

REPORT FOR THE FIRST THREE QUARTERS

2005

SPECIALISTS
FOR SURFACE
TECHNOLOGIES

Q3

SURTECO

AKTIENGESELLSCHAFT

1 January to 30 September



» OVERVIEW
SURTECO GROUP

Q3

€ 000s	Q 3			Q 1-3		
	1/7 - 30/9/2004	1/7 - 30/9/2005	Variation in %	1/1 - 30/9/2004	1/1 - 30/9/2005	Variation in %
Sales revenues	89,024	97,165	+9	282,163	296,125	+5
of which						
- Germany	36,470	35,040	-4	113,282	108,608	-4
- Foreign	52,554	62,125	+18	168,881	187,517	+11
EBITDA	16,425	16,399	-	54,532	51,880	-5
EBIT	9,969	12,127	+22	34,617	38,684	+12
Result from ordinary activities before restructuring expenses	7,244	9,143	+26	27,503	31,213	+13
Restructuring expenses	0	0		-1,329	-4,267	
Result from ordinary activities after restructuring expenses	7,244	9,143	+26	26,174	26,946	+3
Net income	4,415	5,293	+20	14,196	16,126	+14
Minority interest	-274	38		-412	-161	
Consolidated net income	4,141	5,331	+29	13,784	15,965	+16
Cash Earnings	9,491	9,782	+3	33,406	30,414	-9
Capital ratio at 30 September in %	31.9	37.4	+17	31.9	37.4	+17
Net income per share (€)	0.42	0.48	+14	1.34	1.46	+9
Number of employees at 30 September	1,920	2,124	+11	1,920	2,124	+11



» DEAR SHAREHOLDERS, PARTNERS AND FRIENDS OF OUR COMPANY

The third quarter of 2005 was marked by higher utilization of capacities compared with the previous quarters. A large number of customers, particularly those abroad, restocked heavily reduced inventories during the third quarter. This meant that sales revenues and earnings improved during the quarter under review. However, this effect was the result of very restrained business performance during the first half of the year and does not permit any direct conclusions regarding business performance during the fourth quarter. In general, the economic climate has not changed by comparison with the report on the first half of 2005. Uncertainties about economic and political developments are putting a brake on the consumer behaviour of private households. However, SURTECO AG has successfully met the challenges of this difficult environment.

The measures designed to increase competitiveness and earning power introduced during the course of the year are being consistently implemented. Key figures in the balance sheet have also been improving in 2005.

» SALES AND MARKETS

Increase in foreign markets

SURTECO AG increased sales revenues after three quarters in the year under review to € 296.1 million (+5 %). Net of consolidation effects, this represents a reduction of 1 % (after -3 % at 30/6/2005). Business grew organically during the third quarter for the first time in this fiscal year (+3 %). Overall, sales increased by 9 % to € 97.2 million.

Domestic business at € 35.0 million again remained 4 % behind the level for the previous year during the third quarter, while foreign business increased disproportionately with a jump in sales of 18 %.

After nine months, Germany shows a decline in sales of 4 % to € 108.6 million while foreign sales have grown by 11 % to € 187.5 million. The proportion of foreign sales in the Group amounted to 63 %.

Strategic Business Unit Paper

Sustained weakness in demand and increasing competitive pressure created difficulties for business in the Strategic Business Unit (SBU) Paper. During the first three quarters of 2005, sales decreased by 8 % to € 129.0 million.

Furniture manufacturers are the main customers for the products of the SBU Paper, and especially in Germany they are subject to enormous pressure from purchasing organizations and trading chains. Many large customers have introduced short-time working. The construction industry is also suffering from the effects of weak economic conditions, with the segments interior design, panelling and doors being particularly affected. Sales to customers in Germany remained 7 % below the year-earlier level at € 45.1 million.

During the third quarter of the year under review, foreign sales were 5 % above the equivalent year-earlier figure for 2004. In particular, European customers outside Germany placed follow-up orders. Sales rose by 13 % to € 21.5 million. Sales in America again underwent a slight increase during the third quarter (+2 %).

The decline in foreign sales markets amounted to minus 15 % for the first half of 2005, but this decline was reduced to minus 9 % after nine months (€ 83.9 million).

