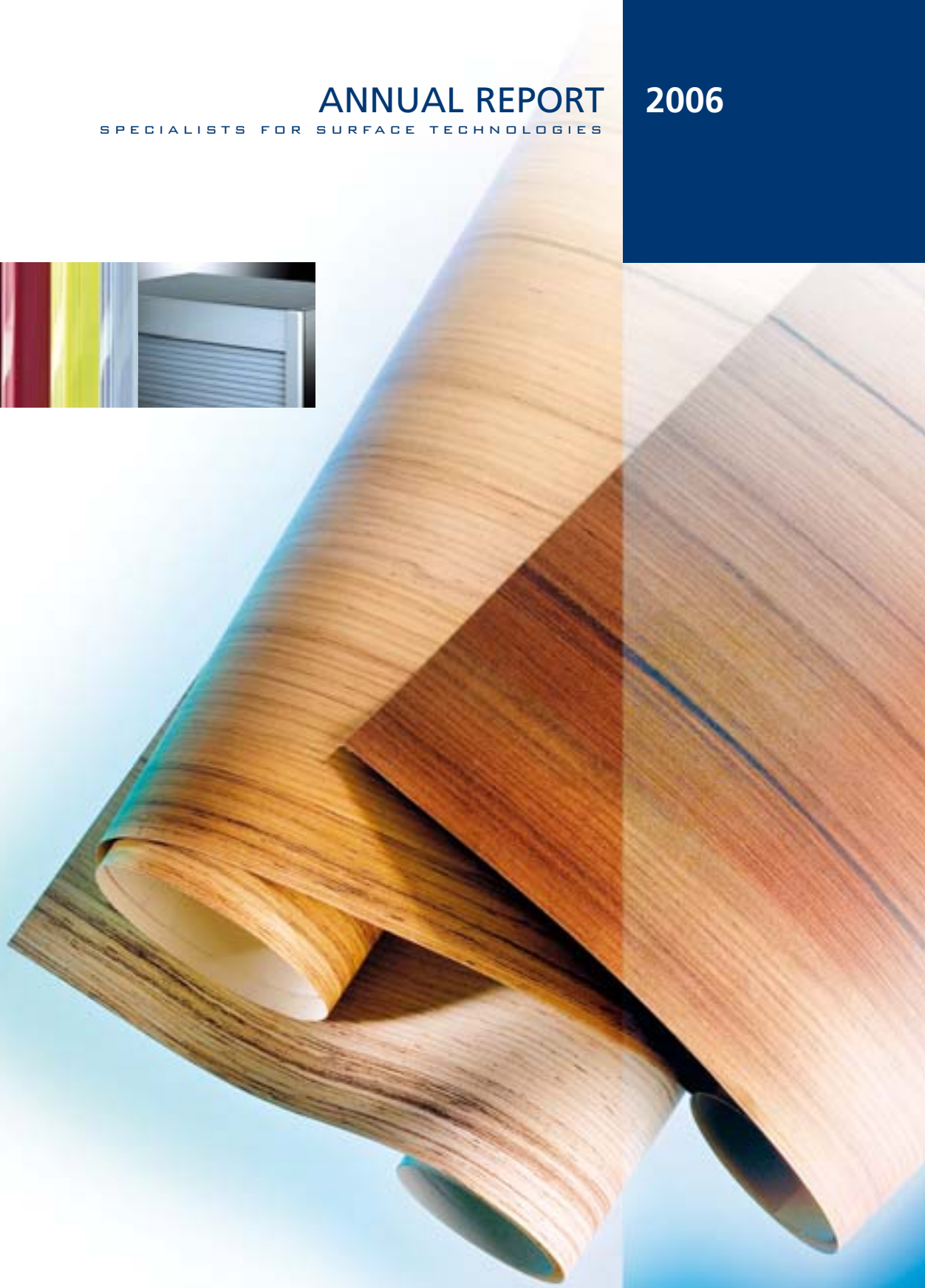


ANNUAL REPORT

SPECIALISTS FOR SURFACE TECHNOLOGIES

2006



SURTECO
AKTIENGESELLSCHAFT

» SURTECO WORLDWIDE

● 13 production and sales locations

● 12 additional sales locations



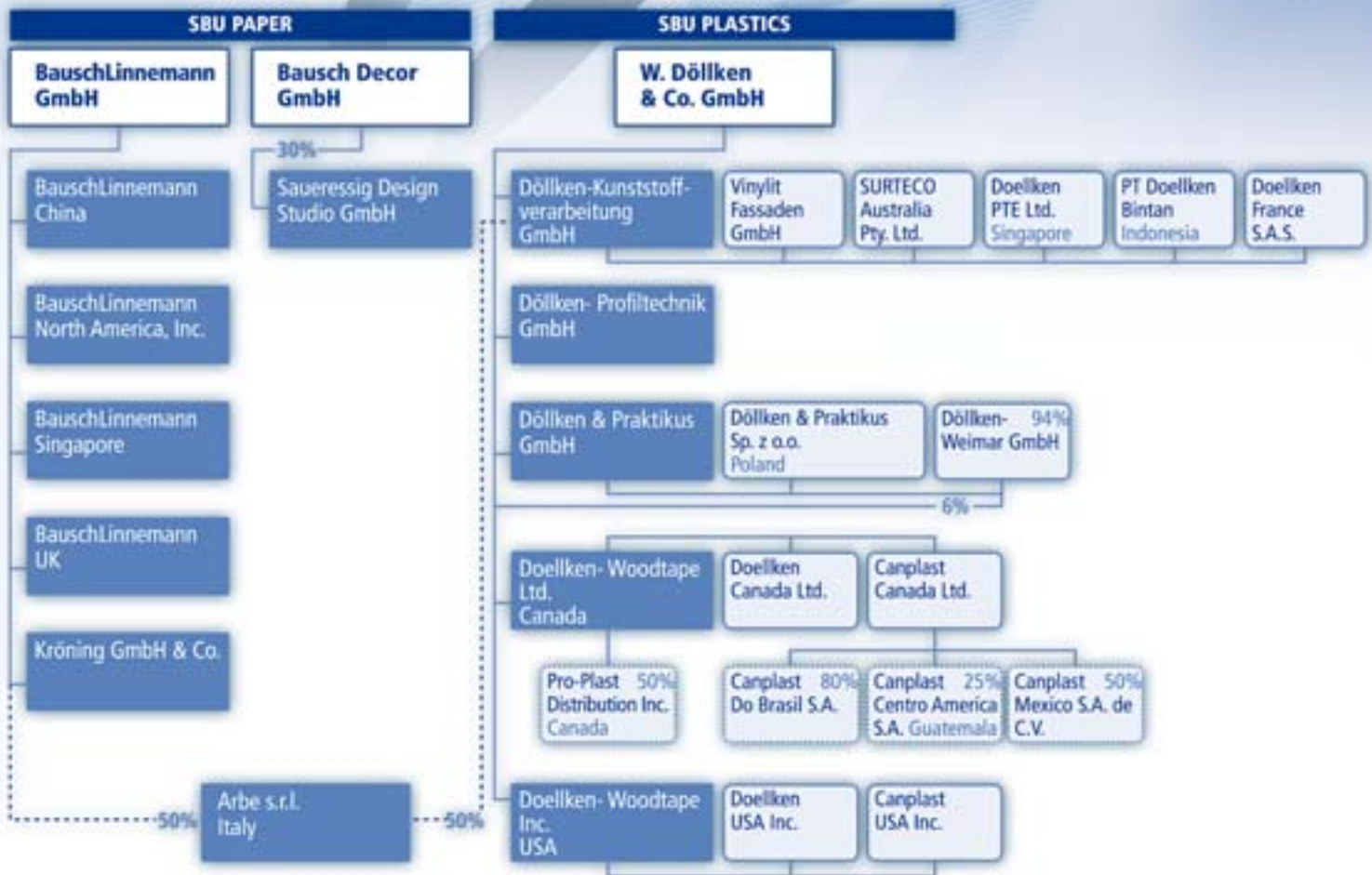
» AT A GLANCE

[€ 000s]	2005	2006	Variation in %
Sales revenues	396,372	403,156	+2
Foreign sales in %	64	64	
EBITDA	69,082*	71,698	+4
Depreciation and amortization	-17,765	-17,612	
EBIT	51,317*	54,086	+5
Financial result	-9,890	-8,060	
Earnings from ordinary activities before restructuring expenses	41,427	46,026	+11
Restructuring expenses	-3,871	0	
Earnings from ordinary activities after restructuring expenses (EBT)	37,556	46,026	+23
Consolidated net income	21,831	28,761	+32
Net income per share in €	1.97	2.60	+32
Addition to fixed assets	26,799	23,963	-11
Cash earnings	39,879	46,116	+16
Balance sheet total	370,121	373,198	+1
Equity capital	148,967	165,678	+11
Equity capital in % of balance sheet total	40,2	44,4	+10
Average number of employees for the year	2,132	2,059	-3
Number of employees at 31 December	2,109	2,051	-3
PROFITABILITY INDICATORS IN %			
Sales return	9.4	11.4	
Return on equity	15.6	18.4	
Return on investment	12.8	14.7	

* before restructuring expenses

» GROUP STRUCTURE

SURTECO AKTIENGESELLSCHAFT



» KEY POINTS FOR 2006






€ 403 million sales revenues








€ 400 million barrier broken for the first time

Sales distribution in %

SURTECO Group | By regions

| By products

Germany	36	
Rest of Europe	39	
America	17	
Australia	5	
Asia	3	

Edgebandings	54	
Foils	20	
DIY	5	
Skirtings	5	
Printing	5	
Techn. Extrusions	4	
Other	7	

€ 46 million EBT

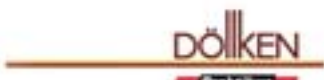
increases disproportionately by 23 %

19.9 % free float

increase by 5.4 %

STRATEGIC
BUSINESS UNIT
PLASTICS

STRATEGIC
BUSINESS UNIT
PAPER



ANNUAL REPORT 2006

SURTECO AKTIENGESELLSCHAFT

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*Dear shareholders and friends
of our company,*

SURTECO AG had a successful year in the fiscal year 2006. Our forecast made at the end of the first quarter was confirmed in predicting slight growth in sales and above-average earnings performance:

- Sales went up by 2 % to € 403.2 million.
- The operating result increased by 4 % to € 71.7 million.
- EBT improved by 23 % to € 46.0 million.

The earnings performance confirms that the correct measures were taken to improve efficiency.

This trend is all the more noteworthy against the background of some growth reported in the furniture industry for 2006, although there were still no signs – particularly in Germany – of tangible momentum in the market let alone a consistent and sustainable upswing. The ongoing uncertainty displayed by consumers as a result of the situation in the employment market and the imminent social reforms contributed to this development. The assumption we made on the basis of the first quarter of 2006 proved to be correct. We predicted that the increase in value added tax that came into force on 1 January 2007 would not lead to a mini-boom in advance of the deadline.

During the year under review, SURTECO AG took strategic decisions geared towards enhancing efficiency and earnings power and further optimizing the portfolio of the Group. Over the course of the year 2006 and at the beginning of 2007, the following key strategic projects were implemented or in the pipeline:

- **Company-based collective wage agreement**
SURTECO and the industrial union for mining, chemicals and energy (IG BCE) concluded a company-based collective wage agreement for the sites in Germany. The key items in the pay agreement are an extension of the weekly working time without wage compensation, new pay groups

and pay rates, and more flexible options for structuring work time to match the capacity situation. The measures will enhance the competitiveness of the domestic sites.

- **Expansion of printing capacities at Bausch Decor**

In May 2006, SURTECO announced that capacities at the wholly-owned subsidiary Bausch Decor GmbH were being expanded. Building work started in 2006 and good progress was made on account of the mild weather conditions.

- **Streamlining the product portfolio at Döllken & Praktikus**

In December 2006, SURTECO announced that the wholly-owned subsidiary Döllken & Praktikus, leading supplier of accessories for flooring and kitchen to the do-it-yourself trade, was intending to streamline its portfolio and promote innovative in-house products as well as supplements to the range that have strong earnings potential.

- **Increase in free float to 19.9 %**

In December 2006, SURTECO also announced successful placement of around 600,000 shares from the ownership of existing shareholders with institutional investors to increase the free float from 14.5 % to 19.9%.

- **Takeover of French trading company SDCA S.A.S.**

In January 2007, SURTECO took over the French trading company SDCA S.A.S. based in Angers by acquiring a 100 % shareholding. The company was integrated within the Strategic Business Unit Plastics under the company name Doellken France S.A.S. The company finishes and markets products for the furniture industry, in particular plastic and melamine edging tapes.



Friedhelm Päfgen, Chairman of the Board of Management

Dr.-Ing. Herbert Müller

- **Purchase of remaining shares in Arbe s.r.l.**

The remaining shares (25 %) in Arbe s.r.l., Martelago, were also acquired in January 2007. This finishing and marketing location will be operated as a joint-venture company of BauschLinnemann GmbH in Sassenberg and Döllken-Kunststoffverarbeitung GmbH in Gladbeck.

We have a clear roadmap for the current business year: Our aim is to come closer to a listing in the SDAX index by further increasing the free float.

We intend to continue the successful course we have charted in our product markets. In other words, we will expand our leading position as a manufacturer and supplier of decorative and sophisticated surfaces. We will continue to pursue dynamic performance and consistently tailor our product portfolio and the organization of the Group to the conditions prevailing in the marketplace.

Assuming that no dramatic changes are expected in the individual markets over the coming year, this approach should ensure a further improvement in sales and earnings.

Organizational reasons mean that our Annual General Meeting will not be held in Munich's Gasteig cultural centre until 31 August 2007. At this event, we will ask our shareholders to consent to converting SURTECO AG into a company under European law (SE). Naturally, we will be forwarding the necessary information and documents relating to this change to you in good time.

At the Annual General Meeting, the Board of Management and Supervisory Board will propose to the

shareholders that a dividend of € 1.00 per share be distributed for the business year 2006 so that our shareholders also participate in the success of the SURTECO Group (2005: € 0.80 per share).

The Board of Management of SURTECO AG would like to take this opportunity to thank all of you – shareholders, customers, suppliers and friends of the company. But most importantly, we should like to extend a big “thank you” to the members of our workforce.

We are only too well aware that success is ultimately the result of a combined effort by everyone. Your dedication and commitment have played a key role in contributing to our ambitious goals.

Yours sincerely,

Friedhelm Päfgen
Chairman of the Board of Management

Dr. Ing. Herbert Müller
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	
Hans-Jürgen Diesner	Marketing Salesman Vermold	Employee Representative
Jakob-Hinrich Leverkus	Businessman Hamburg	
Richard Liepert	Chairman of the Works Council Wertingen	Employee Representative
Christa Linnemann	Businesswoman Gütersloh	Honorary Chairwoman
Dr.-Ing. 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		SBU PLASTICS	
BAUSCH DECOR GMBH Buttenwiesen-Pfaffenhofen	Wolfgang Buchhart	DÖLLKEN- KUNSTSTOFFVERARBEITUNG GMBH Gladbeck	Oliver Beer Klaus Peper Hartwig Schwab
BAUSCHLINNEMANN GMBH Sassenberg	Martin Janssen Dr.-Ing. Gereon Schäfer	VINYLIT FASSADEN GMBH Kassel	Stefan Schmatz
BAUSCHLINNEMANN CHINA Taicang	Yabin Li	SURTECO AUSTRALIA PTY. LTD. Sydney, Australia	Marc Taylor
BAUSCHLINNEMANN UK Burnley	Kenneth Green	DOELLKEN PTE LTD. Singapore	Hans Klingeborn
BAUSCHLINNEMANN SINGAPORE Singapore	Hans Klingeborn	PT DOELLKEN BINTAN Bintan, Indonesia	Hans Klingeborn
BAUSCHLINNEMANN NORTH AMERICA Greensboro	Mike Phillips	DOELLKEN FRANCE S.A.S. Angers	André Plank
ARBE S.R.L. Martellago, Italy	Sergio Bellato	DÖLLKEN-PROFILTECHNIK GMBH Dunningen	Hartwig Schwab
KRÖNING GMBH & CO. Hüllhorst	Reinhold Affhüppe	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 Wolfgang Breuning Hartmut Trommen
		DOELLKEN-WOODTAPE LTD. Mississauga, Canada	Jürgen Krupp Tom Rieke Peter Schulte
		DOELLKEN CANADA LTD. Mississauga	Tom Rieke
		CANPLAST CANADA LTD. Montreal	Tom Rieke Pierre Tiernan
		DOELLKEN-WOODTAPE INC. Everett, USA	Tom Rieke
		DOELLKEN USA INC. Everett	Tom Rieke
		CANPLAST USA INC. Greensboro	Tom Rieke Pierre Tiernan

*Dear shareholders,
partners and friends
of our company*

The Supervisory Board regularly and intensively addressed the position and performance of SURTECO AG during the year under review. The basis for the monitoring function of the Supervisory Board was formed by comprehensive, written and verbal reports by the Board of Management. The Supervisory Board was always kept informed about the intended business policy, the corporate plans including finance, investment and personnel planning, the profitability of the company, the current business situation, and the economic position of the company and the Group overall.

If decisions or measures taken by the Board of Management required agreement on account of legislation, the articles of association or rules of procedure, the Members of the Supervisory Board, having been briefed by its committees, reviewed the proposals for resolutions in its meetings, or adopted them on the basis of written information. The Members of the Board of Management took part in the meetings of the Supervisory Board. The Supervisory Board was involved in all key decisions relating to the company. The economic situation presented in

reports by the Board of Management and the development perspectives of the Group, the individual business areas and the important participations in Germany and abroad were the subject of careful and detailed discussion.

The Supervisory Board convened for four meetings during the course of the fiscal year 2006. Two of these meetings took place in the first calendar half year and two further meetings in the second calendar half year. The Chairman of the Supervisory Board also maintained regular telephone and personal contact with the Board of Management, in order to continue providing advice on key items of business policy and strategic issues. No Member of the Supervisory Board took part in less than half the meetings.

