ANNUAL REPORT 2007

SPECIALISTS FOR SURFACE TECHNOLOGIES

SURTECO

SOCIETAS EUROPAEA

» SURTECO WORLDWIDE

● 14 production and sales locations ○ 13 additional sales locations

Germany

» AT A GLANCE

[€ 000s]	2006	2007	Variation in %
Sales revenues	403,156	**414,519**	+3
Foreign sales in %	64	**65**	
EBITDA	71,698	**74,358**	+4
Depreciation and amortization	-17,612	**-18,877**	
EBIT	54,086	**55,481**	+3
Financial result	-8,060	**-8,868**	
EBT	46,026	**46,613**	+1
Consolidated net profit	28,761	**31,615**	+10
Earnings per share in €	2.60	**2.85**	+10
Additions to fixed assets	23,963	**48,123**	+101
Cash Earnings	46,116	**49,103**	+6
Balance sheet total	373,198	**514,781**	+38
Equity	165,678	**185,655**	+12
Equity in % of the balance sheet total	44.4	**36.1**	-19
Net financial debt at 31 December	127,779	**149,626**	+17
Gearing (level of debt) at 31 December in %	77	**81**	+5
Average number of employees for the year	2,059	**2,121**	+3
Number of employees at 31 December	2,051	**2,181**	+6
PROFITABILITY INDICATORS IN %			
Return on sales	11.4	**11.2**	
Return on equity	18.4	**18.2**	
Total return on equity	14.7	**11.2**	

» GROUP STRUCTURE

OPERATING GROUP STRUCTURE OF SURTECO SE

SBU PAPER

BauschLinnemann

- SURTECO China
- BauschLinnemann North America
- BauschLinnemann Singapore
- BauschLinnemann UK
- Kröning

Bausch Decor

- 30% Saueressig Design Studio

50% Arbe Italy 50%

SBU PLASTICS

W. Döllken & Co.

- Döllken-Kunststoffverarbeitung
- Vinylit Fassaden
- SURTECO Australia
- Doellken Asia
- Döllken France
- SURTECO Turkey

- Döllken-Profiltechnik

- Döllken & Praktikus
- Döllken & Praktikus Poland
- 6% Döllken Weimar 94%

Gislaved Folie
Sweden

- Doellken- Woodtape Canada/USA
- Pro-Plast Canada 50%
- Canplast Canada/USA
- Canplast Do Brasil
- Canplast Centro America 25%
- Canplast Mexico 50%
- Canplast Sud/Chile 55%

» KEY POINTS FOR 2007

€ 415 million sales revenues
3 % up on previous year

SALES DISTRIBUTION IN % SURTECO Group

by regions	
Germany	35
Rest of Europe	42
America	14
Australia	6
Asia	3

by products	
Edgebandings	53
Foils	20
Skirtings	6
Decorative Printing	5
DIY	4
Techn. Extrusions	4
Other	8

€ 46.6 million EBT
Record result for 2006 again exceeded

€ 2.85 net income per share
increases disproportionately by 10%

SURTECO SE (Societas Europaea)
Annual General Meeting resolves on conversion with majority of 99.98 %

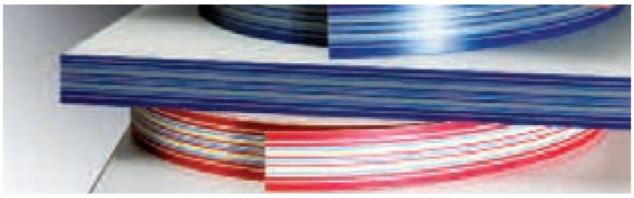
Group expansion
Acquisition of Gislaved, SDCA and Gardinia Home Decor skirtings business line

€ 150 million US private placement for long-term loan

» THE PRODUCT RANGE OF SURTECO SE

STRATEGIC BUSINESS UNIT PLASTICS

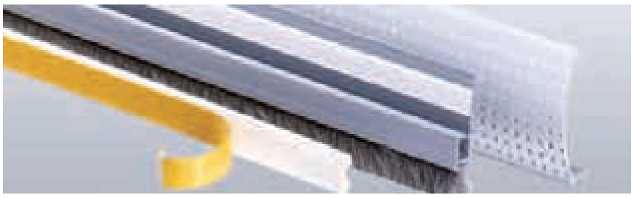
Plastic edging tapes



Roller shutter systems

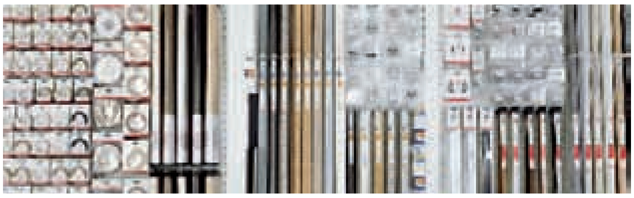
Edgings and extrusions for cabinet making

Technical extrusions for industry



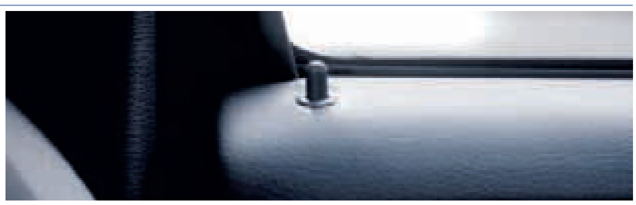
Skirtings and extrusions for professional floorlayers

Ranges for building suppliers and DIY stores



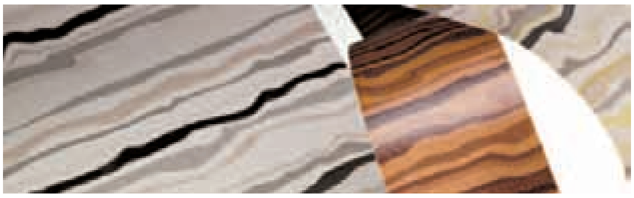
Cladding systems

Plastic foils



STRATEGIC BUSINESS UNIT PAPER

Printing decorative designs



Edging tapes based on paper

Finish foils based on paper

Multilayer laminates

PICTURES in the Annual Report

Functionality and aesthetic design – these two concepts represent the ideal embodiment of the benefits of SURTECO products for our customers.

Reports on our range tend to focus on the fact that products have to stand up to tough industrial refining processes, they have to be fit for the subsequent purpose and they have to be continuously modified, adapted and optimized to meet changing requirements and comply with new production methods in order to "function".

We want to focus on the aesthetic and design aspects of our products manufactured by SURTECO in this year's Annual Report. We have taken an in-depth look at materials using the latest digital technology. We deliberately avoid frivolous accessories. The differentiated and elegant effect produced by edgings, foils and skirtings can be astounding when looked at closely and with the right perspective.

The picture series pays tribute to the work of the designers and decorative development technicians in our Group. It demonstrates the high degree of creativity that needs to be deployed when originating new ideas for optical highlights in cooperation with our customers or creating designs in-house on the basis of our creative flair and ideas.

STRATEGIC
BUSINESS UNIT
PLASTICS

DÖLLKEN KUNSTSTOFFVERARBEITUNG

vinylit

SURTECO AUSTRALIA

DÖLLKEN EDGINGS AND PROFILES

SURTECO DEKOR A.Ş.

DÖLLKEN FRANCE

DÖLLKEN PROFILTECHNIK

Praktikus

DÖLLKEN Praktikus

DÖLLKEN WEIMAR

DÖLLKEN WOODTAPE

CANPLAST

GISLAVED FOLIE AB

STRATEGIC
BUSINESS UNIT
PAPER

BauschLinnemann

BAUSCH DECOR

Kröning

arbe

SURTECO DECORATIVE MATERIAL

ANNUAL REPORT 2007

SURTECO SE

ISIN: DE0005176903 Ticker symbol: SUR

» CONTENT

Dear shareholders and friends of our company,

The last business year was a challenge for SURTECO SE. Following strong initial dynamic growth, the global economic framework conditions were significantly dampened over the course of 2007 as a result of the consequences of the US American subprime crisis. Alongside the US real estate crisis, the further increase in global energy and raw materials prices impacted negatively on the performance of the global economy. National central banks and international institutions attempted to alleviate the consequences of the crisis and the impending hazards of inflation through numerous interventions, but without significant success. The further weakening of the US dollar against the euro from USD 1.31 to 1.47 on a twelve-month comparison exerted a tangible impact on export business.

SURTECO was not immune to these developments with production sites in Canada and USA. Furthermore, the furniture industry in Germany was unable to move beyond its phase of weakness. The sector is still having to contend with sales problems in domestic business so that 2007 again saw a number of insolvencies.

Against this background we nevertheless succeeded in again increasing sales and income. We introduced a wide range of measures to achieve this result. Our action focused on expanding and strengthening the existing business and optimizing the product portfolio.

The full takeover of sales company SDCA S.A.S. in Angers provided the company with direct access to the French furniture industry. In addition, we also purchased the remaining shares (25 %) in Arbe s.r.l., our Italian finishing and sales base for paper and plastic products. Acquisition of the skirting and edging systems business line from the Gardinia Home Decor Group strengthens our position in the important future markets of Eastern Europe. We have taken account of the emerging development in Turkey by establishing our own sales company there. Bausch Decor GmbH, which produces decorative print designs based on specialist technical papers for the furnishing and laminate flooring industries expanded production capacity at the company headquarters in Buttenwiesen-Pfaffenhofen in a project costing 13 million euros.

The acquisition of Gislaved Folie AB, Sweden, in September 2007 opens up new perspectives on the product side. Our product range did not include plastic foils of the type manufactured by Gislaved. SURTECO now has a profile as a complete supplier of high-quality, decorative finishes for the coating, interior design and furnishing industries with edgebandings and flat foils based on paper, as well as edgebandings and now also flat foils based on thermoplastic.

We will continue to consistently pursue our objective of achieving growth geared to income. By 2011, we aim to have increased consolidated sales to around € 800 million and the EBITDA margin to more than 20 %. The private placement of senior notes should be regarded in this context. These loans were concluded in the USA and Germany in September 2007, shortly before the turbulence in the international capital markets.

On the equity side, we moved closer to our goal of taking a listing in the SDAX index. About 420,000 shares were reallocated from the portfolio of existing shareholders of SURTECO SE and placed with institutional investors in May 2007. This enabled us to increase our free float up to 23.7 %.

In January 2008, SURTECO purchased a share package amounting to 3.02 % of the capital stock in Pfleiderer AG, Neumarkt. We have been doing business

with Pfleiderer for many years now and regard the ongoing development of the company positively.
We also perceive the conversion of SURTECO Aktiengesellschaft to a SE (Societas Europaea) to be another building block on the path to securing the future of the Group. The new legal form is in line with the increasingly international character of the Group. Entry in the Company Register in November 2007 completed this transaction resolved by the Annual General Meeting in August 2007.
The Group started the current business year with a high level of commitment and many new ideas in all sectors of the company. We focused on the strategic goals for the Group: developing further international growth markets, more acquisitions, optimization of the corporate structure, expansion of technology leadership and increase in profitability. Our shareholders should rightly also participate in the success of SURTECO SE for 2007. The Board of Management and Supervisory Board will therefore recommend to the Annual General Meeting that the dividend be increased by 10 % to € 1.10 and paid out to the shareholders. € 8.2 (2006: € 8.2 million) will be transferred to retained earnings.
We should like to take this opportunity to thank the employees of the SURTECO Group in Germany and abroad. At times of major change requiring more flexible and faster reaction to new market conditions, our people have made a joint commitment to achieving the success of our company.

Friedhelm Päfgen
Chairman of the Board of Management

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

EXECUTIVE OFFICERS OF SURTECO SE

SUPERVISORY BOARD

Dr.-Ing. Jürgen Großmann	Chairman of the Board of Management of RWE Aktiengesellschaft Essen	Chairman
Björn Ahrenkiel	Lawyer Hürtgenwald	Vice-Chairman
Bernd Dehmel	Businessman Marienfeld	Deputy Chairman
Johan Viktor Bausch	Engineer Munich	Honorary Chairman
Dr. Matthias Bruse	Lawyer Munich	
Hans-Jürgen Diesner	Marketing Salesman Versmold	Employee Representative
Jakob-Hinrich Leverkus	Businessman Hamburg	
Richard Liepert	Chairman of the Works Council Wertingen	Employee Representative
Christa Linnemann	Businesswoman Gütersloh	Honorary Chairwoman
Udo Sadlowski since 1 February 2008	Training Manager Essen	Employee Representative
Dr.-Ing. Walter Schlebusch	Managing Director of Banknotes Division Giesecke & Devrient GmbH Munich	
Udo Semrau until 31 January 2008	Chairman of the Works Council Gladbeck	Employee Representative

BOARD OF MANAGEMENT

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

EXECUTIVE MANAGEMENT OF GROUP COMPANIES

SBU PLASTICS

DÖLLKEN-KUNSTSTOFFVERARBEITUNG GMBH Gladbeck	Oliver Beer Klaus Peper Hartwig Schwab
VINYLIT FASSADEN GMBH Kassel	Stefan Schmatz
SURTECO AUSTRALIA PTY. LTD. Sydney/Australia	Marc Taylor
DOELLKEN PTE LTD. Singapore	Hans Klingeborn
PT DOELLKEN BINTAN Bintan/Indonesia	Hans Klingeborn
DÖLLKEN-FRANCE S.A.S. Beaucouzé, France	André Plank
SURTECO DEKOR A.Ş. Istanbul, Turkey	Orhan Bozkurt
DÖLLKEN-PROFILTECHNIK GMBH Dunningen	Hartwig Schwab
DÖLLKEN & PRAKTIKUS GMBH Gladbeck	Frank-Jörg Schilaski
DÖLLKEN & PRAKTIKUS SP. Z O.O. Kattowitz, Poland	Rafael Pospiech
DÖLLKEN-WEIMAR GMBH Nohra	Tibor Aranyossy Wolfgang Breuning Frank-Jörg Schilaski
DOELLKEN-WOODTAPE LTD. Brampton/Ontario, Canada	Jürgen Krupp Tom Rieke Peter Schulte
CANPLAST CANADA LTD. Montreal, Canada	Tom Rieke
DOELLKEN-WOODTAPE INC. Greensboro, USA	Tom Rieke
CANPLAST USA INC. Greensboro, USA	Tom Rieke
GISLAVED FOLIE AB Gislaved, Sweden	Roland Andersson

SBU PAPER

BAUSCH DECOR GMBH Buttenwiesen-Pfaffenhofen	Wolfgang Buchhart
BAUSCHLINNEMANN GMBH Sassenberg	Dr.-Ing. Gereon Schäfer Dieter Baumanns
SURTECO CHINA Taicang	Yabin Li
BAUSCHLINNEMANN UK Burnley	Tim Barber David Fleming
BAUSCHLINNEMANN SINGAPORE Singapore	Hans Klingeborn
BAUSCHLINNEMANN NORTH AMERICA Greensboro, USA	Mike Phillips
ARBE S.R.L. Martellago, Italy	Marco Francescon
KRÖNING GMBH & CO. Hüllhorst	Reinhold Affhüppe

Dear shareholders, partners and friends of our company

The Supervisory Board regularly monitored the work of the Board of Management and provided advice in the business year 2007. The basis for the monitoring function of the Supervisory Board was formed by comprehensive, written and verbal reports by the Board of Management. The Supervisory Board was always kept informed about the intended business policy, the corporate plans including finance, investment and personnel planning, the profitability of the company, the current business situation, and the economic position of the company and the Group overall.

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

The Supervisory Board convened for five meetings during the course of the year 2007. Two of these meetings took place in the first calendar half year and three further meetings in the second calendar half year. The meeting on 31 August 2007 was convened as a meeting of the Supervisory Board of SURTECO AKTIENGESELLSCHAFT and also as the first meeting of the Supervisory Board of the converted SURTECO SE. The Chairman of the Supervisory Board furthermore maintained regular telephone contact with the Board of Management, in order to continue providing advice on key items of business policy and strategic issues. No Member of the Supervisory Board took part in less than half the meetings.

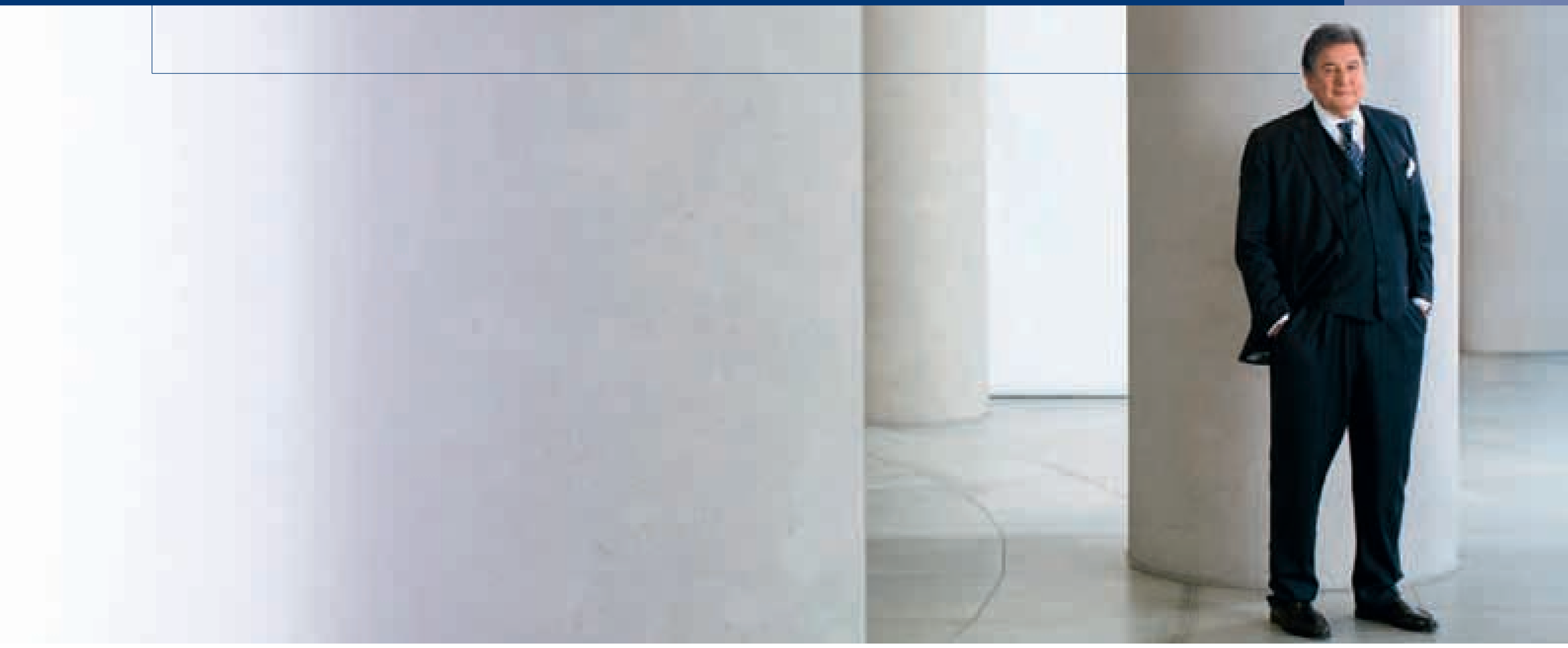
FOCUSES OF ADVICE AND CONSULTATION IN THE SUPERVISORY BOARD

During the year under review, the Supervisory Board addressed the reporting of the Board of Management in detail and discussed the position of the company and the business strategy on the basis of the latest business figures available for the company. The foreign markets constituted a particular focus of attention, in particular North America. This also involved addressing the initial effects of the US American real estate crisis on the business of the North American SURTECO companies.

The latest relevant indicators of the Strategic Business Units in the SURTECO Group (SBU Paper and SBU Plastics) and the subsidiary companies and participations were presented by the Board of Management at the meetings of the Supervisory Board where they were analyzed and compared with the projected figures. The Members of the Supervisory Board addressed questions on individual items to the Members of the Board of Management which the Members of the Board of Management answered comprehensively. The plans for the fiscal year 2008 submitted by the Board of Management were reviewed by the Supervisory Board, discussed with the Board of Management and adopted at the meeting held on 19 December 2007.

The economic environment in which the company is operating was also discussed by the Supervisory Board. This related, for example to the development of energy costs, raw material prices and the availability of raw materials, exchange rates and product specifications with specific suppliers, and the resulting alternatives for action by the company. The situation of the most important customers was also discussed, in particular in the light of the increased prices for raw materials being experienced by the furniture processing industry. The progress of the investments decided at Bausch Decor GmbH in the year 2006 was reported to the Supervisory Board. The strategic direction of the group of companies was also subject to continual monitoring by the Supervisory Board. At the same time, it was established that the Supervisory Board was in agreement with the overall strategic direction of the company.

The Supervisory Board addressed in particular detail the expansion of the company. The acquisition of the Swedish company Gislaved Folie AB formed the first stage of implementing this growth strategy. Gislaved is a manufacturer of thermoplastic foils which are used in different sectors, including as coating materials for interior design of ships or as



a base material for the manufacture of plastic carpets. The acquisition of Gislaved is the first step towards establishing a third Strategic Business Unit of the SURTECO Group (SBU "T-Foil"). The acquisition of Gislaved was presented by the Board of Management to the Supervisory Board and discussed in detail. The Supervisory Board agreed to the acquisition in its meetings on 24 April 2007 and 8 July 2007. The Supervisory Board also took note of the concept drawn up by the Board of Management for the growth strategy of the Group and approved the strategy.

At the meeting on 24 April 2007, the Supervisory Board agreed to the acquisition of the skirtings business line of Gardinia Home Decor GmbH by Döllken-Weimar GmbH. The acquisition expands the skirtings business of Döllken-Weimar GmbH and strengthens the market position of Döllken-Weimar, particularly in Eastern Europe.

At the meetings on 24 April 2007 and 8 July 2007, the Supervisory Board also approved the issue of a corporate note in an US private placement with a volume of up to € 150 million. The placement of the note provides the Board of Management with flexible scope for taking advantage of acquisition opportunities presented to the company. The note was placed before the start of the crisis in the international credit markets in the summer of 2007 at favourable conditions to the company. The Board of Management had kept the Supervisory Board continually information about the process of the US private placement.

In the meeting on 19 December 2007, the Supervisory Board addressed the acquisition of a shareholding amounting to 3.02 % of the capital stock in Pfleiderer AG and approved this acquisition. Pfleiderer AG has been a business partner of the SURTECO Group for many years.

At the meetings of the Supervisory Board, the Board of Management submitted regular reports on the status of the conversion of the company into a European company (Societas Europaea, SE) which was resolved at the Annual General Meeting on 31 August 2007 and entered in the Company Register in November 2007. At the meeting on 31 August 2007, the Supervisory Board appointed Mr. Friedhelm Päfgen as Chairman of the Board of Management and Dr. Herbert Müller as Member of the Board of Management of the converted SURTECO SE. Mr. Päfgen, whose period of office expired on 30 June 2007, had already been reappointed a Chairman of the Board of Management of SURTECO AG at the meeting on 24 April 2007. At the same time, the Supervisory Board elected Dr. Jürgen Großmann as Chairman of the Supervisory Board of SURTECO SE and Mr. Björn Ahrenkiel and Mr. Bernd Dehmel as Deputy Chairmen at the meeting on 31 August 2007. At the constituting meeting of the Supervisory Board of SURTECO SE, appointments were made to the committees of the Supervisory Board and rules of procedure were drawn up for the Board of Management and the Supervisory Board of the SE.

WORK OF THE COMMITTEES

The Supervisory Board formed an Audit Committee and a Personnel Committee. There is also a Presiding Board in accordance with the rules of procedure of the Supervisory Board. During the year under review, the Presiding Board comprised Dr. Jürgen Großmann (Chairman), Mr. Björn Ahrenkiel, Mr.

Bernd Dehmel and Dr. Matthias Bruse. During the year under review, the Personnel Committee comprised Dr. Jürgen Großmann (Chairman), Mr. Björn Ahrenkiel and Dr. Matthias Bruse. During the year under review, the Audit Committee comprised Mr. Björn Ahrenkiel, Dr. Matthias Bruse, Dr. Jürgen Großmann and Dr. Walter Schlebusch. Dr. Großmann acted as Chairman of the Audit Committee until 31 August 2007. From 31 August 2007, Mr. Ahrenkiel took over this function.

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. However, the Presiding Board did not need to meet during the year under review. The Presiding Board did not need to grant consent for measures and transactions requiring consent in urgent cases, since the appropriate matters were dealt within in plenary sessions of the Supervisory Board.

The Audit Committee addressed issues relating to accounting and risk management, the mandatory independence of the auditor, commissioning the auditor to carry out the audit and the agreement of the fee. The Chairman of the Audit Committee is available to the auditors as a contact. The auditors report to the Audit Committee on the result of their audit. The Audit Committee had one meeting during the course of the fiscal year on 24 April 2007 at which the auditors carrying out the audit on the consolidated financial statements were present and reported on the result of their audit.

The Personnel Committee takes the place of the Supervisory Board in making decisions on the conclusion, amendment and termination of the contracts of employment with the Members of the Board of Management. It also defines the bonuses and compensation of the Members of the Board of Management and the pensions of former members of the Board of Management. The power to appoint Members of the Board of Management is held by the full Supervisory Board. The Personnel Committee did not need to meet during the year under review. The plenary session of the Supervisory Board resolved to appoint the previous Members of the Board of Management as Members of the Board of Management of SURTECO SE. The contracts of employment of the Members of the Board of Management were also continued unchanged following the conversion of the company to an SE.