Bausch Decor GmbH is responsible within the SBU Paper for printing technical papers with decorative motifs for special applications. The company bucked the trend and again succeeded in increasing their foreign sales. After nine months, these were at € 11.0 million, 10 % above the year-earlier level.

Strategic Business Unit Plastics

The SBU Plastics continued the positive performance of the first six months. During the third quarter of 2005, sales were up by 19 % above the previous year (€ 55.5 million). Total sales of € 167.1 million (+18 %) were generated over the entire period under review. A key reason for the increase was the Canadian Canplast Group acquired in October 2004. The Group's contribution to sales during the current fiscal year amounted to € 20.3 million. Net of acquisition effects this still yields an increase in sales of 6 %.

The proportion of foreign sales remained at 62 % for the SBU Plastics, as in the first six months. In North America, the SURTECO companies Woodtape and Canplast posted sales of € 37.0 million during the first nine months of the current fiscal year. This increased sales volume by 69 % compared with the equivalent year-earlier figure for 2004. European markets outside Germany (+22 %)

and Australia (+23 %) posted very pleasing results. In Australia, the first sales were booked from a division of Consolidated Edgings Ltd. in Sydney, which was acquired in the third quarter. The foreign sales of the SBU Plastics at € 103.6 million in the first three quarters were up by 36 % on the equivalent year-earlier level.

An increase of € 20.7 million (+2%) was achieved for the first time this year in the difficult German market during the third quarter of 2005, although it is not possible to interpret this increase as a general upswing in the domestic market. Sales during the period under review (January to September 2005) amounted to € 63.5 million. This was 2 % below the value for the previous year (half year 2005: -4 %).

Plastic edgings account for 60 % of sales in the SBU Plastics and continued to post the biggest growth rates. This demonstrates that the patented 3D edge with its innovative variations is making an increasingly important contribution to the success of this product line.

While the cladding systems of SBU Plastics continued to maintain the level of the previous year during the period under review, sales of roller-shutter systems, technical extrusions (profiles) and DIY product ranges were down. Positive development abroad meant that the plinth-strip business with wholesalers and specialist dealers increased slightly over the previous year due to positive development abroad.

» EXPENSES

Proportion of personnel costs to total output down

The cost of purchased materials of the SURTECO Group for the first three quarters of 2005 was €126.7 million (2004: € 115.6 million). This is equivalent to a proportion of costs of purchased materials to total output of 42.6 % (+1.4 percentage points).

In the case of raw materials for production at the SBU Paper, in particular for technical papers, decorative prints, inks and chemicals, cost prices remained virtually unchanged. Lower utilization of capacity at suppliers meant that it was not necessary to agree volume quotas during the period under review.

In Germany, prices for the main raw materials of the SBU Plastics were 1 % above the equivalent quarter in the previous year. While significantly higher prices had to be paid for the plastics ABS and polypropylene, purchase prices for principal raw material PVC declined during the third quarter. The trend was reversed in North America, where price increases of 8 % had to be absorbed for PVC during the third quarter.

During the reporting period from January to September, the +12 % increase in raw material prices was significantly up on the previous year and this impacted disproportionately on the earnings of the SBU Plastics. The rise in oil prices and reduction in capacities due to the natural catastrophes in the USA brought about a significant global rise in prices for all primary products.

Personnel expenses at € 74.5 million were € 2.4 million above the level for the previous year in absolute terms. The proportion of personnel costs to total output decreased by 0.6 percentage points to

25.1 %. As a result of consolidation, the number of employees rose by 11 % to 2,124 compared with the balance-sheet date in the previous year (30 September 2004).

Other operating expenses totalled € 47.1 million during the period under review (1st to 3rd quarter 2004: € 40.6 million).

» EARNINGS

Restructuring expenses impact on earnings

In line with expectations, earnings before interest, taxes and depreciation (EBITDA) were unable to equal the record value of the previous year (€ 51.9 million; -5 %) after nine months. Favoured by the elimination of amortization on goodwill, the operating result (EBIT) increased by 12 % to € 38.7 million. A decline of 6 % would have been posted on a comparative basis.

