

HALF-YEAR REPORT 2005

SPECIALISTS
FOR SURFACE
TECHNOLOGIES

Q2

SURTECO

AKTIENGESELLSCHAFT

1 January to 30 June



» OVERVIEW

SURTECO GROUP

T€	Q 2			Q 1-2		
	1/4/ - 30/6/2004	1/4/ - 30/6/2005	Variation in %	1/1 - 30/6/2004	1/1/ - 30/6/2005	Variation in %
Sales revenues	96,342	97,280	+1	193,139	198,960	+3
of which						
- Germany	35,662	34,261	-4	76,812	73,568	-4
- Foreign	60,680	63,019	+4	116,327	125,392	+8
EBITDA	17,783	16,758	-6	38,107	35,481	-7
EBIT	11,090	12,319	+11	24,648	26,557	+8
Result from ordinary activities before restructuring expenses	8,860	10,011	+13	20,259	22,070	+9
Restructuring expenses	-1,329	-4,267		-1,329	-4,267	
Result from ordinary activities after restructuring expenses	7,531	5,744	-24	18,930	17,803	-6
Net income	3,614	3,385	-6	9,781	10,833	+11
Minority interest	-64	-128		-138	-199	
Consolidated net income	3,550	3,257	-8	9,643	10,634	+10
Cash Earnings	10,508	8,445	-20	23,915	20,632	-14
Net income per share (€)	0.34	0.29	-15	0.92	0.98	+7
Number of employees at 30 June	1,926	2,120	+10	1,926	2,120	+10

» DEAR SHAREHOLDERS, PARTNERS AND FRIENDS OF OUR COMPANY

At the start of the year, sales of SURTECO AG were still at the level of the fourth quarter in 2004. During the second half of March 2005, domestic business suddenly collapsed without any identifiable warning. This unfavourable development resulted from the negative economic framework conditions and continued during the second quarter. Domestic households have continued to increase the amount they are saving and have radically reduced their spending on long-term goods like furniture and interior fittings. However, Germany is not the only place where consumer confidence in future economic – and political – development has fallen. Strong consumer restraint is also evident in many other European markets served by SURTECO AG.

During recent months, SURTECO AG has again revised the programmes and initiatives currently being operated to increase competitiveness and profitability and has adapted them to commercial conditions in the marketplace. This includes adjusting the number of employees to take account of the order books. The intention is to cut a further 150 jobs across the Group – some 100 of which will be in Germany – by mid-2006.

During the period under review, the following measures were completed:

- SURTECO AG concluded a profit transfer agreement with BauschLinnemann GmbH, Sassenberg, with effect from 1 January 2005.
- In May 2005, SURTECO AG sold its production facility for wood veneers based in Everett (USA) to American company Edgemate Inc. in a move that further streamlines its portfolio.
- In July 2005, Doellken-A.S.L. Pty. Ltd., purchased a subsidiary of SURTECO AG (Strategic Business Unit Plastics), Consolidated Edgings Ltd, also based in Sydney, Australia.

» SALES AND MARKETS

Economy depressed worldwide

Sales of SURTECO AG increased by 3 % in the first half of 2005 to € 199.0 million. However, after adjustment for consolidation effects, this represents a decline of 3 %.

In Germany, there were again no signs of a tangible upswing in the market. After six months, sales at € 73.6 million remained 4 % below the equivalent figure for the year-earlier period, as was the case in the first quarter.

The increase in sales for foreign business amounted to 8 % (1st half year 2005: € 125.4 million). Adjusted for the effects of consolidation, this was 3 % down on the previous year. The proportion of foreign sales in the Group was 63 %.

Strategic Business Unit Paper

Sales of SBU Paper which were 5 % below the value for the previous year in the first quarter of 2005, posted a fall of 12 % or € 11.4 million to € 87.4 million during the first half of the year. The German market for the Strategic Business Unit (SBU) Paper in the segments furniture, doors, interior design and construction, has unfortunately been suffering from sustained weak demand. Key major customers from the areas of furniture industry and interior design have cut back their production and introduced short-time working. The caravan industry was the only sector with a comparatively stable economic perfor-

mance during the first half of the year. Sales of the SBU Paper fell back in Germany by 5 % to € 30.7 million.

