



SPEZIALISTS
FOR
SURFACE
TECHNOLOGIES

SURTECO

AKTIENGESELLSCHAFT

» AT A GLANCE

| [€ 000s] | 2003 | 2004 | Variation in % |
|--|---------|----------------|----------------|
| Sales revenues | 355,037 | 380,428 | +7 |
| Foreign sales in % | 60 | 61 | |
| EBITDA | 63,976 | 70,346 | +10 |
| EBIT | 37,214 | 44,434 | +19 |
| EBT | 27,094 | 34,748 | +28 |
| Net income | 14,858 | 18,446 | +24 |
| Minority interest | -11 | -241 | |
| Consolidated net income | 14,847 | 18,205 | +23 |
| Amortization and depreciation | -26,762 | -25,912 | -3 |
| Financial result | -10,120 | -9,686 | -4 |
| Additions to fixed assets | 21,509 | 26,762 | +24 |
| Cash earnings | 42,043 | 45,841 | +9 |
| Average number of employees for the year | 1,941 | 1,998 | +3 |
| Number of employees at 31 December | 1,937 | 2,192 | +13 |
| PROFITABILITY INDICATORS IN % | | | |
| Sales return | 7.6 | 9.1 | |
| Return on equity | 14.7 | 17.0 | |
| Return on investment | 10.5 | 12.3 | |

ANNUAL REPORT 2004

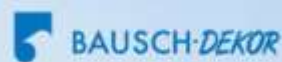
SURTECO AKTIENGESELLSCHAFT

STRATEGIC BUSINESS UNIT

PAPER

PLASTICS

 BauschLinnemann

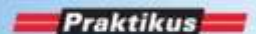
 BAUSCH-DEKOR

Kröning

 @arbe

 DÖLKEN
KUNSTSTOFFVERARBEITUNG

 DÖLKEN
WEIMAR

 **Praktikus**

 DÖLKEN
Praktikus

 DÖLKEN
EDGINGS AND PROFILES

 DÖLKEN-A.S.L.
EDGINGS AND PROFILES

 DÖLKEN
WOODTAPE

 vinylit

 DÖLKEN
WERKZEUGBAU

 CANPLAST



RUDOLF MAYER

Print Manager at Bausch Dekor GmbH in Buttenwiesen-Pfaffenhofen:

“Colorimetry equipment and digital colour preparation are important tools for cutting down the lead time for preparing a print. However, in the final analysis, the human eye is the key deciding factor which cannot be replaced by any machine. The wide range of influences impacting on the visual impression are simply too wide-ranging and complex for a machine to replicate.”

» PICTURES

The market success of SURTECO AG is the result of achievements by the people working in the Group: dependability, flexibility, value for money and - above all - the quality of the products. The companies in the SURTECO Group have gained and reinforced the trust of their customers with reliable and convincing products. These products can be processed easily and at reasonable cost, and they have a great deal of visual appeal.

A dense array of coordinated tests, inspections and checks establish the use value of the products for the designated applications. Test and inspection starts with inspection of raw materials, continues with quality monitoring throughout the production process and ends with the final check immediately before delivery.

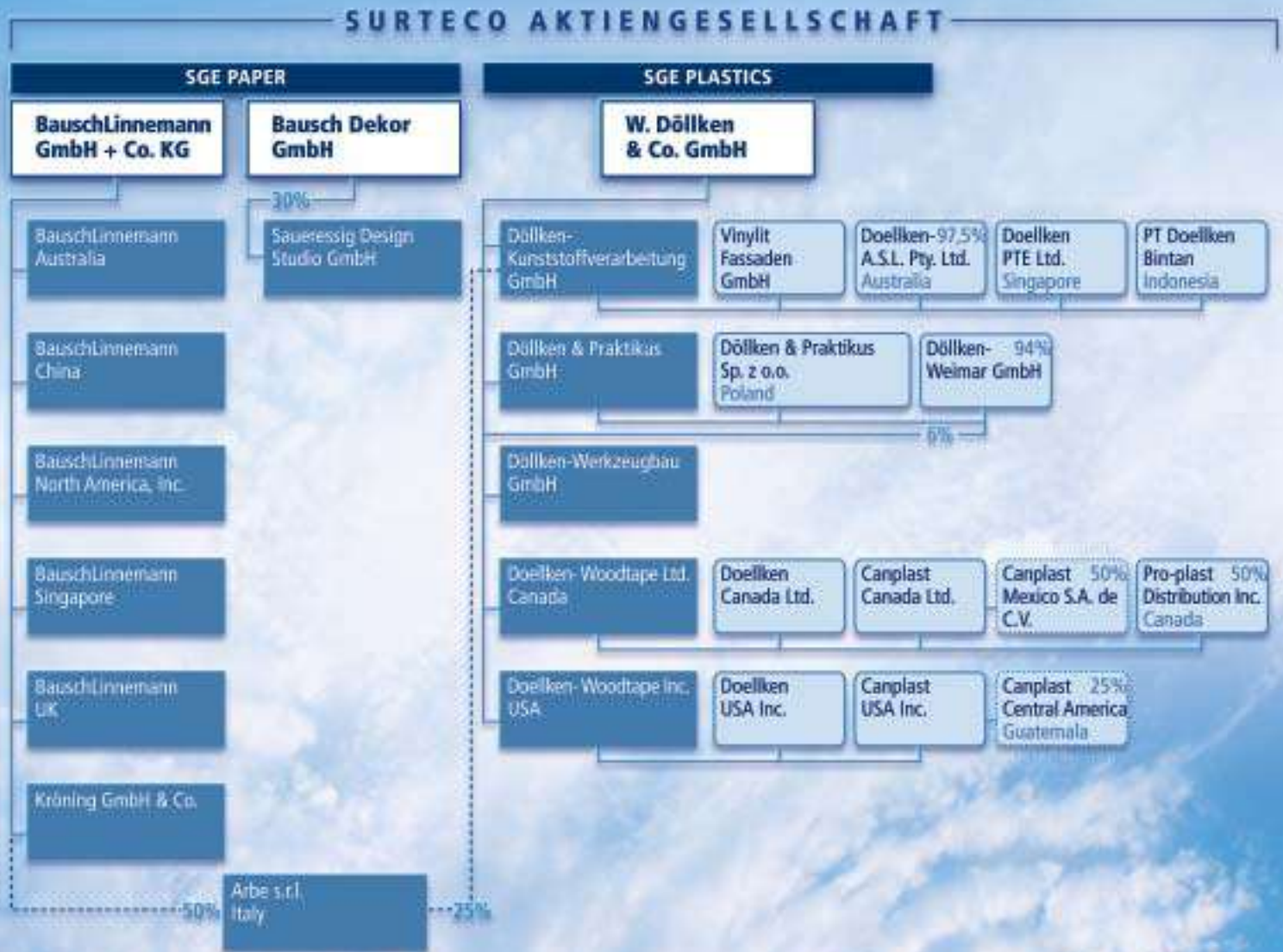
The series of photos featured in this year's Annual Report is intended to make the subject of quality more transparent. We present the profile of people who make an important contribution to quality assurance. They are representative of the many members of staff who carry out a wide range of different duties on a daily basis in their united quest to ensure the success of SURTECO AG.

| | |
|----|--|
| 4 | Group Structure |
| 6 | Letter to Shareholders |
| 8 | Executive Officers of SURTECO AG |
| 9 | Executive Management of Group Companies |
| 10 | Report of the Supervisory Board |
| 12 | Corporate Governance |
| 17 | Management Report |
| 39 | Consolidated Financial Statements |
| 72 | Shareholdings |
| 73 | SURTECO AG Financial Statements |
| 76 | Glossary |
| 78 | Financial Calendar |
| 80 | Ten Year Overview |

ISIN:
DE0005176903

Ticker symbol:
SUR

» GROUP STRUCTURE





RICHARD PARÉ

Quality Assurance Inspector at Canplast Canada Ltd., in Montreal, Canada:

“The Machine Operator carries out ongoing quality assurance based on a test plan. We also take archive samples from every production order and test them on the basis of control cards to ensure that they conform to our standards.”



EWALD KREIENBAUM

Shift Manager for impregnating systems

AUGUST HÜLSMANN

Machine Manager for impregnating systems at BauschLinnemann GmbH + Co. KG in Sassenberg:

“Our ongoing inspections round the clock ensure the quality features required by our customers. Despite all the technology available, the human eye is still the best way of carrying out these checks for this extremely differentiated function.”



Friedhelm Päfgen
Chairman of the Board of Management

Dr.-Ing. Herbert Müller

*Dear shareholders and friends
of our company,*

The fiscal year 2004 showed no change in trend. While it's true that the volume of business has increased, there is absolutely no sign of a breakthrough, let alone an economic recovery. The unfavourable price ratio between the euro and the US dollar provided additional burdens which compounded the situation.

The fact that SURTECO AG was able to increase sales and income was only possible because new market shares were gained. The Group succeeded in increasing annual sales to € 380.4 million (+7 %) and EBT to € 34.7 million (+28 %).

A range of measures contributed to achieving the results presented in this Annual Report. These include bringing the merger of Bausch GmbH and Robert Linnemann GmbH + Co to a successful conclusion, forming BauschLinnemann GmbH + Co. KG, the takeover of Canadian plastic edging manufacturer Canplast, innovative products and applications from Research and Development, and a strict policy of cost management combined with simultaneously reinforcing or increasing the quality of individual product lines.

We intend to continue this work during the course of 2005. We will continue to expand our position in the market as the leader for cost, quality and innovation.

Meeting this challenge will enable us to continue pursuing the mission of our shareholders and achieve an appropriate return on the capital they have provided. We are very pleased to be in a position once again to announce an increase in payout for the year 2004. The Board of Management and the Supervisory Board of SURTECO AG will propose a dividend amounting to € 0.80 (2003: € 0.70) to the Annual General Meeting on 7 July 2005. € 0.4 million (2003: € 4.6 million) will be transferred to revenue reserves.

Mr Bernd Dehmel resigned from the Board of Management at the Annual General Meeting on 17

June 2004. He had held this post since the company was founded in 1999. Mr Dehmel took up a post on the Supervisory Board on 17 June 2004 following a resolution by the Annual General Meeting, which subsequently appointed him to the position of one of the two deputy Chairmen. In his capacity as a Member of the Board of Management, Mr Dehmel was responsible for the Strategic Business Unit Paper. Previously, he held positions in one of the predecessor companies of the current Group, Robert Linnemann GmbH + Co. KG, for 30 years, and he was Managing Director for 11 of those years. We should like to take this opportunity to thank Mr Dehmel for the commitment he has given to the company on the Board of Management and express our gratitude for his decision to remain with us and allow the Group to continue to benefit from his expertise and experience as a Member of the Supervisory Board. I should like to extend a further vote of thanks to all the people in the SURTECO Group, both in Germany and abroad. They have demonstrated enormous dedication, during times of great change which keep demanding ever more flexible and ever faster adaptation to the new market conditions. Their joint endeavour has enabled our company to become even more successful in 2004.

Yours sincerely,



Friedhelm Päfen
Chairman of the Board of
Management

SUPERVISORY BOARD

| | |
|----------------------------|---|
| Dr.-Ing. Jürgen Großmann | Engineer Hamburg Chairman |
| Björn Ahrenkiel | Lawyer Düsseldorf Vice-Chairman since 17/06/2004 |
| Bernd Dehmel | Businessman Marienfeld Deputy Chairman since 17/06/2004 |
| Johan Viktor Bausch | Engineer Munich Honorary Chairman |
| Hans-Jürgen Diesner | Chairman of the works council Vermold Employee Representative since 17/06/2004 |
| Harald Eschenlohr | Lawyer Munich |
| Wolfgang Gorißen | Engineer Münster Employee Representative to 17/06/2004 |
| Inge Kloepfer-Lange | Journalist Berlin |
| Richard Liepert | Chairman of the works council Wertingen Employee Representative |
| Christa Linnemann | Businesswoman Gütersloh Vice-Chairwoman to 17/06/2004 Honorary Chairwoman since 17/06/2004 |
| Dr.-Ing. Walter Schlebusch | Engineer Munich |
| Jens Schürfeld | Businessman Hamburg Deputy Chairman to 17/06/2004 |
| Udo Semrau | Chairman of the works council Gladbeck Employee Representative |

BOARD OF MANAGEMENT

Friedhelm Päfgen
Businessman
Buttenwiesen-Pfaffenhofen

Chairman
SBU Paper

Dr.-Ing. Herbert Müller
Engineer
Heiligenhaus

SBU Plastics

Bernd Dehmel
Businessman
Marienfeld

SBU Paper
to 17/06/2004

EXECUTIVE MANAGEMENT OF GROUP COMPANIES

SBU PAPER

BAUSCH DEKOR GMBH · Buttenwiesen-Pfaffenhofen
Wolfgang Buchhart

BAUSCHLINNEMANN GMBH + CO. KG · Sassenberg
Dieter Heckes
Martin Janssen
Dr. Gereon Schäfer

BAUSCHLINNEMANN AUSTRALIA · Sydney
Steve Madden

BAUSCHLINNEMANN CHINA · Taicang
Yabin Li

BAUSCHLINNEMANN UK · Burnley
Kenneth Green

BAUSCHLINNEMANN SINGAPORE · Singapore
Peter Schellenberger

BAUSCHLINNEMANN NORTH AMERICA · Greensboro
Mike Phillips

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

KRÖNING GMBH & CO. · Hüllhorst
Reinhold Affhüppe

SBU PLASITCS

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

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

VINYLIT FASSADEN GMBH · Kassel
Norbert Krupp

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

DOELLKEN PTE LTD. · Singapore
Peter Schellenberger

PT DOELLKEN BINTAN · Bintan/Indonesia
Peter Schellenberger

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

DÖLLKEN & PRAKTIKUS SP. Z O.O. · Sosnowiec, Poland
Frank-Jörg Schilaski

DÖLLKEN-WEIMAR GMBH · Nohra
Tibor Aranyossy
Hartmut Trommen

DÖLLKEN-WERKZEUGBAU GMBH · Gladbeck
Oliver Beer

DOELLKEN CANADA LTD. · Mississauga
Felix Fürst

DOELLKEN-WOODTAPE LTD. · Mississauga, Canada
Jürgen Krupp
Peter Schulte

CANPLAST CANADA LTD. · Montreal
Robert Champagne

DOELLKEN USA INC. · Everett
Felix Fürst

DOELLKEN-WOODTAPE INC. · Everett, USA
Tom Rieke

CANPLAST USA INC. · Greensboro
Robert Champagne

» REPORT OF THE SUPERVISORY BOARD

*Dear share holders, partners
and friends of our company*

During the course of the fiscal year 2004, the Supervisory Board of SURTECO AKTIENGESELLSCHAFT discharged its duties pursuant to the law and the company's Articles of Association. It continuously monitored the executives and provided advice. All fundamental decisions relating to the company were addressed with the Board of Management. At its meetings and on the basis of written and verbal reports, the Supervisory Board addressed the development of the company, business policies and strategic and personnel 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. It 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 directed all measures towards the goal of continuing to increase the productivity and profitability of the company.

