

Review for the year 2006

- Sales increased by 15% and reached DKK 11.5 billion.
- EBDIT increased by 41% and reached DKK 2.1 billion.
- Profit after tax and minorities' interests increased by 65% and reached DKK 950 million.
- Cash flow from operations amounted to DKK 1.8 billion up 64% on 2005.
- Investment expenditure reached DKK 1.0 billion.
- For 2007, we expect sales growth of 12%, profit after minorities' interests around DKK 1.2 billion and an investment level of DKK 2.0 billion.
- The proposed dividend is doubled to DKK 9.60 per share.

Sales

Strong focus on energy savings in buildings and healthy construction markets in major parts of Europe once again secured the Rockwool Group a year of solid growth. Net sales reached DKK 11.5 billion, up 15% on the previous year and the highest growth rate recorded by the Group in recent times.

Profit after tax and minorities' interests also increased considerably reaching DKK 950 million, 65% higher than the previous year.

Geographically, the strongest growth was seen in Central and Eastern Europe where sales increased by 29%, reaching DKK 2.6 billion. Russia and Poland are by far our biggest markets in this region and both experienced a strong year with a solid sales performance. In Western Europe, the Group's main geographical region with 69% of net sales, almost all countries benefited from the pick-up of the European economy and this included Germany which is the Group's biggest market. The Western European region's sales increased by 12% to DKK 7.9 billion. On the markets outside Europe, the development was also positive with a sales increase of 12% to DKK 1.0 billion.

The insulation business, the Group's biggest business area with 85% of sales, showed the strongest performance and sales expanded by 15% reaching DKK 10.9 billion. Of this growth, one quarter can be attributed to higher prices and three quarters to larger volume and change in product mix. Both construction of new buildings and renovation of existing buildings contributed to the significant sales increase. The activity level within residential building activities was particularly good but also the non-residential segment showed a good performance after years with lit-

tle activity. Towards the end of the year, the effect of tightened energy requirements in some of the member states' building codes in the wake of the implementation of EU's Energy Performance of Buildings Directive (EPBD, see p. 18) was also seen within certain segments.

Systems Division also showed satisfactory growth, though at a lower level than the insulation business. Sales grew by 4% reaching DKK 1.8 billion. The Division's activities are less exposed to the strong performing residential building markets than the insulation business. Sales of Rockfon acoustic ceilings, the biggest business area in the division, developed well but also within the four other business areas, progress was seen.

BuildDesk Division continued the expansion of the business platform with the establishment of a French organisation and the acquisition of a Dutch consultancy firm in February 2007. In several of the countries where BuildDesk is active, the introduction of new building codes gave rise to a solid demand for the division's software tools, services and consultancy.

Production

Full capacity utilisation of the production plants created a favourable basis for a good financial result. This was, however, somewhat counterbalanced by rising wage and raw material costs. Prices of coke – the main energy raw material – continued down during the first part of 2006, but started to show an upward trend towards the end of the year.

In 2006, the Rockwool Group continued the expansion of its production base. A new plant producing Rockfon ceilings was inaugurated in Cigacice, Western Poland, thereby



Central and Eastern Europe once again showed the strongest sales growth. The region now accounts for 22% of the Rockwool Group's turnover. Russia is our biggest market with Poland close behind.

strengthening the Rockfon business' strategic base. In Vyborg, northwest of St. Petersburg, the second Russian Rockwool factory came into operation. During the year, the normal optimisation of the production has taken place and the factory is now running at full capacity servicing the rapidly growing Russian market as well as Finland.

Despite the new Russian factory and several other projects which have increased capacity at the existing factories, the Rockwool Group was not able to meet the drastically increasing demand for stone wool products. The surge in demand took all market players by surprise. As a consequence, the industry was more or less sold out in the second half of the year leading to growing delivery times within all segments.

Additional production capacity is being added but it takes several years to build a stone wool factory. As announced earlier, the Group is currently building a new factory in Istria, Croatia. The project is well on track and is expected to start operations in September 2007.

In November 2006, it was furthermore announced that a major capacity expansion programme involving five new factories/lines was in preparation. Each of these five projects will entail investments in the region of DKK 500-700 million. In December 2006, the first of these was announced namely the building of a new line at the factory in

Malkinia, Eastern Poland, an investment estimated at DKK 500 million. The second project is a new production line in connection with our North American factory close to Toronto, representing an investment around DKK 670 million.

Profit for the year

In 2006, the Group generated an EBDIT of DKK 2.1 billion up 41% compared to 2005. EBDIT was 18.4% of net sales.

Operating profit before financial items (EBIT) reached DKK 1.4 billion, an increase of DKK 520 million or 59%. The profit ratio of 12.2% exceeds the 2006 target of 9%.

Financial items showed a net expenditure of DKK 34 million, DKK 9 million less than the previous year.

Tax amounts to DKK 432 million corresponding to an effective tax rate of 30.8%. The effective tax rate is 0.1 percentage point higher than last year.

Profit after tax and minorities' interests was DKK 950 million, an improvement of DKK 376 million or 65% compared to 2005.

