ANNUAL REPORT 2010

SPECIALISTS FOR SURFACE TECHNOLOGIES

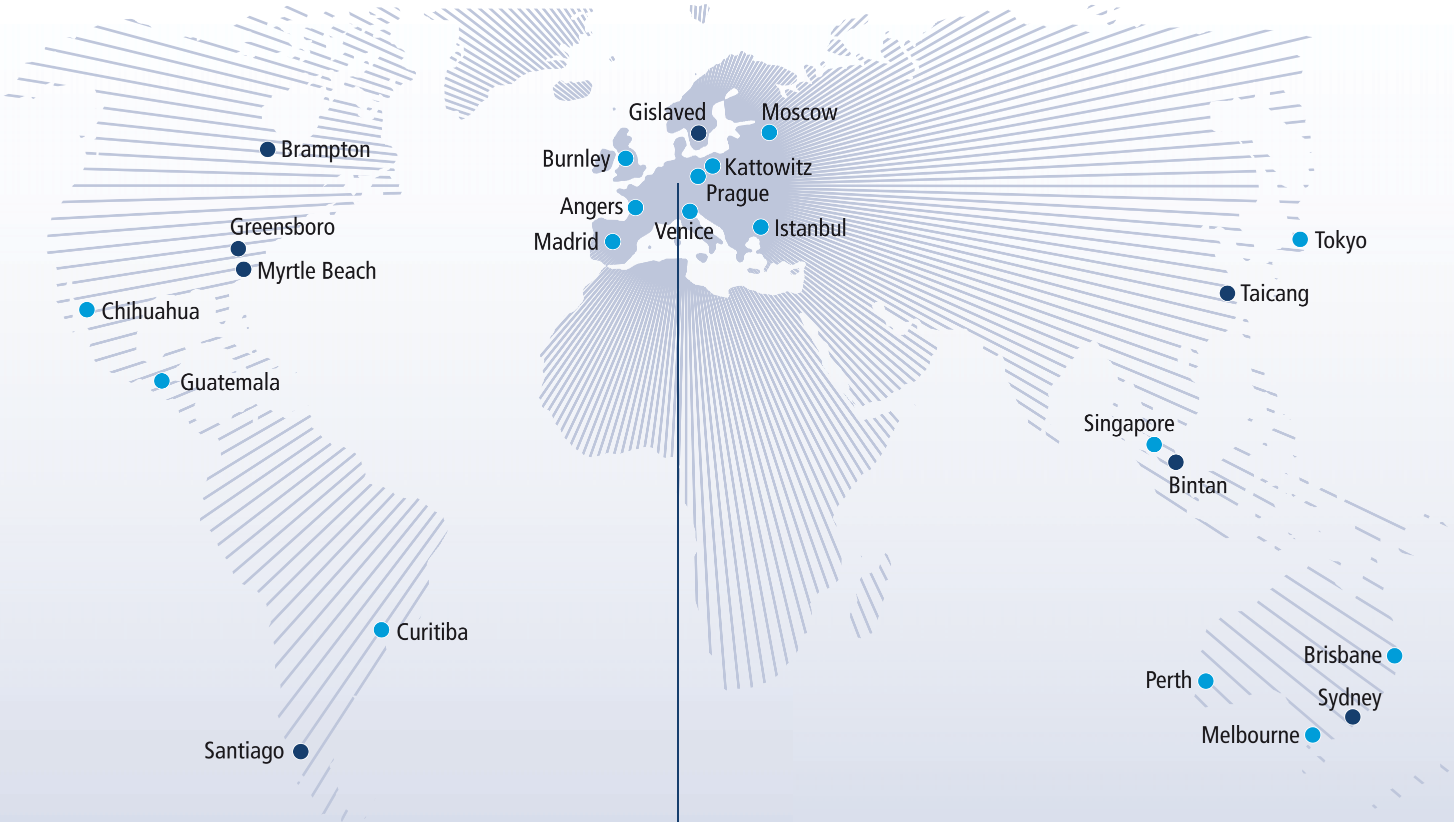
SURTECO

SOCIETAS EUROPAEA

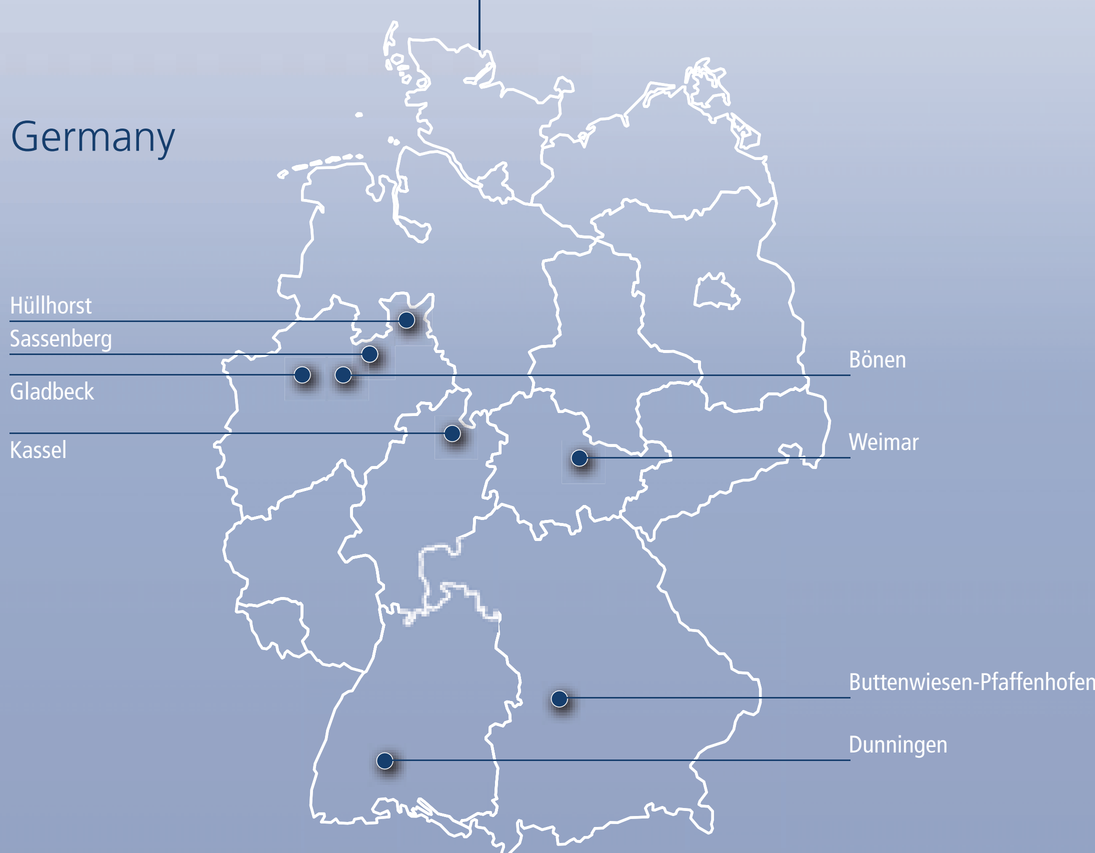
SURTECO SE

WORLDWIDE

- 16 production and sales locations
- 16 additional sales locations



Germany



SURTECO SE

AT A GLANCE

[€ 000s]	2009	2010	Variation in %
Sales revenues	341,145	**388,793**	+14
Foreign sales in %	64	**67**	
EBITDA	54,317	**62,547**	+15
EBITDA margin in %	15.9	16.1	
Depreciation and amortization	-19,892	**-20,934**	
EBIT	34,425	**41,613**	+21
EBIT margin in %	10.1	10.7	
Financial result	-16,860	**-9,590**	
EBT	17,565	**32,023**	+82
Consolidated net profit	9,239	**21,705**	+135
Earnings per share in €	0.83	**1.96**	+135
Additions to fixed assets	10,942	**19,244**	+76
Balance sheet total	481,676	**481,544**	-
Equity	191,815	**213,439**	+11
Equity ratio in %	39.8	**44.3**	+11
Net financial debt at 31 December	122,826	**123,163**	-
Gearing (level of debt) at 31 December in %	64	**58**	-10
Average number of employees for the year	1,979	**1,990**	+1
Number of employees at 31 December	1,903	**2,003**	+5

PROFITABILITY INDICATORS IN %

Return on sales	5.1	**8.2**
Return on equity	4.9	**10.7**
Total return on total equity	6.2	**8.9**

SURTECO SE

GROUP STRUCTURE

SURTECO SE

- **SBU PAPER**
  - **Bausch Decor**
    - Saueressig Design Studio 30%
  - **BauschLinnemann**
    - Kröning
    - BauschLinnemann UK
    - BauschLinnemann North America
      - BauschLinnemann South Carolina 70%
    - SURTECO China
    - SURTECO Italy
    - SURTECO Russia
- **SBU PLASTICS**
  - **W. Döllken & Co.**
    - Döllken-Kunststoffverarbeitung
      - SURTECO Australia
      - SURTECO Asia
      - SURTECO France
      - SURTECO Turkey
      - SURTECO Iberia
    - Döllken-Profiltechnik
    - Vinylit Fassaden
    - Döllken-Weimar
      - Döllken Poland
      - Döllken Czechia
    - SURTECO USA
    - SURTECO Canada
      - SURTECO Do Brasil
      - Canplast Centro America 50%
      - Canplast Mexico 50%
      - Canplast Sud/Chile 55%
  - **Gislaved Folie** Sweden

2010

SALES DISTRIBUTION in %

SURTECO GROUP

Germany	33
Rest of Europe	44
America	12
Australia	6
Asia	5

Edgebandings	49
Foils	26
Skirtings	6
Decorative printing	5
Techn. extrusions	4
DIY	3
Cladding systems	3
Other	4

Percentage of total sales: 58 %

STRATEGIC BUSINESS UNIT PLASTICS

Germany	31
Rest of Europe	37
America	15
Australia	10
Asia	7

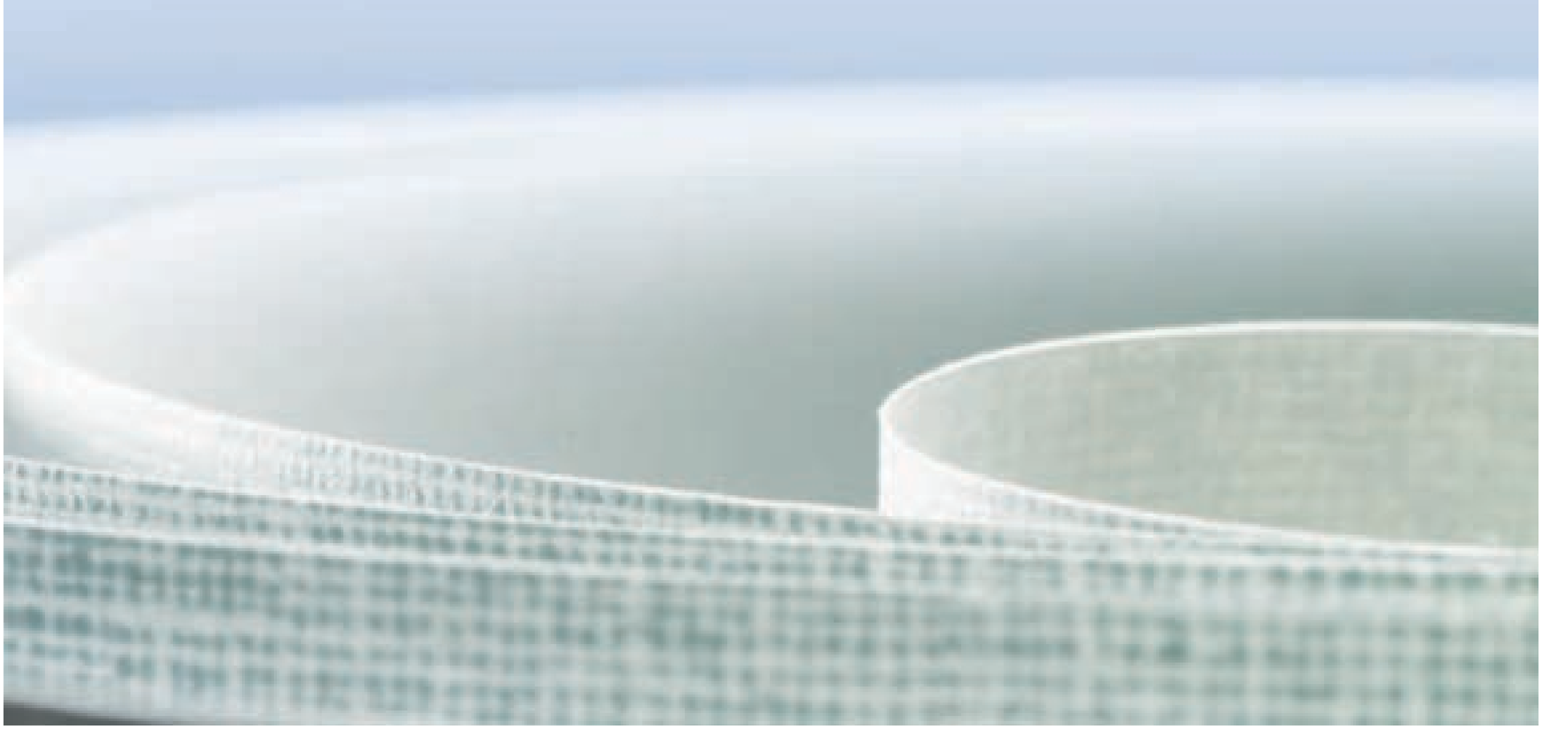
Edgebandings	59
Skirtings	11
Foils	10
Tech. extrusions	7
DIY	5
Cladding systems	4
Other	4

Percentage of total sales: 42 %

STRATEGIC BUSINESS UNIT PAPER

Germany	35
Rest of Europe	53
America	8
Australia	1
Asia	3

Foils	48
Edgebandings	35
Decorative printing	13
Laminates (CPL)	2
Other	2



THE PRODUCT RANGE
OF SURTECO SE

Plastic edgebandings

Roller shutter systems

Edgings and extrusions for cabinet making

Technical extrusions for industry

Decorative printing

Edgebandings based on paper

Skirtings and extrusions for professional floor layers

Ranges for building and DIY stores

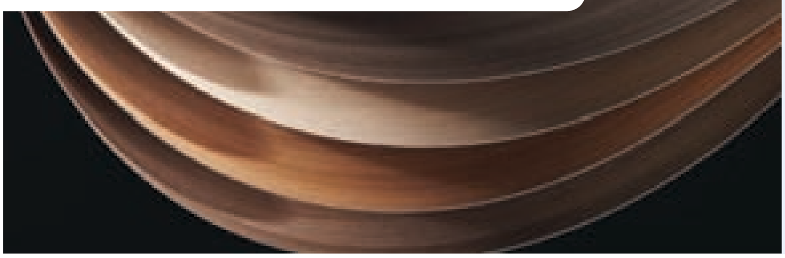
Cladding systems

Plastic foils

STRATEGIC BUSINESS UNIT PLASTICS

Finish foils based on paper

Multilayer laminates



STRATEGIC BUSINESS UNIT PAPER

SURTECO

DÖLLKEN

BauschLinnemann

BAUSCH DECOR

GISLAVED FOLIE AB

Kröning

CANPLAST

vinylit

Praktikus





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SURTECO SE
ISIN: DE0005176903
Ticker symbol: SUR

IMAGES IN THIS ANNUAL REPORT

SURTECO SE is a leading manufacturer of plastic and paper products for the construction and furniture industries with international operations and a long track record of expertise. SURTECO has eight German production locations and the same number of international production locations to give the Group manufacturing operations in all major markets. The advantages are very obvious. Regional contacts guarantee fast response times. Design trends in national markets can be taken into account. Short transport links deliver fast availability. Global integration of research and development activities guarantees that all sites manufacture products to the highest standards of quality.
The images in this Annual Report present the production sites where the SURTECO Group's multifaceted product range is manufactured – distributed across four continents.
The cover page shows the administrative building of Bausch Decor GmbH located in Buttenwiesen-Pfaffenhofen where the SURTECO holding company is based.

FOREWORD BY THE BOARD OF MANAGEMENT

Friedhelm Päfgen
Chairman of the Board of Management
Group strategy,
Strategic Business Unit Paper

Dr.-Ing. Herbert Müller
Member of the Board of Management
Strategic Business Unit Plastics

Dear shareholders
and friends
of our company,

We have an eventful year behind us. At the beginning of 2010, there was a great deal of scepticism about the prospects for the business year 2010, given the economic uncertainties combined with a significant shortage of important raw materials and consequent sharp increase in their price. The dynamic recovery in the global economy as the year progressed was therefore all the more surprising and gratifying at the same time.

The volume of business started to improve tangibly from the second quarter and we ended up significantly exceeding the value for 2009, with sales growth of € 47.7 million to € 388.8 million (+14 %). Although we have still not broken through the value for the record year 2007 (€ 414.5 million), the rapid recovery now appears to be more sustainable than was originally assumed.

However, the enthusiasm generated by the high level of demand for SURTECO products was tempered by massive inflation in the price of raw materials across virtually all areas. Increases of this magnitude were completely unforeseeable. However, the lead time between purchasing and processing meant that these negative impacts did not exert their full effect in the various sections of the company during the year under review.

We continued to pursue existing measures and embarked on a campaign of action involving new measures in order to further enhance productivity. All the steps taken were directed towards stabilizing the earnings power of the Group at a high level under the tough framework conditions prevailing. The actions taken included continual review and certification of alternative raw materials. This will assist us in extending the group of potential suppliers, optimize our sourcing strategies in qualitative terms, or achieve definite price advantages.

We continued to develop the strategic alignment of the SURTECO Group during the course of the reporting year 2010. The strategy was modified to match the altered conditions prevailing in the global marketplace. SURTECO Iberia was established in Madrid and this new company will market the products supplied by SURTECO companies to the Spanish market. The founding of BauschLinnemann South Carolina last year strengthened the position of the Strategic Business Unit Paper in North America. The varnishing facilities acquired in this connection give improved penetration and facilitate faster supply for paper-based flat foils.

As a supplier to the construction industry and furniture sector, product care and new product developments are absolutely crucial factors for success. A striking example of innovation is the Fusion-Edge developed by the Strategic Business Unit Plastics. Its new application procedure using laser technology is positively revolutionary and has the potential to optimize the manufacturing process with all our customers over the long term in addition to the undoubted qualitative gains and visual benefits.

The outstanding operational development was also rewarded by the capital markets. After the value of the SURTECO shares virtually doubled over the course of 2009, they continued to track the generally positive development on stock markets and ended the year at over € 26, representing a price increase of 32 percent.

The net profit for the business year 2010 was a gratifying € 10.0 million. As in past years, we would like to ensure that shareholders participate appropriately in our success. The Supervisory Board and the Board of Management will therefore recommend a dividend of € 0.90 (2009: € 0.40) per share to the shareholders at the Annual General Meeting to be held in Munich on 17 June 2011.

All in all, we can afford to be satisfied with the outcome of the business year 2010. The business trend during the initial months of 2011 also gives grounds for optimism. However, the already tense sentiment in the procurement market continues to be burdened with the negative impacts of the political changes currently taking place in the Middle East and the consequences of the earthquake in Japan. Our objective continues to be an upward trajectory of expansion for the strong position of SURTECO SE in the market for surface coating. Our profile for our customers continues to be that of a dependable partner with a consistent approach that is geared to the long-term supply of high-quality and innovative products tailored to the needs of the marketplace and supported by an outstanding service ethos.

We should like to take this opportunity to thank all our shareholders, customers, partners and suppliers for the confidence they have placed in our company and for the relationship of trust that has characterized our excellent cooperation. Furthermore, we should like to express our special thanks to all the people working in our Group for the exceptional dedication and creativity they have demonstrated alongside their readiness to embrace change. These are the qualities that will enable SURTECO to continue its track record of success in international markets. The platform we have created over the course of 2010 will form the basis for the future profitable growth that we have embarked on for 2011 and subsequent years. We would be delighted for you to continue accompanying us on this journey.

Friedhelm Päfgen
Chairman of the Board of Management

Dr.-Ing. Herbert Müller
Member of the Board of Management

COMPANY MANAGE-MENT

EXECUTIVE OFFICERS OF SURTECO SE

SUPERVISORY BOARD

Dr.-Ing. Jürgen Großmann Chairman of the Board of Management of RWE Aktiengesellschaft, Essen	Chairman
Björn Ahrenkiel Lawyer, Hürtgenwald	Vice-Chairman
Bernd Dehmel Businessman, Marienfeld	Deputy Chairman until 24 June 2010
Dr. Markus Miele Industrial engineer, Gütersloh	Deputy Chairman since 24 June 2010
Josef Aumiller Chairman of the Works Council, Unterthürheim	Employee Representative since 24 June 2010
Johan Viktor Bausch Engineer, Munich	Honorary Chairman † 14.8.2010
Karl Becker Engineer, Coesfeld	since 24 June 2010
Dr. Matthias Bruse Lawyer, Munich	
Jakob-Hinrich Leverkus Businessman, Hamburg	until 24 June 2010
Christa Linnemann Businesswoman, Gütersloh	Honorary Chairwoman
Martin Miller Chairman of the Works Council, Unterthürheim	Employee Representative until 24 June 2010
Udo Sadlowski Chairman of the Works Council, Essen	Employee Representative
Dr.-Ing. Walter Schlebusch Managing Director of Banknotes Division Giesecke & Devrient GmbH, Munich	
Thomas Stockhausen Chairman of the Works Council, Sassenberg	Employee Representative

BOARD OF MANAGEMENT

Friedhelm Päfgen Businessman, Buttenwiesen-Pfaffenhofen	Chairman, SBU Paper
Dr.-Ing. Herbert Müller Engineer, Heiligenhaus	SBU Plastics

EXECUTIVE MANAGEMENT OF GROUP COMPANIES

SBU PLASTICS

DÖLLKEN-KUNSTSTOFFVERARBEITUNG GMBH Gladbeck	Oliver Beer Joachim Dausch Peter Schulte Hartwig Schwab
SURTECO AUSTRALIA PTY. LTD. Sydney	Maximilian Betzler
SURTECO ASIA (SURTECO PTE. LTD. + PT DÖLLKEN BINTAN) Singapore + Bintan, Indonesia	Hans Klingeborn
SURTECO FRANCE S.A.S. Beaucouzé	Gilbert Littner
SURTECO DEKOR A.Ş. Istanbul, Turkey	Emre Özbay
SURTECO IBERIA S.L. Madrid, Spain	Carlos Baxeras
DÖLLKEN-PROFILTECHNIK GMBH Dunningen	Wolfgang Buchhart
VINYLIT FASSADEN GMBH Kassel	Stefan Schmatz
DÖLLKEN-WEIMAR GMBH Nohra	Tibor Aranyossy Wolfgang Breuning Frank-Jörg Schilaski
DÖLLKEN SP. Z O.O. Kattowitz, Poland	Rafael Pospiech
SURTECO USA INC. Greensboro	Jürgen Krupp Tom Rieke
SURTECO CANADA LTD. Brampton/Ontario	Jürgen Krupp Tom Rieke
CANPLAST SUD S.A. Santiago de Chile	Gonzales Aparicio Dale
GISLAVED FOLIE AB Gislaved, Sweden	Roland Andersson
SURTECO OOO Moscow, Russia	Rashid Ibragimov

SBU PAPER

BAUSCH DECOR GMBH Buttenwiesen-Pfaffenhofen	Dr.-Ing. Gereon Schäfer Dieter Baumanns
BAUSCHLINNEMANN GMBH Sassenberg	Dr.-Ing. Gereon Schäfer Reinhold Affhüppe Dieter Baumanns
KRÖNING GMBH & CO. Hüllhorst	Wolfgang Gorißen
BAUSCHLINNEMANN UK LTD. Burnley	Tim Barber David Fleming
BAUSCHLINNEMANN NORTH AMERICA INC. Greensboro, USA	Mike Phillips
BAUSCHLINNEMANN SOUTH CAROLINA LLC Myrtle Beach, USA	Mike Phillips
SURTECO DECORATIVE MATERIAL CO., LTD. Taicang, China	Franky Kam Yin Yip
SURTECO ITALIA S.R.L. Martellago	Marco Francescon

REPORT OF THE SUPERVISORY BOARD

Dr.-Ing. Jürgen Großmann
Chairman of the Supervisory Board of SURTECO SE

*Dear shareholders,
partners and friends
of our Company*

The Supervisory Board regularly monitored the work of the Board of Management and provided advice in the business year 2010. The basis for the monitoring function of the Supervisory Board was formed by comprehensive, written and verbal reports by the Board of Management. The Supervisory Board was always kept informed about the intended business policy, the corporate plans including finance, investment and personnel planning, the profitability of the company, the current business situation, and the economic position of the company and the Group overall.

If decisions or measures required agreement on account of legislation, the Articles of Association or rules of procedure, the Members of the Supervisory Board, having been briefed by its committees, reviewed the proposals for resolutions in its meetings, or adopted them on the basis of written information. The Members of the Board of Management took part in the meetings of the Supervisory Board. The Supervisory Board was involved in all key decisions relating to the company. The economic situation presented in reports by the Board of Management and the development perspectives of the Group, the individual business areas and the important participations in Germany and abroad were the subject of careful and detailed discussion.

The Supervisory Board convened for four meetings during the course of the year 2010. Two of these meetings took place in the first calendar half-year and two further meetings in the second calendar half-year. The Chairman of the Supervisory Board furthermore maintained regular telephone contact with the Board of Management outside these meetings, in order to continue providing advice on key items of business policy and strategic issues. No Member of the Supervisory Board took part in less than half of the meetings.

FOCUSES OF ADVICE AND CONSULTATION IN THE SUPERVISORY BOARD

During the year under review, the Supervisory Board addressed the reporting of the Board of Management in detail and discussed the position of the company and the business strategy on the basis of the latest business figures available for the company. The latest relevant indicators of the Strategic Business Units in the SURTECO Group (SBU Paper and SBU Plastics) and the subsidiary companies and participations were presented by the Board of Management at the meetings of the Supervisory Board where they were analyzed and compared with the projected figures. The Members of the Supervisory Board addressed questions on individual items to the Members of the Board of Management which the Members of the Board of Management answered comprehensively.

The economic environment in which the company is operating was also discussed by the Supervisory Board. This related, for example to the development of energy costs, raw material prices and the availability of raw materials, exchange rates and product specifications with specific suppliers, and the resulting alternatives for action by the company. The situation of the most important customers, the divisions of the foreign companies, and the conduct of the key competitors in the market were also considered. Furthermore, measures were also discussed relating to the reduction of costs and the optimization of production processes, in particular the effects of the company closure in Canada carried out in 2009 and the relocation of production to the United States and Chile.

At its meeting on 21 April 2010, the Supervisory Board adopted the proposals for the agenda of the Annual General Meeting in 2010. At the same time, the Board of Management adopted a resolution on bonuses for Members of the Board of Management for the business year 2009.

At the meeting held on 22 December 2010, the Supervisory Board discussed the establishment of BauschLinnemann South Carolina LLC in the USA, the acquisition of the business Coastal Paper of South Carolina Inc. by the newly founded company, and the opportunities generated by this transaction for the American market.

The acceptance of the purchase price for the acquisition of the refinement business of impress decor GmbH, Aschaffenburg, by the seller in the business year 2010 was reported to the Supervisory Board. This related to the takeover of customer relations, formulations, and inventories by BauschLinnemann GmbH, which the Supervisory Board had already approved in 2009. The integration of the customer base acquired from impress decor GmbH in the SURTECO Group and the effects of the impress business on earnings also formed the subject of reports from the Board of Management and discussions in the Supervisory Board.

During the reporting year 2010, the Supervisory Board once again addressed the issues associated with the corporate loan that was floated by the company as a private placement ("USPP") in the USA with a volume of up to € 150 million before the onset of the financial crisis. The Board of Management reported on the previous use of funds and on compliance with the covenants attached to the loan, whereby non-compliance with the covenants could result in the conditions of the USPP loan deteriorating or the loan being called in by the creditors. Compliance with the covenants had been maintained at the close of the reporting period. The strategic shareholding of the company in Pfleiderer AG was also discussed by the Supervisory Board during the reporting year 2010. 2.74 % of the capital stock is held by the company (as at 31 December 2010) but the value of the holding sustained substantial losses which are well known.

The plans submitted by the Board of Management for the business year 2011 was discussed, reviewed by the Supervisory Board and adopted at the meeting of the Supervisory Board on 22 December 2010. This meeting also discussed the medium-term planning along with an associated opportunity and risk analysis for the coming business years. The project for enhancing the earnings power of the plastics line of business (Project "SHAPE 2012") is a key factor for planning the upcoming business years. The aim of this project is to make the organization and structure of the SBU Plastics more transparent and highlight the handling of thin edging business and industrial customer business by means of external advisers. The subsidiary Gislaved is part of the Strategic Business Unit Plastics and the focus here is on increasing sales of furniture foils. Stabilization of business in North America following the restructuring carried out in recent years, the introduction of new products, and a decision about the future business model in China are also important issues.

The strategic direction of the group of companies was the subject of ongoing discussion in the meetings of the Supervisory Board and during discussions with the Board of Management. Meanwhile, it was stated that the Supervisory Board backs the overall strategic direction adopted by the Board of Management and the measures adopted on account of the financial crisis.

CONFIRMATION BY THE CHAIRMAN OF THE SUPERVISORY BOARD AND FURTHER ELECTIONS IN THE SUPERVISORY BOARD

At its meeting on 24 June 2010, Dr.-Ing. Jürgen Großmann was confirmed in his function as Chairman of the Supervisory Board. At this meeting, Dr. Markus Miele was also elected as Deputy Chairman of the Supervisory Board. Dr.-Ing. Jürgen Großmann and Dr. Matthias Bruse were again elected to serve on the Audit Committee of the Supervisory Board. Mr. Karl Becker was elected as a Member of the Presiding Board and a Member of the Personnel Committee.

WORK OF THE COMMITTEES

The Supervisory Board formed an Audit Committee and a Personnel Committee. There is also a Presiding Board in accordance with the rules of procedure of the Supervisory Board.

The members of the Presiding Board of the Supervisory Board on 24 June 2010 were Dr.-Ing. Jürgen Großmann (Chairman), Björn Ahrenkiel, Bernd Dehmel and Dr. Matthias Bruse. After the 24 June 2010 the Presiding Board consisted of Dr.-Ing. Jürgen Großmann (Chairman), Björn Ahrenkiel, Karl Becker and Dr. Markus Miele.

During the year under review until 24 June 2010, the Personnel Committee comprised Dr.-Ing. Jürgen Großmann (Chairman), Björn Ahrenkiel and Dr. Matthias Bruse. After 24 June 2010, the Personnel Committee comprised Dr.-Ing. Jürgen Großmann (Chairman), Björn Ahrenkiel and Karl Becker.

Throughout the reporting year 2010, the Audit Committee comprised Mr. Björn Ahrenkiel (Chairman), Dr. Matthias Bruse, Dr.-Ing. Jürgen Großmann and Dr.-Ing. Walter Schlebusch.

The Presiding Board of the Supervisory Board prepares the resolutions of the Supervisory Board if they relate to measures requiring the consent of the Supervisory Board. In urgent cases, the rules of procedure permit the Presiding Board to take the place of the Supervisory Board and grant consent to specific measures or transactions requiring approval. The Presiding Board did not need to be convened during the period under review and was not required to give its consent to any measures or transactions of the Board of Management as a matter of urgency.

The Audit Committee addressed issues relating to accounting and risk management, the annual financial statements and the quarterly figures, the mandatory independence of the auditor, commissioning the auditor to carry out the audit and the agreement of the fee. The Chairman of the Audit Committee was available to the auditors as a contact. The auditors reported to the Audit Committee on the result of their audit. The audit committee had one meeting during the course of the business year at which the auditors carrying out the audit on the consolidated financial statements were present and reported on the result of the audit.

The Personnel Committee is responsible for drawing up the contracts of employment with the Members of the Board of Management and for preparing the resolutions of the Plenary Supervisory Board relating to the definition of bonuses and payments for the Members of the Board of Management including the pension payments to former Members of the Board of Management. Independently of this, the power to appoint Members of the Board of Management is also held by the Plenary Supervisory Board – in the same way as the power to pass resolutions on the compensation itself. The Personnel Committee held one meeting during the year under review. The subject of this meeting was specifically the proposal to the Plenary Supervisory Board for the definition of variable remuneration for Members of the Management Board for the business year 2009. There were no new appointments of Members of the Board of Management or changes to the contracts of employment of the Members of the Board of Management during the reporting period.

Reports on the meetings convened by the committees were submitted to the plenary session of the Supervisory Board.

