

2010

ANNUAL REPORT

TECHNOLOGY

INNOVATIONS

DIAGNOSTICS

ANALYZER SYSTEMS

DEMOGRAPHIC DEVELOPMENTS

WHAT DRIVES US

INFRASTRUCTURE DEVELOPMENT BRIC COUNTRIES

SHORTER DEVELOPMENT PERIODS

POPULATION GROWTH

GLOBAL

OUTSOURCING

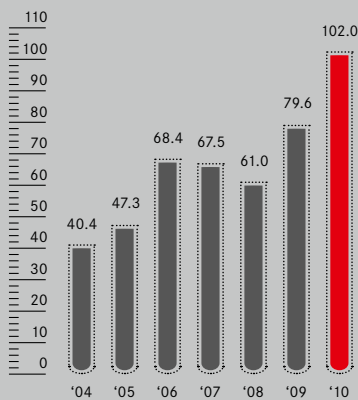


LOCATIONS

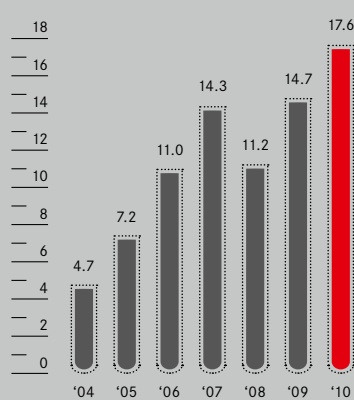


KEY FIGURES AT A GLANCE

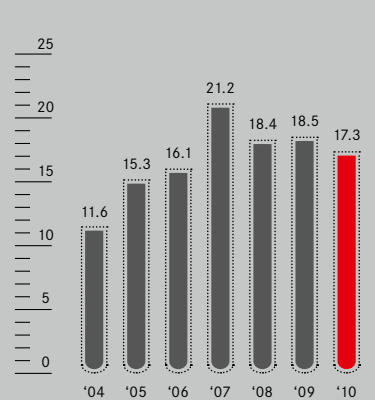
Sales in € million

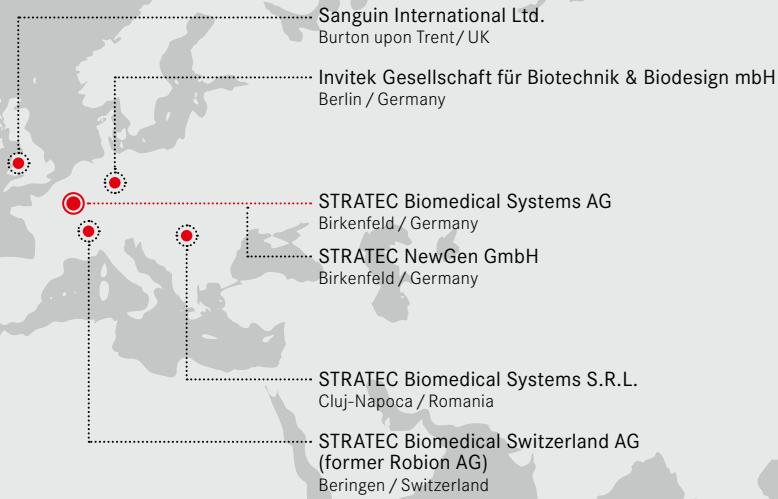


EBIT in € million

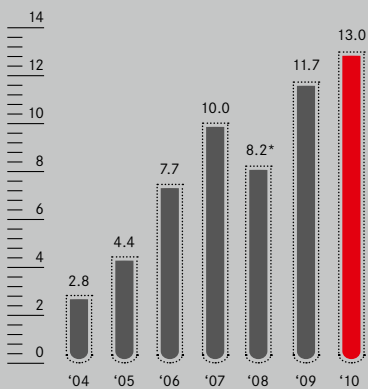


EBIT margin in %

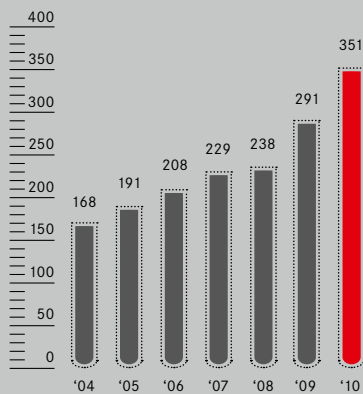




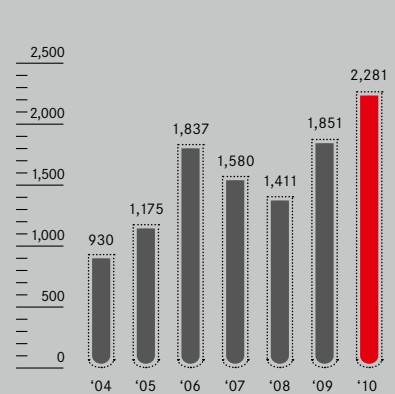
Consolidated net income in € million



Employees (annual average)



Analyzer systems delivered



* Excluding a non-operating one-off expense of € 2.1 million due to a valuation adjustment in 2008. Including this expense, "Consolidated net income" in 2008 amounts to € 6.1 million.

MISSION STATEMENT

AS THE INNOVATIVE AND TECHNOLOGICAL MARKET LEADER FOR AUTOMATION AND INSTRUMENTATION SOLUTIONS IN IN-VITRO DIAGNOSTICS, WE SEEK TO OFFER OUR WORLDWIDE PARTNERS FIRST CLASS SOLUTIONS AND THEREBY SHARE RESPONSIBILITY TOWARDS THEIR CUSTOMERS AND PATIENTS.

OUR SUCCESS IS BASED ON THE TALENTS AND SKILLS OF OUR EMPLOYEES AND THEIR COMMITMENT TO ALWAYS PERFORM THE EXTRAORDINARY. THEIR PERFORMANCE ALLOWS FOR THE SUCCESSFUL AND SUSTAINABLE DEVELOPMENT OF OUR COMPANY IN THE INTEREST OF ALL ITS STAKEHOLDERS.

OUR PARTNERSHIPS ARE BUILT ON MUTUAL TRUST, CONTINUITY AND PROFESSIONALISM AND WITH OUR PARTNERS WE SHARE A COMMON MISSION TO DEVELOP SAFE, INNOVATIVE, MARKET-LEADING PRODUCTS THAT CONSISTENTLY FULFIL CUSTOMER EXPECTATIONS. FOR STRATEC, PARTNERSHIP MEANS RESPONSIBILITY, PASSION AND COMMITMENT, TO BOTH OUR CUSTOMERS AND OUR PRODUCTS, THAT GOES WELL BEYOND THE DURATION OF THE PRODUCT LIFE CYCLE.



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REPORT OF THE BOARD OF MANAGEMENT

Dear Shareholders,
Dear Ladies and Gentlemen,

2010 was yet again a high successful year for STRATEC Biomedical Systems AG. In some ways, however, it was also a year of transition, one in which we laid foundations in terms of our personnel and our strategy for the next stage in the company's growth.

From an operating perspective, we can look back on a further record year. Sales exceeded the 100 million euro mark for the first time in the company's history, equivalent to year-on-year growth of around 28%.

Even though three market launches in a single year and the resultant ramp-up costs made 2010 exceptional, we nevertheless managed to post new record earnings figures. We aim to enable our shareholders to participate in this development by further increasing our dividend payment.

The development and supply orders received from Biomérieux and Abbott mean that we have successfully acquired two major orders from global leaders in the diagnostics industry, companies that previously performed most of their development work internally. These orders underline the clear trend in our industry towards outsourcing automation solutions to partners specializing in this field, such as STRATEC. In view of these two new extensive contracts acquired in the past two years, we continue to expect substantial growth in our development and supply activities, and thus a continuingly positive sales performance. This development will form the basis for further growth at our company in the coming years as well.

To do justice to the consequences of these very pleasing developments, we also initiated a number of strategic measures in the 2010 financial year.

In Switzerland, we have constructed a new building offering sufficient scope for the coming years to gradually adjust the capacity of our production activities there in line with the expected growth. We have also built a new building at our main location in Birkenfeld, one where our development teams can now work together. Here too, our plans also account for the potential expansion in our capacities in the coming years.

In the USA, we took over Ballista Inc., now renamed STRATEC Biomedical USA, Inc., thus boosting our presence with customers on location and acquiring valuable competence in the field of opto-mechanics. Developing and expanding our network of suppliers in the US dollar region will help us reduce potential currency risks due to the resultant natural hedging effect.



f.r.t.l.

Hermann Leistner (65),
Chairman of the
Board of Management

Dr. Robert Siegle (43),
Member of the Board
of Management,
Human Resources,
Compliance and
Legal Affairs

Bernd M. Steidle (57),
Member of the Board
of Management,
Marketing and Sales

Marcus Wolfinger (43),
Member of the Board of
Management,
Chief Financial Officer

We have also made further progress with integrating Invitek GmbH, a company acquired in 2009 that is now making a major contribution towards performing additional services for our customers, as a result of which it has already been possible to win several new orders for the STRATEC Group.

While integrating all of our subsidiaries we also decided to rename the respective country companies. This will provide the individual business units and functional divisions of the STRATEC Group with a uniform global presence in future.

Turning to developments on the capital markets, we were delighted by our acceptance into the TecDAX index of the German Stock Exchange in November 2010. We believe this reflects the company's positive performance and our active investor relations activities. We also see it as providing a further incentive to uphold our shareholder-friendly and transparent communications with the capital markets.

Hermann Leistner announced that he would be stepping down from his position as Chairman of the Board of Management and retiring as of March 31, 2011. Careful preparations for the handover of his position began well in advance, and his designated successor, Marcus Wolfinger, who has acted as STRATEC's Chief Financial Officer since 1999, has thus been able to make suitable preparations for his new role. Bernd M. Steidle, who has successfully directed the marketing and sales division for more than 10 years and will remain responsible for this area, has been joined on the Board of Management since February of this year by Dr. Robert Siegle, who has now assumed responsibility for the areas of human resources, compliance and legal affairs. This appointment also reflects the ever higher standards STRATEC has to meet as a group with international operations based on location in each case and expected to meet its customers' and the authorities' high expectations and requirements in terms of quality and the regulatory and legal framework. Responsibility for the company will thus remain in the same hands that have played a key role in shaping STRATEC's successful course over many years.

Together with his employees and partners, Hermann Leistner has worked since STRATEC's foundation in 1979 to build up a company that now offers secure, attractive employment to around 450 employees worldwide and acts as a reliable, innovative partner for its customers and is committed as a matter of principle to offering quality and reliability. Since its IPO in 1998, the company's successful development has also been reflected in the performance of its share and dividend payments. We see this track record as representing an obligation towards our partners, shareholders, and employees to work sustainably and responsibly to uphold this success story.

In this, we can build on the right foundations!

We would like to thank you for accompanying us on our way and would be delighted if you would continue to place your trust in us.

Birkenfeld, March 2011

The Board of Management of
STRATEC Biomedical Systems AG



Hermann Leistner



Marcus Wolfinger



Bernd M. Steidle



Dr. Robert Siegle

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

In the 2010 financial year, the Supervisory Board accompanied and advised the Board of Management in its running of the company, supervising its management and performing the duties required by law, the articles of incorporation, its code of procedure and the German Corporate Governance Code. The Supervisory Board was directly involved in all decisions or measures of fundamental significance, particularly those relating to the corporate strategy, group-related matters and the net asset, financial and earnings position of the company and the Group. The Board of Management provided the Supervisory Board with regular, timely and comprehensive written and oral information concerning all issues of relevance to the company.

Outside the framework of Supervisory Board meetings, the individual members were also available to discuss specific topics with the Board of Management in various one-to-one talks held in person or by telephone.

Meetings and focus of deliberations

Alongside the four scheduled meetings held on March 29, 2010, June 21, 2010, October 18, 2010, and December 17, 2010, at which the Supervisory Board dealt in particular with the risk handbook, compliance management, the Group's sales and earnings performance, its financial position, the status of individual development projects at the company and the Group, deliberations concerning the subsidiaries, the company's organizational structure, and the implications of new legislative requirements, the Supervisory Board also held two extraordinary meetings.

At the extraordinary meeting held on June 8, 2010, the Supervisory Board addressed the planned acquisition of the US company Ballista and approved this transaction. At the extraordinary meeting held on December 9, 2010, the Supervisory Board attended to the reorganization of the Board of Management.

Moreover, at its meeting on March 29, 2010, the Supervisory Board discussed and approved the annual financial statements and management report of STRATEC Biomedical Systems AG, as well as the consolidated financial statements and group management report for the 2009 financial year. It approved the agenda for the Annual General Meeting on May 21, 2010, and endorsed the proposal made by the Board of Management concerning the distribution of a dividend of 0.45 per ordinary bearer share with dividend entitlement.

Corporate governance and Declaration of Conformity

Furthermore, at its meeting on December 17, 2010, the Supervisory Board addressed the German Corporate Governance Code in its version dated May 26, 2010. To monitor compliance with the German Corporate Governance Code, the Supervisory Board reviewed implementation of the recommendations at STRATEC Biomedical Systems A G and the efficiency of its own work. This resulted in the Supervisory Board and Board of Management renewing their Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act (AktG) on this date and making this permanently available to shareholders at the company's homepage.



f.l.t.r.

Wolfgang Wehmeyer (52),
Member of the Supervisory Board

Fred K. Brückner (68),
Chairman of the Supervisory Board

Prof. Dr. Hugo Hämmerle (59),
Member of the Supervisory Board

Committees

In view of its size, and deviating from the relevant recommendation in the German Corporate Governance Code, the Supervisory Board has to date not formed any committees.

Composition of the Supervisory Board and the Board of Management

Given the decision on the part of Hermann Leistner, Chairman of the Board of Management, to retire from his position as of March 31, 2011, and to conclude his active professional career after more than 30 years as Managing Director and member of the Board of Management, at its extraordinary meeting on December 9, 2010 the Supervisory Board decided to appoint Marcus Wolfinger, a member of the Board of Management for the past eleven years, to be the Chairman of the Board of Management as of April 1, 2011. Furthermore, the Supervisory Board resolved to supplement the Board of Management by appointing Dr. Robert Siegle, Deputy Chairman of the Supervisory Board upon the adoption of the resolution, to the Board of Management as of February 1, 2011. Dr. Robert Siegle subsequently retired from his position on the Supervisory Board as of December 31, 2010. On January 21, 2011, Mannheim District Court appointed Wolfgang Wehmeyer, Senior Vice President International Marketing & Medicine at the DAX company Fresenius Medical Care, to succeed Dr. Robert Siegle on the Supervisory Board.

We would like to thank Dr. Robert Siegle for his highly committed and constructive work to the benefit of the company in almost thirteen years of Supervisory Board membership and look forward to maintaining the strong, trusting working relationship with him in his position on the Board of Management.

Audit of annual and consolidated financial statements for 2010 financial year

On the basis of the resolution adopted by the Annual General Meeting on May 21, 2010, the Supervisory Board appointed Wirtschaftstreuhand GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, to conduct the audit of the annual and consolidated financial statements for the 2010 financial year. The audit included the annual financial statements of STRATEC Biomedical Systems AG prepared pursuant to German commercial law and the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as well as the management reports of STRATEC Biomedical Systems AG and the Group.

The annual financial statements and management report of STRATEC Biomedical Systems AG based on German commercial law, the consolidated financial statements and group management report prepared on the basis of IFRS for the 2010 financial year, and the company's accounts were audited by the auditor, Wirtschaftstreuhand GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, and provided in each case with an unqualified audit opinion. The auditor confirmed that the consolidated financial statements and group management report prepared in accordance with IFRS were consistent with IFRS regulations as applicable in the EU and with the provisions of commercial law requiring supplementary application pursuant to § 315 a (1) of the German Commercial Code (HGB) and that the Board of Management had introduced an effective risk management system consistent with legal requirements. The auditor performed his audit taking due account of the principles of proper auditing promulgated by the German Institute of Auditors (IDW).

The financial statements and management reports were discussed in detail at the meeting of the Supervisory Board on April 25, 2011. This meeting was attended by the auditor, who reported on the audit and answered all questions on the part of the Supervisory Board. Moreover, the year-on-year variances in items in the balance sheet and income statement were discussed in detail.

Following its own examination, the Supervisory Board raised no objections to the financial statements and management reports thereby presented and, based on the conclusive results of its own audit, concurred with the findings of the auditor. The Supervisory Board approved the annual financial statements and management report prepared by the Board of Management, as well as the consolidated financial statements and group management report of STRATEC Biomedical Systems AG prepared by the Board of Management for the 2010 financial year. The annual financial statements of STRATEC Biomedical Systems AG are thus adopted. The Supervisory Board concurs in its assessment of the situation of the company and the Group with the presentation of such by the Board of Management in the management report and group management report.

The Supervisory Board also endorses the proposal submitted by the Board of Management with regard to the appropriation of profits.

At its meeting on February 25, 2011, the Supervisory Board addressed the disclosures required by § 289 (4) and § 315 (4) of the German Commercial Code (HGB) and the report on these disclosures in the group management report. Reference is made to the corresponding comments in the group management report, Section 14 „Supplementary disclosures in accordance with the Takeover Directive Implementing Act of July 8, 2006“. These comments have been audited and adopted by the Supervisory Board.

Thanks of the Supervisory Board

The Supervisory Board would like to thank the Board of Management, the management teams and all employees at the companies of the STRATEC Group for their pleasing performance and successful efforts in the 2010 financial year.

Birkenfeld, February 25, 2011

On behalf of the Supervisory Board



Fred K. Brückner
Chairman



A photograph of three mountaineers climbing a snowy mountain peak. The climbers are seen from behind, wearing heavy winter gear and carrying large backpacks. They are using ice axes and ropes to ascend the snow-covered slope. The sky is a clear, bright blue, and the snow is white with some shadows. The overall scene conveys a sense of challenge and achievement.

WHAT DRIVES US

Since 2000, STRATEC Biomedical Systems AG has increased its sales at an average annual growth rate of around 24%. This remarkable performance has been driven not only by forward-looking technologies that meet our customers' and partners' expectations and market needs, but also by the growth in the global diagnostics market. This has benefited from a number of factors that at the same time represent growth drivers for STRATEC's partners, and thus also for STRATEC and its automation solutions. In the following pages we would like to present some of these growth drivers to you in greater detail.



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years – that is how high average worldwide life expectancy was in 2008 according to the World Health Organization. It has thus risen by 4 years since 1990. This marked improvement has not just been driven by developing regions such as south-east Asia, where the key figure has increased from 58 to 65 years. Even in Europe, average

life expectancy has improved from 72 to 75 years. These figures not only reflect the improved healthcare available to people in many countries – the progress made is also reflected in increasingly better income structures, rising spending on infrastructure, and permanent improvements in medical care.

Not only that, there has also been a worldwide improvement in babies' and infants' chances of survival. Since 1990, the mortality rate for children under 5 has been cut by around 28%.

Due not least to these developments, the UNO expects the world's population to grow from around 6.9 billion people at present to

around 8 billion in 2025 and, beyond that, to around 9.2 billion in 2050.

Alongside the resultant problems that will have to be solved, the increase in quality of life, coupled with higher life expectancy, represents a very pleasing development, and not just from a humanitarian perspective. Increasingly better medical care accompanied by rising life expectancy will also impact positively on demand for our partners' diagnostics products. STRATEC is well prepared to work alongside its customers in equipping growing global markets with the latest safe and reliable technology.







51%

is the amount by which health spending is expected to rise in OECD and BRIC states between 2010 and 2020. These countries are set to invest around USD 397 billion a year in healthcare and related infrastructure until 2020. Experts expect particularly strong growth in the BRIC states. In China, for example, around 10,000 new medical care facilities are currently emerging. These include hospitals in towns and rural areas, as well as municipal healthcare centers. This development will generate great demand not only for trained personnel, but also for automated medical technology.

In India, spending on healthcare infrastructure is set to rise by almost 50% compared with 2006 to reach to around USD 14.2 billion by 2013.

As a global average, there are 27 hospital beds for every 1,000 inhabitants. The

average figure for Europe even amounts to 63. Comparison with average numbers in the high-growth regions of South-East Asia, the Middle East and Africa, ranging from a mere 9 to 12 beds, underlines the enormous potential these regions have to catch up in coming years.

Per capita state healthcare spending rose worldwide from USD 279 in 2000 to USD 478 in 2007. This development is also to be viewed directly in connection with rising life expectancy.

Growing expenditure on healthcare systems and related infrastructure represents one of the key factors driving our customers' increasing medical technology sales, especially in BRIC countries. Alongside its partners, STRATEC too is benefiting from this trend and is aligning its future growth accordingly.





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approval submissions with genomic data were received by the FDA (Food and Drug Administration), the US approval authority, in 2010. That was around 3.5 times as many approval applications as in 2008. This development reflects the sharp rise in nucleic acid-based application possibilities. Here, STRATEC with its corresponding automation solutions, for example in the field of molecular diagnostics, is one of the few independent companies already to

have brought analyzer systems onto the market together with its customers. It is also an area where STRATEC acts as a development and production partner for several of the world's leading molecular diagnostics players.

Based on estimates, around 200 promising molecular biomarkers are currently in various stages of development. Biomarkers represent the detection basis for personalized medicine, enabling patients with specific genetic features to be treated with drugs focusing on these features, and allowing therapies not suited to these features to be excluded from the outset.

STRATEC is further extending its superb position in the field of molecular diagnostics automation solutions by carrying out further development work with new and established partners. Investments in development expertise and related infrastructure are one of the company's foundations for the strong growth it still expects in this area.



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STRATEC analyzer systems were, based on the company's own calculations and assuming an average lifecycle of 5 years, in operation in laboratories and hospitals around the world at the end of 2010. Working 24 hours a day, 7 days a week in some cases, these systems perform numerous diagnostic tests for our customers and partners. Most of the systems have been installed at end customers – laboratories and hospitals – in the context of so-called reagent rental

deals. Here, customers pay not only for the appliance itself, but also receive the complete system by undertaking to purchase a minimum volume of reagents. This approach helps end customers to budget and allows them to access the latest technology offered by diagnostics companies without incurring a high volume of one-off costs.

Having developed more than 20 system families, STRATEC is a proven developer and supplier for numerous

small and large partners. In its capacity as an independent partner, STRATEC is developing several new systems due to be launched onto the market in a variety of areas of application in the coming years. By developing and acquiring new technologies, STRATEC has built up a superb market position, one it intends to reinforce and extend further in future.



THE SHARE

2010 on the stock markets

Since March 2009, international stock markets have soared to ever greater heights. The financial and economic crisis almost seemed to have been forgotten until Europe was afflicted by a debt crisis in early 2010 and risks were priced into the market once more.

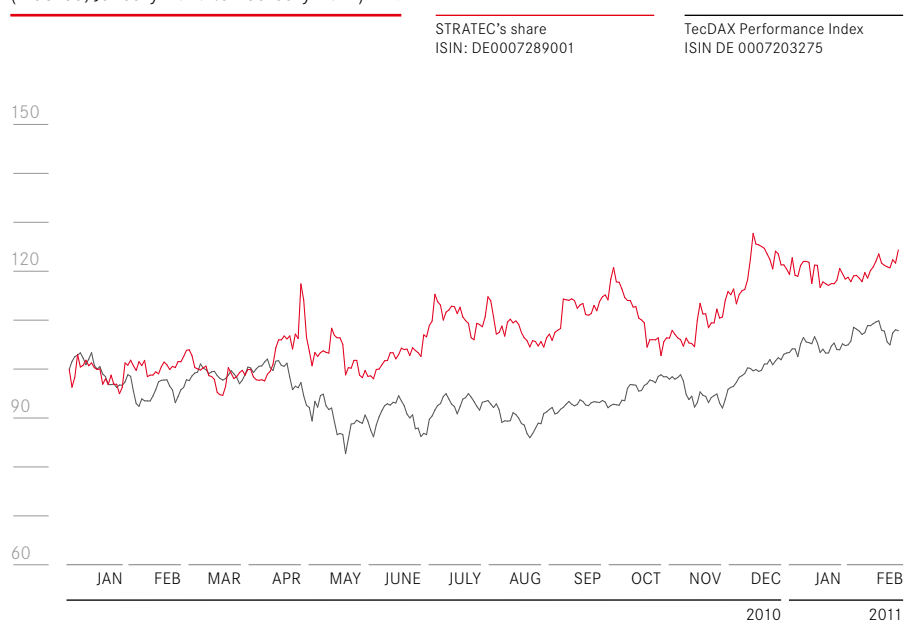
To counter the effects of the debt problems in individual euro area member states and avert any further destabilization of the common currency, the European Economic and Currency Union introduced the European Stabilisation Mechanism (ESM; euro rescue fund) for euro countries encountering difficulties. European countries have since made efforts to consolidate their public spending. The USA is also battling against high levels of public debt. Both European states and the USA were assisted in 2010 by the expansive monetary policies adopted by the Federal Reserve and the European Central Bank. These

kept interest rates low in 2010, largely in order to stabilize the respective economies and stimulate economic growth. The effects of the macroeconomic policies already implemented, such as the Economic Stimulus Packages I (2008) and II (2009) in Germany, also provided additional momentum to the economies in individual countries in 2010. Against this backdrop, the German DAX and TecDAX stock market indices managed to rise by 16.1% and 4.0% respectively in 2010.

STRATEC's share performance

In 2010, STRATEC's share price clearly benefited from the publication of further highly positive company news, the company's foreseeable admission in to the TecDAX index, subsequently announced by the Frankfurt Stock Exchange in November 2010, and not least from the favorable stock market climate.

PERFORMANCE COMPARISON OF STRATEC'S SHARE
(indexed, January 2010 to February 2011) in %



KEY FIGURES FOR STRATEC'S SHARE	2010	2009	2008	2007	2006
Year-end price previous year in €	26.58	13.55	20.75	22.00	14.93
Annual low in €	22.11	8.00	10.56	17.16	11.44
Annual high in €	34.14	28.14	22.00	29.53	22.50
Year-end price in €	31.91	26.58	13.55	20.75	22.00
Year-on-year performance comparison in €	+5.33	+13.03	-7.20	-1.25	+7.07
Year-on-year performance comparison in %	+20.05	+96.2	-34.7	-5.7	+47.4
Share capital in € million	11.7	11.4	11.4	11.4	11.3
Number of shares in millions	11.7	11.4	11.4	11.4	11.3
Market capitalization (total) in € million	369.2	304.2	154.8	236.9	247.7
Trading volumes* in € million	127.1	61.8	104.6	176.0	135.7
Average volume per trading day* numbers	17,643	12,937	26,597	30,641	18,593
Average volume per trading day* in €	496,439	243,383	411,813	698,570	532,111

* trading volumes of STRATEC shares across all German marketplaces

Having begun the year at €26.58 (XETRA, closing price on December 30, 2009), STRATEC's share price initially lost some ground in the uncertain market climate due to the emerging debt crisis in Greece, reaching its annual low at €22.11 on January 28, 2010 (XETRA, Intraday). The publication of figures for the 2009 financial year, the best results in the company's history, and confirmation of STRATEC's strong growth course in 2010 and subsequent years then provided the share with the momentum needed to exceed its previous all-time high, recorded in 2007 prior to the outbreak of the financial and economic crisis, for the first time once again in 2010. The share's annual and then all-time high came at €34.14 on December 14, 2010 (XETRA, Intraday) following the publication of further positive company news. STRATEC's share closed at €31.91 on December 30, 2010, concluding this eventful year of further volatility on the stock markets with a price gain of 20.0%.

Share capital

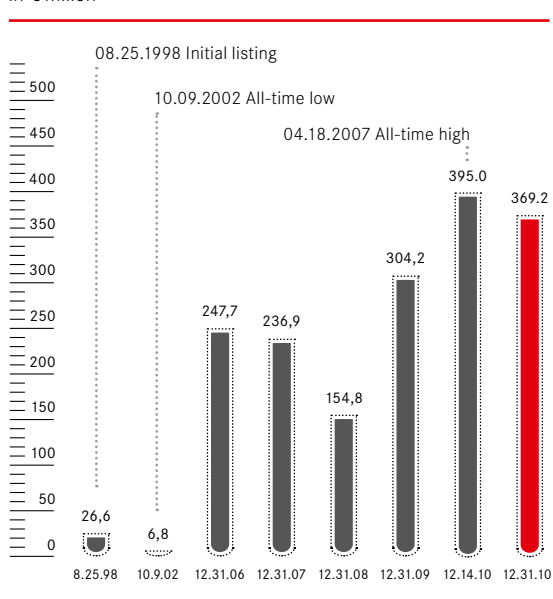
A total of 120,766 stock option rights were exercised in the 2010 financial year within the stock option programs introduced for managers and employees. The 123,290 new shares arising as a result increased the share capital by €123,290.

