Gurit

Annual Report 2005

As announced at the end of August 2005, it is planned to separate Gurit-Heberlein Group into two independent companies effective as at January 1, 2006.

The Annual General Meeting of Shareholders will decide on these proposals. This annual report will thus be the last one dealing with the Group in its previous form.

In order to familiarize shareholders with the two independent companies, we attach two corporate profiles presenting Gurit Holding AG and Medisize Holding AG as they are proposed to be formed.

KEY STEPS LEADING TO THE CREATION OF TWO INDEPENDENT COMPANIES

For easy and rapid reference, the most important steps leading to the separation of Gurit-Heberlein Group and the formation of two independently listed companies are shown below:

December 15, 2005
Gurit-Heberlein AG founded Medisize Holding AG, Wattwil, by means of contribution in kind; share capital CHF 23.4 million split into 4 680 000 registered shares at CHF 5 par value

March 21, 2006
Media/Analyst conference of Gurit-Heberlein Group
Publication of Annual Report 2005
Publication of Medisize Holding AG Corporate Profile
Publication of Gurit Holding AG Corporate Profile

March 22, 2006
Invitation to the Annual General Meeting of Shareholders to be held on April 12, 2006, 4 p.m., Seedamm Plaza, Pfäffikon SZ

April 12, 2006
Annual General Meeting of Shareholders, doors open at 3 p.m., meeting starts at 4 p.m., Seedamm Plaza, Pfäffikon SZ

End of May 2006
Official request to list Medisize Holding AG on SWX Swiss Exchange

June 2006
Capital reduction at Gurit-Heberlein AG; emission of new Medisize Holding AG registered shares

End of June 2006
Planned first day of trading for Medisize Holding AG on SWX Swiss Exchange

Agenda for the Annual General Meeting of Shareholders

At the Annual General Meeting of Shareholders scheduled for April 12, 2006, shareholders will decide on important issues. The invitation to the Annual General Meeting, together with the agenda and the respective proposals made by the Board of Directors can be downloaded at www.gurit.ch after March 22, 2006.

The proposed transaction

Capital reduction at Gurit-Heberlein AG by CHF 23.4 million by means of
- Reduction of the par value of bearer shares from CHF 100 to CHF 50
- Reduction of the par value of registered shares from CHF 20 to 10 CHF

Issue of 4 680 000 new registered shares at CHF 5 par value of Medisize Holding AG (total share capital of CHF 23.4 million) to existing Gurit shareholders according to the numbers of Gurit shares held at the moment of the listing of the new Medisize Holding AG at the end of June 2006
- Per one Gurit-Heberlein AG bearer share, issue and contribution of ten new Medisize Holding AG shares
- Per one Gurit-Heberlein AG registered share, issue and contribution of two new Medisize Holding AG shares