Corporate Governance

SURTECO AG complies with the German Corporate Governance Code, which describes the control, management and organization of a company, and its business principles and guidelines. Deviations from the regulations of the German Corporate Governance Code relating to the desired measures are published in the joint



Dr.-Ing. Jürgen Großmann
Chairman of the Supervisory Board

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.

Intensive discussions were carried out in 2004 relating to the efficiency inspection of the Supervisory Board and its committees.

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 two meetings during the course of the fiscal year 2004.

Three members of the Supervisory Board constitute the Audit Committee, which addressed issues relating to accounting and risk management, the mandatory in-

dependence of the auditor, commissioning the auditor to carry out the audit, the determination of the focuses of the audit, and the agreement of the fee. The Audit Committee had one meeting during the course of the fiscal year 2004.

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 2004 in detail at the meeting of the Supervisory Board on 26 April 2005. 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 € 0.80 for each no-par-value share.

Composition of the Supervisory Board

At the close of the Annual General Meeting on 17 June 2004, the terms of Mr Jens Schürfeld and Mr Wolfgang Gorißen as Members of the Supervisory Board came to an end. Mrs Christa Linnemann resigned her post as member of the Supervisory Board with effect from 17 June 2004. The Supervisory Board would like to express their thanks to Mrs Linnemann, Mr Schürfeld and Mr Gorißen for the services they have rendered to the company.

Mr. Björn Ahrenkiel, Hürtgenwald-Kleinhau, Mr. Hans-Jürgen Diesner, Versmold and former member of the Board of Management Mr. Bernd Dehmel, Marienfeld, were appointed to the Supervisory Board of SURTECO AG by resolution of the Annual General Meeting on 17 June 2004, 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, the 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,
April 2005

The Supervisory Board



Dr.-Ing. Jürgen Großmann
Chairman

Preamble

SURTECO AG is committed to Corporate Governance and hence to the principles of transparent and responsible management and control of the company directed towards increasing value. The company complies with the German Corporate Governance Code in the version dated 21 May 2003. This code is intended to enhance the trust of international and national investors, customers, employees and the general public in the management and monitoring of German joint-stock companies listed on the stock exchange. The Board of Management is responsible for ensuring compliance with the Corporate Governance principles across the Group.

Shareholders and Annual General Meeting

The shareholders of SURTECO AG exercise their rights at the Annual General Meeting and are entitled to cast their votes at the meeting. Each of the no-par-value bearer shares is entitled to one vote.

The Board of Management submits the annual financial statements and the consolidated financial statements to the Annual General Meeting. The Annual General Meeting decides 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 and appoints the auditor, agrees any changes to the Articles of Association and - if required by law - votes on any significant corporate measures.

Each shareholder who has lodged their shares punctually is entitled to participate in the Annual General

Meeting, to speak on the items listed in the agenda and to ask relevant questions and put forward appropriate motions. The Chairman of the Supervisory Board is responsible for chairing the 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. 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 proxy voting, and this representative can also be reached during the Annual General Meeting.

Interaction of Board of Management and Supervisory Board

The Board of Management and the Supervisory Board of SURTECO AG work closely together to promote the well-being of the company. The Board of Management agrees the strategic direction with the Supervisory Board and discusses the status of strategy implementation with the Supervisory Board at regular intervals.

The Board of Management provides the Supervisory Board with regular, timely and comprehensive reports on all the issues of plan-

ning, business development, the risk position and risk management relevant to the company. The Board of Management addresses all deviations in the current business situation from the plans and goals that have been prepared and provides reasons for such deviations.

Board of Management

The Board of Management of SURTECO AG 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 develops the strategic direction of the company, agrees it with the Supervisory Board and implements the strategy. It makes provision for appropriate risk management and risk controlling in the company. The Board of Management comprises two people. Rules of procedure govern the allocation of business and cooperation in the Board of Management. Remuneration for the Board of Management is comprised virtually entirely out of variable components.

The members of the Board of Management are subject to a comprehensive prohibition on competition during the course of their activity for SURTECO AG.

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 de-



LUDGER WESSELMANN

Operative in the Dispatch Department at BauschLinnemann GmbH + Co. KG in Sassenberg:

“We receive ongoing support from our IT system when we are packing the high-quality coating products in packaging agreed with our customers. This means we always have the right information for matching data at our fingertips.”

fined in the Third-Party Interest Act, which are not applied in the case of the company, the Board of Management proposes three employee representatives, which are then proposed by the Supervisory Board 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 strategy, 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.

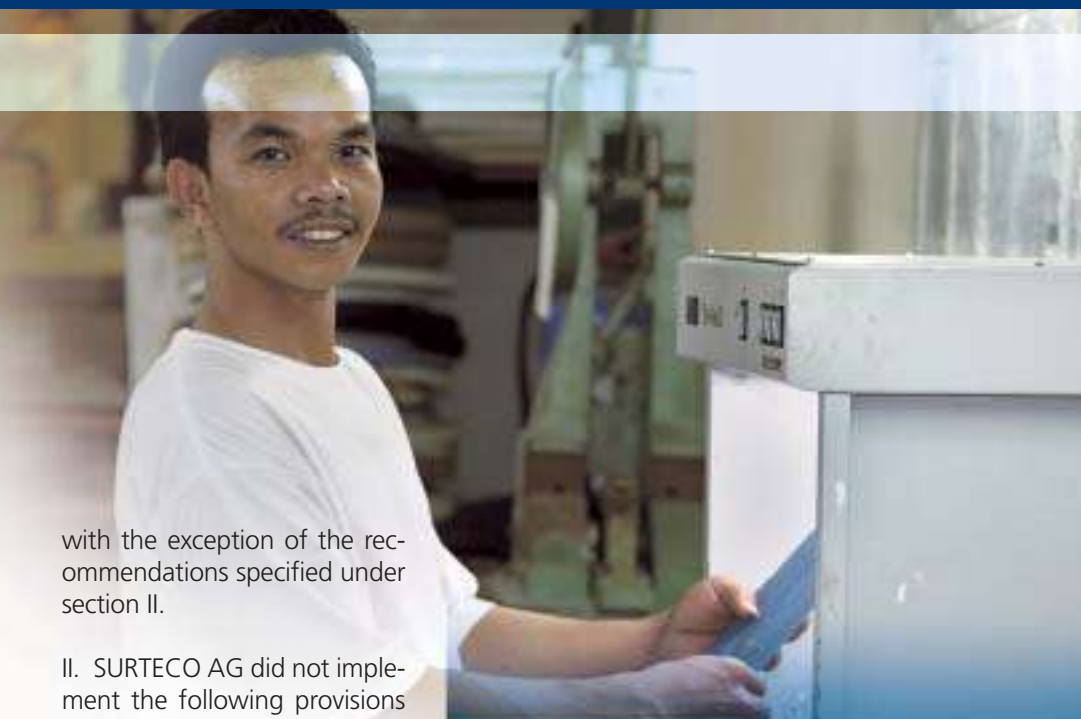
The Supervisory Board of SURTECO AG will review the efficiency of its activities on a regular basis.

Transparency

SURTECO AG immediately publishes new facts that have emerged in the area of activity of the company and have not been placed in the public domain, if they are likely to exert a significant influence on the share price of the securities of the company quoted on the stock exchange, because of their effect

on the net assets and financial position or on the general business situation of the company. 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. Notification is also necessary for any transactions in shares initiated by persons with management functions and by legal or natural persons who are closely related to such executive officers (spouses, registered partners, dependent children and other relatives, who at the point in time when the transaction is concluded have lived in the household for at least one year) and notified to the company pursuant to Clause 15a of the Securities Trading Act. 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 publications and press releases are made available on the Homepage of the company. All important dates for publications and events are also published here.



Accounting and Auditing

The annual financial statements are the main source of information for shareholders and third parties. During the year, they are kept up to date through regular interim reports. The accounts are drawn up at the SURTECO Group pursuant to the accounting regulations of the International Financial Reporting Standards (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. The Supervisory Board appoints the auditor and makes the financial arrangements with the auditor for remuneration. The auditor participates in the deliberations of the Supervisory Board relating to the annual financial statements and consolidated financial statements and reports on the main results of the audit. The Supervisory Board audits and approves the annual financial statements and the consolidated financial statements.

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 2004:

„Declaration of Compliance pursuant to clause § 161 sentence 1 Stock Corporation Act (AktG)

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. SURTECO AG did not implement the following provisions of the Code during the fiscal year 2004:

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. 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).

SURTECO AKTIENGESELLSCHAFT
Board of Management and
Supervisory Board
Buttenwiesen-Pfaffenhofen,
20 December 2004

THAMRIN JEFRY PARDOSI

Machinist at PT Doellken Bintan
Edgings & Profiles in Bintan, In-
donesia:

“We also check metamerism during continuous production. This monitors how colours change their appearance under different lighting conditions. We simulate a range of different lighting conditions in light cabins, including natural light.”



SABRINA STEINER

Incoming Goods Inspector for Paper at BauschLinnemann GmbH + Co. KG in Buttenwiesen-Pfaffenhofen:

“Before the raw papers for technical applications are released for processing, they are subject to an array of physical inspections. One of these tests measures air permeability. This plays an important role in impregnating raw materials.”

SURTECO Group and SURTECO AG

Although the global economic upturn continued in 2004, it already lost momentum at the beginning of the year. The causes of this were the collapse of financial stimulus emanating from the USA, measures to damp down the frothy economy in China, and the development of crude-oil prices, which kept on reaching new highs through to the autumn. All this led to a weakening in purchase power and dampened sentiment in consumer behaviour. The European export economy continued to suffer from the effects of the weak US dollar.

Although the economic recovery in Germany stabilized to a degree in Germany during the first half of 2004, there was no dynamic movement in the economy for the rest of the year. Internal demand continued to be moderate, with stimuli only coming from outside Germany.

The German furnishing industry gave rise to cautious optimism during the year under review. The downward trend observed for several years weakened. The kitchen furnishing industry even succeeded in slightly improving sales over the previous year. However, this effect resulted primarily from the increased demand for exports, which also benefited other areas of the German furnishing industry.

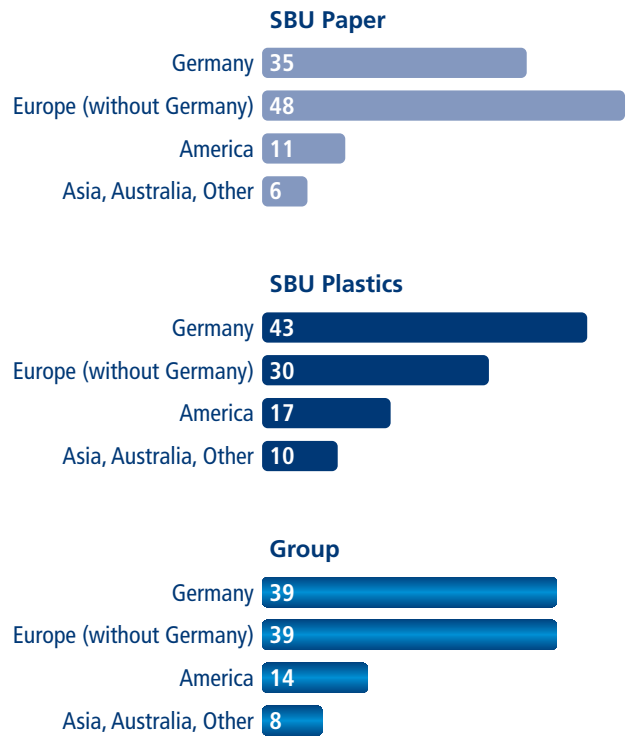
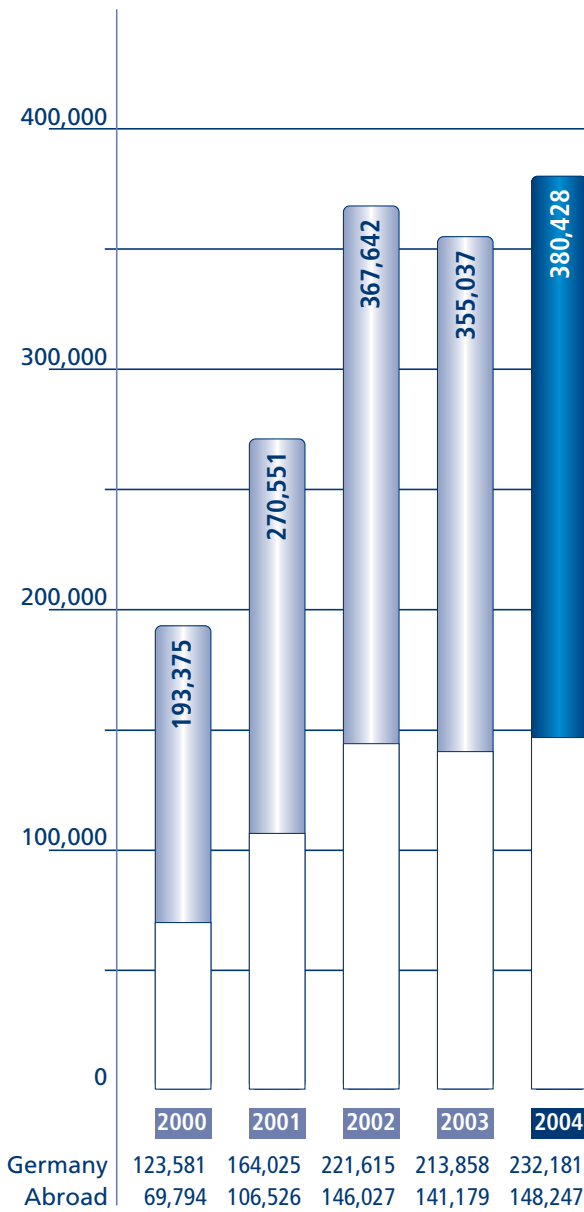
SALES AND MARKETS


SURTECO AG is in a position to look back on a successful business year in 2004 that was successful overall. The Group achieved sales of € 380.4 million in the fiscal year 2004 and this represents a rise of € 25.4 or 7 % compared with the previous year. The strengthening of sales in export markets continued, with the volume in this area going up from € 213.9 million by 9 % to € 232.2 million. The share of foreign sales increased by 1 percentage point to 61 %. Growth was distributed virtually uniformly over the continents. Sales in the European market were in the order of the domestic market with € 146.1 million, representing a rise of 9 %. Growth in the American markets focused on the USA and Canada with an increase of 10 %. A total increase of 7 % was booked in Asia and Australia.