CORPORATE GOVERNANCE

SURTECO SE complies with the German Corporate Governance Code, which describes the control, management and organization of a company, and its business principles and guidelines. The Supervisory Board addressed the ongoing development of the corporate governance principles and took account of the amendments to the German Corporate Governance Code made on 26 May 2010. Within the scope of the efficiency inspection (item 5.6 of the German Corporate Governance Code), the Supervisory Board carried out a self-evaluation of its members and discussed the results in the plenary session of the Supervisory Board. It was also agreed that the current structure of compensation for the Supervisory Board of SURTECO SE (basic amount and performance-related bonus dependent on the dividend) complied with the compensation structure of most of the SDAX companies, but that long-term performance-related payments were only very rarely encountered in these companies and the variable compensation element at SURTECO SE was actually above the average variable compensation element of comparable companies listed on the stock exchange. However, contrary to the position in most SDAX companies, the activity of a Member of the Supervisory Board at SURTECO SE in a Supervisory Board Committee is not remunerated separately.

On 22 December 2010, the Board of Management and the Supervisory Board submitted a new Declaration of Compliance which was included in the Declaration on Company Management pursuant to § 289a German Commercial Code (HGB) and may be viewed on the Internet site of the company.

ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS, AUDITING

The annual financial statements were drawn up in accordance with German accounting principles. The consolidated financial statements for the fiscal year 2010 were prepared on the basis of the principles of the International Financial Reporting Standards (IFRS). The Board of Management submitted to the Supervisory Board the Annual Financial Statements, and the Consolidated Financial Statements and the Management Report and the Consolidated Management Report with its recommendation for the appropriation of the net profit to be submitted to the Annual General Meeting. The auditors, RöverBrönner GmbH & Co. KG, (auditors and tax consultants), Berlin, audited the Consolidated Financial Statements and the Annual Financial Statements of SURTECO SE and the Management Report and the Consolidated Management Report. The auditor explained the auditing principles applied in his audit report. The findings of the audit confirmed compliance with the relevant applicable accounting standards for drawing up the Annual Financial Statements and the Consolidated Financial Statements. The Consolidated Financial Statements and the Annual Financial Statements were granted an unqualified audit opinion. The Annual Financial Statements and Management Report, and the Consolidated Financial Statements and the Consolidated Management Report, and the audit reports of the auditor, and the recommendation for the appropriation of the net profit were submitted punctually to all the Members of the Supervisory Board. Intensive discussions were carried out in the Audit Committee meeting in relation to the financial statements. At the balance sheet meeting of the Supervisory Board held on 21 April 2011, the Supervisory Board also discussed these documents in detail in the presence of the auditor and on the basis of a report by the auditor pursuant to § 171 (1) sentences 2 and 3 Stock Corporation Act (AkG).

We examined the Annual Financial Statements, the Management Report and the proposal for appropriation of profit, as well as the Consolidated Financial Statements, and the Consolidated Management Report. We took note of the report by the auditor. We have no objections. We therefore concur with the result of the audit. The Supervisory Board approves the Annual Financial Statements and the Consolidated Financial Statements prepared by the Board of Management. The Annual Financial Statements have therefore been adopted.

We are in agreement with the Management Reports and in particular with the assessment of the ongoing development of the company. This also applies to the dividend policy and the decisions on reserves in the company. We agree with the proposal by the Board of Management for the appropriation of net profit that recommends payment of a dividend of € 0.90 for each no-par-value share.

The Audit Committee submitted a proposal for the appointment of the auditor of the accounts for the business year 2011 and the Supervisory Board accepted this proposal.

PERSONNEL CHANGES IN THE SUPERVISORY BOARD

On 14 August 2010, the Honorary Chairman of the Supervisory Board of SURTECO SE, Mr. Johan Viktor Bausch, passed away. Mr. Bausch was a member of the founding Board of Management of Bausch AG, which was one of the companies preceding today's SURTECO SE. He was also a founding shareholder when today's SURTECO SE was established in 1999 (at the time still under the company Bausch + Linnemann AG). The Board of Management and Supervisory Board would like to commemorate and pay tribute to Mr. Johan Viktor Bausch.

During the reporting period, the periods of office of Supervisory Board Members Dr. Matthias Bruse, Dr.-Ing. Jürgen Großmann and Mr. Jakob-Hinrich Leverkus came to an end. Mr. Bernd Dehmel had resigned his office on the Supervisory Board with effect from 24 June 2010. The Annual General Meeting in 2010 reappointed Dr. Matthias Bruse and Dr.-Ing. Jürgen Großmann to the Supervisory Board. Mr. Karl Becker and Dr. Markus Miele were appointed to the Supervisory Board to replace the retiring members Mr. Bernd Dehmel and Mr. Jakob-Hinrich Leverkus.

During the reporting period, Mr. Martin Miller resigned from the Supervisory Board of our company as an employee representative. In accordance with the agreement between the separate negotiating committee and the management of SURTECO AKTIENGESELLSCHAFT on the participation of employees in SURTECO SE dated 13 February 2007, Mr. Josef Aumiller was appointed as an employee representative to the Supervisory Board.

The Supervisory Board would like to take this opportunity to thank Mr. Dehmel, Mr. Leverkus and Mr. Miller for their service and good mutual cooperation on the Supervisory Board of SURTECO SE.

The Supervisory Board would like to thank the Board of Management, the executive managers, the members of the Works Council and all the members of staff for the contribution they have made to the development of the company during the course of the past business year.

Buttenwiesen-Pfaffenhofen, April 2011

The Supervisory Board

Dr.-Ing. Jürgen Großmann
Chairman of the Supervisory Board of SURTECO SE

MANAGEMENT REPORT 2010

SURTECO GROUP AND SURTECO SE

GROUP STRUCTURE AND BUSINESS ACTIVITY

OVERVIEW

SURTECO SE is one of the leading global specialists in coating materials used to provide decorative refinement to all types of surface, in particular for wood-based materials such as chipboard or fibreboard, in furniture and interior design. This coating provides furniture with an appealing visual design and a highly wear-resistant and long-life surface.
High-quality refinement for the narrow edges of wood-based materials is particularly demanding in technical terms. The companies of SURTECO SE offer tailor-made solutions with their edgebandings in a wide range of qualities generating different visual effects. The edgebandings are either manufactured from plastics in a special extrusion procedure or in a process based on paper. SURTECO is the world leader in the global marketplace for these products. Finish foils based on technical papers for specialist applications are produced for covering large areas of material. Plastic foils are ideal for specialist applications since their exceptional versatility in assuming different shapes makes them suitable for a wide range of different uses. These applications include foils for interior design on ships, for plastic floor coverings in industrial premises, and many other industrial applications.
A decorative printing facility is available for printing technical raw papers. Alongside woodgrain textures in all conceivable colour schemes, the spectrum also comprises stone and creative designs. The printed products are processed further in the SURTECO companies of the Strategic Business Unit (SBU) Paper to create finish foils and edgebandings. However, the majority of these products are sold directly to the furniture and laminated flooring industry, which use these prints as a decorative material for a wide array of different processing technologies.
As well as the edgebandings and foils described above, the plastics division also manufactures high-quality extruded products such as skirtings for professional floorlayers and DIY enthusiasts, roller-shutter systems, wall-egding systems, cladding systems, technical extrusions (profiles) for industrial applications and a range of products for home improvement and DIY stores.

ORGANISATION AND BUSINESS UNITS

Central controlling functions and management of the Group with manufacturing facilities on four continents is carried out through a holding company with Head Office based in Buttenwiesen-Pfaffenhofen. The functions of the holding company include strategic planning and monitoring, management of finance, DÖLLKEN

Döllken-Kunststoffverarbeitung

Production location Gladbeck

Edgebandings and technical extrusions

Number of employees approx. 500

investment and risk across the group, human-resource strategy, group-wide accounting, investor relations activities and IT coordination for all subsidiary companies.

The legally independent subsidiary companies of the SURTECO Group have full responsibility for sales and earnings in their companies. Customers are supplied by direct sales, through the group's own sales offices, or through a dense network of dealers and agents. This guarantees supply tailored optimally to the needs of customers. SURTECO currently manufactures its products at 16 locations and with 16 further sales sites is present in the world's most important markets.

The division of the Group into Strategic Business Units is based on the production technology used for the different materials paper and plastic. The SBU Plastics manufactures its products primarily by extrusion and calendering of plastics. Alongside the main products plastic edgebandings and skirtings, all types of extrusion are produced for applications in interior design, facade cladding systems, plastic foils and many other products for specialist applications. The SBU Paper manufactures flat foils, edgebandings and decorative paper based on specialized papers for technical applications. Depending on the customer's requirements, the products are designed with a range of different decorative designs and surfaces and with optimised technical properties to suit the relevant applications.

STRATEGIC BUSINESS UNIT PLASTICS*

The companies processing plastic materials include all the companies grouped under W. Döllken & Co. GmbH as well as the Swedish company Gislaved Folie AB, which specializes in the manufacture of plastic foils for industrial applications.

W. Döllken & Co. GmbH is divided into Döllken-Kunststoffverarbeitung GmbH, Döllken-Profiltechnik GmbH, Vinylit Fassaden GmbH, Döllken-Weimar GmbH, as well as SURTECO USA Inc. und SURTECO Canada Ltd.

Döllken-Kunststoffverarbeitung GmbH based in Gladbeck manufactures plastic edgebandings. Other production sites for these products are located with the subsidiary companies of Döllken-Kunststoffverarbeitung GmbH in Australia (SURTECO Australia Pty. Ltd.), Indonesia (PT Doellken Bintan Edgings & Profiles) and in China (SURTECO Decorative Material Taicang Co. Ltd.). Sales companies in Singapore (SURTECO PTE Ltd.), France (SURTECO France S.A.S.), Spain (SURTECO Iberia S.L.), Turkey (SURTECO DEKOR A.Ş.) and – in combination with the SBU Paper – Italy (SURTECO Italia s.r.l.), and Russia (SURTECO OOO) supply products to their regional and neighbouring markets.

Döllken-Profiltechnik GmbH in Dunningen specializes in the manufacture and sale of technical extrusions and roller-shutter systems.

* If not separately identified, the sites of the relevant subsidiary companies are located in Germany.

Vinylit Fassaden GmbH is one of the leading manufacturers of ready-to-assemble, environmentally friendly and energy-saving panels and cladding elements.

Döllken-Weimar GmbH is based in Nohra and Bönen. The production programme encompasses floor and skirting extrusions, wall-edging elements, and product ranges held for resale to professional floorlayers and specialist stores. Other sales venues are located in Poland (Kattowitz) and the Czech Republic (Prague).

On the American continent, the SBU Plastics produces edgebandings in Greensboro (SURTECO USA Inc.), Brampton (SURTECO Canada Ltd.) and in Santiago de Chile (Canplast Sud). Additional sales bases are located in Curitaba/Brazil, Guatemala City and Chihuahua/Mexico.

STRATEGIC BUSINESS UNIT PAPER*

Within the SURTECO Group, the Strategic Business Unit (SBU) Paper comprises decorative printer Bausch Decor GmbH and BauschLinnemann GmbH including their subsidiary companies and agents.

Bausch Decor GmbH is a specialist dedicated to decorative printing for papers that are either supplied externally to customers or undergo further processing internally at BauschLinnemann to manufacture edgebandings and flat foils. The in-house Development Department works closely together with Saueressig Design Studio in Mönchengladbach to create new cylinder structures for decorative rotogravure printing. Bausch Decor GmbH holds a 30 % stake in Saueressig Design Studio.

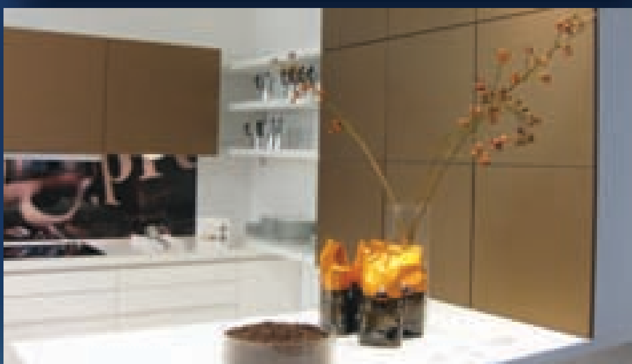
BauschLinnemann GmbH manufactures and sells finished products for the furniture industry and interior design at the facilities in Sassenberg and Buttenwiesen-Pfaffenhofen, as well as at the subsidiary company Kröning GmbH in Hüllhorst. Semi-finished products are supplied to the sales companies located in the United Kingdom, Italy and North America, where they are finished to customer-specific order specifications and supplied at short notice. When BauschLinnemann South Carolina LLC, Myrtle Beach, was established and the varnishing facilities were acquired in this connection, the production capacities and the presence in the North American market were expanded with tangible effect.

MANAGEMENT AND CONTROLLING

As laid down in the rules and regulations applicable to a Societas Europaea (SE), the Ordinary General Meeting of the company is held during the first six months after the end of a business year. Any amendments to the Articles of Association can only be made with legal effect following consent by the shareholders at the Annual General meeting and subsequent entry in the Company Register.

GISLAVED FOLIE AB

Gislaved Folie/Sweden

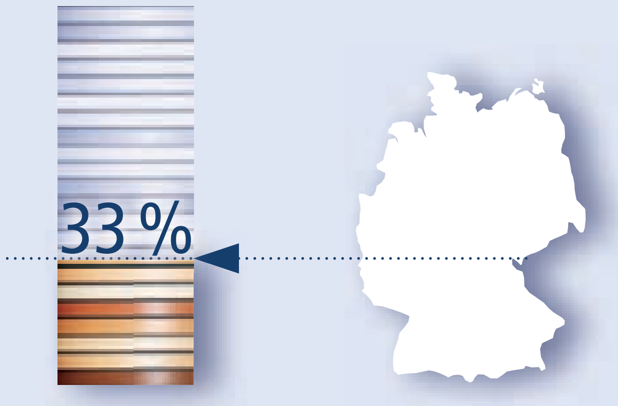


Production location Gislaved

Plastic foils

Number of employees approx.130

GERMANY
of sales of the SURTECO Group



The Supervisory Board is comprised of six representatives of the shareholders and three representatives of the employees. It monitors and advises the Board of Management on the management of the company. The management of the SURTECO Group operates on the basis of the dual management and controlling system in which the Members of the Board of Management are appointed by the Supervisory Board and manage the affairs of the company in accordance with the statutory regulations, the Articles of Association and the rules of procedure governing the actions of the Board of Management and the Supervisory Board. The Board of Management and the Supervisory Board base their actions and their decisions on the interests of the company. They are committed to the objective of increasing the value of the company in a sustainable manner.

COMPENSATION REPORT

This report describes the compensation system for the Board of Management and the Supervisory Board as well as explaining the structure and the level of compensation for individual executive officers. It takes into account the recommendations of the German Corporate Governance Code and observes the requirements of the German Commercial Code (HGB), the legislation about the disclosure of executive compensation (Act on the Disclosure of Management Board Compensation, VorstOG) that came into force on 11 August 2005, and the legislation on the reasonableness of executive pay (Act on the Appropriateness of Executive Compensation Act, VorstAG) that came into force on 5 August 2009.

COMPENSATION OF THE BOARD OF MANAGEMENT

Definition and review of the compensation structure

The compensation structure and the level of compensation of the Members of the Board of Management are defined on the basis of the proposal of the Supervisory Board's Personnel Committee and are regularly reviewed. The existing compensation system establishes a level of remuneration appropriate to the activity and responsibility of the Members of the Board of Management. Alongside the functions of the individual Members of the Board of Management and their personal performance, further factors taken into account include the economic situation, the success and future prospects of the company, and the commensurability of the compensation in view of the comparative environment and the compensation structure otherwise applicable within the SURTECO Group.

The Supervisory Board reviewed the compensation system against the background of the Act on the Appropriateness of Management Board Compensation (VorstAG) that came into force on 5 August 2009 with the assistance of external expert advisers and came to the conclusion the system is compliant with the applicable statutory regulations and the recommendations of the German Corporate Governance Code.

The compensation system is described below for the reporting year.

Compensation elements

The total cash compensation is comprised of a fixed compensation (basic salary) that is independent of any performance element and a performance-based variable component (bonus). The compensation for Members of the Board of Management also includes non-cash benefits and other payments.

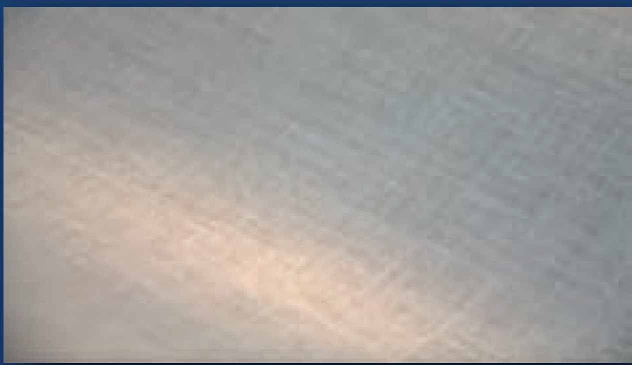
Basic salary

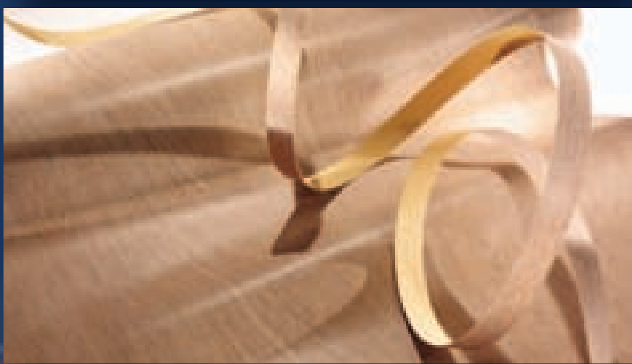
The relevant basic salary of the Members of the Board of Management is paid in equal monthly instalments. The salary for the Chairman of the Board of Management, Mr. Friedhelm Päfgen, and for Board Member Dr.-Ing. Herbert Müller in each case amounted to € 252,000.00 p.a. during the reporting period. Neither of the Members of the Board of Management had undertaken separately remunerated functions as executive officers at the consolidated subsidiary companies.

Bonuses

The remuneration system applicable for the reporting period on the basis of current contracts of service defines a variable bonus which the Supervisory Board defines using equitable discretion and on the basis of the consolidated earnings before taxes

BauschLinnemann





Production location Sassenberg

Edgebandings and flat foils

Number of employees approx. 300

(EBT) – adjusted by any additions/curtailments – in accordance with IFRS, taking account of the return on sales. The variable bonus is directed towards the long term and sustainability. This is achieved by deducting any loss from ordinary activities incurred in any one business year from the applicable basis of assessment for the variable bonus in the subsequent business years until the shortfall has been settled. The bonus assessment is therefore based on a reference period of several years. In each case, the bonus for the business year under review falls due at the end of the subsequent ordinary Annual General Meeting of SURTECO SE.

Non-cash benefits and other payments

The Members of the Board of Management receive fringe benefits in the form of non-cash benefits that fundamentally entail values to be recognized from the tax guidelines for use of a company car and various insurance premiums, as well as payments for provision of surviving dependents. The Board Member Dr.-Ing. Herbert Müller receives an allowance amounting to € 50,000 for private retirement provision. To the extent that the company does not have to pay employer contributions for the members of the Board of Management, each Member of the Board of Management receives an additional remuneration amounting to the relevant employer contributions that have been saved.

D&O insurance

A Directors' and Officers Liability Insurance ("D&O") is provided for the Members of the Board of Management. Pursuant to the requirements of § 93 Section 2 Sentence 3 of the Stock Corporation Act (AktG), the excess (deductible) amounts to 10 % of the loss or damage up to an amount of one and a half times the fixed annual compensation of the Board Member.

Provision for surviving dependents

The contract of service for the Chairman of the Board of Management Mr. Päfgen includes a provision for surviving dependents for the widow in the form of a widow's pension currently amounting to € 66,800 p.a. for life from the seventh month after the month of decease to be paid in equal monthly amounts.

Payments by third parties

During the business year under review, no Member of the Board of Management received payments or equivalent plan benefits from third parties (including companies with which the SURTECO Group maintains business relations) in relation to their activity as a Member of the Board of Management.

Loans to Members of the Board of Management

During the period under review, no advances or loans were granted to Members of the Board of Management of SURTECO SE.

Previous year

The compensation for Members of the Board of Management in the business year 2009 was also primarily performance-based. It comprised a lower fixed element and a predominantly variable element. The variable element was a performance-based bonus and was calculated on the basis of the earnings before taxes (EBT) of the Group in accordance with IFRS, taking the return on sales into account. The total remuneration of the active Members of the Board of Management amounted to € 000s 1,833 for the business year 2009, of which € 000s 504 were attributable to fixed salary, € 000s 1,227 to performance-based bonus and € 000s 102 to other salary elements.
In accordance with § 286 Section 5 German Commercial Code, reporting of information on individual remuneration pursuant to § 285 Sentence 1 No. 9 Letter a Sentences 5 to 9 German Commercial Code (HGB) is not being implemented on account of the resolution of the Annual General Meeting held on 24 June 2008.

The compensation elements for the Board of Management were as follows for the business year 2010:

€ 000s	Basic salary	Performance-based compensation	Non-cash benefits and other payments	Total compensation
Friedhelm Päfgen	252	779	20	1,051
Dr.-Ing. Herbert Müller	252	652	80	984
Total	**504**	**1,431**	**100**	**2,035**

SURTECO Asia

Production location Bintan

Edgebandings

Number of employees approx. 60

Benefits for preliminary termination of employment

The contracts of service currently valid for the Members of the Board of Management automatically come to an end when the period of appointment for the relevant Member of the Board of Management is concluded. If the appointment of a Member of the Board of Management is revoked during the term of their contract of service, the Board Member affected can be placed on administrative leave for the remaining term of the contract and the compensation will continue to be paid. In each case, notice of termination can be served on the contracts of service by both sides for good cause. If a Member of the Board of Management is temporarily incapacitated and unable to work, the basic salary will be paid for a period of up to 12 months. If death occurs during the period of the employment relationship, the heirs of the relevant Board Member have the right to continued payment of the basic salary for the month in which death occurred and ongoing for a period up to an additional six months.

If there is a "change of control", the Members of the Board of Management have the right within the space of 12 months to serve notice on their contract of service to the end of the month specified following the month of their submitting the notice of termination. They are entitled to payment of the outstanding fixed annual remuneration for the remaining term of the contract as a lump sum and an amount in the sum of € 500,000 for each year of the contract term commenced for which a bonus has not yet been paid. In accordance with subsection 4.2.3 of the German Corporate Governance Code, the obligation to make payments arising from the premature termination of the position as Member of the Board of Management shall not exceed 150 % of the cap for severance pay.

COMPENSATION FOR THE SUPERVISORY BOARD

Compensation elements

The compensation for the Members of the Supervisory Board is regulated in § 12 of the Articles of Association. According to these statutes, the Members of the Supervisory Board receive a fixed annual remuneration for their activity amounting to € 3,000 at the end of a business year. The members of the Supervisory Board also receive an additional remuneration of € 400 for each dividend percent of € 1.00 exceeding the rate of 2 percent pursuant to the resolution on appropriation of profit adopted by the Annual General Meeting. The compensation increases by a factor of two times for the Chairman of the Board of Management and by one and a half times for a deputy chairman.

D&O insurance

A Directors' & Officers insurance ("D&O" liability insurance for purely financial losses) is provided for Members of the Supervisory Board. The excess (deductible) amounts to € 50,000 for each insurance claim and year.

Other benefits

Members of the Supervisory Board receive no other amounts in remuneration above the compensation presented above or any other benefits for personally provided services, in particular for consultancy or mediation services.

Compensation for the Supervisory Board 2010

€	fixed	variable	Total
Dr.-Ing. Jürgen Großmann, Chairman	6,000	70,400	76,400
Björn Ahrenkiel, Vice-Chairman	4,500	52,800	57,300
Bernd Dehmel, Deputy Chairman until 24 June 2010	2,160	25,340	27,500
Dr. Markus Miele, Deputy Chairman since 24 June 2010	2,340	27,460	29,800
Josef Aumiller, since 24 June 2010	1,560	18,340	19,900
Karl Becker, since 24 June 2010	1,560	18,340	19,900
Dr. Matthias Bruse	3,000	35,200	38,200
Jakob-Hinrich Leverkus, until 24 June 2010	1,440	16,860	18,300
Martin Miller, until 24 June 2010	1,440	16,860	18,300
Udo Sadlowski	3,000	35,200	38,200
Dr.-Ing. Walter Schlebusch	3,000	35,200	38,200
Thomas Stockhausen	3,000	35,200	38,200
Total	**33,000**	**387,200**	**420,200**

DÖLLKEN PROFILTECHNIK

Döllken-Profiltechnik

Production location Dunningen

Roller shutter systems and technical extrusions

Number of employees approx. 90

Total compensation for the Supervisory Board for the business year 2009 amounted to € 000s 200. In accordance with § 286 Section 5 German Commercial Code, reporting of information on individual remuneration pursuant to § 285 Sentence 1 No. 9 Letter a Sentences 5 to 9 German Commercial Code (HGB) were not implemented on account of the resolution of the Annual General Meeting held on 24 June 2008.

Loans to Members of the Supervisory Board

During the reporting period, no advances or loans were granted to Members of the Supervisory Board of SURTECO SE.

DECLARATION ON CORPORATE MANAGEMENT

The Declaration on Corporate Management pursuant to § 289a German Commercial Code (HGB) in the form of the Corporate Governance Report, the Declaration of Compliance with justification and archive, relevant information on corporate governance practices, the composition and working methods of the Board of Management and the Supervisory Board including its committees, the Articles of Association (statutes), the information on Directors' Dealings, risk management, and the auditor for 2010, can be accessed on the home page of the company by going to www.surteco.com and clicking on the menu item "Explanation of Corporate Management".

ECONOMIC FRAMEWORK CONDITIONS

RECOVERY OF THE GLOBAL ECONOMY GENERATES STRONG GROWTH

The year 2010 witnessed a strong economic upswing across the world. 2009 having been defined by one of the deepest recessions in the post-war period, the economic recovery was so dynamic that the growth forecasts made in the course of the year had to be corrected upwards a number of times. In its World Economic outlook at the end of January 2011, the International Monetary Fund (IMF) calculated growth in the global economy totalling 5.0 % for the year 2010. Government economic stimuli packages and the continued steady upswing in the emerging economies were important in the year 2010 for underpinning the global economic upswing. According to information from the IMF, the industrial nations posted moderate growth at an average of 3.0 %. The increased industrial and private demand provided welcome stimuli. The economy in the USA and Japan grew faster than in Europe (+1.8 %) by 2.8 % and 4.3 % respectively, although information from the Federal Office of Statistics indicates that Germany's economy expanded significantly by 3.6 % in 2010. The IMF calculated that rates of increase posted by the emerging economies were in the region of 7.1 %. China experienced the strongest growth at 10.3 % and consolidated its role as the powerhouse driving the global economy. Development in India and Brazil was also dynamic with increases in growth of 9.7 % and

ECONOMIC GROWTH 2010 IN %

World	+5.0
Industrial states overall	+3.0
of which:	
USA	+2.8
Euro-zone	+1.8
Germany	+3.6
Japan	+4.3
Emerging economies overall	+7.1
of which:	
Central and Eastern Europe	+4.2
Russia	+3.7
China	+10.3
India	+9.7
Brazil	+7.5

Source: International Monetary Fund (IMF), World Economic Outlook January 2011, Federal Statistical Office 12 January 2011

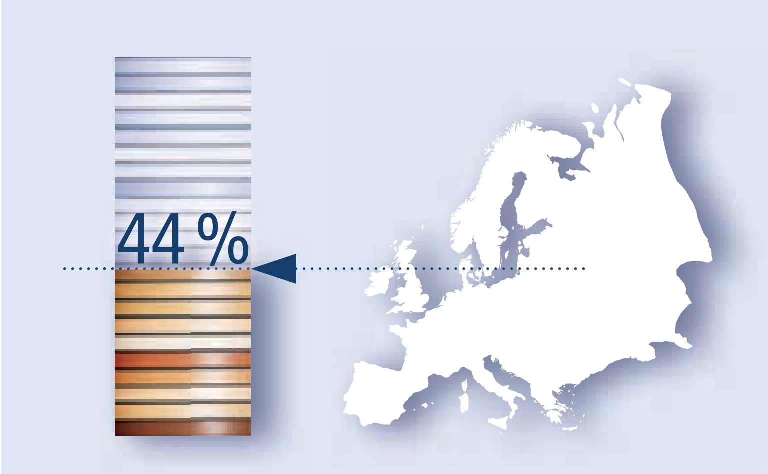
Kröning

Production location Hüllhorst

Edgebandings und flat foils

Number of employees approx. 50

REST OF EUROPE
of sales of the SURTECO Group



7.5 %. The high pace of global growth in the first half of the year meant that the increases in the last two quarters slowed overall. However, the stability of the upswing ensured that the pace of growth eased less than the experts were predicting in the middle of the year.
The boom in orders experienced in many sectors around the globe triggered a new increase in the demand for raw materials. After the significant setbacks in 2009, the prices of raw materials and energy increased significantly as well. The price of oil being quoted at the end of 2010 was over 20 % above the value for the previous year. Most other energy and agricultural raw materials also became more expensive as the year 2010 progressed, and some of the increases were substantial.
The rate of inflation offered a differentiated picture. While the industrial countries, with the exception of Japan, posted a slight upward trend in prices amounting to an average of 1.5 %, which moved within the target corridors of the central banks, prices in the developing countries increased significantly by an average of 6.25 %. Some measures on monetary policy had already been implemented in order to stifle further price rises. Despite the positive developments, the currency prices in the year 2010 remained volatile. The price of the euro at USD 1.34 at the end of the year was 7 % below the comparable year-earlier value.

CHANGE IN TREND IN THE FURNITURE INDUSTRY AND WOOD-BASED SECTOR

The majority of the products manufactured by SURTECO are traditionally supplied to customers from the furniture industry and wood-based sector. This sector experienced satisfactory development in 2010. On account of the general boost to the economy and falling unemployment figures, the moderately optimistic forecasts made by the associations of the German wood and furniture industries (HDH and VDM) were fulfilled. As a result of a significant upturn in export business and a stabilisation in domestic demand, particularly in the second half of the year, the sector generated a 2.2 % increase in sales for 2010 totalling 15.8 billion euros. Domestic and foreign sales recovered in equal measure during the course of 2010. Sales in the German market went up by 2 % to 11.5 billion euros, and foreign sales increased by 2.5 % to 4.3 billion euros. 2009 had still been marked by a sales setback of 11 %. Sales turnover for upholstered furniture and office furniture declined. The situation for household furniture was better with a significant gain of more than 8 %, and kitchen furniture reported a slight increase in sales volume. The conclusion drawn by the Association of the German Wood-based Materials Industry (VHI) also demonstrated a forecast of reserved optimism. A return to an increased flow of orders derived from residential construction exerted a positive effect on sectors related to the construction industry.

SURTECO EXPANDS POSITION IN THE MARKETPLACE

Strategic measures supported the competitive position of SURTECO SE in the reporting year 2010. The takeover of the customer base in the division for fully impregnated foils and edgebandings from "impress decor GmbH" made a significant contribution to sales from the second half of the year. Further developments were the establishment of a sales company in Spain and expansion of production capacity in the USA with the establishment of BauschLinnemann South Carolina.
However, the significant price increases for raw materials exerted a very negative effect during the year under review. This impacted especially on the materials PVC (polyvinyl chloride), PP (polypropylene) and on the heavily used ABS (acrylnitrile butadiene styrol). These materials are particularly important for SURTECO and their purchase prices increased by amounts in the double-digit range during 2010. The speed and magnitude of the price increases could not have been predicted.

SURTECO

SURTECO Canada

Production location Brampton

Edgebandings

Number of employees approx. 140

SALES AND INCOME SITUATION

GROUP SALES INCREASED BY 14 %

SURTECO SE finally left the crisis behind and increased sales in 2010 by € 47.7 million to € 388.8 million. The domestic market posted growth of 5 % to € 127.3 million and growth in foreign business rose by an impressive 19 % to € 261.5 million. In particular, there was a very gratifying upward trend in Europe (apart from Germany) with an increase of 17 %, in Australia (+30 %) and Asia (+33 %). The proportion of foreign sales increased by three percentage points to 67 %.

STRATEGIC BUSINESS UNIT PLASTICS: POSITIVE IMPULSES FROM FOREIGN MARKETS

During the business year 2010, the Plastics returned to growth territory with moderate positive development after a sales setback in 2009. The domestic market registered a slight decline in sales by € 2.6 million to € 71.0 million after unprofitable products were discontinued in the business supplying home improvement stores. However, this was more than compensated by demand on the international front, which rose once more with sales of € 154.9 million (+14 %). Business in Asia and Australia was very positive with both countries registering an increase in sales of 32 %. Market shares in France and Russia continued to expand.

Sales revenues from the plastics segment increased overall by € 15.9 million to € 225.9 million (+8 %).

Edgebandings at 59 % of sales continued to be the main product manufactured by the SBU Plastics, followed by skirtings (11 %) and plastic foils (10 %). Technical extrusions (profiles), claddings, do-it-yourself goods held for resale and other specialist products generated a further 20 %.

