

SURTECO

A K T I E N G E S E L L S C H A F T

SPECIALISTS FOR SURFACE TECHNOLOGIES



» AT A GLANCE

[€ 000s]	2002	2003	Variation in %
Sales revenues	367,642	355,037	-3
Foreign sales in %	60	60	
EBITDA	69,761	63,976	-8
EBIT	42,736	37,214	-13
Results from ordinary activities before restructuring expenses	30,015	29,664	-1
Restructuring expenses	0	-2,570	
Results from ordinary activities after restructuring expenses	30,015	27,094	-10
Net income	17,586	14,858	-16
Minority interest	30	-11	
Consolidated net income	17,616	14,847	-16
Amortization and depreciation	-27,025	-26,762	-1
Financial result	-12,721	-10,120	-20
Additions to fixed assets	78,983	21,509	-73
Cash earnings	45,898	42,043	-8
Average number of employees for the year	2,053	1,941	-5
Number of employees at 31 December	2,033	1,937	-5
PROFITABILITY INDICATORS IN %			
Sales return	8.2	7.6	
Return on equity	18.1	14.7	
Return on investment	11.0	10.5	

ANNUAL REPORT

SURTECO AKTIENGESELLSCHAFT

2003

STRATEGIC BUSINESS UNIT

PAPER

PLASTICS

 BAUSCH-GMBH


Linnemann
MÖBELOBERFLÄCHEN

 BAUSCH-DEKOR


ARMABORD

Kröning GmbH
& Co.

 arbe


DÖLKEN
KLEBSTOFFHANDELUNG


DÖLKEN
WEIßHAAR


Praktikus


DÖLKEN
EDGING AND PROFILES


DÖLKEN-A.S.L.
EDGING AND PROFILES


DÖLKEN
WOODTAPE


vinylit


DÖLKEN
WERKZEUGBAU

» PICTURES

SURTECO AG produces and markets its products worldwide. Around 1,940 people work in the Group's companies. They develop, manufacture and sell sophisticated, high-quality products.

Members of staff working at all sites support the common goal of continuing to expand the unrivalled position of SURTECO as the world's leading player in manufacturing and supplying decorative, highly resistant and high-tech surfaces. SURTECO is also the most profitable business in this area.

Staff members from different parts of the company present their contribution to the success of the company seen from their perspective. Only the commitment and dedication of every individual can ensure the long-term success of SURTECO AG.



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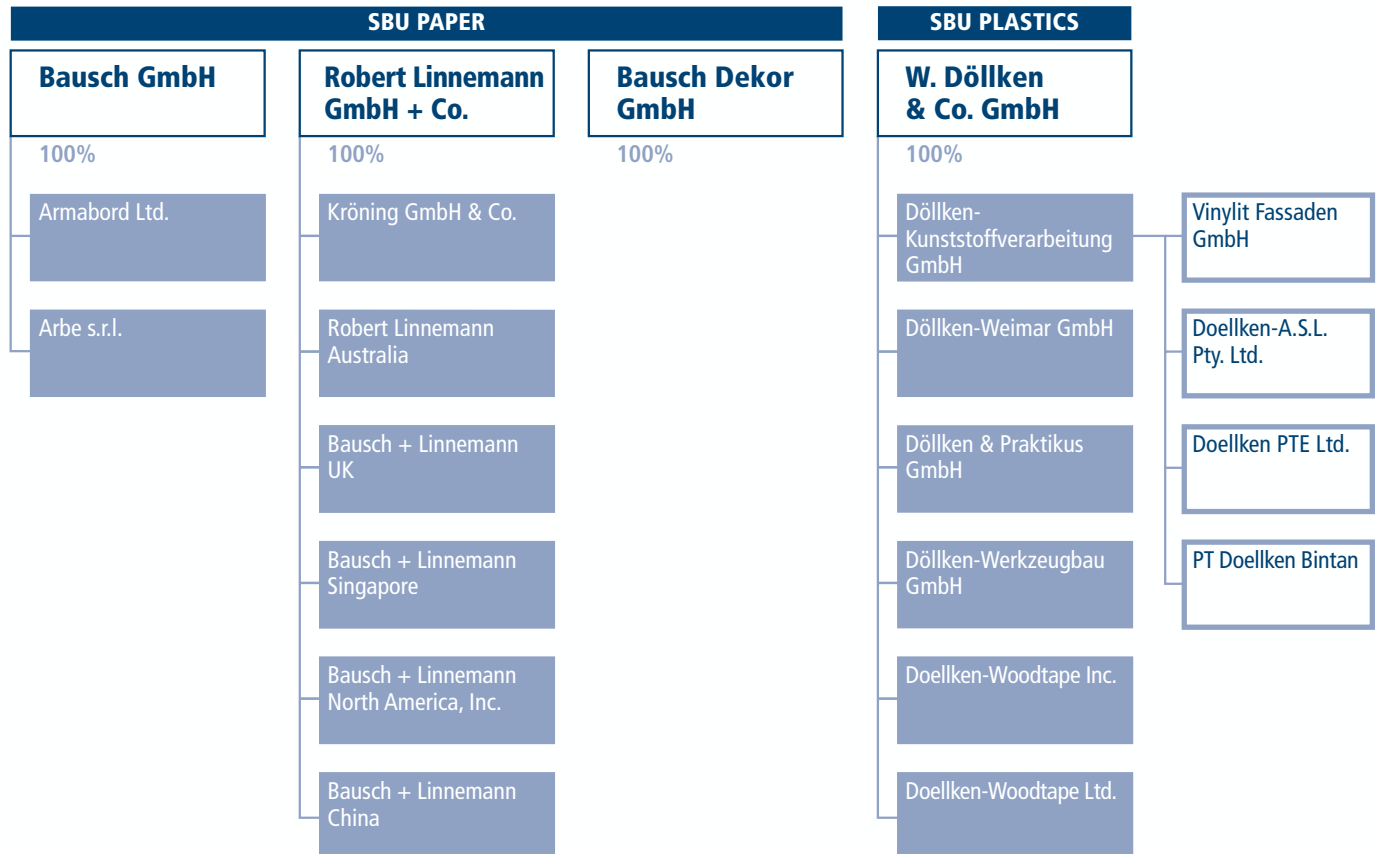
SECURITIES
IDENTIFICATION NUMBER
517690

TICKER SYMBOL
SUR

ISIN
DE0005176903

» GROUP STRUCTURE

SURTECO AKTIENGESELLSCHAFT



» LETTER TO SHAREHOLDERS

Friedhelm Päfgen



Bernd Dehmel



Dr.-Ing. Herbert Müller



**DEAR SHAREHOLDERS,
MEMBERS OF STAFF AND
FRIENDS OF OUR COMPANY**

Chairman

**Strategic Business
Unit Paper**

**Strategic Business
Unit Plastics**

The past financial year remained disappointing for us and especially for our customers in the furniture industry. There were already signs of weakness in the economy at the end of 2000 and this weakness has continued. Although we started to detect signs of a slight recovery from the third quarter of 2003, these initial indications failed to produce any sustained revival in business activity by the end of the year. The unfavourable price ratio between the euro and the US dollar provided additional burdens which increased over the course of the year.

Despite these circumstances we are able to report what are, I believe, creditable financial statements with sales of € 355.0 million and a result before restructuring costs of € 29.7 million.

These annual financial statements have been achieved by completing implementation of a wide range of measures, continuing existing programmes and initiating further action on this front. Measures include successful rationalization of

the DIY market range produced by Döllken & Praktikus, restructuring activities in North America and implementing the ZEUS project with the aim of integrating Bausch und Linnemann within the Strategic Business Unit (SBU) Paper, scheduled to be completed in mid-2004. As before, all programmes directed towards enhancing efficiency and cutting costs were pursued systematically.

SURTECO AG launched a large number of new and refined products on the market during the course of 2003. This campaign bore testimony to the fact that the company is not simply the cost leader in the sector. It is also operating at the cutting edge of quality and is a primary force for innovation.

We intend to expand our position in the market consistently during the coming year as the world's leading manufacturer and supplier of decorative, highly-resistant and high-tech surfaces. We will also seek to consolidate our status as the world's most profitable company in this sector.

We are very pleased to be in a position to announce an increased dividend payout over the previous year. We will propose a dividend per share amounting to € 0.70 (2002: € 0.65) to the Annual General Meeting of SURTECO AG on 17 June 2004 to be held in Munich. € 4.6 million (2002: € 8.3 million) will be transferred to revenue reserves.

I should like to extend my thanks to all the members of the SURTECO Group and express my appreciation of the commitment and energy that they have contributed to the company in these turbulent times.

Yours sincerely,
Friedhelm Päfgen
Chairman of the Board of
Management

» EXECUTIVE OFFICERS OF SURTECO AG

SUPERVISORY BOARD

Johan Viktor Bausch	Engineer Munich Honorary Chairman
Dr.-Ing. Jürgen Großmann	Engineer Hamburg Chairman
Christa Linnemann	Businesswoman Gütersloh Vice-Chairwoman
Jens Schürfeld	Businessman Hamburg Deputy Chairman
Harald Eschenlohr	Lawyer Munich
Wolfgang Gorißen	Engineer Münster Employee Representative
Inge Kloepfer-Lange	Journalist Berlin
Richard Liepert	Chairman of the Works Council, Wertingen Employee Representative
Bernhard Schlautmann	Businessman Gütersloh to 10/07/2003
Dr. Walter Schlebusch	Businessman Munich since 10/07/2003
Udo Semrau	Chairman of the Works Council, Gladbeck Employee Representative

BOARD OF MANAGEMENT

Friedhelm Päfgen Businessman Buttenwiesen-Pfaffenhofen
Chairman
Bernd Dehmel Businessman Marienfeld
SBU Paper
Dr.-Ing. Herbert Müller Engineer Heiligenhaus
SBU Plastics



EXECUTIVE MANAGEMENT OF GROUP COMPANIES

SBU PAPER

BAUSCH DEKOR GMBH · Buttenwiesen-Pfaffenhofen
Wolfgang Buchhart

BAUSCH GMBH · Buttenwiesen-Pfaffenhofen
Josef Bayer
Karin Harfich
Dieter Heckes
Dr. Stephan Schunck

ROBERT LINNEMANN GMBH + CO. · Sassenberg
Klaus Peper
Dr. Gereon Schäfer
Bernd Schwienheer
Jochen Stobwasser

ARMABORD LTD. · Burnley/Great Britain
Kenneth Green

ARBE S.R.L. · Martellago/Italy
Sergio Bellato

KRÖNING GMBH & CO. · Hüllhorst
Reinhold Affhüppe

BAUSCH + LINNEMANN
INTERNATIONAL GMBH · Sassenberg
Klaus Peper
Bernd Schwienheer

ROBERT LINNEMANN AUSTRALIA · Sydney
Marc Taylor

BAUSCH + LINNEMANN UK · Redditch
Tim Barber

BAUSCH + LINNEMANN SINGAPORE · Singapore
Peter Schellenberger

BAUSCH + LINNEMANN NORTH AMERICA · Greensboro
Mike Phillips

BAUSCH + LINNEMANN CHINA · Taicang
Yabin Li

SBU PLASTICS

W. DÖLLKEN & CO. GMBH · Gladbeck
Dr.-Ing. Herbert Müller

DÖLLKEN-
KUNSTSTOFFVERARBEITUNG GMBH · Gladbeck
Oliver Beer
Norbert Krupp
Hartwig Schwab

VINYLIT FASSADEN GMBH · Kassel
Michael Rautenberg

DOELLKEN-A.S.L. PTY. LTD. · Sydney/Australia
Marc Taylor

DOELLKEN PTE LTD. · Singapore
Peter Schellenberger

PT DOELLKEN BINTAN · Bintan/Indonesia
Peter Schellenberger

DÖLLKEN-WEIMAR GMBH · Nohra
Tibor Aranyossy
Hartmut Trommen

DÖLLKEN & PRAKTIKUS GMBH · Gladbeck
Dieter Baumanns
Frank-Jörg Schilaski

DÖLLKEN-WERKZEUGBAU GMBH · Gladbeck
Oliver Beer

DOELLKEN-WOODTAPE INC. · Everett/USA
Tom Rieke

DOELLKEN-WOODTAPE LTD. · Ontario/Canada
K. Alan Holtby (to 31/12/2003)
Jürgen Krupp
Peter Schulte

» REPORT OF THE SUPERVISORY BOARD

During the course of the fiscal year 2003, the Supervisory Board discharged its duties pursuant to the law and the Company's Articles of Association. It punctually obtained regular and comprehensive reports on the performance, position and development of the Company and monitored the executives of the Board of the Management. All fundamental decisions relating to the Company were addressed with the Board of Management. At its meetings and on the basis of regular and detailed reports, both verbally and in writing, the Supervisory Board addressed the development of the Company, business policies and strategic planning as well as the current business situation, the economic position and profitability of the company.

Supervisory Board Meetings

The Supervisory Board convened for five meetings during the course of the year under review. The Supervisory Board considered the content of the reports by the Board of Management and discussions took place with the Board of Management on the perspectives of the company for development. If decisions were required from the Supervisory Board on individual items of business and measures of the Board of Management, resolutions were adopted by the Supervisory Board at the meetings. The Supervisory Board and the Board of Management have directed all measures towards the goal of continuing to increase the productivity and profitability of the Company.

Corporate Governance

The Supervisory Board welcomes the German Corporate Governance Code as an important stage in the continued development of the practice of corporate management and control. Deviations from the regulations of the German Corporate Governance Code relating to the desired measures are published in

the joint Declaration of Compliance submitted by the Supervisory Board and Board of Management in accordance with Clause 161 of the Stock Corporation Act (AktG). The text of this declaration is printed in the Annual Report under the section entitled "Corporate Governance" and may also be viewed on the Homepage of the company's Internet site.

Committees

The members of the Supervisory Board of SURTECO AG elected appropriately qualified members to two specialist committees (Personnel Committee, Audit Committee) and the chairmen of the committees reported to the Supervisory Board on a regular basis concerning the work of the committees.

The Chairman of the Supervisory Board and both his deputies are members of the Personnel Committee and this committee takes the place of the Supervisory Board in making decisions on the conclusion, amendment and termination of the contracts of employment with the Members of the Board of Management. It also defines bonuses and emoluments

of the Members of the Board of Management and the pensions of former members of the Board of Management. The Personnel Committee met for one meeting during the course of the fiscal year 2003.

Three members of the Supervisory Board constitute the Audit Committee which addresses issues relating to accounting and risk management, the mandatory independence of the auditor, commissioning the auditor to carry out the audit, the determination of the focuses of the audit and agreement of the fee. The Audit Committee met for one meeting during the course of the fiscal year 2003.

Financial Statements

The Supervisory Board scrutinized the Consolidated Financial Statements of the SURTECO Group and the Annual Financial Statements of SURTECO AG for the year ending 31 December 2003 in detail at the meeting of the Supervisory Board on 28 April 2004. The auditors of Dr. Röver & Partner KG (auditors and tax consultants), Berlin, were present at the meeting for this item on the agenda.

The Consolidated Financial Statements and the Annual Financial Statements and the reports by the auditor were made available to each member of the committee in good time. We have no objections on the basis of our own audit of the Consolidated Financial Statements and the Annual Financial Statements of SURTECO AG, and also the Management Report, and we concurred with the result obtained by the auditors. The Supervisory Board has approved the Annual Financial Statements and the Consolidated Financial Statements prepared by the Board of Management, which are therefore adopted.

We agree with the proposal by the Board of Management for the appropriation of net profit that recommends payment of a dividend of € 0.70 for each no-par-value share.

Composition of the Board of Management

Mr Bernhard Schlautmann resigned his post as member of the Supervisory Board with effect from 10 July 2003. The Supervisory Board would like to thank Mr Schlautmann for the services he

has provided to the Company. Dr. Walter Schlebusch, Munich, was appointed to the Supervisory Board of SURTECO AG by resolution of the Annual General Meeting on 10 July 2003, with effect from the end of the Annual General Meeting.

The Supervisory Board would like to extend its thanks to the Board of Management, the executive managers, members of the Works Council and all members of staff for the contribution they have made to the development of the Company during the course of the past year.

Buttenwiesen-Pfaffenhofen,
in April 2004

The Supervisory Board

Dr.-Ing. Jürgen Großmann
Chairman



» CORPORATE GOVERNANCE

The term Corporate Governance describes the control, management and organization of a company and its principles of corporate policy and guidelines.

SURTECO AG welcomes the recommendations and suggestions of the German Corporate Governance Code and the goals to which they are directed. We want to guarantee trustworthy management and control of SURTECO AG directed towards added value.

Interaction of Board of Management and Supervisory Board

The Board of Management and Supervisory Board of SURTECO AG work closely together to promote the well-being of the company. The Board of Management complies with the principles of good corporate management and provides the Supervisory Board with regular, timely and comprehensive reports within the framework of the defined information

and reporting obligations. The Supervisory Board monitors the work of the Board of Management and acts in an advisory capacity. The Board of Management agrees the strategic direction of the company with the Supervisory Board and discusses the progress of implementation with the Supervisory Board at regular intervals.

