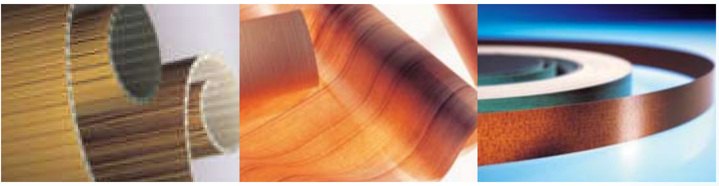
ANNUAL REPORT 2005

SPECIALISTS FOR SURFACE TECHNOLOGIES



SURTECO

AKTIENGESELLSCHAFT

» SURTECO WORLDWIDE

- 14 production and sales locations
- 11 additional sales locations

» AT A GLANCE

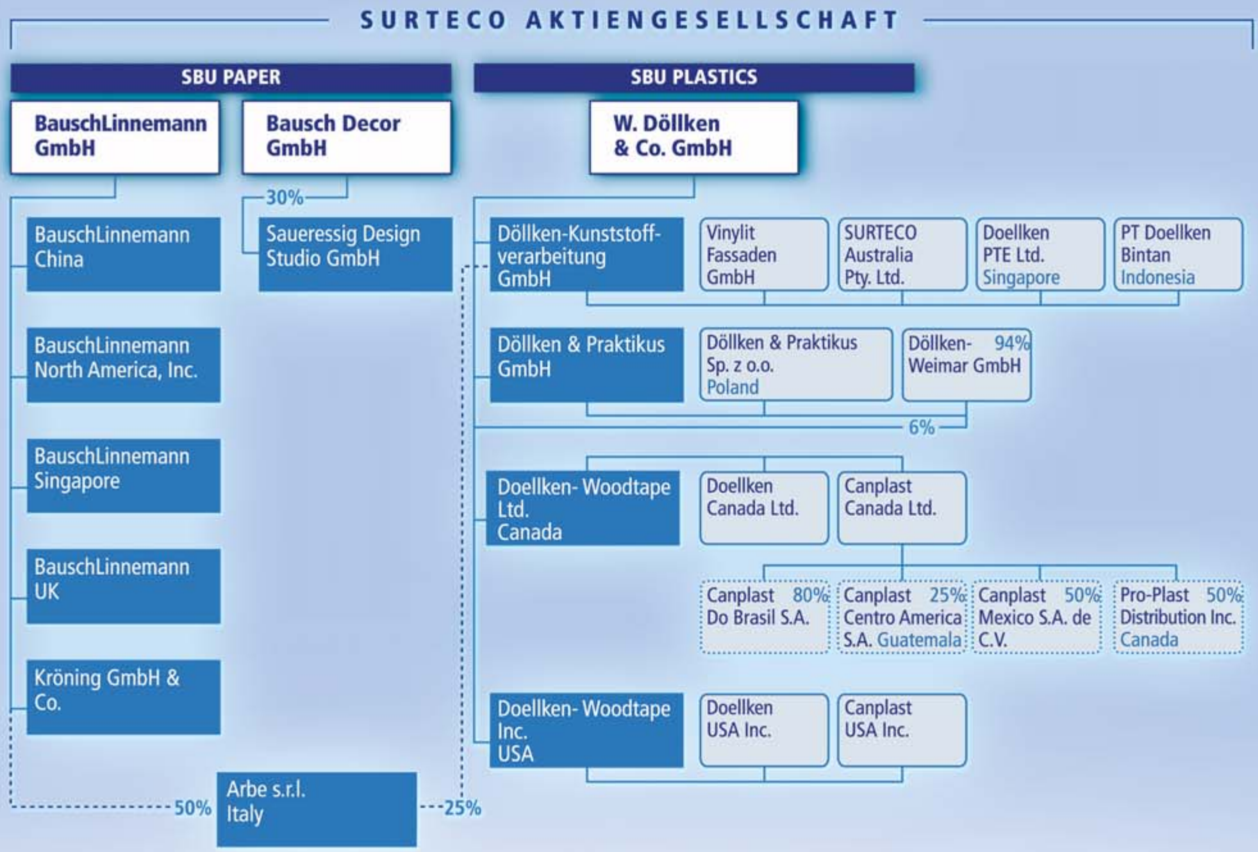
[€000s]	2004	2005	Variation in %
Sales revenues	380,428	**396,372**	+4
Foreign sales in %	61	**64**	
EBITDA*	71,675	**69,082**	-4
Depreciation	-25,912	**-17,765**	
EBIT*	45,763	**51,317**	+12
Financial result	-9,686	**-9,890**	
Result from ordinary activities before restructuring expenses	36,077	**41,427**	+15
Restructuring expenses	-1,329	**-3,871**	
Result from ordinary activities after restructuring expenses (EBT)	34,748	**37,556**	+8
Net income	18,446	**21,987**	+19
Minority interest	-241	**-156**	
Consolidated net income	18,205	**21,831**	+20
Net income per share in €	1.72	**1.97**	+15
Additions to fixed assets	20,879	**26,799**	+28
Cash Earnings	45,841	**39,879**	-13
Balance sheet total	362,130	**370,121**	+2
Equity capital	116,609	**148,967**	+28
Equity capital in % of balance sheet total	32.2	**40.2**	+25
Average number of employees for the year	1,998	**2,132**	+7
Number of employees at 31 December	2,192	**2,109**	-4

PROFITABILITY INDICATORS IN %

Sales return	9.1	**9.4**
Return on equity	17.0	**15.6**
Return on investment	12.3	**13.0**

* before restructuring expenses

» GROUP STRUCTURE



» SALES DISTRIBUTION (IN %)

BY REGIONS / BY PRODUCTS

SURTECO Group

By regions	%
Germany	36
Rest of Europe	38
America	18
Australia	5
Asia	3

By products	%
Edgebandings	51
Foils	21
DIY	6
Skirtings	5
Technical extrusions	4
Printing	4
Other	9

Strategic Business Unit Paper

By regions	%
Germany	36
Rest of Europe	38
America	18
Asia	5
Australia	3

By products	%
Edgebandings	40
Foils	47
Printing	9
Laminate (CPL)	3
Other	1

Strategic Business Unit Plastics

By regions	%
Germany	36
Rest of Europe	38
America	18
Australia	5
Asia	3

By products	%
Edgebandings	61
DIY	11
Skirtings	9
Technical extrusions	7
Cladding systems	4
Other	8

STRATEGIC
BUSINESS UNIT

PAPER

PLASTICS

» CONTENTS

ANNUAL REPORT 2005

SURTECO AKTIENGESELLSCHAFT

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ISIN
DE0005176903

Ticker symbol
SUR

Friedhelm Päfgen
Chairman of the Board of Management

Dr.-Ing. Herbert Müller

Dear shareholders and friends of our company,

The fiscal year 2005 was not an easy year for SURTECO AG. Most of the industries forming our customer base languished at the level of the previous year. There were no signs of economic stimuli that might herald a breakthrough. Increasing pressure on prices in some product groups, once again a weak dollar and price rises in the energy sector constituted additional negative factors.
Sales rose by 4 % to € 396.4 million. However, after adjustment for consolidation, a slight decrease of 0.5% was reported.
Favoured by elimination of goodwill impairments in accordance with IFRS 3, the result for ordinary activities before restructuring expenses rose by € 5.4 million to € 41.4 million.

Overall, SURTECO AG mastered the challenges presented by very difficult market conditions in the fiscal year 2005.
In order to achieve this, we completed, continued or launched an array of improvement measures:

- In order to expand our design expertise, we took a stake in Saueressig Design Studio GmbH in Mönchengladbach.

- The low-margin veneer business operated by the SBU Plastics in North America was sold in the course of optimizing the portfolio. This move lost SURTECO a sales volume that was € 7.3 million at the time of the sale.

- In Australia, all activities of SURTECO were placed under the umbrella of the new company SURTECO Australia after the takeover of a long-standing sales partner.

- With effect from 1 January 2006, SURTECO AG and the Industrial Union for Mining, Chemicals and Energy (IG BCE) concluded a company-based collective agreement for German sites. The key items in the pay agreement are an extension of the weekly working time without wage compensation, new regulated pay groups, and more flexible options for structuring weekly working times depending on the capacity requirements. The measures will lead to savings in personnel costs of 15 % a year in Germany by 2007.

The free float was also strengthened in March 2005 by a capital increase of nominally € 500,000. Including a placement from the portfolios of one existing shareholder, the free float of SURTECO AG increased from 7.6 % to 14.5 %. A further rise in the free float to more than 25 % is planned.
During the course of 2006, we will continue to concentrate on further expanding our market position as the world's leading manufacturer and supplier of decorative, highly resilient and technically sophisticated surfaces, as well as increasing earnings yet again.
We will propose a dividend of € 0.80 per share, unchanged from the previous year, at the Annual General Meeting of SURTECO AG to be held in Munich on 22 June 2006.

I should like to conclude by thanking all our staff in Germany and abroad. They have made a huge contribution to the success of SURTECO AG with their commitment and dedication.

Yours sincerely,

Friedhelm Päfgen
Chairman of the Board of Management

» EXECUTIVE OFFICERS OF SURTECO AG

SUPERVISORY BOARD

Dr.-Ing. Jürgen Großmann	Engineer Hamburg	Chairman
Björn Ahrenkiel	Lawyer Hürtgenwald	Vice-Chairman
Bernd Dehmel	Businessman Marienfeld	Deputy Chairman
Johan Viktor Bausch	Engineer Munich	Honorary Chairman
Dr. Matthias Bruse	Lawyer Munich	since 07/07/2005
Hans-Jürgen Diesner	Chairman of the works council Versmold	Employee Representative
Harald Eschenlohr	Lawyer Munich	to 07/07/2005
Inge Kloepfer-Lange	Journalist Berlin	to 07/07/2005
Jakob-Hinrich Leverkus	Businessman Hamburg	since 07/07/2005
Richard Liepert	Chairman of the works council Wertingen	Employee Representative
Christa Linnemann	Businesswoman Gütersloh	Honorary Chairwoman
Dr. Walter Schlebusch	Engineer Munich	
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

EXECUTIVE MANAGEMENT OF GROUP COMPANIES

SBU PAPER

BAUSCH DECOR GMBH · Buttenwiesen-Pfaffenhofen
Wolfgang Buchhart

BAUSCHLINNEMANN GMBH · Sassenberg
Dieter Heckes
Martin Janssen
Dr.-Ing. Gereon Schäfer

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 PLASTICS

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

VINYLIT FASSADEN GMBH · Kassel
Norbert Krupp
Stefan Schmatz

SURTECO AUSTRALIA PTY. LTD. · Sydney
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
Dieter Baumanns
Frank-Jörg Schilaski

DÖLLKEN-WEIMAR GMBH · Nohra
Tibor Aranyossy
Hartmut Trommen

DOELLKEN CANADA LTD. · Mississauga
Felix Fürst

DOELLKEN-WOODTAPE INC. · Everett, USA
Tom Rieke

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

DOELLKEN USA INC. · Everett
Felix Fürst

CANPLAST USA INC. · Greensboro
Robert Champagne

CANPLAST CANADA LTD. · Montreal
Robert Champagne

» REPORT OF THE SUPERVISORY BOARD

Dear shareholders, partners and friends of our company

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

During the course of the fiscal year 2005, the Supervisory Board of SURTECO AKTIENGESELLSCHAFT discharged its duties pursuant to the law and the company's Articles of Association. It continuously monitored the management of the businesses 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 regular, timely and comprehensive written and verbal reports, the Supervisory Board addressed the development of the company, business policies and strategic, financial, investment and personnel planning as well as the current business situation, the economic position and profitability of the company. The Chairman of the Supervisory Board was also in regular telephone contact with the Board of Management outside these meetings, in order to provide advice on key issues relating to business policy and strategy.

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. Two of these meetings took place in the first calendar half year and three in the second calendar half year. 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.

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 Personnel 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 the bonuses and compensation of the Members of the Board of Management and the pensions of former members of the Board of Management. It was not necessary to convene a meeting of the Personnel Committee during the year under review.

Four members of the Supervisory Board constitute the Audit Committee, which addressed issues relating to accounting and risk management, the mandatory independence of the auditor, commissioning the auditor to carry out the audit, the determination of the focuses of the audit, and the agreement of the fee. The Audit Committee had one meeting during the course of the fiscal year 2005.

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 Declaration of Compliance submitted by the Supervisory Board and Board of Management published in accordance with Clause 161 of the Stock Corporation Act (AktG) on 20 December 2005. 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 2005 relating to the efficiency inspection of the Supervisory Board and its committees.

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 2005 in detail at the meeting of the Supervisory Board on 24 April 2006. 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 7 July 2005, the terms of Inge Kloepfer-Lange and Harald Eschenlohr as Members of the Supervisory Board came to an end. The Supervisory Board would like to express their thanks to Mrs Kloepfer-Lange and Mr Eschenlohr for the services they have rendered to the company.

Dr. Matthias Bruse, Lawyer from Munich, and Mr Jakob-Hinrich Leverkus, Businessman from Hamburg, were appointed to the Supervisory Board of SURTECO AG by resolution of the Annual General Meeting on 7 July 2005, with effect from the end of the Annual General Meeting.

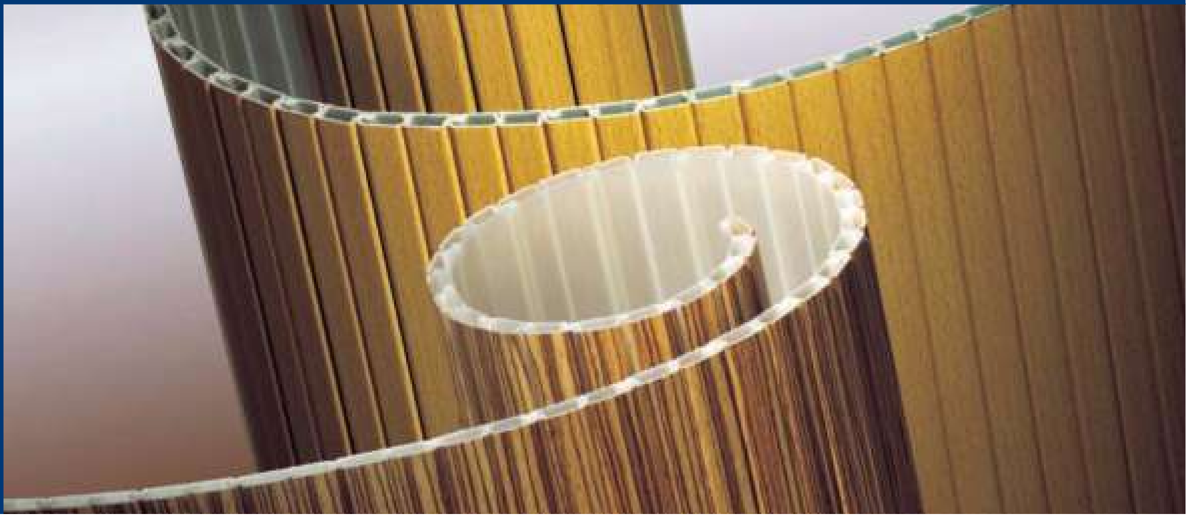
The Supervisory Board would like to extend its thanks to the Board of Management, the executive managers, the members of the Works Council and all members of staff for the contribution they have made to the development of the company during the course of the past year.