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

CORPORATE GOVERNANCE

SURTECO SE complies with the German Corporate Governance Code, which describes the control, management and organization of a company, and its business principles and guidelines. The Supervisory Board addressed the ongoing development of the corporate governance principles and took account of the amendments to the German Corporate Governance Code made in June 2006. Within the scope of the efficiency inspection (item 5.6 of the German Corporate Governance Code), the Supervisory Board carried out a self-evaluation of its members and discussed the results in the plenary session of the Supervisory Board. A new Declaration of Compliance was submitted by the Board of Management and the Supervisory Board on 19 December 2007. The text of this declaration is printed in the Annual Report under the section entitled "Corporate Governance" and may also be viewed on the Homepage of the company's Internet site.

ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS, AUDITING

The annual financial statements were drawn up in accordance with German accounting principles. The consolidated financial statements for the fiscal year 2007 were prepared on the basis of the principles of the International Financial Reporting Standards (IFRS). The Board of Management submitted to the Supervisory Board the Annual Financial Statements, and the Consolidated Financial Statements and the Management Report and the Consolidated Management Report with its recommendation for the appropriation of the net profit to be submitted to the Annual General Meeting. The auditors, RöverBrönner KG, (auditors and tax consultants), audited the Consolidated Financial Statements and the Annual Financial Statements of SURTECO SE and the Management Report and the Consolidated Management Report. The auditor explained the auditing principles applied in his audit report. The findings of the audit confirmed that SURTECO complied with the relevant applicable accounting standards for drawing up the Annual Financial Statements and the Consolidated Financial Statements. The Consolidated Financial Statements and the Annual Financial Statements were granted an unqualified audit opinion. The Annual Financial Statements and Management Report, and the Consolidated Financial Statements and the Consolidated Management Report, and the audit reports of the auditor, and the recommendation for the appropriation of the net profit were submitted punctually to all the Members of the Supervisory Board. Intensive discussions were carried out in the Audit Committee meeting in relation to the financial statements. At the balance sheet meeting of the Supervisory Board held on 23 April 2008, the Supervisory Board also discussed these documents in detail in the presence of the auditor and on the basis of a report by the auditor.

We examined the Annual Financial Statements, the Management Report and the proposal for appropriation of profit, as well as the Consolidated Financial Statements, and the Consolidated Management Report. We took note of the report by the auditor. We have no objections. We therefore concur with the result of the audit. The Supervisory Board approves the Annual Financial Statements and the Consolidated Financial Statements prepared by the Board of Management. The Annual Financial Statements have therefore been adopted. We are in agreement with the Management Reports and in particular with the assessment of the ongoing development of the company. This also applies to the dividend policy and the decisions on reserves in the company. We agree with the proposal by the Board of Management for the appropriation of net profit that recommends payment of a dividend of € 1.10 for each no-par-value share.

EXPLANATION OF INFORMATION PURSUANT TO §§ 289 SECTION 4, 315 SECTION 4 GERMAN COMMERCIAL CODE (HGB)

Pursuant to § 171 Section 2 Sentence 2 Stock Corporation Act (AktG), we explain pursuant to §§ 289 Section 4, 315 Section 4 German Commercial Code (HGB) the required information in the Management Report as follows:

The composition of the authorized capital corresponds to the statutory regulations and is self-explanatory. The same is applicable to the rules relating to the appointment and dismissal of the Members of the Board of Management.

There are no restrictions relating to voting rights and transfers of shares in accordance with the Articles of Association of the company. Restrictions on dispositions to which the members of the SURTECO share pool have agreed are – as far as the Board of Management is aware – defined in the disclosures pursuant to §§ 289 Section 4, 315 Section 4 German Commercial Code (HGB). Accordingly, dispositions over the shares included in the pool are only permissible with the consent of the other pool members. Furthermore, the other pool members – as described in the Management Report – have a right to be offered the opportunity to purchase shares if a pool member wishes to dispose of their shares.

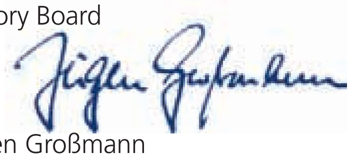
Direct or indirect holdings of more than 10 % of the voting rights must be notified to the company as described in the Management Report. Insofar, the Management Report is also self-explanatory.

The contracts of service of the Members of the Board of management Friedhelm Päfgen and Dr. Herbert Müller include rules for the case of a change in majority. If such a case occurs, Mr. Päfgen and Dr. Müller have a right to serve notice of termination on the contract under certain circumstances within a period of 12 months with effect to the end of the month following the declaration. There is then a right to payment of a fixed annual remuneration for the remaining term of the contract. The regulation corresponds to the standard regulations in contracts of service for members of boards of management. The limit of the severance payment in the event of notice of termination being served takes account of legal considerations precluding the award of excessive severance payments in the event of notice of termination arising from a change in majority.
In respect of other matters, we refer to the content of the Management Report which is self-explanatory.

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

Buttenwiesen-Pfaffenhofen, April 2008

The Supervisory Board



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


PREAMBLE

SURTECO SE aims to continuously strengthen the trust placed in the company by national and international investors, business partners and employees, and the public in the stewardship and monitoring of the company. The company is dedicated to compliance with the recommendations of the German Corporate Governance Code, the key statutory regulations on the management and monitoring of the company and recognized standards of good and responsible corporate management.

When the company was converted to a European Company (SE), the dualistic management system, comprising Supervisory Board and Board of Management was retained. The structure of co-determination within the company between the company management and the employees was defined in the course of the conversion also taking the employees in the other EU states into account.

This report explains the implementation of corporate governance in SURTECO SE. It concludes with the statement of compliance made jointly by the Board of Management and the Supervisory Board for 2007.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

The shareholders of SURTECO SE exercise their rights at the Annual General Meeting and are entitled to cast their votes at the meeting. Each of the no-par-value bearer shares is entitled to one vote.

The Board of Management submits the annual financial statements and the consolidated financial statements to the Annual General Meeting. The Annual General Meeting decides on the appropriation of profit and the discharge of the Board of Management and the Supervisory Board. The Annual General Meeting also elects the representatives of the shareholders on the Supervisory Board and appoints the auditor, agrees any changes to the Articles of Association and – if required by law – votes on any significant corporate measures.

Each shareholder is authorized to participate in the Annual General Meeting, to speak on the items listed in the agenda, and to ask relevant questions and put forward appropriate motions. The Chairman of the Supervisory Board is responsible for chairing the Annual General Meeting. He is responsible for ensuring the smooth-running of the Annual General Meeting.

The Annual General Meeting of Shareholders is convened by the Board of Management at least once every year and an agenda is provided for the meeting. The ordinary Annual General Meeting will in future be held during the first six months of a business year, as defined in the statutory regulations for European companies. Minority shareholders are entitled to convene an Annual General Meeting and to request an extension to the agenda. The Board of Management will draw up the documents required under statutory regulations, including the Annual Report, and shall provide such documents to the shareholders on request. These reports and documents are also published on the Internet site of the company (www.surteco.com), together with the agenda for the meeting.

In order to make it easier for shareholders to exercise their rights, the Board of Management appoints a representative so that shareholders can exercise their right to cast votes by issuing instructions for proxy voting, and this representative can also be reached during the Annual General Meeting.

INTERACTION OF BOARD OF MANAGEMENT AND SUPERVISORY BOARD

The Board of Management and the Supervisory Board of SURTECO SE work closely together to promote the well-being of the company. The Board of Management agrees the strategic direction with the Supervisory Board and discusses the status of strategy implementation with the Supervisory Board at regular intervals.

Ensuring that the Supervisory Board is provided with adequate information is a joint function of the Board of Management and the Supervisory Board. The Board of Management provides the Supervisory Board with regular, timely and comprehensive reports on all the issues of planning, business development,

the risk position, risk management and compliance relevant to the company. The Board of Management addresses all deviations in the current business situation from the plans and goals that have been prepared and provides reasons for such deviations.
The Board of Management and the Supervisory Board observe the rules of proper corporate management. If they culpably breach the duty of care incumbent on a prudent and conscientious Board of Management or Supervisory Board, they shall be liable in respect of the company for compensation for damages. When entrepreneurial decisions are made, there shall be no breach of the duty of care if the Member of the Board of Management or Supervisory Board was entitled to reasonably assume on the basis of reasonable information that he or she was acting in the interests of the company (business judgement rule).
The Annual Report by the Board of Management and the Supervisory Board on corporate governance also provides details of deviations from the recommendations of the code. Declarations of Compliance on the code that are no longer current are kept accessible on the Internet site of SURTECO SE for five years.

BOARD OF MANAGEMENT

The Board of Management of SURTECO SE is responsible for managing the company. It has a duty to act in the interests of the company and to bring about a sustainable increase in the corporate value. The Board of Management develops the strategic direction of the company, agrees it with the Supervisory Board and implements the strategy. It ensures compliance with the statutory regulations and internal company guidelines and ensures that they are observed by the Group companies. It makes provision for appropriate risk management and risk controlling in the company.
The Board of Management comprises two members. Rules of procedure govern the allocation of business and cooperation in the Board of Management.
The members of the Board of Management are subject to a comprehensive non competition clause during the course of their activity for SURTECO SE. The Members of the Board of Management are committed to the interests of the company. Important transactions require the consent of the Supervisory Board.

SUPERVISORY BOARD

The Supervisory Board regularly advises the Board of Management on the management of the company. It is involved in decisions of fundamental importance for the company and appoints and dismisses the Members of the Board of Management. The Supervisory Board is governed by rules of procedure.
The composition of the Supervisory Board is based on § 95 sentence 2 of the Stock Corporation Act (AktG) in conjunction with § 8 Section 1 of the Articles of Association and the provisions of the agreement pursuant to §§ 13 Section 1 sentence 1, 21 SEBG between the special negotiating committees and the management of SURTECO AKTIENGESELLSCHAFT relating to the participation of the employees of SURTECO SE dated 13 February 2007. This states that the Supervisory Board of the Company shall be composed of nine members. Six members are elected by the Annual General Meeting. Three members are nominated to the Supervisory Board as employee representatives in accordance with the provisions of the agreement referred to above by the Works Councils of the three German companies of SURTECO SE with the most employees.
The Chairman of the Supervisory Board coordinates the work of the Supervisory Board, chairs its meetings and represents the requirements of the Supervisory Board in the public domain. He is also chairman of the committees.
Members of the Supervisory Board should not exercise a total of more than five memberships of Supervisory Boards for companies outside the Group listed on the stock exchange. The Supervisory Board should not have more than two former members of the Board of Management. Members of the Supervisory Board should not be older than 63 years of age when they take up their office.

Each Member of the Supervisory Board has a duty to act in the interests of the company. The Supervisory Board makes all resolutions by a simple majority vote. If there is parity of voting, the Chairman of the Supervisory Board holds the casting vote.
The Supervisory Board is in regular contact with the Board of Management and discusses the strategy, business performance and risk management of the company. The Supervisory Board must also agree the annual financial plan and approve the annual financial statements of SURTECO SE and the Group.
The Supervisory Board of SURTECO SE has a Presiding Board and two committees made up of appropriately qualified members. The Personnel Committee deals with the level of compensation paid to Members of the Board of Management and the other conditions of the contracts between the company and the Board of Management. The Audit Committee addresses issues relating to accounting and risk management, 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 remuneration of the Members of the Supervisory Board comprises fixed and performance-oriented components.
Each Member of the Supervisory Board will disclose to the Supervisory Board any conflicts of interest, in particular such conflicts which may arise as a result of consultancy or exercise of official duties with customers, suppliers, lenders or other business partners. The Supervisory Board will provide information on any conflicts of interest that have occurred in its report to the Annual General Meeting and on how these conflicts have been dealt with. Any substantial conflicts of interest to which a Member of the Supervisory Board is subject and which are not temporary should lead to termination of membership of the Supervisory Board.
The Supervisory Board of SURTECO SE will review the efficiency of its activities on a regular basis.

TRANSPARENCY

SURTECO SE immediately publishes insider information that relates directly to the company, insofar as it is not exempt from publication in individual cases.
As soon as the company receives notification or finds out in some other way that an individual has reached, exceeds or falls below a shareholding of 3, 5, 10, 15, 20, 25, 30, 50 or 75 percent of the voting rights in the company by means of purchase or disposal or in some other manner, the Board of Management is under an obligation to disclose such information immediately. Notification is also necessary for any transactions in shares initiated by persons with management functions and by legal or natural persons who are closely related to such executive officers (spouses, registered partners, dependent children and other relatives, who at the point in time when the transaction is concluded have lived in the household for at least one year) and notified to the company pursuant to 15a of the Securities Trading Act (WpHG).
Punctual and consistent information is provided by means of ad hoc communications and press releases so that any new facts are immediately available to the shareholders, financial analysts, and comparable persons. SURTECO SE publishes quarterly and annual reports in German and English within the scope of regular reporting.
All shareholders and other interested parties are able to request the publications of SURTECO SE or have themselves entered on the postal and electronic circulation list. In addition, all publications and press releases are made available on the Homepage of the company. All important dates for publications and events are also published here (financial calendar). The Internet site has a user-friendly structure. All information is also published in German and English.

ACCOUNTING AND AUDITING

The annual financial statements are the main source of information for shareholders and third parties. During a business year, they are kept up to date through regular interim reports. The accounts are drawn up at the SURTECO Group pursuant to the accounting regulations of the International Financial Reporting Standards (IFRS). The annual financial statements of SURTECO SE are prepared in accordance with the German Commercial Code (HGB).
The Annual Financial Statements are drawn up by the Board of Management and audited by the auditor and by the Supervisory Board. The Supervisory Board appoints the auditor and makes the financial arrangements with the auditor for remuneration. The auditor participates in the deliberations of the Supervisory Board relating to the annual financial statements and consolidated financial statements and reports on the main results of the audit. The Supervisory Board audits and approves the annual financial statements and the consolidated financial statements.

DECLARATION OF COMPLIANCE

The Board of Management and Supervisory Board submit the following Declaration of Compliance for the fiscal year 2007 pursuant to § 161 Sentence 1 of the Stock Corporation Act (AktG):

"Declaration on the Corporate Governance Code pursuant to § 161 Sentence 1 Stock Corporate Act (AktG)

I. The Board of Management and the Supervisory Board declare that the recommendations issued by the Federal Ministry of Justice on conduct by the "Government Committee on the German Corporate Governance Code" in the versions dated 12 June 2006 and 14 June 2007 published in the electronic Federal Gazette (Bundesanzeiger) were implemented in full during the past business year with the following deviations:

1. In accordance with the resolution of the Annual General Meeting adopted on 22 June 2006, details of remuneration for Members of the Board of Management are not listed individually. The principles of the compensation system are not disclosed, in particular this information is not published on the Internet site of the company and details are not explained in the Annual Report. The Chairman of the Supervisory Board does not inform the Annual General Meeting of the principles of the remuneration system and their modification (deviation from section 4.2.3 last subsection, 4.2.4 and 4.2.5 of the Code).

2. A Nomination Committee of the Supervisory Board was not set up – notwithstanding section 5.3.3 of the code.

3. In accordance with the resolution of the Annual General Meeting adopted on 22 June 2006, details of remuneration for Members of the Supervisory Board in the Corporate Governance Report (section 5.4.7 subsection 3 of the Code) are not listed individually and broken down according to components.

4. Within 120 days of the close of a fiscal year the consolidated financial statements will be published on the Internet site of the company (deviation from section 7.1.2 of the Code).

II. The recommendations of the German Corporate Governance Code in the version dated 14 June 2007 were complied with since this date and such compliance will continue with the following deviations:

1. In accordance with the resolutions of the Annual General Meetings adopted on 22 June 2006 and 31 August 2007, details of remuneration for Members of the Board of Management are not listed individually. The principles of the compensation system are not disclosed, in particular this information is not published on the Internet site of the company and details are not explained in the Annual Report. The Chairman of the Supervisory Board does not inform the Annual General Meeting of the principles of the remuneration system and their modification (deviation from section 4.2.3 last subsection, 4.2.4 and 4.2.5 of the Code.

2. A Nomination Committee of the Supervisory Board is not set up - notwithstanding section 5.3.3 of the code.

3. In accordance with the resolutions of the Annual General Meetings adopted on 22 June 2006 and 31 August 2007, details of remuneration for Members of the Supervisory Board in the Corporate Governance Report (section 5.4.7 subsection 3 of the Code) are not listed individually and broken down according to components.

4. Within 120 days of the close of a fiscal year the consolidated financial statements will be published on the Internet site of the company (deviation from section 7.1.2 of the Code).

5. Elections to the Supervisory Board are only carried out on the basis of an individual vote if a shareholder requests this procedure at the Annual General meeting (deviation from section 5.4.3 sentence 1 of the code).

SURTECO SE
Board of Management and Supervisory Board

Buttenwiesen-Pfaffenhofen,
19 December 2007

BUSINESS ACTIVITY

OVERVIEW

SURTECO is a complete supplier of high-quality decorative finishes for the coating, interior-design and furnishing industries. The Group is divided into the Strategic Business Units (SBU) Plastics and Paper. Apart from a range of specialist products, the two segments manufacture edgebandings and foils to give value added to wood-based materials. The companies in the SURTECO Group are global market leaders in edgebandings (share of total Group sales for 2007: 53 %). Thermoplastic (SBU Plastics) and duroplastic (SBU Paper) edgebandings are used to coat the narrow side of wood-based materials. Since this is a finished product, the surface needs no further processing after the edgebandings have been applied. This is also applicable for foils which are generally used to add value to large surfaces. Plastic foils manufactured by Gislaved Folie AB, acquired in September 2007, are also used in many different areas, particularly for the interiors of ships where the substrate materials are generally steel panels. Including the proportionate sales of Gislaved, foils in the year under review represented a share in consolidated sales amounting to 20 %. Trims and extrusions (profiles) for professional floor-laying, including the product ranges for building suppliers and DIY stores generated 10 %, specialist papers printed with decorative designs 5 %, technical plastic extrusions (profiles) and roller shutter systems together 4 %, and cladding systems 2 %.

ORGANIZATION AND BUSINESS UNITS

On 19 November 2007, the conversion of SURTECO AG to an European Company (Societas Europaea) was completed. The organizational structure of the Group has not been affected by this measure. The dualistic management system comprising Board of Management and Supervisory Board, and the one-third parity co-determination all remain unchanged. The Annual General Meeting of the company will be held in the first six months after the close of the business year in accordance with the valid rules for the SE.

The holding company SURTECO SE is based in Buttenwiesen-Pfaffenhofen and fulfils all the central management and controlling functions for the Group. These include the definition and management of strategic goals, optimization of the business portfolio geared to the global market, acquisitions and investments, cross-segment coordination of potential synergies, strategic distribution of resources and finance and risk management.

The legally independent operating companies of SBU Plastics and SBU Paper bear full responsibility for the sales and earnings in their particular segment. They supply their customers directly as well as through a comprehensive network of dealers and representatives.

STRATEGIC BUSINESS UNIT PLASTICS

The Strategic Business Unit Plastics includes all the companies operating under the umbrella of W. Döllken & Co. GmbH, as well as Gislaved Folie AB acquired in September 2007.

W. Döllken & Co. GmbH is divided into Döllken-Kunststoffverarbeitung GmbH, Döllken-Profiltechnik GmbH, Döllken & Praktikus GmbH, Doellken-Woodtape Ltd. and Doellken-Woodtape Inc. with their relevant subsidiary companies.

Döllken-Kunststoffverarbeitung GmbH is based in Gladbeck. Plastic edgebandings are the main product manufactured at this location. Other production sites for this product line are located in Australia (SURTECO Australia Pty. Ltd.) and in Indonesia (PT Doellken Bintan Edgings & Profiles). In common with the sales companies Doellken PTE Ltd. in Singapore, Döllken-France S.A.S. and SURTECO A.Ş. Turkey, these companies are subsidiary companies of Döllken-Kunststoffverarbeitung GmbH. The only exception is the 50% holding in Arbe s.r.l. (the other 50 % is attributed to the SBU Paper on account of the com-

position of the product range). The subsidiary company Vinylit Cladding systems GmbH is a specialist in panels and facade elements ready for suspension on the underlying structure.
Döllken-Profiltechnik GmbH in Dunningen has specialized in the manufacture and sale of technical extrusions and roller-shutter systems.
Döllken & Praktikus GmbH, Gladbeck, owns the producer of skirtings and extrusions for professional floor layers, Döllken-Weimar GmbH, as well as subsidiary companies in Poland and the Czech Republic.
The portfolio of the Döllken Group is completed by Doellken-Woodtape Ltd. based in Canada and Doellken-Woodtape Inc. in the USA. Plastic edgings are produced at the Brampton and Montreal sites in Canada. The US production facility is located in Greensboro. It also manufactures high-quality edging products.
Gislaved, Sweden, is a manufacturer of decorative plastic foils which have been designed mainly for specialist applications such as ship interiors or woven carpets.

STRATEGIC BUSINESS UNIT PAPER

BauschLinnemann GmbH and its subsidiaries and representatives, and printer of decorative designs Bausch Decor GmbH take care of the paper side – specialist papers for technical applications are the basic material for this product segment.
Decorative prints by Bausch Decor GmbH based in Buttenwiesen-Pfaffenhofen are sold to external customers for further processing. Around one third of production relates to prints for further processing at companies within the BauschLinnemann Group.
BauschLinnemann GmbH manufactures paper edgebandings and flat foils at its company headquarters in Sassenberg and in Buttenwiesen-Pfaffenhofen. The subsidiary company Kröning GmbH & Co. has specialized in the manufacture of specialist products and is also in a position to deliver small batches tailored to specific orders without surplus stock. Paper products are finished much closer to their markets for logistic reasons. This is why sales companies have been established in China (SURTECO China), USA (BauschLinnemann North America, Inc.), Singapore (BauschLinnemann Singapore), United Kingdom (BauschLinnemann UK) and Italy (Arbe s.r.l.).

ECONOMIC FRAMEWORK CONDITIONS

DYNAMIC MOVEMENT IN THE ECONOMY SLOWED BY TURBULENCE IN THE FINANCIAL MARKETS

After strong dynamic growth at the beginning of 2007, the global economic environment has been significantly dampened by the consequences of the US American subprime crisis. The growth in the global economy during the course of 2007 – estimated at 4.9 % by the International Monetary Fund (IMF) in its World Economic Update at the end of January 2008 – was essentially driven by the stimuli from the emerging countries in Asia. According to the latest estimates by the IMF, China's economy grew by 11.4 % during the year under review. The US American economy achieved growth of 2.2 % during the 4th quarter of 2007 due to a significant "cooling down" of the economy. The Organization for Cooperation and Economic Development (OECD) calculated growth of 2.6 % in the eurozone during the year under review. In Germany, gross domestic product (GDP) went up last year by 2.5 % after price adjustments, according to statistics produced by the Federal Ministry for Economics and Technology.
Apart from the consequences of the US real estate crisis, the continued rise in costs for energy and raw materials across the world exerted a negative impact on the global economy. The price of a barrel of oil rose by more than 50 % over the course of the year to a new record high above 95 US dollars. Numerous interventions by national central banks and international institutions attempted to alleviate the consequences

of the subprime crisis and the impending risk of inflation during the second half of 2007. The US Federal Reserve reduced the base rate in six stages from 5.25 % to 2.25 % during the months from August 2007 to March 2008. The weakness of the US dollar exerted negative currency effects on German export business. The value of the US currency changed against the euro from US$ 1.31 to US$ 1.47 during the year under review. The turbulence in global equity markets is a reflection of tangible investor uncertainty, primarily caused by massive write-downs by the banks and financial institutions.

FURNISHING INDUSTRY AND WOOD-BASED INDUSTRY

Developments in the furniture industry and the wood-based materials sector were very different on the international stage. In North America, the crisis in the real estate and home-loan market left significant traces in private consumption and new-build activity. By comparison, the markets in Eastern Europe and Russia continue to experience strong growth.

Growth in the furniture and wood-based materials industry in Germany is primarily being driven by the successful export trajectory of the domestic company. Total sales of the furniture industry in Germany, according to statistics produced by the trade associations of the wood-based and furniture industry, went up by around 5.9 % to 19.5 billion euros in the year 2007. Exports of furniture rose by around 18 % and have now reached a share of 40 % of total sales. The domestic market only increased by 2.3 % and this is equivalent to stagnation in terms of prices. The increase in value added tax at the beginning of 2007, changed guidelines for subsidizing house-building at the level of the federation and price rises for energy and food have resulted in consumers continuing to adopt a reserved approach to the purchase of long-term consumer goods. Already in autumn 2007, trade associations HDH and VDM indicated that the number of building licences in private residential building in Germany had fallen back by around 50 % since the close of 2006, so that negative effects for the furniture industry were already predictable.

COMPANY PORTFOLIO STRATEGICALLY EXPANDED

During the year under review, SURTECO SE again succeeded in increasing figures for sales and income. This is notable because the economic environment in many sales regions was not favourable.

However, the fact that consolidated sales could be extended on the back of the increase in export business is primarily down to the Gislaved acquisition. Gislaved produces plastic foils for specialist applications at its Swedish manufacturing facility. Plastic foils are a new element in the product portfolio of SURTECO SE. They complete the previous product programme comprising edgebandings based on paper and plastic and paper-based flat foils.

SURTECO also reacted to emerging market changes in core business within the framework of its long-term strategic assumptions. This action includes enhanced market presence in important sales regions such as France and Turkey.