Board of Management

The Board of Management of SURTECO AG is comprised of three members and is responsible for managing the company. It has a duty to act in the interests of the Company and to bring about a sustainable increase in the corporate value. The Board of Management makes its decisions unanimously. The Chairman of the Board of Management coordinates the principles of corporate policy.

The most important functions of the Board of Management include corporate strategy, the definition of the budget, basic issues concerning operational business and investments including key acquisitions, appointments to important positions, appropriate risk management and risk controlling within the Company, and the publication of quarterly and annual financial statements for the Group.

The members of the Board of Management are subject to a comprehensive prohibition on competition during the course of their activity for SURTECO AG. Remuneration for the Board of Management comprises a component that is almost completely variable.

Supervisory Board

The composition of the Supervisory Board is based on Clause 95 sentence 2 of the Stock Corporation Act (AktG) in conjunction with Clause 7 Section 1 of the Articles of Association. Pursuant to these regulations, the Supervisory Board of the Company comprises nine members which are elected by the Annual General Meeting. As an equivalent to the regulations defined in the Company Constitution Act dated 1952, which are not applied in the case of the Company, the Board of Management proposes three employee representatives to the Annual General Meeting for election.

Members of the Supervisory Board should not hold a total of more than five memberships of Supervisory Boards for companies outside the Group listed on the stock exchange. The Supervisory Board should not have more than two former members of the Board of Management. Members of the Supervisory Board should not be older than 63 years of age when they take up their office.

Each Member of the Supervisory Board has a duty to act in the interests of the Company. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and chairs the meetings. The Supervisory Board makes all resolutions by a simple majority vote. If there is parity of voting, the Chairman of the Supervisory Board holds the casting vote.

The Supervisory Board is in regular contact with the Board of Management and discusses the strat-

egy, business performance and risk management of the Company. The Supervisory Board must also agree the annual financial plan and approve the annual financial statements of SURTECO AG and the Group.

The Supervisory Board of SURTECO AG has two committees made up of appropriately qualified members. The Personnel Committee deals with the level of emoluments paid to the Members of the Board of Management and the other conditions of the contracts between the Company and the Board of Management. The Audit Committee addresses issues relating to accounting and risk management, the mandatory independence of the auditor, the appointment of the auditor to carry out the audit, the determination of the focuses of the audit and the agreement of the fee. The remuneration of the Members of the Supervisory Board comprises fixed and performance-oriented components.

Each Member of the Supervisory Board will disclose to the Supervisory Board any conflicts of interest, in particular such conflicts which may arise as a result of consultancy or exercise of official duties with customers, suppliers, lenders or other business partners. The Supervisory Board will provide information on any conflicts of interest that have occurred in its report to the Annual General Meeting and on how these conflicts have been dealt with. Any substantial conflicts of interest to which a Member of the Supervisory Board is subject and which are not temporary should lead to

termination of membership of the Supervisory Board.

The Supervisory Board of SURTECO AG will review the efficiency of its activities on a regular basis.

Shareholders and Annual General Meeting

The Annual General Meeting of Shareholders is convened by the Board of Management at least once every year and an agenda shall be provided for the meeting. The Board of Management will draw up the documents required under statutory regulations, including the Annual Report, and shall provide such documents to the shareholders on request. These reports and documents are also published on the Internet site of the Company (www.surteco.com), together with the agenda for the meeting.

The shareholders of SURTECO AG have the opportunity to exercise their rights at the Annual General Meeting and shall also be entitled to cast their votes at the meeting. Each of the no-par-value bearer shares is entitled to one vote. Each shareholder who has lodged their shares punctually is entitled to participate in the Annual General Meeting, to speak on the items listed on the agenda and to ask objective questions and put forward motions. The Chairman of the Supervisory Board is responsible for chairing the Annual General Meeting.

In order to make it easier for shareholders to exercise their rights, the Board of Management appoints a representative so that shareholders can exercise their right to cast votes by issuing instructions for



FRIEDHELM DICK,
Shift Manager in Production
at Vinylit Fassaden GmbH,
Kassel, Germany:

"Our new VinyPlus development is a high-quality plastic façade extrusion with the realistic, natural appearance of wood. This gives us a very promising product in our range. It can be used for renovation and is also a very exciting product for new building projects."



PETRA LÖCKMANN,
Clerk in Sales Export at Robert Linnemann GmbH + Co., Sassenberg, Germany:

"We sell our products in more than 60 countries in the world. Recently, the proportion of sales accounted for by exports has risen continuously. We see the biggest opportunities for growth in China. This is a huge market and we are only just starting to tap its potential."

proxy voting and this representative can also be reached during the Annual General Meeting. After submission of the Annual Financial Statements for SURTECO AG and the Group, the Annual General Meeting votes on the appropriation of profit and the discharge of the Board of Management and the Supervisory Board. The Annual General Meeting also elects the members of the Supervisory Board, appoints the auditor, agrees any changes to the Articles of Association and – if required by law – votes on any significant corporate measures.

Transparency

SURTECO AG publishes new facts on the company if they are likely to exert a significant influence on the share price of the securities of the Company quoted on the stock exchange. Punctual information is provided by means of ad hoc communications and press releases so that any new facts are immediately available to the shareholders, financial analysts, and comparable persons. SURTECO AG publishes quarterly and annual reports in German and English within the scope of regular reporting.

All shareholders and other interested parties are able to request the publications of SURTECO AG or have themselves entered on the postal and electronic circulation list. In addition, all publica-

tions and press releases are made available on the Homepage of the Company. All important dates for publications and events are also published here.

As soon as the Company receives notification or finds out in some other way that an individual has reached, exceeds or falls below a shareholding of 5, 10, 25, 50 or 75 percent of the voting rights in the Company by means of purchase or disposal or in some other manner, the Board of Management is under an obligation to disclose such information immediately in accordance with the statutory regulations. Any transactions in shares carried out by the executive officers of the Company and notified to the Company pursuant to Clause 15a of the Securities Trading Act are also notified.

Accounting and Auditing

The accounts are drawn up at the SURTECO Group pursuant to the accounting regulations of the International Financial Reporting Standard (IFRS). The Annual Financial Statements of SURTECO AG are prepared in accordance with the German Commercial Code (HGB). The Annual Financial Statements are drawn up by the Board of Management, audited by the auditor and the Supervisory Board and approved by the Supervisory Board.

SURTECO
KTIENGESELLSCHAFT

Declaration of Compliance

The Board of Management and the Supervisory Board submit the following Declaration of Compliance pursuant to clause § 161 sentence 1 Stock Corporation Act (AktG) for the fiscal year 2003:

“Declaration on Corporate Governance Code pursuant to Clause § 161 Sentence 1 Stock Corporation Act (AktG)”

I. I. The recommendations on conduct by the “Government Committee on the German Corporate Governance Code” in the version dated 21 May 2003 have been and will be adopted with the exception of the recommendations specified under section II.

II. II. SURTECO AG did not implement the following provisions of the Code during the fiscal year 2003:

1. Details of remuneration for Members of the Board of Management (section 4.2.4 of the Code) are not listed individually. The principles of the remuneration system are not published on the Internet site of the Company and explained in the Annual Report. The Chairman of the Supervisory Board does not inform the Annual General Meeting of the principles of the remuneration system and their modification (deviation from section 4.2.3 subsections 3 and 4 of the Code).

2. Details of remuneration for Members of the Supervisory Board (section 5.4.5 subsection 3 of the Code) are not listed individually and broken down according to components.

3. SURTECO AG prepares its financial statements (section 7.1.1 of the Code) in accordance with national accounting standards.

4. Within 60 days of the close of the reporting period, quarterly reports including segment reports and details on earnings per share will be published on the Internet site of SURTECO AG and the consolidated financial statements will be published within 120 days of the close of a fiscal year (deviation from section 7.1.2 of the Code).

5. Fees and other remuneration paid by SURTECO AG or a company of the SURTECO Group to the auditors for services outside the activity of the auditor (section 7.2.1 subsection 1 of the Code) are only published if such payments exceed the fee for the audit.

Munich,
15 December 2003

SURTECO AKTIENGESELLSCHAFT
Board of Management and
Supervisory Board”



JOHNNY TANTRA,
Factory Manager at
PT Doellken, Bintan,
Indonesia:

“When we started out, nobody believed that we could produce the same high quality in Indonesia as our German parent company. Six years down the line we have proved that our Asian customers can expect a quality from us that is absolutely equivalent to the German standard. We are very proud of the trust placed in us by our customers.”

SURTECO Group and SURTECO AG

The fiscal year 2003 was characterized by the same sustained consumer restraint in the sectors supplied as in the previous two years. Short-time working, company closures and insolvencies continued to be a significant factor especially in the domestic market. Foreign business was subject to the burden of unfavourable exchange rates. The rate of the US dollar to the euro continued to deteriorate over the course of the reporting year from \$ 1.05 per euro (02/01/2003) to \$ 1.26 per euro (31/12/2003).

The research and development departments at SURTECO AG developed a series of new products to the volume production stage and these gained a very positive reception in the market.

Key projects were advanced during the course of 2003. The announced restructuring programme in the SBU Paper for the areas of production, administration and sales proceeded precisely according to schedule. Setting up the production facility in Taicang/China is proceeding apace. In parallel with this devel-

opment, penetration of the Chinese market with coating materials made in Germany is being vigorously promoted. In December, the SURTECO Group purchased a 75 % shareholding in Italian company Arbe s.r.l. This company is strategically significant for supporting the important Italian market.

SALES AND MARKETS

Although there were already signs of a slight recovery in the economy during the second half of 2003, these were nowhere near sufficient to exert a sustained positive influence on business. The company was subject to the burden of widespread purchasing restraint and unfavourable exchange rates in non-European trade, and SURTECO AG generated sales amounting to € 355.0 million during the course of 2003. It undershot the previous year's figure by € 12.6 million or 3 % (€ 367.6 million). However, after adjustment for currency influences totalling € 12.1 million, sales would have only been € 0.5 mil-

lion below the figure for the previous year. The proportion of foreign sales within the total volume remained at 60 %.

SBU Paper

Sales of the SBU Paper at € 174.4 million were 2 % below the figure for 2002 during the period under review. Factoring out the changes in currency parities shows that sales would have increased by 1%.

Bausch Dekor GmbH supplies the majority of its production output to the other companies in the SBU Paper for further processing but it succeeded in increasing sales outside the company by 18 %. Printed raw papers are primarily used here to manufacture melamine-coated worktops and laminated flooring.

The product mix for the finishing surfaces manufactured by Bausch and Linnemann shifted in 2003 in favour of flat foils (+ 1 %) at the expense of edging strips based on paper (-5 %).

Sales of the SBU Paper in Germany fell slightly at € 56.7 million (- 1 %). Capacity utilization of the production facilities at our industrial customers continued to be unsatisfactory. Many companies had to contend with short-time working, and some encountered financial bottlenecks. The door industry and panel manufacturers were particularly affected by the extremely weak construction industry. By comparison, the SBU Paper gained some major new customers and also succeeded in increasing shares with some purchasers through products tailored to the market. The caravan industry was able to buck the general trend, and growth here con-

tributed to cushion some of the adverse effects.

The SBU Paper achieved sales of € 117.7 million (2002: € 120.8 million, - 3 %) abroad. The proportion of foreign sales was 68 %. Business in Europe showed gratifying development where growth of 2 % was realized. In this context, Australia is particularly noteworthy and although sales remain low they underwent an increase of 24 % to € 3.7 million. The markets of North America and Asia contrasted with this situation and problems with exchange rates impacted significantly on these areas. In the absence of the resulting pressures, the SBU Paper would have increased foreign sales by 2 % compared with the previous year.

SBU Plastics

Against the background of significant and sustained economic difficulties associated with manufacture in the furniture industry and the construction sector, sales of the SBU Plastics, which includes the companies of the Döllken Group, fell by € 8.8 million or 5 % to € 180.6 million. This drop includes € 6.1 million resulting from exchange rate losses alone. Sales adjusted for exchange rate losses were only € 2.7 million or 1 % below the figure for the previous year.

Business with foreign customers remained 5 % below sales for 2002 and achieved € 96.1 million (2002: € 100.8 million). An increase of 1 % was even recorded here following adjustment for exchange rates. The proportion of foreign sales amounted to 53 %. The German market continued to be determined by low order books



SASCHA WIENERT,

Process Mechanic in Edging

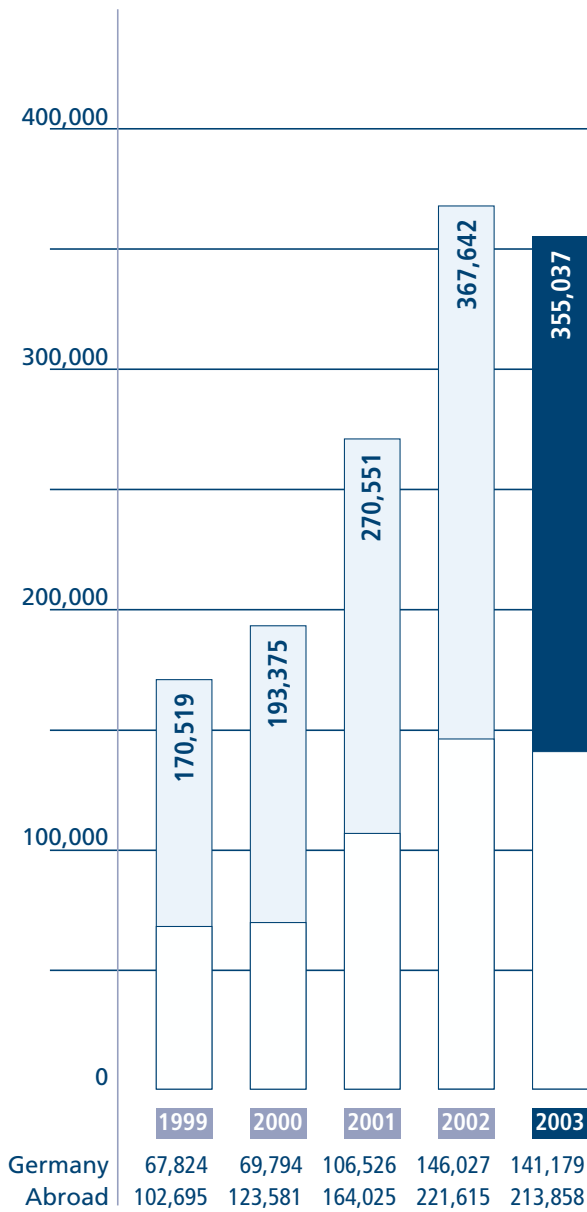
Tape Production at Döllken

Kunststoffverarbeitung

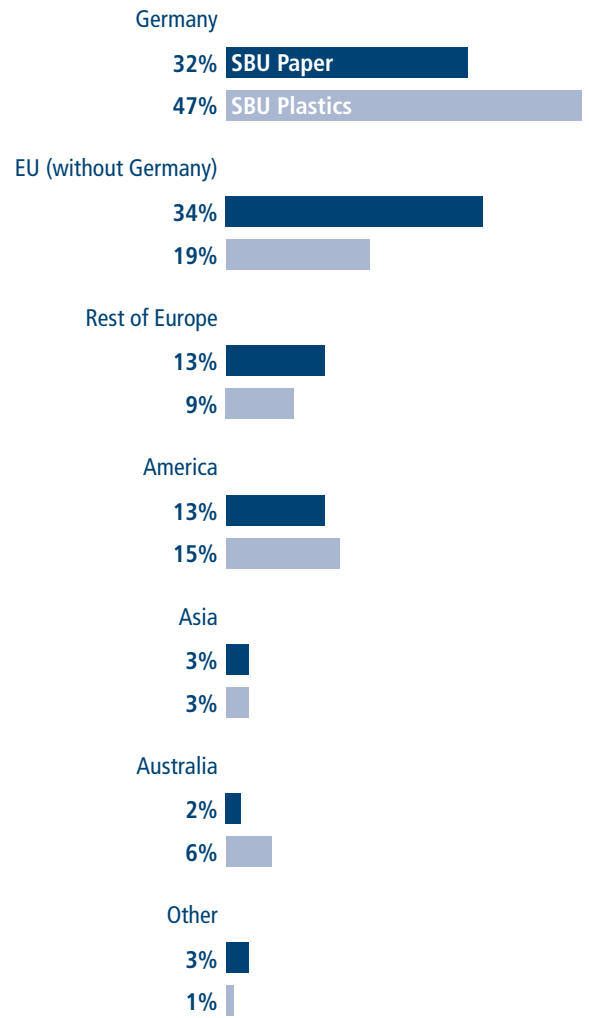
GmbH, Gladbeck, Germany:

"The 3D edge is great! We are extruding a transparent acrylic edge and printing it from the back. This creates an unusual three-dimensional visual effect and the design is protected against damage. The 3D edge gives added value to each worktop and this is what makes it so interesting to furniture manufacturers. I believe that the 3D edge belongs to the future."