Buttenwiesen-Pfaffenhofen,
April 2006

The Supervisory Board

Dr.-Ing. Jürgen Großmann
Chairman

» CORPORATE GOVERNANCE



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 2 June 2005. 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 planning, 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 defined 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 put forward 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 compensation 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 Supervisory Board submit the following Declaration of Compliance for the fiscal year 2005 pursuant to § 161 Sentence 1 of the Stock Corporation Act (AktG):

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

I. The Board of Management and the Supervisory Board declare that the recommendations on conduct by the "Govern-

ment Committee on the German Corporate Governance Code" in the version dated 21 May 2003 published in the electronic Federal Gazette (Bundesanzeiger) were implemented in full during the past business year with the following exceptions:

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 5.4.7 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).

II. The recommendations in the version dated 2 June 2005 were complied with since this date and such compliance will continue with the following exceptions:

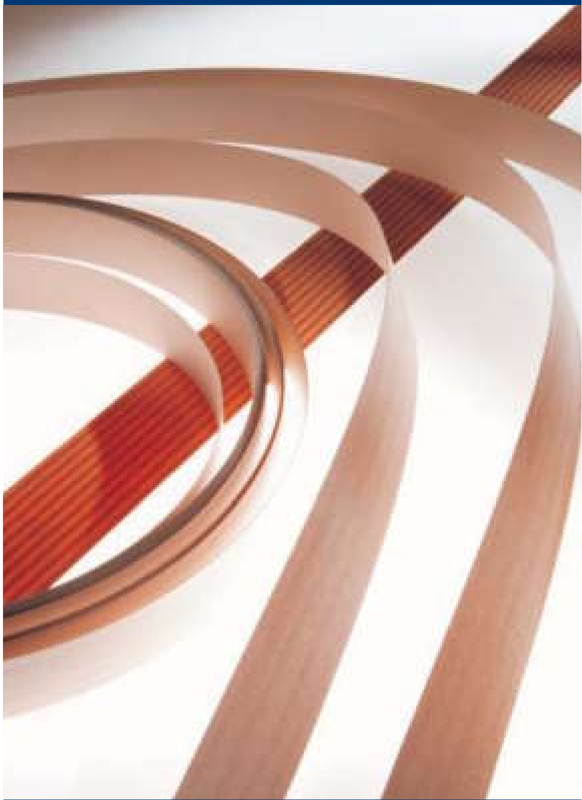
1. Details of remuneration for Members of the Board of Management (section 4.2.4 of the Code) are not listed individually. The principles of the remuneration system are not published on the Internet site of the company and explained in the Annual Report. The Chairman of the Supervisory Board does not 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 2005



In Germany, companies of SURTECO AG primarily manufacture surface materials for coating materials of all types based on papers and plastics. There are 8 sites in Germany, and the majority of the products manufactured there are exported.

However, Germany continues to remain the single most important market. The main purchaser is the furniture industry, which refines its products with the materials manufactured by the SURTECO Group. Forecasts predict an increase in sales for the German furniture industry of up to 2 percent, and this gives cause for slight optimism, but there are currently no signs of a fundamental change in sentiment in the industries of our customers.

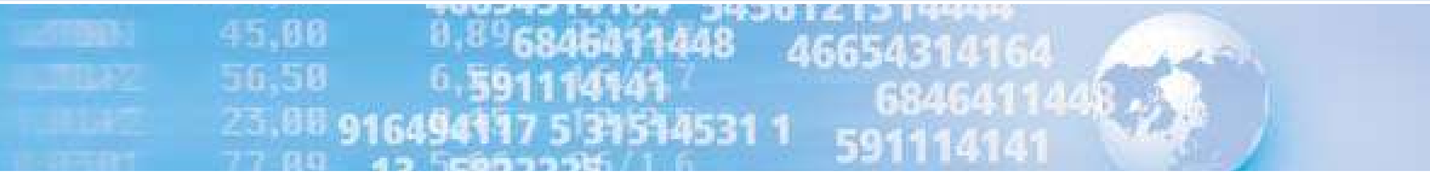
The SURTECO Group is further strengthening its powerful market position by high-quality, innovative new products and continuous updating and refinement of its existing production programme. One example of this is the new plastic edgebanding programme for interior furniture. We are bucking the general trend and achieving a great deal of success with this new product. Another example is the newly developed finish foil Tecolam, a specialist foil with particularly good surface properties.

GERMANY

36 %

OF SALES OF THE
SURTECO GROUP





SURTECO GROUP AND SURTECO AG

UPTURN IN THE GLOBAL ECONOMY CONTINUES IN 2005

Despite increased energy and raw-material prices, the global economy demonstrated robust growth and succeeded in continuing the upturn started in the previous year. According to an estimate by the International Monetary Fund (IMF), global economic output increased by 4.3 %. It should be borne in mind here that energy and raw materials impacted in part very negatively. The price of crude oil, for example, rose within a single year from around 40 US dollars to some 60 US dollars by the end of 2005. This also exerted a negative effect on inflation rates across the world. The US Federal Reserve and the European Central Bank reacted to this situation with hikes in their base rate.

According to the Organization for Economic Development (OECD), the USA generated positive stimuli with an increase in GDP of 3.6 %. Driven by a weaker euro and strong exports, the economy in Europe proved to be robust. Information released by the OECD indicated that the GDP of the European Union (EU) increased by 1.4 %. Germany lagged behind this development with a comparatively modest growth of 0.9 %.

VARIED PICTURE FOR FURNITURE SECTOR

The trend in the furnishing industry is crucial for operating business at SURTECO AG and this developed unevenly in the German domestic market. While the Association of the German Furnishing Industry (VDM) spoke about a sales increase in the sector of 1.5-2.0 % for the fiscal year 2005, this mildly positive estimate was not shared by the majority of furniture manufacturers. According to the VDM, this moderate increase was driven by export business and here in particular by parts of the kitchen furniture industry. The furniture manufacturers, organized in the Furniture Trading Association (BVDM), only referred to a marginal increase of 0.3 %, since the purchasing reluctance of consumers remained evident in 2005. The Federal Statistical Office confirms this more cautious analysis, since it in fact registered an overall fall in sales of 0.2% for the kitchen furniture industry.

COMPETITIVE INTENSITY INCREASES

An intensification of competitive activities was reported in 2005 for virtually all the markets where the companies of SURTECO AG are active. In the Strategic Business Unit (SBU) Paper, this is particularly applicable for the flat foils segment. In addition, large decorative printers increased their production depth and are now penetrating the market of pre-impregnated materials as competitors. A twin-track trend is emerging in the edgebanding sector for paper-based products. On the one hand, they are being replaced by stronger and more robust plastic edgebandings. On the other hand, paper edgings look set to become even thinner and therefore cheaper with the same quality properties.

The SBU Paper already took this development into account in 2004. The strengths of the sites Buttenweisen-Pfaffenhofen (Bavaria) and Sassenberg (Westphalia) were bundled by the merger of the companies Bausch GmbH and Robert Linnemann + Co. KG – which had previously operated independently within the Group – to form BauschLinnemann GmbH, and by support from Bausch Decor GmbH. Small batches and large orders of paper edgings can be manufactured under optimum commercial conditions. Advanced technology is deployed for production of flat

foils and this helps to supplement the product range with innovative new products, for example Tecolam, a particularly high-quality and resilient coating material. With the exception of temporary bottlenecks in printing, adequate capacities are available in the area of surface refining products based on technical papers, in order to supply the market quickly and flexibly.
The Döllken Group (SBU Plastics), which focuses on the manufacture of plastic products, is encountering increasingly fierce competition in world markets. The successes of the SBU Plastics - mainly based on significant growth in the main product of plastic edgings – don't reflect the position of the sector. Rather, they are an indicator for the outstanding position the Group has conquered against tough competition with market-oriented and innovative products.
The German DIY sector, whose sales performance is highly dependent on the consumption attitudes of end consumers, has been stagnating for the third year in succession. This is also applicable for the floor-coverings segment, for which the SBU Plastics supplies all types of skirting and laying accessories.
All companies within the SBU Plastics were in a position to carry out their orders punctually and reliably because of their flexible and customer-oriented working processes.

ORGANIZATION AND STRUCTURE

SURTECO AG is a holding company with legally independent subsidiaries in Germany and abroad. Production in Germany is carried out at facilities in Gladbeck, Sassenberg, Buttenwiesen-Pfaffenhofen, Hüllhorst, Kassel, Dunningen, Bönen, and Nohra near Weimar. The foreign production sites are located in Montreal, Brampton, Mississauga (all Canada), Greensboro (USA), Sydney (Australia) and Bintan (Indonesia).
The Group is divided into the Strategic Business Units (SBU) Paper and Plastics. The SBU Paper manufactures decorative prints (Bausch Decor GmbH), as well as edgebandings and flat foils based on specialist papers (BauschLinnemann GmbH). Within the SURTECO AG, the Döllken group of companies with parent company W. Döllken & Co. GmbH in Gladbeck constitutes the SBU Plastics, which primarily produces plastic edging tapes and skirtings. The remaining product portfolio comprises roller shutter systems, technical extrusions, cladding systems and DIY ranges. For the SBU Plastics, the fiscal year 2005 was moulded by important structural changes consistently geared towards expanding core businesses while streamlining the product and site portfolio. They include, in particular, the sale of the North American veneer business in April, the takeover of Consolidated Edgings/Sydney by Doellken-A.S.L. (now: SURTECO Australia) in July, and the establishment of dedicated subsidiaries in South America.

BUSINESS PERFORMANCE IN THE GROUP

Efficiency enhancements achieved during recent years combined with a strong focus on innovative, more customer-oriented products enabled the SURTECO Group to develop in part independently of the weak economic sector environment. Sales and net income for the year continued to improve in the fiscal year 2005.

MAIN SALES DRIVER EDGEBANDINGS

SURTECO AG generated more than half of its sales (51 %) with edging tapes based on paper or made of plastic. Edgebandings are mainly used for covering edges in products manufactured from wooden materials. The edging tapes have to meet particularly high requirements for stresses and resistances due to the rougher surface compared with the flat surfaces. The Group posted sales of € 203.6 million with these technically sophisticated products. Post or pre-impregnated flat foils based on paper represent a sales share of 21 % at € 86.2 million. The SURTECO Group also supplies ranges for the Do-it-yourself sector (6 %), floor skirtings (5 %), technical extrusions and roller shutter systems (4 %), and decorative prints including wood textures and imaginative designs based on special printed base papers (4 %).

CONSOLIDATED SALES UP BY 4 %

The sales of the SURTECO Group achieved in the reporting year 2005 totalled € 396.4 million (+4 %). This included 36 % (2004: 39 %) in Germany. Business volume at € 143.1 million lagged 4 % behind the previous year. The foreign markets closed the year 2005 with an increase of 9 % to € 253.3 million. The Canplast Group acquired in October 2004 made a key contribution to sales.

The countries of Eastern Europe occupy a special position. This is because the future is likely to see accelerated economic growth in these countries. The upswing will undoubtedly give rise to positive stimuli in the demand for furniture, interior fittings and interior renovations. The modernization of production techniques and workflows will be accompanied by an increased requirement for the surface coating materials supplied by SURTECO.

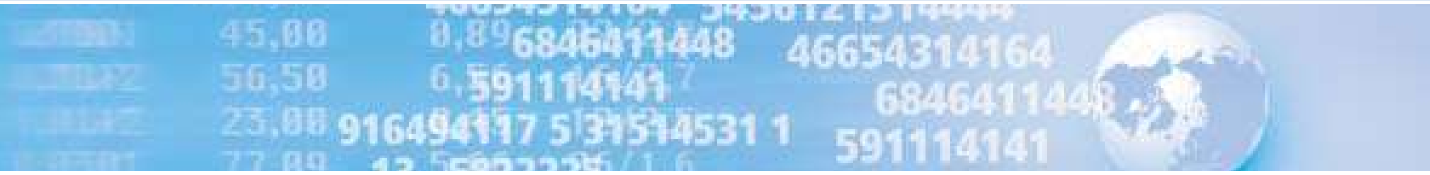
The level of quality specified by furniture manufacturers will increase and the competitive position of SURTECO products will improve. The uncompromising orientation towards customers and a strategic quality strategy will consistently promote our market penetration.

Alongside Russia and the Ukraine, we are assuming that the new Eastern European EU countries – and Poland in particular – will experience a strong growth spurt, which will in turn generate very respectable growth rates.

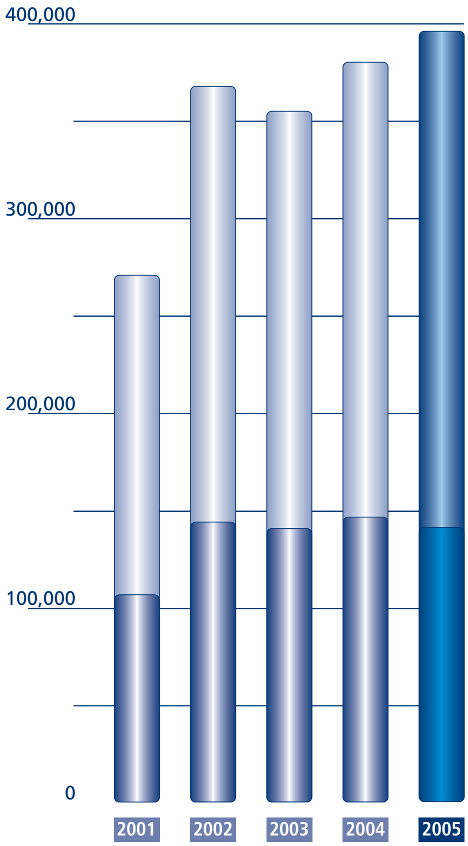
EASTERN EUROPE

9 %

OF SALES OF THE SURTECO GROUP



SURTECO GROUP
SALES REVENUES IN € 000S



	2001	2002	2003	2004	2005
Abroad	164,025	221,615	213,858	232,181	253,329
Germany	106,526	146,027	141,179	148,247	143,043
Total	**270,551**	**367,642**	**355,037**	**380,428**	**396,372**
Change compared with the previous year		+36 %	-3 %	+7 %	+4 %

UPSWING FOR PLASTICS BUSINESS

The plastics business of SURTECO AG continued to make headway in 2005. Following an 11 % increase in consolidated sales revenues to € 200.7 million in 2004, a further significant increase of 12 % to € 223.9 million was achieved in 2005. The Canplast Group contributed to this success throughout the year for the first time during the year under review. The decline in sales in Germany by almost 3 % to € 83.5 million was the result of an extremely difficult economic and competitive situation for domestic customers, particularly in the DIY sector. By contrast, foreign business underwent a stronger rise in 2005 than in the previous year. Sales of € 140.4 million represented growth of 22 %. The companies of SBU Plastics were particularly successful in America and Australia.

RESTRAINED PERFORMANCE IN THE PAPER SECTOR

The sustained difficult economic situation since 2002 showed no signs of relaxing, in particular for products based on technical papers. Sales in the domestic market were 4 % below the previous year at € 59.5 million. Foreign markets also fell back in all key sales regions. They achieved € 113.0 million (-4 %) during the year under review. Group sales at SBU Paper amounted to € 172.5 million.