Gurit-Heberlein AG will change its name to Gurit Holding AG

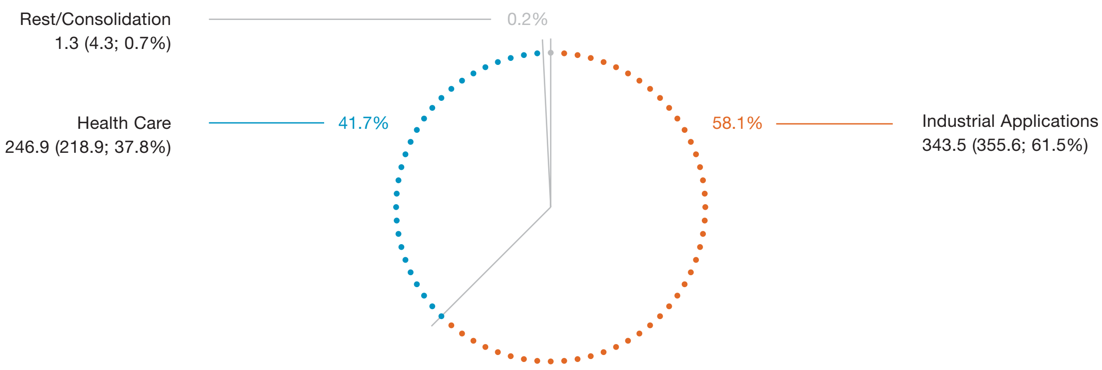
FACTS AT A GLANCE

Group (IN CHF MILLION)	2005	2004
Group net sales	591.7	578.8
Change over previous year	+2.2%	
Cash flow (inlcuding extraordinary factors)	20.6	52.0
Cash flow (without extraordinary factors)	50.1	
Change over previous year	–3.7%	
EBITDA (inlcuding extraordinary factors)	24.1	66.3
EBITDA (without extraordinary factors)	62.5	
Change over previous year	–5.7%	
EBIT (inlcuding extraordinary factors)	–27.5	30.0
Extraordinary factors and sale of holdings	–63.9	
EBIT (without extraordinary factors)	36.4	
Change over previous year	+21.3%*	
* Goodwill amortizations ceased		
Group profit (inlcuding extraordinary factors)	–29.6	15.8
Extraordinary factors and sale of holdings	–54.9	
Group profit (without extraordinary factors)	25.3	
Change over previous year	+60.3%*	
* Goodwill amortizations ceased		
Investments in fixed assets	20.1	29.9
Equity (including minority interests)	423.8	453.2
in % of total assets	63.8%	
Number of employees	Ø = 2 508	Ø = 2 586
Net sales per capita in CHF	235 940	223 810
Net value added per capita in CHF	128 930	126 940
(Net value added = Net sales minus cost of products)		

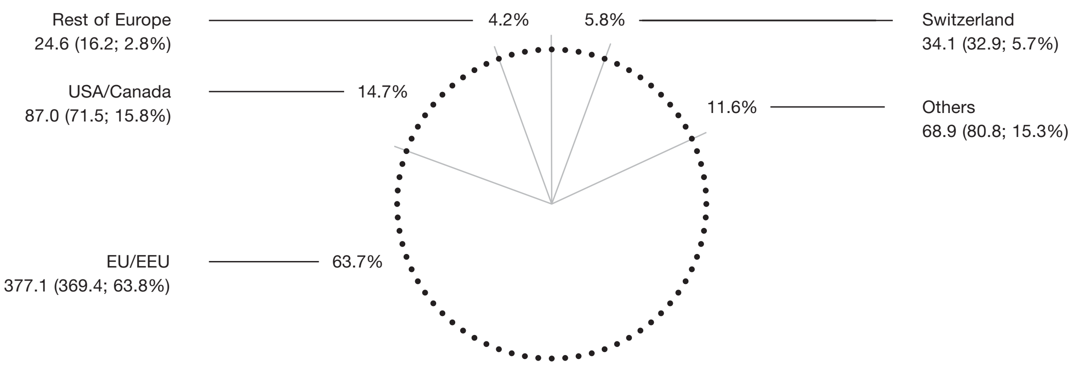
For 3 year comparison see financial review on page 34

Gurit-Heberlein AG (IN CHF MILLION)		2005	2004
Result (excluding extraordinary factors)		16.6	13.5
Extraordinary factors from sale of holdings and granted waiver of receivables to subsidiaries		–45.3	
Total result		–28.7	
Dividend		24%	24%
in CHF per bearer share at par CHF	100.–	24.–	24.–
in CHF per registered share at par CHF	20.–	4.80	4.80

Sales by Divisions in 2005



Share of sales by region in 2005



BOARD AND MANAGEMENT

Board and Group Management	As per December 31, 2005
Board of Directors Gurit-Heberlein AG	Dr. Paul Hälg, Wollerau, Chairman
	Robert Heberlein, Zumikon, Chairman Audit Committee
	Nick Huber, Balgach
	Dr. Walter Känel, Jona, Chairman Nomination/Compensation Committee
	Paul J. Rudling, Newport GB (until April 12, 2006)
	Dr. Rudolf Wehrli, Richterswil
Group Management Gurit-Heberlein AG (until June 30, 2006)	Dr. Rudolf Wehrli, CEO Gurit-Heberlein Group
	Peter Lieberherr, CFO Gurit-Heberlein Group
Group staff, Legal	Siniša Stamenic
Group Communication	Bernhard Schweizer
Group Controlling	Roland Jud
Auditors	PricewaterhouseCoopers AG, St. Gallen

Board of Directors and Management as planned following the separation of the Group

Board of Directors Gurit Holding AG	
Dr. Paul Hälg, Wollerau	Chairman
Robert Heberlein, Zumikon	Chariman Audit Committee
Nick Huber, Balgach	
Dr. Walter Känel, Jona	Chairman Nomination/Compensation Committee
Dr. Rudolf Wehrli, Richterswil	

The Board will propose an additional member for election at the upcoming Annual General Meeting on April 12, 2006.

Management Gurit Holding AG	
Jouni Heinonen	CEO Gurit Holding
Nikolaus Belz	CFO Gurit Holding

Board of Directors Medisize Holding AG	
Dr. Paul Hälg, Wollerau	Chairman
Robert Heberlein, Zumikon	Chariman Audit Committee
Nick Huber, Balgach	
Dr. Walter Känel, Jona	Chairman Nomination/Compensation Committee
Matthew Robin, Liestal	
Dr. Rudolf Wehrli, Richterswil	

Management Medisize Holding AG	
Jerry Sullivan	CEO Medisize Holding
Peter Lieberherr	CFO Medisize Holding (a.i.)
Jerry Sullivan	CEO Coltène/Whaledent
Andreas Meldau	Coltène/Whaledent EMEA
Willem van den Bruinhorst	CEO Medisize (Medical)

GROUP ORGANIZATION

The following two organizational charts show the structure of the two Group Divisions of Gurit-Heberlein effective as at January 1, 2006. The Health Care Division shall be listed as an independent company during the course of Summer 2006. The Composite Division will continue to exist under the new name of Gurit Holding AG.

