healthcomfortenergy

Annual Report 2004

CENTROTEC Sustainable AG

How do you make good use of flue gas ?

Wilma Haanappel

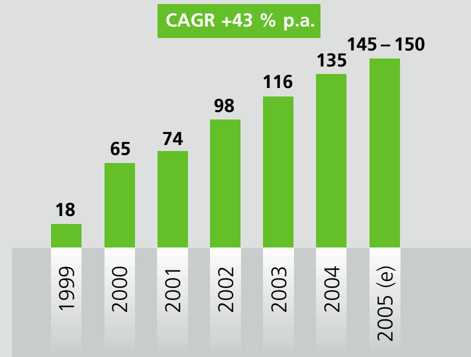
(41, Logistics Manager)

Condensing boiler technology cuts heating energy consumption by about 35 %. How? By extracting additional heat from the flue gas by means of condensation.

My colleagues have developed just the right product for doing this: condensate-resistant flue gas systems made from plastic. Our well-organised logistics ensure that the right quantity of the right product is delivered to the right place. We are thus giving an extra boost to the growing market penetration of this environmentally friendly heating technology.

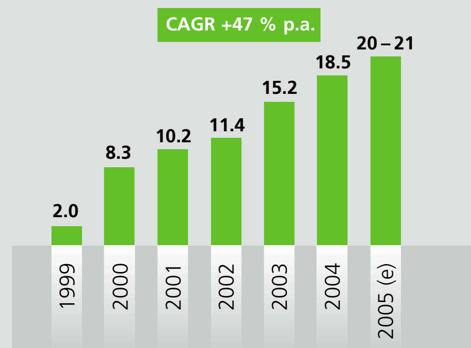
Key figures at a glance

Revenues
in EUR million



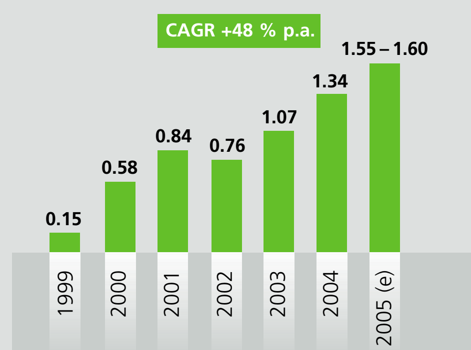
CAGR = Compound Annual Growth Rate

EBIT*
in EUR million



* pre-goodwill
CAGR = Compound Annual Growth Rate

EPS*
in EUR



* Earnings per share pre-goodwill, basic
CAGR = Compound Annual Growth Rate

Share price
since IPO (IPO price 6.48) in EUR

CENTROTEC since 2000

	31.12.2004	31.12.2003	31.12.2002	31.12.2001	31.12.2000
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Total revenue	**134,760**	**115,671**	**98,373**	**74,284**	**64,779**
Medical Technology & Engineering Plastics	28,405	20,152			
Climate Systems	36,599	32,457	Change in segment structure		
Gas Flue Systems	69,756	63,062			
Earnings*					
EBIT	18,518	15,185	11,364	10,162	8,260
EBIT margin in %	13.7	13.1	11.6	13.7	12.8
EBITDA	23,465	19,356	15,559	13,398	11,369
EBT	16,044	12,632	8,677	8,992	6,747
EAT	10,340	8,226	5,836	5,991	4,144
Earnings per share (basic) in EUR	1.34	1.07	0.76	0.84	0.58
Employees					
Total (FTE)	926	852	600	385	340
Capital structure					
Balance sheet total	118,211	115,025	87,859	59,564	54,043
Shareholders' equity	46,025	33,799	27,703	19,187	13,800
Equity ratio in %	38.9	29.4	31.5	32.2	25.5
Average number of shares outstanding (basic)	7,730,581	7,661,935	7,660,713	7,201,796	7,197,989
Property, plant and equipment	34,813	35,154	27,163	21,743	19,126
Goodwill	38,134	35,416	26,091	11,469	10,377
Net amounts owed to banks	39,531	46,549	37,082	22,809	24,077
Net working capital	12,704	10,588	12,926	9,036	8,280
Cash flow statement					
Cash flow I (EAT & depreciation/amortisation)	15,280	12,397	10,030	9,226	7,253
Cash flow from operating activities	14,362	12,995	6,709	7,814	5,962
Cash flow from investing activities (excluding aquisitions)	(5,201)	(7,422)	(3,378)	(3,811)	(5,716)
Development in share price in EUR					
Price at Jan. 1	9.70	5.60	10.20	16.10	16.33
Year-high	21.80	10.58	13.42	16.10	23.50
Year-low	9.30	3.90	4.62	7.75	11.50
Price at Dec. 31	21.50	9.85	5.45	10.00	15.20

* Previous years excluding goodwill amortisation

Key figures in comparison to previous year

	31.12.2004 EUR '000	31.12.2003 EUR '000	Change
Total revenue	**134,760**	**115,671**	**16.5 %**
Medical Technology & Engineering Plastics	28,405	20,152	41.0 %
Climate Systems	36,599	32,457	12.8 %
Gas Flue Systems	69,756	63,062	10.6 %
Earnings*			
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Employees			
Total (FTE)	926	852	8.7 %
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Cash flow statement			
Cash flow I (EAT & depreciation/amortisation)	15,280	12,397	23.3 %
Cash flow from operating activities	14,362	12,995	10.5 %
Cash flow from investing activities (excluding acquisitions)	(5,201)	(7,422)	(29.9 %)
Development in share price in EUR			
Price at Jan. 1	9.70	5.60	73.2 %
Year-high	21.80	10.58	106.0 %
Year-low	9.30	3.90	138.5 %
Price at Dec. 31	21.50	9.85	118.3 %

* Previous year excluding goodwill amortisation

Letter to Shareholders

Dear shareholders,

2004 was a record-breaking year. It was also a year in which we built on our market position, stabilised our internal structures, strengthened our financial position and were discovered by international investors.

2004 was a year of record figures. Revenue reached a new time high of EUR 134.8 million. The pace of growth remained high, at 17 %. As in previous years, earnings as well as the volume of business grew. With EBIT reaching EUR 18.5 million, the operating margin remained at a healthy level.

2004 was a year of building on our market position. As a leading supplier of gas flue systems and energy-saving ventilation systems, we have strengthened our positions in these markets. We succeeded in increasing our market shares somewhat in our core markets of the Netherlands and Germany, and achieved further organic growth. Other EU countries, too, are now witnessing a similar trend towards saving energy, mirroring the development that has already taken place first in the Netherlands and then in Germany. Our revenues in other EU countries consequently rose by double-digit rates.

2004 was a year of internal stabilisation. Our strategy has always fundamentally been to bolster organic growth through acquisitions of companies that fit our strategic profile. There was a brief interlude in 2004, with just one minor acquisition in the Solar business area. No particular target company succeeded in meeting our rigorous takeover criteria last year. We capitalised on this situation by using this opportunity to improve our internal structures. We will now be able to continue with our acquisitions strategy from a position of greater strength.

2004 was a year of greater financial strength. Thanks to its high profitability, our company has been enjoying rising operative cash flows for many years. In previous years, however, these financial resources have repeatedly been invested in expanding the business. In the past year, the high cash flow finally became outwardly evident: with capital expenditure of over EUR 8 million, net financial liabilities fell from EUR 46.5 million to EUR 39.5 million. Shareholders' equity rose by over EUR 12 million to EUR 46.0 million, or 39 % of the balance sheet total.

2004 was a year in which we were discovered by a broader circle of international investors. The growth of recent years was finally rewarded by the stock market. CENTROTEC was admitted to the SDAX in June 2004. As a result of this, leading banks (Commerzbank, ABN Amro and Citigroup) instigated research coverage. Following presentations in London, major European operators were attracted as shareholders. The modified corporate identity under the name of ‘CENTROTEC Sustainable’ has likewise helped to bring our shares out of obscurity.

Thanks to our methodical focus on sustainable products that contribute towards ‘health, comfort, energy", we are appropriately equipped to tackle future challenges. The need for mankind to treat our planet's resources responsibly has simultaneously fuelled our corporate growth. This ‘fuel’ is a resource that will not run out. We are consequently convinced that 2004 was by no means the last record-breaking year.

Best wishes,
The Management Board and Employees
CENTROTEC Sustainable AG

Dr. Alexander Kirsch
Medical Technology &
Engineering Plastics,
Strategy and Expansion

Dr. Christoph Traxler
Medical Technology &
Engineering Plastics

Dr. Gert-Jan Huisman
Chairman, Finance

Rob Slemmer
Climate Systems

Martin Beijer
Gas Flue Systems

Sustainable. For the sake of our children.

We ourselves are unable to change the world on our own. But our energy-saving products make a substantial contribution towards reducing CO_2 emissions and therefore curbing the effect of global warming.

Because we want our children to be able to grow up free from care and follow in our footsteps with many more generations after them inhabiting and managing this planet.

For the sake of our shareholders.

Our new name CENTROTEC Sustainable underscores our commitment to a corporate strategy that focuses on the criteria of sustainable management. We want to create sustainable corporate value, both for future generations and – in the present – for our shareholders. We will continue to give an account of developments and progress in an entrepreneurial sense every year in our Annual Reports. Furthermore, in accordance with the recommendations of the United Nations we have introduced ‘triple bottom line’ reporting for our company. From the 2004 reporting period on, in parallel with the Annual Report we will be publishing a separate Sustainability Report, where we will provide an account of our progress in the areas of social justice, environment and market activities.

The CENTROTEC Sustainability Report will be based on the guidelines of the Global Reporting Initiative (GRI). The first issue will be ready in mid-2005.

CENTROTEC Sustainable AG

GAS FLUE SYSTEMS

Ubbink B.V. NL-Doesburg	Ubbink UK Ltd. UK-Brackley	Ubbink France SAS F-Chapelle sur Erdre/ Nantes	Ubbink N.V. / S.A. B-Mariakerke/ Gent	Ubbink Econergy Solar GmbH D-Köln
Centrotherm Systemtechnik GmbH D-Brilon	Centrotherm Gas Flue Technologies Italia S.R.L. I-Verona			

CLIMATE SYSTEMS

Brink Climate Systems B.V. NL-Staphorst	Golu B.V. NL-Soest	Kempair B.V. NL-Eindhoven	Deveko B.V. NL-Deventer	Haskotherm B.V. NL-Joure (40 %)
Ned Air Holding B.V. NL-Kampen	Ned Air B.V. NL-Soest			

MEDICAL TECHNOLOGY & ENGINEERING PLASTICS

Centrotec Medizintechnik GmbH D-Brilon	Möller Medical GmbH & Co. KG D-Fulda	Möller GmbH D-Fulda
Centroplast Engineering Plastics GmbH D-Marsberg	Rolf Schmidt Industriplast A/S DK-Kolding	
Centrotec Composites GmbH D-Brilon	Bond Laminates GmbH D-Brilon (24,95 %)	
Centrotec International GmbH D-Brilon	Centrotec JI Asia Pte Ltd. SG-Singapore (57,50 %)	Centrotec JIT Bintan PT ID-Bintan (57,50 %)

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Our product range

Health, comfort, energy: CENTROTEC products maintain a healthy climate in many buildings, while satisfying very high standards of comfort and using very low levels of energy. Examples of these include systems for climate control with heat recovery and gas flue systems for condensing boiler technology.

The two diagrams on the right demonstrate the structure of such systems. The sales success of these products, which enhance environmental compatibility and help to protect resources, is also influenced by the underlying legal framework. All national environmental laws in turn depend on global directives and accords. Now that the Kyoto Protocol has come into force, CENTROTEC anticipates that there will be an even more concerted drive to save energy in the future.

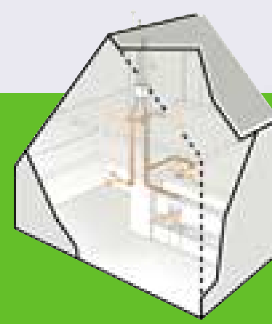
The driving force behind energy products

Kyoto spurs the world into action

Kyoto has sent out the clearest message ever: energy resources are on the decline, and global warming can only be held in check through rigorous energy-saving measures and by cutting exhaust emissions. The countries signing up to the Kyoto Protocol have undertaken to reduce CO_2 emissions by 35 – 40 million tonnes per year by 2010. Ratification by the Russian government in October 2004 has now paved the way for the Protocol to be translated into law in the individual signatory countries.

The principles of the Kyoto Protocol will now also be applied in national legislation via the new EU Energy Performance of Buildings Directive (EPBD). The EPBD envisages a transitional phase of three years, in other words the directives are to take effect throughout the EU on January 4, 2006. Private homeowners, too, are now called upon to save energy. The person commissioning the building of a house is responsible for determining what building measures are to be taken in order to meet the statutory targets. There are moreover plans to introduce a building energy pass which must be presented whenever a property is built, sold or let. A test project of the German Energy Agency is currently being staged in various cities throughout Germany. This in particular will help to give the market for energy-saving systems an enormous boost over the next few years, with CENTROTEC one of the main parties to benefit.

health
comfort
energy



Segment
Gas Flue Systems

Saving energy with condensing boiler technology
Heating accounts for 57 % of the energy consumed by residential buildings. Switching to more environmentally friendly systems such as condensing boiler technology provides scope for cutting heating energy consumption by as much as 35 %. Condensing boiler technology moreover reduces CO_2 emissions appreciably. The saving is achieved by recovering additional energy from the flue gas by means of condensation. Such systems are equipped predominantly with plastic gas flue systems in Germany and Europe. Plastic systems have the advantage that they do not corrode upon contact with the condensate (which occurs in the gas flue systems of condensing boilers), and are therefore much more resistant e.g. than aluminium. Such systems are moreover very easy and versatile to install, and are fully recyclable. We were one of the first to manufacture and supply such plastic gas flue systems, and are now the European leader in terms of technology and market share. Our core skills include a range tailored to each individual customer and the development of special solutions such as multi-boiler systems and cascade systems. Leading German and European boiler manufacturers sell our gas flue systems as OEM products in conjunction with the boiler itself, or support our retail sales.

'Eco lead' for roof ducts and new applications
It is still the norm to use various lead components when installing roof ducts in gas flue systems, for example to seal the join between the pantile and the roof duct against wind and rain. Although this heavy metal is toxic to humans, so far there has been no satisfactory alternative in the building sector. With Ubiflex we have now succeeded in developing such a substitute.

Boost for solar technology
The CENTROTEC product range has included assembly products for solar panels for some years. These are sold via our established trading channels. We have increased the product range for flat roofs with the acquisition of the product rights and patents for Econergy assembly systems. Large flat roofs in industry are regarded as a particularly important growth market, because they can accommodate larger solar energy systems operated professionally on surfaces that have hitherto been unused. CENTROTEC is now the European market leader for plastic support products for solar energy systems.

Products in the Gas Flue Systems area
- Plastic gas flue systems for condensing boiler heaters (main product)
- Other gas flue systems for heating systems
- Accessories for gas flue and ventilation systems, in particular in conjunction with roof ducts
- Other roof accessories, in particular solar assembly systems and roof windows

Gas Flue Systems

Segment
Climate Systems

Heat recovery soon throughout Europe
Indoor air systems with heat recovery are regarded as an increasingly important means of achieving the Kyoto specifications for the construction of environment-friendly residential buildings. Following the ratification of this agreement, other major European countries such as France, Italy, Belgium, Great Britain and Scandinavia will follow the lead given by the Netherlands and Germany, prompting a marked rise in demand for such systems. The Netherlands, whose model serves as the basis for the new EU Energy Performance Building Directives, has shown the way forward: since the introduction of tougher energy legislation in 1998, the installation of heat recovery systems in new buildings has risen from 1 % to the present level of 50 %. Germany will achieve this level in the medium term, and other European countries in the long term. There is furthermore an increasing trend towards exploiting the immense energy-saving potential of indoor air systems with heat recovery in larger commercial properties, such as offices, schools and sports halls.

Warm in winter...
The use of insulation in low-energy houses is increasingly necessitating the use of mechanical ventilation, because the building's extremely dense shell makes the process of ventilating it much more involved than on a conventional design of building. The consequences of inadequate ventilation are moisture damage, mould, allergies and even asthma. Ventilation systems with heat recovery maintain a fresh interior climate without simply letting the precious energy saved escape through the window. They improve the interior climate by extracting stale air from utility rooms such as the kitchen, bathroom and WC, and introducing fresh, filtered, preheated air into living-rooms and bedrooms. Mould, damp, dust, allergens and odours are avoided – to the benefit of the inhabitants' well-being. Our device, which recovers 95 % of the heat in the outgoing air, therefore also cuts heating energy consumption.

...cool in summer
A special climate control system that will ensure that fresh air is already ‘pre-cooled’ upon entering a room is still at a very early stage of development. Leading research work is being conducted into phase change materials which will have the effect of regulating the temperature of living areas. These materials, which act like a heat exchanger, extract heat from the air when its temperature is approximately 22 °C or higher (cooling effect during daytime) and then release the stored energy again when the air falls below a specified temperature (heat accumulator for night-time). This principle, which is ideal for Central European temperature conditions, achieves an energy saving of 80 % compared with conventional cooling systems.

Radon extraction in residential buildings
There is now scientific evidence that the buildup of radon inside buildings, a substance that is radiated by the earth's crust, causes cancer. Especially relatively new, well-insulated houses show increased concentrations of radon where they are insufficiently ventilated. Radon is an intermediate product from the decomposition of uranium 238; to prevent it from reaching living areas, we will shortly be launching a special ventilation system that extracts the harmful gas at basement level and expels it into the outside air.

Products in the Climate Systems area
- Ventilation systems with heat recovery for private houses (main product)
- Ventilation systems with heat recovery for smaller functional buildings
- Other air-based heating/cooling and air conditioning systems
- Accessories for ventilation systems

Climate Systems

Segment
Medical Technology & Engineering Plastics

Medical Technology – new applications
In moving into medical technology, we have broadened our range of activities by becoming a developer of systems and applications instead of merely an out-and-out plastics processor. Our skills include components and systems for dialysis and liposuction, analytics and precision mechanics. Our range of medically approved hollow needles, pumps, hose sets, components and terminal devices give us an interesting initial portfolio in a market that is growing. Leading German medical technology companies sell our products on an OEM basis. We launched our own sales activities in certain niche markets under the Möller Medical brand in 2004.

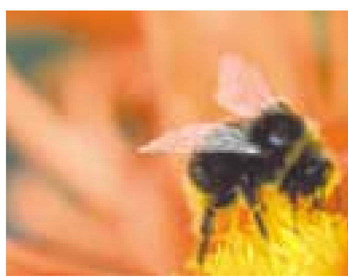
Nano-technology for superior material properties
The properties of metals, glass and plastics can be specifically modified in the Möller NanoCoatings laboratory by specially developed coating techniques. For example, we are able to apply an ultra-thin non-stick coating to the inside of fine hollow needles, resulting in shorter cleaning cycles for analytical machines in laboratory medicine, and therefore in improved productivity coupled with more reliable test results.

Getting to grips with fat
People increasingly want to look healthy and attractive. Liposuction is now the most commonly performed cosmetic surgery procedure worldwide. Tumescence local anaesthesia and vibration liposuction is a gentle form of liposuction that is carried out with the help of our products. The advantages of this method to the patient are a low anaesthetic risk and minimal pain after the operation, which can even be performed on an outpatient basis.

High Temperature Plastics – masterminding new applications
In the field of High Temperature Plastics, we develop and produce high-performance plastics for various special applications in mechanical and plant engineering, medical technology and food processing. Various material grades of semi-finished products are obtained with extruders and then machined into prefabricated parts which range from precision one-off components to complete assemblies. This area of activity, traditionally the nerve-centre of the CENTROTEC group, is constantly unearthing fresh market potential thanks to its broad range of applications. This was for example the starting point for our involvement in gas flue technology and, more recently, in medical technology.

Composites on the threshold of volume production
Components made from strong but light thermoplastic composites are being used to save weight particularly in the mobility sector, because lower weight also means lower energy consumption. There is a further advantage, too: the manufacturing costs have been slashed thanks to a process involving extremely short cycle times and developed by our participating interest Bond Laminates. There is an exceptionally broad range of applications for fibre composites; our materials are used for example in skis (core, binding and boots), loudspeaker cones, cycle components and motorcycle protective clothing. An initial large-scale production run for the automotive supply industry started last year. The material has consequently now demonstrated its suitability for use in volume production.

Products in the Medical Technology & Engineering Plastics area
- Prefabricated parts and assembly groups for medical applications (main product)
- Medical technology equipment
- Prefabricated parts and assembly groups made from high-performance plastics for other applications
- Semi-finished parts made from engineering and high-temperature plastics
- Plastic composites



Medical Technology & Engineering Plastics

Shares

CENTROTEC share price more than doubles

Stock markets worldwide on the whole stabilised in 2004 and developed positively in the second half of the year. Indices such as the Dow Jones and the MSCI-World gained. The DAX rose by 7 %. The SDAX, on which CENTROTEC's shares have been listed since June 2004, developed much more dynamically. The SDAX showed a gain of 22 % over the year as a whole. CENTROTEC was moreover admitted to the GEX from January 2005.

CENTROTEC shares rose by 122 % in the course of the year, from EUR 9.70 to EUR 21.70. Since hitting their all-time low in March 2003, they have been rising continually and steadily. For example, the share price on all trading days was higher than the average for the previous 200 days, and the year-high was reached on December 31, 2004. The share price rose even further at the start of 2005.

This development is partly attributable to the stock market's recapture effect and partly to CENTROTEC's business progress itself.

CENTROTEC shares attract increasing attention

Along with the constantly positive business progress of CENTROTEC Sustainable AG and its admission to the SDAX, CENTROTEC's shares have latterly attracted increasing attention and regard among large, international banks and funds. The extensive research studies conducted by Commerzbank, ABN Amro and Citigroup viewed the company's emphasis on the growth
markets of health, comfort and energy in a positive light and forecast a further upswing. Roadshows in Frankfurt, London, Amsterdam and Copenhagen have served to build up the international reputation of our shares. CENTROTEC has been regarded as something of a discovery particularly in London, because it meets the strategic requirements of a growth company.

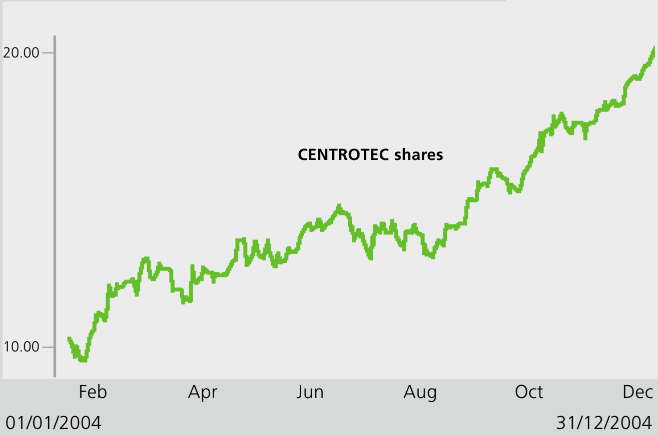
Profitable growth since IPO averages more than 50 % per year (excluding expected 2005 values)

Earnings per share (EPS) again rose substantially in 2004. This figure rose by 25 % to EUR 1.34 per share (previous year EUR 1.07).

Typical strategic requirements of growth companies

Category	Strategic assessment of CENTROTEC
Growth	Strong organic growth that is accelerated by acquisitions
Market leadership	European market leader in the Gas Flue Systems and Energy-Saving Ventilation market segments
Stability and plannability	Steady growth in revenue and earnings; high planning accuracy
Cash generation	Growth investments can be financed from cash flow; approx. EUR 10 million free cash flow without acquisitions

Share price movement in 2004



Since the first year on the stock market in 1999, earnings per share have risen by an annual average of 55 %. Other important key indicators such as revenue and EBIT have risen by a similar degree over the same period. The 25 % rate of growth that was our target at the time of the IPO has consequently been clearly exceeded. This over-fulfilment of our targets is also attributable to the fact that no external effects of acquisitions were factored into our plans.

Growth stock with medium-term growth target in excess of 20 % per year

The objective of the Management Board is to boost earnings per share (EPS) by an average of more than 20 % in the next few years, too. This can be achieved through organic growth in the next three years. Since organic growth substantially reduces the burden of interest expense on current cash flow, a 15 % improvement in EBIT suffices to achieve a 20 % rise in EPS. Attainment of the targeted rises in EBIT in turn necessitates organic revenue growth of 10 % to 15 %, which is readily possible from a slight upswing in the economy from 2006. Economies of scale and plannable measures to enhance efficiency moreover create potential for improving the EBIT margin still further, with the result that this target is verified from several different directions.

Share price with further potential

At the present share price of approx. EUR 22.50 (as at the end of February 2005) and earnings per share of EUR 1.34, the price/earnings ratio (PE) is in the order of 17. Based on the anticipated earnings per share for the current year of EUR 1.55 – 1.60, this quotient is around 15. The latest rule of thumb suggests that the PE ratio should be roughly equivalent to the medium-term growth in earnings (‘price earnings to growth ratio’, or ‘PEG ratio’ for short). This applies primarily to larger growth companies than to smaller ones such as CENTROTEC. This view nevertheless indicates that there is potential for the share price to rise further in the long term.

In addition to valuation based directly on equity, for example the PE, investors adopting the Anglo-American approach in particular favour methods of valuation that take account of levels of debt. This involves initially calculating the productive value of the entire company (‘enterprise value’, or EV) on the basis of earnings or cash flow figures before financing costs (e.g. EBITDA or EBIT). The important feature here is that the value of the equity is calculated from the difference between it and EV less financial liabilities. In other words, lower debts mean a higher share value. CENTROTEC's notable ability to pay off debt thus emerges as a further driving force of growth.

