

Review for the year 2005

- Sales grew by 9.6% and reached DKK 10.0 billion.
- EBITDA grew by 14% and reached DKK 1.5 billion.
- Profit of the year grew by 50% and reached DKK 603 million.
- This year's investments reached DKK 944 million.
- Cash flow from operations amounted to DKK 1.1 billion which is at the same level as in 2004.
- For 2006, we expect sales growth of 8% and a profit of the year around DKK 700 million.
- The proposed dividend is raised by 20% to DKK 4.80 per share.

Strong growth in Central and Eastern Europe and a general increase in the demand for energy-efficient buildings ensured continued progress for the Rockwool Group in 2005. The Group's net sales amounted to DKK 10.0 billion. With 9.6% sales growth, the Group clearly exceeded the goal of an annual sales increase of minimum 6%.

The Group's net profit also improved considerably, amounting to DKK 603 million, up 50% on the previous year.

The insulation business showed a sales growth of 11% thereby reaching a turnover of DKK 9.4 billion. This was achieved as a result of both higher prices and higher sales volumes. Once more, most progress was achieved in the Central and Eastern European markets driven by the growth engine of Russia, in particular. But Western Europe also experienced healthy growth in most markets. However, Germany was once again the exception, failing to achieve the expected reversal of many years' decline.

Systems Division also showed growth in spite of relatively difficult market conditions. The division experienced a sales increase of 6%, resulting in an annual turnover of DKK 1.7 billion. Rockfon acoustic ceilings and Rockpanel façade panels did particularly well.

In terms of costs, the Group, like so many others, was affected by high prices of energy and energy-related raw materials/services, such as plastic foil, binders and transport. After steep rises in recent years, coke prices showed a substantial downward trend in the second half of the year. Coke is the primary energy raw material in stone wool production.

Production capacity

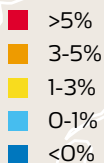
The strong growth in sales meant another year characterised by high levels of capacity utilisation in the factories. With a view to increasing the utilisation of capacity, major stocks were again built up during the low season to ensure customer supplies in the autumn months with the greatest demand. Furthermore, thanks to the reorganisation of the factory structure in recent years, production capacity now matches the demand better geographically.

The Group's planned sales for the years to come call for regular extensions of the production capacity. In 2005, two major new production plants as well as a number of minor production expansions in existing factories were under construction.

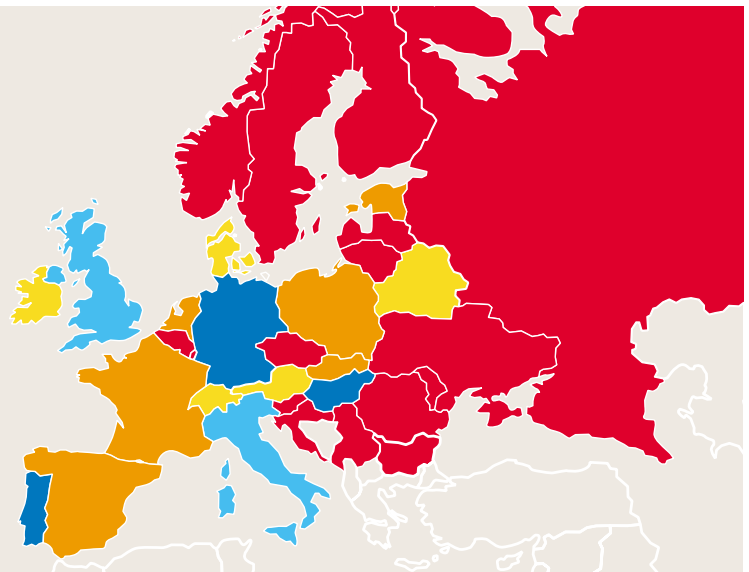
In Vyborg, north-west of St. Petersburg, Russia, a factory was constructed to supply the rapidly growing Russian market and the neighbouring regions. The construction project has been on schedule and the factory is expected to be fully operational within short.

In the summer of 2005, it was decided to build a factory on the Istria peninsula in north-western Croatia. The factory is to supply the rapidly growing markets in the region. The investment is expected to amount to about DKK 550 million. The factory design phase is on schedule.

Growth in European construction markets in 2005



Sources: Euroconstruct et al.



Strategic initiatives

In 2005, the Rockwool Group intensified its work on norms & standards based on the realisation that the legislative framework at both EU and national levels is a major factor in the effort to achieve better energy efficiency, fire safety and acoustics. One example is the EU directive on the energy performance of buildings that came into force on 4 January 2006. The authorities increasingly make use of the Group's expertise on how to improve energy efficiency in the respective countries. The Group has a policy of actively sharing its know-how to ensure that regulations reflect the reality and benefit social development.

By way of the People & Brands project, the Rockwool Group is currently undergoing a strategic transformation to prepare the Group for the position as the preferred supplier of products, systems and solutions to improve energy efficiency, acoustics and fire safety in buildings.