Although the business environment in Germany was again dominated by a weak domestic economy, the SURTECO Group succeeded in raising sales in Germany by 5 % to € 148.2 million. Edging strips (47 %), were the sales leader. These products are based on papers for technical applications or are created by extruding high-quality plastics. They

SALES REVENUES IN € 000s

PERCENTAGE SALES DISTRIBUTION





are followed by paper-based flat foils for coating large areas of wooden worktops, representing a proportion of 24 %. Remaining sales are distributed over further plastic products, decorative papers and DIY ranges.

SBU Paper

The SBU Paper achieved net sales revenues of € 179.7 (+3 %) in the fiscal year 2004. Following the third quarter of 2004, there were indications that sales in the SBU Paper would buck the trend in the sector and undergo stronger growth in Germany than in foreign markets. This development was confirmed at the close of the fiscal year with an increase in domestic sales by 10 % to € 62.2 million. Acquisition of new customers, specialist economic cycles within individual customers and the ongoing flourishing sales situation in the caravan industry were the primary driving forces for this growth.

Foreign business in the SBU Paper at € 117.5 million remained in the order of the previous year. Sales expanded by 5 % in the European sales regions with traditional focuses comprising Great Britain, France and Italy. In Asia, sales rose by 30 % to € 6.3 million. In America and Australia, sales fell due to currency conditions.

Bausch Dekor GmbH is part of the SBU Paper and contributed 7 % of sales in the SBU with € 13.5 million. 93 % of sales were attributable to BauschLinnemann GmbH + Co. KG (€ 166.2 million). The company is based in Sassenberg, Westphalia, and continues to manufacture at the sites Buttenwiesen-

Pfaffenhofen, Hüllhorst (Kröning GmbH & Co.) and in Sassenberg. Other sales sites are located in Australia, China, North America, Singapore, Great Britain and Italy. BauschLinnemann GmbH + Co. KG produces edging strips and flat foils. Papers form the basis for manufacture and these may be unprinted, or printed mainly by Bausch Dekor GmbH. The proportion of flat foils in the sales of the SBU Paper amounted to 50 % in the year under review, and edging strips represented 39 %.

SBU Plastics

The plastics processing industry in Germany closed the year 2004 with a plus of 3.6 %. The Döllken Group, which is part of this sector and represents the SBU Plastics within SURTECO AG, significantly exceeded these values during the course of the year under review. Consolidated sales revenues were 11 % above the level of the previous year (€ 180.6 million) at € 200.7 million. The Canadian Canplast

ROBERT HAASE

Quality Supervisor at Doellken-Woodtape Ltd. in Mississauga, Canada:

“Implementation of a new 2-Roll Mill allows for a quick and accurate custom match. This off-line system reduces production waste and downtime, by ensuring a repeatable method for performing custom matches.”

Group acquired in October of last year contributed € 6.8 million in the fourth quarter of 2004.

The economic cycle in Germany continues to remain weak. However, the shrinking economy in the furnishing industry now appears to have largely tailed off. Against this background, the 2 % growth in sales at SBU Plastics in Germany to € 86.1 million should be positively evaluated. Foreign sales at the SBU Plastics went up by 19 %. The foreign share of sales climbed by 4 percentage points to 57 %. Business in North America made a significant contribution to this development. Against this background of positive economic development, internal restructuring measures undertaken during previous years and additional sales drives increased sales volume by 24 % to € 34.6 million. Business in Australia was also favoured by the general economic situation in the furnishing industry and in interior design. Sales volume in Australia reached € 13.5 million (+27 %). The SBU Plastics was particularly successful Asia - market of the future - with an increase by 29 % to € 6.3 million. Business with China, Malaysia and Singapore was expanded. The delivery programme of SBU Plastics comprises edging tapes, plinth strips, shutter systems, technical extrusions (profiles), facade systems, ranges for the DIY market and veneers. 54 % of sales (2003: 51 %) during the year under review were attributable to the edging tape sector, in which the Döllken Group continued to consolidate and expand its leading market position by ongoing development of tech-

niques, visual appearance and tactile effect.

PROCUREMENT

It was not necessary to reach an agreement on bulk consignments for the procurement of specialist technical papers for edging strips and foils for the SBU Paper during the year under review. The prices remained constant. Important chemical products, in particular resins and emulsions, became more expensive. The purchase prices for printing inks and varnishes were being held at the level for the previous year.

The raw materials ABS and PVC are key components in the SBU Plastics. The amounts of ABS available in Europe were limited, since ABS plastics were required in Asia and were therefore not exported to Europe from Asia. The limited availability and high costs of intermediate products resulted in a significant increase in prices from the fourth quarter of 2004. The situation for the raw material PVC was comparable: A shortfall on delivery volumes from Eastern Europe and the resulting unusually high level of demand led to drastic increases in price. This development had already begun in the second half of 2003 and continued throughout 2004. There is, as yet, no end in sight for the increase in price.

The cost of purchased materials during the year under review 2004 amounted to € 158.8 million (2004: € 148.2 million). Nevertheless, the proportion of cost of materials in relation to sales remained virtually constant at 41.7 %. This is due to shifts in the product mix.

RESEARCH AND DEVELOPMENT

Since the startup of a new paint facility based on electron beam hardening of varnishes during the fiscal year 2003, Research and Development at SBU Paper expanded the product range of pre-impregnated papers by some important variants. Surfaces are made even more homogeneous and resistant to mechanical and chemical stresses by deploying new varnishes that can only be used in connection with the latest electron beam hardening technology. The programme was expanded to include additional coloured varnishes, in order to complete the range of unicolours. This means that virtually all colour nuances can now be reproduced. Metallic effects additionally enrich the range. A key advance has been achieved in the development of highly abrasion-resistant surfaces, which is also based on the combination of pre-impregnated and special varnish systems with electron beam hardening. An initial test series under production conditions has already been successfully carried out. The highly resistant foil will now be used in areas that previously required complex and expensive materials, such as plinth strips, table surfaces, windows or stairs.

Acrylates are elementary components for the manufacture of high-quality surface materials based on paper. The development laboratories of BauschLinnemann carried out research into the possibility of alternative materials which are able to replace entirely or in part the standards that have been used to date. The investiga-



CLAUDIO CONTARTESE
Machine Manager for the
impregnating and varnishing
machine at BauschLinnemann
GmbH + Co. KG in
Buttenwiesen-Pfaffenhofen:

“Many years of experience are required to assess the surface texture and tactile effect with bare hands. However, this is not everything. We also carry out other tests while the paper is passing through the system. This enables us to intervene and make corrections to the machine parameters at any time during the process.”



LISE GAUDREAU
GILLES MONETTE

Laboratory Technicians at Canplast Canada Ltd. in Montreal, Canada:

“Quality assurance starts with Incoming Goods Inspection. UV stability is a very important property of the materials we use, such as PVC, ABS, pigments, tints, varnishes, etc. We test them with our QUV fast-weathering unit here in our Technology Centre.”



NORBERT A. W. KULKE

Head of Quality Management at BauschLinnemann GmbH + Co. KG in Sassenberg:

“Compliance with international standards and independent auditing of our Intranet-linked documentation allows us to respond quickly and flexibly to the requirements of our customers.”

tions include extensive laboratory analyses, an array of tests on production facilities, and establishing further processing on the complex processing machines of our customers that can be carried out straightforwardly and under commercially acceptable conditions. The Research and Development department has joined forces with a manufacturer of display panels based on foamed polyurethane to originate special foils for coating the front and reverse surfaces of display panels. Panels like this are primarily used to carry advertisements. The particular properties of the special foil permits pin-sharp prints to digital quality. However, the outstanding visual effect is not the only key factor. The durability of the advertising panels in tough everyday use is also an important consideration. The foils meet the required criteria in every respect: They are resistant to deformations, have positive insulation properties and demonstrate excellent flame-retardant properties. They also have a tough mechanical structure, and their stability against the effects of moisture also makes them ideal for permanent use outside.

The focus of research and development activities in the SBU Plastics during 2004 was product updating in the area of plastic edgings, advances in printing techniques for plastic extrusions, and new surface materials for roller shutter systems.

The plastic edgings of the SBU Plastics have attained a standard of market leadership for qualitative and visual properties. Nevertheless, this business unit succeeded in impressing customers with innovative visual and tactile elements.

The 3D frosted plastic edge with a frosted-glass effect was a trend-setting example of this. The special acrylic glass formulation used in manufacture creates a translucent visual appearance, while the matt surface also transforms the edge into a unique tactile experience. The edge has been strategically developed for processing in ultramodern machining centres to facilitate commercial use by customers. At the annual trade fair for household furniture, bathroom furniture and accessories, Ostwestfalen, Döllken-Kunststoffverarbeitung GmbH received the Innovation Scout 2004 for development of this edge. The range also includes new edging tapes printed with inlay designs. The manufacturing process uses individually engraved printing rollers that can deliver outstanding printing and hence optimum reproduction of a wide range of inlaid designs.

The printing technique for creating transparent plastic edges with decorative coatings producing a three-dimensional effect was successfully revised. This new process gives even more convincing reproductions and more precise harmonization with customers' specifications. Kitchen worktops in particular benefit from this development because it ensures a perfect match between the design of the edge and the pre-coated surface.

Digital technology continues to make advances and the development and manufacture of plastic extrusions is no exception. New decorative designs and colour combinations are now created and calculated on computer. The results are manifested in depend-

able specifications for the selection of printing rollers and printing formulations to produce sample runs, and this significantly reduces lead times for creating designs. The SBU Plastics has taken a different route for the finish of its roller-shutter products. The conventional printing technique has been replaced by a laminating process with flat foils based on paper manufactured in the SBU Paper. Flat foils like this are primarily used for surface refinement of wood worktops in the manufacture of furniture. This means that furniture elements and roller shutters, including the accessory extrusions of a cabinet, can now be coated with the same foils to create a perfectly integrated design scheme. This provides a permanent solution to the problem of colour metamerism in which colours change their appearance when viewed under different lighting conditions.

Vynylit Fassaden GmbH launched a new product on the market with the Vinybrick design variant. A varnish with sand effects is applied based on the clinker-brick facade elements to achieve a visual and tactile effect resembling natural stone.

Two new products have also been launched in the area of plinth strips. They can be used universally for all floorings and they are supplied in an innovative range of colours and designs with a natural, wood-style surface. They present an alternative to foil-coated MDF strips, particularly when used in conjunction with laminate flooring.

PERSONNEL STRUCTURE

| Location | Employees 31/12/2003 | Employees 31/12/2004 | Deviation in % |
|---------------|-------------------------|-------------------------|-------------------|
| Germany | 1,523 | 1,479 | -3 |
| Canada | 125 | 342 | +174 |
| USA | 100 | 154 | +54 |
| Australia | 71 | 72 | +1 |
| Great Britain | 79 | 42 | -47 |
| Italy | | 34 | |
| Indonesia | 23 | 32 | +39 |
| Poland | | 16 | |
| Singapore | 10 | 11 | +10 |
| China | 6 | 10 | +67 |
| | 1,937 | 2,192 | +13 |

PEOPLE

The SURTECO Group employed an annual average of 1,998 people during the year under review, with a staff totalling 2,192 on 31 December 2004. The variation is due to the Canadian Canplast Group taken over in October 2004. This increased the headcount by 279 employees. At the end of the year under review, 868 employees (2003: 848) were employed in the SBU Paper, and 1,316 people (2003: 1,082) were employed in the SBU Plastics. The holding company had a staff of 8 (2003: 7).

Personnel expenses at € 99.0 million underwent a below-average rise. The proportion of personnel costs to total output fell by 0.6 percentage points to 26.0 %.

At the end of 2004, the average age profile of all employees working in the SURTECO Group was 38.6 years (2003: 38.1). The average length of service amounted to 10.2 years (2004: 9.9). The level of illness fell from 3.6 % to 3.5 %.

ACQUISITIONS,
SHAREHOLDINGS
AND OTHER
IMPORTANT EVENTS

We completed the following projects in the course of 2004:

■ The companies Bausch GmbH, Buttenwiesen-Pfaffenhofen, and Robert Linnemann GmbH + Co, Sassenberg, were merged to form BauschLinnemann GmbH + Co. KG based in Sassenberg in August 2004.

■ In the course of this merger, the business structures in Great Britain were reorganized. The former activities of Armabord, Bausch und Linnemann were merged in July 2004 at the Burnley site and now operate under the name BauschLinnemann UK Ltd. BauschLinnemann GmbH + Co. KG has a 70.01 % stake in this company through Bausch UK Ltd. The remaining 29.99 % of the shares are held by BauschLinnemann International GmbH.

■ In October 2004, the SBU Plastics purchased all the shares in the Canadian Canplast Group. Canplast has manufacturing facilities in Montreal, Brampton (both sites in Canada) and Greensboro (USA) for producing high-quality plastic edgings for the furnishing industry. The company generated sales amounting to € 29.5 million with a workforce averaging 279 employees. This purchase means that Canplast can join forces with the American Döllken subsidiary Woodtape to develop the North American market even more intensively. 50% shareholdings were also purchased in the sales companies Pro-plast Distribution Inc. and Canplast Mexico S.A. de C.V, and a 25 % stake was acquired in Canplast Central America.

Additional developments in 2005:

■ A sales company for plastic edgings was established in January 2005 in Guatemala, and the SURTECO Group holds 25% of the shares.



MANFRED FEND

Head of Quality Management
at Bausch Dekor GmbH in
Buttenwiesen-Pfaffenhofen:

“The use of digital colorimetry equipment delivers precise assessment of colours and print results. This starts with computer-controlled colour preparation and ends with follow-up checks of every individually printed roll, including the necessary documentation. This is important so that our customers always receive constant quality and absolutely accurate colour match with subsequent deliveries.”



IRMGARD STUKE

Development Technician in
Research & Development at
BauschLinnemann GmbH + Co.
KG in Sassenberg:

“We have a process of continual communication with our suppliers. This dialogue combines with the continuous development of our formulations to deliver the quality and innovations of tomorrow to our customers.”

