

Customer Value through Innovation





Group Management Report for Fiscal Year 2010 of NORMA Group GmbH, Maintal/Germany

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Overview

NORMA Group (hereinafter also referred to as “NORMA” or “the Group”) is a leading global supplier of advanced innovative joining technologies. On the one hand, the Group is a strategic development partner for its customers, on the other hand the Group runs an integrated service distribution network for its product solutions. Headquartered in Maintal (Germany), the Group operates 20 manufacturing locations in Western and Eastern Europe, North America and Asia. The company is represented in more than 80 countries all over the world. NORMA Group sells its products under well-known brands such as ABA®, BREEZE®, GEMI®, NORMA®, R.G. RAY®, Serflex®, Serratub®, TERRY®, and Torca®. Its global presence as well as its know-how from many decades of experience and customized one-stop system solutions are the basis of NORMA Group’s ongoing success and the satisfaction of its customers. Jointly with its customers, NORMA Group makes for a clean, sustainable and efficient utilization of natural resources.

Offering its approx. 10,000 customers more than 35,000 high-quality products and innovative solutions throughout the world, NORMA is an international market and technology leader operating in attractive niche markets for highly-developed joining technologies. The Group produces and sells a broad range of high-grade joining products for various application solutions, divided into three product categories: fastening clips/clamps (CLAMP), joining elements (CONNECT) and connections/fluid systems (FLUID). NORMA CLAMP products and solutions are made of steel; they are mainly used for connecting and sealing elastomeric hoses/pipes. The variety of CONNECT products includes steel joints, which are in some cases provided with elastomeric seals and designed for use as connecting and sealing elements for metal and thermoplastic tubes. NORMA Fluid products serve as tubing systems for fluids or air, replacing elastomeric hoses/pipes as single- or multilayer thermoplastic connections/fluid systems.

Supported by a global network incorporating, in addition to 20 production locations, further sales and distribution centers in Europe, the Americas and the Asian-Pacific region, NORMA Group focuses on two different marketing channels in supplying its customers: **Engineered Joining Technology (EJT)** and **Distribution Services (DS)**.

In the field of EJT, NORMA provides individually designed solutions meeting specific application requirements of industrial OEM customers. EJT solutions are used in a variety of application fields, including Emissions Control, Cooling Systems, Air Intake and Induction, Ancillary Systems and Infrastructure and applied in most diverse end markets, for example in agricultural machinery, aviation, commercial vehicles, building machinery, engines/motors, infrastructure, passenger cars, rail cars, etc.

In the field of DS, NORMA sells a broad range of high-quality, standardized joining products for most diverse fields of application to customers such as distributors, specialist wholesalers, OEM customers in the aftermarket segment and even building markets, under the well-known brand names ABA®, BREEZE®, Gemi®, NORMA®, R.G. RAY®, Serflex®, Serratub®, TERRY®, and Torca®. Furthermore, DS products are sold via NORMA’s own global sales network and through sales agents in more than 80 countries.

NORMA Group expects the number and complexity of connections in the end products produced by its customers to increase further. Technical customer requirements change in response to global mega trends such as the necessity of steadily reducing emissions, leakages, weight, space and assembly time. Additional and increased customer requirements cause the demand for advanced joining technology per customer end product to rise. The Group aims at utilizing this growth potential by concentrating on innovative, value-adding solutions for function-critical connections. Furthermore, the Group addresses customer demands with regard to further modularized manufacturing processes. In developed markets as well as in developing markets and in the different end markets, NORMA Group pursues a proactive approach in order to identify any additional demand for highly-developed joining technologies in existing customer end products and, if possible, to cover such demand by own developments or under own brands.

The Group expects that the broad diversification of the two market access strategies (EJT and DS) with regard to regions, end markets and products will strengthen its business operations. Moreover, diversification will enable NORMA to exploit growth potentials from a large number of different growth trends.

Consequently, any local business entity is applied great independent value, and higher level activities are at first pooled in the regions Europe/Middle East, Americas and Asia/Australia and finally at the Group's headquarters in Maintal near Frankfurt am Main in Germany.

The group management report is based on the relevant legal provisions codified in Sections 289, 289a, 315 HGB (German Commercial Code), and on the German Accounting Standard No. 15 (DRS 15) as amended on 5 January 2010.

Business and environment

Economic trend and industry environment

Global economy recovered in 2010

Following a period of economic recovery, global production and international trade in many sectors almost reached their levels of before the financial crisis in 2010. The cyclical improvement was mainly supported by the industrial nations' expansive monetary and tax policy as well as by stable demand from the newly industrialized countries.

According to information by the International Monetary Fund (IMF), the gross world product increased by 4.8% in 2010. For subsequent years until 2015, the IMF also expects a minimum growth of 4% each year. In 2010, world production increased year on year by approx. 4.75%, however, there are regional differences. Even though the economic output in many of the newly industrialized countries exceeded pre-crisis levels by far in 2010, the majority of the industrial countries have not yet fully made up for the decrease in gross domestic product.

Europe expects increasing GDP growth

According to provisional information by EUROSTAT, the Euro area (EU-16) achieved a balance of trade surplus of EUR 0.7 billion in 2010. Compared to the previous year 2009, this means a decline in the balance of trade surplus of EUR 15.9 billion, whereas the EU-27 reported a deficit of EUR -143.3 billion in 2010, thus further increasing the prior-year deficit of 2009 by EUR -35.1 billion (EUROSTAT).

In contrast to an EU-27 deficit on energy trade, the balance of trade surplus for industrial products increased by approx. 10%. Trade activities of the EU-27 with major partner countries increased in the period from January through November 2010 in comparison with the corresponding prior-year period. An especially striking fact is the increase in exports to Brazil (+48%), China and Turkey (+38% each). The strongest increase in imports related to Russia (+33%), China (+31%) and India (+30%) (EUROSTAT).

Regarding 2011, further growth of the gross domestic product in Europe is expected, with focus in the second half of the year. Nevertheless, current estimates do not expect that the disproportionately high growth will continue, but anticipate a deceleration of growth due to increased public debt and a more rigid tax regime (IHS 2011). On the other hand, the development of the EURO exchange rate will remain an additional element of uncertainty. Even so, an EU-27 gross domestic product growth of approx. 1.7% may be expected for the year of 2011.

Germany shows strongest development since the crisis without fully reaching pre-crisis levels

The recovery of the global economy since the middle of 2009 led to a visible reinforcement of German exports and helped the German economy in overcoming the non-monetary crisis. Domestic demand played an increasing part in the improvement of economic conditions in 2010. The upturn found a wider basis owing to the increase in plant and equipment expenditure and in private consumption.

Overall production in Germany increased by 3.6% in 2010. The German labor market, too, came out of the crisis strengthened. In October 2010, the lowest number of unemployed people since 18 years, i.e. 2.945 million, was reported, which means that new jobs have been generated in the current upward phase.

Germany, which is less affected by the implications of the crisis, shows the strongest economic development in the euro area after the end of the crisis. This is also owed to the fact that public debt is lower than initially feared, because there has been no significant tightening of financing conditions for the private industry. Nevertheless, Germany did not yet reach its pre-crisis level in 2010.

Mechanical engineering turns strong, swift recovery especially with drive and fluid technology

Even though with a delay, mechanical engineering benefitted from the industry's increased plant and equipment expenditure in 2010. According to information by the Federal Bureau of Statistics, the German mechanical engineering branch of industry gained almost 13% year on year, with the development being widely owed to exports.

According to information by the VDMA, drive technology with its 15% growth and fluid technology, which, following partly dramatic declines in the preceding year, grew by approx. 33% in 2010, have been heavyweights within this market sector. Collectively, both areas, which are important buyers of NORMA products, achieved aggregate sales of approx. EUR 19.6 billion in 2010.

Global automotive markets reach pre-crisis levels in 2010

The global automotive market has recovered, gaining strong momentum especially at the end of the year. With more than 61.7 million passenger cars sold, the pre-crisis levels were exceeded. This corresponds to growth of approx. 12% as compared with the preceding year, which has mainly been characterized by public sales promotion grants in the industrialized countries. Western Europe has lost approx. 5% of its new car registrations, whereas public economic recovery programs in Japan and Russia still had an effect in 2010. Year-on-year, the USA, Brazil, India, Turkey and China show a strong development; on a global scale, almost every fifth automobile was sold in China.

According to the VDA, the German automobile industry's plant utilization in the 4th quarter of 2010 was almost 85%, with suppliers approx. 81%. The increase of almost 17% in foreign production by the German automobile producers in 2010 has been much stronger than the increase in Germany. According to information by the VDA, the sales growth achieved by German suppliers in 2010 as compared to 2009 amounted to approx. 26%; this result is partly owed to the global positioning of the upstream level of added value.

Special focus is in this respect on carbon footprint and CO₂ reduction, with regard to both fuel consumption savings and the development of alternative drives, with great attention being given in this connection to electromobility.

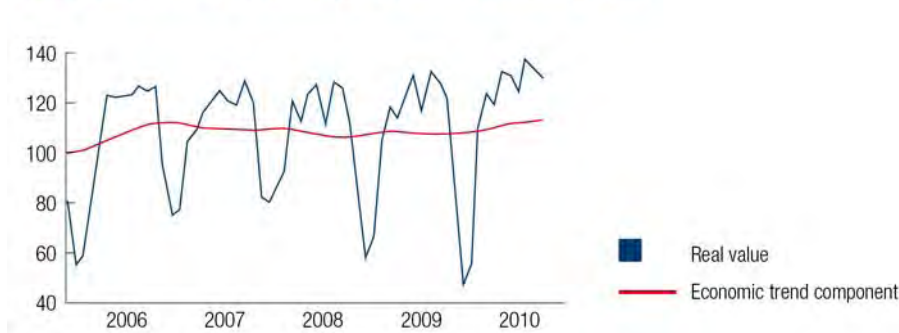
Volume growth in 2010 and technological advances strengthen NORMA Group's sales trend and market position within these major sales industries.

Building industry just below pre-crisis levels despite public economic recovery programs

According to information by the main association of the German building industry (Hauptverband der deutschen Bauindustrie e.V.), the German building trade has not yet been able to join the overall upturn. Year-on-year, a nominal decrease in sales of 1% in 2010 is reported. The increase in the residential building industry contrasts with declining activities in commercial building and in the public sector. Undoubtedly, the building industry did not report any extreme declines in 2009 similar to those experienced by the processing industry. On the whole, the Federal Bureau of Statistics refers to a slightly positive trend.

Index of industrial production Building industry Total

2005 = 100

Index of industrial production Building industry Total

In all of the aforementioned markets, NORMA has been able to stand its ground with its products and to further expand its position vis-à-vis its competitors.

Diversification and ongoing innovation ensure widely spread growth

Since NORMA Group came out from the merger of ABA Group and NORMA Rasmussen Group in 2006, growth and diversification have successfully been driven through the acquisition of complementary businesses and assets, for example Breeze (2007) as well as R.G. Ray and Craig Assembly (both in 2010), which collectively contributed to the expansion of the Groups presence in the United States and lead to an extension of the range of products offered and their fields of application.

NORMA Group is thus well-positioned for further increasing its market share in a fragmented market for sophisticated joining technology by making use of the attractive organic and acquisitive growth potential existing in the markets served. Technological megatrends such as a growing ecological awareness and stricter provisions with regard to emissions will cause the customers' demand for advanced joining technology in end products to increase steadily. This will lead to growth in the field of sophisticated joining technology which will, probably for a prolonged period, exceed the development of the end markets in which the customers of NORMA Group operate.

Organizational and legal structure of the Group and the Group companies, and Management and control organization

Group parent and holding structure

The sole parent company of NORMA Group is NORMA Group GmbH based in Maintal/Germany (near Frankfurt am Main). NORMA Group GmbH and its affiliated group subsidiaries operate in the market as NORMA Group (hereinafter used synonymously with the legal designation "NORMA Group GmbH Group"). The shares in the Group are held by NORMA Group Holding GmbH, Maintal, a direct subsidiary of NORMA Group GmbH. NORMA Group Holding GmbH is a strategic and operating group management company. The shareholders of NORMA Group are funds managed by the listed investment company 3i, 3i investment funds, institutional investors of former subgroups, the management and former members of management. NORMA Group has no majority shareholder.

DNL GmbH & Co KG, represented by its general partner, DNL Verwaltungs GmbH (in which NORMA Group holds no share), is holding shares of just above 5% in both NORMA Germany GmbH, Maintal, and in NORMA Distribution Center GmbH, Marsberg. The activities abroad are in some cases pooled through local holding companies mainly in a German subholding company.

Below this holding structure, the operating companies are guided by a separate management, which at the same time assists the Group management as an extended management group and is measured by the achievement of agreed targets. Specific targets are defined at both operating levels and regional and group levels. Collectively, they form a separate target system which is regularly monitored by the Group management by a target-performance comparison and analyzed by means of a controlling system for the purpose of guided further development.

Segments and major locations

The Group is divided into the following three regions:

- Europe and Middle East
- Americas
- Asia-Pacific

This regional structure simultaneously represents the segmentation of the Group's business.

- Maintal (GER): metal and plastics
- Gerbershausen (GER): metal
- Briey (F): plastics
- Hustopece (CZ): metal
- Pillica (PL): plastics
- Anderstorp (S): metal
- Newbury (UK): metal
- Togliatti (RUS): plastics

In addition, there are pure sales companies and distribution centers in Germany, France, Spain, Italy and Turkey.

The "Americas" region has manufacturing and sales locations in:

- Saltsburg (USA): metal
- Auburn Hills (USA): metal
- St. Clair (US): plastics
- Monterrey (MEX): plastics
- Juarez (MEX): metal
- Buffalo Grove (USA): sales/engineering

In the "Asia/Pacific" region, manufacturing and sales locations are in:

- Qingdao (CN): plastics and metal
- Pune (IND): plastics and metal
- Chonburi/Bangkok (THA): plastics

Another manufacturing location is currently being set up in Serbia. There are additional pure sales companies and distribution centers in Australia, Japan, Malaysia, South Korea and Singapore.

Major events – acquisitions

Global manufacturing and location optimization completed in 2010

The integration of the manufacturing activities of NORMA Connect GmbH, Frittlingen, into the Maintal (GER) and Gerbershausen (GER) plants, for a minor part also into Hustopece (CZ) and Auburn Hills (USA), and the subsequent merger of the company with NORMA Germany GmbH completed the location optimization in Europe. The objective of establishing “product experience” and “best customer service”, improving productivity and shortening the the logistics chain for the customers of NORMA Group at the respective locations has thus been achieved.