SALES REVENUES IN € 000s



PERCENTAGE SALES DISTRIBUTION



in the furniture industry and construction sector. The companies in the Döllken Group succeeded in gaining market shares with their range of high quality and extremely innovative products, enabling them to ameliorate the effects on sales. However, a fall of 5 % to € 84.5 million was posted compared to the previous year. Performance at niche provider Vinylit Fassaden GmbH ran counter to the trend. Ingenious innovations in façade cladding systems, which are used in renovating existing buildings and in new construction, generated an increase in sales of 11 % to € 9.7 million.

Business at the SBU Plastics underwent positive development in Australia and Asia. The consumer environment in Australia was generally favourable in 2003. High-quality and competitively priced product lines generated an increase in market share and sales rose by 32 % to € 10.7 million. Although there was considerable regional variation, Asia saw the generation of growth despite the SARS epidemic and the Iraq War. The SBU Plastics is successfully represented in this area by sales company Doellken Pte. Ltd. in Singapore and the production company PT Doellken Bintan in Indonesia.

PROCUREMENT

The proportion of the cost of materials in relation to sales increased by 0.9 percentage points to 41.6 %. However, this rise is not the result of price rises, but is solely due to changes in the product mix. Supplies of intermediate products for the SBU Paper – generally un-

printed and printed specialist papers for edging strips and flat foils as well as printing inks and chemical products – were reliable and punctual during the period under review because capacity utilization at suppliers was unsatisfactory overall due to the generally tense economic situation. As a result of this situation, it was possible to garner price cuts on an individual basis in certain cases.

PVC and ABS are the two most important plastics for production in the Döllken companies and availability of these raw materials was unproblematic throughout the year. Contracts that had been concluded over the long term meant that prices remained more or less at the same level as in the previous year.

RESEARCH AND DEVELOPMENT

During the course of the year under review, centrally coordinated research and development activities at the SBU Paper focused on work associated with the ZEUS restructuring programme, refinement of the production procedures and optimization of varnished surfaces for enhanced visual and tactile effects.

The ZEUS project covers restructuring in the administrative and sales area, but focuses in particular on production, where redeployment and specializations in production permit greater machine outputs and consequently a reduction in unit costs. The project was due to be completed by the end of the first half of 2004, but key elements of this project were already implemented during the course of the year under review with significant support from Research and Development.



NINA MÜLLER,

**Team Leader in Sales at
Döllken & Praktikus GmbH,
Gladbeck, Germany:**

"We supply a tailor-made range for the construction and DIY market. We advise them when they are making their selection from the range. We also provide our customers with individual advice on materials planning and merchandising concepts."



▲
DR. STEFAN SCHUR,
Chemicals Engineer in the
Research and Development
Department at Bausch
GmbH, Buttenwiesen-
Pfaffenhofen, Germany:

"The new electron beam system for hardening varnishes is a technological breakthrough for us. We coat pre-impregnated, printed raw papers of outstanding quality. This process makes us faster and more cost-effective than with conventional machines."

The Research and Development Department has been cooperating with a major machine manufacturer to develop laminatable laminates. These promote more economic coating of flooring panels since they eliminate complex and costly production stages for the processor. The resulting laminate supplied to the customer can then be bonded straightforwardly to the substrate using pressure and heat. There is no discernible difference in the resistance and long-term service properties compared to conventional procedures. A further project of the Research and Development Department related to the surface quality of flat foils, in order to meet the high quality standards especially with respect to water resistance defined by a major Swedish furniture company. The new quality can be manufactured as a self-impregnated or pre-impregnated material.

The visual effect of a finish combines with the choice of wood or creative texture and colour scheme to contribute to a comfortable and atmospheric living environment. The "optical pore" succeeded in creating a deep, wide-ranging texture to the surface that looked even more authentic and natural. Another creation marketed under the designation Igraflair takes the process a step further and includes tactile appeal discernible in the surface. A special varnish is compressed and influences the texture and feel of the material. The foil is extremely pleasant and agreeable to the touch.

Electron beam hardening of varnishes was brought to production readiness in the new paint facility at the Buttenwiesen-Pfaffenhofen plant. Almost ten million square

metres of pre-impregnated materials were manufactured in many different variations of glossy finish during the year under review. Development of the new technology is being intensively pursued using alternative papers, primarily in the area of low weight.

The composition and properties of the specialist technical papers such as those produced by Bausch Dekor GmbH as printed base papers are characterized by changes in longitudinal and transverse extension when they undergo further processing. However, especially in the case of laminate floors, tolerances lead to lack of precision when coated melamine panels are cut using machines. With the aim of avoiding this, engineers at Bausch Dekor GmbH have joined forces with paper manufacturers and processors to define all the parameters that exert an influence on the behaviour of the paper in each of the production stages leading up to the finished product. These determining parameters are then factored into the design of the printing cylinders and are therefore already taken into account when the raw paper is printed.

Research into new manufacturing procedures is being pursued intensively and on an ongoing basis, as is research into substitution of raw materials, designed to enhance quality and improve commercial viability. Development engineers at the SBU Plastics have been carrying out work on key product criteria for optimizing qualitative and visual attributes. The SBU Plastics generates the major proportion of its sales with extruded plastic edges. A new range of edgings ideally suited for use in

kitchens features perfect colour harmony with the appropriate worktops. A special printing technology permits origination of the most complex decorative templates used for printing. We developed our own range of printing inks to volume-production stage and these are used to enhance the resolution of the printed image. Matt-gloss surfaces are marketed under the Softtouch slogan. They are not only visually distinctive but also have a noticeable tactile effect. With 3D edges, SBU Plastics has succeeded in creating a material that customers can use on the latest coating systems in a simpler and more streamlined process. Two other variants have also been created and these are marked out by their unusual visual impact. The iridescent 3D edge shimmers in a host of different colours that change depending on the viewing angle. This effect is created by the use of interference pigments which are also used for paint in the automobile industry. In response to the current trend for frosted glass, 3D Frosted was developed to display the same visual and tactile effect as satinized glass or acrylic glass. The high level of hardness evinced by the material makes it extremely resistant to scratching and impact.

SBU Plastics has launched a new connection strip system with Top Line whose basic concept is: "Less is more". This is applicable to assembly as well as to colours and accessories. The simple and timeless quarter-round profile can be elegantly incorporated within any kitchen. The big advantage compared with the systems currently on the market lies in the restricted number of colours required in the

Top Line range. These are no longer designed to match a vast range of different worktops. Instead, the colours of stainless steel, aluminium, black and white are harmonized with the fitted equipment, extractor hoods, handles and other accessories in the kitchen. The benefit for customers is that this reduces the requirement for warehouse storage, while at the same time optimizing their purchasing batch sizes.

When plinth strips were being developed, we aimed to satisfy the requirements of construction companies and tradesmen by designing an extrusion that had visual appeal, and was tough and easy to install. The new, S 40/22 Flex Life universal wood-core plinth strip meets all these requirements. The strips are particularly suited for use as edging strips for parquet flooring and laminated floors. Direct printing makes it possible to combine a texture that underscores the genuine wood character of the strip. Soft sealing lips prevent the formation of shade joints or gaps that trap grime during the process of installation.

During the course of the year under review, Döllken developed a clippable plinth strip with the designation Modern Design. The simple and timeless design makes this strip extremely attractive. The flexibility and soft sealing lips on each side mean that this strip can adapt perfectly to unevenness in walls and floors. Modern Design is tailored to laminate floors or parquet flooring in a range of wood tones, while also being available as an option in modern metallic finishes. Vinylit Fassaden GmbH launched two successful products during the year under review: Vinyflex and



▲
RENE ADLUNG,
Applications Engineer at
Döllken-Weimar GmbH, Nohra
near Weimar, Germany:

"Three requirements are top priorities for professionals when new plinth strips are developed for the flooring trade: attractive visual appearance, optimum function and fast assembly. Our new flexible wood-core plinth strip and our tailor-made practical tool mean that professionals can lay a neat, streamlined edging strip for a wall edging fast and cost-effectively."



PAULINA SCHÄFER,
Machine Manager in edge
cutting at Kröning GmbH &
Co., Hüllhorst, Germany:

"The full-width paper webs are cut to the dimensions required by customers in our department. The winding hardness plays an important role when we later use machines on the automatic edge bonders. My colleague and I have everything under control on that front."

Vinyplus. Vinyflex is a cassette-panel cladding system for new-build construction and renovation of existing housing stock with outstanding mechanical properties. These include a weather-resistant surface, noise abatement and the option of integrating heat insulation. Vinyplus is a curtained system of profiles suspended on the underlying structure with a ventilation space between the cladding elements and the wall. It is used for providing cladding over entire surfaces and also for providing an attractive finish to specific areas that are difficult to access, such as the top of gables. The innovative robust surface is made of plastic and guarantees complete freedom from maintenance. The profile is easy to mount because its low weight does not exert any significant strain on the underlying structure.

PEOPLE

SURTECO employed a staff totalling 1,937 on 31 December 2003. The number of personnel employed fell by 5 % or 96 people compared with the previous year. At the end of the reporting year, 848 employees were working in the Strategic Business Unit Paper (2002: 877) and 1,082 people were employed in the Strategic Business Unit Plastics (2002: 1,151). The holding company had a staff of 7 (2002: 5). The number of employees was adjusted to reflect lower capacity utilization but is also a sign of the effectiveness of the measures arising from ongoing projects directed towards increasing efficiency and productivity. One-off restructuring costs amounting to € 1.1 million are included in personnel expenses for the year under review totalling € 94.9 million (2002: € 96.9 million). The proportion of personnel costs to total output was 26.6 % (2002: 26.2 %).

At the end of 2003, personnel statistics indicate that the average age profile of an employee working in the SURTECO Group was 38 years, with an average length of service amounting to nearly ten years. The level of illness fell across the Group by 0.7 percentage points to 3.6 %.

The company is highly committed to training adequately qualified staff to fill positions on the sales side and in the various trades working within the Group. These include process technicians for plastics and rubber technology, and printers. At 31 December 2003, 75 apprentices were employed in Germany. This corresponds to 5 % of German personnel.

PERSONNEL STRUCTURE

Location	Employees 31/12/2002	Employees 31/12/2003	Deviation in %
Germany	1,597	1,523	-5
Canada	121	125	+3
USA	117	100	-15
Great Britain	101	79	-22
Australia	64	71	+11
Indonesia	23	23	0
Singapore	10	10	0
China	0	6	
	2,033	1,937	-5

ACQUISITIONS AND SHAREHOLDINGS

We completed the following projects in the course of 2003:

- In February 2003, Döllken-Kunststoffverarbeitung GmbH disposed of 2.5 % of the shares in Doellken-A.S.L. Pty. Ltd. to our sales partner Consolidated Veneers Pty. Ltd..
- In May 2003, the subsidiary Bausch + Linnemann Decorative Material (Taicang) Co., Ltd. was formed by cash subscription.
- In September 2003, W. Döllken & Co. GmbH acquired the remaining shares in Döllken & Praktikus GmbH amounting to 0.68 %.
- In December 2003, Bausch GmbH acquired 50 % and Döllken-Kunststoffverarbeitung GmbH acquired 25 % of the shares in the joint sales partner Arbe s.r.l., Martellago, Italy.



ANDREAS KAHSE,
Production Manager at
Doellken-A.S.L. Pty. Ltd.,
Sydney, Australia:

"When I came to Australia two years ago, integration of A.S.L. within the Döllken Group had just started. Today, I can look back and say that we have replaced all our technology and upgraded to the Döllken standard. You might say that we have built up a completely new plant."



IMPORTANT PROJECTS DURING THE YEAR UNDER REVIEW

Future Project ZEUS

During the year under review, the SBU Paper launched or already implemented wide-ranging measures to achieve complete integration of Bausch GmbH, including its British subsidiary Armabord Ltd. and Robert Linnemann GmbH + Co. The focuses for this project are realization of a new, uniform sales and administrative concept, and optimization of production processes on the basis of supranational perspectives.

Sales are concentrating on reduction of product diversity through mergers, rationalizing the sales organization and joint use of a powerful international sales network. The production concept is focusing on redeploying machinery. In the final analysis, this process is directed towards redistributing production volumes within the sites Buttenwiesen-Pfaffenhofen, Sassenberg and Burnley/Great Britain within an available area of 35 million square metres. Concentrating the added-value stages and sites will make it possible to generate additional synergy effects, minimize setting-up times, while simultaneously creating benefits for customers by strengthening consistent quality and dependable supply.

The ZEUS Project is on schedule, and important milestones have already been implemented in full. More than half the product redeployments have already been realized, the number of paper variants has been significantly reduced and the sales organization has been realigned. The full

merger has been scheduled for completion by the end of June 2004. Implementation of the new IT systems for sales and order planning forms the focus of the remaining activities.

75 % holding acquired in Arbe s.r.l.

On 2 December 2003, SURTECO acquired a 75 % holding in Arbe s.r.l. based in Martellago near Venice. Arbe is a long-time sales partner of Bausch GmbH (SBU Paper) for edging strips and flat foils and of Döllken-Kunststoffverarbeitung GmbH (SBU Plastics) for plastic edging strips. Arbe s.r.l. generated sales of € 12.2 million in 2003. The previous shareholder Sergio Bellato will continue to manage the company as the Managing Director. The majority stake held by SURTECO AG in Arbe enables the company to strengthen its sales structures in Italy, one of the most important European sales markets.

Scheduled progress for pro- duction in China

The Chinese production facility of Bausch + Linnemann Decorative Material (Taicang) Co. Ltd. is set to commence manufacture of edging and flat products based on paper in mid-2005. The modern rotogravure printing system producing the decorative designs has an integrated varnishing facility and forms the core of production. During the course of the year under review, Chinese personnel trained in-house already made business contacts with dealers in key parts of the country who are being supplied with imported coating materials that are then customized in Taicang. Addition-

BERND POLIWODA,
Sales Manager at Bausch
Dekor GmbH, Buttenwiesen-
Pfaffenhofen, Germany:

"We are specialists in printing specialist technical papers. The new decorative design structures that we have developed are intended for printing on foils, edges and laminated floors and they have generated a great deal of interest in the marketplace. Our aim is to ensure that this interest continues."

al personnel with the task of dealing with the provision and supply of goods have already been appointed. A team of Chinese specialists will receive training in Germany during the current year so that they will be able to operate the new printing facility that is being set up.

New plant in Australia

Doellken-A.S.L. Pty. Ltd. based in Sydney is one of the most important suppliers of plastic edging tapes, technical extrusions (profiles) and bonding agents for the furniture industry in Australia and New Zealand. In August 2003, the company moved into a new production facility in addition to the foreign subsidiary Robert Linnemann Australia, which forms part of the SBU Paper. Doellken-A.S.L. has formed part of the Döllken Group since 2000, and manufactures thick edges made of PVC and ABS, T-sections and standard extrusions (profiles) for the furniture industry. This new production facility and sales offices in Brisbane and Melbourne will enable Doellken-A.S.L. to respond promptly to special market requirements and to deliver at very short notice.

BALANCE SHEET STRUCTURE OF THE SURTECO GROUP

[€ 000s]	31/12/ 2002	Percentage in the balance sheet total (%)	31/12/ 2003	Percentage in the balance sheet total (%)
ASSETS				
Current assets	117,937	30.2	92,244	25.9
Non-current assets	266,353	68.2	257,781	72.3
Deferred tax assets	6,220	1.6	6,389	1.8
Balance sheet total	390,510	100.0	356,414	100.0
LIABILITIES				
Total short-term liabilities and provisions	107,436	27.5	93,237	26.2
Non-current liabilities	162,962	41.7	138,308	38.8
Deferred tax liability	16,198	4.1	16,159	4.5
Minority interest	-132		160	
Equity capital	104,046	26.7	108,550	30.5
Balance sheet total	390,510	100.0	356,414	100.0

FINANCIAL INDICATORS FOR THE SURTECO GROUP

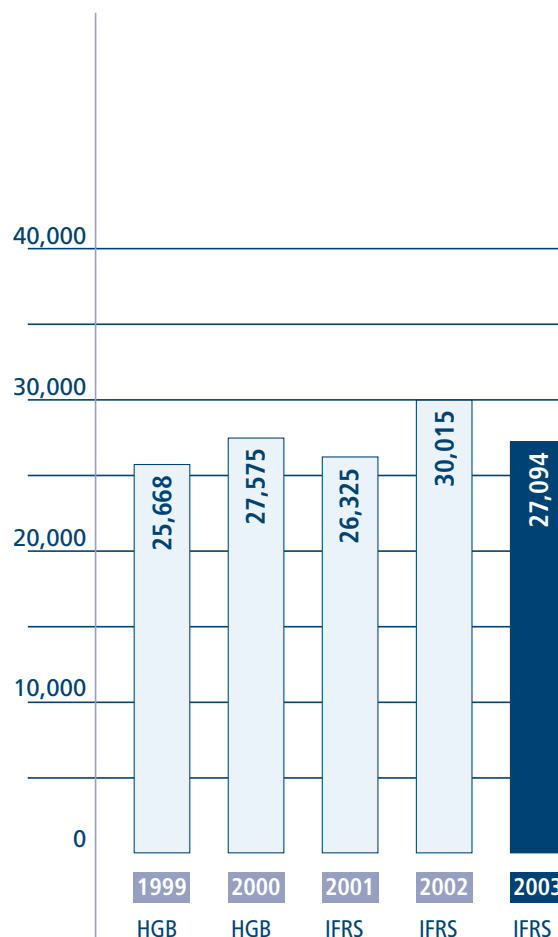
	2002	2003
Ratio of liquid assets to current liabilities (%)	2.8	2.4
Ratio of current assets to current liabilities (%)	61.9	47.8
Current ratio (%)	103.1	91.5
Liquidity ratio (%)	0.8	0.7
Cash earnings in € 000s	45,898	42,043
Ratio of cash earnings to aggregate operating performance (%)	12.4	11.8
Cash earnings per share in €	4.34	3.98



TONY BRUM,
 Process Control Manager at
 Doellken-Woodtape, Missis-
 sauga, Canada:

"Development of a thick edge that is flexible and made of PVC is very important for our North American customers. I am certain that we will be able to gain market shares in North America with the development of this edging tape."