A further reason for there being significant scope to appreciate in value is the sustainability strategy. On the one hand, there are to date only few companies in Europe which focus on suitably meeting the criteria of ethically committed institutional investors. On the other hand, there are growing numbers of shareholders wanting to invest in sustainability areas.

Investors who take the longer-term view focus on the company's strategic positioning, its growth prospects and its sustained soundness. The Management Board and Supervisory Board of the company are firmly convinced that the stage is set for a very bright future.

Report of the Supervisory Board

Guido A. Krass

Guido A. Krass (47) has been an entrepreneur for many years now, specialising in the running of young, rapidly expanding companies. Thanks to his intensive coaching on strategy formulation and his steadfast support for its implementation, CENTROTEC has consistently been able to post significant rises in its corporate value.

Wim Brink

Wim Brink (59) is an entrepreneur. He developed the Brink Group into an international enterprise in the capacity of owner-manager and created a company employing some 1,300 people spread across 20 plants. He is able to turn his expertise in the Automotive, Climate and Gas Flue Systems market segments to the company's benefit.

Dr. Bernhard Heiss

Dr. Bernhard Heiss (50) is a partner in the lawyers' firm of Freshfields Bruckhaus Deringer, Munich. He is able to assist the company not simply with legal matters, but also by sharing 20 years of experience in the purchasing of both smaller and large companies.

The Supervisory Board of CENTROTEC Sustainable AG oversaw and supported the Management Board in an advisory capacity throughout the 2004 financial year, in accordance with the law and the company's articles of incorporation.

The Supervisory Board regards the company's continuing business success as an endorsement of its strategy. It supports the emphasis on products exhibiting a particularly sustainable value. It meanwhile ensures both that the current market position and product lines are further developed, and that new opportunities are identified and taken. The structuring of the company according to the divisions Medical Technology & Engineering Plastics, Climate Systems and Gas Flue Systems reflects this philosophy. In order to succeed in these markets with sustainability products, a culture of sustainability is moreover required within the company. The Supervisory Board therefore considers that its task also entails promoting the idea of sustainability internally.

The Supervisory Board met on a total of four occasions in the 2004 financial year and was informed comprehensively by the Management Board of the company's business progress, and in particular of the development in its revenue, orders, earnings, net worth and financial position and of the company's discernible opportunities and risks of future development. Supervisory Board meetings during 2004 were held on March 22, May 26, September 29 and December 16. All Supervisory Board members attended all meetings in person or were represented. All members of the Supervisory Board in addition regularly discussed forthcoming projects and strategic decisions with the Management Board and with other management employees of the company by meeting in person and by means of telephone conferences. Written reports were in addition submitted. The Management Board satisfied the information and reporting requirements laid down by the Supervisory Board in every respect.

The topics discussed at the Supervisory Board meetings were the fundamental aspects of business policy concerning the parent company and its subsidiaries, together with individual matters of sufficient significance.
The individual matters discussed comprised:

- The strategic emphasis
- Acquisitions in progress and in preparation
- The response to changes to the Corporate Governance Code
- Important individual transactions
- Changes to negotiable instruments law
- Major investment decisions
- Remuneration structures of the Management Board and management employees
- The efficiency of the Supervisory Board's own activities
- The selection and monitoring of the independent auditor
- Culture within the company and social issues
- Various topics concerning the operative companies.

Management Board decisions which required ratification by the Supervisory Board were studied and approved. As the Supervisory Board has only three members, there are no committees. All matters were discussed by the full board.

The accounts, annual financial statements, management report, consolidated financial statements and group management report at December 31, 2004 were examined by the auditors PriceWaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Kassel, who gave their unqualified certification thereof. A copy of the auditors' report was sent to each member of the Supervisory Board and was discussed with the auditors at the meeting of the Supervisory Board.

The Supervisory Board has examined the annual financial statements, management report and consolidated financial statements, including group management report, as drawn up by the Management Board, as well as the dependence report drawn up by the Management Board as a precautionary measure. The examination by the Supervisory Board revealed no cause for objection. The annual and consolidated financial statements at December 31, 2004 were approved by the Supervisory Board. The annual financial statements issued by the Management Board were granted the unqualified approval of the Supervisory Board, and are thus established pursuant to Section 172 (1) of German Stock Corporation Law.

Pursuant to Section 292a (1) and (2) of German Commercial Code, the company exercised the exemption from the requirement to prepare consolidated financial statements in accordance with German law.

The Supervisory Board expects that the company will further enhance its performance in highly promising areas of activity, and that it will generate a good return on investment in the interests of its shareholders.

Particular thanks are due to the employees, who have contributed substantially to the success of the group through their dedication, expertise and creativity.

Brilon, March 2005
The Supervisory Board

Guido A. Krass
(Chairman)

Is there a Nobel Prize for solar energy ?

Dick van Schellebeek

(52, developer)

Exactly 100 years ago, Einstein explained the photoelectric effect with the aid of photons. It was this (rather than his theory of relativity) that later earned him the Nobel Prize. The photoelectric effect now serves as the basis for generating electricity from sunlight. The sun's radiation would theoretically be sufficient to cover the entire world's energy requirements. Yet the amount of solar energy fed into the grid is still less than 1 %.

Our assembly systems for solar panels are a straightforward, secure way of mounting solar energy systems on flat and sloping roofs. This is our contribution to promoting the more widespread use of solar energy.

Group Management Report

2004 Group Management Report

Summary: another record year

2004 was a record-breaking year, in common with every year since the initial public offering on December 12, 1998. It is consequently only logical that the share price, too, should have risen sharply in the course of the year. It has been above the 20 euro mark since the end of 2004. Thanks to the impressively dynamic earnings, analyst estimates of a price-to-earnings ratio of around 15 moreover mean that our shares are not overvalued.

Revenue rose by 17 % in 2004, from EUR 115.7 million to EUR 134.8 million. EBIT actually rose by even steeper 22 % to EUR 18.5 million (previous year EUR 15.2 million). The high profits went hand in hand with a rise in cash flow and, with capital expenditure totalling EUR 9.6 million, the net financial liabilities (loans less cash and cash equivalents) consequently fell by EUR 7.0 to just EUR 39.5 million. This meant that the equity ratio leaped to 39 % (previous year 29 %). Profit after taxes rose from EUR 8.2 million to EUR 10.3 million, an increase of 26 %. EPS likewise rose by 25 % from EUR 1.07 to EUR 1.34.

The growth in revenue and profit is expected to continue in 2005. Revenue should rise by the order of 10 % to EUR 145 to 150 million. EBIT is expected to grow by an equivalent rate, to EUR 20 to 21 million. The high level of debt repayment means that EPS is likely to increase by a disproportionately high degree to EUR 1.55 to 1.60. These targets do not take account of any further acquisitions. In the medium term, CENTROTEC is aiming to maintain the pace of growth of recent years over the period of the next three to five years, and to increase EPS by an average of more than 20 % per year.

CENTROTEC's financial success stems from its systematic focus on sustainability segments. With its strategic emphasis on health, comfort and energy, CENTROTEC is profiting from the trends towards saving energy, enhanced comfort and growing awareness of health issues. This emphasis has implications not merely for the way the market is tackled, but also for day-to-day procedures within the company.

Events of particular note: expansion of business with solar assembly systems

CENTROTEC substantially extended its position in solar business in autumn 2004. Its strategy here is to participate in this growth market through CENTROTEC's existing sales channels and with its existing production facilities. After having entered the market segment in 1999 with a system for mounting photovoltaic solar energy systems on sloping roofs, CENTROTEC now succeeded in acquiring the business, product rights and patents for the only plastic assembly system for flat roofs. The system can be manufactured using the existing production facilities and is distributed via CENTROTEC's sales channels as well as via direct project sales under the brand 'Ubbink Econergy'. The market for installations on industrial flat roofs exhibits particularly high potential, because large systems can be installed on surfaces that have previously not been used. The major advantage of the CENTROTEC system is that it is not necessary to drill through the delicate roofing skin during installation.

Business progress and revenue trend: high growth in all areas

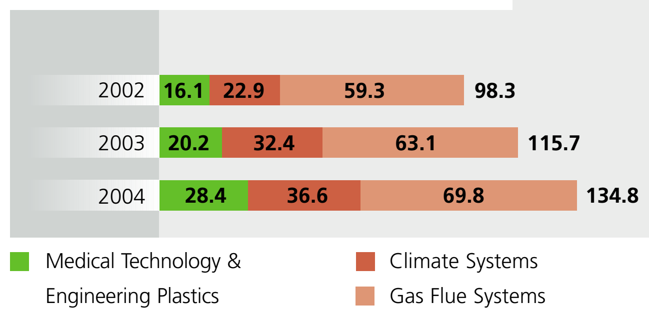
Basic macroeconomic situation: slack economy but positive impetus from energy-saving trend

The basic macroeconomic situation remained unfavourable last year. Despite a healthy global economy (+5 %), growth in our sales region, the EU, remained weak (+2 %); domestic demand in the principal markets of the Netherlands and Germany was flat. In the area of private new construction work, there was even a further substantial downturn from the already low prior-year level. However, economic reforms have been embarked upon and tax relief measures introduced, providing the prospect of a positive impetus at least for the future.

Developments in the sphere of environmental protection are, however, of greater relevance to CENTROTEC than the macro-economic data. Some of the peripheral conditions, which will undoubtedly have a markedly positive influence on demand for CENTROTEC products in the medium term, have changed. The most important developments include the following:

- Pursuant to the EPBD (EU Directive on the Energy Performance of Buildings), all EU states are obliged to introduce statutory controls on the energy consumption of private houses by 2006. All EU states must thus follow the model already implemented in the Netherlands in 1998 and Germany in 2002.
- In the Netherlands, the tougher limits for the Energy Performance Standard from 1998 that were scheduled to be introduced on January 1, 2005 – the energy consumption coefficient was to be cut form 1.0 to 0.8 – were initially postponed by the new Christian Democrat-led government. This prompted a slight slowdown in growth, including at CENTROTEC, last year. However, 2006 has now been set as the new date for the lower limit values, and this should in turn have a positive effect on CENTROTEC.
- Belgium passed very similar legislation to the Netherlands; it is to come into force on January 1, 2006.
- In Great Britain, amendments to the Building Act 1984 and the Building Regulations 2000 have been implemented, limiting the energy consumption of heating systems from April 2005 to the extent that there will be virtually no alternative to the use of condensing boilers in new buildings.
- In addition to the regulatory improvements, the sharp rise in the oil price ensured that the topic of energy-saving was brought even more sharply into focus. Whereas the higher oil price temporarily inhibited CENTROTEC's progress by causing the economy to weaken, in the medium term this trend will undoubtedly promote the market penetration of energy-saving concepts.

Revenue by segment, EUR million



Gas Flue Systems: further growth prompted by the spread of condensing boiler technology

The largest segment, which accounts for 52 % of revenue, continued to grow in the customary manner in 2004. CENTROTEC is the EU market leader in this business segment for gas flue systems for economical condensing boiler heating systems. With the exception of the Netherlands, where condensing boiler technology has long been the norm, all sales markets enjoyed double-digit growth. The driving force behind this growth is the rising market penetration of condensing boiler heating systems, which are approximately 35 % more economical than traditional heating systems. In Germany, already half of all boilers sold now operate according to this energy-saving principle. The penetration rate is still below 20 % in Great Britain, France, Belgium and Italy, though the share is rising there as well.

Thanks to having positioned itself in all markets as a supplier of high-grade gas flue systems, CENTROTEC is also benefiting from other trends towards more complex, elaborate flue gas systems. In France, for example, there is increasing demand for systems for traditional boilers that are not dependent on indoor ventilation and of course also growing demand for condensing boilers in conjunction with technically advanced gas flue systems. As French boiler manufacturers do not have tied retail channels, unlike in Germany, for instance, they mostly leave the non-standardised components of the gas flue system to local wholesalers. CENTROTEC has secured the position of leader in this retail channel in the Netherlands, France, Great Britain and Belgium with the brand name ‘Ubbink’, and is consequently an ideal partner for all market operators.

Since around three-quarters of all boilers sold are intended as substitutes for old systems that have broken down, this market is very stable and independent of new construction activity. The trend towards condensing boiler technology is bringing CENTROTEC constant growth, which should reach 8 – 13 % in the medium term. As a result of the acquisition of the solar assembly systems, there is a small non-organic supplementary effect in 2004 and 2005. Revenue growth in 2004 totalled 11 % (organic 9 %), equivalent to an overall rise for the segment from EUR 63.1 million to EUR 69.8 million. Growth in 2005 is if anything likely to be higher than these rates.

Climate Systems: energy-saving systems benefit from legislative pressure

The progress of ventilation devices with a heat recovery function is a remarkable growth story in what is otherwise a very conservative market context. These devices extract stale air from living areas and introduce fresh air in its place. By routing both airflows through a heat exchanger, 95 % of the heat in the stale air can be transferred to the fresh air. This technology cuts the heating bill of a typical detached house by a further one third. This segment generates 27 % of consolidated revenue.

Following the introduction of the Energy Performance Standard in the Netherlands in 1998, the proportion of new buildings incorporating this technology has leaped from around 5 % to a current 50 % within the space of just five years. In Germany, the penetration rate is still only around 15 % but there is likewise evidence of an upward trend. We entered the market in Great Britain during the past year. In addition to acquiring a leading local manufacturer as an OEM customer, we capitalised on our existing brand presence within the trade to launch the heat recovery system under our own name. The first project sales have already been concluded.

2004 nevertheless witnessed a delay in this growth market as a result of the aforementioned postponement of the introduction of lower limit values under the Energy Performance Standard. Organic growth last year reached only 1 %; including a consolidation effect as a result of the takeover of Ned Air in 2003, the segment's growth amounted to 13 %. Revenue in this segment rose to EUR 36.6 million (previous year: EUR 32.5 million).

Moderate organic growth has again been assumed in the target for Climate Systems for 2005. When the tougher limits take effect in the Netherlands in 2006 and the new legislation comes into force e.g. in Belgium, growth should gather pace and reach 10 – 15 % in the medium term.

Medical Technology & Engineering Plastics: substantial growth despite cyclical effect

The smallest segment, which accounts for 21 % of total revenue, is comparatively more exposed to fluctuations in the economy as a whole. However, as an increasing proportion of revenue is generated by medical technology applications, this segment too has become less susceptible to cyclical effects. Rising life expectancy, more exacting healthcare expectations and technical progress will be the driving force behind growth in the medium and long term. Even cutbacks in the healthcare system are advantageous to equipment manufacturers and their suppliers, because such cutbacks often go hand in hand with increased use of technology (e.g. micro-invasive methods, automated analyses).

Applications in the field of engineering plastics are predominantly in the filling industry, mechanical engineering and – since last year – the automotive industry. This segment likewise made a major contribution to growth during the past year, with revenue rising 41 % from EUR 20.2 million to EUR 28.4 million; purely organic growth amounted to a respectable 9 %. The medium-term plans nevertheless envisage slightly lower rates of 3 – 8 %.

CENTROTEC group: sustained high, profitable growth

Thanks to healthy growth in all areas, total revenue again rose sharply last year. Total consolidated revenue rose by 17 %, from EUR 115.7 million to EUR 134.8 million. Revenue was consequently at the upper end of the company's target range of EUR 130 – 135 million. The fourth quarter nevertheless fell slightly short of the company's expectations due to the renewed weakening of the economy.

7 percentage points of the total increase of 17 percentage were attributable to organic growth; the remaining 10 percentage points resulted from consolidation of the company's 2003 takeovers for the whole year, and from the acquisition of products and patents in the solar technology area in 2004. All divisions contributed towards this substantial growth.

The targets for 2005 are based on growth of around 10 %, including the consolidation effect of the solar technology acquisition (approx. EUR 3 million), to EUR 145 to 150 million. If a recovery in the economy as a whole materialises, CENTROTEC as a whole is forecast to achieve double-digit organic growth.

Production and procurement: improved costs despite high factor prices

With an internal value added of 58 %, CENTROTEC's success also depends on its technical and production expertise. For a company of its size, CENTROTEC has a relatively extensive network of seven European plants and one Asian production location. With a further four sales and logistics locations, the company is striving to establish a local presence in all core European markets. Particularly in markets that are still characterised by national regulations and time-honoured traditions, the ability to adapt to local conditions is critical to success.

All production plants were again very well utilised last year. The restructuring programme at the Marsberg plant mentioned in the 2004 Annual Report yielded benefits earlier than expected in 2004. At the Brilon plant, volume production of a new type of component made from fibre-reinforced composites commenced in 2004. This production launch did not proceed without hitches and added costs, among other reasons due to an increase in the quantity required by the customer (+ 50 %) at short notice. The situation has now been entirely stabilised, however. With the first volume-production order (EUR 0.9 million revenue in 2004), CENTROTEC was for the first time able to demonstrate that these pioneering materials can also be used reliably in larger quantities.

The EBIT margin (EBIT/revenue) edged up again from 13.1 % to 13.7 %. Improvements on the purchasing side and increased productivity thus made it possible to compensate for the higher factor prices last year, which in some cases had soared, e.g. in the case of plastic, stainless steel and energy. As matters stand, the net result of these effects will again if anything be a further slight improvement in the operating margin in 2005 rather than the opposite.

Investment: continuing expansion

2004 saw us invest in both replacement and new equipment. Spending on property, plant and equipment and on intangible assets (excluding acquisitions) in the past financial year totalled EUR 5.2 million. The prior-year figure was even higher, at EUR 7.8 million, as a result of two major property investments.

The focus of operative investments included the expansion of our locations, tools for new products, new goods management systems in Great Britain and France, and the commissioning of the new building in France that had already been largely completed in 2003.

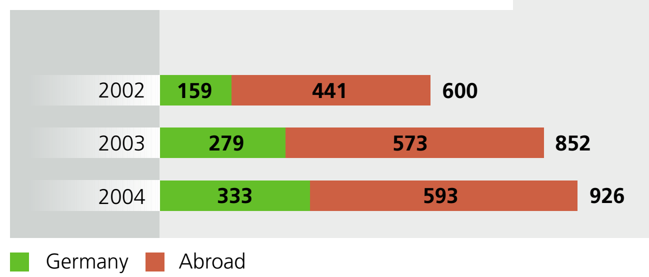
As well as capital expenditure of EUR 5.2 million on existing business, business for solar support products was acquired for a total sum of EUR 4.0 million. The Cologne-based company Ubbink Econergy Solar GmbH was established to enable us to build on these activities systematically in the future.

Personnel and welfare: over 900 employees (FTE)

The group had 926 full-time employees (full-time equivalents, FTE) at the end of the past year (previous year: 852 FTE). The overwhelming majority of employees (758 FTE) is based in Germany and the Netherlands. Around 43 % of employees are office staff and the remaining 57 % industrial workers. Whereas the year-end employee total shows a 9 % rise, personnel expenses for the entire year rose by 25 % from EUR 28.5 million to EUR 35.7 million. This increase stems primarily from the consolidation effect of Möller Medical and Ned Air.

2004 was moreover the first year in which a significant level of supplementary income was generated through the exercising of stock options for management personnel and other employees. A comparatively large group of individuals within the company has consequently benefited from the appreciation in CENTROTEC shares. 220,562 stock options in total were exercised at an average strike price of EUR 8.80. 68,074 expired in the 2004 financial year, predominantly as a result of the targets for the management personnel not being attained in full.

Employees (FTE)

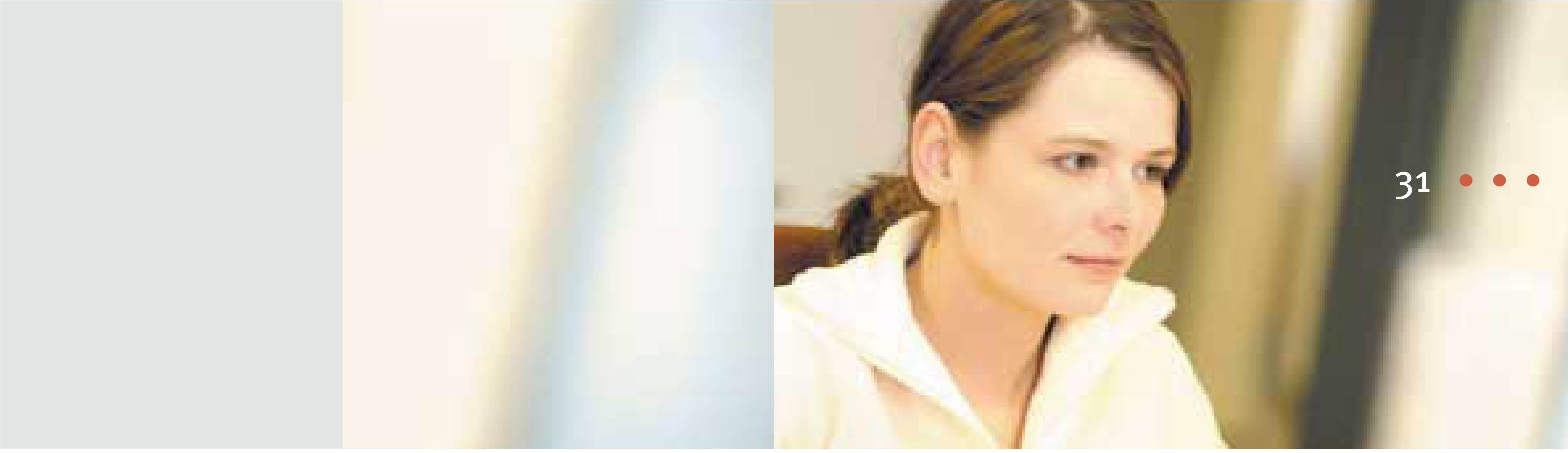


It remains the company's philosophy to extend the idea of sustainability to the people who work for the company. Specifically in CENTROTEC's case, this means promoting a sense of responsibility for our environment, as well as entrepreneurial actions and attitudes. This necessitates a large degree of individual responsibility.

Environment: manufacturing of ecologically sound products as a business model

By concentrating on the development and manufacture of products that help to improve the environment, CENTROTEC is able to profit from this trend. In order to communicate this externally, a Sustainability Report will be compiled for the first time in 2005.

The implementation of the Kyoto Protocol, tougher energy-saving legislation and also the higher oil price are all developments that will promote the use of ecologically sound, energy-saving concepts in the medium term. CENTROTEC endeavours to make its own small contribution to implementing the goals of the Kyoto Protocol through its gas flue systems for condensing boilers and ventilation systems incorporating heat recovery.



R&D: remarkable interest in lead substitute product

A lead substitute product developed by Ubbink was unveiled at the start of 2005. A sealing material that can be shaped to match the pantiles is often needed particularly when installing roof ducts for gas flue and ventilation systems. At present, lead is invariably used for this purpose, because it can be bent very easily and does not subsequently recover its original shape. However, lead is toxic. Ubbink has developed a lead-free alternative material that is made from a combination of plastic and a metal fabric. This 'eco lead' pantile exhibits almost identical properties, though it is slightly more expensive. It nevertheless generated so much interest at its first showing at an exhibition in the Netherlands that even the company's product developers were taken by surprise. The next few months will reveal whether its market launch will be equally successful.

Further innovations in the Gas Flue area have also been launched. They include a new gas flue system for very low-consumption boilers for low-energy houses and smaller dwellings. France and Great Britain in particular will be important sales regions for this system.

In the Climate Systems area, new model generations of the heat recovery systems have been introduced. For example, the unit for higher air volumes has been given a more compact design, so that it can be accommodated more easily in larger houses or small functional buildings. Another focal area of our research work was the integration of cooling-air technology and phase change materials. The aim here is to render the climate control technology in functional buildings much more efficient by coordinating the phase change material, which absorbs or gives off heat at defined temperatures, and the mechanical cooling stage with optimum effect.

Both basic and applications developments for nano-technology within the area of Medical Technology were pursued systematically and intensively.

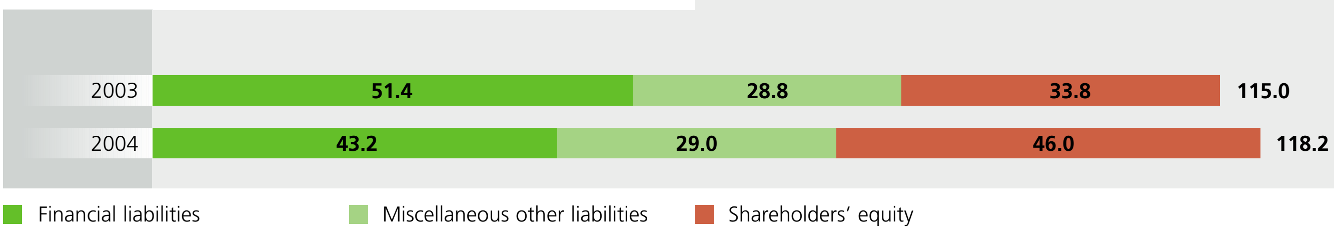
Financial position and financing: 'pause' in acquisitions activity boosts equity ratio

One aspect for which the company has been criticised over the past two years has been its relatively low equity ratio. In 2005, the equity ratio has now risen from 29 % to 39 %. This quite considerable rise has been prompted mainly by the swift repayment of amounts owed to banks, which in net terms (current and non-current financial liabilities less cash and cash equivalents) were reduced from EUR 46.5 million to EUR 39.5 million. The gearing ratio (financial liabilities/equity) has thus fallen from 1.4 to 0.9. The dynamic gearing ratio (financial liabilities/EBITDA) has likewise improved substantially from the already good prior-year figure of 2.4 to 1.7.

