

**REPORT FOR THE FIRST
QUARTER**

2005

**SPECIALISTS
FOR SURFACE
TECHNOLOGIES**

Q1

SURTECO

AKTIENGESELLSCHAFT

1 January to 31 March



» OVERVIEW

SURTECO GROUP

Q1

1st Quarter

€ 000s	1/1/ - 31/3/2004	1/1/ - 31/3/2005	Variation in %
Sales revenues	96,797	101,680	+5
of which			
- Germany	41,150	39,307	-4
- Foreign	55,647	62,373	+12
EBITDA	20,324	18,723	-8
EBIT	13,558	14,238	+5
EBT	11,399	12,059	+6
Net income	6,167	7,448	+21
Minority interest	-74	-71	
Consolidated net income	6,093	7,377	+21
Cash Earnings	13,407	12,187	-9
Net income per share (€)	0.58	0.69	+19
Number of employees at 31 March	1,931	2,134	+11



» DEAR SHAREHOLDERS, PARTNERS AND FRIENDS OF OUR COMPANY

The start of the current fiscal year was not very encouraging. The economic situation had again deteriorated significantly compared with 2004 - particularly in Germany. Admittedly, sales of SURTECO AG rose by 5 %, but after adjustment for first-time consolidation of the Canadian Canplast Group, sales actually fell by 2 %. The Canplast Group had been purchased in October 2004. As a result of lower utilization of capacities, price increases for various raw materials, increasing pressure on prices in some product groups and a weak dollar, earnings before tax (EBT) - which are not influenced by the elimination of amortization of goodwill - lagged behind the equivalent figure for the previous year.

In January 2005, we acquired a 30 % shareholding in Saueressig Design Studio GmbH, Mönchengladbach. This stake is geared towards expanding our competence in decorative design.

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

» SALES AND MARKETS

Global economic weakness

The global market downturn already indicated during the fourth quarter of 2004 was significantly stronger than we had originally forecast. The first quarter of 2005 therefore fell short of the already muted expectations.

In Germany, the unemployment figures published in January broke through the five million barrier for the first time. Expenses for long-life goods in general - not simply furniture - fell back significantly. The construction industry is a key industry as far as SURTECO is concerned and it is a long way from recovery. All this led to a decline in sales of 4 % in Germany to € 39.3 million.

In European markets, an increase of 4 % to € 36.9 million was achieved despite sustained weakness in demand. In North America, first-time consolidation of the Canplast Group resulted in a leap in sales from € 12.9 million in the first quarter of 2004 to € 18.4 million in the period under review (+42 %). Overall, the growth in foreign business contributed 12 %. The proportion of foreign sales amounted to 61 %.

SBU Paper

Bausch Dekor GmbH and BauschLinnemann GmbH and their subsidiaries are part of the Strategic Business Unit (SBU) Paper and they too were affected by the downturn in the construction and furniture sector. Sales fell by 5 % to € 46.6 million.

The downswing impacted on all market segments in Germany with the exception of the caravan industry. A large number of customers already had to register for short-time working at the start of the year. This was a development that only used

to happen during the summer months in previous years. Domestic sales of the SBU Paper were € 16.8 million in the first quarter of 2005, 4 % below the equivalent year-earlier figure.

Foreign sales also fell back. At € 29.8 million the difference by comparison with the first quarter amounted to € 1.6 or 5 %. European customers of the SBU Paper in industry, trade and interior design were operating well below capacity across the board. However, the level of sales was maintained at the level of the quarter for the previous year. In America, factors such as high inventories led to a reduction in sales at major customers by 24 % to € 4.5 million. Moreover, US American furniture manufacturers are experiencing increasing difficulties with cheap imports from Southeast Asia.

By contrast, Bausch Dekor GmbH was able to increase sales of printed papers to external customers in Germany and abroad by a total of 43 % to € 3.9 million.

SBU Plastics

The first quarter of the current fiscal year was rather more satisfactory for the SBU Plastics, even though the result was not within the scope of our expectations. Sales increased by 15 % to € 55.1 million. However, the sales of the Canplast Group acquired in October 2004 should be removed in order to obtain an objective comparison with the previous year. The plastics sector achieved growth of nearly 2 % on a comparable level.