■ In January 2005, we took a 30 % stake in Saueressig Design Studio GmbH, Mönchengladbach. Saueressig Design Studio GmbH is part of Saueressig GmbH + Co. based in Vreden. The product range includes design development and preparation of reproductions for diverse printing and embossing forms.

■ In March 2005, SURTECO AG used authorized capital I to increase capital stock by nominally € 500,000 against a cash consideration excluding subscription rights with the aim of strengthening the free float. The new shares were placed with selected national and international investors in Germany and Europe during the course of a book-building process. The new shares were first listed in official trading on the Frankfurt Stock Exchange (Prime Standard) and on the Munich Stock Exchange on 23 March 2005. The new shares are entitled to the full dividend for the fiscal year 2004. The capital increase raises the number of shares in SURTECO AG to 11,075,522.

RESULT FOR THE SURTECO GROUP

■ The SURTECO Group concluded the fiscal year 2004 with an EBITDA of € 70.3 million. This is equivalent to an increase of 10 % compared with 2003 (€ 64.0 million). Amortization of intangible assets and property, plant and equipment, and amortization of goodwill remained at the level of the previous year with € 17.1 million or € 8.8 million. EBIT at € 44.4 million was up by 19 % and EBT at € 34.7 million by 28 % above the

BALANCE SHEET STRUCTURE OF SURTECO GROUP (IFRS)

| [in € 000s] | 31/12/ 2003 | Percentage in the balance sheet total in % | 31/12/ 2004 | Percentage in the balance sheet total in % |
|---|----------------|---|----------------|---|
| ASSETS | | | | |
| Current assets | 92,244 | 25.9 | 100,808 | 27.8 |
| Non-current assets | 257,781 | 72.3 | 254,934 | 70.4 |
| Deferred tax assets | 6,389 | 1.8 | 6,388 | 1.8 |
| Balance sheet total | 356,414 | 100.0 | 362,130 | 100.0 |
| PASSIVA | | | | |
| Total short-term liabilities and provisions | 93,237 | 26.2 | 90,236 | 24.9 |
| Non-current liabilities | 138,308 | 38.8 | 139,497 | 38.5 |
| Deferred tax liability | 16,159 | 4.5 | 15,788 | 4.4 |
| Equity capital | 108,710 | 30.5 | 116,609 | 32.2 |
| Balance sheet total | 356,414 | 100.0 | 362,130 | 100.0 |

FINANCIAL INDICATORS FOR THE SURTECO GROUP (IFRS)

| | 2003 | 2004 |
|---|--------|--------|
| Ratio of liquid assets to current liabilities (%) | 2.4 | 4.5 |
| Ratio of current assets to current liabilities (%) | 47.8 | 49.7 |
| Current ratio (%) | 91.5 | 100.8 |
| Liquidity in (%) | 0.7 | 1.2 |
| Cash earnings in € 000s | 42,043 | 45,841 |
| Ratio of cash earnings to aggregate operating performance (%) | 11.8 | 12.0 |
| Cash earnings per share in € | 3.98 | 4.31 |
| Gearing (%) | 161 | 140 |
| Working Capital € 000s | 63,539 | 65,562 |

result of the previous year. Net income for the year (€ 18.4 million) exceeded the figure for the previous year with an increase of € 3.6 million or 24 %. Cash earnings rose by € 3.8 million to € 45.8 million.

RESULT FOR THE SURTECO AG

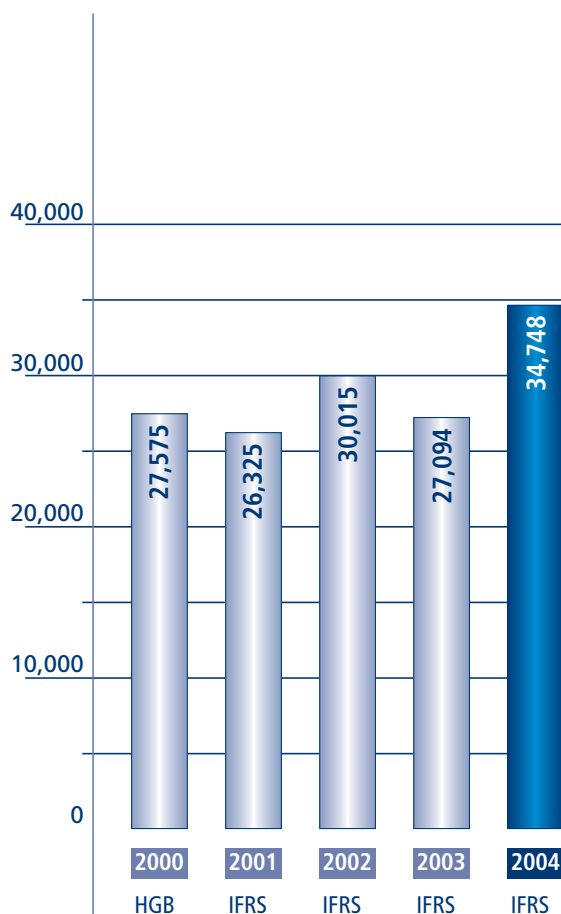
The result for ordinary activities of SURTECO AG in accordance with the German Commercial Code (HGB) amounted to € 27.4 million (2003: € 31.2 million) in 2004. Net income for the year amounted to € 18.5 million (2003: € 23.7 million).

RISK MANAGEMENT

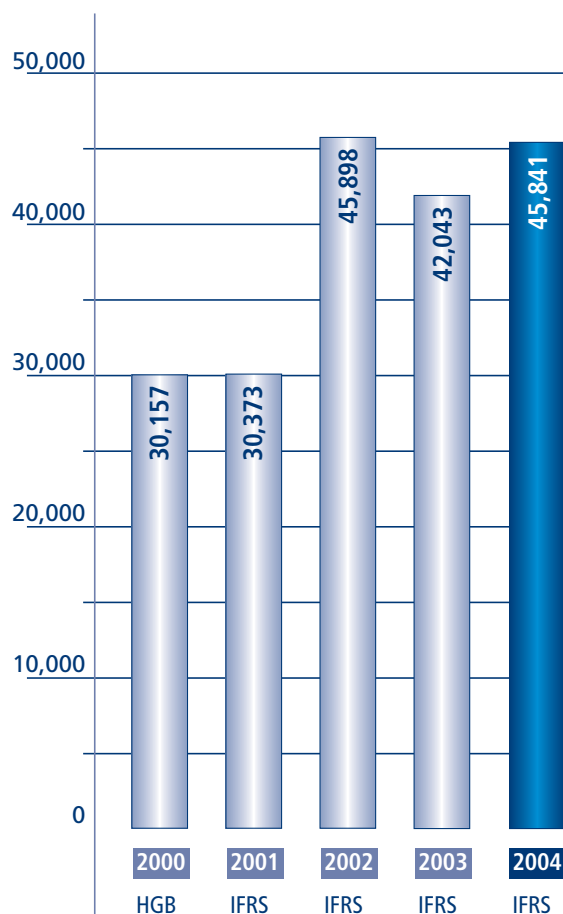
Risk management is a key tool in our business processes and an important foundation for decision-making. This tool enables us to keep the risks of operating business and risks associated with currency and interest rates under control. In the Group, the Board of Management is responsible policy relating 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 with-

in 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 usefulness and efficiency of risk management and the control systems are monitored internally at regular intervals. The Board of Management and the Supervisory Board receive timely information about risks. The risks described below may im-

EBT IN € 000s



CASH EARNINGS IN € 000s





RAY COLE
Quality Manager at
Doellken-A.S.L. Pty. Ltd.
in Sydney, Australia:

“We produce to the same quality standards as in Europe. Checking the continuous production of colour fluctuations, degree of gloss and maintaining tolerances are important factors. Our outstanding quality standard allows us to supply large market shares in Australia.”

EARNINGS SITUATION OF THE SURTECO GROUP

| [€ 000s] | 2003 | 2004 |
|---|-----------------|-----------------|
| Sales revenues | 355,037 | 380,428 |
| Changes in inventories | -3 | -937 |
| Production of own fixed assets capitalized | 1,286 | 1,068 |
| Total | 356,320 | 380,559 |
| Cost of purchased materials | -148,229 | -158,848 |
| Gross profit | 208,091 | 221,711 |
| Other operating expenses | 4,275 | 4,224 |
| Personnel expenses | -94,855 | -99,019 |
| Depreciation and amortization | -26,762 | -25,912 |
| Other operating expenses | -53,535 | -56,570 |
| Operating expenses | -170,877 | -177,277 |
| Operating income | 37,214 | 44,434 |
| Interest income | -10,120 | -9,686 |
| Income from investments and participations | 0 | 0 |
| Comprehensive income before income tax | 27,094 | 34,748 |
| Income taxes | -12,236 | -16,302 |
| Net income | 14,858 | 18,446 |
| Minority interest | -11 | -241 |
| Consolidated net income | 14,847 | 18,205 |

PROFITABILITY INDICATORS FOR THE SURTECO GROUP IN %

| | 2003 | 2004 |
|--|------|------|
| Sales return (before income tax) | 7.6 | 9.1 |
| Return on equity (after income tax) | 14.7 | 17.0 |
| Return on investment (before income tax) | 10.5 | 12.3 |

pair 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

The companies of SURTECO AG generate a large proportion of its sales as suppliers for industrial manufacturers carrying out further processing. There is therefore a strong dependence on our customers' order books. The sales strategy is always being adapted to new developments. A differentiated internal reporting system is used to monitor commercial risks. Monthly reports and assessments are produced on the basis of this system. Any deviations from budgets, the feasibility of planning goals and the occurrence of new monetary and non-monetary risks are highlighted and analyzed. Optimization of the strategy in individual sales markets plays an important role. The goal of SURTECO AG is ongoing global growth, with particular focus on the future markets of Eastern Europe and Asia.

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



ALFRED BLÖMKER

Technician in Incoming Goods
Inspection at BauschLinnemann
GmbH + Co. KG in Sassenberg:

“The purchased products varnish and resin are systematically checked at Incoming Goods. This inspection process gives our customers the defined quality level and problem-free processing of our finish foils and edges.”



DIRK KASPEREK

Foreman in Incoming Goods at
Döllken & Praktikus GmbH in
Gladbeck:

“In our business, the quality of goods leaving the manufacturing facility can only be ensured if no articles are taken into stock without being tested beforehand. That's why incoming goods inspection is a top priority.”

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.

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 com-

plete system of risk management. The production procedures, manufacturing technologies and processes are being developed and improved on an ongoing basis, our systems are carefully maintained 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 requirements 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

Average prices on the Frankfurt Stock Exchange at € 21.31 in 2004 were 37 % higher than in the previous year. The year-end price (€ 22.85) exceeded the price at the beginning of the year by 18 %. The high level had already been reached in the middle of the year and was sustained - with slight sideways movement - continuously until the end of the fiscal year. As of 30 December 2004, the market capitalization of SURTECO AG was € 241.7 million. In February 2005, sales of the SURTECO share increased. The price rose to values around 30 euros. On 15 March 2005, the closing price on the Frankfurt Stock Exchange was € 30.80.

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.

SURTECO AG respects the interests of the shareholders and fosters open corporate communication. This is in accordance with the internationally recognized standards enshrined in the German Corporate Governance Code. They are based on the principle that the management and control of a company should be responsible and geared towards long-term value added. You will find more detailed information on implementation of the Code and the text of the Declaration of Compliance by the Board of Management and the Supervisory Board dated 20 December 2004 in the section entitled "Corporate Governance". The Board of Management will

propose to the Annual General Meeting of SURTECO AG on 7 July 2005 that a dividend of € 0.80 (2004: € 0.70) be paid on each share for the fiscal year 2004. The total payout amounts to € 8,860,417.60 (2004: € 7,402,865.40). The new shares issued in March 2005 have a right to dividends for the fiscal year 2004, and this means that the amount will increase over the previous year by 500,000 no-par-value shares to 11,075,522. The sum transferred to revenue reserves will be € 400,000.00 (2004: € 4,600,000.00).





RALF BRENNER

Quality Officer at Döllken-Weimar GmbH in Bönen:

“The professionals who process our plinth strips are not only impressed by the variety of our materials, their form, decorative designs, colour and style. They are also convinced by the high quality and optimum processing properties that we check using a wide range of test procedures.”

SURTECO SHARES

| [Stock exchange quotations in €] | 2003 | 2004 |
|---|------------|------------|
| Number of shares | 10,575,522 | 10,575,522 |
| Price at start of year | 14.00 | 19.50 |
| Year-end price | 19.70 | 22.85 |
| Price per share (high) | 20.00 | 24.11 |
| Price per share (low) | 11.80 | 18.50 |
| Average for the year | 15.51 | 21.31 |
| Market capitalization at year-end in € 000s | 208,338 | 241,651 |

SHAREHOLDER INDICATORS FOR THE SURTECO GROUP

| [€ 000s] | 2003 | 2004 |
|-------------------------|---------|---------|
| Sales | 355,037 | 380,428 |
| EBITDA | 63,976 | 70,346 |
| EBIT | 37,214 | 44,434 |
| EBT | 27,094 | 34,748 |
| Consolidated net income | 14,847 | 18,205 |
| Cash earnings | 42,043 | 45,841 |

INDICATORS OF THE SURTECO GROUP PER SHARE

| [€] | 2003 | 2004 |
|---------------|------|--|
| Earnings | 1.40 | 1.72 |
| Cash earnings | 3.98 | 4.31 |
| Dividend | 0.70 | 0.80 <small>(Proposal by Board of Management)</small> |

OUTLOOK 2005

There is again no prospect of demand moving upwards in Germany during the course of 2005, given the economic environment and the increasing unemployment. In the foreign markets, the current phase of recovery and growth in 2005 is likely to slow down slightly, but we are nevertheless assuming that there will be moderate growth in SURTECO AG. There continues to be significant uncertainty concerning the development of the oil price and its effect on global growth.