RISING ENERGY PRICES BURDEN PROCUREMENT MARKETS

There were no availability bottlenecks during the year under review in the procurement of essential semi-finished products for the production of surface materials manufactured by the SBU Paper. While paper prices and pressure on wages largely remained constant, slight increases overall were posted for chemicals, which were subject to strong fluctuations over the course of the year.
High oil prices entailed sustained pressure on prices from suppliers of the most important plastics PVC and ABS. On average over the year, PVC remained at the very high level of the previous year. Increases of 11 % had to be absorbed for ABS compared with 2004.
The situation for energy supply was even more fraught. Prices for natural gas in 2005 were significantly above the values for the previous year. Further increases are anticipated over the course of the current fiscal year. A similar situation applies to buying electricity.

AFTER-TAX PROFIT 19 % UP ON PREVIOUS YEAR

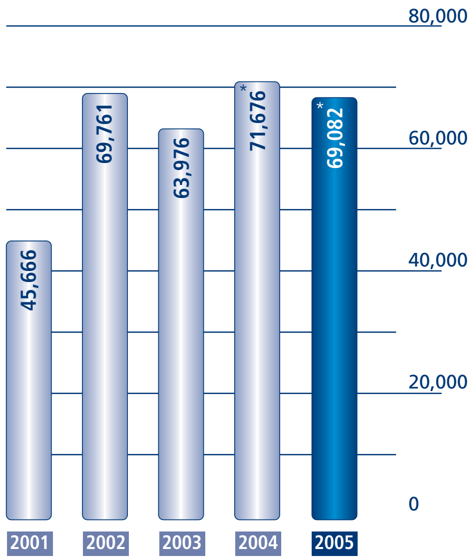
The operating result of the SURTECO Group (EBITDA) before restructuring expenses lagged 4 % behind the equivalent year-earlier value in the fiscal year 2005 at € 69.1 million. The EBITDA margin, which describes the share of operating profit on sales, amounted to 17.4 % (2004: 18.8 %).
Because of the first-time elimination of scheduled goodwill amortization (2004: € 8.8 million) in the financial statements, earnings before the interest (financial result) and tax were correspondingly more favourable. During the year under review, the EBIT was € 51.3 million compared with € 45.8 million in 2004 (+12 %). The EBIT margin was 12.9 % (2004: 12.0%).
The financial result amounting to € 9.9 million remained at the level of the previous year. It comprises interest income amounting to € 0.7 million (2004: € 0.2 million), interest expenses of € 10.7 million (2004: € 9.9 million) and income from an associated company amounting to € 0.1 million (2004: € 0 million).
The result for ordinary activities before restructuring expenses amounted to € 41.4 million. It exceeded the value for the previous year by 15 %. After deducting restructuring expenses, an EBT of € 37.6 million remains (2004: € 34.7 million; change +8 %).
At € 22.0 million, the SURTECO Group achieved a 19 % increase in net income. After deduction of minority interests, net consolidated income for the year amounted to € 21.8 million (2004: € 18.2 million).

The SURTECO Group achieved earnings per share (net income per share) of € 1.97 for 2005 (2004: € 1.72).

RESULT FOR SURTECO AG

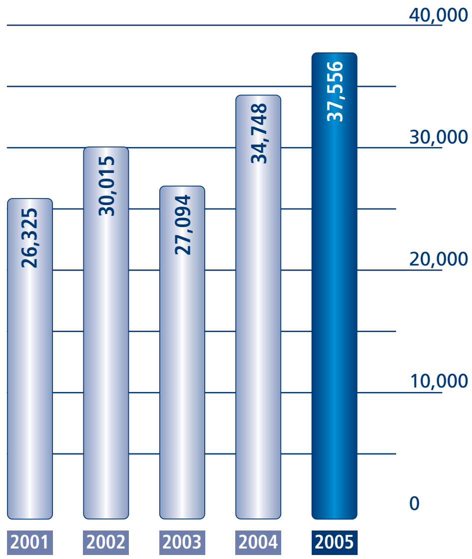
The result for ordinary activities at SURTECO AG in accordance with the German Commercial Code (HGB) for 2005 was € 23.9 million (2004: € 27.4 million). After deduction of tax, net income amounted to € 14.5 million. This value was € 18.5 million in the previous year.

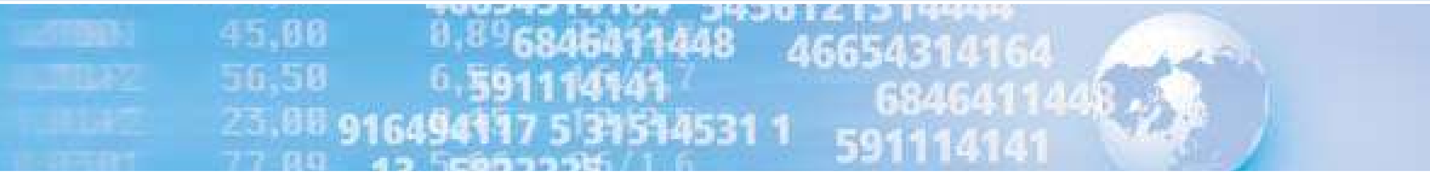
SURTECO GROUP
EBITDA IN € 000S



* before restructuring expenses (2004: € 000s 1,329, 2005: € 000s 3,871)

SURTECO GROUP
EBT IN € 000S





SURTECO GROUP BALANCE SHEET STRUCTURE

[€ 000s]	31/12/ 2004	Percentage in the balance sheet total in %	31/12/ 2005	Percentage in the balance sheet total in %
ASSETS				
Current assets	100,808	27.8	101,080	27.3
Non-current assets	254,934	70.4	262,103	70.8
Deferred tax assets	6,388	1.8	6,938	1.9
Balance sheet total	**362,130**	**100.0**	**370,121**	**100.0**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Total short-term liabilities and provisions	90,236	24.9	88,483	23.9
Non-current liabilities	139,497	38.5	116,008	31.4
Deferred tax liability	15,788	4.4	16,663	4.5
Equity capital	116,609	32.2	148,967	40.2
Balance sheet total	**362,130**	**100.0**	**370,121**	**100.0**

NET ASSETS AND FINANCIAL POSITION

Property, plant and equipment
Depreciation on property, plant and equipment amounting to € 16.7 million compared with additions of € 22.3 million and disposals of € 6.6 million. Focuses of investment were restructuring of the North American edgings business (integration of the Canadian Canplast Group), introduction of new production procedures at the SBU Plastics, building up the infrastructure for the Chinese market, increasing design competence at Bausch Decor, and improving structures and process workflows.

Intangible assets
Key investments were made here in the area of IT geared towards advancing and harmonizing information systems within the Group.

Goodwill
Goodwill has increased, particularly due to the acquisition of Australian sales partner Consolidated Edgings (July 2005) and on account of currency adjustments. Goodwill is no longer subject to scheduled amortization, but is subject to an impairment test once a year.

Financial assets
The stakeholding in Saueressig Design Studio GmbH was reported at equity for the first time in 2005. The cooperation between Bausch Decor GmbH and the design developers at Saueressig already demonstrated positive results during the year under review.

Receivables and inventories
Active receivables management enabled us to reduce trade accounts receivable by 5 %. Inventories were up by 5 % on account of an increase in business volume.

Debts and shareholders' equity
Long-term loans were reduced according to plan during the year under review, so that the debt/equity ratio of 211 % came down to 148 %. The net financial liabilities fell back significantly by € 28.1 million to € 134.6 million. In this connection, it is important to refer to the capital increase in March 2005, as a result of which the capital stock increased by € 0.5 million and revenue reserves were strengthened by € 14.6 million after deduction of the costs incurred by the capital measure.

The reduction of minority shares essentially resulted from the re-acquisition of 2.5 % of the shares in Doellken-A.S.L. (today: SURTECO Australia).

FINANCIAL INDICATORS OF THE SURTECO GROUP

The following table presents the key financial indicators of the SURTECO Group. They underscore the very gratifying development overall of the results of operations and net assets.

CASH FLOW STATEMENT

Cash flow from operating activities at € 62.6 million was € 14.7 million below the equivalent value for the previous year. Key causes for this were the reduction in internal financing – caused by the amortization of goodwill impacting in the previous year – and a slight decline in net current assets.

Cash flow from investment and acquisition activity amounted to € -19.3 million. While the acquisition of the Canadian Canplast Group was the focus of attention in the previous year, the focus in the year under review was on investments in property, plant and equipment.

Cash flow from finance activity showed a cash outflow of € -32.0 million (2004: € -31.6 million). Settlement of long-term loans was carried out as planned with € 23.9 million. The indicator also includes cash inflow from the capital increase amounting to € 15.1 million.

The free cash flow was € 14.7 million below the level for the previous year, essentially as a result of increased investment activity.

SURTECO GROUP
FINANCIAL INDICATORS

	2004	2005
Ratio of liquid assets to current liabilities %	4.5	2.3
Ratio of current assets to current liabilities %	49.7	48.2
Current ratio %	100.8	103.1
Liquidity ratio %	1.2	0.6
Cash earnings € 000s	45,841	39,879
Ratio of cash earnings to aggregate operating performance %	12.0	9.9
Working capital € 000s	65,562	62,696
Gearing %	140	90
Interest cover factor %	7.4	6.9
Operating debt cover %	27.1	29.4
Capital ratio %	32.2	40.2
Return on sales %	9.1	9.4
Return on equity %	17.0	15.6
Total return on capital %	12.3	13.0

The method of calculation for financial indicators is explained at the end of the management report.

CALCULATION OF FREE CASH FLOW

[€ 000s]	1/1/ - 31/12/2004	1/1/ - 31/12/2005
Cash inflow from operating activity	77,261	62,586
Tax payments	-15,808	-13,511
Investments in property, plant and equipment	-14,381	-22,338
Investments in intangible assets	-2,130	-2,557
Cash inflow from asset disposals	1,341	7,419
Free Cash flow	**46,283**	**31,599**

SURTECO has significantly expanded its position on the American continent and has repositioned its organization. The restructuring measures introduced after acquisition of the Canplast Group in autumn 2004 was directed towards harmonization of production and brand structures. Doellken-Woodtape and Canplast are managed under the umbrella of SURTECO AG as independent companies and address their target groups in industry and business with their independent brand and service profiles.

Alongside production and sales sites in the USA and Canada, sales subsidiaries have been set up in Central and South America, in order to be in a position to supply these markets with a premium service.

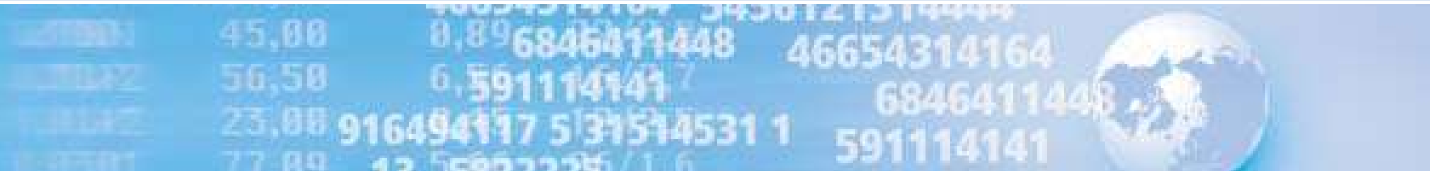
All these measures are supporting expansion of the market shares in America, which are already high.

AMERICA

18 %

OF SALES OF THE SURTECO GROUP


Michel



SURTECO GROUP

PERSONNEL STRUCTURE

Location	Employees 31/12/2004	Employees 31/12/2005	Change in %
Germany	1,479	**1,472**	-
Canada	342	**298**	-13
USA	154	**97**	-37
Australia	72	**90**	+25
United Kingdom	42	**40**	-5
Italy	34	**29**	-15
Indonesia	32	**47**	+47
Poland	16	**11**	-31
Singapore	11	**12**	+9
China	10	**13**	+30
	2,192	**2,109**	**-4**

RESEARCH AND DEVELOPMENT

In February 2006, the SBU Paper created a sensation with an exciting new product at the most important trade fair for the furnishing supply sector, ZOW in Bad Salzuflen/Eastern Westphalia: Tecolam is a high-quality and resilient surface foil with very good chemical properties and high scratch resistance. Tecolam is particularly suitable for applications where surfaces are subject to tough conditions, for example doors. Another benefit also becomes evident here. The high level of flexibility shown by the new material allows doors to be fully wrapped, and therefore processed faster and more cost-effectively compared with coating materials used in the past. Customers can choose from a virtually limitless range of textures and colours produced by Bausch Decor GmbH, part of the SBU Paper, in order to enhance visual appeal. A specially developed paint system allows Tecolam to give the substrate being refined a smooth and pleasantly silky touch.

During 2005, the SBU Plastics focused once again on research and development activities relating to the design and quality leadership as a global supplier of edgebandings and skirtings. This expansion concentrated in particular on broadening the range of edgings especially for booming export markets. A new, future-proof production technology that went into operation at the Gladbeck site significantly increased the competitiveness of thin edgings and improved the flexibility of order throughput for customers. The new production technology ingeniously combines the requirements of a broad product range with an integrated and uncoupled production technology that is able to accommodate big fluctuations in batch sizes and short delivery times. The new thin-edge range was specially developed for the export markets of the SBU Plastics and builds on the proven Döllken standards comprising optimum decorative integration and flexible quantity structure.

A new matrix structure reproduces the natural vitality of woodgrains. This was transferred perfectly to the narrow surface in order to match the latest worktop finishes. The innovative structure is a combination of embossing resembling the structure of bark, and different depths of shine. The special features of this technique are the matt and glossy effects that are possible in parallel on an edge for the first time. They emphasize the heights and depths of the embossing and lend the woodgrain a natural quality of visual and tactile properties. The Jury at the Innovations Scouting Competition recognized the innovative force of this new feature at the furnishing suppliers, key trade fair ZOW 2006 and granted the matrix edge an award. The SBU Plastics is the leading designer in its sector with its high-quality edgebanding solutions.

PEOPLE

The SURTECO Group employed a total of 2,109 people (2004: 2,192) on 31 December 2005. The average number of employees for the year was 2,132. At the end of the year under review, 1,262 employees were employed at the SBU Plastics and 859 people were employed at the SBU Paper. The holding company had a staff of 11. The average age profile across the group was 39.6 years. The average length of service amounted to 11.3 years with the Group. The level of illness fell by 0.7 percentage points to 2.8 %.
Personnel expenses amounted to € 101.1 million (2004: € 97.7 million) during the year under review. The personnel expense ratio remained 0.5 percentage points below the level of 2004 at 25.2 %.

Structural adaptations necessary

After facilities were operating at a high level of capacity at the beginning of the year, a decline in incoming orders was evident in the SBU Plastics from February. The changes in personnel necessary to address this problem will have been completed by mid-2006.

