

REPORT FOR THE FIRST QUARTER

2004

SPECIALISTS
FOR SURFACE
TECHNOLOGIES

Q1

SURTECO

AKTIENGESELLSCHAFT



1 January to 31 March

OVERVIEW

SURTECO GROUP

€ 000s	Q1/ 2003	Q1/ 2004	Variation in %
Sales revenues	94,101	96,797	+3
of which			
- Germany	39,011	41,150	+5
- Foreign	55,090	55,647	+1
EBITDA	18,888	20,324	+8
EBIT	12,223	13,558	+11
Result from ordinary activities before restructuring expenses	9,463	11,399	+20
Restructuring expenses	-1,844	0	
Result from ordinary activities after restructuring expenses	7,619	11,399	+50
Net income for the first quarter	4,591	6,167	+34
Minority interest	-1	-74	
Consolidated net income for the first quarter	4,590	6,093	+33
Cash Earnings	12,435	13,407	+8
Net income per share (€)	0.43	0.58	+35
Number of employees at 31 March	1,984	1,931	-3

The interim financial statements have not been audited.

» DEAR SHAREHOLDERS, PARTNERS AND FRIENDS OF OUR COMPANY

SURTECO AG increased both sales and income during the first quarter of 2004. The company was successful in making progress in an economy that has not yet got underway. The Research and Development Departments of the two Strategic Business Units (SBU) played a significant role in this advance by delivering new products that were innovative and in line with market requirements. The first quarter of the current year was geared to continuity. All projects currently being implemented were continued according to schedule. The ZEUS restructuring programme being realized in the SBU Paper is particularly noteworthy. This programme is scheduled for completion in the middle of the year. Given that the main measures have already been successfully implemented in production, administration and sales, efforts are now focusing on synchronization of communication and information technologies. The SBU Plastics is working intensively on optimizing its domestic production structures. Supplementary programmes are also running in parallel across the Group with the aim of enhancing efficiency and thereby reducing unit costs.

» SALES AND MARKETS

Sales increase by 3 %

The SURTECO Group ended the first quarter of the fiscal year 2004 with sales growth of € 2.7 million or 3 % to € 96.8 million by comparison with the equivalent year-earlier period. Sales went up despite the fact that the economy has not yet got going in Germany and in many foreign markets. This shows that the measures strategically adopted by SURTECO AG over the past two years to counteract the difficult economic situation have led to measurable results.

By comparison with the previous year, sales in Germany increased by 5 % during the first three months of 2004 to € 41.2 million. By contrast, the increase in foreign business during the first quarter of 2004 was only 1 % with sales of € 55.6 million. However, it remains necessary to take into account the impact of exchange-rate differences, without which foreign sales for the first quarter would have been € 1.5 million. This would have resulted in growth of 4 %.

The proportion of foreign sales in total sales during the equivalent year-earlier quarter was 59 %, whereas it was 58 % during the year under review. Edging products made of extruded plastics (SBU Plastics) and based on technical raw papers (SBU Paper) dominate the product portfolio of SURTECO AG with a proportion of sales of 49 %. Flat foils including pre-impregnated materials come next (23 %), followed by plinth strips, roller shutters and other technical extrusions (profiles) (10 %), DIY range (8 %), facade systems (2 %) and decorative prints (3 %). The remainder is divided between goods for resale and specialist products.

SBU Paper

The companies in the SBU Paper produce surface materials based on individually manufactured raw papers. These are essentially edging strips for forming a side coating for wood materials, and pre-impregnated or fully-impregnated foils for surfaces. Bausch Dekor GmbH in Buttenwiesen-Pfaffenhofen prints the papers with wood-grain and decorative patterns. Apart from delivering to external customers, it mainly supplies companies in the Bausch und Linnemann Group. These companies refine the paper rolls printed with decorative patterns and tailor them to customers' requirements.

The ZEUS programme is scheduled for completion in the summer and restructuring work is continuing under this plan. Rationalization of the sales organization and building up the joint international sales network have largely been completed. The commercial situation for products in the SBU Paper continues to remain weak globally. Our customers continue to be confronted with overcapacities and sales difficulties. This makes it all the more remarkable that additional sales are being generated against the general trend, both in Germany and in a number of important foreign markets. Quarterly sales have risen by 5 % to € 48.9 million as a result.