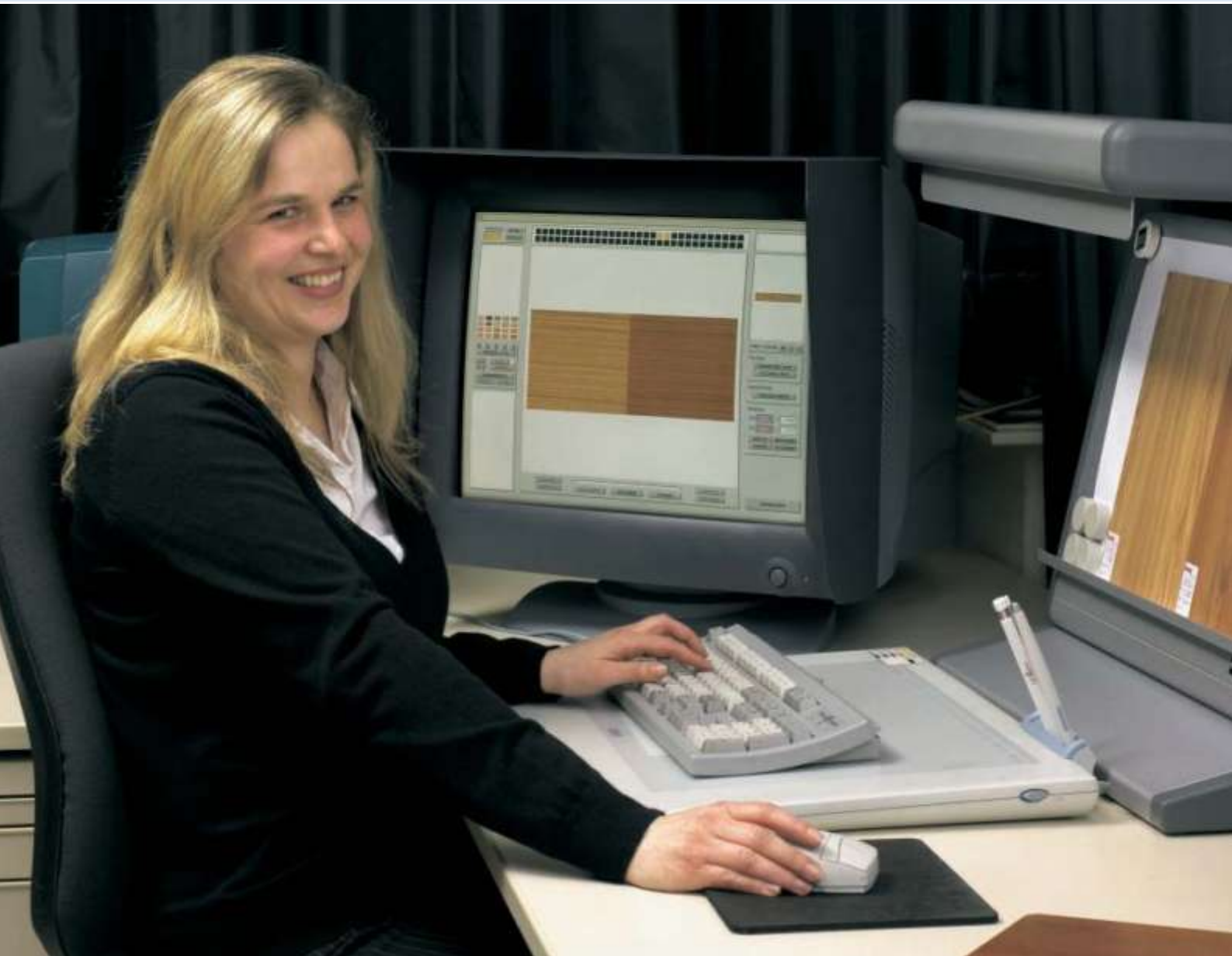
Against this background, we need to assume that the current fiscal year will not be an easy year.



UTE REBMANN

Technician for Production Planning and Work Preparation with Vinylit Fassaden GmbH in Kassel:

“Our façade systems undergo a continuous process of checking with national and international specialist institutes. We have also defined our own ambitious quality standards and we ensure compliance with these standards by internal inspections.”



JANA HÖHNE

Clerk in the sample service provided by Döllken-Kunststoffverarbeitung GmbH in Gladbeck:

“We develop ideal edges for our customers. They precisely match every detail of their specification. We have now developed more than 15,000 colours and decorative designs. The use of the latest digital technology allows us to substantially cut the lead time for development and hence delivery times.”

2004

| | |
|---|-----------|
| Income Statement | 40 |
| Balance Sheet | 41 |
| Cash Flow Statement | 42 |
| Schedule of Equity Capital | 43 |
| Notes to the Consolidated Financial Statements | |
| I. Accounting Principles | 44 |
| II. Accounting Principles in accordance with the International Financial Reporting Standards | 44 |
| III. Shareholders and Consolidated Group | 46 |
| IV. Exemption from Disclosure in accordance with Clause § 264 (3) German Commercial Code (HGB) | 47 |
| V. Consolidation Principles | 47 |
| VI. Currency Translation | 49 |
| VII. Accounting and Valuation Principles | 50 |
| VIII. Notes to the Consolidated Income Statement | 54 |
| IX. Notes to the Consolidated Balance Sheet | 57 |
| X. Executive Officers of the Company | 68 |
| XI. Declaration on the Corporate Governance Code pursuant to Clause § 161 Sentence 1 Stock Corporation Act (AktG) | 69 |
| XII. Publication in accordance with Clause § 25 Securities Trading Act (WpHG) / Clause § 160 (1) No. 8 Stock Corporation Act (AktG) | 70 |
| Auditor's Report | 71 |

» CONSOLIDATED INCOME STATEMENT (IFRS)

SURTECO GROUP

for the year ended 31 December 2004

| | Note | 2003 € 000s | 2004 € 000s |
|---|------|----------------|----------------|
| Sales revenues | (1) | 355,037 | 380,428 |
| Changes in inventories | | -3 | -937 |
| Production of own fixed assets capitalized | (2) | 1,286 | 1,068 |
| Total output | | 356,320 | 380,559 |
| Cost of purchased material | (3) | -148,229 | -158,848 |
| Personnel expenses | (4) | -94,855 | -99,019 |
| Other operating expenses | (5) | -53,535 | -56,570 |
| Other operating income | (6) | 4,275 | 4,224 |
| Earnings before Interest (Financial result), Income Tax and Depreciation and Amortization (EBITDA) | | 63,976 | 70,346 |
| Depreciation and Amortization | (15) | -18,058 | -17,088 |
| Amortization (and impairment) of goodwill | (17) | -8,704 | -8,824 |
| Earnings before Interest (Financial result) and Income Tax (EBIT) | | 37,214 | 44,434 |
| Financial Result | (7) | -10,120 | -9,686 |
| Earnings before Income Tax (EBT) | | 27,094 | 34,748 |
| Income Tax | (8) | -12,236 | -16,302 |
| Net Income | | 14,858 | 18,446 |
| Minority Interest | | -11 | -241 |
| Consolidated Net Income | | 14,847 | 18,205 |

» CONSOLIDATED BALANCE SHEET (IFRS)

SURTECO GROUP

at 31 December 2004

| | Note | 2003 € 000s | 2004 € 000s |
|--|----------|----------------|----------------|
| ASSETS | | | |
| Cash and cash equivalents | (10) | 2,467 | 4,480 |
| Trade accounts receivable | (11) | 30,303 | 35,771 |
| Inventories | (12) | 44,101 | 51,100 |
| Other current assets | (13) | 15,373 | 9,457 |
| Current assets | | 92,244 | 100,808 |
| Plant, property and equipment, net | (15) | 150,507 | 153,094 |
| Intangible assets | (16) | 1,399 | 4,601 |
| Goodwill | (17) | 99,273 | 95,722 |
| Investments | (18) | 5,380 | 152 |
| Other non-current assets | | 1,222 | 1,365 |
| Non-current assets | | 257,781 | 254,934 |
| Deferred tax asset | (8) | 6,389 | 6,388 |
| | | 356,414 | 362,130 |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | | |
| Current financial liabilities | (19) | 49,954 | 40,418 |
| Trade accounts payable | (23) | 12,110 | 18,896 |
| Tax liabilities | (20, 23) | 12,007 | 11,947 |
| Short-term accrued expenses | (21) | 2,156 | 2,413 |
| Other current liabilities | (22, 23) | 17,010 | 16,562 |
| Total short-term liabilities and provisions | | 93,237 | 90,236 |
| Non-current financial liabilities | (23) | 127,057 | 126,752 |
| Pensions and similar obligations | (24) | 10,740 | 12,223 |
| Other non-current liabilities | (23) | 511 | 522 |
| Non-current liabilities | | 138,308 | 139,497 |
| Deferred tax liability | (8) | 16,159 | 15,788 |
| Capital stock | | 10,576 | 10,576 |
| Reserves | | 83,127 | 86,497 |
| Net profit | | 14,847 | 18,205 |
| | | 108,550 | 115,278 |
| Minority interests | | 160 | 1,331 |
| Equity capital | (25) | 108,710 | 116,609 |
| | | 356,414 | 362,130 |

» CONSOLIDATED CASH FLOW STATEMENT (IFRS)

SURTECO GROUP

for the year ended 31 December 2004

| | 2003 € 000s | 2004 € 000s |
|--|----------------|----------------|
| Earnings before interest and after income tax | 14,858 | 18,446 |
| Adjustments for: | | |
| - Depreciation on property, plant and equipment | 17,291 | 16,222 |
| - Amortization on intangible assets | 768 | 867 |
| - Amortization (and impairment) of goodwill | 8,704 | 8,823 |
| - Interest income | -202 | 0 |
| - Interest expense | 10,322 | 9,889 |
| - Losses on fixed assets | 249 | 1,938 |
| - Change in long-term reserves | 422 | 1,484 |
| - Change in deferred tax assets and liabilities | -207 | -371 |
| - Other expenses / income with no effect on liquidity | 165 | 0 |
| - Other expenses | -2,439 | -2,522 |
| Internal financing | 49,931 | 54,776 |
| Increase / decrease in | | |
| - Trade accounts receivable | 17,073 | 3,281 |
| - Other receivables | 4,083 | 9,173 |
| - Inventories | 3,048 | -4,246 |
| - Accrued expenses | 35 | 258 |
| - Trade accounts payable | -1,575 | 343 |
| - Other liabilities | -3,934 | -834 |
| - Currency differences | -1,896 | -1,590 |
| Change in working capital | 16,834 | 6,385 |
| Cash flows from operating activities | 66,765 | 61,161 |
| Interest received | 202 | 0 |
| Tax expenses with no effect in liquidity | 1,427 | 494 |
| CASH FLOW FROM CURRENT BUSINESS OPERATIONS | 68,394 | 61,655 |
| Cash outflow for the acquisition of unconsolidated companies | -4,296 | 35 |
| Cash outflow for the acquisition of consolidated companies | -1,277 | -13,304 |
| Cash inflow from the disposal of consolidated companies/participations | 145 | 0 |
| Cash outflow for investment in property, plant and equipment | -14,542 | -14,381 |
| Cash outflow for investment in intangible assets | -791 | -2,130 |
| Cash inflow from asset disposals | 525 | 1,341 |
| CASH FLOWS FROM INVESTMENT ACTIVITIES | -20,236 | -28,439 |

| | 2003 € 000s | 2004 € 000s |
|---|----------------|----------------|
| Profit distribution | -6,874 | -7,368 |
| Long-term debt | 0 | 14,095 |
| Repayment of debt | -33,598 | -32,179 |
| Loan interest paid | -8,406 | -6,309 |
| CASH FLOW FROM FINANCING ACTIVITIES | -48,878 | -31,761 |
| CHANGE IN CASH AND CASH EQUIVALENTS | -720 | 1,455 |
| Additions to financial resources from changes in the group of companies consolidated | 0 | 558 |
| Cash and cash equivalents | | |
| 1 January | 3,187 | 2,467 |
| 31 December | 2,467 | 4,480 |

» SCHEDULE OF EQUIDITY 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 |
| Consolidated net income | 0 | 0 | 0 | 0 | 14,847 | 14,847 |
| Financial Instruments | 0 | 0 | -30 | 0 | 0 | -30 |
| 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 |
| Dividend payment | 0 | 0 | 0 | 0 | -7,403 | -7,403 |
| Consolidated net income | 0 | 0 | 0 | 0 | 18,205 | 18,205 |
| Currency changes | 0 | 0 | 0 | -2,502 | 0 | -2,502 |
| Minority interest | 0 | 0 | 0 | 0 | 160 | 160 |
| Transfer to revenue reserves | 0 | 0 | 7,203 | 0 | -7,604 | -401 |
| 31 December 2004 | 10,576 | 35,860 | 59,578 | -7,610 | 18,205 | 116,609 |

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2004

I. ACCOUNTING PRINCIPLES

SURTECO AG has prepared its consolidated financial statements for the year ended 2004 in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standard Board (IASB), taking into account the interpretations of the Standing Interpretations Committee (SIC). In connection with the application of IFRS 3 (Business Combinations), the newly revised standards IAS ("Impairment of Assets) and IAS 38 ("Intangible Assets") will also be applied with effect from 31 March 2004. The modifications to existing standards adopted by the IASB will also be applied within the scope of the "Improvement Project" of the IASB and to the consolidated financial statements for 2005.

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 4th and 7th 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 the clarity and informative nature of presentation.

The balance sheet date of SURTECO AG and the consolidated subsidiaries is 31 December 2004.

II. ACCOUNTING PRINCIPLES IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

The relevant deviations of IFRS from the German Commercial Code (HGB) as far as SURTECO AG is concerned relate to the matters explained below (§ Clause 292a (2), No. 4b German Commercial Code, HGB):

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

- 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 determined by the liability method reflecting the balance sheet in accordance with IAS 12 on the basis of the national tax rates, which are applicable in the individual countries at the date of realization. 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 derivative financial instruments used to hedge the current values to be attributed 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 inside equity capital as a separate item.

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 companies of the Group derive a benefit from the

activity of this company are included in the consolidated financial statements on 31 December 2004. 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 31/12/2003 | 15 | 9 | 24 |
| Change due to reorganization within the Group in 2004 | -1 | 0 | -1 |
| First-time consolidated in 2004 | 0 | 7 | 7 |
| Subsidiaries at 31/12/2004 | 14 | 16 | 30 |

Three companies were not included in the Consolidated Financial Statements for 2004 (2003 three 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 assets, financial position and results of operations was not material. Two companies which were managed with other companies have been consolidated proportionately.

The companies consolidated in the consolidated financial statements at 31/12/2004 and information on subsidiaries and participations held directly and indirectly by SURTECO AG are listed in a separate section of the Notes to the Consolidated Financial Statements. The list of shareholders is filed in the Commercial Register at the Local Court (Amtsgericht) Augsburg (HR B 2012).