31 % of the total sales volume was sold in the domestic market. 37 % were attributable to the rest of Europe, 15 % to America, 10% to Australia and 7 % to Asia. The proportion of foreign sales to total sales increased by 4 percentage points to 69 %.

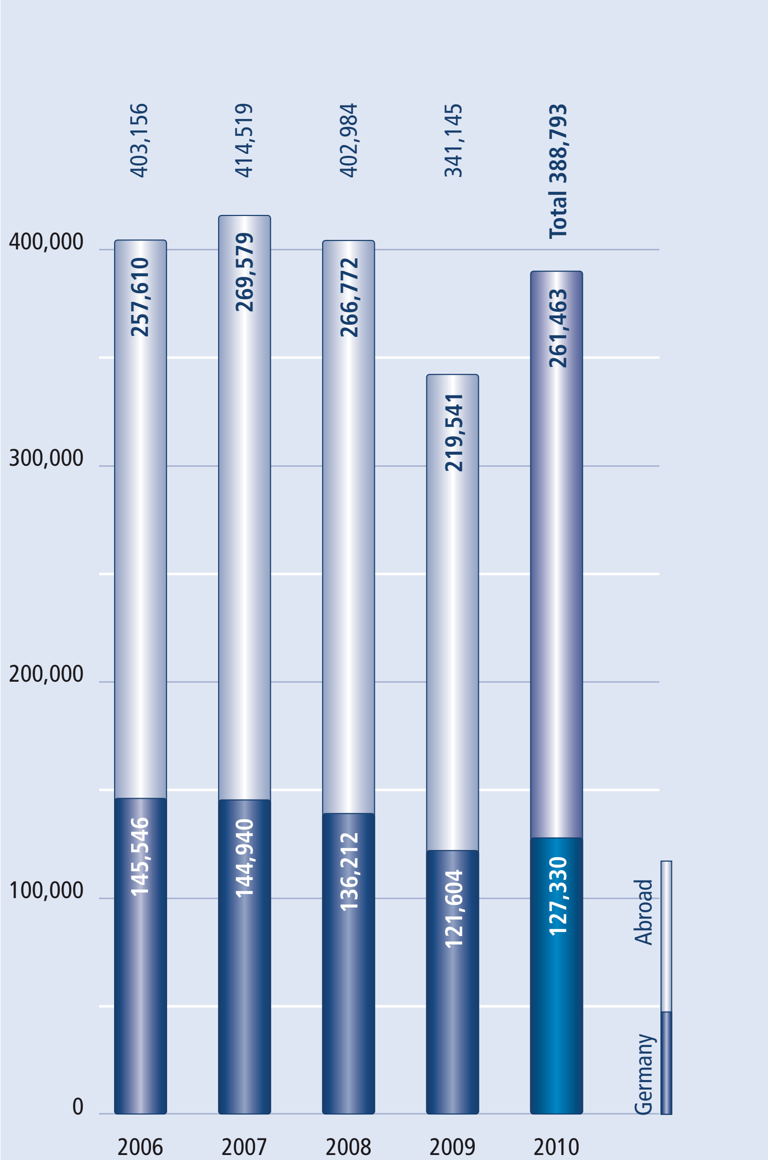
STRATEGIC BUSINESS UNIT PAPER: MARKET CONSOLIDATION WITH EDGEBANDINGS AND FLAT FOILS

The SBU Paper already demonstrated significantly positive development in the first quarter and this continued throughout 2010.

Printed raw papers are sold worldwide to customers for reprocessing. The year opened with a rapid increase in demand, which stabilized over the course of the year. Demand for refined pre-impregnated finish foils rose particularly in the second half of the year. The market for paper-based edgebandings and fully impregnated flat foils has been further consolidated by the takeover of these business lines from impress decor GmbH. Integration of the product lines taken over from impress was carefully planned and prepared by experts from the SBU Paper. This facilitated a smooth takeover of production volumes and ensured continuity of supply for customers.

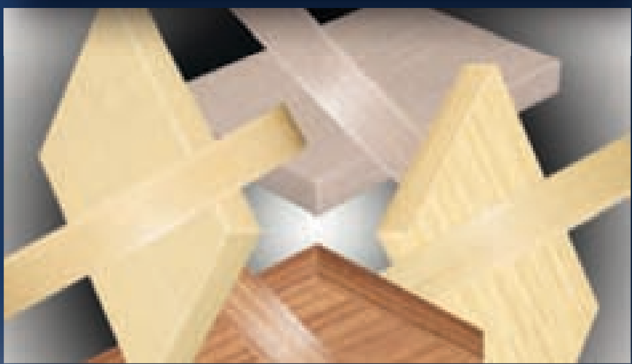
However, the increase in sales by 24 % to € 162.9 million was not simply due to the edgebanding and foil business from impress decor GmbH. Acquisition of new customers and a recovery in export business also made contributions to this success. Foreign sales rose by 28 % to € 106.6 million. The proportion of exports in total sales reached 65 % (2009: 63 %). The markets in America underwent very good devel-

SALES REVENUES in € 000s SURTECO GROUP



SURTECO

SURTECO USA



Production location Greensboro

Edgebandings

Number of employees approx. 80

opment (+28 %) and Asia (+37 %). Once again, the biggest sales market was Europe (without Germany) with a share of 53 % in total sales. Sales in the domestic market amounted to € 56.3 million (+17 %).
2010 witnessed no significant shifts in the product mix. There was a shift to cheaper preimpregnates within the foil segment. The proportion of preimpregnated and fully impregnated flat foils in total sales rose by 3 percentage points to 48 %. Edgebandings accounted for a share of 35 % (2009: 37 %), and the share of decorative prints remained unchanged at 13 %, while other products were 4 %.

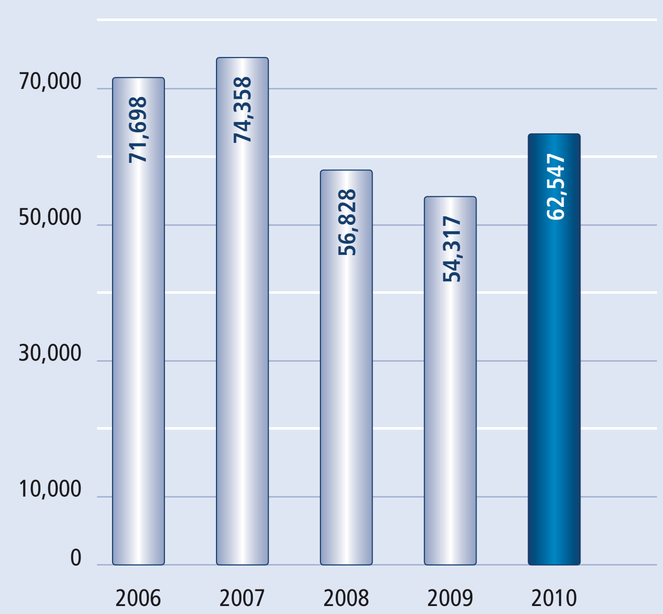
EXPENSES

The expenses for materials rose by 27 % to € 175.3 million. This is equivalent to the cost of materials as a proportion of total output amounting to 44.1 % (2009: 41.5 %). The cost of plastics and raw papers for technical applications increased continuously throughout the year on an unpredictable trajectory. The prices for raw materials in the plastics business lines, such as PVC, PP and ABS reached historic highs. A similar development took place in raw materials for technical applications and chemical products for the SBU Paper. Capacity bottlenecks, long delivery times and a shortage of starting materials with suppliers made the overall situation even more fraught.
As in previous years, the Research and Development Departments worked intensively on developing and testing alternative raw materials, in order to safeguard certainty of supply and generate qualitative advantages and price benefits.
Personnel expenses rose by 9 % to € 100.1 million during the reporting year. In the same period, total output increased by 19 % to € 397.7 million (2009: € 333.4 million), so that the proportion of personnel costs to total output improved from 27.5 % in 2009 to 25.2 % in 2010.
Other operating expenses were € 63.5 million and were 15 % higher than in the previous year.

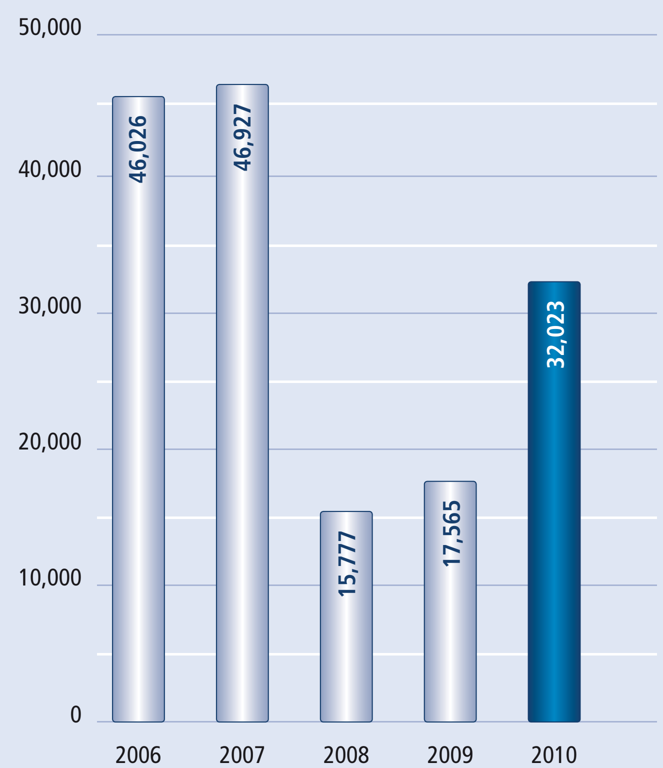
GROUP RESULTS

The operating result (EBITDA) rose by 15 % to € 62.5 million in 2010. The ratio of EBITDA to sales (EBITDA margin) only increased by 0.2 percentage points to 16.1 %, mainly on account of the significant increase in the cost of materials.
Depreciation and amortization were slightly above the level for the previous year at € 20.9 million. EBIT increased by 21 % and reached € 41.6 million. The corresponding margin rose by 0.6 percentage points to 10.7 %.
The pre-tax result (EBT) rose disproportionately by 82 % to € 32.0 million. In 2009, an impairment on the share package in Pfleiderer AG, Neumarkt, held by SURTECO amounting to € 6.0 million had been nec-

EBITDA in € 000s SURTECO GROUP

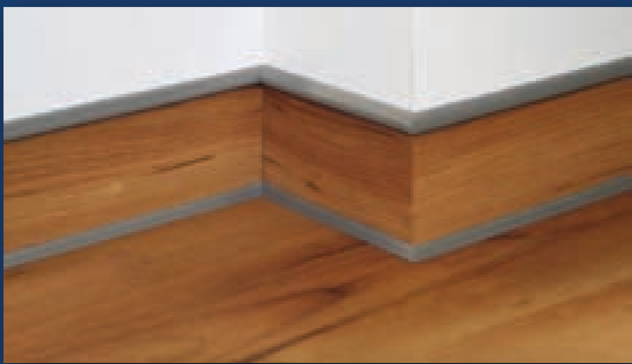


EBT in € 000s SURTECO GROUP



WEIMAR

Döllken-Weimar



Production location Nohra

Skirtings

Number of employees approx. 90

essary, which impacted negatively on the financial result. However, only an impairment of € 0.4 million was required during the period under review and this contributed to a significantly lower negative impact of € -9.6 million (2009: € -16.9 million). Consolidated net profit increased by 135 % or € 12.5 million to € 21.7 million. Earnings per share amounted to € 1.96 (2009: € 0.83) – based on an unchanged number of shares at 11,075,522 no-par-value shares.

RESULT FOR SURTECO SE

Earnings on ordinary activities of SURTECO SE based on the German Commercial Code (HGB) amounted to € 21.4 million during the year under review. This corresponds to an increase of € 4.3 million or 25 % compared with the previous year. Net income for 2010 went up by € 2.1 million or 16 % to € 14.7 million.

DIVIDEND PROPOSAL

The Board of Management and Supervisory Board of SURTECO SE will recommend to the Annual General Meeting of the company to be held on 17 June 2011 in Munich that the net profit amounting to € 10,020,626.05 should be distributed as follows: payment of a dividend per share amounting to € 0.90 (2009: € 0.40). This corresponds to a total amount distributed as dividend of € 9,967,969.80 for 11,075,522 no-par-value shares. € 52,656.25 will be carried forward to the new account.

FINANCIAL POSITION AND NET ASSETS

VALUE ADDED

Net value added ratio increased

The value added underwent extremely gratifying development in the year 2010. Corporate performance increased by 12 % to € 394.8 million. After deduction of advance payments, amortization and depreciation, net value added of € 143.0 million remained, corresponding to a value-added ratio of 36.2 % (2009: 34.6 %).
Apart from expenses for shareholders, employees, the government and interest amounting to € 125.6 million (proportion of net value added: 88 %) € 17.3 million remained in the company (share of net value added: 12 %). The amount corresponds to an increase of € 11.9 million or 216 % compared to the value for the previous year.

CASH FLOW STATEMENT

The significant upswing in business activity resulted in an increase in net assets and liabilities and to cash outflows amounting to € 23.4 million in the year under review. Since cash inflows of € 20.7 million were recorded in the previous year due to the adjustment of working capital to the lower business volume, the cash flow from operating activities amounting to € 39.7 million in 2010 did not reach

VALUE ADDED CALCULATION

	2009 € 000s	in %	2010 € 000s	in %
Sales revenues	341,145		388,793	
Other income	10,685		5,975	
Corporate performance	**351,830**	**100.0**	**394,768**	**100.0**
Cost of materials	-138,385	-39.3	-175,324	-44.4
Depreciation and amortization	-19,892	-5.7	-20,934	-5.3
Other expenses	-71,928	-20.4	-55,555	-14.1
Creation of value added (net)	**121,625**	**34.6**	**142,955**	**36.2**
Shareholders (dividends)	3,876	3.2	4,430	3.1
Employees (personnel expenses)	91,732	75.4	100,068	70.0
Government (taxes)	8,205	6.8	10,244	7.2
Lenders (interest)	12,328	10.1	10,864	7.6
Allocation of value added	**116,141**	**95.5**	**125,606**	**87.9**
Remainung in the company (value added)	**5,484**	**4.5**	**17,349**	**12.1**

BauschLinnemann

Production location Buttenwiesen

Flat foils

Number of employees approx. 110

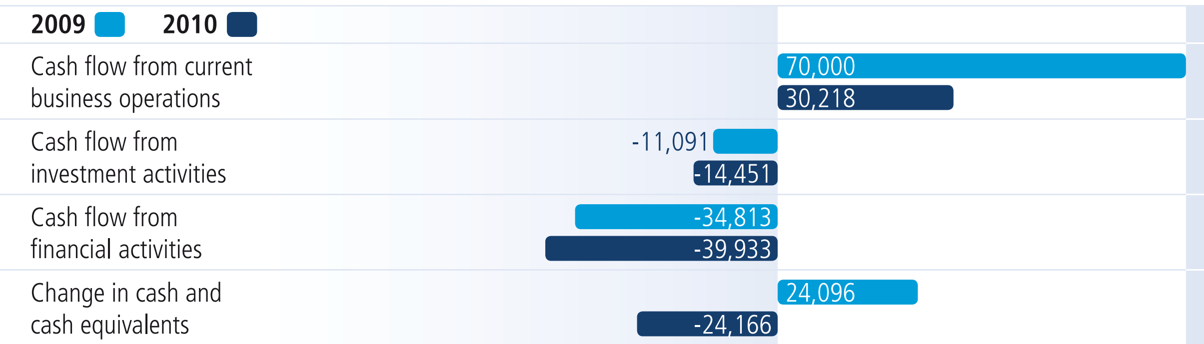
the value from 2009 (€ 76.1 million). The increase in tax payments of € 3.4 million led to cash flow from current business activities amounting to € 30.2 million (2009: € 70.0 million).
Investments continued to be restrained despite the upturn in business and were only made after very careful consideration of the pros and cons. The item "Acquisition of property plant and equipment" (2010: € 10.1 million; 2009: € 9.8 million) therefore remained at the level for the previous year. The item "Acquisition of consolidated companies" relates to BauschLinnemann South Carolina. The increase in cash outflow for intangible assets amounting to € 2.3 million is due to the acquisition of the customer base of the Preimpregnates and Edgebandings Division of impress Decor GmbH. Earnings include funds for investments amounting to € 14.5 million (2009: € 11.1 million).
Cash outflow from financing activities increased by € 5.1 million to € 39.9 million during the year under review. The repayment of short-term and long-term debts amounting to € 26.2 million (2009: € 23.8 million) reduced interest payments by € 1.0 million. Overall, financial resources in the Group have been reduced by € 24.2 million.

EQUITY INCREASES BY € 21.6 MILLION

Equity went up overall by € 21.6 million on account of the increased net income. The equity ratio therefore improved by 4.5 percentage points to 44.3 %.
Cash and cash equivalents came down by € 22.5 million at 31 December 2010 compared with the previous year, while inventories advanced by € 15.3 million and trade accounts receivable rose by € 6.3 million. Current assets overall fell back slightly by € 1.6 million.
Conversely, non-current assets increased by € 1.5 million. The increase in the item "Intangible assets" amounting to € 5.5 million essentially resulted from the acquisition of the customer base of impress decor GmbH in the product groups fully impregnated edgebandings and flat foils.
The fall in current liabilities by € 10.6 million mainly results from a reduction in short-term financial liabilities by € 13.6 million and trade accounts payable by € 3.5 million, as against an increase of other current liabilities by € 7.9 million, which were mainly incurred in conjunction with the Impress Project.
Non-current liabilities were reduced by € 11.2 million mainly as a result of periodic payments.

CHANGE IN FINANCIAL RESOURCES AT 31 DECEMBER

€ 000s



CALCULATION OF FREE CASH FLOW

€ 000s	1/1/-31/12/2009	1/1/-31/12/2010
Cash flow from operating activities	76,152	39,721
Payments for income tax	-6,152	-9,503
Acquisition of property, plant and equipment	-9,802	-10,069
Acquisition of intangible assets	-1,125	-3,423
Proceeds from disposal of property, plant and equipment	208	0
Free cash flow	**59,281**	**16,726**

SURTECO

SURTECO China

Production location Taicang

Edgebandings

Number of employees approx. 40

BALANCE SHEET STRUCTURE OF THE SURTECO GROUP

	31/12/ 2009 € 000s	Percentage in the balance sheet total in %	31/12/ 2010 € 000s	Percentage in the balance sheet total in %
ASSETS				
Current assets	177,917	36.9	176,279	36.6
Non-current assets	303,759	63.1	305,265	63.4
Balance sheet total	**481,676**	**100.0**	**481,544**	**100.0**
LIABILITIES AND SHAREHOLDER'S EQUITY				
Current liabilities	74,098	15.4	63,521	13.2
Non-current liabilities	215,763	44.8	204,584	42.5
Equity	191,815	39.8	213,439	44.3
Balance sheet total	**481,676**	**100.0**	**481,544**	**100.0**

BALANCE SHEET INDICATORS OF SURTECO GROUP

	2009	2010
Capital ratio in %	39.8	44.3
Gearing in %	64	58
Working capital in € 000s	52,301	77,304
Interest cover factor in%	6.3	6.6
Debt-service coverage ratio in %	23.7	34.6

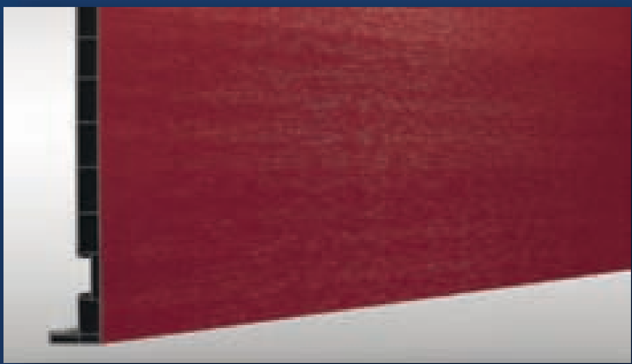
RESEARCH AND DEVELOPMENT

Around 90 employees at SURTECO work on optimizing the product portfolio and launching innovative products and creative applications worldwide. One example of this innovative approach is provided by the SBU Plastics, which has developed an energy-efficient LED endless tape with all-over plastic wrapping in a new production procedure. There are many potential areas for deployment and application, such as identification in emergency escape routes, signal technology and signage lighting in the construction, marine and automotive industries, as well as in advertising. The energy-efficient LED endless tapes can be manufactured in individual lengths. The material is resistant to saline solutions and acids, it can be used in moist and outdoor environments, and it is capable of withstanding significant temperature fluctuations.

The "Fusion-Edge" also developed by the SBU Plastics has become established in the marketplace and is now being manufactured in volume production. Coextrusion is used to create a decorative base layer and a function layer. When the edging approaches the worktop, the function layer is melted by means of the laser energy and then bonds to the board. This guarantees a secure and permanent union with all standard wood-based materials and yields improved results for joint strength, quality of the joint, and joint density. The procedure also delivers a zero visual joint – the overall image is no longer impaired by conventional application of glue. The entire range of colours and decorative designs can also be supplied as the "Fusion-Edge". Since adhesive is no longer required and this reduces tooling and maintenance operations to a minimum, customers derive economic benefits through a higher level of productivity.

Vinylit GmbH is carrying out advanced development on claddings for building facades under the slogan "Protect and Insulate". Intensive research work is currently being implemented on integrating solar modules and thermotransformers for energy generation within facade cladding. Another project involves tackling the issue of cladding for sound abatement walls and improving their visual appeal.

Vinylit Fassaden



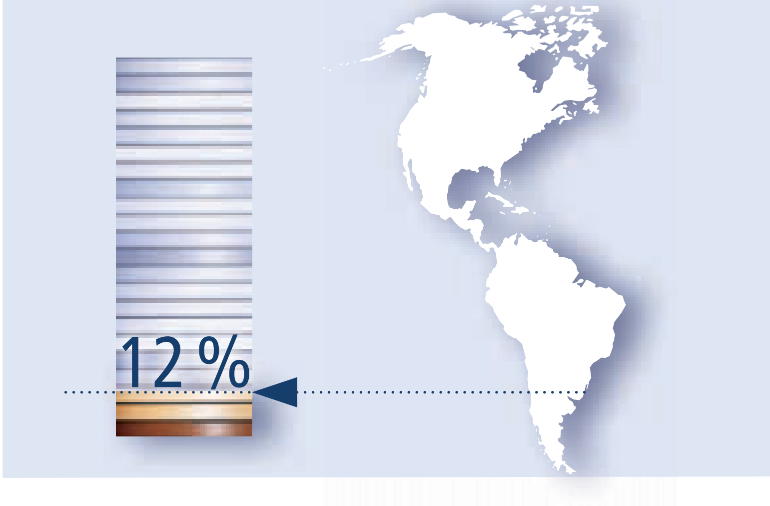
Production location Kassel

Cladding systems and panels

Number of employees approx. 50

Digital printing technology is also playing a role in the design of building facades. It permits cost-effective manufacture of small batches and the use of individual and creative decorative designs.
Research engineers at Gislaved in Sweden are working on replacing traditional varnished industrial products by coating with printed PVC foils. This offers the opportunity to replace complex varnishing techniques by more environmentally friendly coating procedures with finish foils. Essential corrosion protection is accompanied by visual enhancement with decoratively designed surfaces.
The SBU Paper also continued to develop the three-dimensional varnish surface of preimpregnates for use with fully impregnated materials and edgebandings. It is now possible to enhance furniture and interior designs with a highly expressive and tactile surface to create a very high level of similarity with natural materials. The encapsulated layer of varnish means that by comparison with conventional varnished material there are no restrictions on surface resistance and resilience.
The Corulan product family has been expanded by variants designed for new applications. The high level of resistance to wear and tear – originally developed for flooring applications – can now also be used at points subject to high levels of wear and tear in living areas, caravan settings and properties. Resistance is achieved by adding corundum to the varnish. The varnished surface provides an outstanding decorative brilliance and a haptic, tactile surface finish. The options for combinations with products from the range of the SBU Paper permits a perfect design match between diverse areas of applications, such as transition rails, flooring and panelling.
BauschLinnemann GmbH as one of the leading manufacturers has been cooperating with the Institute for Wood Technology Dresden (IHD) and other producers of decorative finish foils to set up the Taskforce "Decorative Finish Foils". This taskforce is formulating uniform testing and assessment principles. The resulting quality guideline will define how environmental and physical characteristics and utility properties should be tested uniformly and recorded. The laboratory carries out testing and allocates the seal "Factory Production Control". This will make it much easier for users to compare the qualities offered.
Research into alternative raw materials and suppliers is becoming increasingly important as a result of the tense procurement situation. The development departments are continually working on increasing productivity and optimising quality and environmental properties.

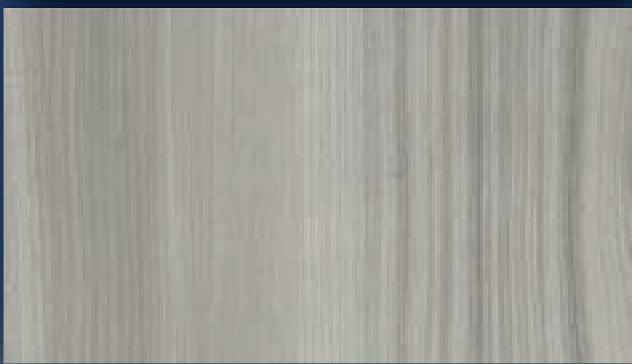
AMERICA
of sales of the SURTECO Group



ENVIRONMENTAL PROTECTION

Long-term protection of the environment combined with saving energy and the associated reduction in greenhouse gases are examples of enduring processes that are being intensively driven forward by the companies in the SURTECO Group.
The companies of the SBU Paper are playing a pioneering role in the market by offering products certified by the FSC (Forestry Stewardship Council). The FSC Seal is the most widespread certification in the wood-based sector and represents sustainable, future-oriented forestry management. It pursues the strategy of environmentally and socially responsible use of wood and wood-based products from all areas of the world. The certification process inspects the complete processing and commercial route – from forestry management to the final product. Important criteria are maintaining the rights of endangered populations and avoidance of negative impacts on the environment, for example by retaining forests with a high conservation value. Products bearing the FSC label safeguard the management of forests in accordance with the social, economic and ecological needs of present and future generations. Certification enables SURTECO to highlight its own commitment to processing in an environmentally sustainable way and only using paper raw materials that have come from environmentally managed forests. It also permits SURTECO's customers to use the FSC Seal.
The use of solvents in the plastics segment is steadily being replaced by environmentally friendly alternatives. This process has succeeded in obtaining global certification with the Greenguard Children and Schools Label for products manufactured by the SBU Plastics. The prestigious Greenguard Institute in Atlanta/USA only confers this attestation on companies falling within the strict maximum limits

Bausch Decor



Production location Buttenwiesen

Decorative printing

Number of employees approx. 140

for chemical emissions and therefore making a key contribution to a healthier climate in interiors.
Production waste materials and rejects are collected and sorted into type-specific materials, shredded, and returned to the production process. The proportion of these recycled materials was again increased during the year under review and this makes a valuable contribution to reducing waste and conserving resources.

PEOPLE AND TRAINING

The economic recovery was reflected in the number of employees. The number of employees had risen by 5 % to 2,003 at 31 December 2010.
In 2010, an average of 1,990 employees were employed at SURTECO. 1,317 were employed at the SBU Plastics (2009: 1.305), 657 were employed at the SBU Paper (2009: 658) and 16 (2009: 16) at the SURTECO holding company. The average age remained virtually constant at 42.0 years (2009: 42.1). The average length of service in the company continued unchanged at 13.5 years. 95 people celebrated their 10th anniversary with the company, 18 people celebrated 25 years with the company and 3 employees were honoured for 40 years of service with the company. The sickness ratio continued at a low level of 3.2 % (2009: 3.4 %). Fluctuation rose by 3.5 % in 2009 to 4.6 % in the year under review, driven mainly by the foreign companies.

The German companies trained 85 young people in a range of different technical and commercial vocations. The training ratio was 6.5 %.

RISK AND OPPORTUNITIES REPORT

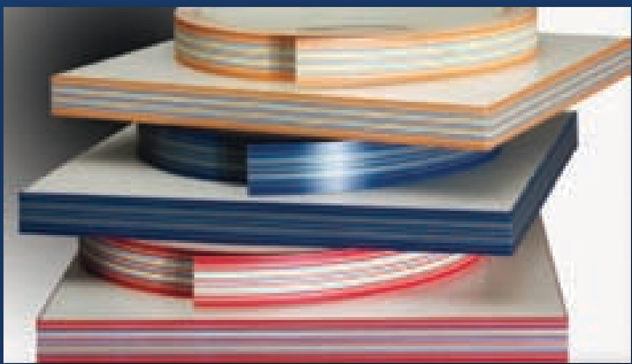
RISK MANAGEMENT SYSTEM

SURTECO SE with its Strategic Business Units Plastics and Paper is exposed to a large number of risks on account of global activities and intensification of competition. A risk is deemed to be any circumstance that can prevent the SURTECO Group from attaining the planned corporate goals. The Group deliberately enters into risks with the aim of ensuring sustainable growth and increasing the corporate value, but avoids unreasonable risks. The remaining risks are reduced and managed by taking adequate measures. Foreseeable risks are covered by taking out insurance policies and deploying derivative financial instruments, if this is feasible at reasonable commercial conditions. However, it is not possible to exclude the possibility that insurance cover or hedging with financial instruments is inadequate in individual cases or that appropriate protection cannot be obtained for specific risks.
The Board of Management of the SURTECO Group is responsible for policy relating to risks and for the internal management and controlling system. The Board of Management works together with the subsidiaries to identify risks. The management of the

EMPLOYEES BY REGIONS

Site	Employees 31/12/2009	Employees 31/12/2010	Change
Germany	1,269	1,306	+37
Canada	139	128	-11
Sweden	124	125	+1
Australia	80	81	+1
USA	64	78	+14
South- and Central America	41	69	+28
Indonesia	47	58	+11
China	33	38	+5
Great Britain	29	32	+3
Italy	28	26	-2
Poland	13	23	+10
France	14	14	-
Turkey	11	14	+3
Singapore	11	11	-
	1,903	**2,003**	**+100**

Canplast Sud/Chile

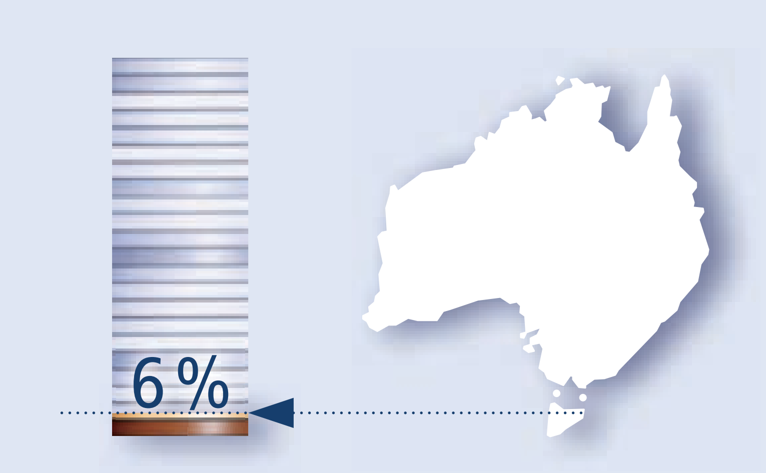


Production location Santiago

Edgebandings

Number of employees approx. 40

AUSTRALIA
of sales of the SURTECO Group



subsidiary companies implements the instructions of the Board of Management and is responsible within this framework for risks that it enters into in the course of its business activities. The management includes the employees in the course of exercising their management functions. The Risk Management Manual applicable throughout the Group defines binding rules and conditions for the risk management process.

The Risk Management System is an integral element within the Group's strategy and planning process. It is made up of a number of modules which are integrated in the entire structural and workflow organization of SURTECO and its subsidiary companies. There is no independent structural organization. In order to measure, monitor and control risks, SURTECO SE uses a detailed controlling system. The controlling system encompasses the key controlling parameters specific to the industry and sector. Apart from regular reporting to the Board of Management and Supervisory Board, managers have a duty to report risks that occur unexpectedly without delay. The usefulness and efficiency of risk management and the controlling systems are monitored internally at regular intervals by the Board of Management and the managers of the subsidiary companies, and externally by the auditor. SURTECO is continually developing measures directed towards risk avoidance, risk reduction and risk hedging while also taking advantage of any business opportunities that arise.

ACCOUNTING-BASED INTERNAL CONTROLLING AND RISK MANAGEMENT SYSTEM (ICS) – REPORT IN ACCORDANCE WITH § 289 (5) AND § 315 (2) NO. 5 GERMAN COMMERCIAL CODE (HGB)

The ICS comprises the accounting-based processes and controls which are significant for consolidated financial statements. The SURTECO Group bases the structure of its internal controlling system on the relevant publications of the Institute of Auditors (Institute der Wirtschaftsprüfer, IDW). There were no significant amendments to the account-based ICS between the balance sheet date and the preparation of the management report.