EBT IN € 000s

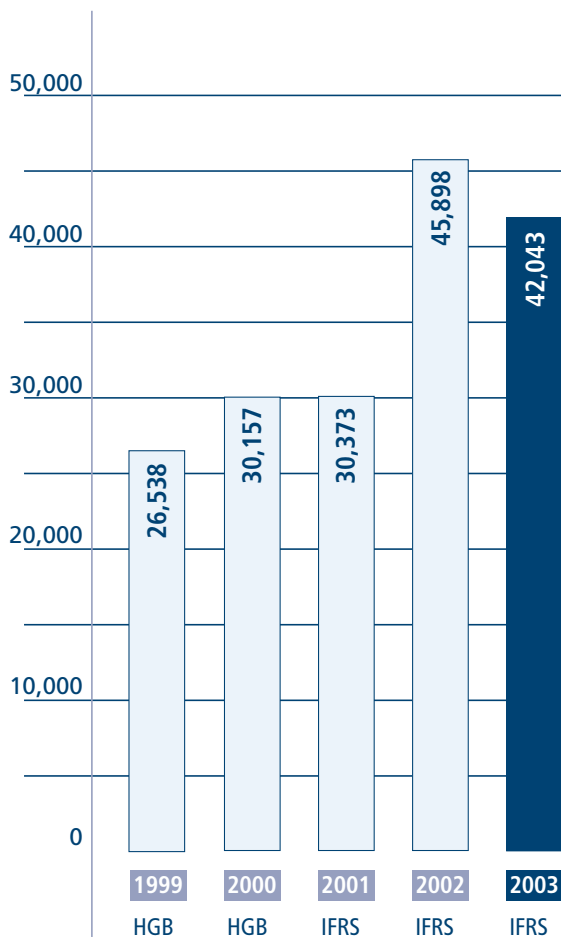


RESULT FOR THE SURTECO GROUP

The SURTECO Group generated an EBITDA of € 64.0 million (2002: 69.8 million) during the year under review. Amortization on intangible assets and property plant and equipment, and amortization of goodwill remained at the level for the previous year. Earnings before Interest (Financial Result) and Income Tax (EBIT) amounted to € 37.2 million (2002: € 42.7 million).

The result from ordinary activities before restructuring expenses (€ 2.6 million) incurred in conjunction with implementing the ZEUS project of the SBU Paper reached € 29.7 million (2002: € 30.0 million; deviation - 1%). The result from ordinary activities after restructuring expenses amounted to € 27.1 million, Adjusted for unfavourable exchange-rate effects, this figure would have been € 4.8 million higher, which would

CASH EARNINGS IN € 000s



have produced an increase by € 1.9 million or 6 %. New income for the year generated by the SURTECO Group totalled € 14.9 million (2002: € 17.6 million). Cash earnings amounted to € 42.0 million following on from € 45.9 million in 2002.

RESULT FOR SURTECO AG

The result from ordinary activities of SURTECO AG in accordance with the German Commercial Code (HGB) amounted to € 31.2 million for 2003 (2002: € 42.8 million). Net income for the year amounted to € 23.7 million following on from € 30.3 million in 2002.



VANIA SCHIESARI,
Administrative Assistant at
Arbe s.r.l., Martellago, Italy:

"We have completely replaced IT systems at Arbe. That was hard work because our aim was to increase productivity of the system by more than 20 %. Arbe wants to increase sales for 2004 in the double-digit percentage range. This means that administration will have to get through more work than in the past."



BERNHARD DUNCER,
Machine Operator on the
impregnating systems at
Robert Linnemann GmbH +
Co., Sassenberg, Germany:

"Paper is and will remain a natural product. We can only maintain constant quality by continual inspection and checking. Many years of experience and a lot of sensitivity is needed for this purpose."

EARNINGS SITUATION OF THE SURTECO GROUP

[€ 000s]	2002	2003
Sales revenues	367,642	355,037
Changes in inventories	661	-3
Production of own fixed assets capitalized	1,184	1,286
Total	369,487	356,320
Cost of purchased materials	-150,417	-148,229
Gross profit	219,070	208,091
Other operating expenses	5,407	4,275
Personnel expenses	-96,862	-94,855
Depreciation and amortization	-27,025	-26,762
Other operating expenses	-57,854	-53,535
Operating expenses	176,334	170,877
Operating income	42,736	37,214
Interest income	-12,759	-10,120
Income from investments and participations	38	0
Comprehensive income before income tax	30,015	27,094
Income taxes	-12,429	-12,236
Net income	17,586	14,858
Minority interest	30	-11
Consolidated net income	17,616	14,847

PROFITABILITY INDICATORS FOR THE SURTECO GROUP IN %

	2002	2003
Sales return (before income tax)	8.2	7.6
Return on equity (after income tax)	18.1	14.7
Return on investment (before income tax)	11.0	10.5

RISK MANAGEMENT

Entrepreneurial endeavour is directed towards strategically creating and exploiting opportunities for increasing corporate value. As a Group operating on a global scale, SURTECO AG is also subject to entrepreneurial risks. The goal of the risk management system at SURTECO AG is to identify the risks in good time and restrict them as far as possible such that the projected commercial benefit arising from the business activities is in a reasonable relationship to the risk. Risk management is therefore a fundamental part of our business processes.

The Board of Management is responsible for the policy relating to risk and for the internal management and control system. The management of individual companies implements the instructions of the Board of Management and is responsible within this framework for risks that it enters into in the course of its business activities. We deploy a detailed management and control system for quantifying, monitoring and managing risks. This system is focused on Group reporting and on the uniform corporate strategic and planning process.

The risks described may impair the financial resources and business success. Additional risks that we have not yet identified or that we regard as minimal at the present time could also impact negatively on our results.

The risk areas significant for SURTECO AG are as follows:

Business Risks

As suppliers, the companies in the SURTECO Group are directly dependent on the order books of their customers. Our sales strategy is subject to continual review and is updated on an ongoing basis. Reporting commercial risks constitutes a substantial tool used for constant monitoring of commercial risks. Detailed internal monthly reports and analyses are produced on the basis of this data. Any deviations from budgets, the feasibility of planning goals and the occurrence of new monetary and non-monetary risks are highlighted and analyzed. Expansion in foreign markets plays a key role for SURTECO AG. We will continue to expand our global business and we intend to focus principally on growth markets in Asia and Eastern Europe.

Supplier Risks

We are dependent on outsourcing from other providers for the procurement of semi-finished products and services. Inclusion of third parties in the equation creates risks such as unexpected supply difficulties or unforeseeable price increases resulting from market bottlenecks or currency effects, which could impact negatively on our results. We meet risks associated with supply by monitoring the market intensively, carrying out in-depth quality inspection on the basis of jointly agreed specifications and by arranging supply contracts with long-term agreements on price.



HARALD MÖLLENKAMP,
Design Engineer at Döllken-
Werkzeugbau GmbH, Glad-
beck, Germany:

"An intelligently designed extrusion tool is essential for precise and cost-effective volume production. Over the past 50 years, we have designed and manufactured more than 5000 tools for a wide range of extrusions."

IT Risks

Ensuring secure processing of all business processes requires constant monitoring and adaptation of the information technologies used in the Group. Against the background of a growing potential for risk based on increasing integration of computer-supported business processes in communication between the Group companies and communication with customers, suppliers and business partners, ongoing development of the measures used to make information secure are a top priority. Risks relating to availability, dependability and efficiency of our IT systems are limited by the ongoing measures we adopt to harmonize our systems with prevailing conditions and requirements. We react selectively to increased demands placed on the security of our systems within the scope of comprehensive security management.

Operating Risks

Aside from technology leadership, cost leadership is absolutely crucial to the market position and commercial success of SURTECO AG. This entails a product portfolio geared to the market and complete control of all operating processes. Both aspects are subject to a process of continuous improvement within the company. Ongoing checks and inspections, secure processes and continuous documentation constitute a complete system of risk management. The production procedures, manufacturing technologies and processes are being developed and improved on an ongoing basis, our systems are carefully main-

tained and our human resources receive appropriate training for their functions.

Personnel Risks

The success of the company is closely associated with provision of qualified staff at all levels. Shorter innovation cycles and increasing international links place ever more stringent demands on the capabilities of specialist and management staff. In order to safeguard the necessary qualifications in the relevant functions and countries, members of staff at SURTECO AG receive regular career training.

Financial and Currency Risks

SURTECO AG meets financial and currency risks by hedging currency and interest positions with derivative financial instruments, options and forward sale agreements. The company also regularly and carefully monitors a range of early-warning indicators. In order to limit exchange-rate risks and risks associated with changes in interest rates, the Group operates a policy of systematic currency and interest management. This is coordinated and controlled centrally by the holding company in Germany.

The achievement of our business goals is regularly monitored. Likewise, risks and risk-limiting measures are subject to ongoing scrutiny. The Board of Management and Supervisory Board are informed of key risks at an early stage.

The early-warning risk identification system has been checked by our auditors. It meets the require-

ments of Clause § 91 (2) of the Stock Corporation Act (AktG). Review of the risk situation has revealed that there are no risks that could endanger the continued existence of the company and that future risks likely to endanger existence cannot currently be identified.

SHARES OF SURTECO AG

The shares of SURTECO AG (ISIN DE0005176903) are quoted on the stock exchanges of Frankfurt and Munich for official trading. The share is also included in OTC trading on the stock markets in Berlin/Bremen, Düsseldorf and Stuttgart. The SURTECO share is listed in the Prime Standard on the Frankfurt Stock Exchange. The company meets all the internationally recognized standards for transparency arising from this listing.

In contrast with 2002, performance during the year under review revealed a wider bandwidth of prices and a trend clearly moving upwards. During the first quarter of 2003, the average price was € 12.74. As the year progressed, the price rose continuously and achieved an average value of € 18.25 during the fourth quarter. The year 2003 concluded at € 19.70 so that a share portfolio of 10,575,522 no-par-value shares gave a market capitalization of € 208 million at the close of the year. This corresponds to an increase of 52 % compared to the year-end figure for 2002 (€ 137 million).

The Board of Management and Supervisory Board of SURTECO AG

SHARE PRICE PERFORMANCE FOR 2003 IN €



SURTECO SHARES

[Stock exchange quotations in €]	2002	2003
Number of shares	10,575,522	10,575,522
Price at start of year	17.00	14.00
Year-end price	13.00	19.70
Price per share (high)	17.00	20.00
Price per share (low)	13.00	11.80
Average for the year	16.17	15.51
Market capitalization at year-end	137,481,786.00	208,337,783.40

SHAREHOLDER INDICATORS FOR THE SURTECO GROUP

[€ 000s]	2002	2003
Sales	367,642	355,037
EBITDA	69,761	63,976
EBIT	42,736	37,214
EBT	30,015	27,094
Consolidated net income	17,616	14,847
Cash earnings	45,898	42,043

INDICATORS OF THE SURTECO GROUP PER SHARE

[€]	2002	2003
Earnings	1.67	1.40
Cash earnings	4.34	3.98
Dividend	0.65	0.70

(Proposal by Board of Management)



SONJA KRAUS,
Administrative Assistant at
Bausch + Linnemann North
America, Greensboro, USA:

"Good quality always wins through. That's why the products of the SBU Paper in North America are successful at gaining a market share in a sector that is continually expanding. My contribution is to ensure that our customers always have fast, dependable service through flexible production planning and order processing."



YABIN LI,
General Manager at Bausch +
Linnemann Decorative Mate-
rial (Taicang) Co. Ltd., China:

"The Chinese economic is booming. The furniture industry is also moving forwards in leaps and bounds. That's why it's very good that Bausch and Linnemann has its own production facility on site. My team and I are fully committed to ensuring that our Chinese customers are completely satisfied."

have approved the principles of the German Corporate Governance Code for value-oriented corporate management and control. Further details related to implementation of the code and the wording of the Declaration of Compliance dated 15 December 2003 may be found on page 10ff of the Annual Report.

The Internet is an indispensable communication tool in the modern financial world. The Home Page of SURTECO AG has proved an efficient means of communication for contacts with analysts, institutional and private investors, and all other interested parties. Facts and figures on shares, the latest share-price information, investor news and publications on corporate governance are available to users online. Comprehensive information is also made available to our shareholders in preparation for the Annual General Meeting.

The Board of Management will propose to the Annual General Meeting of SURTECO AG on 17 June 2004 that a dividend of € 0.70 be paid on each share for fiscal 2003 (2002: € 0.65). The total payout amounts to € 7,402,865.40 (2002: € 6,874,089.30). € 4,600,000.00 (2002: € 8,300,000.00) will be transferred to revenue reserves.

OUTLOOK 2004

After more than three years of sustained weakness in the economy, we do not anticipate any sustained upswing in the economy for the current fiscal year. However, we can see opportunities for growth in some foreign markets. These include in particular Russia, Japan and China. We are currently building up sales networks in Russia and Japan. A new production facility is being set up in Taicang. This will be able to supply the Chinese market directly and with correspondingly short delivery times.

In addition to expanding our production facilities and sales channels, we are also consistently working towards optimizing our product portfolio and the cost structures within the Group during the course of 2004. The SBU Paper will bring the ZEUS Project to a conclusion and the SBU Plastics will optimize its domestic production structures.

Overall, we anticipate a year-end result slightly up on the previous year's figures for the current fiscal year.

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2003

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» CONSOLIDATED INCOME STATEMENT (IFRS) SURTECO GROUP

for the year ended 31 December 2003

	Note	2002 € 000s	2003 € 000s
Sales revenues	(1)	367,642	355,037
Changes in inventories		661	-3
Production of own fixed assets capitalized	(2)	1,184	1,286
Total output		369,487	356,320
Cost of purchased materials	(3)	-150,417	-148,229
Personnel expenses	(4)	-96,862	-94,855
Other operating expenses	(5)	-57,854	-53,535
Other operating income		5,407	4,275
Earnings before Interest (Financial result), Income Tax and Depreciation and Amortization (EBITDA)		69,761	63,976
Depreciation and Amortization	(14,15)	-18,452	-18,058
Amortization (and impairment) of goodwill	(16)	-8,573	-8,704
Earnings before Interest (Financial result) and Income Tax (EBIT)		42,736	37,214
Financial Result	(6)	-12,721	-10,120
Earnings before Income Tax (EBT)		30,015	27,094
Income Tax	(7)	-12,429	-12,236
Net Income		17,586	14,858
Minority Interest		30	-11
Consolidated Net Income		17,616	14,847

» CONSOLIDATED BALANCE SHEET (IFRS) SURTECO GROUP

at 31 December 2003

	Note	2002 € 000s	2003 € 000s
ASSETS			
Cash and cash equivalents	(9)	3,187	2,467
Trade accounts receivable	(10)	47,376	30,303
Inventories	(11)	47,149	44,101
Other current assets	(12)	20,225	15,373
Current assets		117,937	92,244
Plant, property and equipment, net	(14)	156,305	150,507
Intangible assets	(15)	1,566	1,399
Goodwill	(16)	106,589	99,273
Investments	(17)	481	5,380
Other non-current assets		1,412	1,222
Non-current assets		266,353	257,781
Deferred tax asset	(7)	6,220	6,389
		390,510	356,414
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current financial liabilities	(18)	59,272	49,954
Trade accounts payable	(21)	13,280	12,110
Tax liabilities	(21)	14,455	12,007
Short-term accrued expenses	(19)	2,121	2,156
Other current liabilities	(20, 21)	18,308	17,010
Total short-term liabilities and provisions		107,436	93,237
Non-current financial liabilities	(21)	151,540	127,057
Pensions and similar obligations	(22)	10,318	10,740
Other non-current liabilities	(21)	1,104	511
Non-current liabilities		162,962	138,308
Deferred tax liability	(7)	16,198	16,159
Minority interests		-132	160
Capital stock		10,576	10,576
Reserves		75,854	83,127
Net profit		17,616	14,847
Equity capital	(23)	104,046	108,550
		390,510	356,414

» CONSOLIDATED CASH FLOW STATEMENT (IFRS) SURTECO GROUP

for the year ended 31 December 2003

	2002 € 000s	2003 € 000s
Earnings before minority interest and after income tax	17,586	14,858
Adjustments for:		
- Depreciation on property, plant and equipment	17,482	17,291
- Amortization on intangible assets	970	768
- Amortization (and impairment) of goodwill	8,573	8,704
- Interest income	-349	-202
- Interest expense	13,109	10,322
- Losses on fixed assets	342	249
- Change in long-term reserves	791	422
- Change in deferred tax assets and liabilities	-940	-207
- Other expenses / income with no effect on liquidity	-62	165
- Other expenses	-2,623	-2,439
Internal financing	54,879	49,931
Increase / decrease in		
- Trade accounts receivable	1,207	17,073
- Other receivables	19,709	4,083
- Inventories	-338	3,048
- Accrued expenses	743	35
- Trade accounts payable	-3,057	-1,575
- Other liabilities	316	-3,934
- Currency differences	-1,580	-1,896
Change in working capital	17,000	16,834
Cash flows from operating activities	71,879	66,765
Interest received	349	202
Tax expenses with no effect on liquidity	328	1,427
CASH FLOW FROM CURRENT BUSINESS OPERATIONS	72,556	68,394
Cash outflow for the acquisition of unconsolidated companies	0	-4,296
Cash outflow for the acquisition of consolidated companies	-93,251	-1,277
Cash inflow from the disposal of consolidated companies/participations	39	145
Cash outflow for investment in property, plant and equipment	-11,213	-14,542
Cash outflow for investment in intangible assets	-431	-791
Cash inflow from asset disposals	440	525
CASH FLOWS FROM INVESTMENT ACTIVITIES	-104,416	-20,236

	2002 € 000s	2003 € 000s
Profit distribution	-11,633	-6,874
Long-term debt	66,925	0
Repayment of debt	-22,625	-33,598
Loan interest paid	-10,851	-8,406
CASH FLOW FROM FINANCING ACTIVITIES	21,816	-48,878
CHANGE IN CASH AND CASH EQUIVALENTS	-10,044	-720
Cash and cash equivalents		
1 January	13,231	3,187
31 December	3,187	2,467

Cash flows from finance lease were allocated to internal financing to promote transparency in the Cash Flow Statement. The figures for the previous year were adjusted accordingly.