FOCUSES OF ADVICE AND CONSULTATION IN THE SUPERVISORY BOARD

During the year under review, the Supervisory Board addressed the reporting of the Board of Management in detail and discussed the position of the company and the business strategy on the basis of the latest business figures available for the company. The risks and rewards of a drive to expand abroad were a particular focus of attention. The latest relevant indicators of the Strategic Business Units in the SURTECO Group (SBU Paper and SBU Plastics) and the subsidiary companies and participations were presented by the Board of Management at the meetings of the Supervisory Board where they were analyzed. The Members of the Supervisory Board addressed questions on individual items to the Members of the Board of Management and the Members of the Board of Man-



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

agement gave comprehensive responses to these questions. The plans for the fiscal year 2007 submitted by the Board of Management were reviewed by the Supervisory Board, and discussed and unanimously adopted at the meeting with the Board of Management on 20 December 2006.

The economic environment in which the company is operating was also discussed by the Supervisory Board. The situation of the most important customers was also discussed, in particular in the light of the increased prices for raw materials being experienced by the furniture processing industry. The strategic direction of the group of companies was also subject to continual monitoring by the Supervisory Board. At the same time, it was also established that the measures instituted in the previous year with the approval of the Supervisory Board had achieved positive effects and the Supervisory Board was in agreement with the overall strategic direction of the company.

The Supervisory Board agreed scrutinized the Annual Financial Statements and the Consolidated Financial Statements of SURTECO AG for the year 2005 prepared by the Board of Management at the meeting on 24 April 2006. The financial statements were then approved.

At the meetings on 24 April 2006 and 22 June 2006, the Supervisory Board addressed in particular detail the expansion of Bausch Decor GmbH and the acquisition of two new printing machines. The Board of Management had drawn up a comprehensive investment plan on this agenda item, which was submitted punctually to all the Members of the Supervisory Board. On the basis of this investment plan, the Board of Management presented and explained the expansion of capacity associated with the acquisition, the profitability of the plant and equipment and the

associated strategic objective. The Supervisory Board intensively addressed the presentation by the Board of Management and associated documents and subjected to the assumptions being made by the Board of Management to critical questioning and analysis, including the ensuing effects if the investment were not carried out. Following intensive discussion, investment in two printing machines was agreed.

Other investments which the Supervisory Board agreed to within the scope of the investment budget for 2007 affected BauschLinnemann GmbH and Kröning GmbH & Co. All these investment decisions were also based on written and oral reports submitted by the Board of Management which were discussed at meetings of the Supervisory Board.

At the meeting of the Supervisory Board held on 12 October 2006, the Supervisory Board appointed Dr.-Ing. Herbert Müller for a further term of five years as a Member of the Supervisory Board.

At the meeting on 20 December 2006, the Supervisory Board agreed to the acquisition of the French company SDCA S.A.S. (today Doellken France S.A.S.). The consent was based on appropriate written and oral reports by the Board of Management that were discussed in detail by the Supervisory Board. The acquisition will enable the company to expand representation in Western Europe, alongside the United Kingdom and Italy, with a further presence in the important French market through its own subsidiary. During the year under review, the Supervisory Board also addressed further acquisition options. The Board of Management also submitted detailed oral and written reports on each of these options, including the indicators for the target companies and the results of due diligence. These reports and the information about the target companies were the subject of extensive discussion in the Supervisory Board. Howev-

er, these projects did not come to fruition. Nevertheless, the Board of Management will also continue to review the opportunities that are presented for external growth through company acquisitions and explore the options for organic growth. The Board will follow up any routes that seem appropriate.

Another focus of attention in the Supervisory Board was the conversion of the company to a European company (*Societas Europaea*, SE). The concept and the legal and economic consequences of the conversion were presented to the Supervisory Board in the form of written and oral reports. The Supervisory Board discussed and approved these reports. A proposal for a resolution will be submitted to the Annual General Meeting on 31 August 2007 for approval.

WORK OF THE COMMITTEES

In order to discharge its duties, the Supervisory Board formed an Audit Committee and a Personnel Committee. There is also a Presiding Board pursuant to the rules of procedure of the Supervisory Board. During the year under review, the Presiding Board comprised Dr. Jürgen Großmann (Chairman), Björn Ahrenkiel, Bernd Dehmel and Dr. Matthias Bruse. During the year under review, the Personnel Committee comprised Dr. Jürgen Großmann (Chairman), Björn Ahrenkiel and Dr. Matthias Bruse. During the year under review, the Audit Committee comprised Dr. Jürgen Großmann (Chairman), Björn Ahrenkiel, Dr. Matthias Bruse and Dr. Walter Schlebusch.

The **Presiding Board of the Supervisory Board** prepares the resolutions of the Supervisory Board if they relate to measures requiring the consent of this committee. In urgent cases, the rules of procedure permit the Presiding Board to take the place of the Supervisory Board and grant consent to specific measures and transactions requiring approval. However, the Presiding Board was not obliged to meet during the year under review. The Presiding Board did not need

to grant consent for measures and transactions requiring consent in urgent cases, since the appropriate matters were dealt within in plenary sessions of the Supervisory Board.

The **Audit Committee** addressed issues relating to accounting and risk management, the mandatory independence of the auditor, commissioning the auditor to carry out the audit and the agreement of the fee. The audit committee had one meeting during the course of the fiscal year on 20 April 2006.

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 as well as the pensions of former members of the Board of Management. The power to appoint Members of the Board of Management is held by the full Supervisory Board. During the year under review, the Personnel Committee had one meeting, in order to reach agreement on issues relating to contracts for Members of the Board of Management.

Reports prepared by the meetings of the committees are submitted to plenary sessions of the Supervisory Board.

CORPORATE GOVERNANCE

SURTECO AG complies with the German Corporate Governance Code, which defined the control, management and organization of a company, and its business principles and guidelines. The Supervisory Board addressed the ongoing development of the corporate governance principles and took into account the amendments to the German Corporate Governance Code made in June 2006. Within the scope of the efficiency inspection (item 5.6 of the German Corporate Governance Code), the Supervisory Board carried out a self-evaluation of its members and discussed the results in the plenary session of the Supervisory Board. A new Declaration of Compliance

was submitted by the Board of Management and the Supervisory Board on 20 December 2006. 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.

ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS, AUDITING

The consolidated financial statements for the fiscal year 2006 were prepared on the basis of the principles of the International Financial Reporting Standards (IFRS). The auditors, Dr. Röver & Partner KG, (auditors and tax consultants), audited the Consolidated Financial Statements and the Annual Financial Statements of SURTECO AG, the Management Report and the Consolidated Management Report. The auditor explained the auditing principles in his audit report. The result of the audit confirmed that SURTECO complied with all International Financial Reporting Standards. The Consolidated Financial Statements were granted an unqualified audit opinion with no objections. The Annual Financial Statements and Management Report, the Consolidated Financial Statements and Consolidated Management Report, and the audit reports of the auditor were submitted punctually. Intensive discussions were carried out in the Audit Committee relating to the financial statements. At the balance-sheet meeting held on 24 April 2007, the Supervisory Board also discussed these documents intensively in the presence of the auditor and on the basis of a report by the auditor.

We examined the Annual Financial Statements, the Management Report and the proposal for appropriation of profit, as well as the Consolidated Financial Statements, and the Consolidated Management Report. We have no objections. We therefore concur with the result of the audit. The Supervisory Board approves the Annual Financial Statements and the Consolidated Financial Statements prepared by the Board of Management. The Annual Financial

Statements have therefore been adopted. We are in agreement with the Management Reports and in particular with the assessment of the ongoing development of the company. This also applies to the dividend policy and the decisions on reserves in the company. We agree with the proposal by the Board of Management for the appropriation of net profit that recommends payment of a dividend of € 1.00 for each no-par-value share.

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, in April 2007

The Supervisory Board



Dr.-Ing. Jürgen Großmann
Chairman

PREAMBLE

SURTECO AG aims to continuously strengthen the trust placed in the company by national and international investors, business partners and employees, and the public, over the long term. In view of this commitment, SURTECO AG is dedicated to compliance with the recommendations of the German Corporate Governance Code, the key statutory regulations on the management and monitoring of the company and recognized standards of good and responsible corporate management. This report outlines the high priority accorded to corporate governance at SURTECO AG. It closes with the Declaration of Compliance for 2006 adopted jointly with the Board of Management and the Supervisory Board.

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 is authorized 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. He is responsible for ensuring the smooth-running of 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 is provided for the meeting. Minority shareholders are entitled to convene an Annual General Meeting and to request an extension to the agenda. 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.

Ensuring that the Supervisory Board is provided with adequate information is a joint function of the Board of Management and the Supervisory Board. 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. The Board of Management and the Supervisory Board observe the rules of proper corporate management. The Annual Report by the Board of Management and the Supervisory Board on corporate governance also pro-

vides details of deviations from the recommendations of the code. Declarations of Compliance on the code that are no longer current are kept accessible on the Internet site of SURTECO AG for five years

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. The Members of the Board of Management are committed to the interests of the company. Important transactions require the consent of the Supervisory Board.

SUPERVISORY BOARD

The function of the Supervisory is regularly to monitor the actions of the Supervisory Board in the management of the company and to provide advice. 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 who 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, who 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 insider information that relates directly to the company, insofar as it is not individual cases exempt from publication.

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 3, 5, 10, 15, 20, 25, 30, 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 per-

sons. 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. The Internet site has a user-friendly structure. All information is also published in German and English.

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 and audited by the auditor and by the Supervisory Board. 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 2006 pursuant to Clause § 161 Sentence 1 of the Stock Corporation Act (AktG):

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

I. The Board of Management and the Supervisory Board declare that the recommendations on conduct by the “Government Committee on the German Corporate Governance Code” in the version dated 2 June 2005 published in the electronic Bundesanzeiger were implemented in full during the past business year with the following exceptions:

1. In accordance with the resolution of the Annual General Meeting adopted on 22 June 2006, details of remuneration for Members of the Board of Management 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 and 4.2.4 of the Code).

2. In accordance with the resolution of the Annual General Meeting adopted on 22 June 2006, 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 of the German Corporate Governance Code in the version dated 12 June 2006 were complied with since this date and such compliance will continue with the following exceptions:

1. In accordance with the resolution of the Annual General Meeting adopted on 22 June 2006, details of remuneration for Members of the Board of Management are not listed individually. In accordance with the resolution, a remuneration report will also not be drawn up pursuant to section 4.2.5 of the Code. 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 subsection 4, 4.2.4 and 4.2.5 of the Code).

2. In accordance with the resolution of the Annual General Meeting adopted on 22 June 2006, 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).

SURTECO AKTIENGESELLSCHAFT
Board of Management and Supervisory Board“

Buttenwiesen-Pfaffenhofen,
20 December 2006

SURTECO GROUP AND SURTECO AG

BUSINESS ACTIVITY

OVERVIEW

The SURTECO Group mainly manufactures coating products that are used to refine surfaces with decorative designs in the production of furnishings and interior fittings. The majority of the applications involve particle boards being coated with finish products. This means that a single application of these materials provides the surface with the final characteristics in a single operation and without any follow-up treatment. The individual coating determines the visual appearance, tactile properties and utilitarian characteristics. The core competence of the Group lies in using edgebandings to apply technically sophisticated coatings to the side sections of wood materials. These products are either extruded plastics (Strategic Business Unit (SBU) Plastics) or are manufactured on the basis of papers for technical applications (Strategic Business Unit (SBU) Paper). SURTECO generates 54 % (2005: 51 %) of total revenue with edging products. Paper-based foils in a wide range of textures and qualities represent a further 20 %. Döllken-Weimar GmbH and Döllken & Praktikus GmbH contributed 10 % to consolidated revenue during the year under review. The product range is completed with specialized papers (5 %) printed with decorative designs, technical extrusions (profiles) and roller shutter systems (together 4 %) and cladding systems from SURTECO subsidiary Vinylit Fassaden GmbH (2 %).

ORGANIZATION AND BUSINESS UNITS

The holding company of the SURTECO Group is SURTECO AG, Buttenwiesen-Pfaffenhofen, Bavaria. SURTECO AG does not carry out any operating activities and fulfils all the functions of a holding company. These include the definition and management of corporate goals, allocating resources, refinancing

the Group and risk management. Operational management of the subsidiary companies is the responsibility of the executive managers of the Group companies since they are operated as independent legal entities. The operating business is divided between the two Strategic Business Units Plastics and Paper.

BUSINESS UNIT PLASTICS

The Business Unit Plastics is represented by the Döllken group of companies with the parent company W. Döllken & Co. GmbH in Gladbeck. Döllken-Kunststoffverarbeitung GmbH, also based in Gladbeck, generates the lions' share of revenues. Plastic edgebandings are the main product manufactured at this location. Vinylit Fassaden GmbH in Kassel, SURTECO Australia Pty. Ltd. in Sydney, Doellken PTE Ltd. in Singapore, PT Doellken Bintan in Indonesia and rebranded sales company Döllken France S.A.S. based in Angers (acquired at the start of 2007) are wholly owned subsidiaries of Döllken-Kunststoffverarbeitung. Döllken-Profiltechnik GmbH in Dunningen was hived off from Döllken-Kunststoffverarbeitung GmbH during the year under review and established as an independent business group. A wide range of technical extrusions is manufactured from plastics by this company.

The Döllken & Praktikus GmbH group of companies based in Gladbeck including the subsidiary company Döllken & Praktikus Sp.z o.o. in Poland and Döllken-Weimar GmbH in Nohra specializes in products for professional floor layers and wholesale supply of ranges for building suppliers and do-it-yourself stores. The American market is served by the companies Doellken-Woodtape and Canplast, including their sales companies distributed throughout the American continent. In the USA and Canada the SBU Plastics manufactures high-quality plastic edgings.

BUSINESS UNIT PAPER

BauschLinnemann GmbH based in Sassenberg/Westphalia is the principal engine for generating revenues in the Strategic Business Unit Paper. The company manufactures coating products such as edgebandings and flat foils based on raw papers for technical applications at the Sassenberg and Buttenwiesen-Pfaffenhofen sites.

In addition to subsidiary company Kröning GmbH & Co. in Hüllhorst, BauschLinnemann also has sales bases at key strategic locations (China, North America, Singapore, Great Britain, Italy). These sites have their own finishing facilities that permit them to react to demand at short notice and tailor products to individual customer requirements.

Another important mainstay of the SBU Paper is Bausch Decor GmbH located in Buttenwiesen-Pfaffenhofen. This company manufactures specialist papers printed with decorative designs to meet internal requirements at BauschLinnemann and for a wide range of external customers.

ECONOMIC FRAMEWORK CONDITIONS

GLOBAL ECONOMY CONTINUES TO GROW

According to assessments by experts at the International Monetary Fund (IMF) and the Organization for Economic Development (OECD), 2006 was again a good year for the global economy. The IMF calculated that international output increased by 5.1 %, despite some increases in raw material costs, in particular metal prices. Crude oil prices were subject to strong fluctuations over the course of the year. Following an interim record level of some € 78 a barrel, the price at the close of the year was again approaching prices in the range of € 60 recorded at the start of the year under review. The most important central banks in

the world reacted to the potential inflationary rise by raising base interest rates several times. This policy also exerted a stabilizing influence on the currency side. However, the US dollar conceded more than 10 % against the euro in a year-on-year comparison with a year-end closing price of 1.317 US dollars for a euro.

Almost all the key industrial nations recorded good growth rates. The USA achieved an improvement in aggregate output amounting to 3.4 %. According to the OECD, growth in the euro zone is likely to have been 2.7 %. Statistics from the German Statistical Office also indicate an increase of 2.7 %.

CHANGE IN TREND IN THE FURNITURE INDUSTRY?

For the first time in recent years, the key trend in the furniture industry for the operating business of SURTECO AG was gratifying during the fiscal year 2006. The Federal Association of German Furnishing, Kitchen and Fittings Trade (BVDM) was in a position to report an increase of more than 3 % after four years of negative results. Improvements in private consumption and the positive effects of upward movement in the construction sector were the key drivers for this turnaround.

While domestic sales only advanced slightly, furniture exports climbed by an impressive 15 %. Despite all the positive signs, the German furniture industry has still not undergone a full recovery. Sales prices in Europe only increased by 0.5 %, although the cost of raw materials – primarily for wood – went up by an average of some 30 %. This is also reflected in the ongoing process of concentration taking place in the furnishing trade. Over the course of the last five years, around 20 % of market players have disappeared.

STRIPED DESIGN

Fresh, colourful alternative



Striped designs are the latest trend in decorative design. They present a fresh, colourful alternative to single solid colours and they can be used as a contrast edging or for decorative integration. Döllken has a wide range of different options available. The new "Multico Line" design series is just one of these options. It takes the form of a striped edging that highlights a colourful interplay of varied colours and forms the ideal combination partner for gloss solid-colour panels. These stylish edging decors are ideal for with children's and teenagers' furniture, shop construction, gastronomy and bathrooms.

JUMP

The original accent decor



Original design ideas can be achieved with the profile decor design “Jump” developed exclusively at BauschLinnemann. This dynamic decor design with a width of 635 mm can be individually configured in small batches and processed further as front panels, panelling, skirtings or edging. Jump demonstrates a symmetrical balance with its abstract line. A multitude of variations is possible ranging from achieving a match with structural wood decors to modern, provocatively colourful designs with a stylish look. Clearly defined, versatile and universal – designs from a new generation.

SURTECO GROUP 2006 AGAIN SUCCESSFUL

The SURTECO Group recorded a moderate increase in sales during the fiscal year 2006 and above-average earnings performance. This success was due to a large number of measures taken by the Group as a reaction to changes in the marketplace and increasingly intensive competition.

The SBU Plastics again established a series of new, innovative products in the market during the course of 2006 geared towards strengthen its leading position in the market, particularly for plastic edgings and wall edging strips. Döllken-Kunststoffverarbeitung at the Gladbeck site will be concentrating on the main segment of plastic edgings in future, while Döllken-Profiltechnik in Dunningen has taken over production of technical extrusions including roller shutter systems. The USA edging business is being served by the companies in the Woodtape and Canplast Group. Unprofitable products were eliminated from the product range and sales were consequently lower in 2006. The management acknowledged the consequences of the changed market conditions in the do-it-yourself sector and will focus on high-quality in-house products made of plastic in this low-margin business. Cladding manufacturer Vinylit will focus increasingly on aspects such as insulation, energy savings and ecology.