Compared with the previous year, the group of consolidated companies changed as follows:

- When the notarial merger contract came into effect on 3 August 2004, Bausch GmbH was merged with Robert Linnemann GmbH & Co. to form BauschLinnemann GmbH & Co. KG with retrospective tax effect to 1 January 2004.
- The 75 % stake acquired in ARBE s.r.l, Martellago / Italy, was included in the consolidated financial statements in 2004.
- Acquisition of all the shares in the Canplast Group, Canada, in October 2004, meant that the following companies were included:
 - Canplast Canada Ltd.
 - Canplast USA, Inc.
 - 2054872 Ontario Inc.
 - Pro-plast Distribution Inc.
 - Canplast Mexico S.A. de C.V.

- Döllken & Praktikus Sp.z o.o., Poland is being included in the consolidation for the first time.

In December 2003, Surtenco acquired 75 % of the shares in Arbe s.r.l., Italy, in order to strengthen its presence in the key Italian market. The company was included in the consolidated financial statements of Surtenco for the first time on 1 January 2004. The purchase price comprised cash payments amounting to € 000s 4,240. € 000s 864 are to assigned to Property, plant and equipment and € 000s 2,642 to goodwill on account of the purchase price allocation.

During the fourth quarter of the fiscal year 2004, Surtenco acquired the Canplast Group, Montreal (Canada), a manufacturer of high-quality plastic edgings. Surtenco significantly improved its market position in North America with the

acquisition of the Group. The company was first-time consolidated on 1 October 2004. The acquisition costs amount to € 000s 13,430 after deduction of the funds as-

sumed. € 000s 2,016 are to assigned to Intangible assets and € 000s 2,334 to goodwill on account of the purchase price allocation pursuant to IFRS 3.

The acquisition costs of the first-time consolidated companies are distributed as follows:

| | € 000s |
|---|---------------|
| Liquid Funds | 631 |
| Receivables and other assets | 12,005 |
| Inventories | 2,753 |
| Tangible assets (property, plant and equipment) | 9,002 |
| Intangible assets | 2,183 |
| Debts | -7,435 |
| Other liabilities | -6,444 |
| | 12,695 |
| Goodwill | 5,473 |
| Acquisition costs | 18,168 |

IV. 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 management report and from disclosure of

their financial statements and management report:

- BauschLinnemann GmbH + Co. KG, Sassenberg
- Bausch Dekor GmbH, Buttenwiesen-Pfaffenhofen
- W. Döllken & Co. GmbH, Gladbeck
- Döllken-Kunststoffverarbeitung GmbH, Gladbeck
- Vinylit Fassaden GmbH, Kassel
- Döllken-Werkzeugbau GmbH, Gladbeck
- Kröning GmbH & Co., Hüllhorst

V. CHANGES TO THE CONSOLIDATED GROUP

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**, which have remained unchanged compared to the previous year, to

the SURTECO Group in accordance with IAS 27.

With the exception of Canplast Mexico, the balance sheet date of the financial statements coincides with the balance sheet date of the consolidated financial statements

of the individual companies (31/12/2004).

Capital consolidation has been carried out in accordance with IAS 22 (Business Combinations) or IFRS 3.

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 capital consolidation of the sub-group BauschLinnemann to form SURTECO AG was carried out in accordance with the Pooling-of-Interests Method. The heading "Investments in affiliated enterprises of SURTECO AG" was netted with the subscribed capital of the sub-group BauschLinnemann. The resulting asset differences were charged against the revenue reserves of SURTECO AG on first-time consolidation without affecting earnings.

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 scheduled

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.

In March 2004, IASB adopted the IFRS 3 (Business Combinations). IFRS 3 prescribes the acquisition method for formation of company mergers. At the time of the acquisition, all identifiable assets, liabilities and contingent liabilities are reported at their market values (fair value). Goodwill is no longer subject to scheduled amortization, but is subject to an impairment test once a year. IFRS 3 should be applied to all company mergers, which were agreed on or after 31 March 2004. The standard should be applied to goodwill acquired within the scope of company mergers prior to 31 March 2004 with effect from the first fiscal year that begins on or after 31 March 2004. Surteco is currently checking what effect applying the standard will have on the current net assets, the financial position and results of operations for the company. During the fiscal year 2004, scheduled amortization of acquired goodwill amounted to € 000s 8,823. This will not be carried forward in the fiscal year 2005.

Receivables, liabilities and loans between the Group companies are netted. Differences arising from debt consolidation are netted in the income statement.

Sales, expenses and income within the Group and **inter-company profits arising from supplies** between consolidated companies have been eliminated, if they materially affect the presentation of the current net assets, the financial position and results of operations.

Deferred taxes arising from consolidation transactions recognized in the income statement have been accrued.

Intercompany trade accounts are accounted for on the basis of market prices and on the basis of accounting prices that are determined on the basis of the principle of "dealing at arms length".

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 financial 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 relevant national currency is the functional currency. Assets and liabilities are therefore translated at the rate prevailing on the bal-

ance 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 | |
|-------------------|-----|--------------------|------------|--------------|------------|
| | | 31/12/2003 | 31/12/2004 | 31/12/2003 | 31/12/2004 |
| US dollar | USD | 0.7930 | 0.7331 | 0.8858 | 0.8051 |
| Sterling | GBP | 1.4144 | 1.4142 | 1.4461 | 1.4739 |
| Singapore dollar | SGD | 0.4665 | 0.4490 | 0.5082 | 0.4762 |
| Australian dollar | AUD | 0.5957 | 0.5718 | 0.5760 | 0.5925 |
| Canadian dollar | CAD | 0.6139 | 0.6086 | 0.6325 | 0.6188 |
| Chinese renminbi | CNY | 0.0974 | 0.0899 | 0.1088 | 0.0989 |
| Polish zloty | PLN | - | 0.2446 | - | 0.2207 |

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 applicable 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 by comparison with the previous year.

Income and expense realization

Sales revenues arising from the sale of products and services have been recorded with transfer of ownership or risk, or provision of the service 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 discounts, 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. Deferred taxes are calculated for all temporary differences between the book values and the tax values stated for assets and liabilities. They 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.

Cash and cash equivalents have been recorded at face value.

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 re-

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

Other current assets have been recognized at their face value.

Development costs for intangible 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 and the value can be reliably assessed.

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 have been capitalized as assets.

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

| | Years |
|------------------------------|---------|
| Intangible assets | 3 - 5 |
| Goodwill | 15 |
| Buildings | 40 |
| Improvements and fittings | 10 - 15 |
| Technical plant and machines | 3 - 20 |
| Factory and office equipment | 6 - 13 |

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 flat-rate proportion of the overheads and depreciations. A fixed value has been calculated 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 commercial 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.

Minor-value assets have been depreciated in full in the year of addition.

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

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 15 years. Scheduled depreciation is not applicable in accordance with IFRS 3, if goodwill was acquired after 31 March 2004. The value of goodwill as a security is subjected to an impairment test each year; if this results in a reduction in value, downward-value adjustments are undertaken.

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 appro-

priation 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 minimum leasing rates or the lower current value.

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 5.25 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 from company retirement provision.

Reserves have been formed in accordance with IAS 37, if a current 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 on 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.

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

VIII. NOTES TO THE CONSOLIDATED INCOME STATEMENT

(1) Sales revenues

Sales revenues for the Group are segmented as follows:

| [€ 000s] | 2003 | 2004 |
|---------------------------------|----------------|----------------|
| Business (product) | | |
| Edging systems | 191,994 | 194,562 |
| Foils | 78,916 | 92,347 |
| Technical profiles (extrusions) | 17,423 | 16,149 |
| DIY business | 27,530 | 33,893 |
| Façade systems | 9,705 | 8,788 |
| Printing | 8,578 | 13,366 |
| Other | 20,891 | 21,323 |
| | 355,037 | 380,428 |
| Geographical (regions) | | |
| Germany | 141,179 | 148,247 |
| Abroad | 213,858 | 232,181 |
| | 355,037 | 380,428 |

(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] | 2003 | 2004 |
|---|----------------|----------------|
| Cost of raw materials and supplies, and purchased merchandise | 139,450 | 146,716 |
| Cost of purchased services | 8,779 | 12,132 |
| | 148,229 | 158,848 |

(4) Personnel expenses

| [€ 000s] | 2003 | 2004 |
|---|---------------|---------------|
| Wages and salaries | 80,541 | 83,502 |
| Social security and other pension costs | 14,314 | 15,517 |
| <i>of which for retirement</i> | <i>1,635</i> | <i>1,519</i> |
| | 94,855 | 99,019 |

The following table shows the average number of employees over the year:

| | 2003 | | | 2004 | | |
|--|--------------|------------|--------------|--------------|------------|--------------|
| | Industrial | Salaried | Total | Industrial | Salaried | Total |
| Administration/ Materials management | 117 | 255 | 372 | 118 | 251 | 369 |
| Sales | 6 | 258 | 264 | 10 | 264 | 274 |
| Research and development, quality assurance | 39 | 52 | 91 | 36 | 56 | 92 |
| Production | 1,024 | 104 | 1,128 | 1,051 | 110 | 1,161 |
| Engineering | 59 | 27 | 86 | 74 | 28 | 102 |
| | 1,245 | 696 | 1,941 | 1,289 | 709 | 1,998 |

(5) Other operating expenses

Other operating expenses include operating, sales and administrative expenses. Currency differences (netted) amounting to € 000s 1,028 (2003: € 000s 190) have been re-

ported as income. Research and development expenses (personnel and material expenses) amounted to € 000s 5.4 million.

(6) Other operating income

Other operating income primarily includes proceeds from the sale of assets, from the release of reserves,

compensation for damages and rental income. Income is primarily connected with operating, sales and administrative expenses.

(7) Financial result

| [€ 000s] | 2003 | 2004 |
|-----------------------------------|----------------|---------------|
| Other interest and similar income | 202 | 203 |
| Interest and similar expenses | -10,322 | -9,889 |
| Financial result | -10,120 | -9,686 |

(8) Income tax

Income tax expense is broken down as follows:

| [€ 000s] | 2003 | 2004 |
|---|---------------|---------------|
| Current tax expenses | 11,816 | 14,992 |
| Deferred taxes | -51 | -613 |
| Deferred tax expenses on losses carried forward | 471 | 1,923 |
| | 420 | 1,310 |
| | 12,236 | 16,302 |

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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] | Aktive latente Steuern | | Passive latente Steuern | |
|------------------------------------|------------------------|---------------|-------------------------|---------------|
| | 2003 | 2004 | 2003 | 2004 |
| Financial liabilities | 10,202 | 9,833 | 0 | 0 |
| Tax losses carried forward | 2,335 | 1,923 | 0 | 0 |
| Pension accruals | 1,511 | 1,871 | 0 | 13 |
| Receivables and other assets | 946 | 96 | 33 | 0 |
| Inventories | 773 | 721 | 26 | 24 |
| Property, plant and equipment, net | 448 | 1,551 | 25,559 | 25,486 |
| Intangible assets | 273 | 205 | 259 | 0 |
| Other liabilities | 91 | 21 | 18 | 34 |
| Special tax items | 0 | 0 | 454 | 64 |
| | 16,579 | 16,221 | 26,349 | 25,621 |
| Netting | -10,190 | -9,833 | -10,190 | -9,833 |
| | 6,389 | 6,388 | 16,159 | 15,788 |

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

| [€ 000s] | 2003 | 2004 |
|--|---------------|---------------|
| Earnings before income tax | 27,094 | 34,748 |
| Expected income tax expense (39 %) | 10,567 | 13,204 |
| Transition: | | |
| Tax quota for | | |
| - Amortization of goodwill | 2,967 | 2,639 |
| - Expenses not deductible from tax | 326 | 282 |
| - Tax-free income | -167 | 0 |
| Taxes not relating to the reporting period | -1,642 | 352 |
| Other tax effects | 185 | -175 |
| Income tax | 12,236 | 16,302 |

(9) Net income per share (earnings per share)

| | 2003 | 2004 |
|--|------------|------------|
| Number of shares issued | 10,575,522 | 10,575,522 |
| Consolidated net income attributable to the shareholders of SURTECO AG (€) | 14,847,218 | 18,205,378 |
| Net income per share (€) | 1,40 | 1,72 |

IX. NOTES TO THE CONSOLIDATED BALANCE SHEET

(10) Cash and cash equivalents Cash and cash equivalents comprise cash in hand and bank balances.

(11) Trade accounts receivable have been recorded to take account of the general interest, processing and credit risk.
All trade accounts receivable have a residual term of less than one year. Provisions for specific debts and general bad debt charges

(12) Inventories

Consolidated inventories of the Group are comprised as follows:

| [€ 000s] | 2003 | 2004 |
|-----------------------------|---------------|---------------|
| Raw materials and supplies | 16,277 | 19,200 |
| Work in progress | 4,114 | 1,921 |
| Finished products and goods | 23,710 | 29,979 |
| | 44,101 | 51,100 |

(13) Other current assets

| [€ 000s] | 2003 | 2004 |
|---|---------------|--------------|
| Accounts receivable due from related parties | 3,400 | 0 |
| Prepaid tax (income tax) | 2,769 | 1,358 |
| Other | | |
| - Land in current assets | 3,448 | 3,448 |
| - Accounts receivables | 3,778 | 421 |
| - Prepaid expenses | 655 | 346 |
| - Prepaid tax (sales/wage tax) | 197 | 1,453 |
| - Discount | 19 | 0 |
| - Other | 1,107 | 2,431 |
| | 9,204 | 8,099 |
| | 15,373 | 9,457 |

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(14) 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/transfers | 14,542 | 616 | 1,452 | 4,899 | 21,509 |
| Disposals/transfers | -4,822 | 0 | 0 | -10 | -4,832 |
| 31/12/2003 / 01/01/2004 | 287,187 | 6,260 | 136,798 | 5,380 | 435,625 |
| Adjustment items | 5,160 | 37 | 0 | 0 | 5,197 |
| Currency differences | -2,630 | -216 | -809 | 0 | -3,655 |
| Change in group of consolidated companies | 11,176 | 2,386 | 0 | 0 | 13,562 |
| Additions/transfers | 13,235 | 1,850 | 5,794 | 0 | 20,879 |
| Disposals/transfers | -9,552 | -454 | 0 | -5,228 | -15,234 |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| 31/12/2004 | 304,576 | 9,863 | 141,783 | 152 | 456,374 |
| 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/transfers | 17,290 | 768 | 8,704 | 0 | 26,762 |
| Disposals/transfers | -4,310 | 0 | 0 | -10 | -4,320 |
| 31/12/2003 / 01/01/2004 | 136,680 | 4,861 | 37,525 | 0 | 179,066 |
| Adjustment items | 5,173 | 38 | 0 | 0 | 5,211 |
| Currency differences | -585 | 2 | -288 | 0 | -871 |
| Change in group of consolidated companies | 0 | 0 | 0 | 0 | 0 |
| Additions/transfers | 16,357 | 787 | 8,824 | 0 | 25,968 |
| Disposals/transfers | -6,143 | -426 | 0 | 0 | -6,569 |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| 31/12/2004 | 151,482 | 5,262 | 46,061 | 0 | 202,805 |
| Book value at 31/12/2004 | 153,094 | 4,601 | 95,722 | 152 | 253,569 |
| Book value at 31/12/2003 | 150,507 | 1,399 | 99,273 | 5,380 | 256,559 |

