

# REPORT FOR THE FIRST THREE QUARTERS

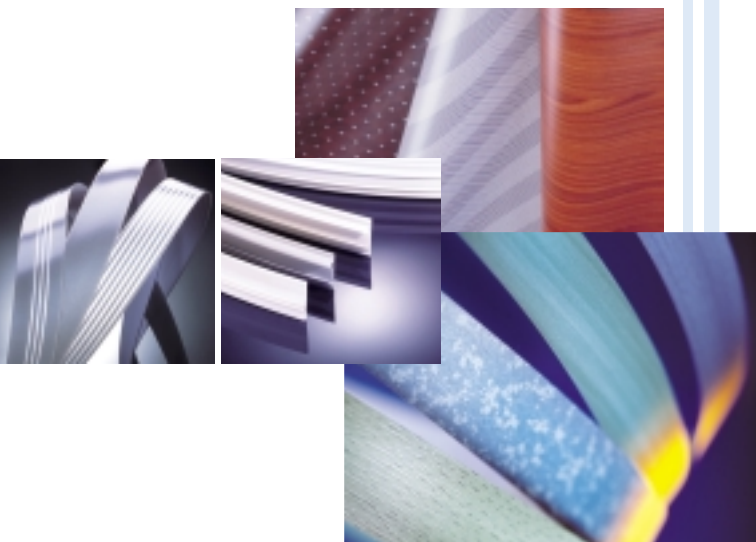
2003

SPECIALISTS  
FOR SURFACE  
TECHNOLOGIES

Q3

# SURTECO

AKTIENGESELLSCHAFT



1 January to 30 September

# OVERVIEW

## SURTECO GROUP

€ 000s	3rd Quarter			1st to 3rd Quarters		
	Q3 2002	Q3 2003	Variation in %	Q1-3 2002	Q1-3 2003	Variation in %
Sales revenues	91,649	<b>86,768</b>	-5	281,853	<b>266,689</b>	-5
of which						
- Germany	34,051	<b>34,081</b>	0	110,133	<b>107,890</b>	-2
- Foreign	57,598	<b>52,687</b>	-9	171,720	<b>158,799</b>	-8
EBITDA	15,583	<b>16,009</b>	+3	54,746	<b>50,127</b>	-8
EBIT	8,915	<b>9,336</b>	+5	34,752	<b>30,120</b>	-13
Result from ordinary activities before restructuring expenses	5,547	<b>6,574</b>	+19	25,268	<b>22,053</b>	-13
Restructuring expenses	0	<b>0</b>		0	<b>-1,844</b>	
Result from ordinary activities after restructuring expenses	5,547	<b>6,574</b>	+19	25,268	<b>20,209</b>	-20
Net income for the accounting period	2,138	<b>3,053</b>	+43	12,363	<b>9,619</b>	-22
Minority interest	9	<b>-4</b>		35	<b>-9</b>	
Consolidated net income for the accounting period	2,147	<b>3,049</b>	+42	12,398	<b>9,610</b>	-22
Cash Earnings (DVFA/SG)	8,743	<b>10,037</b>	+15	32,603	<b>29,346</b>	-10
Net income per share (€)	0.20	<b>0.29</b>	+45	1.17	<b>0.91</b>	-22
Number of employees at 30 September	2,054	<b>1,939</b>	-6	2,054	<b>1,939</b>	-6

The interim financial statements have not been audited.

## TO SHAREHOLDERS, PARTNERS AND FRIENDS OF OUR COMPANY

The consolidated financial statements of SURTECO AG for the year ended 31 December 2002 have been prepared in accordance with the principles of the International Accounting Standards Board (IASB), London. The accounting and valuation policies used in drawing up the consolidated financial statements for the year 2002 were also used to prepare the interim report for the period ended 30 September 2003. This was drawn up in accordance with the International Accounting Standards (IAS) 34 "Interim Financial Reporting". All the binding interpretations of the International Financial Reporting Interpretations Committee (IFRIC) valid on 30 September 2003 have been applied. This interim report has also been prepared in accordance with German Accounting Standard No. 6 (DRS 6) – Interim Reporting – published by the German Accounting Standards Committee (Deutsche Rechnungslegungs Standards Committee e.V., DRSC).