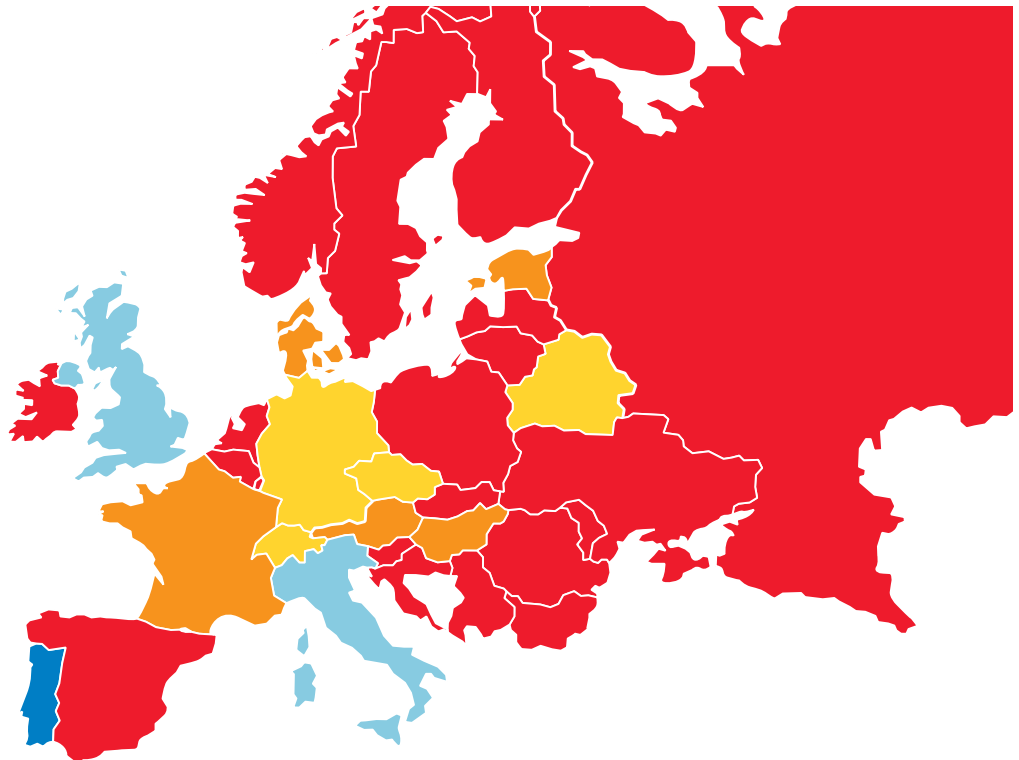
Investments and cash flow

Cash flow from operations reached DKK 1.8 billion up 64% on 2005. The positive development was caused not only by the strong development in profits but also a continued focus on working capital management. Trade accounts re-

Growth in European construction markets in 2006

- >5%
- 3-5%
- 1-3%
- 0-1%
- <0%

Sources: Euroconstruct for EU and own estimates for other countries.



ceivables increased by DKK 163 million or 12% which is less than the increase in sales. Combined with a small increase in stocks and increases in trade accounts payable and other accounts payable, working capital remained at the same level as in 2005.

Investments in 2006 ended up at DKK 1.0 billion, slightly lower than the previously announced expectations.

Free cash flow reached DKK 805 million, an increase of DKK 646 million compared to 2005. The free cash flow corresponds to 7.0% of the Group's sales which is significantly higher than the 2006 target of a free cash flow of minimum 2% of sales.

Balance sheet

At the end of 2006 total assets made up DKK 8.6 billion, an increase of DKK 0.6 billion compared to the end of 2005. The increase is primarily due to increased tangible fixed assets (DKK 223 million) and an increase in cash (DKK 323 million).

Equity at the end of 2006 amounts to DKK 6.0 billion, corresponding to an equity ratio of 70%. The Group's target of a minimum equity ratio of 50% is therefore fulfilled.

The strong cash flow in 2006 has been used to reduce interest-bearing debt. End of 2006, interest-bearing debt amounted to DKK 127.3 million, a reduction of DKK 480.2

million compared to end of 2005. By the end of 2006, the Group has unused committed credit facilities of DKK 1.5 billion.

New financial goals

The Group has in 2006 reviewed its goals for financial performance in the coming years. In light of the positive market development the Group has decided with effect from 2007 to raise the sales growth goal from minimum 6% per year to minimum 8% per year and to raise the goal for the profit ratio from 9% to 11% of turnover. The goal for return on invested capital is raised to 15% against previously 14%. The Group has not changed its goal of an equity ratio of minimum 50%.

In recent years the Group has generated a strong cash flow from operations and the sharp focus on generating cash will be maintained in the coming years. The current market development presents a unique growth opportunity for the Group and as announced in November 2006 substantial capacity investments will be initiated in the coming years. This will reduce the Group's free cash flow in the short and medium term. It has therefore been decided for now to abandon the goal of generating a free cash flow of 2% of turnover.

Expectations for 2007

The very positive market development both in Western Europe and Central and Eastern Europe in 2006 is expected to continue in 2007. This means that the industry generally will have full capacity utilisation throughout the whole year. Due to the limitation in capacity, sales are not expected to increase as much as in 2006 where they increased by 15%. For the full year, sales are expected to increase by 12% with a higher increase in the first half-year 2007 and a lower increase in the second half-year 2007.

Sales prices are expected to increase in 2007 compared to 2006. For the full year, however, the impact from the sales price increases is not expected to completely compensate for the incoming inflation.

The finance costs are expected to be approx. DKK 50 million. The new tax law in Denmark is not expected to have any major impact on the Group's tax payment. The tax percentage for 2007 is expected to be 28% which is approx. 3% lower than in 2006.

Profit for the year after minorities' interests is expected to be around DKK 1.2 billion – an improvement of approx. DKK 250 million.

The investments in capacity increase mean that the investment level for the coming years will be at a significantly higher level than in the previous year. For 2007, it is expected to be around DKK 2 billion.

Profit development	DKK million
EBDIT 2005	1,500.0
Sales prices	438.8
Sales growth/change in product mix	420.4
Increases in purchase prices and wages	-196.0
Production efficiency improvements	97.4
Other	-138.7
EBDIT 2006	2,121.9