

HALF-YEAR REPORT

2004

SPECIALISTS
FOR SURFACE
TECHNOLOGIES

Q2

SURTECO

AKTIENGESELLSCHAFT



1 January to 30 June

OVERVIEW

SURTECO GROUP

€ 000s	2nd Quarter			1st Half-Year		
	1/4/ - 30/6/2003	1/4/ - 30/6/2004	Variation in %	1/1/ - 30/6/2003	1/1/ - 30/6/2004	Variation in %
Sales revenues	85,821	96,342	+12	179,922	193,139	+7
of which						
- Germany	34,799	35,662	+2	73,810	76,812	+4
- Foreign	51,022	60,680	+19	106,112	116,327	+10
EBITDA	15,230	17,783	+17	34,118	38,107	+12
EBIT	8,561	11,090	+30	20,784	24,648	+19
Result from ordinary activities before restructuring expenses	6,016	8,860	+47	15,479	20,259	+31
Restructuring expenses	0	-1,329		-1,844	-1,329	
Result from ordinary activities after restructuring expenses	6,016	7,531	+25	13,635	18,930	+39
Net income	1,975	3,614	+83	6,566	9,781	+49
Minority interest	-5	-64		-6	-138	
Consolidated net income	1,970	3,550	+80	6,560	9,643	+47
Cash Earnings	8,639	10,508	+22	21,074	23,915	+13
Net income per share (€)	0.19	0.34	+79	0.62	0.92	+48
Number of employees at 30 June	1,921	1,926	0	1,921	1,926	0

The interim financial statements have not been audited.

» DEAR SHAREHOLDERS, PARTNERS AND FRIENDS OF OUR COMPANY

The close of 2003 saw indications of a slight upswing in business activity and this trend has continued during the second quarter. Despite this upward movement, it is still too early to talk about a sustained upswing in the German economy. The situation as far as orders are concerned in the German construction and furnishing industry remains unsatisfactory. Business in the key foreign markets continues to remain stable.

Following on from a satisfactory first quarter, the second quarter has experienced a slight improvement compared with the previous year. On balance, the first six months of 2004 have seen gratifying growth in sales and income.

The ZEUS integration project for the Strategic Business Unit (SBU) Paper was completed on schedule at the close of the first half year. A wide-ranging restructuring programme was completed in just 18 months in the SURTECO companies Bausch GmbH, Robert Linnemann GmbH + Co. and Armabord Ltd. The programme focused on the areas of production, administration and sales. R+D activities had already been merged and brought under uniform management. At the beginning of July 2004, the three companies were merged to create a single legal entity in the form of BauschLinnemann GmbH + Co. KG. Focusing the value-added stages on specialist sites makes it possible to generate additional synergy effects. The Group is anticipating an additional annual income potential of € 10 million euros from 2006.

» SALES AND MARKETS

Increase in foreign markets

SURTECO AG is one of the leading global players in surface-coating materials and plastic products. The product range includes duroplastic and thermoplastic edging tapes, flat foils based on paper, technical plastic extrusions (profiles) including plinth strips and roller-blind systems and a selected range for the DIY market.

During the second quarter of 2004, the Group achieved sales of € 96.3, taking it 12 % above the figure for the equivalent year-earlier period. Sales during the first half of 2004 amounted to € 193.1 million and achieved a plus of 7 %.

The German market experienced growth of nearly 4 % during the period under review. Despite negative currency effects totalling € 2.5 million, the SURTECO Group posted growth of 10 % in foreign markets.

The foreign growth rate of the Group amounted to 60 % (1st half year of 2003: 59 %).

SBU Paper

Consolidated sales at SBU Paper amounted to € 98.8 million during the first half of the year. This corresponds to an increase of 12 % compared with the first six months of the previous year. If the losses arising from currency translation amounting to € 1.1 million are added to this figure, the increase comes out at a book increase of 13 %. The growth in sales during the second quarter (+19 %) was significantly above the result for the first quarter of 2004 (+5 %).