In the area of the SBU Paper, the merger between Bausch and Linnemann to form BauschLinnemann GmbH has exerted a positive effect on synergies and production efficiency in the SBU Paper. The global market leader for paper-based edgings is experiencing market conditions that are gradually deteriorating. Competitive pressure is rising as a result of the increasing number of competitors which are becoming established in individual product niches and penetrating saturated markets. Moreover, the main customers for coating materials based on paper are not winners of the upswing in the economy and they are having to continue battling with overcapacity and shortfalls in utilization. For example, the door industry

was only operating at two thirds capacity during the year under review. The trend towards replacing paper-based edgebandings with plastic edgings like those supplied by the SBU Plastics will continue to gather strength. BauschLinnemann is reacting to these problems with further measures to cut costs within the scope of the continuous improvement process and by opening up new markets, particularly in Eastern Europe and Asia.

Bausch Decor GmbH increased export sales by 22 % in 2006 and is increasing capacity by commissioning two advanced rotogravure printing presses in order to be in a position to meet increasing demand within a reasonable timeframe.

SALES AND INCOME SITUATION

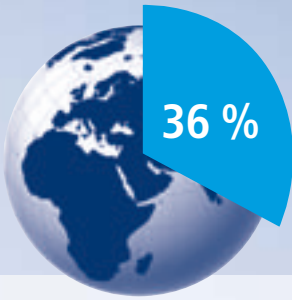
GROUP SALES UP BY 2 %

In line with expectations, sales grew to € 403.2 million (+2 %) during the year under review. Domestic sales generated € 145.6 million (+2 %) and hence represent 36 % of total business. Foreign business also advanced by 2 % to € 257.6 million. Slight setbacks in North America and Asia were balanced by increases in the European core markets, so that the percentage of foreign sales remained at 64 %.

SBU PLASTICS CONTINUES UPSWING

The success story of the Döllken companies grouped under the Strategic Business Unit Plastics within the SURTECO Group reached a new high point during the year under review. Sales of plastic products increased by 3 % to € 231.3 million. However, the fact that this growth was generated exclusively in foreign markets clearly reflects the strategic streamlining of the product portfolio in the do-it-yourself retail trade and the ongoing difficult commercial situation being experienced by German customers. German sales just above the year-earlier high (€ 83.8 million) is ex-

**GERMANY
OF SALES OF THE SURTECO GROUP**



tremely noteworthy, against the background that the group had to overcome a decline of nearly 3 % in the previous year and in view of the tangible upswing in the construction industry only occurred over the course of the second half of 2006. Foreign business went up overall by € 7.1 million or 5 % to € 147.5 million. The SBU Plastics was able to make significant use of its advantages within European countries outside Germany: product innovations, quality and speed. These attributes were instrumental in expanding sales by 14 %. The future markets in Eastern Europe were able to support this development on account of their rapid growth. Sales figures for America fell back by 5 % on account of strategic rationalization of the product range at the product sites located there since this resulted in losses of individual customers and sale of the wood ve-

neer business during the course of the year. In Asia (-3 %), the group of companies faced up to the challenge of tough competitive pressure by expanding local production. Alongside the production site at Bintan/Indonesia, two new production plants are coming onstream in Taicang/China during the course of 2007. The Australian market continues to grow and the SBU reported growth of 4 %. SURTECO Australia is responsible for this continent and the company is the biggest supplier of edgebandings in this area.

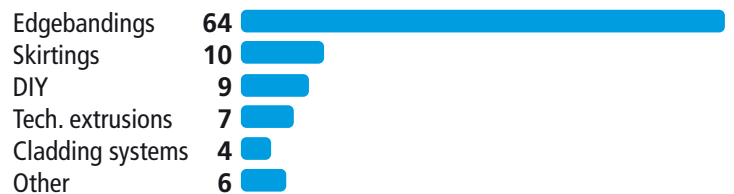
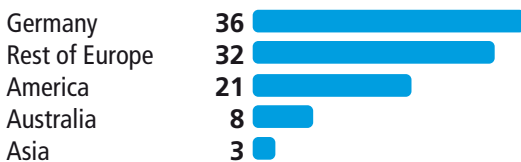
SALES DISTRIBUTION IN %

BY REGIONS

BY PRODUCTS

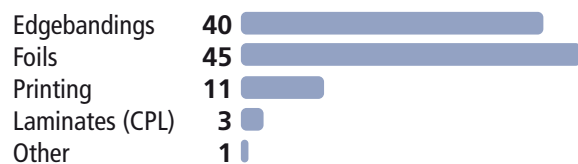
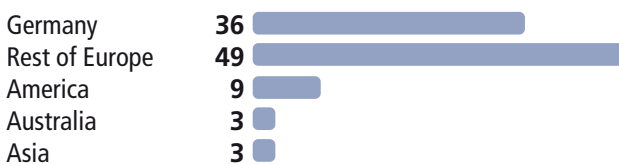
Strategic Business Unit Plastics

Share of total sales: 57 %

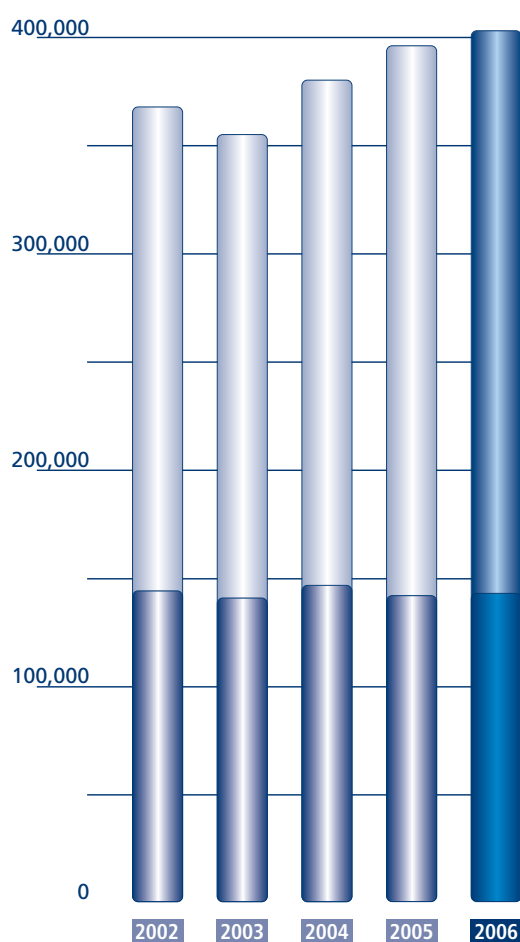


Strategic Business Unit Paper

Share of total sales: 43 %



SURTECO GROUP
SALES REVENUES IN € 000s



Abroad	221,615	213,858	232,181	253,329	257,610
Germany	146,027	141,179	148,247	143,043	145,546

TOTAL 367,642 355,037 380,428 396,372 403,156

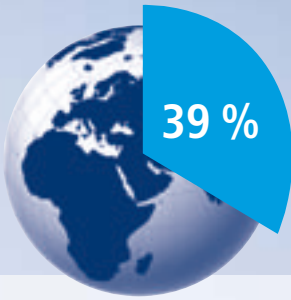
SBU PAPER MAINTAINS PREVIOUS YEAR'S LEVEL

Coating products based on raw papers for technical applications are operating in a difficult market environment despite the general improvement in economic conditions. In particular, competing decorative printers are increasingly adopting a strategy of forward integration. They are building on decorative printing of preimpregnated substrate materials by incorporating subsequent varnishing and then finishing and marketing the products as finish foils. This impacts negatively on sales generated by the Strategic Business Unit Paper. However, the SBU succeeded in almost matching the previous year's sales at € 171.9 million after having had to overcome a decline of 4 % in the previous business year. Foreign sales fell back slightly at € 110.1 million. Domestic business rose by € 2.2 million to € 61.8 million (+4 %).

PRODUCT MIX FAVOURS PROPORTION OF COST OF MATERIALS IN RELATION TO TOTAL OUTPUT

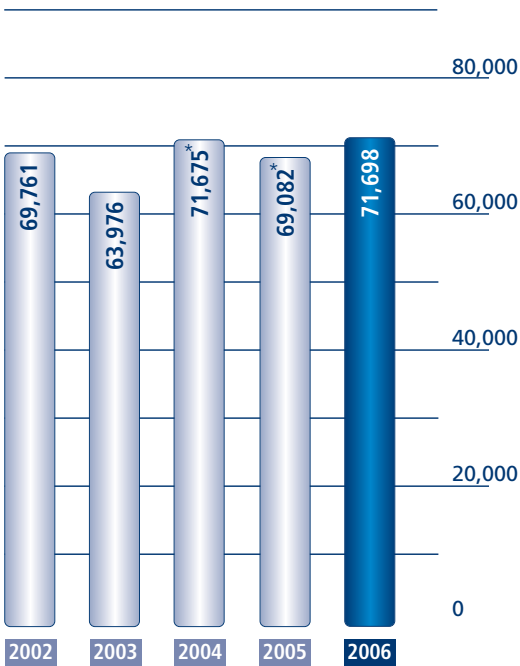
The cost of materials in absolute figures rose slightly by € 0.7 million during the year under review. However, as a proportion of total output at 42.6 % the percentage was slightly more favourable than the previous year by 0.5 percentage points. This is mainly due to a change in the product mix to edging products requiring more intensive processing. The volume and schedule of supplies was maintained during the year under review for all raw materials. The development of purchase prices in some lines, exerted a serious effect particularly in chemical products. The procurement costs for PVC, one of the most important raw materials, were higher than ever before in 2006. This complex problem was manifested even more clearly in North America. Some urea and melamine impregnating resins used in the refinement of papers were also affected by price increases. By contrast, the procurements costs for raw pa-

REST OF EUROPE OF SALES OF THE SURTECO GROUP



SURTECO GROUP

EBITDA IN € 000s

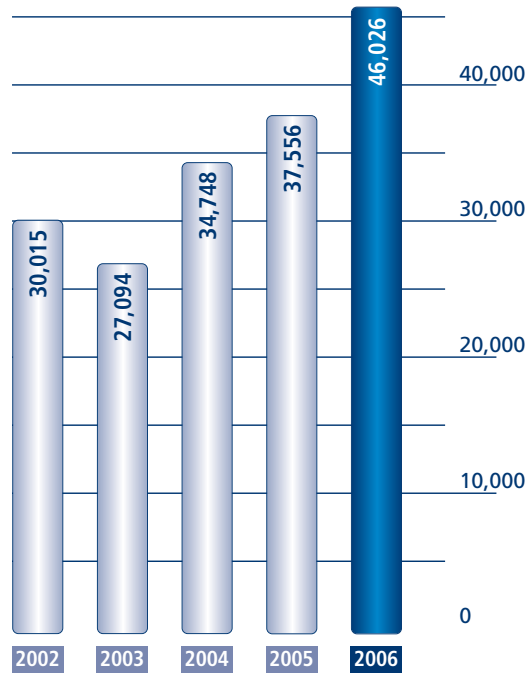


* before restructuring expenses
(2004: € 000s 1.329, 2005: € 000s 3.871)

pers and printed decorative papers remained stable. Charges for energy supply during the year under review were below the costs for the previous year. This is due to the fixed price agreement for electricity until 31 December 2006 and the slight drop in oil and gas prices. A significant rise in energy costs is projected for 2007.

SURTECO GROUP

EBT IN € 000s



RECORD RESULT FOR THE SURTECO GROUP

The SURTECO Group generated an operating result (EBITDA) of € 71.7 million during the year under review. This exceeded the result for the previous year by 4 %. This yields an EBITDA margin of 17.8 % for 2006, up by 0.4 percentage points on the year-earlier figure.

Depreciation and amortization remained at the same level as the previous year. EBIT at € 54.1 million exceeded the equivalent year-earlier figure by 5 %. The EBIT margin rose correspondingly to 13.4 %. (2005: 12.9 %).

The financial result at € 8.1 million remained below the value of € 9.9 million for the previous year. Apart from interest income (€ 0.4 million, 2005: € 0.7 million), interest expenses are also noteworthy at € 9.1 million – € 0.8 million below the level for 2005. The result from the market value of financial derivatives developed from € -0.8 million to € 0.5 million. The changes result from the reduction in financial debt and a favourable market trend in interest and currency hedging instruments.

Comparison of the result for ordinary activities with the value for the previous year shows growth of 11 % to € 46.0 million. After deduction of restructuring costs in the fiscal year 2005, EBT during the year under review recorded an increase of 23 %.

Consolidated net income for the SURTECO Group amounted to € 28.8 million (+32 %) in 2006. Net income per share (earnings per share) also rose by 32 % to € 2.60 (2005: € 1.97).

RESULT FOR THE SURTECO AG

Over the course of 2006, SURTECO AG generated a result for ordinary activities in accordance with the German Commercial Code (HGB) amounting to € 27.8 million (2005: € 23.9 million). Net income for the year rose to € 19.3 million. Compared with the previous year, this represents an increase of € 4.8 million or 33 %.

RISING DIVIDEND

The Board of Management and Supervisory Board will recommend to the Annual General Meeting of shareholders to be held in Munich on 31 August 2007 that a dividend of € 11,075,522.00 be paid out of net profit of € 11,079,311.54 for the fiscal year 2006. This corresponds to € 1.00 per share (2005: € 0.80). € 3,789.54 will be carried forward as profit.

FINANCIAL POSITION AND NET ASSETS

The following analyses and descriptions explain the financial indicators¹ of the SURTECO Group. They confirm the very gratifying overall development of the net assets, financial position and results from operations.

VALUE ADDED UP BY € 4.5 MILLION

The net value added generated during the year under review increased by 2.9 % to € 157.0 million (2005: 152.5 million). This is primarily due to an increase of € 3.3 million in company output and the decline in other expenses by € 1.4 million. The value added ratio increased to 38.9 % (2005: 38.5 %). The decline in distribution of value added to employees was due to the restructuring expenses amounting to € 3.2 million recognized in the previous year.

FINANCIAL MANAGEMENT AND LIQUIDITY

The function of financial management is to ensure sufficient liquid assets are available to cover the financial requirements of the Group companies for operating business and for investments. Financial management is carried out centrally by SURTECO AG, in order to exploit synergy effects based on greater financial volume. We refer to section IX (24, 25, 29) in relation to the areas of finance and financial instruments.

¹ The method of calculation for financial indicators is explained at the end of the Management Report.

AMERICA OF SALES OF THE SURTECO GROUP



SURTECO GROUP

VALUE ADDED CALCULATION

	2005 € 000s	in %	2006 € 000s	in %
Sales revenues	396,372		403,156	
Other income	13,336		9,804	
Corporate performance	409,708	100.0	412,960	100.0
Cost of materials	-173,071	-42.2	-173,815	-42.1
Depreciation and amortization	-18,179	-4.4	-17,612	-4.3
Other expenses	-65,930	-16.1	-64,547	-15.6
Generation of value added (net)	152,528	37.2	156,986	38.0
Shareholders (dividend)	8,860	5.8	8,860	5.6
Employees (personnel expenses)	104,283	68.4	102,407	65.2
Government assistance (taxes)	15,569	10.2	17,068	10.9
Lenders (interest)	10,689	7.0	8,553	5.4
Minority interests	156	0.1	197	0.1
Distribution of value added	139,557	91.5	137,085	87.3
Remaining in the company (value added)	12,971	8.5	19,901	12.7

SURTECO GROUP

LIQUIDITY INDICATORS

	2005 in %	2006 in %
Cash ratio	2.3	2.0
Quick ratio	48.2	39.9
Current ratio	103.1	93.9
Liquidity ratio	0.6	0.6
Operating debt cover	29.4	36.3

VINYPLUS

Cladding system in solid colours or wood decor



Vinylit has created vinylPlus to provide another cladding system for suspension on the underlying structure with a ventilation space between the cladding elements and the wall. This has been successfully launched in the European market. The carrier extrusion is made of high-quality plastic and the surface is laminated with a coloured foil. This provides a UV-resistant, colour-fast facade surface with a long lifetime and an attractive visual appearance. vinylPlus is an easycare material. Normal dirt and grime can easily be removed from the laminated surface and this reduces the costs of maintenance to a minimum. vinylPlus can be used to provide cladding for complete residential developments. It can also be used to clad specific areas such as gables, dormer windows, roof undersides, garage doors, garden sheds and parapets.

BREWERY OAK

Vintage – the attraction of a genuine classic

The English word “vintage” signifies high quality associated with the year of production. Experts talk about vintage wine, vintage furniture and vintage fashion. This trend has been evident in flooring for many years now. The latest collection from Bausch Decor demonstrates historic flair with Brewery Oak. The reproduction of a tradition brewery truly reflects the original right down to the unusual nail effect.

CASH FLOW STATEMENT

Cash flow from operating activities rose by € 4.0 million to € 66.6 million compared with the equivalent value for the previous year. In particular, the change in working capital (2006: € -2.4 million, 2005: € +3.2 million) – caused by the volume-rated increase in portfolio – impacted on cash flow. Payments for income tax resulting from company audits caused cash flows from operating activities to fall below the value for the previous year.

Investments in property, plant and equipment advanced by € 1.3 million compared with the previous year. One-off effects in 2005 from asset disposals (sale of the North American veneer business) generated unusually high cash inflows from asset disposals. In 2006, this led to an increase of € 3.7 million in cash outflows for investments during 2006.

Cash flow from finance activity showed a simultaneous increase in short-term debt amounting to € 17.5 million for scheduled settlement of activities, while settlement of long-term debt posted € 22.1 million. Cash outflow totalling € 20.7 million is primarily due to dividend and interest payments.

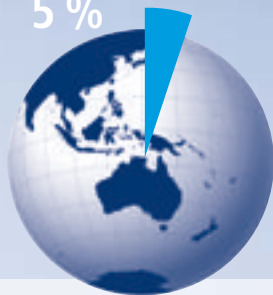
SURTECO GROUP

CHANGE IN FINANCIAL RESOURCES AT 31 DECEMBER

	in € 000s	2005	2006
Cash flow from current business operations		49,075	43,749
Cash flow from investment activities		-19,313	-22,992
Cash flow from financing activities		-32,033	-20,733
Change in cash and cash equivalents		-2,271	

AUSTRALIA OF SALES OF THE SURTECO GROUP

5 %



SURTECO GROUP

CALCULATION OF FREE CASH FLOW, CASH EARNINGS

	in € 000s	1 Jan. to 31 Dec. 2005	1 Jan. to 31 Dec. 2006
Cash inflow from operating activity		62,586	66,584
Tax payments		-13,511	-22,835
Investments in property, plant and equipment		-22,338	-23,601
Investments in intangible assets		-2,557	-341
Cash inflow from asset disposals		7,419	950
Free cash flow		31,599	20,757
Cash earnings in € million		39,879	41,116
Ratio of cash earnings to total output in %		9.9	11.3

Free cash flow fell from € 31.6 million to € 20.8 million on account of high tax payments.