Sparte Health Care
Planned: Medisize Holding AG

Medisize Holding AG
Jerry Sullivan, CEO

- **Dental Business** – Jerry Sullivan
  - **Americas** – Jerry Sullivan
  - **Europe/Middle East/Africa** – Andreas Meldau
  - **Asia** – Michael Nordahl
- **Medical Business** – Willem van den Bruinhorst
  - **Operations** – Willem van den Bruinhorst
  - **Airway Management** – Marc Goesmans
  - **Development & Manufacturing** – Christof Plätzer

Sparte Composite
Planned: Gurit Holding AG

GURIT Holding AG
Jouni Heinonen, CEO

- **CFO Gurit Holding** – Nikolaus Belz
- **Human Resources** – Isabela Quinton
- **Corp. Development** – David Schofield

- **Wind Energy** – Adrian Williams
- **Transportation** – Kees Reijnen
- **Marine, Sport** – Graham Harvey
- **Operations** – James Austin
- **Technology** – Damian Bannister

REPORT OF THE BOARD OF DIRECTORS AND GROUP MANAGEMENT

In 2005, the Gurit-Heberlein Group increased its net sales by 2.2% to CHF 591.7 million. The two divisions made very different contributions to this result. Health care activities developed very satisfactorily with sales growing by 12.8% to CHF 246.9 million. In contrast, sales in the industrial sector fell by 3.4% to a disappointing CHF 343.5 million. With an EBIT margin of 6.2% (excluding special items), the Group's operating result fell well short of the targeted double-digit objective. In view of the differences between the performances of the two divisions and the very different management tasks they imply, the Board of Directors decided in the summer to split the Group into two independent companies. Following the sale of the fiber technology activity, two clearly focused, independent companies will emerge in mid-2006.

Dr. Rudolf Wehrli, Dr. Paul Hälg

For some years now, the Group has consisted of two divisions. However, in the course of 2005, Gurit-Heberlein AG's Board of Directors decided to split it into two separate companies, both of which have the necessary scale to ensure their successful, independent survival. Apart from this, the two divisions have had widely diverging results in recent years and the challenges facing their respective managements likewise differ starkly. Add to this the fact that there is only restricted scope for synergy between the two and there seems little justification for them to have a shared future. The acquisition phase, and thus the construction of two robust corporate platforms, has now been completed. Today's global economic situation demands lean structures and well-targeted, clear corporate organizations: short decision-making paths, transparent financial solutions and minimized complexity.

The Health Care Division builds on its existing achievements

The Health Care Division, which specializes in products for dentists and dental laboratories together with respiratory products and the OEM manufacture of consumables for the global medical, pharmaceutical and diagnostic industries, underwent fewer changes than the industrial sector in 2005. Once again, however, the main issues were the establishment of a clear focus and the simplification of operations. One of the repercussions was the sale of the small Swiss distributor of medical products, Homedica, to a nearby competitor at the end of the year. Homedica generated only a small proportion of its sales with Group-manufactured products, the greater part coming from sales of third-party products. In the Health Care Division, Gurit has decided to concentrate primarily on sales of its own respiratory products, and the necessary infrastructure remains unchanged in the Benelux countries, Germany and Italy. At the same time, management structures have been further simplified and organizational efficiency enhanced by taking full advantage of the strengths of the various production sites. Here, it is especially important to mention the transfer of labour-intensive production operations to the plant in the Czech Republic and the rapid, uncomplicated integration of the former Createchnic in the Group's structures under the new name Medisize Schweiz AG.

The Health Care Division posts double-digit EBIT margin

The Group's Health Care Division finished the year in excellent shape with sales rising by 12.8% to CHF 246.9 million and EBIT growing slightly more strongly to CHF 27.5 million (excluding special items). The EBITA margin, which had risen above the 10% mark during the first half of the year, climbed to an impressive 11.1% by year-end. The increase in sales is primarily due to new projects in the medical sector and the penetration of new regional markets. The dental activities grew not quite as fast as expected. The improved result testifies to the effectiveness of various productivity-enhancing programs and the successful integration of Group companies in the two market sectors.