During the first half of 2004, the SBU Paper achieved sales growth of 15 % in foreign business. This growth was mainly fuelled by higher demand for coating products from the SBU Paper in Euro-

pean markets outside Germany, which resulted in an increase of 24 %. This development was different from that in Asian markets. While economic development continued at break-neck speed in China, growth in the furnishing and construction industry in some Asian countries was disrupted by internal political restrictions. Business on the Asian continent remained satisfactory overall with an increase in growth of 12 %. The SBU Paper achieved growth of 6 % in Germany. Given that economic activity in the manufacture of furniture, panels and doors continued to be weak, the increases were due to a number of specific economic developments relating to certain companies, and to an increase in the revenues from interior fittings for caravans.

SBU Plastics

Consolidated sales at the SBU Plastics amounted to € 46.4 million for the second quarter and this represented an increase of 5% by comparison with the equivalent period for the previous year. Sales of the SBU Plastics for the first six months amounted to € 94.3 million, exceeding the figure for the equivalent year-earlier period by 3 %. Currency effects continued to exert a negative effect and taking these into account, sales would have been € 1.4 million higher for the first six months, representing growth of 5 %.

The domestic market continued to be restrained. Half-year sales in Germany increased slightly by 2 % to € 44.6 million.

Export sales underwent a tangible increase, with markets in Europe, North America and Australia making an impact. Sales of € 49.7 million meant that the SBU Plastics achieved growth of 4 % in foreign business during the first half of 2004. Adjusted for currency fluctuations, this would

have represented growth of as much as 7 %. Plastic edgings with their range of qualitative and visual features form the focus of the product portfolio marketed by the SBU Plastics with a share of 53 %. Sales in this segment rose disproportionately by 7 % during the reporting period. Sales in the DIY market sector developed positively with the do-it-yourself products marketed by Döllken & Praktikus GmbH based in Gladbeck.

» EXPENSES

Cost structures improved

The proportion of total output taken up by the cost of purchased materials amounted to 42.4 % (+1.3 percentage points). The rise has been brought about by shifts in the product mix and a significant increase in prices for plastics.

Prices for outsourced products of the SBU Paper remained relatively stable during the second quarter compared with the beginning of the year. Slight reductions were achieved for some types of paper and printing inks. The temporary supply bottlenecks for preimpregnated papers referred to in the quarterly report were defused by the acquisition of an additional supplier. Papers, printing inks and varnish were sourced on time during all periods, as were raw materials, consumables and other supplies. Some shortages of acrylates were evident at the end of the first half of the year. Raw material prices at the SBU Plastics experienced drastic increases over virtually all the types of material used, particularly during the second quarter. In June, the price level for PVC reached the highest level since October 2000. Supply bottlenecks for additives were compensated by swift technical countermeasures.

The SURTECO Group employed 1,926 people on 30 June 2004. As a percentage of total output, personnel expenses fell by 2.2 % to 24.3 %. Other operating expenses totalled € 28.3 million (1st half year 2003 € 26.5 million).

» EARNINGS

Significant earnings growth

All income indicators went up in a year-earlier comparison.

EBITDA for the second quarter at € 17.8 million was up by 17 %. EBIT (€ 11.1 million) exceeded the figure for the year-earlier quarter by 30 %. Earnings from ordinary activities after restructuring expenses rose by 25 % to € 7.5 million. Quarterly earnings for the months April to June 2004 were significantly up on the previous year (€ 3.6 million; +83 %). The share portfolio of 10,575,522 no-par-value shares gives net income per share of € 0.34 (+ € 0.15).

During the first half of 2004, EBITDA reached € 38.1 million (+12 %), EBIT amounted to € 24.6 (+19 %) and earnings from ordinary activities after restructuring expenses totalled € 18.9 million (+39 %). Earnings for the first six months went up by 47 % to € 9.6 million. Net income per share rose correspondingly from € 0.62 to € 0.92. Cash earnings were 13 % higher than the previous year at € 23.9 million.