The share capital amounted to €11,569,026 as of December 31, 2010, and was divided into 11,569,026 ordinary bearer shares. These shares are evidenced in global notes. The Articles of Association exclude any claims on the part of shareholders to the certification of their shares. Pursuant to § 15 No. 15.3. of the Articles of Association of STRATEC AG, each share entitles its bearer to one vote.

Market capitalization

Consistent with the development in the share price, the company's market capitalization rose by 21.4% from €304.2 million to €369.2 million.

STRATEC'S MARKET CAPITALIZATION
in € million



Trading volumes

STRATEC's shares are traded on XETRA and in floor trading at the Frankfurt, Stuttgart, Munich, Berlin-Bremen and Düsseldorf stock exchanges. Measured in terms of gross order book turnover, STRATEC shares worth €127.1 million changed hands on German marketplaces in 2010 (previous year: €61.8 million). Of this total, the XETRA and Frankfurt marketplaces alone accounted for 93% (previous year: 96%). The higher trading volume in STRATEC shares was consistent with the rising order book volumes on the German Stock Exchange and was driven by increased demand from institutional and private investors.

German Stock Exchange stock index ranking

STRATEC's shares are listed in the Prime Standard, a segment of the Regulated Market of the Frankfurt Stock Exchange. The German Stock Exchange (Deutsche Börse), the company which operates the Frankfurt Stock Exchange, publishes stock index rankings at the beginning of each month. These serve as the basis for the decisions taken at meetings of the Stock Index Working Group with regard to the composition of the DAX, MDAX, SDAX and TecDAX indices. At the time of each such review, the ranking is compiled based on selection criteria consisting of order book turnover on the XETRA trading platform and in floor trading in Frankfurt in the past twelve months and the market capitalization based on the free float of the relevant share class.

In view of the sector in which it operates, STRATEC Biomedical Systems AG is classified by the German Stock Exchange as a technology stock. Upon meeting the relevant criteria, technology stocks may be promoted to the TecDAX and DAX indices, both of which consist of 30 stocks, but may not be listed in the SDAX and MDAX indices, which are reserved for traditional stocks.

In recent years, STRATEC's share has continually improved its position within the TecDAX ranking, and occupied 27th position in terms of its free float market capitalization (previous year: 25th) and 36th position in terms of order book turnover (previous year: 40th) as of December 31, 2010.

Successful admission into the TecDAX index in 2010

With effect from November 19, 2010, STRATEC Biomedical Systems AG was admitted into the TecDAX upon an unscheduled change in the composition of this index. The free float share of one of the 30 TecDAX members had fallen short of the 10% minimum limit, as a result of which that company's share no longer met the requirements for continued membership of the TecDAX select index.

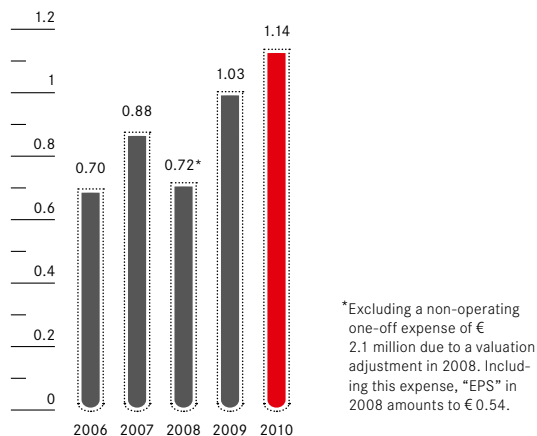
KEY FIGURES FOR STRATEC'S SHARE	2010	2009	2008	2007	2006
Market capitalization (free float weighted) in € million	208.6	170.1	84.3	130.6	133.6
Market capitalization (free float weighted) rank	27	25	33	46	41
Trading volumes in past 12 months* in € million	117.9	59.2	100.6	163.6	117.8
Trading volumes in past 12 months* rank	36	40	43	48	49

* trading volumes of STRATEC shares on XETRA and in floor trading in Frankfurt

Earnings per share

Earnings per share (EPS) are calculated by dividing the annual net surplus of STRATEC AG by the weighted average number of shares in circulation during the financial year. An average of 11,469,713 shares were in circulation in 2010 (previous year: 11,346,814 shares). EPS amounted to €1.14 in 2010 (previous year: €1.03).

EARNINGS PER SHARE in €



Dividend

The Supervisory Board and Board of Management will be proposing the distribution to shareholders of a dividend of €0.50 per share with dividend entitlement for approval by the Annual General Meeting on April 14, 2011 (previous year: €0.45). Subject to approval by the Annual General Meeting, this would correspond to a total distribution of €5.8 million (previous year: €5.1 million).

DIVIDEND PAYMENT	2010	2009	2008	2007	2006
Dividend per share in €	0.50 *	0.45	0.35	0.22	0.15
Distribution total in € million	5.8 *	5.1	4.0	2.5	1.7
Dividend yield in %	1.6 *	1.7	2.6	1.1	0.7

* proposal to Annual General Meeting

KEY DATA FOR STRATEC'S SHARE

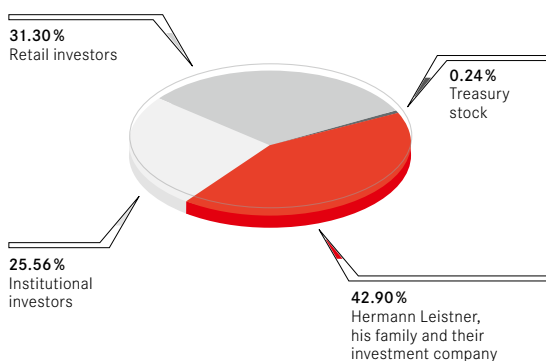
ISIN	DE0007289001
WKN	728900
Deutsche Börse ticker	SBS
Reuters Instrument Code	SBSG.DE
Bloomberg ticker	SBS:GR
Sector	DAXsector All Pharma & Healthcare
Transparency level	Prime Standard
Market segment	Regulated market
Select index	TecDAX since November 19, 2010
Currency	€
Class	Ordinary bearer shares
Share capital (€)	11,569,026.00
Share capital (numbers)	11,569,026
Initial listing	August 25, 1998
Marketplaces	XETRA; Frankfurt and further German trading floors
Designated sponsors	Commerzbank AG, WestLB AG
Average stock turnover per trading day	17,643 Shares / 496,439 €

Shareholder structure

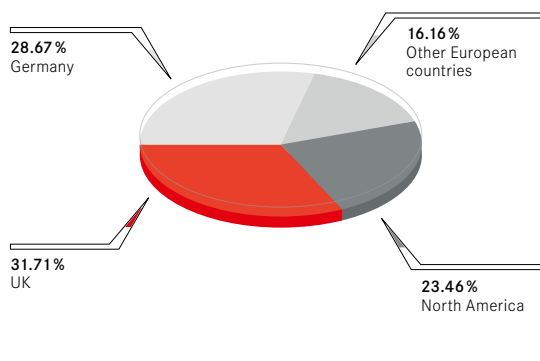
There were only minor changes in the shareholder structure of STRATEC AG in 2010. STRATEC's shares are widely owned. The free float share (based on the German Stock Exchange definition) amounts to 56.86% and is spread across a broad group of private and institutional investors in Germany and abroad.

43.14% of the shares are in fixed ownership. Of these, 0.24% are treasury stock owned by the company itself and therefore do not have any voting or dividend rights. 42.90% of the shares are attributable to the company's founder and CEO, Hermann Leistner, and to his family and their investment company. This group of shareholders pursues a long-term investment strategy and currently has no plans to change its investments.

DISTRIBUTION OF SHARE OWNERSHIP BY INVESTOR GROUP



DISTRIBUTION OF SHARE OWNERSHIP OF INSTITUTIONAL INVESTORS BY REGION



Investor relations

STRATEC backs up its corporate strategy, which is aimed at achieving sustainable growth, with continuous and transparent communications with capital market participants. Our aim is to retain investors' trust and to attract new investors. STRATEC's investor relations activities ensure that investors, analysts and the business and financial media are actively provided with continuous, up-to-date information about the company's business performance.

Our financial calendar, which is published in the annual report, quarterly reports and on our company's homepage, allows shareholders to inform themselves of important dates regularly and with sufficient notice. In the 2010 financial year, STRATEC published ten press releases, two ad-hoc announcements, one extensive annual report and three interim reports. Via our electronic newsletter, we drew readers' attention to the publication of press releases and ad-hoc announcements, as well as to special events relating to STRATEC.

One core component of our investor relations activities involves the teleconferences held upon publication of our interim reports, as well as upon publication of any other important news about the company. Alongside these, we also hold numerous one-to-one meetings every year and give presentations at capital market events in which the Board of Management presents the company and outlines its underlying business model in extensive detail to investors from Germany and abroad.

Analysts' recommendations are one of the key instruments in helping shareholders and investors to reach an opinion about a share. Six institutions regularly reported on STRATEC in extensive studies and brief analyses in the 2010 financial year. These were Berenberg Bank, Commerzbank, Crédit Agricole Cheuvreux, HSBC Trinkaus & Burkhardt, Landesbank Baden-Württemberg and WestLB.

Up-to-date information about STRATEC is available to interested parties around the clock at our company's homepage at www.stratec.com.

CORPORATE GOVERNANCE REPORT

Corporate governance involves high-quality, responsible corporate management and supervision aimed at generating long-term value growth. The guidelines compiled to assist German companies in enhancing their corporate governance have been summarized in the German Corporate Governance Code (DCGK), which was most recently updated by the German Corporate Governance Code Government Commission in May 2010.

At STRATEC Biomedical Systems AG, the Board of Management and Supervisory Board attach great importance to clear, efficient rules governing the management and supervision of the company, as well as to the recommendations made by the German Corporate Governance Code. The Supervisory Board and Board of Management act in the awareness that high-quality corporate governance is in the interests of the capital markets and that it provides an important foundation for the success of the company, and thus also of its employees. What's more, compliance with corporate governance regulations represents a significant factor in enhancing the trust placed in the company by the general public.

Due to efficiency considerations, the company will in future not publish its now very extensive Corporate Governance Report in the Annual Report in its entirety, but rather only that section containing explanations of deviations from the recommendations made in the German Corporate Governance Code.

The complete version of the Corporate Governance Report has been published on the company's internet site at www.stratec.com > Investor Relations > Corporate Governance.

Excerpts from the Declaration of Conformity of the Board of Management and the Supervisory Board of STRATEC Biomedical Systems AG with the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (AktG).

STRATEC Biomedical Systems AG has complied with the recommendations made by the German Corporate Governance Code government commission concerning the management and supervision of German listed companies in the version dated June 18, 2009 since submitting its previous Declaration of Conformity on December 18, 2009 – with the exceptions outlined in that declaration. STRATEC Biomedical Systems AG will comply in future with the recommendations made by the German Corporate Governance Code government commission concerning the management and supervision of German listed companies in the version dated May 26, 2010 with the following exceptions:

The company's Articles of Association have to date not accounted for the possibility of postal voting. The company believes that postal voting has not yet been sufficiently tested. Postal voting involves difficulties, particularly in determining the authenticity of the votes thereby cast. Furthermore, the company already offers its shareholders the opportunity of authorizing a voting proxy appointed by the company to exercise their voting rights. Shareholders are thus already enabled to cast their votes prior to the date of the Annual General Meeting, as a result of which the additional possibility of postal voting would not offer them any further assistance in exercising their rights as shareholders. **(Deviation from Point 2.3.3)**

New legal requirements have been introduced to govern the deductible in any D&O policy taken out for members of the Board of Management. Since July 1, 2010, the company's D&O policy for members of its Board of Management has included a deductible in the amount recommended by the Code.

No deductible has been agreed in the D&O policy for the Supervisory Board. The Board of Management and Supervisory Board are of the opinion that the members of the Supervisory Board perform their duties in due awareness of their responsibilities without the need for any such deductible. **(Deviation from Point 3.8)**

Due to efficiency considerations, the company will in future not publish its now extensive Corporate Governance Report in the Annual Report in its entirety. The Annual Report will list the company's deviations from the Code and the reasons for such. In future, the company will publish its complete Corporate Governance Report on its internet site, where Declarations of Conformity with the Code that are no longer up-to-date are also made available for at least five years. [\(Deviation from Point 3.10\)](#)

The Supervisory Board has not agreed any cap for the stock options issued to the Board of Management, as these would otherwise fail to provide the element of risk / opportunity required, especially for variable compensation components, and would also fail to provide the necessary incentive, particularly when compared with practices in other countries. The Supervisory Board points out that the contracts with members of the Board of Management were concluded prior to the latest amendments to the German Stock Corporation Act. [\(Deviation from Point 4.2.3\)](#)

The compensation of all members of the Board of Management, broken down into its components, was and continues to be reported as an aggregate total. The company has foregone the individual disclosure of the total compensation of each member of the Board of Management in view of the resolution for the period up to and including the 2010 financial year adopted with the necessary qualifying majority by the Annual General Meeting on June 23, 2006. The company believes that the recipient of such disclosures concerning the compensation of individual members of the Board of Management is less interested in the incentive for the individual member of the Board than in the incentive for the Board as a whole. Moreover, any disclosure of the compensation of the Board of Management on an individual basis would in the longer term result in a leveling out of the salaries between the various positions on the Board, thus undermining the desired incentive effect. [\(Deviation from Points 4.2.4 and 4.2.5\)](#)

The Supervisory Board of the company consists of the minimum legal requirement of three members and, in view of its size, has not formed any committees to date. [\(Deviation from Points 5.2, and 5.3.1 to 5.3.5\)](#)

The compensation, broken down into its constituent components, has been and continues to be reported as an aggregate total for all members of the Supervisory Board. The individual disclosure of the compensation of each member of the Supervisory Board has been foregone in view of the resolution covering the period up to and including the 2010 financial year adopted with the required qualifying majority by the Annual General Meeting on June 23, 2006. Moreover, the transparency requirements of this Code recommendation are largely accounted for by disclosure of the composition of Supervisory Board compensation in § 13 of the company's Articles of Association. [\(Deviation from Point 5.4.6\)](#)

The Board of Management and the Supervisory Board are of the opinion that the notification duties set out in the respective legal requirements, which require the company to be notified in the event of the shareholding held by any shareholder (in this case a company board) exceeding certain thresholds, are adequate in this respect. The holdings of shares in the company or of related financial instruments by members of the Board of Management and the Supervisory Board have not been stated in the past and will not be reported in future. This does not apply to disclosures required by law. [\(Deviation from Point 6.6\)](#)

The recommended deadlines for the publication of consolidated financial statements and interim reports have in some cases not been met by the company. However, the company does meet the publication deadlines required by law and stipulated in the rules and regulations governing membership of the segment of the regulated market of the Frankfurt Stock Exchange involving additional admission requirements (Prime Standard), namely four months in the case of annual financial statements and two months for interim reports.

Based on current planning, the company will in future publish its consolidated financial statements and interim reports within the deadlines recommended by the Code. [\(Deviation from Point 7.1.2\)](#)

GROUP MANAGEMENT REPORT

for the 2010 Financial Year
of STRATEC Biomedical Systems AG

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1. OVERVIEW OF BUSINESS PERFORMANCE AND EARNINGS

Taking a variety of aspects into account, 2010 was an exceptional year. Besides the technology-driven acquisition and integration of our group company STRATEC Biomedical USA, Inc. (previously called Ballista Inc.), two complete relocations, the massive increase of delivered units of analytical systems as well as the market launch of three new system platforms by our partners (the average of new introductions of the previous three years had been about one system platform per annum), posed challenges the STRATEC Group handled successfully. At the same time, it continued to manage ongoing development projects while staying right on plan, which resulted in the equivalent of an 18.4% boost in development activities while it also safeguards the new product pipeline and hence the Group's future growth. The strong increase of device sales paired with the simultaneous significant amplification of the developmental achievements within the Group translated into a very positive development of the Group's financial indices:

- Revenues are up significantly (total plus 28.1%; 19.5% from the sale of goods and 8.6% from the earnings neutral re-posting of development services rendered over a period of several years and reported at production cost (*1)).
- Operating EBITDA margin (*2) of 21.9% (year prior: 21.7%), which makes the Group one of the top performers in the industry.
- Solid equity capital quota of 72.7% (year prior: 69.1%).
- Earnings per share (EPS) of € 1.14 Euro up from last year's € 1.03.
- Proposed dividend per share € 0.50 (year prior: € 0.45).
- Cash flow from operating activities before cyclic increase of the working capital € 16.1 million (year prior: € 13.0 million).
- Two new major development and delivery contracts.
- Relocation of all development departments at the Birkenfeld headquarters into a new development complex.
- Complete relocation of the Swiss subsidiary into a new building accommodating the current capacity needs.

(*1) This share of the earnings will materialize in the future when system sales are generated.

(*2) Excludes the earnings neutral re-posting of development services rendered over a period of several years and reported at production cost in an amount of € 6.84 million.

The 2010 strategic planning of the company did allocate significant importance to the following elements:

- The market launch of 3 new system platforms by our customers (average of the previous 3 years was about one system platform per annum); additional market launches are planned for 2011.
- The integration phase (the integration of individual components of a fully automated system solution) is becoming considerably more costly as a result of the increasing complexity.
- Development projects for intended market launch in 2011 and 2012 are gaining significant relevance.
- New development contracts for OEM system developments.
- Focus on projects within the core competency scope of Stratec that make major contributions to the margin.
- Successfully completed market launches of in-house system solutions beyond the core competences of our customers and partners through one of Stratec's Group Companies.

In 2010, the Stratec Group was able to seamlessly continue the highly successful operational track record of 2009. From a technical / technological point of view as well as considering the progress made in product development, 2010 proved to be a milestone in the company's history.

The strong revenue growth was driven by sales in the traditional business segment of series analyzer systems as well as significant volumes of first series devices sold. While an absolute plus was also generated in consumption and service parts, the percentage rate of this advancement remained below expectations due to the strong growth generated over the past two years with new analyzer systems.

As far as the continued margin-driven growth of the company is concerned, the following key elements will be of extraordinary importance:

- Expansion of the company's own technology basis with in-house owned intellectual property rights.
- The smooth transition to the next generation of analyzer systems.
- The maintenance and expansion of the processes demanded by the healthcare agencies.
- The safeguarding of competitive pricing strategies while delivering on the highest quality standards.
- The maintaining of a state-of-the-art product portfolio thanks to new products and updates as well as software releases.
- The closing of new projects and expansion of the customer roster within the enterprise's core competency spectrum through the reinforcement of sales activities.

The relative margin contribution of the two largest individual companies within the STRATEC Group, namely STRATEC Biomedical Systems AG and STRATEC Biomedical Switzerland AG (previously Robion AG) saw a consistent development this financial year.

2. MARKET AND SECTOR

Market and sector:

Overview

In-vitro diagnostics (IVD) is a diagnostics sub-discipline, which is performed by laboratories in test tubes or in glass containers (in-vitro). Consequently, the discipline of in-vitro diagnostics is also referred to as laboratory diagnostics. The opposite technique used is imaging diagnostics (in-vivo). This term stands for examinations performed directly on the patient using respective devices, for instance computer tomography, ultrasound and x-ray examinations.

Over the past few decades, the in-vitro diagnostics market has seen solid and rapid growth. Moreover, experts and STRATEC anticipate that the industry will continue to produce strong growth in the future. Based on different estimates, the expected medium term market growth through 2016 will total between 5% and 7% per annum. For some sub-segments, for instance molecular diagnostics, the projected growth rates for the same period of time are about twice as strong.

Even if select markets will be subject to short term growth consolidation due to the indirect effects of weak phases in the overall economic, there are several fundamental factors that will ensure consistent sustained growth:

- The demographic evolution:
 - The global population is still growing substantially
 - The increasing average age of the population boosts the need for diagnostics
- Newly developed diagnostic tests in all key applications – e.g. oncology, virology, etc.
- Strong growth in niche markets thanks to new medical findings.
- The expansion of the worldwide infrastructure, which makes medical services more accessible.
- Development and expansion of healthcare systems, in particular in developing and emerging nations.
- Increasing regulation of the markets, as a result of which manual and semi-manual, sometimes in-house developed test methods are pushed aside in favor of fully automated processes

A very high percentage of the in-vitro diagnostics market is being dominated by the global players among the diagnostics companies. About 85% of the market is being controlled by the ten largest enterprises. These companies offer their end customers, i.e. centralized laboratories, hospitals, blood banks or other medical laboratories the entire spectrum of IVD products from a single source. This range includes reagents products, fully automated analysis systems along with the compatible work flow software, consumption materials as well as comprehensive service support.

Up until a few years ago, the majority of the diagnostics companies developed and manufactured their analytical systems almost exclusively in-house. Due to the significant advantages inherent in the outsourcing of the development work to specialized suppliers, an ever increasing tendency to outsource these projects could be observed in recent years.

Market and sector:

The market position of the STRATEC Group

Today, in-vitro diagnostics examinations are almost exclusively performed in automated or semi-automated processes. While these methods certainly yield cost benefits, the respective regulatory agencies also increasingly require the use of automated processes because of relevant safety provisions.

The fact that STRATEC has been growing at the rate of 24%, i.e. well above the market average for more than ten years, and continues to anticipate an above average corporate growth rate for the future, can also be attributed to the ever accelerating tendency of diagnostic device manufacturers to outsource their automation solutions. At this time, the diagnostics companies still manufacture about 70% of the products available on the IVD instrumentation market, which is estimated to total about USD 6 billion, in-house based on in-house developments. The total market is expected to swell to about USD 8 billion by 2015 and the share of outsourced instrumentation developments is projected to grow from currently about 30% to approximately 35%. Only a handful of independent partners meets the requirements for the outsourcing of such complex and strictly regulated processes. STRATEC is one of them.

Autonomous vendors who have focused their activities on the development of the products and the related logistics and quality management processes, delivery completely developed systems while offering a significant edge in terms of cost and time. Thanks to their high level of specialization, these companies also deliver highly dynamic technology advancements. STRATEC is the leading independent provider of such so-called OEM system solutions (Original Equipment Manufacturer) for in-vitro diagnostics.

STRATEC analyzer systems are used in conjunction with partner-sourced reagents products around the world in hospitals, laboratories and medical facilities.

Depending on the scope of application and procedure log of the tests, several process steps are performed during the automation process. In summary, they can be divided into three steps: preparation or conditioning of the specimen, performance of the tests and related reactions as well as the measuring of the results paired with the respective analysis of the measuring results. Some other steps may have to be performed depending on the scope of application, for instance in molecular diagnostics.

STRATEC AG assumes responsibility for the automation of all of these steps and implements them in close cooperation with the customer. The scientific background of many STRATEC development department employees plays a crucial role, in particular when it comes to the integration of the reagents products into the automation process. In this context, STRATEC also handles a wide spectrum of other services in conjunction with the development work. The marketing to end customers and hence the actual sale of the entire package, which comprises the analyzer systems, tests, consumption materials as well as services is handled by STRATEC's customers around the world.

Besides the above sales arguments, there are other reasons that make outsourcing or OEM solutions for in-vitro diagnostics highly viable and will therefore drive the continued growth in the segment:

- Cost savings due to lean and specialized structures.
- Time saved thanks to the broad technology pool and high degree of specialization.
- High time and cost planning certainty thanks to the utilization of processes with a proven track record, the potential use of technology that already exists and the high level of experience in the field.

Besides these in-vitro sector automation growth drivers, it has also been confirmed that some individual market segments demonstrate a well above average level of organic growth. Among these growth segments are in particular molecular diagnostics (anticipated annual market growth from 2010 to 2015 about 15%), near patient testing or bed side testing and luminescence-immunity-assay diagnostics (the method that currently delivers the best price-performance ratio).

All of these in-vitro diagnostic market segments are key markets of the STRATEC Group. By implementing targeted development projects and acquiring technology, STRATEC has continued to focus on these growth segments and has established itself as a dependable partner of the diagnostics companies.

Market and sector:

Key success factors

Global marketing – By meeting global regulatory requirements, the STRATEC Group provides its customers with the possibility of developing innovative analyzer systems and achieving market approval at above average speed in markets shaped by regional regulatory frameworks. This unique manufacturing parameter also provides customers with a distinct criterion on which to base their decisions between proprietary, internal development and outsourcing to companies within the STRATEC Group. Particularly in recent years, several of the large diagnostics companies which previously developed their instrumentation internally have relied on outsourcing and development at STRATEC. STRATEC's competencies in this area are confirmed by regular customer audits and by inspections performed by the government agencies.

Development quality – Alongside the quality of development results and the achievement of a balanced relationship between price-sensitive specific development work and recycling parts and modules, the reliability of analyzer systems as experienced by end users is mainly affected by the following factors:

- The complexity of the biochemical processes to be automated in the respective analyzer system.
- Consistent development measures, taking due account of the relevant reliability criteria and ease of servicing factors for the system solution.

Due to regulatory requirements, quality enhancements introduced at a later stage during serial production often oblige customers to undertake a renewed audit of the entire analytical process. The success of an analyzer system family is determined by both aspects – high-quality development consistent with regulatory requirements and rapid market access. The processes and methods in place at STRATEC mean that we are optimally positioned to do justice to requirements such as speed of development, economic effectiveness and reliability.

Reliability and dependability as a system partner – One critically important factor is the dependability of any statements made between development partners, for example about project plans. For interdisciplinary development projects involving several development partners, compliance with schedules, development expenses and the guaranteed transfer price is crucially important for the success of the overall project. STRATEC has successfully built up a very good reputation in recent years in this respect.

STRATEC supplies several system partners who in turn operate in competitive markets. One factor of key importance for our partners, and thus for us, is that no expertise should be shared between projects which may possibly have to compete with each other during the marketing stage.

By drawing on suitable processes, established procedures, Chinese walls, project team selection and contractual commitments, we permanently document our reliability in terms of protecting expertise in our function as a system partner.

Scalability – The technologies, established processes, high degree of expertise, development, development transfer and production available under one roof at STRATEC, coupled with the relevant logistical structures, make for a highly economical overall package for STRATEC's customers.

The expertise STRATEC has built up over many years enables the company's customers to define the development costs and transfer prices for the analyzer systems in development at the beginning of a development project already. Once the specifications for an automated solution have been determined, the parties contractually agree fixed prices for the use of STRATEC technology and the transfer price per analyzer system.

Moreover, minimum purchase volumes are defined for each system family. This approach enables us to submit highly detailed offers to our customers and provides them with a solid costing basis within a favorable, attractive structure.

Individual application of standards – STRATEC pursues two fundamental approaches to development:

- The system platform business, in which a generic system is adapted to customer-specific requirements.
- The new development business, in which new analyzer systems are developed on the basis of existing technologies.

In both cases we generate the predominant share of our sales with solutions developed or adjusted to specific customer requirements and which, once development is complete, are then serially produced over a period of several years.

Long term partnership model – STRATEC's strategy of focusing on a small number of business partners enables the company to respond very closely to its customers' requirements, not least as a result of its high degree of integration with business processes of its customers. Given the direct link between a comprehensive understanding of market and customer acceptance criteria on the one hand and the success of an analyzer system on the other, the specification stage is accorded great significance. Alongside purely physical and biological requirements, account also has to be taken of other features, such as service aspects, extension possibilities, scalability and how intuitively the solution can be used. These factors affect the subsequent success of the automation solutions. Factors not directly attributable to the analyzer systems, such as development, production or quality management processes, also form an integral component of customer requirements. Even Sanguin's standard software, with its high degree of parameterization, can be adjusted to meet specific customer requirements.

STRATEC increasingly succeeded in substantially raising its profile among market and technology leaders in the diagnostics industry. Agreements are concluded with these market-leading companies, within which individual projects can last up to 20 years from the definition of basic requirements through to the decommissioning of the last analyzer system. As well as acquiring new market and technology leaders as customers, one of the STRATEC Group's declared aims is therefore to handle follow-up projects for existing customers, and thus to already start work on the development of successor systems during the peak stage of the product lifecycle. We achieved both of these objectives once again in 2010. As a result, our development departments will be working at capacity over a period of

several years on both areas – new developments and next-generation system developments.

Most recently, STRATEC closed new substantial development and delivery agreements for additional fully automated analyzer systems in June and December 2010.

Production transfer – The speed at which new products are launched into the market requires the production departments and suppliers to be involved at an early stage. Our customers therefore view our speed of development and the virtually seamless transition to the launch of production for the newly developed analyzer systems as one of our most important characteristics. Specially qualified production departments, for example, undertake feasibility studies, test functional modules or take over all of the tasks involved in building and documenting prototypes. Moreover, they also support the development departments in designing testing equipment. This dovetailing of processes reduces development times, accelerates the project on hand and this increases efficiency levels.

