SURTECO
GROUP

we create.
we innovate.

2018

Annual Report
Future
Strategy
Orientation

AT A GLANCE
SURTECO GROUP SE

€ million	2017	2018	Δ %
Sales revenues	689.7	699.0	+1
Foreign sales ratio in %	75	76	
EBITDA	83.1	72.8	-12
EBITDA margin in %	12.0	10.4	
Depreciation and amortization	-38.4	-40.6	
EBIT	44.7	32.2	-28
EBIT margin in %	6.5	4.6	
Financial result	-11.2	-5.1	
EBT	33.5	27.1	-19
Consolidated net profit	26.2	18.6	-29
Earnings per share in €	1.69	1.20	-29
Number of shares	15,505,731	15,505,731	
Additions to fixed assets	42.7	47.5	
Balance sheet total	842.6	844.5	-
Equity	349.2	353.2	+1
Equity ratio in %	41.4	41.8	+0.4 pts
Net financial debt at 31 December	190.0	197.5	+4
Gearing (level of debt) at 31 December in %	54	56	+2 pts
Average number of employees for the year	3,091	3,329	+8
Number of employees at 31 December	3,295	3,304	-

PROFITABILITY INDICATORS IN %

Return on sales	4.8	3.8
Return on equity	7.8	5.5
Total return on total equity	5.0	4.1

SALES DISTRIBUTION
2018 IN %

SURTECO GROUP

Germany	24
Rest of Europe	47
America	20
Australia	5
Asia	3
Other	1
Edgebandings	37
Foils	19
Decorative printing	13
Impregnated products	10
Skirtings	7
Technical extrusions	5
Release papers	4
Other	3

STRATEGIC BUSINESS UNIT PAPER

50 %
PERCENTAGE OF TOTAL SALES

Germany	25
Rest of Europe	52
America	20
Asia	3
Decorative printing	26
Foils	31
Impregnated products	20
Edgebandings	13
Release papers	8
Other	2

STRATEGIC BUSINESS UNIT PLASTICS

50 %
PERCENTAGE OF TOTAL SALES

Germany	24
Rest of Europe	41
America	21
Australia	9
Asia	4
Other	1
Edgebandings	61
Skirtings	14
Technical extrusions	10
Foils	8
Commercial products/Other	7

SURTECO WORLDWIDE

AMERICA

- Agawam, US
- Brampton, CA
- Chihuahua, MX
- East Longmeadow, US
- Greensboro, US
- Myrtle Beach, US
- São José dos Pinhais, BR
- Tultitlán, MX

EUROPE

- Angers, FR
- Ashbourne, UK
- Burnley, UK
- Gislaved, SE
- Greenhithe, UK
- Istanbul, TR
- Madrid, ES
- Mindelo, PT
- Moscow, RU
- Prague, CZ
- Sosnowiec, PL
- Stourport-on-Severn, UK
- Venice, IT

GERMANY

- Bad Oeynhausen
- Buttenwiesen
- Bönen
- Dunningen
- Gladbeck
- Halle (Saale)
- Heroldstatt
- Hüllhorst
- Laichingen
- Sassenberg
- Weimar
- Willich

ASIA / OCEANIA

- Batam, ID
- Brisbane, AU
- Melbourne, AU
- Perth, AU
- Singapore, SG
- Sydney, AU
- Tokyo, JP

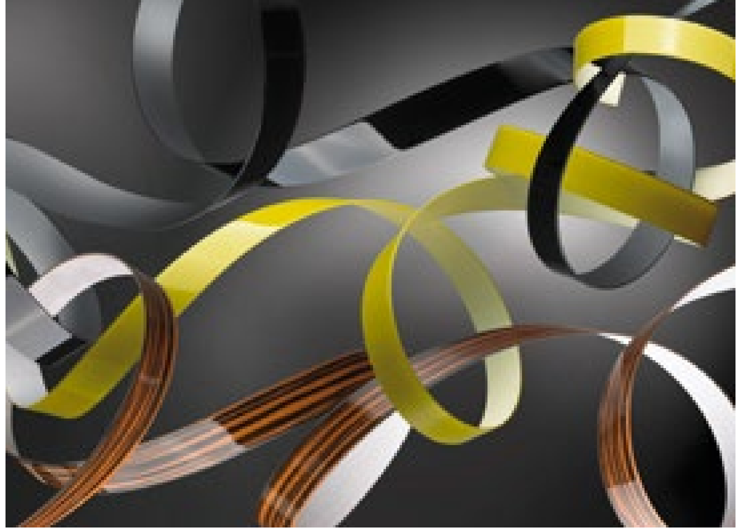
○ 23 production and sales locations
● 17 additional assembly and sales locations

BauschLinnemann | Kröning | Döllken
CANPLAST | DAKOR | DöllkenProfiles
PROADEC | Gislaved Folie | Nenplas
CHAPACINTA | Polyplas

SURTECO GROUP

We are striving to achieve
worldwide market leadership
by bringing together the best brands for surfaces.

THE PRODUCT PROGRAMME



BUSINESS UNIT DECORATIVES

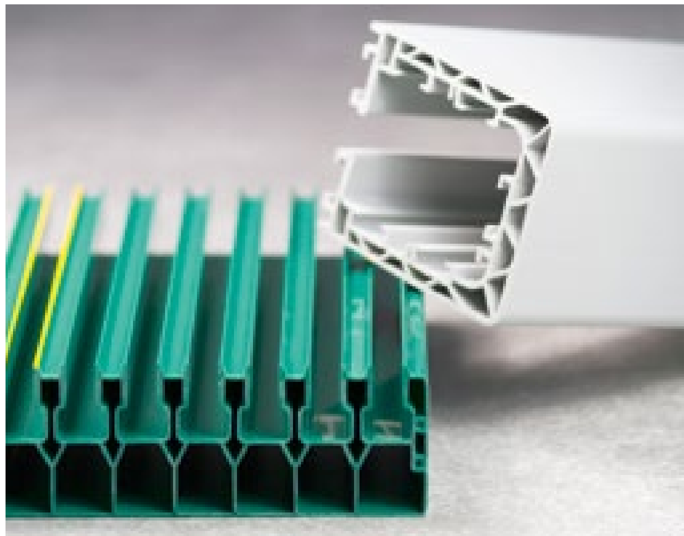
EDGEBANDINGS BASED ON PAPER AND PLASTICS
FINISH FOILS BASED ON PAPER
DECORATIVE PRINTING
RELEASE PAPERS

BUSINESS UNIT TECHNICALS

IMPREGNATED PRODUCTS
PLASTIC FOILS
HYBRID AND GENUINE METAL FOILS

BUSINESS UNIT PROFILES

SKIRTINGS
TECHNICAL EXTRUSIONS

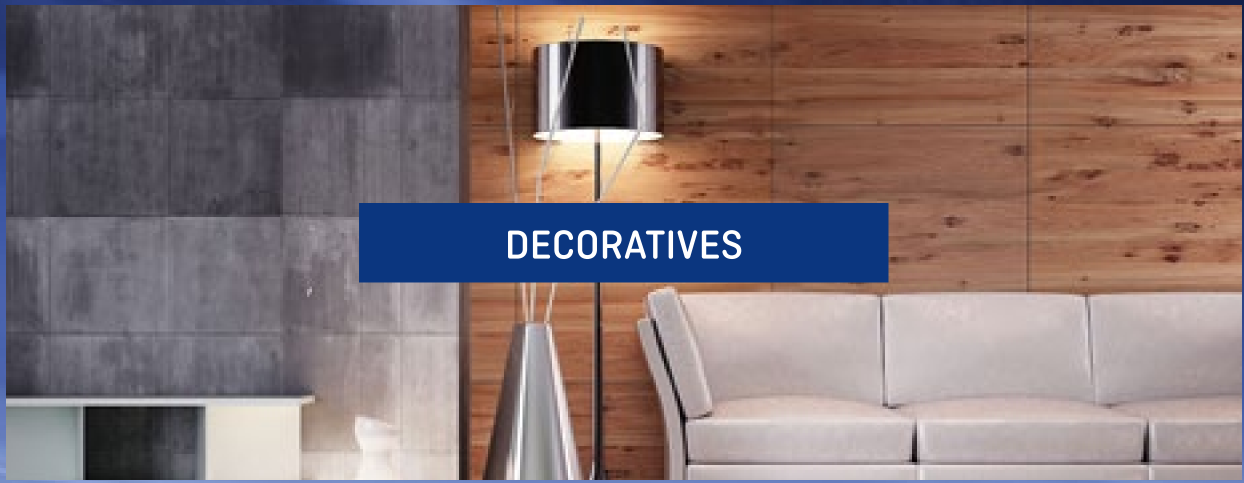


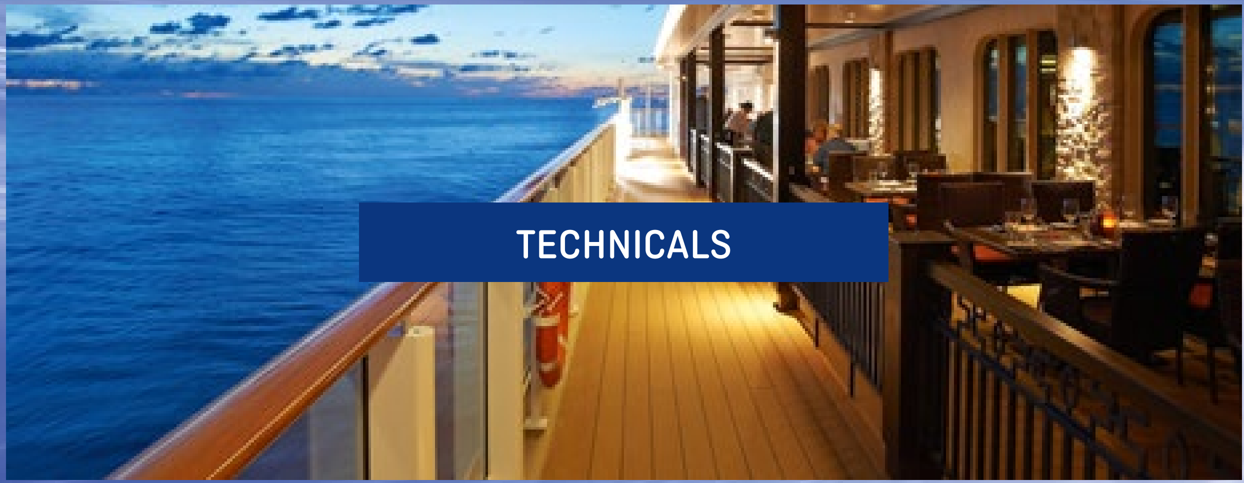
OPERATING GROUP STRUCTURE

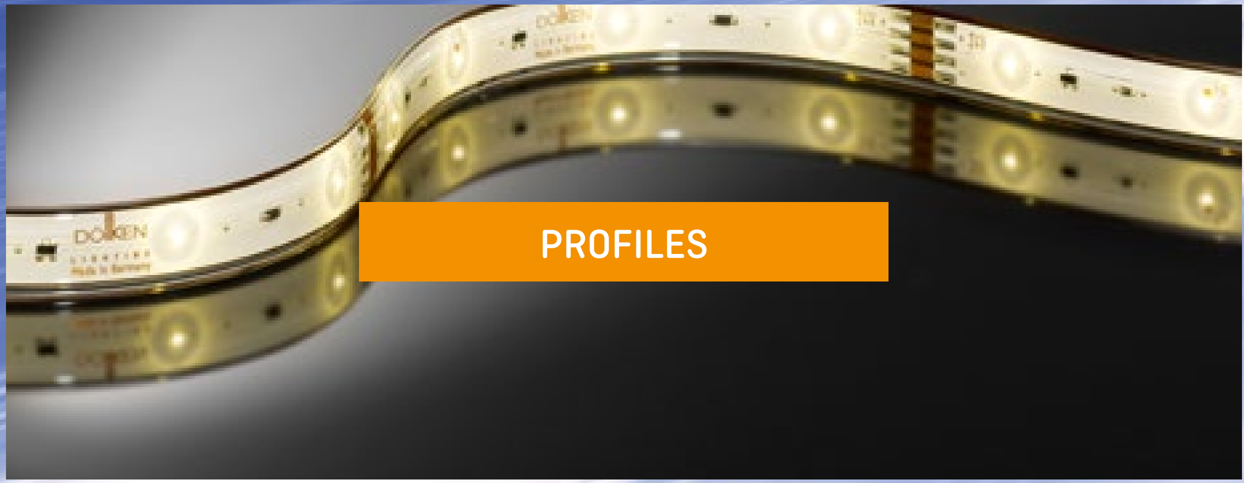
SURTECO GROUP

DECORATIVES		TECHNICALS	PROFILES
SURTECO GmbH		SURTECO Beteiligungen	DÖLLKEN Profiles
BauschLinnemann North America	SURTECO Australia	Kröning	DÖLLKEN Poland
SURTECO UK	SURTECO Asia	DAKOR	DÖLLKEN Czech Republic
SURTECO Italy	SURTECO France	Gislaved Folie	NENPLAS GROUP UK 85%
SÜDDEKOR USA	SURTECO Turkey		
SURTECO art	SURTECO Russia		
SURTECO USA/Canada	SURTECO Spain		
CANPLAST Mexico 50%	PROBOS Portugal		
	PROADEC Brazil		
	PROADEC UK		
	CHAPACINTA Mexico		

In future, the SURTECO 2025+ strategy plans for the operating management of the Group to be based on a cross-product sector approach. The Business Unit DECORATIVES offers a holistic approach for the wood-based and furniture industry while the Business Unit PROFILES with its skirtings and technical plastic profiles concentrates on the interior furnishing sector. The companies for individual special applications are grouped in the Business Unit TECHNICALS.







BUSINESS UNIT

DECORATIVES

SURTECO GmbH

The Business Unit Decoratives comprises SURTECO GmbH and its subsidiaries and offers a holistic system and a product portfolio supplying professional solutions from a single source that is unique in the world.

SECTORS

WOOD-BASED MATERIALS
LIVING
KITCHEN
OFFICE
DOORS
FLOORING
CARAVAN

BUSINESS UNIT

PROFILES

DöllkenProfiles

The Business Unit Profiles combines the manufacture of plastic-based skirtings, extruded LED tapes and technical plastic extrusions (profiles). The supplied sectors are also as diverse as the product and design selection.

SECTORS

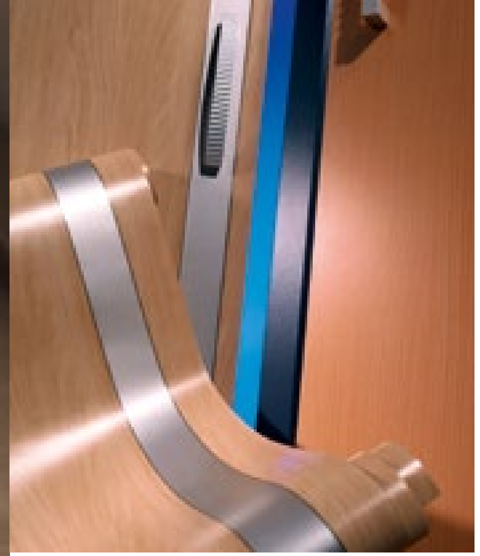
- INTERIOR DESIGN
- CRAFT TRADE
- SHIPS
- INDUSTRY
- CARAVAN

BUSINESS UNIT

TECHNICALS

Kröning

As a specialist supplier, Kröning GmbH markets styling elements for interior design. Technically sophisticated position prints, patina designs and strass effects (rhinestone) based on paper, plastics or genuine metal are examples of the strong product range.






SPECIALIST PROVIDER

INDIVIDUAL PRINTS

HYBRID PRODUCTS

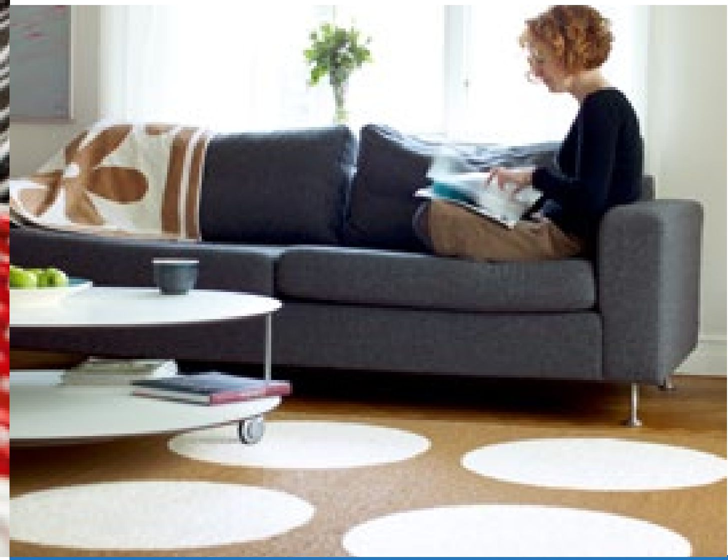
SMALL SERIES

BUSINESS UNIT

TECHNICALS

Gislaved Folie AB

The thermoplastic foils from Gislaved are found in a wide range of different sectors. They may be used as technical foils for medical or industrial products, in ship's cabins or woven into plastic carpets. The products of the specialist provider are found on every ocean and on every continent.



SPECIALIST PROVIDER

FOILS FOR PLASTIC CARPETS

CUSTOMER-SPECIFIC INDUSTRIAL AND MEDICAL APPLICATIONS

FIRE-RETARDANT DECOR FOILS

BUSINESS UNIT

TECHNICALS

DAKOR

As one of the leading manufacturers of surface refinements, Dakor completes the Business Unit Technicals. Melamine overlays and printed flooring decor and furniture decor films provide premium and resistant surfaces. Balancing and core-layer papers complete the product range as a full-service provider.

SPECIALIST PROVIDER

ANTI-SCRATCH AND ABRASION-RESISTANT SURFACE REFINEMENT

BALANCING MATERIALS

CORE-MATERIAL PAPER

COMPANY MANAGEMENT

Executive Officers of SURTECO GROUP SE

SUPERVISORY BOARD

Dr.-Ing. Jürgen Großmann
Chairman
Shareholder of the GMH Group, Hamburg

Björn Ahrenkiel
Vice Chairman
Lawyer, Hürtgenwald

Dr. Markus Miele
Deputy Chairman
Industrial engineer, Gütersloh

Dr. Christoph Amberger
Independent businessman, Utting am Ammersee

Andreas Engelhardt
Managing and personally liable shareholder of Schüco International KG, Bielefeld
from 28 June 2018

Jens Krazeisen
Employee Representative
Chairman of the Works Council, Buttenwiesen

Christa Linnemann
Honorary Chairwoman
Businesswoman, Gütersloh

Wolfgang Moyses
Chairman of the Management Board of SIMONA AG, Munich

Udo Sadlowski
Employee Representative
Chairman of the Works Council Essen
until 21 January 2019

Heinz-Dieter Stöckler
Employee Representative
Chairman of the Works Council Essen
from 5 February 2019

Dr.-Ing. Walter Schlebusch
Advisory Board of Giesecke & Devrient GmbH, Munich
until 28 June 2018

Thomas Stockhausen
Employee Representative
Chairman of the Works Council, Sassenberg

MANAGEMENT BOARD

Dr.-Ing. Herbert Müller
Chairman
Engineer, Heiligenhaus

Andreas Riedl
Chief Financial Officer (CFO)
Graduate in Business Administration, Donauwörth

Dr.-Ing. Gereon Schäfer
Engineer, Kempen
until 31 March 2018

Executive Management of Group Companies

BU DECORATIVES

SURTECO GMBH Buttenwiesen	Dieter Baumanns Maximilian Betzler Andreas Pötz Peter Schulte
BAUSCHLINNEMANN NORTH AMERICA INC. Myrtle Beach, USA	Mike Phillips
PROBOS PLÁSTICOS S.A. Mindelo, PT	Antonio Cardona Joao Pedro Cunha Paulo Moutinho Joao Nogueíra
SURTECO ART GMBH Willich	Bernd Poliwoda Dieter Baumanns
SURTECO ASIA (SURTECO PTE LTD. + PT DÖLLKEN BINTAN) Singapore + Batam, Indonesia	Hans Klingeborn
SURTECO AUSTRALIA PTY LTD. Sydney	Jade Weiss
SURTECO CANADA LTD. Brampton/Ontario	Tim Valters
SURTECO DEKOR A.Ş. Istanbul, Turkey	Emre Özbay
SURTECO FRANCE S.A.S. Beaucouzé	Gilbert Littner
SURTECO IBERIA S.L. Madrid, Spain	Peter Schulte
SURTECO ITALIA S.R.L. Martellago	Marco Francescon
SÜDDEKOR LLC Agawam, USA	Mike Phillips
SURTECO OOO Moscow, Russia	Rashid Ibragimov
SURTECO UK LTD. Burnley	David Doulin Kim Hughes
SURTECO USA INC. Greensboro	Tim Valters

BU TECHNICALS

DAKOR MELAMIN IMPRÄGNIERUNGEN GMBH Heroldstatt	Michael Metzmaier
GISLAVED FOLIE AB Gislaved, Sweden	Per Gustafsson
KRÖNING GMBH Hüllhorst	Wolfgang Gorißen

BU PROFILES

DÖLLKEN PROFILES GMBH Nohra	Hartwig Schwab Wolfgang Breuning
DÖLLKEN CZ S.R.O. Prague, Czech Republic	Jan Vitu
DÖLLKEN SP. Z O.O. Sosnowiec, Poland	Rafael Pospiech
NENPLAS LTD. Ashbourne, UK POLYPLAS LTD. Stourport-on-Severn, UK	Robert James Butcher Gary Horrobin Stephen Jones

ANNUAL REPORT
2018

FUTURE STRATEGY ORIENTATION

SURTECO
GROUP

we create.
we innovate.

CONTENTS

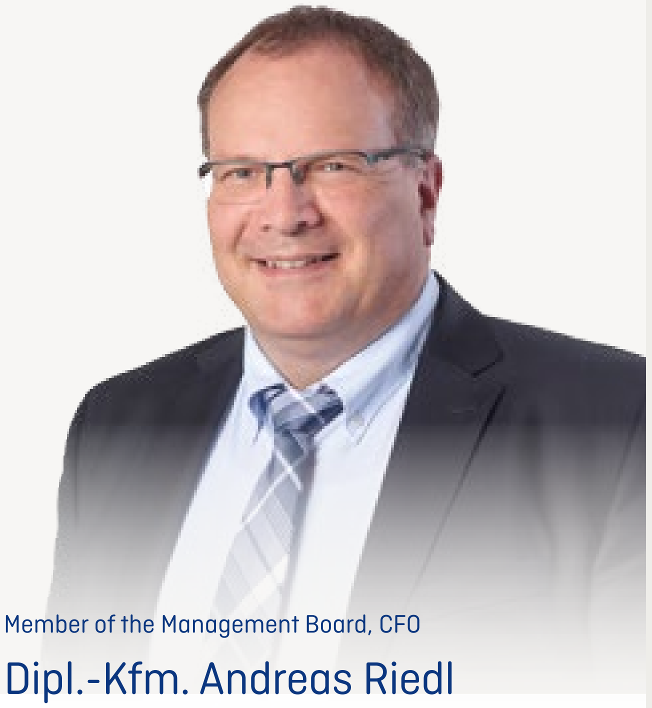
ISIN: DE0005176903
Ticker symbol: SUR

FOREWORD BY THE MANAGEMENT BOARD

Dear Shareholders and Friends of the Company,

Chairman of the Management Board , CEO

Dr.-Ing. Herbert Müller



Member of the Management Board, CFO

Dipl.-Kfm. Andreas Riedl

As we look back on the business year 2018, the old adage springs to mind: "Things never turn out as you expect". At the beginning of the year, sales were rising and earnings were developing with double-digit increases in line with expectations. This performance, the full-year consolidation of the Probos companies acquired in June 2017 and the initial successes from implementation of our strategy SURTECO 2025+ provided a sound basis for publishing an optimistic forecast. However, our most important sales regions were beset by increasing uncertainty from the middle of the year. As the year progressed, this developed into a global economic downturn. For us as a supplier of durable goods such as furniture and flooring, declining growth is very quickly reflected in falling demand. This meant that with a bottom line of € 699 million at year-end 2018, we were only able to achieve a small increase in sales for 2018. The lower EBIT of € 32.2 million after € 44.7 million in the previous year is due firstly to significantly increased prices for raw materials in the paper segment. It is extremely difficult to pass these increased costs on to customers against the background of a drop in dynamic performance in the sectors. Secondly, we responded rapidly to the weakening market conditions and set up an optimization programme to adjust our processes and structures, which is reflected in provisions of € 6 million and impacts negatively on earnings for 2018. Earnings adjusted for these one-off expenses are around € 38 million.

However, the development of 2018 confirms the need to drive forward our growth strategy SURTECO 2025+ consistently. We are thereby pursuing a cross-product sector initiative designed to ensure that we can meet customer needs even better and generate value added. The amalgamation of the three biggest companies in Germany to create SURTECO GmbH, and the formation of the Decoratives, Profiles and Technicals Business Units revealed the initial impacts of the strategy. This process also embodies a new culture within these Business Units and entails closely dovetailed workflows. In conjunction with our optimization programme, we are therefore in a comfortable initial position provided that demand increases once again in the near future.

Even though the business year 2018 proved to be unexpectedly challenging, SURTECO is continuing to share the profit generated appropriately with its shareholders. The dividend proposal from the Management Board and the Supervisory Board amounting to € 0.55 per share is based on our long-term dividend strategy. The payout ratio is at 46 percent of the consolidated net profit amounting to € 18.6 million. Based on the closing price of € 22.30 for the share at the end of 2018, the proposed dividend represents a dividend yield of 2.5 percent.

From our present perspective, there is currently no prospect of support from the markets of our large-volume mass-production business for organic growth in 2019. In fact, the framework conditions are tending to deteriorate. We are therefore cautious about our sales prospects. Nevertheless, we are confident of being able to increase our earnings of € 38 million adjusted by one-off expenses.

We would like to express our warmest thanks to our employees for their high level of commitment and also extend our thanks to our customers and business partners. Our very special thanks also go to you, our valued shareholders. We would be delighted if you continued to support us on our journey with your confidence and trust.

Dr.-Ing. Herbert Müller

Dipl.-Kfm. Andreas Riedl

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

Chairman of the Supervisory Board

Dr.-Ing. Jürgen Großmann

In the business year 2018, the Supervisory Board carried out all the functions allocated to it under statutory regulations and the Articles of Association. We advised the Management Board regularly on the management of the company and monitored the measures it took. In this process, we were involved in all the fundamental decisions taken. The Management Board regularly kept us informed in comprehensive written and verbal reports. We were notified promptly about the key aspects of the performance of the business and about significant business transactions. We were also given detailed information about the current income situation and planning, as well as the risks and risk management. The economic situation presented in the reports by the Management Board and the development perspectives of the Group, the individual business areas and important participations in Germany and abroad, as well as the general economic environment were the subject of careful and detailed discussion in the Supervisory Board. Resolutions were adopted as far as this was necessary in compliance with statutory regulations or the Articles of Association.

The Supervisory Board convened for a total of four meetings during the course of the business year 2018. No member of this governance body took part in fewer than half the meetings. The Chairman of the Supervisory Board furthermore remained in regular contact with the Management Board outside these meetings.

Focuses of advice

In the business year 2018, the Supervisory Board intensively addressed the reporting of the Management Board 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 most recent 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 Management Board at the meetings of the Supervisory Board, where they were analyzed and compared with the projected figures.

The economic environment in which the company is operating was subject to particularly intensive discussion. These deliberations continued with the themes of raw material prices and the availability of raw materials, as well as exchange rates and energy costs. The situation with the most important customers, the divisions of the foreign companies, and the conduct of the key competitors in the market were also considered, and the impacts of digitalisation on the business model of the company.

At its meeting on 25 April 2018, the Supervisory Board continued to engage intensively with the "Strategy SURTECO 2025+" and approved individual implementation measures. As part of a realignment of the previous product orientation to a focus on sectors, one of the key elements was a merger of the three Group companies BauschLinnemann GmbH, Döllken-Kunststoffverarbeitung GmbH and SURTECO DECOR GmbH, which had previously been managed separately, into a new unit under the name SURTECO GmbH. Other restructuring measures included the merger of other investment companies under the newly established SURTECO Beteiligungen GmbH as a direct subsidiary of the company and the merger of Döllken-Profiltechnik GmbH to form Döllken Profiles GmbH (formerly: Döllken-Weimar GmbH) in order to simplify the Group structure. Approval was also given to the conclusion of various controlling and profit transfer agreements, in order to ensure a single entity for income tax and sales tax purposes. Furthermore, a decision was taken to submit a proposal to the Annual General Meeting in respect of the renaming of the company into "SURTECO GROUP SE". In connection with approval of implementation of the "Strategy 2025+", the Supervisory Board also agreed to conclude contracts of service with the Managing Directors of SURTECO GmbH.
The Supervisory Board engaged on an ongoing basis with the medium and long-term strategic direction of the group of companies at meetings and in analyses together with the Management Board. At the same time, common ground was established in that the Supervisory

Board was in favour of the overall strategic direction intended by the Management Board for the company.

At its meeting held on 25 April 2018, the Supervisory Board audited and adopted the Non-financial Report for the business year 2017 drawn up by the Management Board for the first time in relation to the CSR Directive Implementation Act.

The plans (budget and investment plan) submitted by the Management Board for the business year 2019 were discussed, reviewed and adopted by the Supervisory Board at its meeting held on 19 December 2018, and the capital expenditure put forward by the Management Board was approved with some modifications.

At its meeting held on 25 April 2018, the Supervisory Board adopted the proposals for the agenda of the Ordinary General Meeting 2018.

Compensation for the Management Board

The Supervisory Board approved the variable compensation elements of the Members of the Management Board for the business year 2017 at its meeting held on 25 April 2018.

Personnel decisions by the Supervisory Board

At its meeting on 25 April 2018, the Supervisory Board agreed the conclusion of a settlement agreement with Dr. Ing. Gereon Schäfer, whose period of office as a Member of the Management Board came to an end on 31 March 2018. At the same meeting, the Supervisory Board resolved to adopt an amendment to the Business Allocation Plan for the Management Board taking account of the departure of Dr.-Ing. Schäfer.

At its meeting on 19 December 2018, the Supervisory Board agreed with the Chairman of the Management Board of the company, Dr.-Ing. Herbert Müller, that he would prematurely end his contract of service scheduled to end on 30 June 2021 in the course of the year 2019, and further agreed the important key points for such a termination. In the meantime, an agreement has been agreed with Dr. Müller, which the Supervisory Board established and agreed in writing in March 2019.

Up until 2001, Dr. Müller was Managing Director of the Döllken Group, which was acquired by the former SURTECO AG and current SURTECO GROUP SE in 2000/2001. Following this acquisition in 2001, Dr. Müller was appointed as a Member of the Management Board of our company. As a Member of the Management Board, Dr. Müller had specific responsibility for the Strategic Business Unit Plastics. With effect from 1 July 2015, he was also appointed as Chairman of the Management Board. The Supervisory Board would like to take this opportunity to thank Dr. Müller for his work over a period of more than 30 years for the company and its predecessor companies, his services to the SURTECO Group, his loyalty and many years of long association with the company, and his good cooperation with the Supervisory Board, the shareholder representatives and in the Management Board of the company.

At the meeting referred to above, the Supervisory Board of the company agreed to the conclusion of a contract of service for the Management Board with Mr. Wolfgang Moyses, Dipl.-Bw. (FH). Mr. Moyses is currently the Chairman of SIMONA Aktiengesellschaft, Kirn, and Member of the Supervisory Board of SURTECO GROUP SE. He is due to commence his appointment as Chairman of the Management Board of SURTECO GROUP SE with effect from 1 November 2019 or, if possible, at an earlier date, for a period of office of five years. Mr. Moyses will step down from his role as Member of the Supervisory Board of the company before he starts his period of office as Chairman of the Management Board.