Sales in Germany at € 22.5 million were € 1.2 million below sales for the previous year. While the edgings business stagnated at the level of 2004, the DIY market and facade business were significantly down.

Foreign business achieved a rather better result. The European market increased by 3 % and achieved € 14.3 million. Business in America underwent the most significant increase. The takeover of the Canplast Group increased sales to € 13.8 million, which means that it almost doubled.

Even without the growth resulting from the Canplast acquisition, sales in plastic edgings went up by 9 %. Overall, plastic edgings represented 61 % of total sales for the SBU Plastics. A drop in sales was recorded for plinth strips, roller-shutter systems, technical extrusions (profiles), facade systems and DIY ranges.

» EXPENSES

Cost pressure on semi-finished products

The proportion of the cost of materials in relation to sales increased by 0.5 percentage points to 42.6 % during the reporting period. During the first quarter of 2005, prices for the plastics PVC and ABS were significantly above prices in the equivalent year-earlier quarter and above the average for the fiscal year 2004. Resins, varnishes and other chemical raw materials were also more expensive. However, with the exception of North America, prices appear to have gone beyond peak levels. The other semi-finished products remained constant overall across the Group. All raw materials were easily available in adequate quantities and could be obtained with reasonable delivery schedules.

The proportion of personnel costs to total output was 24.5 %, € 1.5 million or 0.5 percentage points above the figure for the previous year. The number of employees went up by 11 % to a headcount of 2,134. The increase was brought about by the acquisition of the Canplast Group in October 2004. Other operating expenses totalled € 15.4 million (1st quarter 2004: € 13.6 million).

» EARNINGS

Adjusted earnings down

At € 18.7 million, EBITDA during the first quarter of 2005 was down by 8 % on the equivalent year-earlier figure. Amortization and depreciation of intangible assets and property, plant and equipment at € 4.5 million remained at the level for the equivalent year-earlier quarter. Elimination of amortization of goodwill for the first time due to the new regulations of IFRS 3 favoured EBIT and consequently earnings before taxes and minority interest (EBT), which came out at € 12.1 million. This was higher than in the equivalent year-earlier quarter. Adjustment by the effect arising from elimination of amortization of goodwill, yields an EBT reduced by 14 %.

Earnings for the first quarter of 2005 amounted to € 7.5 million (2004: € 6.2 million; variation + 21 %). Without the easing of the burden referred to above, this figure would have been 11 % less than in the equivalent year-earlier period for 2004.

Earnings per share achieved € 0.69 (2004: € 0.58). During the first quarter of 2005, the capital increase raised the number of shares in SURTECO AG to 11,075,522 no-par-value shares. The basis for calculating earnings per share in the previous year was 10,575,522 no-par-value shares. Cash earnings amounted to € 12.2 million (2004: € 13.4 million).

» RESEARCH AND DEVELOPMENT

Award for "Wood Look"

The SBU Paper manufactures edging strips and flat foils based on specialist papers for technical applications. The finish products are manufactured by printing the paper roll using a rotogravure printing technique and by further refinement with impregnation and varnishing. Melding these different processing stages has originated a finish that gives a natural effect which is extremely difficult to distinguish from real wood. The visual and tactile properties of the foil have been perfected under the "Wood Look" brand concept. The visual impression benefits from the innovative option of highlighting the embossed parts of a finish using differentiated levels of gloss and designing them to give a particularly natural impression. The effect is particularly striking with lively structures. It gives the material a unique impression of depth that is retained in full after the products have been processed by customers. The permanent visual effect is complemented by the tactile experience provided by the material, so that touching a piece of furniture refined with the "Wood Look" becomes a unique experience. In response to the considerable customer interest, new decorative designs and structures with flair are being created for a wide range of applications. As a matter of course, the SBU Paper has only used environmentally friendly printing inks, impregnation and varnishes for many years. At this year's Interzum trade fair in Cologne, the "Wood Look" was awarded the prestigious Interzum Award.