Sales in Germany amounted to € 17.5 million (+3 %). Growth resulted from increasing shares accounted for by the caravan industry and individual economic conditions relating to major purchasers in the furnishing industry. Foreign business concluded 6 % up on the previous year at € 31.4 million. The proportion of foreign sales for the first quarter continued at 64 %.

SBU Plastics

Companies in the SBU Plastics manufacture high-quality products produced from a wide range of different plastics. Thermoplastic edging tapes are the main sales driver. They are produced in a variety of different qualities and designs with consistent implementation of customers' requirements. Plinth strips, roller blinds and technical extrusions (profiles) complement the product range. Vinylit Fassaden GmbH is a specialist in providing innovative systems for claddings facades, which are used in renovating existing buildings and in new construction. SBU Plastics is successful in the DIY market with Döllken & Praktikus GmbH.

Consolidated quarterly sales totalled € 47.9 million during the period under review, exceeding the year-earlier amount by 1 %. Currency effects impacted negatively on sales to the tune of € 1.0 million. Adjusted by this value, sales would have grown by 3 % during the first quarter of 2004. Business in Germany increased by 7 %. Taking account of exchange-rate differences, foreign sales remained at the same level as the previous year. 51 % of sales during the first quarter of 2004 were attributable to foreign sales.

Overall positive development is powered by business with plastic edgings, which increased by 3 % during the course of the reporting period. In the context of a market that remains restrained, this confirms the outstanding position of this product range, which continues to occupy a top position in its segment for quality and stylish design. Notable growth has been achieved for edging tapes in the North American market (+17 %) and in Australia (+23 %).

» EXPENSES

Rationalization measures begin to take effect

The cost of purchased materials amounted to € 41.3 million in the first quarter of the current fiscal year. This represents a proportion of 42.1 % (+0.9 percentage points) of total output. The cause of the increase was solely due to a change in product mix. Cost prices remained stable overall. The rise in plastic PVC was compensated by lower prices for ABS. Otherwise, only minor changes occurred.

Supply was problematic for pre-impregnated papers. The few manufacturers of this specialist product had substantial capacity problems due to the high level of demand and this made it difficult to secure adequate volumes at the scheduled times. Supply for the other semi-finished products in appropriate volumes was unproblematic.

Personnel expenses at € 23.5 million were € 0.4 million below the equivalent value for the previous year, despite the significant increase in overall output. As a proportion of total output, personnel expenses amounted to 24.0 % and this was 1.5 percentage points less than the previous year. Additional radical rationalization measures were responsible for this.

Other operating expenses amounted to € 13.6 million and this put them at the year-earlier level.

» EARNINGS

Positive earnings performance

The earnings for the first quarter of 2004 exceeded the equivalent year-earlier figures. EBITDA totalled € 20.3 million and EBIT amounted to € 13.6 million. This corresponds to an increase of 8 % for EBITDA and 11 % for EBIT. Earnings from ordinary activities totalled € 11.4 million. After restructuring activities reported in the first quarter of 2003, they therefore exceeded earnings from ordinary activities by 50%. This value would have been even more favourable without exchange-rate charges amounting to € 0.5 million. Earnings for the first quarter of 2004 totalled € 6.2 million (2003: € 4.6 million, +34 %). The share portfolio of 10,575,522 no-par-value shares gives net income per share of € 0.58.

Cash earnings at € 13.4 million exceeded the value for the previous year by 8 %.

» RESEARCH AND DEVELOPMENT

Innovative printing techniques for plastic products

The new electron beam system for varnishing pre-impregnated materials has proved extremely successful in the everyday routine of production in the SBU Paper. The coating materials manufactured are in conformity with the stringent specifications. The machine supplies the absolutely consistent, high-quality products at high production speeds and with energy efficiency. Research and Development intends to expand the range of applications with additional product variants. New varnishes will be tested during the first stage. These will produce an even more homogeneous finish and they are also projected to be less sensitive to mechanical load. The intention is also to expand the proportion of coloured varnishes which are coated over the entire surface of the paper and hence permit reproduction of virtually all Uni-colour inks. Metallic effects also enrich the range of colours available. This year, there are plans to develop a foil that is highly resistant to friction based on pre-impregnated materials and in combination with electron-beam technology. This foil will then be used in areas where it has so far only been possible to apply complex and therefore more expensive materials. These substrates include plinth strips, table surfaces, windows and stairs.