Establishment of the compensation for the Audit Committee

At its meeting on 19 December 2018, the Supervisory Board defined the compensation for the members of its Audit Committee pursuant to § 12 (3) of the Articles of Association at a total amount of € 37,500.00 plus sales tax, which does not breach the upper limit of € 40,000.00 defined in the Articles of Association. The amount of € 37,500.00 was allocated to the individual members of the Audit Committee on the basis of their respective time commitment.

Personnel changes in the Supervisory Board

The period of office of the Member of the Supervisory Board Dr. Walter Schlebusch came to an end at the close of the ordinary Annual General Meeting held on 28 June 2018. The Supervisory Board thanks Dr. Walter Schlebusch for his work and for his many years of association with the company.

The Annual General Meeting held in 2018 voted to appoint Mr. Andreas Engelhardt to replace Dr. Walter Schlebusch on the Supervisory Board. No other personnel changes took place on the Supervisory Board during the period under review.

Work of the committees

The Supervisory Board formed an Audit Committee and a Personnel Committee whose members are listed in the Notes of the Annual Report. The committees have the function of preparing issues, topics and resolutions for the meetings of the Supervisory Board. There is also a Presiding Board in accordance with the Rules of Procedure of the Supervisory Board.

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 and transactions requiring approval. The Presiding Board did not need to make any decisions in the reporting period.

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, the appointment of the auditor to carry out the audit, the determination of the focuses of the audit and the agreement of the fee. The Chairman of the Audit Committee and from time to time the other members of the committee were in regular contact with the Management Board and the auditors. The Chairman of the Audit Committee kept the other Members of the Audit Committee informed about individual issues in writing. The Audit Committee was convened once during the course of the business year. The auditors carrying out the audit on the consolidated financial statements were present at this meeting and reported on the result of their audit.

The Personnel Committee held six meetings during the year under review. In particular, the Personnel Committee addressed the proposal to calculate the variable compensation elements of the Members of the Management Board for the business year 2017, the proposal relating to a settlement agreement for the former Member of the Management Board, Dr. Ing. Gereon Schäfer, and the premature ending of the contract of service of Dr. Müller, and the conclusion of a contract of service with Mr. Moyses. The Personnel Committee drew up appropriate proposals for resolutions, and resolutions were passed by the plenary Supervisory Board at the relevant meetings of the Supervisory Board.

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

Corporate Governance

The Supervisory Board addressed the ongoing development of the corporate governance principles in the company in 2018 and also took account of the regulations of the German Corporate Governance Code made on 7 February 2017. Within the scope of the efficiency audit, the Supervisory Board regularly carries out a self-assessment of its members and discusses the results in the plenary session of the Supervisory Board. In view of only slight deviations in the individual self-assessments during previous years, the self-assessment will be carried out in a two-year cycle, most recently in December 2017 for the business years 2016 and 2017. The results of this self-assessment were presented and discussed at the first meeting of the Supervisory Board in 2018.

On 19 December 2018, the Management Board and the Supervisory Board submitted a new Declaration of Compliance, which was included in the Declaration on Corporate Governance 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 of the company were drawn up in accordance with German accounting principles. The Consolidated Financial Statements for the business year 2018 were prepared on the basis of the International Financial Reporting Standards (IFRS). The Management Board 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 auditor, PricewaterhouseCoopers GmbH, Munich, audited the Consolidated Financial Statements and the Annual Financial Statements of SURTECO GROUP SE, as well as the Management Report and the Consolidated Management Report and granted each of the documents 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 on the financial statements were carried out in the Audit Committee meeting and at the Balance Sheet Meeting of the Supervisory Board held on 29 April 2019 in the presence of the auditor and following a report by the auditor pursuant to § 171 (1) sentences 2 and 3 Stock Corporation Act (AktG).

We examined the submitted documents. Furthermore, 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 Management Board. 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. We agree with the proposal by the Management Board for the appropriation of net profit that recommends payment of a dividend of € 0.55 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 2019 and the Supervisory Board also accepted this proposal.

The Supervisory Board would like to thank the Management Board, the executive managers, the members of the Works Councils, and all the members of staff for the work they have carried out and for their commitment during the business year 2019.

Buttenwiesen, April 2019.

The Supervisory Board

Dr.-Ing. Jürgen Großmann
Chairman

SUMMARY MANAGEMENT REPORT
SURTECO GROUP AND SURTECO GROUP SE FOR THE BUSINESS YEAR 2018

Basic principles of the group

Overview

The SURTECO Group is a Group of mutually complementary companies operating on the global stage. It has primarily specialized in the manufacture of decorative surface coatings for furniture, flooring and interior design. The SURTECO GROUP SE (formerly SURTECO SE) serves within this structure as the holding company with a controlling function.
The manufactured products of the SURTECO Group are mainly used in the international flooring, wood-based and furniture industry, as well as by carpenters and artisan businesses. The products are generally used to coat wood-based materials such as chipboard and fibreboard. These materials thereby gain their final surface with appealing visual and haptic properties. These coated wood-based materials serve as the starting material for the manufacture of furniture, doors, laminated flooring and other products used for interior furnishings and fittings. The Group also offers an appropriate complementary product for flooring requirements, with skirtings for professional floorlayers, and for the retail and professional sectors of the interior-design industry. Technical extrusions (profiles) made of plastic for all industrial sectors and roller-shutter systems are also included in the product range.

Paper and plastic-based edgebandings constitute the product group produced by the SURTECO Group generating the strongest sales. These products are used to refine the narrow edges and the cut edges of wood-based boards. The offering ranges from paper-based edgebandings – also known as melamine edgebandings – in different versions through to thermoplastic edgebandings which are manufactured from a range of different plastics tailored to the area of application.
The Group also ranks as one of the world's leading suppliers in the product area of finish foils. These are used for coating large areas of wood-based materials and therefore play a major role in the visual and haptic appraisal of finished products such as items of furniture or panelling. Just as in the case of edgebandings, the finish foils are based on specialist technical papers and on plastics. The Group therefore has a unique selling proposition in the market place. Finish foils based on paper are supplied in two different versions with fully impregnated and pre-impregnated materials. Fully impregnated finish foils are saturated in a resin bath within the Group and subsequently dried, whereas the raw paper for pre-impregnates has already been impregnated at the paper manufacturer. The Group seals both versions with a layer of lacquer and, if required, refines the surface with haptic textures depending on the design version. Finish foils based on paper are typically used to manufacture doors, furniture for living areas, bedrooms and teenage settings. They are also used for profile wrappings and for the manufacture of panellings. Plastic-based finish foils from the Group are used to cater for special applications, such as interior design for ships or for furniture surfaces requiring particularly hard-wearing properties.
The SURTECO Group is also one of the world's biggest producers of decorative papers. These specialist papers are printed with wood, stone or fantasy decors and they are used as a material for providing a decorative finish. These papers are used within the Group for the manufacture of finish foils and impregnates. They are also supplied directly to customers from the flooring, furniture and wood-based materials industry. Decor development takes place at the Group's in-house design studio, which also produces the printing cylinders necessary for production.
Similar to finish foils, impregnates from SURTECO are used to refine large areas of wood-based materials. However, the final surface for impregnates is only formed in the compression stage at the manufacturer of the refined product. The base is formed by the printed or single-colour decor paper, overlay or release paper, which is impregnated, dried and cut in formats. The product range is mainly deployed for surfaces subject to particularly heavy-duty usage, such as laminate

flooring or worktops. The product portfolio also includes release papers, which are required for the compression of impregnates. This product forms a protective layer between the impregnate and the hot pressed board. It additionally gives the melamine surface the desired texture and level of gloss finish.
The skirtings produced by the SURTECO Group are primarily sold by the specialist flooring and wholesale trade. These high-quality products are either manufactured entirely of plastic or they are wrapped with a wood-fibre core in a special three-part extrusion process. These products are mainly processed by professional floorlayers. Plastic skirtings are also produced especially for trade and industry in the interior design sector. They are then marketed together with commercial products as a complete product range. The Group also has a long track record in the manufacture of a wide range of extrusion products for interior design, for roller-shutter systems and for a broad spectrum of industrial applications.
The products are either marketed by direct sales or shipped to customers through the Group's own sales locations, and through a dense network of dealers and agents on all continents of the world. The Group is increasingly using e-commerce as a sales channel. The most important sales markets for the Group include Germany, Europe, and North and South America. Production and sales facilities in Europe, North and South America, and Australia and Asia ensure reliable and fast delivery tailored to the target market.

Internal corporate controlling system

Central controlling for the Group is carried out by the holding company SURTECO GROUP SE with registered office in Buttenwiesen, Bavaria, Germany. The holding company implements strategic planning and controlling, group-wide finance, investment and risk management, human resources strategy, Group accounting, IT management and investor relations activities. The individual subsidiary companies of the Group manage their business on the basis of group-wide parameters. Up until the business year 2018, the subsidiaries were organized in the Strategic Business Units (SBU) Paper and Plastics in line with the base materials used. As part of the growth strategy SURTECO 2025+, the focus of the Group has been shifted even more strongly onto customer requirements by an improvement of the positioning in the market and differentiation with respect to competitors. Up to now, the Group was managed on the basis of products. This has been restructured into a sector-oriented management. In this connection, the organizational structure was streamlined in the business year 2018 and the three biggest German subsidiary companies BauschLinnemann GmbH, SURTECO DECOR GmbH and Döllken-Kunststoffverarbeitung GmbH were merged to form SURTECO GmbH. Furthermore, the specialist for technical extrusions (profiles), Döllken-Profiltechnik GmbH, was merged with Döllken Profiles GmbH (formerly Döllken-Weimar GmbH). Together with the British subsidiary companies of the Nenplas Group, Döllken Profiles forms the second biggest mainstay of the SURTECO Group.
From the business year 2019, the management of the company and hence the segment reporting will be carried out through the new Business Units Decoratives, Profiles and Technicals, which are replacing the previous Paper and Plastics Strategic Business Units. SURTECO GmbH is positioned in the Decoratives Segment including all subsidiary companies and it serves customers in the wood-based, flooring and furniture industry, and in the caravan sector. The Profiles Segment comprises Döllken Profiles GmbH including its subsidiary companies and supplies professional floorlayers and the interior-design industry. Technical extrusions (profiles) are also manufactured in this segment by the same type of production processes. They are used for a wide range of applications such as mobile homes or commercial vehicles. The commonalities between the companies of the Technicals Segments, Kröning GmbH, Dakor Melamin Imprägnierungen GmbH and Gislaved Folie AB, alongside the North American impregnating business are situated in the sales activities as specialist manufacturers in niche markets.
Sales revenues and earnings before financial result and income tax (EBIT) are the most important financial controlling parameters for the SURTECO Group. The Group also uses a summarized true and fair view of a number of indicators, the covenants, as a key financial controlling parameter. These are comprised of the indicators equity ratio, level of debt (gearing) and interest cover factor. The covenants define threshold values which the Group does not intend to exceed or fall short of. Compliance or non-compliance with these covenants is monitored, and reports are regularly submitted. Non-financial controlling parameters are not used as key controlling parameters at Group level or within the holding company. For SURTECO GROUP SE as an individual company, financial and non-financial performance indicators and thus their forecast play a subordinate role. Compliance with statutory requirements is not affected.

Strategic Business Unit Paper

The SBU Paper comprises the paper-based businesses of SURTECO GmbH, including their subsidiary companies and Kröning GmbH and Dakor Melamin Imprägnierungen GmbH*.
SURTECO GmbH (formerly at this location: BauschLinnemann GmbH) produces edgebandings and finish foils at its production facility in Sassenberg. Meanwhile, the production facility in Buttenwiesen (formerly BauschLinnemann GmbH) has focused entirely on the manufacture and refining of finish foils.
Semi-finished products are delivered to the sales companies located in the United Kingdom (SURTECO UK Ltd., Burnley) and in Italy (SURTECO Italia s.r.l., Martellago) and Russia (SURTECO OOO, Moscow). They are then finished to customers' specific orders and supplied there. In the USA, the subsidiary company, BauschLinnemann North America, Inc., Myrtle Beach, SC, produces and sells products specially tailored to the North American market.
SURTECO GmbH will take over the manufacture of decor papers in Germany at its main site in Buttenwiesen (formerly SURTECO DECOR GmbH). At the production location in Laichingen, finish foils and release papers are also manufactured. The subsidiary company SUDDEKOR LLC, Agawam, manufactures decor papers for the USA and also maintains a production site there for impregnates in East Longmeadow. Dakor Melamin Imprägnierungen GmbH based in Heroldstatt carries out the manufacture and sale of impregnates in Germany.
Kröning GmbH in Hüllhorst is a specialist supplier for surface coatings with exceptional requirements. The product portfolio comprises edgebandings, finish foils and hybrid products.
SURTECO art GmbH in Willich is responsible for the development of new decorative designs and engraving new print cylinders.

Strategic Business Unit Plastics

The SBU Plastics includes the plastics processing businesses of SURTECO GmbH and Döllken Profiles GmbH, each with their subsidiary companies*, and Gislaved Folie AB in Sweden.
The manufacture of plastic edgebandings is carried out at the business of SURTECO GmbH in Gladbeck (formerly at this location: Döllken-Kunststoffverarbeitung GmbH) and in the USA (SURTECO USA Inc., Greensboro, NC), in Canada (SURTECO Canada Ltd., Brampton, Ontario), in Australia (SURTECO Australia Pty Limited, Sydney) and Indonesia (PT Doellken Bintan Edgings & Profiles, Batam). The Probos Group produces plastic edgebandings at its head office in Portugal (Probos - Plásticos, S. A., Mindelo) and in Brazil (Proadec Brasil Ltda., São José dos Pinhais). Sales companies operated by the Probos Group are located in Germany (Proadec Deutschland GmbH, Bad Oeynhausen), in the United Kingdom (Proadec UK Ltd., Greenhithe), and in Mexico (Chapacinta, S. A. de C. V., Tultitlán). Another sales location of SURTECO Canada Ltd. in Mexico (Canplast Mexico S.A. de C.V.,

* If not separately identified, the locations of the individual companies are in Germany.

Chihuahua) supports as a joint venture the market in Mexico. The subsidiary companies of SURTECO GmbH also act as sales companies for global delivery in Singapore (SURTECO PTE Ltd.), France (SURTECO France S.A.S., Beaucouzé), Spain (SURTECO Iberia S.L., Madrid), Turkey (SURTECO DEKOR A. Ş., Istanbul), Italy (SURTECO Italia s.r.l., Martellago) and Russia (SURTECO OOO, Moscow).
Döllken Profiles GmbH (formerly Döllken-Weimar GmbH) based in Nohra near Weimar and its subsidiary in Bönen manufacture floor strips and skirtings as well as wall edging systems for professional floorlayers, and for trade and industry in the interior design sector. The accessories and other products required for laying the products relating to all aspects of flooring are also supplied as product ranges for resale. The company maintains sales locations in Poland (Döllken Sp. z o.o., Sosnowiec) and the Czech Republic (Döllken CZ s.r.o., Prague) and a production business for technical extrusions in Dunningen (formerly Döllken-Profiltechnik GmbH). Nenplas Ltd., including its subsidiary company Polyplas Extrusions Ltd., both located in Ashbourne, UK, (Nenplas Group) also manufacture technical extrusions (profiles) for a wide range of industrial applications.
Gislaved Folie AB in Gislaved, Sweden, produces finish foils based on plastic and technical plastic foils for further processing to form panelling for ships' cabins, carpets and for other industrial sectors.

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.
The Supervisory Board monitors and advises the Management Board on the running of the company. It is made up of nine members. Six members are appointed by the Annual General Meeting as representatives of the shareholders. Three members are appointed by the Works Councils of the three domestic companies with the largest number of employees as representatives of the workforce.
The management of the SURTECO Group operates on the basis of the dual management and controlling system in which the Members of the Management Board 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 Management Board and the Supervisory Board. The Management Board and the Supervisory Board gear their actions and their decisions to the interests of the company. They are committed to the objective of increasing the value of the company in accordance with the interests of the shareholders, the business partners, the employees and the general collectivity of stakeholders.

Economic growth for 2018 in %

World	+3.7
Germany	+1.5
Eurozone	+1.8
United Kingdom	+1.4
USA	+2.9
Central and Eastern Europe	+3.8
Latin America	+1.1
Asia	+6.5

Source: International Monetary Fund (IMF), World Economic Outlook, Update January 2019.

Economic report

Macroeconomic and sector-specific framework conditions

Dynamic performance of global economic growth eases slightly in 2018
General economic development is a good indicator across all countries for the operating business activity of the SURTCO Group, because economic growth impacts on the purchasing and investment affinity of customers. This in turn drives the demand for our products and solution packages. Key geographical markets are Europe, North and South America, and Australia. Including Germany, the proportion of these regions in Group sales amounts to 96 %. There has been a significant acquisition-related increase in the importance of Latin America, in particular Brazil, since 2017. As far as customer industries are concerned, demand from the furniture, flooring and wood-based industries continues to dominate, while the Group also generates sales in the interior-design industry, with the caravan industry and as a supplier to cruise ships
According to reports by the International Monetary Fund (IMF) in its publication of January 2019 entitled "World Economic Outlook", global economic growth went down slightly from 3.8 % to 3.7 % in a twelve-month comparison. At the beginning of the reporting year, the forecasts of the IMF at plus 3.9 % were still based on a more optimistic scenario. The impacts of the trade war between China and the USA, uncertainties in some European countries, in particular Italy, and the continuing Brexit discussions led to significantly more moderate projections by experts. The developed economies posted robust economic growth of 2.3 %, although this was below growth for the previous year (+2.4 %). The economies in the emerging economic and developing countries also eased their expansion with growth at 4.6 % (2017: +4.7 %).
In 2018, the US economy showed robust growth of 2.9 % on the back of the tax breaks and economic programmes. The eurozone lagged significantly behind the USA and development in the previous year (+2.4 %) with plus 1.8 %. In Germany, development was disappointing, primarily due to weakness in the automobile industry (+1.5 % after +2.5 % in the previous year). France (+1.5 % after +2.3 %), Italy (+1.0 % after 1.6 %) and Spain (+2.5 % after +3.0 %) showed similar trends. The United Kingdom only achieved growth of 1.4 % (2017: +1.8 %) owing to the uncertainties surrounding Brexit. Development in Central and Eastern Europe was also significantly less dynamic (+3.8 % after +6.0 %). Even China as the locomotive for Asia and increasingly also the global economy throttled back a gear, although expansion of 6.6 % compared with 2017 (+6.9 %) still provided testimony to

impressive growth. The other BRIC countries of Brazil (+1.3 % after +1.1 %) and Russia (+1.7 % after +1.5 %) by contrast showed a positive development, even though these economies were starting from a significantly lower absolute level. India's economy continued its upward development with an increase of 7.3 % after 6.7 % in the previous year.[1]

Sales and business performance

Group sales at € 699 million slightly above the previous year

The business year 2018 started positively for the SURTECO Group, still in line with expectations on the basis of sales growth of 10 % in the first quarter. However, business development lost significant impetus as the year progressed. A gradual slowdown in economic growth gradually exerted an impact, particularly in the important sales markets in Germany and Europe. Since the Group largely supplies products to sectors which are vulnerable to the economic cycle, such as the furniture industry, this resulted in a tangible weakening in demand. For example, the Trade Association for Furniture and Kitchens (BVDM) is also assuming a decline in sales development for the German furniture, kitchen and interior furniture sector in 2018. The Association of the German Furniture Industry (VDM) similarly reported a fall in demand for classic household furniture for the business year 2018, whereas the German furniture industry as a whole succeeded in slightly increasing its export-driven sales by 0.7 %.

The SURTECO Group was able to bring about a modest rise in sales during the business year 2018 on account of full-year consolidation of the Probos companies acquired in June 2017. The Group also generated organic growth in specialized niche markets, although this was at a low level. Nevertheless, the falls in demand for the large-volume business operations could not be compensated so the results fell significantly short of the projected target of € 725 million to € 750 million published in the Annual Report 2017. After the forecast was already classified as uncertain in August 2018, the Management Board provided concrete figures relating to expected sales in October 2018 and gave a new corridor of € 685 million to € 695 million. Sales of the SURTECO Group were slightly above this range at € 699.0 million after € 689.7 million in the previous year. On the basis of exchange rates from the previous year, the business volume would have been approximately € 714 million. In particular, the development of the exchange rates for the US dollar, the Brazilian real and the Australian dollar resulted in negative impacts. In view of the falling dynamic economic performance, sales of the Group in the domestic market lost ground by 3 %, falling to € 170.0 million (2017: € 175.7 million). Various political uncertainties in Europe, such as Brexit and the budgetary dispute with Italy, exerted pressure on sentiment. Nevertheless, the Group was able to increase sales revenues in this region by 3 % owing to the full-year consolidation of the European Probos operations. The first-time, full-year consolidation of the Probos companies is also reflected in the sales increase of 1 % in North and South America. The rise of 14 % in Asia was generated by organic growth against the background of robust framework conditions. Sales in euros in Australia remained at the level of the previous year, whereas organic growth was generated in the local currency. Foreign sales went up from € 514.0 million in the previous year to € 529.0 million. The foreign sales ratio went up to 76 % (2017: 75 %).

Strategic Business Unit Paper:

The sales development at the Strategic Business Unit Paper was subject to a significant downturn in demand for important sales sectors in the business year 2018. For example, global sales of members of the Association of European Laminate Floor Layers fell back by 22 million square metres or by 4.6 % compared with 2017. In this market, the paper line is represented with the products decor papers and impregnates and this business fell by 3 % and 13 % respectively compared with the previous year. Furthermore, the paper line operates as a contract manufacturer for impregnates, which has been particularly strongly affected by the slackening demand. Sales for melamine edgings also underwent downward development (-5 %) because this product is increasingly being substituted in the market by thin plastic edgings. However, the Group is benefiting from this trend through the products of the Probos companies in the plastics line. In the case of paper-based finish foils, which are primarily supplied to the furniture, door and caravan industries, the picture was divided. While the preimpregnated finish foils finished the business year 2018 slightly below the level for the previous year (-3 %), sales were generated to the level of the previous year with fully impregnated finish foils. Business with release papers experienced a very positive development. This product enabled the company to benefit from the sustained trend towards haptic surfaces. Correspondingly, sales rose here by 13 %. Generally speaking, satisfactory business was transacted in the paper line with special products in niche markets, whereas volume business suffered as a result of a drop in demand occasioned by the economic cycle.

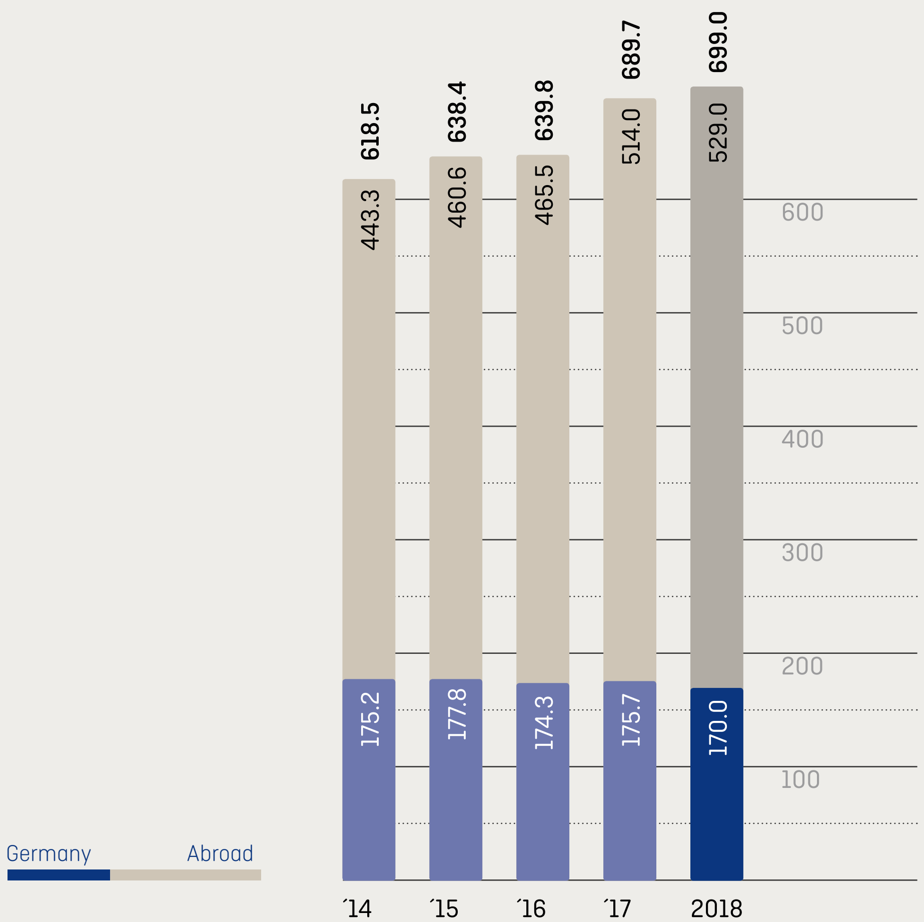
Overall, the Strategic Business Unit Paper generated sales revenues amounting to € 351.6 million after € 368.0 million in the previous year. As a consequence of this fall of 4 %, the anticipated slight increase in sales was not achieved. This sales development was distributed over the biggest regional markets of the paper line Germany (-6 %), the rest of Europe (-1 %) and North America (-14 %). On the basis of a lower starting point, sales rose in South America (+12 %), Asia (+23 %) and Australia (+3 %). The foreign sales ratio remained constant at 75 % at the level of the previous year.

Strategic Business Unit Plastics:

The sales revenues of the Strategic Business Unit Plastics rose by € 25.7 million to € 347.4 million (2017: € 321.7 million) in the business year 2018. Although the company had anticipated even more marked growth, this increase of 8 % complied with the forecast for a substantial increase, particularly since the sales volume would have been € 359 million with exchange rates at the level of the previous year, and sales at the value of the previous year still included sales at the level of € 2.5 million from the shareholding in Canplast SUD in Chile, which was sold in December 2017. Growth in the reporting period was generated from the full-year consolidation of the Probos companies acquired in June 2017 and from organic growth in plastic foils, skirtings and technical extrusions (profiles). Business with plastic foils increased by 10 % and sales with skirtings and related products went up by 5 %. Growth in technical extrusions (profiles) amounted to 2 %. Essentially on account of the full-year consolidation of the Probos companies, sales with plastic edgebandings climbed by 11 % owing to the full-year consolidation of the Probos companies. Only transactions with roller-shutter systems were 17 % down on the previous year, from a low starting position. In the Strategic Business Unit Plastics, the general slowdown in demand was also tangible in the product groups of SURTECO GmbH. This was particularly evident in the domestic market, which remained at the level of the previous year with € 83.3 million, whereas in the rest of Europe transactions increased by 9 % supported by acquisitions. The full-year consolidation of the Probos companies was also reflected in growth of 58 % in South America. Sales in North America remained almost exactly at the value of the previous year, although organic growth was generated in local currency. Business transactions in Asia rose by 8 % and Australia was also able to generate some organic growth in the local currency, whereas after conversion to euros, sales remained stubbornly at the level of the previous year. On account of the full-year consolidation of the Probos companies, which generate their sales virtually exclusively abroad, the foreign sales ratio of the plastics line increased by two percentage points to 76 %.

[1] Source: International Monetary Fund (IMF), World Economic Outlook, Update January 2019.

Sales revenues in € million SURTECO Group



Net assets, financial position and results of operations

Value added

In the business year 2018, sales revenues of the SURTECO Group went up from € 689.7 million to € 699.0 million. Other income – comprising other own capitalized work, other operating income, changes in inventories, interest income and other financial income – increased from € 10.3 million in 2017 to € 14.2 million. Consequently, the corporate performance rose from € 700.0 million in the previous year to € 713.2 million. The cost of materials increased significantly to € 349.6 million compared with the previous year (€ 335.0 million) on the back of the higher level of sales and owing to higher purchase prices. In spite of higher total output, the other expenses at € 103.5 million were below the value for the previous year of € 110.5 million. The acquisition of the Probos Group in June 2017 is also reflected in the increased depreciation and amortization amounting to € 40.6 million (2017: € 38.4 million). Total value added for the Group amounted to € 219.5 million in the business year 2018 after € 216.1 million in 2017. When the value added was allocated, the payment to employees increased on account of the full-year acquisition of the Probos Group and provisions for an optimization programme from € 174.5 million in the previous year to € 185.3 million, while a dividend payment was made to shareholders of € 12.4 million at the level of the previous year. Taxes amounting to € 8.2 million (2017: € 7.2 million) were payable to the fiscal authorities and interest payments of € 7.5 million were payable to lenders after € 8.4 million in the previous year. Overall, value added of € 6.1 million (2017: € 13.6 million) was retained within the company.

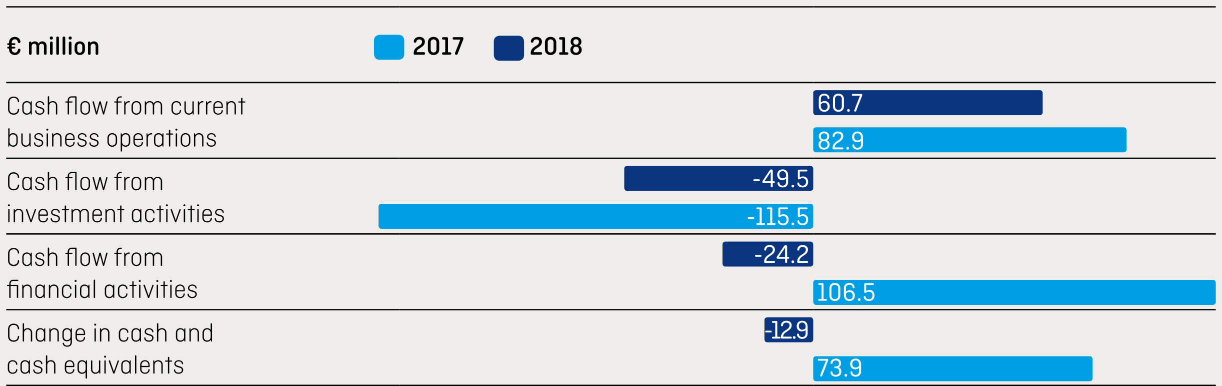
Value added calculation

€ million	2017	in %	2018	in %
Sales revenues	689.7		699.0	
Other income	10.3		14.2	
Corporate performance	**700.0**	100.0	**713.2**	100.0
Cost of materials	-335.0	-47.9	-349.6	-49.0
Depreciation and amortization	-38.4	-5.5	-40.6	-5.7
Other expenses	-110.5	-15.8	-103.5	-14.5
Creation of value added (net)	**216.1**	**30.9**	**219.5**	**30.8**
Shareholders (dividends)	12.4	5.7	12.4	5.6
Employees (personnel expenses)	174.5	80.7	185.3	84.4
Government (taxes)	7.2	3.3	8.2	3.7
Lenders (interest)	8.4	3.9	7.5	3.4
Distribution of value added	**202.5**	**93.7**	**213.4**	**97.2**
Remaining in the company (value added)	**13.6**	**6.3**	**6.1**	**2.8**

Cash flow statement

In the business year 2018, the internal financing of the SURTECO Group amounted to € 57.8 million after € 61.2 million in the previous year. Essentially, payments for income taxes changed here owing to higher advance payments (€ -14.8 million in 2018 after € -9.2 million in 2017) and other expenses/income with no effect on liquidity (€ -3.7 million after € -9.7 million in 2017). Gains/losses from disposal of fixed assets amounted to € 3.0 million after € -0.1 million in 2017. The change in assets and liabilities (net) in the business year 2018 amounted to € 2.9 million after € 21.7 million in 2017. In the previous year, assets and liabilities (net) were influenced by the acquisition of the Probos companies, whereas a change in inventories amounting to € -7.2 million (2017: € -0.1 million) was set against provisions amounting to € 7.6 million (2017: € 0.4 million) during the year under review. Earnings before income tax amounting to € 27.2 million (2017: € 33.5 million) consequently yields a cash flow from current business operations of € 60.7 million (2017: € 82.9 million). The cash flow from investment activities was € -49.5 million after € -115.5 million in 2017, because the acquisition of the Probos Group was included last year. This therefore results in free cash flow of € 11.2 million for 2018 after € -32.6 million in the previous year. Cash flow from financing activities at € -24.2 million was below the year-earlier value of € 106.5 million, which was influenced by the assumption of non-current financial liabilities and the settlement of a tranche from the US Private Placement (USPP).