Expansion of technology pool – The companies STRATEC acquired in recent years were purchased primarily with the objective of expanding the technology pool and the company's value chain. The now fully integrated subsidiaries, some of which have also undergone name changes and are now fully integrated – Sanguin, Invitek and STRATEC Biomedical USA Inc. already had their own business relationships with the majority of today's STRATEC customers. Besides expanding the product portfolio available to these customers, the company was able to close additional contracts thanks to its completely integrated scope of services. Since these subsidiaries have been integrated, STRATEC Group offers supplementary comprehensive work flow software solutions, sample preparation technology and special opto-mechanical components as part of its respective automation solutions, which target not only customers using IVD applications, but enterprises in the life-science sector as well. To date, the business developed by the Group Companies acquired in 2009 and 2010, is extremely promising, whereby initial developmental achievements have already been attained. All enterprises are going through different phases at this time, which include promising negotiations on the separate as well as integrated use of their own-technologies in combination with STRATEC's core technology.

Project management – STRATEC’s management adopts systematic and heuristic approaches to support and promote the development of innovative solutions. The large number of development projects brought to a successful conclusion means that employees can draw on a large technology pool that is constantly being extended to include current development projects. This means that the STRATEC Group now has access to a broad spectrum of solutions for diagnostics applications.

As an automation specialist, STRATEC can offer a unique range of services and substantial competitive benefits supported by the following factors:

- The STRATEC Group has employees with proven expertise in the field of engineering and employees with a high degree of competence in physical, biochemical and biological processes. This expertise is transferred to the automation solutions STRATEC designs.
- The STRATEC Group can provide its customers with everything they need for laboratory automation from a single source.
- STRATEC’s projects do not just consist of development, approval and production. They begin with supporting customers in generating product requirements and continue through to the processes involved in the after-sale supervision of analyzer systems.
- STRATEC retains control over the development documentation.
- STRATEC takes over the whole range of change order and complaints management for the automation solution on behalf of the customer, thus allowing all aspects of further development performed during the marketing stage to be performed at STRATEC.

3. FINANCIAL POSITION AND INVESTMENTS

The cash flow was increased substantially as a result of a significant boost of the group earnings, which rose from € 13.0 million last year to € 16.1 million, while the influx of resources from operational activities dropped from € 10.9 million to € 1.4 million as a result of a working capital increase.

In the reporting year, the investment activities reflected an outflow of resources of € 5.6 million as a result of the completion of the production facility at STRATEC Biomedical Switzerland AG and of the development complex at STRATEC Biomedical Systems AG in Birkenfeld. Moreover, during the same time period, the STRATEC Group invested € 1.9 million into development and production related fixed assets.

A total of € 1.4 million were disbursed from financing activities. This amount includes disbursements for the distribution of the dividend for the 2009 financial year in an amount of € 5.1 million and disbursements for the pay-off of financial liabilities in an amount of € 0.9 million. On the other hand, the company added € 2.4 million in financial liabilities and € 2.2 million from the issuance of shares from the employee stock option programs.

Consequently, the sum total of all additions and deductions in 2010 led to an exchanged rate effects adjusted reduction of the cash flow by € 8.2 million to € 13.2 million as of December 31, 2010.

4. EARNINGS SITUATION

Just like in 2009, the macro economic framework data of 2010 (e.g. high debt level of the public sector, insecurities dominating the international financial markets) did not have any adverse impact on the Group.

The STRATEC Group was able to boost its revenues from € 79.6 million in 2009 by 28.1% to € 102.0 million. Combined with the high level of developmental achievements attained in ongoing customer project and the related increase in the inventory of unfinished services, this translated into an increase of the overall output from € 87.2 million to € 106.7 million.

The exchange rate fluctuations of the USD, GBP and CHF did not have a negative impact on the earnings situation of the Group.

The € 43.0 million rise in the total cost of materials to € 531.1 million is directly related to the generated boost in revenues. The material quota was kept at a relatively consistent level at 49.7% (year prior 49.3%).

The amplification of development activities and the continued expansion of the production capacities paired with the integration of STRATEC Biomedical USA, Inc. resulted in a 23.8% rise in human resource expenditures. However, the human resource cost quota rose only slightly from 23.7% to 24.0%. The increase of other operating costs from € 7.0 million to € 9.0 million can also be attributed to this fact.

In 2010, the depreciation of intangible assets and fixed assets increased from € 2.6 million to € 3.3 million due to the boost in the Group's investment activities. The financial year EBIT was reported at € 17.6 million versus € 14.7 million in 2009. The financial result this year came in at € - 0.1 million after € 0.4 million last year, primarily due to the compounding of interest.

Taxes paid on income and earnings in 2010 rose to € 4.5 million from € 3.4 million in the year prior. Hence, the group earnings advanced from € 11.7 million to € 13.0 million.

5. ASSET AND CAPITAL STRUCTURE

The balance sheet total jumped by € 13.1 million to € 98.8 million compared to the previous year. During the reporting period, the long term asset values rose from € 15.9 million to € 27.2 million. It must be noted that as a result of the acquisition of subsidiary STRATEC Biomedical USA, Inc. (previously operating under Ballista Inc.), the asset and capital structure was also altered as described below.

The good will reported under intangible assets increased in particular as a result of the acquisition of STRATEC Biomedical USA, Inc., as did the other identified values contained in category intangible assets, which rose from an amount of € 6.5 million in 2009 to € 10.2 million in 2010.

The fixed assets increased as a result of the fact that the new production facility of STRATEC Biomedical Switzerland AG, the newly erected development complex of STRATEC Biomedical Systems AG and the investments into development and production related fixed assets were reported under assets; all of which resulted in an increase from € 8.9 million to € 16.4 million.

The current assets increased from € 1.7 million to € 71.6 million. In conjunction with this, the inventories of raw materials, additives and operating supplies were expanded by 11.8% to € 7.7 million as a result of the start of the series production of three development projects, while the inventory of unfinished goods and services rose simultaneously from € 23.9 million to € 26.8 million.

The increase of receivables for goods and services by € 5.9 million to € 15.8 million was the result of the significantly increased annual revenues and the disproportionate sales volume generated in November and December. To the contrary, the future receivables from production orders increased only minimally to € 5.6 million.

As of the balance sheet closing date, the securities acquired for trading purposes had a total value of € 0.5 million.

Despite the fact that a dividend was disbursed in an amount of € 5.1 million, the company's equity capital rose from € 59.3 million to € 71.9 million. As of December 31, 2010, the equity capital quota totaled 72.7%, while the income-to-equity ratio was 18.1%. This increase can be partially attributed to the issuance of subscription shares in conjunction with the employee participation programs and the sale of own shares for the acquisition of STRATEC Biomedical USA, Inc., which amounted to a total of € 3.2 million.

The long-term debts rose from € 7.3 million to € 9.8 million in particular because of the construction of the STRATEC Biomedical Switzerland AG production facility, which was partially funded with borrowed capital. Over the course of the reporting year, the receivables owed for goods and services could be reduced from € 3.4 million to € 2.8 million. The short term liabilities could also be reduced from € 13.7 million to € 11.0 million. The income tax liabilities did, however, rise from € 0.3 million to € 1.2 million.

6. DEVELOPMENT DEPARTMENT

The provision of instruments and automation solutions for clinical diagnostics is a system business that is highly integrated. In this industry, the device is the interface between the work processes in the laboratory and the wet chemical processing of the tests.

This means that a high degree of knowledge and experience in a variety of disciplines is required to successfully develop systems for this market. The pressure compels development departments to specialize in medical technology, and this situation is further amplified by the specific regulatory standards in the most crucial markets (USA, Europe, Japan, China), which permit only a minimal amount of flexibility in the development processes.

At STRATEC, the developmental responsibilities are based on the following corner stones:

- **The development of new systems for our customers**

STRATEC's growth is primarily driven by the ever growing palette of new OEM products and our development department makes focusing on this portfolio one of its top priorities

- **Rendering of support for existing systems with the aim of extending their life cycles**

In order to foster the extremely long useful life of our systems on the market, our systems have to be continuously and consistently updated. This is evident in the fact that our development department handles a lot of software and verification work. This is one of the main reasons why these segments are growing at a disproportionate rate in our development department.

- **Development of new technologies**

In order to stay competitive and to reinforce our position as a system supplier, we are constantly working on the development of new technologies. The focus is on acquiring experience in life science processes early on, which we consider to have the potential of becoming routine applications in in-vitro diagnostics.

- **Development of fundamental technologies**

Another priority of our development work is the focus on basic technologies for our systems. These fundamental technologies play a central role, given that they not only make a major contribution to the performance of our devices, but also make up the largest cost factor in the production of these systems.

Thanks to the fact that we approach fundamental technologies, a good understanding of the in-vitro diagnostics environment and the provision of optimized tools and processes for this discipline as a single package, our development time frames are extremely rapid in comparison to the industry standard. This also ensures that we continue to hold central intellectual property rights for all of our in-house developed systems, so that long-term customer retention is assured as a result. In the 2010 financial year, the total expenditures for research and development activity related personnel and material costs were reported at approximately € 18.2 million.

7. WORKFORCE

In 2010, the company added 54 new employees to the STRATEC Group workforce. Of these, 21 staff members work for STRATEC Biomedical USA, Inc., a company acquired by the Group in 2010. Including the temporary staff provided by staffing agencies, the STRATEC Group had a total workforce of 440 as of December 31, 2010 (year prior: 380). The average number of employees on the payroll of the STRATEC Group (excludes temporary workers) increased to 351 (year prior: 291).

In conjunction with the sustained strong increase of development output by the STRATEC Group, the number of development department employees has continued to see significant additions. This evidences the growth of the STRATEC Group. By increasing the number of highly qualified employees and strengthening our development departments, we are making investments into the future growth of the company and the proliferation of our outstanding

technological competencies. Most of the STRATEC team does work directly in our numerous development projects. In fact, the future growth of the STRATEC Group can be gleaned from the average development time frame of 36 months and the increase of the number of employees working in development projects. They are now working on products that are slated for market launch between 2011 and 2014 and will pave the way for future growth far beyond that time line.

The human resource costs of the STRATEC Group did increase by a total of 23.8% during the reporting year (year prior: € 20.7 million). The increase of human resource expenditures can be attributed primarily to the acquisition of STRATEC Biomedical USA, Inc. and the addition of employees to the development departments.

Our stock option program enables longstanding employees to participate in the value growth they have helped to achieve for the company.

We would like to thank our employees for their extraordinary commitment and their ability and willingness at all times to give their best.

8. BASIC FEATURES OF THE COMPENSATION SYSTEM FOR THE SUPERVISORY BOARD AND THE BOARD OF MANAGEMENT

Compensation system of the Board of Management

The compensation system for members of the Board of Management provides for:

- A fixed salary component paid in prorated monthly installments
- A variable component which accounts for the performance of the Group, the personal performance of the Board member and the economic position of the company
- Stock option programs based on the resolution adopted by the Annual General Meeting on May 16, 2007

A D&O insurance policy has been concluded for the Board of Management and Supervisory Board of STRATEC AG and the managing directors of subsidiaries. No deductible was arranged in 2009, as the insurance company does not provide for any such deductible in its calculation of the premium.

With regard to the extension of Board of Management appointments and new appoints, the remuneration system for the Board of Management has been adjusted for the execution of new Board of Management member contracts as of January 1, 2011 to that end that it complies with the amendments pursuant to the VorstAG.

Compensation system of the Supervisory Board

Each member of the Supervisory Board receives fixed compensation in addition to the reimbursement of his expenses and the benefits of a pecuniary loss liability insurance policy concluded by the company for members of the Supervisory Board at its own expense and at suitable conditions customary to the market. Furthermore, each member of the Supervisory Board receives performance-related compensation for each financial year, the total amount of which is capped at double (i.e. twice) the level of fixed compensation. The variable compensation is structured as follows:

- € 500.00 per complete € 500,000.00 "Result of ordinary business activities" (pursuant to IFRS) and an additional amount to be offset of
- € 500.00 per complete € 500,000.00 "Cash flow from current operating activities".

The Deputy Chairman of the Supervisory Board receives one and a half times (1.5 times) the aforementioned compensation and the Chairman of the Supervisory Board receives twice (two times) such amount. Moreover, each member of the Supervisory Board receives a meeting allowance for each meeting of the Supervisory Board attended in person. The company reimburses each member of the Supervisory Board for the sales tax incurred on his compensation. Fixed compensation is due for payment upon the conclusion of the financial year. Variable compensation is due for payment upon the approval or adoption of the annual financial statements.

9. PROCUREMENT

Although it covers almost 100% of the development of its products – STRATEC’s logistics continue to be marked by the fact that it covers only a small part of the production chain and is therefore focusing its resources on the most part of production that produces the greatest value.

As a result of our integrated procurement management we purchase the required functional component groups from a few strategic suppliers who distinguish themselves thanks to their exacting quality management systems and STRATEC compatible process orientation. Hence, the focus on the required supplier know-how is warranted. The inclusion of these suppliers in the early stages of product development guarantees that we have market access to the most up-to-date production methods and processes.

Long term intra-STRATEC Group master agreements ensure price certainty and deliverability. To achieve this, we utilize strategic tools, such as KANBAN delivery, C-parts management and consignment warehouses.

This approach fosters the continuous progress of STRATEC paired with the required flexibility that enables us to deliver cost effective innovative solutions. Our objective for 2011 is to further develop and fine-tune this process.

10. SYSTEM ASSEMBLY AND INSPECTION

Assembly, quality assurance and inspection processes are performed by highly qualified and excellently trained personnel. These processes are carried out in a laboratory environment depicting the actual ambient conditions the STRATEC analyzer systems will eventually be used in. In response to the concentration of complex production processes that are mandated by regulatory authorities, we have developed a suitable infrastructure. This approach represents the optimal balance between economic efficiency and high quality while ensuring that our customers can rely on us to deliver what they need on time at all times.

11. SALES LOGISTICS

The companies in the STRATEC Group forward the analyzer systems directly to the centralized procurement organizations of the large diagnostics companies, which in turn market the systems together with their own reagents as system solutions under their own names and brands. Given that the customers of the STRATEC Group generally supply their country outlets and customers directly from these distribution centers, the regional sales as reported in the figures of the STRATEC Group do not reflect the actual geographical distribution of the final destinations of the analyzer systems manufactured by the STRATEC Group.

12. CORPORATE COMPLIANCE

STRATEC understands corporate compliance as requiring each individual employee within the Group to act responsibly and in accordance with the relevant legal requirements. As a development company, the STRATEC Group is subject to a large number of country-specific laws, ordinances, guidelines and norms in the instrumentation of clinical-diagnostic applications, all of which have to be respected and implemented by all employees on a daily basis. The compliance management system in place at the STRATEC Group was extended in 2010 and integrated into the existing risk management system. In conjunction with this, all employees have been given instructions to comply with the internal and external directives. The compliance with the existing regulations is an elementary responsibility of the entire STRATEC Group.

In order to safeguard compliance with the related responsibilities, the STRATEC Group has implemented a system combining department specific monitoring and responsibilities with a reporting system that has been derived from the former.

ICS (Internal Control System) – The responsible departments provide the control functions within the compliance management system. These departments report to the senior management of the respective companies within the STRATEC Group.

The key positions in these responsible departments are held by diligent and highly competent staff members. The superior individuals in charge of these issues are simultaneously required to perform ongoing business accompanying audits within their scopes of responsibilities.

In the development and production departments, these ongoing checks are primarily performed in the form of documentations reviews, which are conducted by the executives. The quality management department also performs in-house audits at regular intervals. The accounting records and the cash flow within the companies are subjected to dual checks and random focus audits in conjunction with the compilation of the financial reports.

Within the scope of the compliance system, the responsible experts in charge report to the Board of Management on a regular basis, also with regard to important compliance transactions within the company. In turn, the Board of Management reports on compliance matters to the Supervisory Board within the scope of the risk management system.

Identifying risks – The identification of risks not just by compliance managers but also by employees themselves requires knowledge of the regulatory framework governing the activities of each respective employee. The qualification of the employees and the inter-department collaboration are therefore core components of our risk analysis and preventative organizational measures aiming at ascertaining compliance with the regulations. In-vitro diagnostics applications are governed by the regulations for CE labeling in Europe and those of the U.S. Food and Drug Administration (FDA).

The high level of sensitivity of the transactions related to the handling of diagnostic processes our products are involved in mandates a high degree of quality, control and assurance measures aiming at the prevention of damages and / or problems with the acquisition of the required market approvals. We are keenly aware of these responsibilities. Highly experienced business unit managers share this responsibility at the STRATEC Group with our Regulatory Affairs and Quality Departments, which are generally involved in the development of systems for regulated markets.

The individuals at our company, who are required to submit risk reports, consider the risk of a product's image sustaining damages with the affected customers equally critical as the non-fulfillment of general product requirements due to omissions in the development process.

Another important objective is the monitoring of non-industry specific risks and to prevent their occurrence. Among those are, for instance, the risks resulting from fines or contractual penalties due to non-fulfillment of contracts, statutory or government agency imposed provisions or the risk arising from proceedings against the company's directors or employees. For these purposes the company has at its disposal its own legal department as well as external legal and other expert consultants of the STRATEC Group, who boast comprehensive expertise in these matters. The contact for capital market legislation related risks arising from the non-compliance with publication obligations or insider transactions is our STRATEC Group's Investor Relations and Communications Department.

Sharing of information – Within the STRATEC Group, the internal exchange of information takes place directly between the relevant departments and those in charge at the different Group Companies. The assessment of risks is handled by a separate section in the risk management system of the STRATEC Group. Regular interdisciplinary training sessions are provided for employees and staff members in charge to ensure the implementation of our exacting quality standards in this discipline as well.

13. RISK REPORTS

Risk report: risk management system

In compliance with the statutory requirements, the risk management system was established as an early warning risk identification system and serves to analyze and assess the risks facing the company and its environment pursuant to § 91 (2) of the German Stock Corporation Act (AktG).

The individuals required to report such risks compile reports on their respective areas of risk at fixed intervals, as well as ad-hoc reports if necessary, which are qualified and quantified on the basis of a systematic approach. At the various levels of aggregation, the decision makers and directors and officers of the company are provided with a so-called Risk Manual to serve as a controlling instrument. This enables the conceivable consequences of individual risks, including those arising over time, to be viewed and assessed alongside any change in their probability of occurrence. With the extension of group structures within the STRATEC Group, the subsidiaries have been incorporated into the existing risk management system at the parent company. The respective risks and their various interdependencies are analyzed both at the individual companies and between the group companies.

The risk management pertaining to the stakes in businesses held by the STRATEC Biomedical Systems AG is safeguarded through the integration into the risk management system of the Group. Additionally, besides ad-hoc reports, structured reports are filed at set intervals on the level of the development, production, marketing and sales departments as well as reports based on the financial indices.

The opportunities arising for the STRATEC Group on account of its cooperation with existing and new partners, its new technologies, and its substantial growth in changing markets are to be assessed as being sustainably positive. Potential risks should nevertheless be reported, regardless of whether it is considered likely or unlikely that they will actually occur. Although the STRATEC Group did grow substantially throughout the economic and financial crisis and the business model does contain elements that imply that the company enjoys a high degree of immunity against macro-economical fluctuations, economic risks cannot be ruled out completely for the future. Factors such as the rapid development speed, the smooth integration of hardware and software as well as the requirement to comply with regulations and meet market needs do have a significant impact on the growth and success of the STRATEC Group. Furthermore, the company addresses risks arising from project management, procurement and the accelerating level of complexity by keeping a keen eye on them. In contrast to these, other factors, such as the definition of OEM market acceptance criteria and the reagents portfolio, which are major drivers of the success of a given product, lie outside the control of the STRATEC Group. Due to our business model, trials, validation, the extent to which minimum purchase volumes are exceeded and the sales structures are in the hands of our customers.

Risk report: Market and customer-related risks

In line with its business model the STRATEC Group focuses on the cooperation with OEM partners, who are market or technology leaders in their respective fields, a factor which by definition limits the number of potential partners. This can potentially result in a high degree of dependency. The resultant concentration of sales on a limited number of key customers (so-called key account risk) and volatilities in the sale of analyzer systems to these customers can lead to fluctuations in STRATEC's performance. The company aims to counteract this development through the diversification of its customer roster. The STRATEC Group will also continue to collaborate with partners in the discipline of new technologies with the aim of generating sustainable growth in this sector also.

The STRATEC Group draws on internal and external supervision to ensure that no industrial property rights are violated. Moreover, the company has protected its own expertise directly or indirectly with numerous international patents and registrations.

The STRATEC Group has reacted to the increase in development expenses, particularly for systems automating molecular diagnostic applications, by introducing strict project controlling procedures coupled with an effective target cost management system. In particular, the complexity of production processes means that, for reasons of economy, the STRATEC Group focuses on a small number of suppliers. The high cost of supervising logistics activities and of monitoring quality standards necessitates this degree of concentration in terms of suppliers. This risk is knowingly entered into and is minimized by accompanying measures, such as individual contract terms, maintaining inventory stocks and regular supplier audits.

Risk report:

Financial instruments / risk management

Financial instruments are contractually regulated financial transactions involving a claim to payment. A distinction is made in this respect between:

- Primary financial instruments, such as trade receivables or payables, or financial receivables and liabilities.
- Derivative financial instruments not involving a hedging relationship with a hedged item.
- Derivative financial instruments, such as hedges used to hedge movements in exchange or interest rates.

The volume of primary financial instruments can be seen in the balance sheet. Pursuant to IAS 39, the financial instruments on the asset side have been assigned to various categories and recognized either at cost or at fair value in line with their respective category.

With the exception of investments reported under financial assets and marketable securities, the short-term nature of receivables and liquid funds means that there are no material variances between the respective carrying amounts and fair values.

Changes in the fair value of financial instruments available for sale are recognized in equity up to the realization of the respective financial instrument. However, permanent impairments in the value of such instruments are recognized through profit or loss. Changes in the fair value of financial instruments held for trading are recognized through profit or loss.

Financial risks may principally arise from currency and interest rate fluctuations as well as the financial dependence on individual borrowed capital providers.

Currency risks in procurement and sales markets are still of immaterial significance for the STRATEC Group, as the majority of its procurement markets are located within the € zone and Group Companies also still mainly denominate their invoices in €. For reasons of cost effectiveness, the company currently uses only a minimal amount of derivative hedging instruments to cover currency fluctuations. The managers responsible for cash management review the expediency of currency hedging transactions at regular intervals. Given the group structure, the internationalization of procurement activities and in particular the high volume of currency holdings, the Group is facing significantly increased risk in terms of currency fluctuations.

As a result of the acquisition of Ballista Inc. (now STRATEC Biomedical USA, Inc.) the expansion of business activities in the U.S. market is now part of the plans in the productive and procurement end of the business; with the added objective of being more flexible in response to USD exchange rate fluctuations.

Interest rate risks are countered on the basis of the internal requirements of the risk management system in place at the STRATEC Group. Depending on the internal risk assessment, these also involve covering such risks by means of derivative financial instruments.

Further details can be found in Section VII “Financial instruments / risk management” in the notes to the consolidated financial statements.

Risk report: **Other risks**

In the light of the substantial growth expected at the company in the coming years, the risk managers have identified the following potential challenges to be averted in order to bypass the inherent risks:

- Recruitment of adequately qualified personnel with appropriate industry experience,
- The use of compatible tools in the IT department to ensure the networking of customer information from the market as well as other IT systems,
- The problems arising from project delays (time-to-market),
- The effects of customer end revenue declines and delays due to market launch deferrals (for instance product launch, geographical differences or incomplete reagents portfolio) and
- Changes in the market as a result of the concentration processes in the customer market.

The company's risk management system in general and its Risk Manual as the central component of this system in particular have been and continue to be adjusted and extended to account for these growth-related challenges, as have the processes and systems used to control the company, so that the Company is in a position to respond to such challenges at all times.

Internal control system for financial reporting process

STRATEC has an internal control system for its (group) financial reporting process which lays down suitable structures and processes and is implemented within the company's organizational structures.

This is designed so as to ensure the uniform, correct and prompt documentation of all business transactions. It ensures compliance with legal requirements, accounting requirements and the company's internal accounting guidelines, which are binding for all of the companies included in the consolidated financial statements. The basic principles underlying the internal control system, which is suitable for the size and structure of the Group, are defined approval processes, separation of functions, dual control etc.

The individual companies that are part of the STRATEC Group compile their financial statements themselves in compliance with the provisions that apply to them and in compliance with the group wide stipulations. Throughout the entire accounting process, the local companies receive support from contacts at the parent company. The consolidated accounts are prepared centrally based on the data from the subsidiaries included in the scope of consolidation. Processes intended to ensure that the consolidated financial statements are consistent with all of the relevant requirements have been implemented. The company also draws on expertise from external consulting companies when preparing its consolidated financial statements. Amendments in legislation, accounting standards and other pronouncements are promptly analyzed in terms of their relevance and implications for the consolidated financial statements and then implemented as appropriate. As a general rule, it should be noted that any internal control system, regardless of its specific structure, cannot provide absolute certainty that material accounting misstatements have been avoided or detected.

14. SUPPLEMENTARY DISCLOSURES IN ACCORDANCE WITH THE TAKEOVER DIRECTIVE IMPLEMENTING ACT OF JULY 8, 2006

The stock capital is divided across 11,445,736 ordinary shares with a nominal value of € 1.00 each (year prior: 11,425,694 ordinary shares). All shares are bearer shares. As of the balance sheet closing date, Chief Executive Officer Hermann Leistner was holding 9.46% of the capital directly and another 9.96% indirectly through an investment company he controls.

The appointment and dismissal of members of the Board of Management, as well as any amendments to the Articles of Association, are undertaken in accordance with the requirements of stock corporation law. The Articles of Association do not include any opposing provisions in this respect.

The company is managed and represented to third parties by the Board of Management. The Board of Management consists of one or more persons appointed pursuant to § 84 of the German Stock Corporation Act (AktG) for a maximum period of five years. Renewed appointment or the extension of an existing contract is permitted in each case for a maximum period of five years. These measures required a further resolution by the Supervisory Board.

The Supervisory Board may appoint members of the Board of Management as Chairman or Deputy Chairman of the Board of Management.

The Supervisory Board may revoke any appointment to the Board of Management in the event of compelling reason. Reference is made in this respect to the further comments provided in § 84 (3) of the German Stock Corporation Act (AktG).

Any amendment to the Articles of Association requires a resolution by the Annual General Meeting. The Annual General Meeting may authorize the Supervisory Board to make amendments only affecting the specific wording. Any such resolution requires a majority corresponding to at least three quarters of the share capital represented upon the adoption of the resolution.

Based on the shareholder meeting resolution of May 21, 2010, the authorization to acquire own shares, which was issued on May 20, 2009 has been rendered null and void. The shareholder meeting of May 21, 2010 did award the authority to the Board of Management to acquire additional own shares up to a value of ten percent of the capital stock on hand as of May 21, 2010 by May 20, 2015 through a one-time transaction or multiple transaction, as a whole or in installment amounts. No more than ten percent of the capital stock may be allocated to these own shares combined with the own shares the company has previously acquired and is still holding in its possession. The company did not take advantage of this authorization in 2010 and also did not do so by the approval deadline for the 2010 annual report in 2011.

The Board of Management is authorized by § 4 (4.5) of the Articles of Association, subject to approval by the Supervisory Board, to increase the company's share capital until June 22, 2011 by issuing new shares with a nominal value of € 1.00 each in return for non-cash or cash contributions on one or more occasions by a maximum total of up to € 5,500,000.00 (Authorized Capital). Shareholders must generally be granted subscription rights. In certain circumstances set out in the Articles of Association, however, the Board of Management is entitled to exclude such subscription rights.

In accordance with the provisions of the Articles of Association (§ 4 Paragraphs 4.6 and 4.7), the company has various conditional capitals (Conditional Capitals I – V) with a total value of € 1.4 million as of December 31, 2010. Conditional Capitals I – III and V (amounting to € 0.9 million) only authorize the company to increase its capital to the extent that bearers of stock options exercise their subscription rights. The new shares have profit participation rights from the beginning of the financial year in which they are issued. Conditional Capital IV authorizes the company to increase its share capital by up to € 500,000 by issuing up to 500,000 new ordinary bearer shares. This conditional capital serves exclusively to issue new shares to the bearers or creditors of warrant or convertible bonds issued by the company or by subsidiaries in which the company holds direct or indirect majority shareholdings in accordance with the resolution adopted by the Annual General Meeting on June 23, 2006.