An important aspect of this is the development of the BuildDesk business area, which provides software tools and consulting services for energy optimisation in buildings. In 2005, BuildDesk was organised as a division, and in the important German market, BuildDesk achieved a breakthrough by entering into a partnership with a large number of the German construction dealers for the development of a joint energy certificate concept and consulting services to improve energy efficiency. In Denmark, BuildDesk was launched in December 2005 to great market interest.

Profit of the year

The Group as a whole generated EBITDA of DKK 1,500 million, an increase of DKK 182 million or 14%. EBITDA was 15% of sales.

The Group's operating profit before financial items (EBIT) totalled DKK 885 million, an increase of DKK 219 million or 33%.

The financial goals were evaluated at the beginning of 2005. The profit ratio target for 2005 was increased from 6 to 9%. This was almost achieved by the Group with a realised profit ratio of 8.8% in 2005.

The overall development in activity and earnings is considered satisfactory. The return on invested capital target had in 2005 been raised from 10 to 14%. The Group realised a return on invested capital of 18.3% - 4.5%-points better than 2004 - and higher than the target.

The financial items showed a net expenditure of DKK 43 million, which is DKK 38 million less than the previous year and mainly the result of currency exchange rate gains.

Tax on the profit of the year amounted to DKK 275 million corresponding to an effective tax rate of 31.3% which is 1.9 %-points lower than last year's effective tax rate.

Profit of the year amounted to DKK 603 million, an improvement of DKK 200 million or 50% compared to 2004.

Danish company tax

According to the Danish tax authorities, the licence payments of the foreign subsidiaries were too low in the period 1999 to 2003. In september 2005, the authorities consequently charged the Group DKK 135 million in surtaxes, which are primarily related to the claim of too low licence payments.

The Group has contested the decision before the National Tax Tribunal. If the National Tax Tribunal finds for the tax authorities, the tax payable by the foreign subsidiaries is to be reduced accordingly, as the double taxation agreements stipulate that a company is not to pay tax on the same profit in two countries.

New Danish tax returns with higher depreciation for the years 1999 to 2003 were submitted in October 2005, and the tax amount of DKK 135 million was subsequently cancelled. The tax authorities have not yet paid back the DKK 135 million.

Investments and cash flow

The Group still has a strong cash flow from operations. In 2005, the Group realised a cash flow from operations of DKK 1,103 million, which is of the same level as in 2004.

In recent years, strong focus has been on the development of the working capital. An increase in trade accounts receivable led to an increase in working capital of DKK 109 million, which is satisfactory in view of the strong sales growth. Reductions in stocks and an increase in trade accounts payable almost balanced out the negative cash flow effect of the increase in trade accounts receivable. It is therefore primarily the development of other receivables, e.g. the above mentioned tax payment, which explains the overall increase in working capital of DKK 141 million.

Investments in 2005 amounted to DKK 944 million which is in line with our announced expectations.

Free cash flow then amounted to DKK 160 million, a decrease of DKK 264 million on the previous year. The lower free cash flow is due to higher investment activities in 2005 as well as the above mentioned tax payment. Measured against sales, the free cash flow corresponds to 1.6%. The Group's target of generating a free cash flow of minimum 2% of sales is maintained.

Balance sheet

Total assets amounted to DKK 8,001 million at the end of 2005, an increase of DKK 895 million on the previous year, primarily due to increased fixed assets (DKK 457 million) and an increase in postponed tax assets (DKK 215 million).

At the end of the year, equity had climbed to DKK 5,075 million, or 63% of total assets. This is unchanged compared to the year before. The goal of maintaining an equity ratio of minimum 50% still applies.

The financial gearing, which is the net interest-bearing debt ratio to equity, amounts to 4.0%. The short-term debt has increased slightly compared to 2004. By the end of 2005, the Group has unused committed credit facilities of DKK 1,541 million.

Expectations for 2006

A sales increase of approximately the same level as in 2005 is expected when measured in constant exchange rates. This increase amounted to 8% in 2005, and with a similar growth rate in 2006, turnover will reach DKK 10.8 billion. Increasing sales are expected in all markets, amongst others influenced by the EU directive on energy performance of buildings. Sales price increases are expected to be slightly lower than in 2005.

Even though coke prices are expected to be lower in 2006 compared to 2005, the total incoming inflation is not expected to be set off by higher sales prices.

Measured in constant exchange rates, the financial costs are expected to reach just under DKK 70 million.

The effective tax rate is expected to be slightly lower than in 2005.

Profit of the year is expected to be around DKK 700 million, an improvement of approximately DKK 100 million compared to the 2005 result.

Due to amongst others capacity investments in Central and Eastern Europe, a higher investment level is expected in 2006. For 2006, an investment level of around DKK 1.2 billion is expected, up DKK 250 million compared to 2005.

Profit development	DKK million
EBITDA 2004	1,318
Sales prices	+341
Sales growth/change in product mix	+174
Increases in purchase prices and wages	-378
Production efficiency improvements	+128
Other	-84
EBITDA 2005	1,500