New manufacturing locations opened in Eastern Europe

With its local company NORMA CIS, NORMA Group opened up a new plant in Togliatti (Russia), approx. 1,000 km southeast of Moscow, in May 2010. Manufacturing operations started in July 2010. NORMA CIS produces emissions control system solutions for the Russian and Belarusian market and offers technical services. NORMA Group anticipates that, owing to strong domestic demand in these countries, the manufacturing activity can be considerably increased. Even today, NORMA sells several million connecting components in Russia through its existing distribution network. Russia therefore belongs to the major sales markets for some product families, especially in the field of fluid and air transport.

NORMA Group is currently extending its global presence in Eastern Europe by investing in a new plant in Serbia, which will go into production in 2011. The new manufacturing facilities are located in Northern Serbia, in the economic zone of Subotica, and span an area of approx. 12,400 m² offering additional potential for expansion. NORMA Group plans to increase the number of employees to more than 350 people by the end of 2013. Production focus is on high-tech system solutions for the transport of fluids and on applications in the field of emissions reduction. The new Serbia location is supposed to especially serve the demand by industrial customers in Eastern Europe. Furthermore, NORMA Group plans to extend its sales activities from this location to Turkey and adjacent growth regions. Following the start-up of production at the Subotica plant, a substantial increase in manufacturing capacities is expected.

Expansion in the Americas by new products and locations

In May 2010, the US subsidiary NORMA Pennsylvania Inc. acquired 100% of the shares of R.G. RAY Corporation Inc., Buffalo Grove (USA), a manufacturer of industrial products. R.G. RAY is a leading designer and manufacturer of high-tech special joints for use in engines and motors, pump and filtration systems, as well as in aircraft, commercial vehicles and a variety of other industrial applications. The company serves more than 450 customers and has developed numerous long-standing relationships with a diverse group of global manufacturers. Through its industry leadership and its application-oriented approach in product development in the market of high-tech special joints, R.G. RAY has worked for a strong position vis-à-vis its global competitors. By the acquisition of R.G. RAY, NORMA Group reinforces its presence in North America, offering a considerably extended range of products in the international markets.

In December 2010, NORMA acquired Craig Assembly Inc., St. Clair (USA), a manufacturer of joining technology. Craig Assembly is a leading manufacturer and supplier of customized solutions in the market of industrial cooling technology. The product portfolio of Craig Assembly currently includes more than 40 different types of quick release fasteners designed to meet specific customer requirements. Craig Assembly provides its customers with all-in-one solutions and full service from conception to functional test. By the acquisition of Craig Assembly, NORMA Group increases its capacities in the market for injection molded parts and intensifies its presence in the rapidly growing quick-release fasteners market. The acquisition thus adds to NORMA's product line and is a major component of its market position in the American distribution and industrial market.

Intensified activities in the Asia-Pacific region as a promising growth market

NORMA has in recent years completed its activities in Asia-Pacific by the locations India, Japan and Malaysia. Aside from extending the manufacturing locations in China and India, a further manufacturing site in Thailand was opened by the end of 2010.

The new manufacturing site in Thailand enables NORMA Group to further extend its market position in Asia. The production of emissions control system solutions will start in January 2011. Manufacturing capacities for more than 600,000 connection components are supposed to be set up in the first year. The company plans to extend capacities to up to two million within three years. The start of production in Thailand aims primarily at serving the domestic demand by Thai industrial equipment companies. In addition to this, the high-technology products are supposed to be exported to Malaysia and Australia. This is a further step in the expansion of the company's manufacturing and sales activities in Asia. Even now, NORMA Group is represented on-site by local sales partners at locations in India, China, Singapore, Japan and Australia, as well as in other countries. NORMA Group aims for reinforcing its presence in the Asian region and gaining additional major market shares.

In order to develop an appropriate growth structure in Asia, John Stephenson, COO of NORMA Group, will assume responsibility as President Asia-Pacific (APAC) and thus the management of the APAC headquarters in Singapore as from 2011. As President Asia-Pacific, John Stephenson will focus especially on the establishment of an efficient operation and supply chain organization to secure sustainable sales growth and operative excellence in that region. Furthermore, Mr. Stephenson will set up a regional NORMA Group center to support future business in Asia permanently by providing the necessary capacities.

Control parameters

The Group management has based its control system mainly on financial control parameters, with focus on up-to-dateness, availability, transparency, reliability/verifiability and comparability in accordance with the functional orientation of the evaluation of individual circumstances in the overall context.

The main financial performance indicators are:

- sales and profit development, with great importance being attached in the Group to the financial ratios EBITDA and, increasingly, EBITA (result before interest and tax as well as before amortization/depreciation – in the case of EBITA only before amortization of intangible assets -; adjusted by any distorting purchase price allocations due to acquisitions);
- capital commitment in **investments** and **working capital**;
- and financial management control, with special focus on **liquidity**, **capital structure** and the **risks** resulting from interest rates, currency rates, cost of materials, and loans.

All financial control parameters are planned and continuously monitored in the Group, the regions, and the group companies. Details with regard to the individual items are provided in the "Risk Report".

In addition to management accounting financial data, the Group management uses also non-financial control parameters such as market penetration, problem solving approach and innovative ability, increase in productivity as well as personnel-related statistical variables for assessing the quality of long-term overall development. These parameters showed a positive trend in the period under review. Additional market penetration in Eastern Europe and Asia also called for further local subsidiaries; new products have successfully been placed on the market. Productivity gained major new momentum through the Global Excellence program, with a measurable increase in employee satisfaction. Details concerning this may be gathered from the respective sections of the management report.

Any deviations between planned and actually achieved targets are measured on a monthly basis not only at all local companies and functions, but also within a reporting system covering the entire group. Key indicators are analyzed monthly and quarterly. Detailed business plans are periodically reviewed based on available monthly and quarterly results. Both the Group's strategic orientation and the development within the scope of the business plan are discussed on a monthly basis with an advisory board made up of top-class members, and reviewed with the supervisory board. Special importance is in this regard attached to liquidity and cash flow development and to loan covenants.

Products and business processes

With regard to the complexity and individuality of its products and distribution channels, NORMA Group makes a distinction between the divisions Engineered Joining Technologies (EJT) and Distribution Services (DS).

The EJT division provides customized solutions developed on the basis of specific requirements on the part of industrial OEM customers. In addition to a profound understanding of customer needs, the Group's leading role in the development of innovative, value-creating solutions and its proven engineering expertise are prerequisites for this.

The DS division offers a broad range of high-quality standardized products delivered under the well-known brand names ABA[®], Breeze[®], Gemi[®], NORMA[®], R.G. Ray[®], Serflex[®], Serratub[®], TERRY[®] and Torca[®] to a variety of customers, such as distributors, OEM aftermarket customers, technical wholesalers and building suppliers.

NORMA Group develops, manufactures and sells a large number of clamps and fasteners made of metal and plastics, as well as ready-to-mount systems for transporting fluid and gaseous materials. More than one third of the Group's sales are generated by the Distribution Services division.

Whether plastics or metal – NORMA is a leader in the development and manufacturing of innovative solutions in the field of joining and fastening technologies. The strong international integration within the Group and the high degree of specialization provide clear development and manufacturing advantages.

Products and systems from the Engineered Joining Technologies division are mainly used in industrial applications for emissions control (almost one quarter of Group sales), cooling systems, air intake & induction, ancillary systems, and infrastructure. The customer base of approx. 10,000 clients includes customers in almost 80 countries from areas like shipbuilding, aircraft construction, engine makers, off-road vehicles, passenger cars and commercial cars, pump & filter manufacturers, white goods, food industry, water irrigation, waste water and water supply, building industry and general machine and plant engineering. NORMA's leading technical solutions are driven by global environmental requirements. NORMA products are vital to successfully preventing leakage and to meet emissions regulations in various industrial applications.

The majority of the customers' branches of industry are characterized by high demands as to quality and adherence to schedules. Outstanding innovative skills, finding expression in user-oriented further development and a high problem solving competence, as well as full adherence to delivery dates are indispensable for remaining a leading supplier and acknowledged development partner for the aviation, shipbuilding or vehicle manufacturing industries. For distributive trade customers, service levels, strong brands for the end user and a comprehensive product portfolio are, in addition to quality, of special importance.

From raw material to semi-finished goods and the manufacturing of the end products, the entire high-volume product chain is provided with state-of-the-art, fully automatic facilities and production processes. Small and ultra-small batches or products with a high portion of manual work are manufactured in countries with an inferior labor cost structure. In addition to standard machines and equipment, NORMA also uses tools and machinery developed and constructed internally.

Supply Chain Management (SCM) is an essential prerequisite when it comes to supplying customers with premium technology. Through its SCM, the Group possesses an instrument for centrally planning production processes, taking into account customer demands and the necessary means of transport. The objective is to fully meet all requirements in order to satisfy the changing needs of customers from completely different industry sectors.

Quality comes first with NORMA. Product safety and quality are in this respect taken for granted/understood, the same applies to the safety of manufacturing and distribution processes. The Quality Assurance Department is firmly integrated and ensures the general safety of products and processes. The tests performed are recorded, with improvement measures permanently being derived from such records. Quality management as well as environmental protection and occupational safety systems in all manufacturing areas make sure that the high quality standards of NORMA Group are complied with, thereby ensuring a high degree of customer satisfaction. The standards are regularly verified within the context of certification processes and by customer-specific quality audits carried out by audit companies contracted by the Group.

NORMA Group has been granted the following certificates:

- ISO 9001
- ISO 14001
- ISO/TS 16949
- QS9000
- VDA 6.1
- and EN 9100 for the aviation industry

Sales and earnings trend

Norma has benefitted from the general cyclical upturn

In 2010, NORMA Group generated sales of kEUR 490,404 (previous year: kEUR 329,794) with on average 2,853 employees (excluding temporary workforce) at 20 manufacturing sites and 6 separate distribution entities in 16 countries. The Group exports into almost 80 national markets.

The significantly positive sales trend of the first three quarters improved again in the last quarter so that, at kEUR 490,404, sales are clearly above budget. Sales have thus reached pre-crisis levels.

Foreign share with strong increase year-on-year

Compared with the preceding year, growth in the regions is as follows:



Though, as before, the main portion of sales are generated in Europe and the Middle East, the regions Americas and Asia & Pacific improved even stronger than the already heavily growing Europe. This is for one thing due to intensified business activities and, for a second, to other strategic expansion measures in these regions.

The following graph shows the development of the regions' respective shares of external group sales in comparison with the preceding year:



The expansionary policy in the Asia & Pacific region continues.

Increased sales in Germany

In Germany, NORMA Group reported strong EJT growth. In this division, all product lines experienced an increase of approx. 40% compared with the preceding year. With some customers, there have even been sales improvements of more than 50%. Distribution Services, too, reported a two-digit growth rate in Germany. Sales of the largest product family, i.e. „Clamp“, increased year-on-year by 40%. This is also reflected by major distribution customers. Sales to main customers rose by more than 20% compared to 2009.

European business in DS sector consolidated

Year-on-year, sales in the European target markets increased substantially and almost achieved the level of 2008. In Europe, EJT already exceeded the sales figures for 2008 and seems to have overcome the crisis. The trend in the DS division may clearly be described as positive. Relevant sales increased steadily on a month to month basis in 2010, with a major contribution owed to the recovery in Eastern Europe. The declines in sales experienced in 2009 (-50%) have almost completely been made up for. On the whole, DS has again reached a sustainable and stable sales level and is expected to arrive at pre-crisis levels in the foreseeable future.

Integration of R.G. RAY is a complete success

The acquisition of R.G. Ray has enabled NORMA Group to extend the product portfolio in another important area and strengthen the Group's presence on the American continent. The company's integration started with its acquisition in May 2010 and is already widely completed. The purchased company's sales have materialized as planned; owing to the realization of synergies, there was a considerable improvement in margins compared with the preceding year.

Strategic importance of Asia & Pacific increases

The target markets in the Asia & Pacific region are gaining increasing importance to NORMA Group. This region's external group sales share of NORMA Group's total sales increased from 5% to 6%, and this trend is expected to continue. Due to the rising demand from the regional end markets and tighter provisions with regard to climate protection, NORMA anticipates a positive effect on demand for innovative joining technologies in both EJT and DS.

Manufacturing integration bites

The level of earnings was maintained and even increased through economies of scale by the closing of several minor manufacturing sites (Belgium 2008, Netherlands 2009, Southern Germany 2009, USA 2008 and 2009, China 2009). The systematic extension of the other production sites to specialized competence centers and the proximity to customers owing to the establishment of new locations have led to a strong increase in efficiency. Sales per employee (average number of employees to total operating performance) is kEUR 174 (2009: kEUR 120; 2008: kEUR 133) and thus clearly above pre-crisis levels.

Cost of materials ratio almost unchanged despite price increases in the 2nd half-year

Spending on materials of kEUR 220,464 to total operating performance was almost unchanged (44.5% to 44.1% in 2009). The gross margin (defined as total operating performance net of cost of materials) of kEUR 274,733 or 55.5% of total operating performance decreased moderately against 2009 (55.9% of total operating performance).

Major components of the raw materials used within the Group are austenitic and ferritic steels and plastics granules. Following an extended period of side-stepping (horizontal development), the prices for raw materials increased considerably in the second half of 2010.

Headcount arrives at pre-crisis levels

For the purpose of adapting to the substantial rise in total market demand, the Group increased the total headcount on average from 2,717 employees in 2009 to 2,853 people; the pre-crisis levels (average in 2008: 3,416) were reached at the end of the year. Personnel expenses amounted to kEUR 124,435 or a ratio of 25.1% to total operating performance (2009: kEUR 111,292 /34.1%). In certain countries, the Group implemented short-time work in 2009 in order to keep job cuts as low as possible and retain employee know-how in the company.

Other operating expenses increased only degressively

The remaining other operating expenses for manufacturing and administration amounted to kEUR 77,409 or 15.6% of total operating performance in 2010 (2009: kEUR 53,520/16.4% of total operating performance). Other operating expenses include non-recurring charges of EUR 13.6 million mainly concerning one-time effects related to the preparation of a potential initial public offering (IPO). In the medium-term, the ratio of other operating expenses, adjusted by these non-recurring charges, is 12.9% of total operating performance.

