |
| Finance liabilities to affiliated companies | 37 | 0 | 0 | 37 | 1,398 |
| Other | 2,454 | 1,410 | 0 | 3,864 | 3,320 |
| | **12,196** | **45,603** | **104,437** | **162,236** | **186,278** |
| thereof long-term (maturity > 1 year) | | | | 150,040 | 164,801 |

The remaining term of the liabilities to banks is equivalent to the respective financing commitments and is aligned with the projected future cash flow of the TAKKT Group. Additionally, TAKKT AG has unused credit lines. Liabilities under finance lease contracts refer to two properties comprising land, buildings and equipment.

A list of liabilities to affiliated companies can be found in related party transactions on page 105 onwards. These balances are the result of the current settlement transactions under the existing cash management system. By participating in Haniel Group's euro cash management system, the TAKKT Group benefits from potential economies of scale for the euro-zone.

Interest rate swaps and caps are used in the context of the interest rate hedging strategy. As a general rule, approximately 60 to 70 percent of the exposure from interest expense is hedged (for more details, please refer to interest rate management on page 101 onwards).

### Development of short and long-term borrowings

(in EUR '000)

| | 01.01.2005 | Other changes | Additions | Repayments | 31.12.2005 |
|---|---|---|---|---|---|
| Liabilities to banks | 156,181 | 17,177 | 20,000 | 58,869 | 134,489 |
| Finance leases | 25,379 | 0 | 0 | 1,533 | 23,846 |
| Finance liabilities to affiliated companies | 1,398 | 0 | 0 | 1,361 | 37 |
| Other | 3,320 | 434 | 290 | 180 | 3,864 |
| | **186,278** | **17,611** | **20,290** | **61,943** | **162,236** |

Other changes include currency translation in the amount of EUR 17,177,000. Average net borrowings for the financial year amounted to EUR 170,155,000 (EUR 211,801,000). Liabilities were weighted by month and converted using the average rate method, which was also used in the income statement. Additions to liabilities to banks relate to a comparison of the credit lines being used at the beginning and the end of the year. Other includes the EVA® certificates issued to TAKKT Group management.

### Borrowings by currency and interest rate hedges

| | 31.12.2005 (in EUR '000) | Portion of total liability (in percent) | Weighted remaining term (in years) | Average interest rate (in percent) |
|---|---|---|---|---|
| **USD liabilities** | **84,117** | **51.9** | **4.8** | **5.9** |
| **EUR liabilities** | **77,890** | **48.0** | **5.4** | **4.2** |
| – Borrowings | 50,143 | 30.9 | 4.7 | 3.2 |
| – Capitalised fixed-interest lease | 23,846 | 14.7 | 7.0 | 6.3 |
| – Other | 3,901 | 2.4 | n/a | n/a |
| **Liabilities other currencies** | **229** | **0.1** | **n/a** | **n/a** |
| | **162,236** | **100.0** | **n/a** | **n/a** |
| thereof hedged | 126,150 | 77.8 | | |

A change in general interest rates may have an effect on TAKKT Group's future interest payments. Interest rate derivatives are used to reduce this dependence. Based on the general interest rates level at the end of the year, the remaining risk can be appraised considering the cash inflows projected for the following year.

A 1.0 percent shift in the 3-month USD LIBOR (4.5 percent at year-end) would result in changed interest expense of approximately USD 1,178,000. A 1.0 percent shift in the 3-month EURIBOR (2.5 percent at year-end) would result in changed interest expense of EUR 103,000. Interest rate caps are used to limit the risk of rising interest rates. For the EUR liabilities the upper limit of the interest caps is 6.0 percent and for the USD-liabilities on average 5.9 percent.

The book values of fixed-interest financial debts of EUR 23,846,000 compare to market values of EUR 26,085,000.

## (21) Non-current provisions

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Pension provisions | 9,879 | 9,326 |
| Personnel related provisions | 2,491 | 1,438 |
| | **12,370** | **10,764** |

The personnel related provisions relate to early retirement part-time working arrangements and employee long-service awards. The change since the previous year is the result of the usage of EUR 480,000, a release of EUR 18,000 and an addition of EUR 1,551,000.