Disappointing results in the industrial sector

Gurit was confronted with a whole range of difficulties in the high-performance composites sector in 2005. Although two top-quality products and technologies made a broad-based market breakthrough in the important wind power industry supplies sector, airstream technology has so far failed to make the hoped-for contribution to the division's results. Ongoing shortages of carbon fibers hampered the production of these innovative components and depressed production volumes in another related field, glass fiber composites for the wind power market. On a more optimistic note, the structural foams initially used in the shipbuilding industry were successfully introduced to the wind power sector. Production capacity in Canada, which was massively expanded last year, is now working at the limit. The level of orders in the aviation sector has also developed encouragingly: apart from the increasing volume of materials supplied for earlier Airbus models, Gurit's efforts to secure approval for the quality of its products in recent years have resulted in no fewer than 17 new materials being certified for the interior of the new A380. The decline in the market for winter sports and special films persists.

Faced with these market developments and given the need to establish a clear position as an independent enterprise, it became clear during the second half of the year that widespread restructuring was required. To coincide with reorganization of the composites business into three markets (Wind Energy, Transportation as well as Marine and Sports) announced in early 2006, plans were also announced to shut down the Innsbruck facility at the end of 2006, with winter sports-related production being transferred to affiliated plants in Switzerland and Germany and the prepreg capacity moving to North America. The decision to strengthen the Group's position in North America is a response to the wind power boom that the region is currently experiencing. Film operations at the Ittigen/Bern site that do not target the above-mentioned markets will be integrated during the summer 2006 in a new joint venture with our Italian partners, Mazzuccheli, who are also active in this sector.

In order to achieve the organizational integration of the various production sites, a uniform production planning system (SAP) has been introduced in the plants in Great Britain and Spain. However, a number of problems had to be overcome before stable system operation could be achieved. The benefits, however, are now becoming evident.

Activities in the fiber technology sector continued to be dogged by a persistent cyclical low through to the autumn. This further accelerated the movement of markets away from Europe and the USA and into Asia, underscoring the fact that a strong presence in this region was essential to profitable future growth. However, a move on this scale would hardly have been feasible for a highly specialized component group such as Heberlein Fasertechnologie AG acting alone. At the same time, the cyclicality of the business increased further. In the months of consolidation in 2005, the fiber technology business impacted the Group results negatively. At the start of November 2005, therefore, Gurit sold these traditional – but nonetheless interesting – operations to the Saurer Group in Arbon. As a result of the new scenario, fiber technology activities, which had become increasingly marginalized in strategic terms, are once again a core business component.

The above-mentioned restructuring of composites activities, coupled with extraordinary depreciation in the fiber technology sector, resulted in extraordinary expenses of CHF 55 million by year-end. These, in conjunction with the procurement and market problems alluded to above, internal problems and the sale of the fiber technology sector resulted in divisional sales falling by 3.4% to CHF 343.5 million and a very unsatisfactory divisional EBITA of only CHF 10 million.

Changes in the way goodwill is treated to comply with IFRS also had an impact on the financial statement. While goodwill amortization totalled CHF 11.3 million in 2004, no corresponding item was posted in the 2005 financial statement.

As the parent company of the Group, Gurit-Heberlein AG reports a positive ordinary result before amortisation and restructuring contributions to subsidiaries. After these costs totalling CHF 45.3 million, Gurit-Heberlein AG shows a loss of CHF 28.7 million for fiscal 2005. The Board of Directors is convinced that both groups will prosper and thus proposes the payment of an unchanged dividend of 24%. The General Meeting will not only consider the request for the formal separation of the Group into two new groups but will also be asked to decide on additional items of business: it is planned, for example, to change the name of the current holding company Gurit-Heberlein AG to Gurit Holding AG in order to better reflect its new orientation.

Management and the Board of Directors recommend that shareholders at the Ordinary General Meeting will approve the proposal to divide up the Group. Following this operation, the current shareholders will hold a stake in two independent companies.

We should like to thank our shareholders, customers, suppliers, business associates and, in particular, all our employees in all sectors for their support, exemplary cooperation and trust from which the Gurit-Heberlein Group has benefited in the past.

We very much hope that they will all continue to support the two independent companies in the future.

Yours sincerely,

Dr. Paul Hälg
Chairman of the Board of Directors

Dr. Rudolf Wehrli
Chief Executive Officer

The Industrial Application division has considerably changed during the year under review. Effective as at the beginning of November, all fiber technology activities were sold. At year's end, the division is thus exclusively focused on advanced composite materials. The unique material characteristics such as low weight, stiffness and stability make these materials for many applications a must. Customers for these materials come mainly from the wind energy, marine, aerospace, automotive, winter sport, machine industry as well as the construction and infrastructure sectors.

