

Group Management Report

The CENTROTEC Group – hereinafter also referred to as CENTROTEC – is Europe’s only listed full-service supplier of energy-saving solutions and systems for renewable energies in buildings. The product range spans system solutions for the areas of heating, ventilation and climate control technology, as well as solar thermal, biomass, heat pump technology and co-generation.

In the 2010 financial year the CENTROTEC Group operated at record level in virtually all the relevant areas: revenue and earnings, market shares, total employees, the quality and breadth of the product range, customer ratings, and last but not least the capital market’s verdict. This development is all the more notable bearing in mind the unprecedented global economic crisis specifically in 2008 and 2009 and the continuing difficulties being experienced in the German domestic market; it furthermore supplies evidence of how successful the CENTROTEC Group’s long-term growth strategy is.

1 Structure, strategy and steering

Since its IPO in 1998 the CENTROTEC Group has enjoyed steady organic, profitable growth which has repeatedly been bolstered by targeted corporate acquisitions. This buy-and-build strategy has gradually optimised and extended the product range from a technical viewpoint, and brought it an increasingly strong sales position. The incremental gains in market shares in recent years in the target markets for integrated system solutions reflect the success of this corporate strategy, which is based on the ample entrepreneurial latitude enjoyed by the individual group companies, but also on growing intra-group partnerships.

The CENTROTEC Group comprises three segments, of which the two largest in revenue terms, Climate Systems and Gas Flue Systems, comprise the core business for energy-saving solutions and renewable energies in buildings. The third segment Medical Technology & Engineering Plastics, which is the smallest by revenue, develops, produces and sells products in the area of medical technology and high-performance plastics. CENTROTEC moreover holds a 26.16 % interest in the former fully-owned subsidiary CENTROSOLAR Group AG, which specialises in photovoltaic roof systems and has been listed on the stock market since 2005. As in previous years, the Netherlands and Germany provide the regional emphasis of the group’s revenue. These two countries, where all the group’s principal production locations are based, accounted for approx. 63 % (previous year 64 %) of consolidated revenue in 2010. However, the group’s strategy of internationalisation will prompt a further rise in the export share in future. The structure of the CENTROTEC Group is represented diagrammatically on page 2 (organisation chart).

It is a key aspect of the CENTROTEC corporate philosophy to grant the individual operating units entrepreneurial freedom because that is how the operating subsidiaries can respond swiftly, innovatively and in a way that best reflects each regional market. The ability to assume independent responsibility moreover motivates employees, producing greater job satisfaction and correspondingly lower employee turnover. Taking this as the starting point, cooperation between the individual group companies both across and within segments will be further increased in order to develop joint product solutions, optimise existing customer relations, access new markets, speed up logistics processes and realise synergies in purchas-

ing and sales. The group-wide planning and budgeting system that is updated in-year is additionally regularly adjusted to reflect changing requirements so that departures from the targets and changes in the general parameters can be identified early on in tandem with the risk management system, and appropriate corrective action taken. The ongoing efficiency improvement and cost-cutting programmes furthermore play a pivotal role in ensuring that the CENTROTEC Group is consistently successful at operating in rapidly changing markets.

2 Economic conditions

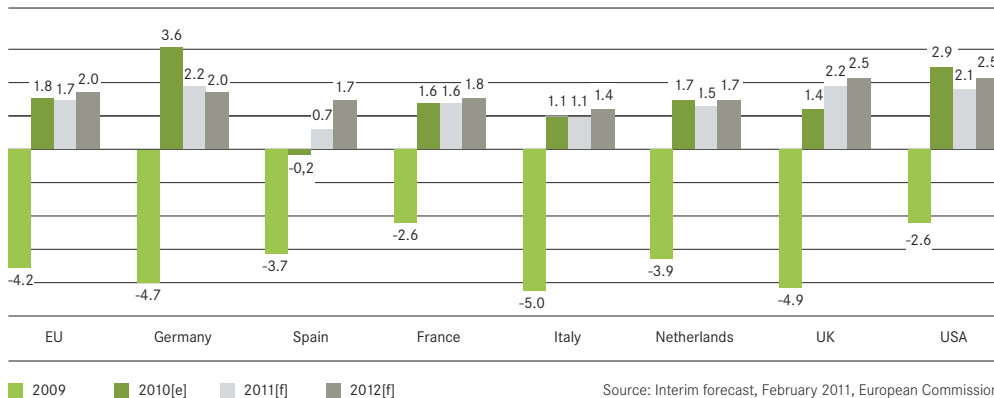
2.1 Economic environment

Particularly in Germany, 2010 brought a marked economic recovery compared with the year of the global crisis, 2009. Gross domestic product (GDP) in Germany grew by 3.6 % (previous year contraction of 4.7 %) and, if the growth of 2.2 % forecast for 2011 is achieved, will be back up at the level of the record-breaking year 2008 by the end of this year. A similar development can be observed in the Netherlands, though the current growth rate is somewhat lower. Economic output also rose in most other European national economies, though in most cases more slowly than in the CENTROTEC Group's core countries. The national economic output of countries throughout Europe is forecast to grow further in 2011 and 2012. As before the crisis, the highest growth rates are expected to be achieved by the newer members of the EU in Central and Eastern Europe. But the German economy, too, is expected to expand slightly faster than the EU average, by 2.2 % in 2011 and 2.0 % in 2012. Growth in the Netherlands is forecast at 1.5 % and 1.7 % respectively, and therefore slightly below the average for the EU.

In worldwide terms, the growth rates of the mostly highly developed Western European national economies are lagging well behind those of emerging countries. The highest rates of economic growth were once again achieved in China, which increased its economic output by more than 10 % in 2010 alone. The other

DEVELOPMENT OF GROSS DOMESTIC PRODUCT

[Change in relation to previous year in percent]



BRIC countries, too – India, Brazil and Russia – posted GDP growth well above the world average (3.8 %) in the period under review. For 2011 and 2012, the BRIC countries are likewise expected to achieve much higher growth than the worldwide forecasts of 3.3 % and 3.6 %. However, Russia is developing less dynamically than China, India and Brazil and is subject to greater fluctuations.

Energy prices, which have a major bearing on CENTROTEC's core business, climbed to levels significantly up on the previous year as an average for 2010. The crude oil price, which serves as a guide to the energy sector, spent most of the year at between USD 70 and 90 per barrel. At the end of the year, however, the price was significantly above the USD 90 mark for the first time since mid-2008. The average for the year of USD 80 was well up on the prior-year figure of USD 62. There are wide-ranging forecasts on where the oil price will actually be in the near and distant future. Amid these varying forecasts there is nevertheless consensus that the price of crude oil will rise at least in the medium to long term, as will all other fossil fuels such as gas and coal, which fundamentally track the oil price with some time lag at either a premium or a discount. The peaking of worldwide oil production expected in the short to medium term and the steady rise in demand specifically from the rapidly growing emerging countries make a further fundamental rise in energy prices appear indispensable. As a result, the efficient use of fossil fuels and their substitution wherever possible are becoming increasingly relevant; the technology to achieve this already pays its way in a steadily growing number of areas. Reduced consumption of fossil energy moreover benefits the environment and brings greater independence both for the individual and for entire countries. The issues of energy efficiency and the use of renewables are therefore one of the global megatrends for countries, businesses and private individuals.

As the key industry for the majority of CENTROTEC products, construction has experienced widely contrasting fortunes in recent years. There have been differences both regionally and between the new-build and renovation markets. The performance of the industry was in addition hugely influenced by the global economic crisis and the distinct ways in which it affected the various different regions. For example in the CENTROTEC core markets Germany and the Netherlands, the new housing market has been observed to be weak, stabilising at a low level over the past three years. The area of commercial construction suffered major falls in revenue in both 2009 and 2010. This happened despite ongoing economic stimulus programmes in 2010, including for public-sector building projects. In other European countries such as Spain and Ireland, much more dramatic fluctuations in construction volume have been witnessed in recent years. In parallel with this difficult situation in many areas of the new construction sector, demand from the renovation market is steadily rising; this is particularly the case in the area of energy-led refurbishment

of residential buildings prompted by increased energy costs, state requirements, heightened environmental awareness and the appearance of the right products on the market. Equally, as a result of the long-term observed trend in combining different types of heating system and the convergence between these systems and solutions for ventilation and climate control, the overall volume of individual projects is steadily on the rise.

2.2 Development of heating and energy-saving technology market

2.2.1 Market structure

In heating, climate control and ventilation technology there are a large number of regional markets with many different market operators. The market as a whole can be differentiated both regionally and by product because of country-specific factors in climatic conditions and varying national regulatory requirements. Despite the range of underlying conditions, all markets exhibit a fundamental trend towards greater energy efficiency and convenience in the system solutions that they favour. The regulatory requirements specifically within the EU are also becoming standardised at a high level. There is moreover the trend towards integration of previously separate systems in the areas of heating, ventilation, climate control and solar energy. These coordinated, centrally controlled integrated systems are absolutely essential if low-energy or passive houses and other similar, increasingly popular energy-efficient designs are to operate efficiently. It is becoming ever more common for them to be combined with systems that use renewable energies.

Following the convergence of heating, ventilation and climate control technology and of renewable energies, increasingly high-performance systems suppliers will emerge. The consolidation of the European heating technology market that is expected as a result of these market developments is progressing only slowly and has not yet produced a clear global market leader. There are still more than 200 heating technology manufacturers as well as over 100 manufacturers of systems using renewable energies in the European market. The trend towards full-service suppliers that has been observed for some years continued in 2010. For instance, among the leading pan-European major German manufacturers there are clear signs of moves to offer a comprehensive range of products. The CENTROTEC subsidiary Wolf paved the way for the German heating industry in adopting a strategy to promote energy-saving systems and integrated overall solutions as far back as 2002. The Wolf Group remains one of the leaders for integrated system solutions that save energy in buildings, by virtue of combining expertise in handling various heating systems and solar technology with climate control and ventilation technology.

The leading heating technology suppliers are extending their product portfolios mainly by building up their own expertise, but also increasingly by making technology-led acquisitions. The industry is furthermore focusing on the regional expansion of the sales markets that have traditionally been limited to Germany and Europe, spreading specifically to the growth markets in Asia and North America. The leading players in the industry have the necessary resources to handle these developments. Alongside the CENTROTEC Group, with its core brand Wolf, there are other German companies among the European leaders: Bosch Thermotechnik, Viessmann, Vaillant and Weishaupt. Then there are other leading European companies such as the Dutch BDR Therma (formerly De Dietrich-Remeha-Baxi Group), France's Atlantic and the Italians Ferroli, Riello and Ariston (formerly MTS Group).

2.2.2 Market development and market outlook

2010 was a difficult year for the European heating technology market, with a mixed performance both in regional terms and for the various types of heating systems available. The positive development in the national markets for heating technology in Benelux, Italy and the UK contrasts with a downturn in the French, Spanish, Austrian and Swiss markets. There were moreover mixed developments even within these national markets. In the areas of solar thermal and heat pumps, for example, there was growth by up to one-third in certain countries, while other countries experienced a double-digit percentage fall in the same market segments. However, the trend towards condensing boiler technology is uniform and has remained stable for a number of years, with increased market shares in all European markets. The levels of market penetration nevertheless remain widely varied. In the UK and the Netherlands, for example, over 90 % of heat-generating systems sold are already based on high-efficiency condensing boiler technology, while in many Southern European countries this technology features in less than a quarter of the appliances sold. The difference among appliances already in operation is even more marked, reflecting the considerable market potential that remains for condensing boiler technology.

The German heating market in 2010 suffered a 4 % downturn in unit sales, to 612,000 heat generators, despite the clear improvement in the economy as a whole (source: BDH industry association). What makes this all the more remarkable is that the market had grown in each of the previous two years despite the

extremely difficult state of the economy as a whole. One factor behind this development is the wavering policy on subsidies in Germany, which unsettled consumers and prompted them to delay a frequently urgently needed decision to modernise their system. In terms of consumer priorities solar thermal systems, but also other forms of heat generation, were also in competition to some degree with much more highly subsidised photovoltaic systems, which were often chosen in preference to heating technology because of the prevailing conditions in 2010. The marked rise in energy prices in Germany compared with the previous year was likewise seemingly not a compelling enough selling point, as prices still appeared to be low compared with the peak figures from 2008. As in the previous year, biomass systems, heat pumps and solar thermal suffered the sharpest downturn in the German market. Heat-generating systems running on heating oil also saw a noticeable drop in their market shares, whereas gas-fired systems and more specifically condensing boiler systems were able to increase their market shares. The trend towards condensing boiler technology thus continues unabated in Germany, too. The market for heat recovery ventilation systems also developed highly satisfactorily in 2010.