Further information on specific individual accounting and valuation policies applied is available in the consolidated financial statements of SURTECO AG for the year ended 31 December 2002.

The group of consolidated companies has been expanded by comparison with the year ended 31 December 2002 to include the subsidiary Bausch + Linnemann Decorative Material (Taicang) Co., Ltd.

## SALES AND MARKETS

Sales performance constant

The third quarter for 2003 demonstrated no noteworthy changes compared with the first half year. Sales revenues at € 86.8 million were 5 % below the comparable value for 2002 (€ 91.6 million). Sales during the first nine months for 2003 totalled € 266.7 million. This was also down by 5 % on the equivalent year-earlier result (€ -15.2 million). However, € 9.7 million was attributable to exchange rate losses, principally due to the sustained weakness of the dollar against the euro. The drop in sales adjusted for exchange rate losses was € 5.5 million or 2 %.

Sales during the period from January to September amounted to € 107.9 million (2002: € 110.1 million, -2%). Sales during the third quarter of the current fiscal year held up to the year-earlier level.

However, the third quarter of 2003 clearly saw declining sales outside the German market impacting on results. The decline of 9 % on sales totalling € 52.7 million and it remained at 5 % even after adjustment for parity deviations. In view of the fact that we deliberately reduced sales by more than € 2 million by reducing veneer production in North America, the decline in sales due to market conditions was only 1 %. Sales for the first three quarters of 2003 amounted to € 158.8 million (2002: € 171.7 million), and a -2 % reduction in sales was reported after adjustment for currency losses.

This development also saw the proportion of foreign sales in total sales falling from 61 % to 60 %. The leading sales products in the SURTECO Group are edging strips made of plastic or based on paper (proportion of total sales 50%), surface foils

(21 %), plinth strips, roller shutters and other technical profiles (extruded sections) (10 %), DIY market range (8 %), façade systems (3 %) and decorative prints (2 %).

#### SBU Paper

The companies at the sites Buttenwiesen-Pfaffenhofen (Bausch GmbH), Sassenberg (Robert Linemann GmbH + Co.), Hüllhorst (Kröning GmbH & Co.) and Burnley/Great Britain (Armabord Ltd.) manufacture and sell coating materials based on technical raw papers. Bausch Dekor GmbH in Buttenwiesen-Pfaffenhofen manufactures decorative prints. Apart from the in-house requirement within the SURTECO Group for further processing to finished products, these prints are also delivered to outside customers in Germany and abroad who manufacture products such as high-quality laminates for kitchens or flooring systems.

Sales at € 41.8 million declined by 5 % during the third quarter of 2003 compared with the equivalent year-earlier period. This meant they were in line with the results for the year as a whole. Sales of € 130.6 million were 4 % down on the year-earlier figure of € 136.1 million. The nominal reduction in sales corresponds to the level of losses arising from changes in currency parities so that sales adjusted for exchange rates were roughly at the level of 2002.

Although there is still no end in sight for the weakness in the German furniture market, with the risk of insolvencies tending to edge upward, targeted customer acquisitions and a user-friendly range succeeded in expanding sales by 3 % during the third quarter. Growth was particularly marked in the customer segment covering companies equipping the interiors of caravans. However, the furniture, doors and panel industry con-

tinues to battle with falling sales.

A more positive sentiment in the important export markets of the Strategic Business Unit (SBU) Paper appears to be emerging gradually, although this has not been reflected in sales during the fiscal year to date. The figures have remained 7 % down on 2002. In fact, 6 % of this is due to negative exchange rate effects and only 1 % is attributable to real changes in sales. The proportion of foreign sales at 67 % nudged down by 1 percentage point.

Edging strips for covering sides and post-impregnated and pre-impregnated surface foils for covering large areas of wooden worktops form the two product focuses. Fleece materials constitute a specialist product that is used in industrial veneer processing to strengthen the reverse side or for combining individual veneer strips.

#### SBU Plastics

The Strategic Business Unit Plastics, which includes the companies of the Döllken Group, manufactures high-quality extruded products that are primarily manufactured from the raw materials PVC and ABS. More than half of the sales are attributable to plastic edge bands. The Döllken Group has created a large number of applications for these products by continuous product development and innovative refinement. The supplier range produced by SBU Plastics is rounded off by plinth strips, technical extrusions, roller shutter systems, DIY market ranges and façade cladding systems.