Significantly lower demand was reflected by significantly reduced sales of (-15 %) in foreign markets, particularly in other European markets. The proportion of foreign sales fell from 67 % to 65 % for a sales volume of € 56.7 million (1st half year 2004: € 66.6 million).

By contrast, the SBU Paper increased sales in the American market by 10 % and largely compensated for the setbacks during the 1st quarter. Sales in Asia (+26 %) and Australia (+12 %) also performed favourably during the first six months of the year under review. The business volume in Europe (apart from Germany) at € 41.2 million as at 30 June was 18 % below the comparable value for the previous year. This is a clear indication of fierce competition as manufacturers of decorative prints aggressively penetrate the sector for pre-impregnated foils with low prices.

Apart from supplying the companies of SURTECO AG with decorative prints, Bausch Decor GmbH also supplies printed products to a wide range of external customers. The company was again successful in increasing outside sales. With sales of € 6.8 million, the increase for the first half of 2005 amounted to 14 %.

Strategic Business Unit Plastics

Net sales revenues generated by SBU Plastics during the first half of 2005 amounted to € 111.6 million. They exceeded the value for the previous year by € 17.3 million or 18 %. The lion's share of this growth was attributable to the purchase of the Canadian Canplast Group in October 2004. Canplast contributed € 13.1 million to consolidated sales. But even net of this effect, sales were

still up by 6 % over the equivalent year-earlier period.

The proportion of foreign sales increased significantly from 53 % to 62 %. In America, the main sales area of Canplast and Woodtape, the scope of business expanded by 82 % to € 26.6 million, while the European market (+24 %), Asia (+17 %) and Australia (+7 %) also experienced significant growth. Overall, sales abroad were up by € 19.0 million or 38 %.

However, the trend in the German market continued from the first quarter of 2005 with the tense economic situation resulting in declining sales. Domestic sales at € 42.8 million were 4 % down on the previous year.

The product segment plastic edgings underwent favourable development, with sales as a proportion of total sales of SBU Plastics rising from 53 % to 60 % during the first half of the current year. Upswings were recorded in Germany (+5 %) and in many other key sales markets, such as the non-German EU countries (+8 %), Eastern Europe (+26 %), Asia (+8 %) and in particular America. Sales volume in America was up by € 12.0 million on the previous year. Adjusted for the Canplast acquisition and currency effects arising from fluctuations in exchange rates between the euro and the US dollar, American edging business still underwent growth of 6 %.

Sales of roller-shutter and facade systems increased slightly, while sales of plinth strips, technical extrusions (profiles) and DIY product ranges were down.

» EXPENSES

Cautious relaxation in material costs

After the proportion of the cost of materials in relation to sales increased by a half percentage point to 42.6 % during the first quarter, calm on the price front predicted for the months April to June was reflected in a slightly reduced proportion (42.3 %). The proportion of the cost of materials in total output for the first half of 2005 amounted to 42.5 %.

Prices for raw papers and chemicals at SBU Paper remained unchanged until the end of the quarter. There are indications that prices will ease during the third quarter. Price reductions were achieved for the semi-finished products bought in by SBU Plastics. However, although the price for ABS fell during the 2nd quarter of 2005, it was still significantly above the level for the previous year. Prices for PVC also declined but were also slightly below the average price for the previous year.

All raw materials were available without problem in the quantities required and to the scheduled delivery dates.

Personnel costs during the first two quarters of the current fiscal year amounted to € 48.6 million. The proportion of personnel costs to total output was 24.3 % and remained above the level for the previous year. As a result of consolidation, the number of employees went up by 10 % to 2,120 at the end of the first half of 2005 compared with the headcount on 30 June 2004 (1,926 employees). However, compared with the beginning of 2005, the number of employees was down by 72.

Other operating expenses totalled € 32.7 million (1st half year of 2004: € 28.3 million).

» EARNINGS

Difficult sector environment impacts negatively on earnings

EBITDA amounting to € 35.5 million lagged by 7 % behind the figure for the half year in 2004. Elimination of goodwill in the current fiscal year reduced amortization to € 8.9 million. As a result, EBIT increased by 8 % to € 26.6 million. The operating result for ordinary activities grew by 9 % (€ 22.1 million). After deduction of restructuring costs amounting to € 4.3 million, which have to be taken into account because of the impending personnel adjustments, EBT amounts to € 17.8 million (-6 %).