The preparation of the accounts and the financial statements is primarily carried out locally and in accordance with local standards. The consolidated financial statements are drawn up in accordance with the International Financial Reporting Standards (IFRS). A uniform chart of accounts and the use of an accounting manual form the basis for these documents. The Group holding company supports the companies as a central service provider on issues relating to accounting and manages the consolidated accounting process.

The subsidiary companies are included in the consolidated financial statements using an integrated accounting and consolidation system and on the basis of reporting packages. Consolidation is initially carried out as a multistage process at the level of the subsidiary companies, then at the level of segments and finally at Group level. The consolidated financial statements are prepared using a permanent structured process based on a calendar for the financial statements.

The plausibility of the figures is ensured at every level by manual and systematic checks. Transparent responsibilities and access rules for IT systems relevant to the financial statements are significant elements in this process. The controlling principles of separation of functions, four-eyes principle and approval and release procedures are applied to the annual financial statements and the consolidated financial statements. Information from external service providers is checked for plausibility.

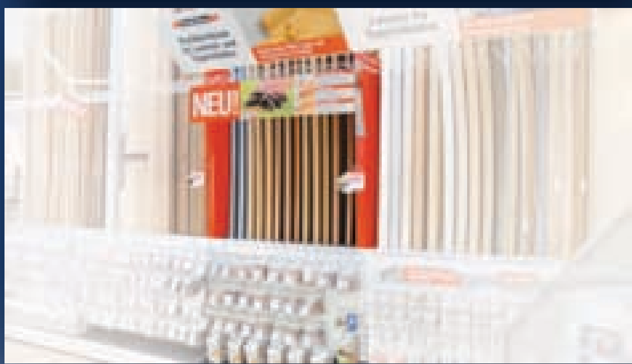
STRATEGIC CORPORATE RISKS AND OPPORTUNITIES

MACROECONOMIC RISKS AND MARKET RISKS

The development of the business of SURTECO depends significantly on macroeconomic conditions on account of the global nature of the business activities and the high level of foreign sales. In particular, the development of the furniture sector and construction industry in the relevant countries correlates with the business development of the Group. During the past, no uniform economic cycle for the global furniture and construction could be identified – in contrast to the financial and economic crisis. This meant that fluctuations in individual countries could partly be compensated by the international structure of the Group.

In the market supplying coating products for the furniture industry and interior design, a local presence and cost leadership are key factors for market positioning and economic success. This entails establishing a product portfolio that meets the needs of the market and absolute control of the operating

Döllken-Weimar



Production location Bönen

Skirtings

Number of employees approx. 50

processes and costs. SURTECO is well positioned with 16 production sites and 16 additional sales sites to supply customers quickly across the world and identify trends in regional markets at an early stage.
The quantitative and qualitative findings are recorded and evaluated in a differentiated internal reporting system. Any deviations from budgets, the feasibility of planning goals and exposure to new monetary and non-monetary risks are highlighted and analyzed. The business is then managed on the basis of the results of reporting.
The macroeconomic environment underwent a recovery in 2010. However, the global rise in prices of raw materials means that the upswing could falter in the course of this business year. Especially in Germany, the construction industry and furniture sector is seeing a moderate increase in demand driven by the rising number of planning approvals for construction and the accelerating pace of the economy. An upturn in construction activity has not yet started in industrial countries like the USA, Canada and Spain and no significant upward movement is anticipated in the next few years.

COMPETITIVE RISKS

The appearance of new local competitors and the increasing manufacturing depth among decorative printers over recent years have resulted in excess capacities which could exert negative impacts on sales revenues. The increasing costs of raw materials will intensify competitive pressure still further. SURTECO is meeting the intensive pressure on prices by expanding and strengthening the existing business, developing innovative products, and not least further increasing efficiency and enhancing control of costs.

OPERATING RISKS

PROCUREMENT RISKS

SURTECO SE is dependent on outsourcing from other providers for the procurement of semi-finished products and services. Inclusion of third parties in the equation creates risks such as unexpected supply difficulties or unforeseeable price increases resulting from market bottlenecks or currency effects, which could impact negatively on results. The Group meets risks associated with supply by a process of continuous material and supplier management. The measures involve monitoring the market intensively, carrying out in-depth quality inspection on the basis of jointly agreed specifications and arranging supply contracts. The continual increase in raw-materials and energy costs presents a spiralling risk. Following the demand-led price increases in 2010 for almost all raw materials, a further increase in the prices of plastics, technical papers and chemical products is highly likely in 2011. This will inevitably lead to additional costs in the manufacturing sector, and further financial impacts can only be compensated by price increases.

IT RISKS

Ensuring secure operation of all business processes requires constant monitoring and adaptation of the information technologies used in the Group. Against the background of a growing potential for risk based on increasing integration of computer-supported business processes in communication between the Group companies and in communication with customers, suppliers and business partners, ongoing development of the measures used to make information secure are a top priority. Risks relating to the availability, dependability and efficiency of the IT systems are limited by the ongoing measures SURTECO adopts to harmonize our systems with prevailing conditions and requirements. The Group reacts selectively to increased demands placed on the security of our systems within the scope of comprehensive security management. These measures also include implementation of uniform software systems within which all production-related and commercial aspects are integrated and processed efficiently.

PERSONNEL RISKS

The success of the company is closely associated with provision of qualified staff at all levels. Shorter innovation cycles and increasingly international links place ever more stringent demands on the capabilities of specialist and management staff. In order to safeguard the necessary qualifications in the relevant functions and countries, members of staff at SURTECO receive regular career training both inside the company and with external providers.

PRODUCTION RISKS

The continuous improvement process ensures that potential for efficiency increases can be identified and implemented continuously. Furthermore, production procedures, manufacturing technologies, machinery assets and workflows are continually being developed and optimized. Systems and equipment are maintained and serviced to a high standard and employees receive intensive training. If customers make complaints, the causes of complaint are carefully researched. The environmental safety of products and production is ensured by environmental officers.

FINANCIAL RISKS

INTEREST AND CURRENCY RISKS

The global nature of the business activities of the SURTECO Group results in delivery and payment flows in different currencies. Conversion of business figures and balance sheets from foreign subsidiaries

SURTECO

SURTECO Australia

Production location Sydney

Edgebandings

Number of employees approx. 80

into euros may entail risks which can only be hedged to a certain extent.
Interest risks are mainly incurred for short-term financial liabilities. The majority of long-term financial liabilities are structured with fixed-interest rates. SURTECO SE meets the remaining interest and currency risks by hedging positions with derivative financial instruments and regular and intensive observation of a range of early-warning indicators.
In order to limit exchange-rate risks associated with changes in interest rates, the Group operates a policy of systematic currency and interest management. This is controlled centrally by the holding company in Germany.

LIQUIDITY RISKS

Corporate Treasury monitors and controls the development of liquidity for the major subsidiary companies. This provides an up-to-date picture of liquidity development at any time. The high levels of free cash flow and the short payment targets mean that SURTECO has adequate liquid funds continuously available. There is also the option of drawing on open credit lines.
Nevertheless, there is a risk that earnings and liquidity can be compromised by default on accounts receivable and non-compliance with payment targets. The company counters this risk by regularly reviewing the credit rating of contracting parties and carefully monitoring default with customers. The risk arising from debit balances in accounts payable is low on account of the broadly based customer structure and cover provided by appropriate trade credit insurance policies.

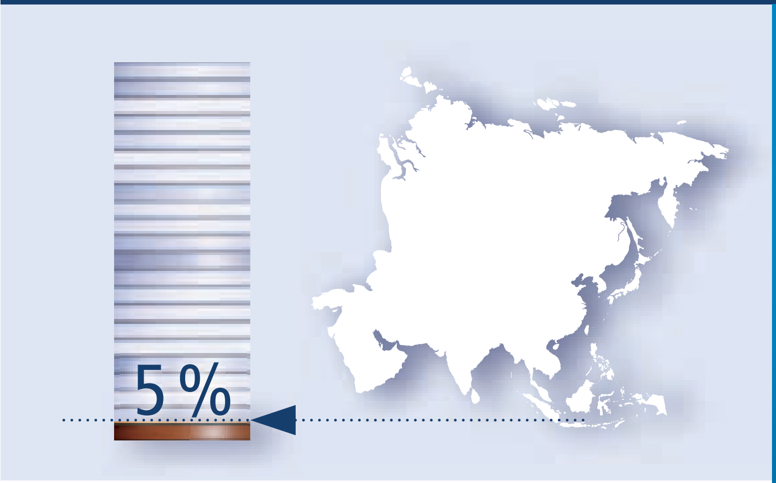
FINANCING RISKS

The refinancing of the Group and the subsidiary companies is generally carried out by SURTECO SE. The majority of the Group's financial liabilities have residual terms of more than five years (see also maturity structure in the Notes to the Consolidated Financial Statements item 23) and is structured with fixed interest rates. Repayment of significant long-term loans is not necessary in the business year 2011. The Group operates with a wide range of lenders comprising insurance companies and banks. Financial indicators were agreed with lenders at standard market conditions in loan agreements and these have to be met by SURTECO.

FLUCTUATIONS IN VALUE FOR SECURITIES/DERIVATIVES AND PARTICIPATIONS

SURTECO SE has a shareholding in Pfleiderer AG, Neumarkt, represented by a share package amounting to 2.74 % of the capital stock. Impairments on the share package amounting to € 11.5 million (2008), € 6.0 million (2009) and € 0.4 million (2010) have been carried out on account of the massive losses due to falling share prices. The book value of the shares held amounted to € 3.9 million on 31 December 2010. The possibility of further impairments cannot be excluded in future.
The SURTECO Group recognizes goodwill in the balance sheet. The values in use of the cash generating units were assessed as being higher than the book values within the scope of the impairment tests for the business year 2010. As a consequence, no impairments were carried out. However, the possibility that planned targets may not be reached in the future cannot be excluded and that a requirement for carrying out an impairment may arise.
The derivative financial instruments concluded by the Group for hedging purposes and in order to reduce risks are valued on a monthly basis. If there are significant fluctuations in underlying values such as interest rates, this may exert a negative impact on the earnings of the Group. Item 28 in the Notes to the Consolidated Financial Statements provides detailed information on the derivative financial instruments of the Group.

ASIA
of sales of the SURTECO Group



RISKS FROM CORPORATE GOVERNANCE/COMPLIANCE

Changes in supervisory requirements, customs regulations or other barriers to trade, as well as possible restrictions on price or foreign currency could impact negatively on sales and profitability.

The companies in the Group have formed adequate provisions to meet warranty claims. Part of the warranty risks have been covered by commercially effective insurance policies. Risks are reduced by the high level of production certainty, and the outstanding quality standard for the products manufactured by the SURTECO Group acts to reduce risk. SURTECO is not currently involved in any court or arbitration proceedings that could exert a significant influence on the commercial situation of the Group.

OVERALL RISK ASSESSMENT

SURTECO regularly monitors the achievement of business goals, as well as the risks and risk limitation measures. The Board of Management and Supervisory Board are informed of any risks at an early stage. The risk early warning system was reviewed in the course of the audit of the annual financial statements by RöverBrönner GmbH & Co. KG. It meets all the statutory requirements for this kind of system. There are no risks which alone or in combination with other risks could pose a threat to the continued existence of the company as a going concern. Future risks posing a threat to the continued existence of the company as a going concern cannot currently be identified.

An overall analysis of all risks shows that the main risks relate to market risks. These include developments relating to price and volume due to economic conditions prevailing in customer industries or sectors, and in the procurement markets.

The opportunities and risks described can exert a significant effect on the net assets, financial position and results of the Group's operations. Additional risks that are unknown at the moment and that are believed to be very low at the current point in time could also impact negatively on business activities.

INFORMATION PURSUANT TO § 289 AND § 315 GERMAN COMMERCIAL CODE (HGB)

CAPITAL STOCK

The unchanged capital stock of SURTECO SE amounts to € 11,075,522.00 and is divided into 11,075,522 no-par-value bearer shares (ordinary shares). Each share grants one vote at the Annual General Meeting of the company. Apart from statutory restrictions in specific cases, there are no restrictions on the voting right. There are no varying voting rights.

POWERS OF THE BOARD OF MANAGEMENT TO ISSUE SHARES

The Board of Management is authorized to increase the capital stock of the company once or in several stages by overall up to € 1,100,000.00 with the consent of the Supervisory Board by the issue of no-par-value bearer shares for a cash consideration (Authorized capital I) and once or in several stages by overall € 4,400,000.00 by the issue of no-par-value bearer shares for a cash or non-cash consideration (Authorized capital II). Reference is made to the notes to the consolidated financial statements (item 25) or the notes of SURTECO SE (item 5) for further information on the capital stock.

RESTRICTIONS ON VOTING RIGHTS AND SHARE TRANSFERS

The Board of Management is aware that shareholders of SURTECO SE have joined together to form an association under civil law entitled "Share pool SURTECO". The objective of this pool is to jointly exercise the voting rights of 6,131,475 no-par-value shares in SURTECO SE (status 1 January 2011). Dispositions over shares in SURTECO SE are only permissible in accordance with the conditions of the pool agreement or with the consent of the other pool members.

DIRECT OR INDIRECT PARTICIPATIONS GREATER THAN 10 % OF THE VOTING RIGHTS

The following shareholders have notified us of a direct or indirect participation in our company that is greater than 10 % of the voting rights:

Name, place	Voting rights in %
1. Mr. Claus Linnemann	11.7990
2. Mr. Jens Schürfeld	11.9306
3. Klöpfer & Königer Management GmbH*, Garching	22.5965
4. Klöpfer & Königer GmbH & Co. KG*, Garching	22.5965

* The shares of the subsidiary company Klöpfer & Königer Management GmbH are attributable in the amount of 100 % to the parent company Klöpfer & Königer GmbH & Co. KG. The publication of the participation is obligatory for both companies, although the same shares are involved.

APPOINTMENT AND DISMISSAL OF MEMBERS OF THE BOARD OF MANAGEMENT

The appointment and dismissal of Members of the Board of Management is carried out pursuant to §§ 84 f. Stock Corporation Act (AktG). Changes to the Articles of Association are made in accordance with the regulations of §§ 179 ff. Stock Corporation Act (AktG).

"CHANGE OF CONTROL" CLAUSE

If there is a "change of control", the Members of the Board of Management have the right within the space of 12 months to serve notice on their contract of service to the end of the month specified following the month of their submitting the notice of termination. They are entitled to payment of the outstanding fixed annual remuneration for the remaining term of the contract as a lump sum and an amount in the sum of € 500,000 for each year of the contract term commenced for which a bonus has not yet been paid.

FOLLOW-UP REPORT

The beginning of 2011 continued to post very positive sales development and the rates at which improvement progressed proved to be even higher than in the reporting year 2011.

As far as the result is concerned, it should be borne in mind that a further impairment amounting to € 1.3 million had to be carried out at the end of the first quarter of 2011 for the package of shares held by SURTECO in Pfleiderer AG, Neumarkt, due to the development in the exchange rate. The book value of the shares amounted to € 2.6 million on 31 March 2011. Furthermore, an additional increase in the cost of materials ratio must be assumed. Overall, it should be assumed that both factors will impact negatively on the result for the first quarter of 2011.

When this Annual Report went to press, there were no other events of special significance that will exert an effect on the net assets, financial position, and results of operations of SURTECO SE.

OUTLOOK REPORT

EMERGING ECONOMIES CONTINUE TO DRIVE GLOBAL ECONOMIC GROWTH IN 2011

The forecasts of the experts for the year 2011 assume that the prospects for the economy will continue to remain positive across the world. Overall, however, growth is likely to be more restrained than in the year 2010 both in the industrial countries and in the emerging economies. The International Monetary Fund (IMF) expects an overall increase of 4.4 %. A more dynamic increase (+6.5 %) is again forecast for the emerging economies compared with the industrial nations (2.5 %). An increase of 3.0 % is predicted for the USA and a rise of 1.6 % was forecast for the Japanese economy, although this was before the catastrophic events occurred. The expectations for Europe assume economic growth of 1.5 %. Structural economic problems are dampening development in many countries in Europe. The need for consolidation in most of the countries affected by the debt crisis is another factor. Germany is again likely to be in a position to generate a positive increase of 2.2 % on account of the strong dependence on export business in 2011. The surprisingly strong growth in 2010 and the falling rate of unemployment should ensure that domestic demand starts to gather pace in the current year.

The success story being written by the countries in South-east Asia is continuing in 2011. The IMF is predicting expansion of 8.4 % for the national product in these countries, which continue to be led by China (+9.6 %). While the increase in prices in the emerging economies is likely to slacken somewhat to 5 % on account of the fiscal policies being pursued, the industrial countries will be able to continue operating in an environment with relatively stable prices (+1.5 %).

Despite the increasing stabilization of the positive economic environment, experts perceive significant risks in the future. The biggest risk currently being projected by all economists is the level of government debt in key industrial countries, such as the USA and Japan. This debt has assumed massive proportions in some of these countries. The debt crisis in some European countries is also a matter of concern. Reforms therefore need to be undertaken, most importantly directed towards improving fiscal discipline. In addition, the IMF continues to identify risks arising from economic inequalities across the world. These result from the high levels of growth in the emerging economies and the problems that various industrial nations have brought on themselves. Reinstatement of a global equilibrium is therefore an important basic requirement for a healthy and sustainable upturn in the global economy.

IMF GROWTH FORECASTS FOR 2011 IN %

World	4.4
Industrial countries total	2.5
of which:	
USA	3.0
Euro-zone	1.5
Germany	2.2
Japan	1.6
Emerging economies total	6.5
of which:	
Central- and Eastern Europe	3.6
Russia	4.5
China	9.6
India	8.4
Brazil	4.5

Source: International Monetary Fund (IMF), World Economic Outlook January 2011

WOOD-BASED SECTOR AND FURNITURE INDUSTRY PROJECT MODERATE UPSWING IN DEMAND

Stabilization of development in the year 2010 gives the German wood-based sector and furniture industry grounds for modest optimism for 2011. The associations of the German wood and furniture industries (VDM and HDH) are projecting a slight growth in sales from 2 to 3 %, even though currency fluctuations and the tangible upward trend for raw material prices entail a potential risk. Key factors for the upward trend are the stable employment market with a steady decline in unemployment figures and the rising level of disposable income for consumers. The reinvigorated new-build business combined with the ongoing low level of mortgage interest rates should exert a positive effect on domestic demand.

Exports should again continue to play a supportive role in 2011. After German kitchen furniture, shop fittings and furniture, and other seating furniture enjoyed increased exports to foreign customers measured in the double-digit percentage range during the course of 2010, the Association of the German Furniture Industry (VDM) is continuing to forecast steady growth for foreign business in a sustained positive economic environment.

ECONOMIC UPSWING COUNTERACTS DEVELOPMENT IN PRICES OF RAW MATERIALS

The recovery in the employment market and the rise in the number of planning approvals in the construction sector are likely to continue to exert a positive effect on consumer attitudes in Germany. The predictions in exports also give grounds for optimism. Stable demand can therefore be assumed for the business year 2011.

The continuation of drastic price increases and shortages for raw materials is already foreseeable. Intensification of tough competition on price is also predictable for the sectors supplied by SURTECO.

Internal efforts to optimise costs are being continued in all sectors of the company with relentless zeal. The focus of these measures is enhancement of productivity, streamlining processes and systems, and a high level of discipline in costs and investments.

This approach is the only way to succeed in achieving an improvement in results alongside the projected growth in sales.

CALCULATION OF INDICATORS

Cost of materials ratio in %	Cost of materials/Total output
Debt-service coverage ratio in %	(Consolidated net profit + depreciation)/Net debt
Dividend yield at year end in %	Dividend per share/Year-end share price
Earnings per share in €	Consolidated net profit/Number of shares
EBIT margin in %	EBIT/Sales revenues
EBITDA margin in %	EBITDA/Sales revenues
Equity ratio in %	Equity/Total equity (= balance sheet total)
Free cash flow in €	Cash flow from operating activities - (Payments for income tax + acquisition of property, plant and equipment + acquisition of intangible assets) + Proceeds from the disposal of property, plant and equipment
Gearing in %	Net debt/Equity
Interest cover factor in %	EBITDA/(Interest income - interest expenses)
Market capitalization in €	Number of shares x Closing price on the balance sheet date
Net debt in €	Short-term and long-term financial liabilities - Cash and cash equivalents
Personnel expense ratio in %	Personnel costs/Total output
Return on equity in %	Consolidated net profit/Equity without minority interests after appropriation of profit
Return on sales in %	(Consolidated net profit + income tax)/Sales
Total return on total equity in %	(Consolidated net profit before income tax and interest expense)/Total equity (= balance sheet total)
Value added in €	(Sales revenues + other income) - (Cost of materials + Depreciation and amortization + other expenses)
Value added ratio (net) in %	Value added (net)/Corporate performance
Working capital in €	(Trade receivables + inventories) - Trade liabilities

THE SURTECO SHARE

EQUITY MARKETS CONTINUED TO GATHER PACE IN 2010

The stock exchange in 2010 was defined by continuation of the global economic recovery process. The market players recorded their confidence in the stability of the upturn. After the equity markets had already made significant progress in the crisis year 2009, despite the economic volatility in the second half of the year, most of the world's stock markets ultimately continued to record gains overall in 2010, some even in the double-digit range. And this was after the start of 2010 was anything but promising. However, following share price losses during the initial months of the year, a significant upward trend set in towards the middle of the year. A volatile phase followed in the third quarter in which most prices tended to move sideways. Lack of confidence in the sustainability of growth, the high level of government debt in Europe, and the associated difficulties of individual members of the euro-zone exerted a negative influence. While the crisis of the European currency continued to simmer, opinions about the continuity of the upturn solidified in the last quarter so that most share prices underwent dynamic upward development. The DAX was the most successful benchmark index in Europe. On 30 December 2010 it closed at 6,914 points and thereby registered an increase of 16.1 % over the value of the year-earlier reference date. Small and mid-sized listed German companies developed even more favourably. The MDAX increased by 34.9 % over the course of the year while the SDAX posted an impressive rise of 45.8 %. Many stock markets in Asia and on the American continent also closed the year 2010 with substantial gains. The equity markets in many emerging economies were dominated by high price advances.

SURTECO SHARES WENT UP BY ALMOST ONE THIRD IN 2010

After the SURTECO share price had already virtually doubled in 2009, it kept pace with the generally positive stock-market development in the reporting year 2010 and posted a significant price increase of 32.2 % in a year-on-year comparison. Overall, the price performance was characterized by major fluctuations in the stock-market year 2010. Restrained consumer behaviour delivered few stimuli for business in the furniture sector, and the SURTECO share experienced a relatively weak start to the year 2010. In January, the share hit its lowest point during the reporting period at € 15.65. In the second quarter, the price followed the market trend as a more optimistic sentiment set in and rose by more than 20 % to above € 20. The third quarter was defined by a contrarian development of the share. Contrary to the upward trend of sales markets, SURTECO shares lost six percent of their value. A rally in stock markets set in from October which continued to the close of the year. In this environment, the SURTECO share was able to make significant headway. The share closed the year at 26.42 euros on 30 December.

MARKET CAPITALIZATION INCREASED

The price rises over the period under review meant that the market capitalization of the company improved significantly from € 221.4 million to € 292.6 million with the number of shares remaining unchanged at 11.1 million no-par-value shares during the year under review.
SURTECO continues to retain the objective of being included in the SDAX over the medium term. In the ranking of Deutsche Börse AG, which relates to Prime Standard companies that are not included in the TecDAX or DAX30, SURTECO was ranked in position 117 by market capitalization (based on free float) and in position 132 by trading volume at the end of December 2010. SURTECO would have to be ranked in the top 110 in order to meet the two criteria for inclusion in the SDAX. The shareholder structure of the company is stable. At the close of 2010, founding shareholders continued to hold 77.4 percent of the shares. The remaining 22.6 percent were in free float.

DIVIDEND INCREASED ONCE AGAIN

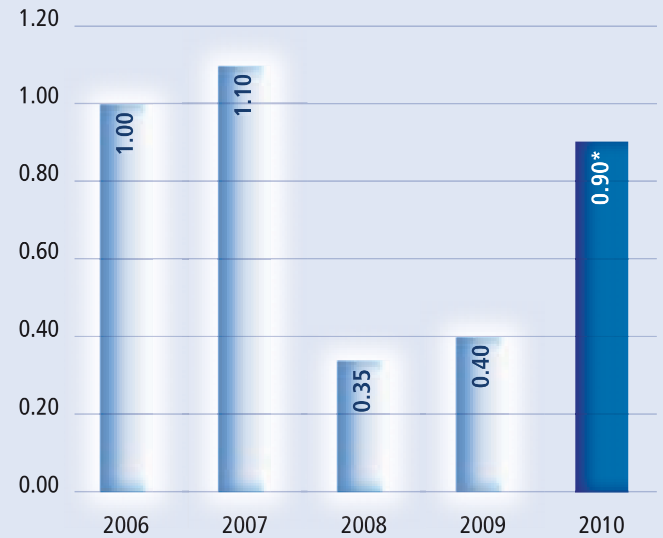
In view of the improved macroeconomic situation and the resulting positive business, the Board of Management and the Supervisory Board will propose a dividend of € 0.90 per share to the Annual General Meeting. This is € 0.50 higher than the dividend distributed in the previous year. Despite the difficult economic environment, SURTECO already paid its shareholders a dividend increased by € 0.05 compared with the previous year at € 0.40 per share even in the business year 2009.

TRANSPARENCY IS THE FOCUS OF INVESTOR RELATIONS WORK

Open and transparent communication with all the players in the capital market is a top priority for the Board of Management of SURTECO SE. Personal interviews with investors and analysts, and presentations at capital market conferences in Germany and in the international arena are a regular feature on the agenda of the Investor Relations team. All information on the company can be accessed on the Internet pages of SURTECO SE (www.surteco.com). The Investor Relations Department can also be contacted directly at any time using the contact details printed on the back cover of the Annual Report.

Share price performance 2010 in €

Development of the dividend 2006-2010 in €



* Proposal by the Board of Management and Supervisory Board

SURTECO SHARES

€	2009	2010
Number of shares	11,075,522	11,075,522
Price at start of year	10.20	19.99
Year-end price	19.99	26.42
Price per share (high)	22.55	26.42
Price per share (low)	6.35	15.65
Stock-market turnover in shares per month	79,198	34,733
Market capitalization at year-end in € 000s	221,400	292,615
Free float in %	22.6	22.6

SHAREHOLDER INDICATORS FOR THE SURTECO GROUP

€ 000s	2009	2010
Sales	341,145	388,793
EBITDA	54,317	62,547
EBIT	34,425	41,613
EBT	17,565	32,023
Consolidated net profit	9,239	21,705

SHAREHOLDER INDICATORS OF THE SURTECO GROUP PER SHARE

€	2009	2010
Earnings	0.83	1.96
Dividend	0.40	(Proposal by the Board of Management and Supervisory Board) 0.90
Dividend yield at year-end in %	2.0	3.4

INDICATORS OF THE SHARE

Type of security	No-par-value share
Market segment	Official market, Prime Standard
WKN	517690
ISIN	DE0005176903
Ticker symbol	SUR
Reuter's ticker symbol	SURG.D
Bloomberg's ticker symbol	SUR
Date of first listing	2/11/1999

CONSOLIDATED FINANCIAL STATEMENTS

2010

CONSOLIDATED INCOME STATEMENT

€ 000s	Notes	1/1/-31/12/ 2009	1/1/-31/12/ 2010
Sales revenues	(1)	**341,145**	**388,793**
Changes in inventories		-8,628	8,035
Own work capitalized	(2)	892	887
Total		**333,409**	**397,715**
Cost of materials	(3)	-138,385	-175,324
Personnel expenses	(4)	-91,732	-100,068
Other operating expenses	(5)	-55,054	-63,524
Other operating income	(6)	6,079	3,748
EBITDA		**54,317**	**62,547**
Amortization and depreciation	(15)	-19,892	-20,934
EBIT		**34,425**	**41,613**
Interest income		3,714	1,340
Interest expenses		-12,328	-10,864
Other financial expenses and income		-8,246	-66
Financial result	(7)	-16,860	-9,590
EBT		**17,565**	**32,023**
Income tax	(8)	-8,205	-10,244
Net income		**9,360**	**21,779**
Group share (consolidated net profit)		9,239	21,705
Non-controlling interests		121	74
Basic and diluted earnings per share (€)	(9)	0.83	1.96

STATEMENT OF COMPREHENSIVE INCOME

€ 000s	1/1/ - 31/12/2009				1/1/ - 31/12/2010			
Net income				**9,360**				**21,779**
Difference from currency translation								
Currency differences from hedges of a net investment	1,338				3,221			
Tax effect	-395				-955			
Change in the amount recorded in equity		943				2,266		
Currency translation of foreign operations		4,493				6,869		
Change in the amount recorded in equity			**5,436**				**9,135**	
Actuarial gains/losses								
Change in actuarial gains/losses		-639				-133		
Tax effect		190				39		
Change in the amount recorded in equity			**-449**				**-94**	
Financial instruments available-for-sale								
Market value of financial instruments available-for-sale		5,280				-5,602		
Change in market value of cash flow hedges	-6,521				1,052			
Tax effect from change in market value of cash flow hedges	1,920				-310			
Reclassification amounts in the income statement	-196				-203			
Tax effect on reclassification amounts	61				63			
		-4,736				602		
Change in the amount recorded in equity			**544**				**-5,000**	
Other Comprehensive Income for the year				**5,531**				**4,041**
Comprehensive Income				**14,891**				**25,820**
Group share				14,770				25,746
Non-controlling interests				121				74

CONSOLIDATED BALANCE SHEET

€ 000s	Notes	31/12/2009	31/12/2010
ASSETS			
Cash and cash equivalents	(10)	84,846	62,395
Trade accounts receivable	(11)	35,022	41,293
Inventories	(12)	43,664	58,929
Current income tax assets	(13)	6,312	4,452
Other current assets	(14)	8,073	9,210
Current assets		**177,917**	**176,279**
Property, plant and equipment	(16)	167,223	164,055
Intangible assets	(17)	8,636	14,185
Goodwill	(18)	109,721	112,039
Investments in associated enterprises	(19)	1,614	1,773
Financial assets	(19)	10,074	4,125
Non-current tax assets	(13)	801	657
Other non-current assets		1,157	1,325
Other non-current financial assets	(23)	0	1,933
Deferred taxes	(8)	4,533	5,173
Non-current assets		**303,759**	**305,265**
		481,676	**481,544**

€ 000s	Notes	31/12/2009	31/12/2010
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term financial liabilities	(23)	26,228	12,666
Trade accounts payable		26,385	22,918
Income tax liabilities	(20)	3,771	4,040
Short-term provisions	(21)	3,376	1,695
Other current liabilities	(22)	14,338	22,202
Current liabilities		**74,098**	**63,521**
Long-term financial liabilities	(23)	181,444	172,892
Pensions and similar obligations	(24)	10,443	10,400
Other non-current financial liabilities	(23)	2,802	0
Deferred taxes	(8)	21,074	21,292
Non-current liabilities		**215,763**	**204,584**
Capital stock		11,076	11,076
Capital reserves		50,416	50,416
Retained earnings		120,704	129,554
Consolidated net profit		9,239	21,705
Capital attributable to shareholders		**191,435**	**212,751**
Non-controlling interests		380	688
Equity	(25)	**191,815**	**213,439**
		481,676	**481,544**

CONSOLIDATED CASH FLOW STATEMENT

€ 000s	Notes	1/1/-31/12/ 2009	1/1/-31/12/ 2010
Earnings before income tax and non-controlling interests		**17,565**	**32,023**
Reconciliation to cash flow from current business operations:			
- Depreciation on property, plant and equipment	(15)	19,892	20,934
- Impairment on investments	(7)	6,021	370
- Interest income and result from investments	(7)	8,684	9,464
- Income/losses from disposals of fixed assets		183	678
- Change in long-term provisions		812	-224
- Other expenses/income with no effect on liquidity		2,247	-127
Internal financing		**55,404**	**63,118**
Increase/decrease in			
- Trade accounts receivable	(11)	-541	-4,108
- Other assets		2,423	-1,150
- Inventories	(12)	16,510	-13,551
- Accrued expenses		-5,610	-1,795
- Trade accounts payable		7,818	-5,830
- Other liabilities		148	3,037
Change in assets and liabilities (net)		**20,748**	**-23,397**
Cash flow from operating activities		**76,152**	**39,721**
Payments for income tax		-6,152	-9,503
CASH FLOW FROM CURRENT BUSINESS OPERATIONS	(29)	**70,000**	**30,218**
Acquisition of consolidated companies		-359	-939
Acquisition of non-consolidated companies	(19)	-13	-20
Acquisition of property, plant and equipment	(16)	-9,802	-10,069
Acquisition of intangible assets	(17)	-1,125	-3,423
Proceeds from the disposal of property, plant and equipment		208	0
CASH FLOW FROM INVESTMENT ACTIVITIES	(29)	**-11,091**	**-14,451**
Proceeds from capital increase (non-controlling interests)		284	0
Dividend paid to shareholders	(25)	-3,876	-4,430
Issue of long-term financial liabilities	(23)	514	0
Repayment of long-term liabilities	(23)	-20,498	-13,617
Change in short-term financial liabilities	(23)	-3,252	-12,546
Interest received	(7)	3,714	1,340
Interest paid	(7)	-11,699	-10,680
CASH FLOW FROM FINANCIAL ACTIVITIES	(29)	**-34,813**	**-39,933**
Change in cash and cash equivalents		**24,096**	**-24,166**
Cash and cash equivalents			
1 January		60,468	84,846
Effect of changes in exchange rate on cash and cash equivalents		282	1,715
31 December	(10)	**84,846**	**62,395**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ 000s	Capital stock	Additional capital paid in	Retained earnings				Consolidated net profit	Non-controlling interests	Total
			Fair value measurement for financial instruments	Other comprehensive income	Currency translation adjustments	Other retained earnings			
31/12/2008	**11,076**	**50,416**	**6,431**	**650**	**-18,080**	**123,294**	**6,754**	**-25**	**180,516**
Dividend payout	0	0	0	0	0	0	-3,876	0	-3,876
Net income	0	0	0	0	0	0	9,239	121	9,360
Capital increase	0	0	0	0	0	0	0	284	284
Actuarial gains/losses (net)	0	0	0	-449	0	0	0	0	-449
Market value of financial instruments	0	0	544	0	0	0	0	0	544
Currency differences from net investment in a foreign business operation	0	0	0	0	943	0	0	0	943
Currency translation	0	0	0	0	4,493	0	0	0	4,493
Reclassification to retained earnings	0	0	0	0	0	2,878	-2,878	0	0
31/12/2009	**11,076**	**50,416**	**6,975**	**201**	**-12,644**	**126,172**	**9,239**	**380**	**191,815**
Dividend payout	0	0	0	0	0	0	-4,430	0	-4,430
Net income	0	0	0	0	0	0	21,705	74	21,779
Acquisition of a subsidiary company	0	0	0	0	0	0	0	234	234
Actuarial gains/losses (net)	0	0	0	-94	0	0	0	0	-94
Market value of financial instruments	0	0	-5,000	0	0	0	0	0	-5,000
Currency differences from net investment in a foreign business operation	0	0	0	0	2,266	0	0	0	2,266
Currency translation	0	0	0	0	6,869	0	0	0	6,869
Reclassification to retained earnings	0	0	0	0	0	4,809	-4,809	0	0
31/12/2010	**11,076**	**50,416**	**1,975**	**107**	**-3,509**	**130,981**	**21,705**	**688**	**213,439**

SURTECO SE
NOTES TO THE CONSOLIDATED

FINANCIAL STATEMENTS

FOR THE BUSINESS YEAR 2010

I. ACCOUNTING PRINCIPLES

SURTECO SE is a company listed on the stock exchange under European law. The company is based in Buttenwiesen-Pfaffenhofen, Germany and is registered in the Company Register of the Local Augsburg Court (Amtsgericht Augsburg) under HRB 23000. The purpose of the group of companies consolidated in SURTECO SE and its subsidiaries is the development, production and sale of coated surface materials based on paper and plastic.