The operating result for ordinary activities before restructuring expenses grew by € 3.7 million to € 31.2 million. Restructuring expenses, amounting to € 4.3 million, came to an end in the second quarter and essentially include the costs for personnel measures that will be concluded in the middle of 2006. The pre-tax result after restructuring expenses amounts to € 26.9 million (2004: € 26.2 million; +3 %).

Earnings of € 16.1 million were achieved during the first three quarters of 2005. Compared with the equivalent year-earlier period, this corresponds to an increase of 14 %. This was also due to a tax rate that came down from above 45 % to 40.2 %.

Earnings per share amounted to € 1.46. This amount cannot be directly compared with the figure for the previous year (€ 1.34) due to the

capital increase carried out in March of this year. The reference figure for the first three quarters of 2004 was 10,575,522 shares. The basis for calculation has increased by 500,000 shares to 11,075,522 shares in the current fiscal year.

During the third quarter, EBIT posted a rise in earnings by more than one fifth to € 12.1 million. The result from ordinary activities even improved by 26 % to € 9.1 million. By contrast with the first six months, no restructuring costs were incurred during the third quarter of 2005. Profit for the period went up by 20 % to € 5.3 million. Earnings per share at € 0.48 were also above the comparable value for 2004 (€ 0.42).

Cash earnings during the three quarters of 2005 amounted to € 30.4 million (2004: € 33.4 million).

» RESEARCH AND DEVELOPMENT

Investment in environmental protection

High-quality products are created from the combination of primary products with precisely defined processing conditions in production and a powerful inspection system. Changes in papers, resins or paints therefore exert a direct influence on the production process and necessitate redefinition of the machine and test parameters. The research and development department of the SBU Paper carries out a test series in advance of any change in material. These tests establish the suitability of the material for the planned use and simultaneously check any effects on the production process. There are many reasons for changing components: reduction in cost of purchased materials, improvement in qualitative features, new developments originated by the provider, additional requirements laid down by the customer, appearance of new providers in the market or the disappearance of existing suppliers. Selection of suitable raw materials and manufacturers is a key function carried out by Research and Development. This is the only way of coordinating enhancement of product quality, reduction of cost prices, and provision of new, innovative and future-oriented products for the industrial production of modern furnishings and fittings.

Edgings from the SBU Plastics provide design features for the front profile of furniture and for worktops. They meet functional requirements by providing protection for wooden materials against wear and tear or dirt, and provide visual features that play a vital role in determining purchase decisions by consumers. Engineers working on the development of plastic edgings are always striving to optimize the finishes as well as improving pro-

cess engineering and developing new products. Virtually complete conversion to water-based primers has made an important contribution to environmental protection. Primers are applied to the back of edgings to ensure good adhesion with the substrate.

» SURTECO SHARES

Period January - September 2005

Number of shares	11,075,522
Free float in %	14.5

Price on 3/1/2005 (€)	23.00
Price on 30/9/2005 (€)	28.50
High (€)	35.30
Low (€)	22.10

Market capitalization as at 30/9/2005 (€ millions)	315.7
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Share price performance January - September 2005 in €



» OUTLOOK FOR FISCAL YEAR 2005

We are not anticipating any fundamental changes in the economic climate at home or abroad for the remainder of the fiscal year.

The figures for the third quarter are neither driven by demand nor by the economic cycle, but primarily result from a large number of foreign customers restocking inventories. We believe that it is not possible to draw any conclusions about the fourth quarter from these results.

We are expecting sales of approximately € 390 million (+3 %) for the fiscal year 2005 and earnings before restructuring expenses of approximately € 38.0 million or € 33.7 million after the costs of restructuring (EBT).