In this respect, Conditional Capital IV only authorizes the company to increase its capital to the extent that the bearers or creditors of warrant or convertible bonds actually exercise their option or conversion rights or the conversion obligations underlying such bonds have been met.

Significant agreements do exist, which are subject to a change in control due to a takeover offer. With regard to further information, we are citing the application of the protective clause in § 315 Section 4 No. 8 HGB.

Individual agreements with the Board of Management and Supervisory Board of the company include change of control provisions pursuant to § 315 (4) No. 9 of the German Commercial Code (HGB) in line with the relevant requirements of the German Corporate Governance Code.

15. DECLARATION ON CORPORATE GOVERNANCE

The company has published the declaration on corporate governance required by § 289a of the German Commercial Code (HGB), including the declaration on the German Corporate Governance Code required by § 161 of the German Stock Corporation Act (AktG), in the Investor Relations / Corporate Governance section of its internet site at www.stratec.com; section Investor Relations > Corporate Governance.

16. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET CLOSING DATE AND EXPECTED DEVELOPMENT OF THE STRATEC GROUP

Events after the balance sheet closing date

In a mandatory stock exchange notification of December 9, 2010, the company announced that its Chief Executive Officer Hermann Leistner will resign from his position as of March 31, 2011. Board of Management member Marcus Wolfinger will chair the Board of Management as of April 1, 2011. In this context, Deputy Supervisory Chairman Dr. Robert Siegle also resigned from his position as of December 31, 2010 and will join the Board of Management effective February 1, 2011. In this position he will be responsible for Human Resources, Compliance and Legal.

Upon Dr. Robert Siegle's resignation from his Supervisory Board position, Wolfgang Wehmeyer, who had been proposed by the administration, was appointed to the Supervisory Board of STRATEC AG through an appointment notice issued by the Mannheim Circuit Court on January 21, 2011.

Other transactions of special relevance did not take place after the end of the financial year that would have a crucial impact on the business development of our Group.

Business strategy

The achievement of exacting developmental goals, which consistently reach above and beyond the industry standards and target specifically the disciplines of technology and innovative leadership, underscore the four key strategic goals of the STRATEC Group. They comprise the consistent expansion of our technology pool, innovative leadership in our industry, the extension of our own intellectual property rights as well as the positioning of the company as a growing company that yields strong earnings. We have been able to attain all of the goals set in 2010. In order to continue to further expand the leadership position of the company, the Board of Management pursues objectives that will further reinforce this position.

Among our business partners and customers, we have positioned ourselves as a development enterprise boasting its own technologies and intellectual property rights. In doing so, we will continue to focus on the market and technology leaders in the field of clinical diagnostics and biotechnology, as well as on specialized technological solutions in the respective growth segment that promise healthy potential margins. Thanks to this strategic approach, which goes hand in hand with the continuous optimization of our resource allocations, we are strengthening our position as a leading supplier of automation solutions for complex applications in rapidly growing sub-segments of the diagnostics and biotechnology business.

Financial strategy

The most important objectives of the STRATEC Group in terms of its financial strategy comprise fundamentally conservative financial policies with the objective of making available at all times the cash required, for instance for new research and development projects or for external growth paired with an effective risk management. We address these goals primarily through the optimization of our financing costs rather than through the optimization of our financial earnings. Given the high level of insecurity on the financial markets in early 2010 and taking into account the need to create reserves for potential acquisitions our current investment policies aim first and foremost at money market investments. Investments are made into short term opportunities, for instance if cash reserves are needed quickly or made into long term solutions in those areas where respective counter positions for financing are available.

Overall, our financial strategy does target the provision of the required resources for significant organic and inorganic growth and the pursuit of an investment policy focused on a balanced opportunities / risk approach. We will continue to pursue this strategy.

Although the use of optimizing financial derivatives may appear to be practical in some specific situations, we use this option only in exceptional cases because of the restrictive IFRS balance sheet provisions. Financial derivatives are used in cases where risks from the operational business have to be secured. We use financial derivatives with the objective of optimizing the interest rates where the opportunity arises because of financing needs and where they are linked to a general transaction. In 2010, we did not close any business transactions involving optimized financial derivatives and they will be used only in very unique cases in 2011 subject to the stringent provisions set forth in the statutes of our Board of Management. In 2010, a small amount of financial derivatives was used to securitize currency fluctuations. The pending financial derivative exposure as of the balance sheet closing date 12/31/2010 did not result in any significant effects with regard to the asset, financial and earnings situation of the Group.

Anticipated development of the STRATEC Group

The projections included in our forecast presume a slight increase in our component prices.

Our customers are increasingly focusing on their core business in the development of reagents for economic and time-related (time-to-market) considerations. The resulting need to outsource the development of instruments and the manufacturing process, complemented by our technology leadership as well as our excellent reputation, but in particular the steadily increasing number of development projects and inquiries all give rise to our presumption that we will be able to continue to grow significantly faster than the market. Our development quota, which is the gross earnings and development services ratio, continues to be considerably higher than that of other companies. As a result of the projects already under development and in the negotiation process we are confident that we will be able to continue to bring in average growth rates that are well into the double digit percentage range in the years to come.

Our objective of increasing our margins in the medium term are primarily based on the following factors:

- The expansion of our technology portfolio paired with the simultaneous increase of the complexity of the analyzer systems, in particular as a result of portfolio transactions from the technology spectrum of our business units STRATEC Data Management (the business previously handled by Sanguin) and STRATEC Molecular (the business previously generated by Invitek) as well as the continued complexity of the technological requirements our automation solutions will have to meet; both progressing hand in hand with ever more exacting market entry barriers for potential competitors.
- Continued increase of the fixed cost digression effects as a result of growing volumes and the introduction of flow production concepts.
- The continued expansion of the STRATEC analyzer systems installations base and the nominally strong demand for service and consumption parts as a result of the high placement rate of devices in 2009 and 2010.

Our indicators, such as orders received, forecast computations of our customers and the successfully placed new market launches of innovative analyzer systems project that the positive development of our business will continue. The structure of our contracts, which includes purchase projections and forecast systems, provides us with good visibility for our logistics arrangements and with an excellent planning horizon with regard to analyzer sales for an extended time frame based on the individual customer. Although the consequential effects of the purchase price allocation (PPA, Purchase Price Allocation) resulting from the acquisition of Group Companies and our high developmental output do have an impact on our margins as a result of the costs incurred for the development of systems and due to the increasing complexity and regulatory requirements, we anticipate that our revenues and earnings will once again grow significantly in the upcoming years.

For 2011, the STRATEC Group once again expects its revenues and earnings to see increases well into the double digit percentage range. For 2012, we anticipate similar gains in earnings and revenues.

Birkenfeld, February 22, 2011

STRATEC Biomedical Systems AG

The Board of Management



Hermann Leistner



Marcus Wolfinger



Bernd M. Steidle



Dr. Robert Siegle

CONSOLIDATED FINANCIAL STATEMENTS

as of December 31, 2010
of STRATEC Biomedical Systems AG

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CONSOLIDATED BALANCE SHEET

as of December 31, 2010
of STRATEC Biomedical Systems AG

ASSETS	Note	12.31.2010 in € thousand	12.31.2009 in € thousand
NON-CURRENT ASSETS			
Intangible assets	(1)		
Goodwill		4,480,275.45	2,141
Other intangible assets		5,677,333.06	4,385
		10,157,608.51	6,526
Property, plant and equipment	(2)	16,357,847.85	8,890
Financial assets			
Interests in associates	(3)	342,113.06	310
Deferred taxes		332,854.02	126
		27,190,423.44	15,852
CURRENT ASSETS			
Inventories	(4)		
Raw materials and supplies		7,731,362.07	6,914
Unfinished products, unfinished services		26,837,991.81	23,893
Finished products and merchandise		589,077.34	606
Prepayments made		2,400.00	223
		35,160,831.22	31,636
Receivables and other assets			
Trade receivables	(5)	15,816,837.23	9,914
Future receivables from construction contracts	(6)	5,629,038.79	4,921
Receivables from associates	(7)	103,180.25	165
Other receivables and other assets	(8)	1,186,969.96	1,456
		22,736,026.23	16,456
Securities	(9)	526,222.44	654
Cash and cash equivalents	(25)	13,222,059.60	21,187
		71,645,139.49	69,933
TOTAL ASSETS		98,835,562.93	85,785

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from January 1 to December 31, 2010
of STRATEC Biomedical Systems AG

	Note	2010 in €	2009 in € thousand
Sales	(17)	101,978,316.17	79,589
Increase in volume of finished and unfinished products and unfinished services	(18)	2,725,515.38	7,014
Other own work capitalized	(2)	2,028,167.78	625
Overall performance		106,731,999.33	87,228
Other operating income	(19)	1,841,672.66	747
Cost of materials			
a) Cost of raw materials and supplies		51,507,294.30	41,578
b) Cost of purchased services		1,578,243.97	1,426
		53,085,538.27	43,004
Personnel expenses	(20)		
a) Wages and salaries		22,348,695.80	18,120
b) Social security contributions, pension expenses and other benefits		3,287,662.77	2,592
		25,636,358.57	20,712
Amortization of intangible assets and depreciation of property, plant and equipment	(21)	3,266,789.40	2,573
Other operating expenses	(22)	8,975,858.72	6,967
Income from profit transfer agreements		-17,438.90	-75
Financial income		130,126.39	120
Financial expenses		278,936.03	214
Other financial income/expenses		109,453.12	549
Net financial expenses	(23)	-56,795.42	380
Operating result (EBT)		17,552,331.61	15,099
Taxes on income	(12)		
a) Current tax expenses		4,739,143.75	3,754
b) Deferred tax income		-225,975.76	-329
		4,513,167.99	3,425
Consolidated net income		13,039,163.62	11,674
Income and expenses recognized directly in equity (after taxes)			
Currency translation of foreign financial statements		1,223,330.21	232
Comprehensive income		14,262,493.83	11,906
Earnings per share in Euro	(24)	1.14	1.03
No. of shares used as basis		11,469,713	11,346,814
Diluted earnings per share in Euro	(24)	1.12	1.02
No. of shares used as basis (diluted)		11,667,298	11,425,923

CONSOLIDATED CASH FLOW STATEMENT

for the period from January 1 to December 31, 2010
of STRATEC Biomedical Systems AG

in € thousand	Note	2010	2009
I. Operations			
Consolidated net income (after taxes)		13,039	11,674
Depreciation and amortization		3,267	2,573
Current income tax expenses		4,739	3,754
Income taxes paid less income taxes received		-3,157	-4,388
Financial income		-130	-120
Financial expenses		279	214
Interest paid		-235	-215
Interest received		102	132
Other non-cash expenses	(25)	481	361
Other non-cash income	(25)	-2,546	-1,129
Change in net pension provisions	(11)	216	96
Cash flow		16,055	12,952
Change in deferred taxes through profit or loss		-153	-329
Loss (previous year: profit) on disposals of non-current assets		16	-202
Increase in inventories, trade receivables and other assets		-9,481	-7,520
Decrease (previous year: increase) in trade payables and other liabilities		-4,989	5,977
Inflow of funds from operating activities		1,448	10,878
II. Investments			
Incoming payments from disposals of non-current assets			
Property, plant and equipment		19	30
Financial assets		0	797
Outgoing payments for investments in non-current assets			
Intangible assets		-357	-328
Property, plant and equipment		-7,241	-1,895
Prepayments made / assets under construction		-283	-1,121
Financial assets		-19	-209
Outgoing payments for acquisition of consolidated companies, less cash and cash equivalents taken over		-421	-1,738
Outflow of funds for investing activities		-8,302	-4,464
III. Financing			
Incoming payments from taking up of financial liabilities		2,386	0
Outgoing payments for repayment of financial liabilities		-888	-712
Incoming payments from issues of shares for employee stock option programs		2,230	242
Dividend payments		-5,122	-3,977
Outflow of funds for financing activities		-1,394	-4,447
IV. Cash-effective change in cash and cash equivalents (Balance of I - III)			
Cash and cash equivalents at start of period		21,187	19,208
Change in cash and cash equivalents due to changes in exchange rates		283	12
Cash and cash equivalents at end of period	(25)	13,222	21,187

STATEMENT OF CHANGES IN GROUP SHAREHOLDERS' EQUITY

for the 2010 Financial Year
of STRATEC Biomedical Systems AG

in € thousand	Share capital	Capital reserve
December 31, 2008	11,426	10,746
Equity transactions with owners		
Dividend payment		
Issue of subscription shares from stock option programs, less costs of capital issue after taxes	20	222
Allocations due to stock option plans		213
Allocations to free revenue reserves		
Profit carried forward		
Disposal of treasury stock		-14
Comprehensive income in 2009		
December 31, 2009	11,446	11,167
December 31, 2009	11,446	11,167
Equity transactions with owners		
Dividend payment		
Issue of subscription shares from stock option programs, less costs of capital issue after taxes	123	2,101
Allocations due to stock option plans		192
Allocations to free revenue reserves		
Profit carried forward		
Disposal of treasury stock		455
Comprehensive income in 2010		
December 31, 2010	11,569	13,915

* pursuant to § 58 (2) of the German Stock Corporation Act (AktG), allocations to free revenue reserves are presented in the year in which the relevant resolution is adopted.

Revenue reserves		Consolidated net income	Other equity		Group equity
Accumulated net income	Free revenue reserves*		Treasury stock	Currency translation	
18,740	5,540	6,131	-2,014	-667	49,902
		-3,977			-3,977
					242
					213
	2,000	-2,000			0
153		-153			0
			1,016		1,002
		11,673		232	11,905
18,893	7,540	11,674	-998	-435	59,287
18,893	7,540	11,674	-998	-435	59,287
		-5,122			-5,122
					2,224
					192
	3,000	-3,000			0
3,552		-3,552			0
			581		1,036
		13,039		1,223	14,262
22,445	10,540	13,039	-417	788	71,879

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the 2010 financial year
of STRATEC Biomedical Systems AG

A. GENERAL DISCLOSURES

GENERAL INFORMATION

STRATEC Biomedical Systems AG (hereinafter "STRATEC AG"), with its legal domicile in Gewerbestrasse 35-37, 75217 Birkenfeld, designs and manufactures fully automated systems for its partners in the fields of clinical diagnostics and biotechnology. These partners market such systems, in general together with their own reagents, to laboratories, blood banks and research institutes around the world. The company develops its products on the basis of its own patented technologies.

The Board of Management of STRATEC AG prepared the consolidated financial statements on February 22, 2011 and forwarded these to the Supervisory Board. The Supervisory Board of STRATEC AG will adopt a resolution concerning the approval of the consolidated financial statements at its meeting on February 25, 2011.

BASIS OF PREPARATION

The consolidated financial statements compiled by STRATEC AG as the topmost parent company as of December 31, 2010 have been prepared with due application of § 315a (1) of the German Commercial Code (HGB) in accordance with the requirements of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), London, and the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) valid and endorsed by the European Union as of the balance sheet date, as well as with the supplementary requirements of German commercial law.

The consolidated financial statements of STRATEC AG provide a true and fair view of the net asset, financial and earnings position, as well as of the cash flows, of the Group for the year under report in accordance with the applicable accounting principles.

The consolidated financial statements have been compiled in euros. Unless otherwise stated, the amounts reported in the notes are denominated in thousand euros (€ 000s).

The financial year for the consolidated financial statements corresponds to the calendar year. The financial statements of all companies included in the consolidated financial statements have been prepared as of the balance sheet date for the consolidated financial statements and have been based on uniform accounting and valuation principles.

The financial statements have in principle been prepared based on amortized cost, apart from financial assets and financial liabilities, including derivative financial instruments, which have been measured at fair value through profit or loss.

The statement of comprehensive income has been prepared using the total cost method.

In the interests of clarity, individual items have been aggregated in the consolidated balance sheet, the consolidated statement of comprehensive income and the statement of changes in group shareholders' equity. These are explained in the notes to the consolidated financial statements. The consolidated balance sheet has been structured in line with the maturities of the respective assets and liabilities. All assets and liabilities maturing or due to be sold within the next twelve months are classified as current. Assets and liabilities earmarked for realization in the company's usual course of business are also classified as current, even when their maturities exceed twelve months. In the case of loan liabilities, a distinction has been made between the repayment installments due for payment within the next twelve months (current

financial liabilities) and long-term portions (non-current financial liabilities). Pursuant to IAS 12 (Income Taxes), deferred taxes must in principle be recognized as non-current items.

The company is entered in the Mannheim Commercial Register under HRB 504390. The consolidated financial statements and group management report as of December 31, 2010 have been published in the electronic Federal Official Gazette (Bundesanzeiger).

ACCOUNTING STANDARDS REQUIRING MANDATORY APPLICATION FOR THE FIRST TIME IN THE YEAR UNDER REPORT

The following accounting standards and interpretations required mandatory application for the first time in the 2010 financial year.

The application of these standards and interpretations in the 2010 financial year has been based on the relevant transitional requirements. Unless expressly required otherwise in individual standards and interpretations, and described separately below, the standards and interpretations have been applied retrospectively, i.e. the information has been presented as if the new accounting policies had always been applied. In these cases, the comparative figures have been adjusted as appropriate.

The interpretation **IFRIC 17** (Distributions of Non-Cash Assets to Owners), published on November 27, 2008, governs the recognition and measurement of liabilities involving distributions of non-cash assets. IFRIC 17 stipulates when such obligations must be recognized as liabilities, that distributions of non-cash assets to owners must be measured at fair value, and that the difference between the carrying amount of the assets to be distributed and dividend obligation must be written back to income upon such distribution taking place.

The amendments to **IAS 39** (Financial Instruments: Recognition and Measurement) published on July 31, 2008 deal with the unilateral hedging of risks with options and with inflation as a risk requiring hedging. The amendments serve to clarify the circumstances in which a hedged risk or a portion of cash flows can be designated for hedge accounting.

In the context of its annual improvement projects, the IASB published its omnibus standard „**Improvements to IFRSs (2007-2009)**“, on April 16, 2009. These amendments provide more precise guidelines for the recognition, measurement and reporting of business transactions, unify the respective terminology and can largely be viewed as editorial corrections to existing standards.

The amendments to **IFRS 2** (Share-based Payments) published on June 18, 2009 address the accounting treatment of group cash-settled share-based payments. The amendments specify how an individual subsidiary within a group is required to recognize specified share-based payment agreements in its separate financial statements. In the context of this revision, the requirements of IFRIC 8 (Scope of IFRS 2) and IFRIC 11 (IFRS 2 – Group and Treasury Share Transactions) were taken over in IFRS 2.

The amendments to **IFRS 3** (Business Combinations) and **IAS 27** (Separate and Consolidated Financial Statements) published on January 10, 2008 deal in particular with the recognition and measurement of non-controlling interests (minority interests). STRATEC AG made voluntary premature application of these amendments in the 2009 financial year already.

First-time application of the aforementioned requirements has not had any material influence on the presentation of the net asset, financial and earnings position, or on earnings per share.

ACCOUNTING REQUIREMENTS ALREADY PUBLISHED BUT NOT YET APPLIED

The IASB and IFRIC have issued the following standards, amendments and revisions to standards, and interpretations not yet requiring mandatory application. Application of the new and revised standards and interpretations is, among other factors, dependent on their being accepted by the European Union within its IFRS endorsement procedure.

Standard	Title	IASB publication	Effective date*	EU-Endorsement
New standards and interpretations				
IFRS for SMEs	IFRS for small and medium-sized enterprises	07.09.2009	-	Outstanding
IFRS 9	Financial Instruments: Revision and Replacement of All Existing Standards (Classification and Measurement)	11.12.2009	01.01.2013	Outstanding
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	11.26.2009	07.01.2010	07.24.2010
Revised standards and interpretations (Amendments)				
IAS 32	Financial Instruments: Presentation (Classification of Rights Issues)	10.08.2009	02.01.2010	12.23.2009
IAS 24	Related Party Disclosures	11.04.2009	01.01.2011	07.20.2010
IFRIC 14	The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Prepayments of a Minimum Funding Requirement)	11.26.2009	01.01.2011	07.20.2010
IFRS 1	Minor Amendments to IFRS 1 (Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters)	01.28.2010	07.01.2010	6.24.2010
Sundry	IFRS Improvements (Annual Improvement Project 2008 - 2010)	05.06.2010	01.01.2011	Expected Q1-2011
IFRS 7	Transfers of Financial Assets - Disclosures	10.07.2010	07.01.2011	Expected Q2-2011
IAS 12	Income Taxes (Deferred Tax: Recovery of Underlying Assets)	12.20.2010	01.01.2012	Expected Q3-2011
IFRS 1	Minor Amendments to IFRS 1 (Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters)	12.20.2010	07.01.2011	Expected Q3-2011

* for financial years beginning on or after this date

STRATEC AG does not intend to make any voluntary, premature application of these standards and interpretations.

In the interests of reporting efficiency, only those standards and interpretations have been outlined below which, based on the information currently available and given the business model and business transactions customary at the STRATEC Group, are very likely to have implications for the accounting policies or for the reporting and disclosure of information in STRATEC's consolidated financial statements in future financial years.

The IASB published **IFRS 9** (Financial Instruments) concerning the categorization and measurement of financial assets on November 12, 2009. This publication represents the first part of a three-stage project replacing IAS 39 (Financial Instruments: Recognition and Measurement) aimed at completely revising the recognition of financial instruments. IFRS 9 defines two measurement categories for asset-side financial instruments, rather than the four provided for under IAS 39. Categorization is based on the one hand on the company's business model, and on the other hand on the characteristics of contractual cash flows of the respective financial asset. With regard to structured products with embedded derivatives, the review of the obligation to separate the items and potential separate recognition is now only necessary for non-financial underlying contracts. Structured products with financial underlying contracts must be categorized and measured in their entirety. Initial application of IFRS 9 is envisaged for financial years beginning on or after January 1, 2013. The new standard has yet to be accepted into European law. STRATEC AG is currently reviewing the implications of the new standard for the presentation of its net asset, financial and earnings position.

The amendments to **IFRS 7** (Financial Instruments: Disclosures) published on October 7, 2010 are intended to provide readers of financial statements with a better understanding of transactions involving transfers of financial assets. The additional disclosure obligations arising as a result are expected to be of immaterial significance for STRATEC AG.

B. ACCOUNTING POLICIES APPLIED

CONSOLIDATION PRINCIPLES

Capital consolidation at STRATEC AG has been performed using the purchase method by offsetting the carrying amounts of investments against the prorated equity of the subsidiaries. This involves accounting for the deferred taxes, and assets and liabilities identifiable at the subsidiaries at the time of acquisition at fair value. Any remaining credit difference is recognized as goodwill.

Intercompany profits and losses, sales, income and expenses have been eliminated, as have receivables and liabilities between the companies included in the consolidated financial statements. The income tax implications of consolidation entries have been accounted for by recognizing deferred taxes.

SCOPE OF CONSOLIDATION

The consolidated financial statements of STRATEC AG basically include all companies where STRATEC AG has the possibility of determining the financial and business policy (control relationship). Inclusion of these companies begins as of the acquisition date, i.e. from the date on which STRATEC AG first gains the possibility of exercising control and ends when STRATEC AG no longer exercises control. Shareholdings whose implications for the net asset, financial and earnings position are of immaterial significance both individually and aggregately are included in the consolidated financial statements at amortized cost and recognized as interests in associates in the consolidated balance sheet. The financial data of these subsidiaries of immaterial significance cumulatively account for around 1% of consolidated sales, group equity, group earnings and total group assets respectively.

In addition to STRATEC AG, the consolidated financial statements as of December 31, 2010 include the following subsidiaries by way of full consolidation:

- STRATEC Biomedical Switzerland AG (formerly: Robion AG), Beringen, Switzerland
- Sanguin International Ltd., Burton upon Trent, UK
- InViTek Gesellschaft für Biotechnik & Biodesign mbH, Berlin, Germany
- STRATEC Biomedical USA, Inc. (formerly: Ballista Inc.), Newbury Park, USA,

The level of shareholding held as of December 31 amounted to 100% of voting capital at each of the companies.

Due to their immaterial significance, the following subsidiaries have not been included in the consolidated financial statements by way of full consolidation:

	Share capital	Shareholding in %	Annual earnings*
STRATEC NewGen GmbH, Birkenfeld, Germany	25,000 EUR	100.0	-17,439 EUR
STRATEC Biomedical Inc., Hamden, CT. USA	15,000 USD	100.0	35,967 USD
Sanguin International Inc., Hamden, CT. USA	1,000 USD	100.0	38,889 USD
STRATEC Biomedical Systems S.R.L. Cluj-Napoca, Romania	87,750 RON	100.0	45,451 RON

* The earnings figures reported are based on the annual financial statements prepared in accordance with respective national accounting requirements as of December 31, 2010.

The level of shareholding held by Sanguin International Ltd., Burton upon Trent, UK, in Sanguin International Inc., Hamden, CT, USA, increased from 90.0% to 100.0% in the 2010 financial year.

COMPANY ACQUISITIONS

Company acquisitions are recognized using the purchase method, which involves measuring the assets and liabilities thereby acquired at fair value as of the date of initial control.

THE FOLLOWING ACQUISITIONS WERE REPORTED IN ACCORDANCE WITH THE REQUIREMENTS OF IFRS 3 (BUSINESS COMBINATIONS) IN THE YEAR UNDER REPORT:

On July 8, 2010, STRATEC AG acquired 100% of the shares in Ballista Inc. based in Newbury Park, USA, for € 2,710k (USD 3,431k). Following acquisition, this company was renamed as STRATEC Biomedical USA, Inc. The company specializes in optics precision technology and related development, production and advisory services. Within the framework of its expansion strategy, this acquisition has enabled STRATEC AG to extend its presence in the USA. Furthermore, the acquisition is intended to extend the Group's technology pool with optics systems and components.

The total consideration paid for the acquisition is structured as follows:

in € thousand	
Purchase price paid upon acquisition	271
Granting of shares in STRATEC Biomedical Systems AG (35,790 shares)	1,038
Purchase price installments	746
Security deposit	224
Performance-related payment	127
Development milestone payments	304
Total	2,710

The equivalent value of the shares thereby issued has been measured by reference to the closing price of the shares on the XETRA trading platform of the Frankfurt Stock Exchange on the date of exchange.

The purchase price installments, with a total nominal amount of USD 1,000k, are payable in 36 monthly installments starting on July 8, 2010. The security deposit is due for payment on December 31, 2011.

The key performance dates expected for the performance-related and development milestone purchase price components and the resultant present values are structured as follows:

- Performance-related payment (EBIT): 2nd quarter of 2013
- Development milestone payments: 1st / 2nd quarter of 2011

The performance-related contingent consideration (EBIT) obliges STRATEC to pay an additional amount of USD 250k should the company achieve positive EBIT in three consecutive months. The development milestone contingent consideration obliges STRATEC to pay up to USD 700k should the company achieve specified development and sales targets. The amounts of € 127k and € 304k recognized for these items represent the estimated fair values of these obligations.

To calculate the present value of the contingent components, reference was made to the risk-adjusted company-specific discount rate (WACC) of 15.90% after taxes. The present values of unconditional future components have been calculated using the congruent market debt interest rate as of the valuation date (3.77% - 4.11%).

The acquisition of STRATEC Biomedical USA Inc. has been recognized in the cash flow statement for the 2010 financial year by recognition of an amount of € 421k in the cash flow from investing activities. This corresponds to the purchase price installments and cash components paid in 2010 (€ 438k), less cash and cash equivalents thereby taken over (€ 17k).

The fair values of the assets and liabilities taken over at STRATEC Biomedical USA, Inc. as recognized upon acquisition and their carrying amounts directly before the business combination have been presented in the following table:

in € thousand	Fair value upon acquisition	Carrying amounts directly before business combination
Current assets		
Cash and cash equivalents	17	17
Trade receivables and other assets	323	323
Inventories	102	102
Current assets		
Intangible assets	3,627	4
of which goodwill	2,448	0
of which technology	1,175	0
of which other intangible assets	4	4
Property, plant and equipment	272	272
Total assets	4,341	718
Current debt		
Financial liabilities	446	446
Trade payables and other liabilities	801	801
Non-current debt		
Deferred tax liabilities	384	0
Total debt	1,631	1,247

Goodwill chiefly represents the synergies expected to be generated by pooling the technological expertise at the company acquired with the core competency at STRATEC AG in the field of automation solutions. Furthermore, due to greater market access and the integration and increased professionalism of the sales network, goodwill also reflects the overall growth opportunities available in the laboratory automation business field. These benefits have not been recognized as a separate item as they do not satisfy the requirements governing recognition of intangible assets.

The resultant goodwill is not tax-deductible.

The trade receivables and other receivables transferred upon the business combination have a gross contractual value of USD 408k or € 323k.