(15) 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/transfers | 2,395 | 3 | 8,181 | 4,264 | 546 | 15,389 |
| Disposals/transfers | -162 | 0 | -483 | -4,220 | -804 | -5,669 |
| 01/01/2004 | 76,992 | 29,266 | 133,634 | 46,530 | 765 | 287,187 |
| Adjustment items | 1,603 | -4 | 3,036 | 525 | 0 | 5,160 |
| Currency differences | -1,115 | 0 | -1,317 | -185 | -13 | -2,630 |
| Changes in the group of consolidated companies | 5,410 | 0 | 5,077 | 689 | 0 | 11,176 |
| Additions/transfers | 1,459 | 0 | 5,482 | 4,047 | 2,247 | 13,235 |
| Disposals/transfers | -1,671 | 0 | -5,027 | -2,305 | -548 | -9,551 |
| 31/12/2004 | 82,678 | 29,262 | 140,885 | 49,301 | 2,451 | 304,577 |
| 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/transfers | 2,131 | 733 | 9,224 | 5,202 | 0 | 17,290 |
| Disposals/transfers | -23 | 0 | -277 | -4,010 | 0 | -4,310 |
| 01/01/2004 | 21,195 | 2,703 | 78,646 | 34,136 | 0 | 136,680 |
| Adjustment items | 1,614 | -4 | 3,036 | 527 | 0 | 5,173 |
| Currency differences | -84 | 0 | -432 | -69 | 0 | -585 |
| Changes in the group of consolidated companies | 0 | 0 | 0 | 0 | 0 | 0 |
| Additions/transfers | 2,343 | 729 | 8,610 | 4,675 | 0 | 16,357 |
| Disposals/transfers | -382 | 0 | -3,771 | -1,989 | 0 | -6,142 |
| 31/12/2004 | 24,686 | 3,428 | 86,089 | 37,280 | 0 | 151,483 |
| Book value at 31/12/2004 | 57,992 | 25,834 | 54,796 | 12,021 | 2,451 | 153,094 |
| Book value at 31/12/2003 | 55,797 | 26,563 | 54,988 | 12,394 | 765 | 150,507 |

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 con-

cluded 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.

(16) Intangible assets

Intangible assets comprise primarily IT software.

| Concessions, patents, licenses and similar rights and values | | |
|---|--------------|--------------|
| [€ 000s] | 2003 | 2004 |
| Acquisitions costs | | |
| 01/01 | 5,665 | 6,260 |
| Adjustment items | 0 | 37 |
| Currency differences | -21 | -216 |
| Changes in the group of consolidated companies | 0 | 2,386 |
| Additions | 616 | 1,850 |
| Disposals | 0 | -454 |
| 31/12 | 6,260 | 9,863 |
| Depreciation and amortization | | |
| 01/01 | 4,099 | 4,861 |
| Adjustment items | 0 | 38 |
| Currency differences | -6 | 2 |
| Changes in the group of consolidated companies | 0 | 0 |
| Additions | 768 | 787 |
| Disposals | 0 | -426 |
| 31/12 | 4,861 | 5,262 |
| Book value at 31/12 | 1,399 | 4,601 |

(17) Goodwill

Goodwill is comprised of the following amounts from the takeover of asset deals and from capital consolidation (€ 000s 78,165).

Goodwill has developed as follows:

| [€ 000s] | 2003 | 2004 |
|----------------------|---------------|---------------|
| 01/01 | 106,589 | 99,273 |
| Currency adjustments | -64 | -519 |
| Additions | 1,452 | 5,792 |
| Disposals | -8,704 | -8,824 |
| 31/12 | 99,273 | 95,722 |

The IASB adopted the IFRS 3 standard "Business Combinations" on 31 March 2004. Under this standard, goodwill is no longer subject to scheduled amortization, but will be subject in future to an impair-

ment test at least once a year. The new standard should be applied in full to all company mergers, which were agreed on or after 31 March. In accordance with the regulations of IFRS 3, all goodwill acquired pri-

or to 31 March will be subject to scheduled depreciation at the year-end 2004.

(18) 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 |
| 01/01/2004 | 4,777 | 603 | 5,380 |
| Additions | 0 | 0 | 0 |
| Disposals | -4,625 | -603 | -5,228 |
| 31/12/2004 | 152 | 0 | 152 |
| Depreciation and amortization | | | |
| 01/01/2003 | 10 | 0 | 10 |
| Disposals | -10 | 0 | -10 |
| 01/01/2004 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 |
| 31/12/2004 | 0 | 0 | 0 |
| Book value at 31/12/2004 | 152 | 0 | 152 |
| Book value at 31/12/2003 | 4,777 | 603 | 5,380 |

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Participations in the consolidated financial statements relate to unconsolidated subsidiaries. The dis-

posals under financial assets essentially relate to the subsidiary companies Döllken & Praktikus

Poland and Arbe s.r.l. which were fully consolidated in 2004.

(19) 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.

(20) Tax liabilities

Tax liabilities include the income tax due for the fiscal year 2004 and not yet paid and the anticipated tax payments for previous years. Deferred taxes are not included.

(21) Short-term accrued expenses

Short-term accrued expenses include reserves for individual and flat-rate warranties (€ 000s 1,452, 2003: € 000s 1.503), impending losses and costs of litigation (€ 000s 358, 2003: € 000s 270). An empirical value for sales during the past six to twelve months was taken for the warranty reserves. It is anticipated that a majority of these expenses will fall due over the coming year.

(22) Other current liabilities

| [€ 000s] | 2003 | 2004 |
|---|---------------|---------------|
| Liabilities to employees | 9,794 | 9,769 |
| Bonuses and promotion codes | 1,725 | 1,667 |
| Accounts receivables | 1,544 | 805 |
| Tax liabilities | 1,206 | 1,293 |
| Social insurance against occupational accidents | 518 | 555 |
| Supervisory Board remuneration | 330 | 376 |
| Other | 1,893 | 2,097 |
| | 17,010 | 16,562 |

(23) Liabilities

| [€ 000s] | Total | Residual Term | | |
|--|----------------|---------------|---------------|-------------------|
| | | up to 1 year | 1-5 years | more than 5 years |
| Debts | 142,026 | 39,261 | 69,882 | 32,883 |
| Liabilities from finance lease | 25,144 | 1,157 | 5,536 | 18,451 |
| Accounts payable | 18,895 | 18,895 | 0 | 0 |
| Tax liabilities | 11,947 | 11,947 | 0 | 0 |
| Other liabilities - of which from taxes € 000s 1,293 (2003: € 000s 1,189) - of which social security € 000s 2,502 (2003: € 000s 1,946) | 17,084 | 16,562 | 522 | 0 |
| | 215,096 | 87,822 | 75,940 | 51,334 |

(24) 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.

Pension accruals and similar obligations developed as follows:

| [€ 000s] | 01/01/ 2004 | Change in group of consolidated companies | Payments | Current service expense | Interest expense | Actuarial gains/losses | 31/12/ 2004 |
|---------------------------------------|----------------|--|-------------|-------------------------------|---------------------|---------------------------|----------------|
| Provisions for | | | | | | | |
| - Pension obligations | 7,330 | 415 | -450 | 103 | 405 | 417 | 8,220 |
| - Obligations from phased retirement | 2,759 | 0 | -417 | 904 | 0 | 0 | 3,246 |
| - Obligations for long-service awards | 651 | 0 | -81 | 181 | 24 | -18 | 757 |
| | 10,740 | 415 | -948 | 1,188 | 429 | 399 | 12,223 |

| [€ 000s] | Pension provisions | Obligations from phased retirement | Obligations for long- service awards | Total |
|---|-----------------------|--|--|---------------|
| Balance sheet value 01/01/2003 | 7,101 | 2,721 | 496 | 10,318 |
| Payments for pensions | -548 | -563 | -60 | -1,171 |
| Pension expenses | 777 | 601 | 215 | 1,593 |
| Balance sheet value 31/12/2003 | 7,330 | 2,759 | 651 | 10,740 |
| Change in group of consolidated companies | 415 | 0 | 0 | 415 |
| Payments for pensions | -450 | -417 | -81 | -948 |
| Pension expenses | 925 | 904 | 187 | 2,016 |
| Balance sheet value 31/12/2004 | 8,220 | 3,246 | 757 | 12,223 |

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(25) 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 resolution by the Annual General Meeting on 17 June 2004, the rules in the Articles of Association relating to the different tranches of authorized capital, provided with different structures, created at different times and which were partly already used up, were unified. It was resolved to create Authorized capital and cancel existing authorized capital.

The Board of Management is authorized to increase the capital stock of the company once or in several stages in the period to 17 June 2009 by overall up to € 500,000.00, with the consent of the Supervisory Board by the issue of no-par-value bearer shares, for a cash consideration (**Authorized capital I**). 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, if the new shares are issued at an issue amount, which is not significantly lower than the stock-market price. The Board of Management is further authorized to have the new shares taken over by a bank or a company operating pursuant to Clause § 53 (1) Sentence 1 or Clause § 53 b (1) Sentence 1 or (7) of the German Banking Act (KWG), with the obligation to of-

fer them for purchase to shareholders. If the Board of Management does not make use of the above authorizations to exclude pre-emptive rights, the pre-emptive right of the shareholders may only be excluded for equalization of 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 to increase the capital stock of the company once or in several stages in the period to 17 June 2009 by overall up to € 4,500,000.00, with the consent of the Supervisory Board by the issue of no-par-value bearer shares, for a cash or a non-cash consideration (**Authorized capital II**). In the case of a capital increase for a cash consideration, the shareholders should be granted a pre-emptive right, although the Board of Management is authorized to exclude the fractions from shareholders' statutory pre-emptive right. The Board of Management is further authorized to have the new shares taken over by a bank or a company operating pursuant to Clause § 53 (1) Sentence 1 or Clause § 53 b (1) Sentence 1 or (7) of the German Banking Act (KWG), with the obligation to offer them for purchase to shareholders. In the case of a capital increase for a non-cash consideration, the Board of Management is entitled to exclude the statutory pre-emptive right of shareholders. The Board of Management decides on the additional content of share rights and the conditions of issue, with the

consent of the Supervisory Board.

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 9,647. The Board of Management and Supervisory Board of SURTECO AG propose to the Annual General Meeting a dividend payout of € 0.80 per share, amounting to a total of € 000s 8,860. The Board of Management further recommends carrying forward the residual amount of € 000s 16 as profit carried forward.

(26) Other financial obligations

| [€ 000s] | 2003 | 2004 |
|--------------------------------------|--------------|--------------|
| Rental and operate leasing contracts | 2,328 | 3,578 |
| | 2,328 | 3,578 |

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] | uo to 1 year | 1-5 years | more than 5 years | Total |
|------------------------------------|--------------|--------------|-------------------|---------------|
| Leasing payments due in the future | 2,890 | 11,559 | 25,598 | 40,047 |
| Unaccrued interest | -1,731 | -6,022 | -7,150 | -14,903 |
| Cash value | 1,159 | 5,537 | 18,448 | 25,144 |

(27) 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.

Corporate Treasury controls centrally the currency and interest-management of the Group and correspondingly the key transactions with financial derivatives and other financial instruments. In individual cases, currency hedging transactions are concluded at the foreign subsidiaries in close consultation with central treasury. Contract partners are German and international banks which are monitored for credit rating and

quality. Financial instruments and derivatives are used exclusively for hedging purposes.

The currency and interest-risk management of the Group is supported by a treasury system that is used to identify, evaluate and analyze currency and interest-rate risks. The subsidiaries report on their key currency and interest-rate risks within the scope of Group reporting. These risk positions are then analyzed and evaluated on the basis of attributes relevant to decision-making.

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 creditwor-

thiness 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.

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Derivative instruments 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 derivative financial instruments concluded are initially reported in the balance sheet at acquisition costs and subsequently revalued on the balance-sheet date at their market value. Hedge accounting is not applied to derivative instruments over the fiscal year so that market changes are reported in the income statement.

The market values of derivative financial instruments is derived from the amounts at which the relevant financial transactions are traded or listed on the balance-sheet date, without taking into account opposite developments in value arising from the underlying transactions. The market values of currency-related transactions are determined on the basis of current reference prices, taking into account forward discounts and premiums. The market

values of the interest-related transactions are determined on the basis of discounted, cash flows expected in the future. The applicable market interest rates to the residual term of the financial instruments are used.