SURTECO GROUP

BALANCE SHEET STRUCTURE

	31/12/2005 € 000s	Percentage in the balance sheet total in %	31/12/2006 € 000s	Percentage in the balance sheet total in %
ASSETS				
Current assets	101,080	27.3	104,027	27.9
Non-current assets	262,103	70.8	264,204	70.8
Deferred tax assets	6,938	1.9	4,967	1.3
Balance sheet total	370,121	100.0	373,198	100.0
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities	88,483	23.9	98,959	26.5
Non-current liabilities	116,008	31.4	91,222	24.4
Deferred tax liability	16,663	4.5	17,339	4.7
Equity capital	148,967	40.2	165,678	44.4
Balance sheet total	370,121	100.0	373,198	100.0

STRENGTHENING THE CAPITAL BASE BY € 16.7 MILLION

On the basis of the good financial performance during the fiscal year 2006, the balance-sheet relations continued to improve. The capital base of the SURTECO Group was further strengthened by € 14.3 million as a result of a reduction in debt. This led to a significant increase in the capital ratio of 4.2 percent points to 44.4 %.

The **balance sheet total** only increased marginally by € 3.1 million to € 373.2 million during the year under review. This is essentially due to the increase in current and non-current assets of € 2.8 million and by € 2.2 million respectively, with a corresponding decline of € 1.9 million in deferred tax assets.

Current assets increased by 3 % and trade accounts receivable went up by € 3.8 million (11.5 %) to € 30.0 million, while inventories increased by € 6.0 million (11.1 %) to € 59.9 million. Enhanced asset management reduced the level of receivables, while the increase in inventories was due to advance purchases made on account of anticipated price rises.

Non-current assets only underwent a slight rise of 1 %, increasing by € 2.1 million to € 264.2 million. This is due to gross investments in property, plant and equipment amounting to € 24.0 million, with disposals of € 6.4 million and depreciation amounting to € 17.6 million. The focus of investments was on technical plant and machines (€ 9.8 million) and payments on account (€ 7.2 million) for construction work at Bausch Decor. The rise in net property, plant and equipment compares with a currency-related reduction of € 0.5 million in amortization.

The rise of € 10.5 million in **current liabilities** to € 99.0 million is mainly due to the increase in short-term debt. This increased by 51% to € 51.7 million during the year under review. The reason for this increase was mainly due to bridging finance for investments in Germany and the USA. The reduction of € 8.2 million in tax liabilities resulting in an overall increase of 12 % in current liabilities.

By contrast with current liabilities, **non-current liabilities** were reduced by € 24.8 million to € 91.2 million. This reduction of 21 % was achieved by repayment of loans.

SURTECO GROUP

BALANCE SHEET INDICATORS

	2005	2006
Capital ratio in %	40.2	44.4
Gearing in %	90	77
Working capital in € 000s	62,696	65,115
Interest cover factor in %	7.5	8.3

RESEARCH AND DEVELOPMENT

The plastic edgings segment launched a series of exciting innovations.

Döllken plastics processing presented a foldable edge manufactured in a roll under the designation "Folding Edge" and opened up new areas of application for thermoplastic edging tapes. There are many different applications for these tapes: rebate edgings in doors, in the kitchen industry and in the manufacture of front panels without handles but with a fold serving as recessed grips, or in the office furniture sector for desks with inclined surfaces.

Döllken developed an innovative supporting edge in the area of lightweight board technology to provide a solution for edging lightweight boards manufactured with a honeycomb structure. This type of board is being increasingly used to create edgings for furniture elements that appear to be solid. This is a rational method of stabilizing the board and the edge can be subsequently provided with a decorative design.

A newly developed production procedure using innovative materials permits manufacture of high-gloss edgings that by contrast with former technologies also retain the same colour and an unchanged level of gloss after milling and polishing, in the radius and on the visible side.

ASIA OF SALES OF THE SURTECO GROUP

3 %



Plastics Processing has further refined its premium product – the 3D edging to create perfect decorative integration for natural wood reproductions with a matt finish. Using matt surfaces and additional embossing features, the 3D edge appears so natural that it also forms the ideal bounding edge for worktops finished in genuine veneers.

There is also considerable demand for textures creating an authentic effect in the area of surfaces. Plastics Processing offers striking embossing features, such as the matrix texture resembling wood, a brush texture, for metallic decor designs with the designation Microline, the wavy texture entitled Wave or recreation of a paper surface for board finishes.

Visual effect and tactile impression play a key role in the use of plastic products. In future, another element will increase in importance – function. That's why the research department of the SBU Plastics will be focusing on the issue of functionalized surfaces in the future. For example, surfaces might be used for the transmission of information or energy, or they might be used to create light effects.

In the fiscal year 2006, the paper-processor research and development team are working in projects derived from taskforces involved in the continuous improvement process and standardizing formulations and processes at the Sassenberg and Buttenwiesen-Pfaffenhofen sites. The team is also working on important research projects relating to production. These projects include in particular implementation of a new software generation using colorimetric techniques to analyze solid-colour edgings with the aim of enhancing the consistency of products.

Research and Development is also focusing on flooring solutions. A special version of wrapping foils is being developed for wall edgings, precisely tailored to this function. The key criteria are the quality of the surface and impact resistance. This is increasingly important for transition rails that have to meet even more stringent criteria for toughness because they are continually subject to wear and tear. The paper-

based wrapping foil could also become established in another key segment as an alternative to laminate flooring. The quality assessment process is reviewing all the criteria used to test and assess this type of conventional floor covering with a view to using alternatives with foil surfaces. Tests that have been carried out so far indicate that the key criterion of "abrasion resistance" is already yielding very good values.

One field of research that will increasingly impact on all areas of the SURTECO Group in future concerns issues relating to digital printing. A wide range of conventional procedures is used to refine surfaces with decorative designs in the SURTECO Group. The complex preparatory operations involved in mixing colours or setting up production systems mean that set-up times and hence batch sizes are a key priority. Digital technology offers some promising solutions for manufacturing small and very small batches on schedule and at competitive prices to meet customers' requirements. However, the technology is not limited to changing current production methods, it also permits development and realization of new and unconventional product ideas which the Group's research and development departments will be working on over the next few years.

POSITION PRINTS

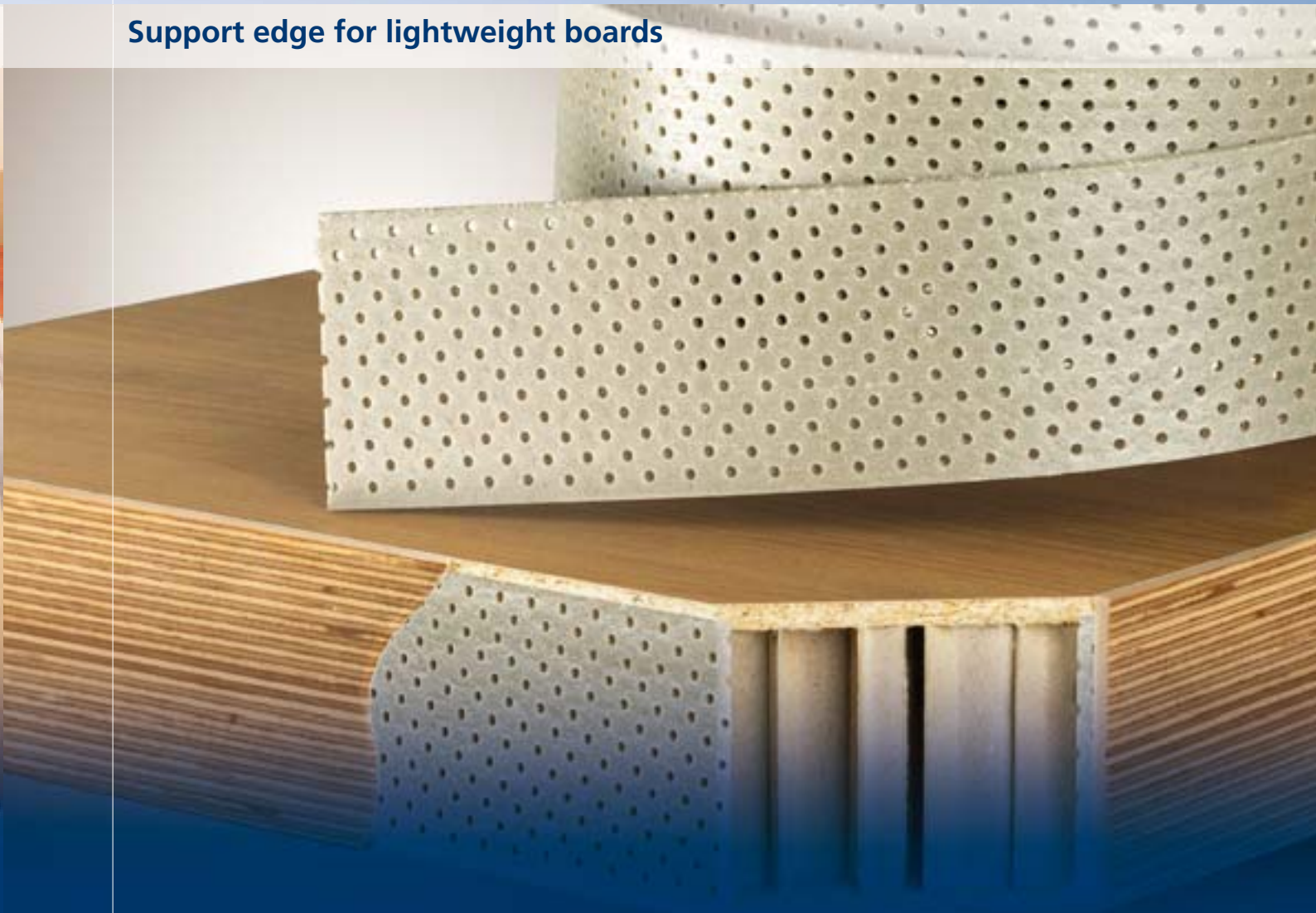
Seamless design diversity



Surface materials are manufactured with position prints for edgings and wrapping foils. These can then be seamlessly processed on the relevant substrate material, e.g. MDF boards, plywood or particle boards with a range of different decor elements. The result provides virtually unlimited options for profiling front panels in a varied range of diverse designs. Manufacturers of caravans are particularly aware of the benefits of precise decor management and avoiding foil overlaps.

BONDING EDGE

Support edge for lightweight boards



The trend in furnishing and interior design is currently determined by furniture elements creating the appearance of solid wood. Frameless lightweight boards with a honeycomb structure are frequently used for this furniture. They require an additional insert for edging purposes that provides the safety and support function. The "Bonding Edge" developed by Döllken presents a rational option for stabilizing the board and providing a decorative bounding edge in a subsequent process. The continuous perforation provides a special extra. The bonding agent can penetrate through the holes and hence anchor the edging and board in an extremely tough and robust fit.

SURTECO GROUP**EMPLOYEES BY REGIONS**

Site	Employees 31/12/2005	Employees 31/12/2006	Change
Germany	1,472	1,444	-28
Canada	298	279	-19
USA	97	93	-4
Australia	90	87	-3
Indonesia	47	41	-6
United Kingdom	40	35	-5
Italy	29	29	-
Singapore	12	15	+3
Poland	11	14	+3
China	13	14	+1
	2,109	2,051	-58

PEOPLE AND TRAINING**PERSONNEL REPORT**

The SURTECO Group employed a total of 2,051 people (2005: 2,109) on 31 December 2006. This represents a year-on-year reduction of 3%. This fall is primarily due to capacity adjustments and leaner organizational structures at BauschLinnemann in Germany and Canplast and Woodtape in North America.

The average number of employees for the year was 2,059 (2005: 2,132), of which 1,246 (2005: 1,262) were employed at the SBU Plastics, 799 (2005: 859) at the SBU Paper and 14 (2005: 11) at SURTECO AG. The average age profile across the Group was 39.7 years (2005: 39.6).

The motivation and identification of employees with the Group is demonstrated by the exceptionally low level of absenteeism due to sickness for an industrial company at 2.7 % (2005: 2.8) and average service with the company of 11.4 years (2005: 11.3). It is notable that in Germany 24 employees in Germany celebrated their 25th anniversary and 33 employees celebrated the 10th anniversary with the company.

APPRENTICESHIP AND CAREER TRAINING

The SURTECO Group provides training for apprentices starting their career in ten vocations, e.g. process mechanic for plastic and rubber technology, printers and industrial sales personnel. In Germany, the company employed an average of 86 (2005: 82) apprentices during the year under review. This corresponds to a training ratio of 6 % (2005: 5.5 %). Particularly talented apprentices are given the opportunity of gaining experience at subsidiaries abroad during the course of their training.

Qualified employees are hard to find and that's why the company makes internal and external career training a top priority. Management conferences, meetings for technicians and secondment abroad for employees ensure efficient know-how transfer between the business units and the regions.

SOCIAL COMMITMENT

The SURTECO Group will continue its commitment to social responsibility and focus on providing training for apprentices beyond the actual requirements of the Group. Universities, universities of applied science, private business schools and charitable in-

stitutions receive support. Cooperation frequently takes the form of diploma dissertations or orders for research and analysis. Road shows go on tour with the aim of targeting engineering students in particular and demonstrating the opportunities available at SURTECO.

ENVIRONMENTAL PROTECTION

The SURTECO Group is continually improving the environmental compatibility of its products and production facilities. The Group has been operating biological air purification systems for many years in order to minimize the emission of harmful pollutants to the environment. This technology has eliminated the use of fossil fuels which are usually required for air purification systems. Instead, natural metabolic processes occurring in microorganisms are used to break down more than 100 tons of carbon compounds naturally each year.

The following measures are currently being implemented or are in the pipeline for 2007:

- A series of changes are being introduced for intermediate products in order to bring about a tangible improvement in environmental compatibility. For example, the primers and UV colours will virtually all contain aqueous components rather than alcohol-based components. The environmentally friendly material polypropylene will be increasingly used for plastics.
- The SURTECO Group will be documenting its products for environmental compatibility under the REACH directive and this will provide an overview of the ecological quality of the products.
- A complex wastewater treatment plant is planned for the Sassenberg plant. This will involve wastewater being cleaned so intensively that it can be completely recycled and channelled into the municipal drainage system. The plant mainly comprises bio-

logical high-performance reactors and is capable of processing a total of more than 12 million litres of water a year. The system has such a high level of efficiency that the costs will already have been amortized within the space of a few years.

RISK REPORT

RISK MANAGEMENT

SURTECO AG and its Strategic Business Units are exposed to a large number of risks on account of global activities and intensification of competition. In order to ensure long-term growth and increase corporate value, the Group attempts to avoid unreasonable risks as far as possible. The remaining risks are reduced and managed by taking adequate measures.

The Board of Management of the SURTECO Group is responsible for policy relating to risk policy and for the internal management and controlling system. The Board of Management works together with the subsidiaries to identify risks. The management of the subsidiary 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.

Risk management is an integral element within the Group's strategy and planning processes. In order to measure, monitor and control risks, SURTECO AG uses a detailed controlling system. The controlling system encompasses the key controlling parameters specific to the industry and sector. Apart from regular reporting to the Board of Management and Supervisory Board, managers have a duty to report risks that occur unexpectedly without delay. The usefulness and efficiency of risk management and the controlling systems are monitored internally at regular intervals. The executive managers of the subsidiary companies are responsible for continuously developing measures for risk avoidance, risk reduction and risk hedging.

The risks described below may impact negatively on the net assets, financial position and results of the Group. Additional risks that we are unaware of at this point in time and that we currently believe to be very low, could also impair our business activities in the future.

The significant risks for SURTECO AG are as follows:

BUSINESS RISKS

The development of our business is very dependent on the performance trend in the furniture industry in the countries and markets where we operate. The economic trends in the individual markets are monitored continuously so that changes in trend can be anticipated or identified at an early stage. The quantitative and qualitative findings are recorded with the assistance of a differentiated internal reporting system. They are then subjected to detailed assessment and analysis. Any deviations from budgets, the feasibility of planning goals and the occurrence of new monetary and non-monetary risks are highlighted and analyzed. The business is then managed on the basis of the results of reporting. The furniture industry is anticipating a positive trend for the fiscal year 2007. Detailed information is provided in the output report.

The SBU Paper continues to be subject to a high level of competitive pressure due to the large printers of decorative designs increasing their production depth. The SBU Paper is attempting to counter the significant downward pressure on prices by expanding decorative printing activities, developing new innovative products and reorganizing sales. The observed transfer of sales revenues from paper edgings to plastic edgings has largely been retained within the Group by the products of the SBU Plastics.

There is no dependence on individual customers because the furniture sector is dominated by medium-sized companies and the SURTECO Group has a broad customer base.

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 continuous material and supplier management. The measures involved monitoring the market intensively, carrying out in-depth quality inspection on the basis of jointly agreed specifications and arranging supply contracts with long-term price agreements. We regard the increase in energy costs as a risk that is rising over the medium to long term. In addition, further price rises in plastics and other chemical products is anticipated.

Rising energy prices and price increases for raw materials and consumables will inevitably lead to additional expenses in production. This means that further burdens can only be compensated by price increases. However, there is limited scope for increasing prices due to the high charges faced by our customers due to shortage of wood.

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, machinery assets deployed and processes are being developed and improved on an ongoing basis, our systems are carefully main-

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

REGULATORY AND LEGAL RISKS

Changes in regulatory requirements, customs regulations or other barriers to trade, as well as possible restrictions on price or foreign currency could impact negatively on our sales and profitability.

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. SURTECO AG is not involved in any court or arbitration proceedings that could exert a significant influence on the commercial situation of the Group.