For 2011, a mildly positive development is expected in the European and specifically German heating technology market. These expectations are based on the positive overall economic forecasts for Germany and most European countries, the anticipated stabilisation of the policy on subsidies at a lower level, the signs of further rises in energy prices and the generally improved competitive position compared with photovoltaics, for which subsidies are being scaled back. Meanwhile further programmes of subsidies and regulatory measures to increase energy efficiency in buildings have been launched in various countries. At European level these include most notably the EU's redrafted Energy Performance of Buildings Directive (EPBD) from mid-2010, which is to be translated into national law over the next few years and over that period will uniformly assert the legal requirement of energy efficiency or energy independence in building or renovation projects. In the medium and long term, the worldwide market for heating technology and renewable energies in buildings will enjoy considerable growth potential thanks to the megatrend of energy efficiency and energy saving.

3 Business performance with revenue and earnings trend

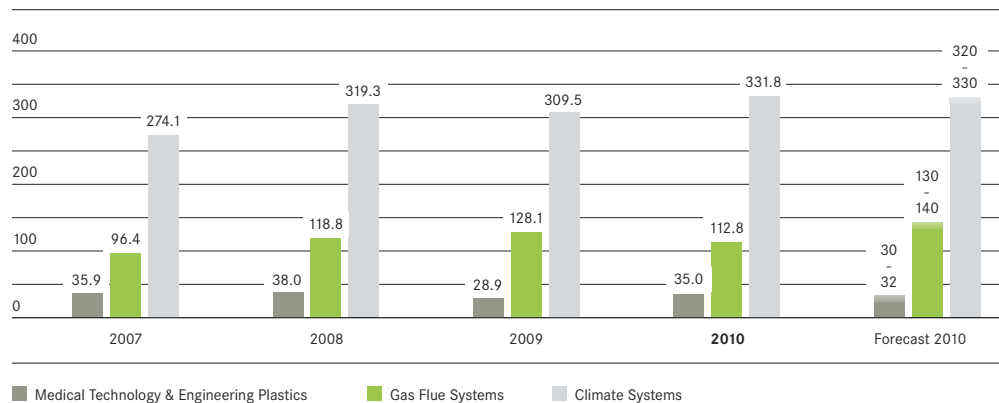
3.1 Key figures at a glance

In 2010, CENTROTEC saw all key figures for the group reach their highest ever level in the history of the company. What makes this all the more remarkable is that the market conditions in the group's core markets remained difficult last year, despite the recovery in the economy as a whole. The fundamentally positive development is in evidence in all segments, albeit to varying degrees and with regionally varying trends. There were no material changes to the group in the period under review compared with 2009.

CENTROTEC posted consolidated revenue of EUR 479.7 million in the 2010 financial year (previous year EUR 466.6 million), representing organic revenue growth of 2.8 % on 2009. Consolidated revenue was therefore likewise up on the previous record revenue total from 2008. There were substantial increases in revenue in the largest segment Climate Systems and also in the Medical Technology & Engineering Plastics segment. The Gas Flue Systems segment was not quite able to match the previous year's revenue figure, which had established a new record thanks to non-recurring effects. In the core segment Climate Systems, revenue of EUR 331.8 million was 7.2 % up on the prior-year figure of EUR 309.5 million and also bettered the previous record from 2008. Revenue equally exceeded the bandwidth of EUR 320 to 330 million projected at the start of the year. As already forecast during the year the second core segment Gas Flue Systems, which had grown particularly strongly and posted sharp increases in the previous years as a result of buildups of inventories, was not quite able to match those figures in the second half and was down 11.9 % on the previous year's record level at EUR 112.8 million (EUR 128.1 million). This was clearly below the revenue level of EUR 130 to 140 million expected at the start of the year. The smallest segment Medical Technology & Engineering Plastics staged a good recovery in 2010 from the cyclically induced slump of the previous year with revenue growth of 20.9 % to EUR 35.0 million, easily improving on both the previous year's figure of EUR 29.0 million and the forecast range of EUR 30 to 32 million. At group level the forecast for 2010 made at the start of the year proved accurate, with revenue coming in at EUR 480 million.

REVENUE BY SEGMENT FOR 2007 TO 2010 COMPARED WITH REVENUE FORECAST 2010

[in EUR million]



In terms of earnings, thanks to the positive overall development in operating business and the investment result the full-year forecast made at the start of 2010 was actually adjusted upwards twice. The operating result (EBIT) of EUR 30 to 32 million and the earnings per share (EPS) of EUR 1.10 to 1.20 expected at the start of 2010 were upgraded in the second half of the year to EUR 36 to 37 million, and EPS ultimately to EUR 1.50 to 1.60. Even the increased forecasts were comfortably achieved with a rise in EBIT of around one-quarter to EUR 36.2 million (previous year EUR 29.0 million) and EPS of EUR 1.54 (previous year EUR 0.33, previous year adjusted EUR 0.93). The group's investment result of EUR 4.4 million (previous year EUR -9.8 million) generated predominantly by the 26.2 % investment in the listed company CENTROSOLAR, contributed to both earnings before and after tax.

3.2 Climate Systems

3.2.1 Market environment and business development

2010 saw both the group's largest segment Climate Systems and in fact the group as a whole set new records for all its key figures. This continuing positive development was fuelled by growth in the shares of the German heating market over several successive quarters. As well as this healthy development in the German market, a sound performance on most international markets aided the segment's positive revenue performance.







In 2010 the CENTROTEC companies in the Climate Systems Segment increased their revenue by 7.2 %, amid the difficult market environment already described, to the record level of EUR 331.8 million (previous year EUR 309.5 million). Revenue was therefore EUR 12.5 million up on the previous record from 2008 and also exceeded the bandwidth of EUR 320 to 330 million forecast at the start of 2010. The gross profit ratio ((aggregate operating performance - cost of purchased materials) / aggregate operating performance * 100) fell to 49.8 % (previous year 51.2 %) mainly as a result of the significant rise in materials purchase prices. Thanks to efficient use of economies of scale and the ongoing programmes to optimise processes, all key earnings figures were nevertheless increased more steeply than revenue. EBIT for the segment, for example, rose by 27.8 % to EUR 25.0 million (previous year EUR 19.5 million). The Climate Systems segment thus achieved an EBIT margin of 7.5 % in 2010 (previous year 6.3 %). At December 31, 2010 the Climate Systems segment employed 1,740 full-time equivalents (FTE) (previous year 1,753). The average for the year was 1,768 FTE, an increase of 30 FTE on 2009. Personnel expenses for the segment in 2010 were EUR 90.3 million, having risen by a much slower rate than revenue compared with the previous year (EUR 89.1 million). The personnel expenses ratio correspondingly fell from 28.9 % in 2009 to 27.0 % in the period under review. It should however be noted in this connection that for accounting reasons the changes in the temporary workers occasionally used are reported as cost of purchase materials rather than as personnel expenses.

3.2.2 Principal developments in the past financial year

In 2010 the Climate Systems segment yet again profited from the fundamental trend towards integrated overall solutions in the areas of heating, ventilation and climate control technology as well as the use of renewable energies. CENTROTEC's companies were able to hold their ground very successfully thanks to an innovative, very high-quality product range that has been steadily optimised and broadened over many years, and they strengthened their position in a market experiencing mixed fortunes.

REVENUE TREND CLIMATE SYSTEMS

[in EUR million]

2006		110.0
2007		274.1
2008		319.3
2009		309.5
2010		331.8
2011(e)		350-360

As in previous years, the pan-European trend towards condensing boiler technology continued in Germany, too, in 2010 – with more than two-thirds of newly installed heating systems in Germany using this technology – and it will largely eclipse calorifier and low-temperature technology in the foreseeable future. Overall demand for condensing boiler systems in the 2010 financial year remained constant in a declining market; gas is the fuel on which the overwhelming proportion of condensing boilers run. There was a substantial drop in the market volume for heat pumps and biomass systems in Germany for the second successive year, following the record figures from 2008. The same is true of solar thermal. All in all, the German heating market contracted by 4 %, having grown by approximately the same amount in the previous year. However, this development contrasts with double-digit growth in unit sales of heat-generating systems by Wolf.

The CENTROTEC companies in the Climate Systems segment fared substantially better than their competitors in all areas of the heating market. Its biomass systems bucked the market trend in achieving slight growth. In the area of heat pumps, a newly launched own range of highly efficient heat pumps brought considerable growth even though the market as a whole contracted by around 10 %. With the market for combined heat and power plants advancing steadily, CENTROTEC equally achieved growth above the market average in 2010. In easily the most significant product area of condensing boiler systems for both gas and oil, growth was achieved across the board amid a difficult market environment. The highest growth both in absolute and percentage terms was achieved by gas condensing boiler systems. Easily more than half of the systems sold by this division are of the condensing boiler type.

Internationally, markets put in a mixed performance in 2010, mirroring the previous year. There was substantial growth in the Eastern European market in particular and much of the ground that had been lost in 2009 as a result of the economic crisis was recovered. Wolf succeeded in clinching a pioneering project in Russia, where large-scale boilers with outputs of up to 50 MW have been built for the local market since 2010 in a joint venture with a local partner. In the Spanish and French markets, which are also very significant for the segment, CENTROTEC's companies likewise posted above-average revenue growth. By contrast, there was a slight fall in the Dutch and Austrian markets. Overall, the European construction sector that is the basis for the segment's business remained weak throughout Europe in 2010. Particularly new housing construction was mostly only able to recover hesitantly from the drastic falls in new buildings in 2008 and 2009. It should however be noted that the significance and therefore the financial volume of heating, climate control and ventilation technology within the individual construction projects has

long been rising significantly as a result of economic, ecological and regulatory requirements necessitating increasingly energy-efficient designs. In addition, both the market share and the overall volume of energy-led building renovation within the construction sector continue to rise throughout Europe. The European construction industry, as the reference sector for the CENTROTEC core segments Climate Systems and Gas Flue Systems, fundamentally continues to suffer from rock-bottom levels of new construction activity following the bursting of the property bubble. The occasionally very sharp downturns in previous years have affected both new housing construction and the commercial property sector. Specifically in Germany, new housing construction showed initial signs of recovering in 2010. In contrast to the fundamental trend in new construction activity, the market volume in the renovation sector specifically in Western Europe has been rising steadily for years and in Germany, for instance, it now easily exceeds the volume of the new construction market.

With regard to products, the companies in the Climate Systems segment again enjoyed a very strong position in 2010 and were duly rewarded for this by customers. Wolf introduced a range of self-developed, ultra-efficient heat pumps in May 2010 to give its product portfolio an even more progressive look, and further strengthened its position among the leading European suppliers of heating systems. The coefficients of performance (COP) of 3.8 for the air/water heat pumps and 4.7 for brine/water heat pumps meant that this low-noise, user-friendly product series immediately secured a place among the market leaders. This trailblazing product area is steadily acquiring a wider range of functions and higher performance categories are being added. More performance categories were also added to the multi-award-winning product range of oil condensing boilers (COB series). The Wolf "Comfort" range of ventilation systems for individual rooms, apartments and large rooms, with and without heat recovery and with a large number of other possible functions, was further optimised in 2010. Common features of all these different systems are straightforward installation, efficient running and ease of operation, bringing significant added benefits both for the engineer who installs them and for the end customer who uses them day in, day out. Wolf has succeeded in building up its market position not merely thanks to these pioneering market launches and ongoing refinements to established systems, but also by offering comprehensive service and maintaining strong customer relationships. At Wolf, this is traditionally manifested in particular through close, trust-based ties with the trade. The very good results in independent customer surveys and the fact that over 11,000 people again attended the specialist courses held at its own training centres supply impressive evidence of this. The increased capacity created at Wolf for metal finishing and the company-wide programmes to optimise production processes also helped the largest group company to maintain its positive business performance.

A joint contract to renovate a 134-house settlement to passive-house standards represented a further very interesting project in the area of climate control and ventilation technology for the Dutch company Brink Climate Systems, the segment's second largest. The systems being used include the innovative Brink integrated systems designed specifically for use in passive houses and based on controlled home ventilation with heat recovery. The integrated system used in this project for heating, hot water and home ventilation, integrated home ventilation combines heat recovery, air heating, solar thermal and condensing boiler technology systems from various group companies into an efficient overall system. Both the integrated system and the overall project exemplify the pioneering innovations supplied by the CENTROTEC Group.

