

REPORT FOR THE FIRST THREE QUARTERS

2004

SPECIALISTS
FOR SURFACE
TECHNOLOGIES

Q3

SURTECO

AKTIENGESELLSCHAFT



1 January to 30 September

OVERVIEW

SURTECO GROUP

€ 000s	3rd Quarter			1 st to 3 rd Quarters		
	1/7/ - 30/9/2003	1/7/ - 30/9/2004	Variation in %	1/1/ - 30/9/2003	1/1/ - 30/9/2004	Variation in %
Sales revenues	86,768	89,024	+3	266,689	282,163	+6
of which						
- Germany	34,081	36,470	+7	107,890	113,282	+5
- Foreign	52,687	52,554	0	158,799	168,881	+6
EBITDA	16,009	16,425	+3	50,127	54,532	+9
EBIT	9,336	9,969	+7	30,120	34,617	+15
Result from ordinary activities before restructuring expenses	6,574	7,244	+10	22,053	27,503	+25
Restructuring expenses	0	0		-1,844	-1,329	
Result from ordinary activities after restructuring expenses	6,574	7,244	+10	20,209	26,174	+30
Net income	3,053	4,415	+45	9,619	14,196	+48
Minority interest	-4	-274		-9	-412	
Consolidated net income	3,049	4,141	+36	9,610	13,784	+43
Cash Earnings	10,037	9,491	-5	29,346	33,406	+14
Net income per share (€)	0.29	0.42	+45	0.91	1.34	+47
Number of employees at 30 September	1,939	1,920	-1	1,939	1,920	-1

The interim financial statements have not been audited.

» DEAR SHAREHOLDERS, PARTNERS AND FRIENDS OF OUR COMPANY

SURTECO AG was positioned on 30 September of the current fiscal year with further growth in figures for sales and earnings. Nevertheless, performance to date demonstrates that the economic upswing has not yet materialized, particularly in Germany. The most important domestic purchasers of products from the SURTECO Group belong mainly to the furnishing and construction industry and they continue to be confronted with unsatisfactory order books and tough competition on price. Our growth in Germany is solely down to extraordinary effects and is not a reflection of market performance. By contrast, foreign markets gave more grounds for optimism. The medium-term opportunities for the Group continue to reside in Asia and Eastern Europe. SURTECO AG is taking appropriate action to expand in these markets by setting up new production facilities, agencies and sales offices.

At the start of October, SURTECO purchased all the shares in the Canplast Group, based in Montreal, Canada. This acquisition complements Doellken Woodtape (sales for 2003: € 28 million) – a member of the Strategic Business Unit Plastics – and means that SURTECO has significantly expanded its leading position in the North American market within the segment for extruded plastic edgings. Canplast employs a workforce numbering approximately 225 and generated sales in 2003 amounting to € 30 million. Woodtape and Canplast will continue to market their products as independent brands.

» SALES AND MARKETS

Significant rise in sales

The SURTECO Group is divided into the Strategic Business Units (SBU) Paper and Plastics.

The SBU Paper includes the two wholly-owned subsidiaries BauschLinnemann GmbH + Co. KG and Bausch Dekor GmbH. BauschLinnemann has sales offices in Australia, Great Britain, Singapore, North America and China. BauschLinnemann GmbH + Co. KG also owns Kröning GmbH & Co. in Hüllhorst/Westphalia, specialist for small batches and specials, and a 50 % holding in Arbe s.r.l., which supplies the Italian market with products from SURTECO AG.

Döllken-Kunststoffverarbeitung GmbH is a member of the SBU Plastics and holds another 25 % in Arbe. In addition to Döllken-Kunststoffverarbeitung GmbH, including its subsidiary companies Vinylit Fassaden GmbH, Doellken-A.S.L. Pty. Ltd., Doellken PTE Ltd. and PT Doellken Bintan, the SBU Plastics covers Döllken & Praktikus GmbH, including Döllken-Weimar GmbH, and Döllken-Werkzeugbau GmbH. Woodtape and Canplast manufacture and sell their products under the umbrella of Doellken Canada Ltd. and Doellken USA Inc.