### Pension provisions

Pension provisions are made based on obligations arising from current pensions and from pension schemes for retirement, disability and surviving dependents. The Group's payments vary depending on legal, tax and economical circumstances in the respective country and comprise both defined contribution and defined benefit pension systems.

Defined benefit pension plans are based mainly on final pay plans.

The following parameters are applied by German companies when using the projected unit credit method in calculations:

## Parameter

(in percent)

| | 2005 | 2004 |
|---|---|---|
| Assumed rate of interest | 4.3 | 5.0 |
| Salary trend | 2.5 | 2.5 |
| Pension trend | 1.5 | 1.5 |

The probability of employee fluctuation was considered individually dependent on the job tenure in the company and the age of the beneficiary.

International commitments are not material and are determined using specific local accounting principles and parameters.

Pension provisions also include liabilities from deferred compensation.

### Reconciliation of pension provisions

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Present value of funded obligations | 1,362 | 1,451 |
| Present value of unfunded obligations | 13,755 | 10,807 |
| Fair value of plan assets | –1,211 | –1,306 |
| Unrecognised actuarial gains and losses | –4,027 | –1,626 |
| Unrecognised past service cost | 0 | 0 |
| **Net pension commitments at 31.12.** | **9,879** | **9,326** |

### Change in the net pension commitments

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Defined benefit obligations as of 01.01. | 9,326 | 8,562 |
| Changes affecting profit | | |
| – Service cost | 613 | 642 |
| – Interest expense | 579 | 493 |
| – Expected income on plan assets | –28 | 0 |
| – Amortisation of actuarial gains and losses | 34 | 7 |
| Payments under pension obligations | –645 | –375 |
| Transfer of commitments | 0 | –3 |
| **Net pension commitments at 31.12.** | **9,879** | **9,326** |

The changes affecting profit are shown in the income statement in personnel expenses of EUR 647,000 (EUR 649,000) and in interest expense of EUR 551,000 (EUR 493,000).

The financing of the pension obligations is covered mainly by the creation of pension provisions; in the case of one foreign subsidiary via contributions to an insurance company. Plan assets created in this process solely involve qualifying insurance policies.

The expected income from these assets amounted to EUR 28,000 and the expected return was 4.3 percent. The actual income amounted to EUR 28,000.

Some foreign companies, especially in North America, have voluntary, defined contribution-based plans for the payment of benefits after termination of employment. Affected US companies pay a pension contribution for their staff to an external fund after 90 days, one year or two years of service. The amounts range from three to 7.68 percent, respectively, of the employee's salary. The companies cannot derive any claims from their contribution payments; accordingly, no such assets have been capitalised by these companies. Expenses for defined contribution plans amounted to EUR 2,172,000 (EUR 2,233,000) in the past financial year.

## (22) Trade payables

With regard to trade payables, most of the goods delivered are subject to customary ownership retention rights. Advance payments from customers are included in this position in the amount of EUR 422,000 (EUR 380,000).

## (23) Other liabilities

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Market value of derivative financial instruments | 1,178 | 2,536 |
| Uninvoiced goods and services | 5,286 | 5,268 |
| Other tax liabilities | 5,644 | 5,060 |
| Personnel liabilities | 3,874 | 3,094 |
| Accrued interest | 1,191 | 1,935 |
| Social security contributions | 1,602 | 1,507 |
| Other | 9,673 | 7,697 |
| | **28,448** | **27,097** |
| thereof from taxes | 5,644 | 5,060 |

Derivative financial instruments have both short and long-term maturities. Maturities are selected dependent on the hedging purpose. Derivative financial instruments referring to long-term transactions had a market value of EUR 1,033,000 (EUR 2,409,000). The market value itself was recognised as short-term. See also page 101.

## (24) Short-term provisions

### Development of short-term provisions

(in EUR '000)

| | 01.01.2005 | Currency translation | Usage | Release | Addition | 31.12.2005 |
|---|---|---|---|---|---|---|
| Staff bonuses | 5,728 | 364 | 5,691 | 287 | 6,736 | 6,850 |
| Personnel obligations | 1,171 | 2 | 863 | 310 | 948 | 948 |
| Customer credit notes | 1,754 | 121 | 1,286 | 52 | 1,335 | 1,872 |
| Other | 488 | –1 | 309 | 23 | 630 | 785 |
| | **9,141** | **486** | **8,149** | **672** | **9,649** | **10,455** |

The release and addition to provisions are converted at average exchange rates as in the income statement. The difference to the closing rate is included in currency translation.