INDUSTRIAL APPLICATIONS

INDUSTRIAL APPLICATIONS

The Industrial Applications division had a difficult fiscal year. In the composites sector, both sales and earnings suffered a downturn due to continued shortages of carbon fibers, project delays and cancellations as well as operating problems. The fiber technology business remained subdued at the bottom of its economic cycle. By year-end, sales by the division had fallen by 3.4% to CHF 343.5 million, with operating profit remaining at the unsatisfactory level of CHF 10 million, even excluding special items. Halfway through the year, the decision was therefore taken to review activities in the composites sector and implement further structural adaptations in the fiber technology business. A comprehensive reorganization of the composites sector was decided on at the end of 2005 and this will be put into practice without delay during 2006. Fiber technology activities were disposed of towards the end of 2005. As a result, at the start of the current fiscal year, the Industrial Applications division is acting solely as a Composites group. The adopted rationalization measures and structural adaptations led to exceptional expenses of CHF 51 million in this Division, ahead of the splitting up of the Gurit-Heberlein Group.

Gurit focuses in the future exclusively on advanced composites.

The Group's Industrial Applications division experienced a disappointing year with both the composites and fiber technology sectors continuing to be confronted with difficulties. The earnings of this division fell markedly short of expectations.

Sale of the fiber technology business

During the first half of the year, the cyclical low in the chemical fibers industry persisted despite the WTO's deregulation of the textiles market. Further restructuring operations in Germany coupled with movement towards integration in Switzerland had the desired effect on business with the break-even point in this sector falling dramatically. However, the prolonged cyclical downturn in the chemical fibers industry has shifted the market focus even more towards Asia, and in particular towards China, and inspired even greater consolidation in Europe. This means that direct access to the Asian markets is now even more important for any highly specialized component manufacturer. Gurit's Fiber Technology sector would have found this very difficult to achieve on its own. Consequently, in the autumn, the Board of Directors took the decision to integrate the traditional fiber technology operations within a new industrial landscape. As a result, the Swiss Saurer Group, which enjoys an extremely good position in the Asian market in terms of procurement, sales and production, has taken over Heberlein Fasertechnologie AG, Wattwil, together with its subsidiaries and affiliates. The Gurit-Heberlein Group's Fiber Technology activities which had been becoming increasingly marginalized at the strategic level during recent years, have thus once again started to function as a strategic core business in this new industrial environment.

Challenges in the wind power sector

The advanced composites sector developed at different rates in its various target markets during 2005. The supply of materials for wind turbine manufacture accounts for approximately half of all composites business. Although the global market for wind power continues to enjoy strong double-figure growth, it underwent major structural changes during the year. In Europe, wind power has become established as a clean, renewable and reliable source of energy, with the wind-rich areas of Northern and – increasingly – Southern Europe now producing substantial quantities of electricity. The average size of wind power generators has continued to grow over recent years. At the same time, the industry has achieved a more mature organization. The leading wind power generator manufacturers have now been joined in this market by traditional power station constructors.

Expanding the North American production base

The wind power business has acquired an international dimension. During 2005, the highest growth rates were observed no longer in Europe but in North America and Asia, in particular in China. Manufacturers of wind generators have mimicked this trend and now operate production sites in both North America and Asia where they expect their suppliers to follow them. For 2006, Gurit has decided to complement its existing structural foam capacity in North America through the transfer of a prepreg unit from Innsbruck and to set up new production plants for special carbon fiber components in the USA and in Spain. The development and introduction of this so-called airstream technology for the manufacture of wind blades which simplifies the production of enhanced stability wind generator blades represents a great technological success for Gurit.

Wind energy establishes itself as a reliable and clean form of energy in wide areas of the world.

Advanced composites are the materials of choice for many applications - today and in the future.

Advanced composites open up new constructive possibilities.

INDUSTRIAL APPLICATIONS

Scarcity in carbon fiber supplies

Unfortunately, this breakthrough made little impact on the results for 2005 since carbon fiber procurement continued to be problematic, with the production of glass fiber-reinforced materials suffering as a consequence. The situation has since improved a little but will continue to present difficulties throughout 2006 and 2007.

Considerable improvements in warehousing

Alongside these procurement problems, operating difficulties in the British and Spanish plants also impaired further growth. The necessary improvements have been decided on: warehousing costs should be considerably reduced in 2006 while capacity utilization will be significantly improved. A new, uniform SAP production planning system, whose introduction placed considerable strain on operations during part of the year under review, will make a significant contribution to achieving these objectives.