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. Detailed information on apprenticeship training and career training is provided in the section entitled people and training.

INTEREST AND CURRENCY RISKS

The global nature of the business activities of the SURTECO Group result in delivery and payments flows in different currencies. Interest risks are mainly as a result of our financial debts. SURTECO AG meets interest and currency risks by hedging currency and interest positions with derivative financial in-

struments, 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 in communication with customers, suppliers and business partners, ongoing development of the measures used to make information secure are a top priority. Risks relating to the 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. These also include a uniform software system across the group within which all production-related and commercial aspects are integrated and processed efficiently.

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 condi-

EASY BOX

Ready-to-assemble roller shutter kit



Fast, easy and complete – that's the concept for the new Easy Box. Installation will be child's play with the ready-to-assemble roller shutter kit. The roller shutter box is preassembled and is simply inserted into the existing main unit. Runners are then attached on the right and left and screwed to the main unit. The roller shutters are ready for operation without any preparatory work and follow-up adjustment. This means Easy Box is the ideal roller shutter product for the global marketplace.

FLOW

Flowing highlights



Originality and individuality come up trumps in the dynamic decors for finish foils and edgings at BauschLinnemann. The new Flow decor from BauschLinnemann can be supplied in small batches with colours tailored to specific customer requirements. The organic lines achieve effective light and dark contrasts and unusual harmonious designs. Coordinated in the latest chocolate shades or contrasting water colours, Flow attracts attention in combination with decorative wood designs and solid colours, or as a striking fantasy decor.

tions prevailing in customer industries or sectors, and in the procurement markets.

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 alone or in combination with other risks could endanger the continued existence of the company and future risks likely to endanger existence cannot currently be identified.

FOLLOW-UP REPORT

The first months of the current year continued the trend for 2006. The regulations of the company-based collective agreement had been in place for more than a year and this resulted in a more favourable personnel expense ratio compared with the previous year. The aim of this agreement is to provide some compensation for the increases in the raw-materials and energy sector.

Important events after the balance sheet date were the 100 % takeover of the French trading company SDCA S.A.S., Angers, and the purchase of the remaining shares (25 %) in Arbe s.r.l. based in Martellago, Italy. You will additionally find information on these matters in section IX (34) of the notes to the consolidated financial statements.

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.

CONVERSION OF SURTECO AG TO A EUROPEAN COMPANY (SE)

The Board of Management and the Supervisory Board of SURTECO AG intend to propose to the Annual General Meeting on 31 August 2007 that the company convert to a European company (Societas Europaea, SE) under the name SURTECO SE. The European company is an original European legal form that is equally available in all EU states. The legal basis is formed by directive (EC) no. 2157/2001 passed by the Council of Europe on 8 October 2001 relating to the statute of the European company (SE Directive). In addition, an SE established in Germany is subject to the supplementary German laws, in particular the SE Participation Act which lays down regulations for the participation of employees. The legal form of the SE is particularly appropriate for SURTECO AG in the light of the increasingly international orientation of the SURTECO Group. The new legal form will benefit the market profile of the company and its corporate culture. Similar to the current SURTECO AG, the SE will continue to have a Supervisory Board and a Board of Management and will hence have a "dualistic" management model. The company will not take the opportunity provided by the legal framework to adopt a "monistic" management model (board system). Conversion entails no tax disadvantages for the company or for the shareholders compared with the current tax situation prevailing at SURTECO AG.

On 11 October 2006, the Board of Management drew up the conversion plan with the articles of association of the future SE and submitted it to the register of companies. The procedure for participation of employees was introduced in October 2006 and was concluded on 13 February 2007 with an agreement on the participation of employees in SURTECO SE. The agreement means that three of the nine members of the Supervisory Board will be active on the Supervisory Board as rep-

representatives of the employees. However, this will now be based on a binding agreement.

The Board of Management will produce an in-depth report to provide an explanation for the conversion and to outline the reasons for the conversion. This report will be sent to all shareholders together with the invitation to the Annual General Meeting.

INFORMATION RELATING TO THE TAKEOVER DIRECTIVE IMPLEMENTATION ACT

CAPITAL STOCK

The unchanged capital stock of SURTECO AG amounts to € 11,075,522.00 and is divided into 11,075,522 no-par-value bearer shares (ordinary shares).

POWERS OF THE BOARD OF MANAGEMENT TO ISSUE SHARES

The Board of Management is authorized to increase the capital stock of the company once or in several stages 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) and once or in several stages by overall up to € 4,400,000.00 by the issue of no-par-value bearer shares for a cash or non-cash consideration (Authorized capital III). We refer to item 27 of the notes to the consolidated financial statements or item 4 of the notes of SURTECO AG for further information on the capital stock.

RESTRICTIONS ON VOTING RIGHTS AND SHARE TRANSFERS

The Board of Management is aware that shareholders of SURTECO AG have joined together to form an association under civil law entitled "Share pool SURTECO" since 29 August 2001. The objective of this pool is to jointly exercise the voting rights of 6,841,644 no-par-value shares in SURTECO AG (status 1 January 2007). Dispositions over shares in SURTECO AG held in the pool are only permissible with the consent of the other pool members in accordance with the agreements made. However, if a pool member intends to sell shares held in the pool, the member has to offer these shares in advance to the other pool members.

DIRECT OR INDIRECT PARTICIPATIONS GREATER THAN 10 % OF THE VOTING RIGHTS

The following shareholders have notified us of a direct or indirect participation in our company that is greater than 10 % of the voting rights:

Name	Voting rights in %
1. Mr. Claus Linnemann	11.7990
2. Mr. Jens Schürfeld	11.9306
3. Klöpferholz GmbH*	21.1544
4. Klöpfer & Königer GmbH & Co. KG*	21.1544

* The shares of the subsidiary company Klöpferholz GmbH are attributable in the amount of 100 % to the parent company Klöpfer & Königer GmbH & Co. KG. The publication of the participation is obligatory for both companies, although the same shares are involved.

FOLDING EDGE


Folding plastic edge



The Dölken “Folding Edge” comes into play anywhere where plastic edgings couldn’t be used in the past, because rebates were necessary (e.g. door leaf or recessed grips). The extrusions used before had the disadvantage that they came ready manufactured with a kink and could only be supplied as rods. The Folding Edge has the advantage that it is processed directly from the roll. The edge is provided with two or more notches on the reverse. These V-shaped grooves can be folded inside or outside to the extent required. This means that a range of different angled variants can be achieved in addition to the classic folded shape.

WOOD LOOK

Liveliness in the surface



Years of work has gone into creating the perfect surface for finish foils. The Wood Look surface from BauschLinnemann was developed in the company and has received the accolade of the Design Award. It is the undisputed leader in this design technology. "Mali Acacia" is the latest Wood Look decorative creation and this design has created a unique three-dimensional surface which invites you to touch it and conveys the optical illusion of solid wood. Tactile textures and striking flowers provide Acacia furniture with an impressive and unique character.

APPOINTMENT AND DISMISSAL OF MEMBERS OF THE BOARD OF MANAGEMENT

The appointment and dismissal of Members of the Board of Management is carried out pursuant to Clauses §§ 84 f. Stock Corporation Act (AktG). Changes to the Articles of Association are made in accordance with the regulations of Clauses §§ 179 ff. Stock Corporation Act (AktG).

“CHANGE OF CONTROL” CLAUSE

In the case of a “change of control”, one of the Members of the Board of Management has the right within the space of 12 months to serve notice on his contract of service to the end of the following month specified on the declaration. He has the right to payment of a fixed annual remuneration for the remaining term of the contract of service.

OUTLOOK REPORT

2007 LIKELY TO BE ANOTHER GROWTH YEAR

Experts are generally confident about the fiscal year 2007. This confidence is confirmed by the Organization for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF). Economic output is likely to increase by 4.9 % during the year 2007. According to the IMF, the US economy is likely to grow by 2.9 %. An increase of 2.0 % is forecast for domestic product in Europe. According to the OECD, the German economy is most important economy in the region and this economy is predicted to grow by 1.8 %. The booming economies in East and Southeast Asia and Eastern Europe are projected to experience above-average growth.

CONFIDENCE IN THE FURNITURE SECTOR

The furniture industry is confident of being able to continue the positive trend from the fiscal year 2006 over the course of 2007. The German Furniture Association (BVDM) is predicting growth of 2-3 %. Optimism in the sector is primarily based on the favourable economic conditions, the positive trend in private consumption and continued good sentiment in the construction industry.

FURTHER POSITIVE TREND ANTICIPATED FOR THE GROUP

SURTECO AG will derive reasonable benefit from the overall economic development in 2007 and the anticipated growth in the furniture and construction industries. Although the furniture market was subject to some setbacks, SURTECO AG has continually increased sales volume from 2004. We are also assuming that sales will undergo a moderate advance in 2007. However, this will only occur if the price situation in the raw materials markets and the energy sector remains relatively stable and the foreign-exchange markets do not exert a negative effect on business development.

It should also be possible for the consolidated result to exceed the result for the previous year, albeit by a modest amount. This will be due to consistent implementation of all the internal measures directed towards minimizing costs and increasing efficiency.

CALCULATION OF INDICATORS:

Capital ratio in %	Equity capital/balance-sheet total
Cash earnings in €	Net income + amortization and depreciation <i>./. write-ups + change in long-term provisions in the income statement</i>
Cash earnings per share in €	Cash earnings <i>./. minority interests / number of shares</i>
Cash ratio in %	Cash and cash equivalents/(short-term debt + projected dividend payout + minority interests)
Current ratio in %	(Cash and cash equivalents + short-term receivables + inventories)/(short-term debt + projected dividend payout + minority interests)
Debt/equity ratio in %	Debt/equity capital
Debt-service coverage ratio in %	(Consolidated net income + depreciation and amortization)/ net debt
Earnings per share in €	Consolidated net income/number of shares
Free cash flow in €	Cash inflow from operating activities <i>./. (tax payments + investments in property, plant and equipment, and intangible assets) + cash inflow from assets</i>
Gearing in %	(Short-term and long-term debt <i>./. cash and cash equivalents</i>)/equity capital
Interest cover factor in %	EBITDA/interest income
Liquidity ratio in %	Cash and cash equivalents/balance-sheet total
Market capitalization in €	Number of shares x closing price on the balance-sheet date
Personnel expense ratio in %	Personnel costs/total output
Quick ratio in %	(Cash and cash equivalents + short-term receivables)/(short-term debt + projected dividend payout + minority interests)
Return on equity in %	Consolidated net income/equity capital without minority interests after appropriation of profit
Return on sales in %	(Consolidated net income + income tax)/sales
Total return on equity in %	Consolidated net income before income tax and interest expense/balance-sheet total
Value added ratio (net)	Value added (net) in % of sales
Working capital in €	(Trade receivables + inventories) <i>./. (Trade liabilities + short-term accrued expenses)</i>

SKIRTINGS

Perfect in function and design



Wall edging strips have an important function in the living environment. The structure the transition between the floor and the wall. This should merge into the ambience of a room with perfect harmony. It also fulfils important functional requirements by offering protection around the boundary of a room and preventing damage caused by impact. New functions are continually being added to the skirtings, for example as a carrier to accommodate the cabling that is being increasingly used in modern households.

MELAMINE RESIN EDGINGS

Roll for roll quality

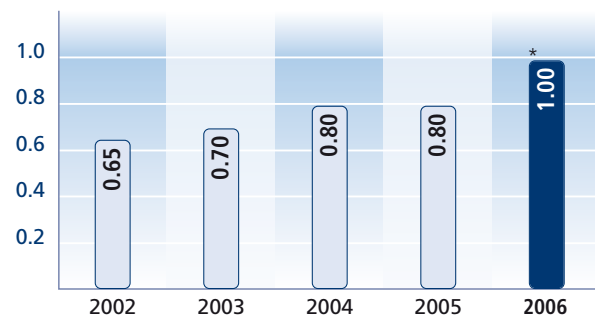


Kröning GmbH is ideal supplier for specialist products in the surface refinement sector based on paper. Special prints for precise colour coordination with decor particle boards or warehouse edgings from the comprehensive standard collection are now available in small volumes. Kröning edgebandings are used on all industrial edge bonding machines. Special soft-forming edges guarantee a uniform covering for bounding edges on the side of panels when processing sophisticated extrusions.

SHARE PRICE PERFORMANCE FOR 2006 IN €



DEVELOPMENT OF THE DIVIDEND IN €



* Proposal Board of Management and Supervisory Board

SHARE PRICE INCREASE OF 20 %

The positive trend for German shares continued during the course of the year under review. After the indexes demonstrated significant growth rates in 2005, performance during the year under review was again extremely gratifying. In a comparison of year-end closing prices, the DAX went up by 22 % from 2005 to 2006, the MDAX increased by 29 % and the SDAX by as much as 31 %. The stock-market price of the SURTECO share again made tangible gains in 2006. The closing price of € 33.51 at the end of the year was 20 % above the equivalent year-earlier figure (€ 28.00). The highest quotation was recorded at € 34.00 in May 2006.

In December 2006, the free float of SURTECO AG was increased from 14.5 % to 19.9 % by successful placement of around 600,000 shares from the ownership of existing shareholders with institutional shareholders. Up to the date when this Annual report was printed, the SURTECO share posted significant price gains (more than € 38). The existing shareholders and the Board of Management is directing its efforts towards taking further steps geared to achieving higher trading volumes for the share. The medium-term objective remains to have the SURTECO share listed in the SDAX, but an additional increase in the free float is necessary for this.

SURTECO AG operates a comprehensive and structured communication policy. This is in harmony with the principles of responsible management and control of the company geared towards generation of long-term value added, as defined in the recommendations for the German Corporate Governance Code. Detailed information on corporate governance at SURTECO AG and on the Declaration of Compliance for 2006 is provided in the Corporate Governance section of this report. Furthermore, we refer to "Corporate Governance" on the homepage www.surteco.com.

The homepage of SURTECO AG contains a great deal of additional information for all shareholders and potential investors. Apart from information on the Group companies and on the share in particular, all mandatory publications under company law are posted on the website.

The Transparency Directive Implementation Act came into force on 20 January 2007 with a consequent obligation to publish press releases and notices throughout Europe. The Group has engaged the services of a specialist service provider to meet this obligation.

SURTECO SHARES

	Stock exchange quotations in €	2005	2006
Number of shares		11,075,522	11,075,522
Price at start of year		23.00	28.00
Year-end price		28.00	33.51
Price per share (high)		35.30	34.00
Price per share (low)		22.10	26.50
Market capitalization at year-end in € 000s		310,115	371,141

SHAREHOLDER INDICATORS FOR THE SURTECO GROUP

	€ 000s	2005	2006
Sales		396,372	403,156
EBITDA		69,082*	71,698
EBIT		51,317*	54,086
Earnings from ordinary activities before restructuring expenses		41,427	46,026
Earnings from ordinary activities after restructuring expenses (EBT)		37,556	46,026
Consolidated net income		21,831	28,761
Cash earnings		39,879	46,116

* before restructuring expenses

INDICATORS OF THE SURTECO GROUP PER SHARE

	€	2005	2006
Earnings		1.97	2.60
Cash earnings		3.59	4.15
Dividend		0.80	1.00


(Proposal by Board of Management and Supervisory Board)

INDICATORS OF THE SHARE

Type of security	No-par-value share
Market segment	Official market, Prime Standard
Security Identification Number (WKN)	517690
ISIN	DE0005176903
Ticker symbol	SUR
Reuter's ticker symbol	SURG.D
Bloomberg's ticker symbol	SUR
Date of first listing	2 November 1999

HIGH GLOSS


New gloss quality without varnish



Mirror-finish surfaces are now found in virtually all living areas. As a result, the demand from industry and trade for suitable edging-tape products and storage concepts is increasing. A production procedure developed by Döllken permits the manufacture of high-gloss solid-colour edgings entirely without varnish. This provides particularly homogenous material properties because there is no difference between the substrate and the surface. The new warehouse system means that the latest trend colours are also quickly available to customers.

RETRODESIGN

A touch of ornament



The Nocero Ornament decor allows Bausch Decor to demonstrate the ideal synthesis that occurs when advanced language of form and ornament are harmonized. This concept was inspired by the "Arts and Crafts" movement and the furniture inlay has been developed as a stylized blossom ornament in which walnut blooms are inset on the calm maple decor. The understated colour and the superior design of Nocero Ornament attract attention without being in the least dominant.