General interest rate level holds financial charges down

Despite a slight increase in net debt from kEUR 296,535 in 2009 to kEUR 311,115 in 2010, the Group was able to benefit from the interest rate advantages presenting themselves in the market. The (net) financial result for the period under review, i.e. charges of kEUR -14.862, showed a substantial improvement compared with the preceding year (kEUR -21,308).

Net debt vis-à-vis banks are composed of the following items:

Borrowings

in € thousands	31 Dec 2010	31 Dec 2009
Liabilities to banks		
long-term	297,379	308,892
short-term	44,162	14,828
Total	341,541	323,720
Bank deposits	30,426	27,185
Net debt	311,115	296,535

Result exceeds mean expectations

Adjusted by one-time effects of kEUR 17,511, the normalized EBITDA of more than 20.1% of total operating performance arrives at a level which is considerably above the budgeted value and, due to the strong increase in business activity (organic and acquisitions) substantially exceeds the original expectations at the end of 2009. The objective of achieving consolidated profits has completely been realized. The result for the year under review of 2010 is kEUR 24,303 compared with kEUR -20,889 in the preceding year, which makes 4.9% of the total operating performance.

Net assets position

The balance sheet total increased as a result of, in the first place, substantial operating current assets growth and, in the second place, owing to additional business acquisitions.

The ratio of long-term (non-current) assets to current assets shows a significant change and is 69.0% to 31.0% (previous year: 73.8% to 26.2%).

Fixed assets as of the reporting date of 31 December 2010 consist mainly of goodwill in the amount of kEUR 221,704 (previous year: kEUR 202,789), other intangible assets like patents and trademark rights of kEUR 79,315 (previous year: kEUR 51,419) and tangible assets of kEUR 89,387 (previous year: kEUR 83,058).

Equity ratio markedly above the preceding year

As of 31 December 2010, the balance sheet shows equity of kEUR 78,402 (previous year: kEUR 39,128), corresponding to a formal equity ratio of 13.5% compared to 8.3% as of 31 December 2009. The equity ratio improved significantly.

Including the liabilities to shareholders of kEUR 11,900 (previous year: kEUR 11,434) and subordinately liable Mezzanine capital of kEUR 53,511 (previous year: kEUR 50,628), there is beneficial equity of kEUR 143,813 (beneficial equity ratio: 24.8%, previous year kEUR 101,190/21.5%).

Net financial debt increased as a result of acquisitions

Liabilities to banks as of 31 December 2010 amounted to kEUR 341,379 including Mezzanine (previous year: kEUR 323,720, Mezzanine included). At the same time, credit balances of kEUR 30,426 (previous year: kEUR 27,185) were available in the Group as of 31 December 2010.

The net amount owed to banks as of the reporting date of 31 December 2010 was kEUR 311,115 (previous year: kEUR 296,535). The increase in the net amount owed is particularly due to the business acquisitions completed.

Provisions amounted to kEUR 7,839 and changed only slightly as compared with the preceding year (kEUR 8,077).

In addition to liabilities from taxes, social security, etc., other non-financial liabilities include mainly personnel-related debt.

The increase in trade payables from kEUR 29,953 to kEUR 48,311 is mainly due to the increased business volume and also includes liabilities from the aforesaid (above described) non-recurring expenses.

Capital tie-up in net working capital increased

As of the end of the year, trade payables amount to kEUR 48,311 (previous year: kEUR 29,953), whereas trade receivables are kEUR 70,176 (previous year: kEUR 44,590). The change thus reflects the marked operating business growth in the fiscal year.

As of the reporting date of 31 December 2010, there was a substantial increase in inventories to kEUR 64,709 (previous year: kEUR 44,700).

Trade working capital (inventories plus trade accounts receivables net of trade accounts payables) was kEUR 86,574 (previous year: kEUR 59,337) and thus 15.0% of the balance sheet total (previous year: 12.6%). The increase in trade working capital is in line with the business trend; the ratio of trade working capital to sales developed substantially better than expected.

Financial position

NORMA's financial management is aimed at maintaining financial flexibility in order to secure liquidity for the current business and for growth. The most important source of internal financing are cash inflows from current operations. The Group Treasury monitors cash and cash equivalents and, if appropriate, takes protective measures for limiting interest rate and currency risks. Past acquisitions have mainly been financed by long-term syndicated bank loans. The procurement of financial means through different debt capital instruments and the proper repayment of such instruments is coordinated centrally for the Group at Group Treasury level.

There are no off-balance sheet financing instruments materially affecting the net assets, financial position and results of operation.

In 2010, the management monitored the cash flow from operations as an operating criterion/(measure). This cash flow exceeded expectations materially.

Cash flow

in € thousands	2010	2009
Cash flow from operations	62,116	41,992
Cash flow from investing activities	-56,620	-10,828
Cash flow from financing activities	-3,089	-33,237
Cash and cash equivalents	30,426	27,185

The **cash flow from operations** increased year-on-year by kEUR 20,124. At 12.5% of total operating performance, this – as in the preceding year – high level demonstrates the financial strength of NORMA Group. The marked improvement has partly been offset by trade working capital changes.

The **cash flow from investing activities** reflects the acquisitions completed by the Group in the USA (R.G. Ray and Craig Assembly) as well as investments made in the ordinary course of business. Capital expenditure for tangible assets ("CAPEX" in the ordinary course of business excluding acquisitions) in calendar year 2010 amounted to in total kEUR 17,831 (previous year: kEUR 12,043) and exceeded depreciation effects. Major investments were made in order to secure the operating basis of production growth and open new plants. Substantial investments in machinery and plant were taken in the manufacturing unit. Any investments not yet completed in 2010 have been reported under construction in process. Main priorities in capital investments were Germany, Poland and the USA, as well as, with lower absolute amounts, the new plants/extensions in China, Russia, Thailand and Serbia.

The **cash flow from financing activities** amounts to kEUR -3,089. Loan repayments of kEUR 16,401 are offset by the drawing of revolving credit facilities of kEUR 18,521. Standard repayments of long-term liabilities to banks amount to kEUR 7,923 for 2011.

Capital expenditures will be at a comparable level in 2011. The focus of investments will again lie mainly on capacity increases at the new plants. A major part of the investments is caused by the construction of a plant in Serbia.

Parallel to capital expenditures, NORMA designs and develops tools for customized applications. These tools are sold to the customers and then used in manufacturing operations at the NORMA plants.

General assertion/Statement about the Group's financial situation

In the expired fiscal year NORMA Group has been able to significantly improve its sales and earnings situation. The Group's financial situation is characterized by a high cash inflow from current operations, allowing large-scale investments with only minor external finance. In spite of the material increase in balance sheet total, the equity ratio improved to 13.5% (previous year: 8.3%). NORMA thus exceeded its self-defined targets for 2010.

Segments in detail

The following summary shows basic data with regard to the individual segments' net assets and earnings position. Intra-segment transactions are eliminated in this review. Inter-segment, intra-group transactions are eliminated in the reconciliation.

Segment Reporting / 2010

	EMEA	Americas	Asia-Pacific	Total segments	Reconciliation	Consolidated group
in € thousands	2010	2010	2010	2010	2010	2010
Revenue from external customers	336,682	123,767	29,955	490,404	0	490,404
Inter-segment revenue	23,573	7,180	1,061	31,814	-31,814	0
Total segment revenue	360,255	130,947	31,016	522,218	-31,814	490,404
Contribution to consolidated group sales	73%	27%	6%		-6%	
Adjusted EBITDA	80,995	23,016	1,673	105,684	-6,436	99,248
Segment assets*	399,539	205,302	30,179	635,020	-56,237	578,783
Segment liabilities**	208,676	157,649	14,685	381,010	119,371	500,381
CAPEX	14,995	4,141	1,976	21,112	0	21,112
Number of Employees***	2,025	488	317	2,830	23	2,853

* included allocated goodwills, taxes are shown in reconciliation

** taxes are shown in reconciliation

*** Number of Employees (average heads)

Segment Reporting / 2009

	EMEA	Americas	Asia-Pacific	Total segments	Reconciliation	Consolidated group
in € thousands	2009	2009	2009	2009	2009	2009
Revenue from external customers	244,563	68,121	17,110	329,794	0	329,794
Inter-segment revenue	12,878	4,526	29	17,433	-17,433	0
Total segment revenue	257,441	72,647	17,139	347,227	-17,433	329,794
Contribution to consolidated group sales	78%	22%	5%		-5%	
Adjusted EBITDA	42,038	10,415	837	53,290	-247	53,043
Segment assets*	349,313	141,882	20,925	512,120	-42,415	469,705
Segment liabilities**	165,286	135,740	17,121	318,147	112,430	430,577
CAPEX	7,401	4,838	2,961	15,200	0	15,200
Number of Employees***	2,068	386	240	2,694	23	2,717

* included allocated goodwills, taxes are shown in reconciliation

** taxes are shown in reconciliation

*** Number of Employees (average heads)

Employees

The general rapid cyclical recovery and in particular the level of incoming orders in the automotive sector led to a marked capacity utilization in 2010, partly requiring the increased deployment of personnel beyond normal levels. Since the Group had provided for a future upswing early in the crisis by subtly using labor cost savings and retaining skilled staff, rapid switching to a higher work load has been possible. Adjusting for a considerable rise in overall market demand, the Group had increased the total headcount of 2,846 employees as of the end of 2009 to currently 3,410 (excluding temporary workforce). The last cuts in working hours by, for example, utilizing classical short time, occurred in February 2010. The average headcount amounted to 2,853 employees.

As a strong growth engine, Asia caused a disproportionate recruitment of new employees in that region. Despite a difficult macroeconomic environment in the USA, the American locations reported a marked increase in employment as well.

The average number of employees in full-time equivalents by regions are presented in the following chart:

Employees in 2010 by region



In order to become more independent of the labor market and also to resist the demographic trend, the Group maintained its initial vocational training intensity in spite of the times of crisis in 2009. For Germany however, the Group realized that it is becoming increasingly difficult to fill training/apprenticeship vacancies with appropriately qualified applicants. This trend is generally observed in the industry and has now found its way into NORMA as well.

The group offers the following vocational trainings:

- mechatronic technician
- industrial clerk
- machine and plant operator
- Bachelor of Arts
- Bachelor of Engineering

In the first half of 2010, the Group again conducted a global employee survey with regard to employee satisfaction, carried out anonymously by an external partner. More than 80% of the employees took part in this survey. Despite the year of crisis 2009 and the implementation of cost saving measures culminating in notices, the employee satisfaction index improved slightly. Currently, improvement measures derived from the employee survey are worked on at all locations with the objective to achieve a further increase in employee satisfaction when the 2012 survey is performed.

Employee abilities and skills are constantly improved upon by continuous encouragement and advancement. Attention in this respect is given to the transfer of know-how, making sure that the best people in the respective domains are recruited for NORMA Group.

Talent management is one of the core processes, including, for example, an annual Talent Review and regular qualification and appraisal interviews. In order to ensure that at least one interview per year takes place with every employee, the occurrence of such interviews are checked as HR KPI (Human Resources Key Performance Indicator) across the Group.

In order to intensify compliance activities, the Group started the implementation of a worldwide Compliance Organization at the end of 2010. The Code Of Conduct is the central point of this organization.

The purpose of this Code, which is applicable to all employees, is in particular:

- to encourage the business' employees to live a culture of honesty, responsibility and respect for each other;
- to provide the business' employees with a guideline helping them to realize and handle moral issues; and
- to provide the business' employees with means for reporting any unethical or indecent behavior.

This Code has been prepared for establishing useful principles. However, it is impossible to treat every specific situation in detail. Nevertheless, NORMA requires the employees in each individual case to act honest, fair and with the aim of "doing the right thing". Dishonesty, as well as any improper, unethical or illegal behavior, shall therefore be deemed a violation of the Code, regardless of whether such behavior is precisely referred to in the Code or not. A Chief Compliance Officer and local Compliance Officers have been appointed for each location to ensure the implementation and supervision of the Code.

Purchasing

In its capacity as a manufacturer of joining and fastening technologies, NORMA Group is doing business at a global level. The harmonization of purchasing departments in a strongly expanding group of companies opens possibilities to make use of the most attractive market offers – a benefit which is passed on to the manufacturing sites in the different parts of the world.



Purchasing volume

The year of 2010 was closed with a global purchasing volume of approx. EUR 218.1 million.

Because of the favorable global economic situation, there has been a steady increase in energy and raw material prices since 2010. Particularly wire as a primary material stuck out in this respect. On the other hand, cost reductions from 2009 were taken into the new year owing to annual contracts for 2010, especially with stainless steel wire and plastics granules, thus avoiding adverse price effects for NORMA Group.

For the most part, in accordance with the Group's global orientation, the supplier structure has already been developed for the respective factories in the continental markets. Activities aimed at reinforcing the "local footprint" of the supplier structure have in this respect been further developed in 2010, with an active contribution by the concurrent setup and implementation of a factory-set purchasing structure. Special focus was on the development of potential suppliers for the plants in Eastern Europe and Asia with a relevant valued-adding share.

Research and development

Innovation is key to the success of a business

NORMA Group provides technical solutions for specific challenges its customers are facing in the fields of emissions reduction, leakages, weight, space and installation times, enabling its customers to realize process-optimized manufacturing owing to compatibility with modular production processes and the reduction of installation times. NORMA Group has established extensive basic research and development functions in the past.

New legal provisions will lead to lower emission limits: limits that have to be complied with by the customers of NORMA Group and can only be achieved through intense research work and the development of new plants and equipment. Jointly with its customers, NORMA is successfully looking for innovative, more efficient and cost-effective materials in order to open up new fields of application for existing products. The ability to address market needs immediately and translate such needs smoothly into new innovative products is a major element of NORMA's success. Close to its customers' requirements, the Group provides products for current applications while keeping long-term developments and trends in sight.

NORMA Group therefore responds to market needs early and develops solutions able to guarantee its customers an innovative edge. Committed teams composed of sales people and engineers are working on these development projects.

NORMA engineering – technical know-how and solutions for the future

The requirements of industrial customers are flexibly and innovatively implemented into optimal solutions, whether a simple assembly part, a multi-component part or a complex piping system is concerned. A highly-skilled team of more than 170 experienced development and process engineers is available for translating and implementing customer specifications and market needs.