Established bridgehead in the Americas

The Canadian production plant which had significantly depressed results in 2004 performed impressively in 2005. This site is now fulfilling its intended function as a bridgehead in North America. A new management team has set the plant on the right course, with sales growing by 40% and displaying an encouraging level of earnings in the structural foam sector alone. At the same time, the highly motivated North American team has achieved great success in marketing composite products sourced from the European affiliates. At the beginning of the current year, it also proved possible to conclude supply contracts for substantial quantities of structural foams with the leading American manufacturer of wind power generators.

Success in the transport sector

Increasingly, the outstanding properties of high-performance composites are allowing these materials to replace traditional metals in the transport sector. Gurit enjoyed a particularly successful year in the field of aircraft interiors. Construction levels for Airbus, the most important customer in this sector, rose by approximately 30% over the 2004 level. It was possible to meet an increase in demand thanks to the successful qualification by Airbus of additional production capacity in the Kassel plant. Unlike in the wind power sector, procurement of carbon fiber materials for high-end applications in the aerospace sector remained guaranteed throughout the year despite a worldwide shortage of carbon fibers.

Important product specifications

Alongside the newly qualified plant in Kassel, Airbus has also specified and qualified no less than 17 new Gurit products for the construction of its new A380 long-haul aircraft. At the same time, development projects are underway for the new aircraft types A400M and A350 as well as for Boeing's new 787 Dreamliner.

Consolidation in the automotive industry

However, developments in the transport sector were not always as positive as in the field of aircraft interiors. In the field of automobile applications, Gurit suffered from the collapse of MG Rover, one of its main customers: following the cancellation of a high-volume project in the sports vehicle sector, it proved impossible to achieve the budgeted values even though the volumes shipped to other automobile industry customers increased. Gurit intends to extend its still very restricted level of automobile-related activities.

Stable shipbuilding-related operations

During 2005, it proved possible to continue to service existing customers while also establishing interesting new contacts in the European boat and shipbuilding market. This should contribute to further growth in the future although the volume of European business in 2005 remained practically unchanged from the previous year's level. In contrast, considerable progress in the shipbuilding sector was achieved in Australia, New Zealand and North America.

A restructured team – coupled with the creation of a marine competence center – boosted Australasian sales by approximately 30%, with the Far East market constantly growing in importance. Sales also increased in North America, in particular due to the continuing demand for structural foams in the shipbuilding sector.

Competition remains intense in the winter sports market

Against the background of a widespread fall in demand for winter sports articles during the winter of 2004/2005, the upheaval in the ski industry has become more intense than ever. On the one hand, with events at Rossignol and Salomon, two more leading traditional ski manufacturers have either lost their independence or changed hands. On the other, almost all ski manufacturers have pressed on at full speed with their cost-cutting programs. Thanks to its high-quality products and technical innovations, Gurit succeeded in maintaining its position as a leading supplier of running bases, upper surfaces and reinforcing elements. Increases in raw materials costs resulting from oil shortages and the falling demand for ski products more than cancelled out the earnings gained from our increased market share.

Restructuring measures prior to the splitting-up of the Group

As stated above, restructuring measures and extraordinary depreciations were necessary both in the divested fiber technology sector and in the core composites business during 2005. Overall, these measures lowered results by CHF 51 million. The fiber technology activities sold towards the end of the year impacted the result negatively taking all the measures taken into account that lead up to the sale of this business. Looking forward it is, however, more important to note that Gurit is no longer exposed to such a cyclical business.

New set-up for the composite business

Following the implementation of the restructuring measures mentioned above, the composites business was integrated into a uniform management and organizational structure at the beginning of 2006 and refocused on three clearly defined target markets – wind power, transport, and marine/sport/engineering – in an effort to strengthen customer relations. The Research & Development, Business Development and Production sectors have also been restructured.

The Innsbruck plant, which primarily services the contracting ski market, is due to close by the end of 2006. A prepreg plant was relocated from Innsbruck to Canada during the winter of 2006 while film production for the ski sector was transferred to Germany and Switzerland.

Film-related activities which do not focus on the above-mentioned target markets have been incorporated within a new joint venture with our Italian partner Mazzucchelli as of the middle of the year 2006.

In this new set up, Gurit now addresses the growing composites market more directly and in a more focused way. During the past acquisition phase, the organization was mainly a reflection of the various production sites. This has now been replaced by an organization that focuses on specific market areas unites the respective activities beyond traditional company boundaries. Therefore, the former com-

Advanced composites are regularly used in high performance sports cars.

Gurit materials are widely used to create light and appealing aircraft interiors.

An artist's conception of a luxurious aircraft interior.

Gurit has made itself a name as an innovator for marine applications.

Winter sport is traditionally an important application area for Gurit materials.

pany names will no longer be used unless they contribute substantially to a successful positioning in the market. It is an overall goal to underline the unified organizational and management structure to all markets by concentrating on one common name – Gurit.