Change in financial resources at 31 December



Calculation of free cash flow

€ million	1/1/-31/12/2017	1/1/-31/12/2018
Cash flow from current business operations	**82.9**	**60.7**
Purchase of property, plant and equipment	-40.8	-45.0
Purchase of intangible assets	-1.9	-2.5
Proceeds from disposal of property, plant and equipment	0.5	-2.5
Acquisition of companies	-82.8	0
- net of cash acquired	8.7	0
Disposal of participations	0.4	0
Share of profit of companies accounted for using the equity method	0.4	0.5
Cash flow from investment activities	**-115.5**	**-49.5**
Free cash flow	**-32.6**	**11.2**

Balance sheet performance

At 31 December 2018, the balance sheet total of the SURTECO Group at € 844.5 million was approximately at the level of the previous balance sheet date (€ 842.6 million). On the assets side, current assets increased from € 326.2 million to € 343.7 million at the end of 2018. Meanwhile, cash and cash equivalents decreased from € 133.4 million in the previous year to € 121.0 million. A planned disposal of part of a business is reflected in the assets held for sale amounting to € 17.1 million (2017: € 0 million). Inventories rose from € 119.7 million at year-end 2017 to € 127.0 million. Property, plant and equipment at € 255.8 million remained slightly below the year-earlier value of € 258.2 million. Intangible assets were subject to scheduled write-down and fell from € 66.7 million in 2017 to € 59.3 million. Goodwill at € 162.9 million on 31 December 2018 remained at approximately the level of the previous year, whereas other non-current financial assets of € 6.3 million in the pre-

Balance sheet structure of the SURTECO Group

€ million	31/12/2017	Percentage of the balance sheet total in %	31/12/2018	Percentage of the balance sheet total in %
Assets				
Current assets	326.2	38.7	343.7	40.7
Non-current assets	516.4	61.3	500.8	59.3
Balance sheet total	**842.6**	**100.0**	**844.5**	**100.0**
LIABILITIES				
Current liabilities	106.4	12.6	177.9	21.1
Non-current liabilities	387.0	45.8	313.4	37.1
Equity	349.2	41.4	353.2	41.8
Balance sheet total	**842.6**	**100.0**	**844.5**	**100.0**

Balance sheet indicators of the SURTECO Group

	2017	2018
Equity ratio in %	41.4	41.8
Level of debt (gearing) in %	54	56
Working capital in € million	114.4	119.4
Interest cover factor	10.8	12.0
Debt-service coverage ratio in %	34.0	30.0

vious year fell back to € 2.1 million. Overall, non-current assets amounted to € 500.8 million at year-end 2018 after € 516.4 million in the previous year.

On the liabilities side, transfer of the tranche from a US Private Placement amounting to € 60 million due in August 2019 led to an increase in short-term financial liabilities to € 65.9 million (2017: € 5.7 million). This tranche completely repays the private placement floated in 2007. Trade accounts payable rose slightly from € 63.2 million in 2017 to € 65.1 million and short-term provisions increased primarily as a result of the optimization programme to € 11.6 million (2017: € 4.0 million). While other current financial liabilities at € 29.6 million were above the year-earlier value of € 26.2 million, other current non-financial liabilities fell back from € 4.2 million to € 2.5 million. Cumulatively, current liabilities therefore increased from € 106.4 million in the previous year to € 177.9 million at year-end 2018. Long-term financial liabilities came down from € 317.7 million to € 252.6

million in accordance with the transfer of the tranche from the US Private Placement. The pensions and other personnel-related obligations at € 12.8 million remained almost exactly at the level of the previous year. The non-current liabilities of € 386.9 million therefore came down to € 313.4 million. Total equity at € 353.2 million was slightly above the value at year-end 2017 (€ 349.2 million). Consequently, equity ratio rose by 0.4 percentage points to 41.8 % in conjunction with a barely changed balance sheet total. Net financial debt rose from € 190.0 million in the previous year to € 197.5 million at year-end 2018 and the level of debt (gearing) therefore also went up from 54 % to 56 %.
The covenants (-> internal corporate controlling system) were complied with during 2018. On 31 December 2018, the SURTECO Group had external credit lines amounting to € 35.4 million. At this point, € 0.9 million had been drawn on these lines.

Expenses

Since production requires extremely intensive use of materials, the cost of materials is the most critical expense item in the two Strategic Business Units. The companies in the plastics line primarily process the plastics acryl nitrile butadiene styrene (ABS), polyvinyl chloride (PVC), polypropylene (PP) and polymethyl acrylate (PMMA). In the business year 2018, the price development of these raw materials varied very significantly according to region. However, the total reported costs for plastics were above the already very high year-earlier level and significantly above the anticipated values. The price development for technical raw papers in the paper line was extremely challenging. Although a significant increase had already been budgeted, the average price underwent an additional increase and was more than 10 % above the previous year. In particular, the intermediate product cellulose and persistent high prices for titanium dioxide were responsible for this development. Small quantities of the latter raw material are also processed directly by a number of subsidiaries in the Group. The costs for printing inks and impregnating resins in the Strategic Business Unit Paper and for chemical additives in both segments increased significantly compared with the previous year. The increase in the cost of materials from € 335.0 million in the previous year to € 349.6 million in the business year 2018 results on the one hand from full-year consolidation of the Probos companies, following the previous year when only half-year results were included, and on the other hand from the increases in purchase prices described above. These also led to a rise in the cost of materials ratio from 48.4 % in the previous year to 49.5 % in the reporting year.
In the business year 2018, personnel expenses rose accordingly to € 185.3 million after € 174.5 million in the previous year. The main reasons for this increase lie in the full-year consolidation of the Probos companies, the increase agreed under collective agreements for wages and salaries, and the provisions for an optimization programme to adjust the processes and structures to the changed conditions in the marketplace amounting to a total of € 6.1 million. The personnel expenses ratio rose accordingly to 26.2 % (2017: 25.2 %).
Owing to an arbitration decision handed down against the company (-> Risk and Opportunities Report), the company had to make an unexpectedly payment in the amount of € 1.5 million. In spite of this unscheduled negative impact and the increased total output, other operating expenses came down to € 103.5 million (2017: € 104.8 million on the back of the cost-reduction measures introduced at an early stage following the increasingly fraught framework conditions. The ratio in relation to total output fell back from 15.1 % in the previous year to 14.7 %

Investments

Investments in fixed assets of the SURTECO Group in the business year 2018 amounted to € 47.5 million after € 42.7 million in the previous year. The majority of these investments were channelled into investments related to expansion, particularly in new production machinery, printing cylinders for new decors, buildings, and furniture and fittings. As a result, an addition of € 45.0 million (2017: € 40.8 million) was

attributable to property, plant and equipment and an addition of € 2.5 million (2017: € 1.9 million) to intangible assets. Additions for the Strategic Business Unit Paper amounted to € 25.3 million (2017: € 17.9 million) for fixed assets and € 22.1 million (2017: € 24.6 million) for the Strategic Business Unit Plastics.

Group results

The total output of the Group increased to € 706.5 million (2017: € 692.9 million) including changes in inventories amounting to € 2.3 million after € -1.9 million in 2017 and other own capitalized work amounting to € 5.2 million (2017: € 5.1 million). The expense items amounting to a total of € 638.4 million (2017: € 614.3 million) were influenced by the full-year consolidation of the Probos companies and by one-off expenses amounting to € 6.1 million. In conjunction with other operating income of € 4.3 million (2017: € 4.5 million) and impairment expenses / impairment reversal income in accordance with IFRS 9 amounting to € 0.5 million, the operating result (EBITDA) therefore fell back from € 83.1 million in the business year 2017 to € 72.8 million. After adjustment by one-off expenses, EBITDA was still below the year-earlier value on account of decreased demand while the cost of materials ratio continued to climb. Elevated depreciation and amortization owing to acquisitions amounting to € 40.6 million after € 38.4 million leads to earnings before financial result and income tax (EBIT) of € 32.2 million (2017: € 44.7 million). The drop resulted from the effects described above and is substantially below the original forecast from the last Annual Report. The latter projection was corrected downwards to between € 37 million and 39 million – less provisions for an optimization programme in October 2018 and achieved with the adjusted EBIT of € 38.3 million. The financial result of € -5.1 million after € -11.2 million in the previous year received a boost from positive currency effects arising from balance sheet valuations and by a new valuation for the purchase option on the residual shareholding of 15 percent in the Nenplas Group. As a result of these effects, pretax earnings (EBT) at € 27.1 million (2017: € 33.5 million) were not as strong as EBIT. After deduction of income tax amounting to € -8.2 million (2017: € -7.2 million), net income of € 18.9 million after € 26.3 million in the previous year remains. € 0.3 million (2017: € 0.1 million) were attributable to non-controlling interests. Accordingly, consolidated net profit in the business year 2018 amounted to € 18.6 million after € 26.2 million in the previous year. On the basis of an unchanged number of shares amounting to 15,505,731 no-par-value shares, earnings per share amount to € 1.20 (2017: € 1.69).

Result of the Strategic Business Units

The Annual Report 2017 projected a substantial increase in EBIT (2017: € 24.6 million) for the Strategic Business Unit Plastics, not least on account of the full-year consolidation of the Probos companies with effect from 2018. The segment result of € 25.5 million in the business year 2018 was significantly above the result for the previous year. However, adjusted by one-off expenses in the amount of € 2.7 million for the optimization programme, a substantial increase would have been achieved. EBIT of the Strategic Business Unit Paper amounted to € 13.3 million in 2018 and this figure was significantly below the value for the previous year of € 26.9 million. Even including one-off expenses from the optimization programme of € 3.4 million and from the decision rendered by the court of arbitration amounting to € 1.5 million, the original forecast from last year's Annual Report (significant increase) was not achieved.

HGB (German Commercial Code) financial statements for SURTECO GROUP SE

The financial statements of the holding company SURTECO GROUP SE were prepared on the basis of the accounting principles in accordance with the Third Book of the German Commercial Code (§§ 242 ff. and 264 ff. German HGB) in the version of the Balance Sheet Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz, BiLRUG) for large joint-stock companies and the Stock Corporation Act (Aktiengesetz, AktG).

On 31 December 2018, the balance sheet total of the SURTECO GROUP SE at € 647.0 million was slightly below the year-earlier value of € 659.8 million. On the assets side of the balance sheet, fixed assets at € 314.7 million remained around the year-earlier value (€ 315.5 million). Current assets of € 343.5 million in the previous year came down to € 331.6 million on the balance sheet date 2018 with receivables from affiliated enterprises at € 221.4 million after € 228.8 million in the previous year, other assets of € 8.1 million (2017: € 5.6 million) and cash in hand of € 102.1 million after € 109.1 million in the previous year. The decline in receivables from affiliated enterprises reflects lower income from profit and loss transfer agreements. On the liabilities side of the balance sheet, liabilities were reduced slightly from € 345.6 million in the previous year to € 343.3 million. This involved a reduction of liabilities to banks falling from € 308.0 million in the previous year to € 304.9 million due to ongoing payments, while liabilities to affiliated enterprises rose slightly to € 33.3 million (2017: € 32.4 million). Equity at € 297.6 million was also below the year-earlier value of € 309.2 million. Owing to the likewise reduced balance sheet total, the equity ratio at 46.0 % was slightly below the previous year (46.9 %). The sales revenues of SURTECO GROUP SE in the amount of € 2.2 million in 2018, after € 1.7 million in the previous year, are comprised entirely of intragroup reallocations owing to the fact that the holding company does not carry out any operating business. The economic situation described for the Group companies means that the income from profit and loss transfer agreements at € 14.7 million was below the year-earlier level of € 30.7 million. Personnel expenses for the SURTECO GROUP SE amounting to € -6.6 million after € -5.0 million in the previous year were influenced by provisions for the change in the Management Board (-> Compensation report). Conversely, other operating expenses essentially fell on account of exchange-rate effects arising from the balance sheet revaluation of bank deposits and receivables from affiliated enterprises in US Dollars from € -7.7 in the previous year to € -4.5 million in the business year 2018. Interest income improved from € -6.4 million in the previous year to € -5.2 million. Income tax rose to € -1.6 million (2017: € -0.7 million). Net income for SURTECO GROUP SE in the business year 2018 therefore amounted to € 0.8 million after € 14.1 million in the previous year.

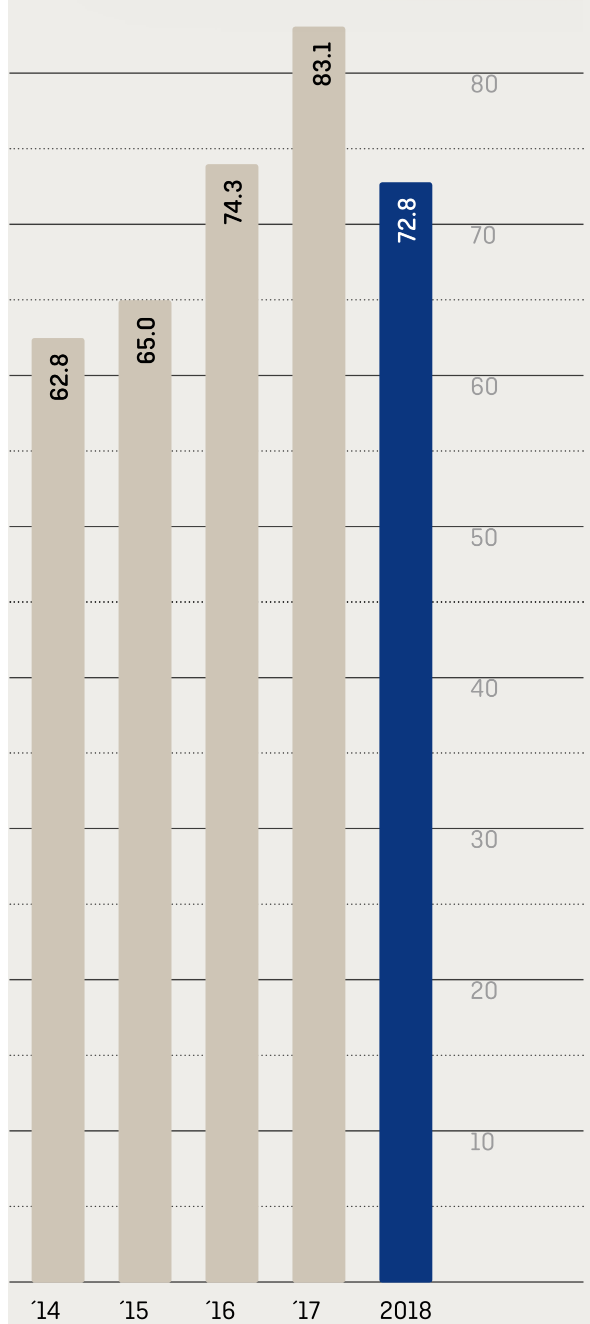
Overall statement on the economic situation

The business development in 2018 was defined overall by declining demand, particularly in the furniture, flooring and wood-based sector. This impacted equally on both Strategic Business Units. However, the plastics line was able to mitigate this fall as a result of the full-year consolidation of the Probos companies acquired in June 2017, and it is in any case active in differentiated sectors alongside its production of plastic edgings with technical extrusions (profiles), skirtings and plastic foils. This contrasted with increased costs for the most important raw materials in both segments. These could only be partly passed on and therefore exerted a negative impact on the result. The Group countered this development with strict cost discipline and an optimization programme to adjust the processes and structures to modified market conditions. The provisions for this were already formed in the business year 2018 as a one-off charge. Since these measures were adopted at an early stage and the Group continues to have a robust equity platform and liquidity, the Management Board assesses the economic situation of the Group and the SURTECO GROUP SE as satisfactory at the present juncture.

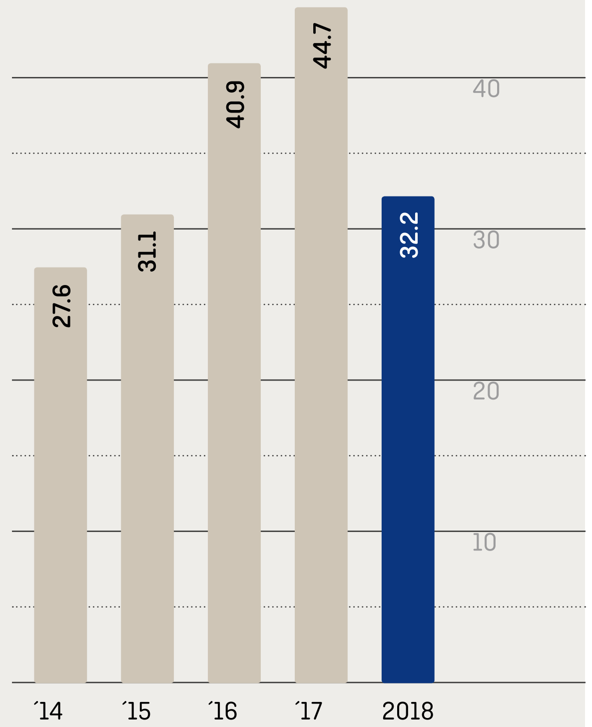
Research and development

The comprehensive product range of the SURTECO Group requires manufacturing concepts with appropriate centres of competence. Each production location has therefore specialized in the manufacture of a specific product

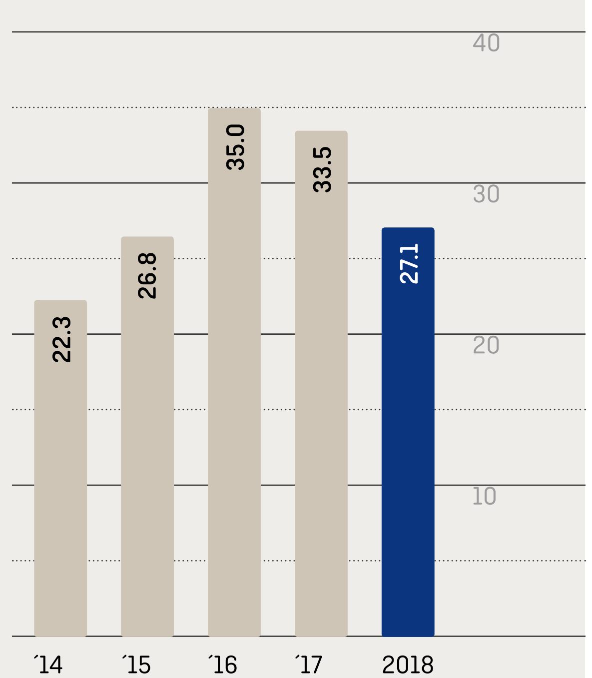
SURTECO GROUP
EBITDA in € million



SURTECO GROUP
EBIT in € million



SURTECO GROUP
EBT in € million



Employees by regions

Location	31/12/2017	31/12/2018	Change
Germany	1,860	1,847	-13
Portugal	269	268	-1
USA	247	247	-
United Kingdom	188	178	-10
Brazil	150	154	+4
Canada	131	130	-1
Asia	102	115	+13
Sweden	112	108	-4
Australia	91	99	+8
Poland	37	41	+4
Mexico	32	32	-
Italy	28	28	-
France	20	24	+4
Russia	12	13	+1
Turkey	10	11	+1
Czech Republic	6	9	+3
	3,295	**3,304**	**+9**

or group of products. The Research and development Departments (R&D) therefore work locally in order to strategically meet the special requirements for each application. The main functions of R&D Departments are geared to advanced development of the technical characteristics of the products and a further advance in their resilience and long service life, new surface variations with optical and haptic effects, and a further improvement in their processing capability. The companies are also continually carrying out research into new products and applications that can be processed using the existing production facilities. However, R&D activities also focus on optimization of process safety in production and research into alternative raw materials as well as raw materials with improved environmental characteristics.
A total of 212 employees were working in the R&D Departments during the business year 2018 (2017: 187). The personnel and non-personnel costs for Research and development amounted to € 4.7 million after € 5.3 million in the previous year. The personnel costs are included in the personnel expenses of the Group.

People and training

3,304 employees were in the workforce on 31 December 2018 and the number of employees on the balance sheet date was therefore in line with the level of the previous year (3,295). However, an analysis over the period of a year – 3,329 employees in 2018 after 3,091 in 2017 – reveals that the figure was influenced by the acquisition of the Probos companies in June 2017. As a result, the number of people employed on average in the Strategic Business Unit Plastics rose from 1,724 in 2017 to 1,944 in 2018, while the number in the Strategic Business Unit Paper at 1,365 was only slightly above the figure for the previous year (1,347). The holding company continued to employ 20 people unchanged. While the average length of service continued unchanged at 12.7 years, the average age of all employees fell from 43.1 years to 42.5 years in the business year 2018. The average number of apprentices increased from 116 in the previous year to 124 in the year under review. As a function of the number of employees in Germany, the training ratio amounted to 6.7 % after 6.3 % in the previous year.

Risk and opportunities report

Risk Management System

The SURTECO Group with its individual subsidiary companies is exposed to a large number of risks on account of global activities and intense competition. A risk is deemed to be any event or circumstance that can lead to a negative deviation for the SURTECO Group now and/or in future from 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 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. The Management Board of the SURTECO Group is responsible for policy relating to risks and for the internal management and controlling system. The Management Board works together with the management of the subsidiaries to identify risks. The management of the subsidiary companies implements the instructions of the Management Board 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 Risk Management Department 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. This ensures that the identified individual risks are classified into damage and probability classes on the basis of their anticipated gross financial burden on the EBT with respect to the current and subsequent years using the following tables. Overcoming individual risks up to € 0.5 million is deemed to be the responsibility of the individual companies.

Damage class	Qualitative	Quantitative
1	Minor	> € 0.5 million - € 0.75 million
2	Moderate	> € 0.75 million - € 1.5 million
3	Major	> € 1.5 million - € 3.0 million
4	Threat to existence as a going concern	> € 3.0 million

Probability class	Qualitative	Quantitative
1	Slight	0 % - 24 %
2	Moderate	25 % - 49 %
3	Likely	50 % - 74 %
4	Very Likely	75 % - 100 %

The identified individual risks are also allocated to risk categories to which the SURTECO Group is fundamentally exposed. The following risk and opportunities report explains these risk categories in general terms and provides information about the recorded individual risks in each category.
Appropriate measures for reducing and overcoming the risks are defined and implemented with minimum costs for purposes of risk control and risk management. This may involve, for example, the tools of risk avoidance, risk limitation, risk transfer and the creation of adequate potential coverage. Since risks are continuously changing, the Risk Management System is also subject to continuous implementation of monitoring, documentation and reporting of the risks. Apart from regular reporting to the Management Board and the 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 at regular intervals by the Management Board and the management of the subsidiary companies. The Group is continually developing measures directed towards risk avoidance, risk reduction and risk hedging while also taking advantage of any business opportunities that arise.
Opportunities essentially arise on account of positive developments from outside influences of the kind that are described in the risk categories. Any opportunities identified are also recorded and documented, although they are not generally allocated to classes.

ACCOUNTING-BASED INTERNAL CONTROLLING AND RISK MANAGEMENT SYSTEM (ICS) – report in accordance with § 289 (4) and § 315 (4) 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 accounting-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 accounting policies form the basis for these documents. The Group holding company supports the companies on issues relating to accounting and manages the consolidated accounting process.
The subsidiary companies are included in the consolidated financial statements using a partly 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, double-check 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.

The risks and opportunities presented below apply equally to SURTECO GROUP SE and the SURTECO Group.

STRATEGIC CORPORATE RISKS AND OPPORTUNITIES

MACROECONOMIC RISKS, MARKET RISKS AND MARKET OPPORTUNITIES

The business development of the SURTECO Group depends significantly on macroeconomic conditions due to the Group's global activities and the high proportion of foreign sales. The economic development of the countries is therefore analyzed as an indicator for the business performance since the manufactured products are primarily processed to create durable goods, such as furniture and flooring. Experience tells us that the inclination of consumers to purchase these goods increases when there is an economic upswing. Furthermore, the performance of the flooring, furniture and wood-based industry, and construction activity in the individual countries and markets is important for the business development of the Group. Both Strategic Business Units operate in more or less the same countries and sectors.
A local profile and cost leadership are key factors for market position and economic success in the market for coating products for furniture and interior design. This entails a product portfolio tailored to the market and control of operating processes and costs. The Group has production locations and additional sales locations on four continents, and this places the Group in the position of being able to supply its customers worldwide quickly as well as being able to identify trends in regional markets at an early stage. This gives the opportunity to gain first-mover advantage when participating in trends. The qualitative and quantitative data from the markets and the subsidiary companies are recorded and evaluated in a differentiated system of internal reporting. This highlights and analyses any deviations from budgets, compliance with plans, and the emergence of new monetary and non-monetary risks. The business is then managed on the basis of the information gathered. The most relevant geographical markets are located in Europe, in North and South America, and Australia. The UK does not play a significant role as a single market. However, unregulated Brexit could lead to higher expenses and influence demand through general economic development. The Group may be able to benefit from an economic upswing in individual markets that stimulates demand for furniture. This would enable the companies to participate indirectly in the upturn as a supplier. On the other hand, a global or local recession could result in consumers refraining from making investments in durable goods such as furniture, which could entail a drop in orders at the SURTECO Group.
Similar to the development of geographical markets, the Group also monitors the dynamic performance of relevant sectors. The focus of this analysis is essentially on the flooring, furniture and wood-based industry. The Group will also be able to benefit from an upswing in sector development but equally will also be affected by an adverse development.
A number of individual risks with a damage potential of less than € 0.5 million were identified in the category of market risks in the Strategic Business Unit Plastics and beyond the threshold of € 0.5 million, a risk of damage class 1 and probability class 2, and a risk of damage class 1 and probability class 3 was identified. A market risk below the threshold of € 0.5 million was identified in the Strategic Business Unit Paper.
In the category of market opportunities, several individual opportunities were identified with a weighted overall potential of € 0.4 million.

COMPETITIVE RISKS AND OPPORTUNITIES

An increased production depth has been observed in the market over recent years. This may lead to excess capacities and tougher competition. New local competitors may also enter the market at any time, particularly in the plastics sector. Conversely, the barriers to entry in the paper segment are relatively high on account of the investment sums required. The Group is countering the high level of competitive pressure by expansion and reinforcement of existing business, innovative products, and not least a further increase in efficiency and productivity.
Since the SURTECO Group is represented worldwide through its network of sales companies and already holds a strong market position in its most important divisions, there is an opportunity to achieve further market penetration, for example on the back of integration of sales and marketing activities as part of the restructuring of the two Strategic Business Units. There is also an opportunity to play a proactive role in future consolidation within the sector.
No individual risks were identified in this risk class.

OPERATIONAL RISKS

PROCUREMENT RISKS AND OPPORTUNITIES

The Group is dependent on outsourcing from suppliers and partners for the procurement of semi-finished products and services. Inclusion of third parties in the equation creates risks, for example unexpected supply difficulties or unforeseeable price increases resulting from market consolidation, 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 analyzing the market intensively, carrying out in-depth quality inspection on the basis of jointly agreed specifications, arranging supply contracts, and detailed research into alternative raw materials.

Increased costs of raw materials were already anticipated in the Strategic Business Unit Paper over the business year 2018 by comparison with the previous year. Ultimately, however, the costs for technical raw papers, impregnating resins and chemical additives underwent steeper growth than originally anticipated and ended up above the projected values. Overall, prices for the plastics in the Strategic Business Unit Plastics were also over budget and above the values for the previous year.

In the category of procurement risks, a risk below the threshold of € 0.5 million and an individual risk in the damage class 2 and probability class 3 were identified in the Strategic Business Unit Plastics. No significant procurement risk was identified for the Strategic Business Unit Paper.

The company will be presented with opportunities if there is an unexpected reduction in the price of raw materials since this would exert a significantly positive impact on the earnings situation. The research and development departments have a rolling programme of continuously carrying out research into alternative raw materials and additives so that there is a possibility of identifying cheaper or higher quality substitute products.

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 information technology systems are limited by making strategic investments and as appropriate by commissioning specialist companies. The Group reacts selectively to increased demands placed on the security of our systems within the scope of comprehensive security management. These include, for example, investment in current firewall, antivirus and high-availability systems. Potential risks can also be avoided through implementation of uniform software systems where all aspects relating to production and business administration are integrated and efficiently processed.

No individual risks were identified in this risk class.

PERSONNEL RISKS

The success of the company is dependent on having a workforce of qualified personnel at all levels. Shorter innovation cycles and increasingly international links place ever more stringent demands on the skills of technical specialists and managers. Employees receive regular basic and advanced training inside the company and with external providers in order to ensure staff have the appropriate qualifications in the relevant functions and countries.

No individual personnel risks were identified in the SURTECO Group.

PRODUCTION RISKS / TECHNOLOGY OPPORTUNITIES

An efficient and smooth-running production process is the enabler for the delivery capability of the companies. This entails the risk that machines or equipment may break down or the production workflow may be disrupted in some other way. To a certain extent, the companies of the Group are able to distribute production over several sites and thereby effectively minimize the risk of downtime. Production processes that cannot be distributed, or only with difficulty, are protected against production outage with standard measures such as subdivision into different fire zones. Furthermore, the systems and equipment are carefully maintained and the employees receive intensive training. If there are any complaints, extensive investigations are carried out in order to ascertain the causes. It is not possible to exclude the possibility that complaints may actually be traced to intermediate products, and when this is the case it is not always effective to seek recourse with the supplier. Environmental officers apply defined standards and regulations to monitor the environmental safety of products and production.

Several risks in this risk category were recorded for the Strategic Business Unit Plastics below the threshold of € 0.5 million and one risk in damage class 1 and the probability class 2 and a risk in damage class 1 and probability class 3. No production risk was identified in the Strategic Business Unit Paper.

The production area also offers opportunities. A continuous improvement process was therefore implemented to identify and continuously realize any established potential for efficiency increases. The development of new production techniques and improvements in the existing processes also offer the opportunity of further improving the profitability of the company.

FINANCIAL RISKS

INTEREST AND CURRENCY RISKS, CURRENCY OPPORTUNITIES

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 into euros may entail risks which can only be hedged to a certain extent. For example, the Probos Group generates around one third of its sales revenues in Brazil denominated in the historically volatile currency of the Brazilian real. The biggest proportion of sales in foreign currency within the SURTECO Group was represented by the US dollar with approximately 15 % in 2018. Opportunities may arise from correspondingly positive developments in currencies.

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

Hedging of individual risks is discussed by the central Treasury with the Management Board and the responsible Managing Directors, and decisions are arrived at jointly.

One individual risk below the threshold of € 0.5 million was identified in the Strategic Business Unit Plastics for interest and exchange-rate risks. No risk in this class was identified in the Strategic Business Unit Paper.

LIQUIDITY RISKS

The Corporate Treasury Department in the holding company SURTECO GROUP SE is responsible for monitoring and controlling the liquidity of the Group and the major subsidiary companies. This provides an up-to-date picture of liquidity development at any time. The high levels of operating cash flow and the short payment targets mean that the companies have adequate liquid funds continuously available. There is also the option of drawing on open credit lines and on factoring agreements.

Nevertheless, there is a risk that earnings and liquidity can be compromised by default on accounts receivable and non-compliance with payment targets. The Group counters this risk by regularly reviewing the credit ratings 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.
No individual risks were identified in this category in the SURTECO Group.

FINANCING RISKS AND FINANCING OPPORTUNITIES

The refinancing of the Group and the subsidiary companies is generally carried out centrally by SURTECO GROUP SE. The majority of the financial liabilities of the Group have residual terms of up to five years (→ maturity structure in item 32.3 of the Notes to the Consolidated Financial Statements) and primarily have fixed interest rates. The Group operates with a wide base of lenders comprising insurance companies and banks. Financial indicators were agreed with the lenders at standard market conditions in loan agreements, for example the ratio of EBITDA to interest income, and these have to be complied with. These indicators are continuously monitored by the Management Board and the Supervisory Board. If there is an impending breach of any of the indicators, consultations on individual measures take place as necessary. If the indicators are breached, the lenders have the right to serve notice on the loan agreements. The financial indicators were complied with during the business year 2018. From today's perspective, the financial indicators can also be complied with in the business year 2019.
No individual risks were identified for the financing risks in the SURTECO Group.