In the year under report, STRATEC Biomedical USA, Inc. contributed € 738k to the sales of the STRATEC Group. Had the business combination already taken place as of January 1, 2010, then the Group's sales would have been higher by a further amount of € 786k.

Consolidated net income for the 2010 financial year includes a loss of € 93k at STRATEC Biomedical USA, Inc. and expenses of € 33k due to the subsequent consolidation of the company. If the business combination had already occurred as of January 1, 2010, then consolidated net income would have included a loss of € 393k and expenses of € 33k due to the subsequent consolidation.

THE FOLLOWING ACQUISITIONS WERE REPORTED IN ACCORDANCE WITH THE REQUIREMENTS OF IFRS 3 (BUSINESS COMBINATIONS) IN THE PREVIOUS YEAR:

On April 23, 2009, STRATEC AG acquired 100% of the shares in InViTek, Gesellschaft für Biotechnik & Biodesign mbH, Berlin (hereinafter: "InViTek"). The InViTek acquisition enabled the STRATEC Group to broaden its product range in the field of automation solutions for nucleic acid purification applications.

The total consideration paid for the acquisition is structured as follows:

in € thousand	
Purchase price paid	1,745
Granting of shares in STRATEC Biomedical Systems AG (70,597 shares)	1,002
Netting of receivables to seller	320
Compensation contingent on future events	230
Total	3,297

InViTek was included in the consolidated financial statements of STRATEC AG as of the acquisition date (April 23, 2009). The shares granted were measured at their market price on the acquisition date. The contingent purchase price component (€ 230k) was dependent on the achievement of specified sales targets, as well as on the achievement of specified milestones in five research and development projects at InViTek. The contingent purchase price components amounted to a maximum of € 350k. The performance date set for the achievement of these targets was December 31, 2009, as a result of which these items could already be reliably determined in the consolidated financial statements as of December 31, 2009. The respective obligation was settled in cash in the 2010 financial year.

The InViTek acquisition was recognized in the cash flow statement for the 2009 financial year by recognition of an amount of € 1,738k in the cash flow from investing activities. This corresponded to the purchase price paid (€ 1,745k), less the cash and cash equivalents taken over at InViTek (€ 7k).

The fair values of the assets and liabilities taken over from InViTek recognized upon acquisition and their carrying amounts directly before the business combination have been pre-sented in the following table:

in € thousand	Fair value upon acquisition	Carrying amounts directly before business combination
Current assets		
Cash and cash equivalents	7	7
Trade receivables and other assets	413	413
Inventories	363	305
Non-current assets		
Intangible assets	3,860	3
of which goodwill	1,488	0
of which technology	1,533	0
of which customer relationships	408	0
of which current R&D projects	431	0
Property, plant and equipment	244	244
Deferred tax assets	32	0
Financial assets	120	120
Total assets	5,039	1,092
Current debt		
Current financial liabilities	211	211
Trade payables and other liabilities	302	302
Non-current debt		
Deferred tax liabilities	732	0
Non-current financial liabilities	497	391
Total debt	1,742	904

The gross contractual amount of trade receivables and other assets amounted to € 415k.

Goodwill chiefly represents the synergies with the automation expertise already available at STRATEC AG / STRATEC Biomedical Switzerland AG expected to be generated in connection with the business combination due to InViTek's scientific competence in the field of nucleic acid purification. Furthermore, due to the extended customer base and integration and increased professionalism of the sales network, goodwill also reflects the overall growth opportunities now available in the nucleic acid purification business field.

CURRENCY TRANSLATION

Transactions in foreign currencies

Transactions in foreign currencies have been translated into the functional currency using the rate on the date of the transaction. On the balance sheet date, monetary items have been translated using the reporting date rate, while non-monetary items have been translated at the rate on the date of the transaction. Differences arising upon currency translation have been recognized through profit or loss in the statement of comprehensive income.

Translation of financial statements of foreign group companies

The functional currency of foreign group companies is the respective national currencies, as the companies operate independently in financial, economical and organizational terms. Assets and liabilities at foreign companies have been translated into euros at the reporting date rate, while income and expenses have been translated into euros using annual average exchange rates. Equity components have been translated at historic rates upon the respective dates of addition from the Group's perspective. The translation difference arising in annual earnings compared with the reporting date rates has been recognized directly in equity in the "Other equity – foreign currency translation" item.

The exchange rates between major currencies and the euro developed as follows:

1 EUR /	Reporting date rate		Average rate	
	2010	2009	2010	2009
GBP UK	0.86	0.89	0.86	0.89
USD USA	1.34	1.44	1.33	1.39
CHF Switzerland	1.25	1.48	1.38	1.51

INTANGIBLE ASSETS

Other intangible assets have been recognized at acquisition or manufacturing cost. Assets have been amortized in line with their useful lives, where these are limited, using the straight-line method unless the actual decline in their value requires another form of amortization. Impairments have been accounted for by recognizing impairment losses (c.f. Impairment tests). Where the reasons for impairment losses no longer apply, the respective assets have been written back to a maximum of amortized cost.

Acquisition costs comprise the acquisition price, ancillary costs and retrospective acquisition costs, less any reductions in the acquisition price.

Manufacturing costs for internally generated assets comprise all directly allocable costs incurred to design, manufacture and otherwise prepare the asset for its intended operation.

Amortization of intangible assets has been based on the following useful lives:

	Useful lives in years
Technologies	3 – 8
Customer relationships acquired	5
Current R&D projects acquired	9
Software and licenses	3

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment have been measured at acquisition or manufacturing cost and, where depreciable, include scheduled depreciation. Scheduled depreciation has generally been performed using the straight-line method, unless the actual decline in value requires a use-based form of depreciation. Impairments have been accounted for by recognizing impairment losses (c.f. Impairment tests). Where the reasons for impairment losses no longer apply, these assets have been written back to a maximum of amortized cost.

Acquisition costs comprise the acquisition price, ancillary costs and retrospective acquisition costs, less any reductions in the acquisition price.

Manufacturing costs for internally generated assets comprise all directly allocable costs incurred to design, manufacture and otherwise prepare the asset for its intended operation.

Where the construction or manufacturing stage for items of property, plant and equipment extends over a longer period, borrowing costs incurred through to completion have been capitalized as a component of acquisition or manufacturing costs in accordance with the requirements of IAS 23 (Borrowing Costs).

Costs incurred to repair or maintain items of property, plant and equipment have generally been recognized through profit or loss. Costs incurred for measures leading to the accrual of future economic benefit have been capitalized as retrospective acquisition or manufacturing costs.

Scheduled depreciation of property, plant and equipment has been based on the following uniform useful lives across the Group:

	Useful lives in years
Buildings	25 – 33
Outdoor facilities	10 – 15
Technical equipment and machinery	3 – 10
Vehicles	3 – 5
Tools	3 – 5
IT components	3 – 5
Other plant and office equipment	3 – 10

Gains or losses incurred upon the sale, retirement or scrapping of items of property, plant and equipment have been recognized under other operating income or expenses in the amount of the difference between proceeds on disposal and the residual carrying amount.

SUBSIDIES AND GRANTS

Government grants intended to promote investment and directly allocable to the respective investments have been deducted from the amount capitalized for the object of investment. Non-repayable grants received as project subsidies for research and development projects are linked to the respective expenses and have been recognized through profit or loss under other operating income.

LEASES

A leasing arrangement is classified as an operating lease in cases where all major risks and rewards relating to ownership remain with the lessor. Within the STRATEC Group there are operating leases where the STRATEC Group acts as lessee. The corresponding leasing installments have been recognized in the statement of comprehensive income as expenses over the term of the leasing arrangement.

IMPAIRMENT TESTS

Impairment tests are performed on goodwill and other intangible assets with unlimited or indefinite useful lives, as well as on intangible assets not yet ready for use, at least once a year and, in the case of other intangible assets with limited useful lives and property, plant and equipment, only if there are specific indications of impairment. Impairment losses have been recognized through profit or loss to the extent that the recoverable amount of the asset, i.e. the higher of its fair value less selling costs and its value in use, falls short of its carrying amount. In principle, the recoverable amount has been determined for each individual asset. Where this is not possible, the recoverable amount has been determined on the basis of a group of assets representing a cash generating unit. A review is performed at least once a year to ascertain whether there is any indication that the reason for impairment losses already recognized no longer applies or that the amount of impairment has reduced. In this case, the recoverable amount is newly determined and the impairment losses already recognized, unless they involve goodwill, are reversed as appropriate.

The cash generating units determined for goodwill impairment testing are “laboratory automation”, “software”, “nucleic acid purification” and “development and production of optics and opto-mechanical components”.

The determination of the recoverable amount for the cash generating units as of December 31, 2010 has been based on their value in use, defined as the present value of future net inflows of cash. The forecast future net inflows of cash have been based on current budgets at the STRATEC Group covering a detailed budget period of three years. The budgets have in turn been based on assumptions concerning future sales volumes and sales prices, as well as on expected costs. Net inflows of cash beyond the detailed budget period have been presented as perpetuity, taking due account of growth rates based on current market information.

Growth rates of 2.0% to 2.3% (previous year: 0.5% to 1.5%) have been used for those cash generating units attributable overall to the “healthcare products and services” market or industry.

Capital costs of cash generating units have been calculated as the weighted average of their equity and debt capital costs (WACC). The respective capital structures and costs of equity and debt capital have been based on comparable companies operating in the same industry and have been derived by reference to available capital market information.

Given the various risk and return profiles of the cash generating units thereby reviewed, the costs of capital have been calculated on an individual basis. The key parameters are as follows:

Cash generating unit	Growth rate beyond detailed budget period in %	Pre-tax WACC in %
Laboratory automation		
2010	2.0	9.53
2009	(n.a.)	(n.a.)
Software		
2010	2.0	10.14
2009	0.5	8.56
Nucleic acid purification		
2010	2.0	10.50
2009	1.5	10.04
Development and production of optics and opto-mechanical components		
2010	2.3	23.6
2009	(n.a.)	(n.a.)

Of the goodwill recognized, € 673k results from the acquisition of Sanguin International Ltd. in the 2006 financial year, € 1,488k from the acquisition of InViTek in the 2009 financial year, and € 2,319k from the acquisition of STRATEC Biomedical USA, Inc. in the 2010 financial year. For impairment test purposes, the goodwill has been allocated to those cash generating units benefiting from the synergies. Pursuant to IAS 36 (Impairment of Assets), the company performed the annual impairment test for these goodwill items as of December 31, 2010.

For impairment test purposes, the goodwill resulting from the acquisition of STRATEC Biomedical USA, Inc. has mainly been allocated to the “laboratory automation” cash generating unit, and to a lesser extent to the “development and production of optics and opto-mechanical components” cash generating unit. Alongside goodwill, the total carrying amount of the cash generating unit also includes the intangible asset of technology identified upon the purchase price allocation.

For impairment testing purposes, the carrying amounts of the goodwill resulting from the aforementioned acquisitions have mainly been allocated to the “laboratory automation” and “software” cash generating units. These units have the following characteristics:

in € thousand	Laboratory automation		Software	
	2010	2009	2010	2009
Carrying amount of goodwill	4,285	653	99	653
Carrying amount of CGU including goodwill	60,587	3,633	2,838	3,845

The reduction in the goodwill allocated to the software cash generating unit is due to a reallocation of goodwill in the year under report, with goodwill primarily being allocated to the “laboratory automation” cash generating unit as a result. This reallocation was based on the ratio between the respective EBIT margins of the cash generating units. The goodwill impairment test was performed both on the basis of the original cash generating units and on the basis of the reallocated “laboratory automation” and “software” cash generating units.

In neither case did the test result in any need to recognized impairment losses for goodwill.

The following key assumptions have been used to determine the recoverable amounts of the cash generating units:

„Laboratory automation“: The budget for the recoverable amount has been based on 20% growth in EBITDA and a budgeted average EBIT margin of 23%. These assumptions reflect previous management experience. In perpetuity, a growth rate of 2% has been assumed for the Germany location.

„Software“: Average sales growth of 25% has been assumed. The EBIT margin has been budgeted at an average of around 13%. These assumptions are consistent with average growth prospects in the sector based on external market data. In perpetuity, a growth rate of 2% has been assumed for the UK location. The cash flows budgeted on this basis have been budgeted in GBP translated as of the reporting date using an average exchange rate of 1 € = 0.861 GBP.

The sensitivity analysis has assumed a reduction in the future cash flow and an increase in weighted costs of capital by 10% each, as changes on this scale would appear reasonable and possible, especially from a long-term perspective. On this basis, we concluded that there were no indications of any potential impairment in the goodwill reported at the STRATEC Group. As in the previous year, no impairment losses were therefore recognized in the year under report.

An amount of € 96k, and therefore not material compared with the total carrying amount of goodwill, was allocated from the total carrying amount of goodwill to several cash generating units in 2010. For this goodwill as well, the annual impairment test did not identify any indications of impairment.

FINANCIAL ASSETS AND LIABILITIES

Financial assets consist of interests in associates, loans and receivables, securities, and cash and cash equivalents.

The accounting treatment of financial assets has been based on IAS 39 (Financial Instruments: Recognition and Measurement). Accordingly, financial assets have been recognized in the consolidated balance sheet when the STRATEC Group has a contractual right to receive cash or other financial assets from third parties. These items are basically recognized as of their respective performance dates. They are initially recognized at fair value plus transaction costs. Transaction costs incurred for the acquisition of financial assets measured at fair value through profit or loss have been expensed directly.

Subsequent measurement has been performed in line with the asset's allocation to one of the following IAS 39 categories (Financial Instruments: Recognition and Measurement), which are governed by different measurement rules in each case:

Financial assets measured at fair value through profit or loss comprise financial assets held for trading. Securities have been allocated to this category. Changes in the fair value of financial assets in this category are recognized through profit or loss as of the date of increase or decrease in their value.

Loans and receivables are non-derivative financial assets not listed on any active market. Trade receivables, future receivables from construction contracts, receivables from associates, the financial receivables included under other receivables and other assets have been allocated to this category, as have cash and cash equivalents. These items are measured at amortized cost using the effective interest rate method, accounting for impairments where appropriate.

Available-for-sale financial assets include those non-derivative financial assets not allocated to any of the other measurement categories. Changes in the fair value of available-for-sale financial assets are recognized directly in equity. Changes in their fair value are only recognized through profit or loss upon disposal. When the fair value falls either permanently or significantly short of cost, then a corresponding impairment is recognized through profit or loss. Financial assets for which no listed market price is available and whose fair value cannot be reliably estimated are measured at cost, less any impairment losses.

The STRATEC Group does not have any financial assets in the financial investments held to maturity category. STRATEC AG has not drawn on the option provided for in specified circumstances of designating financial assets upon initial recognition as financial assets measured at fair value through profit or loss.

When there are objective, substantial indications of impairment in the case of financial assets in the loans and receivables and available-for-sale financial assets categories, then a test is performed to ascertain whether their carrying amounts exceed the present value of the expected future cash flows determined on the basis of the market yields of comparable instruments. In this case, corresponding impairment losses are recognized through profit or loss.

Assets in the loans and receivables category are written up should the reasons for impairment losses previously recognized no longer apply. However, they may not be written up to any amount exceeding their amortized cost.

Financial assets are retired when the contractual rights to payment have expired or the financial assets have been assigned.

Financial liabilities are recognized in the consolidated balance sheet when the STRATEC Group has a contractual obligation to transfer cash or other financial assets to a third party. These items are initially recognized at the fair value of the consideration received, less transaction costs where appropriate. They are subsequently measured at amortized cost using the effective interest rate method. Financial liabilities are retired when the contractual obligations have been met or cancelled, or have expired. STRATEC AG has not drawn on the option provided for in specified circumstances of designating financial liabilities upon initial recognition as financial liabilities measured at fair value through profit or loss.

Where the STRATEC Group has made use of derivative financial instruments (generally currency options) to manage exchange rate risks, these have initially been recognized at fair value and subsequently measured at fair value as of each balance sheet date. Gains or losses resulting from measurement have been recognized directly through profit or loss, unless the derivative is designated and effective as a hedge within hedge accounting. However, STRATEC AG has so far not drawn on the possibility of designating such instruments as hedges. Derivatives with positive fair values are recognized as financial assets, while derivatives with negative fair values are recognized as financial liabilities. All derivative financial instruments deployed have remaining terms of less than one year.

Other receivables and liabilities, i.e. deferrals / accruals, prepayments, and other non-financial assets and liabilities have been recognized at amortized cost.

INVENTORIES / CONSTRUCTION CONTRACTS

Inventories include assets held for sale in the normal course of business (finished products and merchandise), assets currently in the process of being manufactured for sale (unfinished products and unfinished services), and assets consumed during the manufacturing process or in the performance of services (raw materials and supplies).

Unfinished services involve product development costs for specific customers (development cooperations). These have been recognized at cost. Where development cooperations also involve subsequent arrangements for an appliance manufacturing stage, recognition at manufacturing cost, taking due account of future cash flows, is not limited to the volume of payments granted. Following conclusion of the development stage and entry into the appliance manufacturing stage, that portion of manufacturing costs not covered by payments granted is deducted from inventories over the forecast period of appliance sales. The payments granted for the services performed during the development stage are recognized under other current liabilities through to completion of the respective development services.

The manufacturing costs for unfinished and finished products include both directly allocable manufacturing wage and material expenses and a prorated share of material and production overheads, including depreciation. The manufacturing costs for unfinished services include both directly allocable manufacturing wage expenses and prorated production overheads. Administration expenses are also included to the extent that they can be directly allocated to production. Sales expenses are not included. Due to materiality considerations, borrowing costs as defined in IAS 23 (Borrowing Costs) have been recognized in full through profit or loss. Inventories have been measured at the lower of cost on the one hand and their net sale value achievable at the balance sheet date on the other.

Customer-specific appliance manufacturing projects have been recognized using the percentage of completion method in accordance with the requirements of IAS 11 (Construction Contracts). These orders are regularly based on fixed-price agreements and are recognized in the "Future receivables from construction contracts" item in the balance sheet.

TAXES

The taxes on income reported include the taxes on taxable profit and deferred tax items at companies in the STRATEC Group. The income taxes reported have been calculated in accordance with the country-specific tax legislation valid or adopted as of the balance sheet date, and in the amount at which they are expected to be paid or refunded.

Other taxes levied on items other than income have been recognized under other operating expenses in the statement of comprehensive income.

Deferred taxes have been calculated using the liability method (IAS 12) for temporary differences between the amounts recognized for assets and liabilities in the tax balance sheet and those stated in the IFRS financial statements, as well as for consolidation entries and loss carryovers likely to be realized.

Deferred tax assets on temporary differences and tax loss carryovers have been capitalized to the extent that future taxable income will be available and that there is sufficient likelihood that the loss carryovers will be utilized. The assessment of the ongoing value of tax loss carryovers has been based on short and medium-term forecasts concerning the future earnings situation of the respective group company. In this assessment, STRATEC AG is further bound by the tax law norms valid as of the balance sheet date. Future legislative amendments may thus make it necessary to adjust the respective values through profit or loss.

Deferred tax assets and liabilities have been reported on a net basis in cases where they refer to the same taxable entity and the same tax authority. Where gains and losses have been recognized directly in equity, the same applies for the relevant deferred tax assets and liabilities.

PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Company pensions at the STRATEC Group involve both defined contribution and defined benefit schemes.

In defined contribution pension schemes, the company is obliged to pay contributions to state or private pension companies in accordance with statutory or contractual requirements. Apart from these contributions, the company is not subject to any further payment obligations. Current contributions have been recognized as expenses within personnel expenses for the respective year.

The defined benefit pension schemes take the form of pension commitments made by the company. To cover its benefit obligations, the company makes contributions to external plan assets. For accounting purposes, all income and expenses are recognized within the company's operating earnings (EBIT). In line with IAS 19 (Employee Benefits), the present value of pension obligations has been calculated using the projected unit credit method. This involves future obligations being measured using actuarial methods. The calculations have mainly been based on statistical data concerning mortality and personnel turnover rates, on assumptions concerning the discount rate, the expected income from plan assets, future developments in wages and salaries, and the development in sickness expenses. The discount rate has basically been determined by reference to the yields on congruent company bonds of AA-rated companies, or additionally by reference to the yields on corresponding government bonds. The fair value of the plan assets has been deducted from the present value of the pension obligations. The obligations and plan assets are measured annually. Actuarial calculations are generally performed as of the balance sheet date, unless advance surveys are obtained in order to ensure prompt preparation of the financial statements. Actuarial gains and losses have been accounted for through profit or loss in the measurement of pension provisions in the period in which they arise, as have any reductions due to the maximum limit.

OTHER PROVISIONS

Other provisions have been recognized to cover legal or constructive obligations to third parties resulting from past events which are likely to lead to a future outflow of resources and for which the expected amount of the obligation can be reliably estimated.

Such obligations have been recognized at their present values as liabilities where the outflow of resources is expected to occur later than in the following year. Refund claims due from third parties have been recognized separately from provisions to the extent that their realization is virtually certain.

Among the most important provisions are those for guarantee and warranty obligations. The calculation of the scope of obligation has been based on the sales involving such guarantees thereby generated, on the respective contractual warranty periods, and on past empirical values.

RECOGNITION OF SALES

Construction contract sales have been recognized in accordance with the requirements of IAS 11 (Construction Contracts). Where the earnings on the construction contract can be reliably estimated, the revenues and costs resulting from the respective construction contract have been recognized at percentage of completion. In exceptional cases where the earnings cannot be reliably estimated, sales have only been recognized up to the level of contract costs thereby incurred.

For development cooperations, sales generated following completion of the development stage have been recognized in the amount of the payments granted. When payments granted are lower than the manufacturing costs incurred during the development cooperation stage, but an appliance manufacturing stage is due to follow, the surplus amount of manufacturing costs following completion of the development cooperation stage continues to be recognized under unfinished services. This surplus amount is then expensed under changes in inventories in the consolidated statement of comprehensive income over the corresponding appliance manufacturing stage (generally five years).

RESEARCH AND DEVELOPMENT EXPENSES

Outlays allocable to research expenses have been recognized as expenses in the period in which they are incurred.

Within development expenses, a distinction has been made between development cooperations and proprietary development projects.

Development expenses incurred for development cooperations have been recognized under unfinished services. Development expenses for proprietary development projects have generally been recognized as expenses in the period in which they are incurred, with the exception of research and development projects acquired upon company acquisitions, and development expenses cumulatively meeting the following criteria stipulated in IAS 38 (Intangible Assets):

- The product or process can be clearly delineated and the corresponding expenses can be clearly allocated and reliably determined;
- The technical feasibility has been proven;
- The product is either to be sold or put to internal use;
- The assets will generate future economic benefit, for example by being sold or put to internal use;
- Sufficient technical, financial and other resources are available to complete the project.

Development expenses recognized under IAS 38 (Intangible Assets) are tested for impairment at least once a year, as the respective assets have not yet attained a state in which they can be put to use. Impairment losses have been recognized when the carrying amount of the assets thereby recognized exceeds their recoverable amount.

Development expenses of € 904k were capitalized for proprietary development projects in the 2010 financial year (previous year: € 0k).

Research and development expenses not meeting the criteria for capitalization under IAS 38 (Intangible Assets) totaling € 5,077k were incurred in the year under report (previous year: € 4,469k). These have been recognized, mainly under personnel expenses, in the statement of comprehensive income. Furthermore, procurement volumes of € 943k were incurred in the period under report for materials serving research and development (previous year: € 932k). These expenses have been included in cost of materials.

DISCRETIONARY DECISIONS AND FORWARD-LOOKING ASSUMPTIONS

The preparation of the consolidated financial statements requires a certain number of discretionary decisions and forward-looking assumptions to be made which have implications for the method of statement and volume of assets, liabilities, expenses, income and contingent liabilities thereby recognized.

Specifically, discretionary decisions and forward-looking assumptions have to be made in particular for the assessment of the criteria governing capitalization of intangible assets in the context of proprietary development projects, the decision as to whether an order represents a construction contract, the determination of the costs still to be incurred and percentage of completion for construction contracts, the allocation of capitalized unfinished services in connection with development cooperations to the corresponding appliance manufacturing stage and, linked to this, the period over which the expenses incurred for these are to be recognized under changes in inventories in the consolidated statement of comprehensive income, the establishment of useful lives for non-current assets at the Group, the allocation of goodwill to cash generating units and the determination of the recoverable amount for impairment testing purposes, the measurement of pension provisions, the fair value measurement of stock options granted, the measurement of provisions, the recognition of deferred taxes on tax loss carryovers, and the determination of the functional currency of foreign business units. Furthermore, discretionary decisions and forward-looking assumptions also have to be made in the context of company acquisitions when determining the fair values of the assets and liabilities thereby acquired, as well as of contingent purchase price components (earn-out components).

The most important discretionary decisions and forward-looking assumptions, as a result of which there may be a substantial risk of significant adjustments being required in the assets and liabilities thereby recognized in the coming financial year, are presented in greater detail below:

DISCRETIONARY DECISIONS

1. Capitalization of internally generated intangible assets in connection with the development, or development stage, of a proprietary development project

The assessment as to whether the requirements for capitalization have been met in each individual case is subject to significant discretionary decisions. Given the empirical values available in the fields of development and project management, STRATEC AG assumes that the estimates in terms of technical feasibility, expected overall costs and market conditions are reliable. When determining the recoverable amount, assumptions have been made concerning product lifecycles and the resultant future cash flows. The discount rates have been based on the relevant company WACC of the company performing the development work, adjusted where appropriate to account for inherent development risks, and spread over the relevant term.

2. Recognition of contracts using the percentage of completion method

Product developments performed within development cooperations for specific customers, and the customized production of analyzer systems represent key components of the STRATEC Group's business model.

The assessment as to whether this business model should involve the uniform recognition of sales in accordance with IAS 11 (Construction Contracts), and thus at an earlier date, or separate dates for the recognition of sales, and thus also at later dates, is subject to discretionary decisions. In weighing up and assessing all of the relevant circumstances, STRATEC AG has been guided by the principle of caution codified in Framework F. 37 (prudence), and has therefore opted for separate analysis. This means that no sales are recognized using the percentage of completion method during the early stage of development cooperations. Sales are only recognized in accordance with IAS 11 (Construction Contracts) during the later appliance manufacturing stage.

3. Allocation of goodwill to cash generating units for impairment testing purposes

The allocation of goodwill acquired upon company acquisitions to cash generating units for impairment testing purposes pursuant to IAS 36 (Impairment of Assets) is subject to significant discretionary decisions. From the takeover date onwards, STRATEC AG allocates the goodwill resulting from any company acquisition to each of those cash generating units at the company intended to benefit from the synergies expected to arise on account of the business combination. STRATEC AG works with appropriate key figures (e.g. budgeted appliance sales, EBIT margin) to determine the potential synergies expected in each case.

4. Capitalization of intangible assets in the context of company acquisitions

The determination of the fair value of the intangible assets thereby acquired is subject to significant discretionary scope at STRATEC AG. Here, the company uses a capital value-based method to determine the present value of the cash returns expected from the intangible assets acquired. Due to a lack of reliably determinable licensing rates, the technology acquired with STRATEC Biomedical USA, Inc. has been measured using the excess profit method. This involved STRATEC AG identifying the technology-related cash flows by reference to the sales budgeted from the technology acquired. The company believes that this represents the best possible method of separating the identified inflow of benefits from the technology acquired.

5. Identification of functional currency

When determining the functional currency of a foreign business operation and deciding whether its functional currency is identical with that of the reporting company, reference has to be made to the indicators specified in IAS 21 (The Effects of Changes in Foreign Exchange Rates). When these indicators provide a mixed picture and the functional currency is not immediately apparent, STRATEC AG determines at its own discretion which functional currency best reflects the economic implications of the underlying business transactions, events and circumstances. In the case of foreign group companies, the respective national currencies have accordingly been chosen as the functional currencies.

UNCERTAINTIES INVOLVED IN ESTIMATES

1. Determination of the recoverable amount when testing goodwill for impairment under IAS 36 (Impairment of Assets)

Due to the large number of variables involved, the goodwill impairment test (carrying amount as of 12.31.: € 4,480k; previous year: € 2,141k) is subject to a difficult assessment involving a significant degree of uncertainty. The principal assumptions underlying the impairment test performed at each balance sheet date are outlined in Section B: "Accounting policies applied / Impairment tests". When performing the sensitivity analyses for goodwill impairment tests, a reduction in the future cash flow and an increase in the weighted costs of capital by 10% each has been assumed, as changes on this scale would appear possible from a long-term perspective. On this basis, STRATEC AG has concluded that there are no indications of potential impairment in the goodwill of any of its cash generating units.