» RESEARCH AND DEVELOPMENT

Roller-shutter surfaces with new technology

Special high-quality acrylates are used for impregnating edging strips and flat foils based on specialist technical papers. They constitute a key component of the formulations and are therefore of fundamental importance for the technical and qualitative suitability of finished coating products. However, these acrylates are being increasingly deployed in other areas of industrial production, so that bottlenecks in delivery cannot be ruled out over the medium term. Research and Development at the SBU Paper is continually working on testing alternative acrylates that have the capability of replacing the standards used to date partly or in entirety. Extensive research is required to achieve the desired results, both on a laboratory scale and in production plants. Key factors determining the direction of research are optimizing production sequences combined with safe, flawless downstream processing on the industrial processing machines at coating manufacturers.

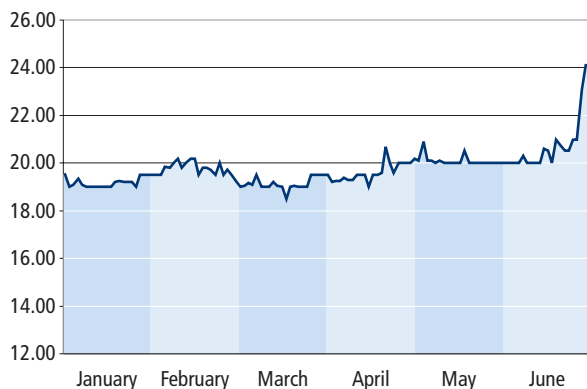
The SBU Plastics is taking new routes for refining the surfaces of their roller-shutter products. In future, conventional printing techniques will be replaced by laminating with foils based on paper. This new technique yields a large number of advantages that result in a significant increase in quality. Paper-based flat foils are traditionally used to refine the surfaces on furniture and it is now possible to design a harmonious, integrated finish for furnishing modules, roller shutters and their accessory extrusions. This procedure also offers the option of applying the design to the entire surface and providing decorative contours with a three-dimensional effect. SGB Plastics will

enter new markets with the new roller-shutter products and strengthen its competitive position in this segment.

» SURTECO SHARES

Period January - June 2004	Amounts in €
Number of shares	10,575,522
Price on 2/1/2004	19.50
Price on 30/6/2004	24.10
High	24.11
Low	18.50
Average share price	19.76
Market capitalization as at 30/6/2004	254,870,080.20

Share price performance January - June 2004 in €



Price rise at the end of the first half year

The narrow band of prices from the first quarter continued initially in the second quarter. A trend towards a slight increase took the share price to values around € 20. A significant rise had been

posted at the end of the first six months. The price on 30 June 2004 was € 24.10, and on the day before it had been € 24.11 – the highest price during the reporting period. Sales advanced significantly during the second half of June.

Redesigned Internet profile

The design and content for the Home Page of SURTECO AG (www.surteco.com) has been redesigned to increase transparency in the Internet for our shareholders and prospective investors. The clearly designed start page takes users to the information they require with a few clicks of the mouse. A dedicated menu item has been created for Corporate Governance and this presents all the relevant content, including the statutory reports on directors' dealings.

» OUTLOOK FOR FISCAL YEAR 2004

We are not anticipating a tangible upswing in the domestic economy during the second half of 2004. However, business activity should develop somewhat more positively in foreign markets, even if sales growth during the first half of the year (10 %) is set to ease during the second half by comparison with a strong year-earlier second half. We are therefore projecting a 3 % increase in sales to € 365 million for the fiscal year 2004 overall and improved earnings compared with the previous year.