Another project relates to the manufacture of foils for plinth strips. These are highly resistant to abrasion. The surface of the coating material has

an abrasion quality similar to the quality of laminated flooring and is therefore ideal to complement floors of this nature. Other potential applications are table tops, windows or stairs. This product is able to replace the more expensive materials that have been used in the past.

During the reporting period, the current range of edging tapes supplied by the SBU Plastics was expanded by additional attractive designs. The three-dimensional appearance of the plastic edgings enhances their design effect and significantly increases the quality of coated furniture. Embossing enhances the visual effect still further. The SBU Plastics has developed trend designs such as braided, retro and crumpled effects and the design known as cat's eye. Metallic effects are very much in vogue at the moment. The aluminium colour range is supplemented by variations of stainless steel, titanium and bronze. When a new varnishing technique comes onstream, high-gloss finishes can be produced to create an attractive homogeneity, even when coatings are thick.

An innovative, highly scratch and impact resistant floor strip has been developed with the working title of "Armoured Strip". The classic MDF strip is protected by a plastic ply made of high-performance polypropylenes. The armoured strip undergoes complex visual and tactile processing so that it conveys to the observer the impression of a natural material. The design and finish of this strip is particularly suitable for use in laminated flooring.

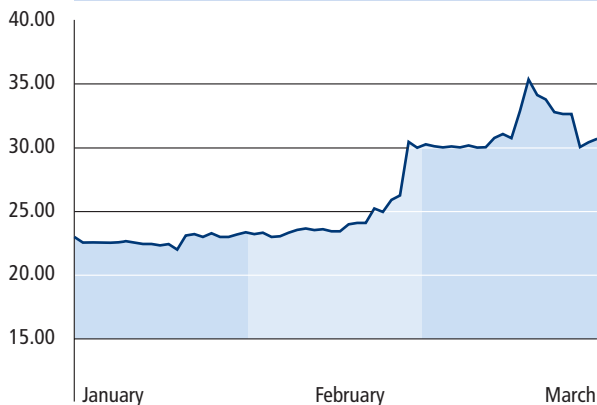
» SURTECO SHARES

Period January - March 2005

Number of shares at 1/1/2005	10,575,522
New shares from the capital increase	500,000
Number of shares at 31/3/2005	11,075,522

Price on 3/1/2005 (€)	23.00
Price on 31/3/2005 (€)	30.55
High (€)	35.30
Low (€)	22.10
Average share price (€)	26.25

Market capitalization	
as at 3/1/2005 (€ million)	243.2
as at 31/3/2005 (€ million)	338.4
	(+39%)

**Share price performance
January - March 2005 in €**

» OUTLOOK FOR FISCAL YEAR 2005

In our opinion, the exceptionally weak domestic economy and the evident slackening of demand in our most important foreign markets are unlikely to be reversed during the coming months. We therefore need to assume a decline in sales for 2005 after adjustments have been made for consolidation.

The one-off expenses incurred as a result of the harmonization measures introduced will also impact negatively on earnings. On a comparable level, net income for the year (EBT) will therefore lag behind the result for the previous year.

» CONSOLIDATED
INCOME STATEMENT
SURTECO GROUP

€ 000s	1 st Quarter	
	1/1 - 31/3/2004	1/1 - 31/3/2005
Sales revenues	96,797	101,680
Changes in inventories	1,139	308
Production of own fixed assets capitalized	131	87
Total output	98,067	102,075
Cost of purchased materials	-41,269	-43,515
Personnel expenses	-23,519	-24,972
Other operating expenses	-13,620	-15,378
Other operating income	665	513
EBITDA	20,324	18,723
Depreciation and amortization	-4,540	-4,485
Amortization (and impairment) of goodwill	-2,226	0
EBIT	13,558	14,238
Financial result	-2,159	-2,179
EBT	11,399	12,059
Income tax	-5,232	-4,611
Net income	6,167	7,448
Minority interest	-74	-71
Consolidated net income	6,093	7,377
Net income per share (€)	0.58	0.69
Number of shares	10,575,522	11,075,522