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» CONSOLIDATED INCOME STATEMENT

SURTECO GROUP

	Notes	1/1 - 31/12/2005 € 000s	1/1 - 31/12/2006 € 000s
Sales revenues	(1)	396,372	403,156
Changes in inventories		4,107	3,370
Own work capitalized	(2)	1,026	1,372
Total		401,505	407,898
Cost of purchased materials	(3)	-173,071	-173,815
Personnel expenses	(4)	-101,112	-102,407
Other operating expenses	(5)	-65,644	-64,547
Other operating income	(6)	7,404	4,569
Earnings before Interest (financial result), Income Tax and Depreciation and Amortization (EBITDA)		69,082	71,698
Amortization of intangible assets and depreciation of property, plant and equipment	(15)	-17,765	-17,612
Earnings before Interest (financial result) and Income Tax (EBIT)		51,317	54,086
Financial result	(7)	-9,890	-8,060
Earnings from ordinary activities before restructuring expenses		41,427	46,026
Restructuring expenses	(8)	-3,871	0
Earnings from ordinary activities after restructuring expenses (EBT)		37,556	46,026
Income Tax		-15,569	-17,068
Net income	(9)	21,987	28,958
of which from consolidated net income		21,831	28,761
of which minority interests		156	197
Basic and diluted earnings per share (€)		1.97	2.60

» CONSOLIDATED BALANCE SHEET

SURTECO GROUP

53

	Notes	31/12/2005 € 000s	31/12/2006 € 000s
ASSETS			
Cash and cash equivalents	(11)	2,209	2,233
Trade accounts receivable	(12)	33,839	29,953
Inventories	(13)	53,868	59,863
Other current assets	(14)	11,164	11,978
Current assets		101,080	104,027
Property, plant and equipment	(16)	156,048	158,623
Intangible assets	(17)	4,691	4,621
Goodwill	(18)	98,027	97,545
Investments	(19)	1,917	1,938
Other non-current assets		1,420	1,477
Non-current assets		262,103	264,204
Deferred tax asset	(9)	6,938	4,967
		370,121	373,198
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term debt	(20, 24)	34,256	51,728
Trade accounts payable		20,736	22,744
Tax liabilities	(21)	12,543	4,376
Short-term accrued expenses	(22)	4,273	1,957
Other current liabilities	(23)	16,675	18,154
Current liabilities		88,483	98,959
Long-term debt	(24, 25)	102,570	78,284
Pensions and similar obligations	(26)	13,085	12,631
Other non-current liabilities	(25)	353	307
Non-current liabilities		116,008	91,222
Deferred tax liability	(9)	16,663	17,339
Capital stock		11,076	11,076
Reserves		115,364	125,096
Net profit		21,831	28,761
Capital attributable to shareholders		148,271	164,933
Minority interest		696	745
Equity capital	(27)	148,967	165,678
		370,121	373,198

» CONSOLIDATED CASH FLOW STATEMENT

SURTECO GROUP

	1/1 - 31/12/2005 € 000s	1/1 - 31/12/2006 € 000s
Earnings before minority interests and income tax	37,556	40,026
Transfers to cash flow from current business operations:		
- Depreciation and amortization	17,765	17,612
- Write-ups on property, plant and equipment	-767	0
- Interest (net)	10,021	8,146
- Income/losses from disposals of fixed assets	-488	558
- Change in long-term obligations	196	-500
- Other expenses/income with no effect on liquidity	-5,848	-2,268
Internal financing	58,435	69,574
Increase / decrease in		
- Trade accounts receivable	1,932	3,886
- Other assets	207	-623
- Inventories	-2,768	-5,995
- Accrued expenses	1,860	-2,316
- Trade accounts payable	2,195	2,008
- Other liabilities	187	1,478
- Currency differences	539	-1,428
Change in assets and liabilities (net)	4,152	-2,990
Cash flows from operating activities	62,587	66,584
Payments for income tax	-13,512	-22,835
CASH FLOW FROM CURRENT BUSINESS OPERATIONS	49,075	43,749
Cash outflow		
- for the acquisition of unconsolidated companies	-15	0
- for the acquisition of consolidated companies	-222	0
- for the acquisition of associated enterprises	-1,600	0
- for investments in property, plant and equipment	-22,338	-23,601
- for investments in intangible assets	-2,557	-341
Cash inflow from asset disposals	7,419	950
CASH FLOW FROM INVESTMENT ACTIVITIES	-19,313	-22,992
Cash inflow from capital increase	15,056	0
Dividend payments to shareholders and minority interests	-9,058	-9,009
Repayment of long-term debt	-23,929	-22,050
Change in short-term debt	-5,813	17,471

	1/1 - 31/12/2005 € 000s	1/1 - 31/12/2006 € 000s
Interest paid / received (net)	-8,289	-7,145
CASH FLOW FROM INVESTMENT ACTIVITIES	-32,033	-20,733
CHANGE IN CASH AND CASH EQUIVALENTS	-2,271	24
Cash and cash equivalents (liquid assets)		
1 January	4,480	2,209
31 December	2,209	2,233

» CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY CAPITAL

SURTECO GROUP

[€ 000s]	Capital stock	Additional Capital paid in	Other compre- hensive income	Currency differences	Revenue reserves	Consoli- dated net income	Minority interests	Total
31/12/2004	10,576	35,860	0	-7,610	58,247	18,205	1,331	116,609
Dividend payout	0	0	0	0	0	-8,860	0	-8,860
Capital increase	500	14,556	0	0	0	0	0	15,056
Net income	0	0	0	0	0	21,831	156	21,987
Actuarial losses	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	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
Dividend payout	0	0	0	0	0	-8,860	0	-8,860
Net income	0	0	0	0	0	28,761	197	28,958
Decrease in minority interests through payout	0	0	0	0	0	0	-148	-148
Actuarial gains	0	0	18	0	0	0	0	18
Currency changes	0	0	0	-3,257	0	0	0	-3,257
Transfer to revenue reserves	0	0	0	0	12,971	-12,971	0	0
31/12/2006	11,076	50,416	-386	-7,069	82,135	28,761	745	165,678

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2006

I. ACCOUNTING PRINCIPLES

SURTECO AG, Buttenwiesen-Pfaffenhofen, a company listed on the stock exchange under German law, and its subsidiaries, develops, produces and distributes coated surface materials based on paper and plastic. The Group is based in Buttenwiesen-Pfaffenhofen, Germany, and is registered in the Company Register of the Local Augsburg Court (Amtsgericht Augsburg) under HRB 2012.

The consolidated financial statements of SURTECO AG and its subsidiaries for the fiscal year 2006 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 applica-

tion of the International Accounting Standards (IFRS) promulgated by the International Accounting Board (IASB) in the version dated 31 December 2006 and were supplemented by specific information and the consolidated management report was adjusted in conjunction with Clause § 315a German Commercial Code (HGB).

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

The figures for the previous year have been restated in accordance with the same accounting principles.

The balance sheet date of SURTECO AG and the consolidated subsidiaries is 31 December 2006.

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 auditors have audited the financial statements or the sub-groups 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 International Accounting Standard Board (IASB) has amended and issued numerous International Financial Reporting Standards (IFRS) within the scope of its projects to develop IFRS. Application of these amendments and new standards has been mandatory since 1 January 2006. These changes are not relevant to the SURTECO Group for the Consolidated Financial Statements 2006, with the exception of the revised IAS 32.

In addition, the following standards were issued by IASB or IFRIC, but have not yet been applied to the Consolidated Financial Statements for the year ended 31 December 2006, because application of these standards was not yet mandatory or they had not yet been adopted by the European Commission:

- Amendment to IAS 1 ("Capital Disclosures"),
- Amendment to IFRS 4 ("Revised Guidance on Implementing IFRS 4"),
- IFRS 7 ("Financial Instruments – Disclosures"),
- IFRS 8 ("Operating Segments"),

- IFRIC 10 ("Interim Financial Reporting and Impairment"),
- IFRIC 11 ("IFRS 2 – Group and Treasury Share Transactions"),
- IFRIC 12 ("Service Concession Arrangements").

These standards will only be applied by SURTECO AG with effect from the business year 2007 or later. IAS 1, IFRS 7 and IFRS 8 will lead to modified or expanded information provided in the notes. The effects of these standards on the net assets, financial position and results of operations of SURTECO AG in the business year 2007 are not relevant or not significant.

III. SHAREHOLDERS AND CONSOLIDATED GROUP

SURTECO AG and all 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 2006. 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 over which the influence of the SURTECO Group on the net assets, financial position and results of operations is not significant were included proportionately in the consolidated financial statements.

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.

Two companies were not included in the consolidated financial statements for 2006 (2005 one company) on the grounds that they either did not transact any active business or only transacted minimal business and the influence of their aggregate value on the net assets, financial position and results of operations of the Group was not significant.

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

	31/12/2005	Additions	Reclassification	Reorganization within the Group	31/12/2006
Consolidated subsidiaries					
- of which in Germany	14	0	0	-1	13
- of which abroad	20	0	-1	0	19
Subsidiary companies reported at acquisition costs					
- of which abroad	1	0	1	0	2
Companies included at the equity method					
- of which domestic	1	0	0	0	1
	36	0	0	-1	35

The companies consolidated in the consolidated financial statements at 31 December 2006 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 consolidated financial statements and the management report of SURTECO AG for the business year 2006 are submitted to the Bundesanzeiger and published there.

Compared with the previous year, the group of consolidated companies changed as follows or the following restructuring operations were carried out within the Group:

- Linnemann Consult GmbH was merged with Bausch-Linnemann GmbH by notarial deed with retrospective tax effect to 1/1/2006.
- The Extrusion (profile) Engineering business unit of Döllken-Kunststoffverarbeitung GmbH was spun off to Döllken-Profiltechnik GmbH by notarial deed with retrospective tax effect to 1/1/2006.

IV. EXEMPTION FROM DISCLOSURE IN ACCORDANCE WITH ARTICLE § 264 (3) GERMAN COMMERCIAL CODE

The following companies in Germany are released from the requirement to disclose their annual financial statements or draw up their management report and 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:

Name	Registered office
BauschLinnemann GmbH	Sassenberg
Bausch Decor GmbH	Buttenwiesen-Pfaffenhofen
Kröning GmbH & Co.	Hüllhorst
BauschLinnemann International GmbH	Sassenberg
W. Döllken & Co. GmbH	Gladbeck
Döllken-Kunststoffverarbeitung GmbH	Gladbeck
Vinylit Fassaden GmbH	Kassel

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 fundamentally 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 cost, 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 (31/12/2006). However, the balance sheet date of the relevant interim financial statements does not extend back further than three months.

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

Capital consolidation has been carried out within the sub-group financial statements for BauschLinnemann and Döllken by netting the acquisition costs, includ-

ing 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 (new valuation method).

The capital consolidation of the sub-group Bausch-Linnemann 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 valued at fair value 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 and is subject to unscheduled write-down if an impairment is identified. 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 in the business year 2006, 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”.

VI. CURRENCY TRANSLATION

In the **financial statements** of the Group companies, business transactions in foreign currency are valued at the price on the balance sheet date, whether or not they are hedged. Exchange losses and gains occurring up to the balance sheet date are reported in the income statement under "Other operating expenses" or "Other operating income".

Foreign subsidiaries included in the **consolidated financial statements** prepare their 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, as well as contingent obligations and other financial obligations, are therefore translated at the rate prevailing on the balance sheet date, whereas equity capital is translated at historic rates. Expenses and income and hence also the profit/loss for the year recognized in the income statement 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	
		31/12/2005	31/12/2006	31/12/2005	31/12/2006
US dollar	USD	0.8450	0.7587	0.8044	0.7969
Sterling	GBP	1.4556	1.4894	1.4622	1.4667
Singapore dollar	SGD	0.5079	0.4947	0.4831	0.5015
Australian dollar	AUD	0.6194	0.5995	0.6129	0.6002
Canadian dollar	CAD	0.7263	0.6539	0.6645	0.7025
Chinese renminbi	CNY	0.1066	0.0988	0.0999	0.1017
Polish zloty	PLN	0.2585	0.2603	0.2481	0.2563

VII. ACCOUNTING AND VALUATION PRINCIPLES

Uniform accounting and valuation methods

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

Consistency of accounting and valuation methods

The accounting and valuation methods have always been complied with, unless defined otherwise below, by comparison with the previous year.

Income and expense realization

Sales are essentially realized from product sales. 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. Provisions for customer discounts and rebates, and returns and other allowances are generally recognized in the same period during which the sales are booked.

Expenses and income relating to a specific period are only recognized if they arise in the reporting year. Financial assets are comprised of receivables, cash and cash equivalents and derivatives with positive fair values. Financial assets are recognized in the consolidated balance sheet, if the Group has a contractual right to receive cash or other financial assets from a third party. They are derecognized from the accounts if these contractual rights expire or the financial assets are transferred with all the essential risks and opportunities.

Cash and cash equivalents have been recorded at nominal value.

Receivables and other assets are recorded at amortized cost. 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. Trade receivables with standard commercial payment terms are therefore recorded at nominal value, less bonuses, discounts and impairments. The Group sells trade receivables in the context of genuine factoring. The receivables are derecognized from the accounts if the Group has transferred its contractual rights to cash flows from the financial assets and all opportunities and risks that are associated with the ownership have essentially been transferred or also if the power of authority over the asset has been transferred.

Inventories comprise raw materials, consumables and supplies, purchased merchandise and work in progress and finished goods. They are always valued at acquisition or production cost or at the lower net sale value. The net sale value corresponds to the recoverable proceeds from disposal less the estimated sales expenses.

Raw materials, consumables and supplies are always valued at acquisition costs or at the net realisable value. 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 nominal value.

Development costs for intangible assets (software) produced within the company have been capitalized with directly attributable 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, including incidental acquisition expenses, less scheduled depreciation and, if necessary, extraordinary depreciation. Finance costs have not been capitalized as an element of acquisition or production costs. A fixed value is calculated to cover spare parts for machinery.

The production costs of **self-constructed plant** include direct costs and an appropriate flat-rate proportion of the overheads and depreciation.

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 are always recorded as expenses at the point in time at which they occurred. Acquisition and production costs are capitalized if future commercial benefits will accrue as a result of the costs associated with the property, plant and equipment. **Scheduled depreciation** of assets has been carried

out exclusively by the straight-line method. The remaining useful life and the method of depreciation are reviewed each year and adjusted to the actual circumstances.

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

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 repayment 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 assets acquired, 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.

The shares in not consolidated companies **recorded under financial assets** are recognized at acquisition costs because fair values are not available and other valuation methods do not yield reliable results. Associated companies are recorded with their proportionate equity capital using the equity method. If there are indications that associated companies will be subject to impairments, an impairment test will be carried out on the book value of the affected participation.

Impairments of property, plant and equipment and intangible assets subject to wear that go beyond the depreciation in value due to usage will be recorded as extraordinary depreciation (IAS 36 Impairment of Assets). If the reasons for extraordinary depreciation cease to apply, appropriate write-ups will be carried out, but these are not permitted to exceed amortized costs.

The standard IFRS 3 (Business Combinations) and the standard IAS 36 (Impairment of Assets) revised in this connection no longer permit goodwill and intangible assets to be subject to scheduled depreciation and amortization with an unspecified period of usage, but require them to be subject to regular **impairment tests**.

If goodwill or intangible assets with an undefined period of use, for which no future own cash flows can be identified on an individual basis, are to be allocated to the cash generating unit, the impairment test of those assets should be carried out annually or, if events or changed circumstances result which could indicate a possible impairment, also more frequently. The residual book values of the individual cash generating units are compared with their individual recoverable amount, i.e. the higher value from the net sale price and utility value. In the determination of the utility value, the cash value of the future payments, which are anticipated on the basis of the ongoing use by the Strategic Business Unit and their disposal at the end of the useful life are used as the basis. The forecast of the payments is based on the current medium-term plans of SURTECO.

The cash generating units of the Group are identified in accordance 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).

In the cases in which the cash value of the cash generating units is higher than their recoverable amount, the difference amounts to an impairment loss. The goodwill of the affected Strategic Business Unit is amortized in the amount of the impairment thus determined as affecting expenses in the first stage. Any remaining residual amount is distributed to the other assets of the relevant Strategic Business Units proportionately to the book value. Any impairment carried out as necessary is recognized under other operating expenses in the income statement.

The costs of capital at SURTECO are calculated as a weighted average of the costs of equity capital and debt, and the relevant proportions of total capital are decisive. The costs of equity capital correspond to the expectations of return of our shareholders. The discount rate of 7.5 % is based on a weighted average cost of capital calculation within the debt or equity capital structure and on the costs of finance.

During the fiscal year 2006, the SURTECO Group, recognized 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.

Income tax is calculated in accordance with the tax regulations of the countries in which the company is operating. 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 tax assets and liabilities are recorded 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 rates, which are expected in the individual countries at the time of realization, 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 offset, if the identity of the tax authority is known and matched maturities are identical.

The financial liabilities are comprised of the primary liabilities and the negative fair values of derivative financial instruments. Financial liabilities are recognized in the consolidated balance sheet, if the Group has a contractual obligation to transfer cash or other financial assets to other parties. They are derecognized from the balance sheet when the contractual obligations have been settled, cancelled or expired.

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". Actuarial gains or losses from defined benefit plans are reported under equity capital with no effect on income ("Other comprehensive income").

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

	2005 %	2006 %
Interest rate	4.50	4.50
Salary increases	2.00	2.00
Pension increases	2.00	2.00

Accrued expenses have been recorded 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 accruals 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 interests** includes equity shares held by third parties in a Group company.

Derivative financial instruments, i.e. currency forwards and swaps, foreign-currency options, 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 in general 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".

Decisions of judgment and estimates

The preparation of the consolidated financial statements in accordance with IFRS requires decisions of judgment or estimates to be made in the case of some balance sheet items, which exert effects on the level and recognition of the assets and liabilities, income and expenses, and the contingent liabilities in the balance sheet. The main areas of application for assumptions and estimates arises in the establishment of the period of use of fixed assets, the determination of discounted cash flows within the scope of the impairment test and the formation of provisions for legal proceedings, pension benefits for employees and corresponding deductions, taxes, inventory valuations, price reductions, product liability and warranties. Our estimates are based on qualitative values and other assumptions that are regarded as reasonable under the given circumstances. Actual values may deviate from the estimates. The estimates and assumptions are continually reviewed.

Those reporting and valuation principles should be regarded as important which significantly influence the presentation of the net assets, financial position, results of operations and cash flows of the SURTECO Group and require a difficult, subjective and complex assessment of facts and circumstances that are often uncertain in nature, may change in subsequent reporting periods, and whose consequences are therefore difficult to estimate. The accounting principles published by us, which have to be based on estimates, do not necessarily exert significant effects on our reporting. There is only the possibility of significant effects. The most important accounting and valuation principles are described in the notes to the consolidated financial statements.

VIII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Sales revenues

Sales revenues for the Group are segmented as follows:

[€ 000s]	2005	2006
Business (product)		
Edgebanding systems	203,623	218,156
Foils	86,187	76,939
Skirtings	20,898	21,641
Do-it-Yourself sector	24,210	21,328
Printing	15,820	19,333
Technical extrusions	15,878	16,287
Cladding systems	8,972	8,947
Other	20,784	20,525
	396,372	403,156
Geographical (regions)		
Germany	143,043	145,546
Abroad	253,329	257,610
	396,372	403,156

(2) Other own work capitalized

Other own work capitalized principally relates to tools manufactured in the company at the SBU Plastics.

(3) Cost of purchased materials

Composition of the cost of purchased materials in the Group:

[€ 000s]	2005	2006
Cost of raw materials and supplies and purchased merchandise	167,726	169,524
Cost of purchased services	5,345	4,291
	173,071	173,815

(4) Personnel expenses

The following table shows personnel expenses:

[€ 000s]	2005	2006
Wages and salaries	84,120	85,905
Social security contributions	15,811	15,309
Pension costs	1,181	1,193
	101,112	102,407

In the case of defined-contribution pension provision systems, the company pays contributions to state pension insurance institutions based on statutory obligations. These payments entail no further obligations for the company to make payments. The

current contribution payments are included as expenses under social security contributions for the relevant year. Contributions are included under personnel expenses that result from the addition of accrued interest / discounting of pension accruals and similar obligations.