## 4. Derivative financial instruments

Because of its international presence TAKKT Group is exposed to both risks and chances from fluctuations in exchange rates and interest rates in the international money and capital markets. The Group's risk management system takes care of the uncertainties of future development of financial markets. Derivatives are used to reduce these risks, but at the same time potential opportunities should be taken. With this strategy the risk management system aids the Group's financial performance.

A central treasury department supports the individual divisions in identifying, evaluating and hedging financial risks. In this context, the principles and guidelines approved by the Management Board are complied with.

### Information on derivative and hedge accounting in accordance with IAS 39

Derivative financial instruments are recorded in the balance sheet at their fair values under other receivables and assets or other liabilities. On the day the contract is signed, at the latest, a hedging relationship is established between the derivative financial instrument and an underlying transaction. This may either serve to hedge the fair value of a balance sheet asset or liability or to hedge a planned transaction (cash flow hedging). Derivative transactions are not held for trading purposes or for reasons of speculation.

Changes of the fair value of an effective derivative used to hedge the fair value of an asset or liability (fair value hedge), are recognised in the income statement, as changes of the fair value of the underlying transaction. These normally contrary changes offset each other within the income statement.

Changes of the fair value of an effective derivative used to hedge future cash flows (cash flow hedge) are recognised in shareholders' equity under other comprehensive income with no effect on profits (cf. Consolidated statement of changes in total equity, page 70).

Changes of the fair value of derivatives that do not meet the requirements for hedge accounting are recognised in the income statement. Accordingly, changes of the fair value from intra-group hedges of EUR 72,000 (EUR –27,000) were recognised in the income statement for the year under review. No other recognitions had to be made.

The Group documents all relations between hedges and the underlying transactions in accordance with the hedge accounting requirements. As part of this approach, a relation is established between all derivatives used as hedging instruments and specific assets, liabilities, firm commitments or projected future transactions. Moreover, the Group evaluates and documents, on a continuous basis, whether the derivatives applied still classify as effective with regard to the compensation for changes of the fair values or cash flows of the items hedged.

The default risk from derivative financial instruments is the risk of default of a contractual partner. Thus the maximum amount at risk equals the positive market values recognised less the negative market values with the same contractual partner. Since financial transactions are only concluded with first-class counter parties, the actual risk of default can be considered low.

The TAKKT Group does not hold any material financial assets classified as "available-for-sale" or "held-for-trading".

The total nominal value of all derivative financial instruments can exceed the hedged items. As part of a continuous hedging strategy, derivatives can be held where the hedging periods only begin at later dates in subsequent financial years. These derivatives count as nominal volumes, but not hedging volumes, as the hedging effect only comes about at a later date.

### Currency management

The TAKKT Group operates own distribution companies in over 25 countries; approximately 55 percent of the consolidated turnover is generated in a currency other than the reporting currency.

To limit risks, the TAKKT Group preferably manages payments in the local currency. For the key currencies purchases and sales of the offered products are generally conducted in the same currency in order to minimise sensitivities to exchange rate fluctuations. Exchange rate risks remain for less than ten percent of Group sales, particularly from inter-company transactions. These remaining risks are generally assumed by the respective delivering entity. The net foreign currency amounts to be sold on the respective dates are determined based on the turnover projections of the individual companies. Roughly 60 to 70 percent of the exposure is hedged by derivatives, preferably forward currency contracts. The projected turnover and payments are usually considered for one catalogue cycle.

All currency instruments used within TAKKT Group to hedge foreign currency turnover are classified as cash flow hedges. Derivatives were reported at their respective fair values with no effect on profits. Deferred taxes were provided on the market values with no effect on profits using local tax rates. All derivative financial instruments used in the past financial year could be effectively allocated to an underlying transaction.

Intercompany loans involving more than one currency are hedged by foreign currency swaps. This locks in prices for intercompany financing transactions. Accordingly, the Group is not exposed to any risk from exchange rate movements. While the individual company can establish a relation between the derivative instrument and the underlying transaction, so that the derivative may be recognised without affecting profits, the underlying transaction is eliminated in the context of the Group's debt consolidation. From the Group's perspective the derivative is therefore no longer used for hedging purposes and is accounted for affecting profit.