In the third quarter of 2003, SBU Plastics achieved sales of € 45.2 million (2002: € 47.5 million). The first three quarters of the current year posted sales of € 137.2 million (-6 %). More than half of the fall in sales is due to exchange rate effects

so that the drop adjusted for exchange rates is reduced to 3 %.

There is still no sign of stimuli for an upswing in the German market least of all in the industrial sectors of furniture manufacture and construction. Consequently sales were € 2.9 million lower in the first nine months of the year (1-9/2002: € 67.2 million, 1-9/2003: € 64.3 million).

Unfavourable currency parities exerted a sustained negative impact on foreign business. Although sales declined (1-9/2003: € 72.9 million, change: € -5.6 million) almost nine tenths of the fall amounting to € 4.9 million were due to the effects of exchange rates: sales adjusted for the currency effects were 1 % below the figure for the previous year. This fall is mainly due to the strategic decision taken by the Board of Management to remove products yielding weak margins from the portfolio of veneer business in North America. This impacted negatively on sales to the tune of more than € 2 million. The proportion of foreign sales for SBU Plastics was 53 %.

If exchange-rate effects are eliminated from the sales of plastic edging strips, this product group experienced growth of 3 % during the reporting period from January – September 2003. The specialist for Vinylit façade claddings also delivered a positive contribution of 9 % in the first three quarters with the assistance of newly developed systems, enabling the company to expand its market share. In view of the difficult capacity situation in many of the sectors supplied by Döllken on the German and many foreign markets, the other product groups were unable to develop to the extent desired.

## EXPENDITURE

Workforce reduced by 6 %

The cost of all purchased materials and services totalled € 110.4 million (2002: € 116.0 million) in the first three quarters of 2003. The cost of purchased materials as a proportion of total output was virtually unchanged at 41.2 % (1-9/2003: € 268.0 million). Despite a number of market-related fluctuations, input costs remained essentially stable during the period under review. There were no delivery bottlenecks and they are not anticipated in the future.

At the close of the third quarter of the current year, the SURTECO Group workforce totalled 1,939 people (-6 %). This reduction is down to the capacity situation arising from the economic conditions on the one hand, and advances in productivity and efficiency gains on the other. The two Strategic Business Units were equally affected. At the end of September 2003, SBU Paper employed 832 people (2002: 883), the SBU Plastics employed 1,100 people (2002: 1,166) and the holding company employed 7 people (2002: 5).

Personnel expenses fell during the reporting period from € 72.7 million to € 70.8 million, but the proportion rose slightly by 0.6 percentage points to 26.4 %.

Other operating expenses amounted to € 39.8 million (2002: € 41.2 million). They include operational, administrative and sales expenses.

## EARNINGS

### Change in earnings in the third quarter

EBITDA at € 16.0 million during the third quarter of 2003 was 3 % above the figure for the previous year, despite the fact that sales revenues were 5 % lower. The EBITDA margin rose by 1.5 percentage points during this period to 18.5 %. EBITDA amounting to € 50.1 million was generated over the entire reporting period (-8%)

During the third quarter of 2003, the SURTECO Group succeeded in increasing EBIT (€ 9.3 million, +5 %) as well as earnings from ordinary activities before restructuring activities for the first time this year (€ 6.6 million, +19 %). The reversal in trend reflects the measures that are beginning to take effect across the Group for a sustained increase in efficiency and for the profitability of all the operating units involved in the value-added process. Combined earnings from ordinary activities before restructuring expenses were 13 % below the figure for 2002 during the first nine months, even though the figure at six months was -22 %. Taking into account restructuring expenses for the ZEUS project within the SBU Paper amounting to € 1.8 million, earnings from ordinary activities during the first nine months amounted to € 20.2 million (2002: € 25.3 million). Net income for the third quarter of 2003 amounted to € 3.1 million (+43 %) and after the first 9 months of the year it came out at € 9.6 million (-22 %). Calculating net income (earnings) per share is based on a share portfolio of 10,575,522 no-par-value shares. It amounted to € 0.29 or € 0.91.

Cash earnings were € 29.3 million during the period from January to September of the current fiscal year (2002: € 32.6 million).