During the first three quarters of 2004, the foreign sales ratio of the Group remained constant at 60 %. Business in Germany grew by 5 % and business abroad by 6 %. Overall, sales during this period went up by 6 % to € 282.2 million.

During the third quarter of 2004, sales amounting to € 89.0 million represented an increase of 3 % for SURTECO AG. The increase of 7 % in Germany is solely attributable to a number of unscheduled factors. Foreign sales remained virtually unchanged by comparison with the equivalent year-earlier period for 2003.

SBU Paper

The companies within SBU Paper increased their sales by 8 % to € 140.9 million during the first nine months of the year under review. Domestic sales bucked the sector trend and were +11 % stronger than foreign business (+7 %).

The third quarter of 2004 saw a rise in sales for Germany from € 13.2 million to € 16.3 million (+24 %), while foreign sales even underwent a decline (-9 %). Total sales for the SBU Paper rose during the third quarter by 1 % to € 42.1 million. Key factors in generating growth for domestic sales were successful placements of new designs with major customers, unusual business conditions for individual customers with a resulting increase in demand for coating materials, and ongoing buoyant sales in the caravan industry.

Sales for pre-impregnated and post-impregnated flat foils increased by 15 %. Bausch Dekor GmbH even succeeded in increasing deliveries to external customers by more than 70 %. It produces decorative prints, some of which undergo further processing within the Group.

SBU Plastics

During the first three quarters of the current business year, the SBU Plastics increased sales by 3 % to € 141.2 million. This figure includes negative currency effects amounting to approximately € 2 million and without these effects sales growth would have been 5 %. A modest increase of € 0.5 million or 1 % was recorded in Germany, while foreign sales went up by 6 %. This led to a proportion of 54 % for foreign sales, one percentage point higher than the equivalent period in the previous year.

Looking at the third quarter in isolation continues

to reflect a difficult business situation for the domestic construction and furnishing market in this segment. Sales in Germany declined (-3 %), while foreign markets increased disproportionately by 9 %. Sales for SBU Plastics overall rose by 4 % during the third quarter compared with the previous year.

The main engine for growth at the SBU Plastics was plastic edgings, the product with the biggest sales. Creative new products injected new life into the market. Business volume underwent significant growth, particularly in North America (+11 %) and Asia/Pacific (+13 %). The segment comprising the construction market also underwent gratifying development, mainly served by Döllken & Praktikus. The veneer business underwent growth for the first time after the comprehensive rationalization of the product range during the past two years.

» EXPENSES

Personnel costs reduced

The proportion of total output taken up by the cost of purchased materials remained constant at 41.2 % during the first three quarters of the year under review. Products outsourced by the SBU Paper were procured on schedule without having to reach agreements on volume quotas. Supply bottlenecks for pre-impregnated raw papers were eliminated by granting certification to another supplier during the course of the third quarter. Rising oil prices entailed some substantial price increases for chemical products. The rise in the price of PVC and ABS referred to in the first half-year for 2004 continued to impact on the SBU Plastics.

Prices for PVC have now reached a historic high. Changes in the product mix prevented a rise in the proportion of total output taken up by the cost of purchased materials.

The SURTECO Group employed 1,920 people (30/9/2003: 1,939) throughout the Group on 30 September 2004. As a percentage of total output, personnel expenses fell by 0.7 percentage points to 25.7 %.

Other operating expenses totalled € 40.6 million (1st to 3rd quarter 2003: € 39.8 million) during the period under review.