The health care market is enjoying extremely dynamic growth worldwide. Gurit approaches this interesting market from three different angles. In the dental sector, Gurit covers virtually the entire range of dental treatments with products marketed under the Coltène/Whaledent, Roeko, Diatech and Hygenic labels. In the medical sector, Gurit makes anaesthetic and respiratory care products under clean room conditions for distribution under the Medisize brand. At the same time, Gurit is a leading partner in the development and production of medical and pharmaceutical consumables.

HEALTH CARE

HEALTH CARE

The Health Care division made a major contribution to Gurit-Heberlein's result in 2005. The division returned excellent results in both halves of the year. Sales rose by 12.8% to reach CHF 246.9 million. This was due to organic growth as well as to the first full-year consolidation of Medisize Schweiz. After posting an EBITA margin of 10.5% for the first six months of the year, the division managed to push up the margin to an impressive 11.1% by year-end. The results reflect the impact of the lean organizational structure and cost reductions achieved through the division's integration measures. At the same time, they are an indication of the division's strong positioning in the international health care market and an excellent performance in what continues to be a highly competitive environment.

Health Care is worldwide on of the most dynamically growing markets.

The encouraging growth enjoyed by the dental specialist group Coltène/Whaledent during the fiscal year is due to two trends: the continuing high level of investment and the company's readiness to enter new market regions.

Successful penetration of Asian markets

Although Europe and North America continue to represent Gurit's most important markets for dental products, Asia is gaining strategic importance. Coltène/Whaledent significantly increased its presence in the Indian, Chinese, Korean and Japanese markets during the year.

Sales in the Indian market, which already accounted for a large and growing proportion of revenues, more than doubled over 2004 levels. With respect to dental treatments of western stature, the market potential of India today is easily equivalent to large European markets such as France or Italy.

On the one hand, this prodigious growth achieved in India is due to a recent, exclusive cooperative agreement with a major Indian dental distributor who has widespread coverage in this enormous market. On the other, a broadly based program of training courses and talks is now beginning to bear fruit, as expected.

In 2005, Coltène/Whaledent opened a sales branch in Beijing, China. This means that all product authorizations and registrations can be managed internally and trading activities better coordinated. The contacts already established with distributors, authorities and training organizations have led to a very positive start to sales in this vast market. Initially, Coltène/Whaledent is concentrating on marketing its products in the five main cities of Beijing, Chengdu, Shanghai, Wuhan and Xian.

Increased sales were also reported in Korea and Japan, where growth is primarily due to product innovations and the burgeoning importance of cosmetic dental treatment. As a result of these factors, combined with reductions in state health care provisions, the two national markets are beginning to resemble the models familiar to us in Europe and North America.

Sales in Germany fell noticeably during the first six months of the year on the back of anxieties concerning statutory health insurance cover for dental treatment. However, a progressive recovery set in during the second half of the year. With the exception of Germany, Coltène/Whaledent made progress throughout the European market.

At international level, the consolidation of the major distributors continued. In the wake of mergers in the USA and Europe in earlier years, takeovers in Canada and Australia were mainly responsible for inventory reductions in certain areas and the subsequent fall in demand. However, this was a temporary state of affairs and should no longer be a problem in 2006.

Innovation geared to benefits for patients and dentists

As in earlier years, various product innovations made a significant contribution to results for 2005. In its research and development work, Coltène/Whaledent primarily focuses on the day-to-day activities of dentists and dental laboratories.

One of the key aims in research and development is to introduce new products that simplify treatment and make it more pleasant for the patient. At the same time, any new products must fit in seamlessly with well-established revenue earners in order to secure the latter's market position. In the course of the year, Coltène/Whaledent provided an impressive demonstration of this by launching two products for one of the most commonly performed dental treatments:

With MagicFoamCord, the gingiva surrounding a tooth is slightly opened and pushed back.

After the application of MagicFoamCord, it is time to prepare the impression material.

The result is a very precise impression that depicts even details that normally would be covered by the gingiva.

HEALTH CARE

Approximately 120 million dental impressions are taken worldwide every year – the majority of these in connection with dental crowns. Coltène/Whaledent has been able to secure an increasing share of this application market thanks to its innovative and technically superior products without jeopardizing its own, well-established standard products.

Coltène/Whaledent launched two new products – Magic FoamCord and TempoSIL – in 2005, which benefit dentists while also making treatment more pleasant for the patient. A quick examination of the practiced treatments makes it clear how well these two products harmonize with and complement the Coltène/Whaledent products used at earlier and later stages of treatment.