## RESEARCH AND DEVELOPMENT

### Successful with creative ideas

SBU Paper launched Igraflair, bringing to the marketplace a surface foil which offers additional optical and haptic appeal in addition to the usual high-quality features. The surface is refined in two stages. A special lacquer is applied first and then the surface is compressed on another machine. The result is a sophisticated, homogenous matt shimmering foil with a silky sheen which gives the coated wooden materials a superior and high-quality appearance. However, the haptic components are even more impressive. Contact gives a completely unexpected experience, the foil is pleasantly structured and is a constant temptation to run your hands over the surface, giving users a comfortable feeling of well-being. Emotion now becomes visible and tangible. It gives lifestyle a completely new dimension.

Research and Development at SBU Paper supports the activities in conjunction with the ZEUS restructuring project, particularly in making product lines more homogeneous and streamlining and optimizing impregnating and lacquering components. Specialists are continually working on developing the most effective and value-for-money combination of raw materials, machines and production conditions, taking into account all the qualitative and market requirements for the relevant product group.

Vinylit Fassaden GmbH in Cassel has established itself within SBU Plastics as an innovative supplier of façade cladding systems with short development cycles and pioneering technologies. The latest example is Vinyplus, a system of profiles suspended on the underlying structure with a ventilation space between the cladding elements and

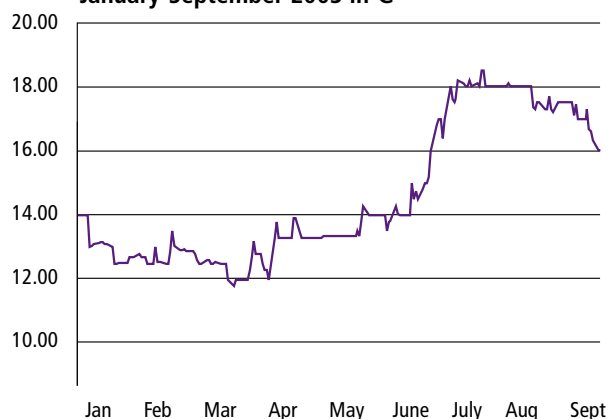
the wall. This system is suitable in applications requiring partial or full cladding for areas that are difficult to access such as gables. The advantage of this new product is that the tough coating foil based on plastic is completely maintenance-free. The surface can be supplied as wood reproduction or in solid colours. The system is assembled simply and efficiently by nailing it to a structure of wooden battens attached previously. The low weight of the cladding elements means that the cladding system does not place any particular requirements on the substructure.

The worktop is a key feature of the kitchen as a central, defining design element. The finish and the perfect optical interplay with the associated edgings are equally important factors. A new range of worktop edgings was developed especially for this application. These edges feature perfect harmony with the worktop. Even the most difficult pebble designs are reproduced perfectly using a special printing technique (point in point). Special printing inks have been developed to manufacturing standard to further enhance the definition of the printed image. The excellent technical long-term service-life properties constitute a further benefit of this range.

## SURTECO-SHARES

Period January-September 2003	Amounts in €
Number of shares	10,575,522
Price on 2/1/2003	14.00
Price on 30/9/2003	16.02
High	18.50
Low	11.80
Average share price	14.62
Market capitalization as at 30/9/2003	169,419,862.44

### Share price performance January-September 2003 in €



### Share price recovery in third quarter

SURTECO shares (ISIN: DE0005176903) are listed in the Prime Standard. During the first half of 2003, the share price remained at an average of € 13.14 before rising in the third quarter of 2003 to € 17.42. It reached a high on 30 and 31 July 2003 at € 18.50. As a consequence of low sales and the sustained weak stock-market develop-

ment, prices fell back somewhat from mid-August. The reporting period finished on September 30, 2003 at € 16.02.

#### Corporate Governance Code adopted

In July 2003, the Board of Management in agreement with the Supervisory Board adopted the principles of SURTECO AG for value-oriented corporate management and control. Alongside the statutory basic principles of corporate governance, the Corporate Governance Code of SURTECO AG also includes the "desired" recommendations of the German Corporate Governance Code and additionally an independent profile of SURTECO AG based on the requirements and expectations of international capital markets and their understanding of good corporate governance.