NORMA's laboratory – among the latest and most innovative facilities in the world

The laboratory of NORMA Group is equipped for durability tests with regard to all relevant fields of application; tests are i.e. performed for water and fuel pipes, turbochargers and other air or gas applications. Outstanding test facilities support the Group also in developing new products and fixing their specifications. Furthermore, NORMA Group is able to test for all relevant customer specifications.

Major developments in 2010

Usually, the Group spends about 4% of its sales on research and development as well as on customer projects. Owing to the existing specialist know-how, only a minor part of development has to be outsourced.

External expenses (excluding personnel expenses) for research and development in the expired fiscal year amounted to kEUR 2,180 (2009: kEUR 2,741). A major part of this sum relates to the research center at the Maintal location.

Cost-cutting program/Global Excellence

In the last quarter of 2009, the foundation for NORMA's "Global Excellence" cost-cutting program was laid. Implementation at a global level took place in the first quarter of 2010. The program is an instrument with a decentralized design. Project responsibility at a particular plant lies with the person appointed as project manager. The whole program is supported by a multi-project tracking tool developed specially for this program. Global Excellence aggregates all cost-cutting activities at all plants and central divisions; it also tracks and controls the activities. Cost savings are calculated and reported on a monthly basis. The cost reductions achieved are reported and counted as savings over a period of twelve months, before they are defined as a new cost standard. Sustainability is verified by on-site reviews. Savings must have a direct effect on results.

In 2010, NORMA generated more than 800 cost-cutting projects all over the world. Twenty-four locations with far more than 120 responsible project managers are involved. The target of EUR 4.5 million has been considerably exceeded in 2010.

Health and environmental protection

Health protection and safety at work

The management and the supervisory board of NORMA Group have a special obligation to monitor and improve health and safety at work for all employees. As a responsible-minded business, NORMA invests in a safe and efficient working environment protecting the employees against damage to health and making them feel comfortable.

Safety at work and health protection are an inherent part of NORMA's corporate culture and management guidelines. This also improves manufacturing quality and safety.

Accident-free working is an essential objective. Consequently, the employees are protected from work-related accidents and dangers to health. Moreover, active measures are taken to promote and maintain the employees' health, including programs aimed at improving safety at work and health protection systems which take into account the circumstances of the respective employees. Advanced training measures have been implemented at all plants in order to reduce the number of occupational accidents due to human error and individual mistakes. The number of accidents at work lie below the average reported by comparable industries and is supposed to be reduced further every year.

Two NORMA Group locations – NORMA Spain and NORMA Germany – have implemented an industrial safety system (BS OHSAS 18001). Certification for 17 more locations is scheduled between March and May 2011.

Environmental protection

Environmental protection is an important factor of the corporate strategy supporting the creation of an ecological and sustainable society. In accordance with this vision, NORMA Group sets annual objectives for each company within the Group.

Environmental protection processes and systems are established at all manufacturing plants. Material aspects are reviewed and/or subject to external audits (e.g. at NORMA Germany GmbH according to DIN EN ISO 14001). Environmental protection has been institutionalized at the manufacturing facilities; compliance is monitored by employees specially entrusted with this task. Focus is on issues such as waste avoidance and waste disposal, as well as on the prevention of water pollution, emissions and fire protection. The handling of environmentally hazardous substances is subject to tight controls. There have been no major complaints.

In the event that regular measurements should prove that any limit values are exceeded, appropriate countermeasures are taken. Declarations and reports mandatory by law are filed.

Compensation report

Management compensation structure

Since the parent company is preparing for an initial public offering (IPO), there will be an even stronger change in the compensation structure towards the achievement of long-term targets.

Even now, compensation consists of fixed and variable components. The variable components are subdivided into two elements, one referring to defined consolidated profits before taxes, the other to a defined cash flow target. The profit-related components of compensation are equally or similarly designed at all management levels.

The management does not receive any compensation for work as a member of supervisory bodies with subsidiaries and associated companies.

Supervisory and advisory board compensation structure

Supervisory and advisory board members receive a fixed compensation or a fee based on the time spent on work for the board.

Supplementary report

NORMA Group is currently preparing for an initial public offering in Germany and the listing of its shares at the Frankfurt Stock Exchange in 2011. In the event of such public offering, NORMA would have to repay all bank loans (kEUR 341,541), shareholder loans (kEUR 11,900) and similar liabilities (kEUR 7,470) under the existing finance agreements. NORMA is currently negotiating a complete refinancing of NORMA Group with a banking syndicate. Based on the current state of negotiations and in view of the economic environment, NORMA assumes that the maturities and interest rates of the new financing will mainly conform to those of the existing financing.

Report on opportunities and risks

NORMA Group is exposed to a variety of risks which might adversely affect its net assets and earnings position in the short or long term. At the same time, there are also substantial short- and long-term accretion opportunities for NORMA, which are not discussed in detail in the risk report. The Group's overall risk structure consists of individual risks which may also occur in combination. At present, no risks endangering the Group's continued existence with a high probability of occurrence are known.

Risk management system

Risks may occur at all organizational levels and in all specialist departments of the Group. Therefore, the early recognition and assessment of risks, reporting on potential or occurred risks as well as risk control take place at all organizational levels and in all specialized departments. Any recognized potential and occurred risks are tracked and actively addressed at Group level if the effect of risk occurrence on the Group's net assets and earnings position is considered as being material.

The statutory supervisory boards, the advisory board and the audit committee as a sub-committee of the advisory board regularly discuss real and potential risks to the Group. In 2010, focus was on a forecast of market development, compliance with loan covenants and the accomplishment of the strategic orientation. All acquisitions and production transfers have been monitored.

Future scenarios are discussed in detail, and adherence to the compliance regulations applicable to the entire Group is monitored. Compliance with the loan covenants agreed with the lenders is secured by monthly bank reporting and regular communication with the agent.

NORMA Group's risk management system is periodically reviewed as to whether the demands made on it are met and, if necessary, the system is improved. As a matter of principle, no risk management system can ever be perfect so residual risks will persist.

Macroeconomic risks increase because of currency problems

Macroeconomic risks arise mainly from the repercussions of the recession in 2009, which also affected countries in the euro zone. The global economy or major sales markets might again be hit by weaknesses in demand, insolvency of customers, inadequate liquidity and, associated with this, strong currency fluctuations. In view of the currently favorable order position, the risk to NORMA resulting from this for 2011 is at the moment being assessed as rather small. Some local risks are partly compensated for owing to NORMA's global presence.

Industry risk due to potential wave of heavy selling

Industry-specific and associated technology risks may hit NORMA Group either by declines in demand due to the situation of the economy as a whole or by medium-term technology changes. The Group's risk strategy provides for a regular review of these risks. An essential element in risk minimizing is a strong customer diversification covering different business sectors. NORMA has developed promising sophisticated technology solutions for both hybrid engines and electrical motors; first orders have been received. In both segments, new technologies may emerge in the medium-term and in some cases become a danger to existing patents and internal developments by NORMA; in other cases, such technologies will, however, cause a rise in demand. NORMA has succeeded in obtaining a license for tube couplings with improved fire protection properties. Competitive pressure may intensify with an increased establishment of such new technologies.

A substantial part of earnings is generated with a limited number of customers without sales being based on long-term contracts. Declines in sales to these customers or even loss of a customer may adversely affect results. The implementation of a weekly forecast including an analysis of deviations at Group level and at the local companies ensures that incoming orders and customer behavior are subject to regular review. Any order, sales and payment risks can thus be identified early.

Procurement risks especially with regard to raw materials prices

Procurement risks are limited by a regional distribution of the manufacturing sites and by contractual arrangements. Visits to and assessments of major suppliers take place regularly within the scope of quality management.

Potential procurement risks are reviewed regularly and in detail in order to be able to take countermeasures in due time. Major procurement contracts provide for a term of up to twelve months, thus limiting market volatility. Due to the Group's dependence of steel and plastics as basic materials, future offer variations and price swings, as well as general market trends may have a material positive or adverse effect on the Group's profitability.

Liquidity risks

An adverse trend in the Group's earnings and cash position may cause violations of the agreed terms for loans and credit lines, which may entail increases in interest margins or penalties and, in extreme cases, even require the early repayment of liabilities to banks. Similarly, the payment behavior of customers or an unforeseeable material extension of the working capital may have an adverse effect on the Group's liquidity position.

Quality risks

Product quality is a key success factor for the Group. The tension between cost leadership and quality assurance poses a permanent challenge. Any sub-optimal solution in both areas may adversely affect the Group's earnings position.

Risks relating to human resources

NORMA Group's success depends on the devotedness, innovative skills, know-how and integrity of its employees. Human resources management within the Group serves the preservation and improvement of the aforesaid core competencies. Professional development, the recruitment of new qualified staff and the implementation of the management guidelines are important HR management activities. Any loss of key executives without the availability of adequate substitutes may adversely affect NORMA Group's activity. In view of the demographic trend in the industrialized countries and the dissimilar social and economic scenario in emerging markets and developing countries, there are personnel-related risks which must be solved in the medium-term.

In the future, the impending skilled labor shortage in the Western industrialized countries may lead to a capacity shift there. However, internal training and the option to change over to other manufacturing locations are appropriate to effectively limit this risk. At the same time, this situation leads to increased awareness with regard to the importance of preventing accidents at work and potential environmental damage which might cause material rehabilitation obligations or damage NORMA's reputation.

IT risks

Proper and efficient business operations depend on the IT systems' functionality. A wide-ranging failure might interfere with the business or lead to the disclosure of sensitive business data. The Group's data center located with a certified external provider in Frankfurt is also used by other group companies for their ERP system and is secured by a backup solution.

Another data center is located in the USA. Smaller backup systems exist in Asia and will be transferred to a regional data center in Singapore in 2012. The IT risk potential is reviewed on a regular basis both internally and externally. The migration of old ERP systems to new systems is, additionally, a chance for the Group to further increase its efficiency. Because of the complexity of the implementation of new ERP systems, only vendor-certified partners are used in order to minimize the implementation risk.

Legal risks

Future amendments of acts and regulations under general commercial law, liability, environmental, tax, customs and labor law, and all associated changes to standards may adversely affect the development of NORMA Group. The Group monitors compliance with the continuously changing laws and regulations by means of the installed compliance and risk management systems; however, it cannot be ruled out that this is not always addressed completely and in a timely manner.

Any known legal risks NORMA Group is exposed to are adequately accounted for by accruals in the annual financial statements. Compared to the preceding year, no further major risks were identified.

Risk report on the use of financial instruments

Financial risks

Due to its business activity, the Group is exposed to a number of financial risks, including market, default and liquidity risks. The Group's financial risk management focuses on the unpredictability of financial markets and is aimed at minimizing any potentially adverse effects on the Group's earnings position. The Group uses derivative financial instruments to hedge certain risk positions.

Financial risk management is operated by a central treasury department (Group Treasury). The areas of responsibility and any necessary controls related to risk management are established by the Group's management. Closely co-operating with the Group's operating entities, the treasury department is responsible for identifying, assessing and hedging financial risks.

(a) Market risk

(i) Currency risk

As an internationally engaged business, NORMA Group is doing business in approx. 80 different countries and is exposed to currency risk, which consists of different foreign currency risk positions with regard to the following major currencies: US Dollar, British pound sterling, Chinese Renminbi, Polish Zloty and Swedish Crown.

Provided that they cannot be set off against each other, foreign currency risks are, as appropriate, hedged by futures contracts and/or options (i.e. US Dollar, Swedish Crown, Japanese Yen).

The high volatility of many major currencies and the special influence the US Dollar has on the net assets and earnings position in the Group poses a material risk which can only be hedged partially and for a short-term period. In the medium-term, cost-oriented adjustment measures and regional production alignments have to be executed in order to minimize such risks. A permanent entrepreneurial risk lies, therefore, in timely decision-making and implementation of measures.

Since the Group is engaged in operative business in the major foreign currency countries by its national companies, there are sufficient cash-in- and cash-out opportunities for cushioning short-term currency fluctuations by purposefully managing receipts (proceeds) and disbursements (expenditures); i.e. the Group has adequate options from its operative business for controlling foreign currency effects.

NORMA Group is holding certain shares in foreign businesses whose net assets are exposed to currency risks. The exchange rate risk is mainly countered by outside borrowings in the currency concerned.

(ii) Interest rate risk

Even though at the moment only minor short-term risks are recognizable, a long-term strong increase in interest rates may become a risk to the net assets and earnings position. NORMA Group's interest rate risk arises mainly from outside borrowings. The level of long-term interest has been secured for 2011 by interest hedges until the end of 2011. Variable- interest outside borrowings expose the Group to a cash flow related interest rate risk, which is in some cases averted by hedges (interest rate swaps). In this regard, the Group intends to hold approx. 70% of outside borrowings in the form of fixed-interest instruments.

(iii) Other price risks

NORMA Group is, like all other market participants, only exposed to normal other price risks, such as changes in stock exchange prices or commodity prices. Consequently, increases or decreases in the respective market prices within reasonable limits would have no impact on the Group's results or equity, provided that they are, even though with a delay, passed on to the end customers. The Group's risk in respect to other price risks is therefore assessed as immaterial.

(b) Default risk

The default risk the Group runs is that any contracting parties will not meet their obligations arising from business activities and financial transactions. Default risk arises from cash and cash equivalents, deposits with financial institutions as well as from the risk of customers' default, including outstanding receivables and transaction commitments.

(c) Liquidity risk

Prudent liquidity risk management is based on maintaining sufficient cash and marketable securities, the availability of finance through committed credit lines of appropriate size, and the ability to close market positions. In view of the dynamics of the underlying business, the Group Treasury seeks to preserve financing flexibility by maintaining the availability of committed credit lines. The exchange of the currently existing long-term liabilities to banks in the event of a call on the capital market poses a minor risk in this context. A credit line which had been unused as of 31 December 2010 is available for future business operations and capital commitments.

The liquidity reserve is constantly monitored with regard to the earnings position, scheduled investments and the reserve for own shares.

Capital risk management

The Group's objective in managing its capital is to be able to service its debt in the long-term and remain financially sound.

The Group is obligated to meet certain financial ratios (financial covenants) such as interest coverage, total net debt cover (indebtedness to adjusted Group EBITDA), cash flow coverage and capital expenditure, with the ratios being constantly monitored.

The Group controls its net debt on accounts maintained in accordance with the principles of proper accounting within the scope of capital risk management.