The consolidated financial statements of SURTECO SE and its subsidiaries for the fiscal year 2010 have been prepared in accordance with the regulations of the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) applicable on the balance sheet date, as they were adopted by the EU, taking into account the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the regulations to be applied in addition pursuant to § 315a (1) German Commercial Code (HGB). New standards adopted by the IASB will be applied after they have been adopted by the EU from the date on which they are first mandatory. Application and change to the valuation and accounting methods will be explained under the appropriate items in the Notes to the Consolidated Financial Statements as necessary.

Pursuant to § 315a German Commercial Code (HGB), the consolidated financial statements have been drawn up in accordance with Clause 4 of Directive (EU) No. 1606/2002 of the European Parliament and the Council dated 19 July 2002 relating to application of the International Accounting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB) and were supplemented by specific information and the consolidated management report was adjusted in conjunction with § 315a German Commercial Code (HGB).

The consolidated financial statements have been drawn up in the reporting currency euros (€). Unless otherwise indicated, all amounts have been given in thousand euros (€ 000s).

The balance sheet date of SURTECO SE and the consolidated subsidiaries is 31 December 2010.

The consolidated financial statements and the consolidated management report for 2010 will be published in the official electronic gazette of the Federal Republic of Germany (Bundesanzeiger).

Some items in the consolidated income statement and the consolidated balance sheet for the Group have been combined and stated separately in the Notes to the Consolidated Financial Statements. This is intended to improve the clarity and informative nature of presentation. The income statement has been drawn up in accordance with the cost of production method.

The auditors RöverBrönner GmbH & Co. KG and other appointed auditing companies have audited the financial statements or the sub-groups that form part of the consolidated financial statements.

On 4 April 2011, the Board of Management of SURTECO SE approved the consolidated financial statements for forwarding to the Supervisory Board of the company. The Supervisory Board has the function of auditing the consolidated financial statements and declaring whether it approves the consolidated financial statements.

II. ACCOUNTING PRINCIPLES IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

CHANGE IN ACCOUNTING AND VALUATION METHODS

The accounting and valuation methods essentially correspond to the methods applied in the previous year.

During the business year, the following new and revised standards and interpretations listed below were applied for the first time and they lead to the following effects on the net assets, financial position and results of operations of the Group:

Standard / Interpretation		Application obligation for business years beginning on or from	Adoption by the EU Commission	Effects on SURTECO
IAS 39	Amendment to IAS 39 Hedge accounting (Eligible Hedged Items): Clarification for hedging of inflation risks for specific underlying transactions and the designation of options with their intrinsic value or time value	1/7/2009	yes	none
IFRS 1	Purchase of assets in the oil and natural gas industries and establishment of whether an agreement includes a leasing arrangement	1/1/2010	yes	none
IFRS 2	Share-based payment: Share-based payment with cash compensation	1/1/2010	yes	none
IFRS 3 (r)/ IAS 27 (r)	Consolidated and separate financial statements in accordance with IFRS or business combinations whose date of acquisition falls on or after 1 July 2009.	1/7/2009	yes	SURTECO has applied IFRS 3 (r) for all company acquisitions from 01/01/2010
IFRIC 16 (amended)	Hedges of a net investment in a foreign operation	1/1/2010	yes	none
IFRIC 17	Guidelines on the date at which an obligation to distribute a non-cash asset should be accounted for in the financial statements and how differences should be measured, which arise form the book value of distributed assets compared with the obligation.	1/7/2009	yes	none
IFRIC 18	Requirements for the accounting of agreements in which a company receives from a customer an item of property, plant and equipment that the entity must then either use to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services.	1/11/2009	yes	none

In the course of the annual improvement process, a series of classifications for individual standards were adopted in April 2009. The application of these amendments did not give rise to significant effects in the SURTECO Group.
Amendments to IAS 36 resulted during the business year. Reference is made to the explanations provided in the Notes to the Consolidated Financial Statements item 18 for further details.

The following new and revised standards and interpretations, which were not yet mandatorily applicable in the reporting period or were not yet adopted by the European Union, were not applied in advance:

Standard / Interpretation		Application obligation for business years beginning on or from	Adoption by the EU Commission	Expected effects on SURTECO
IAS 12	Deferred taxes: Recovery of underlying assets	1/1/2012	no	none
IAS 24 (r)	Related persons and companies: Changes to disclosure requirements for companies which are controlled, jointly managed or significantly influenced by a government. Clarification of the definition of a related person	1/1/2011	yes	none
IAS 32	Clarification of how specific subscription rights should be reported if the instruments issued are not denominated in the functional currency of the issuer.	1/2/2010	yes	none
IFRS 1	Limited exemption for first-time users of comparative information in accordance with IFRS 7	1/7/2010	yes	none
IFRS 1	Serious hyperinflation	1/7/2011	no	none
IFRS 7	Disclosure – transfer of financial assets	1/7/2011	no	none
IFRS 9	Financial instruments: Classification and measurement of financial assets and replacement of IAS 39. Core content: No separation of embedded derivatives from financial host contracts; right to choose, value changes of equity instruments should be recorded with no effect on income.	1/1/2013	no	yes
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction: The amendment is relevant in rare cases where a company is subject to minimum funding requirements and makes advance contributions, in order to meet these minimum funding requirements. In these cases, the amendment permits the benefit arising from such a prepayment to be recorded as an asset.	1/1/2011	yes	none
IFRIC 19	Extinguishing financial liabilities with equity instruments	1/7/2010	yes	yes

The IASB published the "Annual Improvements for IFRS 2008-2010" on 6 May 2010 in the course of the annual improvement process. Unless otherwise stated in individual cases, the amendments become mandatory for reporting years which begin on or after 1 January 2011. SURTECO SE is currently examining the resulting effects on the consolidated financial statements.

III. CONSOLIDATED COMPANIES

SURTECO SE and all significant companies, in which SURTECO SE directly or indirectly has a controlling influence, are included in the consolidated financial statements on 31 December 2010. A controlling influence is exerted if SURTECO SE holds more than half of the voting rights in the company or has the possibility in some other way of exercising a dominant influence over the finance and business policy of a company in such a manner as to derive a benefit from the activity of these companies. Potential voting rights that can be currently exercised or converted are also taken into account when assessing a controlling influence. The financial statements of subsidiary companies are included in the consolidated financial statements from the point in time at which the control exists until it is no longer possible to exercise such control.

Joint-venture companies were included proportionately in the consolidated financial statements.

Associated companies are included in accordance with the equity method. An associated company is a company in which the Group exercises a significant influence over the finance and business policy of the company, but cannot exercise control. A significant influence is assumed if the Group holds a share of 20 % or more (associated company). If a group company carries out significant transactions with an associated company, proportionate unrealized gains or losses arising from such transactions are eliminated in accordance with the share of the Group in the associated enterprise.

Three companies are not included in the consolidated financial statements for 2010 (2009: 2 companies) on the grounds that they either did not transact any active business or only transacted minimal business and the influence of its aggregate value on the net assets, financial position and results of operations of the Group was not significant.

Apart from SURTECO SE, the following companies are included in the Group:

	31/12/2009	Additions/ Disposals	Reorganization within the Group	31/12/2010
Consolidated subsidiaries				
- of which in Germany	11	0	0	11
- of which abroad	23	1	0	24
Subsidiaries reported at acquisition costs				
- of which abroad	2	1	0	3
Companies accounted for using the equity method				
- of which in Germany	1	0	0	1
	37	2	0	39

The newly established Spanish sales company SURTECO Iberia S.L., Madrid, commenced operations during the year under review, but was not consolidated due to the insignificant nature of its business activity.

The newly established American production company BauschLinnemann South Carolina LLC, Myrtle Beach, in which SURTECO holds 70% of the shares, has been included in the consolidated financial states since it was founded.

The companies included in the consolidated financial statements at 31 December 2010 and the information on subsidiaries and participations held directly and indirectly by SURTECO SE are listed in a separate section. The annual financial statements and the management report of SURTECO SE for the business year 2010 are submitted to the official electronic gazette of the Federal Republic of Germany (Bundesanzeiger) and published there.

IV. COMPANY ACQUISITION

On 9 November 2010, the newly established Bausch-Linnemann South Carolina LLC, USA, in which SURTECO holds 70% of the shares, completed closing for the acquisition of the business operations of Coastal Paper of South Carolina Inc., Myrtle Beach, USA. The purchase price of USD 000s 1,237 was paid in cash. Costs amounting to USD 000s 40 directly associated with the acquisition were recognized in the income statement. Acquisition of this business gives SURTECO in-house production capacities in the area of varnishing and coating in the USA.

This asset deal comprised the acquisition of varnish systems, operating and business equipment, and by extension the leasing of previous production buildings and the continuing employment of the workforce.

The purchase price allocation in accordance with IFRS 3 is carried out in full at the asset values taken over valued at fair value. Intangible assets or goodwill were not identified.

The acquired business has contributed € 000s 301 to sales and € 000s -114 to consolidated net profit since acquisition. If the company had been included in the consolidated financial statements at the beginning of 2010, the consolidated sales would have increased by € 000s 2,591 and the consolidated net profit would have fallen by € 000s 213.

V. USE OF § 264 (3) GERMAN COMMERCIAL CODE (HGB) OR § 264B HGB

The exemption regulations pursuant to § 264 (3) German Commercial Code (HGB) or § 264b German Commercial Code (HGB) were applied for the following subsidiary companies included in the consolidated financial statements, releasing them from the requirement to draw up their management report and to disclose their annual financial statements:

Name	Registered office
Bausch Decor GmbH	Buttenwiesen-Pfaffenhofen
BauschLinnemann GmbH	Sassenberg
Kröning GmbH & Co.	Hüllhorst
W. Döllken & Co. GmbH	Gladbeck
Döllken-Kunststoffverarbeitung GmbH	Gladbeck
Vinylit Fassaden GmbH	Kassel
Döllken-Profiltechnik GmbH	Dunningen
Döllken-Weimar GmbH Profile für den Fachmann	Nohra

VI. CONSOLIDATION PRINCIPLES

The financial statements of the domestic and foreign subsidiaries included in the consolidation have been prepared on the basis of the accounting and valuation methods uniformly applicable – which have remained fundamentally unchanged compared to the previous year – to the SURTECO Group in accordance with IAS 27.

The consolidated financial statements have been prepared on the basis of historic acquisition and production cost, with the exception that derivative financial instruments and financial assets available for sale are reported at their fair value or market value.

With the exception of Canplast Mexico, the balance sheet date of the consolidated financial statements coincides with the balance sheet date of the financial statements for the individual companies included in the consolidated financial statements (31/12/2010). However, the balance sheet date of the annual financial statements is 30 September.

The accounting of business combinations is carried out by the acquisition method. The purchase costs of the acquisition correspond to the fair value of the assets provided, the equity instruments, issued and the liabilities incurred or taken over on the date of exchange. The costs associated with the business combination were treated as acquisition costs for purchases before 1/1/2010, if they were directly attributable. In the case of business combinations closed after 1/1/2010, the purchase costs associated with the acquisition were treated as expense effective.

Assets, liabilities and contingent liabilities identified in the course of a business combination were valued for first-time consolidation at their fair values at the time of acquisition, irrespective of the scope of minority holdings.

Any remaining positive netting difference between the purchase price and the identified assets and liabilities is reported as goodwill. The shares in equity capital of subsidiary companies not attributable to the parent company are recognized in the consolidated equity capital as “non-controlling interests”. Non-controlling interests are calculated on the basis of their share in the identifiable net assets of the assets and liabilities attributable to them.

Goodwill arising from the acquisition of an associated enterprise is included in the amortized investment book values of associated enterprises. Goodwill resulting from the acquisition of a subsidiary company or business operation is recognized separately in the balance sheet. For any company acquisition made after 1/1/2010, the Group will decide on an individual basis whether the non-controlling interests in the acquired company will be recognized at the fair value or on the basis of the proportionate share in the net assets of the acquired company.

In accordance with IFRS 3 and in conjunction with IAS 36 and IAS 38, goodwill arising from company acquisitions is not subject to scheduled amortization, but is subject to an annual impairment test if there is any evidence of a reduction in value.

Investments in associated enterprises are valued at the equity method. An associated enterprise is a company over which the Group can exert a significant influence by influencing the finance and business policy but where the Group does not exercise control. A significant influence is assumed if the Group has a share of the voting rights amounting to 20 % or more. Reporting in the balance sheet is at acquisition costs plus any changes in the share of the Group in the net assets of the associated enterprise which have occurred after the acquisition. The goodwill of the associated enterprise is included in the book value of the share and is neither subject to scheduled amortization nor to a separate impairment test. The total book value of the share is audited for impairment as a single asset in accordance with IAS 36, by always comparing its recoverable amount with the book value, if there are indications in the application of IAS 39 that the participation could be impaired. The income statement includes the share of the Group in the success of the associated enterprise.

The business year of an associated enterprise ends at a differing closing date (30 September). Interim financial statements are therefore available at 31 December 2010. Adjustments to uniform consolidated accounting and valuation methods are carried out as necessary. Proportionate gains and losses are reported in the consolidated balance sheet as a change in book value and in the income statement for the group under the item "Results from associated enterprises". Any dividends reduce the book value.

The Group is involved in joint ventures in the form of jointly managed commercial activity carried out by the relevant company. There are contractual agreements between the partner companies for jointly managing the commercial activity of the relevant company. The Group reports its shareholdings in joint ventures using proportionate consolidation. The Group records its shares in the assets, liabilities, income and expenses of the joint venture under the appropriate items in the consolidated financial statements.

Receivables, liabilities and loans between the Group companies are netted. Differences arising from debt consolidation are included in the income statement.

Sales, expenses and income within the Group and intercompany profits arising from sales within the Group, which have not yet been disposed of to third parties, are eliminated if they materially affect the presentation of the current net assets, the financial position and results of operations. Elimination of interim profits from trade account relationships with associated enterprises is waived on account of the immateriality.

Deferred tax arising from consolidation measures recognized in the income statement has been accrued.

In addition, sureties and guaranties, which SURTECO SE or one of its subsidiaries assumes in favour of other consolidated companies, are eliminated.

Intercompany trade accounts are accounted for on the basis of market prices and on the basis of accounting prices that are determined according to the principle of "dealing at arms length".

VII. CURRENCY TRANSLATION

In the financial statements of the companies, business transactions in foreign currency are reported at the price on the date of first-time reporting. Exchange gains and losses arising from the valuation of receivables or liabilities up to the balance sheet date are reported at the price on the balance sheet date. Gains and losses arising from changes in price are reported with effect on earnings in the financial result (from non-operating matters) or in other operating income or other operating expenses (from operating matters).

Foreign subsidiaries included in the consolidated financial statements draw up their individual financial statements in the relevant local currency. These financial statements are translated into euros in accordance with IAS 21, based on the concept of the functional currency. Because all consolidated companies transact their business autonomously from a financial, commercial and organizational perspective, the relevant national currency is the functional currency. Assets and liabilities, as well as contingent obligations and other financial obligations, are therefore translated at the rate prevailing on the balance sheet date, whereas equity capital is translated at historic rates. Expenses and income and hence also the profit/loss for the year recognized in the income statement are translated at the average rate for the year. Differences arising from currency translation for assets and debts compared with translation in the previous year and translation differences between the income statement and the balance sheet are reported with no effect on the income statement under shareholders' equity in retained earnings (currency differences).

Loans in foreign currencies to subsidiary companies of the Group, which meet the requirements for a net investment in a foreign business operation, are reported as such in the SURTECO Group for the first time during the year under review. These are directed towards presenting the unrealized gains and losses arising from the currency translation of loans within the Group in equity with no effect on income until the disposal of the net investment.

Translation was based on the following currency exchange rates:

Exchange rates with the euro		**Rate on the balance sheet date**		**Average rate**	
		31/12/2009	**31/12/2010**	31/12/2009	**31/12/2010**
US dollar	USD	0.6944	0.7470	0.7195	0.7548
Sterling	GBP	1.1249	1.1604	1.1227	1.1660
Swedish krona	SEK	0.0975	0.1114	0.0942	0.1048
Singapore dollar	SGD	0.4955	0.5826	0.4944	0.5541
Australian dollar	AUD	0.6248	0.7595	0.5662	0.6938
Canadian dollar	CAD	0.6623	0.7485	0.6310	0.7330
Chinese renminbi	CNY	0.1024	0.1140	0.1052	0.1121
Polish zloty	PLN	0.2429	0.2521	0.2309	0.2500
Turkish lira	TRY	0.4639	0.4831	0.4622	0.5004

VIII. ACCOUNTING AND VALUATION PRINCIPLES

UNIFORM ACCOUNTING AND VALUATION METHODS

The annual financial statements of all the companies included in the consolidated financial statements were prepared in accordance with IAS 27 on the basis of the classification, accounting and valuation policies applied uniformly in the SURTECO Group.

CONSISTENCY OF ACCOUNTING AND VALUATION METHODS

The accounting and valuation principles have been complied with, unless defined otherwise below, by comparison with the previous year.

STRUCTURE OF THE BALANCE SHEET

Assets and liabilities are recognized in the balance sheet as non-current if their residual term is more than one year or realization is expected within the normal business cycle. Liabilities are generally recognized as current if there is no unrestricted right to fulfil the obligation within the period of the next year. Shorter residual terms are recognized as current assets or liabilities. Pension provisions and similar obligations, and claims or obligations arising from deferred taxes are reported as non-current assets or liabilities. Insofar as assets and liabilities have a current and a non-current share, this is divided into its term components and recognized in accordance with the classification scheme for the balance sheet as current or non-current assets and liabilities.

INCOME AND EXPENSE REALIZATION

Income is recognized if it is likely that the economic benefit will accrue to the Group and the amount of the income can be reliably determined. Income is valued at the fair value of the reciprocal product or service received.

Sales revenues originating from the sale of goods have been recorded if the following conditions are fulfilled:

- The Group has transferred the material risks and opportunities arising from ownership of the goods to the purchaser.
- The Group retains neither a right of disposal, of the kind that is normally associated with ownership, nor an effective power of disposal over the sold goods and manufactured products.
- The level of the sales revenues can be reliably determined.
- It is probable that the economic benefit arising from the business will accrue to the Group.
- The costs incurred or still to be incurred in connection with the sale can be reliably determined.

Sales are only defined as the product sales resulting from the ordinary activities of the company. Sales revenues are recorded without value added tax and after sales reductions, such as bonuses, discounts or rebates. Provisions for customer price reductions and rebates, as well as returns, other allowances, and warranties are recognized in the same period in which the sales were reported.

Dividend income arising from shares is recognized if the legal right to payment of SURTECO as a shareholder has arisen.

Operating expenses are reported as expenses at the point in time at which they are incurred when the service is used, insofar as they fall within the reporting year.

Interest income and interest expenses are recorded pro rata. Income from financial assets is recorded when the legal right to payment has occurred.

EARNINGS PER SHARE

The basic earnings per share are calculated by dividing the proportion of the share in the net income attributable to the shareholders of SURTECO SE by the weighted average of the issued shares. Shares which have been newly issued or bought back during a period are recognized pro rata for the period in which they are in free float. There were no dilution effects during the reporting periods referred to.

FINANCIAL INSTRUMENTS

In accordance with IAS 39, a financial instrument is a contractually agreed claim or a contractually agreed obligation from which an inflow or outflow of financial assets or financial liabilities or the issue of equity capital rights results. Financial instruments comprise primary financial instruments such as trade accounts receivable or trade accounts payable, financial receivables, debts and other financial liabilities, as well as derivative financial instruments which are used to hedge risks arising from changes in currency exchange rates and interest rates.
Financial instruments are reported on the date at which the obligation to buy or sell an asset is entered into.

a) Determination of the fair value

The fair value of financial instruments is equivalent to the amount which the Group would receive or pay, if it wanted to exchange or settle the financial instruments on the balance sheet date. If market prices are quoted on the markets for financial instruments, these values are used. This relates in particular to financial instruments which are classified as available for sale. Otherwise, the fair values are calculated using the average price on the basis of the market conditions – interest rates, foreign exchange rates, commodity prices – prevailing on the balance sheet date. The fair values are calculated using recognized actuarial models. The fair value for derivatives is based on external valuations by our financial partners.

b) Primary financial instruments

Primary financial instruments are reported on first-time recognition at the fair value taking into account transaction costs. Transaction costs which are incurred during the acquisition of financial assets valued at cash-effective fair value are recorded directly to expense.

For purposes of subsequent valuation in accordance with IAS 39, financial assets are allocated to one of four categories in accordance with their relevant purpose. The allocation is reviewed on each balance sheet date and influences recognition as current or non-current assets as well as defining the valuation as being at amortized acquisition costs or fair values:

1. Changes in fair value of financial assets "valued at fair value through profit and loss" – which are either categorized accordingly at first-time recognition or are classified "as held for trading" – are immediately reported in the income statement. They are also reported as current assets if they are likely to be realized within twelve months of the balance sheet date.
2. "Financial assets held to maturity" – which include fixed or determinable payments at the date of first-time recognition and have a fixed maturity and are to be held until that point – are reported at amortized acquisition costs and recognized in accordance with their remaining term as non-current or current assets. Impairments are recorded in the income statement with an effect on earnings.

3. "Loans and receivables" – which have fixed or determinable payments and are not listed in an active market are valued at amortized acquisition costs taking into account necessary impairments. Insofar as they did not arise as a result of supplies and services, they are recognized in the balance sheet under other financial assets in accordance with their maturity as non-current or current assets.
4. "Financial assets available for sale" – which are designated at the date of first-time recognition as available for sale – are insofar recognized at current value and reported as non-current or current assets in accordance with their expected availability for sale. Unrealized gains or losses are recognized under equity capital (market valuation of the financial instruments). A calculation is carried out on every balance sheet date to determine whether there is objective evidence to suggest that an impairment of an asset or a group of assets has been incurred. In the case of equity instruments, a significant or sustained decline in the current value of the instrument below its purchase costs would amount to objective evidence. If a sale or impairment is carried out on the balance sheet date, the fluctuations in value recognized up to that point under equity capital are recognized in the income statement. Impairments for equity instruments are not reversed with effect on income; an increase in the fair value after a reduction in value is recorded directly under equity. If no fair values are available, for example for financial assets of non-consolidated companies and participations, the assets are recognized at acquisition costs as appropriate less impairments.

The liabilities arising from primary financial instruments can either be recognized at their amortized acquisition costs or as "liabilities valued at fair value through profit and loss". SURTECO values all financial assets at amortized acquisition costs. Liabilities arising from finance leasing are recognized at the cash value of leasing rates on the basis of the interest rate applied when the leasing contract was concluded. The financial obligations with fixed or determinable payments, which are neither listed on a market arising from financial liabilities nor derivative financial obligations, are recognized in the balance sheet under other liabilities in accordance with their remaining term.

c) Derivative financial instruments and hedging

The Group uses derivative financial instruments, such as forward exchange contracts and interest swaps, in order to hedge risks associated with foreign currency and changes in interest rate which can occur in the course of ordinary business activities and within the scope of investment and financial transactions. Derivative financial instruments are used exclusively to hedge existing or held underlyings. These derivative financial instruments are recognized at the fair value on the date at which the contract is closed and subsequently valued at the fair value on each statement date. Derivative financial instruments are recognized as assets if their fair value is positive and as liabilities if their fair value is negative.
The fair value of forward exchange contracts is calculated on the basis of the current forward exchange rates for contracts with similar maturity structures. The fair value of interest swap contracts is calculated on the basis of market values for similar instruments.

For purposes of reporting hedging relationships, hedging instruments are classified as follows:

- as hedging of the fair value, if the relationship relates to hedging the risk of a change in the fair value of a reported asset or a reported liability or a fixed obligation not reported (apart from currency risk);

- as hedging of cash flow, if the relationship relates to hedging the risk of fluctuations in the cash flow, which can be assigned to the risk associated with a reported asset, a reported liability or with a future transaction very likely to occur or to the currency risk of a fixed obligation not reported, or as hedging of a net investment in a foreign business operation.

At the beginning of the hedging transaction, the hedging relationship between the underlying transaction and the hedging transaction and the risk management targets and Group strategy are formally defined and documented as risk management objectives and strategies in relation to hedging. The documentation includes the definition of the hedging instrument, the underlying transaction or the hedged transaction, as well as the type of hedged risk and a description of how the company calculates the effectiveness of the hedging instrument in the compensation of the risks arising from changes in the fair value or cash flow of the hedged underlying transaction. Hedging relationships of this nature are assessed as being highly effective in relation to achieving compensation for the risks arising from changes in the fair value or cash flow. They are continuously assessed on the basis of these terms of reference to ascertain whether they were highly effective during the entire reporting period for which the hedging relationship was defined.

Hedging transactions which meet the criteria for the reporting of hedging relationships are designated by the SURTECO Group during the business year 2010 as being exclusively cash flow hedges.
The effective proportion of profit or loss arising from a hedging instrument is recorded directly in equity. The amounts reported in equity are transferred during the period to the income statement in which the hedged transaction affects the result for the period, e.g. if hedged financial income or expenses are reported or if an anticipated sale is carried out. If planned transactions are hedged and if these transactions lead to the recognition of a financial asset or financial liability during subsequent periods, the amounts recorded up to this date in equity should be released and included in income during the period in which the asset or the liability influences the result for the period. If a hedging transaction results in recognition of a non-financial asset or a non-financial liability, the amounts recorded in equity become part of the acquisition costs at the date of addition of the non-financial asset or non-financial liability.

If the occurrence of the planned transaction or fixed obligation is no longer anticipated, the amounts recorded in equity are recorded immediately in the income statement. If the hedging instrument matures, comes to an end or is exercised without a replacement or roll-over of the hedging instrument into another hedging instrument, the amounts recorded so far in equity remain as separate items under equity until the anticipated transaction has also been included in the income statement.

Derivative financial instruments where the requirements for a hedging relationship are not met are designated as being part of the trading portfolio. Any changes in fair value for these instruments are recorded immediately with an effect on earnings.

Cash and cash equivalents comprise liquid funds and sight deposits, as well as financial assets that can be converted into cash at any time and are only subject to minimal fluctuations in value. They are valued at amortized cost.

Receivables and other financial assets are reported at face value with the exception of derivative financial instruments. Impairments are carried out in accordance with the default risks anticipated in individual cases. The requirement for specific allowances is carried out on the basis of the age structure of the receivable and the knowledge of the credit risk and risk of default associated with specific customers. A general allowance on receivables takes adequate account of the general credit risk. Trade accounts receivable with standard commercial payment terms are recorded at face value, less bonuses, discounts and impairments. The Group sells trade accounts receivable in the context of factoring. The receivables are removed from the accounts if the Group has transferred its contractual rights to cash flows from the financial assets and all opportunities and risks that are associated with the ownership have essentially been transferred or also if the power of authority over the asset has been transferred.

Inventories comprise raw materials, consumables and supplies, services in progress, purchased merchandise and work in progress and finished goods. They are valued at acquisition or production cost or at the lower net sale value. The net sale value corresponds to the estimated recoverable proceeds from disposal in normal business operations less the necessary variable sales expenses.

Raw materials, consumables and supplies are valued at cost prices or at the lower net sale value. Carrying values have been calculated by the weighted-average method. Downward valuation adjustments have been undertaken to reflect obsolescence and technically restricted application.

Finished products and work in progress have been recognized at production cost. These costs include costs directly attributable to the manufacturing process and a reasonable proportion of production-related overheads. These include production-related depreciation, proportionate administrative expenses, and proportionate social security costs. Inventory risks arising from the storage period or reduced usability have been taken into account by write-downs. In the case of inventories, write-downs on the net sale proceeds are carried out, if the book values of the inventories are too high on the basis of the lower stock-market or market values.

Development costs for intangible assets produced within the company have been capitalized under income at directly attributable acquisition or production cost, if the manufacture is likely to bring commercial benefit to the SURTECO Group and the value can be reliably assessed.

Property, plant and equipment have been recognized at acquisition or production cost, including incidental acquisition expenses, less accumulated scheduled depreciation and, if necessary, extraordinary depreciation. A fixed value is calculated to cover spare parts for machinery.

Finance costs have not been capitalized under income as an element of acquisition or production costs because no manufacturing processes are involved over an extended period of time. Interest and other borrowing costs are recognized as expenses for the period.

The production costs of **self-constructed plant** include direct costs and an appropriate general proportion of the overheads and depreciation.

If significant proportions of a non-current asset have varying useful lives, they are reported as separate non-current assets under "Property, plant and equipment" and are subject to scheduled depreciation (component accounting).

The costs for replacement of part of a fixed asset **(repair and maintenance costs)** are included in the book value of the fixed asset (property, plant and equipment) at the date on which they were incurred, insofar as the criteria for recognition are fulfilled. When a major inspection is carried out, the costs are capitalized in the book value of the fixed asset as a replacement, insofar as the criteria for recognition are recognized. All other maintenance and repair costs are immediately recognized under income.
A fixed asset (property, plant and equipment) is either derecognized as a disposal if no economic benefit can be derived from further use or sale of the asset. The resulting gains or losses resulting from derecognition of the asset are calculated as the difference between the net sale proceeds and the book value of the asset and reported in the income statement for the period in which the asset is derecognized.

Leasing transactions are either classified as finance lease or as operating lease. Commercial ownership in lease items should be assigned to the lessee in accordance with IAS 17, if the lessee carries all major rewards and risks associated with the item (finance lease). If commercial ownership should be assigned to the enterprises of the SURTECO Group, the lease item is capitalized as an asset in the amount of the fair value or the lower cash value of the future leasing rate at the point in time at which the contract was concluded and the reporting of the corresponding liabilities to the lessee as a debt. Depreciation and repayment of the liability is effected according to schedule over the useful life or over the term of the lease, if this is shorter – corresponding to comparable items of property, plant and equipment acquired. The difference between the entire leasing obligation and the market value of the leased item corresponds to the finance costs that are distributed over the term and included in income, so that a uniform interest rate is applied to the remaining debt over the period. All other lease agreements, where SURTECO is the Lessee, are treated as operating leases, with the consequence that the leasing rates are reported to expenditure when they are paid. When amendments are made to finance lease contracts, an adjustment of the cash value and book value of the leasing liability is made with respect to the book value of the leasing object with no effect on the income statement.