Contracts used to hedge future expected turnover or intercompany finance transactions have maturities of one to twelve months. No "netting" of currency derivatives has been undertaken.

### Currency hedging

(in EUR '000)

| | Nominal value | | Market value | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Currency instruments | 71,799 | 39,225 | 43 | 553 |
| thereof from intra-group finance transactions | 48,828 | 14,496 | 122 | –71 |

The market values of currency forward contracts are determined using Richmond Software Ltd.'s Odyssey treasury system. The market value of a currency forward contract is equivalent to the cash value of the difference between the conversion of the nominal amount at the fixed forward rate and the conversion at the current forward rate on the relevant date.

### Interest rate management

Interest payments on liabilities are secured against negative effects of rising interest rates. The target is a basic hedging level between 60 and 70 percent of the financing volume. This limits the negative effects of interest rate increases while at the same time allowing the possibility to benefit from interest rate decreases. The development of the hedging volume is mainly determined by the future free cash flow available to repay borrowings. Interest rate derivatives are mainly used for liabilities with floating interest rates; the TAKKT Group currently uses interest rate swaps and interest rate caps. The table below shows the hedged nominal volumes and the market values of the respective interest rate hedges. The market value represents the present value of all payments for the difference of the interest rate level as of the closing date and the balance sheet date. A "netting" of these transactions does not occur.

### Interest rate hedges

(in EUR '000)

| | Nominal value | | Market value | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Interest rate swaps | 72,304 | 74,606 | –1,033 | –2,409 |
| Interest rate caps | 72,384 | 91,708 | 88 | 233 |
| | **144,688** | **166,314** | **–945** | **–2,176** |

Interest rate swaps and interest rate caps are valued based on contract counterpart valuations.

The market value of an interest rate swap is equal to the cash value of the future cash flow resulting from this derivative instrument. The cash flows are discounted using maturity-matched interest rates in line with the interest rate curves of the respective currency.

The market values of the interest rate caps are determined using the Black-and-Scholes method. All interest rate derivatives used by the TAKKT Group are classified as cash flow hedges.

Interest rate swaps were reported at their respective fair values with no effect on profits. Any difference between market value and net book value of the interest rate caps is also reported with no effect on profits.

Deferred tax was provided for on the market values or differences with no effect on profits, using the local tax rates. All interest rate hedges used in the past financial year could be effectively allocated to an underlying transaction.

## Breakdown of derivative financial instruments

(in EUR '000)

| | Remaining term | | | |
|---|---|---|---|---|
| | up to 1 year | 1 to 5 years | over 5 years | 31.12.2005 |
| Currency instruments | 71,799 | 0 | 0 | 71,799 |
| Interest rate swaps | 62,304 | 10,000 | 0 | 72,304 |
| Interest rate caps | 0 | 72,384 | 0 | 72,384 |
| | **134,103** | **82,384** | **0** | **216,487** |

## Determination of fair value

The fair values of publicly traded derivatives, securities and other financial investments are based on the publicly available market values prevailing on the balance sheet date. They are represented by market prices or evaluations issued by banks in the context of OTC-trading (over-the-counter).

## 5. Other notes

### Contingent liabilities

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Right of recourse from lease agreements | 623 | 684 |

Letters of comfort for special purpose leasing companies are not disclosed as these liabilities are already included under borrowings.

### Commitments from company acquisitions and other

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Due in the following year | 72,822 | 310 |

Details on the acquisition of NBF Group are given in the section post balance sheet company acquisition on page 104.

### Contingent claims and liabilities

At 31 December 2005 there were contingent receivables in connection with early retirement part-time working arrangements. The amounts were negligible. Furthermore, no material contingent liabilities have to be recognised.