RISK REPORT

Risk management

SURTECO AG is always focused on continuously improving the net assets, financial position and results from operations of the Group. In the pursuit of this goal, the company is confronted by a variety of risks as a Group operating on the international stage. Risk management is therefore a key tool in the business processes of SURTECO AG and an important foundation for decision-making. In the Group, the Board of Management is responsible for policy relating to risk and for the internal management and control system. The management of individual companies implements the instructions of the Board of Management and is responsible within this framework for risks that it enters into in the course of its business activities. SURTECO AG deploys 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 impair the financial resources and business success. Additional risks that we have not yet identified or that we regard as minimal at the present time could also impact negatively on our results.
The risk areas significant for SURTECO AG are as follows:

Business Risks

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

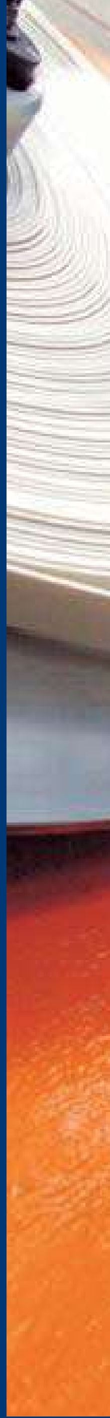
Australia has been a big success story for SURTECO AG and continues to be a market with a future. During the year under review, the management has bundled its activities and significantly raised the market profile of the company by renaming it SURTECO Australia. SURTECO Australia manufactures and sells plastic edging tapes from the Strategic Business Unit Plastics as well as edgebandings and flat foils based on specialist papers for technical applications.

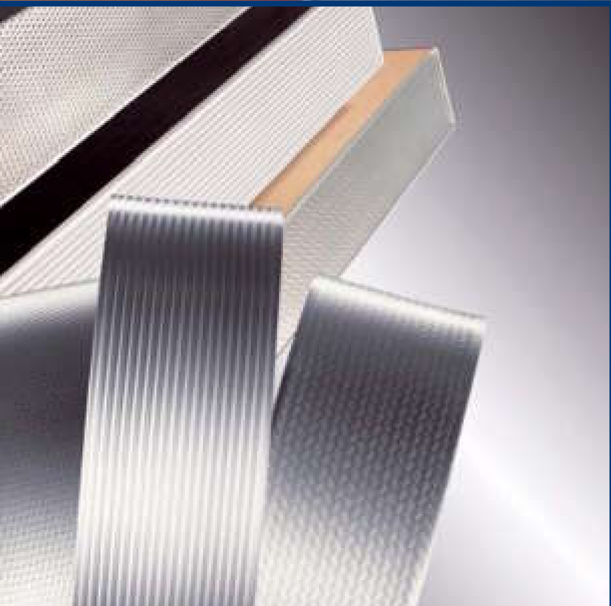
Growth in the Australian furnishing industry has brought tangible sales growth for the SURTECO Group. We are assuming that the next few years will see a further expansion of business volume. SURTECO Australia is in an excellent position to take advantage of this upswing. The site in Sydney has all the necessary production and packaging facilities. Expansion of the product portfolio will generate further above-average growth.

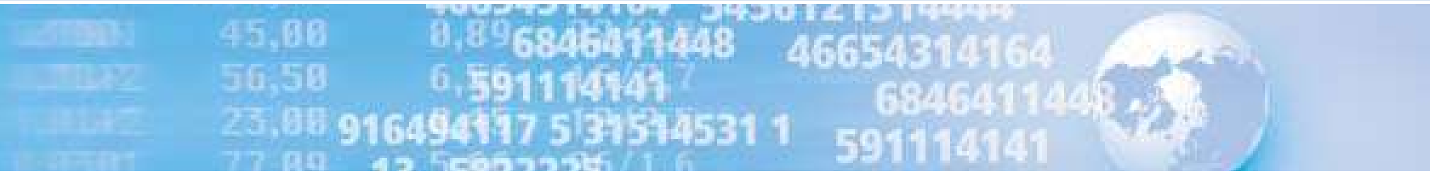
AUSTRALIA

5 %

OF SALES OF THE SURTECO GROUP







to new developments. A differentiated internal reporting system is used for monitoring 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

SURTECO AG is 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. The Group meets risks associated with supply by monitoring the market intensively, carrying out in-depth quality inspection on the basis of jointly agreed specifications and by arranging supply contracts with long-term agreements on price.

Operating risks

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

Legal risks

SURTECO AG is not involved in any court or arbitration proceedings that could exert a significant influence on the commercial situation of the Group. The companies in the Group have formed adequate provisions to meet warranty claims. Part of the warranty risks have been covered by commercially effective insurance policies. The high level of production certainty and the outstanding standard of quality for the products manufactured by the SURTECO Group acts to reduce the operating risks.

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.

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.

Summary

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 any risks at an early stage. An overall analysis of all risks shows that the main risks confronting SURTECO AG

are market risks. These include developments relating to price and volume due to economic conditions prevailing in customer industries or sectors.
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 thanks to efficient, regular and comprehensive risk management the risks at SURTECO AG are limited and transparent, and there are hence no risks that could endanger the continued existence of the company and future risks likely to endanger existence cannot currently be identified.

FOLLOW-UP REPORT

The SURTECO Group started the fiscal year 2006 successfully. The opening months of the year showed a stable to positive operating performance. This related to both segments.
The regulations of the new company-based collective agreement came into force from January 2006 and will already exert a positive effect on the development of personnel costs during the course of the fiscal year.
When this Annual Report went to press there were no events of special significance that will exert an effect on the net assets, financial position, and results of operations of the SURTECO Group.

OUTLOOK REPORT

Robust economic growth in 2006

The economic framework conditions and the global indicators of sentiment for consumers, companies and investors provide grounds for anticipating growth in the global economy during 2006 compared with the previous year. Continued stable growth in the USA should contribute to this, although interest rates there look set to continue on an upward path and domestic demand is therefore likely to lose some of its impetus. Western Europe – and Germany in particular – could gain some economic momentum, although starting from a very low level. Growth in the threshold countries looks likely to lose some pace during the course of 2006. Important grounds for this are less dynamic development in the booming Chinese economy. North-east Asia will remain the region with the strongest growth, closely followed by India and Eastern Europe. The new Central and Eastern European EU member states are expected to undergo accelerated growth in 2006.
As in 2005, the global economy is likely to grow by nearly 4 %. This corresponds to the long-term trend. The risks associated with growth result from increasing prices for raw materials, particularly oil, and from a possible correction to the external deficit in the USA that would be associated with a weaker US domestic economy and significant decline in the value of the dollar.

Virtually no buoyancy in customer industries

The furniture sector is not anticipating a significant upswing in sales for the fiscal year 2006. Although the Association of the German Furniture Industry is predicting a slight increase in sales of 1.5-2.0 %, this trend has again been generated by an increase in export activity and not by stimuli coming from the German market. Germany could see a mini-boom in advance of the increase in value added tax scheduled at the end of the year. Weak incoming orders at the end of last year were a particular cause for concern. Sentiment in the kitchen furniture industry was rather more reassuring. The sector association believes that an increase in sales of three to five percent is feasible in 2006. It is likely that this development will also be primarily export driven, but a slight increase in domestic demand may also be on the cards.
We are assuming in our operational planning that the euro will gain value against the US dollar and sterling over the next few years, as compared with the average price during 2005.

Positive earnings performance expected for the Group

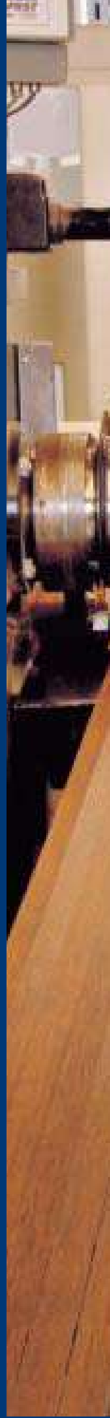
Adjusted for changes in exchange rate, sales during 2006 look set to increase slightly. SURTECO is also assuming that the earnings situation will improve. The programmes for enhanced efficiency are the motor for the positive earnings performance. These efficiency drives have been initiated in all the business groups and we are pursuing them rigorously. A basic requirement for the target increase in income is the overall stable economic and political framework conditions, and the forecast global growth in 2006.

As an export market for products manufactured in Germany, Asia has had a relatively stable requirement for coating products for many years. In addition, plastic edgings are manufactured for the Asian market in Bintan/Indonesia. Setting up a dedicated production facility in China was absolutely essential for more intensive commitment to this growth market. SURTECO AG decided on a site in Taicang near Shanghai. Although the advances have not lived up to the initial expectations of the management, the commitment there can be regarded as the right move taking medium to long-term perspectives into account. Fundamental factors for successful marketing operations in this highly sensitive environment involve special features of the Asian market relating to material procurement and customer taste, as well as mentality issues regarding approaches to customers. Additional elements in the equation are comprehensive and flexible service, particularly focusing on short delivery times. These needs can ultimately only be met by local production facilities.

ASIA

3 %

OF SALES OF THE SURTECO GROUP



SHARE PRICE PERFORMANCE FOR 2005 IN €

THE SURTECO SHARE

Trading volume significantly up

2005 was a positive year for German shares and shareholders. All the important indices demonstrated significant growth. The DAX increased by 28 %, the MDAX by 35 %, and the TecDAX by 13 %. The SDAX, which is a medium-term goal for SURTECO AG, increased by 33 % in 2005.
The stock-market price of the SURTECO share also advanced significantly during the year under review from € 23.00 to € 28.00, (+ 22 %) reaching a high of € 35.30 on the Frankfurt Stock Exchange on 17 March 2005.
SURTECO AG implemented a capital increase using Authorized Capital I against a cash consideration by nominally € 500,000 in March 2005 with the aim of strengthening the free float. A book-building process placed the new shares with selected national and international investors in Germany and Europe. This measure increased the number of shares to 11,075,522 no-par-value shares. After reallocation from the portfolios of an existing shareholder, the free float of SURTECO AG increased from 7.6 % to 14.5 %. The goal is to expand the free float to in excess of 25 % and hence provide shareholders with increased incentives to trade in the share. The capital increase already yielded positive results in share turnover during the course of 2005. In a year-on-year comparison, trading volume (in the 12-month period) increased significantly and reached € 14 million.

Personal, continuous and open communication with institutional and private investors and with analysts remains a cornerstone of communication policy. The Board of Management has used national and international road shows as a platform to present corporate strategy and the perspectives of the company. Regular analysts' meetings and individual discussions with investors and analysts are all part of long-term communication with the capital market.
SURTECO AG makes strenuous efforts to meet the needs of its shareholders. This is in harmony with the internationally acknowledged standards defined in the German Corporate Governance Code. These standards have been designed to foster responsible man-

agement and control geared towards generation of long-term value added. Information on the Corporate Governance Code and the Declaration of Compliance is provided in the Corporate Governance section of this report and on the homepage of our website (www.surteco.com).
The homepage of SURTECO AG contains transparent and accessible information for all shareholders and potential investors. The information provided includes ad-hoc press releases, publications on director's dealings, the latest data on our share and the Annual General Meeting, as well as other mandatory publications under company law.

Dividend Continuity

The Board of Management of SURTECO AG will recommend to the Annual General Meeting to be held in Munich on 22 June 2006 that a dividend of € 8,860,417.60 be paid out of net profit of € 8,863,611.62 for the fiscal year 2005. This corresponds to € 0.80 per share (2004: € 0.80). The Board of Management will further recommend carrying forward the residual amount of € 3,194.02 as profit carried forward.

SURTECO SHARES

[Stock exchange quotations in €]	2004	2005
Number of shares	10,575,522	11,075,522
Price at start of year	19.50	23.00
Year-end price	22.85	28.00
Price per share (high)	24.11	35.30
Price per share (low)	18.50	22.10
Market capitalization at year-end in € 000s	241,651	310,115

SHAREHOLDER INDICATORS FOR THE SURTECO GROUP

[€ 000s]	2004	2005
Sales	380,428	396,372
EBITDA	71,675	69,082
EBIT	45,763	51,317
Net income from ordinary activities before restructuring expenses	36,077	41,427
Net income from ordinary activities after restructuring expenses (EBT)	34,748	37,556
Consolidated net income	18,205	21,831
Cash Earnings	45,841	39,879

INDICATORS OF THE SURTECO GROUP PER SHARE

[€ 000s]	2004	2005
Earnings	1.72	1.97
Cash Earnings	4.31	3.59
Dividend	0.80	0.80 (Proposal Board of Management)

The markets of Western Europea are traditionally mainstays of export activities for the SURTECO Group. The economic situation here is likely to follow the trend in Germany and calm down. In 2006, there are only prospects of marginal growth.

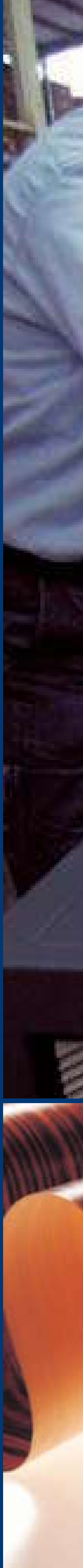
The most important West European countries for the products of companies from the SURTECO Group have long been the United Kingdom, Italy, France and Spain. Experience has shown that there are undoubtedly country-specific preferences that are evident in the selection of designs and textures. New colours and wood grains are therefore very often tested and developed in close cooperation with the customers. This work is carried out by SURTECO specialists on the ground or in the laboratories of our production operations.

Comprehensive customer support before, during and after purchase has proven to be an excellent instrument for sustained and successful customer loyalty. SURTECO is therefore represented in all key markets with its own sales companies and field service personnel.