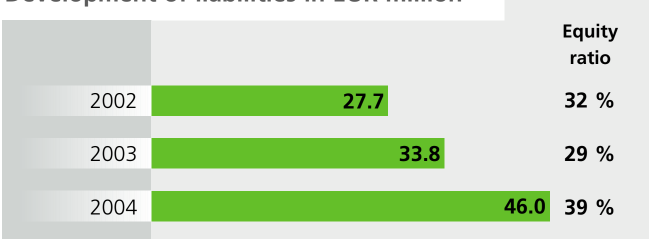
The rapid repayments are attributable to the high cash flow which, unlike in previous years, was not used to finance major corporate acquisitions. The 'pause' in acquisitions activity enabled CENTROTEC to demonstrate outwardly, through the rapid reduction in amounts owed to banks, that its high dynamic internal financing capacity is genuinely more than adequate to finance its growth strategy. The outstanding values that have now been achieved are consequently also a good basis on which to accelerate organic growth through acquisitions over the next few years.

The cash flow from operating activities has risen as a result of profits. Compared with the previous year, however, a large portion of this increase was offset by lower accounts payable and other liabilities items that are not allocable to financing. This item has therefore risen from EUR 13.0 million to EUR 14.4 million. This operating cash flow was used for capital expenditure and for repaying amounts owed to banks. The issue of fresh equity capital as a result of the exercising of stock options has brought the company an additional injection of EUR 1.9 million in equity capital.

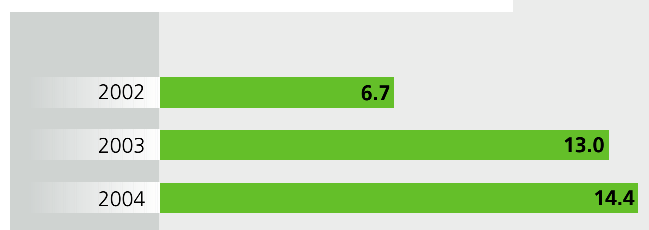
Equity in EUR million



Development of liabilities in EUR million



Cash flow from operating activities in EUR million



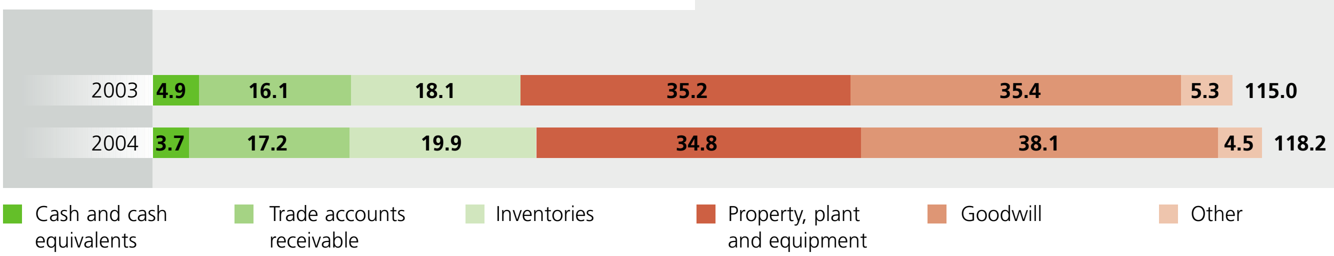
Net worth: long-term emphasis within assets

Goodwill, amounting to EUR 38.1 million or 32 % of the balance sheet total of EUR 118.2 million, is now the largest individual item on the assets side. This goodwill originates from the acquisitions of recent years. Pursuant to IFRS 3, since January 1, 2004 goodwill is no longer amortised. Instead, the investments are measured each year for impairment. This impairment test revealed no need for amortisation. The reason for this is that CENTROTEC has always adopted a very thorough approach to the valuation of companies, and its investments have furthermore experienced a substantial rise in earnings and value (instead of an impairment in value) since their acquisition.

The second-largest item in the Consolidated Balance Sheet is property, plant and equipment amounting to EUR 34.8 million, or 29 % of the balance sheet total. This item is approximately on a par with the previous year, following on from the sharp rise of EUR 7.8 million in property, plant and equipment in 2003. The real property assets at a total of 12 production and logistics locations account for 69 % (EUR 24.0 million) of the high property, plant and equipment total.

Within current assets, trade accounts receivable (EUR 17.2 million; + 6 % on previous year) and inventories (EUR 19.9 million; + 9 %) as well as trade accounts payable (EUR 8.0 million; + 10 %) rose by less than the rate of growth for revenue. This resulted in a slight improvement in the working capital.

Assets in EUR million

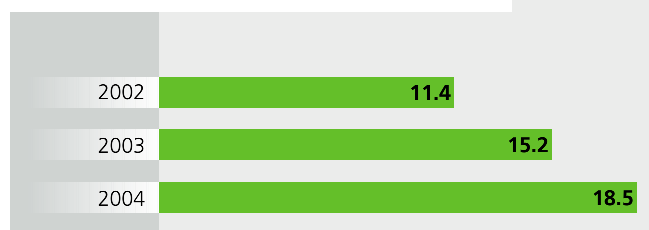


Financial performance: improved operating result prompted by higher revenue and overproportional rise in EPS

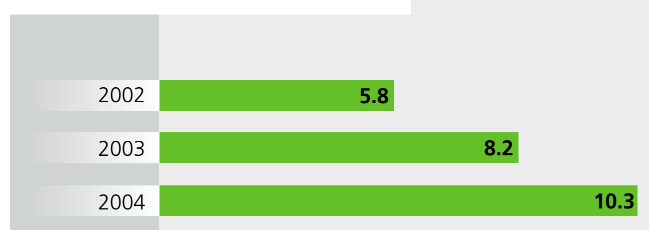
The 17 % rise in revenue, from EUR 115.7 million to EUR 134.8 million, led to an improvement in the operating result. EBITDA (earnings before interest, tax, depreciation and amortisation) rose by 21 % from EUR 19.4 million to EUR 23.5 million. EBIT, which for the first time included no goodwill amortisation as a result of the new approach under IFRS 3, developed similarly. Since 2000, CENTROTEC had always reported an adjusted EBIT excluding goodwill amortisation, in addition to EBIT. EBIT likewise reached a record level of EUR 18.5 million (prior-year figure pre-goodwill amortisation EUR 15.2 million; +21 %). The EBIT margin, too, consequently improved slightly from 13.1 % to 13.7 %.

The net profit for the period after taxes rose by 26 % from EUR 8.2 million to EUR 10.3 million. The rate of increase of the net profit for the period roughly corresponds to the rise in EBIT, because compared with the previous year there were higher interest costs in the first two quarters as a result of acquisitions, and lower interest costs in the latter two quarters by virtue of repayments, with the effect that the overall interest result for 2004 was approximately the same as in the previous year.

EBIT in EUR million



Net income in EUR million



Due to the issue of new shares as a result of the exercising of stock options, earnings per share (EPS) rose at a slightly lower rate of 25 % to EUR 1.34 (previous year EUR 1.07; all values pre-goodwill amortisation). CENTROTEC expects a further substantial rise in EPS for the current year, to EUR 1.55 to 1.60, driven on the one hand by the scheduled revenue growth and on the other by an appreciably better financial result following the repayment of debts. This figure includes 5 cents in additional expenses pursuant IFRS 2 (share based payments).

Corporate governance: two departures

CENTROTEC has always acted openly and responsibly, including before the company pledged to observe the basic principles of corporate governance. CENTROTEC observes the target requirements of the Corporate Governance Code, with the two departures that the salaries of Management Board members are disclosed only as a combined total, rather than individualised, in the interests of protecting the private sphere, and that no committees are formed within the Supervisory Board, which has three members.

Related companies: low volume this year

Legal transactions with companies in which members of the Supervisory Board and management hold or might hold an interest were conducted in the financial year. In the past financial year, the volume of such transactions was less than EUR 0.7 million, with the bulk of this amount in respect of Brink Climate Systems for the use of the IT systems and services of Brink-Holding.

As in previous years, a dependence report was therefore issued by the Management Board as a precautionary measure. Concluding remark from the dependence report: ‘Pursuant to Section 312 Para. 3 of German Stock Corporation Law, we declare that, on the basis of the circumstances known to us at the time when legal transactions with associated companies were conducted, our company received adequate consideration for each legal transaction.’

Risks: functioning risk management system

The 2004 financial year proved extremely successful. During the past financial year, CENTROTEC nevertheless considered in depth the risks to which the company is exposed.

The risk management system analyses and evaluates the various risks and attempts to minimise negative effects on the financial position of the group. Risk management is practised in all companies on the basis of existing guidelines. Risk managers identify, measure, assess and support the steering of potential sources of risks.

The market risks from currency translation within the group are limited, as transactions take place principally in eurozone countries. A small portion of the group's business activities takes place in the United Kingdom, Scandinavia, the USA and Asia. This gives rise to a limited exposure to market risks from foreign exchange rates.

To minimise the interest rate risks, interest cap certificates to hedge the interest rates of variable-rate loans were taken out.

Credit risks regarding accounts receivable are substantially controlled by the application of credit approvals, limits and monitoring procedures. CENTROTEC has no significant concentration of credit risk with any single customer or group of customers. Any debt defaults in the past have been insubstantial. The accounts receivable are therefore not insured.

Our degree of dependence on major customers deserves consideration. By far our largest customer represents less than 7 % of consolidated revenue. The customer structure as a whole can be rated as balanced. The loss of major customers could nevertheless diminish earnings.

Throughout the group, the market niches in which the company operates are growing and are relatively immune to cyclical fluctuations. Cyclical factors nevertheless make themselves felt. Within the Climate Systems area there is moreover a degree of dependence on the legislative framework. Any reversal of energy-saving legislation could result in a downturn in revenue for CENTROTEC in this area. The suspension of the tougher Energy Performance Standard in the Netherlands did indeed result in a marked slowdown in growth. The announcement of a new date (2006) for the tougher legislation is therefore all the more welcome.

CENTROTEC enjoys a generally secure market position in all divisions thanks to a steady stream of new and refined technological developments and quality assurance methods. Factors which could erode our competitive edge, such as the appearance of new competitors, increasing employee power or substitution products, cannot of course be excluded in this connection.

The participating interest Centrotec Composites is still in the start-up phase and has therefore posted a loss. If it does not prove possible to increase the revenue volume of this start-up over the next three years, restructuring would be required.

Internally, the company perceives potential risks in the production sector. Suitable accident prevention regulations and measures are implemented to prevent possible accidents and plant breakdowns. All plant is moreover insured in line with its value. However, the failure of critical plant could result in noticeable losses. A further risk exists at the supply end. The loss of critical suppliers could result in delivery bottlenecks. The company tackles this risk through close technical cooperation with important suppliers and by maintaining at least two sources of supply for all important products. The company's own planning errors in production and procurement could constitute a further potential cause of bottlenecks; the goods management systems in question are therefore continually being enhanced.

In the IT sector, the possibility cannot be excluded that problems that have not yet been identified will arise. The particular challenge for the next year will be to incorporate the latest releases and integration stages into the ERP systems. A new hardware platform with new server systems should reduce the risk from technical systems still further. This may entail risks to the efficiency of procedures in isolated instances. Likewise we cannot generally exclude the possibility that a problem in the IT sector could lead to a loss of data, despite ongoing data safeguarding, and lead to losses.

The company is moreover exposed to a degree of dependence on certain key employees. However, as we expand so will our base of highly qualified employees, with the result that this risk will gradually dwindle.

CENTROTEC consciously employs borrowed capital as a means of financing growth. The high income, which has risen steadily, has until now served to endorse this strategy. Nevertheless, this naturally entails a risk, as downturns in earnings or losses could lead to financing bottlenecks sooner than at a company financed predominantly through equity. However, CENTROTEC is able to maintain the return on equity at a higher level by means of borrowing. In recent years, the return on the book equity has regularly been more than 25 %.

The high rate of growth in itself harbours risks. Internal structures in particular must be repeatedly and rapidly adjusted to the requirements of a growing group organisation. Reorganisation projects in the various areas of the company and at its various locations have made a substantial contribution towards ensuring that the company's internal structure suitably reflects the size of the group. This viable basis is constantly being elaborated.

CENTROTEC has a group-wide risk management system for monitoring and controlling these risks. This involves submitting regular reports on the nature, likelihood and potential impact of possible risks for all relevant areas. Using this basis, it is generally possible to adopt a prompt, devolved response to risks, and to decide whether it is necessary to take measures to avoid or insure against risks.

Opportunities: further extensive business prospects

As well as the risks, this management report should outline the opportunities that present themselves to the company. There are diverse opportunities for CENTROTEC.

Currently the most significant opportunity stems from the implementation of the various energy-saving regulations being planned within the EU, and the tightening of existing regulations. Yet even without tougher legislation, energy-efficient products – in our case in particular condensing boilers and heat recovery systems – can be expected to achieve further market penetration.

As well as the regulatory context, taxes on energy prices should also have a positive effect in the medium term. It should nevertheless be borne in mind that this benefit would be offset in the short term by a generally weaker economy, with the result that the short-term effects would probably be only neutral or marginally positive.

The acquisitions strategy that we continue to pursue offers prospects of growth. Similar successful takeovers to those of recent years would produce a substantial additional appreciation in value.

Although the slack economy has not prompted a reversal of fortunes at CENTROTEC, it has undoubtedly hampered growth. An economic recovery is a further opportunity from which CENTROTEC too would stand to benefit.

Finally, CENTROTEC is working on various new product concepts in all its established areas of business. Wherever there is independent initiative, CENTROTEC also pursues ideas that go beyond the existing business portfolio. Examples of projects undergoing development include concepts to improve utilisation of the roof space, developments focusing on the use of innovative materials (including composites, nano-composite coating, Titanium, TiNi, lead substitute) and research into cooling systems with minimal energy consumption. These projects adopt a long-term view and not every project can be expected to culminate in success. For CENTROTEC, these projects nevertheless represent options on ways of growing organically in the future.

Shares: admission to the SDAX and discovery by international investors

On the strength of its steady growth, CENTROTEC was admitted to the SDAX on June 21, 2004. This development, as well as the company's decision to target international investors on a wider scale, resulted in three further international banks instigating research coverage for CENTROTEC during the past year. As a company that achieves very good ratings in the categories ‘market leadership’, ‘growth’ and even ‘cash generation’, CENTROTEC perfectly fits the search profile of institutional investors who are concentrating on promising mid-cap and small-cap investments. The price of CENTROTEC shares consequently once again doubled during the past financial year. This rise is undoubtedly due to some extent to a recovery in value, with small-cap companies having been undervalued in previous years. The share price of EUR 21 at the end of 2004 easily outstripped the performance of most indices, and it has since risen even further. Deutsche Börse AG launched the new ‘German Entrepreneurial Index’, or GEX, at the start of the current year and likewise admitted CENTROTEC to this index.

Outlook: continuing growth

Even if the economic forecasts for 2005 are rather subdued, CENTROTEC again expects a marked rise in revenue and earnings. With revenue of EUR 145 to 150 million, EBIT of EUR 20 to 21 million and EPS of between EUR 1.55 and 1.60 EUR, this year is set to become yet another record-breaking year.

An increase in revenue is being planned in all segments, with the steepest rate of growth of 10 – 15 % being achieved in the largest segment of Gas Flue Systems. The rise in revenue

in the Medical Technology & Engineering Plastics and Climate Systems segments is forecast to be in the order of 5 – 10 %. These rates of increase are based broadly on organic growth.

The extremely steep growth of CENTROTEC's early years will inevitably level off in the course of time. Revenue rose by a total of 17 percentage points in the year under review, of which 7 were attributable to organic growth. It is worth remembering that this growth was achieved against the backdrop of a still weak overall economy. Once the economy recovers suitably and the energy-saving directives prompted by the Kyoto Protocol are translated into national legislation, the sustainability products of CENTROTEC will regain a double-digit rate of organic growth. The technology-driven company remains a 'growth stock' in structural terms, i.e. its entire strategy is geared up to positioning itself in markets that promise to deliver above-average growth through innovative products that protect the environment.

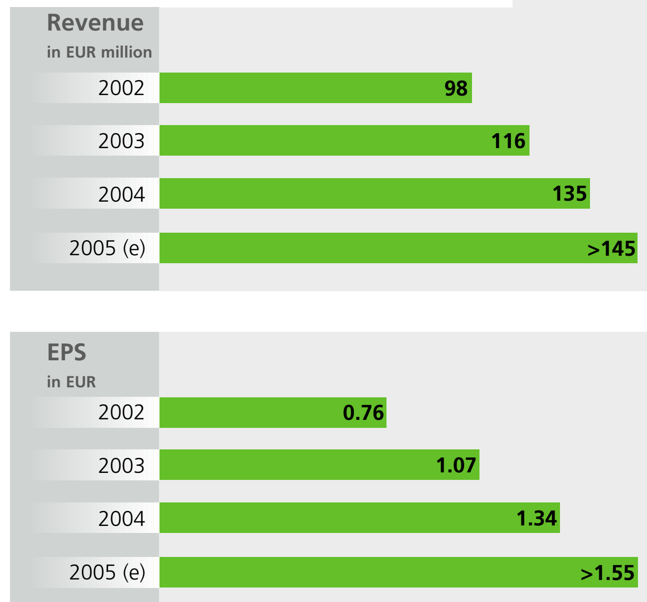
The above expectations do not include potential supplementary effects from takeovers. Over the past year, CENTROTEC generated considerable financial resources, which now permit significant expansion measures from a financing viewpoint. The company will nevertheless remain faithful to its strategy of acquiring only companies which its thorough examinations confirm to be strategically suitable, with high growth and stable earnings, and only at an appropriate price. Acquisitions are therefore not built into the target figures.

In the medium term, a recovery in the economy should deliver double-digit rates of organic growth and a corresponding rise in earnings. CENTROTEC is therefore planning to increase EPS by an average of at least 20 % per year over the next five years.

Brilon, March 10, 2005

The Management Board

The CENTROTEC group's growth in figures



Is Centrotec a 'growth miracle' ?

Henning Lochmüller

(35, Controller)

'Growth Miracle' was the title used by the magazine Börse Online on August 2, 2004, when it voted CENTROTEC top of its list of all growth companies on the Frankfurt Stock Exchange.

We are far too down-to-earth to call ourselves a 'growth miracle'. In fact, CENTROTEC's growth figures have very little to do with miracles. Rather, they are evidence that there is ample demand for sustainability products.

Financial Statements

Consolidated Balance Sheet at December 31, 2004

Assets in EUR '000

	Notes	31.12.2004	31.12.2003
Current assets			
Cash and cash equivalents		3,672	4,881
Trade accounts receivable	1	17,190	16,129
Inventories	2	19,861	18,146
Prepaid expenses and other current assets	3	1,169	1,494
Income tax receivable		206	1,226
		42,098	**41,876**
Noncurrent assets			
Property, plant and equipment	4	34,813	35,154
Intangible assets	5	1,697	814
Financial investment	6	0	59
Loans originated by the enterprise	6	0	46
Goodwill	7	38,134	35,416
Deferred tax assets	8 22	1,469	1,660
		76,113	**73,149**
Assets		**118,211**	**115,025**

Equity and liabilities in EUR '000

	Notes	31.12.2004	31.12.2003
Current liabilities			
Current portion of capital lease obligations	9	155	147
Current loans and current portion of noncurrent loans	10	11,749	10,411
Trade accounts payable		7,964	7,219
Accured expenses	11	4,088	3,891
Income tax payable		1,617	1,931
Other current liabilities	12	12,053	13,367
		37,626	**36,966**
Noncurrent liabilities			
Noncurrent loans	10	31,454	41,019
Noncurrent finance lease obligations	9	63	153
Deferred tax liabilities	13 22	2,674	2,663
Pension accrual	14	343	425
		34,534	**44,260**
Minority interest	15	**26**	**0**
Shareholders' equity	16		
Share capital		7,889	7,668
Additional paid-in capital		11,849	10,128
Treasury stock		(112)	(112)
Currency translation differences in shareholders' equity and fair value adjustment of interest rate derivates		(360)	(304)
Retained earnings and profit carryforward		16,419	10,156
Net income		10.340	6,263
		46.025	**33,799**
Equity and liabilities		**118.211**	**115,025**

Consolidated Income Statement 2004

in EUR '000	Notes	01.01.2004 31.12.2004	01.01.2003 31.12.2003	01.01.2003 31.12.2003 Pro forma*
Revenues	25	**134,760**	**115,671**	**115,671**
Other operating income	17	1,052	1,488	1,488
Change in inventories of finished goods and work in progress		731	30	30
Production for own fixed assets capitalised		122	48	48
Cost of purchased materials and services	18	(56,884)	(49,900)	(49,900)
Personnel expenses	19	(35,702)	(28,486)	(28,486)
Depreciation and amortisation	4 5	(4,947)	(4,171)	(4,171)
Amortisation (and impairment) of goodwill		0	(1,963)	0
Other operating expenses	20	(20,614)	(19,495)	(19,495)
Operating result		**18,518**	**13,222**	**15,185**
Interest income and expenses	21	(2,457)	(2,533)	(2,533)
Investment income	6	(17)	(20)	(20)
Earnings before tax (and minority interests)		**16,044**	**10,669**	**12,632**
Income tax	22	(5,711)	(4,406)	(4,406)
Earnings before minority interests		**10,333**	**6,263**	**8,226**
Minority interests	23	7	0	0
Net income		**10,340**	**6,263**	**8,226**

Earnings per share		**31.12.2004**	**31.12.2003**
Earnings per share (basic)**	24	1.34	1.07
Earnings per share (diluted)**	24	1.28	0.81
Average number of shares outstanding (basic)		7,730,581	7,661,935
Weighted average shares outstanding (diluted)		8,064,315	7,753,317

* Comparative period January 1 to December 31, 2003 without goodwill amortisation

** Previous year without goodwill amortisation

Cash Flow Statement 2004

in EUR ‘000	Notes	2004	2003
Net income before taxes and interest		18,518	13,222
Depreciation and amortization	4 5	4,947	6,134
Increase/decrease in accruals		115	706
Increase/decrease in inventories, trade receivables and other assets that cannot be allocated to investing or financing activities		(1,239)	(1,224)
Increase/decrease in trade payables and other liabalities that cannot be allocated to investing or financing activities		(834)	1,288
Interest paid		(2,299)	(2,528)
Income taxes paid		(4,846)	(4,603)
Cash flow from operating activities	26	**14,362**	**12,995**
Acquisition of investments less cash acquired and outstanding amounts to be paid out	27	(3,927)	(12,080)
Purchases of property, plant and equipment/ intangable assets/financial investments/loans		(5,628)	(7,796)
Proceeds from disposal of property, plant and equipment/ intangable assets/financial investments/loans		426	374
Cash flow from investing activities		**(9,129)**	**(19,502)**
Proceeds from issuance of shares	16	1,942	0
Proceeds from borrowings/repayment of borrowings		(10,131)	10,853
Share of losses allocable to minority interests		7	0
Cash flow from financing activities		**(8,182)**	**10,853**
Effective change in financial resources	28	**(2,949)**	**4,346**
Financial resources at the start of the financial year		1,756	(2,590)
Financial resources at the end of the financial year		(1,193)	1,756

Statement of Movements in Equity 2004

in EUR '000	Share capital	Additional paid-in capital	Treasury stock	Re-valuation reserves	Retained earnings and profit carry-forward	Net income*	Consolidated equity
December 31, 2002	**7,668**	**10,128**	**(112)**	**(137)**	**6,008**	**4,148**	**27,703**
Payment into revenue reserves					4,148	(4,148)	0
Consolidated income						6,263	6,263
Currency translation differences				(152)			(152)
Fair value adjustment Interest rate derivatives				(15)			(15)
December 31, 2003	**7,668**	**10,128**	**(112)**	**(304)**	**10,156**	**6,263**	**33,799**
Payment into revenue reserves					6,263	(6,263)	0
Consolidated income						10,340	10,340
Change from the exercise of options	221	1,721					1,942
Currency translation differences				10			10
Fair value adjustment Interest rate derivatives				(66)			(66)
December 31, 2004	**7,889**	**11,849**	**(112)**	**(360)**	**16,419**	**10,340**	**46,025**

* Previous year incl. goodwill amortisation (EUR 1,963 thousand)

Segment Report 2004***

in EUR '000	Medical Technology & Engineering Plastics		Climate Systems		Gas Flue Systems		Consolidation		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Revenue from third parties	28,405	20,152	36,599	32,457	69,756	63,062	0	0	134,760	115,671
Revenue from other segments	696	605	224	62	210	58	(1,130)	(725)	0	0
Depreciation and amortisation	(1,597)	(1,584)	(634)	(1,645)	(2,716)	(2,905)	0	0	(4,947)	(6,134)
Other income and expense from ordinary activities	(26,876)	(19,547)	(28,369)	(25,150)	(57,161)	(52,331)	1,094	693	(111,312)	(96,335)
EBIT**	**628**	**(374)**	**7,820**	**5,724**	**10,089**	**7,884**	**(36)**	**(32)**	**18,501**	**13,202**
Interest result									(2,457)	(2,533)
EBT									**16,044**	**10,669**
Tax expense									(5,711)	(4,406)
Minority interests									7	0
Net income									**10,340**	**6,263**
Total assets	25,357	25,335	40,065	39,014	93,276	86,743	(42,162)	(38,953)	116,536	112,139
Entitlements to income tax rebates*									1,675	2,886
Total liabilities	5,745	5,550	7,650	9,230	10,261	9,423	825	699	24,481	24,902
Financial liabilities									43,421	51,730
Income tax payable*									4,291	4,594
Investment in fixed assets	1,323	6,412	275	9,538	8,940	7,667	(1,330)	(3,373)	9,208	20,244

in EUR '000	European euro countries		European non-euro countries		Rest of world		Consolidation		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Revenue from third parties	110,692	96,681	17,937	15,231	6,131	3,759	0	0	134,760	115,671
Total assets	111,124	107,247	7,322	7,443	725	0	(2,635)	(2,551)	116,536	112,139
Investment in fixed assets	8,712	20,111	346	133	150	0	0	0	9,208	20,244

* inclusive deferred taxes
** inclusive investment income [6]
*** Part of the Notes [25]

Petra Ortmann

(32, Sales)

Is technology unhealthy ?