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

	2005			2006		
	Industrial	Salaried	Total	Industrial	Salaried	Total
Production	1,107	141	1,248	1,070	128	1,198
Sales	10	311	321	13	274	287
Engineering	76	28	104	81	31	112
Research and development, quality assurance	39	54	93	40	50	90
Administration/ Materials management	117	249	366	114	258	372
	1,349	783	2,132	1,318	741	2,059

The number of employees by regions is as follows:

	2005	2006
Germany	1,494	1,434
European Union	85	81
Asia/Australia	145	162
America	408	382
	2,132	2,059

(5) Other operating expenses

The following table shows how operating expenses are structured:

[€ 000s]	2005	2006
Operating expenses	15,373	15,191
Sales expenses	31,374	31,336
Administrative expenses	16,998	16,187
Currency losses from operating business	1,239	602
Impairment losses	660	1,231
	65,644	64,547

The research and development expenses (personnel and materials costs) in the Group amounted to € 000s 3,500 (2005: € 000s 3,200).

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

[€ 000s]	2005	2006
Auditing	345	378
Tax consultancy	191	134
Other consultancy services	152	278
	688	790

(6) Other operating income

Other operating income primarily includes proceeds from the sale of fixed assets, from the release of reserves, compensation for damages and rental in-

come. The total amount of other operating income is comprised of a large number of individual insignificant items in our subsidiary companies.

[€ 000s]	2005	2006
Releases of reserves	1,492	759
Currency gains	1,818	626
Income from fixed asset disposals	930	359
Write-ups on fixed assets	551	0
Other operating income	2,613	2,825
	5,912	4,569

(7) Financial result

[€ 000s]	2005	2006
Other interest and similar income	668	407
Interest and similar expenses	-9,936	-9,130
Interest income	-9,268	-8,723
Market valuation for financial derivatives	-753	577
Earnings from associated companies	131	86
Financial result	-9,890	-8,060

On the basis of IAS 17 (Leases), the proportion of interest received in financial leasing instalments is recorded in the financial result.

(8) Restructuring expenses

[€ 000s]	2005	2006
Personnel expenses	3,171	0
Other operating expenses	286	0
Depreciation and amortization	414	0
	3,871	0

(9) Income tax

Income tax expense is broken down as follows:

[€ 000s]	2005	2006
Current tax expenses		
- Germany	11,730	9,232
- Other countries	3,248	5,236
	14,978	14,468
Deferred taxes		
- from time differences	-42	1,492
- on losses carried forward	633	1,108
	591	2,600
	15,569	17,068

Deferred taxes of € 000s 11 (2005: € 000s 260) were included directly in shareholders' equity.

In Germany, 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:

[€ 000s]	Deferred taxes			Deferred tax liabilities		
	2005	Change	2006	2005	Change	2006
Inventories	643	-223	420	14	2	16
Receivables and other assets	258	-112	146	97	-3	94
Tax losses carried forward	1,290	-1,108	182	0	0	0
Property, plant and equipment	655	67	722	24,670	-25	24,645
Intangible assets	137	-137	0	591	491	1,082
Other non-current assets	1,238	305	1,543	54	-54	0
Financial liabilities	9,378	-686	8,692	0	0	0
Pension accruals	2,005	-585	1,420	36	88	124
Other liabilities	559	-25	534	94	-24	70
	16,163	-2,504	13,659	25,556	475	26,031
Netting	-9,378	686	-8,692	-9,378	686	-8,692
	6,785	-1,818	4,967	16,178	1,161	17,339

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

[€ 000s]	2005	2006
Earnings from ordinary activities	37,556	46,026
Expected income tax (39 %)	14,647	17,950
Transition:		
Expenses not deductible from tax	156	195
Taxes not relating to the reporting period	963	-1,398
Other tax effects	-196	321
Income tax	15,570	17,068

(10) Earnings per share

	2005	2006
Number of shares issued	11,075,522	11,075,522
Net income after proportionate earnings of minority interests (€)	21,830,949	28,761,059
Net income per share (€)	1.97	2.60

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 1,321 (2005: € 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]	2005	2006
Raw materials, consumables and supplies	17,860	20,753
Work and services in progress	3,127	3,689
Finished products and goods	32,881	35,421
Inventories	53,868	59,863

Impairments of € 000s 2,289 (2005: € 000s 2,105) are reported in inventories.

(14) Other current assets

[€ 000s]	2005	2006
Tax credits		
- Income tax	3,272	3,521
- Value added tax, wage tax	276	576
Land	3,421	3,332
Bonuses receivables	531	1,437
Prepaid expenses	983	716
Debit balances in accounts payable	1,285	386
Other	1,396	2,010
	11,164	11,978

When the law on tax measures to accompany the introduction of European companies and amendment to additional tax regulations (SE Introductory Act, SeStEG) came into force on 13 December 2006, a legal unconditional claim to refund of corporate income tax credits amounting to € 000s 1,415 was granted with effect from 31 December 2006 resulting from the period of the tax imputation system (Clause 37 Corporate Income Tax Act (amended version), KStG).

(15) Fixed assets

[€ 000s]	Tangible assets	Intangible assets	Goodwill	Financial assets	Total
Acquisition costs					
01/01/2005	304,576	9,863	141,783	152	465,374
Currency differences	5,057	614	1,406	0	7,077
Additions	22,283	846	1,905	1,765	26,799
Disposals	-14,157	-262	-241	0	-14,660
Write-ups/Transfers	1,009	703	-175	0	1,537
31/12/2005	318,768	11,764	144,678	1,917	477,127
Currency differences	-2,493	-230	-994	0	-3,717
Additions	23,601	341	0	21	23,963
Disposals	-6,411	-6	0	0	-6,417
Transfers	-810	810	0	0	0
31/12/2006	332,655	12,679	143,684	1,938	490,956
Depreciation and amortization					
01/01/2005	151,482	5,262	46,061	0	202,805
Currency differences	1,480	61	706	0	2,247
Additions	16,689	1,490	0	0	18,179
Disposals	-7,604	-124	0	0	-7,728
Write-ups/Transfers	673	384	-116	0	941
31/12/2005	162,720	7,073	46,651	0	216,444
Currency differences	-373	-27	-513	0	-913
Additions	16,599	1,013	0	0	17,612
Disposals	-4,914	0	0	0	-4,914
31/12/2006	174,032	8,059	46,138	0	228,229
Book value at 31/12/2006	158,623	4,620	97,546	1,938	262,727
Book value at 31/12/2005	156,048	4,691	98,027	1,917	260,683

(16) Property, plant and equipment

Property, plant and equipment is comprised as follows:

[€ 000s]	Land and buildings	Leased land and buildings (finance leasing)	Technical equipment and machines	Other equipment, factory and office equipment	Payments on account and assets under construction	Total
Acquisition costs						
01/01/2005	82,678	29,262	140,884	49,301	2,451	304,576
Currency differences	1,888	0	2,883	280	6	5,057
Additions	3,312	0	10,239	6,372	2,360	22,283
Disposals	-5,213	-9	-4,032	-4,251	-652	-14,157
Write-ups/Transfers	-332	181	1,970	876	-1,686	1,009
01/01/2006	82,333	29,434	151,944	52,578	2,479	318,768
Currency differences	-902	-18	-1,415	-135	-23	-2,493
Write-ups	0	0	0	0	0	0
Additions	3,394	0	9,184	3,857	7,166	23,601
Disposals	-964	0	-2,312	-3,024	-111	-6,411
Transfers	156	-155	1,840	355	-3,006	-810
31/12/2006	84,017	29,261	159,241	53,631	6,505	332,655
Depreciation and amortization						
01/01/2005	24,686	3,428	86,089	37,279	0	151,482
Currency differences	241	0	1,120	119	0	1,480
Write-ups	0	0	0	0	0	0
Additions	2,159	734	9,161	4,635	0	16,689
Disposals	-1,071	-9	-2,836	-3,688	0	-7,604
Write-ups/Transfers	-373	175	215	656	0	673
01/01/2006	25,642	4,328	93,749	39,001	0	162,720
Currency differences	-2	-17	-187	-167	0	-373
Additions	2,257	729	9,510	4,103	0	16,599
Disposals	-682	0	-1,644	-2,588	0	-4,914
Transfers	155	-154	-173	172	0	0
31/12/2006	27,370	4,886	101,255	40,521	0	174,032
Book value at 31/12/2006	56,647	24,375	57,986	13,110	6,505	158,623
Book value at 31/12/2005	56,691	25,106	58,195	13,577	2,479	156,048

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 lease contracts on the basis of their commercial profile, 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	
[€ 000s]	2005	2006
Acquisition costs		
1/1/	9,863	11,764
Currency differences	614	-230
Additions	718	342
Disposals	-262	-6
Write-ups	676	0
Transfers	155	810
31/12/	11,764	12,860
Depreciation and amortization		
1/1/	5,262	7,073
Currency differences	61	-30
Additions	1,490	1,016
Disposals	-124	0
Transfers	151	0
31/12/	7,073	8,059
Book value at 31/12/	4,691	4,621

(18) Goodwill

Goodwill is comprised of the following amounts from acquisitions (asset deals) and from capital consolidation.

Goodwill has developed as follows:

[€ 000s]	2005	2006
1/1/	95,722	98,027
Currency differences	700	-482
Additions	1,905	0
Disposals/Transfers	-300	0
31/12/	98,027	97,545

(19) Financial assets

[€ 000s]	Participations	Associated companies	Total
Acquisition costs			
1/1/2005	152	0	152
Additions	15	1,750	1,765
1/1/2006	167	1,750	1,917
Additions	0	21	21
31/12/2006	167	1,771	1,938

(20) Short-term debt

Short-term debt includes short-term credit lines that have been drawn down, the short-term proportion of loan liabilities and finance and leasing liabilities (€ 000s 1,332; 2005: € 000s 1,159).

(21) Tax liabilities

Tax liabilities include the income tax due for the fiscal year 2006 and not yet paid, and the expected tax payments for previous years. Deferred taxes are not included.

(22) Short-term accrued expenses

[€ 000s]	1/1/2006	Expenditure	Release	Allocation	31/12/2006
Restructuring	1,728	1,728	0	0	0
Warranty	1,303	0	472	304	1,135
Impending losses from financial derivatives	812	0	235	0	577
Legal disputes	110	100	0	0	10
Other	320	41	52	8	235
	4,273	1,869	759	312	1,957

(23) Other current liabilities

[€ 000s]	2005	2006
Liabilities to employees	10,547	11,144
Bonuses and promotion costs	1,924	962
Debit balances in accounts payable	994	1,171
Tax liabilities	480	573
Social insurance against occupational accidents	681	553
Supervisory Board remuneration	387	464
Other	1,662	3,287
	16,675	18,154
- of which social security	1,865	461

(24) Financial liabilities

Short-term and long-term debt 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 (2005: € 000s 6,057) by charges on property.

Non-current financial liabilities are essentially structured in terms of fixed-interest agreements. The interest rates for long-term debt are in the range of 3.75% to 6.30%.

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

[€ 000s]	2005	2006
Future leasing payments		
due within one year	2,890	2,890
due between one and five years	11,558	11,558
due after more than five years	23,226	19,819
Interest charge		
due within one year	-1,661	-1,558
due between one and five years	-5,689	-5,191
due after more than five years	-6,153	-4,777
Present value		
due within one year	1,229	1,332
due between one year and five years	5,869	6,367
due after more than five years	17,073	15,042
	24,171	22,741

(25) Non-current liabilities

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

[€ 000s]	2005			2006		
	1-5 years	more than 5 years	Total	1-5 years	more than 5 years	Total
Debts						
- of which to banks	58,855	20,974	79,829	45,964	10,911	56,875
- of which from finance lease	5,936	16,805	22,741	6,367	15,042	21,409
	64,791	37,779	102,570	52,331	25,953	78,284
Other liabilities	353	0	353	307	0	307
	65,144	37,779	102,923	52,638	25,953	78,591

(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.

[€ 000s]	Pension obligations	Obligations from phased retirement	Obligations for long-term service awards	Total
01/01/2005	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 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
Payments	-426	-708	-53	-1,187
Current service expenses	262	447	226	935
Interest expense	383	0	0	383
Actuarial gains	-29	-0	-10	-39
Release	-36	-46	-0	-82
	9,247	2,604	1,244	13,095
Plan assets	-31	-433	0	-464
31/12/2006	9,216	2,171	1,244	12,631

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 the Group recognizes actuarial gains and losses from defined-benefit plans in shareholders' equity (Other comprehensive income). The amount included for 2006 taking into account deferred tax is € 000s 18 (2005: € 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 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.

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

Dividend proposal

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 show a net profit of € 000s 11,079 (2005: € 000s 8,864). The Board of Management and Supervisory Board of SURTECO AG propose to the Annual General Meeting a dividend payout of € 1.00 (2005: € 0.80) per share, amounting to a total of € 000s 11,076 (2005: € 000s 8,860). The Board of Management further recommends carrying forward the residual amount of € 000s 4 (€ 000s 3) as profit carried forward.

List of all income and expenses recorded in the consolidated financial statements

[€ 000s]	2005	2006
Net income	21,987	28,958
Exchange rate effects	3,798	-3,257
Actuarial losses/gains	-404	18
Value changes recorded directly in shareholders' equity	3,394	-3,239
Total of income and expenses recorded	25,381	25,719
- Proportion attributable to shareholders of SURTECO AG	25,225	25,522
- Proportion attributable to minority interests	156	197

(28) Other financial obligations

[€ 000s]	2005	2006
Commitments from orders	0	4,476
Obligation arising from company purchase	0	2,900
Rental and operate leasing contracts, due		
- within one year	1,219	808
- between one year and five years	2,021	2,125
- more than five years	369	0
	3,609	10,309

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 1,332 (2005: € 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.

Financial instruments and derivatives are used exclusively to hedge interest and currency risks.

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 nominal 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 three and four 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]	2005		2006	
	Nominal amount	Market value	Nominal amount	Market value
Interest-related transactions	54,231	-639	46,630	-310
Currency-related transactions	1,534	-16	9,662	232
	55,765	-655	56,292	-78

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 is 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.

(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 (SBU) Paper and Plastics. Each company within the Group is assigned to the appropriate segment in accordance with the list giving an overview of shareholder structure.

- The **Strategic Business Unit Paper (SBU Paper)** comprises the production and sale of melamine-coated edgings, finish foils and laminates, and the printing of specialized technical papers for use in the international furnishing industry.
- The **Strategic Business Unit Plastics (SBU Plastics)** includes the production and sale of thermoplastic edgings, roller shutter systems, technical extrusions (profiles), skirtings and extrusions for flooring wholesalers, cladding systems and ranges for do-it-yourself markets.
- Consolidation measures, the holding company SURTECO AG and income, expenses, assets and liabilities, which are not directly attributable to the segments, are recognized in the "**Transition**" column.

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.

The presentation of segment reporting according to Strategic Business Units has changed compared with previous years, in that the activities of SURTECO AG are no longer reported in a separate column, but together with the consolidation measures and the activities not attributable to the segments. The presentation of segment reporting according to regional markets has changed compared with the previous year insofar as the relevant positions of SURTECO AG are not reported in segment assets or in segment liabilities, but are recognized net in the line of the transition account. In segment information according to regions, sales are determined on the basis of the registered office of the Group companies. Recognition of segment assets is reduced by prepaid income tax and deferred tax, segment liabilities by financial liabilities, tax liabilities and deferred taxes.

The business relationships between the companies in the segments are organized on the basis of dealing-at-arms-length. Administrative services are allocated on the basis of cost.

The same accounting and valuation principles are used as in the consolidated financial statements.

By Strategic Business Units [€ 000s]	SBU PAPER	SBU PLASTICS	TRANSI- TION	SURTECO GROUP
2006				
Income Statement				
Sales revenues	174,045	231,469	-2,358	403,156
- with outside third parties	171,935	231,221	0	403,156
- with other segments	2,110	248	-2,358	0
Depreciation and amortization	8,999	8,501	112	17,612
Segment earnings before participations, interest and taxes	22,644	37,037	-5,595	54,086
Income from other participations	86	0	0	86
Balance sheet				
Assets	149,651	211,800	11,747	373,198
Liabilities	65,451	51,753	90,316	207,520
Net assets	84,200	160,047	-78,569	165,678
Book value of participations recorded at equity	1,771	0	0	1,771
Investments in property, plant and equipment	12,410	10,896	295	23,601
Personnel	799	1,246	14	2,059
2005				
Income statement				
Sales revenues	174,006	228,191	-5,825	396,372
- with outside third parties	172,438	223,934	0	396,372
- with other segments	1,568	4,257	-5,825	0
Depreciation and amortization	9,427	8,242	96	17,765
Segment earnings before participations, interest and taxes	18,513	36,161	-3,357	51,317
Income from other participations	131	0	0	131
Balance sheet				
Assets	146,230	215,326	8,565	370,121
Liabilities	58,810	53,769	108,575	221,154
Net assets	87,420	161,557	-100,010	148,967
Book value of participations recorded at equity	1,750	0	0	1,750
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
2006				
Germany	339,889	386,568	145,609	17,750
European Union	35,759	39,513	8,697	303
Asia/Australia	28,503	29,759	5,798	895
America	67,614	49,273	9,064	4,653
Transition account	-68,609	-131,914	38,352	-
SURTECO GROUP	403,156	373,199	207,520	23,601
2005				
Germany	334,815	393,411	144,889	17,012
European Union	33,675	35,265	4,671	645
Asia/Australia	26,192	26,403	6,136	2,361
America	73,720	55,055	12,525	2,956
Transition account	-72,030	-140,011	52,933	-
SURTECO GROUP	396,372	370,123	221,154	22,974

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

Total compensation for the Supervisory Board for fiscal year 2006 amounted to € 000s 464 (2005: € 000s 376). Total compensation for Members of the Board of Management was € 000s 3,921 (2005: € 000s 2,437). In accordance with Article 286 (5) German Commercial Code (HGB), reporting of information on individual remuneration in accordance with Article 285 sentence 1 no. 9 letter a sentences 5 to 9 German Commercial Code (HGB) will not be implemented on account of the resolution of the Annual General Meeting dated 22 June 2006.