State grants and subsidies have been accrued as liabilities and released over the useful life of the underlying assets.

Intangible assets acquired free of charge for a consideration have been capitalized as assets at acquisition cost and amortized over their useful life using the straight-line method.

Depreciation of assets has been carried out exclusively by the straight-line method. The remaining useful life and the method of depreciation are reviewed each year and adjusted to the actual circumstances. Depreciation is essentially based on the following commercial service lives applied across the Group:

	Years
Intangible assets	3-10
Buildings	40-50
Improvements and fittings	10-15
Technical plant and machinery	3-30
Factory and office equipment	6-13

The shares in unconsolidated companies recorded under financial assets are recognized at acquisition costs because fair values are not available and other valuation methods do not yield reliable results. Associated enterprises are recorded with their proportionate equity capital using the equity method. If there are indications that associated companies will be subject to impairments, an impairment test will be carried out on the book value of the affected participation.

On each balance sheet date, the Group checks the book values of intangible assets and property, plant and equipment in order to ascertain whether there might be grounds for carrying out an impairment. If such grounds exist, or if an annual impairment test is necessary for an asset, the Group carries out an estimate of the recoverable value for the relevant asset. The recoverable value of an asset is the higher of the two values comprising the fair value of an asset less the sale costs and the value in use. The recoverable value should be determined for each individual asset, unless an asset does not generate cash flows which are largely independent of the cash flows of other assets or other groups of assets. In this case, the recoverable amount is determined for the cash generating unit to which the asset is allocated. If the book value of an asset exceeds its recoverable amount, the asset is impaired and is written down to its recoverable amount. In order to determine the value in use, the expected future cash flows are discounted to their cash value based on a discounting rate before taxes, which reflects the current market expectations in relation to the interest effect and the specific risks of the asset. A reasonable valuation model is applied in order to determine the fair value less sale costs. This is based on valuation multiplicators, stock-market prices of shares in subsidiary companies traded on stock exchanges or other indicators available for the fair value.

A test is carried out for assets, with the exception of goodwill, on every balance sheet date, in order to ascertain whether there are grounds indicating that a previously recorded impairment expense no longer exists or has been reduced. If such grounds exist, the Group estimates the recoverable amount. A previous recorded impairment expense is only reversed if a change in the estimates, which were used to determine the recoverable amount, has occurred since the last impairment expense was recorded. If this is the case, the book value of the asset is increased to its recoverable amount. However, this amount must not exceed the book value which resulted after taking into account scheduled depreciation, if no impairment expense would have been recorded for the asset in previous years. An impairment reversal is recorded in the result for the period.

Goodwill resulting from company acquisition is allocated to the identifiable cash generating units which are supposed to derive benefit from the synergies arising from the acquisition. Such cash generating units are the lowest reporting level in the Group at which the goodwill is monitored by the management for internal controlling purposes. The recoverable amount of a cash generating unit, which is allocated goodwill is subjected to an annual impairment test. Reference is made to our comments under item 18 in the notes to the consolidated financial statements for further details.

The standard IFRS 3 (Business Combinations) and the standard IAS 36 (Impairment of assets) no longer permit goodwill and intangible assets to be subject to scheduled depreciation and amortization with an unspecified period of usage, rather a review of the value of these assets is carried out at regular intervals in an impairment test and if there is evidence of a potential reduction in value at other points in time.
If goodwill or intangible assets with an undefined period of use, for which no future own cash flows can be identified on an individual basis, are to be allocated to the cash generating unit, the impairment test of those assets should be carried out annually or also, if events or changed circumstances result which could indicate a possible impairment, more frequently. The net asset values of the individual cash generating units are compared with their individual recoverable amount, i.e. the higher value from the net sale price and value in use. In the determination of the value in use, the cash value of the future payments, which are anticipated on the basis of the ongoing use by the Strategic Business Unit and their disposal at the end of the useful

life, are used as the basis. The forecast of the payments is based on the current medium-term plans of SURTECO.
The cash generating units of the Group are identified in consultation with the internal reporting of the management taking into account regional allocations on the basis of strategic business units. The cash generating units of the SBU Plastics are the operating divisions under the reportable segment or in the case of the SBU Paper the reportable segment.

In the cases in which the net asset value of the cash generating units is higher than their recoverable amount, the difference amounts to an impairment loss. The goodwill of the affected Strategic Business Unit is amortized in the amount of the impairment thus determined as affecting expenses in the first stage. Any remaining residual amount is distributed to the other assets of the relevant Strategic Business Units proportionately to the book value. Any impairment carried out as necessary is recognized under amortization and depreciation in the income statement. A subsequent write-up as a result of the reasons no longer being applicable is not permitted.

The actual **tax refund claims** and **tax liabilities** for the current and earlier periods are measured at the amount of the expected refund by the tax authority or the payment to the tax authority. They also include tax relief claims arising from the anticipated utilization of existing losses carried forward in subsequent years and where there is sufficient likelihood that they will be realized. The calculation of the amount is based on the tax rates and tax regulations that are applicable on the balance sheet date.

Deferred tax are determined on the basis of the liability method. According to this method, deferred taxes result from temporary differences between the carrying amount (value) of an asset or a liability in the balance sheet and the tax value.

Deferred tax liabilities are reported for all taxable temporary differences, with the exception of

- deferred tax liabilities from the first-time recognition of goodwill or an asset or liability arising from a transaction which is not a business combination and at the point in time of the transaction neither influences the result for the period nor taxable earnings, and
- deferred tax liabilities arising from the taxable temporary differences which occur in conjunction with shareholdings in subsidiary companies, associated enterprises and shares in joint ventures, if the temporal reversal of the temporary differences can be controlled and it is unlikely that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recorded for all deductible temporary differences, unused tax loss carry-forwards and unused tax credits to the extent it is probable that taxable income will be available against which the deductible temporary differences and the unused tax loss carry-forwards and tax credits can be used, with the exception of

- deferred tax assets comprising deductible temporary differences from first-time recognition of an asset or a liability arising from transaction that is not a business combination and at the point in time of the transaction neither influences the result for the period nor the taxable earnings, and
- deferred tax assets arising from temporary differences which occur in conjunction with shareholdings in subsidiary companies, associated enterprises and shares in joint ventures, if it is likely that the temporary differences will not be reversed in the foreseeable future and no appropriate taxable earnings will be available against which the temporary differences can be used.

The book value of the deferred tax assets is audited on each balance sheet date and reduced by the amount by which it is no longer likely that an adequate taxable result will be available against which the deferred tax assets can be at least partly applied. Unrecognized deferred taxes are audited on each balance sheet date and recognized in the amount at which it has become likely that a future taxable result will be available to realize the deferred tax assets. Deferred tax assets and liabilities are measured on the basis of the tax rates that are likely to be valid during the period in which an asset is realized or a debt liability is fulfilled. The tax rates (and tax laws), which are applicable or adopted on the balance sheet date, are used as the basis for calculation. Future changes in tax rates should be taken into account on the balance sheet date, insofar as material requirements for effectiveness are fulfilled pursuant to a legislative procedure.

Deferred taxes that relate to the items that are reported directly under equity are not reported in the income statement but are also recorded under equity. Deferred tax assets and deferred tax liabilities are offset, if the Group has a legal claim to netting the actual tax reimbursement claims against actual tax liabilities and these relate to income tax of the same tax subject and are levied by the same tax authority.

In accordance with IAS 1.70, deferred taxes are recognized as long term.

Current liabilities and non-financial liabilities have been recorded with their repayment or performance amount.

Pension accruals and similar obligations include obligations arising from regulations relating to company retirement provision, phased retirement and long-service awards. The pension institutions were closed in the past and new employees joining the company receive no payments from the company pension scheme.

Pension accruals are valued using the projected unit credit method in accordance with IAS 19. This method recognizes the pensions and projected unit credits acquired on the balance sheet date. It also takes account of the increases in pensions and salaries anticipated in the future with prudent estimation of the relevant parameters. The calculation has been carried out using actuarial methods taking into account biometric accounting principles. The expense of allocating pension accruals, including the interest portion contained therein, is reported under "Personnel expenses". Actuarial gains or losses from defined benefit plans are reported under equity capital with no effect on income (Other comprehensive income).

Provisions for long-service bonuses are calculated on the basis of actuarial methods. In the case of phased retirement contracts that have been concluded, the full amount of the promised increases is set aside and the wage and salary payments to be paid during the passive phase of phased retirement are collected in instalments.

The obligations principally exist in Germany and they are calculated taking the following actuarial assumptions into account:

	2009	**2010**
Interest rate	5.50 %	2.80 - 4.75 %
Salary increases	2.00 - 2.40 %	2.00 - 2.40 %
Pension increases	2.00 - 2.40 %	2.00 - 2.40 %
Fluctuation rate	0.00 - 2.00 %	0.00 - 2.00 %

The interest rate for the pension obligation is currently a uniform 4.75 %. Different interest rates were applied as necessary for similar obligations with shorter terms.

Provisions have been formed in accordance with IAS 37, if a legal or de facto obligation arises from a past event in respect of a third party, which is likely in the future to lead to an outflow of resources and where it can be reliably estimated. If a large number of similar obligations exists – as in the case of statutory warranty – the probability of a charge on assets is calculated on the basis of the group of these obligations. A provision is recognized under liabilities, if the probability of a charge on assets is lower in relation to an individual obligation held within this group. Reserves for warranty claims are formed on the basis of previous or estimated future claims. Other reserves have also been recorded in accordance with IAS 37 for all recognizable risks and uncertain obligations in the amount of their probable occurrence and not recognized with rights of recourse. Provisions for restructuring measures are formed, to the extent that a detailed, formal restructuring plan has been drawn up and this has been communicated to the relevant parties.

Changes in equity without effect on income are also reported under the item **Statement of changes in equity**, if they are not based on capital transactions of the shareholders. This includes the difference arising from currency translation, accrued actuarial gains and losses arising from the valuation of pensions and similar obligations, and unrealized gains and losses arising from the fair valuation of assets available for sale and derivative financial instruments.

Contingent liabilities are possible obligations which result from events in the past, whereby their existence can only be confirmed through the occurrence or non-occurrence of one or more events in the future, which are not fully under the control of the SURTECO Group. Furthermore, contingent liabilities arise from current obligations which are based on past events, but which cannot yet be reported in the financial statements because the outflow of resources is not likely or the level of the obligations cannot be estimated with a sufficient level of reliability.

Segment reporting

Reporting on the operating segments is of a type and scope that is consistent with internal reporting to the main decision-maker. The main decision-maker is responsible for decisions on the allocation of resources to the operating segments and for reviewing their earnings power. The Board of Management of SURTECO was defined as the main decision-maker.

Decisions of judgment and estimates

The preparation of consolidated financial statements in accordance with IFRS requires up to a certain level decisions of judgment, estimates and assumptions of the management which exert effects on the recognition, measurement and reporting of assets, liabilities, income and expenses, and contingent assets and liabilities. The significant facts which are affected by such decisions of judgment and estimates relate to the definition of the period of use of fixed assets, the determination of discounted cash flows within the scope of impairment tests and purchase price allocations, accrual of cash generating units, the formation of provisions for legal proceedings, pension benefits for employees and corresponding deductions, taxes, inventory valuations, price reductions, product liability and warranties.

The assumptions and estimates are based on premises that rely on the knowledge available at the time. In particular, the expected future business development takes account of the circumstances prevailing at the time when the consolidated financial statements were prepared and realistic assumptions on the future development of the global and sector-specific environment. Any developments of these framework conditions deviating from these assumptions and outside the sphere of influence of the management may result in deviations of the actual amounts from the estimated values originally projected. If the actual development deviates from the projected development, the premises and, if necessary, the book values of the relevant assets and liabilities are adjusted appropriately.
Further explanations are described under the appropriate items.

Reporting and valuation principles should be regarded as important if they significantly influence the presentation of the net assets, financial position, results of operations and cash flows of the SURTECO Group and require a difficult, subjective and complex assessment of facts and circumstances that are often uncertain in nature, may change in subsequent reporting periods, and whose consequences are therefore difficult to estimate. The published accounting principles, which have to be based on estimates, do not necessarily exert significant effects on reporting. There is only the possibility of significant effects. The most important accounting and valuation principles are described in the notes to the consolidated financial statements.

IX. NOTES TO THE CONSOLIDATED INCOME STATEMENT

(1) SALES REVENUES

Sales revenues are comprised as follows:

Business (product) [€ 000s]	2009	**2010**
Edgebandings	169,374	190,860
Foils	80,248	101,089
Skirtings	25,485	23,903
Decorative printing	17,393	20,782
Technical extrusions	14,226	14,835
Do-It-Yourself sector	12,308	11,849
Cladding systems	9,019	9,660
Other	13,092	15,815
	341,145	**388,793**

(2) OTHER OWN WORK CAPITALIZED

Other own work capitalized principally relates to tools manufactured in the company at the SBU Plastics.

(3) COST OF MATERIALS

Composition of the cost of materials in the Group:

[€ 000s]	2009	**2010**
Cost of raw materials, consumables and supplies, and purchased merchandise	136,605	172,044
Cost of purchased services	1,780	3,280
	138,385	**175,324**

(4) PERSONNEL EXPENSES

The following table shows personnel expenses:

[€ 000s]	2009	**2010**
Wages and salaries	75,332	83,746
Social security deductions	8,933	9,203
Pension costs	7,467	7,119
	91,732	**100,068**

In the case of defined-contribution pension provision systems, the company pays contributions to state pension insurance institutions based on statutory obligations. These payments entail no further obligations for the company to make payments. The current contribution payments are included as expenses for the relevant year from the business year 2009 under pension costs.

Contributions are included under personnel expenses that result from the addition of accrued interest / discounting of pension accruals and similar obligations.

The following table shows the personnel structure with the average number of employees over the year:

	Industrial	Salaried	2009 Total	**Industrial**	**Salaried**	**2010 Total**
Production	1,012	120	1,132	1,040	108	1,148
Sales	12	246	258	11	257	268
Engineering	90	32	122	89	30	119
Research and development, quality assurance	41	59	100	38	53	91
Administration, materials management	93	274	367	98	266	364
	1,248	**731**	**1,979**	**1,276**	**714**	**1,990**

The number of employees by regions is as follows:

	2009	**2010**
Germany	1,313	1,300
European Union	215	218
Rest of Europe	11	14
Asia/Australia	168	184
America	272	274
	1,979	**1,990**

(5) OTHER OPERATING EXPENSES

The following table shows how operating expenses are structured:

[€ 000s]	2009	2010
Operating expenses	10,759	15,736
Sales expenses	29,737	32,919
Administrative expenses	13,631	14,110
Impairment losses	927	759
	55,054	63,524

Research and development expenses (personnel and material expenses) in the Group amounted to € 000s 4,911 (2009: € 000s 4,135).

Other operating expenses include the following fees for the business year in respect of the Group auditor RöverBrönner GmbH & Co. KG:

[€ 000s]	2009	2010
Auditing	363	362
Tax consultancy	161	82
Other consultancy	60	126
	584	570

(6) OTHER OPERATING INCOME

The following table shows other operating income:

[€ 000s]	2009	2010
Release of unused amounts of provisions and obligations	1,286	592
Claims for compensation	903	291
Income from fixed asset disposals	56	241
Other operating income	3,834	2,624
	6,079	3,748

(7) FINANCIAL RESULT

[€ 000s]	2009	2010
Interest and similar income	3,714	1,340
Interest and similar expenses	-12,328	-10,864
Interest (net)	**-8,614**	**-9,524**
Income from market valuation for financial derivatives	633	91
Expenses from market valuation for financial derivatives	-624	-38
Currency gains/losses, net	-2,039	131
Results from associated enterprises	-70	120
Impairment on shares in Pfleiderer AG	-6,021	-370
Miscellaneous financial expenses and income	-125	0
Other financial expenses and income	**-8,246**	**-66**
Financial result	**-16,860**	**-9,590**

In accordance with IAS 17 (Leases), the proportion of interest included in financial leasing instalments is recorded in interest expenses in the amount of € 000s 457 (2009: € 000s 691).

(8) INCOME TAX

Income tax expense is broken down as follows:

[€ 000s]		2009		2010
Current income taxes				
- Germany	5,173		7,234	
- International	3,096		4,217	
		8,269		11,451
Deferred income taxes				
- from time differences	742		-1,694	
- on losses carried forward	-806		487	
		-64		-1,207
		8,205		**10,244**

The corporate income tax rate of 15 % and the trade tax rate of 3.5 % remain unchanged compared with the previous year. An average overall tax burden of 29.5 % therefore results for the German companies, which is recognized for calculation of deferred taxes.

The applicable local income tax rates for the foreign companies vary between 17 % and 40 %.

Deferred tax losses carried forward have been capitalized in the consolidated financial statements on the basis of a 5-year projection of earnings before income tax at the level of the individual companies. Uncertainties relating to different projected premises and framework conditions have been taken into account.

No deferred tax assets were recognized on loss carry-forwards for foreign Group companies amounting to € 000s 4,577 due to restricted utility.

The deferred tax assets and liabilities reported in the financial statements listed below are attributable to differences in recognition and valuation of individual items on the balance sheet and to tax losses carried forward:

[€ 000s]	Deferred tax assets			Deferred tax liabilities		
	2009	Change	**2010**	2009	Change	**2010**
Inventories	628	127	755	343	-343	0
Receivables and other assets	206	18	224	83	618	701
Tax losses carried forward	1,530	1,104	2,634	0	0	0
Goodwill	0	0	0	1,765	344	2,109
Property, plant and equipment	283	81	364	17,465	358	17,823
Intangible assets	4	-1	3	1,297	19	1,316
Other non-current assets	0	0	0	21	206	227
Financial liabilities	2,127	-92	2,035	2,174	-1,034	1,140
Pension accruals	839	67	906	44	-44	0
Other liabilities	1,043	-765	278	9	-7	2
	6,660	**539**	**7,199**	**23,201**	**117**	**23,318**
Netting	-2,127	101	-2,026	-2,127	101	-2,026
	4,533	**640**	**5,173**	**21,074**	**218**	**21,292**

Reconciliation between expected and actual tax expenditure is as follows:

[€ 000s]	2009	2010
Earnings before Taxes (EBT)	**17,565**	**32,023**
Expected income tax (29.5 %)	5,182	9,447
Reconciliation:		
Differences from foreign tax rates	37	243
Losses for which no deferred taxes were formed	843	125
Utilization of losses on which no deferred taxes were previously recorded	0	-109
Expenses not deductible from taxes	2,449	744
Amortization of deferred taxes	0	-196
Tax expenses/income not related to the reporting period	304	-189
Tax-free income	-872	10
Other effects	262	169
Income tax	**8,205**	**10,244**

Taxes recorded directly in equity

[€ 000s]	2009	2010
Actuarial gains/losses	-190	-39
Fair value measurement of financial instruments	-1,920	310
Actual taxes	333	892
	-1,777	**1,163**

(9) EARNINGS PER SHARE

	2009	2010
Consolidated net profit in € 000s	9,239	21,705
Number of no-par-value shares issued	11,075,522	11,075,522
Basic and diluted earnings per share in €	0.83	1.96

The earnings per share are calculated by dividing the proportionate earnings of the shareholders of SURTECO SE by the weighted average of the issued shares. There were no measures which led to dilution effects.

X. NOTES TO THE CONSOLIDATED BALANCE SHEET

(10) CASH AND CASH EQUIVALENTS

[€ 000s]	2009	2010
Cash in hand and bank balances	32,846	27,395
Fixed-term deposits	52,000	35,000
	84,846	**62,395**

(11) TRADE ACCOUNTS RECEIVABLE

[€ 000s]		2009		**2010**
Trade accounts receivable	35,728		41,338	
Less allowance	-1,310		-1,296	
Trade accounts receivable, net		34,418		40,042
Accounts receivable from related companies		604		1,251
Book value		**35,022**		**41,293**

Specific and general allowance have been recorded in the amount of € 000s 1,296 (2009: € 000s 1,310) to take account of general interest, processing and credit risks and developed as follows:

[€ 000s]	2009	**2010**
1/1/	**1,294**	**1,310**
Recourse	-458	-221
Release of unused amounts	-215	-149
Addition (effect on expenses)	689	356
31/12/	**1,310**	**1,296**

There is no significant concentration of risk in the trade accounts receivable on account of the diversified customer structure of the SURTECO Group. The maximum default risk corresponds to the book values of the net receivables. The current values of the trade accounts receivable essentially correspond to the book values.

The following table shows the maturity structure of receivables:

[€ 000s]		2009	**2010**
Book value		**35,022**	**41,293**
of which: not impaired and not overdue		28,232	32,724
of which: not impaired on the balance sheet date and overdue in the following periods	up to 3 months	5,547	7,147
	3-6 months	864	864
	6-12 months	385	824
	more than 12 months	410	229
Less general allowance		-416	-495

There were no indications on the balance sheet date that payment defaults would occur for trade receivables which were neither impaired nor overdue.

(12) INVENTORIES

The inventories of the Group are comprised as follows:

[€ 000s]	2009	**2010**
Raw materials, consumables and supplies	14,410	19,178
Work and services in progress	4,908	5,553
Finished products and goods	24,346	34,198
	43,664	**58,929**

Impairments of € 1,428 (2009: € 000s 2,847) were reported on inventories. Out of the inventories, € 000s 21,457 (2009: € 000s 14,727) were recognized under assets at the net disposal value.

(13) CURRENT AND NON-CURRENT INCOME TAX ASSETS

Claims arising from income tax are recognized under current tax assets.

Corporate income tax credits are recognized under non-current tax assets. These were granted when the law on tax measures to accompany the adoption of European companies and amendment to additional tax regulations (SE Introductory Act, SEStEG) came into force. On 13 December 2006, a legal unconditional claim to refund of corporate income tax credits from the period of the tax imputation system (§ 37 Corporate Income Tax, KStG amended version) came into effect for the first time with expiry on 31 December 2006. The credit will be paid out in ten equal annual instalments from 2008 to 2017. The present value of the corporate income tax credit on the balance sheet date amounts to € 000s 811 (2009: € 000s 956), of which € 000s 154 are recognized under current income tax assets.

(14) OTHER CURRENT ASSETS

[€ 000s]		2009		**2010**
Land		3,958		3,663
Receivable factoring		0		1,353
Prepaid expenses		1,094		999
Income tax assets (value added tax, wage tax)		202		239
Accrued interest		76		0
Financial assets				
Financial derivatives	0		106	
Bonuses, receivables	114		196	
Debit balances in accounts payable	172		207	
		286		509
Other		2,457		2,447
		8,073		**9,210**

The item financial derivatives comprises forward exchange deals.
No significant impairments were carried out on other current assets.

The other current financial assets include € 000s 876 (2009: € 000s 301) from related companies.

(15) FIXED ASSETS

[€ 000s]	Property, plant and equipment	Intangible assets	Goodwill	Financial assets and associated enterprises	Total
Acquisition costs					
1/1/2009	**392,141**	**19,043**	**154,258**	**23,672**	**589,114**
Currency adjustment	3,876	211	1,362	0	5,449
Additions	9,409	1,125	396	12	10,942
Disposals	-6,751	-233	-149	-71	-7,204
Transfers	-609	609	0	0	0
31/12/2009	**398,066**	**20,755**	**155,867**	**23,613**	**598,301**
Currency adjustment	9,705	888	3,218	1	13,812
Additions	11,437	7,623	0	184	19,244
Disposals	-8,543	-701	0	0	-9,244
Transfers	-25	25	0	0	0
31/12/2010	**410,640**	**28,590**	**159,085**	**23,798**	**622,113**
Depreciation and amortization					
1/1/2009	**216,301**	**10,572**	**46,031**	**11,185**	**284,089**
Currency adjustment	1,807	82	115	0	2,004
Additions	18,271	1,621	0	6,021	25,913
Disposals	-5,521	-171	0	0	-5,692
Transfers	-15	15	0	0	0
Write-ups	0	0	0	-5,281	-5,281
31/12/2009	**230,843**	**12,119**	**46,146**	**11,925**	**301,033**
Currency adjustment	5,131	356	900	0	6,387
Additions	18,407	2,527	0	5,975	26,909
Disposals	-7,786	-607	0	0	-8,393
Transfers	-10	10	0	0	0
31/12/2010	**246,585**	**14,405**	**47,046**	**17,900**	**325,936**
Book value at 31/12/2010	**164,055**	**14,185**	**112,039**	**5,898**	**296,177**
Book value at 31/12/2009	**167,223**	**8,636**	**109,721**	**11,688**	**297,268**

(16) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are comprised as follows:

[€ 000s]	Land and build-ings	Leased land and buildings (finance leasing)	Technical equipment and machines	Other equipment, factory and office equipment	Payments on account and assets under construction	Total
Acquisition costs						
1/1/2009	**95,400**	**29,261**	**200,481**	**63,291**	**3,708**	**392,141**
Currency adjustment	1,150	0	2,345	235	146	3,876
Additions	149	159	4,273	2,887	1,941	9,409
Disposals	-137	-722	-3,983	-1,720	-189	-6,751
Transfers	18,466	-18,290	949	776	-2,510	-609
31/12/2009	**115,028**	**10,408**	**204,065**	**65,469**	**3,096**	**398,066**
Currency adjustment	2,658	0	6,078	965	4	9,705
Additions	479	0	6,120	3,233	1,605	11,437
Disposals	-870	0	-3,742	-3,789	-142	-8,543
Transfers	179	0	1,765	172	-2,141	-25
31/12/2010	**117,474**	**10,408**	**214,286**	**66,050**	**2,422**	**410,640**
Depreciation and amortization						
1/1/2009	**31,600**	**6,341**	**131,858**	**46,502**	**0**	**216,301**
Currency adjustment	208	0	1,564	35	0	1,807
Additions	2,690	726	10,643	4,212	0	18,271
Disposals	-97	0	-3,824	-1,600	0	-5,521
Transfers	4,569	-4,531	207	-260	0	-15
31/12/2009	**38,970**	**2,536**	**140,448**	**48,889**	**0**	**230,843**
Currency adjustment	504	0	4,016	611	0	5,131
Additions	3,103	225	10,676	4,403	0	18,407
Disposals	-628	0	-3,639	-3,519	0	-7,786
Transfers	88	0	3	-101	0	-10
31/12/2010	**42,037**	**2,761**	**151,504**	**50,283**	**0**	**246,585**
Book value at 31/12/2010	**75,437**	**7,647**	**62,782**	**15,767**	**2,422**	**164,055**
Book value at 31/12/2009	**76,058**	**7,872**	**63,617**	**16,580**	**3,096**	**167,223**

Finance leasing contracts were concluded over a basic leasing period of between 5 and 25 years and after the expiry of the basic leasing period provided for a purchase option or the option of extending the contract at least once for a period of 5 years. Apart from finance leasing contracts, the SURTECO Group has also concluded rental and leasing contracts that qualify as operating lease contracts on the basis of their commercial profile, whereby the lease item should be reported by the lessor.

Impairments amounting to € 000s 326 were included in depreciation for the business year on technical equipment and machines.

The additions to technical equipment and machines included USD 000s 1,237 from the acquisition through business combinations (IFRS 3) of the business of Coastal Paper of South Carolina Inc., Myrtle Beach, USA.

(17) INTANGIBLE ASSETS

Intangible assets comprise primarily IT software and assets acquired in the framework of acquisitions. On 1 July 2010, the customer base of the product groups fully impregnated flat foils and edgebandings were taken over from impress decor GmbH.

[€ 000s]	Concessions, patents, licences and similar rights	Customer relations and similar values	Development expenses	Payments on account	Total
Acquisition costs					
1/1/2009	**14,941**	**3,564**	**538**	**0**	**19,043**
Currency adjustment	-26	207	30	0	211
Additions	1,125	0	0	0	1,125
Disposals	-182	0	-51	0	-233
Transfers	609	0	0	0	609
31/12/2009	**16,467**	**3,771**	**517**	**0**	**20,755**
Currency adjustment	450	317	121	0	888
Additions	1,060	6,303	0	260	7,623
Disposals	-650	0	-51	0	-701
Transfers	25	0	0	0	25
31/12/2010	**17,352**	**10,391**	**587**	**260**	**28,590**
Depreciation and amortization					
1/1/2009	**10,067**	**405**	**100**	**0**	**10,572**
Currency adjustment	-97	175	4	0	82
Additions	1,218	341	62	0	1,621
Disposals	-171	0	0	0	-171
Transfers	15	0	0	0	15
31/12/2009	**11,032**	**921**	**166**	**0**	**12,119**
Currency adjustment	74	261	21	0	356
Additions	1,278	1,178	71	0	2,527
Disposals	-607	0	0	0	-607
Transfers	10	0	0	0	10
31/12/2010	**11,787**	**2,360**	**258**	**0**	**14,405**
Book value at 31/12/2010	**5,565**	**8,031**	**329**	**260**	**14,185**
Book value at 31/12/2009	**5,435**	**2,850**	**351**	**0**	**8,636**

(18) GOODWILL

Goodwill is comprised of the following amounts from the takeover of business operations and from capital consolidation.

Goodwill developed as follows:

[€ 000s]	2009	**2010**
1/1/	**108,227**	**109,721**
Currency adjustment	1,247	2,318
Additions	396	0
Disposals	-149	0
31/12/	**109,721**	**112,039**

Goodwill is allocated to cash generating units at segment level (CGU level) for purposes of carrying out annual or event-related (triggering events) impairment tests. During the reporting year, the goodwill of the reportable segment SBU Plastics in accordance with IFRS 8.12 was attributed to the operating business segments of the SBU Plastics (CGU) in accordance with IFRS 8.5.

The book value of the goodwill was attributed to the cash generating units as follows:

[€ 000s]		**2010**
CGU edgebandings	69,651	
CGU skirtings	25,747	
CGU technical extrusions and cladding systems	692	
CGU technical foils	9,071	
Strategic Business Unit Plastics		105,161
Strategic Business Unit Paper		6,878
		112,039

[€ 000s]	2009
Strategic Business Unit Plastics	102,843
Strategic Business Unit Paper	6,878
	109,721

The value in use to be used for carrying out the impairment text is calculated on the basis of a company valuation model (discounted cash flow). The calculation is carried out using cash flow plans which are based on medium-term planning for a period of five years that has been approved by the Board of Management and is valid at the time when the impairment test was carried out. These plans include experience and expectations relating to the future market development. Growth rates are estimated individually for each subsidiary company on the basis of the macro-economic framework data of the regional market, the market opportunities and experiences in the past. The underlying growth rates applied for the impairment test are based on medium-term planning for a period of 5 years amounted to an average of 6.2 %. For the period after the fifth year, a growth rate of 1 % was used, since the value in use is mainly determined by the terminal value and this responds in a particularly sensitive way to changes in assumptions with respect to its growth rate and its discounting rate.

The costs of capital are calculated as a weighted average of the costs of equity and debt. As far as possible, external information from the comparator group or available market data are used. The costs of equity correspond to the expectations of return held by investors in our shares. Market conditions for loans are taken into account for borrowing costs. This yielded a discounting rate of 9.4 % (2009: 8.9 %) before taxes in December 2010.

On the basis of impairment tests carried out in the business year 2010, the values in use of the cash generating units are estimated as higher than the net asset values. As a result, no impairments have been recognized.

(19) INVESTMENTS IN ASSOCIATED ENTERPRISES AND FINANCIAL ASSETS

[€ 000s]	Invest-ments in associated enterprises	Investments in affiliated enterprises	Participa-tions	Securities	Financial assets
Acquisition costs					
1/1/2009	**1,683**	**168**	**7**	**21,814**	**21,989**
Additions	0	7	5	0	12
Disposals	-69	0	0	-2	-2
31/12/2009	**1,614**	**175**	**12**	**21,812**	**21,999**
Currency adjustment	0	0	1	0	1
Additions	159	25	0	0	25
Transfers	0	2	-2	0	0
31/12/2010	**1,773**	**202**	**11**	**21,812**	**22,025**
Depreciation and amortization					
1/1/2009	**0**	**0**	**0**	**11,185**	**11,185**
Additions	0	0	0	6,021	6,021
Write-ups	0	0	0	-5,281	-5,281
31/12/2009	**0**	**0**	**0**	**11,925**	**11,925**
Additions	0	0	0	5,975	5,975
31/12/2010	**0**	**0**	**0**	**17,900**	**17,900**
Book value at 31/12/2010	**1,773**	**202**	**11**	**3,912**	**4,125**
Book value at 31/12/2009	**1,614**	**175**	**12**	**9,887**	**10,074**

Detailed information on investments in affiliated enterprises, participations and associated enterprises are not given for reasons of materiality. The securities recognized under financial assets relate to a share package amounting to 2.74 % of the capital stock in Pfleiderer AG, Neumarkt.