WESTERN EUROPE

29 %

OF SALES OF THE SURTECO GROUP



CALCULATION OF INDICATORS:

Capital ratio in %	Equity capital /balance-sheet total
Cash Earnings in € 000s	Net income + amortization and depreciation ./. write-ups + change in long-term provisions in the income statement
Cash Earnings per share in €	Cash earnings ./. minority interest/number of shares
Current ratio in %	(Cash and cash equivalents + short-term receivables + inventories)/(short-term debt + projected dividend payout + minority interest in earnings)
Debt/equity ratio in %	Debt/equity capital
Debt-service coverage ratio in %	(consolidated net income + depreciation and amortization) / net financial liabilities
Earnings per share (net income per share) in €	Consolidated net income /number of shares
Free cash flow in € 000s	Cash inflow from operating activities ./. (tax payments + investments in property, plant and equipment, and intangible assets) + cash inflow from assets
Gearing in %	(Current and non-current financial liabilities ./. liquid assets)/equity capital
Interest cover factor in %	EBITDA/interest income
Liquidity ratio in %	Liquid funds/balance-sheet total
Net income per share	See earnings per share
Personnel expense ratio in %	Personnel costs/total output
Ratio of current assets to current liabilities %	(Cash and cash equivalents + short-term debt)/(short-term debt + projected dividend payout + minority interest in earnings)
Ratio of liquid assets to current liabilities in %	Cash and cash equivalents /(short-term debt + project dividend payout + minority interest in earnings)
Return on equity in %	Consolidated net income/equity capital with minority interest after appropriation of profit
Return on sales in %	Consolidated net income + income tax /sales revenues
Total return on equity in %	Consolidated net income before income tax and interest expense /balance-sheet total
Working capital in € 000s	(Trade receivables + inventories) ./. (Trade liabilities + short-term accrued expenses)

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» CONSOLIDATED INCOME STATEMENT
SURTECO GROUP

	Note	1/1 - 31/12/2004 € 000s	1/1 - 31/12/2005 € 000s
Sales revenues	(1)	**380,428**	**396,372**
Changes in inventories		-937	4,107
Production of own fixed assets capitalized	(2)	1,068	1,026
Total		**380,559**	**401,505**
Cost of purchased materials	(3)	-158,848	-173,071
Personnel expenses	(4)	-97,690	-101,112
Other operating expenses	(5)	-56,570	-65,644
Other operating income	(6)	4,224	7,404
Earnings before Interest (Financial result), Income Tax and Depreciation and Amortization (EBITDA)		**71,675**	**69,082**
Depreciation and amortization	(16)	-17,088	-17,765
Amortization (and impairment) of goodwill	(18)	-8,824	0
Earnings before Interest (Financial Result) and Income Tax (EBIT)		**45,763**	**51,317**
Financial result	(7)	-9,686	-9,890
Earnings from ordinary activities before restructuring expenses		**36,077**	**41,427**
Restructuring expenses	(8)	-1,329	-3,871
Earnings from ordinary activities after restructuring expenses (EBT)		**34,748**	**37,556**
Income tax	(9)	-16,302	-15,569
Net income		**18,446**	**21,987**
Minority interest		-241	-156
Consolidated Net Income		**18,205**	**21,831**

» CONSOLIDATED BALANCE SHEET

SURTECO GROUP

	Note	31/12/2004 € 000s	31/12/2005 € 000s
ASSETS			
Cash and cash equivalents	(11)	4,480	2,209
Trade accounts receivable	(12)	35,771	33,839
Inventories	(13)	51,100	53,868
Other current assets	(14)	9,457	11,164
Current assets		**100,808**	**101,080**
Plant, property and equipment, net	(16)	153,094	156,048
Intangible assets	(17)	4,601	4,691
Goodwill	(18)	95,722	98,027
Investments	(19)	152	1,917
Other non-current assets		1,365	1,420
Non-current assets		**254,934**	**262,103**
Deferred tax asset	(9)	**6,388**	**6,938**
		362,130	**370,121**

	Note	31/12/2004 € 000s	31/12/2005 € 000s
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current financial liabilities	(20)	40,418	34,256
Trade accounts payable	(24)	18,896	20,736
Tax liabilities	(21, 24)	11,947	12,543
Short-term accrued expenses	(22)	2,413	4,273
Other current liabilities	(23, 24)	16,562	16,675
Total short-term liabilities and provisions		**90,236**	**88,483**
Non-current financial liabilities	(25)	126,752	102,570
Pensions and similar obligations	(26)	12,223	13,085
Other non-current liabilities	(25)	522	353
Non-current liabilities		**139,497**	**116,008**
Deferred tax liability	(9)	**15,788**	**16,663**
Capital stock		10,576	11,076
Reserves		86,497	115,364
Net profit		18,205	21,831
Capital attributable to shareholders		**115,278**	**148,271**
Minority interests		1,331	696
Equity capital	(27)	**116,609**	**148,967**
		362,130	**370,121**

» CONSOLIDATED CASH FLOW STATEMENT SURTECO GROUP

	1/1 - 31/12/2004 € 000s	1/1 - 31/12/2005 € 000s
Earnings before interest and income tax	**34,748**	**37,556**
Adjustments for:		
- Depreciation and amortization (less goodwill)	17,089	17,765
- Amortization of goodwill	8,823	0
- Write-ups on property, plant and equipment	0	-767
- Interest income	9,687	10,021
- Losses from fixed assets	1,938	-488
- Change in long-term reserves	1,484	196
- Change in deferred tax assets and liabilities	-371	586
- Other expenses / income with no effect on liquidity	-2,522	-6,434
Internal financing	**70,876**	**58,435**
Increase/decrease in		
- Trade accounts receivable	3,281	1,932
- Other receivables	9,173	207
- Inventories	-4,246	-2,768
- Accrued expenses	258	1,860
- Trade accounts payable	343	2,195
- Other liabilities	-834	187
- Currency differences	-1,590	539
Change in net current assets	**6,385**	**4,152**
Cash flows from operating activities	**77,261**	**62,587**
Payments for income tax	-15,808	-13,512
CASH FLOW FROM CURRENT BUSINESS OPERATIONS	**61,453**	**49,075**
Cash outflow for the acquisition of unconsolidated companies	35	-15
Cash outflow for the acquisition of consolidated companies	-13,304	-222
Cash outflow for the acquisition of associated enterprises	0	-1,600
Cash outflows for investments in property, plant and equipment	-14,381	-22,338
Cash outflows for investments in intangible assets	-2,130	-2,557
Cash inflow from asset disposals	1,341	7,419
CASH FLOW FROM INVESTMENT ACTIVITIES	**-28,439**	**-19,313**
Cash inflow from capital increase	0	15,056
Profit distribution	-7,368	-8,860
Long-term debt	14,095	0

	1/1 - 31/12/2004 € 000s	1/1 - 31/12/2005 € 000s
Repayment of debt	-32,179	-29,940
Paid / received loan interest	-6,107	-8,289
CASH FLOW FROM FINANCING ACTIVITIES	**-31,559**	**-32,033**
CHANGE IN CASH AND CASH EQUIVALENTS	**1,455**	**-2,271**
Additions to financial resources from changes in the group of companies consolidated	**558**	**0**
Cash and cash equivalents		
1 January	2,467	4,480
31 December	**4,480**	**2,209**

» SCHEDULE OF EQUITY CAPITAL

SURTECO GROUP

[€ 000s]	Capital stock	Capital reserves	Other compre-hensive income	Currency reserves	Revenue reserves	Consoli-dated net retained profits	Minority interest	Total
31/12/2003	**10,576**	**35,860**	**0**	**-5,108**	**51,284**	**14,847**	**1,091**	**108,550**
Dividend payment	0	0	0	0	0	-7,403	0	-7,403
Consolidated net income	0	0	0	0	0	18,205	240	18,445
Currency changes	0	0	0	-2,502	0	0	0	-2,502
Transfer to revenue reserves/ other changes	0	0	0	0	6,963	-7,444	0	-481
31/12/2004	**10,576**	**35,860**	**0**	**-7,610**	**58,247**	**18,205**	**1,331**	**116,609**
Dividend payment	0	0	0	0	0	-8,860	0	-8,860
Capital increase	500	14,556	0	0	0	0	0	15,056
Consolidated net income	0	0	0	0	0	21,831	156	21,987
Actuarial gains/losses (net) after tax	0	0	-404	0	0	0	0	-404
Acquisition of minority interests	0	0	0	0	0	0	-183	-183
Currency changes	0	0	0	3,798	0	0	0	3,798
Transfer to revenue reserves/ other changes	0	0	0	0	10,917	-9,345	-608	964
31/12/2005	**11,076**	**50,416**	**-404**	**-3,812**	**69,164**	**21,831**	**696**	**148,967**

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2005

I. ACCOUNTING PRINCIPLES

SURTECO AG, Buttenwiesen-Pfaffenhofen, a company listed on the stock exchange under German law, and its subsidiaries, develops, produces and distributes products and services related to coated surface materials based on paper and plastic. The Group is based in Buttenwiesen-Pfaffenhofen, Germany.

The consolidated financial statements of SURTECO AG and its subsidiaries for the fiscal year 2005 have been prepared in accordance with the regulations of the International Reporting Standards (IFRS) of the International Accounting Standard Board (IASB) applicable on the balance-sheet date, as they were adopted by the EU, taking into account the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the regulations to be applied in addition in accordance with Clause § 315a (1) German Commercial Code (HGB). New standards adopted by the IASB will be applied from the date on which they come into force. The option of advance compliance will not be taken up. Application and change to the valuation and accounting methods will be explained under the appropriate items in the Notes to the Consolidated Financial Statements as necessary.

Pursuant to Clause § 315a German Commercial Code (HGB), the consolidated financial statements have been drawn up in accordance with Article 4 of Directive (EU) No. 1606/2002 of the European Parliament and the Council dated 19 July 2002 relating to application of the International Accounting Standards (IFRS) promulgated by the International Accounting Board (IASB) in the version dated 31 December 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 balance sheet date of SURTECO AG and the consolidated subsidiaries is 31 December 2005.

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. Restructuring expenses have been reported separately in the income statement. The income statement has been drawn up in accordance with the cost of production method.

The auditors of Dr. Röver & Partner KG or other appointed auditing companies have audited the financial statements that form part of the consolidated financial statements.

II. ACCOUNTING PRINCIPLES IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

Change in accounting and valuation methods:

The underlying valuation and accounting methods have changed by comparison with the annual financial statements for 2004 in the following areas:

- All the amendments to existing standards adopted within the scope of the Improvements Projects of the IASB that are relevant to SURTECO have been applied in the annual financial statements for 2005.
- Actuarial gains and losses are reported outside the income statement in accordance with IAS 19 ("services to employees") and included in revenue reserves other (comprehensive income).
- Since 1 January 2005, amortization of goodwill that was acquired before 1 March 2004 was also subject to the regulations of IFRS 3 (Business Combinations) and the new version of the standard IAS 36 (Impairment of Assets).

Application of these standards has a significant effect on the financial position and results of operations of the Group, because goodwill is no longer subject to scheduled amortization. Instead, goodwill is subject to an impairment test once a year and a review is carried out if there are signs of potential impairment.

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 2005. Consolidation begins at the point in time from which the control exists and ends when it is no longer possible to exercise such control.

Joint-venture companies are consolidated proportionately. In the consolidated financial statements prepared to 31 December 2005, 2 companies were included proportionately; these companies exert no significant influence on the net assets, financial position and results of operations of the SURTECO Group.

Companies are included in accordance with the equity method if SURTECO AG holds between 20% and 50% of the voting rights and is in a position to exert a significant influence on the net assets, financial position and results of operations of the company.

One company was not included in the consolidated financial statements for 2005 (2004 three companies) on the grounds that it either did not transact any active business or only transacted minimal business and the influence of its aggregate value on the net assets, financial position and results of operations of the Group was not significant.

The group of subsidiary companies included in the SURTECO Group developed as follows:

	31/12/2004	Additions	Reclassification	Reorganization within the Group	31/12/2005
Consolidated subsidiaries					
- of which in Germany	14	1	0	-1	14
- of which abroad	16	2	2	0	20
Subsidiary companies reported at acquisition cost					
- of which abroad	3	0	-2	0	1
Companies included at the equity method					
- of which abroad	0	1	0	0	1
	33	**4**	**0**	**-1**	**36**

The companies consolidated in the consolidated financial statements at 31 December 2005 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 shareholdings is filed in the Commercial Register at the Local Court (Amtsgericht) Augsburg (HRB 2012).

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

- 30 % of the shares in Saueressig Design Studio GmbH, Mönchengladbach, were acquired by notarial deed dated November 2004.

- Werkzugbau GmbH was merged with Döllken Kunststoffverarbeitung GmbH by notarial merger contract with retrospective tax effect to 1 January 2005.

- Döllken Profiltechnik GmbH was set up on the basis of a notarial contract by providing capital in the form of cash.

BauschLinnemann GmbH & Co. KG was officially renamed BauschLinnemann GmbH with a change in legal status.

IV. EXEMPION FROM DISCLOSURE IN ACCORDANCE WITH CLAUSE § 264 (3) GERMAN COMMERCIAL CODE (HGB)

The following companies in Germany are released from the requirement to disclose their annual financial statements and management report in accordance with Clause § 264 (3) German Commercial Code (HGB) and Clause § 264 b German Commercial Code (HGB) by inclusion in the consolidated financial statements:

- BauschLinnemann GmbH, Sassenberg
- Bausch Decor GmbH, Buttenwiesen-Pfaffenhofen
- W. Döllken & Co. GmbH, Gladbeck
- Döllken-Kunststoffverarbeitung GmbH, Gladbeck
- Vinylit Fassaden GmbH, Kassel
- Döllken-Weimar GmbH Profile für den Fachmann, Nohra
- Kröning GmbH & Co., Hüllhorst

V. CONSOLIDATION PRINCIPLES

The financial statements of the domestic and foreign subsidiaries included in the consolidation have been prepared on the basis of the **accounting and valuation methods** uniformly applicable – which have remained unchanged compared to the previous year – to the SURTECO Group in accordance with IAS 27.

The consolidated financial statements have been prepared on the basis of historic acquisition and production costs, with the exception that derivative financial instruments are reported at their market value.

With the exception of Canplast Mexico, the balance sheet date of the consolidated financial statements coincides with the balance sheet date of the financial statements of the individual companies included in the consolidated financial statements (31/12/2005).

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

The capital consolidation of the sub-group BauschLinnemann within 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. The resulting asset differences were charged against the reserves of SURTECO AG on first-time consolidation of SURTECO AG without affecting earnings.

Capital consolidation of the sub-group Döllken was carried out in accordance with the revaluation method by netting the acquisition costs, 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.

In accordance with IFRS 3 and in conjunction with IAS 36 and IAS 38, goodwill arising from company acquisitions is not subject to scheduled amortization. Instead, the value of the goodwill of cash generating units is subject to an impairment test at least once a year. SURTECO identified the strategic business units as cash generating units. Prior to first-time application of IFRS 3, goodwill was amortized by the straight-line method over the estimated remaining useful life, generally 15 years.

In accordance with IAS 36, the impairment test compares the net book values for goodwill with the discounted cash flows expected within the context of medium-term planning for the relevant units. The utility value is calculated in accordance with the discounted cash flow method and discounted at the weighted average cost of capital (WACC) for the SURTECO Group. Certain management assessments are used in this process. Since the cash flows (recoverable amount) exceed the carrying amounts for goodwill, no scheduled amortization has to be carried out for goodwill.

Participations are valued as **associated enterprises** in accordance with the equity method if a significant influence can be exerted; this is the case if between 20 % and 50 % of the voting shares are held by the company. Proportionate gains and losses are reported in the consolidated balance sheet as a change in book value and in the income statement for the Group under the item "Financial result". Any dividends received reduce the book value.

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

Sales, expenses and income within the Group and **intercompany 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 according to the principle of "dealing at arms length".

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 and gains 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 under "Other operating income".

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 balance sheet date, whereas equity capital is translated at historic rates. Expenses and income are translated at the average rate for the year. Differences arising from currency translation for assets and debts compared with translation in the previous year and translation differences between the income statement and the balance sheet are reported with no impact on the income statement under the item "Currency reserves".

Translation was based on the following currency exchange rates:

Exchange rates with the Euro		**Balance sheet date**		**Average rate**	
		31/12/2004	**31/12/2005**	31/12/2004	**31/12/2005**
US dollar	USD	0.7331	0.8450	0.8051	0.8044
Sterling	GBP	1.4142	1.4556	1.4739	1.4622
Singapore dollar	SGD	0.4490	0.5079	0.4762	0.4831
Australian dollar	AUD	0.5718	0.6194	0.5925	0.6129
Canadian dollar	CAD	0.6086	0.7263	0.6188	0.6645
Chinese renminbi	CNY	0.0899	0.1066	0.0989	0.0999
Polish zloty	PLN	0.2446	0.2585	0.2207	0.2481

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 polices 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 carrying amounts with temporary differences in the trading and tax accounts from consolidation activities. 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. Deferred taxes are determined on the basis of the tax rates applicable in the individual countries and come into force or are adopted on the balance-sheet date.

Cash and cash equivalents have been recorded at face value.