Takeover of the skirting and edging systems business line from Gardinia Home Decor made an important contribution and this improved marketing penetration for this segment with particular focus on the Eastern European markets. Printer of decorative designs Bausch Decor supplies its range of printing products for further processing within the Group at BauschLinnemann to form edgebandings and flat foils as well as supplying external customers. The company significantly extended its printing capacities by commissioning two 3-colour rotogravure printing presses. This is in line with rising demand and enables the company to continue providing customer-friendly delivery times.

In September 2007, SURTECO took up a privately issued senior note in the form of a private placement in the USA and Germany amounting to € 150 million. 100 million was placed in euros and 70 million was

placed in US dollars. Since the conditions were defined before the turbulence occurred in the capital markets, the company benefited from favourable market conditions. The transaction volume was increased on account of the multiple oversubscription. The new form of finance for SURTECO underscores the consistent orientation towards the capital market. It significantly improves the financial flexibility of the Group which is vigorously pursuing its strategy of profit-oriented growth following years of consolidation and optimization.

SALES AND INCOME SITUATION

CONSOLIDATED SALES UP 3 % ON PREVIOUS YEAR

Consolidated sales at SURTECO SE reached a new high at € 414.5 million (2006: € 403.2 million) in the business year 2007. The increase amounted to € 11.3 million with a contribution to sales of € 9.2 million from Swedish company Gislaved Folie AB since full consolidation in September 2007. Organic growth remained low at 0.5 % which is also due to strategic streamlining in the portfolio of goods held for resale with low margins in the do-it-yourself retail trade (€ -4.5 million).

The adverse market conditions in North America triggered by the real estate crisis and associated turbulence in the international financial markets also exerted a negative impact on SURTECO during the second half of the year. The decline in new-build activity exerted a direct effect on subsidiary companies in the USA and Canada. An additional negative impact arose as a result of the weak US dollar. This entailed reduced sales of € 5.3 million for SURTECO by comparison with the year 2007 as a result of the weak US dollar. Overall, a decline in business volume of € 9.3 million had to be absorbed in North America. Despite this setback, consolidated sales in international markets went up by 5 % to € 269.6 million (2006: € 257.6 million), while domestic sales stagnated at the level for the previous year with € 144.9 million.

SBU PLASTICS EXPANDS STRONG POSITION

The SBU Plastics continued the trend of recent years by expanding growth abroad. The acquisition of Gislaved strengthened this trend. Sales for the plastics segment amounting to € 248.3 million (2006: 231.3 million; deviation +7 %) involved € 164.0 million attributable to sales in foreign markets. Compared with the previous year, this amounted to growth of € 16.5 million or 11 %.

In Germany, sales volume rose by 1 % to € 84.3 million. The economic environment in the relevant sectors remained virtually unchanged compared with 2006. The sales successes of the SBU Plastics are primarily based on technology and quality leadership combined with product design geared to the market. European markets outside Germany rewarded these criteria with robust growth in sales. In France, the takeover of trading company SDCA (today Döllken-France) demonstrated positive effects. The Turkish market also showed gratifying development. Other industrial furniture manufacturers will also become established here over the long term. SURTECO established the sales and finishing company SURTECO DEKOR A.Ş. in Istanbul. A total increase in business volume amounting to € 18.8 million (+26 %) to € 91.7 million was generated.

The ongoing real estate crisis in the USA entailed consequences for the construction sector and reduced sales on the American continent. A large number of furniture manufacturers have also relocated their production facilities to Asia during recent years. Although SBU Plastics was able to increase the low level of sales in South America by 29 % to € 4.8 million, sales in the more important North American market (sales 2007: € 39.7 million) had to withstand a decline of 14 % or € 6.3 million. € 4.1 million of this amount was due to more unfavourable currency parities between the US dollar and the euro compared with 2006. Overall, business in North and South America declined by 11 % to € 5.3 million.

Asia remains an important future market for plastics products with € 7.6 million (+29 %). Apart from edgebandings, growth in plastic foils was also achieved during the period under review. In the case of the latter, the foils segment is particularly noteworthy in relation to interior fittings for ships and a strong increase in demand is anticipated for the coming years.
In Australia (sales 2007: € 18.9 million; increase compared with 2006: 8 %), the SBU plastics has a strong competitive position which is primarily based on the benefits arising from local production featuring fast and flexible reaction times.
Edgebandings increased 5 % to € 156.6 million and dominate the business volume of the SBU Plastics, accounting for nearly two thirds of business. Specialist products continued on their successful trajectory with the assistance of advanced extrusion processes tailored to the needs of industry, trade and private uses. These include in particular skirtings of all types including the range taken over from Gardinia (+20 %), varied and user-friendly roller-shutter systems (+11 %), technical extrusions (profiles) with a variety of industry applications (+6 %) or cladding systems (+3 %) where applications are increasingly structured by ecological aspects.

NEW COMPETITORS FOR SBU PAPER

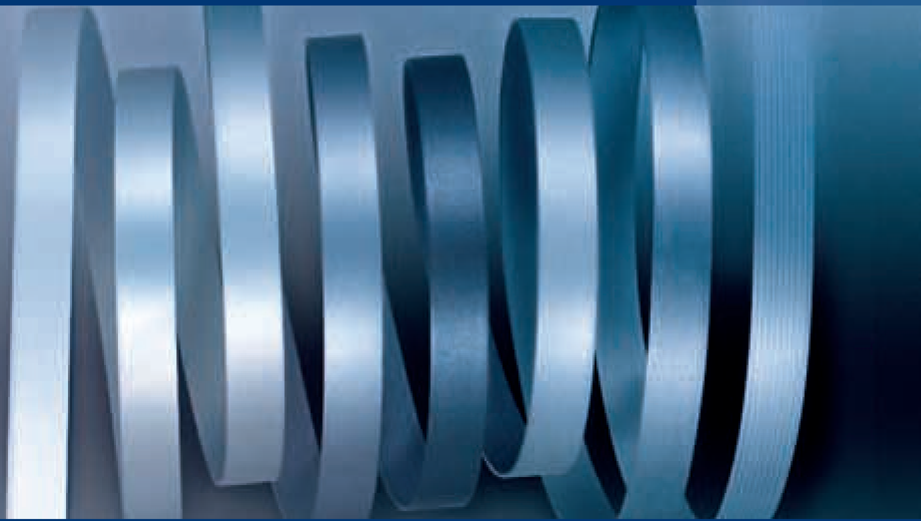
The market for surface materials based on paper has been faced changes worldwide. New, local producers are coming onstream in specific regions and they are providing more intense competition. This meant that 2007 was a difficult year for the SBU Paper. Paper-based edging tapes contribute a share of 38 % to sales at the SBU Paper and sales of these products at € 63.9 million were 8 % down on the previous year. Although pre-impregnated flat foils went up by 15 %, traditional, high-quality post-impregnated foils lost ground and experienced a reduction of 8 % in their sales volume. Total sales of flat foils at € 74.0 million represent a share of 45 % and they fell back by 4 %. Printer Bausch Decor bucked the trend and export sales underwent a further upswing. The printing facility significantly increased its capacities during the year under review and achieved sales amounting to € 21.9 million (+13 %). The SBU Paper generated sales amounting to € 60.6 million (-2 %) in the difficult German market. Export sales achieved € 105.6 million (-4 %). The problematic business in the USA also left an impact here, reflected in a decline in sales of € 2.9 million (of which due to exchange rates € 1.2 million) to € 12.5 million. Total sales of the group segment paper amounted to € 166.2 million (-3 %) in the business year 2007.

PROPORTION OF COST OF MATERIALS IN RELATION TO TOTAL SALES REMAINS STABLE

The cost of materials at the SURTECO Group rose by 2 % or € 3.7 million to € 177.6 million during the year under review. This growth in costs was slightly less proportional by comparison with total output. The proportion of cost of materials in relation to total sales was 0.1 percentage points below the value for the previous year and the percentage was 42.5 %.
Delivery reliability in terms of availability, quality and punctuality was essentially maintained for intermediate products of SURTECO. A bottleneck in supply of the plastic ABS in the USA at the close of the year was averted promptly.
The decline in sales of € 4.5 million as a result of streamlining the product range in the DIY business noticeably eased the requirement for materials. However, SBU had to contend with price increases for all relevant types of plastic during the course of 2007.
Slight price reductions were achieved on the raw paper side. Apart from a reduction in costs for specialist papers for edging tapes, a joint effort involving cooperation between the production departments of the SBU Paper and the Research and Development Department exerted a positive effect here by a switch in the type of decorative papers used for flat foils.
Electricity prices rose significantly during the year under review, while prices for natural gas declined slightly.

REST OF EUROPE

OF SALES OF
THE SURTECO GROUP
42 %



SALES DISTRIBUTION IN % SURTECO GROUP

BY REGIONS / BY PRODUCTS

STRATEGIC BUSINESS UNIT PLASTICS
(Share of total sales: 60 %)

By regions	%
Germany	34
Rest of Europe	37
America	18
Australia	8
Asia	3

By products	%
Edgebandings	63
Skirtings	10
DIY	7
Techn. extrusions	7
Cladding systems	4
Foils	4
Other	5

STRATEGIC BUSINESS UNIT PAPER
(Share of total sales: 40 %)

By regions	%
Germany	36
Rest of Europe	49
America	9
Asia	3
Australia	3

By products	%
Edgebandings	38
Foils	45
Decorative Printing	13
Laminates (CPL)	2
Other	2

Overall, the proportion of cost of materials in relation to total output was only maintained at a stable level as a result of the efficiency enhancements introduced in all areas of the Group.

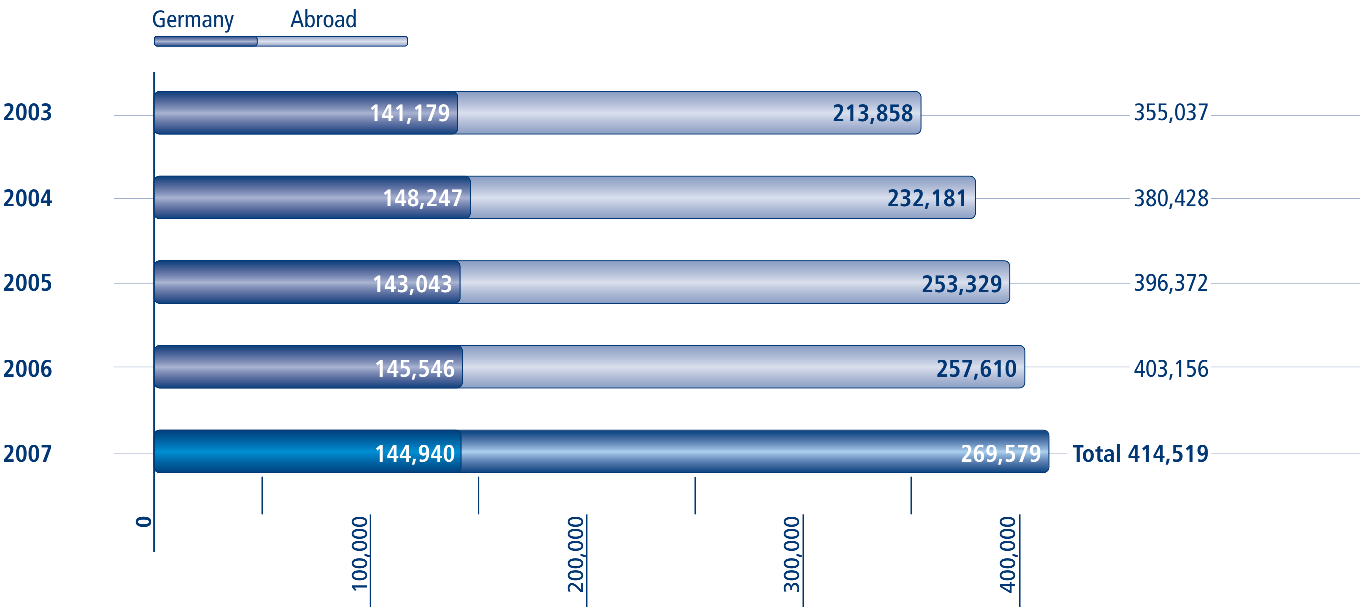
GROUP RESULTS

In 2007, the SURTECO Group generated an EBITDA of € 74.4 million (+4 %). EBIT amounted to € 55.5 million and was 3 % above the value for 2006. The corresponding sales-related margin indicators remained at the level for the previous year with 17.9 % (EBITDA) or 13.4 % (EBIT).

Depreciation and amortization increased significantly at € 18.9 million compared with the value for the previous year (€ 17.6 million) due to the acquisitions and impairments (€ 0.7 million).

Interest includes interest income of € 1.5 million compared with interest expenses of € 10.9 million. The increased amounts are primarily associated with the long-term notes floated in the US private placement of € 150 million and the general rise in interest rates in Europe. Overall, this led to an increase in the financial result by € -0.8 million to € -8.9 million. The result before taxes (EBT) was 1 % higher than 2006 at € 46.6 million. The corporate income tax reform effective from 1 January 2008 already had to be applied to deferred taxes during the reporting year. This resulted in a significantly lower tax rate of 32.2 % (2006: 37.1 %). As a result, consolidated net profit rose by 10 % to € 31.6 million, net income per share (earnings per share) reached € 2.85 (2006: € 2.60) (basis: 11,075,522 no-par-value shares).

SALES REVENUES IN € 000s SURTECO GROUP



RESULT FOR SURTECO SE

The financial statements of SURTECO SE in accordance with the regulations of the German Commercial Code (HGB) showed a result for ordinary activities of € 31.4 million (2006: € 27.8 million) during the year under review. The net income rose by 5 % to € 20.3 million.

DIVIDEND INCREASED AGAIN

The Board of Management and Supervisory Board will recommend to the Annual General Meeting of SURTECO SE to be held in Munich on 24 June 2008 that a dividend of € 12,183,074.20 be paid out of net profit of € 12,183,237.54 for the fiscal year 2007. Based on the 11,075,522 no-par-value shares issued, this corresponds to a dividend of € 1.10 per share (2006: € 1.00). € 163.34 will be carried forward.

FINANCIAL POSITION AND NET ASSETS

VALUE ADDED UP BY € 3.7 MILLION

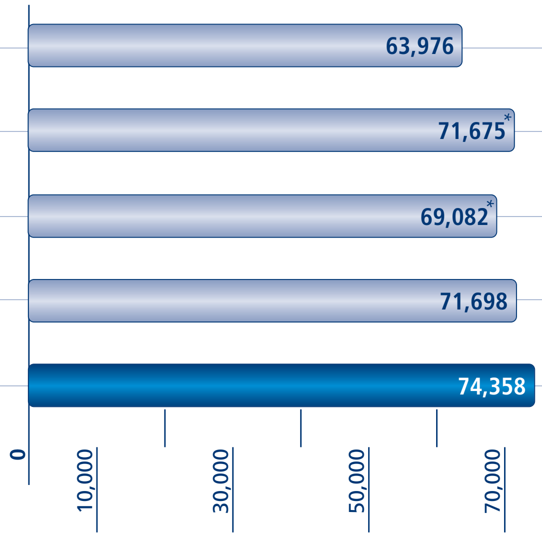
The increase in net value added of € 3.7 million is essentially due to the increase in sales revenues to € 11.3 million. Expenses developed proportionally so that the value added ratio remained at 38.8 % compared with the previous year. Despite the € 2.5 million increase in interest expenses and the rise in dividend of € 2.2 million, the company increased the remaining value added to € 20.5 million.

INCREASE IN EQUITY BY € 20.0 MILLION

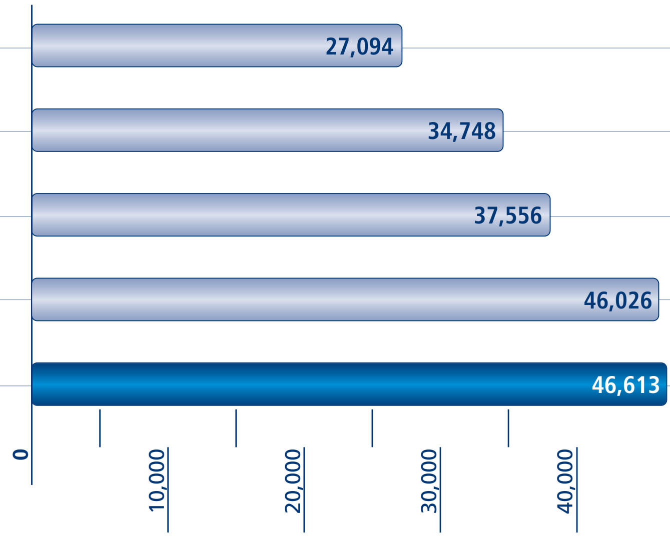
Since the positive business development continued during the reporting year 2007, equity increased by 12.1 % to € 185.7 million. All balance sheet ratios

EBITDA IN € 000s SURTECO GROUP

* before restructuring expenses
(2004: € 000s 1.329, 2005: € 000s 3.871)



EBT IN € 000s SURTECO GROUP



changed significant change as a result of the US private placement during this business year. The capital ratio came down by 8.3 percentage points to 36.1 % as a result.

Floating the senior notes also exerted a significant effect on the **balance sheet total**. It increased by € 141.6 million to € 514.8 million.

Current assets doubled to € 212.3 million as a result of the increase of € 95.5 million in liquid funds. Trade accounts receivable increased slightly by 5.7 % or € 1.7 million. Inventories grew by € 7.8 million to € 67.7 million. Both items increased primarily due to acquisitions in the reporting year.

Non-current assets showed an increase of € 33.3 million to € 302.5 million. In particular, property, plant and equipment rose by € 15.4 million to € 174.0 million. The focus of investment was on technical plant and machinery (€ 13.1 million) and buildings forming part of expansion measures at Bausch Decor (€ 3.7 million). The acquisition of Gislaved Folie AB resulted in the increase in goodwill by € 17.8 million to € 115.3 million.

Non-current liabilities were reduced by 22.5 % or € 22.3 million to € 76.7 million on account of the liquid funds available. "Short-term debt" was the main item affected. On 31 December 2007, this item was € 24.8 million lower than on the comparable date in the previous year. On the other hand, **non-current liabilities** went up by a total of € 143.9 million to € 252.5 million due to the capital increase.

VALUE ADDED CALCULATION SURTECO GROUP

	2006 € 000s	in %	2007 € 000s	in %
Sales revenues	403,156		414,519	
Other income	9,804		9,409	
Corporate performance	**412,960**	**100.0**	**423,928**	**100.0**
Cost of materials	-173,815	-42.1	-177,562	-41.9
Depreciation and amortization	-17,612	-4.3	-18,877	-4.5
Other expenses	-64,547	-15.6	-66,814	-15.8
Generation of value added (net)	**156,986**	**38.0**	**160,675**	**37.9**
Shareholders (dividends)	8,860	5.6	11,075	6.9
Employees (personnel expenses)	102,407	65.2	103,044	64.1
Government (taxes)	17,068	10.9	14,998	9.3
Lenders (interest)	8,553	5.4	11,018	6.9
Other shareholders	197	0.1	0	0.0
Allocation of value added	**137,085**	**87.3**	**140,135**	**87.2**
Remaining in the company (value added)	**19,901**	**12.7**	**20,540**	**12.8**

CASH FLOW STATEMENT

Cash flow from operating activities went up by € 3.3 million, essentially as a result of lower payments for income tax. During the previous year, retrospective payments resulting from company audits were exceptionally high.

The payouts for acquisitions carried out during the year under review (€ 29.6 million) and additional investments in property, plant and equipment (expansion stage Bausch Decor) led to an increase in cash outflows for investments amounting to € 35.0 million.

Cash flow from financial activity mainly changed as a result of taking out long-term debt amounting to € 165 million (€ 150 million from the US private placement) and the reduction in short-term debt of € 43.2 million. This resulted in total cash outflows amounting to € 127.3 million.

OF SALES OF
THE SURTECO GROUP
6 %

CALCULATION OF FREE CASH FLOW, CASH EARNINGS SURTECO GROUP

in € 000s	1/1/ - 31/12/2006	1/1/ - 31/12/2007
Cash inflow from operating activity	66,519	65,401
Tax payments	-22,835	-18,376
Investments in property, plant and equipment	-23,601	-26,875
Investments in intangible assets	-341	-1,947
Cash inflow from asset disposals	950	447
Free Cashflow	**20,692**	**18,650**
Cash earnings in € million	46,116	49,103
Ratio of cash earnings to total output in %	11.3	11.8

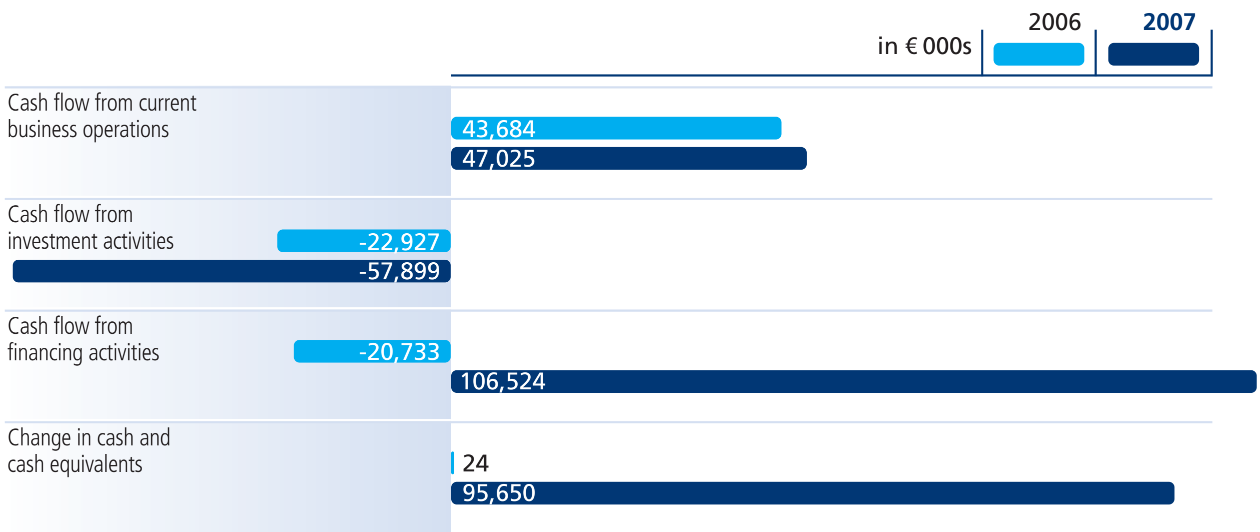
BALANCE SHEET STRUCTURE OF THE SURTECO GROUP

	31/12/2006 € 000s	Percentage in the balance sheet total in %	31/12/2007 € 000s	Percentage in the balance sheet total in %
ASSETS				
Current assets	104,027	27.9	212,323	41.2
Non-current assets	269,171	72.1	302,458	58.8
Balance sheet total	**373,198**	**100.0**	**514,781**	**100.0**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities	98,959	26.5	76,650	14.9
Non-current liabilities	108,561	29.1	252,476	49.0
Equity	165,678	44.4	185,655	36.1
Balance sheet total	**373,198**	**100.0**	**514,781**	**100.0**

BALANCE SHEET INDICATORS

	2006	2007
Capital ratio in %	44.4	36.1
Gearing in %	77	81
Working capital in € 000s	65,115	75,284
Interest cover factor in %	8.3	7.9
Debt-service coverage ratio in %	36.3	33.7

CHANGE IN FINANCIAL RESOURCES AT 31 DECEMBER SURTECO GROUP



RESEARCH AND DEVELOPMENT

HIGH LEVEL OF INNOVATION IN PLASTIC PRODUCTS

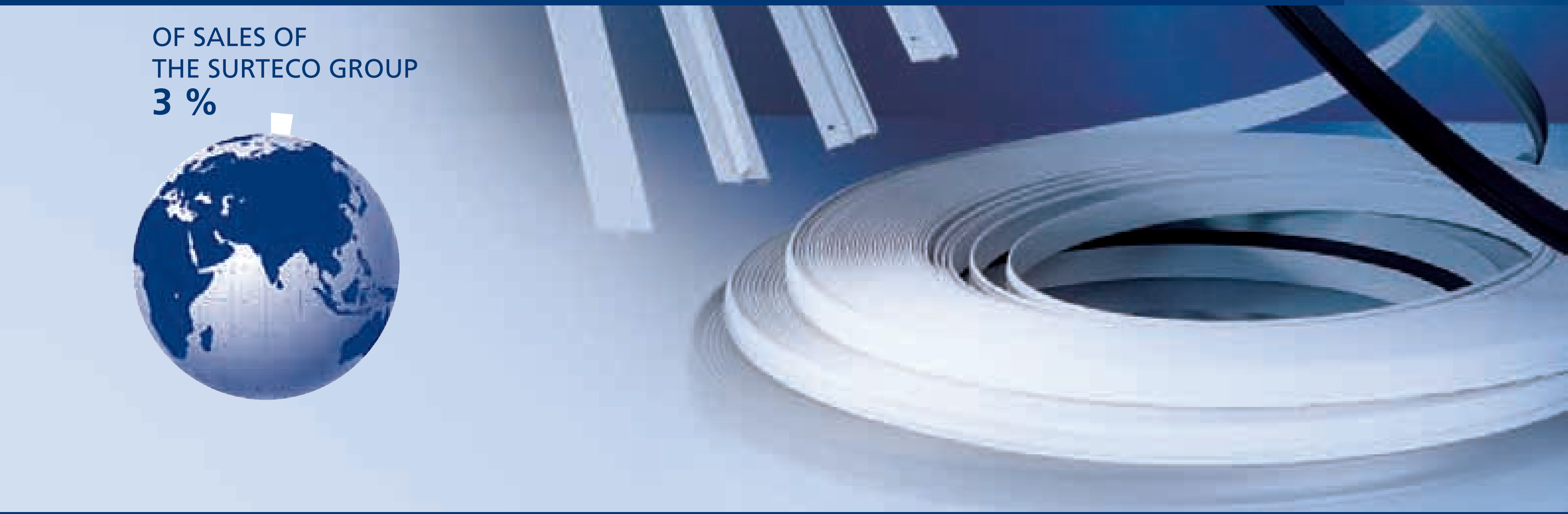
The SBU Plastics strengthened its leading position in the segment of plastic edgings with a string of product innovations. These included folding edges for doors, kitchen interiors or office furniture, a special design of bonding edge for light-weight boards, the flexible edge specially developed for the North American market to deal with tight inside and outside radii, and a wide range of surface finishes with different levels of gloss and texture.