2. Measurement of pension provisions using the projected unit credit method, taking due account of plan assets, and measurement of the defined benefit obligation pursuant to IAS 19 (Employee Benefits)

The measurement of the net defined benefit obligation (carrying amount as of 12.31.: € 321k; previous year: € 105k) requires forward-looking estimates to be made, especially when calculating interest rates and the development in the return on plan assets. Moreover, the measurement also refers to biometrical assumptions based on statistical empirical values. The principal assumptions have been subject to a sensitivity analysis presented in Section C "Disclosures on the Balance Sheet (11) Provisions for Pensions".

3. Measurement of stock option rights granted upon date of contractual commitment and calculation of the resultant personnel expenses and amount allocated to the capital reserve pursuant to IFRS 2 (Share-based Payments)

The calculation of the fair value of option rights granted, which amount is then distributed as personnel expenses over the vesting period, requires forward-looking estimates. In particular, the selection of the option price model underlying the calculation is made on the subjective assessment of the management. The management is convinced that the Black-Scholes model used represents a suitable valuation model for the stock options granted at the STRATEC Group. The principal parameters involving estimates (expected future volatility, dividend yield, turnover of subscription beneficiaries) have been presented in Section C "Disclosures on the Balance Sheet – Stock option programs".

4. Calculation of provision for guarantee and warranty obligations pursuant to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets)

When calculating the future expenses to be accounted for as the provision for guarantee and warranty obligations (carrying amount as of 12.31.: € 542k; previous year: € 618k), the management takes due account of historic values from previous years and projects these onto sales involving guarantee commitments in the financial year under report. Actual expenses in future financial years may deviate from the estimated figures.

5. Recognition of deferred taxes for temporary differences and tax loss carryovers eligible for future use pursuant to IAS 12 (Income Taxes)

In its assessment that the – predominantly short-term – differences between the figures recognized for tax purposes and the figures recognized in the IFRS consolidated financial statements will reverse in subsequent financial years, the management is bound pursuant to IAS 12 (Income Taxes) by the requirements of tax law valid as of the balance sheet date. Future legislative amendments could therefore make it necessary to adjust these figures through profit or loss. In its assessment that it will be possible to offset the tax loss carryovers recognized against future profits, the management relies on its short and medium-term budget forecasts. The actual materialization of future profits is based on discretionary estimates.

6. Recognition of company acquisitions pursuant to IFRS 3 (Business Combinations)

Application of the purchase method requires specific estimates and assessments to be made, especially when determining the fair values of the intangible assets and property, plant and equipment thereby acquired, of the liabilities as of the acquisition date, and of the useful lives of the intangible assets and property, plant and equipment thereby acquired. Assumptions also have to be made concerning the translation of individual items of contingent consideration denominated in foreign currencies. Measurement is largely based on forecasts concerning future inflows and outflows of funds. Any variances between forecast and actual future cash flows impact significantly on future group earnings.

There are no other significant forward-looking assumptions and major sources of uncertainty concerning estimates at the balance sheet which involve any substantial risk of material adjustments being required in the assets and liabilities thereby recognized within the coming financial year.

B. DISCLOSURES ON THE BALANCE SHEET

(1) GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets developed as follows in the 2010 financial year:

in € thousand	Goodwill	Technologies	Current R&D projects acquired	Internally generated intangible assets	Other rights and values	Total
Acquisition and manufacturing costs						
Balance at 12.31.2009	2,141	5,874	431	0	2,328	10,774
Additions due to business combinations	2,448	1,175	0	0	4	3,627
Additions	0	0	0	904	357	1,261
Disposals	0	0	0	0	132	132
Reclassifications	0	0	0	0	0	0
Currency differences	-109	76	0	-2	100	65
Balance at 12.31.2010	4,480	7,125	431	902	2,657	15,595

in € thousand	Goodwill	Technologies	Current R&D projects acquired	Internally generated intangible assets	Other rights and values	Total
Accumulated amortization						
Balance at 12.31.2009	0	2,750	0	0	1,498	4,248
Additions	0	687	49	0	430	1,166
Disposals	0	0	0	0	127	127
Reclassifications	0	0	0	0	0	0
Currency differences	0	80	0	0	70	150
Balance at 12.31.2010	0	3,517	49	0	1,871	5,437

in € thousand						
Carrying amounts 12.31.2010	4,480	3,608	382	902	786	10,158
Carrying amounts 12.31.2009	2,141	3,124	431	0	830	6,526

The goodwill results from the acquisitions of the subsidiaries Sanguin International Ltd., InViTek and STRATEC Biomedical USA, Inc.

The amount recognized for technologies involves the expertise identified in the context of company acquisitions and was structured as follows as of the balance sheet date:

in € thousand	12.31.2010	12.31.2009
Software (Sanguin International Ltd.)	1,308	1,741
RNA / DNA purification (InViTek)	1,186	1,384
Optics measurement and capacity calculation methods (STRATEC Biomedical USA, Inc.)	1,114	0
Total	3,608	3,124

Current research and development projects acquired are attributable to the acquisition of the InViTek subsidiary in the 2009 financial year.

The amount recognized for internally generated intangible assets includes development expenses for proprietary development projects capitalized at group companies in accordance with the criteria stipulated in IAS 38 (Intangible Assets). The respective development projects are scheduled for completion in the 2011 financial year. The additions (€ 904k) have been recognized under other own work capitalized in the statement of comprehensive income.

The other rights and values item includes software and licenses (€ 530k; previous year: € 489k) and customer relationships identified upon company acquisitions (€ 256k; previous year: € 341k).

As in the previous year, it was not necessary to recognize any impairment losses in the 2010 financial year.

Intangible assets developed as follows in the 2009 financial year:

in € thousand	Goodwill	Technologies	Current R&D projects acquired	Other rights and values	Prepayments made	Total
Acquisition and manufacturing costs Balance at 12.31.2008	609	4,045	0	1,560	50	6,264
Additions due to business combinations	1,488	1,533	431	408	0	3,860
Additions	0	0	0	328	0	328
Disposals	0	0	0	20	0	20
Reclassifications	0	0	0	50	-50	0
Currency differences	44	296	0	2	0	342
Balance at 12.31.2009	2,141	5,874	431	2,328	0	10,774

in € thousand	Goodwill	Technologies	Current R&D projects acquired	Other rights and values	Prepayments made	Total
Accumulated amortization						
Balance at 12.31.2008	0	1,855	0	1,107	0	2,962
Additions	0	756	0	408	0	1,164
Disposals	0	0	0	20	0	20
Reclassifications	0	0	0	0	0	0
Currency differences	0	139	0	3	0	142
Balance at 12.31.2009	0	2,750	0	1,498	0	4,248

in T€

Carrying amounts 12.31.2009	2,141	3,124	431	830	0	6,526
Carrying amounts 12.31.2008	609	2,190	0	453	50	3,302

The Group had no internally generated intangible assets requiring capitalization pursuant to IAS 38 (Intangible Assets) in the 2008 and 2009 financial years.

(2) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment developed as follows in the 2010 financial year:

in € thousand	Land, leasehold rights and buildings	Technical equipment and machinery	Other equipment, plant and office equipment	Prepayments made and assets under construction	Total
Acquisition and manufacturing costs Balance at 12.31.2009	5,689	499	9,633	1,182	17,003
Additions due to acquisitions of consolidated companies	0	171	101	0	272
Additions	5,647	48	2,670	283	8,648
Disposals	11	10	534	0	555
Reclassifications	831	0	351	-1,182	0
Currency differences	463	0	360	14	837
Balance at 12.31.2010	12,619	708	12,581	297	26,205

in € thousand	Land, leasehold rights and buildings	Technical equipment and machinery	Other equipment, plant and office equipment	Prepayments made and assets under construction	Total
Accumulated depreciation					
Balance at 12.31.2009	1,450	383	6,280	0	8,113
Additions	222	56	1,823	0	2,101
Disposals	11	9	504	0	524
Reclassifications	0	0	0	0	0
Currency differences	7	8	142	0	157
Balance at 12.31.2010	1,668	438	7,741	0	9,847

in € thousand					
Carrying amounts 12.31.2010	10,951	270	4,840	297	16,358
Carrying amounts 12.31.2009	4,239	116	3,353	1,182	8,890

Borrowing costs of € 11k were capitalized pursuant to IAS 23 (Borrowing Costs) as a component of the costs of acquisition of company buildings in the 2010 financial year.

The weighted average financing cost rate used to calculate the borrowing costs eligible for capitalization amounted to 1.7%.

As in the previous year, it was not necessary to recognize any impairment losses in the 2010 financial year.

Property, plant and equipment developed as follows in the 2009 financial year:

in € thousand	Land, leasehold rights and buildings	Technical equipment and machinery	Other equipment, plant and office equipment	Prepayments made and assets under construction	Total
Acquisition and manufacturing costs Balance at 12.31.2008	5,027	442	7,747	142	13,358
Additions due to acquisitions of consolidated companies	0	52	192	0	244
Additions	657	6	1,961	1,121	3,745
Disposals	0	1	390	0	391
Reclassifications	0	0	99	-99	0
Currency differences	5	0	24	18	47
Balance at 12.31.2009	5,689	499	9,633	1,182	17,003

in € thousand	Land, leasehold rights and buildings	Technical equipment and machinery	Other equipment, plant and office equipment	Prepayments made and assets under construction	Total
Accumulated depreciation					
Balance at 12.31.2008	1,306	344	5,411	0	7,061
Additions	144	40	1,225	0	1,409
Disposals	0	1	373	0	374
Reclassifications	0	0	0	0	0
Currency differences	0	0	17	0	17
Balance at 12.31.2009	1,450	383	6,280	0	8,113

in € thousand					
Carrying amounts 12.31.2009	4,239	116	3,353	1,182	8,890
Carrying amounts 12.31.2008	3,721	98	2,336	142	6,297

(3) FINANCIAL ASSETS

The composition of interests in associates has been presented in Section B "Accounting policies applied - Scope of consolidation". The amounts recognized developed as follows:

in € thousand	2010	2009
Carrying amount at 01.01.	310	285
Additions	19	9
Currency differences	13	16
Carrying amount at 12.31.	342	310

(4) INVENTORIES

Raw materials and supplies

Impairments of € 62k were recognized through profit or loss in the year under report (previous year: € 54k). The impairments arose on account of obsolescence.

Unfinished products / unfinished services

These items are structured as follows:

in € thousand	12.31.2010	12.31.2009
Unfinished products	1,906	1,533
Unfinished services	24,932	22,360
Total	26,838	23,893

Unfinished services involve product developments for specific customers within development cooperations either not yet completed as of the balance sheet date or, in the case of development cooperations already completed, where the manufacturing costs incurred in the past and not covered by payments granted are being expensed over the appliance manufacturing stage.

Finished products and merchandise

These items are structured as follows:

in € thousand	12.31.2010	12.31.2009
Finished products	422	480
Merchandise	167	126
Total	589	606

(5) TRADE RECEIVABLES

All trade receivables (€ 15,817k; previous year: € 9,914k) are due for payment within one year. Customer credit balances have been recognized under other current liabilities.

The allowances schedule for trade receivables developed as follows:

in € thousand	2010	2009
Accumulated allowances at 01.01.	113	171
Expenses in period under report	30	14
Utilized	-6	-72
Currency translation	3	0
Accumulated allowances as of 12.31.	140	113

The gross amount of receivables for which individual allowances had been recognized at the balance sheet date amounted to € 74k (previous year: € 76k).

Expenses of € 26k were incurred for the complete write-down of trade receivables fully retired in the 2010 financial year (previous year: € 32k). No write-backs were required on volumes written down.

The time band structure of trade receivables has been presented in the following table (all figures in € 000s):

in € thousand	Carrying amount	of which: neither impaired nor overdue at balance sheet date	of which: not impaired at balance sheet date, but overdue within following time bands			
			up to 30 days	between 30 and 60 days	between 60 and 90 days	more than 90 days
12.31.2010	15,817	12,610	2,093	648	315	77
12.31.2009	9,914	8,144	1,541	55	0	99

There were no indications at the balance sheet date of any default risks in connection with receivables which were neither impaired nor overdue. Furthermore, critical receivables are covered by trade credit insurance policies. Upon the preparation of the consolidated financial statements, € 416k of the trade receivables overdue as of December 31, 2010, had not yet been settled.

(6) FUTURE RECEIVABLES FROM CONSTRUCTION CONTRACTS

With an amount of € 5,629k (previous year: € 4,921k), the “Future receivables from construction contracts” item involves construction contracts based on fixed-price agreements and recognized at their respective percentages of completion.

The amounts stated include the accumulated costs of construction contracts still underway at the balance sheet date (€ 4,012k; previous year: € 3,225k), as well as the prorated share of earnings realized (€ 1,617k; previous year: € 1,696k).

No account needed to be taken of payments received for construction contracts.

Work began on the construction contracts in the 2010 financial year. The respective contractual agreements foresee completion in 2011. The construction contracts recognized at the balance sheet date on December 31, 2009 were completed in the 2010 financial year.

Sales totaling € 64,507k have been recognized for construction contracts in the statement of comprehensive income for the 2010 financial year (previous year: € 51,954k).

The future receivables from construction contracts recognized as of December 31, 2010 and as of the previous year's balance sheet date were neither impaired nor overdue.

(7) RECEIVABLES FROM ASSOCIATES

These receivables are structured as follows:

Company providing service	Company receiving service	12.31.2010 in € thousand	12.31.20109 in € thousand
Sanguin International Ltd.	Sanguin International Inc.	0	67
STRATEC AG	STRATEC Biomedical Inc.	103	98
Total		103	165

The loan receivable due from the US subsidiary (€ 103k; previous year: € 98k) bears interest at 3% p.a. These receivables are neither impaired nor overdue. Of the receivables, an amount of € 103k (previous year: € 98k) has a remaining term of more than one year.

The receivables due from associates are subject to foreign currency risks. Given the amounts involved, however, these do not have any material impact on consolidated earnings.

(8) OTHER RECEIVABLES AND OTHER ASSETS

Other receivables and other assets are structured as follows:

in € thousand	12.31.2010	12.31.2009
Other tax receivables	824	1,205
Deferred expenses	176	164
Interest receivables	14	12
Receivables from employees	34	3
Miscellaneous	139	72
Total	1,187	1,456

The other receivables and other assets are neither impaired nor overdue. An amount of € 1,149k is due within one year (previous year: € 1,417k).

(9) SECURITIES

Shares in listed companies have been measured at their closing prices on the Frankfurt Stock Exchange at the balance sheet date. The income of € 44k resulting from measurement as of the balance sheet date (previous year: € 361k) has been recognized through profit or loss under other financial income and expenses. The disposal of securities has led to profits of € 55k (previous year: € 0k), which have been recognized under other financial income and expenses.

(10) SHAREHOLDERS' EQUITY

The individual components of shareholders' equity and their development in 2010 and 2009 have been presented in the statement of changes in group equity.

Share capital

The share capital of STRATEC AG amounted to € 11,569k as of December 31, 2010 (previous year: € 11,446k). The share capital is divided into 11,569,026 ordinary shares (previous year: 11,445,736 ordinary shares) with a nominal value of € 1.00 each. The shares have been paid up in full and are bearer shares. Each share entitles its holder to one voting right. The share has been listed in the TecDax index of the Frankfurt Stock Exchange since November 2010.

Due to the exercising of stock option rights, the share capital was increased by € 123k in the year under report (previous year: € 20k) by drawing on the conditional capital created for this purpose. A total of 123,290 shares were issued (previous year: 20,042). These capital increases, which had not been entered in the Commercial Register by the balance sheet date, were subsequently entered on January 21, 2011.

Authorized capital

Pursuant to § 4 (4.5) of the Articles of Association, the Board of Management is authorized, subject to approval by the Supervisory Board, to increase the company's share capital on one or more occasions prior to June 22, 2011 by a maximum amount of up to € 5,500,000.00 by issuing up to a maximum of 5,500,000 new ordinary bearer shares with a nominal value of € 1.00 each in return for cash or non-cash contributions (**Authorized Capital**). In general, shareholders must be granted subscription rights. In specific circumstances outlined in the Articles of Association, however, the Board of Management is entitled to exclude such subscription rights. Authorized Capital amounted to € 5,500,000 as of December 31, 2010 (previous year: € 5,500k).

Conditional capital

§ 4 (4.6) Paragraph 1 of the Articles of Association provides for **Conditional Capital I**. This conditional capital increase serves to grant subscription rights (stock options) up to May 15, 2012 on the basis of the resolution adopted by the Annual General Meeting on May 16, 2007. Pursuant to the resolution adopted by the Annual General Meeting on May 20, 2009, Conditional Capital I was reduced to € 212,900.00 and the authorization to grant stock options dated May 16, 2007 rescinded to the extent that no further new option rights may be granted; only existing option rights may be exercised. Conditional Capital I amounted to € 96,900.00 as of December 31, 2010 (previous year: € 212k).

§ 4 (4.6) Paragraph II of the Articles of Association provides for **Conditional Capital II**. This conditional capital increase serves to grant subscription rights (stock options) up to April 1, 2008 on the basis of the resolution adopted by the Annual General Meeting on May 28, 2003. Pursuant to the resolution adopted by the Annual General Meeting on May 16, 2007, Conditional Capital II was reduced to € 220,000.00 and the authorization to grant stock options dated May 28, 2003 was rescinded to the extent that no further new option rights may be granted; only existing option rights may be exercised. Conditional Capital II amounted to € 19,055.00 as of December 31, 2010 (previous year: € 23k).

§ 4 (4.6) Paragraph 3 of the Articles of Association provides for **Conditional Capital III**. This conditional capital increase serves to grant subscription rights (stock options) up to June 22, 2011 on the basis of the resolution adopted by the Annual General Meeting in June 23, 2006. Pursuant to the resolution adopted by the Annual General Meeting on May 16, 2007, Conditional Capital III was reduced to € 35,000.00 and the authorization to grant stock options dated June 23, 2006 rescinded to the extent that no further new option rights may be granted; only existing option rights may be exercised. Conditional Capital III amounted to € 12,800.00 as of December 31, 2010 (previous year: € 17k).

§ 4 (4.6) Paragraph 4 of the Articles of Association provides for **Conditional Capital V**. This conditional capital increase serves to grant subscription rights (stock options) up to May 19, 2014 on the basis of the resolution adopted by the Annual General Meeting on May 20, 2009. The conditional capital increase is only exercised to the extent that bearers of stock options actually exercise their subscription rights. The new shares have profit entitlement from the beginning of the financial year in which they are issued. Conditional Capital V amounted to € 800,000.00 as of December 31, 2010 (previous year: € 800k).

Furthermore, § 4 (4.7) of the Articles of Association provides for **Conditional Capital IV**, which amounts to € 500,000.00. Conditional Capital IV serves exclusively to grant up to 500,000 new ordinary bearer shares to the bearers or creditors of warrant or convertible bonds issued pursuant to the resolution adopted by the Annual General Meeting on June 23, 2006 by the company or by companies in which the company holds direct or indirect majority shareholdings. Conditional Capital IV amounted to € 500,000.00 as of December 31, 2010 (previous year: € 500k).

Total conditional capital (Conditional Capitals I-V) thus amounted to € 1,429k as of December 31, 2010 (previous year: € 1,552k).

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Stock option programs

As in the previous year, the company had four stock option programs as of December 31, 2010. These stock option programs are especially well-suited to provide a sustainable performance incentive for members of the Board of Management and employees of the company, as well as for members of the management and employees of associates, and thus help increase the value of the company in the interests of the company and its shareholders. For members of the Board of Management of STRATEC AG, the stock options allocated to them simultaneously serve as variable components of compensation of a long-term incentive nature.

The following specific conditions apply to all stock option programs:

Each stock option entitles its bearer to subscribe one STRATEC share at a later date in return for payment of an exercise price determined upon the options being granted. Stock options granted prior to the capital increase from company funds executed on July 14, 2006 entitle their bearers to subscribe 2.9942188 STRATEC shares due to the share split resulting from this capital increase. The exercise price is equivalent to the average closing price of the STRATEC shares on the five trading days prior to the decision being taken to grant stock options, with the par value of one euro per share representing the minimum possible exercise price. Following the expiry of qualifying periods and the meeting of specified performance targets, the stock options may only be exercised in predetermined exercise windows. Up to 50 percent of the stock options granted may only be exercised at the earliest following a qualifying period of two years and provided that STRATEC's share has risen in value by a least ten percent compared with the exercise price between the date of the option rights being granted and the date marking the expiry of the qualifying period. Following a qualifying period of a further year, up to 100 percent of the stock options granted may be exercised provided that STRATEC's share has risen in value by at least 15 percent between the date of the option rights being granted and the date marking the expiry of the qualifying period. Following a seven-year term the option rights lapse without compensation.

The individual stock option programs, fair value calculation using the Black-Scholes option pricing model, and the calculation of the related personnel expenses in the individual periods (taking due account of personnel turnover) have been based on the following key parameters (with expected volatility derived from historic volatility figures):

Granted in:	2004	2005	2006	2007	2008	2009	2010
Option rights granted (number of shares*)	188,844	42,644	30,300	75,600	92,300	117,800	17,100
Weighted exercise price in €	3.28	9.73	16.97	22.62	12.16	13.48	27.88
Expected share price volatility in %	50.0	50.0	50.0	42.0 bis 46.8	48.8 bis 55.8	48.0 bis 59.8	31.33 bis 47.35
Expected dividend yield in %	1.00	0.66 bis 1.00	0.50 bis 0.65	0.60 bis 0.70	1.00 bis 1.50	1.50	1.50
Risk-free interest rate in %	3.15	2.30 bis 2.60	3.70	4.02 bis 4.50	3.56 bis 3.88	3.02 bis 3.47	2.35 bis 3.17
Assumed turnover of personnel entitled to subscribe in %	3.5	3.5	3.5	3.5	5.0	5.0 bis 16.5	5.0
Future allocable personnel expenses in € thousand	149	88	106	257	199	226	44

* 2.9942188 shares are issued per subscription right for option rights granted in 2004 and 2005, to the extent that these had not been exercised by July 14, 2006. This has been accounted for in the share totals presented above.

The following options schedule provides an overview of the development in stock option rights in the 2009 to 2010 financial years:

	Number of option rights	Weighted exercise price
Outstanding on 12.31.2008	205,917	16.81 €
Exercisable on 12.31.2008	7,442	14.97 €
During the 2009 financial year		
granted	117,800	13.48
exercised	14,487	16.67
lapsed	100	n.a.
Outstanding on 12.31.2009	309,130	15.55 €
Exercisable on 12.31.2009	61,230	20.28 €
During the 2010 financial year		
granted	17,100	27.88
exercised	120,766	18.29
lapsed	0	n.a.
Outstanding on 12.31.2010	205,464	14.87 €
Exercisable on 12.31.2010	24,414	17.52 €

Of the stock options granted in the year under report, a total of 0 (previous year: 110,000) were allocated to members of the Board of Management of STRATEC AG, 2,000 (previous year: 0) to the Managing Directors of subsidiaries, and 15,100 (previous year: 7,800) to employees at STRATEC AG. The average exercise prices amounted to €0.00 for members of the Board of Management (previous year: € 13.01), € 27.75 for the Managing Directors of subsidiaries (previous year: € 0.00), and € 27.92 for employees (previous year: € 20.14).

In the year under report, 112,500 stock options (previous year: 9,000) were exercised by members of the Board of Management at an average exercise price of € 18.64 per share (previous year: € 15.36), and 8,266 stock options (previous year: 5,487) by employees of STRATEC AG at an average exercise price of € 12.31 per share (previous year: € 9.36).

Taking due account of the expected level of personnel turnover, the total value (at the respective date of issue) of the stock options so far granted to members of the Board of Management and employees of STRATEC AG, as well as to the management and employees of associates, amounts to € 1,108k (previous year: € 1,007k).

The total value of the option rights has been spread as personnel expenses over the agreed qualifying periods and has resulted in an endowment of the same amount in the capital reserve. This led to personnel expenses of € 192k in the 2010 financial year (previous year: € 213k). Given the consistent, low level of personnel turnover, it has not been necessary in subsequent periods to adjust the personnel expenses calculated upon the respective rights being granted.

The 24,414 stock option rights exercisable as of December 31, 2010 entitle their bearers to acquire a total of up to 37,105 shares at a total exercise price of € 428k. This figure includes 6,364 options entitling their bearers to acquire 19,055 shares on account of the share split on July 14, 2006.

The weighted average listed price on the Frankfurt Stock Exchange of those stock options exercised in the period under report since their respective issue amounted to € 30.01 (previous year: € 22.96).

The weighted exercise prices and weighted average remaining contractual terms of the stock options outstanding at the end of the period under report have been presented in the following table:

2010 Number of stock options	Weighted exercise price in €	Weighted remaining contractual term in months
205,464	14.87	61.2

2009 Number of stock options	Weighted exercise price in €	Weighted remaining contractual term in months
309,130	15.55	66.8

Capital reserve

The capital reserve mainly includes the premium from the issuing of shares, less the costs of equity procurement, after taxes. Moreover, the capital reserve also includes the benefit from the granting of stock options recognized as personnel expenses, as well as the differential amount from the buyback and reissue of treasury stock.

Revenue reserves

Revenue reserves include accumulated net income generated in the past, to the extent that this has not been distributed, as well as free revenue reserves. The free revenue reserves arose due to allocations made in the context of the statutory authorization of the Board of Management and Supervisory Board to determine the appropriation of profit pursuant to § 58 (2) of the German Stock Corporation Act (AktG).

The revenue reserves are thus structured as follows:

in € thousand	12.31.2010	12.31.2009
Free revenue reserves	10,540	7,540
Accumulated net income	22,445	18,893
Total	32,985	26,433

Accumulated net income developed as follows in the year under report:

in € thousand	
Accumulated net income as of 12.31.2009	18,893
Consolidated net income in 2009	11,674
Allocation to free revenue reserves	-3,000
Distribution (dividend for 2009)	-5,122
Accumulated net income as of 12.31.2010	22,445

Other equity

Other equity includes the currency translation reserve and treasury stock.

The currency translation reserve of € 788k reported as of the balance sheet date (previous year: € -435k) relates to currency differences arising upon the translation of the separate financial statements of subsidiaries with functional currencies other than the euro.

Treasury stock

The authorization to acquire treasury stock dated May 20, 2009 was rescinded by resolution of the Annual General Meeting on May 21, 2010. The Annual General Meeting held on May 21, 2010 authorized the Board of Management until May 20, 2015 to acquire further treasury stock on one or several occasions and in total or in partial amounts up to a total of ten percent of existing share capital as of May 21, 2010. Together with the treasury stock already acquired and still possessed by the company, the newly acquired treasury stock may not account for more than ten percent of the share capital. Alongside sale on the stock market or by way of a public tender addressed to all shareholders, the newly acquired treasury stock and treasury stock already acquired on account of earlier authorizations may also be used as follows:

- Subject to approval by the Supervisory Board, and without any further resolution being required, the treasury stock may be retired.
- The treasury stock may be used to the exclusion of shareholders' subscription rights to service subscription rights in connection with stock option programs based on authorizations adopted by the Annual General Meeting.
- The treasury stock may be sold to third parties to the exclusion of shareholders' subscription rights in return for contributions in kind in the context of business combinations, or to acquire companies, parts of companies or shareholdings in companies.
- The treasury stock may be sold to third parties to the exclusion of shareholders' subscription rights in ways other than via the stock market. In this case, the selling price may not fall significantly short of the share's average closing price in XETRA trading on the Frankfurt Stock Exchange on the five trading days preceding the substantiation of the disposal obligation. Moreover, the volume of shares thereby sold may not exceed the ten percent threshold set out in § 186 (3) Sentence 4 of the German Stock Corporation Act (AktG), taking due account of volumes sold to the exclusion of shareholders' subscription rights since this authorization became effective by drawing on other authorizations pursuant to § 186 (3) Sentence 4 of the German Stock Corporation Act (AktG).

The company made no use of this authorization to acquire treasury stock in 2010. The company currently has no plans to retire the shares already acquired, but rather intends to retain the financial scope to make acquisitions and safeguard its growth strategy. Furthermore, the company reserves the right to use the treasury stock already acquired for other purposes consistent with the authorization provided by the Annual General Meeting.

The development in treasury stock is as follows:

Number	2010	2009
Balance at 12.31. of the previous year	63,895	134,492
Acquisition of treasury stock	0	0
Surrender of treasury stock	-35,790	-70,597
Treasury stock at 12.31. of financial year	28,105	63,895

The surrender of treasury stock in the year under report was made in connection with the acquisition of STRATEC Biomedical USA, Inc. Newbury Park, USA. The surrender of treasury stock in the previous year related to the InViTek acquisition.