Earnings for the first six months were € 10.8 million compared with € 9.8 million in the previous year. The capital increase carried out in March 2005 means that earnings per share are based on an increased number of shares (1st half year 2004: 10,575,522 shares, 1st half year 2005: 11,075,522 shares). SURTECO AG posted earnings per share of € 0.98 for the first half of the year. The equivalent year-earlier value for purposes of comparison was € 0.92. Cash earnings amounted to € 20.6 million (2004: € 23.9 million).

» RESEARCH AND DEVELOPMENT

New printing technology for plastics edgings

Technology for electron-beam hardening provided SURTECO AG with additional opportunities for expanding the qualitative and visual features of the product range of flat foils based on paper. Additional savings potentials were also achieved in parallel. This gives the Research and Development Department at SBU Paper new options, for example in the segment of thin foils. Whereas in the past it was necessary to buy in pre-impregnated raw materials or in the case of very thin in-house pre-impregnated materials, the processes currently in the test phase open up additional new perspectives. Impregnation of thin and very thin foils is carried out in the electron-beam hardening system and this permits remarkably precise control of the resin content during impregnation. Deployment of the tested formula appears to be universal and it is therefore suitable for a broad spectrum of quality. Apart from the price benefits, this technology permits in-house impregnation of the entire colour range in thin foils.

Research and Development also made advances in the area of highly scratch-resistant finishes produced by the electron-beam hardening system. Varnishing systems developed in-house provide the finish with the necessary resistances and make them suitable for a wide range of applications that were previously restricted to more complex and expensive coating materials. Surface tests currently being carried out are investigating the long-term resilience of the material on doors and window.

Quality and an environment-friendly approach are the two concepts identifying the ongoing development of plastic edgings in the SBU Plastics. They also open up competitive advantages.

The new varnishing system for PVC and ABS edgings already referred to has been successfully applied to mass production. The new system also has significant qualitative benefits, including high scratch and abrasion resistance. High glosses can also be produced to create an attractive homogeneity, even when the coatings are thick.

New printing inks are used for products based on PCV and ABS plastics. Dedicated commitment by manufacturers of printing inks to the environmental aspects of manufacturing inks has ensured that problematic processing additives are no longer required to enhance flow properties when they are applied for printing. Direct printing in conjunction with the extrusion procedure and during downstream printing of extrusions that have already been cooled has reduced consumption of processing additives compared with the systems that used to be deployed.

The new printing technology is used to print the wide sheets of extruded foils in a separate process and it has already passed its trial period in production. The printing and surface quality produced in this process is identical with direct conventional printing. The big advantage is that the products can be sold as semi-finished products and sales staff can cut them individually on site to the widths designed by customers.

» SURTECO SHARES

Period January - June 2005	
Number of shares	11,075,522
Price on 3/1/2005 (€)	23.00
Price on 30/6/2005 (€)	26.50
High (€)	35.30
Low (€)	22.10
Average share price (€)	27.73
Market capitalization as at 30/6/2005 (€ millions)	293.5

Share price performance
January - June 2005 in €



» OUTLOOK FOR FISCAL YEAR 2005

All projects currently being implemented to optimize the cost structures of SURTECO AG are being driven forward consistently and completed on schedule.

As yet, there is no sign of the upswing in the economy anticipated by many experts during the second half of 2005. Assuming that the overall economic conditions do not deteriorate further during the current fiscal year and there is not significant turmoil in the foreign-exchange and raw-materials markets, SURTECO AG projects a slight increase in growth for the fiscal year 2005 net of consolidation effects. However, net income for the year (EBT) will continue to remain less than the equivalent year-earlier result.