The latest design highlight is the colour chrome. Plastic edgings with a chrome style coating can already be used as trim strips. A new development in chrome surfaces is currently in the testing phase.

A high-gloss edging version was presented at the East Westphalia key suppliers' exhibition for the furniture industry at the end of February under the designation 3 Premium Gloss. The brilliance and three-dimensional effect set benchmarks for the sector.

The SBU Plastics is entering uncharted territory with an edging generation recently launched. The laser-joining procedure provides the technology for jointless connection between board and edging without have to use a bonding agent. The result is enhanced productivity (due to the elimination of bonding agents) and an exceptionally appealing visual profile.

Other new products based on plastic and designed to meet the requirements of the market have contributed to the success of the SBU Plastics. For example, Döllken-Profiltechnik developed Easybox. This is a modular system for pre-assembled roller-shutter kits with applications in the trade craft sector.



Döllken-Weimar presents innovative cable duct socket strips. Gislaved is testing new areas of application for its foil products, for example in air-conditioning systems, as well as developing self-adhesive foils.
Nanotechnology is another area of interests and the use of this technology could play a vital role in plastic products. Surfaces tend to wear or develop shiny strips. Appropriate modification of the protective paint coating could prevent this for extended periods.

INCREASE IN PRODUCTIVITY
Close networking between research and development and the production departments is absolutely essential in order to achieve further cost savings or productivity increases in foil production at the SBU Paper. An example of this cooperation is provided by the installation of advanced path observation devices in foil painting. These are used to achieve higher machine speeds without having to compromise on total quality control while machinery is in operation. The increase in output will be achieved in close cooperation between the development department and production. This will ensure that a high level of product quality is retained.
New processing procedures for impregnating and painting flat foils meant that many foil papers could be converted to a different quality of raw material for many suppliers. This exerted favourable effects on procurement costs and expanded the circle of potential providers.
A lot of raw materials, consumables and supplies are manufactured from materials containing oil. The high price of oil means that we are also having to develop alternatives for many other intermediate products. Alternative products in all areas are therefore being sought in close cooperation with the Purchasing Department. These then have to go through extensive testing and certification procedures. Within the scope of the Continuing Improvement Process (CIP), members of staff in production are providing support and ideas for successful implementation of new raw materials in the production process.

The production of a finish floor foil has enabled the SBU Paper to create the foundations for innovative areas of application for its proven flat foils. Manufacture of these high-quality surface products does not differ essentially from the production of conventional foils, but the product must meet very high specifications for resilience on account of the very tough conditions during every day use. User tests have demonstrated that the flooring laminates presented previously provide an attractive alternative. Apart from the mechanical resilience of the product, simpler processing for the finished product provides a positive feature.

INCREASING IMPORTANCE OF DIGITAL PRINTING
Digital printing is a key area for SURTECO. This is particularly the case for small order batches because it completely eliminates the tooling and sampling operations required for conventional machinery. Digital printing appears to be ideal for delivering patterns in line with customers' wishes. This follows the trend for short development and reaction times coupled with the move towards a manufacturing structure characterized by smaller batch sizes.
The SURTECO research departments are working closely together with machinery manufacturers. An in-house test rig has been installed at the Sassenberg plant which prints narrow paper webs in an ink-jet process to a consistently high level of quality. It is reasonable to assume that this printing principle can be transferred to equivalent plastic products.

PEOPLE AND TRAINING

PERSONNEL REPORT

The number of employees had increased by 6 % to 2,181 employees (2006: 2,051) on 31 December 2007. The increase is primarily due to acquisitions of the companies Gislaved Folie AB and Döllken-France. The average number of employees for the year was 2,121 (2006: 2,059), of which 1,327 (2006: 1,246) were employed at the SBU Plastics, 780 (2006: 799) at the SBU Paper and 14 at the SURTECO holding company. The average age profile of the all employees was 40.0 years (2006: 39.7 years).
Personnel costs amounted to € 103.0 million for 2007 (2006: € 102.4 million). The proportion of personnel costs to total output fell by 0.4 percentage points to 24.7 %.
The motivation and identification of employees with the Group are demonstrated by the exceptionally low level of absenteeism due to sickness for an industrial company at 3.1 % (2006: 2.7 %) and the above-average service with the company of 12.2 years (2006: 11.4). It is notable that 17 employees in Germany celebrated their 25th anniversary and 51 employees celebrated their 10th anniversary with the company.

TRAINING RATIO INCREASED BY 20 %

The SURTECO Group provides training for apprentices starting their career in ten vocations, e.g. process mechanic for plastic and rubber technology, printers and industrial sales personnel. In Germany, the company employed an average of 103 apprentices during the year under review (2006: 86). This corresponds to a training ratio of 7.1 % (2006: 6.0 %). A training place initiative launched by the SURTECO Group means that the number of apprentices could be raised by 20 %. Particularly talented apprentices are given the opportunity of gaining experience at subsidiaries abroad during the course of their training. SURTECO is committed to internal and external career training in order to be in a position to fill vacant positions with qualified specialist personnel. Know-how is transferred between the business units and the regions at regular conferences for management and technicians and the deployment of employees abroad.

ENVIRONMENTAL PROTECTION

Environmental protection is a top priority at the SURTECO Group. Conservation of materials and energy is extremely important, as is unmixed separation of all relevant types of waste, including their environment disposal. Major steps forward have been made in the area of plastics for where up 100 % of production rejects are recycled in some cases. Substitution of convention raw materials with low-pollutant alternatives was intensified during the year under review.
SURTECO decided to report to the Carbon Disclosure Project (CDP) with the aim of highlighting ecology and in particular greenhouse gas emissions within the Group. CDP is a non-profit organization of investors based in London with the mission of highlighting the significance of CO_2 emissions for corporate value and making information on greenhouse gas emissions of companies accessible to the financial market. The Carbon Disclosure Report presents the results of a global survey of companies dealing with emission and carbon-related risks and opportunities, and their effects on companies. The SURTECO Group will have recorded and analyzed all the data for the first time and forwarded the findings to the CDP by the end of May 2008. The data being collected relate directly to greenhouse gas emissions generated by heat and steam in stationary combustion systems on the plant site, by the manufacture or processing of chemicals and by the use of company vehicles. If relevant emissions arise as a result of leakages, they are included under this scope, as are emissions from outsourced electrical energy.

EMPLOYEES BY REGIONS SURTECO GROUP

Site	Employees 31/12/2006	**Employees 31/12/2007**	Change
Germany	1,444	**1,440**	-4
Canada	279	**241**	-38
Sweden	0	**144**	144
USA	93	**96**	3
Australia	87	**87**	-
Indonesia	41	**44**	3
United Kingdom	35	**32**	-3
Italy	29	**32**	3
China	14	**24**	10
Singapore	15	**13**	-2
France	0	**12**	12
Poland	14	**11**	-3
Turkey	0	**5**	5
	2,051	**2,181**	**130**

RISK AND OPPORTUNITIES REPORT

RISK MANAGEMENT SYSTEM

SURTECO SE and its Strategic Business Units are exposed to a large number of risks on account of global activities and intensification of competition. In order to ensure long-term growth and increase corporate value, the Group attempts to avoid unreasonable risks as far as possible. The remaining risks are reduced and managed by taking adequate measures.

The Board of Management of the SURTECO Group is responsible for policy relating to risks and for the internal management and controlling system. The Board of Management works together with the subsidiaries to identify risks. The management of the subsidiary companies implements the instructions of the Board of Management and is responsible within this framework for risks that it enters into in the course of its business activities. The management includes the employees in the course of exercising their management functions.

The Risk Management 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 organizational and workflow organization of SURTECO and its subsidiary companies. There is no independent structural organization. In order to measure, monitor and control risks, SURTECO SE uses a detailed controlling system. The controlling system encompasses the key controlling parameters specific to the industry and sector. Apart from regular reporting to the Board of Management and Supervisory Board, managers have a duty to report risks that occur unexpectedly without delay. The usefulness and efficiency of risk management and the controlling systems are monitored internally at regular intervals by the Board of Management and the managers of the subsidiary companies, and externally by the auditor. SURTECO is continually developing measures directed towards risk avoidance, risk reduction and risk hedging while also taking advantage of any business opportunities that arise. The risks described below may impact negatively on the net assets, financial position and results of operations for the Group. Additional risks that are unknown at this point in time and that are currently be-

lieved to be very low could also impair business activities in the future.
The significant risks for SURTECO SE are as follows:

STRATEGIC BUSINESS RISKS AND OPPORTUNITIES

In the market for coating products for the furniture and interior design industry, a local presence in the relevant countries and markets is crucially important. This enables customers to be supplied quickly and trends in regional markets to be identified at an early stage. SURTECO is very well positioned in international markets with 14 production and sales sites and further 13 sales sites.
The development of the business is highly dependent on economic performance in the furniture and construction industries operating in the countries and markets where SURTECO markets its product range. Economic fluctuations in our sales markets can exercise a very negative effect on business development. The continuing internationalization of the Group means that fluctuations can be compensated in individual countries. The economic trends and sales development in individual markets are monitored continuously so that changes in trend can be anticipated or identified at an early stage. The qualitative and quantitative findings are recorded and evaluated by means of a differentiated internal reporting system. They are then subjected to detailed assessment and analysis. Any deviations from budgets, the feasibility of planning goals and the occurrence of new monetary and non-monetary risks are highlighted and analyzed. The business is then managed on the basis of the results of reporting. The furniture industry is anticipating a reserved trend for the fiscal year 2009. Detailed information on the development of the global economy and the furniture industry is provided in the outlook report.
In addition, technology leadership and cost leadership are also key factors for the market positioning and economic success of SURTECO SE. This entails a complete product portfolio tailored to the needs of the market and highly efficient operating processes. The product portfolio was complemented by the purchase of Gislaved Folie AB during the course of the business year and this placed SURTECO in the position of being able to offer edgings and flat foils based on paper and plastic.
A continual process of achieving enhanced efficiency and performance are extremely important for future profitability. This is achieved within the company by a continuous improvement process. The production procedures, manufacturing techniques, machinery deployed and workflows are permanently developed and improved, the machinery is carefully serviced and maintained and employees undergo intensive training.
SURTECO has good prospects of benefiting from ongoing growth in the surface market and meeting the challenges of changes in the competition. The Group anticipates good opportunities for growth in Eastern Europe, Asia and South America.

SUPPLIER RISKS

SURTECO SE is dependent on outsourcing from other providers for the procurement of semi-finished products and services. Inclusion of third parties in the equation creates risks such as unexpected supply difficulties or unforeseeable price increases resulting from market bottlenecks or currency effects, which could impact negatively on results. The Group meets risks associated with supply by a process of continuous material and supplier management. The measures involve monitoring the market intensively, carrying out in-depth quality inspection on the basis of jointly agreed specifications and arranging supply contracts with long-term price agreements. There is a risk of increasing energy costs that is rising over the medium to long term. In addition, further price rises in plastics and other chemical products are anticipated.
Rising energy prices and price increases for raw materials and consumables will inevitably lead to additional expenses in production. This means that further burdens can only be compensated by price increas-

es. However, there is limited scope for increasing prices due to the high charges faced by our customers in the individual regions.

FINANCIAL RISKS

INTEREST AND CURRENCY RISKS

The global nature of the business activities of the SURTECO Group results in delivery and payment flows in different currencies. Invoicing in euros is the preferred method of accounting. Currency risks arising from the procurement of raw materials are negligible since the majority of procurement is carried out in euros.

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

LIQUIDITY RISKS

Corporate Treasury monitors and controls the development of liquidity for the major subsidiary companies. This provides an up-to-date picture of liquidity development at any time. The high levels of free cash flow and the short payment targets mean that SURTECO always has adequate liquid funds available. There is also the option of drawing on open credit lines.

CREDIT RISKS

The credit rating of contracting parties is regularly reviewed. The risk arising from debit balances in accounts payable is low on account of the broadly based customer structure and appropriate credit insurance policies. In addition, the development of accounts receivable and liabilities are monitored by Group Controlling and by the subsidiary companies.

COMPETITIVE RISKS

SURTECO is generally very well positioned in the relevant markets. However, competitive pressure continues to grow throughout the world. New providers have come on the scene as a result of increases in production depth at major printers and new, locally active surface manufacturers who are operating in selected product areas. This market consolidation could exert a negative effect on revenues. SURTECO is countering massive pressure on prices by expanding and strengthening existing business, introducing new innovative products and not least by further increasing efficiency.

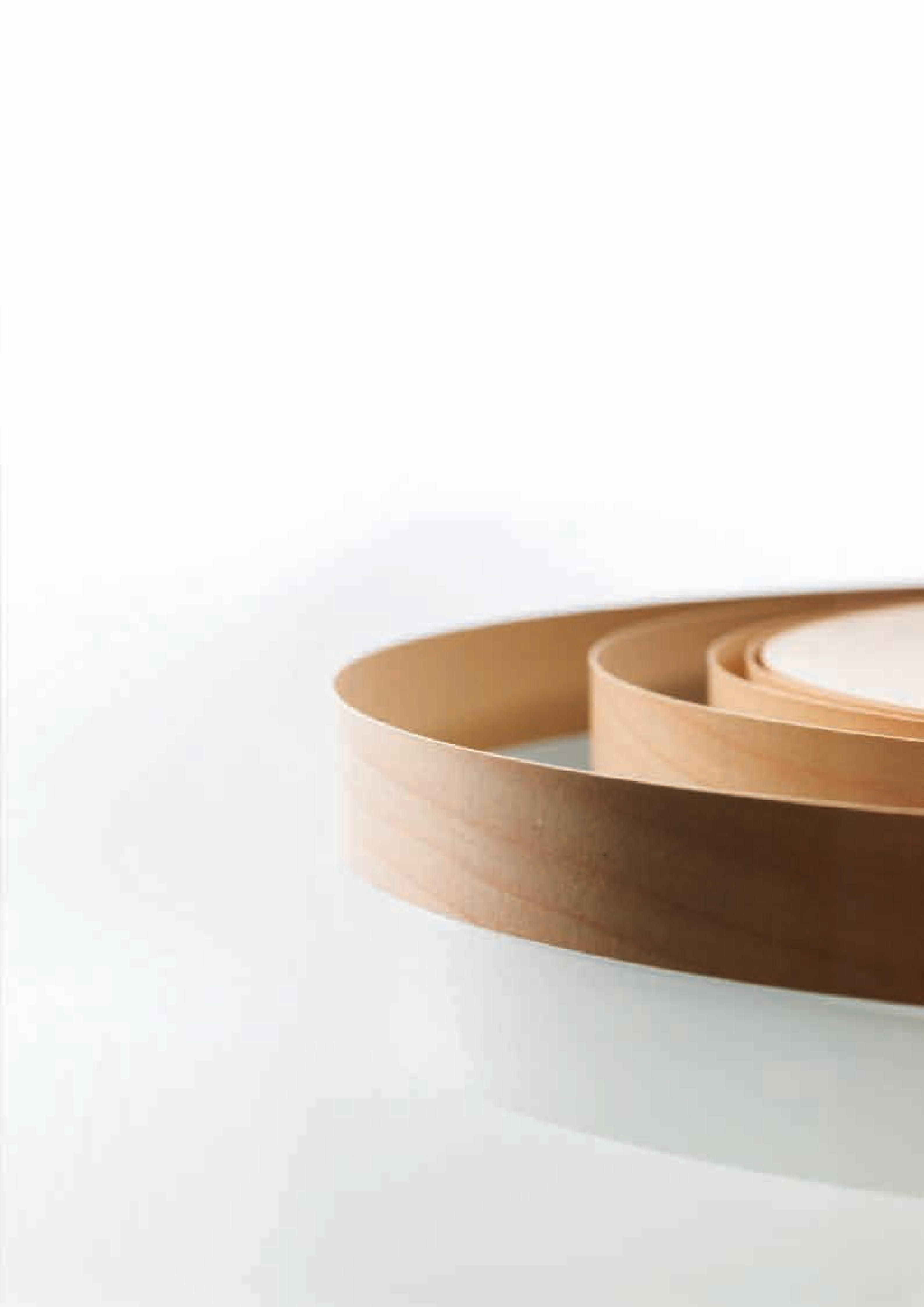
IT RISKS

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

REGULATORY AND LEGAL RISKS

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 our sales and profitability.

The companies in the Group have formed adequate



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

PERSONNEL RISKS

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

OVERALL RISK ASSESSMENT

SURTECO regularly monitors the achievement of business goals, as well as the risks and risk limitation measures. The Board of Management and Supervisory Board are informed of any risks at an early stage. An overall analysis of all risks shows that the main risks relate to market risks. These include developments relating to price and volume due to economic conditions prevailing in customer industries or sectors, and in the procurement markets.

The early-warning risk identification system has been checked by our auditors. It meets the requirements of § 91 (2) of the Stock Corporation Act (AktG). Review of the risk situation has revealed that thanks to efficient, regular and comprehensive risk management the risks at SURTECO SE are limited and transparent, and there are hence no risks that alone or in combination with other risks could endanger the continued existence of the company and future risks likely to endanger existence cannot currently be identified.

INFORMATION RELATING TO THE TAKEOVER DIRECTIVE IMPLEMENTATION ACT

CAPITAL STOCK

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

POWERS OF THE BOARD OF MANAGEMENT TO ISSUE SHARES

The Board of Management is authorized to increase the capital stock of the company once or in several stages by overall up to € 1,100,000.00 with the consent of the Supervisory Board by the issue of no-par-value bearer shares for a cash consideration (Authorized capital I) and once or in several stages by overall up to € 4,400,000.00 by the issue of no-par-value bearer shares for a cash or non-cash consideration (Authorized capital III). We refer to item 28 of the notes to the consolidated financial statements or item 4 of the notes of SURTECO SE for further information on the capital stock.

RESTRICTIONS ON VOTING RIGHTS AND SHARE TRANSFERS

The Board of Management is aware that shareholders of SURTECO SE have joined together to form an association under civil law entitled "Share pool SURTECO" since 29 August 2001. The objective of this pool is to jointly exercise the voting rights of 6,251,644 no-par-value shares in SURTECO SE (status 1 January 2008). Dispositions over shares in SURTECO SE held in the pool are only permissible with the consent of the other pool members in accordance with the agreements made. However, if a pool member intends to sell shares held in the pool, the member has to offer these shares in advance to 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	Voting rights in %
1. Mr. Claus Linnemann	11.7990
2. Mr. Jens Schürfeld	11.9306
3. Klöpferholz GmbH*	21.1544
4. Klöpfer & Königer GmbH & Co. KG*	21.1544

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

APPOINTMENT AND DISMISSAL OF MEMBERS OF THE BOARD OF MANAGEMENT

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

"CHANGE OF CONTROL" CLAUSE

In the case of a "change of control", the Members of the Board of Management have the right within the space of 12 months to serve notice on their contract of service to the end of the following month specified on the declaration. They have the right to payment of a fixed annual remuneration for the remaining term of the contract of service.

FOLLOW-UP REPORT

The first months of the current business year showed no significant deviations compared with the reporting period.
An important event after the balance sheet date related to the acquisition of shares in the wood-based materials manufacturer Pfleiderer in January 2008. SURTECO purchased a share package amounting to 3.02 % of the capital stock in the joint-stock company based in Neumarkt/Oberpfalz. SURTECO has been doing business with Pfleiderer for many years and regards the ongoing development of the company positively.
When this Annual Report went to press there were no events of special significance that will exert an effect on the net assets, financial position, and results of operations of the SURTECO Group.

OUTLOOK REPORT

The latest forecasts for the current year assume continuation of steady growth, although at a much lower level due to the increasingly negative effects of the subprime crisis in the USA. The International Monetary Fund (IMF) corrected its estimates for 2008 downwards and is anticipating a global increase in economic output over the coming year amounting to 4.1 percent. Experts at the IMF now expect an increase of 1.5 % in the gross domestic product for the US economy during the course of 2008. The estimates for the eurozone are 1.6 %. In Germany, the Annual Economic Report published by the Federal Government anticipates economic growth of 1.7 %. A further increase in the number of people with jobs coupled with improved income perspectives hold out the hope that private households will generate additional stimulus for demand. However, the Federal Government also anticipates for 2008 that export stimuli will tail off and the high price of oil and weakness of the US dollar against the euro may create further difficulties for the German export economy.

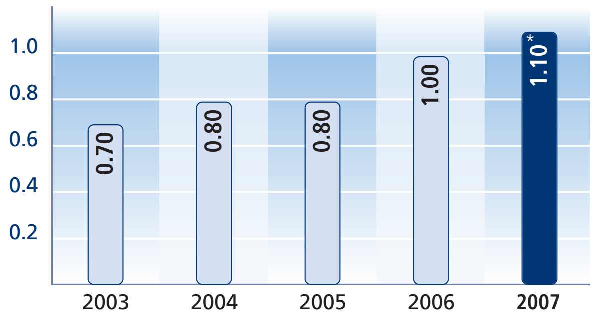
Slight growth is forecast for the furniture industry in Germany for 2008, although this will be largely determined by growth in exports. A survey carried out by the domestic Association for Office furniture, Seating and Facility Furnishings (BSO) indicates that the members of the association are anticipating an increase in sales of 4-6 %. The Association of the Kitchen Furniture Industry is expecting a slight upturn in the domestic market for 2008, with export business continuing to flourish.
The associations of the wood and furniture industry HDH/VDM also point to the fact that despite sales growth during the past two years, the German furniture industry has just reached the sales level of around 10 years ago and there no end in sight yet to the process of consolidation due to the difficult economic situation. Ongoing price development for energy and raw materials will therefore continue to be the determining factor for performance in the sector, as is the case for the development of private consumption in Germany.
Against the background of increasingly negative effects arising from the credit crisis in the USA, the distortions in the capital market should exert an effect on the entire global economy over the course of the year. Under these circumstances, only slight organic growth in sales and earnings should be anticipated over the course of 2008.
First-time full-year consolidation of Gislaved Folie AB will be a key factor in the current business year for SURTECO SE.

CALCULATION OF INDICATORS:

Cash earnings in €	Net income + amortization and depreciation less write-ups + change in long-term provisions in the income statement
Cash earnings per share in €	Cash earnings less Minority interests / Number of shares
Debt-service coverage ratio %	(Consolidated net profit + depreciation) / Net debt
Earnings per share in € (net income per share)	Consolidated net profit / Number of shares
Equity ratio in %	Equity / Balance sheet total
Free cash flow in €	Cash inflow from operating activities less (Tax payments + investments in property, plant and equipment, and intangible assets) + cash inflow from asset sales
Gearing in %	Net debt / Equity capital
Interest cover factor in %	EBITDA / Interest income
Market capitalization in €	Number of shares x Closing price on the balance-sheet
Net debt	Short-term and long-term debt less Liquid funds
Net working capital in €	(Trade receivables + inventories) less (Trade liabilities + Short-term accrued expenses)
Personnel expense ratio in %	Personnel costs / Total output
Return on equity in %	Consolidated net profit / Equity capital without minority interests after appropriation of profit
Return on sales in %	(Consolidated net profit + income tax) / Sales
Total return on capital in %	(Consolidated net profit before income tax and interest expense)/ Total capital (= balance sheet total)
Value added	(Sales revenues + other income) less (Cost of materials + Depreciation and amortization + Other expenses)
Value added ratio (net)	Value added (net) in % of sales

PRICE PERFORMANCE 2007 IN €

DEVELOPMENT OF THE DIVIDEND IN €



* Proposal Board of Management and Supervisory Board

The SURTECO share was unable to buck the negative trend on equity markets – despite good company figures – particularly at the close of 2007. Uncertainty among institutions and investors caused by the real estate and mortgage crisis originating in the USA was particularly evident among mid caps and small caps. German companies listed on the stock exchanges were disproportionately affected.

At the close of 2007, the SURTECO lost 19 % of its stock market value and was listed at a price of € 26.56 at the end of December. At the beginning of 2007, the price started at € 32.60 and climbed to a high of € 42.20 in May. Market capitalization at year-end 2007 was around € 294 million (2006: € 371 million) on account of the unfavourable performance on the stock exchange. A further slide in prices took place in national and international stock markets through January 2008. This also affected prices on German stock exchanges. In mid-January, the SURTECO share was trading at € 18.60 but it then stabilized at around 22 euros in the context of the general recovery.

The reallocation of around 420,000 no-par-value shares owned by existing SURTECO shareholders in the second quarter of 2007 raised the free float of the company from 19.9 % to 23.7 %. The trading volume of the SURTECO share doubled during the period under review from an average of 21,246 shares per month in 2006 to an average of 41,445 shares per month in 2007.