### Leasing and other financial obligations

(in EUR '000)

| | up to 1 year | 1 to 5 years | over 5 years | Total |
|---|---|---|---|---|
| **Finance leases** | | | | |
| **Minimum lease payments** | **2,548** | **10,192** | **17,147** | **29,887** |
| Remaining obligation | 0 | 0 | 6,527 | 6,527 |
| Discounted value | –1,451 | –5,072 | –6,045 | –12,568 |
| Cash value | 1,097 | 5,120 | 17,629 | 23,846 |
| thereof minimum lease payments to affiliated companies | 354 | 1,417 | 177 | 1,948 |
| thereof remaining obligation to affiliated companies | 0 | 0 | 1,098 | 1,098 |
| **Operate leases** | | | | |
| **Minimum lease payments** | **9,671** | **21,758** | **10,257** | **41,686** |
| thereof minimum lease payments to affiliated companies | 132 | 20 | 0 | 152 |

Most of the finance lease contracts are eligible for exercising call options at the fair value or options to extend at leasing rates prevailing in the market. Operate lease contracts mainly refer to rental obligations for office and warehouse facilities.

### Post balance sheet company acquisition

On 2 January 2006 TAKKT Group took over the entire business operations of National Business Furniture Group (NBF) in the USA in an asset deal.

TAKKT invested approximately USD 80 million in the acquisition. The purchase contract was signed on 11 November 2005. The new acquisition will be a part of the TAKKT division K + K America.

Five brands belong to NBF Group, whose headquarters are in the US state of Wisconsin. The National Business Furniture brand generates the largest proportion of turnover. This main brand sells traditional American office furniture to a broad range of companies. The brands Alfax and Dallas Midwest orientate their products mainly to non-profit organisations such as schools, universities or public authorities. In addition there are the brands OfficeFurniture.com and FurnitureOnline.com, which only sell their products online.

The NBF product range includes more than 11,000 articles in total. In 2004 NBF Group generated a turnover of around USD 114 million. A growth in turnover of over ten percent is expected for 2005. NBF Group's EBIT margin was a good four percent in 2004. For 2005 this is expected to be around five percent.

This transaction is reported using the purchase method. As the purchase price allocation does not take place until the 1st quarter 2006 there are no final figures available at present. The main elements of the purchase price will be allocated to identifiable intangibles such as trademarks and customer lists as well as goodwill. Property, plant and equipment are less important. Working capital will amount to around USD 5 million. The purchase price will be financed from existing credit lines.

## Staff participation model

In 2005 TAKKT Group senior management had the option to subscribe to EVA® certificates. EVA® certificates are bonds where the market value depends on three factors: The absolute added value generated calculated using the formula ((return on capital – cost of capital) × capital), the EVA® change from the previous year and a risk premium on the capital employed.

The market value is re-calculated every year and tested by the Group auditor. The owner of the certificate is financially involved in the increase of value or decrease in value of the company for which he works. As well as the chance of generating a return the owner may also lose his entire investment depending on development. The certificates have a maturity of ten years each. The certificate owner is however entitled to cash in the certificates after five years at the earliest. The EVA® certificates issued by TAKKT Group are shown in other borrowings of EUR 3,864,000. EUR 434,000 was classified as expense in the year under review.

In the past financial year, German employees again had the opportunity to buy employee shares. Shares acquired at the stock exchange for this purpose were sold to employees, subsidised in accordance with § 19a of the German Income Tax Act (EStG).

A total of 27,660 shares were acquired by 445 employees, which means that approximately 57.8 percent of all eligible employees made use of this option. The shares were bought at an average market price of EUR 7.14 and sold to the employees at an average market price of EUR 4.83. This resulted in expenses of EUR 67,000.

## German Corporate Governance Codex

The declaration on the recommendations made by the "Government Commission on the German Corporate Governance Codex" required under § 161 of the German Stock Corporation Act (AktG) was issued at 31 December 2005 and made available to the shareholders on the website of TAKKT AG (see page 58 onwards).

## Information on Directors' Dealings

According to § 15a (Directors' Dealings) of the German Securities Trading Act (WpHG), persons who perform management functions at a company that is an issuer of shares as well as natural and legal persons closely related to that person must notify both the issuer and the Federal Banking Supervisory Office of their own dealings involving the issuer's shares or related financial instruments.

A notification was submitted to TAKKT AG for the year under review. Mr Thomas Kniehl, member of the TAKKT AG Supervisory Board, informed TAKKT AG that in 2005 he sold TAKKT AG shares to the value of EUR 5,452. TAKKT AG publicised this information immediately.

## Related-party transactions

Related parties in the sense of IAS 24 include the Management and Supervisory Boards of TAKKT AG, the majority shareholder Franz Haniel & Cie. GmbH, Duisburg, and their subsidiaries and associated companies.