FLUCTUATIONS IN VALUE FOR PARITICPATIONS

The SURTECO Group recognizes goodwill in the balance sheet. The values in use for the cash generating units of the Group were assessed as being higher than the book values within the scope of the impairment test for the business year 2018. As a consequence, no impairments were carried out. There was also no requirement for adjustments in any of the participations of SURTECO GROUP SE. However, the possibility that planned targets may not be reached in the future cannot be excluded; there may also be a requirement to carry out an impairment.
No individual risks were identified from fluctuations in participations in the SURTECO Group.

LEGAL AND REGULATORY RISKS / OPPORTUNITIES

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 the sales and the 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 manufactured products reduce risk.
SURTECO GmbH filed an arbitration claim against the seller of the Süddekor companies. The subject of the arbitration proceeding was in particular claims arising from the original contract of purchase for the company relating to the infringement of environmental warranties. The court of arbitration rejected the arbitration claim. The costs to be borne by SURTECO GmbH defined by the arbitration judgement rendered were already paid in 2018. After the arbitration judgement was handed down, SURTECO GmbH submitted an appeal to rescind this arbitration judgement with the Higher Regional Court Frankfurt am Main (Oberlandesgericht) on grounds of breach of constitutional procedural rights. The Higher Regional Court has not handed down a decision yet. If the arbitration judgement were rescinded, the arbitration proceeding would be resumed and continued. If this is the case, the additional costs still to be incurred cannot currently be forecast.
Otherwise, the SURTECO Group is not currently involved in any court or arbitration proceedings that could exert a significant negative influence on the commercial situation of the Group.
When business activities are carried out in third-party countries and at foreign locations of the Group, there are risks of social unrest and economic and political instability. This may also involve nationalization proceedings relating to private assets.
A risk below the materiality threshold of € 0.5 million, two risks in damage class 2 and probability class 3, and a risk in damage class 1 and probability class 2 were identified in this risk category for the Strategic Business Unit Plastics. No risk in this class was identified in the Strategic Business Unit Paper.
Furthermore, there is a general risk that unexpected fiscal risks may occur on account of the international alignment of the Group and the large number of subsidiaries. However, no individual fiscal risks have been identified in the SURTECO Group.

OVERALL RISK ASSESSMENTS

The Group regularly monitors the attainment of business targets and the risks and risk-limiting measures. The Management Board and the Supervisory Board are informed of risks at an early stage. 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.
The analysis of all risks and opportunities leads to the conclusion that the material influencing factors for the business operations of the SURTECO Group come from the procurement markets and arise from the framework conditions for the global economy and the relevant sectors. Consequently, the main potential for risk relates to an unexpected price increase or shortage of raw materials, and in a recession in the global economy or in individual markets and sectors relevant for the Group. By the same token, an economic upswing or more favourable purchasing conditions also offer the most significant opportunities for more positive business development.
An overall assessment of all the risks and opportunities carried out in the business year 2018 indicated a rise in the weight damage potential of all identified individual risks and opportunities compared with the previous year.
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.

IMF growth forecasts for 2019 in %

World	+3.5
Germany	+1.3
Eurozone	+1.6
United Kingdom	+1.5
USA	+2.5
Central and Eastern Europe	+0.7
Latin America	+2.0
Asien	+6.3

Source: International Monetary Fund (IMF), World Economic Outlook, Update January 2019.

Outlook report

Global economic growth continues to weaken in 2019

On the basis of concerns about the sustained trade dispute between the USA and China, the concern about a disorderly exit from the EU by the United Kingdom and increasing geopolitical uncertainties, the experts at the IMF are predicting a further weakening of global economic growth to 3.5 % in 2019. While dynamic growth in the developed economies is expected to fall back to 2.0 %, the emerging economies and developing countries can anticipate an increase of 4.5 %, slightly below the figure for the previous year. The IMF is projecting an expansion of just 1.6 % for the eurozone. In particular, the German (+1.3 %) and the Italian (+0.6 %) economies are experiencing dwindling confidence. Surprisingly, the economy of the United Kingdom is undergoing relatively robust development with an increase of 1.5 % notwithstanding Brexit. By contrast, the upward trend in the USA continues to weaken further to 2.5 % as a result of the dispute with China and other trade barriers imposed by the US government. A similar situation prevails in Asia, where the dynamic performance has also come down at plus 6.3 %. The principal factor for this is development in China, where growth is likely to slow to a modest figure of 6.2 % in a year-on-year comparison.[1]

Framework conditions for the SURTECO Group

The demand for long-term capital goods, such as furniture and other fittings, and hence indirectly for products from SURTECO, is primarily based on the general economic growth in the individual countries. In the most important geographical markets of the SURTECO Group, a less dynamic performance for economic development needs to be anticipated in the business year 2019. This relates in particular to the European markets, which are in any case saturated. Accordingly, the signs for declining demand in the sector are increasing. The trade conflict between the USA and China remains unsolved, and the lack of resolution to the Brexit discussions are causing additional uncertainties in the markets.

The earnings development of the Group is to a large extent dependent on the purchase prices of the most important raw materials. After plastic prices rose once again in the business year 2018 from what was already a very high level, there is no expectation of any easing in the situation in 2019. Plans have likewise been laid for a further increase in relation to purchase prices for technical raw papers, impregnating resins and chemical additives.

[1] Source: International Monetary Fund (IMF), World Economic Outlook, Update January 2019.

Sales forecast for the Group and Business Units

On the basis of pro-forma[1] sales of the Business Unit Decoratives of € 519.1 million for the business year 2018, sales revenues for 2019 are expected to be slightly below the year-earlier level for this segment. The anticipated sales for the Business Unit Technicals are likely to be slightly below the pro-forma value for 2018 amounting to € 113.8 million. The sales of the Business Unit Profiles should be situated slightly above the year-earlier value (pro-forma 2018: € 87.6 million). After deduction of the consolidations of sales between the Business Units, sales revenues in the Group are projected to be € 670 million to € 700 million. This includes approximately € 33 million from the business segment held for sale.

Earnings for the Group and the Business Units

One-off expenses amounting to a total of € 6.1 million are included in the amount of € 32.2 million in EBIT for the business year 2018. Insofar, Group EBIT should rise and be in the range from € 38 million to € 40 million. The business segment held for sale is not likely to exert any significant impact on EBIT. In the case of the Business Unit Decoratives (pro-forma EBIT 2018 including € 5.4 million provisions for the optimization programme: € 25.5 million), a substantial increase is anticipated. The pro-forma EBIT of € 3.9 million for the Business Unit Technicals was negatively impacted by provisions amounting to € 0.7 million in 2018. The management expects a slight increase in 2019. The company is assuming a slight increase in earnings for the Business Unit Profiles (pro-forma EBIT 2018: € 9.3 million) in 2019.

Covenants

As in previous years, the company expects that the covenants will be complied with once more in the business year 2019.

[2] Pro-forma = Sales and earnings of the Business Units from 2018 in accordance with the new structure.

Overall statement on expected performance

Overall, the company expects a tense situation in relation to demand for 2019. This is caused by the general economic situation prevailing in the relevant geographical markets and the framework conditions in the wood-based and furniture sector along with their suppliers. The improvement in earnings is generated almost exclusively from reduced personnel costs and the elimination of one-off expenses.

Compensation report

This report describes the compensation system for the Management Board 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 with the exception of the deviations published in the Declaration of Compliance and observes the requirements of the German Commercial Code (HGB) in the version of the Act on the Disclosure of Management Board Compensation, (VorstOG), and the Stock Corporation Act (AktG) in the version of the Act on the Appropriateness of Executive Compensation (VorstAG).

Compensation of the Management Board

Definition and review of the compensation structure

The compensation structure and the level of compensation for the Members of the Management Board are defined on the basis of the proposal of the Supervisory Board's Personnel Committee and are regularly reviewed. The existing compensation system guarantees a level of remuneration appropriate to the activity and responsibility of the Members of the Management Board. Alongside the functions of the individual Members of the Management Board and their personal performance, further factors taken into account include the economic situation, the success and future prospects of the company, and the commensurate nature 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 that came into force on 5 August 2009 (VorstAG) with the assistance of external expert consultants, and has come to the conclusion that it complies with the applicable statutory regulations and the recommendations of the German Corporate Governance Code with the exception of the deviations published in the Declaration of Conformity.

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 Management Board also includes non-cash benefits and other payments.

Basic salary

The relevant basic salary of the Members of the Management Board is paid in equal monthly instalments. It amounts to € 360,000 p.a. for the Members of the Management Board Dr.-Ing. Herbert Müller and Dr.-Ing. Gereon Schäfer (Board Member until 31 March 2018) and € 280,000 p.a. for Andreas Riedl (2017: € 200.000 p.a.).
Furthermore, none of the Members of the Management Board has undertaken separately remunerated functions as executive officers at the consolidated subsidiary companies.

Bonuses

The applicable compensation system provides for variable bonuses, which the Supervisory Board defines at its discretion on the basis of the consolidated result before tax (EBT) – adjusted by additions/curtailments to be carried out as appro-

The following tables show compensation for the Members of the Management Board in accordance with the recommendations of the German Corporate Governance Code:

Awarded allowances	Dr.-Ing. Herbert Müller Chairman, Group Strategy, Strategic Business Unit Plastics				Andreas Riedl Chief Financial Officer (CFO) from 1 July 2017				Dr.-Ing. Gereon Schäfer Strategic Business Unit Paper until 31 March 2018			
€ 000s	**2017**	**2018[2]**	**2018 (Min)**	**2018 (Max)**	**2017**	**2018**	**2018 (Min)**	**2018 (Max)**	**2017**	**2018[3]**	**2018 (Min)**	**2018 (Max)**
Fixed compensation	360	360	360	360	100	280	280	280	360	90	90	90
Fringe benefits	49	48	0	[1]	18	39	0	[1]	40	27	0	[1]
Total	**409**	**408**	**360**	**[1]**	**118**	**319**	**280**	**[1]**	**400**	**117**	**90**	**[1]**
Variable compensation for one year	679	220	0	[1]	222	158	0	[1]	561	279	0	[1]
Variable compensation over several years (target attainment dependent on the average bonuses of the past three years)	227	74	0	[1]	74	53	0	[1]	187	-	0	[1]
Total	**1,315**	**702**	**360**	**[1]**	**414**	**530**	**280**	**[1]**	**1,148**	**396**	**90**	**[1]**
Pension expenses	100	100	100	100	-	-	-	-	-	-	-	-
Total compensation	**1,415**	**802**	**460**	**[1]**	**414**	**530**	**280**	**[1]**	**1,148**	**396**	**90**	**[1]**

[1] The fringe benefits as well as the variable compensation for the year and several years, and consequently compensation do not have an upper limit for the amount.
[2] An agreement on a one-time payment of € 000s 2,450 was concluded with Dr.-Ing. Herbert Müller (see section "Premature termination of the contract of service with the Chairman of the Management Board Dr.-Ing. Herbert Müller" in this report).
[3] In 2018, Dr. Schäfer received € 000s 450 as an ex gratia payment (see section "Ex gratia payment for post-contractual competition prohibition" in this report).

The following table shows the inflow (amount paid out) for the business years 2017 and 2018 from fixed remuneration, fringe benefits, variable compensation for the year and pension expenses.

Cash inflow	Dr.-Ing. Herbert Müller Chairman, Group Strategy, Strategic Business Unit Plastics		Andreas Riedl Chief Financial Officer (CFO) from 1 July 2017		Dr.-Ing. Gereon Schäfer Strategic Business Unit Paper until 31 March 2018	
€ 000s	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Fixed compensation	360	360	280	100	90	360
Fringe benefits	48	49	39	18	27	40
Total	**408**	**409**	**319**	**118**	**117**	**400**
Variable compensation for one year	679	781	222	-	561	650
Variable compensation over several years (target attainment dependent on the average bonuses of the past three years)	192	[1]	[1]	[1]	154	[1]
Miscellaneous	-	-	-	-	-	-
Total	**1,279**	**1,190**	**541**	**118**	**832**	**1,050**
Pension expenses	100	100	-	-	-	-
Total compensation	**1,379**	**1,290**	**541**	**118**	**832**	**1,050**

[1] In accordance with the compensation system applicable since 2015, compensation payable over several years will only be paid out after three years. See section on "Bonuses" in the Compensation Report for more information on this.

priate – in accordance with IFRS taking account of the return on sales. The correlation with a sustainable company performance and a basis of assessment over several years pursuant to § 87 (1) sentences 2 and 3 Stock Corporation Act (AktG) are guaranteed by the fact that 75 % of the bonus for the affected business year are paid in the following year and 25 % are retained without payment of interest. The retained 25 % are paid out after three years, and they are decreased or increased proportionately as a percentage if the average bonuses of the last three business years fall short of, or exceed, the bonuses of the third last business year. The retention cannot be a negative value. If a loss in the previous year has already reduced the ceiling of assessment, no retention is made. If a Board Member steps down from their office, the contracts of service make provision that the Board Member either (i) waits for the regular calculation of the retention after expiry of the reference period or (ii) the retention can be paid out with a flat-rate deduction of 10 % – the latter with the provision that the amount paid out may not be higher than the amount which was calculated for the last reference period. The retained 25 % of the retention will be paid out after expiry of the reference period for the former Member of the Management Board Dr.-Ing. Gereon Schäfer.

Non-cash benefits and other payments

The Members of the Management Board receive 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. Dr.-Ing. Herbert Müller also receives a limited supplement for accommodation in Buttenwiesen and reimbursement for the costs of a weekly journey home. He additionally receives an allowance amounting to € 000s 100 p.a. for his private retirement provision.

Ex-gratia compensation for post-contractual competition prohibition

The former Member of the Management Board Dr.-Ing. Gereon Schäfer, whose appointment and contract of service came to an end on 31 March 2018, receives half of the fixed salary paid in 2017 and half of the variable compensation received in the last twelve months prior to the ending of his contract of service each year for a period of 24 months after ending his employment relationship, in respect of his post-contractual competition prohibition. For the months of April to December 2018, the ex-gratia compensation amounted to a total of € 000s 450.

Premature termination of the contract of service with the Chairman of the Management Board Dr.-Ing. Herbert Müller

In March 2019, the company and Dr.-Ing. Herbert Müller reached an agreement to terminate the contract of service of Dr. Müller as Chairman of the Management Board with effect at the latest from 30 October 2019 (or an earlier end of month, but at the earliest with effect from 30 June 2019). The agreement provides for continuation of the payment of the fixed salary of Dr. Müller (€ 000s 360 p.a. gross) as previously in monthly instalments until the end of the contract. A bonus for 2018 will also be defined in accordance with the previously applicable principles and paid out in order to safeguard sustainable corporate governance. The provisions defined in the contract of service will continue to apply unchanged in respect of the retentions for previous years. The option of paying the retentions prematurely with a flat-rate deduction of 10 % was not taken up. Diverging from this, a bonus for the business year 2019 will be defined on the basis of the half-year financial statement for the first half of 2019 and paid out without the aforementioned retentions. Dr. Müller will furthermore receive a one-off payment of € 2.45 million gross in compensation for the remaining period of his contract of service. This is payable by 31 July 2019 and an appropriate provision has been formed for this in the annual financial statements for 2018. The payment and other benefits under the agreement also cover the ex-gratia compensation for the post-contractual competition prohibition relating to Dr. Müller, which applies until 30 June 2021. The other contractual fringe benefits (insurance policies, reimbursement of expenses, contributions to private pension funds, etc.) will come to an end when the employment relationship ceases, with the exception of the transfer of the company car, which Dr. Müller will be able to use up until the regular end of his appointment on 30 June 2021.

Compensation for the Supervisory Board 2018:

in €	Total compensation 2017	Total compensation 2018	Basic salary	Compensation for work carried out on the Audit Committee
Dr.-Ing. Jürgen Großmann Chairman	73,000	**52,000**	44,000	8,000
Björn Ahrenkiel Vice Chairman	60,000	**49,000**	33,000	16,000
Dr. Markus Miele Vice Chairman	48,000	**33,000**	33,000	-
Dr. Christoph Amberger from 29 June 2017	16,000	**22,000**	22,000	-
Andreas Engelhardt from 28 June 2018	-	**11,200**	11,200	-
Markus Kloepfer until 29 June 2017	16,000	**-**	-	-
Jens Krazeisen	32,000	**22,000**	22,000	-
Wolfgang Moyses	37,000	**31,000**	22,000	9,000
Udo Sadlowski	32,000	**22,000**	22,000	-
Dr.-Ing. Walter Schlebusch until 28 June 2018	40,000	**15,300**	10,800	4,500
Thomas Stockhausen	32,000	**22,000**	22,000	-
Summe	**386,000**	**279,500**	**242,000**	**37,500**

D&O insurance

A Directors' and Officers' Liability Insurance ("D&O" insurance) is provided for the Members of the Management Board. 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.

Payments by third parties

During the business year under review, no Member of the Management Board 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 Management Board.

Loans to Members of the Management Board

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

Benefits for preliminary termination of employment

The contracts of service currently valid for the Members of the Management Board automatically come to an end when the period of appointment for the relevant Member of the Management Board is concluded. If the appointment of a Member of the Management Board 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 com-

pensation 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 Management Board is temporarily incapacitated and unable to work, the basic salary will be paid in the case of Dr. Müller for a period of up to 12 months and in the case of Mr. Riedl up to six months. If death occurs during the period of the employment relationship, the heirs of the relevant Board Member have the right to continued payment.
If there is a "change of control", the Board Member Dr.-Ing. Herbert Müller had the right within the space of 12 months to serve notice on his contract of service to the end of the month specified following the month of his submitting the notice of termination. He was 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 Management Board should not exceed 150 % of the cap for severance pay. With the premature termination of the service contract, the change of control clause was repealed. There is no change of control clause for the Board Member Andreas Riedl.

Compensation for the Supervisory Board

Compensation elements

The compensation for Members of the Supervisory Board is regulated in § 12 of the Articles of Association. Accordingly, the Members of the Supervisory Board receive, apart from reimbursement of their expenses, compensation payable after the business year has come to an end and after the resolution on the appropriation of the profit has been passed by the Annual General Meeting. The compensation is € 400.00 per eurocent dividend per share for the year for which compensation is paid, but a minimum of € 18,000.00. If the dividend exceeds 90 eurocents per share, the compensation per eurocent shall only be € 200.00 for the part of the dividend which exceeds 90 eurocents. The compensation increases by a factor of two times for the Chairman of the Supervisory Board and by one and a half times for each deputy chairman. The members of the Audit Committee also receive a further remuneration amounting to a total of up to € 40,000.00 annually. The Supervisory Board decides on the amount and allocation of this further remuneration based on the proposal by the Audit Committee, at their discretion taking into account the time taken by each of the members of the Audit Committee to carry out their functions.

D&O insurance

A Directors' & Officers' liability insurance for purely financial losses ("D&O" insur-ance) 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.

Loans to Members of the Supervisory Board

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

Information pursuant to § 289a and § 315a German Commercial Code (HGB)

Capital stock

The subscribed capital (capital stock) of SURTECO GROUP SE is € 15,505,731.00 and is fully paid up. it is divided into 15,505,731 no-par-value bearer shares (ordinary shares) corresponding to a proportion of the capital stock of € 1.00 in each case. Each share guarantees one vote at the Annual General Meeting of the company. Apart from the statutory restrictions in certain cases, there are no restrictions on the voting right. There are no different categories of voting rights.

Power of the Management Board to issue shares

The Management Board is authorized to increase the capital stock of the company once or in partial amounts by up to € 1,500,000.00 overall with the consent of the Supervisory Board through the issue of no-par-value bearer shares, for a cash consideration (Authorized Capital i) and once or in partial amounts by up to € 6,200,000.00 overall through the issue of no-par-value bearer shares, for a cash consideration or non-cash contributions (Authorized Capital ii). Further information on capital stock is provided in the notes to the consolidated financial statements (item 28) or in the notes of SURTECO GROUP SE (item 6).

Restrictions on voting rights and share transfers

The Management Board is aware that shareholders of SURTECO GROUP SE have joined together to form an association under civil law entitled "Share pool SURTECO SE". The objective of this pool is to jointly exercise the voting rights of 5,406,475 no-par-value shares in SURTECO GROUP SE (status 31 December 2018). Dispositions over shares in SURTECO GROUP SE in the share pool 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 %
Klöpfer & Königer Verwaltungs-GmbH, Garching, Deutschland	15.00
ECCM Bank plc, Malta	12.28

Appointment and dismissal of Member of the Management Board

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

Separate Non-financial Group Report

The Non-financial Group Report for the business year 2018 pursuant to § 315b German Commercial Code (HGB) is published on the Internet portal age of the company at www.surteco-group.com.

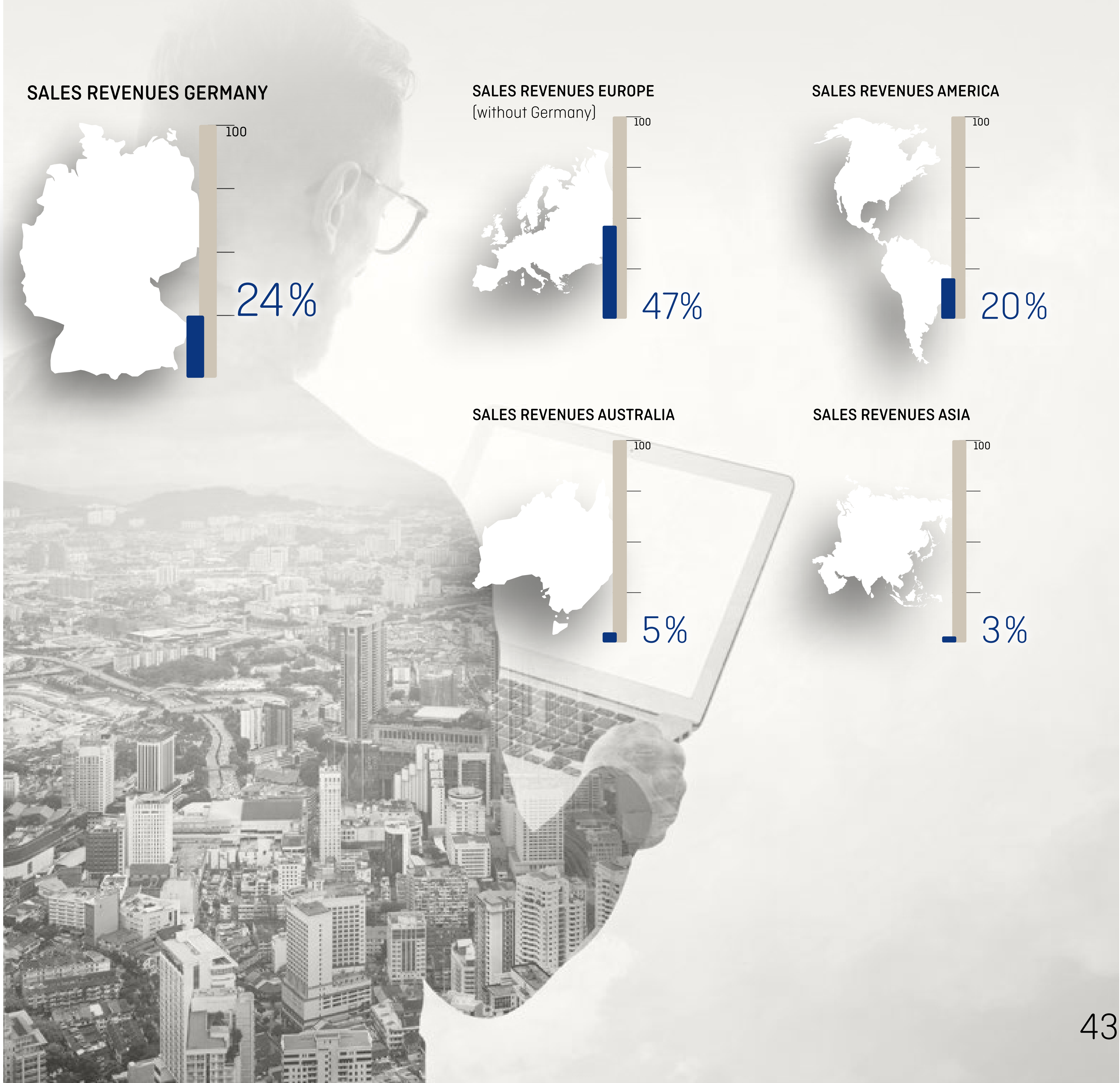
Declaration on corporate governance

The Declaration on Corporate Management pursuant to § 289f German Commercial Code (HGB) in the form of the Corporate Governance Report including details on defining the promotion of women in management positions in accordance with § 76 (4) and § 111 (5) Stock Corporation Act, the description of the diversity concept in relation to the composition of the body authorized to represent the company and the Supervisory Board, the Declaration of Compliance with justification and archive, the information on the practices of company management, the composition and working methods of the Management Board and the Supervisory Board including its committees, the Articles of Association (statutes), and the auditor for 2018, can be accessed on the home page of the company by going to www.surteco-group.com and clicking on the menu item "Corporate Governance".

Dividend proposal

The Management Board and Supervisory Board of SURTECO GROUP SE will recommend that the Annual General Meeting of the company to be held on 27 June 2019 in Munich adopt a resolution that the net profit of SURTECO GROUP SE amounting to € 8,528,152.05 should be distributed as follows: payment of a dividend per share amounting to € 0.55 (2017: € 0.80). This corresponds to a total amount distributed as dividend of € 8,528,152.05 for 15,505,731 shares.

Percentage of total sales



Calculation of indicators

Cost of materials in %	Cost of materials/Total output
Debt-service coverage ratio in %	(Consolidated net profit + Depreciation and amortization)/Net debt
Dividend yield at year end in %	Dividend per share/Year-end share price
Earnings per share in €	Consolidated net profit/ Weighted average of the issued 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 current business operations – (Acquisition of property, plant and equipment + Acquisition of intangible assets + Acquisition of companies + Proceeds from disposal of property, plant and equipment + Dividends received)
Interest cover factor	EBITDA/(Interest income – Interest expenses)
Level of debt in %	Net debt/Equity
Market capitalization in €	Number of shares x Closing price on the balance sheet date
Net debt in €	Short-term financial liabilities and Long-term financial liabilities – Cash and cash equivalents
Personal expense ratio in %	Personnel expenses/Total output
Return on equity in %	Consolidated net profit/(Equity – non-controlling interests – Appropriation of profit)
Return on sales %	(Consolidated net profit + Income tax)/Sales revenues
Total return on total equity in %	(Consolidated net profit + Income tax + 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 accounts receivables + Inventories) – Trade accounts liabilities

THE SURTECO SHARE

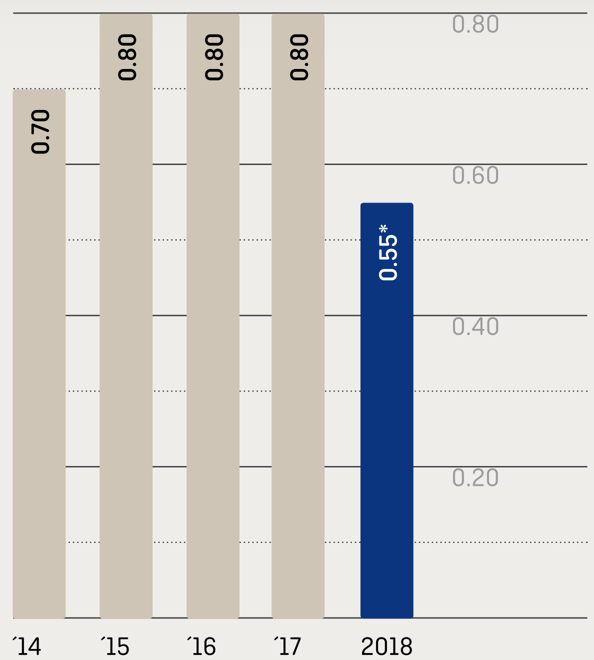
Share price performance 2018 in €

Painful price losses with German shares in 2018

After six years with partially significant successive price gains, the increasing economic uncertainties in the reporting year gave rise to painful price losses for the majority of German shares. Key factors for this were the increasingly aggravated trade dispute between the USA and China at the year-end, uncertainties in relation to Brexit, and political dissonances coming from important EU countries like Italy. This meant that economically sensitive and export-dependent stock companies especially had posted some very substantial losses in the year 2018 and the German DAX lead index collapsed by nearly 18 % to just over 10,500 points. Development in the MDAX showed a similarly bleak performance. This was despite the fact that both indexes had remained comparatively stable during the first half of the year. In the middle of June, the SDAX index of small stocks had even managed to post a positive. However, by the end of the year investors here had to absorb painful losses of 20 %. The European EuroStoxx50 lead index scarcely fared better with a plunge of 14 %. The positive economic sentiment prevailing in the USA for most of the year ensured that the indexes there held up significantly better with the Dow Jones sustaining a drop of just under 6 % and the Nasdaq undergoing virtually stable development.

SURTECO share did not succeed in uncoupling from the weak stock-market environment

Shares in SURTECO GROUP SE were negatively impacted during the course of the year by economic uncertainties and by the weak stock-market environment. After a positive start to the year under review, when the share price climbed from € 26.90 at the end of 2017 to more than € 28 and achieved a high for the year at € 28.55 on 19 January, the first round of profit-taking took place in view of the increasingly restrained expectations in the capital market. From February to the end of June, the share price underwent relatively stable development in a corridor between € 24.15 and € 27.60 and ended the first half of the year at € 25.15. The restrained customer demand necessitated adjustments to sales and earnings forecasts on 10 August and on 26 October, leading to significant drops in share price down to below the € 20 threshold. The low for the year was reached on 30 October at € 19.56. The entrance of two large investors in the fourth quarter resulted in stabilization of the price while speculation through further purchases of investor groups generated a rise in price to more than € 22. SURTECO GROUP SE ended the stock-market year on 28 December with a closing price of € 22.30, as a result of which the share posted a negative performance of 17 % over the entire year or, taking the dividend into account, a fall of just under 14 %. Since the speculation concerning intensified engagement by the new major investor was maintained into the beginning of the new year, the SURTECO price underwent a significant increase to around € 25 by the editorial closing date of the annual report at the end of March.



Development of the dividend 2014 - 2018 in €

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

Market capitalization is € 346 million at year-end

Market capitalization of SURTECO GROUP SE shadowed the share-price development and decreased significantly from € 417 million at year-end 2017 to around € 346 million on 31 December 2018. While the number of shares remained stable at 15,505,731 no-par-value shares in a year-on-year comparison, the new commitment of two large shareholders led to a decline in the proportion of shares held in free float from 44.5 % to 26.5 %. Whereas 55.5 % of the shares remain in the hands of the founding shareholders of SURTECO GROUP SE, ECCM Bank plc held 12.3 % by the end of the reporting year and the Rudolf Ostermann Foundation held 5.7%.

Payout ratio of 46 %

The SURTECO shareholders should continue to be able to participate appropriately in the success of the company. Following the operating development in 2018, the Management Board and the Supervisory Board will propose a dividend payout of € 0.55 per share to the shareholders at the Annual General Meeting to be held in Munich on 27 June 2019. That will mean the company will pay out around 46 % of the consolidated net profit. On the basis of the proposed dividend, this represents a dividend yield of 2.5 % based on the year-end closing price for the year 2018.