After the administration of the anaesthetic and the preparatory work (drilling, grinding), the new dental structure is built up using products from the ParaCore range. Then it is the turn of Magic FoamCord, the world's first expanding polyvinyl silicon material. The use of this product simplifies the precise recording of the contours around the gums or a newly constructed tooth. It achieves this by pushing the gums (sulcus) back slightly while the impression is being taken without, however, irritating or traumatizing them in any way. In the past, the dentist fitted retraction cords around the neck of the tooth, a time-consuming operation that most patients found unpleasant.

Because it comes in liquid form, Magic FoamCord is very easy to apply and offers outstanding compatibility with Coltène/Whaledent's Affinis and Speedex impression materials with which it combines during subsequent treatment to form a precise impression. In the USA, Magic FoamCord was cited as one of the ten most important new products worldwide by Reality, a leading dental publication.

The crown is then created on the basis of this precise impression. It is at this point that TempoSIL comes into its own. This is a polyvinyl silicon-based dental cement that has outstanding adhesive properties and, importantly, creates an excellent seal around the edges. At the same time, it is very easy to remove any surplus cement. The same characteristics make TempoSIL ideal cement for temporary dental care of the type required for crowns and bridges but do not impair its suitability for long-term dental restoration.

Dentists and patients alike have lost no time in showing their enthusiasm for Magic FoamCord and TempoSIL.

Ongoing cost pressures in the health care sector and the reduction of health insurance cover provided by the state and employers continued to act as decisive factors in 2005. Coltène/Whaledent is confronting this challenge and consciously focuses on the need for more economical, simpler and faster modes of treatment in its product development work. However, at international level it is becoming increasingly time-consuming and difficult to launch new products.

Many countries have introduced tougher approval regulations in line with the model used by the American Food and Drug Administration (FDA). The market's enthusiasm for new Coltène/Whaledent solutions is reflected in the fact that the new product launches in 2005 have again contributed strongly to sales growth and helped consolidate the sales levels of existing products. Important new product launches are also planned for 2006 and 2007; these include a further development of the Synergy filling material, whose outstanding feature is an easy-to-use colour system.

Continued internationalization of medical activities

Gurit's medical activities developed extremely encouragingly in 2005, with substantial increases in both sales and earnings. However, higher raw material prices pushed margins down slightly.

The strengthening of Medisize's role as a development and manufacturing partner was particularly encouraging. With the international medical and pharmaceutical industry undergoing further consolidation and concentrating on its core competencies, Medisize was quick to recognize a growing need for the outsourcing of certain production operations.

In 2005, Medisize's already prominent position in this young but expanding market led to some exciting new development projects, including the infusion systems sector or the primary packaging of pharmaceutical products. During the year, the customer base became even more international and broad-based. The lion's share of the development work is still carried out in the Netherlands. Projects that are sufficiently advanced for industrial implementation are increasingly being transferred to affiliate companies.

Stronger position in airway management
Medisize successfully increased sales of its anaesthetic and respiratory products over 2004 levels in practically all its important markets – Europe, North America and Japan – and was able to resist the price pressures characterizing the health sector through the production of higher volumes.

In Europe, these trends were accelerated by changes in the levels of statutory state health cover. Increasing numbers of disposable products are being used to help cut health care costs. At the same time, however, buyers are demanding lower prices to compensate for the higher volumes consumed.

Medisize strengthened its position in a market undergoing consolidation not least thanks to the introduction of innovative products such as the Hygrovent Gold respiratory filter with its unique humidification system. This product was certified in the USA at the end of 2005.

One of the milestones of the past year was the registration of the Netherlands plant by the US Food and Drug Administration. The two most important production plants in the Netherlands and Ireland now possess this approval and with it a persuasive competitive argument in a global market.

The Irish plant saw the installation of a versatile production line for various sizes of infusion bags, which previously had to be purchased. The associated validation work is already under way. The system strengthens Medisize's position in this important market segment and should soon translate into new orders.

The capacity of the plant in the Czech Republic to perform labour-intensive assembly operations has been increased. Apart from this, 2005 saw the installation of a new blister packaging line, the transfer from the Netherlands of production of an infusion mixing unit.

In mid-year, the integration of Createchnic was completed with the company name changing to Medisize Schweiz. The capacity and performance of this plant have been successfully extended through the introduction of uninterrupted round-the-clock operation assured by five different shifts. Production operations, which concentrate not only on pharmaceuticals packaging but also on the exacting "nutriceuti-

Airway management devices allow patients to breathe safely and comfortably.

Breathing filters provide patients with warmed and humified air.

Medisize produces the disposable parts of this infusion pump of the next generation.

Safe primary packaging is important for pharmaceuticals and specialty foods as well.

cals" sector, received the important EN 45011 BRC/IoC certification for nutriceuticals in 2005. A growing number of food stuffs is referred to as nutriceuticals since they offer positive health effects thanks to special, yet always prescription-free additives.