All transactions with related parties were contractually agreed and were performed on terms that are customary for transactions with third parties outside the TAKKT Group.

## Related-party business relations

(in EUR '000)

| | Holding Franz Haniel & Cie. GmbH/service companies | | Company divisions of Haniel Group | | Total | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Turnover | 24 | 22 | 539 | 727 | 563 | 749 |
| Other expenses | 525 | 533 | 243 | 240 | 768 | 773 |
| Interest income | 45 | 1 | 0 | 0 | 45 | 1 |
| Interest expense | 258 | 133 | 0 | 0 | 258 | 133 |
| Receivables | 1,380 | 0 | 41 | 173 | 1,421 | 173 |
| Payables | 0 | 1,397 | 2,472 | 2,635 | 2,472 | 4,032 |
| Contingent liabilities | 0 | 0 | 612 | 767 | 612 | 767 |

## Remuneration of Management Board

(in EUR '000)

| | 2005 | 2004 |
|---|---|---|
| Salaries and other short-term payments | 2,136 | 1,899 |
| thereof variable | 1,370 | 1,190 |
| Provisions for payments after employment contract | 121 | 190 |
| Other long-term payments | 40 | 40 |
| | **2,297** | **2,129** |

Variable remuneration results from a performance bonus in line with cash flow and a strategy bonus depending on Economic Value Added®.

At 31 December 2005 TAKKT AG Management Board members held 7,931 (7,691) shares. With the exception of EVA® certificates of EUR 2,263,000 (EUR 1,813,000) and the usual amounts due in accordance with the employment contracts, no further claims or obligations exist.

## Total remuneration of Supervisory Board

The reimbursement of expenses to the TAKKT AG Supervisory Board was EUR 10,000 (EUR 10,000). An accrual of EUR 237,000 (EUR 235,000) was made to cover remuneration payments. There are no further claims or obligations to members of the Supervisory Board.

At 31 December 2005 the Supervisory Board members held 31,139 (31,651) TAKKT AG shares.

### Fees for Group auditor's services
(in EUR '000 excluding VAT)

| | 2005 |
|---|---|
| Audit for individual German companies and the Group | 474 |
| Other certification or appraisal services | 53 |
| Tax advisory services | 0 |
| Other services | 3 |
| **Total** | **530** |

### Exemption from disclosure obligations
Pursuant to § 264 (3) HGB, the following companies included in the consolidated financial statements are exempt from the obligation to disclose their financial statements:

KAISER + KRAFT EUROPA GmbH, Stuttgart
KAISER + KRAFT GmbH, Stuttgart
Gaerner GmbH, Duisburg
Topdeq Service GmbH, Pfungstadt
Topdeq GmbH, Pfungstadt

### Subsidiaries of TAKKT AG, Stuttgart, at 31 December 2005

Information regarding Group companies is provided in a separate schedule, which is filed with the Stuttgart commercial register under HRB 19962.

## Representative Bodies (as of 31 December 2005)

### Supervisory Board

**Dr Klaus Trützschler (Chairman), Gelsenkirchen**
Born 11 December 1948
Member of the Management Board of Franz Haniel & Cie. GmbH, Duisburg
Member of the Supervisory Board of Allianz Versicherungs-AG, Munich
Member of the Supervisory Board of Bilfinger Berger AG, Mannheim
Member of the Supervisory Board of Celesio AG, Stuttgart
Member of the Supervisory Board of CEMEX Germany, Ratingen

**Dr Dieter Schadt (Vice Chairman), Mülheim an der Ruhr**
Born 6 March 1936
Former Chairman of the Management Board of Franz Haniel & Cie. GmbH, Duisburg
Member of the Supervisory Board of Delton AG, Bad Homburg
Member of the Supervisory Board of Esso Deutschland GmbH, Hamburg
Member of the Supervisory Board of Exxon Mobil Central Europe Holding GmbH, Hamburg
Member of the Supervisory Board of Lufthansa Service Holding AG, Kriftel
Member of the Supervisory Board of Rheinmetall AG, Düsseldorf

**Walter Flammer, Esslingen**
Born 9 February 1947
Section Manager Organisation at KAISER + KRAFT EUROPA GmbH, Stuttgart

**Dieter Kämmerer, Holzgerlingen**
Born 6 March 1936
Former Chairman of the Management Board of GEHE AG, Stuttgart
Member of the Supervisory Board of Allianz Private Krankenversicherungs-AG, Munich
Member of the Supervisory Board of GEHE Pharma Handel GmbH, Stuttgart