The performance in the area of renewable energies yet again created a mixed picture, as in 2010. In the solar thermal area, the CENTROTEC companies were unable to stave off the general downturn in the market. Since mid-2009, CENTROTEC's companies have nevertheless once again performed better than the market, which declined by almost 25 % in Germany due to the difficult environment. A pioneering cross-segment joint-venture project involving Wolf and the Ubbink Group (Gas Flue Systems) also made headway with the development of an integrated energy roof system. In the area of biomass heating systems, Wolf was able to post almost stable revenue in an equally weak market. The area of combined heat and power plants that has been part of this segment since 2008 was likewise able to maintain the organic growth of the previous two years and further strengthen its market position in the German market. A major export contract was moreover clinched as part of a project in Russia, offering further growth potential for this relatively new CENTROTEC product area.

3.2.3 Strategic direction and outlook

For 2011 and beyond, CENTROTEC believes it is still very well positioned in the international growth market for energy efficiency and renewable energies in buildings through its Climate Systems segment. The further improvement in the market position in recent years, the enduring innovativeness of the group companies, energy prices that are now once again high and likely to rise further in the medium to long term, regulatory requirements on the efficient use of energy and a heightened awareness among growing sections of the population of the need to protect the environment and climate provide every reason to be optimistic about the future.

The steady evolution of the product range, the increased market presence especially internationally, and the convergence of efficient system components into user-friendly integrated overall systems are once again key tasks for the current financial year in the Climate Systems segment. The long-term global megatrends of energy efficiency and environmental and climate protection are accompanied by specific calls from customers for greater user convenience. The good ratings achieved by CENTROTEC's companies on this count in external surveys, studies and analyses stem from CENTROTEC's former focus on this trend. It has been able to carve out a competitive edge for systems expertise and with integrated control engineering, and past investment in refining these technologies is now paying dividends. Alongside bringing benefits for the end customer, Wolf always bears the needs of the fitter in mind; it is thus able to generate considerable value added and customer loyalty by providing this group with easy-to-install systems and high-calibre training courses.

Alongside this system concept, the spotlight will remain on gradually optimising all internal processes; this will be particularly relevant to the further development in the operating result, bearing in mind the marked rises in materials prices and current expectations of increased personnel costs. In the development sphere, the priorities will be to extend the performance range of combined heat and power plants downwards, and to add gas condensing boilers with an output of up to 600 kW. The development of a revised product range of condensing combi-boilers will be pushed, and in the area of climate control and ventilation flat appliances, large-room ventilation systems and compact appliances are to be added to the product range. Group-wide partnerships are also being promoted, both between companies within the segment and across segment boundaries with sister companies from the Gas Flue Systems segment.

Useful experience of such activities has been gleaned in recent years, for example in the development, production and marketing of the air distribution system for controlled home ventilation and in the development of the integrated energy roof system. As in previous years, the steadily growing importance of the renovation market will also be addressed by providing more flexible ways of installing and connecting up the various system solutions. International expansion of sales activities will moreover be further intensified in 2011. One particular area of focus will be the Eastern and Southern European market, but also the Middle East. The market entry in the Arab region was spearheaded in 2010 by the start of trading of the subsidiary CentroGulf, with its registered office in the United Arab Emirates. Investment spending in the Climate Systems segment in 2010 reached EUR 7.2 million, 11.6 % more than in the previous year.

On this basis, CENTROTEC anticipates a positive business performance for 2011. Revenue of EUR 350 to 360 million is planned for the Climate Systems segment, representing organic revenue growth of around eight percent. The operating result is expected to rise roughly in proportion to revenue because of escalating materials prices and the likelihood of increased personnel expenses. The target for sustainable medium-term performance remains 8 to 10 % organic revenue growth with an EBIT margin of 8 to 9 %.

3.3 Gas Flue Systems

3.3.1 Market environment and business development

The 2010 financial year fell into two distinct phases for the second core segment Gas Flue Systems in terms of revenue performance. In the first few months of the year it enjoyed healthy revenue growth, following on from the second half of 2009. In the second half of the year, however, it proved impossible to match the very high revenues of the prior-year period that had been driven by certain customers building up inventories. Meanwhile the deliberate shift in the product mix in the second half of 2010 had the effect of reducing revenue, while at the same time boosting profit. The emphasis in the revenue mix was moved more towards technical roof products, and in specific solar mounting systems, gas flue systems for condensing boilers and the ecological lead substitute. Revenue from lower-margin components was reduced correspondingly.

On this basis, revenue for the segment in 2010 fell by 11.9 % to EUR 112.8 million (previous year EUR 128.1 million) and was therefore well below the forecast bandwidth of EUR 130 to 140 million because of the shift in the product mix. At the same time, however, the segment's profitability was substantially improved, producing a gross profit ratio of 49.2 % (previous year 46.6 %) and a rise in the EBIT margin to 8.6 % (previous year 8.2 %). EBIT for the segment amounted to EUR 9.7 million (previous year EUR 10.5 million).

At the end of 2010 there were 620 full-time equivalents (FTE) employed in the segment (previous year 566). The average over the year was 590, an increase of 49 on the previous year as a result of the substantial increase in sales and development activities. Personnel expenses for the segment reached EUR 26.4 million (previous year EUR 24.8 million) in the period under review. The personnel expenses ratio thus climbed from 19.4 % to 22.1 %.

3.3.2 Principal developments in the past financial year

The Gas Flue Systems segment laid the foundations of further growth in 2010. On the one hand sales activities in already cultivated markets were further increased, along with the local presence in markets that have not yet been opened up. The most notable developments in this connection are the establishment of Ubbink East Africa Ltd. and the stepping-up of activities in North America. Operational and strategic functions within the organisation were also strengthened, with development and sales the priorities. The building at Brilon was significantly extended; this was the first instance where the new, binding guideline on CO₂-neutral buildings for all new buildings throughout the group was applied.

All key areas of the existing product range underwent refinement, for instance gas flue systems for condensing boilers, air ducting systems and technical roof products, solar mounting systems, ventilation solutions and the ecological lead substitute Ubiflex. The integrated energy roof, a cross-segment joint venture involving Ubbink and Wolf, was also developed to combine the use of solar thermal and photovoltaics into a single unit. Further headway was also made with the marketing of the products launched in 2009 such as the plastic gas flue system developed for the Dutch market, the oval air ducting system and various renovation solutions. Future demand in the very healthily evolving French market will be affected by the drastic changes in the eligibility criteria for subsidies and trenchant cutbacks in incentives for photovoltaics, with a corresponding impact on solar mounting and integrated solar systems. At the same time, the tougher French energy efficiency standards create substantial sales potential for further group products addressing energy efficiency in buildings. Following the introduction of the “Loi Grenelle 2” energy efficiency directive in mid-2010, all newly built houses from 2012 will have to meet the low-energy standard. Public and industrial buildings have already had to comply with this requirement since 2010. From 2020, a positive energy concept is actually prescribed for all new buildings from 2020. All in all, this will generate further strong growth for what is the most important export market for both the segment and the group as a whole.

3.3.3 Strategic direction and outlook

The companies of the Gas Flue Systems segment have in the past been able to demonstrate their strong position even throughout difficult times. Notwithstanding additions to the product range in recent years, condensing-boiler gas flue systems will remain the core products of the Gas Flue Systems segment. The growing spread of condensing boiler technology over many years will continue for the next few years and thus provide a sound basis for the further development of the segment. Condensing boiler technology will

REVENUE TREND GAS FLUE SYSTEMS

[in EUR million]

2006	80.3
2007	96.4
2008	118.8
2009	128.1
2010	112.8
2011(e)	135-140

make further progress towards becoming the norm in the group's Western European core markets, while it still needs to gain a firm foothold in Southern and Eastern Europe, but also in North America. Because there is still a need for energy-efficient heating technology as a result of further increases in energy prices, and also specifically in the above countries, these markets will provide a focus for future international sales expansion.

Air ducting systems for climate control and ventilation continue to offer substantial market and growth potential because these systems are an indispensable part of the installations in modern, energy-efficient buildings with a highly insulated shell. Furthermore, the comfort requirements of users and also the regulatory requirements are becoming more demanding. CENTROTEC is responding to this development by substantially extending its product range, production capacities and sales activities in this product area.

Building on this strong market position and based on the investment spending of EUR 10.5 million in 2010 (previous year EUR 9.3 million), CENTROTEC expects the Gas Flue Systems segment to achieve revenue of between EUR 135 and 140 million in the 2011 financial year, coupled with an increase in the operating result. As before, the medium-term expectations for the segment envisage average organic revenue growth of 10 to 12 %. The aim is moreover to take EBIT into double figures in the medium term.

3.4 Medical Technology & Engineering Plastics

3.4.1 Market environment and business development

The 2010 financial year brought growth well above the group average for the Medical Technology & Engineering Plastics segment, which operates under the umbrella of the parent company medimondi AG. After the sharp slump in revenue for engineering plastics in 2009, this sub-segment delivered the highest growth rates in the past financial year and should soon reach pre-crisis levels based on the positive market development that is taking shape. The Medical Technology sub-segment maintained a steady positive development throughout the crisis and achieved substantial growth in 2010 compared with the already good previous year.

Overall revenue for the segment in 2010 was EUR 35.0 million and therefore 20.9 % up on the prior-year figure of EUR 29.0 million. The development in the gross profit ratio to 65.3 % (previous year 70.7 %) is

REVENUE TREND MEDICAL TECHNOLOGY & ENGINEERING PLASTICS

[in EUR million]

2006	33.8
2007	35.9
2008	38.0
2009	29.0
2010	35.0
2011(e)	35-37

not particularly meaningful – as in the previous year – because of the clearly overproportional growth for Engineering Plastics. EBITDA for the past financial year rose by 158.6 % to EUR 3.8 million (previous year EUR 1.5 million). On this basis, and taking into account that depreciation and amortisation remained virtually constant, EBIT rose to EUR 1.4 million whereas the prior-year figure had been a negative EUR -1.0 million. This produced an EBIT margin of 4.1 % (previous year -3.4 %). These figures for 2010 meant that both revenue (EUR 30 to 32 million) and EBIT (margin in low single figures) exceeded the full-year forecast made at the start of 2010.

The companies of the medimondi Group employed 303 full-time equivalents (FTE) at the end of 2010. This is an increase of 9 full-time equivalents compared with the end of the economically difficult previous year. The number of FTE as an average for the year was 309 and therefore actually lower than in the previous year (313). It should be noted in this connection that the previous year's FTE figure would have been substantially lower if it had been adjusted to reflect the extensive use of short-time in 2009. Personnel expenses for the segment reached EUR 14.2 million (previous year EUR 13.2 million) in 2010. The purchased materials ratio thus climbed from 29.3 % to 34.7 %, the prior-year figure having been distorted by the sharp drop in revenue in the plastics area.

3.4.2 Principal developments in the past financial year

The Medical Technology sub-segment again put in a positive development in 2010. In the Engineering Plastics area, the effects of the concerted efforts made in the previous year to improve efficiency and streamline business furthermore came to fruition. Along with the gradual recovery in business for customers in the highly export-oriented mechanical and plant engineering sectors, the revenue of the companies in this segment also improved. All relationships with customers were maintained despite the crisis. The emphasis on highly efficient processes and structures enabled the segment to respond swiftly to the market's growing momentum in the past financial year, restoring it to profitability early on. Alongside consistently high product quality, other decisive factors behind its success were its consistent approach to customer relations management and its efforts to acquire new customers. In the product sphere, alongside the extensive range of semi-finished articles an innovative product area was pioneered with the unveiling of the new technical plastic CENTROLAB HAT/PP-HT in 2010. These products designed specifically for use in medical technology met with a very positive reception at the various shows where they were exhibited.

In the Medical Technology area, medimondi AG continued to promote its entirely self-developed and self-built products in tandem with solutions that it manufactures on behalf of customers. This strategy has helped it successfully expand the core business in medical technology solutions and systems over the past few years and access further markets, particularly abroad. To reflect the increased volume of business and create potential for the growth that is expected over the next few years, the main location of the medimondi Group in Fulda was extended and modernised in 2010. With cutting-edge building infrastructure, the new facilities offer optimum working conditions and resources for the development, production and administration areas, as well as ample options for further growth. As at Brilon, the new group guideline on climate protection was applied for this building project. Another priority of the Medical Technology

area in 2010 was the further expansion of the international sales network, with particular emphasis on the pioneering business area of spinal implants.