Investor Relations as the central function of the Management Board

In 2018, the Management Board of SURTECO GROUP SE once again sought to engage in a close dialogue in an atmosphere of trust with institutional and private investors by participating in roadshows and capital market conferences, and conducting numerous individual conversations. During the course of the reporting year, SURTECO was regularly analysed and evaluated by the equity research analysts of Berenberg Bank, Hauck & Aufhäuser, Pareto Securities and Sphene Capital. Alongside exchange through the Investor Relations Department on a daily basis, an important highpoint of communication with private investors was undoubtedly the Annual General Meeting held on 28 June 2018. Furthermore, the company continues to maintain regular communication with the financial media, which is documented in numerous interviews and press roadshows, along with resulting articles.
All information on the company can be found on the Internet pages of SURTECO GROUP SE (www.surteco-group.com). Furthermore, the Investor Relations Department can be contracted directly at any time and will be pleased to address any questions and ideas you may have on matters you wish to discuss:

Investor Relations and Press Office
Johan-Viktor-Bausch-Str. 2
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Fax: +49 82 74/99 88-515
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SURTECO shares (Close price XETRA)

€	2017	2018
Number of shares at 31 December	15,505,731	**15,505,731**
Price at start of year	24.22	**26.40**
Year-end price	26.90	**22.30**
Price per share (high)	27.65	**28.55**
Price per share (low)	22.40	**19.56**
Stock-market turnover in shares per month	264,503	**426,214**
Market capitalization at year-end in € million	417.1	**345.8**
Free float in %	44.5	**26.5**

Shareholder indicators for the SURTECO Group

€ million	2017	2018
Sales	689.7	**699.0**
EBITDA	83.1	**72.8**
EBIT	44.7	**32.2**
EBT	33.5	**27.1**
Consolidated net profit	26.2	**18.6**

Shareholder indicators of the SURTECO Group per share

€	2017	2018
Earnings (by weighted average of shares issued)	1.69	**1.20**
Dividend	0.80	(Proposal by the Management Board and Supervisory Board) **0.55**
Dividend yield at year-end in %	3.0	**2.5**

Indicators of the share

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

CONSOLIDATED FINANCIAL STATEMENTS 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE BUSINESS YEAR 2018

Consolidated Income Statement

€ 000s	Notes	1/1/-31/12/ 2017	1/1/-31/12/ 2018
Sales revenues	(1)	**689,651**	**698,977**
Changes in inventories	(2)	-1,882	2,347
Other own work capitalized	(3)	5,130	5,162
Total output		**692,899**	**706,486**
Cost of materials	(4)	-335,034	-349,622
Personnel expenses	(5)	-174,513	-185,347
Other operating expenses	(6)	-104,776	-103,506
Income/Expenses due to impairments under IFRS 9	(7)	0	508
Other operating income	(8)	4,517	4,260
EBITDA		**83,093**	**72,779**
Depreciation and amortization	(18)	-38,423	-40,577
EBIT		**44,670**	**32,202**
Interest income		646	1,432
Interest expenses		-8,357	-7,490
Other financial expenses and income		-3,857	1,019
Income/Expenses due to impairments under IFRS 9		0	-570
Share of profit of investments accounted for using the equity method		413	540
Financial result	(9)	-11,155	-5,069
EBT		**33,515**	**27,133**
Income tax	(10)	-7,188	-8,204
Net income		**26,327**	**18,929**
Of which:			
Owners of the parent (consolidated net profit)		26,192	18,630
Non-controlling interests		135	299
Basic and diluted earnings per share (€)	(11)	1.69	1.20
Number of shares at 31 December		15,505,731	15,505,731

Statement of Comprehensive Income

€ 000s			1/1/-31/12/ 2017			1/1/-31/12/ 2018
Net income			**26,327**			**18,929**
Components of other comprehensive income not to be reclassified to the income statement						
Remeasurements of defined benefit obligations	-100			-168		
of which included deferred tax	38			-57 *		
Other changes	116			0		
		54			**-225**	
Components of other comprehensive income that may be reclassified to the income statement						
Net gains/losses from hedging of net investment in a foreign operation	-475			-712		
of which included deferred tax	142			214		
Exchange differences translation of foreign operations	-7,872			-408		
Financial instruments available-for-sale						
Fair valuation of cash flow hedges	-42			0		
of which including deferred tax	12			0		
Reclassification amounts in the income statement	-79			0		
of which included deferred tax	23			0		
		-8,291			**-906**	
Other comprehensive			**-8,237**			**-1,131**
Comprehensive income			**18,090**			**17,798**
Owners of the parent (consolidated net profit)			18,012			17,499
Non-controlling interests			78			299

* The reduction in the weighted domestic tax rate caused by restructuring in the current financial year leads to a devaluation of the deferred tax assets formed in previous years on the remeasurement of the defined benefit obligation, so that a total of deferred tax expense is reported.

Consolidated Balance Sheet

€ 000s	Notes	31/12/2017	31/12/2018
ASSETS			
Cash and cash equivalents	(12)	133,373	120,954
Trade accounts receivable	(13)	57,826	57,519
Receivables from affiliated enterprises		731	676
Inventories	(14)	119,732	126,969
Current income tax assets	(15)	1,377	5,442
Other current non-financial assets	(16)	9,457	7,690
Other current financial assets	(16)	3,666	7,378
Assets held for sale	(17)	0	17,124
Current assets		**326,162**	**343,752**
Property, plant and equipment	(19)	258,208	255,751
Intangible assets	(20)	66,676	59,329
Goodwill	(21)	163,303	162,864
Investments accounted for using the equity method	(22)	1,988	2,378
Financial assets	(22)	830	30
Other non-current non-financial assets		69	54
Other non-current financial assets		6,333	2,098
Deferred taxes	(10)	19,027	18,285
Non-current assets		**516,434**	**500,789**
		842,596	**844,541**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term financial liabilities	(26)	5,656	65,905
Trade accounts payable		63,174	65,078
Contract assets under IFRS 15		0	165
Liabilities from affiliated enterprises		3	0
Income tax liabilities	(23)	3,154	3,096
Short-term provisions	(24)	3,966	11,598
Other current non-financial liabilities	(25)	4,241	2,468
Other current financial liabilities	(25)	26,234	29,578
Current liabilities		**106,428**	**177,888**
Long-term financial liabilities	(26)	317,662	252,584
Pensions and other personnel-related obligations	(27)	12,814	12,828
Long term provisions		0	5
Other non-current non-financial liabilities		41	18
Other non-current financial liabilities		4,372	0
Deferred taxes	(10)	52,043	48,013
Non-current liabilities		**386,932**	**313,448**
Capital stock		15,506	15,506
Capital reserve		122,755	122,755
Retained earnings		181,861	193,093
Consolidated net profit		26,192	18,630
Capital attributable to owners of the parent		**346,314**	**349,984**
Non-controlling interests		2,922	3,221
Equity	(28)	**349,236**	**353,205**
		842,596	**844,541**

Consolidated Cash Flow Statement

€ 000s	Notes	1/1/-31/12/ 2017	1/1/-31/12/ 2018
Earnings before income tax		**33,515**	**27,133**
Payments for income tax		-9,214	-14,753
Reconciliation to cash flow from current business operations:			
- Depreciation and amortization on property, plant and equipment	(18)	38,423	40,577
- Interest income and result for investments	(9)	8,447	5,518
- Gains/losses from the disposal of fixed assets		-58	3,027
- Change in long-term provisions		-216	19
- Other expenses/income with no effect on liquidity		-9,709	-3,733
Internal financing		**61,188**	**57,788**
Increase/decrease in			
- Trade accounts receivable	(13)	-5,859	362
- Other assets		6,753	3,078
- Inventories	(14)	-136	-7,237
- Accrued expenses		383	7,632
- Trade accounts payable		14,289	1,901
- Other liabilities		6,283	-2,825
Change in assets and liabilities (net)		**21,713**	**2,911**
CASH FLOW FROM CURRENT BUSINESS OPERATIONS	(33)	**82,901**	**60,699**
Acquisition of business		-82,829	0
-net of cash acquired		8,699	0
Purchase of property, plant and equipment	(19)	-40,807	-45,017
Purchase of intangible assets	(20)	-1,900	-2,520
Proceeds/losses from the disposal of property, plant and equipment		530	-2,463
Dividends received from investments accounted for using the equity method		415	540
Disposal of investments		406	0
CASH FLOW FROM INVESTMENT ACTIVITIES	(33)	**-115,486**	**-49,460**
Dividend paid to shareholders	(28)	-12,405	-12,405
Proceed of long-term financial liabilities	(32)	201,328	897
Repayment of long-term financial liabilities	(32)	-1,920	-1,919
Changes in short-term financial liabilities	(32)	-72,076	-3,806
Interest received	(9)	644	539
Interest paid	(9)	-9,067	-7,490
CASH FLOW FROM FINANCIAL ACTIVITIES	(33)	**106,504**	**-24,184**
Change in cash and cash equivalents		**73,919**	**-12,945**
Cash and cash equivalents			
1 January		60,416	133,373
Effect of changes in exchange rate on cash and cash equivalents		-962	526
31 December	(12)	**133,373**	**120,954**

Consolidated Statement of Changes in Equity

€ 000s	Capital stock	Capital reserve	Retained earnings				Consolidated net profit	Noncontrolling interests	Total
			Fair value measurement for financial instruments	Other comprehensive income	Currency translation adjustments	Other retrained earnings			
1 January 2017	**15,506**	**122,755**	**86**	**-1,977**	**-620**	**183,947**	**23,867**	**2,988**	**346,552**
Net income	0	0	0	0	0	0	26,192	135	26,327
Other comprehensive income	0	0	-86	54	-8,148	0	0	-57	-8,237
Comprehensive income	**0**	**0**	**-86**	**54**	**-8,148**	**0**	**26,192**	**78**	**18,090**
Dividend payout SURTECO GROUP SE	0	0	0	0	0	-12,405	0	0	-12,405
Allocation to retained earnings	0	0	0	0	0	23,867	-23,867	0	0
Changes in consolidated companies	0	0	0	0	0	0	0	-144	-144
Other changes	0	0	0	0	0	-2,857	0	0	-2,857
Changes in equity	**0**	**0**	**0**	**0**	**0**	**8,605**	**-23,867**	**-144**	**-15,406**
31 December 2017	**15,506**	**122,755**	**0**	**-1,923**	**-8,768**	**192,552**	**26,192**	**2,922**	**349,236**
1 January 2018	**15,506**	**122,755**	**0**	**-1,923**	**-8,768**	**192,552**	**26,192**	**2,922**	**349,236**
Net income	0	0	0	0	0	0	18,630	299	18,929
Other comprehensive income	0	0	0	-225	-906	0	0	0	-1,131
Comprehensive income	**0**	**0**	**0**	**-225**	**-906**	**0**	**18,630**	**299**	**17,798**
Dividend payout SURTECO GROUP SE	0	0	0	0	0	-12,405	0	0	-12,405
Allocation to retained earnings	0	0	0	0	0	26,192	-26,192	0	0
Adjustments due to new accounting standards	0	0	0	0	0	-1,424	0	0	-1,424
Changes in equity	**0**	**0**	**0**	**0**	**0**	**12,363**	**-26,192**	**0**	**-13,829**
31 December 2018	**15,506**	**122,755**	**0**	**-2,148**	**-9,674**	**204,915**	**18,630**	**3,221**	**353,205**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SURTECO GROUP SE for the Business Year 2018

I. Accounting Principles

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

The consolidated financial statements of SURTECO GROUP SE and its subsidiaries for the fiscal year 2018 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 § 315e (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 § 315e 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, and were adjusted in conjunction with § 315e.

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

The reporting date of SURTECO GROUP SE and the consolidated subsidiaries is 31 December 2018.

The consolidated financial statements and the consolidated management report for 2018 will be published in the Federal Gazette (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 PricewaterhouseCoopers GmbH and other appointed auditing companies have essentially audited the financial statements or the sub-groups that form part of the consolidated financial statements.

The consolidated financial statements of SURTECO GROUP SE for the fiscal year 2018 were prepared on 18 April 2019 and forwarded to the Supervisory Board for auditing. The Supervisory Board has the function of auditing the consolidated financial statements and declaring whether it approves the consolidated financial statements. The Supervisory Board is to approve the consolidated financial statements at the meeting on 29 April 2019. The Management Board will then release the statements for publication.

II. Accounting Principles in accordance with the International Financial Reporting Standards

Change in accounting and valuation methods

With the exception of the changes presented below, the accounting and valuation methods correspond to the methods applied in the previous year.

Accounting standards and interpretations applied

During the business year revised standards and interpretations were applied for the first time. They give rise to no material effects on the net assets, financial position and results of operations.

Individual standards were changed in the course of the Annual Improvement Procedure (AIP 2014-2016).

Standard/Interpretation		Application, obligation to apply for the business years on or from	Adoption by the EU Commission	Expected effects on SURTECO
IFRS 9	Financial instruments	01/01/2018	yes	yes
IFRS 15	Revenue from contracts with customers	01/01/2018	yes	yes
IAS 28 (A)	Clarifications on investments in associates and joint ventures	01/01/2018	yes	none
IFRS 2 (A)	Classification and measurement of share-based payment	01/01/2018	yes	none
IFRS 4 (A)	Application of IFRS 9 with IFRS 4 insurance contracts	01/01/2018	yes	none
IFRS 1 (A)	First-time adoption of IFRS: removal of time-limited exemptions	01/01/2018	yes	none
IAS 40 (A)	Transfer of investment property	01/01/2018	yes	none
IFRIC 22	Foreign currency transactions and advance onsiderations	01/01/2018	yes	none

The accounting standards IFRS 9 Financial instruments und IFRS 15 Revenue from contracts with customers published by the IASB are being adopted for the first time from 1 January 2018.

First-time adoption of IFRS 9

The SURTECO Group is applying the new regulations of IFRS 9 Financial instruments for the uniform classification and measurement of financial instruments retrospectively in the business year 2018 and is making use of the exemption regulation of not adjusting comparative information for previous periods. As consequence, only the opening balance was adjusted as at 1 January 2018.

In accordance with the new regulations of IFRS 9, the SURTECO Group classifies items in the new categories: at amortized costs, at fair value through other comprehensive income and at fair value through profit and loss. The debt instruments included in the SURTECO Group are classified at amortized costs. All equity instruments held at the transition date were classified at fair value through profit and loss. Conversely, the existing regulations for financial liabilities were largely taken over in IFRS 9, as a result of which there were no changes.

The following table shows the reconciliation of categories and book values of financial assets, and the effects on Group equity following first-time adoption:

€ 000s	Measurement categories		Book values 31/12/2017 and 1/1/2018	
	Category acc. to IAS 39	Category acc. to IFRS 9	Category acc. to IAS 39	Category acc. to IFRS 9
Assets				
Cash and cash equivalents	LaR	AC	133,373	133,373
Trade accounts receivable	LaR	AC/FVPL	57,826	55,832
Receivables from affiliated companies	LaR	AC	731	731
Other current financial assets				
- Further other current financial assets	LaR	AC	3,666	3,666
Financial investments				
- Shares in affiliated companies	AfS	FVPL	20	20
- Participations	AfS	FVPL	10	10
- Loans to affiliated companies	LaR	AC	800	800
Other non-current financial assets				
- Other loans	LaR	AC	1,951	1,951
- Call option	FAaFV	FVPL	4,300	4,300
- Further other non-current financial assets	LaR	AC	83	83
Liabilities				
Short-term financial liabilities				
- Liabilities to banks	FLAC	AC	3,643	3,643
- Financial liabilities from finance lease	n.a.	n.a.	2,013	2,013
Long-term financial liabilities				
- Financial liabilities from finance lease	n.a.	n.a.	12,980	12,980
- Liabilities to banks	FLAC	AC	304,681	304,681
Trade accounts payable	FLAC	AC	63,174	63,174
Other current financial liabilities	FLAC	AC	26,235	26,235
Other non-current financial liabilities				
- Put option	FLaFV	FVPL	4,300	4,300
- Other non-current financial liabilities	FLAC	AC	71	71

Reconciliation statement € 000s	LaR	IAS 39 AfS	FAaFV	IFRS 9 AC	FVPL	Changes to equity
Amount as at 31/12/2017	**198,430**	**30**	**4,300**			**0**
Reclassification of LaR in AC	-198,430			198,430		0
Reclassification of AfS in FVPL		-30			30	0
Reclassification of FAaFV			-4,300		4,300	0
Amount as at 1/1/2018	**0**	**0**	**0**	**198,430**	**4,330**	**0**

The shares in affiliated companies amounted at € 000s 20 and the participations amounted at € 000s 10, which were classified as "Available for Sale (AfS)" on 31 December 2017, are not shown on 1 January 2018 due to immateriality. The shares in affiliated companies are shares in a non-consolidated company. There is no active market for this instrument and the fair value cannot be reliably determined. There are no plans to sell substantial shares in this company in the near future.

The financial assets defined as "Loans and Receivables (LaR)" were reclassified into the category "at amortized costs (AC)" on 1 January 2018, since their cash flows are exclusively payments of principal and interest.

Receivables that are assigned within the factoring programme are reclassified in the category "at fair value through profit and loss (FVPL)". These receivables are offered for sale and are attributed to the business model "Sales". There were no bookings in equity because the differences arising from the measurement at fair value and at amortized costs were not material.

The Nenplas call option, which is recognized under other financial assets (and other financial liabilities), is reclassified from the category FAaFV as at 1 January 2018 to the category FVPL. The value of the call option depends on various input parameters. We refer to section 32 for further explanations.

IFRS 9 introduces a new model for the measurement of allowances which is based on the expected credit defaults. In accordance with this model, allowances are recorded in respect of expected credit losses for financial assets which were classified at amortized costs or at fair value through other comprehensive income. At each reporting date, the expected credit losses will be updated based on the available information. The SURTECO Group recognizes the following types of financial assets:

- Trade accounts receivable
- Loans measured at amortized costs and tenant loans

The SURTECO Group has modified its impairment methodology in accordance with IFRS 9 for all categories of asset.

Cash and cash equivalents are also subject to the impairment regulations of IFRS 9. However, the identified impairment was not material.

Financial assets such as deposits are not subject to an impairment, because these are trustee assets and would not be included in the insolvency estate if there were an insolvency.

Historical experiences relating to credit defaults and current data in respect of overdues are used for the measurement of allowances on trade accounts receivable. In addition, future-based information is considered if this allows conclusions about a connection with expected credit defaults based on the historical data. The SURTECO Group used the simplified approach here as mandated.

The amount of allowances as at 31 December 2017 is reconciled as follows for the individual financial assets on the opening balance sheet amount of allowances as at 1 January 2018:

€ 000s	Trade accounts receivable
Allowances as at 31 December 2017	4,426
Retrospectively through the opening balance sheet adjusted for retained earnings	1,994
Allowances at opening balance sheet as at 1 January 2018 in accordance with IFRS 9	6,420

Deferred taxes of € 000s 570 were determined from the first-time effect of IFRS 9 of € 000s 1,994.

The lendings valued at amortized costs comprise loans that are issued to non-consolidated companies. The application of the general model for determining expected losses resulted in no allowances as at 1 January 2018. However, owing to changed conditions, the lendings were impaired in the amount of € 000s 1,140 as at 31 December 2018.

IFRS 9 also includes new regulations on the application of hedge accounting in order to provide an improved presentation of the risk management activities of a company, particularly in relation to the control of non-financial risks. The existing hedging relationships also continue to be formed as a hedging relationship in accordance with IFRS 9. Derivatives held for trading purposes and freestanding derivatives are valued at fair value. The SURTECO Group had already transferred profits and losses from effective cash flow hedges into the book values of non-financial underlying transactions on first-time recognition before IFRS 9. As at 1 January 2018, there were neither currency futures nor interest rate swaps.

First-time adoption of IFRS 15

The new standard IFRS 15 Revenue from contracts with customers brings together the large number of previous regulations and interpretations on sales recognition in a single standard. In agreement with the transitional provisions of IFRS 15, the SURTECO Group is applying retrospectively and in modified form the new regulations for sales revenues arising from customer contracts in the business year 2018. As a consequence, the previous periods were not adjusted.

IFRS 15 envisages a five-stage model which is to be applied to all contracts with customers. The sales are to be realized either over a period of time or on a specific date. In the SURTECO Group, sales are realized on a specific date, when the customer exert power of control over the goods or services. The SURTECO Group generates revenues from the sale of goods in plastic and paper sector.

In accordance with IFRS 15, any performance surpluses or obligations existing at contract level should be reported. These relate to assets and liabilities from customer contracts that depend on the relationship between the service provided by the company and the payment of the customer. In the business year 2018, qualitative and quantitative disclosures on contracts with customers were made, on material discretionary decisions and their changes that were made in the application of revenue regulations on these contracts, and on any assets that result from costs capitalized as assets for the attainment and fulfilment of a contract with a customer. Essentially, there were no effects due to the practices employed in business models (production and sales) by the subsidiary companies as a result of the introduction of IFRS 15.

When reporting rights of return, IFRS 15 resulted in an earlier point in time for recording them, as a result of which assets and liabilities arising from rights of return were recognized and consequently the other current assets and liabilities underwent a rise. However, this does not result in any material effect on earnings.

Furthermore, a different approach is adopted to reporting results in individual cases for repurchase agreements with customers, which lead to a shift in the date for sales recognition. Repurchase agreements are only seldom invoked. This means that there is no significant effect in reporting.

IFRS 15 envisages for separate presentation of contractual assets and liabilities. As soon as one of the parties has fulfilled their obligation, the contract is reported in the balance sheet as contractual assets or liabilities. If a customer pays a consideration or if the company has an unconditional claim to a specific consideration before transfer of the goods, the company must recognize the contract as a contractual liability, when the payment is made or falls due. A contractual liability represents the obligation of a company to transfer goods to a customer for which the company has received a consideration from the customer. In the SURTECO Group, such matters were identified in the amount of EUR 000s 231 and they were recognized as contractual assets on 1 January 2018.

International financial reporting standards and interpretations that have been published and have to be applied in the future

The following new and revised standards and interpretations, which were not yet mandatory during the reporting period or had not yet been adopted by the European Union, are not being applied in advance.

Individual standards are changing within the framework of Annual Improvement Projects (AIP 2015-2017). SURTECO GROUP SE is investigating the resulting effects on the consolidated financial statements.

Standard/Interpretation		Application, obligation to apply for the business years on or from	Adoption by the EU Commis-sion	Expected effects on SURTECO
IFRS 16	Leasing	1/1/2019	yes	currently being analyzed
IFRS 9 (A)	Clarification of prepayment features with negative compensation payment	1/1/2019	yes	no
IAS 19 (A)	Clarification of plan amendments, curtailments and settlements	1/1/2019	yes	no
IFRS 3 (A) / IFRS 11 (A)	Clarification of the measurement of shares in joint ventures	1/1/2019	yes	no
IAS 12 (A)	Clarification of income tax impacts of dividends	1/1/2019	yes	no
IAS 23 (A)	Clarification for taking account of borrowing costs	1/1/2019	yes	no
IAS 28 (A)	Long-term interest in conjunction with associated companies and joint ventures	1/1/2019	yes	none
IFRIC 23	Tax risk positions from income tax	1/1/2019	yes	currently being analyzed
Conceptual Framework (A)	Changes to the conceptual framework	1/1/2020*	no	currently being analyzed
IFRS 3 (A)	Clarification for definition of a business model in company mergers	1/1/2020*	no	no
IAS 1 (A) & IAS 8 (A)	Clarification for definition of material costs in the conceptual framework and in individual standards	1/1/2020*	no	no
IFRS 17	Insurance contracts	1/1/2021*	no	currently being analyzed
(A) Amended				
(R) Revised				

* Date of first-time application in accordance with IASB-IFRS (since these regulations have not yet been adopted in EU law)

The following accounting standard clarification published by the IASB does not yet have to be applied mandatorily and it has also not yet been applied by the SURTECO Group.

In January 2016, the IASB published IFRS 16 Leases. IFRS 16 abolishes the existing classification of leasing contracts on the lessee side in operating and finance leasing arrangements. IFRS 16 introduces a lessee accounting model, according to which the lessee is obliged to recognize assets (for the right of use) and leasing liabilities in case there are leasing contracts over a period of more than twelve months. In future, leasing arrangements that have so far not been reported have to be recognized in the balance sheet. The previous differentiation into rental leasing and finance leasing is therefore discontinued for lessees. Disclosure obligations are also more complex.

IFRS 16 applies to business years which start on or after 1 January 2019. The standard will not be adopted in advance. On 31 December 2018, there were payment obligations arising from non-cancellable rental leases amounting to € 9.1 million. These agreements meet the criteria of a leasing agreement in accordance with IFRS 16 and the SURTECO Group therefore has to report corresponding assets and liabilities as soon as IFRS 16 is applied, unless in individual cases the Group makes use of the exceptions for short-term leases or small tickets. Due to the new standard, operating expense are expected to be reduced by approximately € 2.4 million, while depreciations are projected to increase by about € 2.2 million and interest expense by about € 000s 196. In the case of finance leases with the SURTECO Group as the lessee, assets and liabilities are already reported. In these cases and for leases where the Group acts as a lessor, no substantial impacts are expected on the consolidated financial statements.

III. Consolidated Companies

SURTECO Group SE and all significant companies (including special-purpose entities), in which SURTECO GROUP SE has a controlling influence, are included in the consolidated financial statements as of 31 December 2018. Control exists if SURTECO GROUP SE has a right to receive variable returns based on the relationship with a company and possesses power of disposal over the company. The term "power" implies that SURTECO GROUP SE has existing rights enabling it to direct the relevant activities of the company and thus exert a significant influence on the variable returns. The ability to control another company generally derives from direct or indirect ownership of a majority of the voting rights. Within structured entities, control usually derives from contractual agreements. The financial statements of subsidiary companies are included in the consolidated financial statements from the point in time at which control exists until it is no longer possible to exercise such control.

Investments in associates in which the SURTECO Group exerts a significant influence (generally through a shareholding of 20 % to 50 %) and investments in joint ventures are valued according to the equity method.

As of the reporting date, two companies are not included in the consolidated financial statements (2017: two companies) as there were only minimal business activities in the course of the year under review and the influence of its aggregate value on the true and fair view of the net assets, financial positions and results of operations of the Group was not significant.

Alongside SURTECO GROUP SE, the following companies are included in the consolidated financial statements for the Group:

	31/12/2017	Changes due to IFRS standards	Additions	Disposals Restructuring in the Group	Disposals Sales / Liquidation	31/12/2018
Consolidated subsidiaries						
- of which in Germany *	11	0	1	-3	0	9
- of which abroad	30	0	0	0	-2	28
Subsidiaries reported at acquisition costs						
- of which in Germany	0	0	0	0	0	0
- of which abroad	2	0	0	0	0	2
Companies accounted for using the equity method						
- of which in Germany	0	0	0	0	0	0
- of which abroad	1	0	0	0	0	1
	44	**0**	**1**	**-3**	**-2**	**40**

* of which 2 special-purpose entities

The companies included in the consolidated financial statements as of 31 December 2018 and disclosures on subsidiaries and participations held directly and indirectly by SURTECO GROUP SE are included in the list under "SURTECO Holdings". The annual financial statements and the management report of SURTECO GROUP SE for the business year 2018 are submitted to the Federal Gazette (Bundesanzeiger) and published there.

In the business year 2018, the following structural changes were recognized within the SURTECO Group:

- Establishment of SURTECO Beteiligungen GmbH
- Merger of SURTECO DECOR GmbH and Döllken-Kunststoffverarbeitung GmbH to form SURTECO GmbH (formerly: BauschLinnemann GmbH)
- Merger of Döllken-Profiltechnik GmbH to form Döllken Profiles GmbH
- Liquidation SURTECO do Brasil S/A Comercio E Importacao de Componentes Para Moveis
- Liquidation of Inversiones Doellken South America Ltd

IV. USE OF § 264 (3) German Commercial Code (HGB)

The exemption clauses pursuant to § 264 (3) German Commercial Code (HGB) were applied for the following subsidiary companies included in the consolidated financial statements in order to provide them exemption from the requirement to draw up their respective management report and notes, and to audit and to disclose their annual financial statements:

Name	Registered office
SURTECO GmbH	Buttenwiesen
SURTECO art GmbH	Willich
Dakor Melamin Imprägnierungen GmbH	Heroldstatt
Kröning GmbH	Hüllhorst
Döllken Profiles GmbH	Nohra
SURTECO Beteiligungen GmbH	Buttenwiesen

V. Consolidation Principles

The financial statements included in the consolidation process have been prepared on the basis of the accounting and valuation principles uniformly applicable – which have remained fundamentally unchanged by comparison with to the previous year – to the SURTECO Group.

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

The reporting date of the consolidated financial statements coincides with the reporting date of the individual companies included in the consolidated financial statements (31 December 2018).

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. Assets, liabilities and contingent liabilities identified within the course of a first-time business combination were measured at their acquisition-date fair values. For each business acquisition, the Group decides on an individual basis whether the non-controlling shares in the acquired company should be recognized at their respective fair value or on the basis of their proportion in the net assets of the acquired company. Costs relating to the acquisition are charged to expenses at the time they occur.

Any remaining positive netting difference between the purchase price and the identified assets and liabilities is recognized as goodwill. Any remaining negative difference is recognized as profit or loss in the income statement.

Goodwill arising from the acquisition of a subsidiary company or business operation are recognized separately in the balance sheet.

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". Currently existing non-controlling interests were measured on the basis of the proportionate net assets.

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

An associated company 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. Investments in associated companies are measured using the equity method.

The SURTECO Group has an investment in one company under jointly managed agreements. In accordance with IFRS 11, there are two forms of joint agreement: depending on the arrangement of the contractual rights and obligations of the individual investments: joint operations and joint ventures.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint ventures are accounted for in accordance with the equity method.

The SURTECO Group has only joint agreements in the form of joint ventures.

Investments in associated companies and joint venture companies are accounted for with their acquisition costs by using the equity method and they are increased or decreased by the proportionate changes in equity. If impairments exceeding the value of the individual participation occur, any available non-current assets being associated with the participation are written down. If the book value of the participation and these assets is reduced to zero, additional losses are accounted for in the appropriate scope and recognized as a liability in case the Group has entered into legal or de facto obligations to cover losses, or makes payments instead of the associated company or joint venture.

If a Group company carries out significant transactions with an associated company or joint venture, any resulting unrealized gains or losses are eliminated in accordance with the share of the Group in the associated company or joint venture.

Adjustments to uniform consolidated accounting and valuation methods are performed as necessary.

Receivables, liabilities and loans between the Group companies are netted.

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, will be eliminated if they materially affect the presentation of the current net assets, the financial position and results of operations.

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

Intercompany trade accounts are accounted based on market prices and accounting prices that are determined according to the principle of "dealing at arm's length".

Transactions with non-controlling interests without loss of control are accounted for as transactions with the owners of the Group who act in their capacity as owners. A difference between the fair value of the consideration paid and the acquired share in the carrying value of the net assets of the subsidiary company arising from the purchase of a non-controlling interest is recognized in equity. Gains and losses which arise on the disposal in respect of non-controlling interests are also recorded in equity.

VI. Currency Translation

Business transactions in foreign currency are reported at the exchange rate on the date of first-time reporting. Exchange gains and losses arising from the valuation of receivables or liabilities up to the reporting date are reported at the rate on the reporting date. Gains and losses arising from changes in rates 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).

The earnings and the balance sheet items of the foreign subsidiary companies included in the consolidated financial statements which have a different functional currency to the euro are converted into euros as follows. Assets and liabilities, as well as contingent obligations and other financial obligations, are therefore translated at the rate prevailing on the reporting 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 income under shareholders' equity in retained earnings (currency differences). Since all consolidated companies operate their financial, business and organizational transactions independently, the relevant national currency is the functional currency.

Translation was based on the following currency exchange rates:

Exchange rates in euros		**Rate on the reporting date**		**Average rate**	
		31/12/2017	**31/12/2018**	**2017**	**2018**
US dollar	USD	0.8342	0.8733	0.8873	0.8472
Canadian dollar	CAD	0.6655	0.6412	0.6833	0.6537
Australian dollar	AUD	0.6523	0.6164	0.6796	0.6331
Singapore dollar	SGD	0.6244	0.6414	0.6422	0.6279
Swedish krone	SEK	0.1017	0.0975	0.1038	0.0975
Sterling GBP	GBP	1.1270	1.1151	1.1417	1.1303
Turkish lira	TRY	0.2205	0.1651	0.2434	0.1795
Polish zloty	PLN	0.2395	0.2327	0.2349	0.2347
Russian rouble	RUB	0.0144	0.0125	0.0152	0.0135
Czech koruna	CZK	0.0391	0.0389	0.0380	0.0390
Mexican peso	MXN	0.0423	0.0444	0.0470	0.0440
Brazilian real	BRL	0.2514	0.2251	0.2747	0.2319

VII. Accounting and Valuation Principles

Uniform accounting and valuation methods

The consolidated financial statements were drawn up in accordance with uniform accounting and valuation principles for similar business transactions and other events in similar circumstances.