**Michael Klein, Hamburg**
Born 5 April 1956
Non-Executive Chairman of Rapp Collins GmbH, Direct Marketing Agency, Hamburg

**Thomas Kniehl, Stuttgart**
Born 11 June 1965
Logistics employee at KAISER + KRAFT GmbH, Stuttgart
Chairman of the joint works council of KAISER + KRAFT GmbH, Stuttgart, and KAISER + KRAFT EUROPA GmbH, Stuttgart

**Julian Matzke, Stuttgart**
Born 2 October 1962
Logistics employee at KAISER + KRAFT GmbH, Stuttgart

**Prof Dr Dres h.c. Arnold Picot, Gauting**
Born 28 December 1944
University professor
Chairman of the Supervisory Board of datango AG, Berlin
Chairman of the Supervisory Board of Sartorius AG, Göttingen
Member of the Supervisory Board of WIK GmbH, Bad Honnef
Member of the Supervisory Board of WIK-Consult GmbH, Bad Honnef
Member of the Supervisory Board of wunder media GmbH, Munich

**Prof Dr Theo Siegert, Düsseldorf**
Born 8 April 1947
Chairman of the Management Board of Franz Haniel & Cie. GmbH, Duisburg
Chairman of the Supervisory Board of Celesio AG, Stuttgart
Chairman of the Supervisory Board of Metro AG, Düsseldorf
Member of the Supervisory Board of ERGO Versicherungsgruppe AG, Düsseldorf

## Management Board

**Georg Gayer (Chairman), Eberdingen-Nußdorf**
Born 5 May 1946
Vice Chairman of the Supervisory Board of Rectus AG, Eberdingen-Nußdorf

**Dr Florian Funck (Controlling and Finance), Stuttgart**
Born 23 March 1971
Member of the Supervisory Board of SmartLoyalty AG, Wiesbaden

**Alfred Milanello (Information Technology and Organisation), Ditzingen**
Born 22 June 1941

**Franz Vogel (Sales), Leinfelden-Echterdingen**
Born 22 October 1948

Stuttgart, 24 February 2006
TAKKT AG
Management Board

## Auditor's report

We have audited the consolidated financial statements prepared by TAKKT AG, Stuttgart, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement, segment reporting and the notes to the consolidated financial statements, together with the management report for TAKKT AG and the Group for the business year from 1 January to 31 December 2005. The preparation of the consolidated financial statements and the management report for TAKKT AG and the Group in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB and supplementary articles of incorporation are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the management report for TAKKT AG and the Group based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW) and also in accordance with the International Standards on Auditing. Those standards require that we plan and perform the audit in a way that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the management report for TAKKT AG and the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to 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 consolidated financial statements and the management report for TAKKT AG and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the management for TAKKT AG and the Group report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and supplementary articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, 24 February 2006

Dr Ebner, Dr Stolz und Partner GmbH
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

| | |
|---|---|
| Bernhard Steffan | Wolfgang Berger |
| German Public Auditor | German Public Auditor |

# Glossary

### Average order value
The value of incoming orders is the number of all orders in relation to the average order value. The average order value is influenced by the product range featured in the catalogue and by the economic development. Exchange rate changes also influence the calculation of the average order value for the TAKKT Group.

### B2B or Business-to-Business
Supplier and customer relationships are deliberately established only between corporate customers.

### Cash flow
The financial cash surplus of a period. TAKKT AG defines this as profit plus depreciation and deferred tax affecting profit. In this definition the key figure shows the operative cash flow earned in the period before changes in working capital.

### Consolidation
Consolidation serves the purpose of creating consolidated accounts from the data provided by individual accounts from all companies in the Group. In the course of the consolidation Group internal transactions are eliminated. The Group accounts comprise a number of companies and show the Group as if it were a single entity.

### Corporate Governance
Company management according to specific rules, regulations, statutes and recommendations, with a special focus on shareholder relations and communication.

### Debt repayment period
This figure defines the arithmetical duration of debt repayment in years. At TAKKT AG, it is defined as "average net borrowings/cash flow".