Receivables and other assets have been recorded at face value less bonuses, discounts and valuation allowances. Recognizable risks and the general credit risk have been calculated on the basis of individual risk estimates and on the basis of empirical values by taking account of corresponding value adjustments.

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

Finished products and work in progress have been recognized at production cost. These costs include costs directly attributable to the manufacturing process and a reasonable proportion of production-related overheads. These include production-related depreciation, proportionate administrative expenses, and proportionate social security costs. Inventory risks arising from storage period or reduced usability have been taken into account by write-downs. Lower values prevailing on the balance sheet date due to reduced stock-market or market values have also been taken into account through reductions in value.

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.

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

If significant proportions of a non-current asset have varying useful lives, they are reported as separate non-current assets under "Property, plant and equipment" and are subject to scheduled depreciation (component accounting).

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
Buildings	40
Improvements and fittings	10-15
Technical plant and machines	3-20
Factory and office equipment	6-13

The production costs of **self-constructed plant** included direct costs and an appropriate flat-rate proportion of the overheads and depreciation. 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 lease). 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 market value or the lower cash value of the future leasing rate at the point in time at which the contract was concluded and the reporting of the corresponding liabilities to the lessee as a debt. Depreciation and release of the liability is effected according to schedule over the useful life or over the term of the lease, if this is shorter – corresponding to comparable items of property, plant and equipment acquired. The difference between the entire leasing obligation and the market value of the leased item corresponds to the finance costs that are distributed over the term and included in income, so that a uniform interest rate is applied to the remaining debt over the period. All other lease agreements, where SURTECO is the Lessee, are treated as operating leases, with the consequences that the leasing rates are reported to expenditure when they are paid.

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 acquired free of charge, 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.

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 essentially comprise investments in unconsolidated enterprises and are recognized at acquisition cost and subsequently at fair value. A subsequent valuation at amortized cost is undertaken for financial investments where the market value cannot be reliably determined.

An annual impairment test is carried out in accordance with IAS 36 to assess the book values of intangible assets and property, plant and equipment, in order to determine whether there are any indicators of an impairment loss. If there are grounds for assuming this, the recoverable amount should be estimated in order to determine the expense of the impairment loss. If the recoverable amount for the individual asset cannot be estimated, the estimate is carried out at the level of the cash generating unit to which the asset belongs. Unscheduled depreciation is carried out if the benefit accruing from the asset is lower than the book value. The benefit accruing from the asset is equivalent to the net selling price and value in use. The value in use is determined from the cash value of the future cash flows from the asset.

Goodwill we acquired is reported at acquisition cost, reduced by accumulated impairments. From 1 January 2005, scheduled amortization on goodwill is no longer carried out. Instead, goodwill is subject to an impairment test once a year and additionally if there are any indications of a potential impairment of value (impairment test).
Goodwill results from differences between acquisitions costs and fair values of the acquired identifiable assets and debts. The goodwill and two cash generating units are allocated for purposes of the impairment test. The cash generating units of the Group are identified in consultation with the internal reporting of the management taking into account regional allocations on the basis of strategic business units (Strategic Business Unit Paper and Strategic Business Unit Plastics). If a write-down is necessary, impairments are undertaken.
During the fiscal year 2005, the SURTECO Group, established that it was not necessary to carry out an impairment test with respect to the cash generating units to which goodwill with an unlimited period of use was allocated.
The recoverable amount of a cash generating unit is determined as the higher amount of the two amounts from net selling value and value in use. This calculation takes into account the cash flow forecast based on the finance budget for the next year and on the finance plan over a total period of three years. Cash flows beyond the three-year period will be extrapolated at increasing growth rates. The growth rates do not exceed the average growth rates for the business sector in which the relevant cash generating unit is operating.
This discount rate of 7.5 % is based on the weighted average cost of capital, taking into account the liability and equity structure, and the finance costs.

Income tax is determined in accordance with the tax regulations of the countries in which the Group is operating.

Deferred tax assets and liabilities are formed for all temporary differences and on consolidation activities that exert an effect on income (temporary concept). The deferrals are carried out in the amount of the likely increase or reduction in the tax burden over subsequent fiscal years on the basis of the tax rate applicable at the time or realization. Deferred tax assets also comprise tax relief claims arising from anticipated utilization of existing losses carried forward in subsequent years, taking into account the basis of assessment applicable for tax purposes and where there is sufficient likelihood that they will be realized. Fiscal consequences of profit distributions have been reported at the time of the resolution on the appropriation of profits. If income for subsidiaries is exempt from tax as a result of special local regulations, and the fiscal effects are not foreseeable if temporary tax exemption ceases, no deferred taxes were recognized. If it is unlikely that deferred tax liabilities will be realized, revaluations are undertaken. Deferred tax assets are included, if the identity of the tax creditor is known and matched maturities are identical.

Current liabilities and financial liabilities have been recorded with their repayment or performance amount. Long-term liabilities and financial liabilities have been recorded in the balance sheet on an amortized 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. The pension institutions were closed in the past and new employees joining the company receive no payments from the company pension scheme. 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.

The expense of allocating pension accruals, including the interest portion contained therein, is reported under "Personnel expenses". The amendment to IAS 19 "Employee Benefits" was published in December 2004 and application of this amendment means that with effect from 1 January 2005 actuarial gains and losses from defined-benefit plans are recognized with immediate effect outside the income statement under the item "Other comprehensive income" within shareholders' equity.

The obligations principally exist in Germany and they are calculated taking the following actuarial assumptions into account:

	2004	**2005**
Discount rate	5.25 %	4.50 %
Salary increases	2.00 %	2.00 %
Pension increases	2.00 %	2.00 %

Reserves have been formed in accordance with IAS 37, if a legal or de facto 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 where 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.

The item Minority interest includes equity shares held by third parties in a Group company.

Derivative financial instruments, i.e. currency forwards and swaps, are only used for hedging purposes, in order to reduce the risks associated with currencies, interest rates and market values arising from operating business or the resulting financial requirements. The derivative financial instruments concluded are initially recorded in the balance sheet at acquisition costs and subsequently at market values. Although some hedging transactions provide an appropriate hedge in accordance with the principles of risk management applied in the Group from a commercial perspective, they do not meet the requirements for reporting as a hedge transaction in accordance with the regulations of IAS 39 (hedge accounting). Any changes in market value of derivatives are therefore reported in the income statement with immediate effect. The market values of forward exchange operations are calculated on the basis of the market conditions prevailing on the balance-sheet date. The market value of interest swaps on the balance-sheet date is determined on the basis of generally recognized valuation models. The market values of derivative financial instruments are reported as "Other assets" or "Other accruals".

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.

VIII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Sales revenues

Sales revenues for the Group are segmented as follows:

[€ 000s]	2004	**2005**
Business (products)		
Edgebanding systems	178,135	203,623
Foils	92,347	86,187
Skirtings	21,451	20,898
Technical extrusions	16,149	15,878
DIY sector	28,870	24,210
Cladding systems	8,788	8,972
Printing	13,366	15,820
Other	21,322	20,784
	380,428	**396,372**
Geographical (regions)		
Germany	148,247	143,043
Abroad	232,181	253,329
	380,428	**396,372**

(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]	2004	**2005**
Cost of raw materials and supplies, and purchased merchandise	146,716	167,726
Cost of purchased services	12,132	5,345
	158,848	**173,071**

(4) Personnel expenses

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

	2004			2005		
	Industrial	Salaried	Total	**Industrial**	**Salaried**	**Total**
Production	1,051	110	1,161	1,107	141	1,248
Sales	10	264	274	10	311	321
Engineering	74	28	102	76	28	104
Research and development, quality assurance	36	56	92	39	54	93
Administration/ Materials management	118	251	369	117	249	366
	1,289	**709**	**1,998**	**1,349**	**783**	**2,132**

Personnel expenses include the costs of social-security deductions and retirement provision and welfare amounting to € 000s 16,992 (2004: € 000s: 15,517), of which for retirement provision € 000s 1,637 (2004: € 000s 1,519).

Value added calculation

[€ 000s]	2004	**2005**
Sales revenues	380,428	396,372
Other income	4,558	13,336
Corporate performance	384,986	409,708
Cost of materials	-158,848	-173,071
Depreciation and amortization	-25,912	-18,179
Other expenses	-56,570	-65,930
Value added	**143,656**	**152,528**
Shareholders	7,403	8,860
Employees	99,019	104,283
Government assistance	16,302	15,569
Investors		
Lenders	9,889	10,689
Minority interest	240	156
Distribution of value added	**132,853**	**139,557**
Remaining in the company (value added)	**10,803**	**12,971**

(5) Other operating expenses

The following table shows how operating expenses are structured:

[€ 000s]	2004	**2005**
Operating expenses	13,088	15,373
Sales expenses	27,691	31,374
Administrative expenses	14,886	16,998
Currency losses from operating business	485	1,239
Impairment losses on current assets	420	660
	56,570	**65,644**

The research and development expenses (personnel and materials costs) in the Group amounted to € 3.2 million.

Other operating expenses include the following fees for the Group auditor Dr. Röver & Partner KG:

[€ 000s]	**2005**
Auditing	345
Tax consultancy	191
Other consultancy services	152
	688

(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.

[€ 000s]	2004	**2005**
Capital gains	198	1,818
Income from asset disposals	231	930
Write-ups on assets	0	551
Release of reserves	885	1,492
Other	3,110	2,613
	4,424	**7,404**

(7) Financial result

[€ 000s]	2004	**2005**
Other interest and similar income	203	668
Interest and similar expenses	-9,889	-10,689
Interest income	**-9,686**	**-10,021**
Earnings from associated enterprises	0	131
Financial result	**-9,686**	**-9,890**

(8) Restructuring expenses

[€ 000s]	2004	**2005**
Personnel expenses	1,329	3,171
Other operating expenses	0	286
Depreciation and amortization	0	414
	1,329	**3,871**

(9) Income tax

Income tax expense is broken down as follows:

[€ 000s]	2004	**2005**
Current tax expenses		
- Germany	13,862	11,730
- International	1,130	3,248
	14,992	**14,978**
Deferred taxes	898	-42
Deferred tax expenses on losses carried forward	412	633
	1,310	**591**
	16,302	**15,569**

Deferred taxes of € 000s 260 were included directly in shareholders' equity.

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 levy 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:

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[€ 000s]	Deferred tax assets 2004	Deferred tax assets 2005	Deferred tax liabilities 2004	Deferred tax liabilities 2005
Inventories	721	643	24	14
Receivables and other assets	96	258	0	97
Tax losses carried forward	1,923	1,290	0	0
Property, plant and equipment, net	1,551	655	25,486	24,670
Intangible assets	205	137	0	591
Other non-current assets	0	1,238	0	54
Financial liabilities	9,833	9,378	0	0
Pension accruals	1,871	2,005	13	36
Other liabilities	21	559	34	94
Special tax items	0	0	64	0
	16,221	**16,163**	**25,621**	**25,556**
Netting	-9,833	-9,378	-9,833	-9,378
	6,388	**6,785**	**15,788**	**16,178**

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

[€ 000s]	2004	**2005**
Earnings before tax	**34,748**	**37,556**
Expected income tax (39 %)	13,204	14,646
Transition:		
Tax quota for		
- Amortization of goodwill	2,639	0
- Expenses not deductible from tax	282	156
Taxes not relating to the reporting period	352	963
Other tax effects	-175	-196
Income tax	**16,302**	**15,569**

(10) Net income per share (earnings per share)

	2004	**2005**
Number of shares issued	10,575,522	11,075,522
Consolidated net income attributable to the shareholders of SURTECO AG (€)	18,205,378	21,830,949
Net income per share (€)	1.72	1.97

Net income per share would have amounted to € 2.56 in 2004, if the scheduled amortization of goodwill had not been applied in 2004, as in 2005 on account of the application of IFRS 3.

IX. NOTES TO THE CONSOLIDATED BALANCE SHEET

(11) Cash and cash equivalents

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

(12) Trade accounts receivable

All trade accounts receivable have a residual term of less than one year. Provisions for specific debts and general bad debt charges have been recorded in the amount of € 000s 977 to take account of the general interest, processing and credit risks.

(13) Inventories

Consolidated inventories of the Group are comprised as follows:

[€ 000s]	2004	**2005**
Raw materials and supplies	19,200	17,860
Work in progress	1,921	3,127
Finished products and goods	29,979	32,881
Inventories	**51,100**	**53,868**

Impairments of € 000s 2,105 are reported in inventories for the year under review.

(14) Other current assets

[€ 000s]	2004	**2005**
Prepaid tax (income tax)	1,358	3,272
Prepaid tax (value added tax, wage tax)	1,453	276
Land in current assets	3,448	3,421
Accounts receivable	421	1,285
Prepaid expenses	346	983
Bonuses receivables	516	531
Other	1,915	1,396
	9,457	**11,164**

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(15) Fixed assets

[€ 000s]	Tangible assets	Intangible assets	Goodwill	Financial assets	Total
Acquisition costs					
1/1/2004	**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
Changes in the 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
31/12/2004	**304,576**	**9,863**	**141,783**	**152**	**456,374**
Currency differences	5,057	614	1,406	0	7,077
Write-ups	-26	676	0	0	650
Additions	22,283	846	1,905	1,765	26,799
Disposals	-14,157	-262	-241	0	-14,660
Transfers	1,035	27	-175	0	887
31/12/2005	**318,768**	**11,764**	**144,678**	**1,917**	**477,127**
Depreciation and amortization					
1/1/2004	**136,680**	**4,861**	**37,525**	**0**	**179,066**
Adjustment items	5,173	38	0	0	5,211
Currency difference	-585	2	-288	0	-871
Additions/transfers	16,357	787	8,824	0	25,968
Disposals/transfers	-6,143	-426	0	0	-6,569
31/12/2004	**151,482**	**5,262**	**46,061**	**0**	**202,805**
Currency differences	1,480	61	706	0	2,247
Write-ups	-330	233	0	0	-97
Additions	16,689	1,490	0	0	18,179
Disposals	-7,604	-124	0	0	-7,728
Transfers	1,003	151	-116	0	1,038
31/12/2005	**162,720**	**7,073**	**46,651**	**0**	**216,444**
Book value at 31/12/2005	**156,048**	**4,691**	**98,027**	**1,917**	**260,683**
Book value at 31/12/2004	**153,094**	**4,601**	**95,722**	**152**	**253,569**

(16) 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						
1/1/2004	**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	-5,028	-2,305	-548	-9,552
1/1/2005	**82,678**	**29,262**	**140,884**	**49,301**	**2,451**	**304,576**
Currency differences	1,888	0	2,883	280	6	5,057
Write-ups	-53		673	-646	0	-26
Additions	3,312	0	10,239	6,372	2,360	22,283
Disposals	-5,213	-9	-4,032	-4,251	-652	-14,157
Transfers	-279	181	1,297	1,522	-1,686	1,035
31/12/2005	**82,333**	**29,434**	**151,944**	**52,578**	**2,479**	**318,768**
Depreciation and amortization						
1/1/2004	**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
Additions/transfers	2,343	729	8,610	4,675	0	16,357
Disposals/transfers	-382	0	-3,771	-1,990	0	-6,143
1/1/2005	**24,686**	**3,428**	**86,089**	**37,279**	**0**	**151,482**
Currency differences	241	0	1,120	119	0	1,480
Write-ups	-44	0	-248	-38	0	-330
Additions	2,159	734	9,161	4,635	0	16,689
Disposals	-1,071	-9	-2,836	-3,688	0	-7,604
Transfers	-329	175	463	694	0	1,003
31/12/2005	**25,642**	**4,328**	**93,749**	**39,001**	**0**	**162,720**
Book value at 31/12/2005	**56,691**	**25,106**	**58,195**	**13,577**	**2,479**	**156,048**
Book value at 31/12/2004	**57,992**	**25,834**	**54,795**	**12,022**	**2,451**	**153,094**

» 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 provided for a purchase option or the option of extending the contract at least once for a period of 5 years. Apart from finance leasing contracts, the SURTECO Group has also concluded rental and leasing contracts that qualify as operating leasing contracts on the basis of their commercial content, whereby the lease item should be reported by the lessor.