The conversion of SURTECO AG to an European company (Societas Europaea) resolved with a large majority (99.99 %) by the Annual General Meeting on 31 August 2007 came into effect on 19 November 2007. When the change was entered in the Company Register, the company was renamed SURTECO SE. The organization structure of the Group remains unchanged. The conversion has also had no effect on the shareholders and the stock-market listing of the company. In accordance with the rules applicable to the SE, the Annual General Meeting of the company will in future be held during the first six months after the end of the business year.

INDICATORS OF THE SHARE

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

SURTECO SE is continuing to move forward consistently. The objective remains for the SURTECO share to be listed in the SDAX index. Further increase in the free float is necessary prerequisite for this and the existing shareholders and the Board of Management will continue to pursue this goal in the near future, although it depends on the price performance of the SURTECO share.

In line with their long-term capital market strategy, the Board of Management proposed to the Supervisory Board that a dividend of € 1.10 per no-par-value share be paid out. The long-term dividend strategy continues to be based on the earnings and cash flow of the company.

SURTECO SE pursues a proactive and comprehensive communication policy with its shareholders, the capital market and the public domain. Personal interviews with investors and analysts, presentations at international capital market conferences and regular publication of company indicators and corporate developments complement the information on the Internet pages of SURTECO SE which can be accessed at all times.

The executive management and corporate communication are in harmony with the principles of responsible corporate governance directed towards long-term success, as described in the recommendations of German Corporate Governance Code. Detailed information on corporate governance at SURTECO SE and the declaration of compliance can be found in the chapter entitled "Corporate Governance" of this Annual Report and on the Internet pages of „www.surteco.com" under "Corporate Governance".

SURTECO SHARES

Stock exchange quotations in €	2006	2007
Number of shares	11,075,522	11,075,522
Price at start of year	28.00	32.60
Year-end price	33.51	26.56
Price per share (high)	34.00	42.20
Price per share (low)	26.50	25.60
Market capitalization at year-end in € 000s	371,141	294,166

SHAREHOLDER INDICATORS FOR THE SURTECO GROUP

€ 000s	2006	2007
Sales	403,156	414,519
EBITDA	71,698	74,358
EBIT	54,086	55,481
EBT	46,026	46,613
Consolidated net profit	28,761	31,615
Cash earnings	46,116	49,103

INDICATORS OF THE SURTECO GROUP PER SHARE

in €	2006	2007
Earnings	2.60	2.85
Cash earnings	4.15	4.43
Dividend	1.00	1.10

(Proposal by Board of Management and Supervisory Board)

» CONSOLIDATED INCOME STATEMENT SURTECO GROUP

	Notes	1/1/ - 31/12/2006 € 000s	1/1/ - 31/12/2007 € 000s
Sales revenues	(1)	**403,156**	**414,519**
Changes in inventories		3,370	1,422
Own work capitalized	(2)	1,372	1,476
Total		**407,898**	**417,417**
Cost of materials	(3)	-173,815	-177,562
Personnel expenses	(4)	-102,407	-103,044
Other operating expenses	(5)	-64,547	-66,814
Other operating income	(6)	4,569	4,361
Earnings before Financial Result, Income Tax and Depreciation and Amortization (EBITDA)		**71,698**	**74,358**
Amortization of intangible assets and depreciation of property, plant and equipment	(15)	-17,612	-18,877
Earning before Financial Result and Income Tax (EBIT)		**54,086**	**55,481**
Financial income		984	2,095
Financial expenses		-9,130	-11,018
Income from associated entities		86	55
Financial result	(7)	-8,060	-8,868
Earnings before Income Tax (EBT)		**46,026**	**46,613**
Income tax	(8)	-17,068	-14,998
Net income		**28,958**	**31,615**
of which consolidated net profit		28,761	31,615
of which minority interests		197	0
Basic and undiluted earnings per share (€)	(9)	2.60	2.85

» CONSOLIDATED BALANCE SHEET
SURTECO GROUP

	Notes	31/12/2006 € 000s	31/12/2007 € 000s
ASSETS			
Cash and cash equivalents	(10)	2,233	97,782
Trade accounts receivable	(11)	29,953	31,662
Inventories	(12)	59,863	67,659
Income tax assets	(13)	3,521	5,456
Other current assets	(14)	8,457	9,764
Current assets		**104,027**	**212,323**
Property, plant and equipment	(16)	158,623	173,976
Intangible assets	(17)	4,621	5,223
Goodwill	(18)	97,545	115,335
Investments, accounted for using the equity method	(19)	1,771	1,732
Investments	(19)	167	208
Other non-current assets		1,477	1,563
Deferred taxes	(8)	4,967	4,421
Non-current assets		**269,171**	**302,458**
		373,198	**514,781**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term financial liabilities	(23)	51,728	26,897
Trade accounts payable		22,744	22,580
Income tax liabilities	(20)	4,376	5,891
Short-term provisions	(21)	1,957	1,457
Other current liabilities	(22)	18,154	19,825
Current liabilities		**98,959**	**76,650**
Long-term financial liabilities	(23)	78,284	220,511
Pensions and similar obligations	(24)	12,631	11,242
Other non-current financial liabilities	(23)	307	1,853
Deferred taxes	(8)	17,339	18,870
Non-current liabilities		**108,561**	**252,476**
Capital stock		11,076	11,076
Reserves		125,096	142,964
Net profit		28,761	31,615
Capital attributable to shareholders		**164,933**	**185,655**
Minority interests		745	0
Equity	(25)	**165,678**	**185,655**
		373,198	**514,781**

» CONSOLIDATED CASH FLOW STATEMENT SURTECO GROUP

	1/1/ - 31/12/2006 € 000s	1/1/ - 31/12/2007 € 000s
Earnings before income tax and minority interests	**46,026**	**46,613**
Reconciliation to cash flow from current business operations:		
- Depreciation and amortization	17,612	18,877
- Write-ups on property, plant and equipment	0	37
- Interest (net)	8,146	8,923
- Income/losses from disposals of fixed assets	558	210
- Change in long-term provisions	-500	-1,019
- Other expenses/income with no effect on liquidity	-3,691	-2,005
Internal financing	**68,151**	**71,636**
Increase / decrease in		
- Trade accounts receivable	3,886	645
- Other assets	-693	-704
- Inventories	-5,995	-3,690
- Accrued expenses	-2,316	160
- Trade accounts payable	2,008	-1,776
- Other liabilities	1,478	-870
Change in assets and liabilities (net)	**-1,632**	**-6,235**
Cash flow from operating activities	**66,519**	**65,401**
Payments for income tax	-22,835	-18,376
CASH FLOW FROM CURRENT BUSINESS OPERATIONS	**43,684**	**47,025**
Cash outflow		
- for the acquisition of consolidated companies	0	-29,582
- for the acquisition of unconsolidated companies	0	-36
- for investments in property, plant and equipment	-23,601	-26,875
- for investments in intangible assets	-341	-1,947
Cash inflow		
- from proceeds from disposal of assets	950	447
- from dividends received	65	94
CASH FLOW FROM INVESTMENT ACTIVITIES	**-22,927**	**-57,899**

	1/1/ - 31/12/2006 € 000s	1/1/ - 31/12/2007 € 000s
Dividend paid to shareholders and minority interests	-9,009	-11,273
Repayment of long-term financial liabilities	-22,050	-15,598
Issue of long-term financial liabilities	0	164,993
Change in short-term financial liabilities	17,471	-25,710
Interest received	407	3,524
Interest paid	-7,552	-9,412
CASH FLOW FROM INVESTMENT ACTIVITIES	**-20,733**	**106,524**
Change in cash and cash equivalents	**24**	**95,650**
Cash and cash equivalents		
1 January	2,209	2,233
Effect of changes in exchange rate on cash and cash equivalents	0	-101
31 December	**2,233**	**97,782**

» CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SURTECO GROUP

[€ 000s]	Capital stock	Additional capital paid in	Retained earnings: Fair value measurement for financial instruments	Retained earnings: Other comprehensive income	Retained earnings: Currency translation adjustments	Retained earnings: Other retained eanings	Consolidated net profit	Minority interests	Total
31 December 2005	**11,076**	**50,416**	**0**	**-404**	**-3,812**	**69,164**	**21,831**	**696**	**148,967**
Dividend payout	0	0	0	0	0	0	-8,860	0	-8,860
Net income	0	0	0	0	0	0	28,761	197	28,958
Decrease in minority interests through payout	0	0	0	0	0	0	0	-148	-148
Actuarial losses	0	0	0	18	0	0	0	0	18
Currency changes	0	0	0	0	-3,257	0	0	0	-3,257
Reclassification to retained earnings/other changes	0	0	0	0	0	12,971	-12,971	0	0
31 December 2006	**11,076**	**50,416**	**0**	**-386**	**-7,069**	**82,135**	**28,761**	**745**	**165,678**
Dividend payout	0	0	0	0	0	0	-11,076	0	-11,076
Net income	0	0	0	0	0	0	31,615	0	31,615
Decrease in minority interests through payout	0	0	0	0	0	0	0	-197	-197
Acquisition of minority interests	0	0	0	0	0	0	0	-548	-548
Market value of financial assets and cash flow hedges	0	0	3,436	0	0	0	0	0	3,436
Actuarial gains	0	0	0	431	0	0	0	0	431
Currency changes	0	0	0	0	-3,875	0	0	0	-3,875
Other changes	0	0	0	0	0	0	191	0	191
Reclassification to retained earnings	0	0	0	0	0	17,876	-17,876	0	0
31 December 2007	**11,076**	**50,416**	**3,436**	**45**	**-10,944**	**100,011**	**31,615**	**0**	**185,655**
Total changes in equity with/without effect on income 2007			3,436	431	-3,875		31,615	0	31,607
Total changes in equity with/without effect on income 2006			0	18	-3,257		28,761	197	25,719

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 2007

I. ACCOUNTING PRINCIPLES

SURTECO AG, Buttenwiesen-Pfaffenhofen, originally entered in the Company Register of the Local Augsburg Court under HRB 2012, was converted to an European company (Societas Europaea, SE) with a change in legal form pursuant to the resolution passed by the Annual General Meeting on 31 August 2007. The resolution was based on the conversion plan dated 11 October 2006 drawn up by the notary public Dr. Norbert Zimmermann, Düsseldorf. The conversion became effective when the company was entered in the Company Register at the Local Augsburg Court on 19 November 2007. For further details, we refer to the report by the management of SURTECO AKTIENGESELLSCHAFT in accordance with Clause 37 Section 4 of the Directive on the Statute of the European Company (SE) for an explanation and justification of the legal and economic aspects of converting Surteco Aktiengesellschaft to an European company (SE) under the name SURTECO SE.

SURTECO SE, Buttenwiesen-Pfaffenhofen, a company listed on the stock exchange under European law, and its subsidiaries, develops, produces and distributes coated surface materials based on paper and plastic. The Group is based in Buttenwiesen-Pfaffenhofen, Germany, and is registered in the Company Register of the Local Augsburg Court (Amtsgericht Augsburg) under HRB 23000.

The consolidated financial statements of SURTECO SE and its subsidiaries for the fiscal year 2007 have been prepared in accordance with the regulations of the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) applicable on the balance-sheet date, as they were adopted by the EU, taking into account the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the regulations to be applied in addition pursuant to § 315a (1) German Commercial Code (HGB). New standards adopted by the IASB will be applied after they have been adopted by the EU from the date on which they are first mandatory. The option of advance compliance will not be taken up. Application and change to the valuation and accounting methods will be explained under the appropriate items in the Notes to the Consolidated Financial Statements as necessary.

Pursuant to § 315a German Commercial Code (HGB), the consolidated financial statements have been drawn up in accordance with Clause 4 of Directive (EU) No. 1606/2002 of the European Parliament and the Council dated 19 July 2002 relating to application of the International Accounting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB) in the version dated 31 December 2007 and were supplemented by specific information and the consolidated management report was adjusted in conjunction with § 315a German Commercial Code (HGB).

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

The balance sheet date of SURTECO SE and the consolidated subsidiaries is 31 December 2007.

The figures for the previous year have been restated in accordance with the same accounting principles.

The consolidated financial statements for 2007 will be published in the electronic 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 RöverBrönner KG and other appointed auditing companies have audited the financial statements or the sub-groups that form part of the consolidated financial statements.

On 8 April 2008, the Board of Management of SURTECO SE approved the consolidated financial statements for forwarding to the Supervisory Board of the company. The Supervisory Board has the function of auditing the consolidated financial statements and declaring whether it approves the consolidated financial statements.

II. ACCOUNTING PRINCIPLES IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

Change in accounting and valuation methods

The accounting and valuation methods correspond to the methods applied in the previous year with the following exceptions:

During the business year under review, the Group applied the following new and revised IFRS standards and interpretations listed below – insofar as relevant for SURTECO. Application of these revised standards and interpretations exerts no effects on the net assets, financial position and results of operations of the Group. However, they result in the following supplementary disclosures.

		Obligatory from	Adoption by the EU Commission	Effect on SURTECO
IFRS 7	Financial Instruments: Disclosures	1/1/2007	yes	Notes
IAS 1	Amendment – Presentation of Financial Statements	1/1/2007	yes	Notes
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	1/3/2006	yes	no
IFRIC 8	Scope of IFRS 2	1/5/2006	yes	no
IFRIC 9	Reassessment of Embedded Derivatives	1/6/2006	yes	no
IFRIC 10	Interim Financial Reporting and Impairment	1/11/2006	yes	no

The following new and revised standards and interpretations, which did not have to be applied mandatorily during the reporting period, or have not been adopted by the European Union, are not being applied in advance:

		Obligatory from-	Adoption by the EU Commission
IFRS 3 (r)	Business Combinations	1/7/2009	no
IFRS 8	Operating Segments	1/1/2009	yes
IAS 23	Borrowing Costs	1/1/2009	no
IAS 27	Consolidated and Separate Financial Statements	1/7/2009	no
IAS 32	Financial Instruments: Presentation	1/1/2009	no
IFRIC 11	IFRS 2: Group and Treasury Share Transactions	1/3/2007	yes
IFRIC 12	Service Concession Arrangements	1/1/2008	no
IFRIC 13	Customer Loyalty Programmes	1/1/2009	no
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.	1/1/2008	no

The relevant standards and interpretations for the SURTECO Group will only be applied from the business year 2008 or later. The SURTECO Group is currently examining the extent to which first-time application of the standards and interpretations will exert effects on the net assets, financial position and results of operations of the Group.

III. HOLDINGS AND CONSOLIDATED COMPANIES

SURTECO SE and all the German and all foreign subsidiary companies, in which SURTECO SE is directly or indirectly able to exercise a dominant influence over their finance and business policy in such a manner that the companies of the Group derive a benefit from the activity of these companies, are included in the consolidated financial statements on 31 December 2007. Consolidation begins at the point in time from which the control exists and ends when it is no longer possible to exercise such control.

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

Companies are included in accordance with the equity method if SURTECO SE holds between 20% and 50% of the voting rights and is in a position to exert a significant influence on the net assets, financial position and results of operations of the company.

Three companies are not included in the consolidated financial statements for 2007 (2006: 2 companies) on the reason that they either did not transact any active business or only transacted minimal business and the influence of their aggregate value on the net assets, financial position and results of operations of the Group was not significant.

The group of subsidiary companies included in the SURTECO Group developed as follows:

	31/12/2006	Additions	31/12/2007
Consolidated subsidiaries			
- of which in Germany	13	0	13
- of which abroad	19	3	22
Subsidiary companies reported at acquisition costs			
- of which abroad	2	1	3
Companies accounted for using the equity method			
- of which domestic	1	0	1
	35	**4**	**39**

The companies consolidated in the consolidated financial statements at 31 December 2007 and information on subsidiaries and participations held directly and indirectly by SURTECO SE are listed in a separate section of the Notes to the Consolidated Financial Statements. The consolidated financial statements and the management report of SURTECO SE for the business year 2007 are submitted to the electronic Federal Gazette (Bundesanzeiger) and published there.

IV. COMPANY ACQUISITIONS

On 1 January 2007, all the shares in the French sales company SDCA S.A.S, Beaucouzé, were purchased for € 000s 2,580 and the company has meanwhile been rebranded Döllken-France S.A.S. Direct access to the French furniture industry significantly strengthens the sales organization of SURTECO.

In April 2007, the remaining shares (25%) in the already fully consolidated Italian company Arbe s.r.l. were purchased with retrospective effect to 1 January 2007 for € 000s 1,511.

In May, SURTECO purchased the business line skirtings and edging systems from the Gardinia Home Decor Group in an asset deal. The objective was to strengthen the Group's position in key future markets. A confidentiality agreement was agreed on the price, which was not significant for SURTECO.

On 1 September 2007, SURTECO SE purchased 100% of the shares in Gislaved Folie AB, Sweden, in a share deal at a purchase price of € 000s 24,238. The company was first-time consolidated on 1 September 2007. The purchase price allocation to be carried out over the period of one year in conformity with IFRS 3 has not yet been concluded on account of the complexity of the acquisition and the conversion of accounting at Gislaved Folie AB to IFRS.

The acquired assets and liabilities of Gislaved Folie AB were therefore recognized at the point of acquisition at preliminary values.

	Recognition at the point of acquisition € 000s
Receivables	3,105
Inventories	3,639
Other assets	333
Property, plant and equipment	8,608
Intangible assets	0
Liabilities	-1,654
Other non-current liabilities	-2,392
Deferred taxes	-2,202
Net assets	**9,437**
Purchase price	24,238
incidental acquisition costs included therein	256
cash and cash equivalents taken over	-607
Goodwill	**14,194**

The acquisition of the shares in Döllken-France S.A.S. and in ARBE s.r.l. exerted an insignificant effect on the assets and liabilities of the Group on the relevant date of the acquisition.

The results of the subsidiary companies acquired during the year under review have been reported in the consolidated income statement from the actual point in time of the acquisition.

The Gislaved business has contributed € 000s 9,202 to sales and € 000s 374 to consolidated earnings since the acquisition.

If all the business combinations had taken place at the beginning of the year, the effects on sales revenues and the profit/loss for the year would have been as follows:

	€ 000s
Sales revenues	33,066
Net income	1,993

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

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

Name	**Registered office**
BauschLinnemann GmbH	Sassenberg
Bausch Decor GmbH	Buttenwiesen-Pfaffenhofen
Kröning GmbH & Co.	Hüllhorst
BauschLinnemann International GmbH	Sassenberg
W. Döllken & Co. GmbH	Gladbeck
Döllken-Kunststoffverarbeitung GmbH	Gladbeck
Vinylit Fassaden GmbH	Kassel
Döllken-Profiltechnik GmbH	Dunningen

VI. CONSOLIDATION PRINCIPLES

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

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

With the exception of Canplast Mexico, the balance sheet date of the consolidated financial statements coincides with the balance sheet date of the financial statements for the individual companies included in the consolidated financial statements (31/12/2007). However, the balance sheet date of the relevant interim financial statements does not extend back further than three months.

The acquisition of subsidiary companies and business operations is reported in accordance with IFRS 3. Accordingly, the acquisition costs of the business combination are allocated to the acquired identifiable assets and the identified liabilities and contingent liabilities taken over on the basis of their fair value at the date of acquisition. The proportion of the acquisition costs of the shareholding which exceeds the proportionate net current values of the identifiable assets, liabilities and contingent liabilities is reported as goodwill. The shares in equity capital of subsidiary companies not attributable to the parent company are recognized in the consolidated equity capital as "Minority interests". Minority interests are calculated on the basis of the book value of the assets and liabilities attributable to them.

Goodwill arising from the acquisition of an associated enterprise or a jointly managed enterprise is included in the amortized investment book values of associated or jointly managed enterprises. Goodwill resulting from the acquisition of a subsidiary company or business operation is recognized separately in the balance sheet.

In accordance with IFRS 3 and in conjunction with IAS 36 and IAS 38, goodwill arising from company acquisitions is not subject to scheduled amortization. Instead, the value of the goodwill or cash generating units, to which the goodwill was allocated, is subject to an impairment test at least once a year and is subject to unscheduled write-down if an impairment is identified. SURTECO identified the strategic business units as cash generating units. Prior to first-time application of IFRS 3, goodwill was amortized by the straight-line method over the estimated remaining useful life, generally 15 years.

In accordance with IAS 36, the impairment test compares the net book values for goodwill with the discounted cash flows expected within the context of medium-term planning for the relevant units. The utility value is calculated in accordance with the discounted cash flow method and discounted at the weighted average cost of capital (WACC) for the SURTECO Group. Certain management assessments are used in this process.
Since the cash flows (recoverable amount) exceed the carrying amounts for goodwill, no scheduled amortization has to be carried out for goodwill in the business year 2007.

Participations in **associated enterprises** are valued at the equity method. An associated enterprise is a company over which the Group can exert a significant influence by influencing the finance and business policy but where the Group does not exercise control. A significant influence is assumed if the Group has a share of the voting rights amounting to 20 % or more. Reporting in the balance sheet is at acquisition costs plus any changes in the share of the Group in the net assets of the associated enterprise which have occurred after the acquisition. The goodwill of the associated enterprise is included in the book value of the share and is not subject to scheduled amortization. The income statement includes the share of the Group in the success of the associated enterprise. Proportionate gains and losses arising from transactions between the Group and the associated enterprise are eliminated in accordance with the share in the associated enterprise.

The financial statements of the associated enterprises are drawn up on the same balance sheet date as the financial statements of the parent company. Adjustments to uniform consolidated accounting and valuation methods are carried out as necessary. Proportionate gains and losses are reported in the balance sheet as a change in book value and in the income statement for the Group under the item "Income from associated enterprises" Any dividends reduce the book value.

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

Sales, expenses and income within the Group and intercompany profits arising from supplies between consolidated companies have been eliminated if they materially affect the presentation of the current net assets, the financial position and results of operations.

Deferred taxes arising from consolidation transactions recognized in the income statement have been accrued.

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

VII. CURRENCY TRANSLATION

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

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

Translation was based on the following currency exchange rates:

Exchange rates with the euro		**Balance sheet date**		**Average rate**	
		31/12/2006	**31/12/2007**	31/12/2006	**31/12/2007**
US dollar	USD	0.7587	0.6795	0.7969	0.7308
Sterling	GBP	1.4894	1.3613	1.4667	1.4618
Swedish krona	SEK	-	0.1060	-	0.1081
Singapore dollar	SGD	0.4947	0.4728	0.5015	0.4849
Australian dollar	AUD	0.5995	0.5961	0.6002	0.6118
Canadian dollar	CAD	0.6539	0.6925	0.7025	0.6817
Chinese renminbi	CNY	0.0988	0.0931	0.1017	0.0972
Polish zloty	PLN	0.2603	0.2783	0.2563	0.2640

VIII. ACCOUNTING AND VALUATION PRINCIPLES

Uniform accounting and valuation methods

The annual financial statements of all the companies included in the consolidated financial statements were uniformly prepared in accordance with IAS 27 the applicable statutory regulations on the basis of the classification, accounting and valuation polices applied by SURTECO SE.

Consistency of accounting and valuation methods

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

Structure of the balance sheet

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

Income and expense realization

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

Sales revenues – without value added tax and after sales reductions – have been recorded with transfer of ownership or risk, or provision of the service at the customer, if a price has been agreed and it is reasonable to assume that payment will be made. Sales are only defined as the product sales resulting from the ordinary activities of the company. Accruals for customer reductions and discounts, and for returns and other allowances are generally recognized in the same period in which the sales were reported.

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 recognized pro rata. Dividend income from investments is recorded when the legal right to payment has occurred.

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

Financial instruments

In accordance with IAS 32, a financial instrument is a contractually agreed claim or a contractually agreed obligation from which an inflow or outflow of financial assets or financial liabilities or the issue of equity capital rights results. Financial instruments comprise primary financial instruments such as trade accounts receivable or trade accounts payable, financial receivables, debts and other financial liabilities. They also include derivative financial instruments which are used to hedge risks arising from changes in currency exchange rates and interest rates. Financial instruments are reported on the date at which the obligation to buy or sell an asset is entered into.

Primary financial instruments

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

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

1. Changes in fair value of assets "valued at fair value through profit and loss" – which are either categorized accordingly at first-time recognition or are classified "as held for trading" – are immediately reported in the income statement. They are also reported as current assets if they are either held for trading or are likely to be realized within twelve months of the balance sheet date.

2. "Financial assets held to maturity" – which include fixed or determinable payments at the date of first-time recognition and have a fixed maturity and are to be held until that point – are reported at amortized acquisition costs and recognized in accordance with their remaining term as non-current or current assets. Impairments are recorded in the income statement with an effect on earnings.

3. "Loans and receivables" – which have fixed or determinable payments and are not listed in a market are valued at amortized acquisition costs taking into account necessary impairments. Insofar as they did not arise as a result of supplies and services, they are recognized in the balance sheet under other financial assets in accordance with their maturity as non-current or current assets.

4. "Financial assets available for sale" – which are designated at the date of first-time recognition as available for sale – are insofar recognized at current value and reported as non-current or current assets in accordance with their expected availability for sale. Unrealized gains or losses are recognized under equity capital (market valuation financial instruments). If a sale or impairment is carried out on the balance sheet date, the fluctuations in value recognized up to that point under equity capital are recognized in the income statement. If no fair values are available, for example for financial assets of non-consolidated companies and participations, the assets are recognized at acquisition costs.