(20) INCOME TAX LIABILITIES

Tax liabilities include the income tax due for the business year 2010 or earlier business years and not yet paid, and the anticipated tax payments for previous years. Deferred taxes are not included.

(21) SHORT-TERM PROVISIONS

[€ 000s]	1/1/2010	Expense	Release	Allocation	31/12/2010
Warranty	1,524	-133	-571	398	1,218
Legal process costs	0	0	0	10	10
Restructuring	1,761	-1,761	0	0	0
Fair value measurement for financial derivatives	11	0	-11	0	0
Other	80	0	0	387	467
	3,376	**-1,894**	**-582**	**795**	**1,695**

(22) OTHER CURRENT LIABILITIES

[€ 000s]	2009	2010
Liabilities from employment relationships	6,884	9,799
Purchase price obligation	0	4,200
Other current liabilities factoring	0	2,129
Debit balances in accounts payable	1,910	1,552
Bonuses and promotion costs	730	1,212
Tax liabilities (value added tax)	874	695
Social insurance against occupational accidents	417	453
Supervisory Board remuneration	204	424
Other	3,319	1,738
	14,338	**22,202**
- of which social security	1,460	718

The liabilities in relation to employment relationships primarily include obligations arising from profit shares, bonuses, holiday and working time credits.

(23) DEBT AND OTHER FINANCIAL LIABILITIES

Interest liabilities, including the liabilities of finance leasing, of the SURTECO Group, are recognized under short-term and long-term debt.

The debt is secured in the amount of € 000s 481 (2009: € 000s 963) by charges on property.

In the business year 2007, a loan amounting to some € 150 million was floated in the form of a US private placement. The US private placement comprised a tranche amounting to USD 70 million with a term of 10 years and tranches of € 100 million with terms of 7 to 12 years. The loans are repayable on maturity. They are payable under fixed-interest agreements charged at 5.5% - 5.7% before hedging and with six-monthly payment points. The capital payment and interest flows in USD were fully hedged in euros with interest and currency swaps. This resulted in the following effects during the year under review: realization of interest income amounting to € 000s 213 (2009: € 000s 206), increase in equity capital (before deduction of deferred taxes) by € 000s 2,788 (2009: € 000s 1,948) through direct recording of the cash flow hedge under the item market valuation of financial instruments, increase in the USD liability by € 000s 500 (2009: € 000s 3,182 reduction) on the basis of the valuation on the balance sheet date and recording the market value of the hedging transactions amounting to € 000s 1,933 in the other non-current financial assets (2009: € 000s 2,802 in the other non-current financial liabilities). In addition, € 000s 499 from equity was transferred to the result for the accounting period (2009: € 000s 3,183 transferred from the result for the accounting period to equity).

Fixed-interest agreements have been primarily agreed for the other non-current banking liabilities with interest rates in a range between 3.45 % and 5.70 %.

Short-term debt includes short-term credit lines that have been drawn down and variable-interest credit lines for supplies, the short-term proportion of loan liabilities and finance leasing liabilities of € 000s 500 (2009: € 000s 438).

The liabilities from finance leasing obligations are released over the contract term and are due on the balance sheet date as follows:

[€ 000s]	2009	**2010**
Leasing payments to be made in the future		
in less than one year	698	770
between one year and five years	2,790	2,955
after more than five years	4,908	4,289
Interest share		
in less than one year	-260	-270
between one year and five years	-923	-844
after more than five years	-725	-554
Present value		
in less than one year	438	500
between one year and five years	1,867	2,111
after more than five years	4,183	3,735
	6,488	**6,346**

The maturity structure of long-term debt and other financial liabilities is as follows:

[€ 000s]	2009 1-5 years	2009 more than 5 years	2009 Total	**2010** 1-5 years	**2010** more than 5 years	**2010 Total**
Financial liabilities						
- of which to banks	65,043	110,351	175,394	54,344	112,702	167,046
- of which from finance lease	1,867	4,183	6,050	2,111	3,735	5,846
	66,910	**114,534**	**181,444**	**56,455**	**116,437**	**172,892**
Other financial liabilities	0	2,802	2,802	0	0	0
	66,910	**117,336**	**184,246**	**56,455**	**116,437**	**172,892**

(24) PENSIONS AND SIMILAR OBLIGATIONS

Agreements for company pension provision were concluded for staff of the SURTECO Group, which were financed exclusively within the scope of defined benefit plans through pension accruals. The provisions for pensions and similar obligations including plan assets developed as follows:

[€ 000s]	Pensions	Phased retirement	Anniversary bonuses	Total
1/1/2009	**7,712**	**1,708**	**1,133**	**10,553**
Payments	-534	-744	-137	-1,415
Current service expense	436	458	214	1,108
Interest expense	443	0	0	443
Actuarial gains/losses	654	0	56	710
31/12/2009	**8,711**	**1,422**	**1,266**	**11,399**
Payments	-570	-606	-129	-1,305
Current service expense	170	220	148	538
Adjustments	-131	0	0	-131
Interest expense	434	0	0	434
Actuarial gains/losses	147	0	54	201
31/12/2010	**8,761**	**1,036**	**1,339**	**11,136**
Plan assets				
1/1/2009	**-125**	**-839**	**0**	**-964**
Change	-20	28	0	8
31/12/2009	**-145**	**-811**	**0**	**-956**
Change	-26	246	0	220
31/12/2010	**-171**	**-565**	**0**	**-736**
Book value at 31/12/2010	**8,590**	**471**	**1,339**	**10,400**
Book value at 31/12/2009	**8,566**	**611**	**1,266**	**10,443**

€ 000s 568 (2009: € 000s 670) out of the long-term obligations arising from phased retirement arrangements are due in 2011.

The Group recognizes actuarial gains and losses from defined-benefit plans in shareholders' equity (Other comprehensive income). The amount included for 2010 taking into account deferred tax is € 000s -94 (2009: € 000s -449).

The annual payments for pension obligations over the coming years should be in the same order of magnitude as the payments for previous years. A reduction is anticipated in payments for obligations arising for obligations from phased retirement arrangements, since this instrument was discontinued in 2009.

(25) SHAREHOLDERS' EQUITY

The subscribed capital **(capital stock)** of SURTECO SE remains at € 11,075,522.00, unchanged from the previous year and is fully paid in. It is divided into 11,075,522 no-par-value bearer shares (ordinary shares) corresponding to a proportion of the capital stock of € 1.00 each.

The Board of Management is authorized to increase the capital stock of the company once or in several stages in the period to 24 June 2015 by overall up to € 1,100,000.00, with the consent of the Supervisory Board by the issue of no-par-value bearer shares, for a cash consideration **(Authorized capital I)**. The Board of Management is entitled, with the consent of the Supervisory Board, to exclude the pre-emptive right of shareholders up to a proportionate amount of the capital stock of € 1,100,000.00, if the new shares are issued at an issue amount, which is not significantly lower than the stock-market price. The Board of Management is further authorized to have the new shares taken over by a bank or a company operating pursuant to § 53 (1) Sentence 1 or § 53 b (1) Sentence 1 or (7) of the German Banking Act (KWG), with the obligation to offer them for purchase to shareholders. If the Board of Management does not make use of the above authorizations to exclude pre-emptive rights, the pre-emptive right of the shareholders may only be excluded for equalization of fractions. The Board of Management decides on the additional content of share rights and the conditions of issue, with the consent of the Supervisory Board.

The Board of Management is authorized to increase the capital stock of the company once or in several stages in the period to 24 June 2015 by overall up to € 4,400,000.00, with the consent of the Supervisory Board by the issue of no-par-value bearer shares, for a cash or a non-cash consideration **(Authorized capital II)**. In the case of a capital increase for a cash consideration, the shareholders should be granted a pre-emptive right, although the Board of Management is authorized to exclude the fractions from shareholders' statutory pre-emptive right. The Board of Management is further authorized to have the new shares taken over by a bank or a company operating pursuant to § 53 (1) Sentence 1 or § 53 b (1) Sentence 1 or (7) of the German Banking Act (KWG), with the obligation to offer them for purchase to shareholders. In the case of a capital increase for a non-cash consideration, the Board of Management is entitled to exclude the statutory pre-emptive right of shareholders. The Board of Management decides on the additional content of share rights and the conditions of issue, with the consent of the Supervisory Board.

Capital reserve

The capital reserve of SURTECO SE includes the amounts by which the capital investment values of investments in affiliated enterprises paid within the scope of capital increases against non-cash considerations exceed the amounts of capital stock allocated to the SURTECO shares released for this purpose.

Netting differences capitalized as assets arising from capital consolidation on account of the pooling of interests method were netted in the consolidated financial statements of SURTECO SE against the capital reserve during the year of first-time consolidation.

Retained earnings

Retained earnings include:

- Transfers from the net income of the Group
- Offsetting of actuarial gains and losses with no effect on income
- Differences arising from currency translations from annual financial statements of foreign subsidiaries with no effect on income
- Effects arising from valuation of derivative financial instruments with no effect on income
- Unrealized gains from equity instruments reported as available-for-sale
- Unrealized gains and losses arising from foreign-currency loans to subsidiary companies which met the requirement of a net investment

Dividend proposal

The dividend payout of SURTECO SE is based on net profit reported in the financial statements of SURTECO SE in accordance with the commercial law in conformity with § 58 (2) of the Stock Corporation Act (Aktiengesetz, AktG). The financial statements drawn up in accordance with commercial law have recorded a net profit of € 000s 10,021 (2009: € 000s 6,400). The Board of Management and Supervisory Board of SURTECO SE propose to the Annual General Meeting that a dividend payout of € 0.90 (2009: € 0.40) per share, amounting to a total of € 000s 9,968 (2009: € 000s 4,430) be paid out and the amount of € 000s 0 (2009: € 000s 1,900) be transferred to the capital reserve. The Board of Management further recommends carrying forward the residual amount of € 000s 53 (2009: € 000s 70) as profit carried forward.

(26) OTHER FINANCIAL OBLIGATIONS

[€ 000s]	2009	2010
Rental and operate leasing obligations, due		
in less than one year	770	1,019
between one year and five years	1,348	1,572
after more than five years	0	0
Purchase commitment	2,504	0
	4,622	**2,591**

Obligations arising from rental, hire and leasing contracts relate exclusively to rental contracts whereby the companies of the SURTECO Group are not the commercial owners of the leased assets in accordance with IFRS. The operate leasing contracts essentially relate to factory and office equipment.

Payments from operate leasing arrangements in the period are recorded in the amount of € 000s 1,370 (2009: € 000s 1,653).

(27) CAPITAL MANAGEMENT

The goals of capital management are derived from financial strategy. This includes safeguarding liquidity and guaranteeing access to the capital market. Measures for achieving the goals of capital management are optimization of the capital structure, equity capital measures, compliance with covenants, acquisitions and disinvestments, as well as the reduction of net debts. The Group is not subject to the imposition of any statutory capital requirements.

The dividend was adjusted to the earnings situation during the business year 2010. Cash flow not required for investments and dividend payments was used to reduce the existing net debt. The private placement of the loan in the business year 2007 is directed towards the future-oriented strategy and the long-term financing of the Group.

Our finance controlling is based on the indicators defined in our finance strategy. The interest cover factor was 6.6 (2009: 6.3) in 2010. The debt-service coverage ratio was 34.6 % (2009: 23.7 %) in 2010. The net debt amounted to € 000s 123,163 (2009: € 000s 122,826) on 31 December 2010 and the equity ratio was 44.3 % (2009: 39.8 %). The calculation of the indicators is presented in the management report.

The international business profile of the Group means that different legal and supervisory regulations have to be observed according to the region. The status and development of these regulations is tracked at local level and centrally, and any changes are taken into account for purposes of capital management.

(28) FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The significant financial risks of the Group are described below. More extensive descriptions of the risks are included in the risk and opportunities report provided in the management report.

1. Security guidelines and principles of financial risk management

The international activities of the SURTECO Group mean that changes in interest rates and currency exchange rates exert an effect on the net assets, financial position and results of operations of the SURTECO Group. The risks result from foreign currency transactions carried out in the course of operating business, from financing and from investment. Corporate Treasury controls centrally the currency and interest-management of the Group and correspondingly the key transactions with financial derivatives and other financial instruments. In individual cases, currency hedging transactions are concluded at the foreign subsidiaries in close consultation with central treasury. Contract partners are major German and international banks. Financial instruments and derivatives are used exclusively to hedge interest and currency risks. Only commercial instruments with sufficient market liquidity are used for this purpose. Derivative financial positions for trading purposes are not held. Risk assessments and controls are carried out continuously.

The subsidiaries report on their key currency and interest-rate risks within the scope of Group reporting. These risk positions are then analyzed and evaluated on the basis of attributes relevant to decision-making.

Derivative financial instruments are used by the Group exclusively for hedging purposes and to reduce risk. They are valued on a monthly basis. If significant fluctuations of underlying values, such as interest base rates and currency parities occur, this can impact negatively on the earnings of the Group.

2. Financing risks

The refinancing of the Group and the subsidiary companies is generally carried out centrally by SURTECO SE. The majority of the Group's financial liabilities have residual terms of more than five years and is structured with fixed interest rates (see maturity structure item 23 in the Notes). Repayment of significant long-term loans is not necessary in the business year 2011. The Group operates with a wide base of lenders comprising insurance companies and banks. Financial indicators were agreed with lenders at standard market conditions in loan agreements and these have to be met by the SURTECO Group.

3. Liquidity risk

Corporate Treasury monitors and controls the development of liquidity for the major subsidiary companies. This provides an up-to-date picture of liquidity development at any time. The high levels of free cash flow and the short payment targets mean that the SURTECO Group has adequate liquid funds continuously available. There is also the option of drawing on open credit lines and on a factoring agreement.
However, there is the risk that earnings and liquidity are compromised by default on accounts receivable from customers and non-compliance with payment targets. The Group counters this risk by regularly reviewing the credit rating of contracting parties and carefully monitoring default with customers. The risk arising from debit balances in accounts payable is low on account of the broadly based customer structure and taking out cover through trade credit insurance policies.

The following table shows the undiscounted contractually agreed cash outflows in respect of financial liabilities and derivative financial instruments with a negative market value. Financial liabilities to banks are recognized less current-account liabilities in the amount of € 000s 282 (2009: € 000s 12,594). If the maturity date is not fixed, the liability relates to the earliest liability date.

2010	Book value	2011		2012 - 2015		2016 ff.	
[€ 000s]	31/12/2010	Interest	Repayment	Interest	Repayment	Interest	Repayment
Financial liabilities	178,930	9,440	11,875	31,726	54,345	17,186	112,710
Finance leasing liabilities	6,346	270	500	844	2,111	554	3,735
Trade accounts payable	22,918	0	22,918	0	0	0	0
Other financial liabilities	16,472	0	16,472	0	0	0	0

2009	Book value	2010		2011 - 2014		2015 ff.	
[€ 000s]	31/12/2009	Interest	Repayment	Interest	Repayment	Interest	Repayment
Financial liabilities	188,591	10,069	13,197	34,275	65,556	23,565	110,384
Finance leasing liabilities	6,488	260	438	923	1,867	725	4,183
Trade accounts payable	26,385	0	26,385	0	0	0	0
Other financial liabilities	9,349	0	9,349	0	0	0	0
Derivative financial instruments							
- without hedging	11	11	0	0	0	0	0
- with hedging	2,802	0	0	0	0	0	3,182

4. Interest and currency risks

The global nature of the business activities of the SURTECO Group results in delivery and payment flows in different currencies. Invoicing in euros is the preferred method of accounting. Conversion of business figures and balance sheets from foreign subsidiaries into euros can entail risks which can only be hedged to a certain extent.

Interest risks are mainly incurred for short-term financial liabilities. The majority of long-term financial liabilities are structured with fixed-interest rates. SURTECO SE meets the remaining interest and currency risks by hedging positions with derivative financial instruments and regular and intensive observation of a range of early-warning indicators.

In order to limit exchange-rate risks associated with changes in interest rates, the Group operates a policy of systematic currency and interest management. This is controlled centrally by the holding company in Germany.

The following table shows the sensitivity on the balance sheet date of the available derivatives and variable-interest financial instruments in the SURTECO Group to the rise or fall of interest rates by 100 basis points (bp):

[€ 000s]	Income statement		Equity	
	100 bp Rise	100 bp Fall	100 bp Rise	100 bp Fall
31/12/2010				
Variable-interest instruments	216	-216	216	-216
Derivates	-5	0	3,414	-3,660
	211	**-216**	**3,630**	**-3,876**
31/12/2009				
Variable-interest instruments	261	-261	261	-261
Derivates	5	-7	3,759	-4,068
	266	**-268**	**4,020**	**-4,329**

The analysis assumes that all other variables, in particular exchange rates, remain unchanged.

The Group operates in several currency areas. In particular, effects arise from the performance of the US dollar.
A rise in the key relevant foreign currencies for SURTECO against the euro would exert the following effects:

[€ 000s]	Income statement		Equity	
	10 % Rise	10 % Fall	10 % Rise	10 % Fall
31/12/2010				
Financial instruments	1,527	-1,253	4,503	-3,688
Derivates	-649	531	754	-617
	878	**-722**	**5,257**	**-4,305**
31/12/2009				
Financial instruments	1,223	-1,001	3,670	-3,003
Derivates	-27	22	1,687	-895
	1,196	**-979**	**5,357**	**-3,898**

The analysis assumes that all other variables, in particular interest rates, remain unchanged.

5. Fluctuations in value for securities

SURTECO SE has a share package amounting to 2.74 % of the share capital in Pfleiderer AG, Neumarkt. The massive falls in share price in 2010 meant that impairments had to be carried out on the package of shares amounting to € 6.0 million. € 5.6 million of this amount are attributable to the reduction in retained earnings with no effect on the income statement and € 0.4 million are due to impairments that affect earnings. In the previous business year, after write-downs on retained earnings with no effect on the income statement amounting to € 0.3 million, impairments of € 6.0 million and write-ups within shareholders' equity amounting to € 5.6 million were carried out. The book value of the shares amounted to € 3.9 million on 31 December 2010. An impairment results in a changed subsequent measurement of the securities reported as available-for-sale. An impairment reversal may only be undertaken under equity. The calculation of the fair value of the security is carried out according to the fair value hierarchy level 1. Each additional reduction in the market value of the share package below the impaired book value results in a further impairment. Further impairments cannot be entirely excluded. The change in the market index may exert the following effect on the portfolio of shares in Pfleiderer AG, Neumarkt, classified as available-for-sale:

[€ 000s]	Income statement		Equity	
	10 % Rise	10 % Fall	10 % Rise	10 % Fall
31/12/2010				
Pfleiderer AG	0	646	646	646
31/12/2009				
Pfleiderer AG	0	0	1,463	-1,463

6. Valuations of financial instruments

The **book values and market values based on valuation categories** for the financial assets and liabilities classified according to the classes of the balance sheet are structured as follows:

[€ 000s]	Category acc. to IAS 39	Book value 31/12/2009	Market value 31/12/2009	Book value 31/12/2010	Market value 31/12/2010
Assets					
Cash and cash equivalents	LaR	84,846	84,846	62,395	62,395
Trade accounts receivable	LaR	35,022	35,022	41,293	41,293
Other financial assets	LaR	3,487	3,487	4,619	4,619
Other non-financial assets		5,733	5,733	5,809	5,809
Other investments	AfS	11,687	11,687	5,899	5,899
Derivative financial assets					
- without hedging	FAHfT	40	40	106	106
- with hedging	n.a.	0	0	1,933	1,933
Liabilities					
Financial liabilities	FLAC	201,185	198,985	179,212	182,579
Liabilities from finance leasing	n.a.	6,488	6,488	6,346	6,346
Trade accounts payable	FLAC	26,385	26,385	22,918	22,918
Miscellaneous financial liabilities	FLAC	9,349	9,349	16,472	16,472
Miscellaneous non-financial liabilities		4,990	4,990	5,730	5,730
Derivative financial liabilities					
- without hedging	FLHfT	11	11	0	0
- with hedging	n.a.	2,802	2,802	0	0
Of which aggregated according to valuation categories in accordance with IAS 39					
Loans and Receivables	LaR	123,355	123,355	108,307	108,307
Available-for-Sale Financial Assets	AfS	11,687	11,687	5,899	5,899
Financial Assets Held for Trading	FAHfT	40	40	106	106
Financial Liabilities Measured at Amortised Cost	FLAC	236,919	234,719	218,602	221,969
Financial Liabilities Held for Trading	FLHfT	11	11	0	0

Key to abbreviations	
FAHfT	Held for Trading
LaR	Loans and Receivables
AfS	Available-for-Sale
FLAC	Financial Liabilities at Amortised Cost
FLHfT	Financial Liabilities Held for Trading

Financial instruments in the categories available-for- sale and held for trading are reported at current value, unless this cannot be reliably calculated. In this case, the financial assets are recorded at acquisition costs. Cash and cash equivalents, trade accounts receivable, other financial assets in the category "loans and receivables" and trade accounts payable and other financial liabilities mostly have short residual terms. The values reported therefore approximate to the fair value on the balance sheet date.

Fair value hierarchy:
The calculation and recognition of the fair values of financial instruments is based on a fair value hierarchy which takes account of the significance of the input data used for the valuation and classifies it as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices)
Level 3 - inputs for the valuation of the asset and liability that are not based on observable market data (unobservable inputs)

On 31 December 2010, Financial Assets Held for Trading were reported at cash-effective fair value in the amount of € 000s 106 (2009: € 000s 40) and Financial Liabilities Held for Trading were reported in the amount of € 000s 0 (2009: € 000s 11). The calculation and recognition of the fair value was carried out in accordance with level 2. During the business year no classifications were carried out between the levels.

The net gains and losses arising from financial instruments are presented in the following table:

[€ 000s]	2009	**2010**
Loans and Receivables	-504	1,043
Available-for-Sale Financial Assets	-6,021	-370
Financial Assets and Liabilities Held for Trading	-2,328	-393
Financial Liabilities Measured at Amortised Cost	16	-1,137

The net gains and losses from Loans and Receivables essentially related to changes in impairments, income from cash inflows and currency translations and impairment reversals.
Net losses from Available-for-Sale Financial Assets show the cash-effective impairment on the package of shares held in Pfleiderer AG, Neumarkt.

The net gains and losses from Financial Assets and Liabilities Held for Trading include effects from the market value of derivatives that are not part of a hedging arrangement.
Net gains and losses from currency translation are shown for Financial Liabilities Measured at Amortised Cost.

7. Derivative financial instruments

The derivative financial instruments concluded are reported in the balance sheet for the first time at the date when the contract is closed. They are recognized at acquisition costs and subsequently revalued on the balance sheet date at their market value.
The market values of derivative financial instruments are derived from the amounts at which the relevant derivative financial transactions are traded or listed on the balance sheet date, without taking into account opposite developments in value arising from the underlying transactions. The market values of currency-related transactions are determined on the basis of current reference prices, taking into account forward discounts and premiums. The market values of the interest-related transactions are determined on the basis of discounted, cash flows expected in the future. The applicable market interest rates for the residual term of the financial instruments are used.

The Board of Management anticipates that commitments in transactions of this nature will not exert any significant negative effects on the financial situation.

Nominal and market values of derivative financial instruments:

[€ 000s]	2009		2010	
	Nominal amount	Market value	**Nominal amount**	**Market value**
Interest-related transactions	1,008	-23	0	0
Currency-related transactions	7,850	29	5,940	106
Interest- and currency-related transactions	48,611	-2,802	52,293	1,933
	57,469	**-2,796**	**58,233**	**2,039**

XI. SUPPLEMENTARY INFORMATION

(29) NOTES TO THE CASH FLOW STATEMENT

The cash flow statement was prepared in accordance with IAS 7. It is structured on the basis of cash flows arising from operating activities and those arising from investment and financing activities. The effects of changes in the group of companies consolidated are eliminated in the relevant items. The cash flows arising from investment and financing activities are calculated on the basis of payments, the cash flow arising from operating activity is derived indirectly from earnings before income tax and non-controlling interests.

The financial resources only include the cash and cash equivalents of the SURTECO Group reported in the balance sheet. By contrast, financial controlling in the SURTECO Group is based on the financial balance, which apart from cash and cash equivalents also includes debt.

The operating expenses and income with no effect on liquidity and results from disposal of assets, are eliminated in cash flow from operating activities.

The cash flow from financing activities is comprised of dividend payments, capital payments, from repayments of debts and interest payments from loans.

(30) SEGMENT REPORTING

The activities of the SURTECO Group are segmented on the basis of operating segments according to IFRS 8 within the scope of segment reporting. The breakdown is based on internal controlling and reporting. It takes into account the product-oriented split of SURTECO into the two Strategic Business units (SBU) Paper and Plastics. Each company within the Group is assigned to the appropriate segment essentially in accordance with the list "SURTECO Holdings".

- The **SBU Paper** comprises the production and sale of melamine-coated edgebandings, finish foils and laminates, and the printing of specialist technical papers for use in the international furnishing industry.

- The **SBU Plastics** includes the production and sale of thermoplastic edgings, foils, roller shutter systems, technical extrusions (profiles), skirtings and extrusions for flooring wholesalers, cladding systems and ranges for building suppliers and do-it-yourself markets.

- Consolidation measures, the holding company SURTECO SE and income, expenses, assets and liabilities, which are not directly attributable to the segments, are recognized in the "**Reconciliation**" column.

The segment information is based on the same recognition, accounting and valuation methods as those used in the consolidated financial statements. There are no changes in valuation methods compared with previous periods. Assets and liabilities, provisions, income and expenses, as well as earnings between the segments are eliminated in the consolidations. Internal sales within the Group are transacted at commercial prices.

The operating segment assets and the operating segment liabilities are comprised of the assets necessary for operations and the borrowings – with liquid funds, interest-bearing assets and liabilities, and income tax assets and liabilities.

The Board of Management holds the power of decision-making with regard to resource allocation and the measurement of the earnings power of the reportable segments. Uniform parameters for measuring success and assets are used in the relevant operating segments for this purpose.

The business relationships between the companies in the segments are organized on the basis of dealing-at-arms-length. Administrative services are allocated on the basis of cost.

SEGMENT INFORMATION [€ 000s]	**SBU Paper**	**SBU Plastics**	**Reconciliation**	**SURTECO Group**
2010				
External sales	162,899	225,894	0	388,793
Internal sales in the Group	1,578	708	-2,286	0
Total sales	164,477	226,602	-2,286	388,793
Interest income	73	678	589	1,340
Interest expenses	-761	-2,674	-7,429	-10,864
Amortization and depreciation	-9,396	-11,435	-103	-20,934
Segment earnings (EBT)	22,190	21,886	-12,053	32,023
Income from associated enterprises	120	0	0	120
Segment assets	142,845	248,414	9,670	400,929
Segment liabilities	-54,158	-72,989	80,330	-46,817
Net segment assets	88,687	175,425	90,000	354,112
Book value of participations recorded at equity	1,773	0	0	1,773
Investments in property, plant and equipment	11,335	7,379	346	19,060
Employees	657	1,317	16	1,990
2009				
External sales	131,176	209,969	0	341,145
Internal sales in the Group	721	380	-1,101	0
Total sales	131,897	210,349	-1,101	341,145
Interest income	85	70	3,559	3,714
Interest expenses	-1,175	-2,274	-8,879	-12,328
Amortization and depreciation	-8,745	-11,059	-88	-19,892
Segment earnings (EBT)	11,018	22,365	-15,818	17,565
Income from associated companies	-70	0	0	-70
Segment assets	132,116	238,152	3,190	373,458
Segment liabilities	43,367	74,731	-71,208	46,890
Net segment assets	88,749	163,421	74,398	326,568
Book value of participations recorded at equity	1,614	0	0	1,614
Investments in property, plant and equipment	3,175	7,358	1	10,534
Employees	658	1,305	16	1,979

Segment information by regional markets						
	2009			**2010**		
[€ 000s]	Sales revenues	Non-current assets	Investments	**Sales revenues**	**Non-current assets**	**Investments**
Germany	121,604	183,238	6,721	127,330	182,844	14,479
Rest of Europe	144,338	39,996	1,899	169,142	41,925	2,221
America	40,578	32,046	1,558	47,023	33,168	1,928
Asia/Australia	32,141	30,300	356	42,222	32,342	432
Other	2,484	0	0	3,076	0	0
	341,145	**285,580**	**10,534**	**388,793**	**290,279**	**19,060**

Sales revenues were allocated according to the registered office of the external customer; the non-current assets are allocated to the location of the respective net assets.

Reconciliation of balance sheet total with net segment assets [€ 000s]	2009	**2010**
Balance sheet total	**481,676**	**481,544**
Less financial assets		
- Cash and cash equivalents	84,846	62,395
- Investments	11,687	5,898
- Tax credits/deferred taxes	11,645	10,282
- Financial derivatives	40	2,040
Segment assets	**373,458**	**400,929**
Current and non-current liabilities	**289,861**	**268,106**
Less financial liabilities		
- Short-term and long-term financial liabilities	207,673	185,557
- Financial derivatives	11	0
- Tax liabilities/deferred taxes	24,844	25,332
- Pension accruals	10,443	10,400
Segment liabilities	**46,890**	**46,817**
Net segment assets	**326,568**	**354,112**

(31) REMUNERATION FOR THE EXECUTIVE OFFICERS AND FORMER EXECUTIVE OFFICERS

Supervisory Board

Total compensation of the Supervisory Board for the fiscal year 2010 amounted to € 000s 420 (2009: € 000s 200).

Board of Management

Most of the remuneration for Member of the Board of Management is performance based. It includes a small fixed element and a primarily variable element. The variable element is a bonus based on performance and is calculated on the basis of the consolidated earnings before taxes (EBT) in accordance with IFRS, taking account of the return on sales. The total remuneration of the active members of the Board of Management amounted to € 000s 2,035 (2009: € 000s 1,833) for the business year 2010. Out of this amount, € 000s 504 (2009: € 000s 504) were attributable to the fixed compensation, € 000s 1,431 (2009: € 000s 1,227) were accounted for by performance-based compensation and € 000s 100 (2009: € 000s 102) to other elements of the salary.

The information about individual compensation for 2010 is provided in the compensation report of the consolidated management report.

In accordance with § 286 (5) German Commercial Code HGB, reporting of information on individual remuneration in accordance with § 285 sentence 1 no. 9 letter a sentence 5 to 9 German Commercial Code (HGB) will not be implemented on account of the resolution by the Annual General Meeting held on 24 June 2008.

(32) SHARE OWNERSHIP OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD OF SURTECO SE

On the balance sheet date, 10,230 shares (2009: 10,230) of the company were held by the members of the Board of Management and 202,505 shares (2009: 204,655) were held by members of the Supervisory Board.

(33) EVENTS AFTER THE BALANCE SHEET DATE

No events or developments occurred up until 7 April 2011 which could have resulted in a significant change to the recognition or valuation of individual assets or liabilities at 31 December 2010.

At the end of the first quarter of 2011, a further impairment amounting to € 1.3 million had to be carried out on the package of shares in Pfleiderer AG, Neumarkt, held by SURTECO on out account of the price performance. The book value of the shares was € 2.6 million at 31 March 2011.

XII. EXECUTIVE OFFICERS OF THE COMPANY (at 31/12/2010)

Board of Management

Friedhelm Päfgen
Businessman
Buttenwiesen-Pfaffenhofen
Chairman, SBU Paper

Memberships in other companies*

Deputy Chairman of the Supervisory Board of Döllken-Kunststoffverarbeitung GmbH, Gladbeck

Member of the Supervisory Board of Pfleiderer AG, Neumarkt (until 31/12/2010)

Dr.-Ing. Herbert Müller
Engineer
Heiligenhaus
SBU Plastics

Memberships in other companies*

Chairman of the Supervisory Board of Döllken-Kunststoffverarbeitung GmbH, Gladbeck

Chairman of the Supervisory Board of Ewald Dörken AG, Herdecke

Supervisory Board

Dr.-Ing. Jürgen Großmann
Chairman of the Board of Management of RWE Aktiengesellschaft
Essen
Chairman

Memberships in other companies*

Member of the Supervisory Board of Deutsche Bahn AG, Berlin

Member of the Supervisory Board of Volkswagen AG, Wolfsburg

Member of the Supervisory Board of
- British American Tobacco (Industrie) GmbH, Hamburg
- BATIG Gesellschaft für Beteiligungen mbH, Hamburg
- British American Tobacco (Germany) Beteiligungen GmbH, Hamburg

Chariman of the Supervisory Board of Amprion GmbH, Dortmund (until 21/11/2010)

Member of the Board, Hanover Acceptances Limited, London

Dr. Markus Miele
Industrial engineer
Gütersloh
Deputy Chairman (since 24/6/2010)

Memberships in other companies*

Member of the Supervisory Board of syskoplan AG, Gütersloh

Member of the Supervisory Board of ERGO Versicherungsgruppe AG, Düsseldorf

Josef Aumiller
Chairman of the Works Council
Unterthürheim
Employee representative
(since 24/6/2010)

Björn Ahrenkiel
Lawyer
Hürtgenwald
Vice Chairman

Karl Becker
Engineer
Coesfeld
(since 24/6/2010)

Bernd Dehmel
Businessman
Marienfeld
Deputy Chairman (until 24/6/2010)

Dr. Matthias Bruse
Lawyer
Munich

Memberships in other companies*

Member of the Supervisory Board of Klöpfer & Königer GmbH & Co. KG, Garching

Member of the Advisory Council of CELIA Capital Partners GmbH, Munich

* Memberships in Supervisory Boards to be formed in accordance with the statutory regulations and comparable domestic and foreign Supervisory Boards.