» EARNINGS

Earnings significantly up on previous year

The positive trend set during the first half of the year continued during the third quarter. EBITDA amounted to € 16.4 million during the third quarter, up by 3 % in a year-on-year comparison. EBIT (€ 10.0 million) was 7 % above the comparable value for the previous year. Earnings from ordinary activities after restructuring expenses reached € 7.2 million, 10 % more than during the third quarter of the previous year.

Quarterly earnings for the months of July to September were up by 45 % to € 4.4 million compared with the previous year. The share portfolio of 10,575,522 no-par-value shares gives net income per share of € 0.42 for the third quarter.

During the first nine months of 2004, EBITDA increased by 9 % to € 54.5 million compared with the previous year. EBIT (€ 34.6 million) went up by 15% and earnings from ordinary activities after restructuring expenses totalled € 26.2, up by 30 % on the figure for the previous year. Earnings for the

first three quarters amounted to € 14.2 million, a 48 % increase over the previous year, resulting in net income per share of € 1.34.

Cash earnings during the period January to September of the current year totalled € 33.4 million (2003: € 29.3 million).

» RESEARCH AND DEVELOPMENT

Edging tapes with inlays

The development of a special foil has enabled the SBU Paper to enter a new market segment. The SBU has joined forces with a major manufacturer of panels based on foamed polyurethane to originate display panels coated on the front and reverse with a foil produced by BauschLinnemann. Panels of this nature are primarily used to carry advertisements. The special properties of the substrate material mean that a digital technique can be used to print the surfaces to excellent quality. Apart from the outstanding visual effect, the materials have a series of other properties that are ideal for tough, long-term use. They provide the required resistance against deformations, they have good insulation properties and demonstrate excellent flame-retardant characteristics. They have a tough mechanical structure and their stability against the effect of moisture also makes them suitable for permanent use outside.

Edging tapes made of plastic are continually conquering new areas of application that are frequently also unconventional. The latest creation involves printed edging tapes with inlay designs. The manufacturing process uses specially engraved printing rollers that can guarantee perfect printing and optimum adjustment of the inlaid designs. Ro-

best plastic products with attractive visual designs can now be used for tough, everyday applications in areas that used to require intricate and expensive carving techniques.

A further trend-setting development is the 3-D frosted plastic edge with a frosted-glass effect, which has been designed for selective refinement in ultramodern processing centres. Their special acrylic glass formulation for a translucent visual appearance and matt surfaces provide a visually impressive coating material with tactile appeal. The edge was granted the Innovation Scout 2004 award at the annual trade fair for household furniture, bathroom furniture and accessories, Ost-westfalen.

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



» SURTECO SHARES

Period January - September 2004 Amounts in €

Number of shares	10,575,522
Price on 2/1/2004	19.50
Price on 30/9/2004	22.40
High	24.11
Low	18.50
Average share price	20.75
Market capitalization as at 30/9/2004	236,891,692.80

» OUTLOOK FOR FISCAL YEAR 2004

Recovery is continuing to elude the economy in Germany. The business environment remains extremely difficult for the German furniture and construction industry. Performance is proceeding according to schedule only in the individual foreign markets, which contribute to balancing weak sales in Germany.

Acquisition of Canadian producer Canplast during the current fiscal year will only impact on the fourth quarter.

We are now anticipating sales amounting to some € 373 (+5 %) for the fiscal year 2004, with earnings at the level of the record year 2002.