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

Derivative financial instruments and hedging

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

Gains or losses arising from changes in the fair value of derivative financial instruments which do not meet the criteria for reporting as a hedging relationship are reported directly through profit and loss.

The fair value of forward exchange contracts is calculated on the basis of the current forward exchange rates for contracts with similar maturity structures. The fair value of interest swap contracts is calculated on the basis of market values for similar instruments.

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

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

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

Hedging transactions which meet the strict criteria for the reporting of hedging relationships are designated by SURTECO during the business year as being exclusively cash flow hedges.

The effective proportion of profit or loss arising from a hedging instrument is recorded directly in equity capital. The amounts reported in equity capital are transferred during the period to the income statement in which the hedged transaction affects the result for the period, e.g. if hedged financial income or expenses are reported or if an anticipated sale is carried out. If planned transactions are hedged and if these transactions lead to the recognition of a financial asset or financial liability during subsequent periods, the amounts recorded up to this date in equity capital should be released and included in income during the period in which the asset or the liability influences the result for the period. If a hedging transaction results in recognition of a non-financial asset or a non-financial liability, the amounts recorded in equity capital become part of the acquisition costs at the date of addition of the non-financial asset or non-financial liability.

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

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

Cash and cash equivalents have been recorded at face value.

Receivables and other financial assets are reported at face value with the exception of derivative financial instruments. Impairments are carried out in accordance with the default risks anticipated in individual cases or at a flat-rate on the basis of qualitative values. Trade receivables with standard commercial payment terms are therefore recorded at face value, less bonuses, discounts and impairments. The Group sells trade receivables in the context of genuine factoring. The receivables are removed from the accounts if the Group has transferred its contractual rights to cash flows from the financial assets and all opportunities and risks that are associated with the ownership have essentially been transferred or also if the power of authority over the asset has been transferred.

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

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

Finished products and work in progress have been recognized at production cost. These costs include costs directly attributable to the manufacturing process and a reasonable proportion of production-related overheads. These include production-related depreciation, proportionate administrative expenses, and proportionate social security costs. Inventory risks arising from the storage period or reduced usability have been taken into account by write-downs.

In the case of inventories, write-downs on the net sale proceeds are carried out, if the book values of the inventories are too high on the basis of the lower stock-market or market values.

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

Property, plant and equipment have been recognized at acquisition or production cost, including incidental acquisition expenses, less accumulated scheduled depreciation and, if necessary, extraordinary depreciation. Finance costs have not been capitalized under income as an element of acquisition or production costs. A fixed value is calculated to cover spare parts for machinery.

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

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

The costs for replacement of part of a fixed asset (repair and maintenance costs) are included in the book value of the fixed asset (property, plant and equipment) at the date on which they were incurred, insofar as the criteria for recognition are fulfilled. When a major inspection is carried out, the costs are capitalized in the book value of the fixed asset as replacement, insofar as the criteria for recognition are recognized. All other maintenance and repair costs are immediately recognized under income.

A fixed asset (property, plant and equipment) is either derecognized as a disposal if no economic benefit can be derived from further use or sale of the asset. The resulting gains or losses resulting from derecognition of the asset are calculated as the difference between the net sale proceeds and the book value of the asset and reported in the income statement in the period in which the asset is derecognized.

Leasing transactions are either classified as finance lease or as operating lease. Commercial ownership in lease items should be assigned to the lessee in accordance with IAS 17, if the lessee carries all major rewards and risks associated with the item (finance lease). If commercial ownership should be assigned to the enterprises of the SURTECO Group, the lease item is capitalized as an asset in the amount of the market value or the lower cash value of the future leasing rate at the point in time at which the contract was concluded and the reporting of the corresponding liabilities to the lessee as a debt. Depreciation and repayment of the liability is effected according to schedule over the useful life or over the term of the lease, if this is shorter – corresponding to comparable items of property, plant and equipment acquired. The difference between the entire leasing obligation and the market value of the leased item corresponds to the finance costs that are distributed over the term and included in income, so that a uniform interest rate is applied to the remaining debt over the period. All other lease agreements, where SURTECO is the Lessee, are treated as operating leases, with the consequences that the leasing rates are reported to expenditure when they are paid.

Minor-value assets have been depreciated in full in the year of addition.

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

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

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

	Years
Intangible assets	3-5
Buildings	40-50
Improvements and fittings	10-15
Technical plant and machinery	3-30
Factory and office equipment	6-13

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

Impairment of non-financial assets

On each balance sheet date, the Group assesses whether there are grounds for reducing the value of an asset. If such reasons 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 utility value. 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 utility value, the expected future cash flows are discounted to their cash value based on a discounting rate before taxes, which reflects the current market expectations in relation to the interest effect and the specific risks of the asset. A appropriate valuation model is applied in order to determine the fair value less sale costs. This is based on valuation multiplicators, stock-market prices of shares in subsidiary companies traded on stock exchanges or other indicators available for the fair value.

A test is carried out for assets, with the exception of goodwill, on every balance sheet date, in order to ascertain whether there are reasons indicating that a previously recorded impairment expense no longer exists or has been reduced. If such reasons 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.

The standard IFRS 3 (Business Combinations) and the revised standard IAS 36 (Impairment of Assets) no longer permit goodwill and intangible assets to be subject to scheduled depreciation and amortization with an unspecified period of usage, but require them to be subject to regular **impairment tests**. If goodwill or intangible assets with an undefined period of use, for which no future own cash flows can be identified on an individual basis, are to be allocated to the cash generating unit, the impairment test of those assets should be carried out annually or also, if events or changed circumstances result which could indicate a possible impairment, more frequently. The residual book 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 utility value. In the determination of the utility value, the cash value of the future payments, which are anticipated on the basis of the ongoing use by the Strategic Business Unit and their disposal at the end of the useful life are used as the basis. The forecast of the payments is based on the current medium-term plans of SURTECO.
The cash generating units of the Group are identified in consultation with the internal reporting of the management taking into account regional allocations on the basis of strategic business units (Strategic Business Unit Paper and Strategic Business Unit Plastics).
In the cases in which the cash value of the cash generating units is higher than their recoverable amount, the difference amounts to an impairment loss. The goodwill of the affected Strategic Business Unit is amortized in the amount of the impairment thus determined as affecting expenses in the first stage. Any remaining residual amount is distributed to the other assets of the relevant Strategic Business Units proportionately to the book value. Any impairment carried out as necessary is recognized under other operating expenses in the income statement.
The cost of capital at SURTECO is calculated as a weighted average of the costs of equity capital and debt, and the relevant proportions of total capital are decisive. The costs of equity capital correspond to the expectations of return held by our shareholders. The discount rate of 8.9 % before tax is based on a weighted average cost of capital calculation within the debt or equity capital structure and on the costs of finance.

During the fiscal year 2007, the SURTECO Group assessed that it was not necessary to carry out an impairment test with respect to the cash generating units to which goodwill with an unlimited period of use was allocated.

Income taxes are determined in accordance with the tax regulations of the countries in which the company is operating. It also includes tax relief claims arising from the anticipated utilization of existing losses carried forward in subsequent years and where there is sufficient likelihood that they will be realized.

Deferred taxes are determined on the basis of the liability method. According to this method, deferred taxes result from temporary difference between the carrying amount (value) of an asset or a liability in the balance sheet and the tax value. Deferred tax liabilities are reported for all taxable temporary differences, with the exception of:

- deferred tax liability from the first-time recognition of goodwill or an asset or liability arising from a transaction which is not a business combination and at the point in time of the transaction neither influences the result for the period nor taxable earnings, and

- deferred tax liability arising from the taxable temporary differences which occur in conjunction with shareholdings in subsidiary companies, associated enterprises and shares in joint ventures, if the temporal reversal of the temporary differences can be controlled and it is unlikely that the temporary differences will not be reversed in the foreseeable future.

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

- deferred tax assets comprising deductible temporary differences from first-time recognition of an asset or a liability arising from transaction that is not a business combination and at the point in time of the transaction neither influences the result for the period nor the taxable earnings, and

- deferred tax assets arising from temporary differences which occur in conjunction with shareholdings in subsidiary companies, associated enterprises and shares in joint ventures, if it is likely that the temporary differences will not be reversed in the foreseeable future and no appropriate taxable earnings will be available against which the temporary differences can be used.

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

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

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

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

Pension and similar obligations comprise obligations arising from regulations relating to company retirement provision, partial retirement and anniversary bonuses. The pension funds were closed in the past and new employees joining the company receive no payments from the company pension scheme. Pension provisions are valued using the projected unit credit method in accordance with IAS 19. This method recognizes the pensions and projected unit credits acquired on the balance sheet date. It also takes account of the increases in pensions and salaries anticipated in the future with prudent estimation of the relevant parameters. The calculation has been carried out using actuarial methods taking into account biometric accounting principles.

The expense of allocating pension provisions, including the interest portion contained therein, is reported under "Personnel expenses". Actuarial gains or losses from defined benefit plans are reported under equity capital with no effect on income ("Other comprehensive income").

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

	2006 %	**2007** %
Interest rate	4.50	5.25
Salary increases	2.00	2.00
Pension increases	2.00	2.00

Provisions have been set up 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. Reserves for warranty claims are formed on the basis of previous or estimated future claims. Other reserves have also been recorded in accordance with IAS 37 for all recognizable risks and uncertain obligations in the amount of their probable occurrence and not recognized with rights of recourse.

The item **Minority interests** includes equity shares held by third parties in a Group company.

Decisions of judgment and estimates

The preparation of the consolidated financial statements in accordance with IFRS requires decisions of judgment, estimates and assumptions of the management to be made in the case of some balance sheet items, which exert effects on the level and recognition of the assets and liabilities, income and expenses, and the contingent liabilities in the balance sheet. The main areas of application for assumptions and estimates arise in the establishment of the period of use of fixed assets, the determination of discounted cash flows within the scope of the impairment test and the formation of reserves for legal proceedings, pension benefits for employees and corresponding deductions, taxes, inventory valuations, price reductions, product liability and warranties. Our estimates are based on qualitative values and other assumptions that are regarded as reasonable under the given circumstances. Actual values may deviate from the estimates. The estimates and assumptions are continually reviewed.

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 accounting principles published by us, which have to be based on estimates, do not necessarily exert significant effects on our reporting. There is only the possibility of significant effects. The most important accounting and valuation principles are described in the notes to the consolidated financial statements.

IX. NOTES TO THE CONSOLIDATED INCOME STATEMENT

(1) Sales revenues

Sales revenues for the Group are segmented as follows:

[€ 000s]	2006	**2007**
Business (product)		
Edgebanding systems	218,156	220,390
Foils	76,939	83,200
Skirtings	21,641	26,083
Do-It-Yourself sector	21,328	16,824
Printing	19,333	21,908
Technical extrusions	16,287	17,431
Cladding systems	8,947	9,182
Other	20,525	19,501
	403,156	**414,519**
Geographical (regions)		
Germany	145,546	144,940
Abroad	257,610	269,579
	403,156	**414,519**

(2) Other own work capitalized

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

(3) Cost of materials

Composition of the cost of materials in the Group:

[€ 000s]	2006	**2007**
Cost of raw materials, consumables and supplies and purchased merchandise	169,524	173,872
Cost of purchased services	4,291	3,690
	173,815	**177,562**

(4) Personnel expenses

The following table shows personnel expenses:

[€ 000s]	2006	**2007**
Wages and salaries	85,905	86,103
Social security contributions	15,309	15,734
Pension costs	1,193	1,207
	102,407	**103,044**

In the case of defined-contribution pension provision systems, the company pays contributions to state pension insurance institutions based on statutory obligations. These payments entail no further obligations for the company to make payments. The current contribution payments are included as expenses under social deductions for the relevant year.
Contributions are included under personnel expenses that result from the addition of accrued interest/discounting of pension accruals and similar obligations.

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

	2006			**2007**		
	Industrial	Salaried	Total	**Industrial**	**Salaried**	**Total**
Production	1,070	128	1,198	1,097	133	1,230
Sales	13	274	287	13	272	285
Engineering	81	31	112	90	31	121
Research and development, quality assurance	40	50	90	43	53	96
Administration/ Materials management	114	258	372	120	269	389
	1,318	**741**	**2,059**	**1,363**	**758**	**2,121**

The number of employees by regions is as follows:

	2006	**2007**
Germany	1,434	1,443
European Union	81	161
Rest of Europe	0	1
Asia/Australia	162	163
America	382	353
	2,059	**2,121**

(5) Other operating expenses

The following table shows how operating expenses are structured:

[€ 000s]	2006	**2007**
Operating expenses	15,191	16,290
Sales expenses	31,336	33,571
Administrative expenses	16,187	15,744
Currency losses from operating expenses	602	170
Impairment losses	1,231	1,039
	64,547	**66,814**

The research and development (personnel and material costs) in the Group amounted to € 000s 3,900 (2006: € 000s 3,500).

Other operating expenses include the following fees for the Group auditor RöverBrönner KG:

[€ 000s]	2006	**2007**
Auditing	378	381
Tax consultancy	134	116
Other consultancy	278	97
	790	**594**

(6) Other operating income

The following table shows other operating income:

[€ 000s]	2006	**2007**
Release of unused amounts of provisions	759	599
Currency gains	626	883
Claims for compensation	291	620
Income from fixed asset disposals	359	133
Other operating expenses	2,534	2,126
	4,569	**4,361**

(7) Financial result

[€ 000s]	2006	**2007**
Other interest and similar income	407	1,531
Market valuation for financial derivatives	577	564
Interest income	**984**	**2,095**
Interest and similar expenses	-9,130	-10,895
Fair value measurement for financial derivatives	0	-123
Financial expenses	**-9,130**	**-11,018**
Earnings from associated enterprises	86	55
Financial result	**-8,060**	**-8,868**

On the basis of IAS 17 (Leases), the proportion of interest received in financial leasing instalments is recorded in the financial result.

(8) Income tax

Income tax expense is broken down as follows:

[€ 000s]	2006	**2007**
Current tax expenses		
- Germany	9,232	11,564
- Other countries	5,236	5,913
	14,468	**17,477**
Deferred taxes		
- from time differences	1,492	-2,479
- on losses carried forward	1,108	0
	2,600	-2,479
	17,068	**14,998**

The Act on Company Tax Reform 2008 reduces the rate of corporate income tax in Germany with effect from 1 January 2008 to 15 % plus 5.5 % solidarity surcharge, the average local business tax levy rate to approximately 14 %, while the deductibility of corporate income tax is excluded from the basis of assessment for corporate income tax. The significance of deferred taxes in the German companies is therefore attributed at 29.5 %.
The applicable local income tax rates for the foreign companies vary between 25 % and 40 %.

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

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:

	Deferred tax assets			Deferred tax liabilities		
[€ 000s]	2006	Change	**2007**	2006	Change	**2007**
Inventories	420	147	567	16	229	245
Receivables and other assets	146	145	291	94	562	656
Tax losses carried forward	182	-182	0	0	0	0
Property, plant and equipment	722	-449	273	24,645	-5,325	19,320
Intangible assets	0	30	30	1,082	526	1,608
Other non-current assets	1,543	-87	1,456	0	746	746
Financial liabilities	8,692	-2,184	6,508	0	2,384	2,384
Pension accruals	1,420	-487	933	124	82	206
Other liabilities	534	337	871	70	143	213
	13,659	**-2,730**	**10,929**	**26,031**	**-653**	**25,378**
Netting	-8,692	2,184	-6,508	-8,692	2,184	-6,508
	4,967	**-546**	**4,421**	**17,339**	**1,531**	**18,870**

Reconciliation between expected and actual tax expenditure is as follows:

[€ 000s]	2006	**2007**
Earnings before Taxes (EBT)	**46,026**	**46,613**
Expected income tax (39 %)	17,950	18,179
Reconciliation:		
Effects from changes in the tax rate	0	-3,191
Expenses not deductible from tax	195	78
Taxes not related to the reporting period	-1,398	-64
Other tax effects	321	-4
Income tax	**17,068**	**14,998**

Taxes recorded directly in equity

[€ 000s]	2006	**2007**
Actuarial changes arising from defined benefit plans	11	206
Fair value measurement of financial instruments	0	846
Actual taxes	0	-579
	11	**473**

(9) Earnings per share

	2006	**2007**
Number of shares issued	11,075,522	11,075,522
Net income after proportionate earnings of minority interests (€)	28,761,059	31,615,145
Earnings per share (€)	2.60	2.85

X. NOTES TO THE CONSOLIDATED BALANCE SHEET

(10) Cash and cash equivalents

Cash and cash equivalents include all liquid funds, sight deposits and extremely liquid financial investments available at short notice, which can be converted to cash at any time, and are only subject to insignificant fluctuations in value.

[€ 000s]	2006	**2007**
Cash in hand and bank balances	2,233	30,282
Fixed-term deposits	0	67,500
	2,233	**97,782**

(11) Trade accounts receivable

All trade accounts receivable have a residual term of less than one year. Provisions for specific debts and general bad debt charges have been recorded in the amount of € 000s 1,146 (2006: € 000s 1,321) to take account of general interest, processing and credit risks.

[€ 000s]	**2007**
1/1/	1,321
Addition (effect on expenses)	318
Recourse	-403
Release of unused amounts	-90
31/12/	**1,146**

The following table shows overdue amounts:

[€ 000s]		Trade receivables 2006	2007
Book value		**29,953**	**31,662**
of which: not overdue nor impaired		21,228	21,571
of which: not impaired on the balance sheet date and overdue in the following periods	up to 3 months	8,412	9,794
	3 - 6 months	168	152
	6-12 months	68	41
	more than 12 months	77	104

(12) Inventories

Inventories of the Group are comprised as follows:

[€ 000s]	2006	**2007**
Raw materials, consumables and supplies	20,753	26,941
Work and services in progress	3,689	7,891
Finished products and goods	35,421	32,827
	59,863	**67,659**

Impairments of € 000s 3,740 (2006: € 000s 2,289) are reported in inventories.

(13) Income tax assets

Claims arising from income tax are reported under this item.

Under the law on tax measures to accompany the adoption of European companies and amendment to additional tax regulations (SE Introductory Act, SeStEG) which came into force on 13 December 2006, a legal unconditional claim to refund of corporate income tax credits was granted for the first time with effect from 31 December 2006 (§ 37 Corporate Income Tax Act, KStG amended version). The credit will be paid out in ten equal annual instalments from 2008. The present value of the corporate income tax credit amounts to € 000s 1,479 (2006: € 000s 1,415).

(14) Other current assets

[€ 000s]		2006		**2007**
Tax credits (sales tax, wage tax)		576		511
Land		3,332		2,983
Prepaid expenses		716		898
Financial assets				
Financial derivatives	138		1,066	
Bonuses, receivables	1,437		958	
Debit balances in accounts payable	386		1,212	
		1,961		3,236
Other		1,872		2,136
		8,457		**9,764**

(15) Fixed assets

[€ 000s]	Property, plant and equipment	Intangible assets	Goodwill	Financial assets	Total
Acquisition costs					
1/1/2006	**318,768**	**11,764**	**144,678**	**1,917**	**477,127**
Currency differences	-2,493	-230	-994	0	-3,717
Additions	23,601	341	0	21	23,963
Disposals	-6,411	-6	0	0	-6,417
Write-ups/Transfers	-810	810	0	0	0
31/12/2006	**332,655**	**12,679**	**143,684**	**1,938**	**490,956**
Currency differences	-3,611	-218	-802	0	-4,631
Changes in scope of consolidation	26,754	14	224	0	26,992
Write-ups	28,293	1,816	17,918	96	48,123
Additions	-4,050	-477	0	-94	-4,621
Write-ups	0	529	0	0	529
Transfers	-117	117	0	0	0
31/12/2007	**379,924**	**14,460**	**161,024**	**1,940**	**557,348**
Depreciation and amortization					
1/1/2006	**162,720**	**7,073**	**46,651**	**0**	**216,444**
Currency differences	-373	-28	-512	0	-913
Additions	16,599	1,013	0	0	17,612
Disposals	-4,914	0	0	0	-4,914
31/12/2006	**174,032**	**8,058**	**46,139**	**0**	**228,229**
Currency differences	-1,301	-43	-450	0	-1,794
Changes in scope of consolidation	18,899	12	0	0	18,911
Additions	17,947	1,110	0	0	19,057
Disposals	-3,677	-403	0	0	-4,080
Write-ups	48	503	0	0	551
31/12/2007	**205,948**	**9,237**	**45,689**	**0**	**260,874**
Book value at 31/12/2007	**173,976**	**5,223**	**115,335**	**1,940**	**296,474**
Book value at 31/12/2006	**158,623**	**4,621**	**97,545**	**1,938**	**262,727**

(16) Property, plant and equipment

Property, plant and equipment is comprised as follows:

[€ 000s]	Land and buildings	Leased land and buildings (finance leasing)	Technical equipment and machines	Other equipment, factory and office equipment	Payments on account and assets under construction	Total
Acquisition costs						
1/1/2006	**82,333**	**29,434**	**151,944**	**52,578**	**2,479**	**318,768**
Currency adjustment	-902	-18	-1,415	-135	-23	-2,493
Additions	3,394	0	9,184	3,857	7,166	23,601
Disposals	-964	0	-2,312	-3,024	-111	-6,411
Write-ups/ Transfers	156	-155	1,840	355	-3,006	-810
31/12/2006	**84,017**	**29,261**	**159,241**	**53,631**	**6,505**	**332,655**
Currency adjustment	-1,396	0	-1,967	-229	-19	-3,611
Changes in scope of consolidation	3,176	0	20,192	3,386	0	26,754
Additions	5,991	0	13,094	6,118	3,090	28,293
Disposals	-175	0	-1,468	-2,274	-133	-4,050
Write-ups/ Transfers	2,435	0	2,798	269	-5,619	-117
31/12/2007	**94,048**	**29,261**	**191,890**	**60,901**	**3,824**	**379,924**
Depreciation and amortization						
1/1/2006	**25,642**	**4,328**	**93,749**	**39,001**	**0**	**162,720**
Currency adjustment	-2	-17	-187	-167	0	-373
Additions	2,257	729	9,510	4,103	0	16,599
Disposals	-682	0	-1,644	-2,588	0	-4,914
Write-ups/ Transfers	155	-154	-173	172	0	0
31/12/2006	**27,370**	**4,886**	**101,255**	**40,521**	**0**	**174,032**
Currency adjustment	-185	0	-860	-256	0	-1,301
Changes in scope of consolidation	1,023	0	15,053	2,823	0	18,899
Additions	2,652	729	10,359	4,207	0	17,947
Disposals	-291	0	-1,175	-2,211	0	-3,677
Write-ups/ Transfers	-2	-3	162	-109	0	48
31/12/2007	**30,567**	**5,612**	**124,794**	**44,975**	**0**	**205,948**
Book value at 31/12/2007	**63,481**	**23,649**	**67,096**	**15,926**	**3,824**	**173,976**
Book value at 31/12/2006	**56,647**	**24,375**	**57,986**	**13,110**	**6,505**	**158,623**

The review of the recoverable amount for property, plant and equipment resulted in an impairment amounting to € 000s 740 (2006: € 000s 0) on Technical equipment and machines in the Strategic Business Unit Paper during the year under review.

During the reporting year, other assets were reclassified into land and buildings which were reported as additions under acquisition costs (€ 000s 694) and under depreciation and amortization (€ 000s 180).

Finance leasing contracts were concluded over a basic leasing period of between 15 and 25 years and after the expiry of the basic leasing period provided for a purchase option or the option of extending the contract at least once for a period of 5 years. Apart from finance leasing contracts, the SURTECO Group has also concluded rental and leasing contracts that qualify as operating lease contracts on the basis of their commercial profile, whereby the lease item should be reported by the lessor.

(17) Intangible assets

Intangible assets comprise primarily IT software.

	Concessions, patents, licences and similar rights	
[€ 000s]	2006	**2007**
Acquisition costs		
1/1/	**11,764**	**12,679**
Currency adjustment	-230	-218
Changes in scope of consolidation	0	14
Additions	341	1,816
Disposals	-6	-477
Write-ups / Transfers	810	646
31/12/	**12,679**	**14,460**
Depreciation and amortization		
1/1/	**7,073**	**8,058**
Currency adjustment	-28	-43
Changes in scope of consolidation	0	12
Additions	1,013	1,110
Disposals	0	-403
Write-ups / Transfers	0	503
31/12/	**8,058**	**9,237**
Book value at 31/12/	**4,621**	**5,223**

(18) Goodwill

Goodwill comprises the following amounts from the takeover of business operations (asset deals) and from capital consolidation.

Goodwill developed as follows:

[€ 000s]	2006	**2007**
1/1/	**98,027**	**97,545**
Currency adjustment	-482	-352
Addition	0	18,142
31/12/	**97,545**	**115,335**

Goodwill is comprised as follows:

[€ 000s]	2006	**2007**
Strategic Business Unit Paper	6,878	6,878
Strategic Business Unit Plastics	90,667	108,457
	97,545	**115,335**

(19) Financial assets

[€ 000s] **Acquisition costs**	**Investments**	**Investments accounted for using the equity method**	**Total**
1/1/2006	**167**	**1,750**	**1,917**
Additions	0	86	86
Disposals	0	-65	-65
31/12/2006	**167**	**1,771**	**1,938**
Additions	41	55	96
Disposals	0	-94	-94
31/12/2007	**208**	**1,732**	**1,940**

Additions under participations relate to the establishment of the Turkish subsidiary company. Detailed information on the participations and associated enterprises are omitted for reasons of materiality.