State as of the balance sheet date

There have been two SWAPS beyond the balance sheet date, one for kEUR 124,067, the other for TUSD 121,338. Both will be in effect until 31 December 2011. Valuation resulted in market values of total negative amounts of kEUR 3,049 and TUSD 3,336 respectively; the related risk provisioning is fully reflected in the consolidated financial statements.

Group accounting-related internal control and risk management

Regarding accounting and external financial reporting within the Group, the internal control and risk management system may be described by the following main features. The system is meant for recognizing, analyzing, assessing and controlling risks and for monitoring these activities. The management is responsible for configuring this system according to the specific requirements of the business. Subject to the allocation of responsibilities, the finance and equity investment management departments, which are in charge of accounting, belong to the CFO's area of responsibility. These departments define and review the accounting standards applicable at Group level and consolidate information for the preparation of consolidated financial statements. Major risks to the accounting process arise from the requirement of conveying correct and complete information within a set time. This implies that the requirements are clearly communicated and the departments concerned enabled to satisfy the requirements.

The applicable IFRS accounting principles are defined in an Accounting Manual. All group companies have to base their accounting process on the standards described there. Material valuation principles, for example with regard to the measurement of inventories, tools and accounts receivable under IFRS, are defined as binding. Furthermore, system-based reporting mechanisms exist in the Group in order to ensure that equal issues and facts are treated consistently across the Group.

A schedule fixed for all companies applies to the preparation of consolidated financial statements and the group management report. The group companies prepare their individual financial statements in accordance with the relevant local accounting standards and in accordance with IFRS. Intra-group clearing accounts are reconciled using confirmations of balances. Reporting of the group companies is effected/carried out via the COGNOS reporting system. Aside from financial data, COGNOS provides information being of special importance to the notes to consolidated financial statements. Data and information is audited by the local auditors before filing and consolidation.

Local financial accounting is performed on different systems. Future standardization is intended, but at present in the phase of conception only.

All systems are equipped with structured access permission systems. The management of the local companies decides on the type, configuration and allocation practices with regard to access permissions in cooperation with the IT manager of Norma Group Holding GmbH.

Risks that may affect the accounting process arise, for example, from the late or wrong entry of business transactions or non-compliance with accounting rules. In order to prevent mistakes, the accounting process is based on the separation of responsibilities and on plausibility tests within the context of reporting. Extensive and detailed checklists have to be completed before the respective closing dates and, where appropriate, made subject to review. The accounting process is completely incorporated in the risk management system of NORMA Group. This ensures that any accounting-relevant risks are recognized at an early stage, enabling risk management and risk protection measures to be taken immediately.

Opportunities

Market opportunities

Following the economic downturn in 2009, the markets all over the world are recovering. The automotive industry will probably increase its production volume in order to be able to satisfy the rising demand not only in the established domestic markets in Europe and in the USA, but also the rapidly growing demand in China and India. NORMA Group serves customers from various industry sectors. Owing to strong diversification, there is an opportunity to participate in the growth anticipated for several branches of industry.

Technological change and climate protection

Regarding car manufacturing, priority is increasingly given to alternative driving concepts such as hybrid engines and electrical motors aside from emissions-reduced motors. Owing to sophisticated innovations in this field, NORMA Group has secured future order potential and will thus be able to participate in the development of these markets. These alternative or emissions-reduced driving concepts are transferred to other markets (e.g. shipbuilding, stationary generators, building machinery) and will offer an additional field for growth.

Market price trend

As a consequence of the global increase in demand for industrial products, the prices of raw materials are expected to continue to rise. Norma Group mainly purchases high-grade steels and plastics granules. Long-term supply contracts and, where appropriate, derivative hedging instruments are used to forestall unpredictable increases in materials prices.

Acquisitions and new openings

In 2010, NORMA CIS opened a new plant in Togliatti (Russia). NORMA CIS produces technical system solutions for emissions control for the Russian and Belarusian market and provides technical services. Due to strong domestic demand in these countries, the company expects that manufacturing operations can be substantially extended.

In May 2010, R.G. RAY Corporation Inc., Buffalo Grove (USA), was acquired. R.G. RAY is a leading designer and manufacturer of high-tech special joints for use in engines, pump and filtration systems as well as in aircraft, commercial vehicles and a variety of other industrial applications. By the acquisition of R.G. RAY, NORMA Group reinforces its presence in North America, again materially extending its range of products in the international markets.

In December 2010, Craig Assembly Inc., St. Clair (USA), was acquired. Craig Assembly is a leading manufacturer and supplier of customized joining solutions in the market of industrial cooling technology. With the acquisition of Craig Assembly, NORMA Group intensifies its presence in North America and extends its international product portfolio.

At the end of 2010, NORMA Group opened its manufacturing location for fasteners in Thailand, thus improving its market position in Asia. The start of production in Thailand is primarily aimed at serving the domestic demand of Thai industrial equipment companies. With this location, NORMA Group intends to further strengthen its presence in the Asian region and gain major additional market shares.

In 2011, a new plant in Subotica (Serbia) will go into production. The focus of production is on high-tech system solutions for the transport of fluids, and on applications in the field of emissions reduction. The new location in Serbia is supposed to mainly serve the demand of industrial customers in Eastern Europe.

Some minor acquisitions are scheduled for 2011. They are supposed to assist in realizing the envisaged additional growth and improve the services rendered to the Group's customers.

Financing

The intended expansionary policy and the associated acquisitions as well as the increasing production volume as a result of a globally rising demand will lead to increased resource requirements. In addition to guaranteed financing by external banks, NORMA Group consistently pursues the optimization of trade working capital in order to further improve its liquidity position.

Overall risk assessment

The regular review of loan covenants did not give rise to any objections in 2010. On the basis of a high liquid funds balance, stable cash inflows enable the Group to meet all its contractual interest and capital payments. Changes in the earnings position may in the medium- and long-term adversely affect internal liquidity and endanger the repayment of liabilities within the specified periods.

According to present knowledge, no short-term economic or legal risks to the ability of NORMA Group GmbH or NORMA Group to continue as a going concern show.

The Group is well-positioned both in the medium- and long-term for further improving its market position and growing at an international scale.

Forecast

Global economy recovers

By reason of a weakened global economic cycle and expiring fiscal support measures, the speed of economic improvement in Germany will not keep its current high level. The upturn in 2011 with an anticipated growth rate for the gross domestic product of 2.2% is mainly due to the current year. The statistical surplus from 2010 to 2011 is 1.2%. Private consumption will rise by 1.6% as compared to the current year. Though the pre-crisis level will be reached by the end of the year, there is a risk of trade sanctions and increases in oil prices with adverse effects on international trade. As regards 2012, Deutsche Bundesbank assumes a gross domestic product growth of 1.5%, whereas the Kiel based Institut für Weltwirtschaft expects 1.3%. Our considerations have also been based on this range.

The development of orders is an important indicator for the future development of the group of companies. Starting in the fourth quarter of 2009, the volume of orders has continuously been growing for several months now. In view of the fact that NORMA Group lost no customers in 2009, a slight improvement in overall demand was incorporated in the budget for 2010. This target has strongly been exceeded by growth of more than 40% (plus acquisition driven growth).

Owing to the order position at the beginning of the year and the acquired sales, the Group expects satisfactory growth for 2011 as well. Since NORMA's medium-term growth is, aside from the general economic trend, especially based on newly developed products, stable growth is anticipated for subsequent years as from 2012, i.e. through new patented mainstays of sales. Particularly the development of business in growth markets like India, China or Russia as well as innovative products such as UREA lines or cooling systems for hybrid engines and all-electrical motors will be drivers of additional growth. This is the basis for anticipated increased earnings even beyond 2011.

Special risks to future development lie in unforeseeable short-term changes in market demand (drop-back into a recession). The management of NORMA Group is, however, convinced to be able to again counter such risks by firm control of costs, as proven in 2009.

As regards the Group's medium-term development, growth in new markets and through new products is sought. Becoming a real global player is a challenge for the Group's employees and the organization. However, the growth path has definitely already been started. In fiscal year 2011, the young or new subsidiaries in China, India, Japan, Russia and Turkey will, therefore, increasingly influence the development of sales and results – a trend which will even intensify in 2012.

Maintal, 7 March 2011

NORMA Group GmbH



Consolidated Financial Statements of NORMA Group GmbH, Maintal/Germany

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Consolidated statement of comprehensive income

for the period from 1 January to 31 December 2010

in € thousands	Note	2010	2009
Revenue	(7)	490,404	329,794
Changes in inventories of finished goods and work in progress		4,793	-3,386
Raw materials and consumables used	(8)	-220,464	-143,975
Gross margin		274,733	182,433
Other operating income	(9)	8,848	8,560
Other operating expenses	(10)	-77,409	-53,520
Employee benefit expenses	(11)	-124,435	-111,292
Depreciation and amortisation	(17), (18)	-25,428	-22,843
Impairment of Intangibles	(17)	0	-2,782
Operating profit		56,309	556
Financial income	(12)	4,907	3,796
Financial costs	(12)	-19,769	-25,104
Financial costs – net		-14,862	-21,308
Profit (previous year: loss) before income tax		41,447	-20,752
Income taxes	(14)	-11,189	2,725
Profit (previous year: loss) for the year		30,258	-18,027
Other comprehensive income for the year, net of tax:			
Exchange differences on translating foreign operations		-4,249	-1,279
Cash flow hedges, net of tax	(14), (25)	-894	-1,565
Actuarial gains/losses on defined benefit plans, net of tax	(14), (25)	-812	-18
Other comprehensive income for the year, net of tax		-5,955	-2,862
Total comprehensive income for the year		24,303	-20,889
Profit (previous year: loss) attributable to			
Shareholders' of the parent		30,157	-18,182
Non-controlling interests		101	155
Total comprehensive income attributable to		30,258	-18,027
Shareholders' of the parent		24,202	-21,044
Non-controlling interests		101	155
		24,303	-20,889

Consolidated statement of financial position

as of 31 December 2010

Assets

in € thousands	Note	31 Dec 2010	31 Dec 2009
Non-current assets			
Goodwill	(17)	221,704	202,789
Other intangible assets	(17)	79,315	51,419
Property, plant and equipment	(18)	89,387	83,058
Other financial assets	(20)	397	397
Income tax assets	(15)	2,406	2,761
Deferred income tax assets	(16)	6,025	6,086
		399,234	346,510
Current assets			
Inventories	(23)	64,709	44,700
Other non-financial assets	(24)	9,218	5,310
Derivative financial assets	(21)	0	22
Income tax assets	(15)	4,914	477
Trade and other receivables	(22)	70,282	45,501
Cash and cash equivalents	(32)	30,426	27,185
		179,549	123,195
		578,783	469,705
Total assets		578,783	469,705

Equity and liabilities

in € thousands	Note	31 Dec 2010	31 Dec 2009
Equity attributable to shareholders			
Subscribed capital	(25)	76	76
Capital reserves	(25)	96,650	81,650
Other reserves	(25)	-1,364	3,779
Retained earnings	(25)	-20,116	-49,461
Equity attributable to shareholders		75,246	36,044
Non-controlling interests		3,156	3,084
Total equity		78,402	39,128
Liabilities			
Non-current liabilities			
Retirement benefit obligations	(26)	9,063	8,058
Provisions	(27)	4,584	4,183
Borrowings	(28)	315,935	320,326
Other non-financial liabilities	(29)	0	335
Other financial liabilities	(30)	577	863
Derivative financial liabilities	(21)	0	7,968
Deferred income tax liabilities	(16)	34,450	21,997
		364,609	363,730
Current liabilities			
Provisions	(27)	3,255	3,894
Borrowings	(28)	44,162	14,828
Other non-financial liabilities	(29)	21,773	16,499
Other financial liabilities	(30)	8,319	339
Derivative financial liabilities	(21)	5,550	22
Income tax liabilities	(15)	4,402	1,312
Trade payables	(31)	48,311	29,953
		135,772	66,847
Total liabilities		500,381	430,577
Total equity and liabilities		578,783	469,705

Consolidated statement of changes in equity

in € thousands	Note	Attributable to equity holders of the parent				Total	Non-controlling interests	Total equity
		Subscribed Capital	Capital reserves	Other reserves	Retained earnings			
Balance at 1 January 2009	(25)	76	81,650	6,623	-31,261	57,088	3,038	60,126
Changes in equity for 2009								
Total comprehensive income 2009								
Loss for the year					-18,182	-18,182	155	-18,027
Other comprehensive income	(25)							
Exchange differences on translating foreign operations				-1,279		-1,279	0	-1,279
Cash flow hedges, net of tax				-1,565		-1,565	0	-1,565
Actuarial gains/ losses on defined benefit plans, net of tax					-18	-18	0	-18
Other comprehensive income				-2,844	-18	-2,862	0	-2,862
Total comprehensive income 2009		0	0	-2,844	-18,200	-21,044	155	-20,889
Transactions with owners 2009								
Dividends						0	-109	-109
Total transactions with owners for the year		0	0	0	0	0	-109	-109
Balance at 31 December 2009		76	81,650	3,779	-49,461	36,044	3,084	39,128
Changes in equity for 2010								
Total comprehensive income 2010								
Profit for the year					30,157	30,157	101	30,258
Other comprehensive income	(25)							
Exchange differences on translating foreign operations				-4,249		-4,249	0	-4,249
Cash flow hedges, net of tax				-894		-894	0	-894
Actuarial gains/ losses on defined benefit plans, net of tax					-812	-812	0	-812
Other comprehensive income				-5,143	-812	-5,955	0	-5,955
Total comprehensive income 2010		0	0	-5,143	29,345	24,202	101	24,303
Transactions with owners 2010								
Proceeds from capital increase			15,000			15,000	367	15,367
Dividends						0	-396	-396
Total transactions with owners for the year			15,000			15,000	-29	14,971
Balance at 31 December 2010		76	96,650	-1,364	-20,116	75,246	3,156	78,402

Consolidated statement of cash flows

for the period from 1 January to 31 December 2010

in € thousands	Note	2010	2009
Operating activities			
Profit (previous year loss) for the year		30,258	-18,027
Depreciation and amortization	(17), (18)	25,428	22,843
Intangibles impairment charge	(17)	0	2,782
Gain (-)/Loss on disposal of property, plant and equipment		-34	-1,519
Change in provisions	(27)	-301	-1,592
Change in deferred taxes	(16)	51	-7,188
Change in inventories, trade accounts receivables and other receivables	(22), (23)	-35,918	14,544
Change in trade and other payables	(31)	23,827	11,900
Interest paid		20,180	20,140
Other non-cash expenses/income		-1,375	-1,891
Net cash provided by operating activities		62,116	41,992
thereof interest received		574	374
thereof income taxes		-12,232	-3,880
Investing activities			
Acquisition of subsidiaries		-35,963	0
Purchases of property, plant and equipment		-17,831	-12,043
Proceeds from sale of property, plant and equipment		455	4,372
Purchases of intangible assets		-3,281	-3,157
Net cash used in investing activities		-56,620	-10,828
Financing activities			
Proceeds from capital increase		15,000	0
Proceeds from non-controlling interests		367	0
Dividends paid to non-controlling interests		-396	-109
Interest paid		-20,180	-20,140
Proceeds from borrowings		18,521	0
Repayment of borrowings		-16,401	-12,988
Net cash used in financing activities		-3,089	-33,237
Net decrease/increase in cash and cash equivalents		2,407	-2,073
Cash and cash equivalents at beginning of year		27,185	29,268
Exchange gains/losses on cash		834	-10
Cash and cash equivalents at end of year		30,426	27,185

Notes on the consolidated financial statements

(1) General information

NORMA Group GmbH is the parent company of NORMA Group, a strategic and operating Group management company. Its headquarters is located at 63477 Maintal, Edisonstr. 4 in the vicinity of Frankfurt (Germany), and is registered in the commercial register of Hanau under the number HRB 91849. NORMA Group GmbH and its affiliated Group subsidiaries operate in the market as "NORMA Group".