Jakob-Hinrich Leverkus
Businessman
Hamburg
(until 24/6/2010)

Memberships in other companies*

Member of the Advisory Council of Drewsen Spezialpapiere GmbH + Co. KG, Lachendorf

Member of the Advisory Council of Dinse GmbH, Hamburg

Member of the Supervisory Board of SFC, Smart Fuel Cell AG, Ottobrunn

Member of the Supervisory Board of MIT Munich Industrial Technologies AG, Unterhaching

Member of the Advisory Council of elcomax GmbH, Munich

Member of the Supervisory Board of Solon SE, Berlin

Martin Miller
Chairman of the Works Council
Unterthürheim
Employee representative
(until 24/6/2010)

Udo Sadlowski
Chairman of the Works Council
Essen
Employee representative

Dr.-Ing. Walter Schlebusch
Managing Director of the Banknotes Division of Giesecke & Devrient GmbH, Munich

Thomas Stockhausen
Chairman of the Works Council
Sassenberg
Employee representative

XIII. DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO § 161 SENTENCE 1 STOCK CORPORATION ACT (AKTG)

The Board of Management and the Supervisory Board of SURTECO SE have submitted a Declaration of Compliance pursuant to § 161 sentence 1 of the Stock Corporation Act (AktG) on 22 December 2010 and made this declaration available to shareholders on the website of the company: www.surteco.com. This declaration is intended to demonstrate compliance with all key aspects of the recommendations on conduct promulgated by the "Government Committee on the German Corporate Governance Code".

XIV. DISCLOSURE IN ACCORDANCE WITH § 21 SECURITIES TRADING ACT (WPHG) / § 160 (1) NO. 8 STOCK CORPORATION ACT (AKTG)

Pursuant to § 160 section 1 no. 8 of the Stock Corporation Act (AktG) we are required to disclose the content of the notifications received by us during the course of the business year pursuant to Clause § 21 section 1 or section 1a of the Securities Trading Act (WpHG). Persons are required to submit these notifications if their voting rights in SURTECO SE as a result of acquisition, disposal or other method directly or indirectly reaches, or exceeds or falls below 3 %, 5 %, 10 %, 15 %, 20 %, 25 %, 30 %, 50 % or 75 %. We received notice of the following thresholds being exceeded at the balance sheet date:

Shareholder	Date of reaching the threshold limit of the portfolio	Percentage of voting rights held in %	Addition in %	
Christa Linnemann, Gütersloh	18/03/2005	72.2495	§ 22 (2) WpHG	64.2209
Claus Linnemann, Gütersloh	18/03/2005	73.0873	§ 22 (2) WpHG	61.2883
Katrin Schlautmann, Gütersloh	01/04/2002	74.2394	§ 22 (2) WpHG	72.2480
Christian Schlautmann, Gütersloh	01/04/2002	74.2394	§ 22 (2) WpHG	72.2480
Klöpfer & Königer Management GmbH, Garching	01/04/2002	73.7969	§ 22 (2) WpHG	52.9312
Klöpfer & Königer GmbH & Co. KG, Garching	01/04/2002	73.7969	§ 22 (1) no. 1 WpHG § 22 (1) no. 1 in conj. with § 22 (2) WpHG	20.8657 52.9312
G. Schürfeld + Co. (GmbH & Co.), Hamburg	01/01/2007	6.4155	§ 22 (1) no.1 WpHG	6.4155
G.A. Schürfeld Verwaltungs GmbH, Hamburg	01/01/2007	6.4155	§ 22 (1) no. 1 WpHG	6.4155
PKG Schürfeld GmbH, Hamburg	01/01/2007	6.4155		
Jens Schürfeld, Hamburg	01/01/2007	11.9306	§ 22 (1) no. 1 WpHG	6.4155
J. V. Bausch GmbH & Co. Vermögensverwaltungs KG, Grünwald	09/03/2006	70.4653	§ 22 (2) WpHG	68.6596
J. V. Bausch GmbH, Grünwald	09/03/2006	70.4653	§ 22 (1) no. 1 WpHG § 22 (2) WpHG	1.8057 68.6596
Ricarda Bausch, Glashütten	01/04/2002	73.8283	§ 22 (2) WpHG § 22 (1) no. 6 WpHG	73.4110 0.0213
Oliver Bausch, Osnabrück	01/04/2002	73.8290	§ 22 (2) WpHG	73.3773
Th. Bausch GmbH & Co. Vermögensanlage KG, Berlin	01/04/2002	73.7969	§ 22 (2) WpHG	65.5132
Th. Bausch GmbH, Berlin	01/04/2002	73.7969	§ 22 (1) no. 1 WpHG § 22 (1) no. 1 in conj. with § 22 (2) WpHG	8.2837 65.5132
Dr. Dr. Thomas Bausch, Berlin	01/04/2002	74.2715	§ 22 (1) no. 1 WpHG § 22 (1) no. 1 in conj. with § 22 (2) WpHG	8.2837 65.5132
Coralie Anna Bausch, Berlin	01/04/2002	73.8111	§ 22 (2) WpHG	73.6550
Camilla Bausch, Berlin	01/04/2002	73.8330	§ 22 (2) WpHG	73.6550
Constanze Bausch, Berlin	01/04/2002	73.8181	§ 22 (2) WpHG	73.6550
Marion Ramcke, Hanover	01/04/2002	73.8725	§ 22 (2) WpHG	70.7774
Hans Christian Ahrenkiel, Hürtgenwald	01/04/2002	73.8612	§ 22 (2) WpHG	73.5699
Björn Ahrenkiel, Hürtgenwald	01/04/2002	73.7973	§ 22 (2) WpHG	71.0048

On May 28 2008, the stake of **Delta Lloyd Europees Deelnemingen Fonds NV**, Amsterdam, The Netherlands, in the voting rights in Surteco SE, Johan-Viktor-Bausch-Str. 2, 86647 Buttenwiesen-Pfaffenhofen, exceeded the threshold of 5%. On that date, Delta Lloyd Europees Deelnemingen Fonds NV held 5.01 % in relation to all voting rights in Surteco SE (voting rights arising from 555,000 ordinary shares (Stammaktien)).

On May 28 2008, the stake of **Delta Lloyd Asset Management NV**, Amsterdam, The Netherlands, in the voting rights in Surteco SE, Johan-Viktor-Bausch-Straße 2, 86647 Buttenwiesent-Pfaffenhofen, exceeded the threshold of 5%. On that date, Delta Lloyd Asset Management NV held 5.01% in relation to all voting rights in Surteco SE (voting rights arising from 555,000 ordinary shares (Stammaktien)).
All such voting rights are attributed to Delta Lloyd Asset Management NV via Delta Lloyd Europees Deelnemingen Fonds NV pursuant to section 22 (1) sent. 1 no. 1 and no. 6 WpHG.
The controlled undertaking through which the voting rights are held is Delta Lloyd Europees Deelnemingen Fonds NV.

On May 28 2008, the stake of **Delta Lloyd NV**, Amsterdam, The Netherlands, in the voting rights in Surteco SE, Johan-Viktor-Bausch-Straße 2, 86647 Buttenwiesen-Pfaffenhofen, exceeded the threshold of 5%. On that date, Delta Lloyd NV held 5.01% in relation to all voting rights in Surteco SE (voting rights arising from 555,000 ordinary shares (Stammaktien)).
All such voting rights are attributed to Delta Lloyd NV via Delta Lloyd Europees Deelnemingen Fonds NV

pursuant to section 22 (1) sent. 1 no. 1 and no. 6 and sent. 2 and 3 WpHG.
The chain of controlled undertakings through which the voting rights are held is: Delta Lloyd Asset Management NV and Delta Lloyd Europees Deelnemingen Fonds NV.

On May 28 2008, the stake of **CGU International Holdings BV**, London, United Kingdom, in the voting rights in Surteco SE, Johan-Viktor-Bausch-Straße 2, 86647 Buttenwiesen-Pfaffenhofen, exceeded the threshold of 5%. On that date, CGU International Holdings BV held 5.01% in relation to all voting rights in Surteco SE (voting rights arising from 555,000 ordinary shares (Stammaktien)).
All such voting rights are attributed to CGU International Holdings BV via Delta Lloyd Europees Deelnemingen Fonds NV pursuant to section 22 (1) sent. 1 no. 1 and no. 6 and sent. 2 and 3 WpHG.
The chain of controlled undertakings through which the voting rights are held is: Delta Lloyd NV, Delta Lloyd Asset Management NV and Delta Lloyd Europees Deelnemingen Fonds NV.

On May 28 2008, the stake of **Aviva International Holdings Limited**, London, United Kingdom, in the voting rights in Surteco SE, Johan-Viktor-Bausch-Straße 2, 86647 Buttenwiesen-Pfaffenhofen, exceeded the threshold of 5%. On that date, Aviva International Holdings Limited held 5.01% in relation to all voting rights in Surteco SE (voting rights arising from 555,000 ordinary shares (Stammaktien)).
All such voting rights are attributed to Aviva International Holdings Limited via Delta Lloyd Europees Deelnemingen Fonds NV pursuant to section 22 (1) sent. 1 no. 1 and no. 6 and sent. 2 and 3 WpHG.
The chain of controlled undertakings through which the voting rights are held is: CGU International Holdings BV, Delta Lloyd NV, Delta Lloyd Asset Management NV and Delta Lloyd Europees Deelnemingen Fonds NV.

On May 28 2008, the stake of **Aviva Insurance Limited**, Perth, Scotland, United Kingdom, in the voting rights in Surteco SE, Johan-Viktor-Bausch-Straße 2, 86647 Buttenwiesen-Pfaffenhofen, exceeded the threshold of 5%. On that date, Aviva Insurance Limited held 5.01% in relation to all voting rights in Surteco SE (voting rights arising from 555,000 ordinary shares (Stammaktien)).
All such voting rights are attributed to Aviva Insurance Limited via Delta Lloyd Europees Deelnemingen Fonds NV pursuant to section 22 (1) sent. 1 no. 1 and no. 6 and sent. 2 and 3 WpHG.
The chain of controlled undertakings through which the voting rights are held is: Aviva International Holdings Limited, CGU International Holdings BV, Delta Lloyd NV, Delta Lloyd Asset Management NV and Delta Lloyd Europees Deelnemingen Fonds NV.

On May 28 2008, the stake of **Aviva International Insurance Limited**, London, United Kingdom, in the voting rights in Surteco SE, Johan-Viktor-Bausch-Straße 2, 86647 Buttenwiesen-Pfaffenhofen, exceeded the threshold of 5%. On that date, Aviva International Insurance Limited held 5.01% in relation to all voting rights in Surteco SE (voting rights arising from 555,000 ordinary shares (Stammaktien)).
All such voting rights are attributed to Aviva International Insurance Limited via Delta Lloyd Europees Deelnemingen Fonds NV pursuant to section 22 (1) sent. 1 no. 1 and no. 6 and sent. 2 and 3 WpHG.
The chain of controlled undertakings through which the voting rights are held is: Aviva Insurance Limited, Aviva International Holdings Limited, CGU International Holdings BV, Delta Lloyd NV, Delta Lloyd Asset Management NV and Delta Lloyd Europees Deelnemingen Fonds NV.

On May 28 2008, the stake of **Aviva Group Holdings Limited**, London, United Kingdom, in the voting rights in Surteco SE, Johan-Viktor-Bausch-Straße 2, 86647 Buttenwiesen-Pfaffenhofen, exceeded the threshold of 5%. On that date, Aviva Group Holdings Limited held 5.01% in relation to all voting rights in Surteco SE (voting rights arising from 555,000 ordinary shares (Stammaktien)).
All such voting rights are attributed to Aviva Group Holdings Limited via Delta Lloyd Europees Deelnemingen Fonds NV pursuant to section 22 (1) sent. 1 no. 1 and no. 6 and sent. 2 and 3 WpHG.
The chain of controlled undertakings through which the voting rights are held is: Aviva International Insurance Limited , Aviva Insurance Limited, Aviva International Holdings Limited, CGU International Holdings BV, Delta Lloyd NV, Delta Lloyd Asset Management NV and Delta Lloyd Europees Deelnemingen Fonds NV.

On May 28 2008, the stake of **Aviva plc.**, London, United Kingdom, in the voting rights in Surteco SE, Johan-Viktor-Bausch-Straße 2, 86647 Buttenwiesen-Pfaffenhofen, exceeded the threshold of 5%. On that date, Aviva plc. held 5.01% in relation to all voting rights in Surteco SE (voting rights arising from 555,000 ordinary shares (Stammaktien)).
All such voting rights are attributed to Aviva plc. via Delta Lloyd Europees Deelnemingen Fonds NV pursuant to section 22 (1) sent. 1 no. 1 and no. 6 and sent. 2 and 3 WpHG.
The chain of controlled undertakings through which the voting rights are held is: Aviva Group Holdings Limited, Aviva International Insurance Limited , Aviva Insurance Limited, Aviva International Holdings Limited, CGU International Holdings BV, Delta Lloyd NV, Delta Lloyd Asset Management NV and Delta Lloyd Europees Deelnemingen Fonds NV.

SURTECO HOLDINGS

Company no.	Segment/Name of company	Country	Consolidated	Percentage of shares held by SURTECO SE	Participation in no.
	PARENT COMPANY				
100	**SURTECO SE, Buttenwiesen-Pfaffenhofen**	Germany			
	STRATEGIC BUSINESS UNIT PAPER				
300	Bausch Decor GmbH, Buttenwiesen-Pfaffenhofen	Germany	F	100.00	100
310	Saueressig Design Studio GmbH, Mönchengladbach	Germany	E	30.00	300
401	BauschLinnemann GmbH, Sassenberg	Germany	F	100.00	100
210	Bausch (U.K.) Limited, Burnley	Great Britain	F	100.00	100
405	BauschLinnemann UK Ltd., Burnley	Great Britain	F	70.00 30.00	210 401
410	Kröning GmbH & Co., Hüllhorst	Germany	F	100.00	401
420	Kröning Verwaltungsgesellschaft mbH, Hüllhorst	Germany	F	100.00	401
441	BauschLinnemann North America, Inc., Greensboro	USA	F	100.00	401
442	BauschLinnemann South Carolina LLC, Myrtle Beach	USA	F	70.00	441
460	SURTECO Decorative Material (Taicang) Co. Ltd.	China	F	100.00	401
470	SURTECO Italia s.r.l., Martellago	Italy	F	50.00 50.00	401 510
499	BauschLinnemann Beteiligungsgesellschaft mbH, Sassenberg	Germany	F	100.00	100

Company no.	Segment/Name of company	Country	Consolidated	Percentage of shares held by SURTECO SE	Participation in no.
	STRATEGIC BUSINESS UNIT PLASTICS				
500	W. Döllken & Co. GmbH, Gladbeck	Germany	F	100.00	100
510	Döllken-Kunststoffverarbeitung GmbH, Gladbeck	Germany	F	100.00	500
511	Vinylit Fassaden GmbH, Kassel	Germany	F	100.00	500
512	SURTECO Australia Pty Limited, Sydney	Australia	F	100.00	510
513	SURTECO PTE Ltd.	Singapore	F	100.00	510
514	PT Doellken Bintan Edgings & Profiles, Bintan	Indonesia	F	99.00 1.00	510 513
515	Döllken-Profiltechnik GmbH, Dunningen	Germany	F	100.00	500
516	SURTECO France S.A.S., Beaucouzé	France	F	100.00	510
517	SURTECO DEKOR Ürünleri Sanayi ve Ticaret A.Ş.,Istanbul	Turkey	F	99.66 0.25 0.03 0.03 0.03	510 520 300 401 500
518	SURTECO OOO, Moscow	Russia	NC	50.00 50.00	510 401
519	SURTECO Iberia S.L., Madrid	Spain	NC	100.00	510
520	Döllken-Weimar GmbH Profile für den Fachmann, Nohra	Germany	F	100.00	500
531	Döllken Sp. z o.o., Kattowitz	Poland	F	100.00	520
532	Döllken CZ s.r.o., Prague	Czech Republic	NC	100.00	520
550	SURTECO USA Inc., Greensboro	USA	F	100.00	500
560	SURTECO Canada Ltd., Brampton	Canada	F	100.00	500
561	Doellken-Canada Ltd., Brampton	Canada	F	100.00	560
563	1784824 Ontario Inc, Brampton	Canada	F	100.00	561
566	Canplast Centro America S.A., Guatemala	Guatemala	P	50.00	561
567	SURTECO Do Brasil S/A Comercio E Importacao de Componentes Para Moveis, Curitiba	Brazil	F	100.00	561
568	Inversiones Doellken South America Ltd, Santiago	Chile	F	100.00	561
569	Canplast SUD S.A., Santiago	Chile	F	55.00	568
572	Canplast Mexico S.A. de C.V., Chihuahua	Mexico	P	50.00	561
599	W. Döllken-Verwaltungs- und Beteiligungs-GmbH, Gladbeck	Germany	F	100.00	500
610	SURTECO Svenska AB, Gislaved	Sweden	F	100.00	100
611	Gislaved Folie AB, Gislaved	Sweden	F	100.00	610

F = Full Consolidation E = Consolidation at Equity P = Proportionate Consolidation NC = Not Consolidated

AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

We have audited the Consolidated Financial Statements prepared by SURTECO SE comprising the income statement, statement of comprehensive income, the balance sheet, the cash flow statement, the statement of changes in equity, and the notes to the consolidated statements, together with the Management Report on the Company and the Group, for the business year from 1 January 2010 to 31 December 2010. The preparation of the Consolidated Financial Statements and the Management Report on the Company and the Group in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315 a (1) of the German Commercial Code (HGB) are the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the Consolidated Financial Statements and on the Management Report on the Company and the Group based on our audit.

We conducted our audit of the Consolidated Financial Statements in accordance with § 317 German Commercial Code (HGB) and Germany generally accepted standards for the audit of financial statements as promulgated by the Institut der Wirtschaftsprüfer (IDW, Institute of Independent Auditors). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements in accordance with the applicable financial reporting framework and in the Management Report on the Company and the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and the expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the Consolidated Financial Statements and Management Report on the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the Management Report of the Company and the Group.

We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Consolidated Financial Statements comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315 a (1) German Commercial Code (HGB), and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with the requirements. The Management Report on the Company and the Group is consistent with the Consolidated Financial Statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Berlin, 8 April 2011

RöverBrönner GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Helmut Schuhmann	Marko Pape
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, 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 Group management report 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.

Buttenwiesen-Pfaffenhofen, 7 April 2011

The Board of Management

Friedhelm Päfgen
Chairman of the Board of Management

Dr.-Ing. Herbert Müller
Member of the Board of Management

BALANCE SHEET (HGB)

€ 000s	31/12/2009	31/12/2010
ASSETS		
Intangible assets	0	132
Tangible assets	160	269
Investments	308,347	304,804
Fixed assets	**308,507**	**305,205**
Receivables and other assets		
- Receivables from affiliated enterprises	52,467	66,814
- Other assets	6,527	5,485
Cash in hand, bank balances	70,918	50,813
Current assets	**129,912**	**123,112**
Prepaid expenses	**124**	**93**
	438,543	**428,410**

LIABILITIES AND SHAREHOLDERS' EQUITY		
Capital stock	11,076	11,076
Additional paid-in capital	94,864	94,864
Retained earnings	89,884	96,484
Net profit	6,400	10,021
Equity	**202,224**	**212,445**
Pension accruals	248	468
Tax accruals	601	1,792
Other accruals	1,835	2,539
Accrued expenses	**2,684**	**4,799**
Liabilities to banks	192,128	170,555
Trade accounts payable	289	278
Liabilities to affiliated enterprises	39,003	38,122
Other liabilities	2,215	2,211
Liabilities	**233,635**	**211,166**
	438,543	**428,410**

INCOME STATEMENT (HGB)

€ 000s	1/1/-31/12/ 2009	1/1/-31/12/ 2010
Earnings from profit transfer agreements	25,943	35,204
- of which earnings from tax allocations transferred from subsidiaries		
€ 000s 0 (2009: € 000s 4,281)		
Investment income	0	809
Other operating income	3,295	3,003
Personnel expenses	-3,101	-3,324
Amortization and depreciation on intangible assets and property, plant and equipment	-74	-89
Other operating expenses	-4,169	-3,626
Income from loans from financial assets	2,620	3,892
- of which to affiliated enterprises € 000s 3,892		
(2009: € 000s 2,620)		
- of which write-ups on financial assets € 000s 2,430		
(2009: € 000s 1,316)		
Interest income	-6,692	-8,538
Write-downs on investments	-740	-5,973
Result from ordinary activities	**17,082**	**21,358**
Extraordinary expenses	0	-188
Income taxes	-4,452	-6,515
Other taxes	-31	-4
Net income	**12,599**	**14,651**
Profit carried forward from the previous year	1	70
Transfer to retained earnings	-6,200	-4,700
Net profit	**6,400**	**10,021**

The Annual Financial Statements of SURTECO SE have been published in the Official electronic Gazette of the Federal Republic of Germany (Bundesanzeiger) and file at the Company Register of the Local Court (Amtsgericht). RöverBrönner GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft/Steuerberatungsgesellschaft, Berlin, audited the Annual Financial Statements and provided them with an unqualified auditor's opinion. The Balance Sheet and the Income Statement from these Annual Financial Statements are published here.

The Annual Financial Statements can be requested from SURTECO SE, Johan-Viktor-Bausch-Str. 2, 86647 Buttenwiesen-Pfaffenhofen, Germany.

GLOSSARY

AUTHORIZED CAPITAL
Authorized capital relates to the authorization of the Board of Management to increase the capital stock up to a specified nominal amount by issuing new shares subject to the approval of the Supervisory Board. The authorization is granted by the Annual General Meeting and requires a three-quarter majority of the represented capital. The term is a maximum of five years. Furthermore, the authorized capital may not be higher than half of the capital stock. Authorized capital gives the Board of Management the opportunity to increase the equity capital of the company at a favourable time for the company and in accordance with the capital requirement and situation on the stock exchange, without having to convene an Annual General Meeting.

CALENDERING
Calendering is used for the manufacture of plastic foils. Calenders are comprised of two or more heatable rollers which are configured in parallel and rotate in opposite directions. The polymer being processed is first mixed, then gelled (pre-heated) and finally calendered. The foil is then taken over by other rollers. This enables the thickness to be further reduced. The foil is also embossed. This is again a calender. The embossing roller is tempered, the counter-roller is cooled. After the embossing process has been carried out, the foil is cooled and rolled up.
Calenders are also used for embossing, smoothing, compressing and satinizing papers and textiles. In the paper industry, surface properties such as gloss and smoothness are improved while at the same time reducing the thickness. An array of different effects can be achieved by changing the pressure, temperature and roller speed.

CAPITAL STOCK
The capital stock is the minimum capital defined in law which has to be provided by the shareholders of a joint-stock company or a European Company (SE). The capital stock of a joint-stock company (AG) must be at least € 50,000 (§ 7 Stock Corporation Act, AktG), the capital stock of an SE must be € 120,000 (Clause 4 Section 2 SE-VO). The capital stock in an AG and a SE is divided into shares. In the case of par shares, the total of all the par values form the capital stock. In the case of no-par-value shares, each share forms a numerical share of the capital stock.

CORPORATE GOVERNANCE
Corporate Governance relates to responsible management and control of companies directed towards long-term creation of value added and increase in the value of the company. This does not simply cover the management functions of the executive management but also involves the distribution of functions between the Board of Management and the Supervisory Board, and their relationships with the current and future shareholders, investors, employees, business partners and the public domain. Corporate Governance therefore encompasses shareholder value – the increase in income for shareholders – and stakeholder value – the value of the company for the business partners. Apart from the internal effect directed towards the increase in efficiency and control, Corporate Governance exerts a significant external effect that can be described as entailing a transparent and open policy on information. The internal and external effect are directed towards increasing the value of the company, most importantly the stock-market value.

DEALING-AT-ARM'S LENGTH PRINCIPLE
Services between legally independent companies of a group are exchanged at intercompany prices. Intercompany prices must be subject to the test of dealing-at-arm's length, which would involve an offset of an exchange of services between affiliated companies at conditions that were agreed or would have been agreed under comparable circumstances with or among third parties.

DERIVATIVE FINANCIAL INSTRUMENTS
Financial products in which the market value can be derived from classic underlying instruments or from market prices such as interest rates or exchange rates. Derivatives are used for financial management at SURTECO in order to limit risk.

EBIT
Earnings before financial result and income tax

EBITDA
Earnings before financial result, income tax and depreciation and amortization

EBT
Earnings before income tax

EQUITY METHOD
Method of consolidation for presenting participations in companies whereby a controlling influence can be exerted over their business and financial policy. The participation is initially valued at acquisition cost and this value is then adjusted on a pro rate basis to reflect performance of the associated enterprise.

EXTRUSION
The process of extrusion (from the Latin extrudere = push out, drive out) involves plastics or other thermosetting materials, e.g. rubber, being squeezed through a nozzle in a continuous procedure. The plastic – the extrudate – is initially melted as it passes through an extruder (also known as a screw extruder) by the application of heat and internal friction, and homogenized. The necessary pressure for extruding the material through the nozzle is built up in the extruder. After the plastic has been extruded from the nozzle, it generally sets in a water-cooled calibration. The application of a vacuum ensures that the extrusion is pressed against the calibre wall and the process of forming is completed in this way. This stage is often followed by a cooling phase carried out in a cooled water bath. The cross section of the geometrical component created corresponds

with the nozzle or calibration used. The merging of like or unlike plastic melts before exiting from the extruder nozzle is also known as coextrusion.

FULLY IMPREGNATED PAPER
During the process of full impregnation, papers are saturated in a resin bath and then dried. The impregnated papers are generally varnished and they can then be applied as finish foils to substrate materials, such as MDF boards or fibre boards.

GERMAN CORPORATE GOVERNANCE CODE
The German Corporate Governance Code defines essential statutory regulations for managing and monitoring German companies listed on the stock exchange (company management) and includes internationally and nationally recognized standards for sound and responsible corporate management. The code is intended to make the Corporate Governance System in Germany transparent and accountable. The intention is to promote the trust of international and national investors, customers, employees and members of the general public in the management and monitoring of German companies listed on the stock exchange. The code elucidates the duties of the Board of Management and the Supervisory Board to act in harmony with the principles of the social market economy in the interests of the company and creation of the company's long-term value added (interests of the company).

IMPAIRMENT TEST
According to the regulations of the IFRS, it is necessary to recognize an impairment if the comparable value – the recoverable amount – is less than the book value (carrying amount). The recoverable amount is the higher value in a comparison of the net sale price with the utility value of the asset in question.

INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB)
IASB has been the abbreviation for the International Accounting Standards Board since 2001. The IASB is based in London and is organized and financed under private law. The function of the IASB is to draw up international accounting standards (IFRS - International Financial Reporting Standards). The goal of the IASB is to develop high-quality, comprehensible and feasible accounting standards in the interests of the public that result in the presentation of high-quality, transparent and comparable information in financial statements and other financial reports. The aim of this is to assist participants in the capital markets to make economic decisions and to create convergence between national standards and IAS / IFRS. The IASB is developing standards on an ongoing basis. Since 2000, the EU Commission has implemented many of these standards as binding EU law in a special endorsement procedure.

INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC)
The IFRIC is a committee in the International Accounting Standards Committee Foundation. The group has twelve members. The function of the IFRIC is to publish interpretations of accounting standards in cases where different or incorrect interpretations of the standard are possible, or new factual content was not adequately taken into account in the previous standards. The IFRIC meets every six weeks and initially publishes interpretations, as a draft for purposes of discussion in the public domain.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
The International Financial Reporting Standards (IFRS) are international accounting standards. They comprise the standards of the International Accounting Standards Board (IASB), the International Accounting Standards (IAS), the International Accounting Standards Committee and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretation Committee (SIC).

PREIMPREGNATED PAPER
In contrast to fully impregnated materials, the raw paper has already been impregnated with resin when it is supplied as a preimpregnated material. The paper is printed and then varnished.

PRIME STANDARD
New share segment on the Frankfurt Stock Exchange (alongside the General Standard) with uniform registration obligations. Participation in the Prime Standard entails compliance with higher international requirements for transparency than required for the General Standard. Quarterly reporting, application of international accounting standards, publication of a corporate calendar, an annual analysts' conference, publication of ad hoc press releases and ongoing reporting in English are the key obligations consequent on admission to the Prime Standard.

SBU
Strategic Business Unit

SE
Abbreviation for Societas Europaea – legal form of a European joint-stock company

FINANCIAL CALENDAR

2011

12 May	Three-month report January – March 2011
17 June	Annual General Meeting at the Sheraton Munich Arabellapark Hotel
20 June	Dividend payout
11 August	Six-month report January – June 2011
11 November	Nine-month report January - September 2011

2012

30 April	Annual Report 2011
11 May	Three-month report January – March 2012
22 June	Annual General Meeting at the Sheraton Munich Arabellapark Hotel
25 June	Dividend payout
10 August	Six-month report January – June 2012
9 November	Nine-month report January - September 2012

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Concept and design	DesignKonzept, Mertingen
Photos	Demmler Photo, Donauwörth
	Ebbing + Partner, Iserlohn
	Fotoatelier Louis Held, Weimar
	Fotostudio Kaup, Warendorf
	Kaloo Images, Mertingen

TEN YEAR OVERVIEW

	2001	2002	2003	2004
Sales revenues in € 000s	270.551	367.642	355.037	380.428
Foreign sales in %	61	60	60	61
Restructuring expenses in € 000s	0	0	0	1.329
EBITDA in € 000s	45.666	69.761	63.976	70.346
Depreciation and amortization in € 000s	-15.207	-27.025	-26.762	-25.912
EBIT in € 000s	30.459	42.736	37.214	44.434
Financial result in € 000s	-4.134	-12.721	-10.120	-9.686
EBT in € 000s	26.325	30.015	27.094	34.748
Consolidated net profit in € 000s	13.091	17.616	14.847	18.205
Balance sheet total in € 000s	372.235	390.510	356.414	362.130
Equity in € 000s	101.863	104.046	108.710	116.609
Equity ratio in %	27	27	31	32
Average number of employees for the year	2.159	2.053	1.941	1.998
Number of employees at 31/12/	2.113	2.033	1.937	2.192
Capital stock in €	10.575.522	10.575.522	10.575.522	10.575.522
Number of shares	10.575.522	10.575.522	10.575.522	10.575.522
Earnings per share in €	1,28	1,67	1,40	1,72
Dividend per share in €	1,10	0,65	0,70	0,80
Dividend payout in € 000s	11.633	6.874	7.403	8.860
PROFITABILITY INDICATORS				
Return on sales in %	9,7	8,2	7,6	9,1
Return on equity in %	14,5	18,1	14,7	17,0
Total return on total equity in %	9,2	11,0	10,5	12,3

2005	2006	2007	2008	2009	2010
396.372	403.156	414.519	402.984	341.145	388.793
64	64	65	66	64	67
3.871	0	0	7.297	0	0
65.211	71.698	74.358	56.828	54.317	62.547
-17.765	-17.612	-19.060	-19.731	-19.892	-20.934
47.446	54.086	55.298	37.097	34.425	41.613
-9.890	-8.060	-8.371	-21.320	-16.860	-9.590
37.556	46.026	46.927	15.777	17.565	32.023
21.987	28.761	31.837	6.754	9.239	21.705
370.121	373.198	516.728	490.073	481.676	481.544
148.967	165.678	189.506	180.516	191.815	213.439
40	44	37	37	40	44
2.132	2.059	2.121	2.194	1.979	1.990
2.109	2.051	2.181	2.137	1.903	2.003
11.075.522	11.075.522	11.075.522	11.075.522	11.075.522	11.075.522
11.075.522	11.075.522	11.075.522	11.075.522	11.075.522	11.075.522
1,97	2,60	2,87	0,61	0,83	1,96
0,80	1,00	1,10	0,35	0,40	0,90*
8.860	11.076	12.183	3.876	4.430	9.968
9,4	11,4	11,3	3,9	5,1	8,2
15,6	18,4	15,8	3,8	4,9	10,7
12,8	14,7	11,1	6,0	6,2	8,9

* (Proposal by the Board of Management and Supervisory Board)

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