We provide information on deviations from the recommendations of the German Corporate Governance Code in the Declaration of Compliance. The precise wording of the two publications can be found on our Home Page under [www.surteco.com](http://www.surteco.com) in the menu item "Investor Relations".

## OUTLOOK FOR FISCAL YEAR 2003

The German market continues to be dominated by an extreme reluctance to make purchases. As a supplier of semi-finished products for industrial customers, SURTECO AG is increasingly encountering customers who are unable to meet their financial obligations and indeed insolvencies. There is also a lack of demand in most foreign markets. In addition, the weakness of the dollar compared with the euro continues virtually unchanged. Overall, no relaxation of the current situation is anticipated.

Internal measures to reduce costs and enhance efficiency are being pursued vigorously in all parts of the Group. As demonstrated by the financial statements of the third quarter, they have already made a tangible contribution to earnings. The SBU Plastics will also conclude the realignment of the DIY market range and restructuring of the North American market in the course of the current financial year as planned. The ZEUS project involves the commercial bundling of all production, sales and administrative activities in the Strategic Business Unit Paper and it will have been concluded by mid-2004. Key stages in this project are already being implemented in the course of the current fiscal year.

Performance in the third quarter has corroborated our forecast in the first half-year. We continue to anticipate annual sales 4 % down on the previous year, amounting to approximately € 350 million. Earnings from ordinary activities before restructuring expenses will not be able to balance out the setbacks of the first half-year despite the good figures for the third quarter. However, we can correct our forecast on 30/06/2003 for the entire year slightly upwards by € 1.0 million to € 26.0 million (2002: € 30.0 million). Less the restructuring costs to be factored in for ZEUS activities in 2003, earnings from ordinary activities are anticipated in the region of € 24.0 million.



# CONSOLIDATED INCOME STATEMENT (IFRS) SURTECO GROUP

€ 000s	3rd Quarter		1st to 3rd Quarters	
	1/7/-30/9/ 2003	1/7/-30/9/ 2002	1/1/-30/9/ 2003	1/1-30/9/ 2002
<b>Sales revenues</b>	<b>86,768</b>	<b>91,649</b>	<b>266,689</b>	<b>281,853</b>
Changes in inventories	2,089	-1,315	584	-577
Production of own fixed assets capitalized	215	170	689	710
<b>Total output</b>	<b>89,072</b>	<b>90,504</b>	<b>267,962</b>	<b>281,986</b>
Cost of purchased materials	-36,888	-37,965	-110,410	-116,032
Personnel expenses	-23,294	-24,224	-70,773	-72,738
Other operating expenses	-13,248	-14,482	-39,783	-41,216
Other operating income	367	1,750	3,131	2,746
<b>EBITDA</b>	<b>16,009</b>	<b>15,583</b>	<b>50,127</b>	<b>54,746</b>
Depreciation and amortization	-4,519	-4,590	-13,547	-13,873
Amortization (and impairment) of goodwill	-2,154	-2,078	-6,460	-6,121
<b>EBIT</b>	<b>9,336</b>	<b>8,915</b>	<b>30,120</b>	<b>34,752</b>
Financial result	-2,762	-3,368	-8,067	-9,484
<b>Result from ordinary activities before restructuring expenses</b>	<b>6,574</b>	<b>5,547</b>	<b>22,053</b>	<b>25,268</b>
Restructuring expenses	0	0	-1,844	0
<b>Result from ordinary activities after restructuring expenses</b>	<b>6,574</b>	<b>5,547</b>	<b>20,209</b>	<b>25,268</b>
Income tax	-3,521	-3,409	-10,590	-12,905
<b>Net income for the accounting period</b>	<b>3,053</b>	<b>2,138</b>	<b>9,619</b>	<b>12,363</b>
Minority interest	-4	9	-9	35
<b>Consolidated net income for the accounting period</b>	<b>3,049</b>	<b>2,147</b>	<b>9,610</b>	<b>12,398</b>
Net income per share (€)	0.29	0.20	0.91	1.17
Number of shares issued	10,575,522	10,575,522	10,575,522	10,575,522