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 as non-current in the balance sheet 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 other personnel-related obligations, and claims or obligations arising from deferred taxes are reported as non-current assets or liabilities.

Revenue and expense realization

IFRS 15 establishes the principles that an entity shall apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The core principle is that a company shall recognize revenues to depict the transfer of promised goods and services in an amount that reflects the consideration.

Revenues should be recorded when a performance obligation is satisfied by the transfer of a promised good or promised service to a customer. An asset is deemed to have been transferred if the customer is able to exert power of disposal over the asset.

Revenues should be 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 originating from the sale of goods have been recorded if the following conditions are fulfilled:

- The Group has the power of disposal over arising from ownership of the goods to the purchaser.
- 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 due to the sale can be reliably determined.

All revenues are realised on a specific date in the SURTECO Group.

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.

Volume discounts partly acting retrospectively are agreed for the sale of products. These are based on the total sales of a 12-month period. The revenues from these sales are reported in the amount of the price defined in the contract, less the estimated volume discount. The estimate for the provision is based on experience values. Sales revenues are only reported in the scope in which it is probable that a significant cancellation of the sales is not necessary, insofar as the associated uncertainty no longer exists.

A receivable is recognized when the goods are dispatched because at this point the claim to a consideration is unconditional, i.e. the due date is defined automatically from this point in time.

Dividend income arising from financial assets available for sale 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.

EBITDA

EBITDA is earnings before financial result, income tax and depreciation and amortization.

EBIT

EBIT is earnings before financial result and income tax.

EBT

EBT is earnings before tax.

Earnings per share

The basic earnings per share are calculated by dividing the proportion of the share in the consolidated net profit attributable to the shareholders of SURTECO GROUP 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..

Determination of the fair value

In accordance with IFRS 13, the fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This applies independently of whether the price can be observed directly or has been estimated using a valuation method.

When applying valuation procedures for calculating the fair value, it is important to use as many (relevant) observable input factors as possible and as few non-observable input factors as possible.

A three-level fair value hierarchy is to be applied. The input factors used in the valuation procedures are classified as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities, where the entity drawing up the financial statements must have access to these active markets on the valuation date.
Level 2 – Directly or indirectly observable input factors which cannot be classified under Level 1.
Level 3 – Unobservable input factors.

The scope of IFRS 13 is far-reaching and encompasses non-financial assets and liabilities and equity instruments. IFRS 13 is always used if another IFRS prescribes or permits a valuation at fair value or information on the calculation of the fair value is requested.

Financial instruments

In accordance with IAS 39, a financial instrument is a contract, which simultaneously leads to a financial asset for one entity and a financial liability or an equity capital instrument for another entity. 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.

First-time recognition and derecognition of financial instruments in the balance sheet is carried out on the date of fulfilment. When first-time recognition is carried out, the SURTECO Group measures a financial asset at the fair value plus the transaction costs incurred directly on the acquisition of this asset, insofar as the asset is subsequently not reported at fair value. In the case of such instruments, the transaction costs are recorded immediately in the income statement. The following exception applies to this regulation for trade accounts receivable that are first valued at their transaction price in accordance with IFRS 15. Derecognition of the receivables and other financial assets if the Group has transferred its contractual rights to cash flows from the financial assets and all opportunities and risks, which are associated with the property, were essentially transferred, or otherwise if the power of disposal over assets was transferred. If the prerequisites for derecognition of the receivables are not fulfilled, the assets are not derecognized.

Financial assets and liabilities are netted and recognized as a net amount in the balance sheet if there is a legal entitlement to this and it is intended to bring about a settlement on a net basis or release the associated liability and realize the asset simultaneously. The legal entitlement to offsetting must not depend on a future event and must be implementable in the course of normal business and in the case of a default, an insolvency or a bankruptcy.

The liabilities arising from primary financial instruments can either be recognized at the amortized costs or as "liabilities at fair value through profit and loss". SURTECO Group measures all financial liabilities at amortized costs. Financial obligations with fixed or determined 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. A financial liability is then derecognized when it is settled, i.e. the obligations defined in the contract have been fulfilled or have been cancelled or have expired.

The SURTECO Group is applying the new regulations in IFRS 9 for the classification and valuation of financial instruments retrospectively in the business year 2018.

Classification and valuation

IFRS 9 has introduced principle-based regulations for the classification of financial assets and distinguishes in these regulations between the following valuation criteria set out below.

Debt instruments

The valuation of debt instruments depends on the business model of the SURTECO Group for managing the asset and the cash flows of the asset. The SURTECO Group classifies its debt instruments as follows:

- At amortized costs: Assets that are held to collect contractual cash flows, and for which payment flows are exclusively interest payments and settlement repayments, are measured at amortized costs. Interest income from these financial assets are recognized in financial income by applying the effective interest method. Profits or losses from derecognition are reported directly in other operating income or expenses. Impairments are recognized under impairment expenses or impairment reversal income in accordance with IFRS 9.
- At fair value through other comprehensive income: Assets that are held to collect contractual cash flows and for the disposal of financial assets, and for which the payment flows are exclusively interest and settlement payments. Changes to the book value are recognized in other comprehensive income, with the exception of impairment income/expenses, interest income and foreign-exchange losses/gains. Impairments do not lead to changes in the book value but are also recognized in other comprehensive income. When the financial asset is derecognized, the accumulated profit or loss from equity previously recognized in other comprehensive income is reclassified in the income statement and recognized in earnings from financial derivatives. Interest income is recognized in financial income using the effective interest method. Foreign-exchange gains/losses are shown as exchange-rate effects of the financial result in the income statement.
- At fair value through profit and loss: Debt instruments that are neither measured at amortized costs or at fair value through other comprehensive income are measured at fair value through profit and loss. Gains and losses are offset under other profits/losses in the relevant period in which they arise.

These regulations are to be applied to a financial asset in entirety, even if this includes an embedded derivative. The fair value option is not applied in the SURTECO Group.

In the SURTECO Group, financial instruments are classified in the following categories:
- At amortized costs (AC) for trade accounts receivable and for other assets (loans issued, etc.)
- At fair value through profit and loss for trade accounts receivable which have been assigned in the scope of the factoring programme

The SURTECO Group only reclassifies debt instruments if the business model used to manage such assets changes.

Equity instruments

Equity instruments are generally measured at fair value through profit and loss. Adjustments to the fair value are reported in the income statement under the other financial expenses and income.

The SURTECO Group does not make use of the FV OCI option.

Derivative instruments

The Group uses derivative financial instruments, such as forward exchange contracts and interest/currency 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 with 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 for the first time in the balance sheet at the fair value on the date at which the contract is closed. They are subsequently revalued at market value on the reporting date. Derivative financial instruments are recognized as assets if their fair value is positive and as liabilities if their fair value is negative.

At the beginning of the hedging transaction, the hedge 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.

For purposes of hedge accounting, 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.

In the SURTECO Group, cash flow hedges are used exclusively for hedging purposes. The effective part of the changes in fair value of derivatives is recorded in the provision for cash flow hedges as a component of equity. The profit or loss relating to the ineffective part is recorded directly through profit or loss under the other operating income or losses.

The accumulated amounts reported in equity are reclassified to the periods in which the hedged underlying transaction exerts effects on the profit or loss, as follows:

- If the hedged underlying business leads to the recognition of a non-financial asset, the deferred hedging gains and losses are included in the original acquisition costs of the asset. Ultimately, the deferred amounts are reported in the result for financial derivatives if the hedged underlying transaction exerts an effect on the profit/loss.
- The profit or loss from the effective part of the interest swap, which hedges the variable interest borrowings, is recognized under the item financial expenses in the period in which the interest expense is incurred for the hedged borrowings.

If a hedging instrument expires, is sold or terminated, or the hedging relationship no longer meets the criteria for the reporting of hedging relationships, any accumulated deferred hedging gains/losses and the deferred hedging costs remain in equity until the expected transaction occurs and then leads to recording of a non-financial asset. Deferred hedging costs are reclassified to profit or loss. If the transaction is no longer expected to occur, the accumulated hedging gains and losses and the deferred hedging costs are reallocated to profit or loss.

Impairments

IFRS 9 requires expected losses to be reported. The scope of application includes all financial instruments which are reported at amortized costs and at fair value through other comprehensive income, and contractual and leasing assets. Here, a distinction is drawn between the general and simplified model used to determine impairments.

General impairment model
The level of impairment depends on the allocation of the financial instrument to one of the following levels:

1. Level 1: All financial instruments are allocated to this level when they are first recognized. The expected loss corresponds to the amount which can arise from possible default events within the next 12 months after the reporting date. An expected loss is already recognized when the item is first reported. In the case of financial instruments whose credit risk has not increased significantly since first-time recognition, a company must record a risk provision in the amount of the credit defaults, whose occurrence is expected within the next twelve months, i.e. 12 month ECL. This should be understood as the cash value of the payment defaults which arise from possible default events over the next twelve months after the reporting date.
2. Level 2: If, since the first-time recognition, a significant increase of the default risk has been recorded for the counterparty, the financial instrument should be transferred to Level 2. The impairment expense corresponds to the amount which can arise from possible default events during the residual term of the instrument.
3. Level 3: If there is an objective indication that an impairment has taken place, the financial asset should be transferred to this level. The risk provision to be recorded should be determined using the same approach as in Level 2. However, interest can only be collected for these financial instruments by the effective interest method on the basis of the (impaired) net book value.

Expected losses are a probability weighted estimate of losses. Default probabilities are determined for this which are multiplied by the nominal amount for the receivable.

Simplified impairment model
The simplified approach is distinguished by the fact that there are no differences in the credit risk and the expected credit losses are always recorded from the first-time recognition. Instead, a risk provision in the amount of the total term ECL must be recorded on first-time recognition and on every subsequent reporting date. The simplified approach must be applied mandatorily for trade accounts receivable, for contractual assets and for leasing values.

The SURTECO Group only has trade accounts receivable. The expected credit losses are calculated using an provision matrix depending on the overdues of individual receivables. The underlying default rates were established on the basis of historical experience data and current expectations and are updated on each reporting date. In addition, future-oriented information (for example forecasts on economic performance indicators) are taken into account if these imply a connection with expected credit defaults on the basis of the historical data. Depending on the diversity of the customer base, appropriate groupings (for example on the basis of geographical area, product type, etc.) can be used if previous experience with credit losses demonstrates outcome patterns with significant deviation between different customer segments. The customers of the SURTECO Group are allocated within a homogenous portfolio because no special characteristics were identified here, for example in relation to the customer's country of origin.

Receivables with significant overdues on account of the customer structure or receivables for which an insolvency or similar proceeding has been opened through their debtor continue to be checked individually for an impairment. If it is highly certain that no further incoming cash flow is to be expected, the instruments are impaired.

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. For the valuation category in accordance with IAS 9, the cash and cash equivalents are classified as "debt instruments at amortized costs (AC)".

Receivables and other financial assets, apart from derivative financial instruments and any receivable assigned under the factoring programme, are reported at amortized costs (AC). Allowances are carried out on a case-by-case basis in accordance with the expected default risks through an allowance account. Final derecognition is carried out if the receivable is not recoverable. Measurement of the requirement for individual allowance adjustments is based on the age structure of the receivable and the findings related to the customer-specific credit and default risk. Objective indications for an increased default risk are provided, for example, a pending insolvency, compulsory enforcement proceedings for the customer, one/several complaints and late payments by customers, an affidavit by the customer, composition proceedings or a lawsuit in connection with the customer. The payment targets for the customers are agreed individually with the customer. No predefined critical overdues are applicable in the SURTECO Group. Critical receivables are assessed on the basis of the objective evidence available. Trade accounts receivable with standard payment terms are recognized at amortized costs, reduced by bonuses, discounts and allowances. The Group sells trade accounts receivable under factoring agreements. These receivables are reported at fair value through profit and loss. The incoming payment from the sale of receivables is recognized under cash. Recognition of a short-term financial liability in the same amount is reported under short-term liabilities.

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 of the goods to be manufactured. 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 following criteria are complied with:

- The technical feasibility of completing the intangible asset so that it will be available for use.
- The management intends to complete the intangible asset and to use or sell it.
- There is an ability to use or to sell the intangible asset.
- The form and manner in which the intangible asset will generate probable future economic benefits are traceable.
- Adequate technical, financial and other resources are available in order to complete the development and to use or sell the intangible asset.
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Development costs which do not meet with these criteria are recorded as expenses in the period when they were generated. Development costs already recognized as expenses are not later capitalized as assets.

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.

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 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 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 incurred 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 leasing or as operate leasing. 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 leasing). If commercial ownership should be assigned to the companies 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. The liabilities from finance leases are recognized at the present value of the lease instalments on the basis of the interest rate used on the date when the leasing contract was concluded. 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 operate leasing, with the consequence that the leasing rates are reported to expenditure when they are paid. When amendments are made to finance leasing contracts, an adjustment of the present value and book value of the leasing liability is made with respect to the book value of the leasing object.

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

Scheduled depreciation of assets has been carried out exclusively by the straight-line method. The remaining useful lives 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 companies 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 reporting date, the Group checks the book values of intangible assets and property, plant and equipment 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 present 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. The fair value less the sales costs is calculated using a recognized valuation method. This method takes into account market data on current transactions available externally and valuations of third parties.

A test is carried out for assets, exept for goodwill, on every reporting date, 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 acquisitions 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 21 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 to be subject to scheduled depreciation and amortization, 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 unlimited useful life 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 present value of the future payments, which are anticipated on the basis of the ongoing use by the Strategic Business Unit, 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 book value of the cash generating unit 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 allowance thus determined as affecting expenses in the first stage. Any remaining residual amount is distributed to the other assets of the relevant Strategic Business Unit proportionately to the book value. Any allowance carried out as necessary is recognized under other depreciation and amortization in the income statement. A subsequent write-up of the goodwill as a result of the reasons no longer being applicable is not permitted.

The actual income taxes paid or owed for the current and earlier periods are measured with the amount at the level of a rebate from the tax authorities or a payment to the tax authorities is expected. The calculation of the amount is based on the country-specific tax rates and tax regulations which are applicable on the reporting date.

The actual income tax liabilities related to the relevant tax year and any obligations arising from the previous years. The valuations are subject to the applicable statutory regulations taking into account current legal precedents and the prevailing professional opinion.

Deferred income tax is determined in accordance with IAS 12 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 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 earnings 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

- deductible temporary differences from first-time recognition of an asset or a liability arising from a transaction that is not a business combination and at the point in time of the transaction neither influences the result for the period in accordance with IFRS nor the taxable earnings.

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

- temporary differences 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 in accordance with IFRS nor taxable earnings, and
- taxable temporary differences which occur in conjunction with shareholdings in subsidiary companies, 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.

The book value of the deferred tax assets is audited on each reporting date and as necessary 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 reporting 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 reporting date, are used as the basis for calculation. Future changes in tax rates should be considered at the reporting date, insofar as material requirements for effectiveness are fulfilled pursuant to a legislative procedure.

Income and expenses arising from actual and deferred income taxes that relate to the items that are reported directly under equity or in other comprehensive income for the year are not reported in the income statement but are also recorded directly under equity or in other comprehensive income for the year. Deferred tax assets and deferred tax liabilities are offset, if the Group has an enforceable 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 1.56, deferred taxes are recognized as long term.

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

Contractual liabilities correspond to the obligation to transfer goods to a customer for which the SURTECO Group has already received a consideration.

Pension provisions and other personnel-related obligationsinclude obligations arising from regulations relating to company retirement provision, partial retirement and long-service awards.

Obligations arising from regulations relating to company pension provision relate to defined benefit plans which essentially cover benefit recipients employed in Germany. The arrangement depends on the legal, tax and economic relations pertaining and is generally based on the period of service and pay of the employee. The majority of pension obligations in Germany based on contractual conditions relate to life-time pension benefits, which are paid out in case of invalidity, death and attaining the age of retirement.

The pension institutions were closed in the past. New employees will be offered a company pension plan through an external welfare fund and pension scheme; they will not receive any direct commitments from the company.

Since no further obligations or risks are incurred by the company beyond the payment of the contributions, these were classified as defined contribution plans and are therefore not taken account in the determination of the provision.

The pension obligations of SURTECO are subject to various market risks. The risks essentially related to changes in market interest rates, inflation which exerts an effect on the level of pension adjustments, the longevity and on general market fluctuations.

Pensions 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 reporting date. It also takes account of the increases in pensions and salaries anticipated in the future with prudent estimation of the relevant parameters. The obligation is determined using actuarial methods taking into account biometric accounting assumptions. The expense of allocating pension accruals, including the interest portion contained therein, is recognized under personnel expenses. Remeasurements (actuarial gains or losses) arising from defined-benefit plans are recognized in equity (other comprehensive income for the year) with no effect on net income. The standardized income on the plan assets is generated in the amount of the discounting rate of the pension obligations at the start of the reporting period. These returns are recognized with netting of the expenses arising from the pension obligations on the basis of a standardized return. Differences between the expected income and the actual income are to be recognized with no effect on net income in equity (other comprehensive income for the year). Furthermore, the past service costs are to be recognized immediately at the point of arising with an effect on earnings.

Provisions for long-service bonuses are calculated on the basis of actuarial methods. The settlement backlogs and top-up amounts for partial retirement obligations were added pro rata for partial retirement obligations until the end of the active phase.

The obligations from defined-benefit plans principally exist in Germany and they are calculated taking the following actuarial assumptions into account:

	2017	2018
Interest rate	1.79%	1.87%
Salary increases	2.0%	2.0%
Pension increases	2.0%	2.0%
Fluctuation rate	0.0%	0.0%
Biometric data	Heubeck 2005G	Heubeck 2018G

The interest rate for the pension obligation is currently a uniform 1.87 % (2017: 1.79 %). Different interest rates were applied as necessary for similar other personnel-related 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 exist – 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. Provisions for warranty claims are formed on the basis of previous or estimated future claims. The provisions for legal disputes and other provisions 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. A provision for restructuring measures is recognized as soon as the Group has approved a detailed and formal restructuring plan and the restructuring measures have either commenced or have been announced in the public domain. When a restructuring provision is measured, only the direct expenses for the restructuring are entered. This therefore only relates to amounts which have been caused by restructuring and are not related to the ongoing business operations of the Group.

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 unrealized gains and losses arising from the fair valuation of financial 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

Presentation of the business segments 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 Management Board of SURTECO was defined as the main decision-maker.

Decisions of judgement and estimates

The preparation of consolidated financial statements in accordance with IFRS requires up to certain level decisions of judgement, 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 judgement and estimates relate to the definition of the period of use of fixed assets, the determination of discounted cash flows within the scope of purchase price allocations and impairment tests, accrual of cash generating units, the formation of provisions for restructuring, 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.

VIII. Notes to the Income Statement

(1) Sales revenues

The sales revenues are comprised as follows:

Business (product) € 000s	2017	2018
Edgebandings	240,117	258,535
Foils	135,540	135,842
Decorative printing	93,443	91,002
Impregnates / Release papers	104,920	97,977
Skirtings and related products	46,505	48,793
Technical extrusions	35,802	36,141
Other	33,324	30,687
	689,651	**698,977**

Sales revenues of the product group edgebandings are allocated to the business segment plastics in the amount of € 000s 211,810 (2017: € 000s 190,866) and to the business segment paper in the amount of € 000s 46,725 (2017: € 000s 49,251). The product group foils are to be allocated to the business segments plastics in the amount of € 000s 26,414 (2017: € 000s 24,108) and paper in the amount of € 000s 109,428 (2017: € 000s 111,432). The sales revenues of the product group decorative printing and impregnates/release papers are attributable to the business segment paper. The sales revenues of the product groups skirtings and related products, and technical extrusions (profiles) are attributable to the business segment plastics.

(2) Changes in inventories

The changes in inventories related to work in progress amounting to € 000s -270 (2017: € 000s 2,140) and finished products amounting to € 000s 2,617 (2017: € 000s -4,022).

(3) Other own work capitalize

Other own work capitalized are essentially self-manufactured tools and printing cylinders.

(4) Cost of materials

Composition of the cost of materials in the Group:

€ 000s	2017	2018
Cost of raw materials, consumables and supplies, and purchased merchandise	330,523	344,853
Cost of purchased services	4,511	4,769
	335,034	**349,622**

(5) Personnel expenses

The following table shows personnel expenses:

€ 000s	2017	2018
Wages and salaries	146,358	155,665
Social security contributions	18,252	19,425
Pension costs	9,903	10,257
	174,513	**185,347**

Regarding the defined-contribution pension provision systems, the company pays contributions to state pension insurance institutions based on statutory obligations. Contributions amounting to € 000s 331 (2017: € 000s 349) are also paid to welfare funds and pension schemes. The pension costs also include payments of € 000s 8,061 (2017: € 000s 8,013) to statutory pension annuity guarantors. These payments entail no further obligations for the company to make payments.

Personnel expenses include amounts resulting from the net interest expense/income and the current service cost for pension obligations.

The average number of employees amounts to 3,329 (2017: 3,091).

The following table shows the employee structure:

			2017			2018
	Industrial	Salaried	Total	Industrial	Salaried	Total
Production	1,585	207	1,792	1,707	206	1,913
Sales	48	366	414	57	390	447
Engineering	132	47	179	136	49	185
Research and development, quality assurance	79	108	187	94	118	212
Administration, materials management	147	372	519	166	406	572
	1,991	**1,100**	**3,091**	**2,160**	**1,169**	**3,329**

The number of employees by regions is as follows:

	2017	2018
Germany	1,846	1,866
European Union	522	659
Rest of Europe	30	31
Asia/Australia	182	204
America	511	569
	3,091	**3,329**

(6) Other operating expenses

The other operating expenses are composed as follows:

€ 000s	2017	2018
Operating expenses	29,416	27,305
Sales expenses	48,817	49,883
Administrative expenses	25,869	24,050
Expenses arising from the ending of legal disputes	0	1,535
Impairment losses on receivables	674	733
	104,776	**103,506**

Uncapitalized research and development costs (personnel and materials costs) in the Group amounted to € 000s 4,721 (2017: € 000s 5,310).

The effects of changes in exchange rate through profit and loss included in other operating expenses amounted € 000s 274 (2017: € 000s 390) in the business year 2018.

(7) Impairment expenses / Impairment reversal income in accordance with IFRS 9

IFRS 9 introduces a new model for the measurement of impairments. In the business year 2018, impairment expenses and impairment reversal incomes are recorded according to this model.

In the business year 2018, impairment reversal income in the amount of € 000s 1,078 is recorded for trade accounts receivable. These were determined on the basis of the simplified impairment model (provision matrix).

The following financial instruments are subject to general impairment recognition in accordance with IFRS 9:

	Credit risk	Impairment recognition
Bank balances	Slight	12-M-Expected Credit Loss
Receivables from affiliated companies	Likely	12-M-Expected Credit Loss

On account of the slight default risk for bank balances, no allowance should be carried out for reasons of materiality.

The receivables from affiliated companies include operational receivables and a loan issued. These receivables amount to € 000s 1,659. In the business year 2018, the planned synergy effects were not achieved and the default risk for receivables increased as a result. In the business year 2018, the receivables from affiliated companies were impaired by a total of € 000s 1,140 because of the increased credit risk. This impairment expense in the amount of € 000s 570 is attributable to operating receivables (operating result) and in the amount of € 000s 570 to the loan issued (financial result).

(8) Other operating income

The following table shows other operating income:

€ 000s	2017	2018
Income tax rebates (abroad)	0	938
Claims for compensation	826	537
income from reversal of allowances	177	288
Income from asset disposals	530	198
Income from allocated charges	129	67
Income from commissions	701	0
Other operating income	2,154	2,232
	4,517	**4,260**

(9) Financial results

€ 000s	2017	2018
Interest and similar income	646	1,432
Interest and similar expenses	-8,357	-7,490
Interest (net)	**-7,711**	**-6,058**
Income from market valuation from financial derivatives	-14	0
Currency gains/losses, net	-2,693	1,725
Other financial earnings	-1,151	-706
Other financial expenses and income	**-3,858**	**1,019**
Impairment expenses in accordance with IFRS 9	**0**	**-570**
Share of profit of investments accounted for using the equity method	**413**	**540**
Financial result	**-11,155**	**-5,069**

In accordance with IAS 17 (leases), the proportion of interest included in finance leasing instalments is recorded in interest expenses in the amount of € 000s 390 (2017: € 000s 447).

Interest expenses on financial liabilities that were not measured at fair value in the amount of € 000s 24 (2017: € 000s 39) were included in the financial result.

We refer to section 7 and section 13 for explanations relating to the impairment expenses in accordance with IFRS 9.

(10) Income tax

Income tax expense is broken down as follows:

€ 000s		2017		2018
Current income taxes				
- Germany	863		1,477	
- international	9,808		9,181	
		10,671		10,658
Deferred income taxes				
- from time differences	-3,433		-1,736	
- on losses carried forward	-50		-718	
		-3,483		-2,454
		7,188		**8,204**

An average overall tax burden of 28.57 % (2017: 30.0 %) results for the German companies. The tax rate takes considers the trade tax (12.75 %; previous year: 14.3 %), the corporate income tax (15.0 % unchanged by comparison with the previous year) and the solidarity surcharge (5.5 % of corporate income tax unchanged by comparison with the previous year). The applicable local income tax rates for the foreign companies vary between 17 % and 34 % as in the previous year.

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 5,423 (2017: € 000s 1,208) due to restricted utility. The loss carry-forwards amounting to € 000s 4,894 are expired within ten years, and € 000s 529 can be carried forward indefinitely.

Deferred tax liabilities amounting to € 000s 19,405 (2017: € 000s 5,005) were not recognized on temporary differences in connection with investments in subsidiaries, as the Group is in a position to control the timing of the reversal and these temporary differences will not be reversed in the foreseeable future.

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	
	2017	Change	2018	2017	Change	2018
Inventories	1,340	-133	1,207	370	648	1,018
Receivables and other assets	2,993	-1,437	1,556	1,131	5,695	6,826
Tax losses carried forward	1	767	768	-50	50	0
Goodwill	600	-600	0	3,594	-378	3,216
Property, plant and equipment	524	1,736	2,260	24,550	-3,928	20,622
Intangible assets	1	44	45	12,812	-1,391	11,421
Other current assets	240	-240	0	1,155	-1,142	13
Other non-current assets	227	281	508	5,615	-4,504	1,111
Financial liabilities	4,342	17,428	21,770	0	18,439	18,439
Pensions and other personnel-related obligations	2,007	-543	1,464	867	-220	647
Trade accounts payable	2,476	-1,318	1,158	5,302	-4,641	661
Other liabilities	8,618	-3,388	5,230	1,039	681	1,720
	23,369	**12,597**	**35,966**	**56,385**	**9,309**	**65,694**
Netting	-4,342		-17,681	-4,342		-17,681
	19,027	**12,597**	**18,285**	**52,043**	**9,309**	**48,013**

Non-current deferred taxes are included in the deferred tax assets in the amount of € 000s 9,124 (2017: € 000s 4,599), in the deferred tax liabilities in the amount of € 000s 56,879 (2017: € 000s 42,988).

Reconciliation between expected and actual income tax expenditure is as follows:

€ 000s	2017	2018
Earnings before Taxes (EBIT)	**33,515**	**27,133**
Expected income tax	10,054	7,752
Reconciliation:		
Changes in tax rates	-1,322	-1,503
Differences in tax rates	-621	-716
Share of profit of investments accounted for using the equity method	-124	-131
Use of loss carry-forwards not including deferred tax assets	-451	905
Expenses not deductible from taxes	1,491	1,308
Tax-free income	-	-855
Allowance on deferred tax assets	160	-445
Tax expenses / income not related to the reporting period	-1,152	959
Permanent differences	-588	802
Other effects	-259	128
Income tax	**7,188**	**8,204**

The average expected tax rate amounts to 28.57 % (2017: 30 %).

Income taxes recorded directly in other comprehensive income

Income tax which directly exerts a negative impact on, or was credited to, other comprehensive income for the year is comprised as follows:

€ 000s	2017	2018
Actuarial gains/losses	38	-57
Fair value measurement of financial instruments	12	0
Reclassification into the income statement	23	0
Net investment in a foreign operation	142	214
	215	**157**

(11) Earnings per share

	2017	2018
Consolidated net profit in € 000s	26,192	18,630
Weighted average of no-par value shares issued	15,505,731	15,505,731
Basic and undiluted earnings per share in €	1.69	1.20

The earnings per share are calculated by dividing the proportionate earnings of the shareholders of SURTECO GROUP SE by the weighted average of the issued shares.

IX. Notes to the Balance Sheet

(12) Cash and cash equivalents

€ 000s	2017	2018
Cash in hand and bank balances	69,527	67,954
Fixed-term deposits	63,846	53,000
	133,373	**120,954**

(13) Trade accounts receivable

€ 000s		2017		2018
Trade accounts receivable	62,252		61,008	
Less allowances	-4,426		-3,489	
Book value		**57,826**		**57,519**

The allowances relate to specific allowances and lump-sum allowances. The calculation of the specific allowance is carried out on the basis of the age structure, and on account of knowledge about the customer-specific credit and default risk.

The allowances developed as follows:

€ 000s	2017	2018	
	Specific allowance	Specific allowance	Allowance acc. IFRS 9
1/1/	**2,500**	**4,426**	**-**
First-time application in accordance with IFRS 9	-	-	1,994
Addition to consolidation scope /disposal allowance	2,222	-	-
Recourse	-395	-179	-
Release of unused amounts	-213	-2,198	-1,078
Addition (effect on expenses)	270	430	-
Exchange rate differences	42	95	-
31/12/	**4,426**	**2,574**	**915**

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

The following table shows the maturity structure of receivables and the allowances due in accordance with IFRS 9:

€ 000s		Overdue receivables				
	Total	none	up to 3 months	3-6 months	6-12 months	more than 12 months
31/12/2018						
		1%	4%	29%	35%	40%
Book value of trade accounts receivable	61,339	51,037	9,365	330	169	439
Allowance in accordance with IFRS 9	1,036	351	353	96	59	178
Less lump-sum allowances	-121					
Allowance in accordance with IFRS 9 as at 31/12/2018	915					
01/01/2018						
		1%	6%	33%	40%	44%
Book value of trade accounts receivable	55,821	43,398	10,417	34	50	1,922
Allowance in accordance with IFRS 9	2,062	521	671	11	20	839
Less Lum-sum allowances	-68					
Allowance in accordance with IFRS 9 as at 1/12/2018	1,994					

There were no indications on the reporting date that payment defaults would occur for trade accounts receivable which were neither overdue nor impaired.

The maximum amount exposed to default in trade accounts receivable amounts to € 000s 4,122 on 31 December 2018. The receivables of the individual companies are hedged depending on the size of the company, the receivable structure and the risk profile of the receivable.

The nominal amount for all written-down assets, for which an insolvency or other proceeding is currently ongoing, amounts to € 000s 279 as at 31 December 2018.

(14) Inventories

The inventories of the Group are comprised as follows:

€ 000s	2017	2018
Raw materials, consumables and supplies	40,395	43,491
Work in progress	12,772	12,502
Finished products and goods	66,565	70,976
	119,732	**126,969**

Impairments of € 000s 3,195 (2017: € 000s 2,400) were reported on inventories.

Of the inventories, € 000s 54,905 (2017: € 000s 42,515) were recognized under assets at the net disposal value.

(15) Current income tax receivables

Claims arising from income tax are recognized under current tax assets insofar as their due date is not twelve months after the reporting date.

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.