» SCHEDULE OF EQUITY CAPITAL (IFRS) SURTECO GROUP

[€ 000s]	Capital stock	Capital reserves	Revenue reserves	Currency reserves	Consolidated net retained profits	Total
31 December 2002	10,576	35,860	41,674	-1,680	17,616	104,046
Dividend payment	0	0	0	0	-6,874	-6,874
Financial Instruments	0	0	-30	0	0	-30
Consolidated net income	0	0	0	0	14,847	14,847
Currency changes	0	0	0	-3,428	0	-3,428
Minority interest	0	0	0	0	-11	-11
Transfer to revenue reserves	0	0	10,731	0	-10,731	0
31 December 2003	10,576	35,860	52,375	-5,108	14,847	108,550

» SURTECO AG NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2003

I. ACCOUNTING PRINCIPLES

SURTECO AG has prepared its consolidated financial statements for the year ended 2003 in accordance with international accounting standards – the International Financial Reporting Standards (IFRS), the International Accounting Standards Board (IASB), taking into account the interpretations of the Standing Interpretations Committee (SIC). All the International Financial Reporting Standards mandatory for application in fiscal year 2003 have been taken into account. No new or revised standards have been used in the fiscal year 2003. The figures for the previous year have been restated in accordance with the same accounting principles.

The consolidated financial statements have been drawn up in euros (€). Unless otherwise indicated, all amounts have been given in thousand euros (€ 000s).

The IFRS has no pre-defined classification structure for individual items in the income statement

and the balance sheet. The income statement and the balance sheet have been drawn up on the basis of the classification policies defined in Clause § 63 of the recommendations in stock exchange rules and regulations for the Frankfurt Stock Exchange dated 1 January 2003. The income statement has been drawn up in accordance with the cost of production method.

The consolidated financial statements have been drawn up in accordance with the European Union Directive on Consolidated Accounting Principles (Directive 83/349/EEC). Since the requirements of Clause § 292a of the German Commercial Code (Handelsgesetzbuch, HGB) have been complied with, the consolidated financial statements drawn up in accordance with IFRS discharge the obligation to draw up consolidated financial statements in accordance with the German Commercial Code (HGB). The assessment of these requirements is based on the German Accounting Standard No. 1 (DRS

1) published by the German Accounting Standards Committee (Deutsche Rechnungslegungs Standards Committee DRSC e.V.). All information and explanations required in accordance with the German Commercial Code (HGB) or Stock Corporation Act (Aktiengesetz, AktG) that are outside the scope of the IASB regulations have been included in order to achieve equivalence with consolidated financial statements prepared according to the German Commercial Code.

Some items in the consolidated income statement and the consolidated balance sheet for the Group were combined and stated separately in the Notes to the Consolidated Financial Statements. This is intended to improve clarity of presentation.

The balance sheet date of SURTECO AG and the consolidated subsidiaries is 31 December 2003.

II. ACCOUNTING PRINCIPLES IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

The relevant deviations of IFRS from the German Commercial Code (HGB) are explained below pursuant to Clause § 292a (2), No. 4b German Commercial Code (HGB):

Accounting, valuation and consolidation methods in accor-

dance with IAS which correspond to German law:

- Depreciation of movable property, plant and equipment is effected by the straight-line method instead of by the diminishing-balance method over the useful life. Depreciation is not therefore

based on fiscal principles as in German commercial law. Half-yearly depreciation and fiscally motivated special write-downs are not recognized.

- By comparison with application of the fiscal leasing exemptions, the IFRS regulations (IAS 17) more

frequently result in lease items being capitalized by the lessee rather than with the lessor. Under IFRS regulations, whereby all major risks and benefits in connection with an asset are transferred to the Group, the designated asset is recognized less accumulated depreciations and an appropriate liability amounting to the market value of the asset or the lower cash value of the minimum leasing payments (finance lease).

- Valuation of inventories, which are always carried out at the full cost principle based on production, is affected by the depreciations on property, plant and equipment changed in accordance with IFRS.
- Calculation of reserves for phased retirement and long service in accordance with IFRS is based on an estimate of future developments.
- Some items that are reported as reserves in accordance with the German Commercial Code are posted as liabilities in IFRS financial statements. Provisions for operating expenses are not permissible.

Accounting, valuation and consolidation methods in accordance with IAS which deviate from German law:

- Intangible assets manufactured in the company are capitalized if a future benefit can be derived.
- Fiscally motivated special items with equity portion are not to be reported in IFRS financial statements.

- Pension accruals are calculated in accordance with IAS 19, taking into account future salary and pension increases, and current fluctuation rates based on the projected unit-credit method. The accruals are calculated in accordance with German law on the basis of the fiscal notional interest rate pursuant to Clause § 6 a of the German Income Tax Act (EstG).

- Reserves may not be formed for failure to carry out maintenance.

- Medium and long-term reserves are recognized at their cash value.

- Assets and obligations arising from future income tax and expenses must be calculated by the liability method reflecting the balance sheet in accordance with IAS 12 using the tax rates relevant to future payouts. This also includes recognition of deferred tax assets and liabilities that arise by offsetting tax losses carried forward with profit expectations in the future, to the extent that their realization is guaranteed with sufficient security.

- Derivative financial instruments are reported at current value, even if this exceeds acquisition costs. The opportunities and risks arising from the valuation of financial instruments, which are used to hedge future cash flows, are accrued as a separate reserve in equity capital without affecting earnings. Earnings from settlement of these contracts are recognized in the income statement when they fall due. By contrast, the opportunities and risks arising from valuation of deriva-

tive financial instruments used to hedge balance-sheet items are reported in the income statement immediately.

- Foreign currency assets and liabilities are calculated at the average price on the balance-sheet date instead of in accordance with the inequality principle. Any gains or losses arising are recorded in the income statement.

- Minority interests in the equity capital of subsidiaries are carried outside equity capital as a separate item.

III. SHAREHOLDERS AND CONSOLIDATED GROUP

SURTECO AG and all the German and foreign subsidiary companies in which SURTECO AG is directly or indirectly able to exercise a dominant influence over their finance and business policy in such a manner that the compa-

nies of the Group derive a benefit from the activity of this company are included in the consolidated financial statements. Consolidation begins at the point in time from which the control exists and ends when it is no longer possible

to exercise such control.

The number of subsidiaries included in the consolidated financial statements developed during the year under review as follows:

	Germany	Abroad	Total
Subsidiary companies at 31/12/2002	15	8	23
First-time consolidated in 2003	0	1	1
Subsidiary companies at 31/12/2003	15	9	24

Influences arising from the change in the consolidated Group are explained under the relevant headings in the Notes to the Consolidated Financial Statements if they are of major significance.

Three companies were not included in the Consolidated Financial Statements for 2003 (2002: two companies) on the grounds that they either did not transact any active business or only transacted minimal business and the influence of their aggregate value on the net worth, financial position and results of the Group was not material.

Information on direct and indirect holdings in the subsidiaries of

SURTECO AG is provided in Supplementary Information to the Notes on the Consolidated Financial Statements. The list of shareholdings is filed at the Commercial Register of the Local Court (Amtsgericht) Augsburg (HRB 2012).

Exemption from Disclosure in accordance with Clause § 264 (3) German Commercial Code (HGB)

The following companies in Germany have fulfilled the required conditions in accordance with Clause § 264 (3) German Commercial Code (HGB) or Clause § 264b German Commercial Code (HGB) and are therefore exempt from preparation of a manage-

ment report and from disclosure of their financial statements and management report:

- Bausch GmbH, Buttenwiesen-Pfaffenhofen
- Bausch Dekor GmbH, Buttenwiesen-Pfaffenhofen
- W. Döllken & Co. GmbH, Gladbeck
- Döllken-Kunststoffverarbeitung GmbH, Gladbeck
- Döllken-Weimar GmbH, Nohra
- Vinylit Fassaden GmbH, Kassel
- Döllken-Werkzeugbau GmbH Gladbeck
- Robert Linnemann GmbH + Co., Sassenberg
- Kröning GmbH & Co., Hüllhorst

IV. CHANGES TO THE CONSOLIDATED GROUP

In 2003, the subsidiary Bausch + Linnemann Decorative Material

(Taicang) Co., Ltd. (China) was formed by cash subscription.

V. CONSOLIDATION PRINCIPLES

The financial statements of the domestic and foreign subsidiaries included in the consolidation have been prepared on the basis of the **accounting and valuation principles uniformly applicable** to the SURTECO Group in accordance with IAS 27 (Consolidated Financial Statements and Accounting for Investments in Subsidiaries).

Capital consolidation has been carried out in accordance with IAS 22 (Business Combinations).

Capital consolidation has been carried out within the sub-group financial statements for Bausch, Linnemann and Döllken by netting the acquisition costs, including incidental acquisition costs, with the proportionate book value of the equity capital of the subsidiary companies at the time of first-time consolidation in the consolidated financial statements or – if the shareholding was purchased later – at the time of acquisition.

The two sub-groups Bausch and Linnemann were merged to form SURTECO AG on the basis of the Pooling-of-Interests Method. The heading "Investments in affiliated enterprises" of SURTECO AG was netted with the subscribed capital of the sub-groups Bausch and Linnemann. The resulting asset differences were charged against the capital reserves of SURTECO AG, or differences arising from the acquisition of minority interests in Bausch GmbH were charged against the revenue reserves of SURTECO AG on first-time consolidation without affecting earnings in the course of 2000.

Capital consolidation of the Döllken subgroup was effected in accordance with the revaluation method by netting the acquisition cost, including ancillary acquisition costs of SURTECO AG with the proportionate equity capital of the sub-group Döllken at the date on which the company first became a subsidiary.

Any capitalized differences arising from first-time consolidation are entered under assets as goodwill arising from capital consolidation, provided they cannot be attributed to undisclosed reserves. Differences are then amortized as goodwill over 15 years. The residual values of differences that were netted with consolidated reserves in previous years have been entered under intangible assets and amortized over their remaining useful life with effect from fiscal year 2001.

Receivables and liabilities and income and expenses are netted between the Group companies.

Internal sales and income and intercompany profits arising from supplies by consolidated companies have been eliminated. Deferred taxes arising from consolidation transactions recognized in the income statement have been accrued.

VI. CURRENCY TRANSLATION

In the **individual financial statements** of the Group companies, business transactions in foreign currency are valued at the price prevailing at the point in time when they were first booked, if they are hedging forward sale agreements they have

been recorded at the hedge price. Exchange-rate losses occurring up to the balance sheet date and arising from the valuation of assets and liabilities have been taken into account. Gains and losses arising from changes in exchange rates have

been reported in the income statement.

Foreign subsidiaries included in the **consolidated financial statements** draw up their individual financial statements in the relevant local currency. These finan-

cial statements are translated into EUROS in accordance with IAS 21, based on the concept of the functional currency. Because all consolidated companies transact their business autonomously from a financial, commercial and organizational perspective, the rele-

vant national currency is the functional currency. Assets and liabilities are therefore translated at the rate prevailing on the balance sheet date, whereas equity capital is translated at historic rates. Expenses and income are translated at the average rate for the

year. Differences arising from translation of the financial statements of foreign subsidiaries are reported without affecting income and recognized under equity capital.

Translation was based on the following currency exchange rates:

	Balance sheet date		Average rate	
	31/12/2002	31/12/2003	31/12/2002	31/12/2003
US dollar	0.9545	0.7930	1.0617	0.8858
Sterling	1.5373	1.4144	1.5910	1.4461
Singapore dollar	0.5496	0.4665	0.5923	0.5082
Australian dollar	0.5403	0.5957	0.5767	0.5760
Canadian dollar	0.6055	0.6139	0.6761	0.6325
Chinese Renminbi	-	0.0974	-	0.1088

VII. ACCOUNTING AND VALUATION PRINCIPLES

Uniform accounting and valuation methods

The annual financial statements of all the companies included in the consolidated financial statements were uniformly prepared in accordance with the statutory regulations on the basis of the classification, accounting and valuation policies applied by SURTECO AG.

Consistency of accounting and valuation methods

The accounting and valuation methods have always been complied with.

Estimates and judgements

Preparation of the consolidated financial statements under IFRS regulations requires assumptions to be made in reporting certain items and these exert an effect on

recognition in the consolidated balance sheet or income statement, and on the information provided about contingent assets and liabilities.

Income and expense realization

Sales revenues arising from the sale of products have been recorded with transfer of ownership or risk at the customer, if a price has been agreed and it is reasonable to assume that payment will be made. Sales revenues are recognized less discount, price reductions, customer bonuses and rebates.

Income tax

Income taxes have been calculated in accordance with the national tax regulations applicable in the countries where the company is

active. The company calculates deferred taxes for all temporary differences between the book values and the tax values stated for assets and liabilities, and for tax losses carried forward.

Cash and cash equivalents

have been recorded at face value. This includes cash and short-term liquid assets with due dates of less than three months.

Receivables have been recorded at face value. Recognizable risks and the general credit risk have been calculated on the basis of individual risk estimates and on the basis of empirical values by taking account of corresponding value adjustments.

Raw materials, consumables and supplies, and goods held

for resale have been recognized at cost prices on the basis of the lower of cost or market principle. Carrying values have been calculated by the weighted-average method. Downward valuation adjustments have been undertaken to reflect obsolescence and technically restricted application. Lower values prevailing on the balance sheet date due to reduced proceeds from disposal have also been taken into account.

Finished products and work in progress have been recognized at production cost. These costs include costs directly attributable to the manufacturing process and a reasonable proportion of production-related overheads. These include production-related depreciation, proportionate administrative expenses, and proportionate social security costs. Inventory risks arising from storage period

or reduced usability have been taken into account by write-downs. Lower values prevailing on the balance sheet date due to reduced proceeds from disposal have also been taken into account.

Other current assets have been recognized at acquisition cost.

Development costs for assets (software) produced within the company have been capitalized under income at acquisition or production cost, if the manufacture is likely to bring commercial benefit to the SURTECO Group.

Property, plant and equipment have been recognized at acquisition or production cost, less scheduled depreciation and, if necessary, extraordinary depreciation. The production costs of self-constructed plant include direct costs and a reasonable proportion

of overhead. Finance costs have not been capitalized under income as an element of acquisition or production costs.

Repair and maintenance costs have been recorded as expenses at the point in time at which they occurred. Major upgrades and improvements were capitalized as assets.