# CONSOLIDATED BALANCE SHEET (IFRS) SURTECO GROUP

€ 000s	30/9/2003	31/12/2002
<b>ASSETS</b>		
Cash and cash equivalents	4,913	3,187
Trade accounts receivable	37,476	47,376
Inventories	47,200	47,149
Other current assets	13,023	20,225
<b>Current assets</b>	<b>102,612</b>	<b>117,937</b>
Plant property and equipment, net	152,166	156,305
Intangible assets	1,696	1,566
Goodwill	101,535	106,589
Investments	551	481
Other non-current assets	1,133	1,412
<b>Non-current assets</b>	<b>257,081</b>	<b>266,353</b>
<b>Deferred tax asset</b>	<b>5,589</b>	<b>6,220</b>
	<b>365,282</b>	<b>390,510</b>

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CONSOLIDATED  
BALANCE SHEET (IFRS)  
SURTECO GROUP

€ 000s	30/9/2003	31/12/2002
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current financial liabilities	52,504	59,272
Trade accounts payable	14,496	13,280
Tax liabilities	14,241	14,455
Short-term accrued expenses	3,355	2,121
Other current liabilities	20,491	18,308
<b>Total short-term liabilities and provisions</b>	<b>105,087</b>	<b>107,436</b>
Non-current financial liabilities	128,497	151,540
Pensions and similar obligations	10,588	10,318
Other non-current liabilities	963	1,104
<b>Non-current liabilities</b>	<b>140,048</b>	<b>162,962</b>
<b>Deferred tax liability</b>	<b>16,326</b>	<b>16,198</b>
<b>Minority interests</b>	<b>24</b>	<b>-132</b>
<b>Equity capital</b>	<b>103,797</b>	<b>104,046</b>
	<b>365,282</b>	<b>390,510</b>

# CONSOLIDATED CASH FLOW STATEMENT (IFRS) SURTECO GROUP

€ 000s	1st to 3rd Quarters	
	1/1-30/9/ 2003	1/1-30/9/ 2002
Earnings before minority interest, after income tax and extraordinary items	9,619	12,363
Adjustments	21,037	21,568
Internal financing	30,656	33,931
Change in working capital	11,688	24,930
Cash flows from current business operations	42,344	58,861
Cash flows from investing activities	-10,700	-104,547
Cash flows from financing activities	-29,918	37,962
<b>Change in cash and cash equivalents</b>	<b>1,726</b>	<b>-7,724</b>
Cash and cash equivalents		
1 January	3,187	13,231
30 September	4,913	5,507

## SCHEDULE OF EQUITY CAPITAL (IFRS) SURTECO GROUP

€ 000s	Capital stock	Capital reserves	Revenue reserves	Consolidated net retained profits	Total
<b>31 December 2002</b>	<b>10,576</b>	<b>35,860</b>	<b>39,994</b>	<b>17,616</b>	<b>104,046</b>
Dividend payout	0	0	0	-6,874	-6,874
Additions to revenue reserves	0	0	8,300	-8,300	0
Consolidated net income for the first three quarters	0	0	0	9,610	9,610
Other changes	0	0	-2,985	0	-2,985
<b>30 September 2003</b>	<b>10,576</b>	<b>35,860</b>	<b>45,309</b>	<b>12,052</b>	<b>103,797</b>

## SEGMENT REPORTING (IFRS) SURTECO GROUP

<b>By Strategic Business Units</b> 1/1/ - 30/9/2003 € 000s	Segment revenues	Operating segment earnings before interest (financial result) and taxes	
SBU Paper	130,611	17,451	
SBU Plastics	137,248	18,141	
SURTECO AG	0	-1,552	
Consolidation	-1,170	-3,920	
<b>SURTECO Group</b>	<b>266,689</b>	<b>30,120</b>	

<b>By regional markets</b> 1/1/ - 30/9/2003 € 000s	SBU Paper	SBU Plastics	SURTECO Group
Germany	59,018	69,951	107,890
European Union (without Germany)	43,985	26,891	69,370
Rest of Europe	17,632	11,670	29,302
America	17,544	21,771	39,022
Asia, Australia	9,430	14,917	22,275
<b>Total</b>	<b>147,609</b>	<b>145,200</b>	<b>267,859</b>
Consolidation	-16,998	-7,952	-1,170
<b>SURTECO Group</b>	<b>130,611</b>	<b>137,248</b>	<b>266,689</b>

# Q3

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