(16) Other current financial and non-financial assets

€ 000s		2017		2018
Other current non-financial assets				
Income tax assets (value added tax, wage tax)	5,522		4,482	
Prepaid expenses	2,741		2,735	
Other	1,194		473	
		9,457		7,690
Other current financial assets				
Purchase option	0		4,300	
Receivable factoring	1,248		799	
Bonuses receivables	960		696	
Security deposits	296		151	
Creditors with debit balances	209		204	
Receivables from employment relationships	119		99	
Other loans	100		200	
Other	734		929	
		3,666		7,378
		13,123		**15,068**

No significant allowances were carried out on the other current assets recognized.

Other current financial assets
The call option was recorded under non-current financial assets in the previous year. On the reporting date, the call option was reclassified into current financial assets due to its maturity. See section 32 for explanations of the call option.

The receivables recognized from factoring result from the sales of trade receivables of SURTECO GROUP SE to a factor. These receivable sales led to a continuing involvement. The late payment risk from the contracts sold remains with SURTECO. Apart from the continuing involvement, the receivables include the reservation amount of the factor for invoice deductions by the customer. Sales of receivables with a book value at 31 December 2018 amounting to € 000s 7,731 (2017: € 000s 11,626) led to a partial disposal. A continuing involvement asset in the amount of € 000s 112 (2017: € 000s 150) was reported for this under the receivables from factoring. The associated liability in the amount of € 000s 112 (2017: € 000s 151) was reported under current liabilities. The maximum amount of the receivables sold amounts to € 000s 19,915 (2017: € 000s 24,040; book value € 000s 22,112) in the business year.

In the case of other current financial liabilities, obligations of € 000s 3,818 (2017: € 000s 3,643) were additionally recognized with respect to the factor for receivables settled to the reporting date.

(17) Assets held for sale

On the reporting date, the SURTECO Group has assets held for sale relating to the planned disposal of a business segment.

The conditions for allocation of non-current assets "as assets held for sale" in accordance with IFRS 5.6-8 have been complied with.

On the date of classification as "held for sale", the assets are measured in compliance with the corresponding IFRS and recognized at book value, and presented separately in the financial statements. The assets held for sale are intangible assets and property, plant and equipment.

The assets held for sale do not undergo further depreciation.

The initial and subsequent valuation of the assets held for sale did not cause any effects in the income statement or in the statement of comprehensive income during the business year 2018.

(18) Fixed assets

The fixed assets are comprised as follows:

€ 000s	Property, plant and equipment	Intangible assets	Goodwill	Total
Acquisition costs				
1/1/2017	**636,560**	**79,249**	**164,286**	**880,095**
Currency adjustment	-13,659	-1,494	-1,583	-16,736
Addition to consolidation scope	17,353	39,907	45,370	102,630
Additions	40,807	1,900	0	42,707
Disposals	-16,895	-596	0	-17,491
31/12/2017	**664,166**	**118,966**	**208,073**	**991,205**
1/1/2018	**664,166**	**118,966**	**208,073**	**991,205**
Currency adjustment	1,042	-266	-238	538
Additions	45,017	2,520	0	47,537
Disposals	-7,546	-26	0	-7,572
Reclassification to assets held for sale	-25,794	-206	0	-26,000
Transfers	-304	304	0	0
31/12/2018	**676,581**	**121,292**	**207,835**	**1,005,708**
Depreciation and amortization				
1/1/2017	**394,155**	**44,934**	**45,458**	**484,547**
Currency adjustment	-7,356	-753	-688	-8,797
Additions	29,761	8,706	-44	38,423
Disposals	-10,602	-597	44	-11,155
31/12/2017	**405,958**	**52,290**	**44,770**	**503,018**
1/1/2018	**405,958**	**52,290**	**44,770**	**503,018**
Currency adjustment	341	-80	201	462
Additions	30,618	9,958	0	40,576
Disposals	-6,996	-12	0	-7,008
Reclassification to assets held for sale	-9,091	-193	0	-9,284
31/12/2018	**420,830**	**61,963**	**44,971**	**527,764**
Book value at 31/12/2018	**255,751**	**59,329**	**162,864**	**477,944**
Book value at 31/12/2017	**258,208**	**66,676**	**163,303**	**488,187**

(19) Property plant and equipment

Property, plant and equipment are comprised as follows:

€ 000s	Land and buildings	Financial leasing for land and buildings	Technical equipment and machines	Other equipment, factory and office equipment	Payments on account and assets under con-struction	Total
Acquisition costs						
1/1/2017	**137,994**	**26,245**	**376,988**	**86,137**	**9,196**	**636,560**
Currency adjustment	-2,965	-3	-9,832	-793	-66	-13,659
Addition to consolidation scope	5,673	0	10,991	475	214	17,353
Additions	5,307	0	17,261	7,991	10,248	40,807
Disposals	-3,248	-734	-7,626	-4,905	-382	-16,895
Transfer	415	1,114	3,938	100	-5,567	0
31/12/2017	**143,176**	**26,622**	**391,720**	**89,005**	**13,643**	**664,166**
1/1/2018	**143,176**	**26,622**	**391,720**	**89,005**	**13,643**	**664,166**
Currency adjustment	5	1	1,336	-320	20	1,042
Additions	4,684	0	19,487	8,189	12,657	45,017
Disposals	-358	0	-4,833	-2,310	-45	-7,546
Transfers	1,572	-278	4,208	1,039	-6,845	-304
Reclassification to assets held for sale	-6,112	0	-18,935	-747	0	-25,794
31/12/2018	**142,967**	**26,345**	**392,983**	**94,856**	**19,430**	**676,581**
Depreciation and amortization						
1/1/2017	**55,958**	**3,160**	**272,960**	**62,086**	**-9**	**394,155**
Currency adjustment	-868	-3	-5,985	-500	0	-7,356
Additions	3,678	726	19,107	6,250	0	29,761
Disposals	-221	0	-6,112	-4,283	14	-10,602
Transfers	-345	337	636	-628	0	0
31/12/2017	**58,202**	**4,220**	**280,606**	**62,925**	**5**	**405,958**
1/1/2018	**58,202**	**4,220**	**280,606**	**62,925**	**5**	**405,958**
Currency adjustment	-2	1	454	-112	0	341
Additions	3,775	810	19,364	6,669	0	30,618
Disposals	-347	0	-4,529	-2,120	0	-6,996
Transfers	252	-252	11	-11	0	0
Reclassification to assets held for sale	-423	0	-8,333	-335	5	-9,091
31/12/2018	**61,457**	**4,779**	**287,573**	**67,016**	**5**	**420,830**
Book value at 31/12/2018	**81,510**	**21,566**	**105,410**	**27,840**	**19,425**	**255,751**
Book value at 31/12/2017	**84,974**	**22,402**	**111,114**	**26,080**	**13,638**	**258,208**

As at 31 December 2018, property, plant and equipment with a carrying amount of € 000s 1,221 (2017: € 000s 1,876) was pledged as collateral for existing liabilities.

(20) Intangible assets

Intangible assets comprise primarily IT software and assets acquired as a part of acquisitions:

€ 000s	Concessions, patents, licences and similar rights	Customer relations, trademarks and similar values	Development expenses	Payments on account	Total
Acquisition cost					
1/1/2017	**30,901**	**39,984**	**8,206**	**158**	**79,249**
Currency adjustment	-523	-857	-112	-2	-1,494
Addition to consolidation scope	5,233	34,674	0	0	39,907
Additions	36	0	1,850	14	1,900
Disposals	-596	0	0	0	-596
Transfer	-993	2,440	-1,437	-10	0
31/12/2017	**34,058**	**76,241**	**8,507**	**160**	**118,966**
1/1/2018	**34,058**	**76,241**	**8,507**	**160**	**118,966**
Currency adjustment	-153	78	-191	0	-266
Additions	2,128	0	304	88	2,520
Disposals	-26	0	0	0	-26
Reclassification to assets held for sale	-206	0	0	0	-206
Transfers	402	0	49	-147	304
31/12/2018	**36,203**	**76,319**	**8,669**	**101**	**121,292**
Depreciation and amortization					
1/1/2017	**24,549**	**17,075**	**3,310**	**0**	**44,934**
Currency adjustment	-369	-322	-62	0	-753
Additions	3,004	4,604	1,098	0	8,706
Disposals	-597	0	0	0	-597
Transfers	-2,150	2,440	-290	0	0
31/12/2017	**24,437**	**23,797**	**4,056**	**0**	**52,290**
1/1/2018	**24,437**	**23,797**	**4,056**	**0**	**52,290**
Currency adjustment	-115	142	-107	0	-80
Additions	4,075	5,624	259	0	9,958
Disposals	-12	0	0	0	-12
Reclassification to assets held for sale	-193	0	0	0	-193
31/12/2018	**28,192**	**29,563**	**4,208**	**0**	**61,963**
Book value at 31/12/2018	**8,011**	**46,756**	**4,461**	**101**	**59,329**
Book value at 31/12/2017	**9,621**	**52,444**	**4,451**	**160**	**66,676**

(21) Goodwill

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

Goodwill developed as follows:

€ 000s	2017	2018
1/1/	**118,828**	**163,303**
Additions	45,370	0
Currency adjustment	-895	-439
31/12/	**163,303**	**162,864**

Goodwill is allocated to cash generating units (CGU Level) for purposes of carrying out annual or event-related (triggering events) impairment tests. These correspond to the operating divisions in Business Unit Paper and in the Business Unit Plastics.

The value of the goodwill recognized in the year under review was also evident in a variation in the discount rate and the growth rate by +/- 0.5 %.

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

€ 000s		2017		2018
CGU edgebandings	111,755		111,652	
CGU skirtings	36,281		36,281	
CGU technical foils	8,281		7,939	
Strategic Business Unit Plastics		156,317		155,873
Strategic Business Unit Paper		6,986		6,991
		163,303		**162,864**

The value in use to be applied for carrying out the impairment test is calculated based on 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 Management Board 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 for 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 2.8 % for sales and 7.0 % for EBITDA. For the period after the fifth year, a growth rate of 1 % was used for sales and for EBITDA, 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 interest 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. An increased market risk was taken account by a 0.5 % point higher "additional risk" compared with the previous year. Market conditions for loans are taken into account for borrowing costs. This yielded an interest rate of 7.9 % (2017: 6.9 %) before taxes in December 2018.

Based on the impairment tests carried out in the business year 2018, the values in use of the cash generating units are estimated higher than the net asset values. As a result, no impairments have been recognized.

(22) Investments accounted for using the equity method

€ 000s	Investments in joint ventures
Acquisition costs	
1/1/2017	**1,694**
Currency adjustment	58
Proportionate earnings	413
Payout	-177
31/12/2017	**1,988**
Currency adjustment	61
Proportionate earnings	541
Payout	-212
31/12/2018	**2,378**

The investments accounted for using the equity method relate to one joint venture in the business year 2018.

Name	Country of registration	Percentage of shares held	Type of business activity	Type of participation
Canplast Mexico S.A. de C.V.	Mexico	50%	Sale of edgebandings	Joint-venture company

The company Canplast Mexico accounted for using the equity method is not a listed company so that no market price is available for this investment. The joint venture company exerts no significant effect on the net assets, financial position and results of operations of the SURTECO Group.

The following information presents the amounts in the financial statements of the companies accounted for using the equity method and not the corresponding shares of SURTECO GROUP SE in them. Adjustments on the basis of differences between the accounting and valuation methods with the companies accounted for using the equity method were not carried out in the Group for reasons of materiality.

€ 000s	2017 Joint ventures	2018 Joint ventures
Current assets	3,316	4,143
Non-current assets	706	745
Current liabilities	-920	-1,045
Non-current liabilities	-112	-23
Net assets (100%)	**2,990**	**3,820**
Share of the Group in the net assets (50 %)	1,495	1,910
Book value of the share	1,988	2,378
Sales revenues	6,283	7,890
EBT	1,186	1,509
Profit after taxes	826	1,082
Other comprehensive income	-	-
Total income	826	1,082
Share of the Group in the total income	413	541
Payout received from joint ventures	177	212

The financial assets developed as follows:

€ 000s	2017	2018
1/1/	**21**	**831**
Participations	10	0
Loans	800	-800
31/12/	**831**	**31**

(23) Income tax liabilities

Tax liabilities include the income tax due for the business year 2018 or earlier business years and not yet paid, and the anticipated tax payments for previous years.

(24) Short-term provisions

€ 000s	1/1/2018	Currency adjustment	Expense	Release	Addition	31/12/2018
Warranty	1,481	1	-712	-344	962	1,389
Legal disputes	1,417	0	0	0	870	2,287
Restructuring	338	0	-59	-84	6,113	6,308
Impending losses	190	0	-142	-5	171	214
Other	540	-13	-193	-272	1,338	1,401
	3,966	**-12**	**-1,106**	**-704**	**9,454**	**11,598**

The warranty provision was formed for warranty obligations arising from the sale of products. The valuation is made on the basis of experience values.

The legal disputes essentially relate to a protective rights agreement.

The restructuring provision includes expenses which are used for an optimization programme to harmonize the processes and structures to the changed market conditions.

The provision for impending losses was essentially formed for risks arising from pending sales transactions. It is likely that the sale of products will be below the costs of manufacture. The time of anticipated outflow will come with fulfilment of the sales transactions.

(25) Other current financial and non-financial liabilities

€ 000s		2017		2018
Other current non-financial liabilities				
Tax liabilities (value added tax)	1,725		1,247	
Social insurance against occupational accidents	787		816	
Supervisory Board remuneration	408		304	
Deferred income	254		13	
Other	1,067		88	
		4,241		2,468
Other current financial liabilities				
Liabilities from employment relationships *	16,938		16,637	
Other current liabilities factoring	3,796		3,818	
Put option	0		3,407	
Bonuses and promotional cost	1,906		1,642	
Debitors with credit balances	1,787		2,095	
Commissions	655		547	
Payments on account received	387		492	
Other	765		940	
		26,234		29,578
		30,475		**32,046**
* of which social security		1,288		611

Other current financial liabilities
The liabilities from employment relationships primarily include, apart from the wage and salary payments not yet paid on the reporting date, obligations arising from profit shares, bonuses, holiday and working time credits.

Obligations in respect of the factoring agent for receivables settled as at the reporting date are recognized under other current liabilities arising from factoring. Reference is made to our comments on receivables from factoring under item 16 “Other current assets” in the notes to the consolidated financial statements for further details.

The sale option was recorded under non-current financial liabilities in the previous year. On the reporting date, the sale option was reclassified because of its maturity in the current financial liabilities. We refer to section 32 for explanations of the sale option.

(26) Financial liabilities

The financial liabilities are comprised as follows:

€ 000s	2017	2018
Long-term financial liabilities to banks	304,681	241,522
Long-term financial liabilities for finance lease	12,980	11,062
Long-term financial liabilities	**317,661**	**252,584**
Short-term financial liabilities to banks	3,643	64,057
Short-term financial liabilities for finance lease	2,013	1,848
Short-term financial liabilities	**5,656**	**65,905**
Financial liabilities	**323,317**	**318,489**

Long-term liabilities are essentially made up of the promissory note loans in the amount of € 000s 200,000 raised in the business year 2017. This is divided into four tranches with terms of between five and ten years. Fixed-interest agreements have been primarily agreed for the other non-current banking liabilities with interest rates in a range between 1.055 % and 5.70 %.

For collateral for financial debt, please refer to section 19.

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

€ 000s	2017	2018
Leasing payments to be made in the future		
in less than one year	2,405	2,181
between one year and five years	13,696	11,440
after more than five years	28	17
Interest share		
in less than one year	-392	-334
between one year and five years	-742	-395
after more than five years	-2	0
Present value		
in less than one year	2,013	1,848
between one year and five years	12,954	11,045
after more than five years	26	17
	14,993	**12,910**

(27) Pensions and other personnel-related obligations

Commitments for company pensions were concluded for individual employees of the SURTECO Group. The defined-benefit commitments were concluded through individual contracts and in collective agreements. They essentially provide for pension payments when an employee retires, becomes incapacitated and/or in cases of death. The level of the provision payments depends on the final salary achieved taking account of length of service with the company and fixed pension components for each year of service. The pension commitments in Germany are subject to the German Company Pensions Act.

The financing of the projected benefit obligations arising from pension obligations amounts to € 000s 10,997 (2017: € 000s 11,032) internally through the contribution to a pension provision and through pledged reinsurance amounting to € 000s 232 (2017: € 000s 228), which secures the obligations partly or fully congruently.

The pension obligations, the plan assets and the provision developed as follows:

€ 000s	2017			2018		
	Present value of obligation	Fair value of plan assets	Provision	Present value of obligation	Fair value of plan assets	Provision
1/1/	**10,809**	**-253**	**10,556**	**11,032**	**-228**	**10,804**
Pension payments on account	-526	0	-526	-503	0	-503
Payments from plant settlements	0	7	7	0	7	7
Current service expense	92	0	92	65	0	65
Interest income	0	-5	-5	0	-6	-6
Interest expense	195	0	195	234	-4	230
Remeasurements						
Actuarial gains / losses						
From changes in demographic parameters	0	0	0	156	0	156
From experience adjustments	-55	23	-32	124	0	124
From changes in financial parameters	143	0	143	-112	0	-112
	88	23	111	168	0	168
Other changes	389		389	0	0	0
Currency adjustment	-15		-15	0	0	0
31/12/	**11,032**	**-228**	**10,804**	**10,996**	**-231**	**10,765**

There is no active market price quotation for the plan assets.

The Group recognizes remeasurements from defined-benefit plans in shareholder's equity (other comprehensive income). The amount included for 2018 before deferred taxes amounts to € 000s 168 (2017: € 000s 100). Up to now, a total of € 000s 3,006 (2017: € 000s 2,837) has been recognized in shareholders' equity.

The annual payments by the employee (expected pension payments) in the current business year amounted to € 000s 487.

If the other assumptions remain constant, the changes which were possible subject to an objective analysis on the reporting date would have exerted an influence on the defined-benefit obligation in the event of one of the significant actuarial assumptions set out below (sensitivity analysis):

€ 000s	Change in present value of pension obligation			
	2017		2018	
	Increase	Decrease	Increase	Decrease
Increase in the interest rate by 0.25%		316		305
Decrease in the interest rate by 0.25%	333		321	
Increase in future pension rises by 0.25%	285		256	
Decrease in future pension rises by 0.25%		273		288

A similar approach is adopted by determining the sensitivities and the scope of obligation. If several assumptions are changed at the same time, the overall effect does not necessarily have to correspond to the sum of the individual effects due to the changes in the assumptions. Furthermore, the effects are not linear.

The weighted average residual term of the benefit obligations is 12.7 years to 31 December 2018.

The additional personnel-related obligations include partial-retirement and long-service agreements. The partial-retirement obligations amount to € 000s 322 (2017: € 000s 297) on the reporting date and these obligations are balanced by plan assets amounting to € 000s 237 (2017: € 000s 271) because of the statutory requirement for insolvency protection. The long-service obligations amount to € 000s 1,979 on the reporting date (2017: € 000s 1,930).

Out of the non-current obligations arising from partial-retirement arrangements € 000s 80 (2017: € 000s 113) are due in 2019.

(28) Shareholders' equity

The subscribed capital (capital stock) of SURTECO GROUP SE is € 15,505,731.00 and is fully paid in. It is divided into 15,505,731 no-par-value bearer shares (ordinary shares) corresponding to a proportion of the capital stock of € 1.00 in each case.

The Management Board is authorized to increase the capital stock of the company once or in partial amounts in the period to 27 June 2019 by overall up to € 1,500,000.00, with the consent of the capital I). The Management Board 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 € 1,500,000.00, if the new shares are issued at an issue amount, which is not significantly lower than the stock-market price. The Management Board is further authorized to have the new shares taken over by a bank, a financial services institution 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 Management Board 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 Management Board decides on the additional content of share rights and the conditions of issue, with the consent of the Supervisory Board.

The Management Board is authorized to increase the capital stock of the company once or in partial amounts in the period to 27 June 2019 by overall up to € 6,200,000.00, with the consent of the Supervisory Board by the issue of no-par-value bearer shares, for a cash consideration or non-cash contributions (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 Management Board is authorized to exclude the fractions from shareholders' statutory pre-emptive right. The Management Board is further authorized to have the new shares taken over by a bank, a financial services institution 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 Management Board is entitled to exclude the statutory pre-emptive right of shareholders. The Management Board 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 GROUP SE includes the amounts by which the capital investment values of investments in affiliated companies 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 GROUP SE against the capital reserve during the year of first-time consolidation.

The capital reserve is unchanged by comparison with the previous year and amounts to € 000s 122,755.

Retained earnings

Retained earnings include transfers from net profit and the accumulated comprehensive income resulting from the following items:

- Offsetting of actuarial gains and losses with no effect on net income
- Differences arising from currency translations of annual financial statements of foreign subsidiaries with no effect on net income
- Unrealized gains and losses arising from foreign-currency loans to subsidiary companies which met the requirement of a net investment

Reconciliation of the equity components affected by comprehensive income:

€ 000s	31/12/2017 Reserve				31/12/2018 Reserve			
	Fair value measurement for financial instruments	Other comprehensive income	Currency translation adjustments	Total other comprehensive income	Fair value measurement for financial instruments	Other comprehensive income	Currency translation adjustments	Total other comprehensive income
Components of other comprehensive income not to be reclassified to the income statement								
Remeasurements of defined benefit obligations		-62				-225		
Other changes		116						
Components of other comprehensive income that may be classified to the income statement								
Net gains / losses from a net investment in a foreign operation			-333				-498	
Exchange differences in translation of foreign operations			-7,872				-408	
Fair valuation of cash flow hedges	-30							
Reclassification amounts in the income statement	-56							
Other comprehensive income	**-86**	**54**	**-8,205**	**-8,237**	**0**	**-225**	**-906**	**-1,131**

Dividend proposal

The dividend payout of SURTECO GROUP SE is based on net profit reported in the financial statements of SURTECO GROUP SE in accordance with commercial law in conformity with § 58 (2) of the Stock Corporation Act (Aktiengesetz, AktG). The financial statements of SURTECO GROUP SE drawn up in accordance with commercial law have recorded a net profit of € 000s 8,528 (2017: € 000s 12,405). The Management Board and Supervisory Board of SURTECO GROUP SE propose to the Annual General Meeting that a dividend payout of € 0.55 (2017: € 0.80) per share, amounting to € 000s 8,528 (2017: € 000s 12,405) be paid out.

(29) Non-controlling interests

The following table provides an overview of financial information for companies with non-controlling interests which are important for the SURTECO Group.

The table presents balance sheet values at 31 December 2018 for the companies of the Nenplas Group before elimination of intragroup transactions and without the effect arising from the purchase price allocation:

€ 000s	Nenplas Holding Ltd.	Nenplas Ltd.	Polyplas Extrusion Ltd.
	31/12/2018	31/12/2018	31/12/2018
ASSETS	**5,280**	**14,455**	**5,912**
Current assets	0	5,039	4,838
Non-current assets	5,280	9,415	1,075
LIABILITIES	**5,280**	**14,455**	**5,912**
Current liabilities	3,270	3,165	737
Non-current liabilities	0	699	82
Shareholders' equity	2,010	10,590	5,094

For reasons of materiality, Delta Plastics Ltd., Nenplas Properties Ltd. and Nenplas Properties Holding Ltd. were not shown.

€ 000s 3,221 (2017: € 000s 2,922) were attributed to non-controlling interests in the equity of the Nenplas companies on 31 December 2018.

(30) Contingent liabilities and other financial obligations

Contingent liabilities were recognized on 31 December 2018 amounted to € 000s 28 (2017: € 000s 71) and relate exclusively to a special-purpose entity. The probability of occurrence is assessed as low. There are no identifiable points of reference for assuming that the conditions underlying the investment allowance are no longer applicable. Furthermore, guarantees were provided for non-consolidated companies (see section 35).

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 typical commercial leasing relationships on the rental of factory and office equipment. The operate leasing contracts have terms of one year to five years and partly include extension options and price adjustment clauses.

€ 000s	2017	2018
Rental and operate leasing obligations due		
in less than one year	3,181	2,372
between one year and five years	4,785	2,486
after more than five years	182	12
	8,148	**4,870**

Payments from operate leasing contracts in the period are recorded in the amount of € 000s 1,987 (2017: € 000s 2,001).

Commitments amounting to € 000s 0 (2017: € 000s 6,969) were recognized arising from orders for investment projects already in progress or planned in the area of items of property, plant and equipment and intangible assets (commitments from orders).

(31) Capital management

The goals of capital management are derived from financial strategy. This includes safeguarding liquidity and guaranteeing access to the capital market. The capital is defined as the shareholders' equity recognized in the balance sheet and the net debt.

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 payout for the business year 2018 amounted to € 000s 12,405.

Our finance controlling is based on the indicators defined in our finance strategy. The interest cover factor was 12 (2017: 10.8) in 2018. The debt-service coverage ratio was 30.0 % (2017: 34 %) in 2018. The net debt amounted to € 000s 197,535 (2017: € 000s 189,950) on 31 December 2018 and the equity ratio was 41.8 % (2017: 41.4 %). 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 are tracked at local level and centrally, and any changes are taken into account for purposes of capital management.

(32) 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

Due to the international activities of the SURTECO Group, changes in interest rates and currency exchange rates impacts 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.

The Corporate Treasury Department of the SURTECO GROUP SE holding company controls centrally the currency and interest-management of the Group and also 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. 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 as at 31 December 2018. Risk assessments and checks 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 the gross burden on EBT and the likelihood of occurrence.

2. Financial risks

The refinancing of the Group and the subsidiary companies is generally carried out centrally by SURTECO GROUP SE. Most of the Group's financial liabilities have residual terms of up to seven years and they are structured with fixed interest rates (see maturity structure section (26)). 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, for example the ratio of EBITDA to interest income (Interest Coverage Factor, see Notes to the Consolidated Financial Statements section (31)) and these have to be complied with by the SURTECO Group. The key figures are continuously monitored by the Management Board and the Supervisory Board. If there is an impending breach of any indicators, consultations on individual measures take place as necessary. If the indicators are breached, the lenders have the right to serve notice on the loan agreements. The financial indicators were complied with in the business year 2018.

No risk concentration was identified for financial risks.

3. Liquidity and credit risk

The Corporate Treasury Department of the SURTECO GROUP SE holding company 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 factoring agreements.

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 credit rating and carefully monitoring default with customers. The risk arising from debit balances in accounts payable is low due the broad customer structure and credit insurance policies.

The following table shows the undiscounted contractually agreed cash outflows and inflows from primary financial liabilities and derivative financial instruments with gross fulfilment. If the maturity date is not fixed, the liability relates to the earliest liability date.

2018	Book value	2019		2020 - 2023		2024 ff.	
€ 000s	31/12/18	Interest	Repayment	Interest	Repayment	Interest	Repayment
Financial liabilities to banks	305,580	5,880	63,756	12,652	129,957	5,844	112,380
Financial liabilities from finance lease	12,909	334	1,848	395	11,045	0	17
Financial liabilities	318,489	6,214	65,604	13,047	141,002	5,844	112,397
Trade accounts payable	65,078	-	65,078				
Other financial liabilities	29,578	-	29,578				

2017	Book value	2018		2019 - 2022		2023 ff.	
€ 000s	31/12/17	Interest	Repayment	Interest	Repayment	Interest	Repayment
Financial liabilities to banks	308,324	7,209	3,641	16,290	189,871	8,085	115,822
Financial liabilities from finance lease	14,993	392	2,013	742	12,954	2	26
Financial liabilities	323,317	7,601	5,654	17,032	202,825	8,087	115,848
Trade accounts payable	63,174	-	63,174	-	-	-	-
Other financial liabilities	26,235	-	26,235	-	-	-	-

4. Interest and currency risks

Due to the global nature of the business activities of the SURTECO Group, delivery and payment flows result in different currencies. 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 GROUP SE meets the remaining interest and currency risks in the business year 2018 by hedging positions with derivative financial instruments and regular and intensive observation of a range of early-warning indicators. No derivative financial instruments are outstanding on the reporting date. Hedging of individual risks is discussed and decided by the Central Treasury with the Management Board and the responsible Managing Directors.

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

€ 000s	Income statement		Equity / Other comprehensive income	
	100 bp Rise	100 bp Fall	100 bp Rise	100 bp Fall
31/12/2018				
Variable interest instruments	416	-759	416	-759
	416	**-759**	**416**	**-759**
31/12/2017				
Variable interest instruments	482	-778	482	-778
	482	**-778**	**482**	**-778**

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 / Other comprehensive income	
	10% Rise	10% Fall	10% Rise	10% Fall
31/12/2018				
Primary financial instruments				
in US dollars	1,523	-1,246	0	0
in other currencies	331	-271	1,836	-1,502
	1,854	**-1,517**	**1,836**	**-1,502**
31/12/2017				
Primary financial instruments				
in US dollars	3,082	-2,521	0	0
in other currencies	962	-788	1,915	-1,567
	4,044	**-3,309**	**1,915**	**-1,567**

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

No risk concentration was identified for risks relating to change in interest rates and currency.

5. Valuations of financial instruments

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

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities, where the entity drawing up the financial statements must have access to these active markets on the valuation date.
Level 2 – Directly or indirectly observable input factors which cannot be classified under Level 1.
Level 3 – Unobservable inputs.

The following table shows the book values and fair values of financial assets and financial liabilities including their level in the fair value hierarchy.

No fair value reporting is carried out in accordance with IFRS 7.29 for short-term financial instruments or financial instruments reported at acquisition cost.

31/12/2018 € 000s	Category acc. IFRS 9	Book value	(amortized) Acquisition costs	Fair value not affecting income	Fair value affecting income	Carrying amount acc. IAS 17	Fair value (IFRS 13)	Level
Assets								
Cash and cash equivalents	AC	120,954	120,954				n.a.	n.a.
Trade accounts receivable	AC	57,519	57,519				n.a.	n.a.
Receivables from affiliated companies	AC	676	676				n.a.	n.a.
Other current financial assets								
- Continuing Involvement	n.a.	112					n.a.	n.a.
- Receivable from loan issued	AC	200	200				207	2
- Other current financial assets (in the scope of IFRS 7)	AC	1,512	1,512				-	-
- Other current financial assets (not in the scope of IFRS 7)	n.a.	1,254	-					
- Call option	FVPL	4,300	-		4,300		4,300	3
Financial assets								
- Shares in affiliated companies	FVPL	20			20		20	3
- Participations	FVPL	10			10		10	3
Other non-current financial assets								
- Other non-current financial assets	AC	2,098	2,098				n.a.	n.a.
Liabilities								
Short-term financial liabilities								
- Financial liabilities from finance lease	n.a.	1,848				1,848	n.a.	n.a.
- Liabilities to banks	AC	64,057	64,057				n.a.	n.a.
Trade accounts payable	AC	65,078	65,078				n.a.	n.a.
Other current financial liabilities							n.a.	n.a.
- Continuing Involvement	n.a.	112						
- Contractual liabilities	n.a.	165						
- Other current financial liabilities (in the scope of IFRS 7)	AC	5,434	5,434				n.a.	n.a.
- Other current financial liabilities (not in the scope of IFRS 7)	n.a.	20,624	-					
- Put option	FVPL	3,407			3,407		3,407	3
Long-term financial liabilities								
- Financial liabilities from finance lease	n.a.	11,062				11,062	11,213	2
- Liabilities to banks	AC	241,522	241,522				249,729	2
Aggregated according to valuation categories in accordance with IFRS 9								
Amortised Costs (Assets)	AC	182,959	182,959					
Fair Value through P&L (Asset)	FVPL	4,330			4,330			
Amortised Costs (Liabilities)	AC	376,091	376,091					
Fair Value through P&L (Liabilities)	FVPL	3,407			3,407			

31/12/2017 € 000s	Category acc. IAS 39	Book value	(amortized) Acquisition costs	Fair value not affecting income	Fair value affecting income	Carrying amount acc. IAS 17	Fair value (IFRS 13)	Level
Assets								
Cash and cash equivalents	LaR	133,373	133,373				n.a.	n.a.
Trade accounts receivable	LaR	57,826	57,826				n.a.	n.a.
Receivables from affiliated companies	LaR	731	731				n.a.	n.a.
Other current financial assets								
- Further other current financial assets	LaR	3,666	3,666				n.a.	n.a.
Financial derivatives								
- Financial derivatives (with hedging)	n.a.	-	-				-	-
- Financial derivatives (without hedging)	FAaFV	-			-		-	-
Financial assets								
- Shares in affiliated companies	AfS	20	20				n.a.	n.a.
- Participations	AfS	10	10				n.a.	n.a.
- Loans to affiliated companies	LaR	800	800				822	2
Other non-current financial assets								
- Other loans	LaR	1,951	1,951				2,069	2
- Financial derivatives (with hedging)	n.a.	-		-			-	-
- Further other non-current financial assets - call option	FAaFV	4,300			4,300		4,300	3
- Further other non-current financial assets	LaR	83	83				n.a.	n.a.
Liabilities								
Short-term financial liabilities								
- Financial liabilities from finance lease	n.a.	2,013				2,013	n.a.	n.a.
- Liabilities to banks	FLAC	3,643	3,643				n.a.	n.a.
Long-term financial liabilities								
- Financial liabilities from finance lease	n.a.	12,980				12,980	13,321	2
- Liabilities to banks	FLAC	304,681	304,681				319,101	2
Trade accounts payable	FLAC	63,174	63,174				n.a.	n.a.
Other current financial liabilities	FLAC	26,235	26,235				n.a.	n.a.
Other non-current financial liabilities - call option	FLaFV	4,300			4,300		4,300	3
Other non-current financial liabilities	FLAC	71	71				n.a.	n.a.