The SBU Plastics has made the issue of environmental protection a top priority. It was possible to reduce the proportion of solvents significantly by using newly developed base materials. Once this pilot project has been completed, the procedure will be transferred to other product lines. This will

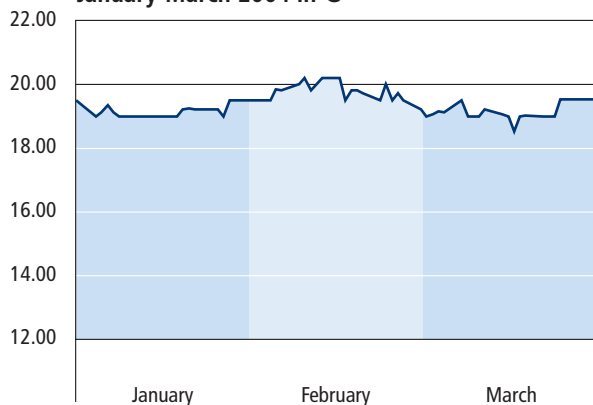
make it possible not only to meet, but to under-shoot the newly defined limits in the proportion of solvents.

A new era is beginning in the manufacture of plastic profiles (extrusions) with the use of digital printing technology during the preliminary printing stage. The development of design and colour matching are now initially worked out on screen and only then forwarded to production. Sample production runs are then carried out promptly with appropriate printing rollers and on the basis of the printing formulations that have been calculated. The procedure has made a significant contribution towards shortening the processing time, particularly in the case of customer designs. During the period under review, the printing technique has again been refined for transparent plastic edgings using an optically three-dimensional decorative coating. The result is even more brilliant printing effects and even more exact matching to the template supplied by the customer. In particular in the case of kitchen worktops, this procedure optimizes the matching of the plastic edging with the coated surface in terms of precise design and homogeneous equivalence.

» SURTECO SHARES

Period January-March 2004	Amounts in €
Number of shares	10,575,522
Price on 2/1/2004	19.50
Price on 31/3/2004	19.51
High	20.20
Low	18.50
Average share price	19.35
Market capitalization as at 31/3/2004	206,328,434.22

**Share price performance
January-March 2004 in €**



Sideways movement at a high level

After the SURTECO share recovered significantly during the course of fiscal 2003, the price stagnated during the first half of 2004 at the level that had been achieved. On average, the listed prices were € 19.35 and demonstrated only slight variations (high: € 20.20, low € 18.50). The price level significantly exceeded the equivalent year-earlier period (as a comparison: the price at the end of March 2003 was € 12.00). Nevertheless, the SURTECO share still appears to have potential. SURTECO AG meets the criteria of the Prime Standard with the consequent far-reaching obligations of disclosure. These include, for example, preparation of quarterly reports and the additional issue of publications in English.

The shares of SURTECO are quoted on the stock exchanges of Frankfurt and Munich for official trading. The share is also included in OTC trading on the stock markets in Berlin/Bremen, Stuttgart and Hamburg.

» OUTLOOK FOR FISCAL YEAR 2004

The conservative indicators for an upswing in the economy manifested in the second half of 2003 did not lead to the reversal in the sustained period of weakness in the furniture and construction sector that had been hoped for. Despite the extremely positive development during the first quarter, we are maintaining our previous projection. We continue to assume that the annual financial statements for the current fiscal year will show a result that is slightly up on the figures for the previous year.