Technology should help to cure you, not make you ill. We manufacture hollow needles for biopsy and dialysis pumps, for example – equipment that helps people who are suffering from cancer or kidney failure.

It is even better not to fall ill in the first place. Our ecological ventilation systems make sure that the air always stays fresh. Allergies, factors that trigger asthma such as dust, pollen and spores, and carcinogenic radon are reliably avoided.

Notes to the Consolidated Financial Statements for the financial year 2004

A STANDARDS APPLIED

The Consolidated Financial Statements at December 31, 2004 have been prepared in accordance with the 'International Financial Reporting Standards' (IFRS) issued by the International Reporting Standards Board (IASB), and audited by the company's auditors. All IAS and SIC interpretations, the application of which is mandatory from January 1, 2004, have been applied. In the 2004 financial year, IFRS 3 was applied for the first time with effect from January 1, 2004, in conjunction with IAS 36 (2004) and 38 (2004), prematurely and on a voluntary basis.

The Consolidated Financial Statements for the 2004 financial year prepared in accordance with IFRS release the company from the requirement to prepare Consolidated Financial Statements pursuant to Section 292a (2) of German HGB. CENTROTEC Sustainable AG, as the parent company of the CENTROTEC group, is however required to prepare separate financial statements in accordance with the requirements of German commercial law.

On certain matters the International Financial Reporting Standards deviate from the balance sheet requirements generally applicable in the Federal Republic of Germany and the statutory accounting requirements as substantially codified in German HGB. The principal deviations result from:

- The 'impairment only approach' according to which the goodwill from business combinations is no longer amortised,
- The recognition of deferred tax assets and liabilities from temporary valuation differences in the commercial and tax balance sheets (balance-sheet oriented liability method) as well as future tax advantages from loss carryforwards,
- The non-creation of accruals for expenses due to a lack of external obligation and of accruals where the likelihood that they will be required is less than 50 %, furthermore the measurement of accruals at their most likely value,
- The capitalisation of own development work and self-created software,
- The change in the allocation of equitable title from lease agreements into finance lease agreements,
- The disclosure and measurement of treasury shares,
- The measurement within equity of financial derivatives at market values, and
- The netting of costs from the initial public offering against shareholders' equity.

The other differences are not material.

The Consolidated Financial Statements are in agreement with EU Directive 83/349 on the basis of the directive's interpretation in accordance with DRS 1 and DRS 1a of the German Accounting Standards Committee.

B STRUCTURE AND BUSINESS ACTIVITIES OF THE GROUP

CENTROTEC has three segments:

(1) 'Medical Technology & Engineering Plastics' comprises the production and sale of semi-finished plastic products, prefabricated products and assemblies for small series in various applications but predominantly in medical technology. Products made from fibre reinforced composites represent a new growth area in this segment. By focusing on small series and on the production of prototypes, this business segment also functions as a powerhouse of ideas for the other business segments.

(2) 'Climate Systems': in this segment, ventilation systems for detached and semi-detached houses as well as for public buildings such as schools etc. are developed and produced. The focus of attention is on achieving a high degree of heat recovery. CENTROTEC is among the leading companies in Europe.

(3) 'Gas Flue Systems': here, plastics based systems for diverse applications are developed, produced and marketed. The emphasis of these systems is on plastic gas flue systems (for heating systems). Roof systems with a high plastic content and assembly systems for solar technology are also manufactured and sold. In this segment, CENTROTEC is the clear European leader.

As well as the existing businesses, CENTROTEC defines its business purpose as creating and acquiring new business areas and companies in which sustainability products are developed and sold, and/or the expertise of which lies in the domain of innovative plastics or gas flue and ventilation systems.

At the balance sheet date of December 31, 2004, CENTROTEC is an international group with subsidiaries in seven European countries and a majority interest in a company in Asia, annual revenue of EUR 135 million, previous year EUR 116 million, and 926 employees (FTE), previous year 852 (FTE). CENTROTEC has been listed on the Frankfurt Stock Exchange as a public limited liability company since December 8, 1998. Many of the individual companies in the group, some of which have been acquired, nevertheless go back further. The group's parent, CENTROTEC Sustainable AG, Brilon ('CENTROTEC AG'), is listed on the SDAX and GEX tiers under the codes CEV and WKN 540750. CENTROTEC Sustainable AG is entered on the Commercial Register of the Local Court of Arnsberg, Germany, under the number HRB 2161. The group's head office is located at Am Patbergschen Dorn 9, 59929 Brilon, Germany. CENTROTEC Sustainable AG is not part of a superordinate group, and is the ultimate parent company of the group presented in these Notes and Consolidated Financial Statements.

C CONSOLIDATION, RECOGNITION AND MEASUREMENT

Consolidated companies

The Consolidated Financial Statements of CENTROTEC AG include all direct and indirect subsidiaries of the parent company as well as the group parent itself pursuant to IAS 27, and also joint ventures pursuant to IAS 31. The following companies were consolidated within 'CENTROTEC Sustainable AG' in the 2004 financial year:

Notes to the Consolidated Financial Statements 2004

Company	Place and country of incorporation	Share of capital	Share capital	Currency (ISO Code)	Founded/ acquired
Comprehensive consolidation					
CENTROTEC Sustainable AG	Brilon, D	-	7,888,537.00	EUR	*17.07.1998
Centroplast Engineering Plastics GmbH	Marsberg, D	100 %	250,000.00	EUR	01.08.1990
Centrotherm Systemtechnik GmbH	Brilon, D	100 %	102,258.38	EUR	15.12.1993
Centrotec Composites GmbH	Brilon, D	100 %	27,000.00	EUR	01.08.1990
Ubbink B.V.	Doesburg, NL	100 %	46,286.00	EUR	21.12.1999
Ubbink N.V./S.A.	Mariakerke, B	100 %	140,059.84	EUR	21.12.1999
Ubbink UK Ltd.	Brackley, UK	100 %	35,000.00	GBP	21.12.1999
Ubbink France SAS	La Chapelle sur Erdre, F	100 %	310,000.00	EUR	21.12.1999
Ubbink Econergy Solar GmbH	Köln, D	100 %	25,000.00	EUR	06.10.2004
Centrotherm Gas Flue Technologies Italy S.R.L.	Verona, I	100 %	10,000.00	EUR	19.10.2000
Rolf Schmidt Industriplast A/S	Kolding, DK	100 %	3,000,000.00	DKK	16.03.2001
Brink Climate Systems B.V.	Staphorst, NL	100 %	20,004.00	EUR	02.01.2002
Deveko B.V.	Deventer, NL	100 %	18,152.00	EUR	02.01.2002
Golu B.V.	Soest, NL	100 %	18,152.00	EUR	02.01.2002
Kempair B.V.	Eindhoven, NL	100 %	18,152.00	EUR	02.01.2002
Centrotec International GmbH	Brilon, D	100 %	25,000.00	EUR	18.12.2002
Centrotec Medizintechnik GmbH	Brilon, D	100 %	100,000.00	EUR	07.01.2003
Ned Air Holding B.V.	Kampen, NL	100 %	54,454.00	EUR	05.06.2003
Ned Air B.V.	Kampen, NL	100 %	54,454.00	EUR	05.06.2003
Möller GmbH	Fulda, D	100 %	60,000.00	EUR	28.08.2003
Möller Medical GmbH & Co. KG	Fulda, D	100 %	1,400,000.00	EUR	28.08.2003
Centrotec JI Asia Pte Ltd.	Singapore, SG	57,50 %	170,000.00	SGD	23.04.2003
Centrotec JIT Bintan PT	Bintan, ID	57,50 %	615,484,000.00	IDR	01.01.2004
Proportionate consolidation					
Bond Laminates GmbH	Brilon, D	24,95 %	93,800.00	EUR	21.11.2000
Companies consolidated using the equity method					
Haskotherm B.V.	Joure, NL	40,00 %	15,882.31	EUR	02.01.2002

* Date of creation by modifying conversion

The joint venture Bond Laminates GmbH is included in the Consolidated Financial Statements on the basis of the regulations on proportionate consolidation. Joint control is established by a cooperation agreement between Bond Laminates GmbH, CENTROTEC Sustainable AG and the other shareholders in conjunction with a participation contract pertaining to the acquisition of the stake in Bond Laminates GmbH. CENTROTEC exercises no controlling influence over the participating interest in Haskotherm B.V.

Change of company name

Pursuant to the resolution by the Shareholders' Meeting of May 26, 2004, the name of the group parent was changed to CENTROTEC Sustainable AG (formerly Centrotec Hochleistungskunststoffe AG). The company Centrotherm Abgassystemtechnik GmbH was renamed Centrotherm Systemtechnik GmbH. The company Centroplast Kunststofferzeugnisse GmbH was renamed Centroplast Engineering Plastics GmbH. In addition, the company Centrotherm International GmbH changed its name to Centrotec International GmbH. Finally, Ubbink Nederland B.V. was renamed Ubbink B.V.

Changes in the group

Ubbink Holding B.V. was merged with Ubbink B.V. in the 2004 financial year. Ubbink Holding B.V. is accordingly no longer included in the fully consolidated companies.

Ubbink B.V. established the fully-owned subsidiary Ubbink Econergy Solar GmbH, Cologne. The share capital of EUR 25 thousand of this new company was fully paid in at the balance sheet date. It was included in comprehensive consolidation.

Centrotec JI Asia Pte Ltd. was included in comprehensive consolidation in 2004 along with Centrotec JIT Bintan PT (Indonesia), which is allocable to it. Centrotec JI Asia Pte Ltd. had not been included in comprehensive consolidation in the previous year on account of its minor significance for the net worth, financial position and financial performance of the group. Nor does the first-time consolidation have any significant effect on the net worth, financial position and financial performance of the group.

Consolidation methods

The balance sheet date of the consolidated companies is December 31, 2004. The income statement covers the period from January 1 to December 31, 2004 and applies the type of expenditure (total cost) format. Unless otherwise indicated, the amounts quoted in the Consolidated Financial Statements are for the first time quoted in thousand euros (EUR ´000).

The local financial statements of the domestic and foreign subsidiaries included in consolidation have been prepared with uniform recognition and measurement policies corresponding to those of the parent company, adjusted, i.e. in accordance with IAS 27 and IAS 31, examined, and where requiring auditing as individual companies, granted an unqualified audit certificate.

Investments are included in the Consolidated Financial Statements in accordance with the rules on full consolidation, insofar as controlling influence is exercised. Controlling influence is generally assumed to apply where a share of more than 50 % of the shareholders' equity with voting rights is held. The date of first or last inclusion in the Consolidated Financial Statements within the context of full consolidation is based on the date on which controlling influence is acquired or lost. The accounts are prepared according to the purchase method. This means that all hidden reserves are disclosed, irrespective of the existence of minority interests. The cost of acquisition of the investment in question is offset against the corresponding acquirer's interest in the acquiree's net equity at the time of initial inclusion in the Consolidated Financial Statements. The acquiree's net equity is the fair value of the assets, liabilities and contingent liabilities included in the Consolidated Financial Statements. The difference in amount between the cost of acquisition and the pro rata net equity is initially allocated to the assets and liabilities where its fair value differs from the carrying amount at the time of first-time consolidation. Any remaining difference is disclosed as goodwill. This is subjected to an impairment test for the first time in 2004, on the basis of the ‘impairment only approach’, due to the application of IFRS 3. If impairment is established, impairment losses are applied to the lower goodwill established. Shares in the equity of subsidiaries that are not allocable to the group parent are reported as minority interests.

Intra-group gains, losses, revenues, expenses and earnings as well as accounts receivable and payable between consolidated companies have been eliminated in accordance with IAS 27. For consolidation measures with effect on income, the effects on income taxes are accounted for and deferred taxes are recognised in accordance with IAS 12.

Any inter-company profits from trade are eliminated on a pro rata basis if the companies concerned had not left the group as of the balance sheet date. In each case the data of the company managing the inventory have been taken as the basis here.

Investments in joint ventures are reported in the Consolidated Financial Statements on the basis of the regulations on proportionate consolidation. The Consolidated Balance Sheet contains the group's share of the assets and liabilities of the joint venture. The Consolidated Income Statement contains the group's share of the income and expense items of the joint venture. Each of the assets, liabilities, income and expense items of the joint venture is combined with the corresponding items in the Consolidated Financial Statements on a pro rata basis.

Investments are included in the Consolidated Financial Statements by the equity method if the proportion of ownership interest is between 20 % and 50 % or if the group exercises considerable influence, but no control, by another means.

Where nothing is indicated to the contrary, the consolidation methods applied for these accounts have remained unchanged from the previous year. In connection with the more detailed classification of notes on the items Other accrued expenses/liabilities and Other operating income/expenses, the prior-year figures have been adjusted to reflect the method of allocation for 2004.

Foreign currency translation

Financial statements of foreign group companies are translated into euros where they have been prepared in a different currency. The functional currency of the investments is the national currency, as these companies operate their business as an independent foreign entity in financial, economic and organizational terms. Assets and liabilities are translated at closing rates, and expense and income items are translated at average exchange rates for the year under review. Any currency translation differences are recognised within equity with no effect on income. Where necessary, shareholder's equity is translated at historical rates. None of the companies included in the Consolidated Financial Statements is based in a hyperinflationary economy.

Any goodwill arising on the acquisition of a foreign entity and any fair value adjustments to the carrying amounts of assets and liabilities arising on the capital consolidation of a foreign entity are treated as assets and liabilities in foreign currency and translated using the exchange rate at the date of the transaction.

Accounting and valuation policies

(a) Property, plant and equipment are stated at cost less accumulated regular depreciation occasioned by use, pursuant to IAS 16. Subsequent costs are capitalised where these are associated with future economic benefit that can reliably be measured. Self-created plant includes shares of overheads in addition to the direct costs. Depreciation is charged according to the straight-line method. If necessary, an impairment loss is recognised for property, plant

Notes to the Consolidated Financial Statements 2004

and equipment down to the recoverable amount. Impairment losses are shown in the income statement under depreciation and amortisation. If the reasons for an impairment loss recognised for an asset in prior years no longer exist or have decreased, that impairment loss is reversed accordingly. All other expenses arising in conjunction with the maintenance of property, plant and equipment are recorded in the income statement for the period in which they are incurred.

Within the context of impairment tests, assets (essentially intangible assets and property, plant and equipment) are combined at the lowest level at which independent cash flows can be identified and measured separately (cash-generating entities).

(b) Intangible assets: Brand rights and licences are capitalised at cost and amortised in accordance with their anticipated useful lives. In the same way, purchased software and software developments are capitalised at cost and likewise amortised in accordance with their respective anticipated useful lives. According to IAS 38, development costs are to be capitalised as ‘intangible assets’ insofar as the criteria stated in IAS 38 are met cumulatively. Capitalisation takes place if it is likely that the development activities will lead to a future economic benefit which will cover the development costs in addition to the normal costs. Capitalised development costs are amortised on a straight-line basis once a marketable status is achieved. No development costs that represented expense in previous periods were capitalised in later periods.
Intangible assets are regularly examined for any signs of impairment that could lead to impairment losses. All other expenses arising in conjunction with the maintenance and upkeep of intangible assets are recorded in the income statement for the period in which they are incurred.
Government grants in the form of investment subsidies and grants are distinguished on the assets side of the Consolidated Financial Statements in accordance with IAS 20 ‘Accounting for Government Grants and Disclosure of Government Assistance’.

Useful lives serving as the basis for depreciation by the straight-line method	Years
Land	–
Buildings	20 – 33
Technical equipment and machinery	3 – 12
Fixtures and office equipment	3 – 10
Brand rights and licences	5
Patents	5
Capitalised development costs	5
Software and software developments	3
Goodwill	-
Goodwill (until December 31, 2003; prior to application of IFRS 3)	15 – 20

(c) Non-current financial investments are measured at cost, including transaction costs. If necessary, an impairment loss down to the lower fair value is recognised. Investments in associated companies are recognised using the equity method. Financial investments comprise investments in associated companies and other loans.

(d) Goodwill is the excess of the cost of an investment or of assets over the market value of the acquiree's (pro rata) assets less liabilities. They are allocated to the cash generating unit. Allocation is made on the basis of economic features. Goodwill is assessed for impairment once a year by means of an impairment test. If necessary, an impairment loss is applied. Goodwill is recognised at cost, less accumulated reductions for impairment. If the reasons for a reduction for impairment cease to apply wholly or in part at a later stage, no reversal is made, as the goodwill is self-created rather than an item which has recovered in value. The useful life of goodwill is uncertain.

(e) Inventories are measured at cost or at the lower market or fair value at the balance sheet date, in accordance with IAS 2. Raw materials and supplies are valued at the average cost. The cost of conversion for work in progress and finished goods consists of direct costs of materials, direct labour as well as appropriate shares of production-related indirect materials and indirect labour. Appropriate discounts are performed for sales-related risks.

(f) Accounts receivable and other assets are stated at nominal value or at cost. Appropriate allowances have been created for identified risks, as indicated by experience. The allowance is determined from the difference between the nominal value and the anticipated future discounted cash receipts. It is distinguished directly on the assets side. Expenses for allowances are recognised in the income statement.

(g) Deferred tax relates to tax deferrals resulting from temporally diverging valuations between the commercial balance sheet prepared in accordance with IFRS and the tax balance sheets of the individual companies, as well as from consolidation processes. The deferred tax assets also include tax rebate claims resulting from the anticipated use of existing loss carryforwards in subsequent years and which are to be realised with reasonable certainty. Deferred tax is determined on the basis of the tax rates which are likely to apply in the individual countries at the time of reversal of the departures. Deferred tax assets and liabilities are not discounted.

(h) Cash and cash equivalents are recorded at their nominal value. They comprise cash on hand, demand deposits, and deposits with a maturity of one month or less. Cash and cash equivalents are also stated in the cash flow statement. Bank overdrafts repayable on demand form an integral part of the group's cash management. Bank overdrafts are therefore included as a component of cash and cash equivalents for the purpose of the cash flow statement. In the balance sheet, however, those overdrafts are included in the liabilities to banks.

(i) Marketable securities consist of investments in securities that are traded in liquid markets, are held for the purpose of investing in liquid funds and are not generally intended to be retained on a long-term basis. Marketable securities are stated at market value. Amortisation of marketable securities is included in the income statement. Interest and dividends received on marketable securities are recognised as income. Gains and losses from the disposal of marketable securities are included in the income statement. On all reporting dates CENTROTEC did not hold any marketable securities.

(j) Prepaid expenses include expenditures that relate to expense for future periods.

(k) The pension accrual is calculated on the basis of the present value of future commitments pursuant to IAS 19 according to the benefit/years of service method, taking into account future pay and pension increases and the mortality tables currently available. Actuarial gains and losses are only booked to income once they move outside a margin of variation of ten percent of the volume of the obligation.

(l) Other accruals and provisions are created for all identified risks and external obligations at the balance sheet date resulting from previous business transactions and previous occurrences, where the amount and due date are uncertain. These accrued expenses are stated at the most likely, reliably estimable amount of settlement and are not netted against revenue and gains. The likelihood of the cash outflow must be more than 50 % (‘more likely than not’ criterion). Accruals are only created where a legal or factual obligation to third parties exists.

(m) Liabilities are carried at their redemption amount. Discounts are distinguished from liabilities and amortised over the term on the basis of a calculation of the effective interest rate. Transaction costs are recognised as an expense in the period in which they are incurred.

(n) Leases where all opportunities and risks are allocable in substance to the group are classified as finance leases. They are measured at the fair value of the asset at the start of the lease term or at the lower cash value of the future leasing instalments. Every lease payment is divided up into a repayment and an interest portion. Leases where a significant portion of the opportunities and risks rests with the lessor are classified as operative lease obligations.

(o) Deferred income records revenues before the balance sheet date representing income for future periods.

(p) Shareholders' equity: the share capital (capital stock) comprises all individual share certificates with no par value issued by CENTROTEC Sustainable AG. Each individual share represents a pro rata amount of the capital stock of one euro. Stock options are granted to employees and members of the management on the basis of a stock option plan. These are shown with no effect on earnings, rather than measured according to the fair value method. Income accrued by the company at the time of exercise of stock options, less direct expenses, is allocated to the share capital and the premium to the capital reserves. IFRS 2 was not applied in advance. The application of IFRS 2 in the 2005 financial year will diminish earnings for 2005 as a result of additional personnel expenses.

(q) Revenue is realised if it is probable that the economic benefits associated with the transaction will flow to the group and the amount of the revenue can be measured reliably and has proceeded from its payment. Revenue is recognised net of sales taxes and discounts when delivery has taken place and transfer of risks and rewards has been completed. Revenues for services are recorded in the period in which the service was rendered.

(r) Interest is recognised as income or expense on a time proportion basis that reflects the terms of the asset or liability.

(s) Exchange differences resulting from transactions in foreign currencies or the devaluation of assets denominated in foreign currencies and the upward revaluation of liabilities at the balance sheet date are recognised in the income statement in the period in question.

(t) In the Segment Report, the company is divided into the segments ‘Medical Technology & Engineering Plastics’, ‘Climate Systems’ and ‘Gas Flue Systems’. These divisions represent the primary segment format. The secondary segments distinguish between ‘European euro countries’, ‘European non-euro countries’ and ‘Rest of world’. The segment report is based on the same accounting policies as for the other sections of the Consolidated Financial Statements described here.

Estimates and measurements

Estimates and measurements are made continually and are based on past experience and other factors. These include expectations regarding the likelihood of events occurring, formed in the prevailing circumstances. Significant assumptions and estimates which entail uncertainty and are associated with risks were made in the areas of impairment tests, inventories, purchase price liabilities and the creation of accruals.

Estimates that are of significance are required in respect of assessing the need for allowances for goodwill when forecasting the availability of future financial resources. Goodwill is subjected to an annual impairment test.
In the case of inventories, estimates of realisability by sale are made.
Where they cannot be determined precisely, purchase price liabilities are determined on the basis of the accounting policies applicable to accruals and measured at their most probable value.

The group is subject to the tax authorities in various countries. Estimates that are of significance are required in the creation of tax accruals. Transactions and calculations within the normal course of business are subject to various uncertainties with regard to fiscal effects and recognition. The corresponding accounting policies are applied in the creation of accruals for potential liabilities that may arise as a result of future field tax investigations of past transactions. In cases where the final tax calculations deviate from the assumptions originally reported, the effects are taken into account in the income statement.

Notes to the Consolidated Financial Statements 2004

In determining accruals for guarantees, various assumptions which affect the level of these accruals are made. Changes in productivity, materials and personnel costs as well as quality improvement programmes have an influence on these estimates.

Financial risk management objectives and policies

The CENTROTEC group operates internationally. In view of the variety of its activities, the group is exposed to a wide range of risks such as market risks, credit risks and liquidity risks. The group's risk management system focuses on the various risks and attempts to minimise negative effects on the financial position of the group. Risk management is practised in all areas of the central finance department on the basis of existing guidelines. Risk managers identify, measure, assess and support the steering of potential sources of risks.

Market risks from currency translation are limited, as transactions take place principally in eurozone countries. A small portion of its activities takes place in the United Kingdom, Scandinavia, the USA and Asia. This gives rise to a limited exposure to market risks from changes in interest and foreign exchange rates.

To minimise the interest rate risks, interest cap certificates to hedge the interest rates of variable-rate loans were taken out. The measurement of these cash flow hedges follows the principle of IAS 39. Market value changes in these cash flow hedges, which are used for hedging future cash flows, are reported under equity and liabilities until the income effect of the underlying transaction is realised. If the cash flow hedge does not satisfy the documentation requirement or is to be regarded as not effective, gains or losses are recognised with an effect on income.

If parties to a contract are not in a position to meet their obligations, there exists a credit risk. The maximum credit risk is the aggregate of the carrying amounts of financial assets in the balance sheet which are recognised net of any applicable allowances. Financial assets exist mainly in respect of customers in Germany, France, Belgium, the UK, the Netherlands, Denmark, Austria, Switzerland, the USA and China. The largest customer in the group accounts for less than a 7 % share of revenue.

Credit risks regarding accounts receivable are essentially limited by the application of credit approvals, limits and monitoring procedures. The level of a credit limit reflects the creditworthiness of a counterparty and the typical size of the transaction volume with that counterparty. CENTROTEC has no significant concentration of credit risk with any single customer. Other assets essentially comprise receivables due from a wide range of different counterparties.

The liquidity risk is controlled by maintaining adequate levels of cash and unutilised credit lines with banks.

New accounting standards

A large number of accounting standards have been revised and published by the IASB. These take the place of previous versions of those standards. The CENTROTEC group already applied IFRS 3 in conjunction with IAS 36 (2004) and IAS 38 (2004) in the 2004 financial year. It is currently being examined how the remaining modified accounting standards, which CENTROTEC must apply from the 2005 financial year on, will affect the net worth, financial position and financial performance of the group.

D NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED BALANCE SHEET AND CONSOLIDATED INCOME STATEMENT

***[1]** Trade accounts receivable*

Trade accounts receivable rose by EUR 1.1 million to EUR 17.2 million in the year under review. As in the previous year, they are due within one year. Trade accounts receivable are reported at nominal value, less allowances created. These items serve almost exclusively as security for bank loans. Adequate provisions for losses on trade accounts receivable totalling EUR 771 thousand (previous year EUR 634 thousand) have been made on a case by case basis to cover identified risks. The rise in these receivables is largely due to organic growth in the Gas Flue Systems segment. The allowances rose mainly as a result of the need for amortisation of foreign accounts receivable of EUR 100 thousand in the Engineering Plastics area. Amortisation of accounts receivable are included in other operating expense. As a result of the large number of customers and the international customer structure, the credit risk of accounts receivable is diversified.

***[2]** Inventories*

The following table provides a breakdown of the entire carrying amount of inventories. Where the cost price of inventories is higher than their market or fair value, the table shows the net realisable value of these inventories. These items serve almost exclusively as security for bank loans. The rise in inventories reflects the growth in 2004. A further table shows inventories broken down according to category.

Inventory in EUR '000	2004	2003
Inventory at cost	14,267	14,782
Inventory at net realisable value		
Original value at cost	7,677	5,421
Provision for obsolescence	(2,083)	(2,057)
Net realisable value	5,594	3,364
Total	**19,861**	**18,146**

Inventory in EUR '000	2004	2003
Raw materials and supplies	6,771	6,068
Work in progress	2,202	2,494
Finished goods	10,888	9,584
Total	**19,861**	**18,146**

***[3]** Prepaid expenses and other current assets*

As in the previous year, the other current assets as a whole are due within one year. The nominal value as the carrying amount is subject to normal trade credit terms and thus corresponds to the fair value. The payment periods are significantly shorter than one year.

The following table shows a breakdown of other current assets and prepaid expenses. The prepaid expenses largely comprise insurance premiums and service expenses.

Other current assets in EUR '000	2004	2003
Miscellaneous assets	597	734
Prepaid expenses	572	760
Total	**1,169**	**1,494**

[4] *Property, plant and equipment*

Land and buildings comprise mainly the production and office buildings in Brilon (D), Fulda (D), Marsberg (D), Doesburg (NL), Staphorst (NL), Kampen (NL), Kolding (DK) and near Nantes (F). In France, an office housing production and storage space was built at a cost of EUR 2.2 million. The building, construction of which commenced in June 2003, was completed in December 2003 and has been fully occupied since February 2004. Technical equipment and machinery at the production plants was extended and technologically upgraded. Other furniture, fixtures and office equipment consists of various items in production, warehouses and offices. Payments on account comprise merely machinery and equipment items at the balance sheet date. Property, plant and equipment includes assets to the value of EUR 240 thousand (previous year EUR 320 thousand) reported in the context of finance leases. Property, plant and equipment serves almost exclusively as security for bank loans. The additions in 2004 also include tools amounting to EUR 24 thousand from the takeover of Econergy business.

Disposals and reclasses of fixed assets result largely from organisational measures carried out, as well as from stock-taking of fixed assets. No substantial income-relevant effects relating to other periods resulted from this. The reclasses result mainly from the correction of an amount reported for property, plant and equipment originating from a company acquired in the previous year.

Notes to the Consolidated Financial Statements 2004

The classification and movements of property, plant and equipment are shown in the following schedule:

Property, plant and equipment in EUR '000	Land and buildings	Technical equipment and machinery	Furniture, fixtures and office equipment	Payments on account and assets in course of construction	**Total property, plant and equipment**
2003					
Accumulated cost Jan. 1	28,090	38,318	9,501	285	76,194
Additions for first-time consol.	2,719	10,187	146	437	13,489
Additions	2,501	2,271	929	1,804	7,505
Disposals	(1)	(348)	(156)	(222)	(727)
Reclasses	1,742	363	44	(2,149)	0
Exchange differences	(7)	(27)	(29)	0	(63)
Accumulated cost Dec. 31	35,044	50,764	10,435	155	96,398
Accumulated depreciation Jan. 1	(9,091)	(31,813)	(8,127)	0	(49,031)
Additions for first-time consol.	(227)	(8,570)	(131)	0	(8,928)
Additions	(907)	(2,059)	(719)	0	(3,685)
Disposals	1	227	127	0	355
Reclasses	0	0	0	0	0
Exchange differences	2	17	26	0	45
Accumulated depreciation Dec. 31	(10,222)	(42,198)	(8,824)	0	(61,244)
Net carrying amount December 31, 2002	**18,999**	**6,505**	**1,374**	**285**	**27,163**
Net carrying amount December 31, 2003	**24,822**	**8,566**	**1,611**	**155**	**35,154**
2004					
Accumulated cost Jan. 1	35,044	50,764	10,435	155	96,398
Additions for first-time consol.	0	0	24	0	24
Additions	308	1,740	1,298	1,009	4,355
Disposals	(4)	(1,135)	(875)	(23)	(2,037)
Reclasses	124	(2,428)	3,010	(730)	(24)
Exchange differences	2	1	(1)	0	2
Accumulated cost Dec. 31	35,474	48,942	13,891	411	98,718
Accumulated depreciation Jan. 1	(10,222)	(42,198)	(8,824)	0	(61,244)
Additions for first-time consol.	0	0	0	0	0
Additions	(1,264)	(2,344)	(804)	0	(4,412)
Disposals	1	936	811	0	1,748
Reclasses	0	2,492	(2,492)	0	0
Exchange differences	0	1	2	0	3
Accumulated depreciation Jan. 1	(11,485)	(41,113)	(11,307)	0	(63,905)
Net carrying amount December 31, 2003	**24,822**	**8,566**	**1,611**	**155**	**35,154**
Net carrying amount December 31, 2004	**23,989**	**7,829**	**2,584**	**411**	**34,813**

[5] *Intangible assets*

The classification and movements of intangible assets are shown in the following schedule:

Intangible assets in EUR '000	Industrial rights and similar rights	Software	Capitalised development costs	Total intangible assets
2003				
Accumulated cost Jan. 1	47	1,729	364	2,140
Additions for first-time consol.	577	224	0	801
Additions	0	235	0	235
Disposals	(4)	(2)	0	(6)
Reclasses	0	0	0	0
Exchange differences	0	(5)	0	(5)
Accumulated cost Dec. 31	620	2,181	364	3,165
Accumulated amortisation Jan. 1	(19)	(1,387)	(284)	(1,690)
Additions for first-time consol.	(63)	(120)	0	(183)
Additions	(199)	(227)	(59)	(485)
Disposals	1	2	0	3
Reclasses	0	0	0	0
Exchange differences	0	4	0	4
Accumulated amortisation Jan. 1	(280)	(1,728)	(343)	(2,351)
Net carrying amount December 31, 2002	**28**	**342**	**80**	**450**
Net carrying amount December 31, 2003	**340**	**453**	**21**	**814**
2004				
Accumulated cost Jan. 1	620	2,181	364	3,165
Additions for first-time consol.	516	0	0	516
Additions	27	268	598	893
Disposals	0	(306)	(124)	(430)
Reclasses	0	29	(5)	24
Exchange differences	0	0	0	0
Accumulated cost Dec. 31	1,163	2,172	833	4,168
Accumulated amortisation Jan. 1	(280)	(1,728)	(343)	(2,351)
Additions for first-time consol.	0	0	0	0
Additions	(219)	(296)	(20)	(535)
Disposals	0	290	123	413
Reclasses	0	0	0	0
Exchange differences	1	1	0	2
Accumulated amortisation Jan. 1	(498)	(1,733)	(240)	(2,471)
Net carrying amount December 31, 2003	**340**	**453**	**21**	**814**
Net carrying amount December 31, 2004	**665**	**439**	**593**	**1,697**

Notes to the Consolidated Financial Statements 2004

Expenses for predominantly internal research and development in the fiscal year amounted to EUR 1,903 thousand (previous year EUR 1,652 thousand). Development activities focused mainly on plastic gas flue components, ventilation and solar systems, new composites applications, coating techniques and applications, and own software developments. The results of these efforts can be used for a variety of customers. In addition, research was carried out to better understand and control the gas and air flow in plastic systems as well as the impact of heat, water and air on plastic materials and components. Development costs for components for roof systems totaling EUR 593 thousand were capitalised by Ubbink. No further capitalisation of development expenditures was performed in the year under review, as future benefit in the form of cash flow and additional profit from new products cannot be predicted with adequate certainty. Research costs are not capitalised.

Patents were acquired for a total of EUR 516 thousand in the context of the acquisition of the assets of ‘Econergy’. These are amortised by the straight-line method over a useful life of 5 years. The acquired patents were allocated to self-created intangible assets by the seller, and therefore not recognised on the balance sheet. A measurement based on market criteria was performed during first-time consolidation.

The disposal of capitalised development costs results from the fact that expiry of projects in connection with which these development costs which could be capitalised arose, and that no future benefit is now expected from these development costs.

No commitments exist for the acquisition of intangible assets.

***[6]** Financial investments*

The financial investments comprise investments and loans originated by the enterprise. The classification and movements of financial investments are shown in the following schedule:

Financial investments in EUR '000	Investments	Loans originated by the enterprise	Total financial investments
2003			
Accumulated cost Jan. 1	34	46	80
Additions for first-time consol.	1	0	1
Additions	24	0	24
Other changes	0	0	0
Accumulated cost Dec. 31	59	46	105
Accumulated amortisation Jan. 1	0	0	0
Other changes	0	0	0
Accumulated amortisation Jan. 1	0	0	0
Net carrying amount December 31, 2002	**34**	**46**	**80**
Net carrying amount December 31, 2003	**59**	**46**	**105**
2004			
Accumulated cost Jan. 1	59	46	105
Additions for first-time consol.	0	0	0
Additions	0	0	0
Disposals	(42)	(46)	(88)
Reclasses	0	0	0
Exchange differences	0	0	0
Accumulated cost Dec. 31	17	0	17
Accumulated amortisation Jan. 1	0	0	0
Additions for first-time consol.	0	0	0
Additions	(17)	0	(17)
Other changes	0	0	0
Accumulated amortisation Jan. 1	(17)	0	(17)
Net carrying amount December 31, 2003	**59**	**46**	**105**
Net carrying amount December 31, 2004	**0**	**0**	**0**

Investments relate principally to the change in the minority interest in Haskotherm B.V. recognised using the equity method. Due to the loss-making situation of this company, the share of losses is reported in the income statement under investment income. No negative share over and above the share of losses shown occurred in 2004. The disposal is mainly a result of the reporting change for Centrotec JI Asia Pte Ltd.

Haskotherm in EUR '000	2004	2003
At Jan. 1	17	37
Share of losses	17	20
At Dec. 31	0	17

Loans originated by the enterprise relate to a loan totalling EUR 46 thousand, which was granted to Haskotherm B.V. and has now been adjusted. The company is one of those consolidated using the equity method, and in which a minority interest is held.

***[7]** Goodwill*

The classification and movements of goodwill are shown in the following schedule:

Goodwill in EUR '000	Total goodwill
2003	
Accumulated cost Jan. 1	31,109
Additions for first-time consol.	11,288
Other changes	0
Accumulated cost Dec. 31	42,397
Accumulated amortisation Jan. 1	(5,018)
Additions for first-time consol.	0
Additions	(1,963)
Other changes	0
Accumulated amortisation Jan. 1	(6,981)
Net carrying amount December 31, 2002	**26,091**
Net carrying amount December 31, 2003	**35,416**
2004	
Accumulated cost Jan. 1	42,397
Cost netted against accumulated amortisation IFRS 3	(6,981)
Accumulated cost Jan. 1	35,416
Additions for first-time consol.	3,420
Additions	0
Disposals	(702)
Accumulated cost Dec. 31	38,134
Accumulated amortisation Jan 1	(6,981)
Netting, IFRS 3	6,981
Accumulated amortisation Jan. 1	0
Other changes	0
Accumulated amortisation Jan. 1	0
Net carrying amount December 31, 2003	**35,416**
Net carrying amount December 31, 2004	**38,134**

The goodwill totalling EUR 38.1 million reported at December 31, 2004 has risen by the difference between the purchase price and the market values of ‘Econergy’ assets of EUR 3.4 million in the year under review.

On the basis of the contract dated November 30, 2004 the business for assembly systems for solar energy systems was purchased from Econergy International B.V., Econcern B.V. Utrecht (both the Netherlands) and Econergy International GmbH, Cologne, for the price of EUR 4.0 million. The purchase thus comprised tools, patents, domain and brand names as well as a customer base, and also entry into a new sales area. The goodwill arising reflects on the one hand synergy benefits that result from the shared use of existing production plant and lead to economies of scale. On the other hand, the new products provide access to new sales markets for solar energy systems used in the industrial sector.

The reduction in goodwill of EUR 0.7 million results from the discrepancy between the assumptions made in 2003 when determining the value of purchase price liabilities and the calculations agreed bilaterally at the end of 2004 resulting from the completion of the acquisition of Ned Air in 2003.

In the context of application of IFRS 3, goodwill amortisation that had previously been accumulated by the straight-line method was netted against the respective historical cost, with the result that by contrast with the previous year, no goodwill amortisation was now disclosed at the reporting date of December 31, 2004. The values shown are subjected to an annual impairment test based on the application of IFRS 3 and written down to any applicable lower fair value. Such goodwill amortisation is included in the income statement under the item ‘Amortisation (and impairment) of goodwill’. The amortisation for 2004 would have amounted to EUR 2.3 million.

The impairment test was performed on the basis of value in use. The calculation was based on a cash flow oriented model. The calculations use values indicated by experience on the individual service provided, as well as the approved budget for 2005, as their basis. Two further forecast years are then planned, followed by a perpetual pension calculated for a third forecast year that assumes a growth rate of 1 %. Calculation-specific assumptions on growth rates and developments in margins were moreover made. Conservative revenue growth rates which are lower than the anticipated growth rates for the respective segments as indicated in the Management Report were used as the basis of the impairment test. For the forecast years, this results in average weighted segment growth rates of less than 6 % for the Climate Systems and Medical Technology & Engineering Plastics segments, and of less than 7 % for the Gas Flue Systems segment. Conservative gross margins were furthermore assumed. In the model, a discounting rate of approximately 16 % before taxes or 10 % after taxes was applied.

There was no need for write-down for goodwill that had either previously been amortised by the straight-line method or had recently arisen.

Notes to the Consolidated Financial Statements 2004

Allocation of goodwill to cash generating units in EUR '000	2004	2003
Brink Climate Systems	14,647	14,647
Ned Air	6,639	7,334
Ubbink NL	4,681	4,681
Möller Medical	3,674	3,674
Ubbink Econergy Solar	3,420	-
Ubbink UK	2,968	2,968
Rolf Schmidt Industriplast	1,533	1,533
Other	572	579
Total	**38,134**	**35,416**

Allocation of goodwill to segments in EUR '000	Medical Technology & Engineering Plastics		Climate Systems		Gas Flue Systems		Total	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
European euro countries	4,281	4,281	21,286	21,981	8,046	4,633	33,613	30,895
European non-euro countries	1,553	1,553	-	-	2,968	2,968	4,521	4,521
Rest of world	-	-	-	-	-	-	-	-
Total	**5,834**	**5,834**	**21,286**	**21,981**	**11,014**	**7,601**	**38,134**	**35,416**

***[8]** Deferred tax assets*

The deferred tax assets pursuant to IAS 12 are calculated on the difference between the valuations of assets and liabilities in the IFRS balance sheet and the tax balance sheet, and also from tax loss carryforwards. The amount results substantially from loss carryforwards and differences in the valuations of property, plant and equipment. The tax loss carryforwards amount to EUR 2.5 million (previous year EUR 2.5 million). These bear deferred tax of nominally EUR 1.0 million (previous year EUR 1.0 million). Allowances of EUR 0.6 million (previous year EUR 0.6 million) were created on the deferred tax assets on loss carryforwards. The net values represent the total of the anticipated netted values of deferred tax assets and liabilities of a group company in respect of a taxation authority.

Deferred tax assets in EUR '000	Gross		Net	
	2004	**2003**	**2004**	**2003**
Reversal expected within 12 months	466	484	444	418
Reversal expected after more than 12 months	1,003	1,176	420	611
Total	**1,469**	**1,660**	**864**	**1,029**

***[9]** Capital lease obligation*

Leasing arrangements are only entered into to a limited extent. The decision on whether to finance an investment measure by bank loan or by lease agreement is reached on a case-by-case basis and depends primarily on the prevailing terms available at the time of deciding. The majority of finance lease agreements pursuant to IAS 17 (Finance Leases) incorporate a purchase option at a price of either EUR 0 or well below the anticipated market value. It is therefore to be expected that the assets in question will pass into the ownership of the CENTROTEC group at the end of the lease's term. The following tables show the capital lease obligations with corresponding discounted and nominal leasing instalments including the interest component, broken down according to the term and category of the leased articles.

Finance leases (present value) in EUR '000	Total	Due in up to 1 year	Due in 1 to 5 years	Due in over 5 years
2003	300	147	153	0
2004	218	155	63	0

Finance leases (nominal) in EUR '000	Total	Due in up to 1 year	Due in 1 to 5 years	Due in over 5 years
2003				
Technical equipment and machinery	302	154	148	0
Other equipment	17	7	10	0
Total	319	161	158	0
Of which interest portion	19	14	5	0
Present value	**300**	**147**	**153**	**0**
2004				
Technical equipment and machinery	180	109	71	0
Other equipment	58	55	3	0
Total	238	164	74	0
Of which interest portion	20	9	11	0
Present value	**218**	**155**	**63**	**0**

At the balance sheet date CENTROTEC has non-capitalised operative lease obligations (operational leasing) totalling EUR 2,794 thousand (previous year EUR 2,957 thousand) over the remaining time to maturity. The following table shows the corresponding leasing instalments, broken down according to the term and category of the leased articles.

Operational leasing in EUR '000	Total	Due in up to 1 year	Due in 1 to 5 years	Due in over 5 years
2003				
Property	1,508	196	753	559
Vehicles	1,399	669	730	0
Technical equipment and machinery	33	14	19	0
Other equipment	17	4	13	0
Total	**2,957**	**883**	**1,515**	**559**
2004				
Property	1,304	196	711	397
Vehicles	1,405	597	808	0
Technical equipment and machinery	73	31	42	0
Other equipment	12	4	8	0
Total	**2,794**	**828**	**1,569**	**397**

[10] *Loans payable*

The following table shows bank liabilities and other non-current loans, broken down according to real estate loans, general credit facilities and other loans. These liabilities showed a year-on-year decrease of EUR 8,227 thousand at the balance sheet date. This change was due to the steady repayment of liabilities from acquisitions thanks to the continuous inflow of funds from ordinary business activities and payments received from the exercising of stock options.

Notes to the Consolidated Financial Statements 2004

Liabilities in EUR '000	Original principal amount	Outstanding amount at Dec. 31, 2004	Outstanding amount at Dec. 31, 2003	Interest rate	Exit date
Real estate loans	27,091	21,488	24,572	3.5 – 6.7 %	2007 – 2022
General credit facilities	19,463	4,865	4,403	3.0 – 10.5 %	No repayment schedule
Other loans	34,689	16,850	22,455	3.1 – 6.7 %	2005 – 2021
Total	**81,243**	**43,203**	**51,430**		

Of these liabilities, EUR 11,749 thousand are due in less than 1 year (previous year: EUR 10,411 thousand), EUR 20,979 thousand are due in between 1 and 5 years (previous year: EUR 27,657 thousand) and EUR 10,475 thousand are due in over 5 years (previous year: EUR 13,362 thousand). All bank liabilities and other non-current loans reflect their market values. In the case of the real estate loans and general credit facilities, the fixed interest rates in the individual loan agreements expire at various times between 2007 and 2022, with the result that the risk is adequately diversified. The same applies to the other loans, where the fixed interest rates expire between 2005 and 2021. On the whole, the real estate, the technical equipment and machinery, and the inventories and receivables predominantly serve as security on the loans. All shares in Möller GmbH and Möller Medical GmbH & Co KG, both based in Fulda, have moreover been pledged to a credit institution in respect of credit granted. Furthermore, all shares in Ned Air Holding B.V. and Brink Climate System B.V are subject to pledges. Finally, 90 % of the shares of Centrotherm Systemtechnik GmbH have been pledged to a credit institution.

Short-term credit facilities to secure constant liquidity have been arranged with several credit institutions. At the balance sheet date, the available borrowing facilities from current account, guarantee/surety or discount lines amounts to EUR 13.9 million.
Financial derivatives have been concluded to guard against the interest rate risk. Caps and floors are the hedging instruments used. The following table shows the contracts concluded.

Financial derivatives in EUR '000	Contract volume	Cost	Market value 31/12/2004	Market value 31/12/2003	Term	Cap/floor rate
Asset						
Cap	3,000	73	24	67	Up to 2011	5.00 %
Cap	3,000	21	1	15	Up to 2007	4.25 %
Liability						
Floor	3,000	38	49	41	Up to 2011	2.75 %

Market values represent the values at the balance sheet date without regard to the underlying transaction and were calculated by credit institutions on the basis of market models. Changes in value of these cash flow hedges were distinguished within equity, with no effect on income. The caps are reported under other assets, and the floor under other liabilities. CENTROTEC pursues the strategy of linking its financing instruments and interest rate hedging instruments. The individual loans are increasingly being taken out at variable interest rates. CENTROTEC consequently steers the interest rate risk centrally by means of derivatives, principally caps and floors. By agreement with the Supervisory Board, the Management Board has defined target structures: the aforementioned constellation of derivatives means that CENTROTEC is within its target structure.

***[11]** Accrued expenses*

The following table shows the movements in accrued expenses in the year under review:

Accrued expenses in EUR '000	31/12/2003	Added	Used	Liquidated	31/12/2004
Warranty obligations	2,393	338	464	175	2,092
Claims and court processes	141	30	18	0	153
Personnel-related accruals	175	470	0	0	645
Ground remediation	255	25	77	0	203
Miscellaneous other accruals	927	485	372	45	995
Total	**3,891**	**1,348**	**931**	**220**	**4,088**

The rise in accrued expenses from EUR 3,891 thousand at December 31, 2003 to EUR 4,088 thousand at December 31, 2004 occurred as a result of reporting changes. In the further breakdown of accruals, the prior-year figures were moreover adjusted for greater ease of comparison. The accrual for warranty obligations is calculated for each type of revenue according to values indicted by experience, as well as for specific individual cases. Ground remediation relates on the one hand to the obligation to perform remediation on a piece of land purchased through an acquisition, and on the other hand to costs for obligatory repair measures to sewers. The damage already goes back several decades and was known at the time of the takeover, as a result of which it was taken into account in the price. The personnel-related accruals include EUR 250 thousand for top-up amounts from potential obligations in respect of pre-retirement part-time arrangements, which were discounted at 5.0 % and recognised as a liability at their present value. These were reported under other liabilities in the previous year. The personnel-related accruals in addition include liabilities to former employees, on the level of which it has not yet been possible to reach mutual agreement.

***[12]** Other current liabilities*

The following summary shows the movements in other liabilities, which were EUR 1,314 thousand lower at the balance sheet date compared with the previous year. The following table shows the breakdown line by line. The miscellaneous other liabilities include value added tax payments outstanding, among other things.

Other current liabilities in EUR '000	2004	2003
Vacation and overtime	1,733	1,877
Outstanding invoices	1,011	1,221
Employee remuneration	732	621
Bonus payments to customers	1,273	775
Taxation and social premiums	2,778	2,548
Advances received	852	1,295
Outstanding instalments for acquisitions	1,298	2,407
Miscellaneous other liabilities	2,376	2,623
Total	**12,053**	**13,367**

***[13]** Deferred tax liabilities*

The deferred tax liabilities pursuant to IAS 12 are calculated on the difference between the valuations of assets and liabilities in the IFRS balance sheet and the tax balance sheet. These result among other things from fair value adjustments in the context of company mergers. The net values represent the total of the anticipated netted values of deferred tax assets and liabilities of a group company in respect of a taxation authority.

Deferred tax liabilities in EUR '000	Gross		Net	
	2004	2003	2004	2003
Reversal expected within 12 months	155	191	132	125
Reversal expected after more than 12 months	2,519	2,472	1,937	1,907
Total	**2,674**	**2,663**	**2,069**	**2,032**

***[14]** Pension accrual*

In accordance with IAS 19, the pension accrual is calculated using the projected unit credit method. This method also takes account of anticipated future pay and retirement benefit increases, which result in coming back-service liabilities. The extent of the accrual has been calculated using actuarial methods and the latest mortality table (Netherlands: 'Collectief 1993'). Discounting has been based on an interest rate of 4.75 % in line with the average interest rate for high quality corporate bonds. The pensionable age is assumed to be 65. Pay is assumed to rise by an annual 3 % for all employees and an additional 0 to 2 % per annum depending on the individual employee. The average for the industry is used as the anticipated fluctuation rate, and the invalidity rate is taken as 0 %. Values for statutorily due termination payments upon taking retirement are also included. In the year under review, the pension accrual totalled EUR 343 thousand at the balance sheet date (previous year EUR 425 thousand). The interest expense is shown under personnel expenses.

***[15]** Minority interests*

The minority interests comprise the outside shares in the consolidated shareholders' equity from the Asian companies included in full consolidation for the first time, and amount to EUR 26 thousand.