Scheduled depreciation of assets has been carried out exclusively by the straight-line method. Depreciation is based on the following commercial service lives applied across the Group:

	Years
Intangible assets	3 - 5
Buildings	40
Improvements and fittings	10
Technical plant and machines	5 - 10
Factory and office equipment	5 - 10

Unscheduled depreciation on property, plant and equipment has been carried out in accordance with IAS 36, if the net disposal price or utility value of the relevant asset has fallen below the book value. If the reasons for which unscheduled depreciation was carried in previous years are

no longer applicable, corresponding write-ups have been carried out.

The production costs of **self-constructed plant** included direct costs and an appropriate proportion of the overheads and depreciations. A fixed value has been cal-

culated to cover spare parts for machinery.

Commercial ownership in **lease items** should be assigned to the lessee in accordance with IAS 17, if the lessee carries all major rewards and risks associated with the item (finance leasing). If com-

mercial ownership should be assigned to the enterprises of the SURTECO Group, the lease item is capitalized as an asset in the amount of the fair value or the lower cash value of the leasing rate at the point in time at which the contract was concluded. Depreciation is effected according to schedule over their useful life or over the term of the lease, if this is shorter – corresponding to comparable items of property, plant and equipment acquired. The resulting payment obligations arising from future leasing rates have been capitalized under liabilities.

State grants and subsidies have been accrued as liabilities and released over the useful life of the underlying assets.

Intangible fixed assets, essentially software, acquired for a consideration have been capitalized as assets at acquisition cost and amortized over their useful life using the straight-line method.

Even intangible assets created within the company have been capitalized as assets, provided the criteria for recognition of IAS 38 are fulfilled. Production costs essentially comprise all directly attributable costs.

Financial assets are recorded at acquisition cost, including incidental acquisition costs. Investments in unconsolidated enterprises and participations have been recognized at acquisition cost in the consolidated financial statements.

Goodwill we acquired in individual financial statements and goodwill arising from the consolidation of subsidiary companies is subject to scheduled amortization over fifteen years.

Deferred taxes are formed for all temporary differences between the valuations of the tax balance sheet and the consolidated balance sheet (temporary concept). Deferred tax assets also comprise tax relief claims arising from the anticipated utilization of existing losses carried forward in subsequent years and where there is sufficient likelihood that they will be realized. Accruals have been reported in the amount of the likely tax charge or credit for the subsequent fiscal years on the basis of the applicable tax rate at the time of realization. Fiscal consequences of profit distributions have been reported at the time of the resolution on the appropriation of profit. If income for subsidiaries is exempt from tax as a result of special local tax regulations, and the fiscal effects are not foreseeable if temporary tax exemption ceases, no deferred taxes were recognized. Revaluations are carried out if deferred tax assets are unlikely to be realized. Deferred tax assets are netted with deferred tax liabilities if the tax creditor and matched maturities are identical.

Current liabilities and financial liabilities have been recorded with the repayment or performance amount. **Long-term liabilities and financial liabilities** have been recorded in the balance sheet on a new cost basis. Differences between historical cost and

the repayment amount have been recorded in accordance with the effective interest method. Liabilities arising from finance leasing contracts have been recorded at the cash value of the leasing rates.

Pension accruals and similar obligations comprise obligations arising from regulations relating to company retirement provision, phased retirement and long-service awards. Pension accruals are valued using the projected unit credit method in accordance with IAS 19. This method recognizes the pensions and projected unit credits acquired on the balance sheet date. It also takes account of the increases in pensions and salaries anticipated in the future with prudent estimation of the relevant parameters. The calculation has been carried out using actuarial methods taking into account biometric accounting principles. Actuarial gains and losses are recognized as income with immediate effect. These obligations only exist in Germany and they have been valued with an interest rate for accounting purposes of 5.75 percent, a wage and salary trend of 2.0 percent and for regulations relating to company retirement provision further with a pension trend of 2.0 percent. Other payments (long-service awards and phased retirement) have also been calculated using the same method. The pension institutions were closed in the past and new employees joining the company receive no payments for company retirement provision.

Reserves have been formed in accordance with IAS 37, if a cur-

rent obligation arises from a past event in respect of a third party, which is likely in the future to lead to an outflow of resources and it can be reliably estimated. Reserves for warranty claims are formed on the basis of previous or estimated future claims. Other reserves have also been recorded in accordance with IAS 37 for all recognizable risks and uncertain obligations in the amount of their probable occurrence and not recognized with rights of recourse.

Drawing up the consolidated financial statements in accordance with IFRS requires **assumptions** to be made and **estimates** to be used, which exert an effect

on the amount and recognition of assets and liabilities, income and expenses, and contingent liabilities reported in the financial statements. The assumptions and estimates essentially relate to uniform definition across the Group of useful lives, reporting and valuation of reserves, and the likelihood that tax benefits will be realized in the future. The actual values may deviate in individual cases from the assumptions and estimates arrived at. Any changes are recognized as income at the point in time when more information is available.

VIII. NOTES TO THE CONSOLIDATED INCOME STATEMENT

(1) Sales revenues

Sales revenues for the Group are segmented as follows:

Business (product)	2002 € 000s	2003 € 000s
Edging systems		
- based on paper	86,909	82,540
- bases on plastics	113,352	109,454
Foils	77,976	78,916
Technical profiles (extrusions)	19,367	17,423
DIY business	30,158	27,530
Facade systems	6,585	9,705
Printing	7,251	8,578
Other	26,044	20,891
	367,642	355,037
Geographical (regions)		
Germany	146,027	141,179
Abroad	221,615	213,858
	367,642	355,037

(2) Other own work capitalized Other own work capitalized principally relates to internal Group amounts within the SBU Plastics.

(3) Cost of purchased materials Composition of the cost of purchased materials in the Group:

[€ 000s]	2002	2003
Cost of raw materials and supplies, and purchased merchandise	142,025	139,450
Cost of purchased services	8,392	8,779
	150,417	148,229

(4) Personnel expenses

[€ 000s]	2002	2003
Wages and salaries	83,063	80,541
Social security and other pension costs	13,798	14,314
<i>of which for retirement provision</i>	970	1,635
	96,861	94,855

The following table shows the employee structure:

	2002		2003	
	Industrial	Salaried	Industrial	Salaried
Administration / Materials management	127	295	117	255
Sales	4	266	6	258
Research and development, quality assurance	45	47	39	52
Production	1,076	109	1,024	104
Engineering	59	25	59	27
	1,311	742	1,245	696

(5) Other operating expenses (netted) amounting to € 000s 190 (2002: € 000s 167) have been reported as income. Research and development expenses (personnel and material expenses) amounted to € 000s 5,267.

(6) Financial result

[€ 000s]	2002	2003
Interest and similar income	349	202
Interest and similar expenses	-13,108	-10,322
Interest income	-12,759	-10,120
Income from participations	38	0
Income from associated enterprises	38	0
Financial result	-12,721	-10,120

(7) Income tax

Income tax expense is broken down as follows:

[€ 000s]	2003
Deferred tax expenses	11,816
Deferred taxes	-51
Deferred tax expenses on losses carried forward	471
	420
	12,236

Actual and deferred **domestic** taxes have been valued on the basis of a tax rate of 39.0%. This includes corporate income tax of 25%, solidarity surcharge of 5.5% and the average local business tax rate of 380 % in the Group. The applicable local income tax rates for **foreign** companies vary between 25 % and 40%.

Deferred tax losses carried forward have been capitalized uniformly in the consolidated financial statements on the basis of a 5-year projection of earnings before income tax at the level of the individual companies. Uncertainties relating to different projected premises and framework conditions have been taken into account.

The deferred tax assets and liabilities reported in the financial statements listed below are attributable to differences in recognition and valuation of individual items on the balance sheet and to tax losses carried forward:

[€ 000s]	Deferred tax assets		Deferred tax liabilities	
	2002	2003	2002	2003
Financial liabilities	10,944	10,202	0	0
Tax losses carried forward	2,806	2,335	0	0
Pension accruals	1,190	1,511	0	0
Receivables and other assets	713	946	104	33
Inventories	185	773	40	26
Property, plant and equipment, net	5	448	25,917	25,559
Intangible assets	400	273	243	259
Other liabilities	576	91	48	18
Special tax items	0	0	445	454
	16,819	16,579	26,797	26,349
Netting	-10,599	-10,190	-10,599	-10,190
	6,220	6,389	16,198	16,159

The transition from the expected to actual tax expenditure is as follows:

[€ 000s]	2002	2003
Earnings before income tax	30,015	27,094
Expected income tax expense (39%)	11,706	10,567
Transition:		
Tax quota for		
- Amortisation of goodwill	2,691	2,967
- Expenses not deductible from tax	273	326
- Tax-free income	-380	-167
Taxes not relating to the reporting period	-978	-1,642
Other tax effects	-883	185
Income tax	12,429	12,236

(8) Net income per share (earnings per share)

	2002	2003
Number of shares issued	10,575,522	10,575,522
Consolidated net income attributable to the shareholders of SURTECO AG (€)	17,615,949	14,847,218
Net income per share (€)	1.67	1.40

IX. NOTES TO THE CONSOLIDATED BALANCE SHEET

(9) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank balances.

(10) Trade accounts receivable

All trade accounts receivable have a residual term of less than one year. Provisions for specific debts

and general bad debt charges were recorded to take account of the general interest, processing and credit risk

(11) Inventories

Consolidated inventories of the Group are comprised as follows:

[€ 000s]	2002	2003
Raw materials and supplies	17,923	16,277
Work in progress	6,147	4,114
Finished products and goods	23,079	23,710
	47,149	44,101

(12) Other current assets

[€ 000s]	2002	2003
Accounts receivable due from related parties	1,231	3,400
Prepaid tax (income tax)	7,720	2,769
Other		
- Land in current assets	3,444	3,448
- Accounts receivable	4,682	3,778
- Prepaid expenses	703	655
- Prepaid tax (sales / wage tax)	646	197
- Discount	90	19
- Other	1,709	1,107
	11,274	9,204
	20,225	15,373

(13) Fixed assets

[€ 000s]	Tangible assets	Intangible assets	Goodwill	Financial assets	Total
Acquisition costs					
01/01/2003	282,222	5,665	137,343	491	425,721
Currency differences	-4,755	-21	-1,997	0	-6,773
Additions	14,542	616	1,452	4,899	21,509
Disposals	-4,822	0	0	-10	-4,832
31/12/2003	287,187	6,260	136,798	5,380	435,625
Depreciation and amortization					
01/01/2003	125,917	4,099	30,754	10	160,780
Currency differences	-2,217	-6	-1,933	0	-4,156
Additions	17,290	768	8,704	0	26,762
Disposals	-4,310	0	0	-10	-4,320
31/12/2003	136,680	4,861	37,525	0	179,066
Book value at 31/12/2003	150,507	1,399	99,273	5,380	256,559
Book value at 31/12/2002	156,305	1,566	106,589	481	264,941

(14) Property, plant and equipment, net

Property, plant and equipment is comprised as follows:

[€ 000s]	Land and buildings	Leased land and buildings (finance leasing)	Technical equipment and machines	Other equipment, factory and office equipment	Payments on account and assets under construction	Total
Acquisition costs						
01/01/2003	76.343	29,263	128,973	46,513	1,130	282,222
Currency differences	-1.584	0	-3,037	-27	-107	-4,755
Additions	2.395	3	7,619	3,979	546	14,542
Disposals	-162	0	-483	-4,220	43	-4,822
Transfers	0	0	562	285	-847	0
31/12/2003	76.992	29,266	133,634	46,530	765	287,187
Depreciation and amortization						
01/01/2003	19.263	1,970	71,669	33,015	0	125,917
Currency differences	-176	0	-1,970	-71	0	-2,217
Additions	2.131	733	9,224	5,202	0	17,290
Disposals	-23	0	-277	-4,010	0	-4,310
31/12/2003	21.195	2,703	78,646	34,136	0	136,680
Book value at 31/12/2003	55.797	26,563	54,988	12,394	765	150,507
Book value at 31/12/2002	57.080	27,293	57,304	13,498	1,130	156,305

Finance leasing contracts are generally concluded over a basic leasing period of between 15 and 25 years and after the expiry of the basic leasing period provide for a purchase option or the

option of extending the contract at least once for a period of 5 years. Apart from finance leasing contracts, the SURTECO Group has also concluded rental and leasing contracts that qualify as

operating leasing contracts on the basis of their commercial content, whereby the lease item should be reported by the lessor.

(15) Intangible assets

Intangible assets comprise primarily IT software.

[€ 000s]	Concessions, patents, licenses and similar rights and values
Acquisition costs	
01/01/2003	5,665
Currency differences	-21
Additions	616
31/12/2003	6,260
Depreciations and amortization	
01/01/2003	4,099
Currency differences	-6
Additions	768
31/12/2003	4,861
Book value at 31/12/2003	1,399
Book value at 31/12/2002	1,566

(16) Goodwill

Goodwill is comprised of the following amounts from the takeover of asset deals and from capital consolidation (€ 000s 81.965).

Goodwill has developed as follows:

[€ 000s]	
01/01	106,589
Currency adjustments	-64
Additions	1,452
Amortization	-8,704
31/12	99,273

(17) Financial assets

[€ 000s]	Participations	Other loans	Total
Acquisition costs			
01/01/2003	491	0	491
Additions	4,296	603	4,899
Disposals	-10	0	-10
31/12/2003	4,777	603	5,380
Depreciation and amortization			
01/01/2003	10	0	10
Disposals	-10	0	-10
31/12/2003	0	0	0
Book value at 31/12/2003	4,777	603	5,380
Book value at 31/12/2002	481	0	481

Participations in the consolidated financial statements relate to

unconsolidated subsidiaries. The additions relate to D&P Praktikus

Sp.z.o.o., Poland, and Arbe s.r.l., Martellago, Italy.

(18) Current financial liabilities

Current financial liabilities include short-term credit lines that have been drawn down, short-term proportion of loan liabilities, and finance and leasing liabilities.

(19) Short-term accrued expenses

Short-term accrued expenses include reserves for warranties (€000s 1,503), impending losses and costs of litigation (€ 000s 270).

(20) Other current liabilities

[€ 000s]	2002	2003
Liabilities to employees	8,617	7,848
Bonuses and promotion costs	1,695	1,725
Social security contributions	1,749	1,946
Accounts receivable	1,049	1,544
Tax liabilities	1,105	1,206
Social insurance against occupational accidents	489	518
Supervisory Board remuneration	310	330
Residual purchase price participation	1,508	0
Other	1,786	1,893
	18,308	17,010

(21) Liabilities

[€ 000s]	Total	Residual Term		
		up to 1 year	1-5 years	more than 5 years
Debts	150,786	48,870	61,525	40,391
Liabilities from finance leases	26,225	1,085	5,165	19,975
Trade accounts payable	12,110	12,110	0	0
Tax liabilities	12,007	12,007	0	0
Other liabilities - of which from taxes (€ 000s) 1,189 - of which from social security (€ 000s) 1,946	17,522	17,010	512	0
	218,650	91,082	67,202	60,366

(22) Pensions and similar obligations

Agreements for company pension provision were concluded for staff of the SURTECO Group,

which were financed exclusively within the scope of defined benefit plans through pension accruals.

The following items have been included in pension accruals and similar obligations:

[€ 000s]	01/01	Consumption	Release	Addition	31/12
Provisions for					
- Pension obligations	7,101	-447	-101	777	7,330
- Obligations from phased retirement	2,721	-499	-64	601	2,759
- Obligations for long-service awards	496	-60	0	215	651
	10,318	-1,006	-165	1,593	10,740

(23) Shareholders' equity

The **subscribed capital (capital stock)** of SURTECO AG is € 10,575,522.00. It is divided into 10,575,522 no-par-value bearer shares (ordinary shares) corresponding to a proportion of the capital stock of € 1.00 each.

The Board of Management is authorized by the resolutions of the Annual General Meetings on 7 and 24 September 1999 and following the capital increases for a non-cash consideration on 28 October 1999 and 14 August

2001, and with the consent of the Supervisory Board, to increase the capital stock of the Company once or in several stages in the period to 7 September 2004 by overall up to € 224,478.00 (**authorized capital I**) by the issue of new no-par-value bearer shares corresponding to a proportion of the capital stock of € 1.00 each, for cash or a non-cash consideration.

Shareholders are granted a pre-emptive right in the case of a capital increase for cash, but the

Board of Management is entitled to exclude the fractions from shareholders' statutory pre-emptive right. The Board of Management is entitled to exclude the pre-emptive right of shareholders in the case of a capital increase for a non-cash consideration. The Board of Management decides on the additional content of share rights and the conditions of issue, with the consent of the Supervisory Board.

The Board of Management is authorized by the resolution of

the Annual General Meeting on 20 June 2000, with the consent of the Supervisory Board, to increase the capital stock of the Company once or in several stages in the period to 20 June 2005 by overall up to € 1,000,000.00 (**authorized capital II**) by the issue of new no-par-value bearer shares, corresponding to a proportion of the capital stock of € 1.00 each, for cash or a non-cash consideration.