In all, the Medical Technology & Engineering Plastics segment invested EUR 3.9 million (previous year EUR 2.1 million) in property, plant and equipment and intangible assets in the period under review.

3.4.3 Strategic direction and outlook

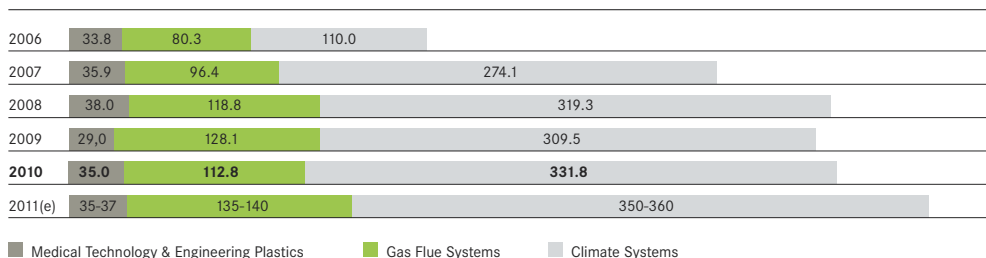
The positive development of 2010 reflects the fundamentally good position of the segment's companies, which stood up well to the economic downturn of 2008 and 2009 thanks to taking prompt countermeasures. These measures improved the competitive position and will enable the companies to benefit even more from the positive economic development in the future. Provided the conditions are right, acquisitions could further bolster this development and advance the medium-term aim to hive off medimondi AG as a separate entity.

Over and above the measures taken to optimise structures and processes, along with the increased capacity, stepping up sales activities in both sub-segments will be another of the priority tasks. Particular focus will continue to be given to the segment's own products for medical technology, especially in the areas of blood transfusion, aesthetic medicine and neurosurgery. The market for spinal implants, one of its main areas of activity in neurosurgery, offers potential for double-digit percentage growth over the next few years. The companies in the segment can capitalise overproportionally on that potential thanks to their comprehensive, high-quality product portfolio, innovative and practical product development activities and a further improved sales organisation.

On this basis, the Medical Technology & Engineering Plastics segment is suitably well positioned for the current financial year of 2011 and expects organic revenue growth to EUR 35 to 37 million along with a substantially higher EBIT margin. The target for the medium term remains to achieve an EBIT margin in high single figures or low double figures. This ambition is based on the assumption that annual organic revenue growth will average 10 % in the medium term.

REVENUE BY SEGMENT

[in EUR million]



3.5 Principal investment – CENTROSOLAR Group AG

CENTROSOLAR Group AG – hereinafter also referred to as CENTROSOLAR – represents the most significant investment of the CENTROTEC Group that is not comprehensively consolidated. The interest in the segment that was hived off in 2005 by way of an IPO was 26.16 % at December 31, 2010, unchanged from the previous year.

As in previous years, CENTROTEC reports the investment in CENTROSOLAR as an equity investment and it is therefore not comprehensively consolidated. As a result, it should be remembered that the figures for CENTROSOLAR are not included in the revenue and operating earnings figures of the CENTROTEC Group. They are merely reflected in the earnings before tax and the key figures derived from that. It should be noted that a proportion of CENTROSOLAR's earnings after tax finds its way into the CENTROTEC Group's earnings before tax through the investment result. When determining the relevant taxes for the CENTROTEC Group, the investment result is disregarded because it has already been taxed at the subsidiaries.

In 2010 CENTROSOLAR Group AG was able to report record levels of revenue and earnings. Revenue rose by 31 % from EUR 308.7 million in 2009 to EUR 403.4 million in the year under review. The forecast for the year of EUR 340 to 370 million was thus easily exceeded. Over three-quarters of revenue was generated by the Solar Integrated Systems segment, with just under one-quarter coming from the Solar Key Components segment. The export share of revenue was again increased significantly in 2010 to almost 60 %, having been just over 50 % in the previous year. As in the previous years, the French market was again easily the largest export market for CENTROSOLAR, with revenue reaching more than EUR 118 million. Thanks to the year-on-year improvement in the materials and personnel ratios, there was a markedly overproportional increase in EBITDA to EUR 34.7 million (previous year EUR 13.6 million). EBIT totalled EUR 26.6 million (previous year EUR 6.9 million) and, as announced during the course of the year, easily exceeded the original forecast for the year of EUR 14 to 16 million. Thanks to an improved interest result and based on an effective tax rate of 28 %, earnings after tax (EAT) amounted to EUR 15.8 million. In the previous year this figure had been deeply negative at EUR -29.7 million due to the discontinuation of the joint venture with Qimonda.

Both segments of the group contributed towards this development, each succeeding in increasing their revenue and earnings. In the Solar Integrated Systems segment, which sells photovoltaic modules and integrated solar systems to wholesalers and solar engineers, predominantly for smaller roof installations, sales volume rose by more than 60 % and therefore easily overcompensated for the fall in prices. Revenue for the segment rose from EUR 227.0 million in 2009 to EUR 311.5 million in 2010. Over 80 % of the modules sold in this segment were built at the group's own ultramodern facility in Wismar and were a key factor behind the sharply increased result for the segment.

The second segment, Solar Key Components, on the one hand develops, manufactures and sells solar glass mainly for photovoltaic solar modules and thermal collectors, most of its customers being manufacturers of PV modules and solar thermal solutions. On the other hand it develops and sells mounting systems for photovoltaic solar systems, predominantly to solar engineers and wholesalers. In 2010 this segment's external revenue rose by 13 % from EUR 81.7 million to EUR 91.9 million. The operating result, too, saw a further improvement.

For 2011, the market environment in Germany is expected to be difficult and prone to marked fluctuations in the short term as a result of the scaling-back of financial incentives. In the other markets in which CENTROSOLAR is active, the opportunities for growth nevertheless predominate, even if those markets too are likely to see the environment become increasingly competitive. All the same, CENTROSOLAR believes it is well equipped for this challenge thanks to its comparatively strong sales organisation, its adherence to a flexible purchasing policy and its continuous improvement processes that are steadily optimising costs. On this basis, CENTROSOLAR expects to post revenue of EUR 420 to 450 million in 2011, with an EBIT margin of 4 to 6 %, and would thus yet again make a significant contribution towards CENTROTEC's earnings.

For more detailed information on the development of CENTROSOLAR Group AG, please refer to that group's reports, which can be found on the CENTROSOLAR homepage (<http://www.centrosolar-group.de/>).

4 Net worth, financial position and financial performance

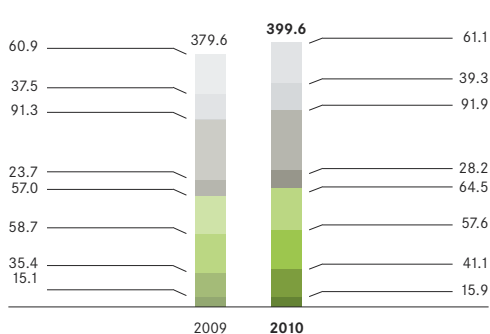
Compared with the previous year, there were no material changes in consolidation in 2010. There are moreover only minor structural changes in the balance sheet of the CENTROTEC Group at December 31, 2010 compared with the previous year's balance sheet.

4.1 Net worth

As in previous years, there were again minor changes to the Consolidated Balance Sheet in the course of 2010. These changes are in essence attributable to the seasonal fluctuations in business in CENTROTEC's core areas. Compared with the position at the previous year's balance sheet date, there were a number of minor shifts in the Consolidated Balance Sheet that did not, however, fundamentally alter the structure of the CENTROTEC balance sheet.

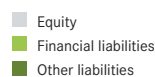
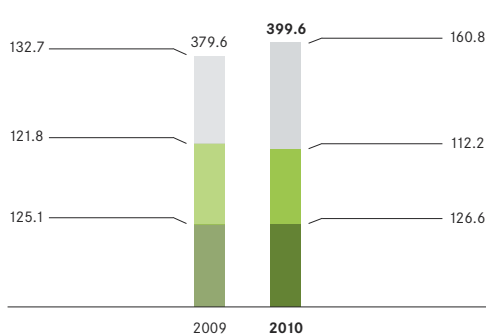
ASSETS

[in EUR million]



EQUITY AND LIABILITIES

[in EUR million]



As a result of increased business volume and consistently high investment spending in the further development of the group companies, the balance sheet total rose by 5.2 % to EUR 399.6 million (previous year EUR 379.6 million). This meant that there was an overproportional rise of 7.8 % in current assets at December 31, 2010 to EUR 172.7 million and a slightly below-par rise of 3.3 % in non-current assets to EUR 226.8 million. The biggest changes in the individual line items were the 16.3 % increase in cash and cash equivalents, which totalled EUR 41.1 million at the balance sheet date (previous year EUR 35.4 million) and the rise in inventories, which climbed to EUR 64.5 million (previous year EUR 57.0 million) as a result of the increased business volume. The equity investments furthermore grew by EUR 4.4 million to EUR 28.1 million as a result of the good business performance, mainly of the CENTROSOLAR Group. The other changes on the assets side of the balance sheet are mainly attributable to current and planned expansion of business operations. The snapshot nature of the balance sheet data moreover regularly produces deviations that would be evened out if the position were considered over a period of time rather than simply at a specific date.

As a result of the net income for 2010 of EUR 25.7 million and the continuing practice of ploughing back profits, shareholders' equity rose to EUR 160.8 million (previous year EUR 132.7 million). In addition, the exercising of a total of 245,699 stock options in 2010 resulted in an increase in the issued capital from EUR 16.7 million to EUR 17.0 million, with payment of the premium simultaneously raising the additional paid-in capital by EUR 1.7 million to EUR 27.0 million. All in all, the equity ratio of the CENTROTEC Group thus rose by 5.3 percentage points to 40.2 %, pushing it above the 40 % mark for the first time since the takeover of Wolf.

4.2 Financial position

Along with the rise in shareholders' equity, the further scheduled reduction in borrowings by EUR 9.6 million to EUR 112.2 million represented a further major change on the equity and liabilities side of the balance sheet in 2010. After taking into account the increase in cash and cash equivalents, net borrowings fell by 17.7 % or EUR 15.3 million to a current EUR 71.1 million. Compared with the peak level from 2006 caused mainly by the acquisition of Wolf, net borrowings have been reduced by more than half. Thanks to the prompt securing of long-term refinancing, the cash and cash equivalents of EUR 41.1 million available at December 31, 2010 and the group's unutilised credit lines, CENTROTEC has adequate liquidity reserves. This puts the group and its component companies in a position to exploit the full bandwidth of options when seeking to develop their business both operationally and strategically.

The further reduced borrowings in 2010 coupled with substantially improved profitability brought about a significant improvement in almost all financial indicators of the CENTROTEC Group. The dynamic gearing ratio (borrowings / EBITDA) at the balance sheet date thus fell from 2.5 to 2.1. The ratios between assets, both current and especially non-current, and the corresponding liabilities also reached new all-time best levels for the group of 1.6 (previous year 1.6) and 1.7 (previous year 1.5) respectively. Despite the significantly increased volume of business in 2010 and the very strong focus on this aspect in the previous year, the rise in net working capital (current assets less cash and cash equivalents, less current, non-interest-bearing liabilities) was broadly in proportion to the development in revenue. At December 31, 2010 net working capital for the group amounted to EUR 57.6 million and was therefore 7.3 % up on the figure of EUR 53.6 million at the end of 2009. The measures already employed to good effect in the past to optimise working capital will continue to be refined and implemented, and will further bolster CENTROTEC's profitable growth.

4.3 Financial performance

On the back of already good operating earnings in a previous year under the cloud of general economic difficulties, CENTROTEC was able to post record figures at group level for 2010. Revenue of EUR 479.7 million was 2.8 % above the prior-year figure (EUR 466.6 million) and, like all other earnings figures, up on the reference figure for the previous record-breaking year 2008.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) climbed by 17.0 % in 2010 compared with the previous year (EUR 46.6 million) to EUR 54.6 million. Although the purchased materials ratio was higher in the course of the year following significant rises in commodity prices worldwide, when considered over the full year it was at the previous year's level of 48.7 %. The personnel expenses ratio was reduced slightly by 0.4 percentage points to 27.0 % in 2010 thanks to the increased business volume compared with 2009. The meaningfulness of both the personnel expenses and purchased materials ratios is, however, diluted somewhat by the need to report the slightly higher use of temporary workers in 2010 under cost of purchased materials for accounting reasons. The EBITDA margin in relation to revenue of 11.4 % in 2010 was well up on the previous year's level of 10.0 %. The slight 4.7 % increase in depreciation and amortisation of EUR 18.4 million (previous year EUR 17.6 million) produced an operating result (EBIT = earnings before interest and tax) that was almost one-quarter (24.5 %) up on the previous year at EUR 36.2 million and bettered even the record figure from 2008 by almost EUR 4 million.