(20) Income tax liabilities

Income tax liabilities include the income tax due for the fiscal year 2007 or earlier business years and not yet paid, and the anticipated tax payments for previous years. Deferred taxes are not included.

(21) Short-term provisions

[€ 000s]	1/1/2007	Expense	Release	Allocation	31/12/2007
Warranty	1,135	-97	-774	219	483
Fair value measurement for financial derivatives	577	0	-131	0	446
Legal disputes	10	0	0	303	313
Other	235	-1	-50	31	215
	1,957	**-98**	**-955**	**553**	**1,457**

Financial derivatives with a term of less than one year are recognized under "Short-term accrued expenses".

(22) Other current liabilities

[€ 000s]	2006	**2007**
Liabilities to employees	11,144	12,956
Bonuses and promotion costs	962	2,031
Debit balances in accounts payable	1,171	1,859
Tax liabilities	573	138
Social insurance against occupational accidents	553	525
Supervisory Board remuneration	464	512
Other	3,287	1,804
	18,154	**19,825**
- of which social security	461	990

(23) Debt and other financial liabilities

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

The debt is secured in the amount of € 000s 5,151 (2006: € 000s 6,057) by charges on property.

In the business year 2007, a loan amounting to some € 150 million was raised in the form of a US private placement. The US private placement comprised a US$ tranche amounting to US$ 70 million with a term of 10 years and euro tranches of € 100 million with terms of 7 or 12 years. The loans are repayable on maturity and are fixed-interest agreements charged at 5.5% - 5.7% before hedging. The capital payment and interest flows in US$ were fully hedged in euros with interest and currency swaps. This entailed the following effects during the year under review: realization of interest income amounting to € 000s 257, increase in equity capital (before deduction of deferred taxes) by € 000s 4,366 through direct recording of the cash flow hedge under the item market valuation financial instruments, reduction of the US-$ liability by € 000s 4,226 on the basis of the valuation on the balance sheet date and recording of the negative market value of the hedging transactions amounting to € 000s 1,853 under other liabilities with no effect on income. Fixed-interest agreements have been mainly agreed for the other non-current banking liabilities with interest rates in a range between 3.75 % and 6.30 %. Short-term debts mainly relate to loans for supplies mostly subject to variable interest rates.

Short-term debt includes short-term credit lines that have been drawn down and variable-interest credit lines for operations, the short-term proportion of loan liabilities and finance leasing liabilities of € 000s 1,429 (2006: € 000s 1,332).

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

[€ 000s]	2006	**2007**
Leasing payments to be made in the future		
due in less than one year	2,890	2,890
due between one year and five years	11,558	11,558
due after more than five years	19,819	16,930
Interest share		
due in less than one year	-1,558	-1,461
due between one year and five years	-5,191	-4,728
due after more than five years	-4,777	-3,779
Present value		
due in less than one year	1,332	1,429
due between one year and five years	6,367	6,830
due after more than five years	15,042	13,151
	22,741	**21,410**

The other non-current financial liabilities are comprised as follows:

[€ 000s]	2006	**2007**
Fair value measurement of financial derivatives	0	1,853
Other	307	0
	307	**1,853**

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

[€ 000s]	2006 1-5 years	2006 more than 5 years	2006 Total	**2007** **1-5 years**	**2007** **more than 5 years**	**2007** **Total**
Financial liabilities						
- of which to banks	45,964	10,911	56,875	50,745	149,786	200,531
- of which from finance lease	6,367	15,042	21,409	6,830	13,150	19,980
	52,331	**25,953**	**78,284**	**57,575**	**162,936**	**220,511**
Other liabilities	307	0	307	0	1,853	1,853
	52,638	**25,953**	**78,591**	**57,575**	**164,789**	**222,364**

(24) Pensions and similar obligations

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

[€ 000s]	**Pensions**	**Partial retirement**	**Anniversary bonuses**	**Total**
1/1/2006	**9,093**	**2,911**	**1,081**	**13,085**
Payments	-426	-708	-53	-1,187
Current service expense	262	447	226	935
Interest expense	383	0	0	383
Actuarial gains / losses	-29	0	-10	-39
Release	-36	-46	0	-82
	9,247	**2,604**	**1,244**	**13,095**
Plan assets	-31	-433	0	-464
31/12/2006	**9,216**	**2,171**	**1,244**	**12,631**
Payments	-584	-172	-30	-786
Current service expense	283	-466	42	-141
Interest expense	385	0	0	385
Actuarial gains / losses	-699	0	0	-699
Release	-78	-25	-4	-107
	8,523	**1,508**	**1,252**	**11,283**
Plan assets	81	-122	0	-41
31/12/2007	**8,604**	**1,386**	**1,252**	**11,242**

The Group recognizes actuarial gains and losses from defined-benefit plans in shareholders' equity (Other comprehensive income). The amount allocated for 2007 taking into account deferred tax is € 000s 494 (2006: € 000s 18).

(25) Shareholders' equity

The subscribed capital **(capital stock)** of SURTECO SE is € 11,075,522.00. It is divided into 11,075,522 no-par-value bearer shares (ordinary shares) corresponding to a proportion of the capital stock of € 1.00 each.

The Board of Management is authorized to increase the capital stock of the company once or in several stages in the period to 7 July 2010 by overall up to € 1,100,000.00, with the consent of the Supervisory Board by the issue of no-par-value bearer shares, for a cash consideration (**Authorized capital I**). The Board of Management is entitled, with the consent of the Supervisory Board, to exclude the pre-emptive right of shareholders up to a proportionate amount of the capital stock of € 1,100,000.00, if the new shares are issued at an issue amount, which is not significantly lower than the stock-market price. The Board of Management is further authorized to have the new shares taken over by a bank or a company operating pursuant to § 53 (1) Sentence 1 or § 53 b (1) Sentence 1 or (7) of the German Banking Act (KWG), with the obligation to offer them for purchase to shareholders. If the Board of Management does not make use of the above authorizations to exclude pre-emptive rights, the pre-emptive right of the shareholders may only be excluded for equalization of fractions. The Board of Management decides on the additional content of share rights and the conditions of issue, with the consent of the Supervisory Board.

The Board of Management is authorized to increase the capital stock of the company once or in several stages in the period to 7 July 2010 by overall up to € 4,400,000.00, with the consent of the Supervisory Board by the issue of no-par-value bearer shares, for a cash or a non-cash consideration (**Authorized capital II**). In the case of a capital increase for a cash consideration, the shareholders should be granted a pre-emptive right, although the Board of Management is authorized to exclude the fractions from shareholders' statutory pre-emptive right. The Board of Management is further authorized to have the new shares taken over by a bank or a company operating pursuant to § 53 (1) Sentence 1 or § 53 b (1) Sentence 1 or (7) of the German Banking Act (KWG), with the obligation to offer them for purchase to shareholders. In the case of a capital increase for a non-cash consideration, the Board of Management is entitled to exclude the statutory pre-emptive right of shareholders. The Board of Management decides on the additional content of share rights and the conditions of issue, with the consent of the Supervisory Board.

Capital reserve

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

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

Retained earnings

Retained earnings include:

- Transfers from the net income of the Group,
- Offsetting of actuarial gains and losses with no effect on income,
- Differences arising from currency translations of annual financial statements of foreign subsidiaries with no effect on income,
- Effects arising from valuation of derivative financial instruments with no effect on income

Dividend proposal

The dividend payout of SURTECO SE is based on net profit reported in the financial statements of SURTECO SE drawn up in accordance with commercial law in conformity with § 58 (2) of the Stock Corporation Act (Aktiengesetz, AktG). The financial statements drawn up in accordance with commercial law have recorded a net profit of € 000s 12,183 (2006: € 000s 11,079). The Board of Management and Supervisory Board of SURTECO SE propose to the Annual General Meeting a dividend payout of € 1.10 (2006: € 1.00) per share, amounting to a total of € 000s 12,183 (2006: € 000s 11,076). The Board of Management further recommends carrying forward the residual amount of € 000s 0 (€ 000s 4) as profit carried forward.

(26) Other financial obligations

[€ 000s]	2006	**2007**
Rental and operate leasing contracts, due		
- within one year	808	916
- between one year and five years	2,125	917
- more than five years	0	0
Purchase committment	0	13,745
Commitments from orders	4,476	0
Obligation arising from company purchase	2,900	0
	10,309	**15,578**

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.

Payments from leasing arrangements in the period are recorded in the amount of € 000s 2,194 (2006: € 000s 1,332).

(27) Capital management

The targets of capital management are derived from financial strategy. This includes safeguarding liquidity and guaranteeing access to the capital market. Measures for achieving the goals of capital management are optimization of the capital structure, equity capital measures, acquisitions and divestments, as well as the reduction of debts.

The dividend was increased during the year under review. Cash flow not required for investments and dividend payments was used to reduce the existing net debt. The private placement of the loan is directed towards the future-oriented strategy of the Group. Apart from the measure described, the acquisitions exerted an effect on the balance sheet ratios and the balance sheet total.

Our financial controlling is based on the indicators defined in our finance strategy. The interest cover factor was 7.9 (2006: 8.3) in 2007. The debt-service coverage ratio was 33.7 % (2006: 36.3 %) in 2007. The equity ratio was 36.1 % (2006: 44.4 %).

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

(28) Financial instruments and financial risk management

Corporate Treasury controls centrally the currency and interest-management of the Group and correspondingly the key transactions with financial derivatives and other financial instruments. In individual cases, currency hedging transactions are concluded at the foreign subsidiaries in close consultation with central treasury. Contract partners are major German and international banks. Financial instruments and derivatives are used exclusively to hedge interest and currency risks.

The currency and interest-risk management of the Group is supported by a treasury system that is used to identify, evaluate and analyze currency and interest-rate risks. The subsidiaries report on their key currency and interest-rate risks within the scope of Group reporting. These risk positions are then analyzed and evaluated on the basis of attributes relevant to decision-making.

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

[€ 000s]	Category acc. to IAS 39	Book value 31/12/2006	Market value 31/12/2006	Book value 31/12/2007	Market value 31/12/2007
Assets					
Cash and cash equivalents	LaR	2,233	2,233	97,782	97,782
Trade receivables	LaR	29,953	29,953	31,662	31,662
Other assets	LaR	4,445	4,445	5,048	5,048
Other investments	AfS	167	167	208	208
Derivatives not designated as hedging instruments	FAHfT	138	138	1,066	1,066
Liabilities					
Financial liabilities	FLAC	107,271	107,271	225,999	230,101
Liabilities from finance leasing	n.a.	22,741	22,741	21,409	21,409
Trade liabilities	FLAC	22,744	22,744	22,580	22,580
Other miscellaneous liabilities	FLAC	16,636	16,636	18,633	18,633
Derivative financial liabilities					
- not designated as hedging instruments	FLHfT	577	577	446	446
- designated as hedging instruments	n.a.	0	0	1,852	1,852
Of which aggregated according to valuation categories in accordance with IAS 39					
Loans and Receivables	LaR	36,632	36,632	134,492	134,492
Available for Sale Financial Assets	AfS	167	167	208	208
Financial Assets Held for Trading	FAHfT	138	138	1,066	1,066
Financial Liabilities Measured at Amortised Cost	FLAC	146,652	146,652	267,212	271,314
Financial Liabilities Held for Trading	FLHfT	577	577	446	446

Key to abbreviations

FAHfT	Held for Trading
LaR	Loans and Receivables
AfS	Available for Sale
FLAC	Financial Liability at Amortised Cost
FLHfT	Financial Liability Held for Trading

The market values of financial instruments at 31/12/2006 do not differ significantly from their book values.

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

Derivative financial instruments

The SURTECO Group may be affected by risks arising from changes in interest rate and exchange rates during the course of its business activities. Derivative financial instruments are used exclusively for hedging purposes and to reduce risks. Only commercial instruments with sufficient market liquidity are used. Derivative financial positions for trading purposes are not held. Risk assessments and checks are carried continuously.

Derivative financial instruments are concluded to reduce credit risks exclusively with internationally recognized financial institutes. In addition, all transactions are monitored by the central finance department of SURTECO SE.

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

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

Nominal and market values of derivative financial instruments:

[€ 000s]	2006		**2007**	
	Nominal amount	Market value	**Nominal amount**	**Market value**
Interest-related transactions	46,630	-310	41,904	-99
Currency-related transactions	9,662	232	2,704	-27
Interest- and currency-related transactions	0	0	50,892	-1,582
Hedging a planned transaction	0	0	0	495
	56,292	**-78**	**95,500**	**-1,213**

Negative market values of derivative financial instruments are reported under "Other current liabilities".

Sensitivity analysis

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

[€ 000s]	Income statement 100 bp Rise	Income statement 100 bp Fall	Equity 100 bp Rise	Equity 100 bp Fall
31/12/2007				
Variable-interest instruments	24	-327	24	-327
Derivatives	573	-111	573	-111
Total	**597**	**-438**	**597**	**-438**
31/12/2006				
Variable-interest instruments	-238	238	-238	238
Derivatives	895	369	895	369
Total	**657**	**607**	**657**	**607**

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

A rise in key foreign currencies for the Group against the Euro would exert the following effects on the Group:

[€ 000s]	Income statement 10 % Rise	Income statement 10 % Fall	Equity 10 % Rise	Equity 10 % Fall
31/12/2007				
Financial instruments	580	-709	580	-709
Currency swaps	0	0	-2,501	-1,114
Total	**580**	**-709**	**-1,921**	**-1,823**
31/12/2006				
Financial instruments	990	-1,210	990	-1,210
Currency swaps	0	0	0	0
Total	**990**	**-1,210**	**990**	**-1,210**

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

Interest and currency risks

The global nature of the business activities of the SURTECO Group results in delivery and payment flows in different currencies. Invoicing in euros is the preferred method of accounting. Currency risks arising from the procurement of raw materials are negligible since the majority of procurement is carried out in euros. Interest risks are mainly incurred for short-term debt. The majority of long-term debt is structured with fixed-interest rates. SURTECO SE meets the remaining interest and currency risks by hedging positions with derivative financial instruments and regular and intensive observation of a range of early-warning indicators. Cost-effective hedging is a prerequisite. In order to limit exchange-rate risks associated with changes in interest rates, the Group practices a policy of systematic currency and interest management. This is controlled centrally by the holding company in Germany.

Liquidity risks

Corporate Treasury monitors and controls the development of liquidity for the major subsidiary companies. This provides an up-to-date picture of liquidity development at any time. The high levels of free cash flow and the short payment targets mean that SURTECO always has adequate liquid funds available. There is also the option of drawing on open credit lines.

Credit risks

The credit rating of contracting parties is regularly reviewed. The risk arising from debit balances in accounts payable is low on account of the broadly based customer structure and appropriate credit insurance policies. In addition, the development of accounts receivable and liabilities are monitored by Group Controlling and by the subsidiary companies.

XI. SUPPLEMENTARY INFORMATION

(29) Notes to the cash flow statement

The cash flow statement was prepared in accordance with IAS 7. It is structured on the basis of cash flows arising from operating activities and those arising from investment and financing activities. The effects of changes in the group of companies consolidated are eliminated in the relevant items. The cash flows arising from investment and financing activities are calculated on the basis of payments, the cash flow arising from operating activity is derived indirectly from earnings before taxes and minority interests. Compared with the previous year, the initial figure for the cash flow statement is earnings before tax and minority interest.

The financial resources only include the cash and cash equivalents of the SURTECO Group included in the balance sheet. Whereas 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 gains on disposal of assets, are eliminated in cash flow from operating activities.

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

(30) Segment reporting

Segment reporting has been carried out in accordance with the "internal structure of the Group" (IAS 14: "Management Approach"). This involves the internal organizational structure of the company being split into the two Strategic Business Units (SBU) Paper and Plastics. Each company within the Group is assigned to the appropriate segment in accordance with the list "Shareholder structure".

- The Strategic Business Unit Paper (SBU Paper) comprises the production and sale of melamine-coated edgings, finish foils and laminates, and the printing of specialist technical papers for use in the international furnishing industry.

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

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

The presentation of segment reporting according to regional markets has changed compared with the previous year such that the classification of sales revenues is by the domicile of the customer and not by the domicile of the transacting Surteco company. The figures for the previous year were adjusted accordingly.
In segment information according to regions, sales are determined on the basis of the domicile of the customer site. Recognition of segment assets is reduced by prepaid income tax and deferred tax, segment liabilities by financial liabilities, tax liabilities and deferred taxes.
The business relationships between the companies in the segments are organized on the basis of dealing-at-arms-length. Administrative services are allocated on the basis of cost.
The same accounting and valuation principles are used as in the consolidated financial statements.

By Strategic Business Units [€ 000s]	SBU PAPER	SBU PLASTICS	RECONCI-LIATION	SURTECO GROUP
2007				
Income Statement				
Sales revenues	167,710	249,395	-2,586	414,519
- with outside third parties	166,245	248,274	0	414,519
- with other segments	1,465	1,121	-2,586	0
Depreciation and amortization	9,528	9,236	113	18,877
Segment earnings before participations, interest and taxes	21,897	38,513	-4,929	55,481
Income from other participations	55	0	0	55
Balance sheet				
Assets	156,264	244,411	114,106	514,781
Liabilities	65,879	59,902	203,345	329,126
Net assets	90,385	184,509	-89,239	185,655
Book value of participations recorded at equity	1,732	0	0	1,732
Investments in property, plant and equipment	20,200	9,896	13	30,109
Employees	780	1,327	14	2,121
2006				
Income Statement				
Sales revenues	174,045	231,469	-2,358	403,156
- with outside third parties	171,935	231,221	0	403,156
- with other segments	2,110	248	-2,358	0
Depreciation and amortization	8,999	8,501	112	17,612
Segment earnings before participations, interest and taxes	22,644	37,037	-5,595	54,086
Income from other participations	86	0	0	86
Balance sheet				
Assets	149,651	211,800	11,747	373,198
Liabilities	65,451	51,753	90,316	207,520
Net assets	84,200	160,047	-78,569	165,678
Book value of participations recorded at equity	1,771	0	0	1,771
Investments in property, plant and equipment	12,410	10,896	295	23,601
Employees	799	1,246	14	2,059

By regional markets [€ 000s]	Sales revenues	Segment assets	Segment liabilities	Investments in property, plant and equipment and intangible assets
2007				
Germany	144,940	377,526	30,813	26,052
European Union	173,971	39,030	13,352	1,914
America	58,402	27,277	6,423	783
Asia/Australia	34,289	34,850	6,754	1,360
Reconciliation	2,917	36,098	271,764	0
SURTECO GROUP	**414,519**	**514,781**	**329,106**	**30,109**
2006				
Germany	145,546	343,613	33,847	17,750
European Union	157,043	22,400	8,698	303
America	66,056	25,528	5,645	895
Asia/Australia	31,041	41,743	9,064	4,653
Reconciliation	3,470	60,084	151,343	-
SURTECO GROUP	**403,156**	**493,368**	**208,597**	**23,601**

(31) Remuneration for the executive officers and former executive officers

Supervisory Board:
Total compensation for the Supervisory Board for the fiscal year 2007 amounted to € 000s 508 (2006: € 000s 464).

Incentive-based remuneration for the Board of Management:
The remuneration for the Members of the Board of includes a small fixed element and a primarily variable element. The variable element is a bonus based on earnings and is calculated on the basis of the Earnings Before Tax (EBT) of the Group in accordance with IFRS taking the return on sales into account. The remuneration of the active members of the Board of Management amounted to a total of € 000s 3,494 (2006: € 000s 3,921), of which € 000s 504 was attributable to fixed salary, € 000s 2,888 to the earnings dependent bonus and € 000s 102 to other fixed salary elements. In accordance with § 286 Section 5 German Commercial Code (HGB), reporting of information on individual remuneration in accordance with § 285 sentence 1 no. 9 letter a sentences 5 to 9 German Commercial Code (HGB) will not be implemented on account of the resolution of the Annual General Meeting dated 22 June 2006 and 31 August 2007.

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

On the balance sheet date, 7,130 shares (2006: 7,130) of the company were held by the members of the Board of Management and 170,455 shares (2006: 170,075) were held by the members of the Supervisory Board.

(33) Events after the balance sheet date

No events or developments occurred up until 3 April 2008 which could have resulted in a significant change to the recognition or valuation of individual assets or liabilities at 31 December 2007. A key event in the business year 2008 is completion of the acquisition of a stake by SURTECO in the wood-based materials manufacturer Pfleiderer AG, Neumarkt, in the form of a package of shares amounting to 3.02 % of the capital stock.

XII. EXECUTIVE OFFICERS OF THE COMPANY (at 31/12/2007)

Board of Management

Name	Memberships in other companies*:
Friedhelm Päfgen Businessman Buttenwiesen-Pfaffenhofen Chairman, SBU Paper	Deputy Chairman of the Supervisory Board of Döllken-Kunststoffverarbeitung GmbH, Gladbeck Member of the Supervisory Board of Pfleiderer AG, Neumarkt
Dr.-Ing. Herbert Müller Engineer Heiligenhaus SBU Plastics	Chairman of the Supervisory Board of Döllken-Kunststoffverarbeitung GmbH, Gladbeck Chairman of the Supervisory Board of Ewald Dörken AG, Herdecke

Supervisory Board

Name	Memberships in other companies*:
Shareholder representatives	
Dr.-Ing. Jürgen Großmann Chairman of the Board of Management of RWE Aktiengesellschaft Essen Chairman	Member of the Supervisory Board of Deutsche Bahn AG, Berlin Member of the Supervisory Board of Volkswagen AG, Wolfsburg Member of the Supervisory Board of MTU Friedrichshafen GmbH/Tognum AG, Friedrichshafen (until 31/12/2007) Member of the Supervisory Board of – British American Tobacco (Industrie) GmbH, Hamburg – BATIG Gesellschaft für Beteiligungen mbH, Hamburg – British American Tobacco (Germany) Beteiligungen GmbH, Hamburg Member of the Advisory Council of Ardex GmbH, Witten Member of the Board, Hanover Acceptances Limited, London Member of the Supervisory Board of Messer Group GmbH (until 31/12/2007) Member of the Advisory Council of Evonik Trading GmbH (until 31/12/2007)
Björn Ahrenkiel Lawyer Hürtgenwald Vice Chairman	
Bernd Dehmel Businessman Marienfeld Deputy Chairman	

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

Dr. Matthias Bruse Lawyer Munich	Member of the Supervisory Board of Klöpfer & Königer GmbH & Co. KG, Garching Member of the Supervisory Board of Rheinkalk GmbH, Wülfrath (until 14/05/2007) Member of the Supervisory Board of Smart IPO AG, Munich Member of the Supervisory Board of Wacker Construction Equipment AG, Munich (from 13/04/2007 to 18/10/2007)
Jakob-Hinrich Leverkus Businessman Hamburg	Member of the Advisory Council of Drewsen Spezialpapiere GmbH + Co. KG, Lachendorf Member of the Advisory Council of Dinse GmbH, Hamburg Member of the Supervisory Board of SFC, Smart Fuel Cell AG, Ottobrunn
Dr.-Ing. Walter Schlebusch Managing Director Banknotes Division Giesecke & Devrient GmbH Munich	
Employee representatives	
Hans-Jürgen Diesner Marketing Salesman Versmold	
Richard Liepert Chairman of the Works Council Wertingen	
Udo Semrau Chairman of the Works Council Gladbeck	

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

The Board of Management and the Supervisory Board of SURTECO SE have submitted a Declaration of Compliance pursuant to § 161 sentence 1 of the Stock Corporation Act (AktG) on 19 December 2007 and made this declaration available to shareholders on the website of the company. This declaration is intended to demonstrate compliance with all key aspects of the recommendations on conduct promulgated by the "Government Committee on the German Corporate Governance Code".