CONSOLIDATED INCOME STATEMENT (IFRS) SURTECO GROUP

€ 000s	2nd Quarter		1st Half-Year	
	1/4-30/6/ 2003	1/4-30/6/ 2004	1/1-30/6/ 2003	1/1-30/6/ 2004
Sales revenues	85,821	96,342	179,922	193,139
Changes in inventories	-969	242	-1,505	1,381
Production of own fixed assets capitalized	286	153	474	284
Total output	85,138	96,737	178,891	194,804
Cost of purchased materials	-34,893	-41,418	-73,522	-82,687
Personnel expenses	-23,539	-23,850	-47,479	-47,369
Other operating expenses	-13,015	-14,647	-26,535	-28,267
Other operating income	1,539	961	2,763	1,626
EBITDA	15,230	17,783	34,118	38,107
Depreciation and amortization	-4,507	-4,460	-9,028	-9,000
Amortization (and impairment) of goodwill	-2,162	-2,233	-4,306	-4,459
EBIT	8,561	11,090	20,784	24,648
Financial result	-2,545	-2,230	-5,305	-4,389
Result from ordinary activities before restructuring expenses	6,016	8,860	15,479	20,259
Restructuring expenses	0	-1,329	-1,844	-1,329
Result from ordinary activities after restructuring expenses	6,016	7,531	13,635	18,930
Income tax	-4,041	-3,917	-7,069	-9,149
Net income	1,975	3,614	6,566	9,781
Minority interest	-5	-64	-6	-138
Consolidated net income	1,970	3,550	6,560	9,643
Net income per share (€)	0.19	0.34	0.62	0.92
Number of shares issued	10,575,522	10,575,522	10,575,522	10,575,522

CONSOLIDATED BALANCE SHEET (IFRS) SURTECO GROUP

€ 000s	31/12/2003	30/6/2004
ASSETS		
Cash and cash equivalents	2,467	5,908
Trade accounts receivable	30,303	41,621
Inventories	44,101	50,481
Other current assets	15,373	9,059
Current assets	92,244	107,069
Plant property and equipment, net	150,507	148,576
Intangible assets	1,399	1,733
Goodwill	99,273	97,900
Investments	5,380	1,324
Other non-current assets	1,222	1,304
Non-current assets	257,781	250,837
Deferred tax asset	6,389	6,334
	356,414	364,240

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CONSOLIDATED
BALANCE SHEET (IFRS)
SURTECO GROUP

€ 000s	31/12/2003	30/6/2004
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current financial liabilities	49,954	47,313
Trade accounts payable	12,110	18,455
Accounts payable due to related parties	0	810
Tax liabilities	12,007	14,729
Short-term accrued expenses	2,156	2,196
Other current liabilities	17,010	20,781
Total short-term liabilities and provisions	93,237	104,284
Non-current financial liabilities	127,057	118,799
Pensions and similar obligations	10,740	11,414
Other non-current liabilities	511	535
Non-current liabilities	138,308	130,748
Deferred tax liability	16,159	15,526
Minority interests	160	822
Equity capital	108,550	112,860
	356,414	364,240

CONSOLIDATED CASH FLOW STATEMENT (IFRS) SURTECO GROUP

€ 000s	1st Half-Year	
	1/1/-30/6/ 2003	1/1/-30/6/ 2004
Earnings before minority interest, after income tax and extraordinary items	6,566	9,781
Adjustments	16,069	18,188
Internal financing	22,635	27,969
Change in working capital	9,276	4,898
Cash flows from current business operations	31,911	32,867
Cash flows from investing activities	-9,280	-4,529
Cash flows from financing activities	-21,104	-24,897
Change in cash and cash equivalents	1,527	3,441
Cash and cash equivalents		
1 January	3,187	2,467
30 June	4,714	5,908

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
Dividend payout	0	0	0	-7,403	-7,403
Consolidated net income	0	0	0	9,643	9,643
Other changes	0	0	9,514	-7,444	2,070
30 June 2004	10,576	35,860	56,781	9,643	112,860

SEGMENT REPORTING (IFRS) SURTECO GROUP

By Strategic Business Units 1/1/-30/6/2004 € 000s	Segment revenues	Operating segment earnings before interest (financial result) and taxes
SBU Paper	99,165	15,207
SBU Plastics	96,444	14,288
SURTECO AG	0	-2,104
Consolidation	-2,470	-2,743
SURTECO Group	193,139	24,648

By regional markets 1/1/-30/6/2004 € 000s	SBU Paper	SBU Plastics	SURTECO Group
Germany	32,210	44,613	76,823
Europe (without Germany)	50,087	27,905	77,992
America	10,701	14,607	25,308
Asia, Australia	6,167	9,319	15,486
Total	99,165	96,444	195,609
Consolidation	-353	-2,117	-2,470
SURTECO Group	98,812	94,327	193,139

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