Earnings before tax (EBT) for the group rose thanks to the further slight improvement in the interest result in 2010 to EUR 34.5 million (previous year EUR 12.7 million). Along with the significantly more healthy operating result, the positive investment result of EUR 4.4 million – which stemmed mainly from the interest in CENTROSOLAR Group AG – was the main driving force behind this highly overproportional increase. In the previous year the investment result had been adversely affected by a pro rata loss of EUR 10.0 million from the liquidation of a CENTROSOLAR joint venture. A reduction in the effective tax rate from 33.3 % to 29.8 % produced earnings after tax (EAT) of EUR 25.6 million (previous year EUR 5.2 million). Based on the average of 16,749,932 shares outstanding, earnings per share were EUR 1.54 (previous year EUR 0.33/adjusted EUR 0.93).

The Supervisory Board and Management Board of CENTROTEC Sustainable AG will propose to the Shareholders' Meeting that, as an initial step, a dividend of EUR 0.10 per dividend-bearing no par value share be distributed for the 2010 financial year. In keeping with the successful past practice, the bulk of the consolidated net income earned in the past financial year is nevertheless still to be invested in further profitable, organic growth that will now once again be acquisition-led. Please refer to the "Investments"

EBIT

[in EUR million]

2006	12.5
2007	27.6
2008	32.2
2009	29.0
2010	36.2

NET INCOME

[in EUR million]

2006	15.3
2007	16.5
2008	18.6
2009	5.2
2010	25.6

section from page 55. The decision on whether to distribute a dividend is critically discussed afresh each year by the Supervisory Board and Management Board and put to the vote at the Shareholders' Meeting.

In 2010, the cash flow from operations was EUR 35.8 million. The reduction compared with the previous year (EUR 45.0 million) is substantially due to the revenue-driven increase in working capital, which slightly overcompensated for the rise in the operating result. As a result of the further rise in the investment volume the cash flow from investing activities was EUR -22.1, compared with EUR -18.0 million in the two preceding years. Evidence of the further reduction in borrowings can be seen in the cash flow from financing activities. This latter was again negative at EUR -8.7 million (previous year EUR -11.7 million) and, in keeping with the steady development of recent years, reflects a further net reduction in liabilities of EUR 10.3 million. Meanwhile the payment of the strike prices for the exercising of stock options under the CENTROTEC Group's stock options scheme produced an amount of EUR 1.6 million reported here. All in all, financial resources increased by EUR 5.1 million (previous year EUR 15.3 million) in 2010. Taking account of bank overdrafts repayable on demand, the financial resources of the CENTROTEC Group at December 31, 2010 amounted to EUR 24.6 million (previous year EUR 19.7 million).

5 Employees

The workforce comprising almost 2,700 employees at the CENTROTEC Group companies makes a decisive contribution towards the business success of the individual companies and therefore of the group as a whole. In keeping with CENTROTEC's philosophy, the group companies are granted ample entrepreneurial latitude. In the same way, employees are managed in a way that promotes entrepreneurial attitudes and individual responsibility. This approach serves to boost employee motivation and commitment, and supports the group's profitable growth that now stretches back more than a decade. A targets system comprising individual, company, segment and group targets provides an appropriate framework for individual responsibility while at the same time acting as a profit-driven incentive and remuneration system.

One key effect of CENTROTEC's personnel policy is high employee retention and low turnover, even after acquisitions. In view of its corporate growth, however, CENTROTEC too is forced to recognise that the labour market is a competitive environment and that the levels of training and qualifications expected of employees are steadily rising. The important issue of training and advancement at CENTROTEC's companies is duly acknowledged, with the measures implemented non-centrally by the individual group companies in line with their respective requirements. One typical example is Wolf, the largest group company, where the rate of further training was further increased; statistically speaking, each employee now attends one further training course per year. Alongside such further training measures that are likewise conducted at the remaining group companies, both internally and with the involvement of external providers, basic training is a second cornerstone in safeguarding a successful future. Providing training for young people is regarded not simply as competing for the talents of tomorrow's workforce, but also as a matter of social responsibility, a challenge which the CENTROTEC companies take up with relish.

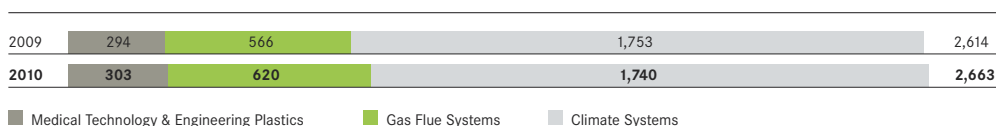
The number of people employed within the CENTROTEC Group has steadily risen over the past few years, in tandem with its successful economic development. In 1998, the year of the initial public offering, there were slightly fewer than 100 employees; this figure had risen to more than 300 ten years ago. In 2005 the number of full-time equivalents reached four figures for the first time, and then more than doubled the next year as a result of the takeover of Wolf. At December 31, 2010 there were 2,663 full-time equivalents (FTE) (previous year 2,614 FTE) in the group as a whole. The average for the year was 2,667 FTE (previous year 2,592 FTE). The increase of 75 FTE is mainly attributable to the increased volume of business in the Climate Systems segment and the stepping-up of international activities in the Gas Flue Systems segment. In the Medical Technology & Engineering Plastics segment, short-time ended mid-way through 2010. This measure had been introduced in 2009 to cushion the impact of the economic crisis on the Engineering Plastics sub-segment, and largely helped to prevent redundancies among the core workforce. The number of employees in the group averaged 2,781 over the year (previous year 2,696). At the end of 2010 the figure was 2,781 individuals (previous year 2,744). Of these, 50 % (previous year 55 %) were industrial workers, meaning that the remaining 50 % (previous year 45 %) were office staff. The employees of companies that are not comprehensively consolidated are not included in the CENTROTEC employee totals. The overwhelming majority of the employees not included for this reason work for the CENTROTEC Group, which employed 1,050 (previous year 1,071) people at the end of the financial year.

Personnel expenses for the CENTROTEC Group reached EUR 130.8 million in 2010, an increase of EUR 3.7 million or 2.9 % on the 2009 figure. This rise largely reflects the growth in the number of employees and the effect of terminating short-time. The personnel expenses ratio as a proportion of aggregate operating performance fell from 27.4 % to 27.0 % in 2010. As a result of the forecast revenue growth, the personnel expenses ratio is not expected to rise substantially despite the significant wage and salary increases expected in 2011.

CENTROTEC again granted stock options to employees, managers and Management Board members in 2010 by way of a variable remuneration component with a long-term incentivising effect; these are incorporated into personnel expenses at their measured value rather than as a cash expense. Depending on individual levels of target attainment, and provided the beneficiary remains with the company, these prospective options become actual exercisable fixed-price options to acquire CENTROTEC shares. In 2010, as in the previous year, there were 215,000 prospective stock options. Of the prospective options for 2009, approx. 74 % were granted. In 2010, 245,699 options (previous year 134,146) were furthermore exercised by members of corporate bodies and employees of the CENTROTEC Group at an average price of EUR 6.68 (previous year EUR 2.28). This led to the creation of 245,699 new shares in the company. The group accrued the exercise price in full.

EMPLOYEES BY SEGMENT

[FTE/Full Time Equivalent on 31/12]



■ Medical Technology & Engineering Plastics ■ Gas Flue Systems ■ Climate Systems

6 Research and development

Keeping markets and customers in focus is exceptionally important to CENTROTEC's Research and Development area, too. The non-central structure of R&D activities affords considerable flexibility by permitting a focus on the individual companies. In combination with the group companies' market proximity, this R&D strategy has repeatedly proved to be a competitive advantage in recent years. This structure permits a prompt response to current market developments, regulatory requirements or new customer demands. New directions in the market have moreover often been anticipated in the past, and it has thus been possible to influence trends early on. The faster the markets change, the more important this ability will become, thus endorsing CENTROTEC's strategy. In order to exploit synergies within a non-central structure, the various development departments within the group also collaborate on many cross-company and even cross-segment projects. This approach was adopted in the past for example for the development of the integrated energy roof and the oval, very space-efficient air ducting system, as well as for the passive-house compact systems that were used in 2010 in a major project to refurbish an entire housing settlement in the Netherlands to passive-house standards. There will be increased use of internal partnerships of this nature, as well as joint ventures with external partners, customers, suppliers, public and private universities and research institutes, without the non-central structures being undermined.

The group's focus in the 2010 financial year was on the launch of Wolf's self-developed series of heat pumps, which from a technical viewpoint have been the market leaders since their unveiling and have gradually acquired additional functions. Another development priority was the integrated energy roof system; innovations in the sphere of roof products were also brought onto the market and existing products were optimised and refined, often in close partnership with customers. In order to increase international sales, adjustments were made to reflect country-specific particularities and requirements. It was also possible to make extensive use of international customer contacts for this. One typical example is an in-roof solution for mounting solar systems, developed specially for the French market. The system in question had to be rapidly modified to accommodate a change in the law and became one of the first systems to be officially approved in France at the start of 2011. New developments will again make a significant contribution to consolidated revenue in 2011. The main topics of development work and its future focus are portrayed in the segment reports. Overall spending on R&D activities in the CENTROTEC Group increased further to a volume of EUR 7.3 million (previous year EUR 7.1 million) in 2010. This figure almost emulated the current record of EUR 7.4 million from 2008 and kept the R&D ratio constant at 1.5 % (previous year 1.5 %) despite the increase in consolidated revenue.

In the area of energy efficiency and the use of renewables in buildings, combining compatible, efficient individual components into integrated systems is becoming increasingly important. CENTROTEC picked up on this trend at a very early stage and has long been responding to it by providing competitive system solutions. User-friendly, optimally matched control engineering for the individual systems is of prime importance in this respect. This area will remain a priority within CENTROTEC's R&D strategy. Customer benefit, e.g. ease of installation, intuitive operation and maximum energy efficiency, will furthermore remain the benchmark for all development projects.

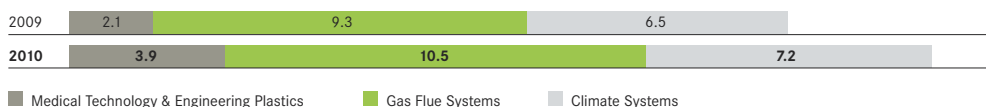
7 Investment

The CENTROTEC Group invested a total of EUR 21.6 million in property, plant and equipment and intangible assets in the 2010 financial year, representing a rise of 20.8 % on the prior-year total of EUR 17.9 million. As in the previous year, this figure included no acquisitions-driven capital expenditure. This record level of investment contrasted with depreciation and amortisation amounting to EUR 18.4 million (previous year EUR 17.6 million, evidencing the group's need for increased capacity if it is to realise further growth.

As in the previous year, the priority area for capital expenditure was property, plant and equipment, which accounted for EUR 14.4 million of spending (previous year EUR 12.4 million). A further EUR 7.2 million (previous year EUR 5.5 million) was invested in intangible assets. Broken down by segment, the second-largest segment Gas Flue Systems accounted for the lion's share of capital expenditure in 2010, as previously in 2009. The total investment volume in this segment amounted to EUR 10.5 million (previous year EUR 9.3 million). The principal investment projects in this segment included the major extension to the building at Brilon, where additional production, office and warehouse capacity was created. This extension building was erected in keeping with the new group-wide guidelines and can be operated with an entirely neutral CO₂ balance. The continuing roll-out of the new, uniform ERP system for all companies in the segment also pushed up investment in intangible assets and was a major factor in the relatively high investment volume for the Gas Flue Systems segment. In the highest-revenue segment, Climate Systems, investment spending totalling EUR 7.2 million (previous year EUR 6.5 million) again focused on the optimising of production capacity at Mainburg and specifically on increasing production operations for the company's own range of heat pumps. In the Medical Technology & Engineering Plastics segment, the investment volume rose to EUR 3.9 million in a reversal of the marked scaling-back of spending to EUR 2.1 million in 2009. The lion's share of this sum was earmarked for extending and modernising the development, production and administrative infrastructure at the Fulda location. Over and above this spending on infrastructure, the Medical Technology area continues to invest in expanding mainly its international sales network, with the spinal implants area its priority. With capital expenditure remaining high, CENTROTEC is optimising and extending its existing basis for further profitable growth; there will also be growing emphasis on acquisitions in the future.