Shareholders are granted a pre-emptive right in the case of a capital increase for cash, but the Board of Management is entitled to exclude the fractions from shareholders' statutory pre-emptive right. The Board of Management is entitled to exclude the pre-emptive right of shareholders in the case of a capital increase for a non-cash consideration. The Board of Management decides on the additional content of share rights and the conditions of issue, with the consent of the Supervisory Board.

The same resolution authorized the Board of Management, with the consent of the Supervisory Board, to increase the capital stock of the Company once, or in several stages, in the period to 20 June 2005 by overall up to € 500,000.00 (**authorized capital III**) by the issue of new no-par-value bearer shares, corresponding to a proportion of the capital stock of € 1.00 each, for cash. The Board of Management is entitled, with the consent of the Supervisory Board, to exclude the pre-emptive right of shareholders' up to a proportionate amount of the capital stock of € 500,000.00, in order to issue the

new shares at an issue price that is not materially below the quoted market value. If the Board of Management does not make use of this authorization to exclude pre-emptive rights, the shareholders' pre-emptive right can only be excluded in order to utilize fractions. The Board of Management decides on the additional content of share rights and the conditions of issue, with the consent of the Supervisory Board.

The Board of Management is authorized by the resolution of the Annual General Meeting on 30 August 2001, with the consent of the Supervisory Board, to increase the capital stock of the Company once or in several stages in the period to 30 August 2006 by overall up to € 3,000,000.00 (**authorized capital IV**) by the issue of new no-par-value bearer shares, corresponding to a proportion of the capital stock of € 1.00 each, for cash or a non-cash consideration. Shareholders are granted a pre-emptive right in the case of a capital increase for cash, but the Board of Management is entitled to exclude the fractions from shareholders' statutory pre-emptive right. The Board of Management is entitled to exclude the pre-emptive right of shareholders in the case of a capital increase for a non-cash consideration. The Board of Management decides on the additional content of share rights and the conditions of issue, with the consent of the Supervisory Board.

The same resolution authorized the Board of Management, with the consent of the Supervisory

Board, to increase the capital stock of the Company once, or in several stages, in the period to 30 August 2006, up to a total of € 270,000.00 (**authorized capital V**) by the issue of new no-par-value bearer shares, corresponding to a proportion of the capital stock of € 1.00 each, for cash or for a non-cash consideration. The Board of Management is authorized to exclude the statutory pre-emptive right of shareholders in the case of a capital increase for cash relating to a surplus allocation option granted to an issuing bank. The Board of Management decides on the additional content of share rights and the conditions of issue, with the consent of the Supervisory Board.

The Annual General Meeting provided authorization by the resolution of 30 August 2001 to grant share options and to create conditionally authorized capital for a share option plan and to make the necessary change to the Articles of Association (Annual General Meeting on 17 September 2001). The capital stock of the company has therefore conditionally increased by up to € 600,000.00 through corresponding issue of shares (**conditional capital I**). The increase in conditionally authorized capital is only implemented to the extent that share options are issued, the bearers of these shares exercise their right of subscription and the company does not grant any of its own shares to fulfil these options rights. The authorization granted to acquire the company's own shares up to 10 % of the capital stock includes the possibility of the Board of Management pur-

chasing its own shares with the approval of the Supervisory Board in order to use them for the share option rights. It includes the right of the Board of Management otherwise to dispose of or call in the shares under certain conditions.

Capital reserve

The capital reserve of SURTECO AG includes the amounts by which the capital investment values of investments in affiliated enterprises paid within the scope of capital increases against non-cash considerations exceed the amounts of capital stock allocated to the SURTECO shares released for this purpose.

Netting differences capitalized as assets arising from capital consolidation on account of the pooling of interests method were netted in the consolidated financial statements of SURTECO AG against the capital reserve during the year of first-time consolidation.

Dividend proposal of SURTECO AG

The dividend payout of SURTECO AG is based on net profit reported in the financial statements of SURTECO AG drawn up in accordance with commercial law in conformity with Clause § 58 (2) of the Stock Corporation Act

(Aktiengesetz, AktG) The financial statements drawn up in accordance with commercial law have recorded a net profit of € 000s 12,013. The Board of Management and Supervisory Board of SURTECO AG propose to the Annual General Meeting a dividend payout of € 0.70 per share, amounting to a total of € 000s 7,403, and the transfer to revenue reserves of € 000s 4,600. The Board of Management further recommends carrying forward the residual amount of € 000s 11 as profit carried forward.

(24) Other financial obligations

[€ 000s]	2002	2003
Rental and operate leasing contracts	864	2,328
	864	2,328

Obligations arising from rental, hire and leasing contracts relate exclusively to rental contracts whereby the companies of the SURTECO Group are not the commercial owners of the leased assets in accordance with IFRS.

Obligations arising from finance and leasing contracts fall due during the subsequent periods as follows:

[€ 000s]	up to 1 year	1 to 5 years	more than 5 years	Total
Leasing payments due in the future	2,889	14,448	23,683	41,020
Unaccrued interest	-1,809	-9,287	-3,708	-14,804
Cash value	1,080	5,161	19,975	26,216

(25) Financial instruments

Financial instruments are commercial transactions based on a contract that include a claim for cash. In accordance with IAS 32, such instruments include primary financial instruments, such as e.g. trade accounts receivable or appropriate liabilities or financial assets and liabilities. They also include derivative financial instruments, which are used to hedge interest-rate or currency risks.

Primary financial instruments

Primary financial instruments can be seen in the balance sheet. Financial instruments recognized under assets – taking into account any revaluations – have been recorded at acquisition cost. Financial instruments recognized under liabilities have been recorded at face value or at the higher repayment amount. The creditworthiness or default risk arises from the risk that a business partner is unable to honour his obligations. Since no netting arrangements have been concluded on the whole with our customers, the amounts reported

in the balance sheet represent the maximum default risk. Currency risks exist where assets or liabilities are held in currencies other than the local currency of the company. In the first instance, hedging is provided by positions that are intrinsically closed. To this end, the SURTECO Group always makes arrangements for one foreign currency asset to be balanced by one or more liabilities in the same currency that are equivalent in time and amount. Derivative financial instruments are only used to hedge additional currency risks extending beyond these limits.

Derivative financial instruments

The SURTECO Group may be affected by risks arising from changes in interest rates and exchange rates within the scope of its business activities. Derivative financial instruments are only used for hedging purposes and for reducing these risks. Financial instruments are not held for trading purposes. The use of derivative financial instruments is regu-

lated by guidelines. Risk estimates and checks are carried out on an ongoing basis.

The SURTECO Group is subject to a credit risk, which arises from non-performance of contractual agreements by counterparties. Derivatives are only concluded with internationally recognized financial institutions in order to reduce this credit risk. In addition, all transactions are monitored by the central finance department at SURTECO AG. Only limited use was made of derivative financial instruments on the balance sheet date.

The Board of Management does not anticipate that commitments in transactions of this nature will exert any negative effects on the financial situation.

(26) Notes to the cash flow statement

The cash flow statement shows the changes in the financial resources of the SURTECO Group during the year under review. A distinction is drawn between

cash flows arising from operating activities and those arising from investment and financing activities in accordance with IAS 7. Changes to individual items can be derived from the consolidated balance sheet and the consoli-

dated income statement. Cash flows include cheques, cash in hand and bank balances which fall due within a period of up to three months.

(27) Segment reporting

Segment reporting has been carried out in accordance with the management approach (IAS 14) to the internal structure of the company. This involves the internal organizational structure of the company being split into the two

Strategic Business Units (SBU) Paper and Plastics. Each company within the Group is assigned to the appropriate segment in accordance with the list giving an overview of shareholder structure. The business relationships between the companies in the

segments are based on prices, which are also agreed with third parties. Administrative services are allocated on the basis of cost. Intra-group items are eliminated in the transition.

by Strategic Business Units [€ 000s]	SBU PAPER	SBU PLASTICS	SURTECO AG	CONSOLI- DATION	SURTECO GROUP
Income Statement					
Sales revenues	175,154	181,485	0	-1,602	355,037
- with outside third parties	174,438	180,599	0	0	355,037
- with other segments	716	886	0	-1,602	0
Depreciation and amortization	9,284	12,028	138	5,312	26,762
Segment earnings before income from participations, interests and taxes	22,714	23,418	-3,533	-5,385	37,214
Income from other participations and investments	0	0	40,948	-40,948	0
Balance Sheet					
Assets	153,276	206,825	361,623	-365,210	356,414
Liabilities	96,995	105,556	211,593	-166,280	247,864
Net assets	56,281	101,269	150,030	-199,030	108,550
Investments	9,193	5,262	87	-	14,542
Personnel	848	1,086	7	-	1,941

by regional markets [€ 000s]	Sales revenues with third parties (by registered office of companies)	Segment assets	Segment liabilities	Investments in property, plant and equipment
Germany	272,090	792,935	463,480	9,679
European Union	25,043	30,153	3,706	239
Asia / Australia	20,041	20,272	8,630	1,184
America	39,465	25,259	7,520	3,440
Transition account	-1,602	-512,205	-235,472	0
SURTECO GROUP	355,037	356,414	247,864	14,542

X. EXECUTIVE OFFICERS OF THE COMPANY

Board of Management

Name	Memberships in other companies
Friedhelm Päfgen Businessman, Buttenwiesen-Pfaffenhofen Chairman	Deputy Chairman of the Supervisory Board of Schleipen & Erkens AG, Jülich; Member of the Supervisory Board of Döllken-Kunststoffverarbeitung GmbH, Gladbeck
Bernd Dehmel Businessman Marienfeld SBU Paper	Deputy Chairman of the Supervisory Board of Döllken-Kunststoffverarbeitung GmbH, Gladbeck
Dr.-Ing. Herbert Müller Engineer Heiligenhaus SBU Plastics	Chairman of the Supervisory Board of Döllken-Kunststoffverarbeitung GmbH, Gladbeck

Supervisory Board

Name	Memberships in other companies
Shareholder representatives	
Dr.-Ing. Jürgen Großmann Engineer / Hamburg Chairman	Member of the Supervisory Board of Wilhelm Karmann GmbH, Osnabrück; Member of the Supervisory Board of Deutsche Post AG, Bonn; Member of the Advisory Board of Dresdner Bank, Advisory Board North, Hamburg; Chairman of the Advisory Board of Gesellschaft für Stromwirtschaft m.b.H., Mülheim; Member of the Advisory Board of Ardex GmbH, Witten; Member of the Advisory Board of RWE Scientific Advisory Board, Essen; Member of the Advisory Board of RAG Trading International, Essen; Member of the Board, Hanover Acceptances Limited, London; Member of the Advisory Boards of British American Tobacco (Industrie) GmbH; BATIG Gesellschaft für Beteiligungen mbH; British American Tobacco (Germany) Beteiligungen GmbH
Christa Linnemann Businesswoman / Gütersloh Vice-chairwoman	
Jens Schürfeld Businessman / Hamburg Deputy Chairman	Chairman of the Supervisory Board of Schleipen & Erkens AG, Jülich; Member of the Advisory Board Hamburg of Deutsche Bank AG, Frankfurt am Main; Member of the Board of Trustees of Hamburger Sparkasse, Hamburg; Chairman of the Advisory Board of Drewsen-Schürfeld GmbH, Lachendorf/Celle
Harald Eschenlohr Lawyer / Munich	Chairman of the Advisory Board of Loden-Frey Verkaufshaus GmbH & Co. KG; Chairman of the Advisory Board of Tretter-Schuhe GmbH & Co. KG; Deputy Chairman of the Supervisory Board of Derag Deutsche Realbesitz AG; Chairman of the Supervisory Board of Germania Vermögensanlagen AG; Chairman of the Supervisory Board of FGS Feinpappenwerk Gebr. Schuster GmbH & Co. KG; Chairman of the Supervisory Board of Klöpfer & Königer GmbH & Co. KG; Chairman of the Advisory Board of Käserei Champignon Hofmeister GmbH & Co. KG

Inge Kloepfer-Lange Journalist / Berlin
Bernhard Schlautmann Businessman / Gütersloh to 10 July 2003
Dr. Walter Schlebusch Engineer / Munich since 10 July 2003
Employee Representatives
Wolfgang Gorißen Engineer / Münster
Richard Liepert Chairman of the Works Council / Wertingen
Udo Semrau Chairman of the Works Council / Gladbeck
Honorary Chairman
Johan Viktor Bausch Engineer / Munich

Member of the Supervisory Board of Klöpfer & Königer GmbH & Co. KG

Remuneration for the executive officers and former executive officers

Total emoluments for the Supervisory Board for fiscal year 2003 amounted to € 000s 330. Total emoluments for Members of the Board of Management were € 000s 3,382.

Share ownership of the Board of Management and Supervisory Board of SURTECO AG

59,130 shares in the Company were owned by members of the Board of Management on the balance sheet date. 1,300,070 shares in the Company were owned by members of the Supervisory Board.

XI. DECLARATION OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE PURSUANT TO CLAUSE § 161 SENTENCE 1 STOCK CORPORATION ACT (AKTG)

The Board of Management and the Supervisory Board of Surteco AG have submitted a Declaration of Compliance pursuant to Clause § 161 Sentence 1 of the

Stock Corporation Act (AktG) and made this declaration available to the shareholders. This declaration is intended demonstrate compliance with all key aspects of the

recommendations on conduct promulgated by the "Government Committee on the German Corporate Governance Code".

XII. DISCLOSURE PURSUANT TO CLAUSE § 25 OF THE SECURITIES TRADING ACT (WPHG) / CLAUSE § 160 (1) NO. 8 OF THE STOCK CORPORATION ACT (AKTG)

The following shareholders of SURTECO AG informed the company of the holding of voting rights set out below pursuant to Clause § 21 of the Securities Trading Act (WpHG):

Shareholder	Holdings of voting rights (Total in %)	Add (%)	
Christa Linnemann, Gütersloh	75,6653	§ 22 (2) WpHG	67,2572
Claus Linnemann, Gütersloh	76,5428	§ 22 (2) WpHG	64,1860
Bernhard Schlautmann, Gütersloh	75,4252	§ 22 (2) WpHG	68,1177
Elke Schlautmann, Hamburg	74,2394	§ 22 (2) WpHG	72,2480
Katrin Schlautmann, Gütersloh	74,2394	§ 22 (2) WpHG	72,2480
Christian Schlautmann, Gütersloh	74,2394	§ 22 (2) WpHG	72,2480
Klöpferholz GmbH, Garching	73,7969	§ 22 (2) WpHG	52,9312
Klöpfer & Königer GmbH & Co. KG, Garching	73,7969	§ 22 (2) WpHG	20,8657
		§ 22 (1) Nr. 1 iVm § 22 (2) WpHG	52,9312
Gustav und Catharina Schürfeld, Stiftung, Lachendorf	74,4834	§ 22 (2) WpHG	72,1421
G.Schürfeld + Co. (GmbH & Co.), Hamburg	80,6865	§ 22 (2) WpHG	68,9483
PKG Schürfeld GmbH, Hamburg	80,6865	§ 22 (2) WpHG	68,9483
Jens Schürfeld, Hamburg	84,2720	§ 22 (2) WpHG	11,7382
		§ 22 (1) Nr. 1 iVm § 22 (2) WpHG	68,9483
Johan Viktor Bausch, Munich	73,8181	§ 22 (2) WpHG	69,3983
		§ 22 (1) Nr. 4 WpHG	0,1580
Ricarda Bausch, Glashütten	73,8283	§ 22 (2) WpHG	73,4110
		§ 22 (1) Nr. 6 WpHG	0,0213
Oliver Bausch, Osnabrück	73,8290	§ 22 (2) WpHG	73,3773
Th. Bausch GmbH & Co. Vermögensanlage KG, Berlin	73,7969	§ 22 (2) WpHG	65,5132
Dr. Dr. Thomas Bausch, Berlin	74,2715	§ 22 (2) WpHG	8,2837
		§ 22 (1) Nr. 1 iVm § 22 (2) WpHG	65,5132
Coralie Anna Bausch, Berlin	73,8111	§ 22 (2) WpHG	73,6550
Camilla Bausch, Berlin	73,8330	§ 22 (2) WpHG	73,6550
Constanze Bausch, Berlin	73,8181	§ 22 (2) WpHG	73,6550
Marion Ramcke, Hanover	73,8725	§ 22 (2) WpHG	70,7774
Hans Christian Ahrenkiel, Hürtgenwald	73,8612	§ 22 (2) WpHG	73,5699
Björn Ahrenkiel, Hürtgenwald	73,7973	§ 22 (2) WpHG	71,0048

Buttenwiesen-Pfaffenhofen, 15 March 2004
Board of Management

Friedhelm Päfgen

Bernd Dehmel

Dr.-Ing. Herbert Müller

» AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

We have audited the Consolidated Financial Statements, comprising the balance sheet, the income statement, and the statements of changes in the shareholders' equity and cash flows, as well as the Notes to the Consolidated Financial Statements prepared by SURTECO Aktiengesellschaft for the business year from 1 January 2003 to 31 December 2003. The preparation and content of the Consolidated Financial Statements are the responsibility of the Board of Management of the Company. Our responsibility is to express an opinion on whether these Consolidated Financial Statements are in accordance with the International Financial Reporting Standards (IFRS) based on our audit.