***[16]** Shareholders' equity*

The capital stock of CENTROTEC Sustainable AG totals EUR 7,889 thousand. With additional paid-in capital of EUR 11,849 thousand, other retained earnings of EUR 15,047 thousand and net income of EUR 10,340 thousand, the group had shareholders' equity of EUR 46,025 thousand at December 31, 2004. The rise in the shareholders' equity stems mainly from the higher consolidated net income and the stock options exercised in 2004, resulting in a rise in the issued capital and the additional paid-in capital from the premiums paid in.

According to German stock corporation regulations, the separate financial statements of the group parent CENTROTEC Sustainable AG constitutes the basis for the appropriation of profits for the 2004 financial year. A distributable dividend therefore depends, among other things, on the retained earnings reported by that company in the separate financial statements at December 31, 2004. In view of the net loss reported there, it is proposed to carry forward the accumulated loss of EUR 231,452.26 for new account.

A total of 6,040 treasury shares were held in the financial year. These shares represent 0.076 % of capital stock. These shares were held at the parent as treasury shares as at the balance sheet date. No treasury stock was acquired or sold during the financial year.

Notes to the Consolidated Financial Statements 2004

Approved capital in addition exists. The Management Board is authorised, with the approval of the Supervisory Board, to increase the company's capital stock by up to EUR 3,833,987 (approved capital) by April 30, 2008 through the issue of new individual share certificates in return for cash or non-cash contributions on one or more occasions. The new shares are to be accepted by banks, with the obligation to offer them for subscription to the shareholders. The Management Board is, however, authorised to exclude residual amounts from the shareholders' subscription right. The Management Board is also authorised to exclude the right of subscription in order to issue new shares in return for non-cash contributions. Moreover, the Management Board is entitled pursuant to Section 186 (3), fourth sentence of German Stock Corporation Law (AktG) to exclude the shareholders' right of subscription for up to EUR 766,797 of the approved capital on one or more occasions if the issuing price of the new shares is not significantly lower, but in no case more than 5 % lower, than the market price of the shares already listed at the time when the issuing price is finally fixed by the Management Board, which should be as close as possible to the placement of the shares.

There moreover exists conditional capital. At the reporting date, this totalled EUR 546,235 pursuant to the resolution adopted by the Shareholders' Meeting of May 28, 2002. The Management Board is authorised to issue warrants for subscription to new bearer shares in the company until December 31, 2004 (on one or more occasions). Employees, Managing Directors and Management Board members of the company and of their affiliated companies pursuant to Section 17 of German Stock Corporation Law are entitled to subscribe. New shares are created where the options are exercised. These pay dividends from the beginning of the financial year in which the options are exercised. The conditional capital is divided into 546,235 individual share certificates.

With effect from January 13, 2004, 175,100 options were issued to employees, executive staff and Management Board members at an exercise price of EUR 8.70. The strike price per share (subscription price) to be paid upon exercising of the options shall be 90 % of the closing price on the Frankfurt am Main stock exchange, calculated over the 30 trading days preceding the day of issue of the option (commercially rounded to the nearest 0.1 euro), but at least the nominal value of the share; Section 9 (1) of German Stock Corporation Law remains unaffected. The term of the options to be issued may be up to 7 years from the time of their granting. The contingency period before the options may be exercised is two years from the date of issue of the option. Exercise of the options is linked to the fulfilment of certain conditions and objectives. They may only be exercised if the market price on the day on which the options may first be exercised or at a later time during the term of the options has risen by 30 % on the strike price. Exercise of the options is also linked to the fulfilment of individual objectives by employees, executive staff and Management Board members. It is therefore uncertain what proportion of the options issued will be exercised in practice.

The following table indicates additions and disposals of options outstanding, together with the average exercise prices of movements and reporting-date totals.

	2004		2003	
	Options	Ave. exercise price	Options	Ave. exercise price
Start of year	659,771	6.75	531,689	9.63
Granted	175,100	8.70	319,374	4.00
Exercised	220,562	8.80	0	0.00
Lapsed	68,074	4.45	191,292	10.15
End of year	546,235	6.79	659,771	6.75

In accordance with the resolution adopted by the Shareholders' Meeting on May 11, 1999, which was amended by the resolutions adopted by the Shareholders' Meeting on May 18, 2000 and May 17, 2001 and extended for the last time to date on May 26, 2004, the company is entitled to buy back treasury stock representing up to 10% of capital stock. This authorisation is valid until November 26, 2005. The price for the acquisition of these shares may not be more than 15 % higher or more than 15 % lower than the average cash settlement price of shares of the same class and features at the Frankfurt Stock Exchange on the ten trading days preceding the acquisition. The Management Board is authorised to offer all or some of the shares thus acquired to third parties as (partial) payment for the acquisition of companies or investments in companies, excluding the shareholders' right of subscription. The Management Board is also authorised to retire the company's treasury stock without the need for a further resolution to be adopted by the shareholders' meeting. The retirement may be restricted to part of the purchased shares.

***[17]** Other operating income*

The breakdown of other operating income is as follows:

Other operating income in EUR '000	2004	2003
Proceeds from the sale of tools	132	113
Insurance indemnity payments	43	3
Costs passed on, cost refunds	342	309
Government subsidies	157	187
Liquidation of accruals	220	361
Sales proceeds from the disposal of fixed assets	94	46
Other	64	469
Total	**1,052**	**1,488**

In the further breakdown of other operating income, the prior-year figures were moreover adjusted for greater ease of comparison.

[18] *Cost of purchased materials and services*

The overall materials ratio for 2004 was 42.2 % (previous year 43.1 %). The main factors influencing the materials ratio were the rising prices for the raw materials (metals and plastics), improved purchasing terms and adjustments in the prices charged to customers. A low level of materials consumption in the field of medical technology compared with the average for the group also contributed towards this trend.

[19] *Personnel expenses and total employees*

Personnel expenses in EUR '000	2004	2003
Wages and salaries	29,320	23,198
Social insurance and expenses for retirement benefits and maintenance payments	6,382	5,288
Personnel expenses	**35,702**	**28,486**

The seemingly sharp rise of 25 % results mainly from the pro rata temporis consolidation of Ned Air B.V. and Möller Medical GmbH & Co. in 2003 to reflect the portion of the year for which they belonged to the group. Personnel expenses in the year under review rose from 24.6 % of revenue at the 2003 balance sheet date to 26.5 % at the 2004 balance sheet date. The personnel expenses include compensation payments of EUR 350 thousand. The personnel total at the reporting date of December 31 reveals a modest increase from 852 FTE (full-time-equivalents) in 2003 to 926 FTE in 2004, because the empoyee figures for Ned Air and Möller had already been included in the total at December 31, 2003. The group spent EUR 2,391 thousand (previous year EUR 1,876 thousand) on contributions to the state pensions scheme.

[20] *Other operating expenses*

Other operating expenses are broken down as follows:

Other operating expenses in EUR '000	2004	2003
Outward freight	3,616	3,188
Promotional costs	2,009	1,833
Maintenance costs	1,980	1,661
Legal and consultancy costs	764	1,458
Energy	1,067	905
Travel expenses and fleet	1,847	1,631
Sales commissions	899	899
Insurance	788	773
Packaging	904	668
Waste disposal	135	115
Rent for buildings	568	581
Leasing/miscellaneous rents	111	135
IT expenses	537	548
Communication	421	418
Other personnel expenses	863	625
Patent protection	281	317
Other taxes	155	217
Disposal of assets	73	37
Miscellaneous	3,596	3,486
Total	**20,614**	**19,495**

Other operating expenses rose by EUR 1,119 thousand to EUR 20,614 thousand (previous year 19,495 thousand), and therefore by a lower rate than revenue. In the further breakdown of other operating expenses, the prior-year figures were adjusted for greater ease of comparison. The item 'Miscellaneous' furthermore includes expenses for the management of stock market affairs and the Shareholders' Meeting.

[21] *Interest income and expense*

Interest income and expense is broken down as follows:

Financial result in EUR '000	2004	2003
Other financial income	0	17
Interest income	94	65
Interest expense on loans	(2,425)	(2,441)
Other interest expenses	(126)	(174)
Total	**(2,457)**	**(2,533)**

Notes to the Consolidated Financial Statements 2004

The interest expense relates in the main to the credit liabilities of the CENTROTEC group. Compared with 2003 net expense showed a fall of EUR 76 thousand. The only slight decrease in interest expense results from the pro rata temporis consolidation of Ned Air B.V. and Möller Medical GmbH & Co. in 2003 to reflect the portion of the year for which they belonged to the group. Both companies were consolidated for the full year in 2004. The repayment of large portions of the loans took place predominantly in the second half of the year.

***[22]** Income tax expense*

Income tax expense is composed as follows:

Income tax expense in EUR '000	**2004**	**2003**
Income tax expense for the current financial year	5,851	4,708
Income tax expense for previous financial years	(341)	(30)
Tax deferral	201	(272)
Total	**5,711**	**4,406**

The taxes for previous financial years include EUR 121 thousand for tax losses that can be carried back. The relationship between actual tax expense and anticipated tax expense is as follows:

Reconciliation of actual tax expense with anticipated tax expense in EUR '000	**2004**	**2003**
Result before income taxes	16,044	10,669
Anticipated tax expense	**6,033**	**3,775**
Tax effect from non-deductible expenses	43	33
Tax effect from non-taxable income	(3)	(5)
Tax effect from goodwill amortisation	(47)	633
Tax effect from changes in tax rates	(95)	0
Adjustments from previous financial years	(220)	(30)
Total	**5,711**	**4,406**

The tax load ratio is 5.7 percentage points lower than in the previous year, at 35.6 % (41.3 %). This is principally attributable to the fact that goodwill amortisation, which was for the most part not tax-deductible, is no longer practised.

The anticipated average tax rate rose from 35.4 % in the previous year to 37.6 % in the year under review as a result of the higher share of profits in countries with higher tax rates (D, F).

Deferred tax in EUR '000	**2004**	**2003**
Deferred tax assets		
Unused loss carryforwards	387	439
Pension and similar obligations	104	131
Other accruals	58	0
Other liabilities	295	282
Property, plant and equipment	551	759
Inventories	24	24
Trade accounts receivable	21	21
Intangible assets	29	4
	1,469	**1,660**
Deferred tax liabilities		
Property, plant and equipment	1,709	1,868
Inventories	132	124
Intangible assets	833	657
Advances received	0	14
	2,674	**2,663**
Deferred taxes, balance (liabilities)	**1,205**	**1,003**

Deferred taxes by country (reported net) in EUR '000	**2004**	**2003**
Netherlands	1,560	1,660
Denmark	96	155
Belgium	(4)	(1)
United Kingdom	(22)	(26)
France	(29)	(29)
Germany	(396)	(756)
Deferred taxes, balance (liabilities)	**1,205**	**1,003**

***[23]** Minority interests*

The other shareholders of Centrotec JI Asia Pte. Ltd. account for a share of losses amounting to EUR 7 thousand in 2004.

***[24]** Earnings per share*

The earnings per share and diluted earnings per share are illustrated in the following table. The basic and diluted earnings per share are calculated on the basis of the weighted average number of shares outstanding throughout the year, less treasury stock (6,040). The diluted figure in addition takes account of potential shares from stock options.

The diluted earnings per share are based on the assumption that all issued stock options in the stock option plan that could be exercised if the balance sheet date were the end of the contingency period have been exercised. Due to the fact that the exercising of stock options is tied to the fulfilment of individual and corporate objectives, it is likely that only a smaller number of options than the maximum number granted will ultimately be exercised. The dilutive effect is calculated on the assumption that proceeds from the issue of shares under the

Earnings per share	2004	Pro forma* 2003	2003
Consolidated net income in EUR '000	10,340	8,226	6,263
Weighted average ordinary shares issued, '000	7,731	7,662	7,662
Basic earnings per share, EUR	**1.34**	**1.07**	**0.82**

* Comparative figure for 2003 consolidated net income before goodwill amortisation

stock option plan have been received from the issue of shares at fair value which is the average quotation of the shares during the financial year in question. The difference between the number of shares issued under the stock option plan and the number of shares that would have been issued at fair value is treated as an issue of ordinary shares for no consideration. Such ordinary shares generate no proceeds and have no effect on the net profit attributable to ordinary shares outstanding. Stock options are dilutive and they are added to the number of ordinary shares outstanding in the computation of diluted earnings per share.

Diluted earnings per share	2004	Pro forma* 2003	2003
Consolidated net income in EUR '000	10,340	8,226	6,263
Weighted average ordinary shares issued, '000	7,731	7,662	7,662
Assumed exercise of stock options granted (weighted average)	333	91	91
Weighted average diluted ordinary shares issued, '000	8,064	7,753	7,753
Diluted earnings per share, EUR	**1.28**	**1.06**	**0.81**

* Comparative figure for 2003 consolidated net income before goodwill amortisation

***[25]** Segment report and revenues*

The presentation of primary segment reporting in these Consolidated Financial Statements has changed compared with 2003, and been brought in line with modified internal reporting structures and areas of responsibility. The prior-year figures were restated as part of the changeover, to maintain comparability between the figures. At the same time, the decision was taken not to allocate the interest expenses and interest income to the individual segments. The operating interest result of the segments is insignificant.

In line with its internal reporting structure, the company is organised into the 'Medical Technology & Engineering Plastics', 'Climate Systems' and 'Gas Flue Systems' segments (primary segments). This is simultaneously the basis of value-based corporate management within the CENTROTEC group. The revenues from external customers for these two areas, together with the inter-segmental revenues for each segment, in each case exceed 10 % of total external and inter-segmental revenues. Which companies included in the Consolidated Financial Statements are allocated to which individual segments is indicated in the presentation on page 10.
The growth of the Medical Technology & Engineering Plastics and Climate Systems segments is due in part to acquisitions, as Möller Medical GmbH & Co and Ned Air B.V. were consolidated only pro rata temporis in the comparative period of 2003 to reflect the portion of the year for which they belonged to the group.

The revenues relate almost exclusively to deliveries of goods. The 'Gas Flue Systems' segment also includes the figures for CENTROTEC AG. The figures for the 'Medical Technology & Engineering Plastics' segment include EUR 100 thousand in amortisation of accounts receivable and EUR 350 thousand in compensation payments for former employees.
Inter-segmental business is priced according to the arm's length principle, i.e. pricing comparable to third party transactions less cost items, in particular distribution costs, which do not occur in inter-segmental transactions. Income and expenditure are allocated directly to the individual companies within the individual segments. The segment expenses and income also include allocations of holding charges. EUR 479 thousand (previous year EUR 364 thousand) was charged to 'Medical Technology & Engineering Plastics', EUR 66 thousand (previous year EUR 52 thousand) to 'Climate Systems' and EUR 631 thousand (previous year EUR 586 thousand) to 'Gas Flue Systems'. 'Gas Flue Systems' in addition includes EUR 1,176 thousand (previous year EUR 1,002 thousand) in income from charges for the holding company, leaving a net positive effect of EUR 545 thousand (previous year EUR 416 thousand) on the result for this segment.

Inter-segmental relationships, i.e. relationships and transactions between the individual segments, are eliminated from the consolidation column. This simultaneously reconciles the figures with those in the Consolidated Financial Statements.

The depreciation and amortisation for the segments represent the loss of value by the segments' assets, and the investments the additions to the fixed assets for the segments.

The segment assets include the fixed assets and current assets for each segment. Entitlements to income tax rebates and deferred tax assets capitalised are not included.

The segment liabilities include the operating liabilities and accrued expenses for each segment. Income tax liabilities, deferred tax liabilities and financial liabilities are not included.

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Segment report in EUR '000	Medical Technology & Engineering Plastics		Climate Systems		Gas Flue Systems		Consolidation		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Revenue from third parties	28,405	20,152	36,599	32,457	69,756	63,062	0	0	134,760	115,671
Revenue from other segments	696	605	224	62	210	58	(1,130)	(725)	0	0
Depreciation and amortisation	(1,597)	(1,584)	(634)	(1,645)	(2,716)	(2,905)	0	0	(4,947)	(6,134)
Other income and expense from ordinary activities	(26,876)	(19,547)	(28,369)	(25,150)	(57,161)	(52,331)	1,094	693	(111,312)	(96,335)
EBIT**	**628**	**(374)**	**7,820**	**5,724**	**10,089**	**7,884**	**(36)**	**(32)**	**18,501**	**13,202**
Interest result									(2,457)	(2,533)
EBT									**16,044**	**10,669**
Tax expense									(5,711)	(4,406)
Minority interests									7	0
Net income									**10,340**	**6,263**
Total assets	25,357	25,335	40,065	39,014	93,276	86,743	(42,162)	(38,953)	116,536	112,139
Entitlements to income tax rebates*									1,675	2,886
Total liabilities	5,745	5,550	7,650	9,230	10,261	9,423	825	699	24,481	24,902
Financial liabilities									43,421	51,730
Income tax payable*									4,291	4,594
Investment in fixed assets	1,323	6,412	275	9,538	8,940	7,667	(1,330)	(3,373)	9,208	20,244

The geographical breakdown of revenues is shown in the following table (secondary segments):

in EUR '000	European euro countries		European non-euro countries		Rest of world		Consolidation		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Revenue from third parties	110,692	96,681	17,937	15,231	6,131	3,759	0	0	134,760	115,671
Total assets	111,124	107,247	7,322	7,443	725	0	(2,635)	(2,551)	116,536	112,139
Investment in fixed assets	8,712	20,111	346	133	150	0	0	0	9,208	20,244

* inclusive deferred taxes
** inclusive investment income [6]

***[26]** Cash Flow Statement*

The Consolidated Cash Flow Statement pursuant to IAS 7 shows how the group's cash and cash equivalents changed in the course of the financial year under review as a result of cash inflows and outflows (cf. the separate section of the Consolidated Financial Statements concerning the cash flow statement, preceding the Notes). A distinction is made between cash flows from operating, investing and financing activities. The cash flows from operating activities were determined according to the indirect method. By contrast, the interest result and the income taxes paid are based on cash flows. 'Financial resources' include cash on hand, demand deposits, deposits with a time to maturity of one month or less, and bank overdrafts repayable on demand, as recorded in the Consolidated Financial Statements.

The cash flow from operating activities rose year on year from EUR 12,995 thousand to EUR 14,362 thousand in 2004. The rise in the net income in particular had a positive influence on the cash flow. The prior-year depreciation and amortisation includes goodwill amortisation (EUR 1,963 thousand) which was not performed in the year under review.

***[27]** Acquisition of investments*

The following table shows the effects of the acquisition of assets to establish a new sales range (Econergy) and the completion of acquisitions on the cash flow statement.

Cash flow from acquisitions in EUR '000	
Investments in fixed assets	540
Net assets acquired	**540**
Goodwill	3.420
Outstanding instalment payments	(440)
Cash outflows from acquisition of Econergy assets	**3.520**
Cash outflows from payment of purchase price liability for acquisition of Ned Air	407
Total cash outflows from acquisitions activities	**3.927**

The fixed portion of the purchase price for Econergy amounts to EUR 3.4 million; the variable portion is revenue-based and has been determined by estimate up until 2006 inclusive. The total purchase price for Econergy currently amounts to EUR 4.0 million.

***[28]** Breakdown of financial resources*

These consist almost exclusively of demand deposits and the availment of current accounts with major, leading commercial banks. The breakdown of cash and cash equivalents at December 31, 2004 is as follows:

Breakdown of cash and cash equivalents in EUR '000	2004	2003
Cash and cash equivalents	3,672	4,881
Bank overdrafts (included in 'Bank liabilities' item)	(4,865)	(3,125)
Total	**(1,193)**	**1,756**

E OTHER PARTICULARS

(1) Contingent liabilities

The customary warranty obligations are assumed, for which an accrual has been formed. In the context of its ordinary business activities, the company moreover regularly enters into contingent liabilities from guarantees, cheques and bills of exchange, among other things. There in addition exists a rental agreement in the United Kingdom for annual rent of currently GBP 80,000 (EUR 129 thousand), due to run until 2012. CENTROTEC Sustainable AG moreover releases its designated sponsor, M.M. Warburg & CO KG aA, Hamburg, from liability in connection with its sponsoring activities, subject to this liability not resulting from gross negligence or fault on the part of the designated sponsor. Ubbink B.V. has submitted a settlement guarantee for a bank to the value of EUR 2,364 thousand, covering loan obligations from the construction of the new building in France.

Within the context of a purchase agreement for assets of Econergy International B.V., the Netherlands, Econergy International GmbH, Cologne and Econcern B.V., the Netherlands, by Ubbink B.V., the Netherlands, and Ubbink Econergy Solar GmbH, Cologne, CENTROTEC Sustainable AG has guaranteed the sellers performance by the buyers according to contract. The guarantee amounts to a maximum of EUR 440 thousand at December 31, 2004.
Overall, it is assumed that substantial liabilities will not arise as a result of the contingent liabilities, or only to the extent evident in these Notes.

(2) Financial instruments

The balance sheet shows the financial instruments (accounts receivable, accounts payable, cash and cash equivalents) held by the company. The accounting policies on recognition and measurement of these items are presented in the respective accounting policies found under C in these Notes. The financial instruments may entail credit risks, currency risks and interest risks. At the balance sheet date, there basically existed risks for the principal financial instruments only to the extent that is evident in these Notes.

(3) Government grants and government assistance

In the reporting year, the group received unconditional government grants in the Netherlands totalling EUR 67 thousand (previous year EUR 61 thousand) for research and development activities. In the group as a whole, subsidies amounting to EUR 157 thousand (previous year EUR 187 thousand) were received with an effect on income. Conditions that were attached to these payments have been fulfilled as at the balance sheet date.

(4) Significant events occurring after the balance sheet date

No significant events occurred after the balance sheet date, or only to the extent that they are represented or evident from the remarks in the Group Management Report.

(5) Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party's financial and operating decisions. Related party relationships where control exists are disclosed irrespective of whether there have been transactions between the related parties. Intra-group transactions are not disclosed as related party transactions in the Consolidated Financial Statements.

Key management personnel, including but not limited to members of the Management Board and the Supervisory Board, are 'related parties'. In addition, members of the family of the head of the Supervisory Board might be classified as related parties, although the Management Board has not yet been confronted with direct control from these family members. The family members in question would be Maren, Carl and Maja Krass.

Notes to the Consolidated Financial Statements 2004

Members of the Supervisory Board indirectly hold minority interests in Pari Holding GmbH, Munich (‘PH’). One Management Board member is its Co-Director on a part-time basis. PH might therefore be classified as a ‘related party’, even though the Management Board does not believe that control actually exists between the parties. Further companies of the Pari Group could likewise be classified as ‘related parties’. These are Pari Corporate Finance Ltd., London (PCF) and Pari Capital AG, Munich (PC). One Management Board member and the Chairman of the Supervisory Board are members of the Supervisory Board of PC (see also details of the Management Board and Supervisory Board). No legal transactions with PCF and PC were conducted in the year under review. A consultancy agreement with PH exists for services in connection with corporate mergers and acquisitions, in respect of identifying, establishing contact with and acquiring potential target companies in the plastics industry. In the event of a transaction being realised, PH receives a fee according to the ‘Lehman formula’. PH provided such services in the financial year. No amounts were billed by PH in 2004 in connection with acquisitions. The sum of EUR 1 thousand was billed in connection with a motor vehicle lease agreement.

Brink Holding and its subsidiaries can likewise be classified as related parties, because Wim Brink acts as Managing Director. Several group companies purchased goods from the Brink Holding Group for a total of EUR 490 thousand in 2004. The goods in question were primarily components for gas flue systems. Conversely, CENTROTEC companies sold goods amounting to EUR 81 thousand to the Brink Holding Group. Furthermore, office furniture to the value of EUR 10 thousand was acquired by group companies from Brink Kantoormeublen B.V. Regular invitations of bids ensure that the prices paid are in line with the market. Many services are moreover still performed on behalf of related companies in view of the historical ties between Brink Climate Systems and Brink Holding. Brink Climate Systems and Brink Holding share a single IT department, administrative operations, switchboard, security arrangements, etc. Brink Holding may in addition use certain machines belonging to Brink Climate Systems. These services are all charged for at full cost. Brink Climate Systems paid a total of EUR 618 thousand and received payments totalling EUR 361 thousand. A company that is a related party to Mr. Brink was invoiced EUR 14 thousand for legal consultancy services. Mr. Wim Brink received an amount of EUR 5 thousand for services provided by Brink Climate Systems, on the basis of a consultancy agreement.

The law firm Freshfields Bruckhaus Deringer could likewise be classified as a related party, as Dr. Heiss, a Supervisory Board member of CENTROTEC AG, is a partner in this law firm. Legal consultancy services to the value of approx. EUR 11 thousand were purchased in the year under review. The invoicing reflects the generally accepted market rates that are charged for such consultancy services in Germany and internationally.