CONSOLIDATED INCOME STATEMENT (IFRS) SURTECO GROUP

€ 000s	3rd Quarter		1st to 3rd Quarters	
	1/7/-30/9/ 2003	1/7/-30/9/ 2004	1/1/-30/9/ 2003	1/1/-30/9/ 2004
Sales revenues	86,768	89,024	266,689	282,163
Changes in inventories	2,089	-3,254	584	-1,873
Production of own fixed assets capitalized	215	113	689	397
Total output	89,072	85,883	267,962	280,687
Cost of purchased materials	-36,888	-32,895	-110,410	-115,582
Personnel expenses	-23,294	-24,737	-70,773	-72,106
Other operating expenses	-13,248	-12,305	-39,783	-40,572
Other operating income	367	479	3,131	2,105
EBITDA	16,009	16,425	50,127	54,532
Depreciation and amortization	-4,519	-4,305	-13,547	-13,305
Amortization (and impairment) of goodwill	-2,154	-2,151	-6,460	-6,610
EBIT	9,336	9,969	30,120	34,617
Financial result	-2,762	-2,725	-8,067	-7,114
Result from ordinary activities before restructuring expenses	6,574	7,244	22,053	27,503
Restructuring expenses	0	0	-1,844	-1,329
Result from ordinary activities after restructuring expenses	6,574	7,244	20,209	26,174
Income tax	-3,521	-2,829	-10,590	-11,978
Net income	3,053	4,415	9,619	14,196
Minority interest	-4	-274	-9	-412
Consolidated net income	3,049	4,141	9,610	13,784
Net income per share (€)	0.29	0.42	0.91	1.34
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	30/9/2004
ASSETS		
Cash and cash equivalents	2,467	4,934
Trade accounts receivable	30,303	41,028
Inventories	44,101	49,664
Other current assets	15,373	16,389
Current assets	92,244	112,015
Plant property and equipment, net	150,507	146,605
Intangible assets	1,399	1,578
Goodwill	99,273	94,142
Investments	5,380	696
Other non-current assets	1,222	557
Non-current assets	257,781	243,578
Deferred tax asset	6,389	6,277
	356,414	361,870

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CONSOLIDATED
BALANCE SHEET (IFRS)
SURTECO GROUP

€ 000s	31/12/2003	30/9/2004
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current financial liabilities	49,954	40,280
Trade accounts payable	12,110	17,802
Tax liabilities	12,007	11,409
Short-term accrued expenses	2,156	5,631
Other current liabilities	17,010	22,064
Total short-term liabilities and provisions	93,237	97,186
Non-current financial liabilities	127,057	121,703
Pensions and similar obligations	10,740	10,447
Other non-current liabilities	511	677
Non-current liabilities	138,308	132,827
Deferred tax liability	16,159	15,691
Minority interests	160	773
Equity captial	108,550	115,393
	356,414	361,870

CONSOLIDATED CASH FLOW STATEMENT (IFRS) SURTECO GROUP

€ 000s	1 st to 3 rd Quarters	
	1/1/-30/9/ 2003	1/1/-30/9/ 2004
Earnings before minority interest, after income tax and extraordinary items	9,619	14,196
Adjustments	21,037	26,634
Internal financing	30,656	40,830
Change in working capital	11,688	-918
Cash flows from current business operations	42,344	39,912
Cash flows from investing activities	-10,700	-9,923
Cash flows from financing activities	-29,918	-27,522
Change in cash and cash equivalents	1,726	2,467
Cash and cash equivalents		
1 January	3,187	2,467
30 September	4,913	4,934

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	13,784	13,784
Other changes	0	0	7,385	-6,923	462
30 September 2004	10,576	35,860	54,652	14,305	115,393

SEGMENT REPORTING (IFRS) SURTECO GROUP

By Strategic Business Units 1/1/-30/9/2004 € 000s	Segment revenues	Operating segment earnings before interest (financial result) and taxes
SBU Paper	141,355	21,172
SBU Plastics	144,204	21,796
SURTECO AG	0	-2,869
Consolidation	-3,396	-5,482
SURTECO Group	282,163	34,617

By regional markets 1/1/-30/9/2004 € 000s	SBU Paper	SBU Plastics	SURTECO Group
Germany	48,469	64,837	113,306
Europe (without Germany)	69,136	42,231	111,367
America	15,387	21,929	37,316
Asia, Australia	8,363	15,207	23,570
Total	141,355	144,204	285,559
Consolidation	-435	-2,961	-3,396
SURTECO Group	140,920	141,243	282,163

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