XIV. DISCLOSURE IN ACCORDANCE WITH § 25 OF THE SECURITIES TRADING ACT (WPHG) / § 160 SECTION 1 NO. 8 OF THE STOCK CORPORATION ACT (AKTG)

Pursuant to § 160 section 1 no. 8 of the Stock Corporation Act (AktG) we are required to disclose the content of the notifications received by us during the course of the business year pursuant to § 21 section 1 or section1a of the Securities Trading Act (WpHG). Persons are required to submit these notifications if their voting rights in SURTECO SE as a result of acquisition, disposal or other method directly or indirectly reaches, or exceeds or falls below 3 %, 5 %, 10 %, 15 %, 20 %, 25 %, 30 %, 50 % or 75 %. We received notice of the following thresholds being exceeded:

DISCLOSURE IN ACCORDANCE WITH § 25 OF THE SECURITIES TRADING ACT (WPHG) / § 160 SECTION 1 NO. 8 OF THE STOCK CORPORATION ACT (AKTG)

Shareholder	Date of reaching the threshold limit of the portfolio	Percentage of voting rights held		Addition (%)
Christa Linnemann, Gütersloh	18/3/2005	72.2495	§ 22 (2) WpHG	64.2209
Claus Linnemann, Gütersloh	18/3/2005	73.0873	§ 22 (2) WpHG	61.2883
Bernhard Schlautmann, Gütersloh	18/3/2005	72.0237	§ 22 (2) WpHG	65.0426
Elke Schlautmann, Hamburg	1/4/2002	74.2394	§ 22 (2) WpHG	72.2480
Katrin Schlautmann, Gütersloh	1/4/2002	74.2394	§ 22 (2) WpHG	72.2480
Christian Schlautmann, Gütersloh	1/4/2002	74.2394	§ 22 (2) WpHG	72.2480
Klöpferholz GmbH, Garching	1/4/2002	73.7969	§ 22 (2) WpHG	52.9312
Klöpfer & Königer GmbH & Co. KG, Garching	1/4/2002	73.7969	§ 22 (1) No. 1 WpHG § 22 (1) No. 1 iVm § 22 (2) WpHG	20.8657 52.9312
Gustav und Catharina Schürfeld, Stiftung, Lachendorf	1/4/2002	74.4834	§ 22 (2) WpHG	72.1421
G.Schürfeld + Co. (GmbH & Co.), Hamburg	1/1/2007	6.4155	§ 22 (1) No. 1 WpHG	6.4155
G.A.Schürfeld Verwaltungs GmbH, Hamburg	1/1/2007	6.4155	§ 22 (1) No. 1 WpHG	6.4155
PKG Schürfeld GmbH, Hamburg	1/1/2007	6.4155		
Jens Schürfeld, Hamburg	1/1/2007	11.9306	§ 22 (1) No. 1 WpHG	6.4155
Johan Viktor Bausch, Munich	1/4/2002	73.8181	§ 22 (2) WpHG § 22 (1) No. 4 WpHG	69.3983 0.1580
J.V.Bausch GmbH & Co. Vermögensverwaltungs KG, Grünwald	9/3/2006	70.4653	§ 22 (2) WpHG	68.6596
J. V. Bausch GmbH, Grünwald	9/3/2006	70.4653	§ 22 (1) No. 1 WpHG § 22 (2) WpHG	1.8057 68.6596
Ricarda Bausch, Glashütten	1/4/2002	73.8283	§ 22 (2) WpHG § 22 (1) No. 6 WpHG	73.4110 0.0213
Oliver Bausch, Osnabrück	1/4/2002	73.8290	§ 22 (2) WpHG	73.3773
Th. Bausch GmbH & Co. Vermögensanlage KG, Berlin	1/4/2002	73.7969	§ 22 (2) WpHG	65.5132
Dr. Dr. Thomas Bausch, Berlin	1/4/2002	74.2715	§ 22 (1) No. 1 WpHG § 22 (1) No. 1 iVm § 22 (2) WpHG	8.2837 65.5132
Coralie Anna Bausch, Berlin	1/4/2002	73.8111	§ 22 (2) WpHG	73.6550
Camilla Bausch, Berlin	1/4/2002	73.8330	§ 22 (2) WpHG	73.6550
Constanze Bausch, Berlin	1/4/2002	73.8181	§ 22 (2) WpHG	73.6550
Marion Ramcke, Hanover	1/4/2002	73.8725	§ 22 (2) WpHG	70.7774
Hans Christian Ahrenkiel, Hürtgenwald	1/4/2002	73.8612	§ 22 (2) WpHG	73.5699
Björn Ahrenkiel, Hürtgenwald	1/4/2002	73.7973	§ 22 (2) WpHG	71.0048

Prudential plc., London, United Kingdom, have exceeded the 3% threshold of § 21 para. 1 WpHG on 29 August 2007 and now hold 3,00% (332,870 shares held with voting rights) of the voting rights in Surteco AG. It was attributed these 3,00% (332,870 shares held with voting rights) of the voting rights pursuant to § 22 para. 1 sent. 1 no. 6 WpHG in connection with § 22 para. 1 sent. 2 WpHG.

Delta Lloyd Europees Deelnemingen Fonds NV, Amsterdam, The Netherlands, gave notice, pursuant to sec. 21 para. 1 of the WpHG, that on 11 February 2008 their voting interest in SURTECO SE exceeded the threshold of 3% and amounts to 3.16% (350,249 voting rights) on this day.

On February 11, 2008, the stake of Delta Lloyd Asset Management N.V., Amsterdam, The Netherlands, in the voting rights in Surteco SE exceeded the threshold of 3 %. On that date, Delta Lloyd Asset Management N.V. held 3.16 % in relation to all voting rights in Surteco SE (voting rights arising from 350,249 ordinary shares (Stammaktien)).
All such voting rights are attributed to Delta Lloyd Asset Management N.V. via Delta Lloyd Europees Deelnemingen Fonds N.V. pursuant to section 22 (1) sent. 1 no. 1 and no. 6 WpHG.
The controlled undertaking through which the voting rights are held is Delta Lloyd Europees Deelnemingen Fonds N.V.

On February 11, 2008, the stake of Delta Lloyd N.V., Amsterdam, The Netherlands, in the voting rights in Surteco SE exceeded the threshold of 3 %. On that date, Delta Lloyd N.V. held 3.16 % in relation to all voting rights in Surteco SE (voting rights arising from 350,249 ordinary shares (Stammaktien)).
All such voting rights are attributed to Delta Lloyd N.V. via Delta Lloyd Europees Deelnemingen Fonds N.V. pursuant to section 22 (1) sent. 1 no. 1, no. 6 and sent. 2 and 3 WpHG.
The chain of controlled undertakings through which the voting rights are held is: Delta Lloyd Asset Management N.V. and Delta Lloyd Europees Deelnemingen Fonds N.V.

On February 11, 2008, the stake of CGU International Holdings B.V., London, United Kingdom, in the voting rights in Surteco SE exceeded the threshold of 3 %. On that date, CGU International Holdings B.V. held 3.16 % in relation to all voting rights in Surteco SE (voting rights arising from 350,249 ordinary shares (Stammaktien)).
All such voting rights are attributed to CGU International Holdings B.V. via Delta Lloyd Europees Deelnemingen Fonds N.V. pursuant to section 22 (1) sent. 1 no. 1, no. 6 and sent. 2 and 3 WpHG.
The chain of controlled undertakings through which the voting rights are held is: Delta Lloyd N.V., Delta Lloyd Asset Management N.V. and Delta Lloyd Europees Deelnemingen Fonds N.V.

On February 11, 2008, the stake of Aviva International Holdings Limited, London, United Kingdom, in the voting rights in Surteco SE exceeded the threshold of 3 %. On that date, Aviva International Holdings Limited held 3.16 % in relation to all voting rights in Surteco SE (voting rights arising from 350,249 ordinary shares (Stammaktien)).
All such voting rights are attributed to Aviva International Holdings Limited via Delta Lloyd Europees Deelnemingen Fonds N.V. pursuant to section 22 (1) sent. 1 no. 1, no. 6 and sent. 2 and 3 WpHG.
The chain of controlled undertakings through which the voting rights are held is: CGU International Holdings B.V., Delta Lloyd N.V., Delta Lloyd Asset Management N.V. and Delta Lloyd Europees Deelnemingen Fonds N.V.

On February 11, 2008, the stake of Aviva Insurance Limited, Perth/Scotland, United Kingdom, in the voting rights in Surteco SE exceeded the threshold of 3 %. On that date, Aviva Insurance Limited held 3.16 % in relation to all voting rights in Surteco SE (voting rights arising from 350,249 ordinary shares (Stammaktien)).
All such voting rights are attributed to Aviva Insurance Limited via Delta Lloyd Europees Deelnemingen Fonds N.V. pursuant to section 22 (1) sent. 1 no. 1, no. 6 and sent. 2 and 3 WpHG.
The chain of controlled undertakings through which the voting rights are held is: Aviva International Holdings Limited, CGU International Holdings B.V., Delta Lloyd N.V., Delta Lloyd Asset Management N.V. and Delta Lloyd Europees Deelnemingen Fonds N.V.

On February 11, 2008, the stake of Aviva International Insurance Limited, London, United Kingdom, in the voting rights in Surteco SE exceeded the threshold of 3 %. On that date, Aviva International Insurance Limited held 3.16 % in relation to all voting rights in Surteco SE (voting rights arising from 350,249 ordinary shares (Stammaktien)).
All such voting rights are attributed to Aviva International Insurance Limited via Delta Lloyd Europees Deelnemingen Fonds N.V. pursuant to section 22 (1) sent. 1 no. 1, no. 6 and sent. 2 and 3 WpHG.
The chain of controlled undertakings through which the voting rights are held is: Aviva Insurance Limited, Aviva International Holdings Limited, CGU International Holdings B.V., Delta Lloyd N.V., Delta Lloyd Asset Management N.V. and Delta Lloyd Europees Deelnemingen Fonds N.V.

On February 11, 2008, the stake of Aviva Group Holdings Limited, London, United Kingdom, in the voting rights in Surteco SE exceeded the threshold of 3 %. On that date, Aviva Group Holdings Limited held 3.16 % in relation to all voting rights in Surteco SE (voting rights arising from 350,249 ordinary shares (Stammaktien)).
All such voting rights are attributed to Aviva Group Holdings Limited via Delta Lloyd Europees Deelnemingen Fonds N.V. pursuant to section 22 (1) sent. 1 no. 1, no. 6 and sent. 2 and 3 WpHG.
The chain of controlled undertakings through which the voting rights are held is: Aviva International Insurance Limited, Aviva Insurance Limited, Aviva International Holdings Limited, CGU International Holdings B.V., Delta Lloyd N.V., Delta Lloyd Asset Management N.V. and Delta Lloyd Europees Deelnemingen Fonds N.V.

On February 11, 2008, the stake of Aviva Plc., London, United Kingdom, in the voting rights in Surteco SE exceeded the threshold of 3 %. On that date, Aviva Plc. held 3.16 % in relation to all voting rights in Surteco SE (voting rights arising from 350,249 ordinary shares (Stammaktien)).
All such voting rights are attributed to Aviva Plc. via Delta Lloyd Europees Deelnemingen Fonds N.V. pursuant to section 22 (1) sent. 1 no. 1, no. 6 and sent. 2 and 3 WpHG.
The chain of controlled undertakings through which the voting rights are held is: Aviva Group Holdings Limited, Aviva International Insurance Limited, Aviva Insurance Limited, Aviva International Holdings Limited, CGU International Holdings B.V., Delta Lloyd N.V., Delta Lloyd Asset Management N.V. and Delta Lloyd Europees Deelnemingen Fonds N.V.

RESPONSIBILITY STATEMENT

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

Buttenwiesen-Pfaffenhofen, 3 April 2008

Board of Management

Friedhelm Päfgen

Dr.-Ing. Herbert Müller

INDEPENDENT AUDITOR'S REPORT

We have audited the Consolidated Financial Statements prepared by SURTECO SE, comprising the balance sheet, the income statement, and the statements of changes in the shareholders' equity and cash flows, as well as the Notes to the Consolidated Financial Statements and the Management Report on the Company and the Group, for the business year from 1 January 2007 to 31 December 2007. The preparation of the Consolidated Financial Statements and the Management Report on the Company and the Group in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315 a Section 1 of the German Commercial Code (HGB) are the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the Consolidated Financial Statements and the Management Report on the Company and the Group based on our audit.

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

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

Our audit has not led to any reservations.

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

Berlin, 4 April 2008

RöverBrönner KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Rainer Weichhaus, Independent Auditor
Udo Heckeler, Independent Auditor

Company no.	Segment/ Name of company	Country	Conso-lidated	Percentage of shares held by SURTECO SE	Partici-pation in no.
	PARENT COMPANY				
100	**SURTECO SE, Buttenwiesen-Pfaffenhofen**	Germany			
	STRATEGIC BUSINESS UNIT PAPER				
300	Bausch Decor GmbH, Buttenwiesen-Pfaffenhofen	Germany	F	100.00	100
310	Saueressig Design Studio GmbH, Mönchengladbach	Germany	E	30.00	300
401	BauschLinnemann GmbH, Sassenberg	Germany	F	100.00	100
210	Bausch (U.K.) Limited, Burnley	United Kingdom	F	100.00	100
405	BauschLinnemann UK Ltd., Burnley	United Kingdom	F	70.00 30.00	210 430
410	Kröning GmbH & Co., Hüllhorst	Germany	F	100.00	401
420	Kröning Verwaltungsgesellschaft mbH, Hüllhorst	Germany	F	100.00	401
430	BauschLinnemann International GmbH, Sassenberg	Germany	F	100.00	401
441	BauschLinnemann North America, Inc., Greensboro	USA	F	100.00	401
460	SURTECO Decorative Material (Taicang) Co. Ltd.	China	F	100.00	401
470	Arbe s.r.l., Martellago	Italy	F	50.00 50.00	401 510
499	BauschLinnemann Beteiligungsgesellschaft mbH, Sassenberg	Germany	F	100.00	100
	STRATEGIC BUSINESS UNIT PLASTICS				
500	W. Döllken & Co. GmbH, Gladbeck	Germany	F	100.00	100
510	Döllken-Kunststoffverarbeitung GmbH, Gladbeck	Germany	F	100.00	500
511	Vinylit Fassaden GmbH, Kassel	Germany	F	100.00	510
512	SURTECO Australia Pty Limited, Sydney	Australia	F	100.00	510
513	Doellken PTE Ltd., Singapore	Singapore	F	100.00	510
514	PT Doellken Bintan Edgings & Profiles, Bintan	Indonesia	F	99.00 1.00	510 513
515	Döllken-Profiltechnik GmbH, Dunningen	Germany	F	100.00	500
516	Döllken-France S.A.S., Beaucouzé	France	F	100.00	510

Company no.	Segment/ Name of company	Country	Conso-lidated	Percentage of shares held by SURTECO SE	Participation in no.
517	SURTECO DEKOR Ürünleri Sanayi ve Ticaret A.Ş., Istanbul	Turkey	NC	55.00 35.00 8.00 1.00 1.00	300 510 520 401 500
520	Döllken-Weimar GmbH, Profile für den Fachmann, Nohra	Germany	F	94.00 6.00	530 500
530	Döllken & Praktikus GmbH, Gladbeck	Germany	F	100.00	500
531	Döllken & Praktikus Sp.z o.o., Kattowitz	Poland	F	100.00	530
532	Döllken CZ s.r.o., Prag	Czech Republic	NC	100.00	520
550	Doellken-Woodtape Inc., Washington	USA	F	100.00	500
551	Doellken USA., Washington	USA	F	100.00	550
552	Canplast USA Inc., Greensboro	USA	F	100.00	550
560	Doellken-Woodtape Ltd., Mississauga	Canada	F	100.00	500
561	Doellken-Canada Ltd., Mississauga	Canada	F	100.00	560
562	Canplast Canada Ltd., Montreal	Canada	F	100.00	560
563	Canplast Mexico S.A. de C.V., Chihuahua	Mexico	P	50.00	562
564	2054872 Ontario Inc., Quebec	Canada	F	100.00	560
565	Pro-Plast Distribution Inc., Quebec	Canada	P	50.00	564
566	Canplast Centro America S.A.	Guatemala	P	25.00	562
567	Canplast Do Brasil S/A Comercio E Importacao de Componentes Para Moveis	Brazil	F	100.00	562
599	W. Döllken-Verwaltungs- und Beteiligungs-GmbH, Gladbeck	Germany	F	100.00	500
610	SURTECO Svenska AB, Gislaved	Sweden	F	100.00	100
611	Gislaved Folie AB, Gislaved	Sweden	F	100.00	610

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

» BALANCE SHEET (HGB) SURTECO SE

	31/12/2006 € 000s	31/12/2007 € 000s
ASSETS		
Intangible assets	10	4
Tangible assets	417	302
Investments	277,064	300,880
Fixed assets	**277,491**	**301,186**
Receivables and other assets		
- Receivables from affiliated enterprises	49,243	55,475
- Other assets	2,829	5,022
Cash in hand, bank balances	2	91,873
Current assets	**52,074**	**152,370**
Prepaid expenses	**29**	**50**
	329,594	**453,606**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Capital stock	11,076	11,076
Additional paid-in capital	94,864	94,864
Retained earnings	75,028	83,198
Net profit	11,079	12,183
Equity	**192,047**	**201,321**
Pension accruals	169	194
Tax accruals	1,101	3,856
Other accruals	4,468	4,275
Accrued expenses	**5,738**	**8,325**
Liabilities to banks	81,987	205,017
Trade accounts payable	58	92
Liabilities from acceptance of drawn bills of exchange and issue of own bills of exchange	7,000	0
Liabilities to affiliated enterprises	42,539	38,769
Other liabilities	225	82
Liabilities	**131,809**	**243,960**
	329,594	**453,606**

» INCOME STATEMENT (HGB) SURTECO SE

	1/1/-31/12/2006 € 000s	1/1/-31/12/2007 € 000s
Income from profit transfers - of which income from tax allocations transferred from subsidiaries € 000s 11,132 (previous year: € 000s 9,689)	37,810	39,439
Other operating income	3,537	5,557
Personnel expenses	-5,061	-5,010
Amortization and depreciation on intangible assets and property, plant and equipment	-127	-134
Other operating income	-3,509	-3,257
Income from loans from financial assets - of which to affiliated enterprises € 000s 417 (previous year: € 000s 0)	0	417
Interest income	-4,821	-5,082
Write-downs on investments	0	-504
Result from ordinary activities	**27,829**	**31,426**
Income taxes	-8,531	-11,072
Other taxes	-2	-5
Net income	**19,296**	**20,349**
Profit carried forward from the previous year	3	4
Transfer to retained earnings	-8,220	-8,170
Net profit	**11,079**	**12,183**

The Annual Financial Statements of SURTECO SE have been published in the Official Gazette of the Federal Republic of Germany (Bundesanzeiger) and filed at the Company Register of the Local Court (Amtsgericht) Augsburg. RöverBrönner KG, Wirtschaftsprüfungsgesellschaft/Steuerberatungsgesellschaft, Berlin, audited the Annual Financial Statements and provided them with an unqualified auditor's opinion. The Balance Sheet and the Income Statement from these Annual Financial Statements are published here.
The Annual Financial Statements can be requested from SURTECO SE, Johan-Viktor-Bausch-Straße 2, 86647 Buttenwiesen-Pfaffenhofen, Germany.

Corporate Governance Corporate Governance rules were developed with the aim of making management structures in international companies comparable. These rules for German companies were compiled in the German Corporate Governance Code. Corporate Governance in this context describes responsible management and control geared towards sustained creation of value. This includes the entire system of internal and external control and monitoring mechanisms within a company. The issues addressed under the heading Corporate Governance range from the structure of the ownership and capital relationships, the rights and obligations of the shareholders, the composition of the personnel, appointments to and effectiveness of the committees for managing and controlling the company including issues of co-determination for the employees, accounting principles and transparency, through to acquisition by corporate takeovers.

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.

German Corporate Governance Code The German Corporate Governance Code is intended to make transparent the rules for corporate management and monitoring that prevail in Germany for national and international investors. The aim is to strengthen confidence in the corporate management of German companies. The text of the German Corporate Governance Code in the version dated 12 June 2006 can be accessed on the Internet under "www.surteco.com" in the menu item Corporate Governance.

Discounted cash flow method The discounted cash flow method can be used to determine the cash value (utility value) of an asset. The cash value of the future net payouts is the total of the discounted company successes and will be determined by the anticipated future company successes and by the capitalization interest rate applied.

Declaration of Compliance Pursuant to § 161 Stock Corporation Act (AktG), the Board of Management and the Supervisory Board of German companies listed on the stock exchange must submit a Declaration of Compliance every year. The declaration is a statement by the Board of Management and Supervisory Board clarifying whether the recommendations made by the Federal Ministry of Justice in the Corporate Governance Code have been and will be complied with or which recommendations have not been or are not being applied.

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 associated enterprise.

Finance lease Leasing contract in which the lessor essentially takes over the financing function. The commercial ownership is transferred to the lessee.

Free float Free float relates to the percentage of shares that are not tied up and can therefore be freely traded on the stock exchange.

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.

Capital stock The capital stock is the minimum capital defined in law which has to be provided by the shareholders of a joint-stock company or a European Company (SE). The capital stock of a joint-stock company (AG) must be at least € 50,000 (§ 7 Stock Corporation Act, AktG), the capital stock of an SE must be € 120,000 (Clause 4 Section 2 SE-VO). The capital stock in an AG and an 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.

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

International Financial Reporting Interpretations Committee (IFRIC) The IFRIC is a committee in the International Accounting Standards Committee Foundation. The group has twelve members. The function of the IFRIC is to publish interpretations of accounting standards in cases where different or incorrect interpretations of the standard are possible, or new factual content in the previous standards was not adequately taken into account. 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) or the former Standing Interpretation Committee (SIC).

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

Consolidation Consolidated financial statements are drawn up as though all Group companies were divisions of a corporate unit and not independent. This entails elimination of relationships between Group companies that are evident in the figures.

Consolidated group Group of subsidiary companies of a group company that are included within the consolidated financial statements.

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.

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

Sensitivity analysis The sensitivity analysis is a method of analysis used for complex systems and problems in which simple relationships of effects between system variables are linked together to form a sphere of influence. The influence of input factors (individual or joint) is examined on the basis of specific parameters determining results. The analysis can be mathematical by using model equations for analysis or by the application for varied individual input factors (iteration procedure) and hence comparison with the results of the standard input.

SBU Strategic Business Unit

» 2008 - 2009

2008	**9 May**	Three-month report January – March 2008
	24 June	Annual General Meeting Arabella-Sheraton, Munich
	25 June	Dividend payout
	11 August	Six-month report January – June 2008
	11 November	Nine-month report January - September 2008
2009	**30 April**	Annual Report 2008
	12 May	Three-month report January – March 2009
	19 June	Annual General Meeting Arabella-Sheraton, Munich
	22 June	Dividend payout
	11 August	Six-month report January - June 2009
	11 November	Nine-month report January - September 2009

» PUBLICATION DETAILS

Published by:

SURTECO SE
Johan-Viktor-Bausch-Straße 2
86647 Buttenwiesen-Pfaffenhofen
Germany
Phone: +49 8274 9988-0
Fax: +49 8274 9988-505

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	BAUSCH AG	BAUSCH + LINNEMANN AG		
	HGB 1998	HGB 1999	HGB 2000	IFRS 2001
Sales revenues € 000s	79,907	170,519	193,375	270,551
Foreign sales %	68	60	64	61
EBITDA € 000s	16,786	36,793	44,010	45,666
Depreciation and amortization € 000s	-2,695	-9,166	-11,659	-15,207
EBIT € 000s	14,091	27,627	32,351	30,459
Financial result € 000s	-133	-1,959	-4,776	-4,134
Earnings before restructuring expenses € 000s	13,958	25,668	27,575	26,325
Restructuring expenses € 000s	0	0	0	0
Earnings after restructuring expenses (EBT) € 000s	13,958	25,668	27,575	26,325
Consolidated net profit € 000s	7,476	14,243	18,120	13,091
Cash earnings € 000s	10,209	26,538	30,157	30,373
Balance sheet total € 000s	52,526	133,271	198,400	372,235
Equity € 000s	33,565	47,411	54,438	101,863
Equity in % of balance sheet total	64	36	27	27
Average number of staff employed for the year	448	871	940	2,159
Number of staff employed 31/12	453	883	964	2,113
Capital stock €	12,271,005	8,293,325	8,293,325	10,575,522
Number of shares	4,800,000	8,293,325	8,293,325	10,575,522
Earnings per share €	1.55	1.70	2.02	1.28
Dividend per share €	0.61	0.66	0.92	1.10
Dividend payout € 000s	2,945	5,512	7,633	11,633
PROFITABILITY INDICATORS				
Sales return %	15.6	13.7	14.3	9.7
Return on equity %	37.1	41.1	38.9	14.5
Return on investment %	24.8	19.3	16.5	9.2

SURTECO SE

IFRS 2002	IFRS 2003	IFRS 2004	IFRS 2005	IFRS 2006	**IFRS 2007**
367,642	355,037	380,428	396,372	403,156	**414,519**
60	60	61	64	64	**65**
69,761	63,976	71,675	69,082	71,698	**74,358**
-27,025	-26,762	-25,912	-17,765	-17,612	**-18,877**
42,736	37,214	45,763	51,317	54,086	**55,481**
-12,721	-10,120	-9,686	-9,890	-8,060	**-8,868**
30,015	27,094	36,077	41,427	46,026	**46,613**
0	0	-1,329	-3,871	0	**0**
30,015	27,094	34,748	37,556	46,026	**46,613**
17,616	14,847	18,205	21,831	28,761	**31,615**
45,898	42,043	45,841	39,879	46,116	**49,103**
390,510	356,414	362,130	370,121	373,198	**514,781**
104,046	108,710	116,609	148,967	165,678	**185,655**
27	31	32	40	44	**36**
2,053	1,941	1,998	2,132	2,059	**2,121**
2,033	1,937	2,192	2,109	2,051	**2,181**
10,575,522	10,575,522	10,575,522	11,075,522	11,075,522	**11,075,522**
10,575,522	10,575,522	10,575,522	11,075,522	11,075,522	**11,075,522**
1.67	1.40	1.72	1.97	2.60	**2.85**
0.65	0.70	0.80	0.80	1.00	**1.10**
6,874	7,403	8,860	8,860	11,076	**12,183**
8.2	7.6	9.1	9.4	11.4	**11.2**
18.1	14.7	17.0	15.6	18.4	**18.2**
11.0	10.5	12.3	12.8	14.7	**11.2**

CONTACT

INVESTOR RELATIONS AND PRESS OFFICE

Andreas Riedl
Chief Financial Officer
Phone +49 (0) 8274 9988-563

Günter Schneller
Investor Relations and Press Office
Phone +49 (0) 8274 9988-508

Fax +49 (0) 8274 9988-515
Email ir@surteco.com
Internet www.surteco.com

SURTECO
SOCIETAS EUROPAEA

Johan-Viktor-Bausch-Straße 2
86647 Buttenwiesen-Pfaffenhofen
Germany

DEUTSCHE BÖRSE
PRIME STANDARD