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

| [€ 000s] | Nominal amount 31/12/2004 | Market value 31/12/2004 |
|-------------------------------|--|--|
| Interest-related transactions | 42,561 | -88 |
| Currency-related transactions | 4,068 | 87 |
| | 46,629 | -1 |

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

(29) 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 com-

pany being split into the two Strategic Business Units (SGE) 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 | KONSOLI- DIATION | SURTECO GROUP |
|--|--------------|-----------------|---------------|---------------------|------------------|
| Income Statement | | | | | |
| Sales revenues | 180,823 | 201,017 | 0 | -1,412 | 380,428 |
| - with outside third parties | 179,728 | 200,700 | 0 | 0 | 380,428 |
| - with other segments | 1,095 | 317 | 0 | -1,412 | 0 |
| Depreciation and amortization | 9,440 | 11,022 | 135 | 5,315 | 25,912 |
| Segment earnings before income from participations, interest and taxes | 23,154 | 30,405 | -3,886 | -5,239 | 44,434 |
| Income from other participations | 0 | 0 | 30,232 | -30,232 | 0 |
| Balance sheet | | | | | |
| Assets | 151,422 | 220,234 | 352,680 | -362,206 | 362,130 |
| Liabilities | 94,624 | 118,255 | 191,551 | -157,578 | 246,852 |
| Net assets | 56,799 | 101,978 | 161,129 | -204,628 | 115,278 |
| Investments in property, plant and equipment | 8,161 | 4,829 | 26 | 0 | 13,016 |
| Personnel | 863 | 1,127 | 7 | 0 | 1,997 |

| by regional markets [€ 000s] | Sales revenues with third parties (by registered office) of | Segment assets | Segment liabilities | Investments in property, plant and equipment |
|-----------------------------------|---|-------------------|------------------------|---|
| Germany | 270,577 | 616,372 | 349,378 | 9,574 |
| European Union | 37,154 | 32,560 | 16,574 | 1,894 |
| Asia / Australia | 23,527 | 19,243 | 10,264 | 742 |
| America | 53,954 | 55,257 | 28,213 | 806 |
| Transition account | -4,784 | -362,206 | -157,578 | 0 |
| SURTECO GROUP | 380,428 | 361,226 | 246,851 | 13,016 |

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

X. EXECUTIVE OFFICERS OF THE COMPANY

Board of Management

| Name | Memberships in other companies |
|--|--|
| Friedhelm Päfgen Businessman Buttenwiesen-Pfaffenhofen Chairman/SBU Paper | Deputy Chairman of the Supervisory Board of Schleipen & Erkens AG, Jülich; 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; Chairman of the Supervisory Board of Ewald Dörken AG, Herdecke |
| Bernd Dehmel Businessman Marienfeld SBU Paper to 17 June 2004 | Deputy Chairman of the Supervisory Board of Döllken-Kunststoffverarbeitung GmbH, Gladbeck (to 30 June 2004); Chairman of the Executive Board of Arbe s.r.l., Martellago, Italy (to 30 June 2004) |

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 Economic 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 to 17 June 2004 Honorary Chairwoman since 17 June 2004 | |
| Björn Ahrenkiel Lawyer, Düsseldorf Deputy Chairman since 17 June 2004 | |
| Jens Schürfeld Businessman, Hamburg Deputy Chairman to 17 June 2004 | 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 |
| Bernd Dehmel Businessman, Marienfeld Deputy Chairman since 17 June 2004 | |

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

Member of the Supervisory Board of Klöpfer & Königer GmbH & Co. KG (to 18 June 2004)

Dr.-Ing. Walter Schlebusch
Engineer, Munich

Employee Representatives

Hans-Jürgen Diesner
Chairman of the Works Council,
Vermold, since 17 June 2004

Wolfgang Gorißen
Chairman of the Works Council,
Münster, to 17 June 2004

Richard Liepert
Chairman of the Works Council,
Wertingen

Udo Semrau
Chairman of the Works Council,
Gladbeck

Honorary Chairman

Johan Viktor Bausch
Engineer, Munich

Remuneration for the executive officers and former executive officers

Total emoluments for the Supervisory Board for fiscal year 2004 amounted to € 000s 376. Total emoluments for Members of the Board of Management were € 000s 3,222.

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

7,130 shares in the Company were owned by members of the Board of Management on the balance sheet date. 322,400 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 Cor-

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

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

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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 with § 22 (2) WpHG | 52.9312 |
| Gustav und Catharina Schürfeld, Foundation, 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 with § 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 with § 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, 18 March 2005
Board of Management

Friedhelm Päfgen

Dr.-Ing. Herbert Müller

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 2004 to 31 December 2004. 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 opera-

tions 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 2004 to 31 December 2004, 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 2004 to 31 December 2004, 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, 23 March 2005

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 | | | | | |
| 300 | Bausch Dekor GmbH, Buttenwiesen-Pfaffenhofen | Germany | * | 100.00 | 100 |
| BauschLinnemann Group | | | | | |
| 401 | BauschLinnemann GmbH + Co. KG, Sassenberg | Germany | * | 100.00 | 100 |
| 210 | Bausch (U.K.) Limited, Burnley | Great Britain | * | 100.00 | 401 |
| 405 | BauschLinnemann UK Ltd., Burnley | Great Britain | * | 100.00 | 210 |
| 410 | Kröning GmbH & Co., Hüllhorst | Germany | * | 100.00 | 401 |
| 420 | Kröning Verwaltungsgesellschaft mbH, Hüllhorst | Germany | * | 100.00 | 401 |
| 430 | BauschLinnemann International GmbH, Sassenberg | Germany | * | 100.00 | 401 |
| 440 | Linnemann-Consult GmbH, Sassenberg | Germany | * | 100.00 | 401 |
| 441 | BauschLinnemann North America, Inc., Greensboro | USA | * | 100.00 | 440 |
| 460 | BauschLinnemann Decorative Material (Taicang) Co. Ltd. | China | * | 100.00 | 401 |
| 470 | Arbe s.r.l., Martellago | Italy | * | 50.00 25.00 | 401 510 |
| 499 | BauschLinnemann 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 |
| 511 | Vinylit Fassaden GmbH, Kassel | Germany | * | 100.00 | 510 |
| 512 | Doellken-A.S.L. Pty. Ltd., Sydney | Australia | * | 97.50 | 510 |
| 513 | Doellken PTE Ltd., Singapore | Singapore | * | 100.00 | 510 |
| 514 | PT Doellken Bintan Edgings & Profiles, Bintan | Indonesia | * | 99.00 1.00 | 510 513 |
| 520 | Döllken-Weimar GmbH, Nohra | Germany | * | 6.00 94.00 | 500 530 |
| 530 | Döllken & Praktikus GmbH, Gladbeck | Germany | * | 100.00 | 500 |
| 531 | Döllken & 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 USA, Everett/Washington | USA | * | 100.00 | 500 |
| 551 | Doellken-Woodtape Inc., Everett/Washington | USA | * | 100.00 | 550 |
| 552 | Canplast USA Inc., Greensboro | USA | * | 100.00 | 550 |
| 560 | Doellken-Canada Ltd., Mississauga | Canada | * | 100.00 | 500 |
| 561 | Doellken-Woodtape Ltd., Mississauga | Canada | * | 100.00 | 560 |
| 562 | Canplast Canada Ltd., Montreal | Canada | * | 100.00 | 560 |
| 563 | Canplast Mexico S.A. de C.V., Chihuahua | Mexico | * | 50.00 | 562 |
| 564 | 2054872 Ontario Inc., Quebec | Canada | * | 100.00 | 560 |
| 565 | Pro-plast Distribution Inc., Quebec | Canada | * | 50.00 | 564 |
| 599 | W. Döllken-Verwaltungs- und Beteiligungs-GmbH, Essen | Germany | * | 100.00 | 500 |

2004



| | | |
|--------|------|---------|
| 545,00 | 6,56 | 16/2,1 |
| 235,00 | 8,56 | 2,3/2,5 |
| 45,00 | 0,29 | 22/2,9 |
| 56,50 | 6,56 | 16/2,7 |
| 23,00 | 0,45 | 12/2,5 |
| 77,09 | 5,66 | 26/1,6 |
| 545,00 | 6,56 | 16/2,1 |
| 235,00 | 8,56 | 2,3/2,5 |
| 45,00 | 0,29 | 2,2/2,9 |
| 56,50 | 6,76 | 9/2,7 |
| 44,90 | 7,95 | 8,1/2,6 |
| 123,09 | 5,66 | 26/1,9 |
| 545,00 | 6,56 | 16/2,1 |
| 235,00 | 8,56 | 2,3/2,5 |
| 45,00 | 0,29 | 2,2/2,9 |
| 56,50 | 6,76 | 9/2,7 |
| 23,00 | 0,45 | 12/2,5 |

» BALANCE SHEET (HGB*)

SURTECO AG

at 31 December 2004

| | 2003 € 000s | 2004 € 000s |
|---|----------------|----------------|
| ASSETS | | |
| Intangible assets | 67 | 27 |
| Tangible assets | 189 | 111 |
| Investments | 270,151 | 269,240 |
| Fixed assets | 270,407 | 269,378 |
| Receivables and other assets | | |
| - Receivables from affiliated enterprises | 56,176 | 57,524 |
| - Other assets | 1,912 | 461 |
| Cash in hand, bank balances and cheques | 3 | 2 |
| Current assets | 58,091 | 57,987 |
| Prepaid expenses | 20 | 8 |
| | 328,518 | 327,373 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Share capital | 10,576 | 10,576 |
| Additional paid-in capital | 79,864 | 79,864 |
| Revenue reserves | 46,909 | 60,709 |
| Net profit | 12,013 | 9,286 |
| Equity capital | 149,362 | 160,435 |
| Pension reserves | 105 | 121 |
| Tax accruals | 5,038 | 4,743 |
| Other accruals | 3,109 | 3,294 |
| Accrued expenses | 8,252 | 8,158 |
| Liabilities to banks | 117,740 | 106,699 |
| Trace accounts payable | 29 | 61 |
| Liabilities from acceptance of drawn bills of exchange and issue of own bills of exchange | 10,000 | 0 |
| Payables to related parties | 43,063 | 51,870 |
| Other liabilities | 72 | 150 |
| Liabilities | 170,904 | 158,780 |
| | 328,518 | 327,373 |

*German Commercial Code (Handelsgesetzbuch)

» INCOME STATEMENT (HGB*)

SURTECO AG

for the year ended 31 December 2004

| | 2003 € 000s | 2004 € 000s |
|--|-----------------------|-----------------------|
| Income from profit transfer agreements (of which income from tax allocations transferred from subsidiaries € 000s 7,194; 2003: € 000s 8,117) | 25,590 | 23,858 |
| Income from other participations | 15,358 | 13,568 |
| Other operating income | 2,370 | 2,117 |
| Personnel expenses | -3,947 | -3,787 |
| Amortization and depreciation on intangible assets and fixed assets | -137 | -123 |
| Other operating expenses | -1,689 | -1,999 |
| Interest income | -6,385 | -6,201 |
| Results from ordinary activities | 31,160 | 27,433 |
| Income tax | -6,735 | -8,884 |
| Other taxes | -709 | -73 |
| Net income | 23,716 | 18,476 |
| Profit carried forward from previous year | 97 | 10 |
| Transfers to revenue reserves | -11,800 | -9,200 |
| Net profit | 12,013 | 9,286 |

*German Commercial Code (Handelsgesetzbuch)

The Annual Financial Statements of SURTECO AG for the year ended 31 December 2004 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, Wirtschaftsprüfungsgesellschaft/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.

| | |
|--|---|
| 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 |
| Gearing | $(\text{short and long-term financial liabilities} / \text{liquid assets}) / \text{share capital}$ |
| 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) | The biggest volume of trading in securities on the German stock exchanges, which are authorized for purposes of such trading by a defined, strict procedure. Companies intending to have their shares listed for this type of trading are subject to a strict requirement of disclosure. The Board of Management of the relevant stock exchange is responsible for setting the price, together with the sworn official brokers. The corresponding listings are published in the official quotation list of the stock exchange. |
| 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 |
| Working Capital | $(\text{Trade receivables} + \text{Inventories}) / (\text{Trade liabilities} + \text{Short-term accrued expenses})$ |

» FINANCIAL CALENDAR

| | | |
|-------------|--------------------|--|
| 2005 | 25 May | 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 |
| 2006 | 28 April | Annual Report 2005 |
| | 31 May | Three-month report January - March 2006 |
| | 27 July | Annual General Meeting Gasteig, Carl-Orff-Saal, Munich |
| | 28 July | Dividend payout |
| | 31 August | Six-month report January - June 2006 |
| | 30 November | Nine-month report January - September 2006 |

» PUBLICATION DETAILS

Published by:

SURTECO Aktiengesellschaft
Johan-Viktor-Bausch-Straße 2
86647 Buttenwiesen-Pfaffenhofen
Deutschland
Telefon +49 8274 9988-0
Telefax +49 8274 9988-505

Concept and design:

DesignKonzept, Mertingen

Photos:

Ebbing & Partner, Iserlohn
Dale Gould, Montreal
Kaloo Photographie, Mertingen
Paul Moniz, Toronto
Shane Webster, Sydney
Herry Subrata, Batam Island
Utopia Fotodesign, Marl

Printed by:

Schmid, Kaisheim

» TEN YEAR OVERVIEW

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

* restated to 2,56 € = 5,00 DM share for purposes of comparison

| BAUSCH + LINNEMANN AG | | SURTECO AG | | | |
|-----------------------|-------------|--------------|--------------|--------------|-------------------|
| HGB 1999 | HGB 2000 | IFRS 2001 | IFRS 2002 | IFRS 2003 | IFRS 2004 |
| 170,519 | 193,375 | 270,551 | 367,642 | 355,037 | 380,428 |
| 60 | 64 | 61 | 60 | 60 | 61 |
| 36,793 | 44,010 | 45,666 | 69,761 | 63,976 | 70,346 |
| -9,166 | -11,659 | -15,207 | -27,025 | -26,762 | -25,912 |
| 27,627 | 32,351 | 30,459 | 42,736 | 37,214 | 44,434 |
| -1,959 | -4,776 | -4,134 | -12,721 | -10,120 | -9,686 |
| 25,668 | 27,575 | 26,325 | 30,015 | 27,094 | 34,748 |
| 16,362 | 18,172 | 14,046 | 17,586 | 14,858 | 18,446 |
| 26,538 | 30,157 | 30,373 | 45,898 | 42,043 | 45,841 |
| 133,271 | 198,400 | 372,235 | 390,510 | 356,414 | 362,130 |
| 47,411 | 54,438 | 101,863 | 104,046 | 108,710 | 116,609 |
| 36 | 27 | 27 | 27 | 31 | 32 |
| 871 | 940 | 2,159 | 2,053 | 1,941 | 1,998 |
| 883 | 964 | 2,113 | 2,033 | 1,937 | 2,192 |
| 8,293,325 | 8,293,325 | 10,575,522 | 10,575,522 | 10,575,522 | 10,575,522 |
| 8,293,325 | 8,293,325 | 10,575,522 | 10,575,522 | 10,575,522 | 10,575,522 |
| 1.70 | 2.02 | 1.28 | 1.67 | 1.40 | 1.72 |
| 0.66 | 0.92 | 1.10 | 0.65 | 0.70 | 0.80 |
| 5,512 | 7,633 | 11,633 | 6,874 | 7,403 | 8,860** |
| 13.7 | 14.3 | 9.7 | 8.2 | 7.6 | 9.1 |
| 41.1 | 38.9 | 14.5 | 18.1 | 14.7 | 17.0 |
| 19.3 | 16.5 | 9.2 | 11.0 | 10.5 | 12.3 |

** Payout amount with reference to 11,075,522 no-par-value shares on account of full dividend entitlement of the 500,000 shares issued in the context of the capital increase in March 2005.

Contact

INVESTOR RELATIONS AND PRESS CENTRE

Günter Schneller

Tel.: +49 8274 9988-508

Fax: +49 8274 9988-515

eMail g.schneller@surteco.com

Internet www.surteco.com

SURTECO
AKTIENGESELLSCHAFT

Johan-Viktor-Bausch-Straße 2
86647 Buttenwiesen-Pfaffenhofen