(6) Management Board and Supervisory Board

The Management Board members at the balance sheet date were:
<u>Dr. Gert-Jan Huisman</u>, Nijkerk, Netherlands, merchant (Chairman)
<u>Martin Beijer</u>, Doesburg, Netherlands, merchant
<u>Dr. Alexander Kirsch</u>, Munich, Germany, merchant
<u>Rob Slemmer</u>, Hoevelaken, Netherlands, merchant
<u>Dr. Christoph Traxler</u>, Fulda, physicist (since April 1, 2004)

The members of the Supervisory Board at the reporting date were:
<u>Guido A. Krass</u>, Wadhurst, United Kingdom, entrepreneur (Chairman)
<u>Wim Brink</u>, Zwolle, Netherlands, businessman
<u>Dr. Bernhard Heiss</u>, Munich, lawyer

Members of the Management and Supervisory Boards also serve on the following Supervisory Boards as defined in Section 125 (1), third sentence of German Stock Corporation Law:

<u>Guido A. Krass</u>:	Eracom Technologies AG, Krefeld (Chairman) PACT Technologies AG, Munich, Germany Pari Capital AG, Munich, Germany (Chairman) Pari Capital Group AG, Steinhausen, Switzerland (Chairman of Board of Directors) Ubbink Nederland B.V. (Chairman)
<u>Wim Brink</u>:	Newion Investments B.V., Heerenveen, Netherlands Dutch Rescue Holding B.V., Hoogeveen, Netherlands (Chairman)
<u>Dr. Bernhard Heiss</u>:	MME Moviement AG, Hamburg, Germany Kögel Holding AG, Munich, Germany
<u>Dr. Alexander Kirsch</u>:	Pari Capital AG, Munich, Germany Pari Private Equity AG, Munich, Germany

During the reporting period the members of the Management Board received remuneration totalling EUR 982 thousand (previous year EUR 843 thousand). This amount includes social contributions and fringe benefits such as company cars and pension commitments. It does not include exercisable share options which are tied to the fulfilment of individual and company objectives. Options granted in 2004 have merely a theoretical value of EUR 1,344 thousand (previous year EUR 1,183 thousand), as the CENTROTEC share price rose sharply after the issue of the options on January 13, 2004. The figure was moreover calculated using the maximum possible number of options. How many options can actually be exercised depends on the attainment of individually specified targets.

The remuneration of the Supervisory Board totalled EUR 7 thousand (previous year EUR 7 thousand) and was made up as follows: Mr. Krass EUR 3 thousand, Dr. Heiss EUR 2 thousand and Mr. Brink EUR 2 thousand.

No loans were granted to members of executive bodies in 2004.

(7) Directors' holdings

The following table shows directors' holdings.

Name	2004 Shares (total)	2004 Options (total)	2003 Shares (total)	2003 Options (total)
Management Board				
Dr. Gert-Jan Huisman	1.016	114.016	500	107.084
Dr. Alexander Kirsch	16.450	108.889	14.000	115.279
Martin Beijer	0	79.422	700	104.639
Rob Slemmer	0	57.095	0	43.659
Dr. Christoph Traxler	0	25.000		
Supervisory Board				
Guido A. Krass	1.200.000	0	1.200.000	0
Dr. Bernhard Heiss	0	0	0	0
Wim Brink	0	0	0	0
CENTROTEC				
Ordinary shares	7.888.537	0	7.667.975	0
Treasury stock	6.040	0	6.040	0

The stock options have been issued on the same terms and conditions as to the other employees.

(8) Corporate Governance Code

On February 26, 2002 the 'Government Commission on the German Corporate Governance Code' presented a code of behaviour for Management Boards and Supervisory Boards of listed companies. This Code was updated on May 21, 2003. The objective is to render the German corporate governance system transparent and intelligible, and to promote investors' confidence in the way German listed companies are supervised.

Pursuant to Section 161 of German Stock Corporation Law, the Management Board and Supervisory Board of a company listed on the stock exchange are obliged to declare once a year whether and to what extent the code has been and is complied with.

Declaration of Compliance by CENTROTEC Sustainable AG in respect of the German Corporate Governance Code:

The Management Board and Supervisory Board of CENTROTEC Sustainable AG have declared that it comply with the recommendations of the Government Commission on the German Corporate Governance Code, in the version dated May 21, 2003, with the exception of the aspects listed below:

'Section 4.2.3 of the Code recommends that the remuneration of the Management Board should comprise a variable as well as a fixed component. The variable component is, among other things, intended to be performance-related, have a long-term incentivising effect and possess a risk character. The Code quotes stock options schemes as an example. CENTROTEC has been operating a stock options scheme, applicable not only to Management Board members but also to executive staff and other employees, since 1999. We believe that the scheme reflects the spirit of the Code, but we draw attention to two aspects which could be interpreted as a departure from it. The Code recommends reference to comparative parameters. The stock options scheme envisages a performance target based on the absolute rise in the share price. This form was chosen in order to provide an incentive for success in absolute rather than relative terms. The Code in addition recommends that the variable remuneration be capped. In the case of the options, this was realised through allowing their exercise only within a limited time frame (for the first time two years after issue, for the last time seven years after issue). Options received as a result of the attainment of targets are not retrospectively withdrawn by the company or the parameters governing them altered. Alongside the aforementioned share price target, the exercising of the options is moreover linked to further internal performance targets in order to preserve a demanding but equitable form of variable remuneration.

Section 4.2.4 of the Code recommends that the remuneration of the Management Board be reported broken down according to fixed payments, performance-related components and components with a long-term incentivising effect. This we do. However, no individualised disclosures concerning levels of remuneration are made, as we regard the protection of the private sphere as more important than the value of additional information on how the total volume of remuneration, which we do not believe to be above-average, is broken down between the individuals in question.

Section 5.3 of the Code recommends the formation of committees on the Supervisory Board. This is, however, to take place subject to the specific circumstances of the company and the number of members of the Supervisory Board. Our Supervisory Board comprises three members, who consider all matters concerning the company jointly. Consequently, we do not regard the creation of committees to be appropriate in our case. We believe that our view is compatible with the Code, but supply this information as a precautionary measure by way of clarification.

CENTROTEC moreover observes all target requirements of the Code.

Since the last Declaration of Compliance dated February 27, 2004 CENTROTEC has satisfied the recommendations of the 'Government Commission on the German Corporate Governance Code', in the version dated May 21, 2003, with the exception of the aspects mentioned.'

(9) Consultancy agreements

Group companies have concluded various consultancy agreements with firms of consultants and specialists in the fields of electronic data processing, law, eCommerce, advertising, investor relations and the optimisation of production and logistics. All agreements have been concluded for specified tasks.

Brilon, March 10, 2005

Dr. Gert-Jan Huisman, Chairman, Finance

Martin Beijer, Gas Flue Systems

Dr. Alexander Kirsch, Medical Technology & Engineering Plastics, Strategy and Expansion

Rob Slemmer, Climate Systems

Dr. Christoph Traxler, Medical Technology & Engineering Plastics

Auditors' Report

We have audited the consolidated financial statements of CENTROTEC Sustainable AG, Brilon, consisting of the balance sheet, the income statement and the statements of changes in equity and cash flows as well as the notes to the financial statements for the business year from January 1 to December 31, 2004. The preparation and the content of the consolidated financial statements according to the International Financial Reporting Standards of the IASB (IFRS) are the responsibility of the Company's Management Board. The scope of our audit did not extend to assessing the Declaration of Compliance in the notes. Our responsibility is to express an opinion, based on our audit, whether the consolidated financial statements are in accordance with IFRS.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the CENTROTEC group for the business year in accordance with IFRS.

Our audit, which also extends to the group management report prepared by the Management Board for the business year from January 1 to December 31, 2004, has not led to any reservations. In our opinion, on the whole the group management report, together with the other information of the consolidated financial statements, provides a suitable understanding of the group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1 to December 31, 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German accounting law.

Kassel, March 10, 2005

PriceWaterhouseCoopers GmbH,
Wirtschaftsprüfungsgellschaft, Kassel

(Siemon)	(Müller)
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Management Board

From left to right: Rob Slemmer, Dr. Cristoph Traxler, Dr. Gert-Jan Huisman, Martin Beijer, Dr. Alexander Kirsch

Dr. Gert-Jan Huisman (CEO, 36), a Doctor of Business Management, has been Finance Director of CENTROTEC Sustainable AG since 2000 and CEO since 2002. A Dutch national, he has held management positions in Germany for over eight years, including as branch manager of a bank. He in addition worked at McKinsey & Company for five years as Senior Consultant and Project Manager.

Dr. Alexander Kirsch (38), a Doctor of Business Management, has been a Management Board member of CENTROTEC since 1998. He was initially the Finance Director, then took charge of Strategy and Expansion in 2000, a new area of responsibility on the board created in response to CENTROTEC's growth. He is in addition responsible for the Medical Technology & Engineering Plastics Division. Before that he worked for McKinsey & Company for several years.

Martin Beijer (58), who has headed Ubbink Systemtechnik (acquired 1999) since 1997, is responsible for the Gas Flue Systems Division within the CENTROTEC group. Martin Beijer transformed Ubbink from a traditionally oriented plastics company into a high-growth specialist for plastic, gas flue and ventilation systems.

Rob Slemmer (61) has been Managing Director of Brink Climate Systems (acquired 2002) since 1984. He has held various management positions within that group since 1978. Rob Slemmer transformed Brink into the European market leader for innovative heat recovery technology. Within the CENTROTEC group, he is responsible for the Climate Systems Division.

Dr. Christoph Traxler (36), Managing Director of Centrotec Medizintechnik GmbH, was appointed in April 2004 to the Management Board of CENTROTEC. He shares responsibility for the Medical Technology & Engineering Plastics Division with Dr. Alexander Kirsch. He holds a Ph.D. in theoretical physics and worked for McKinsey & Company as a Senior Associate and Engagement Manager before joining CENTROTEC.

Financial Calendar 2005

Date	Time	Event	Place
March 23		Publication of 2004 accounts	
March 23	2.00 p.m. - 4.00 p.m.	DVFA Analysts and Annual Press Conference	Hotel Hilton, Central Park Room Hochstraße 4, 60313 Frankfurt/Main
June 01	11.00 a.m. - 1.00 p.m.	Annual General Meeting of Shareholders	CENTROTEC Sustainable AG Am Patbergschen Dorn 9 59929 Brilon
May 19		Publication of I/2005 quarterly report	
August 11		Publication of II/2005 quarterly report	
November 08		Publication of III/2005 quarterly report	

Imprint

Copy
CENTROTEC Sustainable AG

Design/Production
MetaCom Corporate
Communications GmbH, Hanau
Jens Gloger, Viktor Diebold

Photos
Deutsche Börse Frankfurt/Main
CENTROTEC Gruppe
Stock
Ulli Hartmann

Print
Joh. Schulte, Marsberg

Balance Sheet (annual financial statements) of CENTROTEC Sustainable AG, Brilon at December 31, 2004

Assets in EUR

	31.12.2004	31.12.2003
A. Fixed assets		
I. Intangible assets		
Software	**93,672**	**51,898**
II. Property, plant and equipment		
1. Other equipment, operating and office equipment	169,079	49,044
2. Payments on account and tangible assets in course of construction	7,307	0
	176,386	**49,044**
III. Financial investments		
1. Shares in affiliated companies	23,384,080	22,104,080
2. Investments/Participation	844,900	844,900
	24,228,980	**22,948,980**
	24,499,038	**23,049,922**
B. Current assets		
I. Accounts receivable and other assets		
1. Accounts receivable from affiliated companies	18,395,874	20,615,036
2. Other assets	157,630	264,431
	18,553,504	**20,879,467**
II. Securities		
Treasury stock	112,395	56,776
III. Cash in hand and demand deposits	345,013	284,699
	19,010,912	**21,220,942**
C. Prepaid expenses	**62,645**	**29,925**
	43,572,595	**44,300,789**

Equity and liabilities in EUR

	31.12.2004	31.12.2003
A. Shareholders' equity		
I. Share capital	7,888,537	7,667,975
II. Additional paid-in capital	12,711,553	10,990,673
III. Revenue reserves		
1. Reserve for treasury stock	112,395	56,776
2. Other revenue reserves	19,822,699	1,929,579
IV. Accumulated loss (previous year: retained earnings)	(231,452)	17,948,739
	40,303,732	**38,593,742**
B. Accrued expenses		
I. Tax accruals	34,213	523,362
II. Other accruals	412,900	428,700
	447,113	**952,062**
C. Liabilities		
I. Bank liabilities	2,099,728	3,562,011
II. Trade accounts payable	126,666	63,156
III. Liabilities to affiliated companies	416,152	966,063
IV. Liabilities to companies linked through participation	0	1,314
V. Other liabilities	179,204	162,441
- of which taxes EUR 94,156; previous year EUR 137,181		
- of which in respect of social insurance EUR 6,677; previous year EUR 5,711		
	2,821,750	**4,754,985**
	43,572,595	**44,300,789**

Income Statement (annual financial statements) of CENTROTEC Sustainable AG, Brilon for the financial year 2004

in EUR	2004	2003
1. Other operating income	1,318,377	1,706,551
2. Personnel expenses		
a) Wages and salaries	(560,705)	(369,425)
b) Social insurance and expenses for retirement benefits and maintenance payments	(47,025)	(38,421)
	(607,730)	**(407,846)**
3. Depreciation and amortisation	(80,724)	(24,920)
4. Other operating expenses	(772,255)	(1,299,980)
5. Income from investments		
- of which from affiliated companies EUR 0; previous year EUR 18,743,395	0	18,743,395
6. Other interest and similar income		
- of which from affiliated companies EUR 597,247; previous year EUR 386,219	646,050	415,034
7. Income from profit transfers	0	2,826,956
8. Write-down of financial investments and investment securities	0	(2,000,089)
9. Interest and similar expenses		
- of which from affiliated companies EUR 26,565; previous year EUR 29,016	(254,765)	(412,219)
10. Expenses from the transfer of losses	(601,206)	(947,256)
11. Gross operating result	**(352,253)**	**18,599,626**
12. Taxes on income	121,467	(629,332)
13. Other taxes	(666)	(315)
14. Net income	**(231,452)**	**17,969,979**
15. Profit carryforward/loss carryforward	17,948,739	(21,240)
16. Payment into other revenue reserves	(17,948,739)	0
17. Withdrawal from other revenue reserves	55,619	24,704
18. Payment into reserve for treasury stock	(55,619)	(24,704)
19 Accumulated loss/retained earnings	**(231,452)**	**17,948,739**

The Income Statement shown here does not contain the revenues and profits of the group company and therefore does not reflect group activities. See page 42 of this Annual Report for the Consolidated Income Statement.

Asset Movement Schedule* (annual financial statements) of CENTROTEC Sustainable AG, Brilon for the financial year 2004

	Cost			
in EUR	01.01.2004	Additions	Disposals	31.12.2004
Intangible assets				
Software	65,646	79,778	0	145,424
	65,646	**79,778**	**0**	**145,424**
Property, plant and equipment				
Other equipment, operating and office equipment	56,032	162,755	3,245	215,542
Payments on account and tangible assets in course of construction	0	7,307	0	7,307
	56,032	**170,062**	**3,245**	**222,849**
Financial investments				
Shares in related companies	26,949,169	1,280,000	0	28,229,169
Investments	844,900	0	0	844,900
	27,794,069	**1,280,000**	**0**	**29,074,069**
	27,915,747	**1,529,840**	**3,245**	**29,442,342**

* Part of the Notes

Depreciation and amortisation				Net carrying amounts	
01.01.2004	Additions	Disposals	31.12.2004	31.12.2003	31.12.2004
13,748	38,004	0	51,752	51,898	93,672
13,748	**38,004**	**0**	**51,752**	**51,898**	**93,672**
6,988	42,720	3,245	46,463	49,044	169,079
0	0	0	0	0	7,307
6,988	**42,720**	**3,245**	**46,463**	**49,044**	**176,386**
4,845,089	0	0	4,845,089	22,104,080	23,384,080
0	0	0	0	844,900	844,900
4,845,089	**0**	**0**	**4,845,089**	**22,948,980**	**24,228,980**
4,865,825	**80,724**	**3,245**	**4,943,304**	**23,049,922**	**24,499,038**

Management Report of CENTROTEC Sustainable AG, Brilon for the financial year 2004

I. PROFITABLE GROWTH FOR THE CENTROTEC GROUP

CENTROTEC Sustainable AG, Brilon, hereinafter referred to as CENTROTEC, is the group parent of the Centrotec Group. The activities of the controlling company focus essentially on performing strategic and financial holding functions for the operative affiliated companies, and on advising and supporting them for individual projects.

As in previous years, the CENTROTEC group again achieved strong, profitable growth in 2004. 7 % of the approximately 17 % growth in revenue, to a total of EUR 134.8 million, is attributable to organic growth. The companies acquired in the 2003 financial year, Ned Air B.V. (NL, Kampen) and Möller Medical GmbH & Co. KG (D, Fulda), contributed to the improvement in the group's figures as a result of their inclusion in consolidation for the whole year the first time in 2004. The company Ubbink Econergy Solar GmbH, Cologne, was consolidated in the group from December 2004. As a result of the takeover of the product rights and patents for assembly systems, the expansion of the market for solar technology will now be promoted via the 'Ubbink Econergy' brand.

The even more concerted drive to position the CENTROTEC group in the growth markets of 'health, comfort, energy' in the past financial year of 2004 contributed substantially to its successful development in spite of the weak state of the economy as a whole. The company's positive progress was underpinned in particular by CENTROTEC's products and product groups, which were able to increase their market shares further. If the wider economic situation continues to stabilise and the EU Energy Performance of Buildings Directive continues to be implemented swiftly, CENTROTEC will undoubtedly return to the familiar territory of double-digit organic growth rates.

For 2005 and subsequent years, we moreover expect that the existing areas of business will bring further stable rises in revenue and earnings. These are the mainstays of long-term growth for the CENTROTEC group.

II. SITUATION OF CENTROTEC SUSTAINABLE AG

CENTROTEC, as the group parent, essentially exercises its function as owner by means of strategic steering and consolidation, as well as consultancy and support, for the companies that make up the CENTROTEC group. The company in addition steers the group finances, coordinates investor relations and supports mergers and acquisitions activities. It furthermore extensively advises and supports the group companies in operative and strategic projects.

Personnel – further recruitment

As well as numerous appointments within the operative units, new management personnel were recruited for CENTROTEC. On March 22, 2004 Dr. Christoph Traxler was appointed to the Management Board of CENTROTEC Sustainable AG with effect from April 1, 2004; he is responsible for the Medical Technology & Engineering Plastics area. Personnel levels in Accounts and Controlling were also increased. The controlling company had an average of nine employees throughout the year, including five Management Board members.

Projects – extensive support for the companies

CENTROTEC's employees supported and advised the affiliated companies for numerous projects. The controlling company corporation charged the affiliated companies for its consultancy services on an arm's length basis. The total volume amounts to EUR 1.2 million. As well as these consultancy revenues, the controlling company generated substantial other revenue from the write-up in value of treasury stock, as the share price at the reporting date showed a marked rise on the previous year.

Financial position and financial performance – improvement thanks to falling volume of borrowings

The accounts receivable and other assets fell from EUR 20.9 million to EUR 18.6 million in the year under review. This reduction is substantially due to a decrease of around EUR 2.2 million in accounts receivable from affiliated companies and the fall in other assets by EUR 0.1 million.

At Brink Climate B.V., the shareholders' equity was increased by EUR 1.3 million by the conversion of a loan receivable.

The shareholders' equity rose by EUR 1.9 million to EUR 40.1 million as a result of the stock options issued in the year under review.

The bank liabilities fell from EUR 3.6 million in the previous year to EUR 2.1 million in the year under review. As well as ongoing repayments, the redemption of a Euroloan of EUR 1.3 substantially reduced this item. Interest expense was cut by more than EUR 0.2 million as a result of loan repayments.

Associated companies – application of arm's length principle

No new control and profit and loss transfer agreements were concluded in the 2004 financial year; such existing agreements with Centroplast Engineering Plastics GmbH and CENTROTEC Composites GmbH remained in force.

As legal transactions with companies in which members of the Supervisory Board and management hold an interest or might hold an interest were again conducted in 2004, the Management Board likewise issued a dependence report for that year as a precautionary measure.

Concluding remark from the dependence report: 'Pursuant to Section 312 Para. 3 of German Stock Corporation Law, we declare that, on the basis of the circumstances known to us at the time when legal transactions with associated companies were conducted, our company received adequate consideration for each legal transaction.'

Financial performance – further rise in earnings of CENTROTEC Sustainable AG

The earnings of CENTROTEC result in the first instance from consultancy and other services provided for group companies. The number and volume of consultancy projects showed a rise of around 20 percent on the previous year. This resulted in other operating income totalling EUR 1.2 million. In view of the higher personnel total, personnel costs rose in parallel by EUR 0.2 million. However, the total other operating income fell by EUR 0.4 million, from EUR 1.7 million to EUR 1.3 million. This was attributable to the fall in legal and consultancy costs passed on to other group companies; these costs had been higher in the previous year particularly as a result of the acquisitions made in 2003.

Other operating expenses were sharply down at EUR 0.8 million (previous year EUR 1.3 million). On the one hand the consultancy costs in 2003 had been very high as a result of acquisitions. On the other hand, the costs for legal support in 2004 were cut substantially by the recruitment of the group's own staff lawyer from mid-way through the year. The improved financial structure led on the one hand to lower interest expense and on the other hand to an increase in other interest income of EUR 0.2 million.

The loss posted by Centrotec Composites diminished the result of the controlling company by EUR 0.6 million due to the control and profit transfer agreement. The net income of Centroplast (EUR 0.4 million) was booked to the controlling company to reduce the loss carryforward.

CENTROTEC Sustainable AG posts a negative result of EUR 0.2 million.

Development of affiliated companies

Centroplast Engineering Plastics GmbH and Rolf Schmidt Industiplast A/S
As a result of the continuing restructuring measures that had been initiated in previous years, the earnings situation of Centroplast improved as planned in 2004. The gross operating result improved by EUR 1.0 million to EUR 0.4 million, taking into account the EUR 0.3 million year-on-year increase in dividend from Rolf Schmidt Industrieplast A/S. The company posted negative shareholders' equity of EUR 0.4 million at December 31, 2004. On the other hand Centroplast's affiliated company, Rolf Schmidt Industriplast A/S, Denmark, suffered a downturn in both revenue and earnings after a string of exceptionally successful years. The main reason for this is the marked recession that has now also hit Denmark. Here too, internal corporate restructuring measures have now been initiated. Signs of an improvement in the market offer the prospect of a positive development in 2005.

Centrotec Composites GmbH
Centrotec Composites GmbH had to absorb the cost of setting up volume production and developing new products in 2004. This led to a negative result for 2004. Now that the production processes for existing products have largely been optimised and new orders are being processed and dispatched, a substantial improvement in earnings is on the cards for 2005.

Centrotec Medizintechnik GmbH
As the parent company, Centrotec Medizintechnik owns and advises Möller Medical GmbH & CO. KG, Fulda. Business operations continued to develop positively thanks to new products and the development of new sales structures in 2004.

Centrotec International GmbH and Centrotec JI Asia Pte Ltd.
Centrotec International is the parent of Centrotec JI Asia Pte Ltd. (Singapore), in which it holds a 57.5 % interest. It was consolidated for the first time in 2004 and almost broke even, with revenue of EUR 0.4 million. Now that modifications to the production capacity have almost been completed, business will be further stepped up in 2005.

Ubbink Group
As well as its own business activities, Ubbink B.V. encompasses the activities of its subsidiary companies Ubbink UK, Ltd. (GB), Ubbink N.V./S.A. (B), Ubbink France SAS (F), Centrotherm Systemtechnik GmbH (D) and Centrotherm Gas Flue Technology Italia S.R.L. (I). All these companies operate very successfully in their national markets in the Gas Flue area. Revenue was increased significantly particularly in the United Kingdom and France. Further progress was made with the long-term positive development of this area in the 2004 financial year thanks to organic growth of around 9 %. It has been selling solar support structures in the Netherlands for a number of years. Through the acquisition of the business

(including product rights and patents) for the solar panel assembly systems that are sold by Ubbink Econergy Solar GmbH (D), it has now become European market leader for plastic assembly systems. This area is expected to yield high rates of growth and returns in the future.

Brink and Ned Air Group

The Dutch companies specialising in indoor air systems with heat recovery were able to extend their market positions further in 2004 and stabilise their returns. Now that the Kyoto Protocol has come into force and is being implemented via national legislation under the Energy Performance of Buildings Directive, there are additional opportunities for Brink's ventilation systems for detached and semi-detached houses and for Ned Air in the field of commercial properties such as offices, schools etc.

Bond Laminates GmbH

Bond Laminates, in which CENTROTEC helds a 24.95 % interest, was able to improve its rate of return substantially in 2004, having broken even in 2003. The revenue level of the previous year was, however, not emulated as one high-volume order has now been completed and the new projects and orders taken on were unable to compensate fully for the loss of revenues. Significant rises in revenue are expected in 2005 and 2006.

IV. PRINCIPAL RISKS TO FUTURE DEVELOPMENT

The group as a whole was once again able to boost revenue and earnings. CENTROTEC Sustainable AG continues to pursue systematically the strategy of expanding in promising segments of environmental technology and adding new strategic areas of business. The company has already done so with demonstrable success in several cases.

During the 2004 financial year, CENTROTEC nevertheless considered in depth the risks to which the company is exposed. For example, there remains a fundamental risk of wrong developments and of the resulting impairment of the affiliated companies.

The risk management system of CENTROTEC analyses and evaluates the various risks and attempts to minimise negative effects on the financial position of the group. Risk management is practised at both the group parent and the affiliated companies on the basis of existing guidelines. Risk managers identify, measure, assess and support the steering of potential sources of risks.

Market risks from currency translation within the group are limited, as transactions take place principally in eurozone countries. A small portion of the group's business activities takes place in the United Kingdom, Scandinavia, the USA and Asia. This gives rise to a limited exposure to risks from changes in foreign exchange rates.

To minimise the interest rate risks, interest cap certificates (derivatives) to hedge the interest rates of variable-rate loans of the CENTROTEC group were taken out. Negative changes in the market values of financial instruments are recognised as an expense in the
annual financial statements.