The shareholders of NORMA Group GmbH are investment funds related to the UK listed investment company 3i Group plc or managed by its subsidiary, 3i Investors plc ("3i Funds"), institutional investors of former subgroups, current management and former members of management.

NORMA Group GmbH, in the following referred to as "NORMA Group", was established in 2006 as a result of the merger of NORMA Rasmussen GmbH and the ABA Group. NORMA Rasmussen was founded in 1949 as Rasmussen GmbH (Germany). It manufactured connecting and retaining elements as well as fluid conveying conduits like monolayer and multilayer tubes and corrugated tubes. All products are marketed globally under the NORMA brand. ABA Group (Sweden) was founded in 1896. The ABA Group of companies has since developed into a leading multi-national company specialising in the design and production of hose and pipe clamps, as well as connectors for many world-wide applications.

In 2007, NORMA Group acquired Breeze Industrial Products Corporation (USA) to strengthen its foothold in the Americas. Breeze Industrial Products Corporation was established in 1948 and invented and patented the first worm-drive hose clamp for the US market. Over the last 60 years, Breeze had expanded its product offering to include a wide range of worm-drive, T-bolt and V-clamps for the commercial & passenger vehicle, heavy-duty vehicle, aircraft and industrial markets. In 2010, Norma Group acquired two further companies in America, R.G. RAY Corporation and Craig Assembly Inc., to become a leading supplier of fastening and fixing products in America.

In the past decades NORMA Group has therefore, driven by its successful acquisitions and by permanent technological innovation of products and operations, developed into a group of companies of global importance. Today NORMA Group markets its products to its customers via two different market channels: Distribution Services (DS) and Engineered Joining Technologies (EJT).

To DS customers NORMA Group offers a wide range of standard fastening and fixing products. Furthermore NORMA Group offers a broad technological and innovative product portfolio which includes brands like NORMA®, ABA®, Breeze®, R.G. RAY®, Serflex®, Serratub®, Terry®, and Torca®.

To EJT customers NORMA Group offers tailor-made solutions and special engineered joining systems. To effectively fulfill special requirements NORMA Group builds upon deep industry and application knowledge, a successful track record of innovation and on long standing relationships with all its key customers. As a result, many joining systems and fluid conveying conduits have been developed in close cooperation of global OEM s and NORMA Group.

Permanent technological and customer oriented innovations have equipped NORMA Group products with a superior position in many markets. User friendly connecting and retaining elements have set a global standard in quality. Today NORMA Group operates across 80 countries, encompassing 14 manufacturing facilities. NORMA Group offers to its customers in excess of 35,000 products.

(2) Basis of preparation

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements of NORMA Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as well as with the regulations under commercial law as set forth in § 315 a (1) of the German Commercial Code (HGB) for the year ended 31 December 2010.

The consolidated financial statements of NORMA Group are being filed with and published in the German Electronic Federal Gazette (elektronischer Bundesanzeiger).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in **section 3**.

New and amended standards adopted by the group

The following amendments to standards are applied for the first time for the financial year beginning 1 January 2010:

NORMA Group has early adopted IFRS 2 (amendments), '*Group cash-settled and share-based payment transactions*' in prior year statements:

- IFRS 3 (revised), '*Business combinations*'. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt, subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

The revised standard was applied to the acquisitions of R.G. RAY and Craig Assembly that occurred in 2010. See **note 37** for further details of these business combinations.

- IAS 27 (revised), '*Consolidated and separate financial statements*'. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) has had no impact on the current period, as there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

Standards, amendments and interpretations of existing standards that are not yet effective and have not been early adopted by the group

The following standards and amendments to existing standards have been published and application is mandatory for every group accounting period beginning on or after 1 January 2011. The company has decided against early adoption.

1) Standards, amendments and interpretations to existing standards that have already been endorsed by the EU (with reference to each respective EU effective date)

- IAS 24 (revised 2009 - effective for reporting periods beginning on or after 1 January 2011, earlier application is permitted). The changes of IAS 24 concern the definitions of a related party and related party transactions. In addition, some relief for government-related entities was introduced, so that such entities need to provide less information on related party transactions. The group is currently reviewing the precise impact on the related party disclosures.
- IAS 32 (amendments), *'Classification of rights issues'* (effective for financial years starting after 1 February 2010, earlier application is permitted). The amendments clarify how to account for certain rights when the issued instruments are denominated in a currency other than the functional currency of the issuer. Such rights were previously classified as liabilities. According to the amended IAS 32, if such instruments are issued pro rata to the issuer's existing shareholders for a fixed amount of cash, they should be classified as equity even if their exercise price is denominated in a currency other than the issuer's functional currency. The group is currently reviewing the precise impact on its consolidated financial statements.
- IFRIC 14 (amendments), *'Prepayments of a minimum funding requirement'* (effective for reporting periods beginning on or after 1 July 2010, earlier application is permitted). The amendments concern defined benefit plans subject to a minimum funding requirement and require that entities making an early payment of contributions account for this prepayment as an asset rather than an expense. As far as can be seen at present, this interpretation is not expected to have an impact on the group financial statements.
- IFRIC 19, *'Liquidating financial liabilities with equity instruments'* (effective for reporting periods beginning on or after 1 July 2010, earlier application is permitted). IFRIC 19 is applicable in the case of debt for equity swaps, i.e. when an entity issues equity instruments to a creditor as part of the remuneration paid to liquidate an existing financial liability. The equity instruments are initially measured at fair value. If the latter cannot be measured reliably, the fair value of the liquidated financial liability is to be used instead. Any difference between the fair value of the equity instruments and the carrying amount of the financial liability liquidated is recognised in profit or loss. As far as can be seen at present, this interpretation is not expected to have an impact on the group financial statements.
- Improvements to IFRSs (May 2010 – effective dates ranging from 1 July 2009 to 1 January 2011). The improvements published in May 2010 are part of the annual improvement process of the IASB, which aims at streamlining and clarifying the international accounting standards. The amendments are largely clarifications to existing requirements, guidances and changes to eliminate unintended consequences of other recent modifications to IFRS standards and interpretations. The group is currently reviewing the precise impact on its consolidated financial statements.

2) *Standards, amendments and interpretations to existing standards that have not yet been endorsed by the EU*

- IFRS 7 (amendments), *'Financial Instruments: Disclosures'* was published in October 2010. These amendments will allow recipients of financial statements to improve their understanding of transfer transactions of financial assets. Entities shall apply the amendments for reporting periods beginning on or after 1 July 2011. In the first year of application, comparative information is not required. The group is currently reviewing the precise impact on its consolidated financial statements.
- IFRS 9, *'Financial instruments'* (effective from 1 January 2013, earlier application is permitted) was published in November 2009 and covers the classification and measurement of financial assets. The various classification and measurement models in IAS 39 are replaced by a single model with only two classification categories. Thus, upon initial recognition financial assets are either classified as measured at amortised cost or at fair value. Further changes introduced by IFRS 9 concern the accounting of embedded derivatives and the measurement of equity instruments not held for trading. In October 2010 the IASB followed the publication of IFRS 9 in November 2009 with an update to IFRS 9, *'Financial instruments'* to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation of financial liabilities and for derecognising financial instruments has been adopted from IAS 39, *'Financial instruments: Recognition and measurement'*, without change, except for financial liabilities that are designated at fair value through profit or loss. The new standard is applicable for reporting periods beginning on or after 1 January 2013, earlier application is permitted. The group is currently reviewing the precise impact on its consolidated financial statements.
- IAS 12 (amendments), *'Income tax, Deferred tax: Recognition of underlying assets'* was published in December 2010. This introduces an exception to the normal rule in IAS 12 that measurement of deferred taxes in respect to an asset depends on the asset's expected manner of recovery (that is through use or sale or a combination of both). The exception applies to investment properties measured using the fair value model in IAS 40 and introduces a rebuttable presumption that such investment property is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume the investment property's economic benefits over time, rather than through sale. Therefore the IAS 12 guidance previously contained in SIC 21, will be accordingly withdrawn. As far as can be seen at present, this interpretation is not expected to have an impact on the consolidated financial statements.

(3) Summary of significant accounting principles

1. Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which NORMA Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The group uses the acquisition method of accounting to account for business combinations. The initial value for the acquisition of a subsidiary is recognised at fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The initial value recognised includes the fair value of any asset or liability resulting from a contingent consideration arrangement. At the acquisition-date the fair value of contingent consideration is recognised as part of the consideration transferred in exchange for the acquiree. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. According to IFRS 3 (revised), for each business combination the acquirer shall measure any non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the acquiree's net assets. The group measures the non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

In a business combination achieved in stages, the group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss, if any, in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(b) Transactions and non-controlling interests

The group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The initial carrying amount is the fair value for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'Euro' (€), which is the company's functional and the group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the actual exchange rates at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'financial income/cost'. All other foreign exchange gains and losses are presented in profit or loss within 'other operating income/expenses'.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the actual rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising through the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The exchange rates of the main currencies affecting foreign currency translation are as follows:

per €	Spot rate		Average rate	
	31 Dec 2010	31 Dec 2009	2010	2009
Australian Dollar	1.3670	1.7733	1.4422	1.6005
Chinese renminbi yuan	8.7682	9.5318	8.9762	9.7600
Czech koruna	25.1150	26.4038	25.2561	26.4050
Pound sterling	0.8618	0.8916	0.8579	0.8890
Indian rupee	59.5700	67.4775	60.6289	66.5200
Japanese yen	108.8200	130.2227	116.2536	133.0700
Polish zloty	3.9659	4.3332	4.0001	4.1168
Russian rouble	40.9350	-	40.2081	-
Swedish crown	8.9800	10.6212	9.5377	10.2600
Singapore dollar	1.7165	2.0251	1.8064	2.0183
Turkish lira	2.0700	-	1.9961	-
US-dollar	1.3386	1.3949	1.3264	1.4400

3. Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment loss, if applicable. Historical cost includes expenditure that is directly attributable to the acquisition of the items and, if any, estimated costs for dismantling and removing the assets, restoring the site on which it is allocated. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. In general, group's property, plant and equipment are not qualifying assets and therefore borrowing costs are excluded from costs.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is foreseeable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance expenses are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income/expenses' in profit or loss.

The estimated useful lives for property, plant and equipment are as follows:

- Buildings: 8-33 years
- Machinery and technical equipment: 3-12 years
- Tools: 3-8 years
- Other equipment: 2-20 years

4. Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Other intangible assets

Separately acquired other intangible assets are shown at historical cost. Intangible assets acquired in a business combination are recognised at fair value at the acquisition date. All other intangible assets have a finite useful life and are carried at cost less accumulated amortisation and impairment loss, if applicable. Amortisation is calculated using the straight-line method to allocate their cost.

Borrowing costs that are directly attributable to the acquisition or production of a qualifying asset are included in the cost of that asset. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. In general, group's other intangibles are not qualifying assets and therefore borrowing costs are excluded from costs.

The useful lives of other intangible assets acquired in a business combination are estimates based on the economics of each specific asset which were determined in the process of the purchase price allocation.

The estimated useful lives for other intangible assets are as follows:

- Patents: 10 years
- Certificates: 10-20 years
- Technology: 20 years
- Trademarks: 20 years

5. Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment, as well as whenever there are indications that the carrying amount of the CGU is impaired. If the impairment loss recognized for the CGU exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is recognized through a pro-rata reduction of the carrying amount of the assets allocated to the CGU. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

6. Financial assets

Classification

The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the statement of financial position.

(c) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Available for sale financial assets are subsequently carried at fair value unless the fair value cannot be determined, in which case the available for sale financial asset is carried at cost.

Dividends on available for sale equity instruments are recognised in the statement of comprehensive income as part of financial income when the group's right to receive payments is established.

Impairment of financial assets

(a) Assets carried at amortised cost

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the group uses to determine if there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - I. Adverse changes in the payment status of borrowers in the portfolio; and
 - II. National or local economic conditions that correlate with defaults on the assets in the portfolio.

The group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Impairment testing of trade receivables is described in **section 3.10**.

(b) Assets classified as available for sale

The group carries its available for sale financial assets at cost. To assess whether there is objective evidence that an available for sale financial asset or a group of financial assets is impaired, refer to the criteria and methods mentioned in (a) above. In addition to these criteria and methods, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. Such impairment losses are not reversed.

7. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

8. Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Gains and losses from trading derivatives are recognised in profit or loss.

The group applied hedge accounting for the first time in the financial year 2009.

Derivatives included in hedge accounting are generally designated as either:

- Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- Hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- Hedges of a net investment in a foreign operation (net investment hedge).

At NORMA Group only cash flow hedges occur.

At the inception of the transaction the relationship between the hedging instrument and hedged item is documented, as well as the risk management objectives and strategy for undertaking the hedging transaction. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income within 'financial income/costs'. Amounts accumulated in other comprehensive income are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months. Trading derivatives are classified as non-current assets or liabilities in accordance with IAS 1.68 and 1.71 if they are due after more than one year; otherwise they are classified as current.