INVESTMENTS

[in EUR million]



8 Environment and sustainability

Since changing its name from CENTROTEC Hochleistungskunststoffe AG to CENTROTEC Sustainable AG in 2004, the CENTROTEC Group has outwardly expressed the corporate objective of sustainability in its name. By definition, sustainability means satisfying the needs of the present generation without endangering the scope for future generations to satisfy their needs. It is a perpetual aim of the company's management to infuse this broad concept with life. A corporate policy dedicated to sustainability for example includes a product range with lasting customer appeal, environmentally compatible operating processes, and social responsibility towards the company's own employees as well as its customers, suppliers and all other groups associated with the company, alongside general social responsibility in society in general. CENTROTEC strives to uphold these aims both in its strategic decisions and in its day-to-day business.

The most significant contribution to sustainable economic activity involves offering resource-conserving product ideas that enhance energy efficiency and provide access to renewable energies in buildings at reasonable prices. For example, modern condensing boiler technologies, highly efficient climate control solutions and innovative ventilation systems with and without heat recovery all help to use fossil energy resources very efficiently. Systems exploiting solar energy and combined heat and power units running on sewage gas or biogas generate heat and power entirely without using any fossil fuels at all, avoiding the CO₂ emissions that such fuels would generate. These systems will increasingly converge in the future, making the buildings of the future energy self-sufficient and CO₂-neutral.

CENTROTEC likewise heeds the objectives of sustainable economic activity in its internal processes. The various group companies have already implemented a wide range of measures over the past few years to reduce the consumption of fossil fuels. Examples include the use of ultramodern heating and climate control technology, particularly in spacious production halls, energy-saving lighting and compressed air supplies, and the use of solar thermal and co-generation at the Mainburg location. All investment achieves short payback periods based on the current levels of energy prices, and thus makes a positive contribution towards consolidated earnings in the medium term. Meanwhile these measures help to save considerable amounts of climate-harming greenhouse gases within the company's own sphere of influence.

In future, CENTROTEC will be even more open about its own progress in avoiding CO₂ emissions and will record and publish details of the emissions by the individual group companies using an internationally recognised process. Following its pilot launch at a Dutch subsidiary in the first half of 2010, this process will gradually be rolled out at all other group companies and is to be adopted by a large number of them in the course of 2011. In order to realise corresponding progress in the avoidance of CO₂, much more rigorous low-energy building standards have been imposed throughout the group. Since 2010, all new buildings in the CENTROTEC Group have now had to achieve CO₂ neutrality for the building itself and its technical installations, as well as fulfil practicality and cost-effectiveness targets. These specifications are enforced as early as the planning phase through an overall energy concept, taking account of all energy types (heat, cooling, power etc.), the architectural requirements and the structure of the building. Within the overall concept, the architecture and the energy requirements are coordinated so as to optimise the passive and active use of solar energy and keep requirements or heat losses to a minimum. To further minimise the level of heating and cooling required, the building shell is constructed at least to low-energy standards, but ideally to passive-house standards, in harmony with the technical installations concept. To reduce the amount of energy used for generating heat and cooling, heat recovery solutions

and ultra-efficient cooling systems in particular are used, as well as combined heat and power units for co-generation, preferably running on biogas. Renewable energies are moreover used as a matter of course for heating and hot water, and the highest efficiency standards are mandatory for consumers of electricity in the administrative and production buildings. The use of solar power from our own photovoltaic systems to supply technical installations also ensures that new CENTROTEC buildings are CO₂-neutral. These measures enable CENTROTEC to combine economy with sustainability in its own buildings. In the past financial year of 2010, these challenging standards were successfully applied to the extensions and new buildings erected at Brilon and Fulda.

As well as these central aspects of environmental protection, sustainability includes assuming social responsibility. The operating environment, and specifically the way it interfaces with employees, is a key area of sustainable social action. The principal aspects were already dealt with in the "Employees" section from page 52. Typical examples are the extensive training and advancement measures organised independently by the various CENTROTEC companies, including courses that look beyond narrowly defined operational requirements, a large number of effective measures to avoid industrial accidents, efforts to create working conditions that are as family-friendly as possible, and voluntary employer contributions to employees' pension schemes. The success of these measures is reflected in the outstanding examination results achieved by certain apprentices, the low number of industrial accidents and low employee turnover. This aspect of sustainable action paves the way for consistently sound growth for the CENTROTEC Group, underpinned by well-qualified, motivated employees, and proves that sustainable action ultimately promotes economic success in the medium to long term, even if the extent of its benefit is difficult to quantify here. As well as assuming responsibility internally, the CENTROTEC companies demonstrate social responsibility outside their own sphere of activity through their support for charities, the arts and sport. The Dutch-Kenyan project of Ubbink East Africa Ltd. for the manufacture of small solar modules for own use constitutes a form of development aid as well as having a business component, and is therefore being supported directly by the Dutch government. In this project, fragments of polycrystalline solar cells, e. g. supplied by CENTROSOLAR, are assembled into solar modules for the local market by an established African partner at a production plant near Nairobi, and marketed as a low-cost energy source e.g. for cooling, communication and information technology. These applications can make a major contribution to the sustained economic development of the region, for instance by enabling communication through solar-powered charging points for mobile phones.

To harmonise the various initiatives to conserve resources, protect the environment and promote sustainability within the CENTROTEC Group and also enshrine further-reaching shared values throughout the organisation, a group-wide process on values and visions was launched in 2009 and developed further in 2010. All companies in the CENTROTEC Group in essence share the same vision and are committed to the same values, but there are naturally varying nuances, interpretations and priorities in a non-centrally organised group of companies. The current process seeks to identify a common core of values and visions that underlies all the current activities and projects, in order to implant it even more deeply in the organisation and in day-to-day processes. As well as the Management Board, the Managing Directors and managers of the group companies are all contributing to this process to ensure that both the process of defining a set of shared values and its outcome will be widely accepted throughout the whole organisation. The findings and guidelines arising from this process, along with the results of an initial survey of quantifiable factors conducted among all major production units in the CENTROTEC Group, will form the basis for an initial group-wide sustainability report.

9 Risk report

The CENTROTEC Group has systematically focused on the topic of sustainability. The spotlight of the group's activities is on the development, manufacturing and sale of system solutions for the energy-efficient heating, ventilation and climate control of buildings, making use of renewable energies. CENTROTEC's activities thus contribute towards improving the environment and exploit the market opportunities arising in this area. These market opportunities are created through accessing new markets or penetrating existing markets with established, improved and new innovative product solutions from such areas as condensing boiler technology, solar technology and building climate control. Integrated systems that require expertise in several of the above product areas are also becoming increasingly prevalent. CENTROTEC's objective is to exploit fully the opportunities that present themselves in this context, both through organic growth and through an active acquisitions strategy, while nevertheless guaranteeing the highest possible degree of stability and risk limitation. The latter means in particular that it rigorously applies a strict set of criteria when selecting and analysing takeover options and financing and integrating acquisitions. For this strategy, CENTROTEC relies on the one hand on the extensive experience and market knowledge of its group and segment management, and on the other hand on systematically monitoring and steering the risks that this business model entails.

To monitor and control the various risk areas, CENTROTEC implements a group-wide risk management system that is constantly being refined and assessed for effectiveness. This requires all significant companies in the group to submit regular reports on the nature, likelihood and potential impact of identified risks, in accordance with the existing guidelines. Operating business is moreover closely monitored by the respective members of the Management Board. With this as the basis, it is possible to initiate an early response within the risk management system and involve various escalation hierarchies right up to the Management Board and Supervisory Board in good time, depending on the potential value of the risk, in order to avoid or hedge risks.

9.1 Risk areas

9.1.1 Risks from the economic environment and the industry

The business performance of CENTROTEC, too, is fundamentally dependent on the wider conditions in its economic environment and on general cyclical developments, especially in Europe. With regard to its industry context, CENTROTEC operates in the area of building investment in the broader sense; in the 2010 financial year this area stabilised at a fairly low level in Europe, the group's main sales region, in the aftermath of the global economic crisis. Germany began to see slight growth in new housing construction in 2010 compared with the very weak previous year. On the other hand the commercial construction area in Germany and indeed in most other European countries declined markedly yet again in 2010. Public-sector construction was moreover disappointing, with revenue falling despite the economic stimulus programmes under way in many countries. Activity in the sphere of building investment also serves as an important indicator for CENTROTEC. However, business was latterly increasingly able to detach itself from the general trend in the construction industry by focusing on energy-saving solutions, of which the public is acquiring a growing awareness. Irrespective of increasingly short-term cyclical fluctuations, CENTROTEC energy-saving solutions are achieving lasting appeal for both new buildings and particularly for the retrofit and renovation market as well as for municipal projects. This effect can be attributed to long-term growth in building refurbishment for energy efficiency as a proportion of the overall market and the increased priority given to energy-saving solutions in each construction project.

Statutory framework conditions and public subsidies nevertheless continue to have an influence. For instance a scaling-back of subsidies if the general conditions otherwise remain unchanged could lead to falling revenue or slower revenue growth. The effects of such measures were in evidence in Germany in 2010. A large number of changes were made at various points throughout the year, causing considerable uncertainty among end customers. Nevertheless, with climate protection remaining as pre-eminent a concern as ever, along with the rebound in energy prices since mid-2009 and the medium to long-term expectations of substantially higher levels, plus growing efforts to achieve greater energy independence, CENTROTEC does not expect any fundamental reduction in the measures and subsidies to promote energy-focused building refurbishment. Other European countries, but also other parts of the world, are increasingly adopting many of the measures already practised in Germany, involving increasingly stringent requirements or higher levels of subsidies. Specifically in the area of subsidies, however, the financial crisis could prompt certain countries to freeze financial aid or suspend state measures to promote construction activity and protect the climate. Above and beyond these state incentives and directives, the awareness of and pressure on each individual to actively cut their energy costs while helping the environment will continue to rise and provide a useful basis for maintaining the market's positive development. The failure of the Copenhagen and Cancun Climate Change Conferences to agree yet on far-reaching joint aims and measures will increase the pressure on both each individual and whole countries to act.

The development in prices for fossil fuels furthermore has a major influence on readiness to invest in efficient heating, ventilation and climate technology and the use of renewable energies. The high price level now reached and the further rise specifically in oil, gas and coal prices expected in the medium to long term nevertheless offer more opportunities than risks. The price argument aside, the question of independence from suppliers is a factor that should not be underestimated for those considering switching to renewable energies and making savings through energy efficiency.

9.1.2 Corporate strategy risks

Growth through acquisitions is one aspect of CENTROTEC's strategy. The high growth of recent financial years in itself harbours risks. One key challenge is to adapt the internal organisation and processes swiftly to the new, larger entity each time and to integrate the acquired or newly established, predominantly foreign businesses into the corporate structure. If ties between new entities and the existing group are too weak, a loss of transparency and control can ensue. Forcing the corporate culture onto new entities can cause employees to lose their ability to identify with products and companies, and thus ultimately lead to a weakening of the market position and thus of the market value. CENTROTEC therefore strives to strike a balance between control and entrepreneurial freedom at its group companies. The dovetailing of acquired or newly established entities with the group is promoted by an overarching integration management approach and continually monitored until the entity is finally fully integrated into the group-wide mechanisms of control and steering. The structure of the group as a whole is continually scrutinised for potential for improvements that are implemented by reorganisation projects in the individual segments in order to establish a workable basis for the continuing sustained development of the group.

Until now, the focus of business has been on core European countries, specifically in Western Europe. The overwhelming proportion of revenue is generated in the eurozone. This emphasis gives rise to limited exposure to risks from changes in foreign exchange rates. Business outside the eurozone and in other countries outside Europe will also become increasingly important. The aim here is to establish a broader basis for sales and thus reduce dependence on the German and Dutch markets. The previously manageable risks from possible exchange rate movements are hedged selectively within the group by means of

appropriate instruments. The fundamental risk of a devaluation of the euro nevertheless goes hand in hand with increased opportunities for exports to countries outside the eurozone. A growing international spread furthermore entails wide-ranging risks arising e.g. from changing political and legal circumstances, transport and processing risks, and cultural differences. For its further expansion, CENTROTEC relies in particular on strong local partners with extensive market and logistics expertise and knowledge of their local context. By aligning the interests of the partners involved and regularly revisiting and examining risk positions in the context of risk management, the market opportunities that arise are thus kept under control and risk minimisation is gradually optimised.