The participating interest Centrotec Composites is still in the start-up phase and has therefore posted a loss. If it does not prove possible to increase the revenue volume of this start-up over the next years, restructuring would be required.

Over and above this, there are the following risks for the group, which do not directly affect CENTROTEC as the group parent:

Throughout the group, the market niches in which the CENTROTEC group operates are on the whole growing and are relatively immune to cyclical fluctuations. We do of course register the impact of cyclical factors.

Our dependence on major customers deserves particular attention. By far our largest customer represents less than 7 % of consolidated revenue. Our customer structure as a whole is balanced. The loss of major customers could nevertheless diminish the earnings of affiliated companies.

We enjoy a generally secure market position in all divisions thanks to a steady stream of new and refined technological developments and quality assurance methods. Factors which could erode our competitive edge, such as the appearance of new competitors, increasing employee power or substitution products, cannot of course be excluded in this connection.

Internally, we perceive potential risks in the production sector. We implement suitable accident prevention regulations and measures to prevent possible accidents and plant breakdowns. All plant is moreover insured in line with its value. However, the failure of critical plant could result in noticeable losses. A further risk exists at the supply end. The loss of critical suppliers could result in our experiencing delivery bottlenecks. We tackle this risk through close technical cooperation with important suppliers and by maintaining at least two sources of supply for all important products.

We have moreover been supported on legal matters by the group's own legal counsel since the beginning of this year. This means that as well as matters of company law, aspects of contract law for example can now be given in-house support.

In the IT sector the possibility cannot be excluded that problems that have not yet been identified will arise. The particular challenge for the next year will be to implement the latest releases and integration stages in our ERP system. The new hardware platform with new server systems should reduce the risk from technical systems still further. This may entail risks to the efficiency of procedures in isolated instances. Likewise we cannot generally exclude the possibility that a problem in the IT sector could lead to a loss of data, despite ongoing data safeguarding, and cause considerable damage.

The company is moreover exposed to a degree of dependence on certain key employees. However, as we expand so will our base of highly qualified employees, with the result that this risk will gradually dwindle.

Our high rate of growth in itself harbours risks. Internal structures in particular must be repeatedly and rapidly adjusted to the requirements of a growing group organisation. Reorganisation projects in the various areas of the company and at its various locations have made a substantial contribution towards ensuring that the company's internal structure suitably reflects the size of the group. This viable basis is constantly being elaborated.

The implementation of further risk-reducing measures within the divisions means that the risk potential as a whole is manageable.

IV. OTHER PARTICULARS

Interest rate hedging transactions

CENTROTEC makes limited use of interest rate derivatives in order to protect itself against risks from interest rate fluctuations. The hedging instruments used are caps and floors, which limit the earnings impact of market fluctuations in the interest rate. To hedge against rising interest rates, CENTROTEC for instance has caps of EUR 6 million.

Particular events after the end of the financial year

Between the end of the financial year at December 31, 2004 and the date of preparation of the management report, there were no particular events affecting the position of CENTROTEC.

It can be mentioned that CENTROTEC Sustainable AG was admitted to the new ‘GEX’ index (German Entrepreneurial Index) of Deutsche Börse AG at the start of 2005.

Outlook – further growth

Our assessment of the development of CENTROTEC Sustainable AG in the current financial year is very positive. The stock market shares this view, as our share price more than doubled in 2004 and is currently in excess of the 20 euro mark. Our promise of growth has been redeemed. Revenue has moreover been boosted in a very profitable way. The groundwork for profitable progress has already been done. The revenue and earnings growth for the group as a whole will once again reach a double-digit percentage in 2005.

A slight rise in the heating market is forecast. Economical condensing boilers will enjoy growth in the European market. The process of substitution by plastic gas flue systems will likewise continue. We expect that revenue will again rise at a faster rate than the heating systems market as a whole in 2005.

We in addition assume that condensing boiler technology will ultimately prove as successful in neighbouring European countries as it has done in Germany, and that this will consequently create new, sizeable markets for plastic gas flue systems in those countries, too. Through the Ubbink Group's subsidiaries in the Netherlands, Belgium, France and the United Kingdom and the subsidiary Centrotherm Italy SRL, we have established the sales basis for achieving further growth with this pioneering technology in foreign markets, too.

The heat recovery technology of Brink Climate Systems and Ned Air promises unabated high potential for growth both in their established home markets and in export markets. The Netherlands leads the way in this sector, as in the field of condensing boiler technology: Brink Climate Systems consequently represents a further important technology cornerstone in the context of an increasing trend towards climate control systems.

New areas of medical technology are being tapped through the expansion of Möller Medical. The sales method in individual selected product segments is being switched to supplying end customers directly, with the result that this too can be expected to deliver growth and a healthy contribution to earnings in future years.

We will continue to focus on making targeted strategic acquisitions. The core principle here will be to deepen and broaden our business portfolio in such a way as to strengthen the idea of sustainability.

CENTROTEC Sustainable AG therefore views future developments in a distinctly positive light and offers bright prospects for investors who are looking to buy shares that represent genuine substance coupled with attractive growth rates.

Brilon, February 28, 2005

CENTROTEC Sustainable AG

Dr. Gert-Jan Huisman, Chairman and Finance

Martin Beijer, Gas Flue Systems
Dr. Alexander Kirsch, Medical Technology & Engineering Plastics,
Strategy and Expansion

Rob Slemmer, Climate Systems

Dr. Christoph Traxler, Medical Technology & Engineering Plastics

CENTROTEC Sustainable AG, Brilon Notes to the annual financial statements for the financial year 2004

A. GENERAL INFORMATION

CENTROTEC Sustainable AG, Am Patbergschen Dorn 9, 59929 Brilon, is a large company as defined by Section 267 (3) of HGB (German Commercial Code), on the strength of its stock exchange listing. The format of the Balance Sheet and Income Statement is based on the provisions of Sections 264 ff. of HGB applicable to corporate enterprises.

The annual financial statements have been prepared in accordance with the provisions of HGB and the supplementary provisions of German Stock Corporation Law. The Income Statement has been prepared using the nature of expenditure method pursuant to Section 275 (2) of HGB.

B. RECOGNITION AND MEASUREMENT PRINCIPLES

(1) Fixed assets

Purchased intangible assets are capitalised at cost and amortised according to the straight-line method in accordance with their expected useful lives. Tangible assets (property, plant and equipment) are carried at cost, less depreciation. Low-value assets are written down in full in the year of their addition and reported as a disposal. In the event of lasting impairment, impairment losses down to the lower fair value are recognised. If the reasons for impairment cease to apply, a write-up to the fair value, but to no more than the scheduled values, is performed.

(2) Financial investments

The financial investments are valued at cost or at the lower fair value. If the reasons for lasting impairment cease to apply, write-ups are performed to the extent necessary.

(3) Accounts receivable and other assets

Accounts receivable and other assets are recognised at nominal value or at the lower fair value. Foreign currency receivables are valued at the historical rate or at the lower rate prevailing at the reporting date. If the reasons for impairment to the lower fair value cease to apply, a write-up to the fair value, but to no more than the nominal value or cost, is performed.

(4) Treasury stock

Treasury stock is measured at cost or at the lower fair value. If the reasons for impairment cease to apply, a write-up to the fair value, but to no more than the cost, is performed.

(5) Cash and cash equivalents

These amounts exist exclusively in domestic currency (EURO) and are carried at their principal amount.

(6) Accrued expenses

The tax accruals are formed for contingent liabilities and take account of all identified risks. They are carried at the amount dictated by sound business judgement.

(7) Liabilities

The liabilities are reported at their redemption amount or at the higher fair value. Foreign currency liabilities are measured at the historical rate or at the higher rate prevailing at the reporting date. If the reasons for impairment to the higher fair value cease to apply, a write-up to the fair value, but to no more than the redemption amount or cost, is performed.

C. SPECIAL INFORMATION AND NOTES

(1) Balance Sheet

1.1 Assets

1.1.1 Fixed assets

The classification and movements of fixed assets are shown in the previous presented Asset Movement Schedule.

1.1.2 Current assets

The accounts receivable and other assets include interest rate derivatives totalling EUR 25 thousand with a time to maturity of more than one year.

1.2 Equity and liabilities

1.2.1 Shareholders’ equity

At December 31, 2005 the capital stock of the company is divided into 7,888,537 individual share certificates. The individual share certificates have no par value. The no-par shares each represent EUR 1 of capital stock. All shares have been fully paid in.

Approved capital in addition exists. The Management Board is authorised, with the approval of the Supervisory Board, to increase the company’s capital stock by up to EUR 3,833,987 (approved capital) until April 30, 2008 by issuing new bearer individual share certificates with no par value in return for cash or non-cash contributions on one or more occasions. The new shares are to be accepted by banks, with the obligation to offer them for subscription to the shareholders. The Management Board is, however, authorised to exclude residual amounts from the shareholders' subscription right. The Management Board is also authorised to exclude the right of subscription in order to issue new shares in return for non-cash contributions. Moreover, the Management Board is entitled pursuant to Section 186 (3), fourth sentence of German Stock Corporation Law (AktG) to exclude the shareholders' right of subscription for up to EUR 766,797 of the approved capital on one or more occasions if the issuing price of the new shares is not significantly lower, but in no case more than 5 % lower, than the market price of the shares already listed at the time when the issuing price is finally fixed by the Management Board, which should be as close as possible to the placement of the shares.

There exists conditional capital. At the reporting date, this totalled EUR 546,235 pursuant to the resolution adopted by the Shareholders' Meeting of May 28, 2002. The Management Board is authorised to issue warrants for subscription to new bearer shares in the company until December 31, 2004, on one or more occasions. Employees, managing directors and management board members of the company and of their affiliated companies pursuant to Section 17 of German Stock Corporation Law are entitled to subscribe. New shares are created where the options are exercised. These pay dividends from the beginning of the financial year in which the options are exercised. The conditional capital is divided into 546,235 individual share certificates.

With effect from January 13, 2004, 175,100 options were issued to employees, executive staff and Management Board members at an exercise price of EUR 8.70. The strike price per share (subscription price) to be paid upon exercising of the options shall be 90% of the closing price on the Frankfurt am Main stock exchange, calculated over the 30 trading days preceding the day of issue of the option (commercially rounded to the nearest 0.1 euro), but at least the nominal value of the share; Section 9 (1) of German Stock Corporation Law remains unaffected. The term of the options to be issued may be up to 7 years from the time of their granting. The contingency period before the options may be exercised is two years from the date of issue of the option. Exercise of the options is linked to the fulfilment of certain conditions and objectives. They may only be exercised if the market price on the day on which the options may first be exercised or at a later time during the term of the options has risen by 30 % on the strike price. Exercise of the options is also linked to the fulfilment of individual objectives by employees, executive staff and Management Board members. It is therefore uncertain how many of the options issued will actually be exercised.

The following table provides an overview of the options plan:

	2004		2003	
	Options	Ave. exercise price	Options	Ave. exercise price
Start of year	659,771	6.75	531,689	9.63
Granted	175,100	8.70	319,374	4.00
Exercised	220,562	8.80	0	0.00
Lapsed	68,074	4.45	191,292	10.15
End of year	546,235	6.79	659,771	6.75

In accordance with the resolution adopted by the Shareholders’ Meeting on May 11, 1999, which was amended by the resolutions adopted by the Shareholders’ Meeting on May 18, 2000 and May 17, 2001 and extended for the last time to date on May 26, 2004, the company is entitled to buy back treasury stock representing up to 10 % of capital stock. This authorisation is valid until November 26, 2005. The price for the acquisition of these shares may not be more than 15 % higher or more than 15 % lower than the average cash settlement price of shares of the same class and features at the Frankfurt Stock Exchange on the ten trading days preceding the acquisition. The Management Board is authorised to offer all or some of the shares thus acquired to third parties as (partial) payment for the acquisition of companies or investments in companies, excluding the shareholders' right of subscription. The Management Board is also authorised to retire the company's treasury stock without the need for a further resolution to be adopted by the shareholders' meeting. The retirement may be restricted to part of the purchased shares.

A total of 6,040 treasury shares were held in the financial year. These shares represent 0.076 % of capital stock. These shares were held at the parent as treasury stock at the balance sheet date. No treasury stock was acquired or sold during the financial year.

The share capital of CENTROTEC Sustainable AG, Brilon, totals EUR 7,888,537 thousand, the additional paid-in capital EUR 12,712 thousand and the revenue reserves EUR 19,935 thousand. As a result of the allocation of the profit carry-forward of EUR 17,949 thousand to the revenue reserves and a net loss of EUR 231 thousand, the company's equity at December 31, 2004 totals EUR 40,304 thousand. The capital stock rose exclusively as a result of exercised stock options, as did the additional paid-in capital as a result of the premiums paid in. The additional paid-in capital consists of reserves pursuant to Section 272 (2) Nos. 1 to 3 of German Commercial Code. The additional paid-in capital developed as follows in the 2004 financial year:

	EUR
Position at January 1, 2004	10,990,673
Premium from capital increase	1,720,880
Position at December 31, 2004	12,711,553

1.2.2 Accrued expenses

The tax accruals relate to the company's income tax obligations, including those resulting from its position as parent company. The other accruals include costs for personnel restructuring, the Shareholders' Meeting, legal and consultancy costs, outstanding vacation entitlements and purchase invoices outstanding.

1.2.3 Liabilities

The remaining maturities are shown in the following table:

			Thereof with a residual term of					
	Position at		up to one year		between one and five years		more than five years	
in EUR '000	31/12/04	31/12/03	31/12/04	31/12/03	31/12/04	31/12/03	31/12/04	31/12/03
Bank liabilities	2,100	3,562	279	1,511	920	920	901	1,131
Trade accounts payable	127	63	127	63	0	0	0	0
Liabilities to affiliated companies	416	966	416	966	0	0	0	0
Liabilities to companies linked through participation	0	1	0	1	0	0	0	0
Other liabilities	179	163	179	163	49	0	0	0
	2,822	**4,755**	**1,001**	**2,704**	**969**	**920**	**901**	**1,131**

The collateral provided for bank liabilities consists principally of global assignments of receivables, storage assignments of inventories, assignments of technical equipment and machinery of the companies CENTROTEC Sustainable AG, Brilon and Centroplast Engineering Plastics GmbH, Marsberg, as security, and a mortgage on the site of Centroplast Engineering Plastics GmbH, Marsberg, amounting to EUR 3,451 thousand. At the closing date, all of the liabilities were covered by collateral.
The liabilities to affiliated companies include amounts for current transactions totalling EUR 13 thousand (previous year EUR 0 thousand).

D. OTHER PARTICULARS

(1) Contingent liabilities

As part of the takeover of the Ubbink Group, it was agreed that a group company of CENTROTEC Sustainable AG would do all in its power to help sales representatives be released from rental guarantees assumed by the seller. The rental agreements in question are an agreement in the United Kingdom for annual rent of currently GBP 80,000 (EUR 129 thousand), due to run until 2012. A letter of subordination was issued to Centrotec Composites GmbH in respect of EUR 45 thousand. A letter of subordination for EUR 1,300 thousand has in addition been issued to Centrotec Medizintechnik GmbH in respect of a loan.

Within the context of a purchase agreement for assets of Econergy International B.V., the Netherlands, Econergy International GmbH, Cologne and Econcern B.V., the Netherlands, by Ubbink B.V., the Netherlands, and Ubbink Econergy Solar GmbH, Cologne, CENTROTEC Sustainable AG has guaranteed the sellers performance by the buyers according to contract. The guarantee amounts to a maximum of EUR 440 thousand at December 31, 2004.

At the balance sheet date there existed a letter of subordination and capital commitment declaration to WGZ Bank Westdeutsche Genossenschafts-Zentralbank eG, Münster, to secure the subsidiary Centrotherm Systemtechnik GmbH as a going concern.
Financial obligations may furthermore arise from interest rate hedging instruments concluded.

Intercompany agreements exist within the context of control and profit and loss transfer agreements between the company and Centroplast Engineering Plastics GmbH, Marsberg as well as Centrotec Composites GmbH, Brilon. These have a contractual term until December 31, 2008. Financial obligations may arise in the future as a result of these.

(2) Financial derivatives

Financial derivatives have been concluded as a hedge against interest rate fluctuations. Caps and floors were the hedging instruments used. The following table shows the contracts concluded.

Financial derivatives

Type of derivative	Contract volume EUR	Cost EUR '000	Market value 31/12/2004 EUR '000	Market value 31/12/2003 EUR '000	Term	Cap/ floor rate
Asset						
Cap	3 million	73	24	67	Up to 2011	5.00 %
Cap	3 million	21	1	15	Up to 2007	4.25 %
Liability						
Floor	3 million	38	49	41	Up to 2011	2.75 %

Market values represent the values at the balance sheet date without regard to the underlying transaction and were calculated by credit institutions on the basis of market models. Changes in value of these cash flow hedges were booked to income within the Income Statement. The caps are reported under other assets, and the floor under other liabilities.

(3) Average number of employees

Over the period from January 1 to December 31, 2004, the company had an average of 9 employees, 5 of whom were Management Board members.

(4) Corporate Governance

Background

On February 26, 2002 the "Government Commission on the German Corporate Governance Code" presented a code of behaviour for management boards and supervisory boards of listed companies. This Code was updated on May 21, 2003. The objective is to render the German corporate governance system transparent and intelligible, and to promote investors' confidence in the way German listed companies are supervised.

Pursuant to Section 161 of German Stock Corporation Law, the Management Board and Supervisory Board of a company listed on the stock exchange are obliged to declare once a year whether and to what extent the code has been and is complied with.

Declaration of Compliance by CENTROTEC Sustainable AG in respect of the German Corporate Governance Code

CENTROTEC Sustainable AG will comply with the recommendations of the Government Commission on the German Corporate Governance Code in the version dated May 21, 2003, with the exception of the aspects detailed below:

Section 4.2.3 of the Code recommends that the remuneration of the Management Board should comprise a variable as well as a fixed component. The variable component is, among other things, intended to be performance-related, have a long-term incentivising effect and possess a risk character. The Code quotes stock options schemes as an example. CENTROTEC has been operating a stock options scheme, applicable not only to Management Board members but also to executive staff and other employees, since 1999. We believe that the scheme reflects the spirit of the Code, but we draw attention to two aspects which could be interpreted as a departure from it. The Code recommends reference to comparative parameters. The stock options scheme envisages a performance target based on the absolute rise in the share price. This form was chosen in order to provide an incentive for success in absolute rather than relative terms. The Code in addition recommends that the variable remuneration be capped. In the case of the options, this was realised through allowing their exercise only within a limited time frame (for the first time two years after issue, for the last time seven years after issue). Options received as a result of the attainment of targets are not retrospectively withdrawn by the company or the parameters governing them altered. Alongside the aforementioned share price target, the exercising of the options is moreover linked to further internal performance targets in order to preserve a demanding but equitable form of variable remuneration.

Section 4.2.4 of the Code recommends that the remuneration of the Management Board be reported broken down according to fixed payments, performance-related components and components with a long-term incentivising effect. This we do. However, no individualised disclosures concerning levels of remuneration are made, as we regard the protection of the private sphere as more important than the value of additional information on how the total volume of remuneration, which we do not believe to be above-average, is broken down between the individuals in question.

Section 5.3 of the Code recommends the formation of committees on the Supervisory Board. This is, however, to take place subject to the specific circumstances of the company and the number of members of the Supervisory Board. Our Supervisory Board comprises three members, who consider all matters concerning the company jointly. Consequently, we do not regard the creation of committees to be appropriate in our case. We believe that our view is compatible with the Code, but supply this information as a precautionary measure by way of clarification.

CENTROTEC moreover observes all target requirements of the Code.

Since the last Declaration of Compliance dated February 27, 2004 CENTROTEC has satisfied the recommendations of the ‘Government Commission on the German Corporate Governance Code’, in the version dated May 21, 2003, with the exception of the aspects mentioned.

(5) Management Board and Supervisory Board

The Management Board members at the balance sheet date were:

Dr. Gert-Jan Huisman, Nijkerk, Netherlands, merchant (Chairman)
Martin Beijer, Doesburg, Netherlands, merchant
Dr. Alexander Kirsch, Munich, Germany, merchant
Rob Slemmer, Hoevelaken, Netherlands, merchant
Dr. Christoph Traxler, Fulda, physicist (since April 1, 2004)

The members of the Supervisory Board at the reporting date were:

Guido A. Krass, Wadhurst, United Kingdom, entrepreneur (Chairman)
Wim Brink, Zwolle, Netherlands, entrepreneur
Dr. Bernhard Heiss, Munich, lawyer

Members of the Management and Supervisory Boards also serve on the following supervisory boards as defined in Section 125 (1), third sentence of German Stock Corporation Law:

Guido A. Krass:	Eracom Technologies AG, Krefeld (Chairman)
	PACT Technologies AG, Munich, Germany
	Pari Capital AG, Munich, Germany (Chairman).
	Pari Capital Group AG, Steinhausen, Switzerland (Chairman of Board of Directors)
	Ubbink Nederland B.V. (Chairman)
Wim Brink:	Newion Investments BV, Heerenveen, Netherlands
	Dutch Rescue Holding B.V., Hoogeveen, Netherlands (Chairman)
Dr. Bernhard Heiss:	MME Moviement AG, Hamburg (Chairman)
	Kögel Holding AG, Munich, Germany
Dr. Alexander Kirsch:	Pari Capital AG, Munich, Germany
	Pari Private Equity AG, Munich, Germany

The total remuneration of the five board members was EUR 982 thousand, with part of this remuneration being paid by the subsidiaries for activities as their managing directors. This amount includes social contributions and fringe benefits such as company cars and pension commitments. It does not include exercisable share options which are tied to the fulfilment of individual and company objectives. Options granted in 2004 have merely a theoretical value of EUR 1,344 thousand, as the CENTROTEC share price rose sharply after the issue of the options on January 13, 2004. The figure was calculated using the maximum possible number of options. How many options can actually be exercised depends on the attainment of individually specified targets.

The remuneration of the Supervisory Board totalled EUR 7 thousand and was made up as follows: Herr Krass EUR 3 thousand, Dr. Heiss EUR 2 thousand and Mr. Brink EUR 2 thousand.

No loans were granted to members of executive bodies in 2004.

The following table shows directors' holdings at December 31, 2004.

Name	2004 Shares (total)	2004 Options (total)	2003 Shares (total)	2003 Options (total)
Management Board				
Dr. Gert-Jan Huisman	1,016	114,0160	500	107,084
Dr. Alexander Kirsch	16,450	108,889	14,000	115,279
Martin Beijer	0	79,422	700	104,639
Rob Slemmer	0	57,095	0	43,659
Dr. Christoph Traxler	0	25,000		
Supervisory Board	0			
Guido A. Krass	1,200,000	0	1,200,000	0
Dr. Bernhard Heiss	0	0	0	0
Wim Brink	0	0	0	0
CENTROTEC				
Ordinary shares	7,888,537	0	7,667,975	0
Treasury stock	6,040	0	6,040	0

(6) Investments

All companies in which shares are held are listed separately. The company exercises its choice pursuant to Section 287 No. 1 in this respect. The list is submitted to the Commercial Register of the Local Court of Arnsberg, Eichholzstrasse 4, 59821 Arnsberg, concurrently with publication of the annual financial statements.

CENTROTEC Sustainable AG prepares consolidated financial statements for itself and its subsidiaries for the largest group of companies. These consolidated financial statements are available from the offices of CENTROTEC Sustainable AG, Am Patbergschen Dorn 9, 59929 Brilon, Germany.

(7) Other particulars

Notices pursuant to Section 21 (1) of German Securities Trading Law (WpHG)

The shareholding of Brink Holding B.V. fell below 5 % on September 22, 2004.

Brilon, February 28, 2005

CENTROTEC Sustainable AG

Dr. Gert-Jan Huisman, Chairman, Finance

Martin Beijer, Gas Flue Systems

Dr. Alexander Kirsch, Medical Technology & Engineering Plastics, Strategy and Expansion

Rob Slemmer, Climate Systems

Dr. Christoph Traxler, Medical Technology & Engineering Plastics

Independent Auditors' Report

We have examined the annual financial statements, including the accounts, and the management report compiled by CENTROTEC Sustainable AG, Brilon, for the business year from January 1 to December 31, 2004. The accounts and the preparation of the annual financial statements and management report in accordance with the requirements of German commercial law and the supplementary regulations contained in the articles of incorporation are the responsibility of the company's Management Board. The scope of our audit did not extend to assessing the details of the declaration of compliance with the German Corporate Governance Code included voluntarily by the company in the Notes. Our responsibility is to pass judgement, based on our audit, on the annual financial statements, including the accounts, and on the management report.

We carried out our audit of the annual financial statements in accordance with Section 317 of German Commercial Code, observing the German principles of proper auditing promulgated by the German Institute of Auditors (IDW). Those principles require that we plan and perform an audit to obtain reasonable assurance that there are no misstatements and violations which materially affect the presentation of the company's net worth, financial position and financial performance in the annual financial statements, based on the principles of proper accounting, and in the management report. The scope of the audit was determined on the basis of a knowledge of the business activities and the economic and legal context of the company, as well as the likelihood with which particular errors were to be expected. In the context of the audit, the effectiveness of the accounts-based internal controlling system and evidence of the details provided in the accounts, annual financial statements and management report are examined predominantly on a test basis. The audit includes assessing the accounting principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

No objections are made on the basis of our audit.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and financial performance of the company. The management report as a whole provides an accurate picture of the company’s position and of the risks to its future development.

Kassel, March 7, 2005

PriceWaterhouseCoopers GmbH,
Wirtschaftsprüfungsgellschaft, Kassel

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