### Deferred taxes
Differences between tax regulations and the IFRS regulations for the determination of profits result in different tax burdens. These differences are shown as deferred items on the assets side or the liabilities side of the balance sheet.

### Derivative financial instruments
Certificate or contract which refers to another – usually tradable – asset. Derivatives include interest rate swaps, currency forwards and currency options.

### Drop shipment business
Goods ordered by the customer – including bulky items – are delivered by the supplier directly to the customer. The invoicing procedure is the same as with the warehouse business.

### EBIT
Earnings before interest and tax.

### EBITA
Earnings before interest, tax and amortisation.

### EBITDA
Earnings not affected by interest, income taxes and amortisation of goodwill and depreciation of non-current assets.

### E-Commerce
Commerce via the internet; also includes e-procurement in the wider context of the word.

### Economic Value Added® (EVA®, registered trademark of Stern Stewart Co.)
The result generated is seen in relation to the total cost of capital, i.e. the cost of equity and debt. If the company generates a return that exceeds the cost of capital, value is added.

### E-Procurement
The electronic catalogue available on the internet is edited for Intranet use by selected customers. This procurement approach allows the customer to save on transaction costs.

### Gearing
Gearing measures the ratio between the shareholders' equity and net borrowings. This ratio is calculated by dividing net borrowings by the shareholders' equity.

### Hedging
Protection against interest rate, currency and price risks, etc. through the use of derivatives such as option or forward deals which (largely) cover the risks of the underlying transaction.

### High availability
Central IT hardware and network system in which two identical systems work in parallel to ensure high performance and data integrity. The central provision of the system reduces service and maintenance costs and ensures that a standardised system is used in the affiliated companies.

### Interest cover
Relation between an earnings figure, e.g. EBITA, and net interest expense.

### Interest rate cap
Derivative financial instrument – a guaranteed interest rate limit acquired against payment of a premium. If the interest rate exceeds the cap, the seller of the interest rate cap pays the difference to the acquirer.

### Interest rate swap
Derivative financial instrument – an agreement between two parties to swap interest payments on the basis of different interest rates, e.g. variable interest rates can be swapped with fixed interest rates.

### Internet Telephony (Voice over IP)
Realtime voice transmission over data lines.

### Inventory management system
Software which manages and documents all inventories, movements of goods and business processes. Open orders are constantly monitored for their status. Upon delivery, all necessary delivery notes and invoices are produced automatically.

### Mail order centre

Apart from the warehouse function, i.e. taking goods into or out of stock, a mail order centre also fulfils other functions such as strict quality control. Moreover, typical drop shipment items ordered by international customers are combined with stock items for delivery to the customer, thus optimising the transport channels.

### Market values

Balance sheet items are recognised at the value that can be realised in a market – e.g. the stock exchange – as of the reporting date.

### Net borrowings

Net borrowings is the balance of all interest-bearing liabilities and liquid funds reported in the balance sheet.

### Rating

Summary of a systematic evaluation of a company according to previously defined criteria.

### Risk management

Systematic approach to identifying and assessing potential risks for a company and choosing and implementing measures to avoid these risks and to reduce the potential negative effects.

### Stock shipment

Goods ordered by the customer are delivered from the warehouse. Products are kept in stock by the TAKKT companies.

### Translation risk

Valuation risk resulting from accounting regulations for the translation of items contained in individual financial statements prepared in foreign currencies.

## Financial calendar 2006

**23 March 2006**
Financial statements press conference in Stuttgart

**23 March 2006**
DVFA Analyst conference in Frankfurt/Main

**4 May 2006**
Interim report for the 1st quarter

**31 May 2006**
Annual General Meeting in Ludwigsburg

**3 August 2006**
Interim report for the 1st and 2nd quarters

**2 November 2006**
Interim report for the 1st – 3rd quarters

## For investor information please contact:

Joachim Eschke
Head of Finance and Investor Relations
T + 49 711.3 46 58 - 222
F + 49 711.3 46 58 - 104
joachim.eschke@takkt.de

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TAKKT AG
P. O. Box 10 48 62
70042 Stuttgart

Presselstrasse 12
70191 Stuttgart
Germany

T + 49 711.3 46 58 - 0
F + 49 711.3 46 58 - 100

service@takkt.de

www.takkt.de