9.1.3 Risks from operating business

CENTROTEC addresses the potential risks in the operating sphere of the group's individual companies through extensive, ongoing measures.

Reliable deliveries, in particular for supplies procured internationally, are assured on the one hand through close technical cooperation with important suppliers and on the other hand by maintaining at least two sources of supplies in each case. Rising procurement prices constitute another potential risk at the procurement end. Depending on the segment and product area, this risk is controlled by methods such as shoring up long-term supplier relations and corresponding price agreements, and by continually observing the market and optimising procurement sources. At present, procurement prices are still on the increase but remain below the record levels of 2008. In line with further global economic growth, a further rise in procurement prices is expected for the current financial year. Price developments in raw materials and supply markets are being actively monitored; at the same time potential for compensating for price increases is being identified through the group-wide earnings enhancement programmes and suitable improvements implemented.

Potential risks within the production or service areas of the group companies are addressed by means of internal guidelines drawn up at the level of the individual companies, and certification to international quality standards such as ISO 9001, ISO 14001 and ISO TS 16949. However, in line with CENTROTEC's strategy and as a reflection of their broad operational leeway, the individual group companies always use the most rigorous quality standards in their specific sectors as the benchmark. To safeguard product quality and minimise the associated risks, quality-critical components of CENTROTEC products are subjected to comprehensive quality checks both during the entire production process and in the end products. The methods and systems used to this end are examined and regularly updated in line with the latest standards. The risk of accidents and plant breakdowns is countered by providing suitable training for customers and employees, and implementing accident prevention regulations and task instructions. The risk of production plant breakdowns is countered by preventive maintenance and ongoing monitoring of the operating parameters. Plant itself is insured against potential forms of loss in line with its value.

The development of innovative products fundamentally entails the risk that the desired outcome may not be achieved despite the expending of considerable resources. To minimise this fundamental development risk, intensive exchanges and peer reviews of product development activities take place between the individual group companies, as does very intensive market analysis. The internationally spreading sales organisation is also increasingly called upon to contribute its market knowledge. This helps to identify off-target developments at an early stage and gives top priority to market-led product development work. All capital investments and development projects are in addition evaluated intensively and promptly in the context of group-wide development activities, looking at the overall portfolio and the individual opportunities and risks involved.

At the sales end, there is the potential risk of the loss of important customer relations, in particular with key accounts. Dependence on individual customers is fundamentally reduced by focusing predominantly on products for end users. CENTROTEC for instance has no individual customer accounting for more than 3 % of total consolidated revenue. At the level of the group companies, this threshold is nevertheless exceeded in individual cases. The loss of contact for instance with a wholesale or key account fundamentally always has a palpable impact on revenue and earnings for both the group and the group company. This risk of dependence is countered by active management of customer relations and diversification of the sales channels in the various markets. These tasks involve continually monitoring the sales channels in the individual segments and countries for scope for expansion in line with the strategy. Revenue dependence on individual customers has furthermore fallen along with growth already realised, and will continue to decline along with the future growth that is being targeted.

A further risk in the sales sphere stems from the increasing pressure on the prices of CENTROTEC products, in particular from existing or new competitors. CENTROTEC believes it is in a strong position in its various segments thanks to its existing technological lead and the market position it has already achieved. The product portfolio is moreover regularly scrutinised for potential for innovations that will safeguard and extend its competitive position. Although there exists an overall risk of price pressure on CENTROTEC products, positions have been achieved and mechanisms set up to keep this area of risk under control.

The customary insurance cover has been taken out to minimise the general risks from operating business. This includes in essence business interruption, business liability, legal protection, business and property, credit sale, loss of earnings and serial losses insurance, as well as D&O cover for Management Board members, managing directors and non-executive directors. There is in addition special property insurance cover (damage by the elements) for warehouses.

9.1.4 Personnel risks

There fundamentally exists the potential risk of losing managers and employees in key positions, with a corresponding impact on the company. CENTROTEC addresses this potential risk on the one hand by adopting a sensitive approach to the integration of newly acquired entities (see “Corporate strategy risks”) and on the other hand by diversifying its personnel base as part of developing the group organisation as a whole. The further development and regular training of employees in their respective specialist areas are promoted, and the independent initiative of employees to develop and implement new approaches and methods is encouraged. As a result, CENTROTEC is able to offer its employees long-term perspectives for development and thus helps to minimise fluctuation in key positions by giving its employees a high level of job satisfaction. These are important measures for guarding against a general future risk of shortages of specialists; this risk is also specifically addressed by training measures for young people that are tailored to the needs of the individual group companies. CENTROTEC furthermore enables Management Board members, managers and employees in key positions to share financially in the group’s long-term growth prospects through the group-wide stock options scheme, boosting loyalty to the group by means of such a long-term incentive system.

In addition, specifically at times of general economic buoyancy, there is the risk of excessive rises in costs in the personnel area as a result of high wage and salary increases. This risk is countered by active personnel costs management and trust-based partnership between the workforce and the management in a spirit of mutuality. The consequences of potential high pay settlements are also limited by the forecast revenue rises and the ongoing optimisation of processes throughout the group.

9.1.5 Information technology risks

In the domain of information technology, the possibility cannot fundamentally be excluded that problems will arise with existing systems or future extensions to existing systems, such as introductions of new software releases, or that system failures will hamper business operations. The customary precautions and security measures in the IT sector are adopted to limit these risks. The appropriateness of the security measures in information technology is regularly checked and the systems and processes in use adapted to changing requirements if necessary. In addition, a cautious migration approach is adopted for the integration of new business units, to avoid major risks to business operations for instance as a result of incompatibility between systems or inadequate reflection of specific business features. Furthermore, the number of systems used throughout the group is progressively being reduced to avoid possible errors or incompatibility and further optimise systems maintenance.

However, the operating units are increasingly integrated at systems level in line with their business requirements. A topical example is the roll-out of a joint ERP system in all companies of the Gas Flue Systems segment from 2009; the three main companies were migrated to the new joint system in 2010.

9.1.6 Financial risks

Financial risks for CENTROTEC result largely from the use of borrowed capital for financing its growth, and in particular its acquisitions. The opportunities successfully seized in the past to generate high, steadily rising earnings in this way go hand in hand with the potential risk of falling or even lost earnings, with the corresponding financial consequences. In the financing of external growth, CENTROTEC limits the risk it bears on a local basis to the entities in question (ring-fenced financing) and subjects the current and future profitability of all corporate entities to comprehensive profit and earnings controlling. Deviations are thus rapidly identified and any corrective measures needed can be implemented promptly and thoroughly. For financing, the interest rate risks for the mostly variable-rate loans are hedged predominantly by means of interest rate derivatives. In the past, CENTROTEC has in addition paid back borrowings on schedule in order to minimise the resulting financial burdens and maintain sufficient financial leeway.

CENTROTEC responded swiftly to the potential risk of more limited access to financing from the banking sector following the financial crisis and in 2008 realised an overall concept to safeguard the group's short and long-term financing for the next few years. Together with the substantial reduction in borrowings over the past four years, there are consequently adequate reserves to keep pursuing the development of the group under our own momentum, with additional leeway for seizing any external options that might present themselves.

For more detailed information on the financial situation of the CENTROTEC Group, we refer to the Notes to the Consolidated Financial Statements from page 84.

9.1.7 Miscellaneous risks

The supplying and selling of products, plant and services may expose the CENTROTEC Group and its individual companies to legal risks due to the possibility of deliveries not as per agreement, product liability claims, product defects, quality problems, breaches of intellectual property or the failure to comply with fiscal regulations. Despite a comprehensive quality management activities and corresponding regularly optimised organisational structures, such risks cannot be ruled out altogether. To guard against this exposure, warranty provisions of the customary extent for our business operations are created and corresponding product liability insurance cover taken out, based on figures from experience of failures and corresponding warranties for potential customer claims, and reflecting potential accountability. All customer complaints are moreover systematically checked and processed, then investigated with a view to identifying scope for internal optimisation.

There are currently no cases of litigation pending that could entail significant financial obligations, including ones which could threaten it as a going concern.

9.2 Directors' assessment of the risk situation

The assessment of the risk situation of CENTROTEC is based on ongoing risk management, for which the company management discusses the status of risks and their possible impact and approves any necessary corrective measures, as well as ensuring that the operating units are closely monitored by the appropriate Management Board members. The fundamental risks to CENTROTEC's business include a great many external risks which the company is unable to influence directly, but the probability and potential impact of which is analysed regularly. There are in addition potential risks attributable to internal factors, for which the management has created instruments and methods in order to identify them early on and implement measures to prevent or curb their effect.

The risks mentioned here do, however, go hand in hand with numerous opportunities, which are described in greater detail in the outlook and the reports on the segments. As matters stand the management regards the opportunities and risks profile as balanced, with no risks to the company as a going concern. All areas of the company were able to develop positively in 2010 and the marginal area of Engineering Plastics in particular succeeded in overcoming the previous year's difficult situation. The detailed current and anticipated future impact on the individual areas of business has been described at length in the segment reports. The overall economic situation both in Germany and beyond fundamentally improved between 2009 and 2010. For 2011, too, the overall economic outlook worldwide, nationally and for the industry offers the prospect of a further improvement in the underlying situation, even if there could still be potential setbacks in the form of more financial crises, excessive rises in the prices of materials or a deterioration in the regulatory conditions. As repeatedly demonstrated in the past, CENTROTEC enjoys

a high degree of flexibility in its cost structure and cash flow, enabling it to respond proactively to an increasingly dynamic market. The options available to it include using the flexibility that exists within its production capacity by hiring temporary workers and applying flexible working hours models, as well as continually reassessing and adapting investment spending in order to increase capacity and access to new markets in response to demand. As in the past, CENTROTEC will very carefully examine the attractive acquisition options that continue to be available, and will consider and assess such propositions specifically in terms of their viability in the current rapidly changing economic climate. The group's ongoing earnings improvement programmes will moreover focus on optimising materials and commodities procurement costs in order to actively confront current and future price rises.

9.2.1 Disclosures on the internal control and risk management system for financial reporting purposes, pursuant to Section 289 (5) of German Commercial Code

The internal control and risk management system for financial reporting by the CENTROTEC Group aims to identify potential internal sources of error and to limit or eliminate the risks arising from them. In addition to optimising internal processes and procedures, it above all encompasses the entire financial reporting of the CENTROTEC Group.

One core function of financial reporting is to steer the group as a whole. Target and deviation analyses are conducted on the basis of the budget and mid-range planning approved by the supervisory bodies. Regular forecasts are made to monitor the risks to ongoing business operations.

CENTROTEC's financial statements are based on a group-wide reporting system. This constitutes the basis for a standardised data reporting process throughout the group. The companies' accounting functions are organised non-centrally but are harmonised by means of a group-wide accounting manual that regulates how accounting standards are to be applied in group-wide financial reporting.

The information obtained within a narrow time frame from this comprehensive reporting system provides the basis for active, prompt group steering. The holding of regular Management Board and Supervisory Board meetings and the close support provided for managing directors by the respective Management Board members guarantee that the information obtained in reporting is suitably evaluated, leading to appropriate measures as necessary. Together with the provisions of the articles of incorporation and the individual rules of internal procedure for the Supervisory Board, Management Board and managing directors, this portfolio of reporting and analytical measures creates a coherent, effective overall system. The efficiency and effectiveness of this system are examined by the Management Board at regular intervals, and the system is then revised as necessary.

The group's Legal department helps to draft or cross-checks all materially significant contracts of group companies.

The auditors of the individual companies, sub-groups and Consolidated Financial Statements examine the internal system of control for financial reporting purposes to the extent that is necessary based on the audit standards and chosen audit strategy, and report on their findings to the Supervisory Board. Suggested improvements are taken up by the Management Board and management with the aim of continually developing and improving the system.

10 Other particulars

10.1 Provisions on the appointment and dismissal of the members of the Management Board and on changes to the articles of incorporation

The Management Board of the company is appointed and dismissed by the Supervisory Board, which is also responsible for nominating a member of the Management Board as Management Board Chairman. The Shareholders' Meeting resolves amendments to the articles of incorporation. The resolutions of the Shareholders' Meeting require a simple majority of votes cast and, if a majority of shares is required, a simple majority of shares, unless a greater majority or further requirements are stated in law. The same applies to amendments to the articles of incorporation.