The treasury stock has been recognized at cost at a total amount of € 417k (previous year: € 998k) within other equity.

Appropriation of earnings

The German Stock Corporation Act (AktG) requires the dividends to be distributed to shareholders to be calculated on the basis of the net income reported in the annual financial statements of STRATEC AG prepared in line with the German Commercial Code (HGB).

In the 2010 financial year, a dividend of € 0.45 (previous year: € 0.35) was paid per share with dividend entitlement for the 2009 financial year, corresponding to a total distribution of € 5,122k (previous year: € 3,977k).

With the approval of the Supervisory Board, the Board of Management proposes that, of the net income of € 22,692k calculated for STRATEC AG in line with the German Commercial Code (previous year: € 18,243k), an amount of € 5,770,460.50 (previous year: € 5,121,828.45) should be distributed, equivalent to € 0.50 (previous year: € 0.45) per share with dividend entitlement, and that the remaining amount of € 16,922k (previous year: € 13,121k) should be carried forward. The proposed dividend is dependent on approval by the Annual General Meeting and has not been recognized as a liability in the consolidated financial statements.

Upon preparation of the separate financial statements of STRATEC AG in line with the German Commercial Code (HGB) as of December 31, 2010, the Board of Management and Supervisory Board allocated an amount of € 3,000k (previous year: € 3,000k) from the net income for 2010 to the free revenue reserves.

(11) PROVISIONS FOR PENSIONS

Pension and capital allowance commitments had been made to two members of the Board of Management of STRATEC AG as of the balance sheet date. Vested rights to these retirement pensions and capital allowances come into force upon the individuals reaching the age of 65.

Reinsurance policies have been concluded to cover these pension obligations. Actuarial surveys have been obtained to ascertain the corresponding asset values at the balance sheet date.

Pension obligations as of December 31, 2010 have been measured on the basis of the 2005G Guidelines published by Heubeck-Richttafeln GmbH, Cologne, an assumed interest rate of 4.75% (previous year: 5.40%), and an assumed annual pension increase of 2.0% (previous year: 2.0%).

Pension obligations have been carried in the balance sheet net of the pledged asset values of the reinsurance policies.

Plan assets have developed as follows:

in € thousand	12.31.2010	12.31.2009
Fair value at 01.01.	409	378
Business combinations	0	105
Employer contributions	17	20
Pension payments made*	-345	-126
Expected return	24	32
Fair value at 12.31.	105	409

* The outgoing payments relate to plan assets whose designation as such was rescinded in the year under report.

Contributions to plan assets are expected to amount to € 17k in the 2011 financial year (previous year: € 40k).

Pension obligations have developed as follows:

in € thousand	12.31.2010	12.31.2010
Present value of vested rights at beginning of financial year	488	333
Business combinations	0	83
Current service cost	10	21
Interest expenses	20	24
Outgoing payment / compensation due to change in plan	-101	0
Present value of vested rights expected at end of financial year	417	461
Actual present value of vested rights at end of financial year	426	488
Actuarial loss (+) / gain (-) on present value of vested rights	9	27
Actuarial loss (+) / gain (-) on plan assets	-11	-11
Accumulated actuarial losses (+) / gains (-)	-2	16
Amortization of actuarial losses (-) / gains (+)	2	-16
Gross obligation recognized in balance sheet	426	488
Fair value of plan assets, accounting for limit stipulated in IAS 19.58 (b)	-105	-383
Net obligation recognized in balance sheet	321	105

An amount of € 0k (previous year: € 26k) was not recognized as an asset due the limit on the capitalization of plan assets stipulated by IAS 19.58 (b).

Personnel and interest expenses totaling € 32k were recognized under personnel expenses (social security and pension and welfare expenses) in the year under report (previous year € 29k). The income from the immediate amortization of actuarial gains amounts to € 2k (previous year: expenses of € -16k).

The following income and expenses are expected for the 2011 financial year:

in € thousand	2011	2010
Current service cost	8	17
Interest expenses (4.69%; previous year: 5.40%)	20	26
Expected income on plan assets (4.65%; previous year: 4.65%)	5	19
Expected net pension expenses	23	24

The following table shows the impact of changes in the underlying parameters (sensitivity analysis). This has been based on an increase / decrease in the respective parameters by 0.5%. Additionally, the figures have also been considered on the basis of the parameters valid at the previous year's balance sheet date (December 31, 2009):

Parameter	Present value of vested rights at 12.31.2010	
	in € thousand	
Assumed interest rate of 4.25%	454	9
Assumed interest rate of 5.25%	400	7
Pension increase of 1.5%	409	8
Pension increase of 2,5%	444	8
Parameters in 2009:		
Assumed interest of 5.40%		
Pension increase of 2.0%	392	7

The following overview shows the key measurement results as of the balance sheet dates for the past five financial years:

in € thousand	12.31.2010	12.31.2009	12.31.2008	12.31.2007	12.31.2006
Present value of defined benefit obligation	426	488	333	315	327
Fair value of plan assets	105	409	377	324	274
Surplus obligation (prior to IAS 19.58 (b) limit)	321	79	-44	-8	53
Accumulated actuarial gains (-) and losses (+)	-2	16	-5	-36	60

(12) DEFERRED TAXES

The following table provides an overview of income tax expenses broken down in terms of their origin:

in € thousand	2010	2009
Income taxes paid or owed		
Germany	4,604	3,552
International	135	202
	4,739	3,754
Deferred taxes		
Germany	-140	-87
International	-86	-242
	-226	-329
Income tax expenses	4,513	3,425

Deferred taxes resulted from the following balance sheet items:

in € thousand	12.31.2010		12.31.2009	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	-	56	-	-
Intangible assets	-	1,503	-	1,139
Financial assets	-	59	-	56
Trade receivables	-	21	-	15
Future receivables from construction contracts / inventories	16	457	16	457
Loss carryovers	377	-	63	-
Financial liabilities	27	-	32	-
Provisions for pensions	17	-	14	-
Other liabilities and provisions	3	46	9	19
Total	440	2,142	134	1,686

The aggregate amount recognized for deferred taxes in the balance sheet is structured as follows:

in € thousand	12.31.2010		12.31.2009	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Deferred taxes due to temporary differences in balance sheet items and loss carryovers	440	2,142	134	1,686
Deferred item due to currency translation of foreign financial statements	19	39	51	10
	459	2,181	185	1,696
Netting	-126	-126	-59	-59
Total	333	2,055	126	1,637

The deferred item due to the currency translation of foreign financial statements has been recognized directly in equity.

Of the deferred tax income recognized in the statement of comprehensive income (€ 226k; previous year: € 329k), € -86k (previous year: € 268k) is attributable to temporary differences, € -2k (previous year: € -2k) to the costs of capital increases, and € 314k (previous year: € 63k) to tax loss carryovers.

Deferred tax assets of € 377k (previous year: € 63k) were recognized for loss carryovers in 2010 at subsidiaries posting losses in the past year or the previous year. The value of these items is deemed secure, as the respective companies are expected to generate future taxable earnings against which tax loss carryovers not yet utilized can be fully offset within an appropriate timeframe.

The tax expenses of € 4,513k reported for the 2010 financial year (previous year: € 3,425k) are € 296k (previous year: € 712k) lower than the tax expenses of € 4,809k (previous year: € 4,137k) expected to result from application of the overall tax rate for STRATEC AG (27.4%; previous year: 27.4%) to the Group's earnings before taxes.

The difference between the tax expenses expected and those reported is attributable to the following items:

in € thousand	2010	2009
Expected tax expenses (-) / income (+)	-4,809	-4,137
Deviations in German and foreign tax rates	359	508
Changes in effective tax rates at foreign subsidiaries	2	52
Tax-exempt income from the disposal of shareholdings and securities price gains	30	143
Expenses not deductible for tax purposes less tax reductions	-74	-39
Personnel expenses IFRS (stock options)	-53	-60
Tax back payments / refunds for previous years and non-period tax expenses / income	22	126
Miscellaneous	10	-18
Reported tax expenses (+) / income (-)	-4,513	-3,425

The following overview presents the amounts of deferred taxes expected to be realized within twelve months of the balance sheet date.

in € thousand	2010	2009
Deferred tax assets	19	123
Deferred tax liabilities	829	666
Net balance (liability)	-810	-543

(13) FINANCIAL LIABILITIES

Financial liabilities are structured as follows:

in € thousand	12.31.2010		12.31.2009	
	Total	of which current	Total	of which current
Liabilities to banks	7,613	588	5,689	488
Liabilities due to silent partnership	395	0	401	0
Total	8,008	588	6,090	488

Of financial liabilities, € 66k (previous year: € 0k) were denominated in US dollars and € 2,320k (previous year: € 0k) in Swiss francs.

As of December 31, 2010, the Group had total credit lines of € 5,225k at its disposal (previous year: € 5,150k). Of this total, an amount of € 5,159k (previous year: € 5,150k) was unutilized and thus available for unsecured borrowing.

Financial liabilities have the following overall nominal maturities:

Maturity	12.31.2010 in € thousand	Maturity	12.31.2009 in € thousand
2011	588	2010	488
2012	544	2011	464
2013	1,238	2012	464
2014	1,906	2013	857
2015	2,499	2014	1,326
2016 and later	1,233	2015 and later	2,491
Total	8,008	Total	6,090

Company land in Germany was encumbered with a land charge of € 2,000k (previous year: € 2,000k) as security for bank liabilities. The company land in Switzerland added in the 2009 financial year and built on in 2010 was encumbered by land charges of € 2,359k as security for a mortgage loan taken up to cover the costs of constructing a company building (CHF 3.5 million / € 2.36 million).

(14) TRADE PAYABLES / LIABILITIES TO ASSOCIATES

Trade payables mostly involve goods and services provided in November and December 2010. As in the previous year, these items are due for payment within one year.

The liabilities to associates, amounting to € 88k (previous year: € 24k), are due to STRATEC NewGen GmbH (€ 39k; previous year: € 19k), and to STRATEC Biomedical Systems S.R.L., Romania (€ 49k; previous year: € 5k), and relate to the ongoing exchange of goods and services.

(15) OTHER CURRENT LIABILITIES

These liabilities are structured as follows:

in € thousand	12.31.2010	12.31.2009
Wage and salary liabilities	1,497	1,675
Other tax liabilities	642	647
Social security liabilities	122	148
Prepayments received on orders	7,368	10,919
Supervisory Board compensation	93	119
Other liabilities	1,230	162
Total	10,952	13,670

Of these liabilities, € 3k have remaining terms of more than one year.

The wage and salary liabilities mainly consist of outstanding vacation (€ 924k; previous year: € 803k), employee working time credits (€ 335k; previous year: € 262k), profit participations (€ 132k; previous year: € 35k), and the liability incurred to settle a pension commitment made to the former Managing Director of a subsidiary (€ 93k).

Social security liabilities chiefly relate to social security contributions still to be transferred. The tax liabilities relate to employee payroll settlement.

Prepayments received on orders relate to the development projects reported as unfinished services in inventories.

Other liabilities mainly relate to outstanding invoices of € 372k (previous year: € 51k), and the liability of € 807k resulting from the acquisition of STRATEC Biomedical USA, Inc.

(16) CURRENT PROVISIONS AND CURRENT INCOME TAX LIABILITIES

These items developed as follows:

in € thousand	Guarantees and warranties	Accounting and financial reporting	Miscellaneous	Total
12.31.2009	618	305	378	1,301
Currency translation	24	0	0	24
Additions due to company acquisition	0	0	28	28
Utilized	496	305	377	1,178
Reversed	0	0	2	2
Added	396	300	627	1,323
12.31.2010	542	300	654	1,496

The provisions for accounting and financial reporting mainly include the costs of preparing and auditing annual financial statements, tax advisory and archiving expenses.

Of the outflow of funds for provisions recognized in the 2010 financial year, an amount of € 1,246k is expected to take place in 2011. The miscellaneous category also includes an amount of € 423k for contingent purchase price components in connection with the acquisition of STRATEC Biomedical USA, Inc. Of this, the outflow of funds for a nominal portion of € 250k is expected in 2013.

Income tax liabilities relate to current income tax obligations.

D. DISCLOSURES ON THE STATEMENT OF COMPREHENSIVE INCOME

(17) BREAKDOWN OF SALES

A breakdown and explanation of sales has been provided in the comments in Section F "Segment report".

(18) INCREASE IN VOLUME OF FINISHED AND UNFINISHED PRODUCTS AND UNFINISHED SERVICES

This item is structured as follows:

in € thousand	2010	2009
Reduction in finished products	-58	-57
Increase in unfinished products	364	158
Increase in unfinished services	2,572	6,911
Currency differences	-152	2
Total	2,726	7,014

As in the previous year, no impairment losses were recognized for unfinished services in the 2010 financial year.

Inventories of € 48,411k were recognized through profit or loss as costs of sales in the 2010 financial year (previous year: € 44,568k).

(19) OTHER OPERATING INCOME

in € thousand	2010	2009
Income from currency translation	1,361	385
Expenditure grants	143	213
Auxiliary transactions	21	11
Income from reversal and discounting of other provisions and measurement of liabilities	161	29
Income from services provided to associates:		
STRATEC NewGen GmbH	0	12
STRATEC Biomedical Systems S.R.L., Romania	36	30
Miscellaneous income	120	67
Total	1,842	747

(20) NUMBER OF EMPLOYEES

The average number of individuals employed by the Group during the financial year (including employees from temporary employment agencies) was as follows:

Number	2010	2009
Industrial workers	35	49
Salaried employees	305	233
Trainees	11	9
Employees in permanent employment	351	291
Temporary employees	48	44
Total	399	335

Of permanent employees, 289 (previous year: 245) were in Germany, and 62 (previous year: 46) abroad. Of temporary employees, 46 (previous year: 44) were in Germany, and 2 (previous year: 0) abroad.

(21) AMORTIZATION OF INTANGIBLE ASSETS AND DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Depreciation and amortization were structured as follows:

in € thousand	2010	2009
Intangible assets, scheduled amortization	1,166	1,165
Property, plant and equipment, scheduled depreciation	2,101	1,408
Total	3,267	2,573

(22) OTHER OPERATING EXPENSES

This item primarily relates to the costs of goods handling, currency translation differences, and administration and sales-related expenses.

The item is structured as follows:

in € thousand	2010	2009
Trade fair, advertising, travel and hospitality expenses	1,200	1,012
Outgoing freight and sales commissions	647	555
External services	1,989	1,536
Legal and advisory expenses	824	1,032
Insurances, contributions, fees	448	420
Currency translation expenses	1,419	380
Costs of premises	935	653
Office and administration expenses	370	344
Maintenance expenses	389	290
Supervisory Board compensation	121	103
Miscellaneous expenses	634	642
Total	8,976	6,967

Miscellaneous expenses mainly include other personnel recruitment expenses, costs in transit, and expenses in connection with warranty claims. Furthermore, this item also includes services procured from STRATEC NewGen GmbH (€ 0k; previous year: € 11k) and STRATEC Biomedical Inc., USA (€ 327k; previous year: € 147k).

Expenses of € 572k (previous year: € 257k) were incurred for operating leases in the year under report and are included in the above presentation. Leasing contracts at the STRATEC Group mainly relate to buildings and vehicle leasing agreements.

(23) NET FINANCIAL EXPENSES

The income from profit transfer agreements (€ -17k; previous year: € -75k) is attributable to the profit transfer agreement with STRATEC NewGen GmbH.

Financial income is structured as follows:

in € thousand	2010	2009
Interest income on cash and cash equivalents	93	108
Interest income on receivables from associates	3	4
Other interest income	12	8
Interest income from discounting of liabilities and provisions	22	0
Total	130	120

Financial expenses are structured as follows:

in € thousand	2010	2009
Interest expenses on loan liabilities to banks	197	195
Interest expenses on typical silent partnerships	48	18
Interest expenses on other current financial liabilities	1	1
Interest expenses for compounding of liabilities and provisions	33	0
Total	279	214

Other financial income / expenses include gains and losses for financial assets and financial liabilities measured at fair value and are structured as follows:

in € thousand	2010	2009
Gains / losses on financial assets measured at fair value through profit or loss:		
Gains / losses on retirement	55	0
Gains / losses on measurement at balance sheet date	54	361
	109	361
Gains / losses on financial assets measured at fair value in equity:		
Gains / losses on retirement	0	188
	0	188
Other financial income / expenses	109	549

(24) EARNINGS PER SHARE

Earnings per share have been calculated pursuant to IAS 33 (Earnings per Share) by dividing the consolidated net income by the average weighted number of shares in STRATEC AG in circulation in the past financial year.

The treasury stock held by STRATEC AG has been excluded from the calculation of the number of shares in circulation. The year-on-year increase in the number of shares was due to the issuing of new shares on account of the exercising of option rights within stock option programs, as well as to the surrender of treasury stock for the acquisition of STRATEC Biomedical USA, Inc. Changes in the number of shares within the financial year have been accounted for by weighting the respective figures on a prorated basis. The resultant final weighted average number of outstanding shares used to calculate the (basic) earnings per share amounted to 11,469,713 (previous year: 11,346,814).

Pursuant to IAS 33 (Earnings per Share), the consolidated net income of € 13,039k (previous year: € 11,674k) reported in the consolidated statement of comprehensive income has been used as the unaltered basis for the calculation.

Due to the option rights outstanding as of December 31, 2010, both basic earnings per share (€ 1.14; previous year: € 1.03) and diluted earnings per share (€ 1.12; previous year: € 1.02) have been calculated. Diluted earnings per share have been calculated on the assumption that all outstanding options not yet exercised are actually exercised. The number of additional shares to be accounted for is calculated by comparing the proceeds generated by such exercising of options with the proceeds which could theoretically be generated by issuing new shares on customary market terms.

The allocation or exercising of option rights within the financial year has been accounted for using prorated weighting. The resultant weighted average number of outstanding shares with a diluting effect accounted for in the calculation of (diluted) earnings per share amounts to 11,667,298 (previous year: 11,425,923).

E. DISCLOSURES ON THE CASH FLOW STATEMENT

The cash flow statement shows how the liquidity of the STRATEC Group has changed due to inflows and outflows of funds during the financial year. A distinction is made between the cash flows from operating, investing and financing activities.

The amounts reported for foreign group companies have generally been translated at annual average exchange rates. One exception involves cash and cash equivalents which, like in the balance sheet, have been recognized at the exchange rate on the reporting date. The impact of changes in exchange rates on cash and cash equivalents is presented separately.

Inflow of funds from operating activities

The cash flow from operating activities has been calculated using the indirect method. This involves eliminating non-cash earnings components from consolidated net income after taxes. Interest income and expenses have been allocated to operating activities, as have the components of other financial income / expenses. Dividend payments have been recognized in the cash flow from financing activities.

Tax payments have been reported under operating activities in their entirety, as their allocation to individual business divisions is not feasible in practical terms.

The interest paid / received and income taxes paid / refunded items in the cash flow from operating activities have been presented using the direct method. In the first stage, this involves adjusting consolidated net income to account for income and expenses recognized in the consolidated statement of comprehensive income. After this, the interest and income taxes paid or received are reported separately.

Inflow / outflow of funds from investing activities

A total amount of € 8,302k was expended on investing activities (previous year: € 4,464k). Of this sum, € 7,881k was channeled into the acquisition of property, plant and equipment and intangible assets (previous year: € 3,344k). Among other items, the outlays for property, plant and equipment included the new building at the Swiss location (€ 2,449k), and the new building at the company's German headquarters (€ 3,198k). Furthermore, an amount of € 421k was invested in the acquisition of STRATEC Biomedical USA, Inc. in the 2010 financial year. In the previous year, an amount of € 1,738k had been invested in the InViTek acquisition.

Inflow / outflow of funds from financing activities

Financing activities led to a net outflow of funds amounting to € 1,394k (previous year: € 4,447k). Net new borrowing amounted to € 1,498k (previous year: net loan repayment of € 712k). Dividend payments accounted for an outflow of € 5,122k (previous year: € 3,977k).

(25) CASH AND CASH EQUIVALENTS

The “cash and cash equivalents” item comprises cash holdings and credit balances at banks with original maturities of up to three months. As of December 31, 2010, cash and cash equivalents amounted to € 13,222k (previous year: € 21,187k).

The reconciliation of consolidated net income with the cash flow from operating activities involved eliminating the following other non-cash income and expense items:

in € thousand	2010	2009
Expenses:		
Personnel expenses in connection with the granting of stock option rights	186	220
Currency differences for foreign currency receivables	177	22
Receivables defaults	26	32
Increase in impairments of inventories	62	54
Currency differences for prepayments received for inventories	0	33
Allocations to impairments of receivables	30	0
Total	481	361

in € thousand	2010	2009
Income:		
Currency translation gains from measurement of cash and cash equivalents at balance sheet date	286	57
Reduction in impairments of receivables	6	57
Currency differences for prepayments received for inventories	14	0
Currency differences for foreign currency receivables	6	0
Currency differences for foreign currency liabilities	145	0
Income from write-ups to financial assets	5	0
Income from fair value measurement of securities held for trading	54	361
Income from reversal of other provisions and liabilities	2	29
Income from own work capitalized	2,028	625
	2,546	1,129
Net additions (+)/ deductions (-)	2,065	-768

F. SEGMENT REPORT

For internal management purposes, reference is chiefly made to the individual legal entities within the STRATEC Group. These therefore basically represent the operating segments as defined in IFRS 8 (Operating Segments). Apart from InViTek, acquired in the 2009 financial year, and STRATEC Biomedical USA, Inc., acquired in the 2010 financial year, the Group's operating segments are comparable in terms of their economic characteristics, products and services, types of production processes, customers, sales methods, and regulatory framework, and have therefore been aggregated into one operating segment. The InViTek and STRATEC Biomedical USA, Inc. operating segments are not deemed material in terms of their sales, earnings and assets compared with the aggregate operating segment for the other legal entities. The company has therefore foregone any separate reporting.

Sales can be broken down into their geographical regions (customer locations) as follows:

in € thousand	2010	2009
Germany	18,111	15,222
EU	59,314	46,632
Other	24,553	17,735
Total	101,978	79,589

Substantial sales generated with analyzer systems in other countries are structured as follows:

in € thousand	2010	2009
Italy	6,917	6,711
Belgium	982	1,766
France	8,882	6,748
Ireland	2,321	2,978
USA	14,806	10,525
China	7,437	4,593

The allocation of sales generated with analyzer systems to other countries has been based on the delivery locations from the perspective of the STRATEC Group. In view of the fact that the customers of the STRATEC Group partly supply their country outlets and customers from central distribution centers, however, this breakdown of sales does not necessarily reflect the geographical distribution of the final operating locations of the analyzer systems supplied by the STRATEC Group. For the same reason, it would not be meaningful to compile any country-specific breakdown of the supply of spare parts and other services by the STRATEC Group.

Sales can be broken down by product group as follows:

in € thousand	2010	2009
Product range	68,250	54,242
Spare parts and the like	18,746	18,364
Development and other services	9,037	2,486
Miscellaneous	5,945	4,497
Total	101,978	79,589

The STRATEC Group generates more than 10% of its total sales with individual customers in some cases. In 2010, sales of € 26,530k, € 21,343k, € 11,910k and € 10,144k respectively were generated with four individual customers. In 2009, sales of € 20,978k, € 18,833k, € 9,806k and € 8,176k respectively were generated with four individual customers.

Non-current assets (intangible assets, property, plant and equipment, and non-current financial assets) are distributed as follows:

in € thousand	2010	2009
Germany	14,877	10,421
International	11,980	5,304
Total	26,857	15,725

G. FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of individual financial assets and liabilities for each class of financial instruments and reconciles these with the corresponding balance sheet items. Classification has been based on the underlying valuation method, with a distinction made between financial instruments measured at amortized cost, and those measured at fair value. Furthermore, within those instruments measured at fair value, a further distinction has been made between instruments measured at fair value through profit or loss, and those measured at fair value in equity.

As the other receivables and other assets, current provisions and other current liabilities balance sheet items include both financial and non-financial assets and liabilities (e.g. tax receivables and liabilities, prepayments received for orders, and guarantee and warranty obligations), the "Not covered by IFRS 7" column provides a corresponding reconciliation of these items.

Financial assets in € thousand	Carrying amount	Measurement standard			Not covered by IFRS 7	Fair Value
		Amortized cost	Fair Value through profit or loss	Fair Value in equity		
Balance sheet item	12.31.2010 (12.31.2009)	12.31.2010 (12.31.2009)	12.31.2010 (12.31.2009)	12.31.2010 (12.31.2009)	12.31.2010 (12.31.2009)	12.31.2010 (12.31.2009)
Interests in associates	342 (310)	342 (310)				342 (310)
Trade receivables	15,817 (9,914)	15,817 (9,914)				15,817 (9,914)
Future receivables from construction contracts	5,629 (4,921)	5,629 (4,921)				5,629 (4,921)
Receivables from associates	103 (165)	103 (165)				103 (165)
Other receivables and other assets	1,187 (1,456)	151 (41)	10 (0)		1,026 (1,415)	1,187 (1,456)
Securities	526 (654)		526 (654)			526 (654)
Cash and cash equivalents	13,222 (21,187)	13,222 (21,187)				13,222 (21,187)
Total	36,826 (38,607)	35,264 (36,538)	536 (654)		1,026 (1,415)	36,826 (38,607)

Financial liabilities in € thousand	Carrying amount	Measurement standard		Not covered by IFRS 7	Fair Value
		Amortized cost	Fair Value through profit or loss		
Balance sheet item	12.31.2010 (12.31.2009)	8,008 (6,090)			12.31.2010 (12.31.2009)
Financial liabilities	8,008 (6,090)	8,008 (6,090)			8,016 (6,126)
Trade payables	2,842 (3,421)	2,842 (3,421)			2,842 (3,421)
Liabilities to associates	88 (24)	88 (24)			88 (24)
Current provisions	1,497 (1,301)	955 (683)		542 (618)	1,497 (1,301)
Other current liabilities	10,951 (13,670)	2,819 (1,956)		8,132 (11,714)	10,951 (13,670)
Total	23,386 (24,506)	14,712 (12,174)		8,674 (12,332)	23,394 (24,542)

The fair value of receivables, loans and primary liabilities is calculated as the present value of future cash flows. Where a listed price is available, this has been taken as the fair value.

Given the short-term maturities of the overwhelming majority of trade receivables and payables, other receivables and assets, and cash and cash equivalents, their carrying amounts as of the balance sheet date do not deviate significantly from their fair values.

The currency options recognized under other receivables and other assets are allocated to the “financial assets held for trading” category. The fair value of these derivatives amounted to € 10k at the balance sheet date (previous year: € 0k).

The net results on financial instruments broken down into their respective measurement categories was as follows:

in € thousand	From interest and dividends	From subsequent measurement				From disposals	Net result
		Fair value	Currency translation	Discounting / compounding	Impairment		
	2010 (2009)						2010 (2009)
Cash and cash equivalents	93 (108)		286 (57)				379 (165)
Loans and receivables	3 (4)		-171 (-22)		-24 (57)	-26 (-32)	-218 (7)
Available-for-sale securities						0 (188)	0 (188)
Financial assets held for trading		54 (361)				55 (0)	109 (361)
Financial liabilities measured at amortized cost	-246 (-214)		145 (-3)	-11 (0)		2 (29)	-110 (-188)
Total	-150 (-102)	54 (361)	260 (32)	-11 (0)	-24 (57)	31 (185)	160 (533)

Interest expenses and interest income resulting from financial instruments measured at amortized cost have been recognized under net financial expenses. Total interest income on financial assets not measured at fair value through profit or loss amounted to € 130k (previous year: € 120k). Total interest expenses for financial liabilities not measured at fair value through profit or loss amounted to € 279k (previous year: € 214k). The net result on financial instruments measured at fair value has been recognized under other financial income / expenses. Information about the individual components of net financial expenses can be found in the disclosures on the statement of comprehensive income under (23) Net financial expenses.

The gains and losses resulting from translation through profit or loss of financial assets and liabilities at average exchange rates on the balance sheet date have been recognized under other operating income or expenses, as have the results of foreign currency translation performed within the financial year. The translation of cash and cash equivalents at the balance sheet date resulted in currency income of € 286k (previous year: € 57k) recognized through profit or loss under other operating income.

Hierarchical classification of financial assets and liabilities measured at fair value

To account for the relevance of the factors included in the measurement of financial assets and liabilities measured at fair value, these financial assets have been classified into three hierarchical levels. The levels in the fair value hierarchy and their application to assets and liabilities are described below:

Level 1: Listed prices for identical assets and liabilities in active markets (used without amendment)

Level 2: Input factors not involving Level 1 prices, but which can be observed for the relevant asset or liability either directly (i.e. as a price) or indirectly (i.e. derived from prices)

Level 3: Factors used in the measurement of assets or liabilities which are not based on observable market data (non-observable input factors).