(17) Intangible assets

Intangible assets comprise primarily IT software.

	Concessions, patents, licenses and similar rights and values	
[€ 000s]	2004	**2005**
Acquisition costs		
1/1/	**6,260**	**9,863**
Adjustment items	37	0
Currency differences	-216	614
Changes in the group of consolidated companies	2,386	0
Write-ups	0	676
Additions	1,850	718
Disposals	-454	-262
Transfers	0	155
31/12/	**9,863**	**11,764**
Depreciation and amortization		
1/1/	**4,861**	**5,262**
Adjustment items	38	0
Currency differences	2	61
Write-ups	0	233
Additions	787	1,490
Disposals	-426	-124
Transfers	0	151
31/12/	**5,262**	**7,073**
Book value at 31/12/	**4,601**	**4,691**

(18) Goodwill

Goodwill is comprised of the following amounts from the takeover of asset deals and from capital consolidation.

Goodwill has developed as follows:

[€ 000s]	2004	**2005**
1/1/	**99,273**	**95,722**
Currency adjustment	-521	700
Additions	5,794	1,905
Disposals/transfer	0	-300
Depreciation and amortization	-8,824	0
31/12/	**95,722**	**98,027**

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 to an impairment 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 2004.

(19) Financial assets

[€ 000s]	**Participations**	**Associated enterprises**	**Other loans**	**Total**
Acquisition costs				
1/1/2004	**4,777**	**0**	**603**	**5,380**
Additions	0	0	0	0
Disposals	-4,625	0	-603	-5,228
1/1/2005	**152**	**0**	**0**	**152**
Disposals	15	1,750	0	1,765
31/12/2005	**167**	**1,750**	**0**	**1,917**
Depreciation and amortization				
1/1/2004	**0**	**0**	**0**	**0**
Disposals	0	0	0	0
1/1/2005	**0**	**0**	**0**	**0**
Disposals	0	0	0	0
31/12/2005	**0**	**0**	**0**	**0**
Book value at 31/12/2005	**167**	**1,750**	**0**	**1,917**
Book value at 31/12/2004	**152**	**0**	**0**	**152**

(20) Current financial liabilities

Current financial liabilities include short-term credit lines that have been drawn down, the short-term proportion of loan liabilities and finance and leasing liabilities (€ 000s 1,159, 2004: € 000s 1,157).

(21) Tax liabilities

Tax liabilities include the income tax due for the fiscal year 2005 and not yet paid, and the anticipated tax payments for previous years. Deferred taxes are not included.

(22) Short-term accrued expenses

[€ 000s]	1/1/2005	Expenditure	Release	Allocation	31/12/2005
Restructuring	0	0	0	1,728	1,728
Warranty	1,361	554	169	665	1,303
Impending losses from financial derivatives	59	0	0	753	812
Legal disputes	446	436	0	100	110
Other	547	227	0	0	320
	2,413	**1,217**	**169**	**3,246**	**4,273**

(23) Other current liabilities

[€ 000s]	2004	**2005**
Liabilities to employees	9,769	10,547
Bonuses and promotion costs	1,667	1,924
Accounts receivable	805	994
Tax liabilities	1,293	480
Social insurance against occupational accidents	555	681
Supervisory Board remuneration	376	387
Other	2,097	1,662
	16,562	**16,675**
- of which from taxes	1,293	736
- of which social security	2,502	1,864

(24) Financial liabilities

Current and non-current financial liabilities related to interest liabilities, including the liabilities of finance leasing, of the SURTECO Group. The finance liabilities are secured in the amount of € 000s 6,057 by charges on property. Non-current financial liabilities are essentially structured in terms of fixed-interest agreements.

The liabilities arising from finance leasing obligations are released over the contractual term and on the balance-sheet date are due as follows:

[€ 000s]	2004	**2005**
Future leasing payments		
due within one year	2,890	2,890
due between one and five years	11,559	11,558
due after more than five years	25,598	23,226
Discounts		
due within one year	-1,731	-1,661
due between one and five years	-6,022	-5,689
due after more than five years	-7,150	-6,153
Cash value		
due within one year	1,159	1,229
due between one and five years	5,537	5,869
due after more than five years	18,448	17,073
	25,144	**24,171**

(25) Non-current liabilities

The maturity structure of non-current liabilities is as follows:

[€ 000s]	2004			**2005**		
	1-5 years	more than 5 years	Total	**1-5 years**	**more than 5 years**	**Total**
Debts						
- of which to banks	69,882	32,883	102,765	58,855	20,974	79,829
- of which from finance lease	5,536	18,451	23,987	5,936	16,805	22,741
	75,418	**51,334**	**126,752**	**64,791**	**37,779**	**102,570**
Other liabilities	522	0	522	353	0	353
	75,940	**51,335**	**127,274**	**65,144**	**37,779**	**102,923**

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(26) 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]	Pension obligations	Obligations from phased retirement	Obligations for long-service awards	Total
1/1/2004	**7,330**	**2,759**	**651**	**10,740**
Change in group of consolidated companies	415	0	0	415
Payments	-450	-417	-81	-948
Current service expense	103	904	181	1,188
Interest expense	405	0	24	429
Actuarial gains/losses	417	0	-18	399
Release	0	0	0	0
1/1/2005	**8,220**	**3,246**	**757**	**12,223**
Payments	-479	-339	-56	-874
Current service expense	387	340	153	880
Interest expense	406	0	0	406
Actuarial gains/losses	665	0	0	665
Release	-55	-106	227	66
	9,144	**3,141**	**1,081**	**13,366**
Plan assets	-51	-230	0	-281
31/12/2005	**9,093**	**2,911**	**1,081**	**13,085**

The amendment to IAS 19 "Employee Benefits" was published in December 2004 and application of this amendment means that with effect from 1 January 2005 actuarial gains and losses from defined-benefit plans are recognized with immediate effect in shareholders' equity (Other comprehensive income). The amount for 2005 taking into account deferred tax is € 000s 404.

(27) Shareholders' equity

The subscribed capital **(capital stock)** of SURTECO AG is € 11,075,522.00. It is divided into 11,075,522 no-par-value bearer shares (ordinary shares) corresponding to a proportion of the capital stock of € 1.00 each.

The resolution by the Supervisory Board and the Board of Management increased the capital stock from nominally € 10,575,522.00 to € 11,075,522,00 excluding subscription rights by issuing 500,000 new no-par-value bearer shares corresponding to a proportion of the capital stock of € 1,00 each using authorized capital I in accordance with the original Article § 3 of the Articles of Association.

The resolution by the Annual General Meeting on 7 July 2005 changed the rules of the Articles of Association relating to the different tranches of 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 7 July 2010 by overall up to € 1,100,000.00, 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 € 1,100,000.00, 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 offer 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 7 July 2010 by overall up to € 4,400,000.00, 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. Transactions costs amounting to € 000s 444 arising from the capital increase carried out in 2005 were included with the capital reserve.

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.

The amounts in excess of the nominal amount totalling € 000s 15,000 were transferred to the capital reserve during the course of the capital increase carried out by SURTECO AG in the fiscal year 2005.

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 8,864. 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 4 as profit carried forward.

(28) Other financial obligations

[€ 000s]	2004	**2005**
Rental and operate leasing contracts		
- Within one year	1,093	1,219
- Between one and five years	1,882	2,021
- Over five years	603	369
	3,578	**3,609**

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.
Payments from leasing arrangements in the period are recorded in the amount of € 000s 1,219.

(29) Financial instruments

Financial instruments are commercial transactions based on a contract that includes 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 major German and international banks.
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

Financial instruments recognized under assets – taking into account any revaluations – have been recorded at acquisition cost. Financial instruments recognized under liabilities have been recorded at face value or at the higher repayment amount. The creditworthiness or default risk arises from the risk that a business partner is unable to honour his obligations. Since no netting arrangements have been concluded on the whole with our customers, the amounts reported in the balance sheet represent the maximum default risk. Currency risks exist where assets or liabilities are held in currencies other than the local currency of the company. In the first instance, hedging is provided by positions that are intrinsically closed. To this end, the SURTECO Group always makes arrangements for one foreign currency asset to be balanced by one or more liabilities in the same currency that are equivalent in time and amount. Derivative financial instruments are only used to hedge additional currency risks extending beyond these limits.

Derivative financial instruments

The SURTECO Group may be affected by risks arising from changes in interest rates and exchange rates within the scope of its business activities. Derivative financial instruments are only used for hedging purposes and for reducing these risks. Only marketable instruments with adequate market liquidity are used. Financial instruments are not held for trading purposes. Risk estimates and checks are carried out on an ongoing basis.

Derivative financial 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.

The derivative financial instruments concluded are reported in the balance sheet for the first time at the date when the contract is closed. They are recognized 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 are derived from the amounts at which the relevant derivative 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 residual terms of the interest hedging instruments are between four and five years.

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

Nominal and market values of financial instruments:

[€ 000s]	2004 Nominal ammount	2004 Market value	**2005 Nominal ammount**	**2005 Market value**
Interest-related transactions	42,561	-88	54,231	-639
Currency-related transactions	4,068	87	1,534	-16
	46,629	**-1**	**55,765**	**-655**

Negative market values of derivative financial instruments are reported under "Other reserves".

X. SUPPLEMENTARY INFORMATION

(30) Notes to the cash flow statement

The cash flow statement was prepared in accordance with IAS 7. It is structured on the basis of cash flows arising from operating activities and those arising from investment and financing activities. The effects of changes in the group of companies consolidated are eliminated in the relevant items. The cash flows arising from investment and financing activities are calculated on the basis of payments, the cash flow arising from operating activity is derived indirectly from earnings before taxes and minority interests. Compared with the previous year, the initial figure for the cash flow statement is earnings before tax and minority interest.

The financial resources only include the cash and cash equivalents of the SURTECO Group included in the balance sheet. By contrast, financial controlling in the SURTECO Group is based on the financial balance, which apart from liquid funds also includes debt.

The operating expenses and income with no effect on liquidity, and gains on disposal of assets, are eliminated in cash flow from operating activities.

The cash flow from financing activity is comprised of dividend payments, capital payments, payments from and repayments of debts, and interest payments from loans.

Cash inflow from operating activities, reduced by tax payments and investments in property, plant and equipment, and intangible assets, and increased by incoming payments from asset disposals is designated as free cash flow.

(31) Segment reporting

Segment reporting has been carried out in accordance with the "internal structure of the Group" ("Management Approach" in accordance with IAS 14). This involves the internal organizational structure of the company 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. Segmentation by regions is based on the locations of the Group companies.

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. Intragroup items are eliminated in the transition.

By Strategic Business Units [€ 000s]	SBU PAPER	SBU PLASTICS	SURTECO AG	TRANSI-TION	SURTECO GROUP
Income statement					
Sales revenues	174,006	228,191	0	-5,825	396,372
- with outside third parties	172,438	223,934	0	0	396,372
- with other segments	1,568	4,257	0	-5,825	0
Depreciation and amortization	9,427	8,242	96	0	17,765
Segment earnings before income from participations, interest and taxes	18,513	36,161	-3,442	85	51,317
Income from other participations	0	0	30,232	-30,232	0
Balance sheet					
Assets	146,230	215,326	311,699	-303,134	370,121
Liabilities	58,810	53,769	129,954	-21,379	221,154
Net assets	87,420	161,557	181,745	-281,755	148,967
Investments in property, plant and equipment	10,798	11,884	292	-	22,974
Personnel	859	1,262	11	-	2,132

By regional markets [€ 000s]	Sales revenues (by registered office)	Segment assets	Segment liabilities	Investments in property, plant and equipment
Germany	334,815	700,651	274,056	17,012
European Union	33,675	35,264	4,672	645
Asia/Australia	26,192	27,026	6,601	2,361
America	73,720	55,056	12,526	2,956
Transition account	-72,030	-447,876	-76,701	0
SURTECO GROUP	**396,372**	**370,121**	**221,154**	**22,974**

(32) Remuneration for the executive officers and former executive officers

Total compensation for the Supervisory Board for fiscal year 2005 amounted to € 000s 376. Total compensation for Members of the Board of Management was € 000s 2,437.

(33) 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. 320,070 shares in the Company were owned by members of the Supervisory Board.

(34) Release for publication

The Board of Management of SURTECO AG has released the consolidated financial statements for forwarding to the Supervisory Board. The Supervisory Board is responsible for checking the consolidated financial statements and declaring whether they approve the consolidated financial statements.

XI. 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 Member of the Supervisory Board of Pfleiderer AG, Neumarkt (since 14 June 2005)
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

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 Council of Dresdner Bank, Advisory Council North, Hamburg Chairman of the Advisory Council of Gesellschaft für Stromwirtschaft m.b.H., Mülheim Member of the Advisory Council of Ardex GmbH, Witten Member of the Advisory Council of RWE Economic Advisory Council, Essen Member of the Advisory Council of RAG Trading International, Essen Member of the Board, Hanover Acceptances Limited, London Member of the Supervisory Board of – British American Tobacco (Industrie) GmbH, Hamburg – BATIG Gesellschaft für Beteiligungen mbH, Hamburg – British American Tobacco (Germany) Beteiligungen GmbH, Hamburg Member of the Supervisory Board of Deutschen Bahn AG, Munich (since 5 July 2005) Member of the Supervisory Board of RAG Coal International AG, Essen (since 1 May 2005)
Björn Ahrenkiel Lawyer, Hürtgenwald Deputy Chairman	
Bernd Dehmel Businessman, Marienfeld Deputy Chairman	
Dr. Matthias Bruse Lawyer, Munich since 7 July 2005	Member of the Supervisory Board of Klöpfer & Königer GmbH & Co. KG, Garching Member of the Supervisory Board of Rheinkalk GmbH, Wülfrath Member of the Supervisory Board of Smart IPO AG, Munich Chairman of the Supervisory Board of BET 3000 AG, Munich (since 16 December 2005)

Harald Eschenlohr Lawyer, Munich until 7 July 2005	Chairman of the Advisory Council of Loden-Frey Verkaufshaus GmbH & Co. KG Chairman of the Advisory Council 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 Council of Käserei Champignon Hofmeister GmbH & Co. KG
Inge Kloepfer-Lange Journalist, Berlin until 7 July 2005	
Jakob-Hinrich Leverkus Businessman, Hamburg since 7 July 2005	Member of the Advisory Council of Drewsen Spezialpapiere GmbH + Co. KG, Lachendorf Member of the Advisory Council of Dinse GmbH, Hamburg Deputy Chairman of the Supervisory Board SFC, Smart Fuel Cell AG, Ottobrunn
Dr. Walter Schlebusch Diplom-Ingenieur, München	
Employee representatives	
Hans-Jürgen Diesner Chairman of the Works Council, Versmold	
Richard Liepert Chairman of the Works Council, Wertingen	
Udo Semrau Chairman of the Works Council, Gladbeck	
Honorary Chairmen	
Christa Linnemann Businesswoman, Gütersloh	
Johan Viktor Bausch Engineer, München	

* Memberships in legally constituted supervisory boards and comparable domestic and foreign supervisory bodies

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

The Board of Management and the Supervisory Board of SURTECO AG have submitted a Declaration of Compliance pursuant to Clause § 161 Sentence 1 of the Stock Corporation Act (AktG) and made this declaration available to the shareholders. This declaration is intended to demonstrate compliance with all key aspects of the recommendations on conduct promulgated by the "Government Committee on the German Corporate Governance Code".