The fair values of derivative financial instruments used for hedging purposes and of those held for trading are disclosed in **note 21**. Movements on the hedging reserve in equity are shown in **note 25**.

9. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average-method. The cost of finished goods and work in progress comprises of design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In general, the group's inventories are not qualifying assets and therefore borrowing costs are excluded from costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

10. Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected within one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. An allowance of doubtful accounts of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

11. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the consolidated statement of financial position.

12. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

13. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

14. Current and deferred income tax

The tax expenses for the period are comprised of current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and on tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

15. Employee benefits

(a) Pension obligations

Group companies operate different pension schemes. NORMA Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the group pays fixed contributions to a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. The major defined benefit plan is the German benefit plan which defines the amount of pension benefit that an employee will receive on retirement to depend on years of service and compensation.

The liability recognised in the consolidated statement of financial position within respect to defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, if any, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to retained earnings in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without a realistic possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the balance sheet date are discounted to their present value.

16. Share-based payment

Share-based payment plans issued in the NORMA Group Holding are accounted for in accordance with IFRS 2 "Share-based payment" (see also **note 34**). Within the scope of IFRS 2 are all share-based payment transactions, unless the transaction is clearly for a purpose other than payment for goods or services supplied to the entity receiving them. The objective of IFRS 2 is that an entity should recognise all goods or services it obtains, regardless of the form of consideration. Where goods or services are obtained for cash or other financial assets, the accounting is generally straightforward. IFRS 2 starts from the premise that goods or services obtained in a share-based payment transaction should be recognised and measured in a similar way.

In accordance with IFRS 2 NORMA Group distinguishes between equity-settled and cash-settled plans. The financial interest from equity-settled plans granted at grant date is generally allocated over the expected vesting period against equity until the exit event occurs. Expenses from cash-settled plans are generally also allocated over the expected vesting period until the exit event occurs, but against accruals.

17. Provisions

Provisions are recognised when: the group has a present legal or constructive obligation to third parties as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation taking into account all identifiable risks. Provisions are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

18. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group. It is recognized in the accounting period in which they are earned in accordance with the realization principle.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

19. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The group leases certain property, plant and equipment. Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lesser of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

(4) Scope of consolidation

In addition to NORMA Group GmbH, the consolidated financial statements contain all German and foreign companies which NORMA Group GmbH controls directly or indirectly. Investments in associates for which NORMA Group has no significant influence are accounted for in accordance with IAS 39. In 2010 Groen B.V. was accounted for in accordance with IAS 39.

The consolidated financial statements of 2010 include 6 German (31 December 2009: 7) and 32 foreign (31 December 2009: 25) companies.

The composition of the group changed as follows:

Scope of consolidation

	2010	2009
At 1 January	32	33
Additions	9	0
of which newly founded	7	0
of which acquired	2	0
Disposals	3	1
of which no longer consolidated	2	1
of which mergers	1	0
At 31 December	38	32

In 2010 R.G. RAY Corporation and Craig Assembly Inc. were acquired, NORMA Turkey, NORMA Türkei Verwaltungs GmbH, NORMA Korea Inc., NORMA Pacific (Thailand) Ltd., NORMA Pacific (Malaysia) SDN. BHD., NORMA Group South East Europe d.o.o. (Serbia) and NORMA Group CIS LLC (Russia) were founded, NORMA Connect GmbH was merged into NORMA Germany GmbH, Guangzhou ABA Company Ltd. (China) and NORMA Belgium S.A. were liquidated.

For a detailed overview regarding the shareholdings of Norma Group, please refer to the following chart on page 56.

List of group and financial holding companies

of NORMA Group as of 31 December 2010

No.	Company	Registered Address	held by	Share in %		Segment
				in Parent Company	an 01	
Consolidated associated companies						
01	NORMA Group GmbH	Maintal, Germany				n/a*
02	NORMA Group Holding GmbH	Maintal, Germany	01	100.00	100.00	n/a*
03	DNL GmbH & Co KG	Maintal, Germany	02	100.00	100.00	EMEA
04	NORMA China Co., Ltd.	Qingdao, China	02	100.00	100.00	Asia-Pacific
05	NORMA Distribution Center GmbH	Marsberg, Germany	02	94.80	100.00	EMEA
06	NORMA Germany GmbH	Maintal, Germany	02	94.90	100.00	EMEA
07	Jiangyin NORMA Automotive Products Co. Ltd.	Jiangyin, China	06	100.00	100.00	Asia-Pacific
08	Norma Beteiligungs GmbH	Maintal, Germany	02	100.00	100.00	n/a*
09	NORMA Pennsylvania Inc. (former Breeze I.P.C.)	Saltsburg, USA	08	100.00	100.00	Americas
10	NORMA US Holding LLC (former BIPC LLC)	Saltsburg, USA	09	100.00	100.00	Americas
11	NORMA Michigan Inc. (former Torca Products Inc.)	Auburn Hills, USA	09	100.00	100.00	Americas
12	R.G. RAY Corporation	Buffalo Grove, USA	09	100.00	100.00	Americas
13	Craig Assembly Inc.	St. Clair, USA	09	100.00	100.00	Americas
14	NORMA Group México S. de R.L. de C.V.	Monterrey, Mexico	11	100.00	100.00	Americas
15	DNL France S.A.S	Briey, France	08	100.00	100.00	EMEA
16	NORMA Distribution France S.A.S.	La Queue En Brie, France	15	100.00	100.00	EMEA
17	NORMA France S.A.S.	Briey, France	15	100.00	100.00	EMEA
18	DNL UK Ltd.	Newbury, Britain	08	100.00	100.00	EMEA
19	NORMA UK Ltd.	Newbury, Britain	18	100.00	100.00	EMEA
20	DNL Sweden AB	Stockholm, Sweden	08	100.00	100.00	EMEA
21	NORMA Sweden AB	Anderstorp, Sweden	20	100.00	100.00	EMEA
22	NORMA Czech, s.r.o.	Hustopece, CZ	20	100.00	100.00	EMEA
23	NORMA Italia SpA	Gavardo, Italy	20	100.00	100.00	EMEA
24	NORMA Netherlands B.V.	Ter Apel, Niederlande	20	100.00	100.00	EMEA
25	SCI Seran	La Queue En Brie, France	20	100.00	100.00	EMEA
26	NORMA Group Products India Pvt. Ltd.	Pune, India	08	80.00	80.00	Asia-Pacific
27	Fijaciones Norma S.A.	Barcelona, Spain	08	54.84	54.84	EMEA
28	NORMA Polska Sp. z o.o.	Slawniów, Poland	08	100.00	100.00	EMEA
29	NORMA Group South East Europe d.o.o	Belgrade, Serbia	08	100.00	100.00	EMEA
30	NORMA Group CIS LLC	Togliatti, Russian Federation	08	99.50	100.00	EMEA
31	NORMA Korea Inc.	Seoul, Republic of Korea	08	100.00	100.00	Asia-Pacific
32	NORMA Japan Inc.	Osaka, Japan	08	60.00	60.00	Asia-Pacific
33	NORMA Pacific Pty. Ltd.	Melbourne, Australia	08	100.00	100.00	Asia-Pacific
34	NORMA Pacific Asia Pte. Ltd.	Melbourne, Australia	33	100.00	100.00	Asia-Pacific
35	NORMA Pacific (Malaysia) SDN. BHD.	Kuala Lumpur, Malaysia	33	100.00	100.00	Asia-Pacific
36	NORMA Pacific (Thailand) Ltd.	Chonburi, Thailand	33	100.00	100.00	Asia-Pacific
37	NORMA Türkei Verwaltungs GmbH	München, Germany	08	100.00	100.00	EMEA
38	NORMA Turkey Bağlantı ve Birleştirme Teknolojileri Sanayi ve Ticaret Limited Sirketi	Besiktas, Istanbul, Turkey	37	99.00	100.00	EMEA
Investments in associates						
39	Groen B.V.	Ter Apel, Netherlands	24	30.00	30.00	

* Holdings are shown in the reconciliation in segment reporting

(5) Financial risk management

1. Financial risk factors

The group's activities expose it to a variety of financial risks, comprising of market risk, credit risk and liquidity risk. The group's financial risk management focuses on the unpredictability of financial markets and seeks to minimise its potential adverse effects on the group's financial performance. The group uses derivative financial instruments to hedge certain risk exposures.

Financial risk management is carried out by a central treasury department (group treasury). The necessary responsibilities and controls associated with risk management are determined by group management. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units.

(a) Market risk

(i) Foreign exchange risk

NORMA Group operates internationally in more than 20 different countries and is exposed to foreign exchange risk arising from the exposure to various currencies – primarily with respect to the US-dollar, the Great Britain Pound Sterling, the Chinese renminbi yuan, the Polish zloty and the Swedish Crown.

Foreign exchange risk at 31 December 2010 arises from future commercial transactions (net short position of mUSD 8.1 (2009: mUSD 1.5), net short position of mGBP 2.1 (2009: mUSD 4.1), net short position of mCNY 5.0, net long position of mPLN of 3.5 and net short position of mSEK 0.4 (2009: mSEK 5.9).

Below, the effects of changes in foreign exchange rates are analysed for financial assets and liabilities denominated in foreign currencies.

If the US-Dollar had weakened/strengthened by 10% against Euro, NORMA Group would show a post-tax profit for the year 2010 of kEUR 735 higher/kEUR 898 lower. (2009: kEUR 94 higher/kEUR 115 lower).

If the Great Britain Pound Sterling had weakened/strengthened by 10% against Euro, NORMA Group would show a post-tax profit for the year 2010 of kEUR 189 higher/kEUR 231 lower (2009: kEUR 513 lower/kEUR 419 higher).

If the Chinese renminbi yuan had weakened/strengthened by 10% against Euro, NORMA Group would show a post-tax profit for the year 2010 of kEUR 452 higher/kEUR 552 lower. There were no material effects in 2009.

If the Polish zloty had weakened/strengthened by 10% against Euro, NORMA Group would show a post-tax profit for the year 2010 of kEUR 317 lower/kEUR 388 higher. There were no material effects in 2009.

If the Swedish Crown had weakened/strengthened by 10% against Euro, NORMA Group would show a post-tax profit for the year 2010 of kEUR 35 higher/kEUR 42 lower (2009: kEUR 63 lower/kEUR 52 higher).

The group treasury's risk management policy is to hedge between 50% and 85% of anticipated operational cash flows in US-Dollar.

NORMA Group has certain investments in foreign operations whose net assets are exposed to foreign currency translations risk. This translation risk is primarily managed through borrowings in the relevant foreign currency.

(ii) Interest rate risk

NORMA Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable interest rates expose the group to cash flow interest rate risk which is partially offset by hedges (interest rate swaps). The group's policy is to maintain approximately 70% of its borrowings in fixed rate instruments.

Below, the effects of changes in interest rates are analysed for bank borrowings, which bear variable interest rates, and for interest rate swaps included in hedge accounting. Borrowings that bear fixed interest rates are excluded from this analysis.

At 31 December 2010, if interest rates on Euro-denominated borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been kEUR 528 lower/higher (2009: kEUR 476 lower/higher) and other comprehensive income would have been kEUR 37 higher/kEUR 24 lower (2009: kEUR 30 higher/kEUR 15 lower).

At 31 December 2010, if interest rates on US Dollar-denominated borrowings at that date had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been kEUR 417 lower/higher (2009: kEUR 368 lower/higher) and other comprehensive income would have been kEUR 220 higher/kEUR 36 lower (2009: kEUR 55 higher/kEUR 19 lower).

(iii) Other price risks

As NORMA Group is not exposed to any other material economic price risks, like stock exchange prices or commodity prices, an increase or decrease in the relevant market prices within reasonable margins would not have an impact on the group's profit or equity. Hence, the group's exposure to other price risks is regarded as not material.

(b) Credit risk

The credit risk incurred by the group is the risk that counterparties fail to meet their obligations arising from operating activities and from financial transactions. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Credit risk is monitored on a group basis. To minimise credit risk from operating activities and financial transactions, each counterparty is assigned a credit limit, the use of which is regularly monitored. Default risks are continuously monitored in the operating business.

The aggregate carrying amounts of financial assets represent the maximum default risk. For an overview of past-due receivables, refer to **note 22** Trade and other receivables. Given the group's heterogeneous customer structure, there is no risk concentration.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, group treasury maintains flexibility in funding by maintaining availability under committed credit lines. An undrawn borrowing facility at the amount of mEUR 46 is available at 31 December 2010 (31 December 2009: mEUR 55) for future operating activities and to settle capital commitments.

Liquidity reserve is monitored on an ongoing basis with regard to the group's business performance, planned investment and redemption of capital.

The amounts disclosed in the table are the contractual undiscounted cash flows. Financial liabilities denominated in foreign currencies are translated at the closing rate at the balance sheet date. Interest payments on financial instruments with variable interest rates are calculated on the basis of the interest rates applicable as of the reporting date.

Liquidity risk / 31 December 2010

in € thousands	less than 1 year	between 1 and 2 years	between 2 and 5 years	over 5 years
Borrowings	52,085	29,876	167,159	205,793
Trade payables	48,311	0	0	0
Finance lease liabilities	336	222	387	0
Other financial liabilities	8,117	0	0	0
	108,849	30,098	167,546	205,793

Liquidity risk / 31 December 2009

in € thousands	less than 1 year	between 1 and 2 years	between 2 and 5 years	over 5 years
Borrowings	26,387	27,494	78,756	309,773
Trade payables	29,952	0	0	0
Finance lease liabilities	329	398	477	36
Other financial liabilities	511	0	0	0
	57,179	27,892	79,233	309,809

NORMA Group is currently preparing to go public on the Frankfurt (Germany) stock exchange in 2011. In this event, all bank borrowings (kEUR 353,441) and also some other liabilities (kEUR 7,470) have to be repaid according to existing agreements. To face this risk NORMA Group is currently in negotiations with a banking consortium in order to arrange a complete refinancing of the group. The maturity of the new financing structure will be similar to the present structure. According to the present negotiations and based on the current economic situation and the future outlook of the company there are no material reasons to believe that NORMA would not achieve a similar maturity and interest rate structure. Since the present contracts are not cancelled yet and the new financing structure would also be long term, the liquidity risk as per 31 December 2010 is displayed.