At STRATEC AG, securities have been measured at fair value as of the balance sheet date. These are allocable to Level 1 in the fair value hierarchy. Alongside these, currency options have also been included at fair value in other receivables and other assets. These are allocable to Level 2 of the aforementioned hierarchy. The fair values in this category have been indirectly derived from prices close to the market. Account was taken of congruent interest rates, exchange rate volatilities and interest spreads for the respective currency regions. Where market prices are available, these have been used as the basis for measurement.

Maturity analysis

The liquidity risk to which the STRATEC Group is exposed in connection with its financial instruments consists of obligations due to future interest and principal payments for financial liabilities. Future payments are structured as follows:

in € thousand	Carrying amount 12.31.2010	Cash flows 2011		Cash flows 2012		Cash flows 2013 – 2015		Cash flows 2016 and later	
		Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
Financial liabilities	8,008	270	588	255	544	586	5,643	112	1,233
Trade payables	2,842	0	2,842	0	0	0	0	0	0
Liabilities to associates	88	0	88	0	0	0	0	0	0
Other financial liabilities and current provisions	3,774	0	3,521	0	2	0	250	0	1
Total	14,712	270	7,039	255	546	586	5,893	112	1,234

in € thousand	Carrying amount 12.31.2009	Cash flows 2010		Cash flows 2011		Cash flows 2012 – 2014		Cash flows 2015 and later	
		Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
		Financial liabilities	6,090	209	488	189	464	432	2,647
Trade payables	3,421	0	3,421	0	0	0	0	0	0
Liabilities to associates	24	0	24	0	0	0	0	0	0
Other financial liabilities and current provisions	2,639	0	2,639	0	0	0	0	0	0
Total	12,174	209	6,572	189	464	432	2,627	147	2,491

Loans with terms of up to five years charge interest at an average of 2.11% (previous year: 5.03%). Loans with terms of more than five years charge interest at an average of 3.46% (previous year: 3.06%).

H. RISK MANAGEMENT

Principles of risk management

The assets, liabilities and future activities of STRATEC AG are subject to risks resulting from changes in exchange rates, interest rates and stock market prices. The objectives and methods used by the STRATEC Group to deal with the financial risks listed below form the object of the Group's risk management activities. The principles underlying the Group's risk management policies are presented in the "Risk Report" section of the group management report.

The objective of financial risk management is to limit these risks primarily by means of its operating activities. These are supplemented by finance-based measures. The primary objective is to limit the risks of relevance to the cash flow. The basic principles of the company's financial policy are reviewed by the Board of Management annually and revised to account for new developments. The Supervisory Board is informed at regular intervals of the financial position of the Group and the assessments made by the Board of Management.

The financial instruments reported in the accounts could in principle give rise to the following risks for the company:

Foreign currency risks

On account of its international business activities, the STRATEC Group is exposed to foreign currency risks resulting from the impact of exchange rate movements on business transactions and the foreign currency receivables and liabilities as of the balance sheet date (transaction risks). Furthermore, the translation of the financial statements of foreign subsidiaries into the group currency (€) also involves foreign currency risks (translation risks).

The foreign currency transactions performed by the STRATEC Group mainly relate to export transactions in US dollars, intercompany loan relationships in US dollars, and loan liabilities in Swiss francs. Translation risks arise due to the translation of the financial statements of foreign group companies from Swiss francs (CHF), British pounds (GBP), and US dollars (USD) into the group reporting currency (€).

Sensitivity to exchange rate movements (transaction risk):

The Group had the following transaction risk exposure as of the balance sheet date:

Foreign currency item translated into € thousand	12.31.2010			12.31.2009		
	GBP	CHF	USD	GBP	CHF	USD
Cash and cash equivalents	104	2	3,215	931	61	2,710
Trade receivables and other receivables	365	193	451	491	491	0
Receivables to associates less liabilities to associates	0	0	103	0	0	98
Financial liabilities	0	-2,320	0	0	0	0
Trade payables	-4	0	-182	-50	0	0
Other liabilities and provisions	-49	-244	-755	-24	-115	0
Net risk exposure	416	-2,369	2,832	1,348	437	2,808

Exchange rate gains and losses resulting from the measurement of financial assets and financial liabilities have been presented in Section G "Financial instruments".

Any change in the exchange rate of these key currencies and the euro by +10%/-10% would have impacted as follows on consolidated net income as of the balance sheet date:

	12.31.2010			12.31.2009		
	GBP	CHF	USD	GBP	CHF	USD
Change in currency by + 10%						
Change in consolidated net income (€ 000s)	-38	215	-257	-123	-40	-255
Change in currency by - 10%						
Change in consolidated net income in € thousand	46	-263	315	150	49	312

In the 2010 financial year, the translation of transactions with third parties and within intercompany relationships led to the recognition through profit or loss of income from currency translation totaling € 1,361k (previous year: € 385k) and expenses for currency translation totaling € 1,419k (previous year: € 380k). These have been recognized under other operating income and other operating expenses respectively.

Based on the sensitivity analysis, use has been made of the exchange rates stated in the following table.

Sensitivity to translation of foreign financial statements (translation risks):

Further exchange rate risks are attributable to translation risk (translation of the financial statements of foreign group companies into the group reporting currency). Exchange rate volatility thus affects consolidated net income, as well as group shareholders' equity via the recognition of translation differences directly in equity.

To present market risks, IFRS 7 (Financial Instruments: Disclosures) requires companies to perform sensitivity analyses portraying the impact of hypothetical changes in the relevant risk variables on their earnings and equity. The implications for the period under report are determined by applying these hypothetical changes in variables to the volumes of financial instruments held at the balance sheet date.

The analysis of the hypothetical impact of exchange rate movements on consolidated net income and group equity as a result of the translation of the financial statements of foreign group companies has been based on the following assumptions:

	Annual average rate			Reporting date rate		
	GBP	CHF	USD	GBP	CHF	USD
Actual figures in 2010	0.86	1.38	1.33	0.86	1.25	1.34
- 10% (depreciation in € compared with CHF / GBP / USD)	0.77	1.24	1.20	0.77	1.13	1.20
+ 10% (appreciation in € compared with CHF / GBP / USD)	0.95	1.52	1.46	0.95	1.38	1.47
Actual figures in 2009	0.89	1.51	n.a.	0.89	1.48	n.a.
- 10% (depreciation in € compared with CHF / GBP / USD)	0.80	1.36		0.80	1.33	
+ 10% (appreciation in € compared with CHF / GBP / USD)	0.98	1.66		0.98	1.63	

The changes in the three main accounting items would be as follows:

in € thousand	2010 (2009)	2010 (2009)	2010 (2009)
	Consolidated net income	Group equity	Currency translation reserve
(- 10%) depreciation in €	141 (+198)	2,166 (+1,576)	2,024 (+1,378)
(+ 10%) appreciation in €	-114 (-164)	-2,194 (-1,256)	-2,080 (-1,092)

Interest rate risks

Interest rate risks involve the risk of fluctuations in the value of a financial instrument as a result of changes in market interest rates.

The STRATEC Group is subject to interest rate risks in terms of its medium and long-term interest-bearing / interest-charging financial instruments.

The Group reported the following medium and long-term interest-bearing assets and interest-charging liabilities as of the balance sheet date:

in € thousand	2010	2009
Interest-bearing financial assets	103	98
of which with floating interest rates	0	0
of which with fixed interest rates	103	98
Interest-charging financial liabilities	7,420	5,602
of which with floating interest rates	1,200	0
of which with fixed interest rates	6,220	5,602

Sensitivity of fair values for fixed-interest financial instruments:

Changes in market interest rates have no implications for the measurement of fixed-interest financial instruments at the STRATEC Group as of the balance sheet date, as these items are measured at amortized cost. The fair values based on market interest rates as of the balance sheet have been presented in Section G "Financial instruments".

Sensitivity of cash flows for floating-interest financial instruments:

Changes in market interest rates have no implications for the measurement of floating-interest financial instruments at the STRATEC Group as of the balance sheet date, as these items are measured at amortized cost. Unlike fixed-interest financial liabilities, however, financial liabilities with floating interest rates involve the risk of fluctuations in future cash flows for payments of interest and principal on account of changes in market interest rates.

The following table presents the future interest and principal payments assumed for the remaining term of the floating-rate loan liability as of the balance sheet date based on the market interest rate prevalent at this time compared with the payments that would result were the market interest rate to rise by 100 base points:

in € thousand	Carrying amount 12.31.2010	Cash flows 2011		Cash flows 2012		Cash flows 2013-2015	
		Interest	Principal	Interest	Principal	Interest	Principal
Financial liabilities with floating interest rates (3-month LIBOR)							
Actual	1,200	11	0	14	0	37	1,200
+ 100 base points	1,200	23	0	26	0	40	1,200

Other price risks

Financial assets in the “financial assets held for trading” category are subject to the risk of changes in stock market prices. Had the stock market prices been 10% higher (lower) than their balance sheet date levels, then consolidated net income would have been € 53k higher / lower (previous year: € 65k).

The other receivables and other assets item includes currency options with fair values of € 10k (previous year: € 0k). The nominal amount of open currency options reported amounted to USD 1,000k. Any increase / reduction in the € / USD exchange rate by + / - 10 % would have increased / reduced the fair value of the currency options by € 51k / € -76k as of the balance sheet date.

Default risks

The principal default risks faced by STRATEC AG are to be found in the field of its operating activities. They involve the risk of contractual partners failing to meet their obligations. At STRATEC AG, this risk relates in particular to receivables from customers. Default risk is countered by means of receivables management, such as trade credit insurance policies. Remaining default risks are accounted for with individual and general allowances.

Liquid funds are invested solely in the form of short-term deposits (with maximum terms of six months) at financial institutions with high-quality ratings.

The maximum default risk is reflected on the one hand by the carrying amount of the financial assets reported in the balance sheet. However, these figures do not account for the hedging measures outlined above.

Capital management

Capital management at STRATEC AG pursues the primary objective of maintaining the company's financial substance and safeguarding its debt servicing capacity. In monitoring these objectives, the management refers to the equity ratio and the ratio of financial receivables to financial liabilities.

The equity ratio amounted to 72.7% as of December 31, 2010 (previous year: 69.1%). The target range for this figure amounts to 50 percent to 75 percent.

The ratio of current financial assets to current financial liabilities amounted to 2.3 as of December 31, 2010, compared with 2.2 in the previous year. This ratio should not fall short of 1.5.

STRATEC AG bases its calculation of current financial assets on receivables and other assets, securities, and cash and cash equivalents.

The internal assessment of the company's debt servicing capacity is based on the ratio of current and non-current financial liabilities to the company's actual cash flow during the financial year, plus the cash flows budgeted for the two following years.

Financial liabilities include the debt capital reported in the balance sheet, less provisions and deferred taxes.

in € thousand	2010	2009	2008	2007
Current and non-current financial liabilities	23,084	23,455	23,455	18,083
Actual cash flows	-8,248	1,967	1,967	-889

The comparison of the actual figures for the financial year under report and the previous year reflects the level of target achievement for the 2010 and 2009 financial years (2009 and 2008).

F. OTHER DISCLOSURES

DISCLOSURES CONCERNING THE AUDITOR'S FEE PURSUANT TO § 314 (1) NO. 9 HGB

The fees recorded for the group auditor in the financial year under report pursuant to § 314 (1) No. 9 of the German Commercial Code (HGB) are structured as follows:

in € thousand	2010	2009
Fee for		
a) Auditing	115	99
b) Tax advisory services	48	5
c) Other services	12	45
Total auditor's fee	175	149

RELATED PARTY DISCLOSURES

Closely related companies and persons as defined in IAS 24 (Related Party Disclosures) are legal or natural persons in a position to exert influence on STRATEC AG and / or its subsidiaries or subject to control or significant influence by STRATEC AG or its subsidiaries. Such parties include unconsolidated subsidiaries, members of the Board of Management and Supervisory Board of STRATEC AG and persons and companies closely related to such.

The receivables and liabilities due to and from unconsolidated subsidiaries as of the balance sheet date have been presented under the respective balance sheet items.

In the 2010 financial year, STRATEC AG did not generate any revenues from transactions with STRATEC NewGen GmbH (previous year: € 12k). The profit transfer agreement concluded with STRATEC NewGen GmbH resulted in expenses of € 17k in the year under report (previous year: € 75k). InViTek did not purchase any services from STRATEC NewGen GmbH in the 2010 financial year (previous year: € 11k).

In the 2010 financial year, STRATEC AG generated interest income of € 3k from a loan granted to STRATEC Biomedical Inc. (previous year: € 4k) and generated sales of € 6k with this company (previous year: € 3k). The services purchased by STRATEC AG from STRATEC Biomedical Inc., USA, amounted to € 146k (previous year: € 146k). InViTek purchased services of € 181k from STRATEC Biomedical Inc. in the 2010 financial year (previous year: € 0k).

In the 2010 financial year, STRATEC AG generated revenues of € 13k (previous year: € 6k) from transactions with STRATEC Biomedical Systems S.R.L., Romania, and purchased services of € 227k (previous year: € 136k). In the 2010 financial year, STRATEC Biomedical Switzerland AG generated revenues of € 23k (previous year: € 24k) from transactions with STRATEC Biomedical Systems S.R.L., Romania, and purchased services of € 23k (previous year: € 187k).

Sanguin International Ltd., UK, generated sales of € 48k from transactions with Sanguin International Inc., USA, in the year under report (previous year: € 13k). The services purchased by Sanguin International Ltd. from Sanguin International Inc. amounted to € 13k (previous year: € 38k). Services amounting to € 37k were purchased from STRATEC Biomedical Systems S.R.L., Romania (previous year: € 0k).

STRATEC Biomedical USA, Inc. lets the company land at Newbury Park from a leasing company whose managing directors are simultaneously managing directors of STRATEC Biomedical USA, Inc. Leasing expenses amounted to USD 428k in the 2010 financial year, of which USD 291k related to the period of group affiliation.

In view of the fact that members of the Leistner family hold a substantial share of the voting rights in both STRATEC AG and DITABIS Digital Biomedical Imaging Systems AG, the latter company is deemed a related party pursuant to IAS 24 (Related Party Disclosures). In the year under report, STRATEC AG provided DITABIS Digital Biomedical Imaging Systems AG with services amounting to € 6k (previous year: € 6k) and received services of € 42k (previous year: € 12k). These services were invoiced at prices which would also be agreed with third parties.

The company's Board of Management comprised the following members in the year under report:

- **Hermann Leistner**, Birkenfeld (Chairman / Development Division)
Electrical Engineer
- **Marcus Wolfinger**, Remchingen (Chief Financial Officer)
Graduate in Business Administration
- **Bernd M. Steidle**, Oberboihingen (Chief Marketing Officer)
Businessman

The Chairman of the Board of Management, Hermann Leistner, and the Chief Financial Officer, Marcus Wolfinger, are each authorized to solely represent the company. The composition of the Board of Management changed between the balance sheet date and the preparation of the consolidated financial statements in that Dr. Robert Siegle joined the Board of Management as a new member as of February 1, 2011.

The compensation of members of the Board of Management consists of fixed annual compensation (fixed salary) and a variable component dependent on the achievement of individual performance targets. Moreover, members of the Board of Management are entitled to participate in a stock option program. Among other conditions, the exercising of the options is dependent on the achievement of performance targets determined at the time of issue.

On the basis of the resolution adopted by the Annual General Meeting on June 23, 2006, the company may forego (opt out of) publication of the compensation of the members of the Board of Management on an individual basis and the additional disclosures required by § 314 (1) No. 6 a) Sentences 6 to 9 of the German Commercial Code (HGB). The company has exercised this right in the period under report. The total compensation of the Board of Management amounted to € 1,617k in the period under report (previous year: € 1,107k). Specifically, the compensation was structured as follows:

in € thousand	2010	2009
Fixed salary	572	523
Share-based payments	0	198
Payments in kind	30	30
Insurance benefits	577	53
Performance-related components	438	303
Total compensation	1,617	1,107

The short-term portion of total compensation amounted to € 1,617k (previous year: € 909k).

The figure stated for share-based payments involves the period-specific arithmetical value of the stock options issued to members of the Board of Management recognized pursuant to IFRS 2 (Share-based Payments) as personnel expenses in the financial year under report. A total of 0 stock options (previous year: 110,000) with an exercise price of € 0 (previous year: € 13.01) and an arithmetical total value of € 0k (previous year: € 201k) were issued to the Board of Management in the 2010 financial year.

Pension provisions for members of the Board of Management have been recognized as liabilities of € 321k in the consolidated financial statements (previous year: € 105k).

Hermann Leistner is Managing Director of STRATEC NewGen GmbH, Birkenfeld. Marcus Wolfinger is a member of the Board of Sanguin International Ltd., Burton on Trent, UK.

The company's Supervisory Board comprised the following individuals in the year under report:

- **Fred K. Brückner**, Marburg (Chairman)
Chemical Engineer / Independent Management Consultant
- **Dr. Robert Siegle**, Birkenfeld (Deputy Chairman)
Lawyer at "Kanzlei Dr. Wille, Dr. Siegle, Zinder GbR", Pforzheim
(Member of Supervisory Board until December 31, 2010)
- **Prof. Dr. Hugo Hämmerle**, Weil der Stadt
Graduate in Biology and Director of the Natural
and Medical Science Institute (NMI)
at the University of Tübingen, Reutlingen

Fred K. Brückner and Dr. Robert Siegle do not hold positions on any other supervisory boards or supervisory bodies as defined in § 125 (1) Sentence 3 of the German Stock Corporation Act (AktG). Prof. Dr. Hugo Hämmerle is a member of the Supervisory Boards of TETEC AG, Reutlingen, and Retina Implant AG, Reutlingen.

The total compensation of the Supervisory Board amounted to € 122k in the year under report (previous year: € 119k). The specific structure of the compensation was as follows:

in € thousand	2010	2010
Fixed compensation	36	36
Performance-related components	72	74
Meeting allowance	14	9
Total short-term compensation	122	119

In addition to this total compensation, each member of the Supervisory Board also has his expenses reimbursed and benefits from a pecuniary damage liability insurance policy taken out at the company's expense at suitable terms customary to the market. One member of the Supervisory Board has rights of use for a company vehicle.

"Dr. Wille, Dr. Siegle, Zinder GbR", Pforzheim, the law firm of Dr. Robert Siegle, a member of the Supervisory Board, provided STRATEC AG with legal advisory services amounting to around € 34k in the 2010 financial year (previous year: € 34k). These services were invoiced at prices which would also be agreed with third parties.

Apart from this, there were no service relationships between the company's directors and officers, or persons closely related to such, and the companies included in the consolidated financial statements of STRATEC AG.

CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

Other financial obligations primarily relate to acceptance obligations (basic contracts with suppliers concerning modules and contractual obligations to acquire property, plant and equipment), and obligations in connection with operating leases and development orders.

Obligations for orders placed amounted to € 17,345k (previous year: € 15,665k).

Undiscounted future minimum leasing and rental payments in connection with operating leases amounted to € 3,282k as of the balance sheet date (previous year: € 646k). Of this sum, € 3,041k related to the long-term lease agreement for the company building used by STRATEC Biomedical USA, Inc. The corresponding payment obligations mature as follows (€ 000s):

Due	in € thousand	Due	in € thousand
2011	15,480	2010	15,157
2012	2,735	2011	1,154
2013	331	2012	0
2014 and other	2,081	2013 und später	0
Total	20,627	Total	16,311

There are no contingent liabilities relating to the provision of security for third-party liabilities.

Events after the balance sheet date

By resolution dated January 21, 2011, Mannheim District Court approved the petition filed by Mannheim District Court on January 3, 2011 and appointed Wolfgang Wehmeyer as a member of the Supervisory Board. This court appointment was necessary as Dr. Robert Siegle retired from his position on the Supervisory Board as of December 31, 2010 on account of his forthcoming move to the Board of Management of STRATEC AG as of February 1, 2011.

Declaration in respect of the German Corporate Governance Code

The declaration in respect of the German Corporate Governance Code ("Declaration of Conformity") required by § 161 of the German Stock Corporation Act (AktG) was submitted by the Board of Management and Supervisory Board of STRATEC Biomedical Systems AG on December 17, 2010 and has been made permanently available to shareholders in the Investor Relations section of the company's website (www.stratec.com).

Birkenfeld, February 22, 2011

STRATEC Biomedical Systems AG

The Board of Management



Hermann Leistner



Marcus Wolfinger



Bernd M. Steidle



Dr. Robert Siegle

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Birkenfeld, February 22, 2011

STRATEC Biomedical Systems AG

The Board of Management



Hermann Leistner



Marcus Wolfinger



Bernd M. Steidle



Dr. Robert Siegle

AUDIT OPINION OF GROUP AUDITOR

We have audited the consolidated financial statements compiled by STRATEC Biomedical Systems Aktiengesellschaft, Birkenfeld, which consist of the balance sheet, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and the notes to the consolidated financial statements, as well as the group management report, for the financial year from January 1 to December 31, 2010. The compilation of the consolidated financial statements and group management report in accordance with IFRS as adopted by the EU, as well as with the provisions of German commercial law requiring supplementary application pursuant to Section 315 a (1) of the German Commercial Code (HGB), lies within the responsibility of the board of management of the company. It is our responsibility to submit an opinion on the consolidated financial statements and the group management report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB), taking due account of the principles governing the proper auditing of financial statements promulgated by the German Institute of Auditors (IDW). These standards require the audit to be planned and executed such that any inaccuracies and infringements with a material impact on the presentation of the net asset, financial and earnings situation provided by the consolidated financial statements, taking due account of applicable accounting standards, and by the group management report are identified with reasonable assurance. When determining the audit procedures, account was taken of our knowledge of the business activities and economic and legal environment of the group, as well as of expectations as to any possible misstatements. The effectiveness of the internal accounting controlling system and the evidence supporting the disclosures made in the consolidated financial statements and the group management report were examined within the framework of the audit, principally on the basis of trial samples. The audit includes an assessment of the annual financial statements of the companies included in the consolidated financial statements, the delineation of the scope of consolidation, the accounting and consolidation principles thereby applied, and the principal estimates made by the board of management, as well as an appraisal of the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonably secure basis for our opinion.

Our audit did not give rise to any qualifications.

On the basis of the findings of our audit, it is our opinion that the consolidated financial statements are in accordance with IFRS as adopted by the EU, as well as with the provisions of German commercial law requiring supplementary application pursuant to Section 315 a (1) of the German Commercial Code (HGB), and that they provide a true and fair view of the net asset, financial and earnings situation of the Group, taking due account of the aforementioned requirements. The group management report is consistent with the consolidated financial statements and provides a suitable overall portrayal of the situation of the group and adequately presents the opportunities and risks relating to its future development.

Stuttgart, February 22, 2011

WirtschaftsTreuhand GmbH
Chartered Accountants
Tax Consultants

(Richter)
Chartered Accountant

(Dreixler)
Chartered Accountant

DIRECTORS AND OFFICERS

BOARD OF MANAGEMENT

Hermann Leistner

- Aged 65, Electrical engineer, Birkenfeld, Germany
- Chairman of the Board of Management of STRATEC Biomedical Systems AG
- Responsible for Development
- At his own request, Hermann Leistner is retiring from the Board of Management of STRATEC Biomedical Systems AG as of March 31, 2011
- Membership of supervisory boards and other supervisory bodies pursuant to § 285 Sentence 1 No. 10 HGB:
 - Internal memberships: STRATEC NewGen GmbH, Birkenfeld, Germany (Managing Director)
 - External memberships: None

Marcus Wolfinger

- Aged 43, Graduate in business administration, Remchingen, Germany
- Member of the Board of Management of STRATEC Biomedical Systems AG
- By resolution of the Supervisory Board on December 9, 2010 Marcus Wolfinger was appointed as Chairman of the Board of Management of STRATEC Biomedical Systems AG as of April 1, 2011
- Responsible for Finance
- Membership of supervisory boards and other supervisory bodies pursuant to § 285 Sentence 1 No. 10 HGB:
 - Internal memberships: Sanguin International Ltd., Burton upon Trent, UK (Member of Management)
 - External memberships: None

Bernd M. Steidle

- Aged 57, Businessman, Oberboihingen, Germany
- Member of the Board of Management of STRATEC Biomedical Systems AG
- Responsible for Marketing and Sales
- Membership of supervisory boards and other supervisory bodies pursuant to § 285 Sentence 1 No. 10 HGB:
 - Internal memberships: None
 - External memberships: None

Dr. Robert Siegle (from February 1, 2011)

- Aged 43, Birkenfeld, Germany
- Member of the Board of Management of STRATEC Biomedical Systems AG
- Responsible for Human Resources, Compliance and Legal Affairs and for coordinating activities at subsidiaries
- By resolution of the Supervisory Board on December 9, 2010 Dr. Robert Siegle was appointed as a member of the Board of Management of STRATEC Biomedical Systems AG as of February 1, 2011
- Membership of supervisory boards and other supervisory bodies pursuant to § 285 Sentence 1 No. 10 HGB:
 - Internal memberships: None
 - External memberships: None

SUPERVISORY BOARD

Fred K. Brückner

- Aged 68, Marburg, Germany
- Chairman of the Supervisory Board of STRATEC Biomedical Systems AG
- Chemical engineer and independent management consultant, Marburg, Germany
- Membership of supervisory boards and other supervisory bodies pursuant to § 285 Sentence 1 No. 10 HGB:
 - None

Dr. Robert Siegle (until December 31, 2010)

- Aged 43, Birkenfeld, Germany
- Deputy Chairman of the Supervisory Board of STRATEC Biomedical Systems AG
- By resolution of the Supervisory Board on December 9, 2010 Dr. Robert Siegle was appointed as a member of the Board of Management of STRATEC Biomedical Systems AG as of February 1, 2011
- Attorney at law, Kanzlei Dr. Wille, Dr. Siegle, Zinder GbR, Pforzheim, Germany
- Membership of supervisory boards and other supervisory bodies pursuant to § 285 Sentence 1 No. 10 HGB:
 - None

Prof. Dr. Hugo Hämmerle

- Aged 59, Weil der Stadt, Germany
- Member of the Supervisory Board of STRATEC Biomedical Systems AG
- Graduate in biology and Director of NMI Natural and Medical Science Institute at the University of Tübingen, Reutlingen, Germany
- Membership of supervisory boards and other supervisory bodies pursuant to § 285 Sentence 1 No. 10 HGB:
 - TETEC AG, Reutlingen, Germany (Chairman of the Supervisory Board)
 - Retina Implant AG, Reutlingen, Germany (Deputy Chairman of the Supervisory Board)

Wolfgang Wehmeyer (from January 21, 2011)

- Aged 52, Dannenberg (Elbe), Germany
- Member of the Supervisory Board of STRATEC Biomedical Systems AG
- By resolution of Mannheim District Court on January 21, 2011 Wolfgang Wehmeyer was appointed as a member of the Supervisory Board of STRATEC Biomedical Systems AG
- Senior Vice President International Marketing & Medicine, Fresenius Medical Care Deutschland GmbH, Bad Homburg, Germany
- Membership of supervisory boards and other supervisory bodies pursuant to § 285 Sentence 1 No. 10 HGB:
 - None

FINANCIAL CALENDAR

March 8, 2011	2010 consolidated / annual financial statements
April 14, 2011	Annual General Meeting, Pforzheim, Germany
May 3, 2011	Interim report as of March 30, 2011
July 27, 2011	Interim report as of June 30, 2011
September / October 2011	Analysts' day, Birkenfeld, Germany
October 26, 2011	Interim report as of September 30, 2011

Furthermore, based on current planning, STRATEC will also be taking part in the following capital market conferences in 2011:

March 2011	SAB-Bank / 2. Süddeutsche Kapitalmarktkonferenz, Stuttgart, Germany
April 2011	4 th LBBW German Equity Conference, London, UK
June 2011	Jefferies' 2011 Global Healthcare Conference, New York, USA Morgan Stanley European MedTech & Service Conference, London, UK
August 2011	Commerzbank Sector Conference Week, Frankfurt am Main, Germany
September 2011	HSBC Healthcare Conference, Frankfurt am Main, Germany
November 2011	Berenberg Bank European Conference, London, UK

Subject to amendment.

IMPRINT

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TEXT STRATEC Biomedical Systems AG, Birkenfeld, Germany

DISCLAIMER This information includes forward-looking statements based on current assumptions and forecasts. Known and unknown risks, uncertainties and other influences could lead the company's actual results, financial position or performance to deviate from the assessments provided here. We assume no liability to update forward-looking statements.

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