We conducted our audit of the Consolidated Financial Statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW, Institute of Independent Auditors). Those standards

require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the Consolidated Financial Statements are free of material misstatements.

Knowledge of the business activities and the economic and legal environment of the Group and the evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the Consolidated Financial Statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Consolidated Financial Statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the

Group for the business year in accordance with the International Financial Reporting Standards (IFRS).

Our opinion, which also extends to the Management Report and the Group Management Report prepared by the Company's management for the business year from 1 January 2003 to 31 December 2003, has not led to any reservations. In our opinion, on the whole, the Management Report and the Group Management Report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the Consolidated Financial Statements, the Management Report and the Group Management Report for the business year from 1 January 2003 to 31 December 2003, satisfy the conditions required for the Company's exemption from its duty to prepare Consolidated Financial Statements and the Group Management Report in accordance with German law.

Berlin, 19 March 2004

Dr. Röver & Partner KG

Wirtschaftsprüfungsgesellschaft/Steuerberatungsgesellschaft

Helmut Schuhmann, Independent Auditor

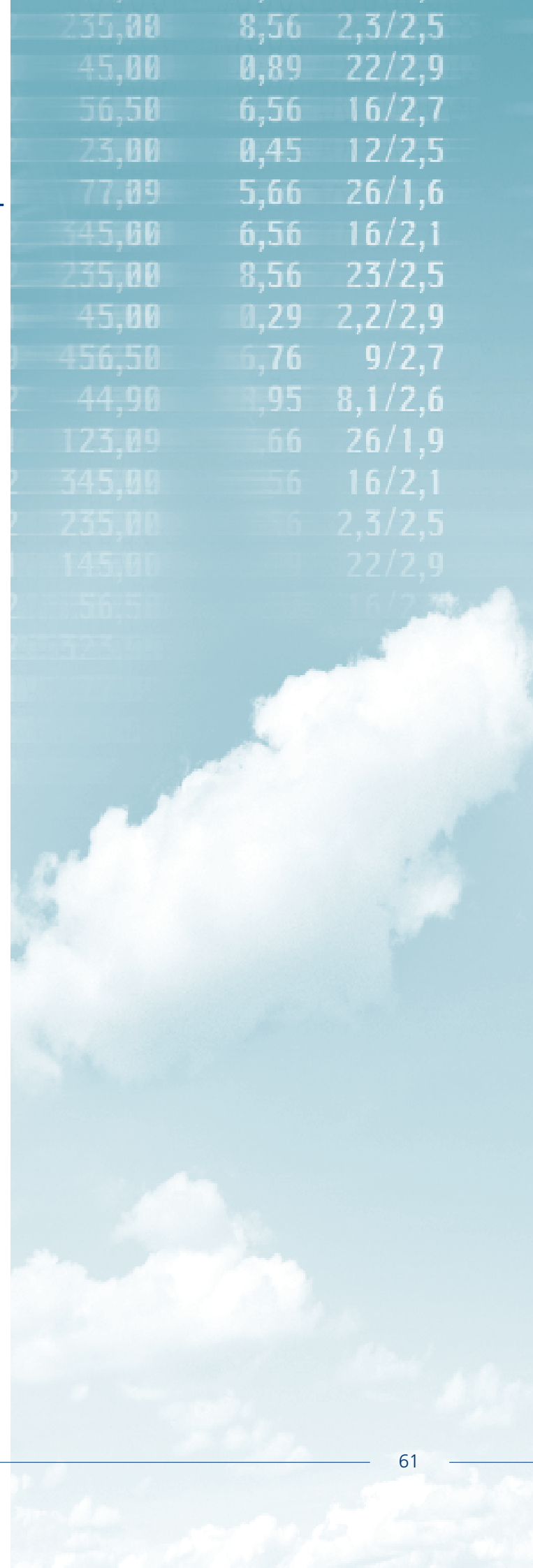
Udo Heckeler, Independent Auditor

» SHAREHOLDERS

Company registration no.	Segment/Name of company	Country	Consolidated	Percentage of shares held by SURTECO AG	Participation in no.
PARENT COMPANY					
100	SURTECO AG, Buttenwiesen-Pfaffenhofen	Germany			
STRATEGIC BUSINESS UNIT (SBU) PAPER					
Bausch Group					
200	Bausch GmbH, Buttenwiesen-Pfaffenhofen	Germany	*	100.00	100
210	Bausch (U.K.) Limited, Burnley	Great Britain	*	100.00	200
211	Armabord Limited, Burnley	Great Britain	*	100.00	210
300	Bausch Dekor GmbH, Buttenwiesen-Pfaffenhofen	Germany	*	100.00	100
470	Arbe s.r.l., Martellago	Italy		50.00 25.00	200 510
Linnemann Group					
400	Robert Linnemann GmbH + Co., Sassenberg	Germany	*	100.00	100
410	Kröning GmbH & Co., Hüllhorst	Germany	*	100.00	400
420	Kröning Verwaltungsgesellschaft mbH, Hüllhorst	Germany	*	100.00	400
430	Bausch + Linnemann-International GmbH, Sassenberg	Germany	*	100.00	400
440	Linnemann Consult GmbH, Sassenberg	Germany	*	100.00	400
441	Bausch + Linnemann North America, Inc., Greensboro	USA	*	100.00	440
460	Bausch + Linnemann Decorative Material (Taicang) Co. Ltd.	China	*	100.00	400
499	Linnemann Beteiligungsgesellschaft mbH, Sassenberg	Germany	*	100.00	100
STRATEGIC BUSINESS UNIT (SBU) PLASTICS					
Döllken Group					
500	W. Döllken & Co. GmbH, Gladbeck	Germany	*	100.00	100
510	Döllken-Kunststoffverarbeitung GmbH, Gladbeck	Germany	*	100.00	500
512	Vynylit Fassaden GmbH, Kassel	Germany	*	100.00	510
513	Doellken-A.S.L. Pty. Ltd., Sydney	Australia	*	97.50	510
514	Doellken Pte. Ltd., Singapur	Singapore	*	100.00	510
515	PT Doellken Bintan Edgings & Profiles, Bintan	Indonesia	*	100.00	510
520	Döllken-Weimar Profile für den Fachmann GmbH, Nohra	Germany	*	100.00	500
530	Döllken & Praktikus GmbH, Gladbeck	Germany	*	100.00	500
531	Praktikus Sp.z.o.o., Kattowitz	Poland		100.00	530
532	Praktikus CZ Spol.sr.o., Kolin	Czech Republic		100.00	530
540	Döllken-Werkzeugbau GmbH, Gladbeck	Germany	*	100.00	500
550	Doellken-Woodtape Inc., Everett/Washington	USA	*	100.00	500
560	Doellken-Woodtape Ltd., Mississauga	Canada	*	100.00	500
599	W. Döllken- Verwaltungs- und Beteiligungs- GmbH, Essen	Germany	*	100.00	500

» SURTECO AG
ANNUAL FINANCIAL
STATEMENTS

2003



» BALANCE SHEET (HGB*)

SURTECO AG

at 31 December 2003

	2003 € 000s	2002 € 000s
ASSETS		
Intangible assets	67	113
Tangible assets	189	193
Investments	270,151	266,496
Fixed assets	270,407	266,802
Receivables and other assets		
- Receivables from affiliated enterprises	56,176	63,806
- Other assets	1,912	305
Cash in hand, bank balances and cheques	3	3
Current assets	58,091	64,114
Prepaid expenses	20	93
	328,518	331,009
LIABILITIES AND SHAREHOLDERS' EQUITY		
Share capital (conditionally authorized capital €000s 600)	10,576	10,576
Additional paid-in capital	79,864	79,864
Revenue reserves	46,909	26,809
Net profit	12,013	15,271
Equity capital	149,362	132,520
Pension reserves	105	83
Tax accruals	5,038	4,894
Other accruals	3,109	4,218
Accrued expenses	8,252	9,195
Liabilities to banks	117,740	128,856
Trace accounts payable	29	246
Liabilities from acceptance of drawn bills of exchange and issue of own bills of exchange	10,000	10,500
Payables to related parties	43,063	48,111
Other liabilities	72	1,581
Liabilities	170,904	189,294
	328,518	331,009

*German Commercial Code (Handelsgesetzbuch)

» INCOME STATEMENT (HGB*)

SURTECO AG

for the year ended 31 December 2003

	2003 € 000s	2002 € 000s
Income from profit transfer agreements (of which income from tax allocations transferred from subsidiaries: € 000s 8,117; 2002: € 000s 10,119)	25,590	30,690
Income from other participations	15,358	24,503
Other operating income	2,370	2,457
Personnel expenses	-3,947	-4,001
Amortization and depreciation on intangible assets and fixed assets	-137	-103
Other operating expenses	-1,689	-2,668
Interest income	-6,385	-8,064
Results from ordinary activities	31,160	42,814
Income tax	-6,735	-12,464
Other taxes	-709	-1
Net income	23,716	30,349
Profit carried forward from previous year	97	22
Transfers to revenue reserves	-11,800	-15,100
Net profit	12,013	15,271

*German Commercial Code (Handelsgesetzbuch)

The Annual Financial Statements of SURTECO AG for the year ended 31 December 2003 have been published in the Official Gazette of the Federal Republic of Germany (Bundesanzeiger) and filed at the Commercial Register of the Local Court (Amtsgericht) Augsburg. Auditors and tax consultants Dr. Röver & Partner KG, Wirtschaftsprüfungs-gesellschaft/Steuerberatungsgesellschaft, Berlin, audited the Annual Financial Statements and provided them with an unqualified auditor's opinion. The Balance Sheet and the Income Statement from these Annual Financial Statements are published here.

The Annual Financial Statements can be requested from SURTECO AG, Johan-Viktor-Bausch-Straße 2, 86647 Buttenwiesen-Pfaffenhofen, Germany.

» GLOSSARY

Amtlicher Handel	See Official Trading
Cash earnings	Net income + amortization and depreciation + long-term provisions
Cash earnings per share	Cash earnings/number of shares
Consolidated group	Designation for the companies included within the scope of the consolidated financial statements
Consolidation	Consolidated financial statements that are drawn up as though all Group companies were divisions of a corporate unit and not independent. This entails elimination of relationships between Group companies that are evident in the figures.
Corporate Governance	Corporate Governance describes responsible management and control geared towards sustained creation of value. This includes the entire system of internal and external control and monitoring mechanisms within a company. The issues addressed under the heading Corporate Governance range from the structure of the ownership and capital relationships, the rights and obligations of the shareholders, the composition of the personnel, appointments to and effectiveness of the committees for managing and controlling the company including issues of co-determination for the employees, accounting principles and transparency, through to acquisition by corporate takeovers.
Current ratio	$(\text{Cash and cash equivalents} + \text{short-term receivables} + \text{inventories}) / (\text{short-term debt} + \text{projected dividend payout} + \text{minority interest in earnings})$
Earnings per share (net income per share)	Net income / number of shares
EBIT	Earnings before Interest (financial result) and Income Tax
EBITDA	Earnings before Interest, Income Tax and Depreciation and Amortization
EBT	Earnings before Income Tax
German Commercial Code	See HGB
German Corporate Governance Code	The German Corporate Governance Code is intended to make transparent the rules for corporate management and monitoring prevailing in Germany for national and international investors. The aim is to strengthen confidence in corporate management of German companies. The current version dated 21 May 2003 was published in electronic form by the Federal Ministry of Justice on 4 July 2003. The text of the German Corporate Governance Code can be accessed on the Internet under "www.surteco.com" in the menu item Corporate Governance.
HGB	Abbreviation for Handelsgesetzbuch or German Commercial Code
IFRS	International Financial Reporting Standards
Liquidity ratio	Liquid funds / balance sheet total

Material expense ratio	Cost of materials purchased / total output
Official trading (Amtlicher Handel)	More than 90 % of total stock market turnover is concentrated in this market. The executive management is accountable to this market in conjunction with official brokers or the brokers' association. Obtaining an official listing for a security is subject to compliance with strict regulatory requirements. The prices in this market segment are fixed by brokers under public law and the prices are official.
Personnel expense ratio	Personnel expenses / total output
Prime Standard	New share segment on the Frankfurt Stock Exchange (alongside the General Standard) with uniform registration obligations. Participation in the Prime Standard entails compliance with higher international requirements for transparency than required for the General Standard. Quarterly reporting, application of international accounting standards, publication of a corporate calendar, an annual analysts' conference, publication of ad hoc press releases and ongoing reporting in English are the key obligations consequent on admission to the Prime Standard.
Ratio of current assets to current liabilities	$(\text{Cash and cash equivalents} + \text{short-term receivables}) / (\text{short-term debt} + \text{projected dividend payout} + \text{minority interest in earnings})$
Ratio of liquid assets to current liabilities	$\text{Cash and cash equivalents} / (\text{short-term debt} + \text{projected dividend payout} + \text{minority interest in earnings})$
Return on equity	Net income / equity capital after appropriation of profit
Return on investment	Net income before income taxes and interest expenses / balance sheet total
Risk management	Systematic approach to identifying and evaluating potential risks, selecting and implementing measures to deal with risks.
Sales return	Net income from income tax / sales revenues
SBU	Strategic Business Unit

» FINANCIAL CALENDAR

2004	28 May	Publication of three-month report January – March 2004
	17 June	Annual General Meeting Gasteig, Carl-Orff-Saal, Munich
	18 June	Dividend payout
	31 August	Publication of six-month report January – June 2004
	30 November	Publication of nine-month report January – September 2004
2005	29 April	Annual Report 2004
	25 May	Publication of three-month report January – March 2005
	07 July	Annual General Meeting Gasteig, Carl-Orff-Saal, Munich
	08 July	Dividend payout
	31 August	Six-month report January – June 2005
	30 November	Nine-month report January – September 2005

» PUBLICATION DETAILS

Published by:

SURTECO Aktiengesellschaft

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» TEN YEAR OVERVIEW

	BAUSCH AG				
	HGB 1994	HGB 1995	HGB 1996	HGB 1997	HGB 1998
Sales revenues € 000s	45,715	47,828	62,781	72,480	79,907
Ratio of exports to total sales %	48	52	64	69	68
EBITDA € 000s	7,778	8,294	9,995	15,058	16,786
Depreciation and amortization € 000s	-1,840	-1,815	-2,341	-2,608	-2,695
EBIT € 000s	5,938	6,479	7,654	12,450	14,091
Financial result € 000s	-156	67	-810	-645	-133
EBT € 000s	5,782	6,546	6,844	11,805	13,958
Net income € 000s	2,925	3,240	3,623	6,349	7,476
Cash earnings € 000s	4,774	4,542	6,024	8,957	10,209
Balance sheet total € 000s	26,509	33,935	39,003	50,131	52,526
Equity capital € 000s	19,507	21,520	12,667	28,872	33,565
Equity capital in % of balance sheet total	74	63	33	58	64
Average number of staff employed for the year	346	348	445	433	448
Number of staff employed at 31/12	348	351	441	436	453
Capital stock €	5,112,919	5,112,919	10,225,838	12,271,005	12,271,005
Number of shares	2,000,000 *	2,000,000 *	4,000,000	4,800,000	4,800,000
Net income per share (earnings per share) €	0.74 *	0.77 *	0.92	1.32	1.55
Dividend per share €	0.31 *	0.36 *	0.41	0.51	0.61
Dividend payout € 000s	1,227	1,432	1,636	2,454	2,945
PROFITABILITY INDICATORS					
Sales return %	10.6	11.5	9.6	14.2	15.6
Return on equity %	24.8	25.6	47.6	35.6	37.1
Return on investment %	19.1	16.6	17.8	22.2	24.8

* restated to € 2.56 = DM 5.00 share for purposes of comparison

BAUSCH + LINNEMANN AG

SURTECO AG

HGB 1999	HGB 2000	IFRS 2001	IFRS 2002	IFRS 2003
170,519	193,375	270,551	367,642	355,037
60	64	61	60	60
36,793	44,010	45,666	69,761	63,976
-9,166	-11,659	-15,207	-27,025	-26,762
27,627	32,351	30,459	42,736	37,214
-1,959	-4,776	-4,134	-12,721	-10,120
25,668	27,575	26,325	30,015	27,094
16,362	18,172	14,046	17,586	14,858
26,538	30,157	30,373	45,898	42,043
133,271	198,400	372,235	390,510	356,414
47,411	54,438	101,863	104,046	108,550
36	27	27	27	31
871	940	2,159	2,053	1,941
883	964	2,113	2,033	1,937
8,293,325	8,293,325	10,575,522	10,575,522	10,575,522
8,293,325	8,293,325	10,575,522	10,575,522	10,575,522
1.70	2.02	1.28	1.67	1.40
0.66	0.92	1.10	0.65	0.70
5,512	7,633	11,633	6,874	7,403
13.7	14.3	9.7	8.2	7.6
41.1	38.9	14.5	18.1	14.7
19.3	16.5	9.2	11.0	10.5

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