10.2 Authorisation of the Management Board to issue or buy back shares

10.2.1 Share buy-back

Pursuant to the resolution of the Shareholders' Meeting of May 20, 2010 the company is authorised until May 19, 2015 to acquire treasury stock which, together with existing treasury stock, represents up to ten percent of the capital stock at the time of the authorisation taking effect. The price for the acquisition of these shares may not be more than 10 % higher or more than 10 % lower than the closing price in Xetra trading on the Frankfurt Stock Exchange (or in a successor system) for shares of the same class and features on the ten trading days preceding the acquisition. The Management Board is authorised to offer all or some of the shares thus acquired to third parties in (part) payment of the acquisition of companies or investments in companies, excluding the shareholders' right of subscription. The Management Board is furthermore authorised to retire the company's treasury stock without the need for a further resolution to be adopted by the Shareholders' Meeting. Retirement may be restricted to part of the purchased shares.

10.2.2 Approved capital

By the shareholders' resolution of May 24, 2007, the Management Board is authorised, with the approval of the Supervisory Board, to increase the company's capital stock on one or more occasions by up to EUR 8,212,082 (approved capital) up until May 23, 2012 through the issue of new no par value bearer shares in return for cash or non-cash contributions. The Management Board was also authorised, with the approval of the Supervisory Board, to specify the details of the share issue and, in defined conditions, to exclude the subscription right (a) for residual amounts, (b) for capital increases for cash if the issuing price of the new shares does not significantly undercut the market price of the shares of the same class and features already listed at the time when the issuing price is finally fixed by the Management Board, in keeping with Sections 203 (1) and (2), and 186 (3), fourth sentence of German Stock Corporation Law, (c) for capital increases for contributions in kind for the granting of shares for the purpose of acquiring (including indirectly) companies, parts of companies or interests in companies or assets of other companies, and (d) for issuance to employees of the company.

Conditional capital

By resolution of the Shareholders' Meeting of May 28, 2002 the capital stock is conditionally increased (Conditional Capital I). The Management Board was authorised to issue warrants for subscription to new bearer shares in the company until December 31, 2004, on one or more occasions. Employees, managing directors and Management Board members of the company and of its affiliated companies pursuant to Section 17 of German Stock Corporation Law are entitled to subscribe. New shares are created where

the options are exercised. These pay dividends from the beginning of the financial year in which the options are exercised. As a result of the exercising of option rights, Conditional Capital II at December 31, 2010 fell to EUR 21,984, divided into 21,984 no par value shares (previous year EUR 175,292, divided into 175,292 no par value shares). In view of the conditions of exercise specified in the shareholders' resolution, stock options from Conditional Capital I may no longer be exercised after the end of the 2010 financial year.

By resolution of the Shareholders' Meeting of June 1, 2005 the capital stock is conditionally increased further (Conditional Capital II). The Management Board is authorised to issue warrants for subscription to new bearer shares in the company until December 31, 2011, on one or more occasions. Employees, managing directors and Management Board members of the company and of its affiliated companies pursuant to Section 17 of German Stock Corporation Law are entitled to subscribe. New shares are created where the options are exercised. These pay dividends from the beginning of the financial year in which the options are exercised. Conditional Capital II at December 31, 2010 amounted to EUR 461,742, divided into 461,742 no par value shares (previous year 526,804 EUR, divided into 526,804 no par value shares).

By resolution of the Shareholders' Meeting on May 29, 2008 the capital stock is conditionally increased by a further EUR 756,000, divided into 756,000 no par value shares (Conditional Capital III). The Management Board is authorised to issue warrants for subscription to new bearer shares in the company on one or more occasions, until December 31, 2014. Employees of CENTROTEC Sustainable AG as well as employees of affiliated companies as defined by Section 17 of German Stock Corporation Law are entitled to subscribe. The managing directors/Management Board members of the above companies are furthermore entitled to subscribe. New shares are created where the options are exercised. These pay dividends from the beginning of the financial year in which the options are exercised. Conditional Capital III at December 31, 2010 amounted to EUR 728,671, divided into 728,671 no par value shares (previous year 756,000 EUR, divided into 756,000 no par value shares).

For further disclosures on the company's equity, please see the Notes to the Consolidated Financial Statements.

10.3 Remuneration report

The basic features of the system of remuneration as well as particulars of the group remuneration of individual Management Board and Supervisory Board members are summarised in the remuneration report for the 2010 financial year. It takes account of the provisions of German Commercial Code and of the principles of the Corporate Governance Code. The remuneration report, which includes the particulars of the remuneration of the corporate bodies, is published in the section dedicated to the Corporate Governance Report and is to be regarded as part of this management report, as a result of which it is not presented separately here.

10.4 Rendering of accounts

Some of the particulars provided in the management report, including statements on anticipated revenues, earnings and capital expenditures, as well as potential changes in the framework conditions of markets and of the financial position, contain future-related statements. These have been formulated on the basis of expectations and estimates by the Management Board with regard to future occurrences that could

affect the group. Such future-related statements are intrinsically open to risks, uncertainties, exceptions and other factors that could result in the actual revenues and earnings of CENTROTEC, significantly departing from or falling short of those explicitly indicated or implicitly assumed or described in these statements.

In the rendering of the accounts, the potential for leeway in measurements in the Consolidated Financial Statements was analysed, assessed and handled in such a way as to present figures that the Management Board believes are as fair and reliable as possible. Open, timely and continual communication with the capital market moreover forms part of CENTROTEC's philosophy, which the rendering of accounts satisfies.

11 Report on post-balance sheet date events

Via its subsidiary Ubbink B.V., Doesburg, the Netherlands, CENTROTEC Sustainable AG, Brilon, acquired 60 % of the solar specialist Solar23 by way of a capital increase upon entry of the transaction on the Commercial Register on March 1, 2011. This aside, there were no significant events at and after the balance sheet date, or only to the extent that has already been indicated or is already evident from the remarks in the group management report.

12 Outlook

CENTROTEC confirmed its outstanding market position and operating strength in the 2010 financial year and fully achieved the ambitious targets set at the start of the year – and subsequently upgraded in-year – amid a demanding market environment. Whereas consolidated revenue of EUR 480 million was at the lower end of the forecast bandwidth of EUR 480 to 500 million, the operating result (EBIT) easily beat the original forecast of EUR 30 to 32 million. Ultimately coming in at EUR 36.2 million, it was squarely within the EBIT forecast range that was revised upwards to EUR 36 to 37 million during the course of the year. Earnings per share (EPS) of EUR 1.54 were also considerably higher than the January 2010 bandwidth forecast of EUR 1.10 to 1.20, and in the middle of the most recent forecast range of EUR 1.50 to 1.60. In addition, the reduction in net borrowings by EUR 10 million as announced more recently was likewise easily exceeded because this item was actually reduced by EUR 15 million in 2010. This forecasting accuracy, which has almost always been consistently achieved in recent years, defines the benchmark for CENTROTEC.

The wider economic recovery that turned out to be much stronger than expected in most European core markets in 2010, but especially so in Germany, and the further growth predicted for 2011 provide a positive overall framework within which the CENTROTEC Group operates. However, it was also apparent in the past year that this macroeconomic development does not always filter through directly to the markets that are relevant to CENTROTEC. In contrast to the rises in gross domestic product (GDP) of 1.9 % in the European Union and 3.6 % in Germany, the heating market in Europe as a whole achieved only tentative growth and contracted by 4 % in Germany. A similar level of growth is expected across Europe in 2011 and slightly weaker economic growth in Germany. The market for energy efficiency and renewable energies in buildings will continue to exhibit a lack of uniformity both regionally and among the individual product groups in 2011, but is fundamentally expected to develop positively. This expectation is backed by the renewed rises in energy prices, the drive to create greater independence from energy imports, the need to act on climate change, and the regulatory requirements and accompanying financial incentives put in place by the state in response to this situation.

In this market environment, CENTROTEC has carved out a niche for itself in recent years as the only listed company in Europe to supply a comprehensive range of energy-saving solutions and systems using renewable energies in buildings. This huge success achieved even in difficult market conditions owes much to the fact that the CENTROTEC Group is able to offer all the relevant technologies and skills that matter in this market: heating, ventilation and climate control technology, along with renewable energies. This comprehensive expertise is becoming increasingly important along with the convergence of the various different systems encountered in modern building services engineering, and offers the companies of the CENTROTEC Group excellent market prospects. Thanks to the group's high-quality, highly efficient, user-friendly systems, the dense, steadily growing, internationally diversifying sales organisation is in a position to seize these opportunities. The further expansion of the existing sales organisation and the ongoing refinement of the product range to incorporate intelligent control engineering will remain major priorities for the CENTROTEC Group.

The gradual optimisation and adjustment of internal processes and structures represents another key area in the further development of the CENTROTEC Group. In addition, the group-wide earnings improvement programmes are successfully addressing areas such as manufacturing costs, materials purchase prices and production processes, as the earnings performance of recent years demonstrates. Commodity prices, which have risen substantially over the past two years in some cases already to record levels, will probably be the biggest challenge on the costs side in 2011. Optimising internal processes also includes steadily bringing the corporate infrastructure in line with the growing business volume. The spotlight for all areas of the group will be specifically on increasing production and logistics capacities in line with demand. In all, the record sum of EUR 21.6 million (previous year EUR 17.9 million) was invested in property, plant and equipment and intangible assets in 2010. Another moderate increase to capital expenditure is planned for the current financial year. Over and above this, acquisitions are conceivable if the right opportunities present themselves, in keeping with the buy and build strategy. There is the financial leeway to do this thanks to the steadily improved financial situation of the group; for example, net borrowings were reduced by a further EUR 15.4 million in 2010 to EUR 71.1 million. Net borrowings were thus brought down to less than half the highest reported level from the end of 2006 following the takeover of Wolf. A further reduction in net borrowing from operating business can be expected for 2011.

Given the general situation and the group companies' position, CENTROTEC expects revenue to grow to EUR 520 to 535 million for the 2011 financial year, with the operating result (EBIT) increasing to EUR 40 to 42 million. Earnings per share (EPS) of EUR 1.70 to 1.80 are forecast for 2011. In a departure from previous years, the Supervisory Board and Management Board of CENTROTEC Sustainable AG will propose to the Shareholders' Meeting that, as an initial step, a dividend of EUR 0.10 per dividend-bearing no par value share be distributed for the 2010 financial year. They nevertheless still plan to plough back the greater part of profit and invest it in the further organic and external growth of the company. This approach will however continue to be reviewed on a regular basis in the future and a separate decision taken each year. CENTROTEC equally expects the organic revenue and earnings growth that is taking shape for 2011 to continue in subsequent years. CENTROTEC fundamentally sets itself the long-term target of approximately 10 % annual organic revenue growth at group level, coupled with an EBIT margin exhibiting an upward tendency in the high single figures.

The main driving forces behind the continuing business performance, which have fundamentally remained largely unchanged from previous years, are:

- The long-term rise in energy prices due to limited resources and rising worldwide consumption,
- The growing pressure to act swiftly and decisively on climate change in order to hold its negative consequences in check,
- Tougher statutory requirements throughout Europe for the energy efficiency of buildings,
- The strong, expanding market position of the group companies thanks to their established, innovative, energy-efficient solutions for buildings,
- The impressive development expertise that is behind the recent and forthcoming market launches of very many new, technologically pioneering products,
- Further investment in product development and innovations,
- Competitive advantages thanks to anticipating accurately the trend towards the integration of various solutions for heating, ventilation and climate control technology, and involving renewable energies, into integrated system solutions.
- Exploiting further synergies within the CENTROTEC Group in operational and strategic areas,
- The sound financial situation, which assures ample entrepreneurial scope.

13 General statement on the expected development of the group

The increases achieved in 2010 in all the key parameters applied in the evaluation of the company, with the market environment again remaining challenging, demonstrated the CENTROTEC Group's good position in the market for energy efficiency and the use of renewable energies in buildings. The group companies furthermore have a strong, competitive position with market-oriented system solutions and a customer-focused sales organisation. The innovative product range with integrated system solutions for heating, climate control and ventilation technology addresses the global megatrends of energy conservation and climate protection.

On this basis, CENTROTEC regards itself as enjoying a strong position to increase its market shares in the global growth market for energy efficiency and renewable energy technology in buildings yet further in the long term, equally maintaining the positive long-term development in revenue and earnings. Overall, CENTROTEC therefore expects a positive business performance for the group as a whole in 2010 and beyond, even when making allowance for residual uncertain factors in the economy as a whole.