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

XIII. DECLARATION OF THE BOARD OF MANAGEMENT

The Board of Management of , SURTECO AG is responsible for the preparation, completeness and accuracy of the consolidated financial statements and the management report, as well as other information included in the Annual Report. The consolidated financial statements have been drawn up in accordance with the International Financial Reporting Standards (IFRS). The consolidated management report includes an analysis of the net assets, financial position and results of operations of the Group and also provides additional explanations which have to be provided in accordance with the regulations of the German Commercial Code (HGB). Our efficient internal management and control systems, combined with the use of uniform guidelines across the Group, ensure that these data are reliable. We have received a statement from each of the executive managers responsible for the divisions and from the managing directors of the companies confirming the accuracy of the financial data reported to the Group Head Office and the smooth-running operation of the appropriate controlling systems.

Compliance with the guidelines and the dependability and operational capability of the controlling systems are continually monitored across the Group.

The risk management system we have implemented for the SURTECO Group ensures, pursuant to the legislation regulating joint-stock companies, that developments which could put the continuation of the SURTECO Group as a going concern at risk are identified at an early stage and that countermeasures can be implemented as necessary.

Dr. Röver & Partner KG, independent auditors, has carried out an audit of the consolidated financial statements prepared in accordance with the International Financial Reporting Standards and the management report pursuant to the resolution of the Annual General Meeting.

The consolidated financial statements, the consolidated management report and the auditor's report were scrutinized and discussed in detail at the meeting of the Supervisory Board dedicated to the financial statements in the presence of the auditor. The report of the Supervisory Board addresses the result of the examination by the Supervisory Board.

Buttenwiesen-Pfaffenhofen, 29 March 2006

Board of Management

Friedhelm Päfgen
Dr.-Ing. Herbert Müller

INDEPENDENT AUDITOR’S REPORT

We have audited the Consolidated Financial Statements prepared by SURTECO Aktiengesellschaft, 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 and the Management Report on the Company and the Group, for the business year from 1 January 2005 to 31 December 2005. The preparation of the Consolidated Financial Statements and the Management Report on the Company and the Group in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Clause § 315 a (1) of the German Commercial Code (HGB) are the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the Consolidated Financial Statements and the Management Report on the Company and the Group based on our audit.

We conducted our audit of the Consolidated Financial Statements in accordance with Clause § 317 German Commercial Code (HGB) and taking into account German auditing regulations and 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 material misstatements and irregularities that could significantly affect the presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements in accordance with the applicable financial reporting framework and in the Management Report on the Company and the Group are identified with reasonable assurance. 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 effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the Consolidated Financial Statements and Management Report on the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the Management Report of the Company and the Group.

We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Consolidated Financial Statements are in accordance with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to Clause § 315 a (1) German Commercial Code (HGB) and give a true and fair view of the net assets, financial position and results of operations of the Group. In our opinion, on the whole, the Management Report on the Company and the Group is consistent with the Consolidated Financial Statements and provides a suitable understanding of the Group’s position and suitably presents the risks and opportunities of future development.

Berlin, 30 March 2006

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 Decor GmbH, Buttenwiesen-Pfaffenhofen	Germany	F	100.00	100
310	Saueressig Design Studio GmbH	Germany	E	30.00	300
401	BauschLinnemann GmbH, Sassenberg	Germany	F	100.00	100
210	Bausch (U.K.) Limited, Burnley	United Kingdom	F	100.00	401
405	BauschLinnemann UK Ltd., Burnley	United Kingdom	F	70.00 30.00	210 430
410	Kröning GmbH & Co., Hüllhorst	Germany	F	100.00	401
420	Kröning Verwaltungsgesellschaft mbH, Hüllhorst	Germany	F	100.00	401
430	BauschLinnemann International GmbH, Sassenberg	Germany	F	100.00	401
440	Linnemann-Consult GmbH, Sassenberg	Germany	F	100.00	401
441	BauschLinnemann North America, Inc., Greensboro	USA	F	100.00	440
460	BauschLinnemann Decorative Material (Taicang) Co. Ltd.	China	F	100.00	401
470	Arbe s.r.l., Martellago	Italy	F	50.00 25.00	401 510
499	BauschLinnemann Beteiligungsgesellschaft mbH, Sassenberg	Germany	F	100.00	100
	STRATEGIC BUSINESS UNIT (SBU) PLASTICS				
500	W. Döllken & Co. GmbH, Gladbeck	Germany	F	100.00	100
510	Döllken-Kunststoffverarbeitung GmbH, Gladbeck	Germany	F	100.00	500
511	Vinylit Fassaden GmbH, Kassel	Germany	F	100.00	510
512	Doellken-A.S.L. Pty. Ltd., Sydney	Australia	F	100.00	510
513	Doellken PTE Ltd., Singapore	Singapore	F	100.00	510
514	PT Doellken Bintan Edgings & Profiles, Bintan	Indonesia	F	99.00 1.00	510
515	Döllken Profiltechnik GmbH, Dunningen	Germany	F	100.00	513
520	Döllken-Weimar Profile für den Fachmann GmbH, Nohra	Germany	F	94.00 6.00	500
530	Döllken & Praktikus GmbH, Gladbeck	Germany	F	100.00	530
531	Döllken & Praktikus Sp.z o.o., Kattowitz	Poland	F	100.00	500
532	Praktikus CZ Spol.sr.o., Kolin	Czech Republic		100.00	530
550	Doellken USA., Everett/Washington	USA	F	100.00	530
551	Doellken Woodtape Inc., Everett/Washington	USA	F	100.00	500
552	Canplast USA Inc., Greensboro	USA	F	100.00	500
560	Doellken-Canada Ltd., Mississauga	Canada	F	100.00	550
561	Doellken-Woodtape Ltd., Missisauga	Canada	F	100.00	550
562	Canplast Canada Ltd., Montreal	Canada	F	100.00	500
563	Canplast Mexico SA de C.V., Chihuahua	Mexico	F	50.00	560
564	2054872 Ontario Inc., Quebec	Canada	F	100.00	560
565	Pro-plast Distribution Inc., Quebec	Canada	F	50.00	562
566	Canplast Centro America S.A:	Guatemala	P	25.00	560
567	Canplast Do Brasil S/A Comercio E Importacao de Componetes Para Moveis	Brazil	P	79.99	564
599	W. Döllken-Verwaltungs- und Beteiligungs-GmbH, Gladbeck	Germany	F	100.00	500

F Full Consolidation   E Consolidation at Equity   P Proportionate Consolidation

» SURTECO AG ANNUAL FINANCIAL STATEMENTS 2005

» BALANCE SHEET (HGB*)

SURTECO AG

	31/12/2004 € 000s	31/12/2005 € 000s
ASSETS		
Intangible assets	27	16
Tangible assets	111	318
Investments	269,240	277,816
Fixed assets	**269,378**	**278,150**
Receivables and other assets		
- Receivables from affiliated enterprises	57,524	51,908
- Other assets	461	1,410
Cash in hand, bank balances	2	527
Current assets	**57,987**	**53,845**
Prepaid expenses	**8**	**12**
	327,373	**332,007**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Share capital	10,576	11,076
Additional paid-in capital	79,864	94,864
Revenue reserves	60,709	66,809
Net profit	9,286	8,863
Equity capital	**160,435**	**181,612**
Pension reserves	121	145
Tax accruals	4,743	985
Other accruals	3,294	3,215
Accrued expenses	**8,158**	**4,345**
Liabilities to banks	106,699	85,165
Trade accounts payable	61	137
Liabilities from acceptance of drawn bills of exchange and issue of own bills of exchange	0	5,000
Payables to related parties	51,870	54,702
Other liabilities	150	1,046
Liabilities	**158,780**	**146,050**
	327,373	**332,007**

*German Commercial Code (Handelsgesetzbuch)

» INCOME STATEMENT (HGB*)

SURTECO AG

	1/1/ - 31/12/2004 € 000s	1/1/ - 31/12/2005 € 000s
Income from profit transfer agreements (of which income from tax allocations transferred from subsidiaries: € 000s 8,000; 2004 € 000s 7,194)	23,858	32,872
Income from other participations	13,568	0
Other operating income	2,117	3,309
Personnel expenses	-3,787	-3,321
Amortization and depreciation on intangible assets and fixed assets	-123	-93
Other operating expenses	-1,999	-3,026
Interest income	-6,201	-5,884
Results from ordinary activities	**27,433**	**23,857**
Income tax	-8,884	-9,271
Other taxes	-73	-48
Net income	**18,476**	**14,538**
Profit carried forward from previous year	10	26
Transfers to revenue reserves	-9,200	-5,700
Net profit	**9,286**	**8,864**

*German Commercial Code (Handelsgesetzbuch)

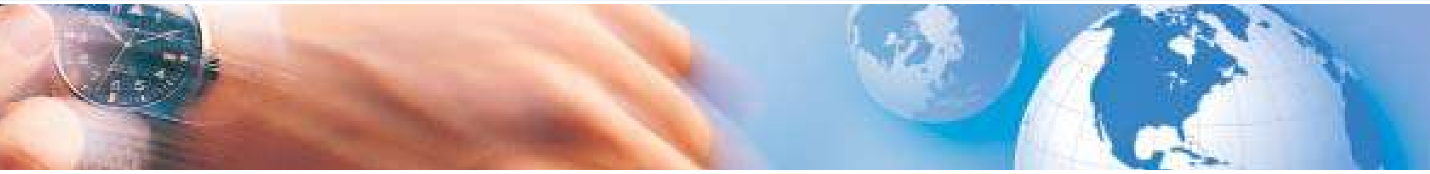
The Annual Financial Statements of SURTECO AG have been published in the Official Gazette of the Federal Republic of Germany (Bundesanzeiger) and filed at the Commercial Register of the Local Court (Amtsgericht) Augsburg. Auditors and tax consultants Dr. Röver & Partner KG, Wirtschaftsprüfungsgesellschaft/Steuerberatungsgesellschaft,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

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

» GLOSSARY

Amtlicher Handel	See official trading
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.
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 text of the German Corporate Governance Code in the version dated 2 June 2005 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
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.
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.
Risk management	Systematic approach to identifying and evaluating potential risks, selecting and implementing measures to deal with risks.
SBU	Strategic Business Unit

» FINANCIAL CALENDAR



2006	**31 May**	Three-month report January - March 2006
	22 June	Annual General Meeting Gasteig, Carl-Orff-Saal, Munich
	23 June	Dividend payout
	31 August	Six-month report January - June 2006
	30 November	Nine-month report January - September 2006
2007	**30 April**	Annual Report 2006
	31 May	Three-month report January - March 2007
	31 August	Six-month report January - June 2007
	31 August	Annual General Meeting Gasteig, Carl-Orff-Saal, Munich
	3 September	Dividend payout
	30 November	Nine-month report January - September 2007

» PUBLICATION DETAILS

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» TEN YEAR OVERVIEW

	BAUSCH AG		
	HGB 1996	HGB 1997	HGB 1998
Sales revenues € 000s	62,781	72,480	79,907
Ratio of exports to total sales %	64	69	68
EBITDA € 000s	9,995	15,058	16,786
Depreciation and amortization € 000s	-2,341	-2,608	-2,695
EBIT € 000s	7,654	12,450	14,091
Financial result € 000s	-810	-645	-133
Result from ordinary activities before restructuring expenses € 000s	6,844	11,805	13,958
Restructuring expenses	0	0	0
Result from ordinary activities after restructuring expenses (EBT) € 000s	6,844	11,805	13,958
Net income € 000s	3,623	6,349	7,476
Cash earnings € 000s	6,024	8,957	10,209
Balance sheet total € 000s	39,003	50,131	52,526
Equity capital € 000s	12,667	28,872	33,565
Equity capital in % of balance sheet total	33	58	64
Average number of staff employed for the year	445	433	448
Number of staff employed at 31/12/	441	436	453
Capital stock €	10,225,838	12,271,005	12,271,005
Number of shares	4,000,000	4,800,000	4,800,000
Net income per share (earnings per share) €	0.92	1.32	1.55
Dividend per share €	0.41	0.51	0.61
Dividend payout € 000s	1,636	2,454	2,945
PROFITABILITY INDICATORS			
Sales return %	9.6	14.2	15.6
Return on equity %	47.6	35.6	37.1
Return on investment %	17.8	22.2	24.8

BAUSCH + LINNEMANN AG		SURTECO AG				
HGB 1999	HGB 2000	IFRS 2001	IFRS 2002	IFRS 2003	IFRS 2004	IFRS 2005
170,519	193,375	270,551	367,642	355,037	380,428	**396,372**
60	64	61	60	60	61	**64**
36,793	44,010	45,666	69,761	63,976	71,675	**69,082**
-9,166	-11,659	-15,207	-27,025	-26,762	-25,912	**-17,765**
27,627	32,351	30,459	42,736	37,214	45,763	**51,317**
-1,959	-4,776	-4,134	-12,721	-10,120	-9,686	**-9,890**
25,668	27,575	26,325	30,015	27,094	36,077	**41,427**
0	0	0	0	0	-1,329	**-3,871**
25,668	27,575	26,325	30,015	27,094	34,748	**37,556**
16,362	18,172	14,046	17,586	14,858	18,446	**21,987**
26,538	30,157	30,373	45,898	42,043	45,841	**39,879**
133,271	198,400	372,235	390,510	356,414	362,130	**370,121**
47,411	54,438	101,863	104,046	108,710	116,609	**148,967**
36	27	27	27	31	32	**40**
871	940	2,159	2,053	1,941	1,998	**2,132**
883	964	2,113	2,033	1,937	2,192	**2,109**
8,293,325	8,293,325	10,575,522	10,575,522	10,575,522	10,575,522	**11,075,522**
8,293,325	8,293,325	10,575,522	10,575,522	10,575,522	10,575,522	**11,075,522**
1.70	2.02	1.28	1.67	1.40	1.72	**1.97**
0.66	0.92	1.10	0.65	0.70	0.80	**0.80**
5,512	7,633	11,633	6,874	7,403	8,860	**8,860**
13.7	14.3	9.7	8.2	7.6	9.1	**9.4**
41.1	38.9	14.5	18.1	14.7	17.0	**15.6**
19.3	16.5	9.2	11.0	10.5	12.3	**13.0**

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DEUTSCHE BÖRSE
PRIME STANDARD