» CONSOLIDATED
INCOME STATEMENT
SURTECO GROUP

€ 000s	Q 3		Q 1-3	
	1/1/ - 30/9/ 2004	1/1/ - 30/9/ 2005	1/1/ - 30/9/ 2004	1/1/ - 30/9/ 2005
Sales revenues	89,024	97,165	282,163	296,125
Changes in inventories	-3,254	506	-1,873	595
Production of own fixed assets capitalized	113	191	397	654
Total output	85,883	97,862	280,687	297,374
Cost of purchased materials	-32,895	-41,999	-115,582	-126,719
Personnel expenses	-24,737	-25,979	-72,106	-74,530
Other operating expenses	-12,305	-14,416	-40,572	-47,104
Other operating income	479	931	2,105	2,859
EBITDA	16,425	16,399	54,532	51,880
Depreciation and amortization	-4,305	-4,272	-13,305	-13,196
Amortization (and impairment) of goodwill	-2,151	0	-6,610	0
EBIT	9,969	12,127	34,617	38,684
Financial result	-2,725	-2,984	-7,114	-7,471
Result from ordinary activities before restructuring expenses	7,244	9,143	27,503	31,213
Restructuring expenses	0	0	-1,329	-4,267
Result from ordinary activities after restructuring expenses	7,244	9,143	26,174	26,946
Income tax	-2,829	-3,850	-11,978	-10,820
Net income	4,415	5,293	14,196	16,126
Minority interest	-274	38	-412	-161
Consolidated net income	4,141	5,331	13,784	15,965
Net income per share (€)	0.42	0.48	1.34	1.46
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	30/9/2005
ASSETS		
Cash and cash equivalents	4,480	5,907
Trade accounts receivable	35,771	36,270
Inventories	51,100	54,729
Other current assets	9,457	10,248
Current assets	100,808	107,154
Plant property and equipment, net	153,094	155,830
Intangible assets	4,601	5,070
Goodwill	95,722	98,023
Investments	152	167
Investments in associated enterprises	0	1,731
Other non-current assets	1,365	1,318
Non-current assets	254,934	262,139
Deferred tax assets	6,388	6,328
	362,130	375,621

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» CONSOLIDATED
BALANCE SHEET
SURTECO GROUP

Q3

€ 000s	31/12/2004	30/9/2005
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current financial liabilities	40,418	42,723
Trade accounts payable	18,896	23,031
Tax liabilities	11,947	9,933
Short-term accrued expenses	2,413	3,248
Other current liabilities	16,562	17,480
Total short-term liabilities and provisions	90,236	96,415
Non-current financial liabilities	126,752	108,219
Pensions and similar obligations	12,223	13,313
Other non-current liabilities	522	899
Non-current liabilities	139,497	122,431
Deferred tax liability	15,788	16,380
Capital stock	10,576	11,076
Reserves	86,497	112,453
Net profit	18,205	15,965
Minority interest	1,331	901
Equity capital	116,609	140,395
	362,130	375,621

» CONSOLIDATED
CASH FLOW STATEMENT
SURTECO GROUP

Q 1-3

€ 000s	1/1/ - 30/9/ 2004	1/1/ - 30/9/ 2005
Earnings before minority interest, after income tax and extraordinary items	14,196	16,126
Adjustments	26,634	14,939
Internal financing	40,830	31,065
Change in working capital	-918	-4,328
Cash flows from current business operations	39,912	26,737
Cash flows from investing activities	-9,923	-21,585
Cash flows from financing activities	-27,522	-3,725
Change in cash and cash equivalents	2,467	1,427
Cash and cash equivalents		
1 January	2,467	4,480
30 September	4,934	5,907

» 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	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
31 December 2004	10,576	35,860	51,968	18,205	116,609
Dividend payout	0	0	0	-8,860	-8,860
Consolidated net income	0	0	0	15,965	15,965
Capital increase	500	14,555	0	0	15,055
Other changes	0	0	10,818	-9,192	1,626
30 September 2005	11,076	50,415	62,786	16,118	140,395

» SEGMENT REPORTING

SURTECO GROUP

By Strategic Business Units 1/1/ - 30/9/2005	Segment revenues	Operating segment earnings before interest (financial result) and taxes
€ 000s		
SBU Paper	129,974	13,686
SBU Plastics	170,438	27,104
SURTECO AG	0	-2,188
Consolidation	-4,287	82
SURTECO Group	296,125	38,684

Sales revenues by regional markets 1/1/ - 30/9/2005	SBU Paper	SBU Plastics	SURTECO Group
€ 000s			
Germany	45,180	63,524	108,704
Europe (without Germany)	62,638	51,066	113,704
America	14,991	39,291	54,282
Asia, Australia, Others	7,165	16,557	23,722
Total	129,974	170,438	300,412
Consolidation	-1,007	-3,280	-4,287
SURTECO Group	128,967	167,158	296,125

This unaudited report of SURTECO AG for the first nine 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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