» CONSOLIDATED
BALANCE SHEET
SURTECO GROUP

€ 000s	31/12/2004	31/03/2005
ASSETS		
Cash and cash equivalents	4,480	5,177
Trade accounts receivable	35,771	40,742
Inventories	51,100	55,122
Other current assets	9,457	10,656
Current assets	100,808	111,697
Plant property and equipment, net	153,094	155,098
Intangible assets	4,601	4,945
Goodwill	95,722	95,130
Investments	152	200
Investments in associated enterprises	0	1,639
Other non-current assets	1,365	1,349
Non-current assets	254,934	258,361
Deferred tax asset	6,388	6,340
	362,130	376,398

» CONSOLIDATED
BALANCE SHEET
SURTECO GROUP

€ 000s	31/12/2004	31/03/2005
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current financial liabilities	40,418	26,274
Trade accounts payable	18,896	20,952
Tax liabilities	11,947	10,561
Short-term accrued expenses	2,413	3,787
Other current liabilities	16,562	19,300
Total short-term liabilities and provisions	90,236	80,874
Non-current financial liabilities	126,752	126,347
Pensions and similar obligations	12,223	12,477
Other non-current liabilities	522	477
Non-current liabilities	139,497	139,301
Deferred tax liability	15,788	15,614
Capital stock	10,576	11,076
Reserves	86,497	102,961
Net profit	18,205	25,582
	115,278	139,619
Minority interest	1,331	990
Equity capital	116,609	140,609
	362,130	376,398

» CONSOLIDATED
CASH FLOW STATEMENT
SURTECO GROUP

€ 000s	1 st Quarter	
	1/1/ - 31/3/2004	1/1/ - 31/3/2005
Earnings before minority interest, after income tax and extraordinary items	6,167	7,448
Adjustments	11,296	9,224
Internal financing	17,463	16,672
Change in working capital	-3,887	-10,761
Cash flows from current business operations	13,576	5,911
Cash flows from investing activities	-3,625	-5,700
Cash flows from financing activities	-9,888	487
Change in cash and cash equivalents	63	698
Cash and cash equivalents		
1 January	2,467	4,480
31 March	2,530	5,178

» SCHEDULE OF
EQUITY CAPITAL
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	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
31 December 2004	10,576	35,860	51,968	18,205	116,609
Consolidated net income	0	0	0	7,377	7,377
Capital increase	500	14,596	0	0	15,096
Other changes	0	0	1,527	0	1,527
31 March 2005	11,076	50,456	53,495	25,582	140,609

» SEGMENT REPORTING

SURTECO GROUP

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By strategic Business Units 1/1/ - 31/3/2005	Segment revenues	Operating segment earnings before interest (financial result) and taxes
€ 000s		
SBU Paper	46,798	6,484
SBU Plastics	56,238	8,678
SURTECO AG	0	-812
Consolidation	-1,356	-112
SURTECO Group	101,680	14,238

Sales revenues by regional markets 1/1/ - 31/3/2005	SBU Paper	SBU Plastics	SURTECO Group
€ 000s			
Germany	16,874	22,503	39,377
Europe (without Germany)	22,654	15,419	38,073
America	4,616	13,844	18,460
Asia, Australia, Others	2,654	4,472	7,126
Total	46,798	56,238	103,036
Consolidation	-198	-1,158	-1,356
SURTECO Group	46,600	55,080	101,680

This unaudited report of the SURTECO Group for the first three months of 2005 is in accordance with the International Accounting Standard 34. The same accounting and valuation principles are applied as in the preparation of the consolidated financial statements for the year 2004. Changes result from the new IFRS accounting standards which must be applied from 1 January 2005.

The interim report includes statements about the future. These statements are based on the assessments of the management of SURTECO, on assumptions made by SURTECO and on information that is currently available to SURTECO. The statements made about the future are only valid at the point in time when they are made. SURTECO does not intend to and assumes no obligation to update any forward-looking statements contained herein or to adapt such information to future results or developments.

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