CONSOLIDATED INCOME STATEMENT (IFRS) SURTECO GROUP

€ 000s	Q1/2003 1/1/-31/3/ 2003	Q1/2004 1/1/-31/3/ 2004
Sales revenues	94,101	96,797
Changes in inventories	-536	1,139
Production of own fixed assets capitalized	188	131
Total output	93,753	98,067
Cost of purchased materials	-38,629	-41,269
Personnel expenses	-23,940	-23,519
Other operating expenses	-13,520	-13,620
Other operating income	1,224	665
EBITDA	18,888	20,324
Depreciation and amortization	-4,521	-4,540
Amortization (and impairment) of goodwill	-2,144	-2,226
EBIT	12,223	13,558
Financial result	-2,760	-2,159
Result from ordinary activities before restructuring expenses	9,463	11,399
Restructuring expenses	-1,844	0
Result from ordinary activities after restructuring expenses	7,619	11,399
Income tax	-3,028	-5,232
Net income for the quarter	4,591	6,167
Minority interest	-1	-74
Consolidated net income for the quarter	4,590	6,093
Net income per share (€)	0.43	0.58
Number of shares issued	10,575,522	10,575,522

CONSOLIDATED BALANCE SHEET (IFRS) SURTECO GROUP

€ 000s	31/12/2003	31/3/2004
ASSETS		
Cash and cash equivalents	2,467	2,530
Trade accounts receivable	30,303	45,570
Inventories	44,101	50,633
Other current assets	15,373	9,126
Current assets	92,244	107,859
Plant property and equipment, net	150,507	151,423
Intangible assets	1,399	1,601
Goodwill	99,273	100,870
Investments	5,380	551
Other non-current assets	1,222	1,211
Non-current assets	257,781	255,656
Deferred tax asset	6,389	7,177
	356,414	370,692

CONSOLIDATED
BALANCE SHEET (IFRS)
SURTECO GROUP

€ 000s	31/12/2003	31/3/2004
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current financial liabilities	49,954	41,499
Trade accounts payable	12,110	20,353
Tax liabilities	12,007	14,000
Short-term accrued expenses	2,156	2,686
Other current liabilities	17,010	18,700
Total short-term liabilities and provisions	93,237	97,238
Non-current financial liabilities	127,057	126,345
Pensions and similar obligations	10,740	11,362
Other non-current liabilities	511	563
Non-current liabilities	138,308	138,270
Deferred tax liability	16,159	16,367
Minority interests	160	772
Equity captial	108,550	118,045
	356,414	370,692

CONSOLIDATED
CASH FLOW STATEMENT (IFRS)
SURTECO GROUP

€ 000s	Q1/2003 1/1/-31/3/ 2003	Q1/2004 1/1/-31/3/ 2004
Earnings before minority interest, after income tax and extraordinary items	4,591	6,167
Adjustments	2,279	11,296
Internal financing	6,870	17,463
Change in working capital	5,349	-3,887
Cash flows from current business operations	12,219	13,576
Cash flows from investing activities	-2,400	-3,625
Cash flows from financing activities	-8,822	-9,888
Change in cash and cash equivalents	997	63
Cash and cash equivalents		
1 January	3,187	2,467
31 March	4,184	2,530

SCHEDULE OF EQUITY CAPITAL (IFRS) SURTECO GROUP

€ 000s	Capital stock	Capital reserves	Revenue reserves	Consolidated net retained profits	Total
31 December 2003	10,576	35,860	47,267	14,847	108,550
Consolidated net income for the first quarter	0	0	0	6,096	6,096
Other changes	0	0	3,251	148	3,399
31 March 2004	10,576	35,860	50,518	21,091	118,045

SEGMENT REPORTING (IFRS) SURTECO GROUP

By Strategic Business Units 1/1/ - 31/3/2004 € 000s	Segment revenues	Operating segment earnings before interest (financial result) and taxes
SBU Paper	49,103	8,063
SBU Plastics	49,069	7,459
SURTECO AG	0	-593
Consolidation	-1,375	-1,371
SURTECO Group	96,797	13,558

By regional markets 1/1/ - 31/3/2004 € 000s	SBU Paper	SBU Plastics	SURTECO Group
Germany	17,508	23,653	41,161
European Union (without Germany)	16,403	10,126	26,529
Rest of Europe	6,243	3,911	10,154
America	6,031	6,966	12,997
Asia, Australia	2,918	4,413	7,331
Total	49,103	49,069	98,172
Consolidation	-177	-1,198	-1,375
SURTECO Group	48,926	47,871	96,797

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