» CONSOLIDATED
INCOME STATEMENT
SURTECO GROUP

€ 000s	Q 2		Q 1-2	
	1/4/ - 30/6/ 2004	1/4/ - 30/6/ 2005	1/1/ - 30/6/ 2004	1/1/ - 30/6/ 2005
Sales revenues	96,342	97,280	193,139	198,960
Changes in inventories	242	-219	1,381	89
Production of own fixed assets capitalized	153	376	284	463
Total output	96,737	97,437	194,804	199,512
Cost of purchased materials	-41,418	-41,205	-82,687	-84,720
Personnel expenses	-23,850	-23,579	-47,369	-48,551
Other operating expenses	-14,647	-17,310	-28,267	-32,688
Other operating income	961	1,415	1,626	1,928
EBITDA	17,783	16,758	38,107	35,481
Depreciation and amortization	-4,460	-4,439	-9,000	-8,924
Amortization (and impairment) of goodwill	-2,233	0	-4,459	0
EBIT	11,090	12,319	24,648	26,557
Financial result	-2,230	-2,308	-4,389	-4,487
Result from ordinary activities before restructuring expenses	8,860	10,011	20,259	22,070
Restructuring expenses	-1,329	-4,267	-1,329	-4,267
Result from ordinary activities after restructuring expenses	7,531	5,744	18,930	17,803
Income tax	-3,917	-2,359	-9,149	-6,970
Net income	3,614	3,385	9,781	10,833
Minority interest	-64	-128	-138	-199
Consolidated net income	3,550	3,257	9,643	10,634
Net income per share (€)	0.34	0.29	0.92	0.98
Number of shares issued	10,575,522	11,075,522	10,575,522	11,075,522

» CONSOLIDATED
BALANCE SHEET
SURTECO GROUP

€ 000s	31/12/2004	30/6/2005
ASSETS		
Cash and cash equivalents	4,480	3,457
Trade accounts receivable	35,771	33,992
Inventories	51,100	53,024
Other current assets	9,457	10,398
Current assets	100,808	100,871
Plant property and equipment, net	153,094	157,292
Intangible assets	4,601	5,079
Goodwill	95,722	96,142
Investments	152	167
Investments in associated enterprises	0	1,707
Other non-current assets	1,365	1,373
Non-current assets	254,934	261,760
Deffered tax assets	6,388	6,614
	362,130	369,245

» CONSOLIDATED
BALANCE SHEET
SURTECO GROUP

€ 000s	31/12/2004	30/6/2005
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current financial liabilities	40,418	26,355
Trade accounts payable	18,896	20,163
Tax liabilities	11,947	8,122
Short-term accrued expenses	2,413	3,755
Other current liabilities	16,562	20,067
Total short-term liabilities and provisions	90,236	78,462
Non-current financial liabilities	126,752	115,798
Pensions and similar obligations	12,223	13,099
Other non-current liabilities	522	476
Non-current liabilities	139,497	129,373
Deferred tax liability	15,788	15,161
Capital stock	10,576	11,076
Reserves	86,497	114,243
Net profit	18,205	20,281
	115,278	145,600
Minority interest	1,331	649
Equity capital	116,609	146,249
	362,130	369,245

» CONSOLIDATED
CASH FLOW STATEMENT
SURTECO GROUP

€ 000s	Q 1-2	
	1/1/ - 30/6/ 2004	1/1/ - 30/6/ 2005
Earnings before minority interest, after income tax and extraordinary items	9,781	10,833
Adjustments	18,188	8,947
Internal financing	27,969	19,780
Change in working capital	4,898	1,157
Cash flows from current business operations	32,867	20,937
Cash flows from investing activities	-4,529	-15,950
Cash flows from financing activities	-24,897	-6,010
Change in cash and cash equivalents	3,441	-1,023
Cash and cash equivalents		
1 January	2,467	4,480
30 June	5,908	3,457

» 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
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
31 December 2004	10,576	35,860	51,968	18,205	116,609
Consolidated net income	0	0	0	10,634	10,634
Capital increase	500	15,444	0	0	15,944
Other changes	0	0	11,620	-8,558	3,062
30 June 2005	11,076	51,304	63,588	20,281	146,249

» SEGMENT REPORTING

SURTECO GROUP

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By strategic Business Units 1/1/ - 30/6/2005	Segment revenues	Operating segment earnings before interest (financial result) and taxes
€ 000s		
SBU Paper	88,048	10,526
SBU Plastics	111,663	17,242
SURTECO AG	0	-1,620
Consolidation	-751	409
SURTECO Group	198,960	26,557

Sales revenues by regional markets 1/1/ - 30/6/2005	SBU Paper	SBU Plastics	SURTECO Group
€ 000s			
Germany	30,784	42,846	73,630
Europe (without Germany)	41,181	32,200	73,381
America	10,024	26,556	36,580
Asia, Australia, Others	6,059	10,061	16,120
Total	88,048	111,663	199,711
Consolidation	-621	-130	-751
SURTECO Group	87,427	111,533	198,960

This unaudited report of SURTECO AG for the first six 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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