Key to abbreviations	
IFRS 9:	
AC	Amortized Costs
FVPL	At Fair Value through Profit & Loss
IAS 39:	
LaR	Loans and Receivables
AfS	Available for Sale
FAaFV	Financial Assets at Fair Value through profit/loss
FLaFV	Financial Liabilities at Fair Value through profit/loss
FLAC	Financial Liabilities at Amortised Cost

Cash and cash equivalents, trade accounts receivable, (not including those receivables which are separated in the framework of a factoring programme), supplies to associated companies and components of other current financial assets and current financial liabilities, trade payables and other financial liabilities that primarily have short residual terms are recognized at "Amortized Costs". The values reported therefore correspond approximately to the fair values on the reporting date.

The trade payables that are separated in the framework of the factoring programme are recognized at fair value through profit and loss.

The current financial assets recognized at fair value through profit or loss or respectively the Nenplas call option included therein corresponds to the fair value of the call option for the acquisition of the remaining 15 % of the shares in the Nenplas Group amounting to € 000s 4,300 (2017: € 000s 4,300). Correspondingly, the call option granted to the seller for the 15 % of the Nenplas shares in the amount of the fair value of € 000s 3,407 (2017: € 000s 4,300) is recognized as financial liabilities. The valuation of the option is based on the current and expected EBITDA. If the average EBITDA increases or decreases by 10 %, the value of the option rises or falls by € 000s 632. The purchase and sale option can be exercised at any time up until December 2019.

The fair value of liabilities to banks is determined as a present value taking account of the payments associated with the liabilities based on the relevant interest structure curve in each case and the credit spread curve differentiated according to currencies.

During the course of this business year and the previous business year, there were no reclassifications between the measurement categories or reclassifications within the fair value hierarchy. The SURTECO Group decides as necessary with the date of the event or the change in circumstances which have caused a regrouping whether a reclassification is necessary.

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

€ 000s	2017	2018
Gains from assets recognized at amortized costs	625	1,704
Losses from assets recognized at amortized costs	-1,064	-1,007
Gains/losses from assets recognized at amortized costs	**-439**	**697**
Gains from liabilities recognized at amortized costs	1,716	2,493
Losses from liabilities recognized at amortized costs	-12,384	-8,559
Gains/losses from liabilities recognized at amortized costs	**-10,668**	**-6,066**
Gains from liabilities recognized at fair value through profit and loss	-	893
Loses from liabilities recognized at fair value through profit and loss	-	-
Gains from liabilities recognized at fair value through profit and loss	**0**	**893**

The net gains and losses for assets recognized at amortized costs essentially relate to changes in allowances and currency translations, allowance reversals and interest income. The net gains and losses for liabilities recognized at amortized costs result from currency translation and interest expenses. The net gains for financial liabilities reported at market value through profit and loss related to the value development of the put call option.

No derivative financial instruments were held on the reporting date.

Interest income on financial instruments in the amount of € 000s 532 and interest expenses in the amount of € 000s -7,334 relate to the net gains and losses respectively.

6. Offsetting of financial assets and financial liabilities

The financial assets shown in the following table are subject to offsetting, implementable global netting agreements or similar agreements.

Balance sheet offsets occurred with trade accounts payable and on which credits are granted or received.

a. Financial assets

€ 000s	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not set off in the balance sheet: Financial instruments	Cash collateral received	Net amount
31/12/2018						
Trade accounts receivable	58,633	-1,115	57,518	-	-	57,518
	58,633	**-1,115**	**57,518**	**-**	**-**	**57,518**
31/12/2017						
Trade accounts receivable	61,421	-3,595	57,826	-	-	57,826
	61,421	**-3,595**	**57,826**	**-**	**-**	**57,826**

b. Financial liabilities

€ 000s	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amounts not set off in the balance sheet: Financial instruments	Cash collateral provided	Net amount
31/12/2018						
Trade accounts payable	66,193	-1,115	65,078	-	-	65,078
	66,193	**-1,115**	**65,078**	**-**	**-**	**65,078**
31/12/2017						
Trade accounts payable	66,769	-3,595	63,174	-	-	63,174
	66,769	**-3,595**	**63,174**	**-**	**-**	**63,174**

The amounts of financial assets and liabilities, which have led to no offsetting in the balance sheet, are subject to global netting agreements or similar agreements for which offsetting is only possible under specific prerequisites (e.g. insolvency).

(33) 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, from investment such as 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, cash flow arising from current business operations is derived indirectly.

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 current business operations.

The cash flow from financing activities is comprised of dividend payments, borrowing and repayment of debts such as interest payments from loans.

(34) 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. As at 31 December 2018, 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 decor papers, finish foils, impregnates, paper-based edgebandings and release papers.

- The SBU Plastics includes the production and sale of thermoplastic edgings, skirtings and extrusion (profiles) for flooring wholesalers, and ranges for home-improvement and do-it-yourself stores, foils, technical extrusions and roller-shutter systems.

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

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 borrowings – without liquid funds, interest-bearing assets and liabilities, and tax assets and liabilities.

The Management Board holds the power of decision-making with regard to the allocation of the resources and the measurement of the earnings power of the reportable segments. Uniform performance and assets values are used in the relevant business segments for this purpose.

The business relationships between the companies in the segments are organized on the basis of dealing-at-arm's-length. Administrative services are calculated as cost allocations.

Segment information € 000s	SBU Paper	SBU Plastics	Recon-ciliation	SURTECO Group
2018				
External sales	351,615	347,362	0	698,977
Internal sales within the SURTECO Group	705	4	-709	0
Total sales	352,320	347,366	-709	698,977
Depreciation and amortization	-18,998	-21,406	-173	-40,577
Segment earnings (EBIT)	13,307	25,513	-6,618	32,202
Interest income	317	1,405	-290	1,432
Interest expenses	-1,363	-1,861	-4,266	-7,490
Segment earnings (EBT)	12,702	26,756	-12,325	27,133
Income tax	-1,523	-6,532	-149	-8,204
Share of profit of investments accounted for using the equity method	0	540		540
Segment assets	298,806	373,359	25,233	697,398
Segment liabilities	160,254	172,788	-224,132	108,910
Net segment assets	138,552	200,571	249,366	588,488
Book value of investments accounted for using the equity method	0	2,378		2,378
Investments in property, plant and equipment and intangible assets	25,277	22,143	117	47,537
Employees	1,365	1,944	21	3,329
2017				
External sales	367,952	321,698	0	689,651
Internal sales within the SURTECO Group	815	4	-819	0
Total sales	368,767	321,702	-819	689,651
Depreciation and amortization	-19,115	-19,112	-196	-38,423
Segment earnings (EBIT)	26,924	24,570	-6,824	44,670
Interest income	336	565	-256	645
Interest expenses	-1,497	-2,125	-4,735	-8,357
Segment earnings (EBT)	25,761	24,284	-16,530	33,515
Income tax	-2,644	-4,831	287	-7,188
Share of profit of investments account for using the equity method	0	413	0	413
Segment assets	283,731	370,621	31,581	685,932
Segment liabilities	147,096	182,266	-227,331	102,031
Net segment assets	136,635	188,354	258,911	583,901
Book value of investments accounted for using the equity method	0	1,988	0	1,988
Investments in property, plant and equipment and intangible assets	17,896	24,613	198	42,707
Employees	1,347	1,724	20	3,091

Segment information by regional markets € 000s	2017			2018		
	Sales Revenues	Non-current assets	Investments	Sales Revenues	Non-current assets	Investments
Germany	175,653	231,328	25,872	169,990	233,139	30,877
Rest of Europe	315,216	171,475	10,527	325,193	166,542	6,928
America	140,723	55,351	4,890	141,648	47,869	7,932
Asia/Australia	52,151	30,032	1,419	54,984	30,394	1,800
Other	5,907	0	0	7,162	0	0
	689,651	**488,186**	**42,707**	**698,977**	**477,944**	**47,537**

Sales revenues were allocated according to the destination of goods delivery. Non-current assets were recorded in accordance with the location of the relevant asset.

Non-current assets include property, plant and equipment, intangible assets and goodwill.

The non-current assets were allocated to goodwill by regions.

Reconciliation of balance sheet total with net segment assets € 000s	2017	2018
Balance sheet total	**842,596**	**839,921**
Less financial assets		
- Cash and cash equivalents	133,373	120,954
- Financial assets and investments accounted for using the equity method	2,887	2,462
- Tax assets / deferred tax assets	20,404	19,107
Segment assets	**685,932**	**697,398**
Current and non-current liabilities	**493,360**	**491,336**
Less financial liabilities		
- Short-term and long-term financial liabilities	323,317	318,489
- Tax liabilities / deferred tax liabilities	55,197	51,109
- Pensions and other personnel-related obligations	12,814	12,828
Segment liabilities	**102,032**	**108,910**
Net segment assets	**583,900**	**588,488**

(35) Transactions with non-controlling interests and related companies and persons

The following table shows the scope of relationships between the SURTECO Group and the company accounted for using the equity method.

€ 000s	2017	2018
Services rendered (income)	1,306	1,132
Services received (expense)	0	0
Receivables (31/12/)	61	139
Liabilities (31/12/)	0	0

The following table shows the scope of relationships between SURTECO Group and the non-consolidated companies.

€ 000s	2017	2018
Services rendered (income)	735	805
Services received (expense)	0	0
Receivables (31/12/)	1,441	537
Liabilities (31/12/)	0	0

Outstanding items in respective of these companies are not secured. We refer to the explanations in section (7) in relation to allowances on receivables.

The exchange of services essentially comprises the delivery of inventories at market conditions.

On 31 December 2018, the SURTECO Group issued guarantees amounting to € 000s 106 (2017: € 000s 106) to a non-consolidated company for the fulfilment of individual contracts by non-consolidated companies. It is assumed that no obligations will arise as a result of these guarantees.

(36) Compensation for executive officers and former executive officers

Supervisory Board

Total compensation of the Supervisory Board for the business year 2018 amounted to € 000s 280 (2017: € 000s 386). It includes basic remuneration of € 000s 242 (2017: € 000s 352) and compensation for audit-committee activities of € 000s 38 (2017: € 000s 34).

Management Board

Most of the remuneration for members of the Management Board is performance based. It includes a fixed element and a variable element. The variable element is a bonus based on performance and is calculated on the basis of the Earnings Before Tax (EBT) of the Group in accordance with IFRS, taking into account the return on sales. It also includes a basis of assessment over several years. The total guaranteed remuneration of the active members of the Management Board amounted to € 000s 1,728 (2017: € 000s 2,977) for the business year 2018. Out of this amount, € 000s 730 (2017: € 000s 820) were attributable to the fixed compensation, € 000s 784 (2017: € 000s 1,950) to the performance-based compensation and € 000s 114 (2017: € 000s 107) to fringe benefits and € 000s 100 (2017: € 000s 100) to pension expenses. Out of the total compensation of the active members of the Management Board, € 000s 127 are long term, € 000s 1,501 are short term and € 000s 100 are pension expenses. A contract was concluded with Dr.-Ing. Herbert Müller relating to the premature termination of his contract of service. This defines a one-off payment of € 000s 2,450. The former Member of the Management Board Dr.-Ing. Gereon Schäfer receives for the months of April to December 2018 an ex gratia payment totalling € 000s 450.

The information about individual compensation and the information in accordance with IAS 24 is provided in the compensation report of the Management Report of the SURTECO Group and SURTECO GROUP SE.

(37) Share ownership of the Management Board and the Supervisory Board of SURTECO GROUP SE

On the reporting date, 1,500 shares (2018: 2,000) of the company were held directly and indirectly by the members of the Management Board and 239,922 shares (2017: 242,767) were held directly or indirectly by the members of the Supervisory Board.

(38) Auditor's fee

At the Annual General Meeting on 28 June 2018, auditing firm PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, was appointed as the auditor of the financial statements and auditor to carry out the audit inspection of the interim financial reports for the business year 2018.

The total fee for the business year amounted to € 000s 873. Out of this € 000s 661 was attributed to services for auditing the financial statements, € 000s 3 to other confirmation services, € 000s 134 to tax consultancy services and € 000s 75 to miscellaneous services. The auditing services include auditing of the consolidated financial statements and auditing of the separate financial statements of SURTECO GROUP SE and the domestic subsidiary companies. The tax consultancy services essentially relate to consultancy services for the preparation of tax returns. The other services include project-related consultancy services.

(39) Events after the reporting date

No events or developments occurred until 18 April 2019 which could have resulted in a significant change to the recognition or valuation of individual assets or liabilities at 31 December 2018.

XI. Executive Officers of the Company

Management Board (in the business year 2018)		
Name	**Main activity**	**Supervisory Board Memberships of other companies and other mandates**
Dr.-Ing. Herbert Müller Engineer, Heiligenhaus	Chairman of the Management Board, Group Strategy, Strategic Business Unit Plastics	• Chairman of the Supervisory Board of Ewald Dörken AG, Herdecke
Andreas Riedl Graduate in Business Administration, Donauwörth	Board Member CFO	-
Dr.-Ing. Gereon Schäfer Engineer, Kempen (until 31 March 2018)	Board Member Strategic Business Unit Paper	-

Members of the Supervisory Board (in the business year 2018)		
Name	**Main activity**	**Supervisory Board Memberships of other companies and other mandates**
Dr.-Ing. Jürgen Großmann Engineer, Hamburg (Chairman)	Shareholder of the GMH Group, Georgsmarienhütte	• Member of the Supervisory Board of Deutsche Bahn AG, Berlin (until 18 July 2018) • Member of the Board, Hanover Acceptances Limited, London • Chairman of the Board of Trustees of RAG Stiftung, Essen
Björn Ahrenkiel Lawyer, Hürtgenwald (Vice Chairman)	Lawyer	-
Dr. Markus Miele Industrial Engineer, Gütersloh (Deputy Chairman)	Managing Shareholder of Miele & Cie. KG, Gütersloh	• Member of the Supervisory Board of ERGO Versicherungsgruppe AG, Düsseldorf • Chairman of the Advisory Board of Wilhelm Bölhoff GmbH & Co. KG, Bielefeld (from 27 June 2018)
Dr. Christoph Amberger Independent Businessman, Utting am Ammersee	Independent Businessman	• Member of the Advisory Board of Frischpack GmbH, Mailling • Member of the Advisory Board of the Detia Degesch Group, Laudenbach • Deputy Chairman of the Supervisory Board of Klöpfer & Königer GmbH und Co. KG, Garching • Member of the Supervisory Board of Erber AG, Gesetzersdorf, Austria (from March 2018)
Andreas Engelhardt Managing Shareholder, Bielefeld (from 28 June 2018)	Managing and personally liable shareholder of Schüco International KG, Bielefeld	• Member of the Supervisory Board of SAINT GOBAIN ISOVER G+H AG, Ludwigshafen • Member of the Supervisory Board of BDO WPG AG, Hamburg

Members of the Supervisory Board (in the business year 2018)		
Name	**Main activity**	**Supervisory Board Memberships of other companies and other mandates**
Jens Krazeisen* Process Mechanic, Buttenwiesen	Chairman of the Works Council of SURTECO GmbH, Buttenwiesen	-
Wolfgang Moyses Master of Business Administration, Munich	Chairman of the Management Board of SIMONA AG, Kirn	• Member of the Supervisory Board of Brabender Inc., South Hackensack • Member of the Customer Advisory Board of Landesbank Rheinland-Pfalz, Mainz
Udo Sadlowski* Training Manager, Essen	Chairman of the Works Council of SURTECO GmbH, Gladbeck	-
Dr.-Ing. Walter Schlebusch Engineer, Munich (until 28 June 2018)	Member of the Advisory Board of Giesecke & Devrient GmbH, München	• Member of the Advisory Board of Giesecke & Devrient GmbH, München
Thomas Stockhausen* Specialist in Safety at Work, Sassenberg	Chairman of the Works Council of SURTECO GmbH, Sassenberg	-

* Employee Representative

Committees of the Supervisory Board			
Presiding Board			
Dr.-Ing. Jürgen Großmann (Chairman)	Björn Ahrenkiel	Dr. Christoph Amberger	Dr. Markus Miele
Personnel Committee			
Dr.-Ing. Jürgen Großmann (Chairman)	Björn Ahrenkiel	Dr. Christoph Amberger	Dr. Markus Miele
Audit Committee			
Björn Ahrenkiel (Chairman)	Dr.-Ing. Jürgen Großmann	Wolfgang Moyses	

XII. Declaration of Compliance with the German Corporate Governance Code pursuant to § 161 Sentence 1 Stock Corporation Act (AktG)

The Management Board and the Supervisory Board of SURTECO GROUP SE have submitted the Declaration of Compliance in respect of the Corporate Governance Code pursuant to § 161 Sentence 1 Stock Corporation Act (AktG) on 19 December 2018 and made this declaration available to shareholders on the website of the company at: www.ir.surteco-group.com. These declarations are intended to demonstrate compliance with all key aspects of the recommendations on conduct promulgated by the "Government Committee on the German Corporate Governance Code".

Shareholdings as at 31/12/2018

No.	Company	Country	Consolidated	Percentage of shares held by SURTECO GROUP SE	Participation in no.
Parent Company					
100	SURTECO GROUP SE, Buttenwiesen	Germany			
200	Surteco Beteiligungen GmbH, Buttenwiesen	Germany	F	100.00	100

No.	Company	Country	Consolidated	Percentage of shares held by SURTECO GROUP SE	Participation in no.
Strategic Business Unit Paper					
401	SURTECO GmbH, Buttenwiesen/Gladbeck/Sassenberg	Germany	F	100.00	100
321	SURTECO art GmbH, Willich	Germany	F	100.00	401
330	DAKOR Melamin Imprägnierungen GmbH, Heroldstatt	Germany	F	100.00	200
341	SÜDDEKOR LLC, Agawam	USA	F	100.00	401
405	SURTECO UK Ltd., Burnley	United Kingdom	F	100.00	401
410	Kröning GmbH, Hüllhorst	Germany	F	100.00	200
441	BauschLinnemann North America Inc., Myrtle Beach	USA	F	100.00	401
443	SURTECO North America Inc., Myrtle Beach	USA	NC	100.00	401
470	SURTECO Italia s.r.l., Martellago	Italy	F	100.00	401

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

No.	Company	Country	Consolidated	Percentage of shares held by SURTECO GROUP SE	Participation in no.
Strategic Business Unit Plastics					
501	Global Abbasi, S. L., Madrid	Spain	F	100.00	401
502	Probos - Plásticos, S. A., Mindelo	Portugal	F	100.00	501
503	Proadec Brasil Ltda., Sao José dos Pinhais	Brazil	F	100.00	502
504	Chapacinta, S. A. de C. V., Tultitlán	Mexico	F	99.99	502
				0.01	501
505	Proadec UK Ltd., Greenhithe (Kent)	United Kingdom	F	100.00	502
506	Proadec Deutschland GmbH, Bad Oeynhausen	Germany	F	100.00	502
512	SURTECO Australia Pty Limited, Sydney	Australia	F	100.00	401
513	SURTECO PTE Ltd., Singapore	Singapore	F	100.00	401
514	PT Doellken Bintan Edgings & Profiles, Batam	Indonesia	F	99.00	401
				1.00	513
516	SURTECO France S.A.S., Beaucouzé	France	F	100.00	401
517	SURTECO DEKOR Ürünleri Sanayi ve Ticaret A.Ş., Istanbul	Turkey	F	99.75	410
				0.25	520
518	SURTECO OOO, Moscow	Russia	F	100.00	401
519	SURTECO Iberia S.L., Madrid	Spain	NC	100.00	401
520	Döllken Profiles GmbH, Nohra (formerly Döllken-Weimar GmbH)	Germany	F	100.00	100
531	Döllken Sp.z o.o., Kattowitz	Poland	F	100.00	520
532	Döllken CZ s.r.o., Prague	Czech Republic	F	100.00	520
540	Nenplas Holdings Ltd., Ashbourne	United Kingdom	F	85.00	520
541	Nenplas Ltd., Ashbourne	United Kingdom	F	100.00	540
542	Polyplas Extrusions Ltd., Stourport-on-Severn	United Kingdom	F	100.00	541
543	Delta Plastics Ltd., Wolverhampton	United Kingdom	F	100.00	541
544	Nenplas Properties Ltd., Ashbourne	United Kingdom	F	100.00	545
545	Nenplas Properties Holdings Ltd., Ashbourne	United Kingdom	F	100.00	540
550	SURTECO USA Inc., Greensboro	USA	F	100.00	401
560	SURTECO Canada Ltd, Brampton	Canada	F	100.00	401
561	Doellken-Canada Ltd., Brampton	Canada	F	100.00	560
572	Canplast Mexico S.A. de C.V., Chihuahua	Mexico	E	50.00	561
610	SURTECO Svenska AB, Gislaved	Sweden	F	100.00	100
611	Gislaved Folie AB, Gislaved	Sweden	F	100.00	610
	JORNA Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Grünwald	Germany	F		520
	SANDIX Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Weimar KG, Düsseldorf	Germany	F		520

Independent Auditor's Report

To SURTECO GROUP SE, Buttenwiesen

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of SURTECO GROUP SE, Buttenwiesen, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the financial year from January 1 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of SURTECO GROUP SE, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2018. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the „Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the „Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:
❶ **Recoverability of goodwill**

Our presentation of this key audit matter has been structured as follows:
① **Matter and issue**
② **Audit approach and findings**
③ **Reference to further information**

Hereinafter we present the key audit matter:

❶ Recoverability of goodwill

① In the Company's consolidated financial statements goodwill amounting in total to EUR 162.9 million (19.3 % of total assets or 46.1 % of equity) is reported under the „Goodwill" balance sheet item. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. The impairment test is carried out at the level of the groups of cash-generating units to which the relevant goodwill is allocated. The carrying amount of the relevant cash-generating units, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is generally determined using the value in use. The present value of the future cash flows from the respective group of cash-generating units normally serves as the basis of valuation. Present values are calculated using discounted cash flow models. For this purpose, the adopted medium-term business plan of the Group forms the starting point which is extrapolated based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the respective group of cash-generating units. The impairment test determined that no write-downs were necessary.
The outcome of this valuation is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective group of cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

② As part of our audit, we assessed the methodology used for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the adopted medium-term business plan of the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. In addition, we assessed the appropriate consideration of the costs of Group functions. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated in this way, we focused our testing in particular on the parameters used to determine the discount rate applied, and assessed the calculation model. In order to reflect the uncertainty inherent in the projections, we evaluated the sensitivity analyses performed by the Company. Taking into account the information available, we determined that the carrying amounts of the respective cash-generating units, including the goodwill, were adequately covered by the discounted future cash flows.
Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

③ The Company's disclosures on goodwill are contained in section IX (21) of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation
We were elected as group auditor by the annual general meeting on June 28, 2018. We were engaged by the supervisory board on October 22, 2018. We have been the group auditor of SURTECO GROUP SE, Buttenwiesen, without interruption since the financial year 2011.
We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement
The German Public Auditor responsible for the engagement is Jürgen Schumann.

Munich, 18 April 2019

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft

Jürgen Schumann	ppa. Bernhard Obermayr
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, 18 April 2019

The Management Board

H. Müller A. Riedl

Dr.-Ing. Herbert Müller Andreas Riedl

SURTECO GROUP SE
BALANCE SHEET (HGB) (SHORT VERSION)

€ 000s	31/12/2017	31/12/2018
ASSETS		
Intangible assets	60	17
Tangible assets	423	403
Investments		
- Interest in affiliated enterprises	297,742	297,767
- Notes receivable to affiliated enterprises	17,238	16,526
- Participations	1	1
Fixed assets	**315,464**	**314,714**
Receivables and other assets		
- Receivables from affiliated enterprises	228,814	221,431
- Other assets	5,633	8,094
Cash in hand, bank balances	109,071	102,067
Current assets	**343,518**	**331,592**
Prepaid expenses	**864**	**712**
	659,846	**647,018**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Subscribed capital	15,506	15,506
Additional paid-in capital	170,177	170,177
Retained earnings	111,123	103,394
Net profit	12,405	8,529
Equity	**309,211**	**297,606**
Tax accruals	1,624	1,341
Other accruals	3,409	4,719
Accrued expenses	**5,033**	**6,060**
Liabilities to banks	308,033	304,891
Trade accounts payable	326	295
Liabilities to affiliated enterprises	32,391	33,333
Other liabilities	4,834	4,820
Liabilities	**345,584**	**343,339**
Deferred income	**18**	**13**
	659,846	**647,018**

SURTECO GROUP SE
INCOME STATEMENT (HGB) (SHORT VERSION)

€ 000s	1/1/-31/12/ 2017	1/1/-31/12/ 2018
Sales revenues	1,732	2,161
Income from profit and loss transfer agreements	30,709	14,733
Losses from profit and loss transfer agreements	-154	0
Other operating income	1,198	1,663
Personnel expenses	-4,977	-6,576
Amortization and depreciation on intangible assets and property, plant and equipment	-188	-172
Other operating expenses	-7,658	-4,487
Income from long-term securities and loans from financial assets	471	441
Interest income	-6,359	-5,216
Income taxes	-716	-1,652
Earnings after tax	**14,058**	**895**
Other taxes	-4	-95
Net income	**14,054**	**800**
Transfer to retained earnings	-1,649	0
Transfer from retained earnings	0	7,729
Net profit	**12,405**	**8,529**

The Annual Financial Statements of SURTECO GROUP SE have been published in the Federal Gazette (Bundesanzeiger) and filed at the Company Register of the Local Court Augsburg (Amtsgericht Augsburg). The Balance Sheet and the Income Statement (short version) from these Annual Financial Statements are published here. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, audited the Annual Financial Statements and provided them with an unqualified auditor's opinion.

The Annual Financial Statements can be requested from SURTECO GROUP SE, Johan-Viktor-Bausch-Str. 2, 86647 Buttenwiesen, 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 (Article 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 rata basis to reflect performance of the companies accounted for using the equity method.

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 (corporate governance) and includes internationally and nationally recognized standards for sound and responsible corporate governance. 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).

HYBRID PRODUCTS

This product group covers the finish foils and melamine edgings produced by the Strategic Business Unit Paper. Their applications include those for true metals, combining the technical and optical advantages of metal with the proven processing attributes of paper-based finish foils and edgings.

IMPAIRMENT TEST

Periodic comparison of an asset´s book value with its fair value. A company must record an impairment charge if it determines that an asset´s fair value has fallen below its book value. Goodwill, for example, is tested for impairment on at least an annual basis.

IMPREGNATED PRODUCTS

Impregnates are special papers (generally decorative papers) which are saturated in a resin bath in the same way as fully impregnated materials. However, in contrast to these materials, the impregnates are not provided with a final varnish coating. They only receive their final surface when they are compressed with the wood-fibre boards.

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 fourteen 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.

RELEASE PAPERS

These are an auxiliary material used in the compression of melamine impregnates with wood-fibre boards. The release papers form a separating layer between the hot pressed boards and the material. The release paper controls the texture and the degree of gloss finish to be provided on the surface being generated.

SE

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

FINANCIAL CALENDAR

2019

15 May 2019	Three-month report January – March 2019
27 June 2019	Annual General Meeting
2 July 2019	Dividend payout
14 August 2019	Six-month report January – June 2019
14 November 2019	Nine-month report January – September 2019

2020

30 April 2020	Annual Report 2019
15 May 2020	Three-month report January – March 2020
25 June 2020	Annual General Meeting
30 June 2020	Dividend payout
14 August 2020	Six-month report January – June 2020
13 November 2020	Nine-month report January – September 2020

PUBLICATION DETAILS

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Concept and Design
DesignKonzept, Mertingen

Photos
Ebbing + Partner, Iserlohn
Kaloo Images, Hirschbach
Z-Studio, Wertingen

Printing
deVega, Augsburg

TEN YEAR OVERVIEW

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Sales revenues in € 000s	341,145	388,793	408,809	407,720	402,115	618,469	638,394	639,815	689,651	698,977
Foreign sales in %	64	67	67	69	70	72	72	73	75	76
EBITDA in € 000s	54,317	62,547	56,116	51,699	59,660	62,842	64,957	74,338	83,093	72,779
Depreciation and amortization in € 000s	-19,892	-20,934	-21,099	-22,045	-22,613	-35,235	-33,847	-33,461	-38,423	-40,577
EBIT in € 000s	34,425	41,613	35,017	29,654	37,047	27,607	31,110	40,877	44,670	32,202
Financial result in € 000s	-16,860	-9,520	-12,089	-8,463	-9,056	-5,344	-4,293	-5,840	-11,155	-5,069
EBT in € 000s	17,565	32,093	22,928	21,191	27,991	22,263	26,843	35,037	33,515	27,133
Consolidated net profit in € 000s	9,239	21,754	12,484	15,028	21,876	18,464	17,721	23,867	26,192	18,630
Balance sheet total in € 000s	481,676	480,996	482,135	467,250	626,109	636,669	655,727	673,869	842,596	844,541
Equity in € 000s	191,815	212,969	216,504	223,178	311,025	321,101	334,381	346,552	349,236	353,205
Equity ratio in %	40	44	45	48	50	50	51	51	41	42
Average number of employees for the year	1,979	1,990	2,050	1,994	2,114	2,682	2,727	2,736	3,091	3,329
Number of employees at 31/12	1,903	2,003	2,005	1,967	2,664	2,705	2,695	2,833	3,295	3,304
Capital stock in €	11,075,522	11,075,522	11,075,522	11,075,522	15,505,731	15,505,731	15,505,731	15,505,731	15,505,731	15,505,731
Number of shares at 31/12	11,075,522	11,075,522	11,075,522	11,075,522	15,505,731	15,505,731	15,505,731	15,505,731	15,505,731	15,505,731
Earnings per share in € (by weighted average of shares issued)	0.83	1.96	1.13	1.36	1.86	1.19	1.14	1.54	1.69	1.20
Dividend per share in €	0.40	0.90	0.45	0.45	0.65	0.70	0.80	0.80	0.80	0.55*
Dividend payout in € 000s	4,430	9,968	4,984	4,984	10,079	10,854	12,405	12,405	12,405	8,528
PROFITABILITY INDICATORS										
Return on sales in %	5.1	8.2	5.6	5.3	6.9	3.6	4.2	5.5	4.8	3.8
Return on equity in %	4.9	10.8	5.9	6.9	7.3	6.0	5.5	7.2	7.8	5.5
Total return on total equity in %	6.2	8.9	6.8	6.6	5.9	5.1	5.5	6.5	5.0	4.1

* (Proposal by the Management Board and Supervisory Board)

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we innovate.

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