(33) Share ownership of the Board of Management and Supervisory Board of SURTECO AG

7,130 (2005: 7,130) shares in the Company were owned by members of the Board of Management on the balance sheet date. 170,075 (2005: 320,070) shares in the Company were owned by members of the Supervisory Board.

(34) Events after the balance sheet date

- **Takeover of the French trading company SDCA S.A.S.**

In January 2007, SURTECO took over 100 % of the shares in the French trading company SDCA S.A.S. in Angers at the purchase price of € 2.9 million. The company was integrated within the Strategic Business Unit Plastics under the company name Döllken France S.A.S. It finishes and markets products for the furnishing industry, in particular plastic and melamine edging tapes.

- **Purchase of the remaining shares in Arbe s.r.l.**

The remaining shares (25 %) in Arbe s.r.l. based in Martellago, Italy, were also purchased at a purchase price of € 1.5 million in January 2007. The finishing and marketing site is managed as a joint-venture company of BauschLinnemann GmbH in Sassenberg and Döllken-Kunststoffverarbeitung GmbH in Gladbeck.

(35) Release for publication

On 28 March 2007, the Board of Management of SURTECO AG released the consolidated financial statements for forwarding to the Supervisory Board of the company. The Supervisory Board is responsible to review the consolidated financial statements and declaring whether they approve the consolidated financial statements.

XI. EXECUTIVE OFFICERS OF THE COMPANY

Board of Management

Name

Friedhelm Päfgen
Businessman
Buttenwiesen-Pfaffenhofen
Chairman, SBU Paper

Dr.-Ing. Herbert Müller
Engineer
Heiligenhaus
SBU Plastics

Memberships in other companies*:

Deputy Chairman of the Supervisory Board of Döllken-Kunststoffverarbeitung GmbH, Gladbeck
Member of the Supervisory Board of Pfeleiderer AG, Neumarkt
Deputy Chairman of the Supervisory Board of Schleipen & Erkens AG, Jülich (until 24/10/2006)

Chairman of the Supervisory Board of Döllken-Kunststoffverarbeitung GmbH, Gladbeck
Chairman of the Supervisory Board of Ewald Dörken AG, Herdecke

Supervisory Board

Name

Shareholder representatives

Dr.-Ing. Jürgen Großmann
Engineer, Hamburg
Chairman

Björn Ahrenkiel
Lawyer, Hürtgenwald
Vice-Chairman

Bernd Dehmel
Businessman, Marienfeld
Deputy Chairman

Memberships in other companies*:

Member of the Supervisory Board of Wilhelm Karmann GmbH, Osnabrück (until 23/12/2006)
Member of the Supervisory Board of Deutsche Post AG, Bonn (until 10/5/2006)
Member of the Supervisory Board of Deutsche Bahn AG, Berlin
Member of the Supervisory Board of RAG Coal International AG, Essen
Member of the Supervisory Board of MTU Friedrichshafen GmbH, Friedrichshafen (since 6/4/2006)
Member of the Supervisory Board of Volkswagen AG, Wolfsburg (since 4/5/2006)
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 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 Council, Essen
Member of the Advisory Council of RAG Trading International, Essen
Member of the Board, Hanover Acceptances Limited, London
Member of the Advisory Council of IKB Deutsche Industriebank AG, Düsseldorf

* Memberships in legally constituted supervisory boards and comparable domestic and foreign supervisory bodies as at 31/12/2006

Dr. Matthias Bruse Lawyer, Munich	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 (until 31/3/2006)
Jakob-Hinrich Leverkus Businessman, Hamburg	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 of SFC, Smart Fuel Cell AG, Ottobrunn
Dr.-Ing. Walter Schlebusch Engineer, Munich	
Employee representatives	
Hans-Jürgen Diesner Marketing Salesman, 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, Munich	

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".

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, 27 March 2007

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 2006 to 31 December 2006. 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, 28 March 2007

Dr. Röver & Partner KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Rainer Weichhaus, Independent Auditor
Udo Heckeler, Independent Auditor

Company 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 PAPER					
300	Bausch Decor GmbH, Buttenwiesen-Pfaffenhofen	Germany	F	100.00	100
310	Saueressig Design Studio GmbH, Mönchengladbach	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	100
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
441	BauschLinnemann North America, Inc., Greensboro	USA	F	100.00	401
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 PLASTICS					
500	W. Döllken & Co. GmbH, Gladbeck	Germany	F	100.00	100
510	Döllken-Kunststoffverarbeitung GmbH, Gladbeck	Germany	F	100.00	500
511	Vynilit Fassaden GmbH, Kassel	Germany	F	100.00	510
512	SURTECO Australia Pty Limited, Sydney	Australia	F	100.00	510
513	Doellken PTE Ltd., Singapur	Singapore	F	100.00	510
514	PT Doellken Bintan Edgings & Profiles, Bintan	Indonesia	F	99.00 1.00	510 513
515	Döllken-Profiltechnik GmbH, Dunningen	Germany	F	100.00	500
520	Döllken-Weimar GmbH, Nohra	Germany	F	94.00 6.00	530 500
530	Döllken & Praktikus GmbH, Gladbeck	Germany	F	100.00	500
531	Döllken & Praktikus Sp.z o.o., Kattowitz	Poland	F	100.00	530
532	Praktikus CZ Spol.sr.o., Kolin	Czech Republic		100.00	530
550	Doellken-Woodtape Inc., Washington	USA	F	100.00	500
551	Doellken USA., Washington	USA	F	100.00	550
552	Canplast USA Inc., Greensboro	USA	F	100.00	550
560	Doellken-Woodtape Ltd., Washington	Canada	F	100.00	500
561	Doellken-Canada Ltd., Washington	Canada	F	100.00	560
562	Canplast Canada Ltd., Montreal	Canada	F	100.00	560
563	Canplast Mexico S.A. de C.V., Chihuahua	Mexico	P	50.00	562
564	2054872 Ontario Inc., Quebec	Canada	F	100.00	560
565	Pro-Plast Distribution Inc., Quebec	Canada	P	50.00	564
566	Canplast Centro America S.A.	Guatemala	P	25.00	562
567	Canplast Do Brasil S/A Comercio E Importacao de Componentes Para Moveis	Brazil	P	79.99	562
599	W. Döllken-Verwaltungs- und Beteiligungs-GmbH, Gladbeck	Germany	F	100.00	500
	F Full Consolidation	E Consolidation at Equity	P Proportionate Consolidation		



» BALANCE SHEET (HGB)

SURTECO AG

	31/12/2005 € 000s	31/12/2006 € 000s
ASSETS		
Intangible assets	16	10
Tangible assets	318	417
Investments	277,816	277,064
Fixed assets	278,150	277,491
Receivables and other assets		
- Receivables from affiliated companies	51,908	49,243
- Other assets	1,410	2,829
Cash in hand, bank balances	527	2
Current assets	53,845	52,074
Prepaid expenses	12	29
	332,007	329,594
LIABILITIES AND SHAREHOLDERS' EQUITY		
Capital stock	11,076	11,076
Additional paid-in capital	94,864	94,864
Revenue reserves	66,808	75,028
Net profit	8,864	11,079
Equity capital	181,612	192,047
Pension accruals	145	169
Tax accruals	985	1,101
Other accruals	3,215	4,468
Accrued expenses	4,345	5,738
Liabilities to banks	85,165	81,987
Trade accounts payable	137	58
Liabilities from acceptance of drawn bills of exchange and issue of own bills of exchange	5,000	7,000
Payables to related parties	54,702	42,539
Other liabilities	1,046	225
Liabilities	146,050	131,809
	332,007	329,594

SURTECO AG

	1/1 - 31/12/2005 € 000s	1/1 - 31/12/2006 € 000s
Income from profit transfer agreements (of which income from tax allocations transferred from subsidiaries: (€ 000s 9.689; previous year: € 000s 8.000)	32,872	37,810
Other operating income	3,309	3,537
Personnel expenses	-3,321	-5,061
Amortization and depreciation on intangible assets and fixed assets	-93	-127
Other operating expenses	-3,026	-3,509
Interest income	-5,884	-4,821
Result from ordinary activities	23,857	27,829
Income tax	-9,271	-8,531
Other taxes	-48	-2
Net income	14,538	19,296
Profit carried forward from the previous year	26	3
Transfer to revenue reserves	-5,700	-8,220
Net profit	8,864	11,079

The Annual Financial Statements of SURTECO AG have been published in the Bundesanzeiger and filed at the Commercial Register of the Local Court (Amtsgericht) Augsburg. 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.

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

Amtlicher Handel See official trading

Authorized capital The Authorized Capital is the scope for capital increase granted by the Annual General Meeting of a joint-stock company to the Board of Management of a company. The Board of Management may be authorized by a resolution of the Annual General Meeting by a majority of three quarters of the capital stock represented for a maximum of five years to increase the capital stock up to a specified nominal amount by issuing new shares. The authorized capital must not be greater than half the existing capital stock. This gives the Board of Management the opportunity to increase the liable funds at a favourable opportunity depending on the need for capital and the situation on the stock market, without having to convene an extraordinary Annual General Meeting.

Capital consolidation The function of capital consolidation is to combine the operating results of the subsidiary companies of the Group in order to determine the comprehensive income. The comprehensive income is reported as though it related to operating units in the consolidated subsidiary companies. Cross-shareholdings are eliminated and the participations of the parent company are offset with the proportionate equity capital of the subsidiary company.

Capital stock The capital stock is the designation for the value of the shares issued in a joint-stock company. It is the amount up to which a joint-stock company can be made liable for its business activities. The capital stock of a joint-stock company must be at least EUR 50,000 (Clause § 7 Stock Corporation Act, AktG) and is divided into shares which securitize the rights of membership of the shareholders in the company.

Consolidated group Group of subsidiary companies of a group company that are included within the consolidated financial statements.

Consolidation Consolidated financial statements 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 rules were developed with the aim of making management structures in international companies comparable. These rules for German companies were compiled in the German Corporate Governance Code. Corporate Governance in this context 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.

Dealing-at-arm's-length principle Services between legally independent companies of a group are exchanged at intercompany prices. Intercompany prices must be subject to the test of dealing-at-arm's-length, which would involve an offset of an exchange of services between affiliated companies at conditions that were agreed or would have been agreed under comparable circumstances with or among third parties.

Declaration of Compliance Pursuant to Clause § 161 Stock Corporation Act (AktG), the Board of Management and the Supervisory Board of German companies listed on the stock exchange must submit a Declaration of Compliance every year. The declaration is a statement by the Board of Management and Supervisory Board clarifying whether the recommendations made by the Federal Ministry of Justice in the Corporate Governance Code have been and will be complied with or which recommendations have not been or are not being applied.

Derivative financial instruments Financial products in which the market value can be derived from classic underlying instruments or from market prices such as interest rates or exchange rates. Derivatives are used for financial management at SURTECO in order to limit risk.

Discounted cash flow method The discounted cash flow method can be used to determine the cash value (utility value) of an asset. The cash value of the future net payouts is the total of the discounted company successes and will be determined by the anticipated future company successes and by the capitalization interest rate applied.

Equity method Method of consolidation for presenting participations in companies whereby a controlling influence can be exerted over their business and financial policy. The participation is initially valued at acquisition cost and this value is then adjusted on a pro rata basis to reflect performance of the associated company.

Finance lease Leasing contract in which the lessor essentially takes over the financing function. The commercial ownership is transferred to the lessee.

Free float Free float relates to the percentage of shares that are not tied up and can therefore be freely traded on the stock exchange.

German Corporate Governance Code The German Corporate Governance Code is intended to make transparent the rules for corporate management and monitoring that prevail in Germany for national and international investors. The aim is to strengthen confidence in the corporate management of German companies. The text of the German Corporate Governance Code in the version dated 12 June 2006 can be accessed on the Internet under "www.surteco.com" in the menu item Corporate Governance.

Impairment test According to the regulations of the IFRS, it is necessary to recognize an impairment if the comparable value – the recoverable amount – is less than the book value. The recoverable amount is the higher value in a comparison of the net sale price with the utility value of the asset in question.

International Accounting Standard Board (IASB) IASB has been the abbreviation for the International Accounting Standards Board since 2001. The IASB is based in London and is organized and financed under private law. The function of the IASB is to draw up international accounting standards (IFRS - International Financial Reporting Standards). The goal of the IASB is to develop high-quality, comprehensible and feasible accounting standards in the interests of the public that result in the presentation of high-quality, transparent and comparable information in financial statements and other financial reports. The aim of this is to assist participants in the capital markets to make economic decisions and to create convergence between national standards and IAS / IFRS. The IASB is developing standards on an ongoing basis. Since 2000, the EU Commission has implemented many of these standards as binding EU law in a special endorsement procedure.

International Financial Reporting Interpretations Committee (IFRIC) The IFRIC is a committee in the International Accounting Standards Committee Foundation. The group has twelve members. The function of the IFRIC is to publish interpretations of accounting standards in cases where different or incorrect interpretations of the standard are possible, or new factual content in the previous standards was not adequately taken into account. The IFRIC meets every six weeks and initially publishes interpretations as a draft for purposes of discussion in the public domain.

International Financial Reporting Standards (IFRS) The International Financial Reporting Standards (IFRS) are international accounting standards. They comprise the standards of the International Accounting Standards Board (IASB), the International Accounting Standards (IAS), the International Accounting Standards Committee and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretation Committee (SIC).

Management approach The management approach assumes that the units formed for internal reporting and decision-making, as well as for operating management of the company, are also relevant for external segment reporting, since the best information for segmentation of the company is available to the company management.

Merger The merger is the most fundamental form of a business combination. It is regulated by the Transformation Act.

Official trading (amtlicher Handel) Official trading on the German stock exchange, also known as the official market, has the biggest volume of trading. The admission of a security for an official listing is subject to strict authorization procedures (admission to listing on the stock exchange). The prices quoted in this market segment are set by sworn brokers under public law and these prices are official.

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 avoid risks or reduce the possible negative consequences.

SE Abbreviation for Societas Europaea – legal form of a European joint-stock company.

SBU Strategic Business Unit

Spin-off A legal entity (transferring legal entity) can spin off a part or several parts of the entity's assets. The transfer may be executed in each case collectively to an existing or several existing legal entities (purchasing legal entities) or to newly established legal entities. The previous legal entity continues to exist. The shareholders of the previous legal entity receive shares in the new legal entities.



» 2007 - 2008

2007	11 May	Three-month report January - March 2007
	10 August	Six-month report January - June 2007
	31 August	Annual General Meeting Gasteig, Carl-Orff-Saal, Munich
	3 September	Dividend payout
	9 November	Nine-month report January - September 2007
2008	30 April	Annual Report 2007
	9 May	Three-month report January - March 2008
	24 June	Annual General Meeting, Arabella-Sheraton, Munich
	25 June	Dividend payout
	11 August	Six-month report January - June 2008
	11 November	Nine-month report January - September 2008



» PUBLICATION DETAILS

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	BAUSCH AG		BAUSCH + LINNEMANN AG	
	HGB 1997	HGB 1998	HGB 1999	HGB 2000
Sales revenues € 000s	72,480	79,907	170,519	193,375
Ratio of exports to total sales %	69	68	60	64
EBITDA € 000s	15,058	16,786	36,793	44,010
Depreciation and amortization € 000s	-2,608	-2,695	-9,166	-11,659
EBIT € 000s	12,450	14,091	27,627	32,351
Financial result € 000s	-645	-133	-1,959	-4,776
Earnings from ordinary activities before restructuring expenses € 000s	11,805	13,958	25,668	27,575
Restructuring expenses	0	0	0	0
Earnings from ordinary activities after restructuring expenses (EBT) € 000s	11,805	13,958	25,668	27,575
Consolidated net income € 000s	6,349	7,476	14,243	18,120
Cash earnings € 000s	8,957	10,209	26,538	30,157
Balance sheet total € 000s	50,131	52,526	133,271	198,400
Equity capital € 000s	28,872	33,565	47,411	54,438
Equity capital in % of balance sheet total	58	64	36	27
Average number of staff employed for the year	433	448	871	940
Number of staff employed 31/12	436	453	883	964
Capital stock €	12,271,005	12,271,005	8,293,325	8,293,325
Number of shares	4,800,000	4,800,000	8,293,325	8,293,325
Earnings per share €	1.32	1.55	1.70	2.02
Dividend per share €	0.51	0.61	0.66	0.92
Dividend payout € 000s	2,454	2,945	5,512	7,633
PROFITABILITY INDICATORS				
Sales return %	14.2	15.6	13.7	14.3
Return on equity %	35.6	37.1	41.1	38.9
Return in investment %	22.2	24.8	19.3	16.5

SURTECO AG

HGB 2001	IFRS 2002	IFRS 2003	IFRS 2004	IFRS 2005	IFRS 2006
270,551	367,642	355,037	380,428	396,372	403,156
61	60	60	61	64	64
45,666	69,761	63,976	71,675	69,082	71,698
-15,207	-27,025	-26,762	-25,912	-17,765	-17,612
30,459	42,736	37,214	45,763	51,317	54,086
-4,134	-12,721	-10,120	-9,686	-9,890	-8,060
26,325	30,015	27,094	36,077	41,427	46,026
0	0	0	-1,329	-3,871	0
26,325	30,015	27,094	34,748	37,556	46,026
13,091	17,616	14,847	18,205	21,831	28,761
30,373	45,898	42,043	45,841	39,879	46,116
372,235	390,510	356,414	362,130	370,121	373,198
101,863	104,046	108,710	116,609	148,967	165,678
27	27	31	32	40	44
2,159	2,053	1,941	1,998	2,132	2,059
2,113	2,033	1,937	2,192	2,109	2,051
10,575,522	10,575,522	10,575,522	10,575,522	11,075,522	11,075,522
10,575,522	10,575,522	10,575,522	10,575,522	11,075,522	11,075,522
1.28	1.67	1.40	1.72	1.97	2.60
1.10	0.65	0.70	0.80	0.80	1.00
11,633	6,874	7,403	8,860	8,860	11,076
9.7	8.2	7.6	9.1	9.4	11.4
14.5	18.1	14.7	17.0	15.6	18.4
9.2	11.0	10.5	12.3	12.8	14.7

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