The maturity structure of the derivative financial instruments based on cash flows is as follows:

Maturity structure / 31 December 2010

in € thousands	less than 1 year	between 1 and 2 years	between 2 and 5 years	over 5 years
Derivative liabilities				
– net settlement				
cash outflows	-5,550	0	0	0
	-5,550	0	0	0

Maturity structure / 31 December 2009

in € thousands	less than 1 year	between 1 and 2 years	between 2 and 5 years	over 5 years
Derivative receivables				
– gross settlement				
cash outflows	-728	0	0	0
cash inflows	750	0	0	0
Derivative receivables				
– net settlement				
cash inflows	0	0	0	0
Derivative liabilities				
– gross settlement				
cash outflows	-1,630	0	0	0
cash inflows	1,608	0	0	0
Derivative liabilities				
– net settlement				
cash outflows	-3,984	-3,984	0	0
	-3,984	-3,984	0	0

2. Capital risk management

The group's objectives when managing capital are to ensure that it will continue to be able to repay its debt and remain financially sound.

The group is subject to certain financial covenants such as total interest cover, total net debt cover, cash flow cover and capital expenditure, which are monitored on an ongoing basis. These financial covenants are based on the group's consolidated financial statements (until 2009 consolidated financial statements according to German GAAP) and adjustments according to the loan agreements.

According to the covenants agreement total net debt cover, which is defined as Total net debt/Consolidated EBITDA, should not exceed the value of 4.5 (2009: 5.1). There have been no covenant breaches in 2010 and 2009.

In case of a covenant breach the Senior Facility Agreement (SFA) includes several ways to remedy a potential breach by rules of exemption or shareholder actions. If a covenant breach occurs and is not remedied the syndicated loans may, but are not required to be, withdrawn. In case of a minor breach of covenants and/or an estimated positive future economic development of the company the covenant levels and the SFA conditions might be reset.

3. Fair value estimation

Effective 1 January 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value. This requires disclosure of fair value measurements by level using the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in total is determined on the basis of the lowest level input that is significant to the fair value measurement in total. The different hierarchy levels demand different amounts of disclosure.

At 31 December 2010 and 2009, the group's financial instruments carried in the statement of financial position at fair value (i.e. trading derivatives and derivatives used for hedging) are categorised in total within level 2 of the fair value hierarchy.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using a present value model based on forward exchange rates.

(6) Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill

NORMA Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in section 3.5. The recoverable amounts of cash-generating units have been determined based on fair-value-less-costs-to-sell calculations. These calculations are based on discounted cash flow models, which require the use of estimates (**note 17**).

In 2010 and 2009 no impairment of goodwill was necessary.

(b) Income taxes

The group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(c) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in **section 3.15**.

If the discount rate used would differ $+0.25\%/-0.25\%$ from management's estimates, the defined benefit obligation for pension benefits would be an estimated kEUR 183 lower or kEUR 191 higher.

(d) Useful lives of property, plant and equipment and intangibles assets

The group's management determines the estimated useful lives and related depreciation/amortisation charges for its property, plant and equipment and intangibles assets. This estimate is based on projected lifecycles. It could change as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Notes on the consolidated statement of comprehensive income

(7) Revenue

Revenue recognised during the period related to the following:

in € thousands	2010	2009
Engineered Joining Technologies	323,600	206,349
Distribution Services	168,250	126,004
Other revenue	1,968	376
Deductions	-3,414	-2,935
	490,404	329,794

NORMA Group was strongly affected by the global financial crisis in 2009. Throughout 2010 the market demand grew significantly, leading to an increase in revenues of 48%.

For the analysis of sales by region please refer to **note 33**, segment reporting.

(8) Raw materials and consumables used

in € thousands	2010	2009
Material costs third parties	-195,596	-128,079
Cost of purchased services	-24,868	-15,896
	-220,464	-143,975

(9) Other operating income

in € thousands	2010	2009
Currency gains operational	4,953	2,502
Reversal of provisions	1,197	742
Grants related to employee benefit expenses	428	399
Reimbursement of vehicle costs	333	340
Other income from disposal of fixed assets	46	1,751
Foreign exchange derivatives	22	713
Others	1,869	2,113
	8,848	8,560

(10) Other operating expenses

in € thousands	2010	2009
Consulting and Marketing	-21,139	-11,279
Expenses for temporary workforce	-12,131	-3,097
Freights	-8,222	-7,124
Other administration expenses	-7,294	-10,468
Rentals	-4,186	-4,087
Currency losses operational	-3,846	-3,401
Travel and entertaining	-3,424	-2,515
Research & Development	-2,180	-2,741
Vehicle costs	-2,150	-2,032
Maintenance (external)	-2,076	-1,844
Commission payable	-1,778	-1,541
Non-income related taxes	-1,484	-755
Insurances	-1,405	-1,240
Others	-6,094	-1,396
	-77,409	-53,520

(11) Employee benefit expenses

in € thousands	2010	2009
Wages and salaries, including restructuring costs and other termination benefits	-103,764	-92,447
Social security costs	-14,306	-13,624
Pension costs – defined contribution plans	-6,275	-4,958
Pension costs – defined benefit plans	-90	-263
	-124,435	-111,292

Employee benefit expenses for 2009 included items due to the financial crisis and restructuring activities. In 2009 restructuring costs of kEUR 8,305 and other termination benefits of kEUR 5,332 were recognised.

In 2010 the annual average number of employees was 2,853 (2009: 2,717).

(12) Financial income and costs

in € thousands	2010	2009
Financial costs		
Interest expenses		
Bank borrowings	-24,440	-24,547
Finance lease	-33	-64
Provisions unwinding of discount	-235	-336
Pensions unwinding of discount	-400	-414
Net foreign exchange (-) losses/(+) gains on financing activities	5,553	2,310
Losses on interest rate swaps	0	-2,053
Other financial cost	-214	0
	-19,769	-25,104
Financial income		
Interest income on short-term bank deposits	574	374
Interest income on available for sale financial assets	0	0
Gains on interest rate swaps	4,079	3,280
Other financial income	254	142
	4,907	3,796
Net financial cost	-14,862	-21,308

The total interest expenses calculated using the effective interest method for financial liabilities that are not measured at fair value through profit or loss amounts to kEUR 24,440 in 2010 (2009: kEUR 24,547). The total interest income calculated using the effective interest method for financial assets not measured at fair value through profit or loss amounts to kEUR 574 in 2010 (2009: kEUR 374).

(13) Net foreign exchange gains/losses

The following exchange differences recognized in profit or loss are included as follows:

in € thousands	Note	2010	2009
Currency gains operational	(9)	4,953	2,502
Currency losses operational	(10)	-3,846	-3,401
Net foreign exchange losses (-)/gains (+) on financing activities	(12)	5,553	2,310
		6,660	1,411

(14) Income taxes

The analysis of income taxes is as follows:

in € thousands	2010	2009
Current tax expenses	-11,240	-3,190
Deferred tax income	51	5,915
Total income taxes	-11,189	2,725

NORMA Group's combined group income tax rate for 2010 and 2009 amounted to 29.1%, comprising corporate income tax at a rate of 15%, the solidarity surcharge of 5.5% on corporate income tax, and trade income tax at an average multiplier of 380%.

The tax on the group's profit before tax differs from the theoretical amount that would arise using the group tax rate applicable to profits of the consolidated entities as follows:

in € thousands	2010	2009
Profit (previous year: Loss) before tax	41,447	-20,752
Group tax rate	29.1%	29.1%
Expected income taxes	-12,061	6,039
Tax effects of:		
Tax losses and tax credits from actual year for which no deferred income tax is recognised	681	167
Effects from deviation of group tax rate resulting mainly from different foreign tax rates	-602	-408
Non-deductible expenses for tax purposes	1,936	3,068
Utilisation of tax losses and tax credits from prior year for which no deferred income tax asset was recognised	-1,952	675
Other tax-free income	-78	-65
Income taxes related to prior years	1,835	0
Tax losses and tax credits from prior years for which income tax assets are recognized in actual year	-1,722	0
Other	-970	-123
Income taxes	-11,189	2,725

The income tax charged/credited directly to other comprehensive income during the year is as follows:

in € thousands	2010			2009		
	Before tax amount	Tax charge/credit	Net-of-tax amount	Before tax amount	Tax charge/credit	Net-of-tax amount
Cash flow hedges gains/losses	-1,261	367	-894	-2,207	642	-1,565
Actuarial gains/losses on defined benefit plans	-1,156	344	-812	-26	8	-18
Other comprehensive income	-2,417	711	-1,706	-2,233	650	-1,583

Notes on consolidated statement of financial position

(15) Income tax assets and liabilities

Due to changes in German corporate tax laws ("SE-Steuer-gesetz" or "SEStEG", which came into effect on 31 December 2006) an imputation credit asset ("Körperschaftsteuerguthaben gem. §37 KStG") has been set up. As a result an unconditional claim for payment of the credit in ten annual installments from 2008 through 2017 has been established. The resulting receivable is included in income tax assets and amounted to kEUR 2,882 on 31 December 2010 (31 December 2009: kEUR 3,238). In 2010 kEUR 2,406 are classified as non-current (31 December 2009: kEUR 2,761).

(16) Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities due to maturity is as follows:

in € thousands	2010	2009
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	3,858	4,859
Deferred tax assets to be recovered within 12 months	2,167	1,227
Deferred tax assets	6,025	6,086
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	33,698	21,997
Deferred tax liabilities to be recovered within 12 months	752	0
Deferred tax liabilities	34,450	21,997
Deferred tax liabilities (net)	28,425	15,911

The movement in deferred income tax assets and liabilities during the year is as follows:

in € thousands	2010	2009
At 1 January - Deferred tax liabilities (net)	15,911	23,063
Exchange differences	247	-587
Acquisition of subsidiaries	13,029	0
Deferred Tax expenses/ benefits	-51	-5,915
Tax charged to other comprehensive income	-711	-650
At 31 December - Deferred tax liabilities (net)	28,425	15,911

The analysis of deferred income tax assets and deferred income tax liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

in € thousands	31 Dec 2010	31 Dec 2009
Intangible assets	2,815	3,480
Property, plant and equipment	170	255
Other assets	8	86
Inventories	685	397
Trade receivables	376	272
Retirement benefit obligations/ pension liabilities	743	466
Provisions	777	818
Borrowings	140	62
Other liabilities, incl. interest derivatives	2,740	2,834
Trade payables	2	0
Tax losses and tax credits	2,752	3,198
Deferred tax assets (before valuation allowances)	11,208	11,868
Valuation allowance	0	-400
Deferred tax assets (before offsetting)	11,208	11,468
Offsetting effects	-5,183	-5,382
Deferred tax assets	6,025	6,086

in € thousands	31 Dec 2010	31 Dec 2009
Intangible assets	30,334	18,364
Property, plant and equipment	7,934	8,491
Other assets	269	162
Inventories	28	0
Trade receivables	77	73
Borrowings	51	123
Provisions	590	12
Other liabilities, incl. interest derivatives	87	70
Trade payables	3	13
Untaxed reserves	260	71
Deferred tax liabilities (before offsetting)	39,633	27,379
Offsetting effects	-5,183	-5,382
Deferred tax liabilities	34,450	21,997
Deferred tax liabilities (net)	28,425	15,911

Deferred income tax assets are recognised for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the deductible temporary difference can be utilised. The group did not recognise deferred income tax assets in respect of deductible temporary differences amounting to kEUR 1,040 at 31 December 2009; in 2010 the amount was zero.

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The group did not recognise deferred income tax assets in respect of losses amounting to kEUR 2,914 at 31 December 2010 (31 December 2009: kEUR 4,366) that can be carried forward against future taxable income. The unrecognised losses expire as follows:

in € thousands	31 Dec 2010	31 Dec 2009
Expiry within 1 year	29	0
Expiry in 2-5 years	90	0
Expiry later than 5 years	2,578	0
Unlimited carry forward	217	4,366
Total	2,914	4,366

Taxable temporary differences amounting to kEUR 13,663 at 31 December 2010 (31 December 2009: kEUR 2,292) associated with investments in subsidiaries are not recognised as deferred tax liabilities, since the respective parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

(17) Goodwill and other intangible assets

The acquisition costs as well as accumulated amortisation and impairment of intangible assets consisted of the following:

Goodwill and Intangible assets / 2010

in € thousands	At 1 Jan 2010	Additions	Deductions	Transfers	Changes in consolidation	Currency effects	At 31 Dec 2010
Acquisition costs							
Goodwill	231,838	0	0	0	15,943	4,551	252,332
Certificates	21,315	13	0	0	21,703	-291	42,740
Licenses, rights	1,866	179	-586	0	92	127	1,678
Trademarks	13,070	0	0	0	5,938	505	19,513
Patents & Technology	21,539	0	0	0	4,204	1,321	27,064
Intangible assets, other	11,240	3,089	-196	0	0	316	14,449
Total	300,868	3,281	-782	0	47,880	6,529	357,776
Amortization and Impairment							
Goodwill	29,049	0	0	0	0	1,579	30,628
Certificates	4,339	1,632	0	0	0	119	6,090
Licenses, rights	1,468	104	-586	0	0	0	986
Trademarks	1,390	838	0	0	0	98	2,326
Patents & Technology	5,695	3,515	0	0	0	494	9,704
Intangible assets, other	4,719	2,487	-196	0	0	13	7,023
Total	46,660	8,576	-782	0	0	2,303	56,757

Goodwill and Intangible assets / 2009

in € thousands	At 1 Jan 2009	Additions	Deductions	Transfers	Changes in consolidation	Currency effects	At 31 Dec 2009
Acquisition costs							
Goodwill	233,703	0	0	0	0	-1,865	231,838
Certificates	20,761	1,050	0	0	0	-496	21,315
Licenses, rights	1,541	192	0	133	0	0	1,866
Trademarks	13,466	0	0	0	0	-396	13,070
Patents & Technology	22,191	0	0	0	0	-652	21,539
Intangible assets, other	9,424	1,915	-23	-133	0	57	11,240
Total	301,086	3,157	-23	0	0	-3,352	300,868
Amortization and Impairment							
Goodwill	29,094	0	0	0	0	-45	29,049
Certificates	3,269	1,124	0	0	0	-54	4,339
Licenses, rights	1,088	380	0	0	0	0	1,468
Trademarks	758	675	0	0	0	-43	1,390
Patents & Technology	1,686	4,280	0	0	0	-271	5,695
Intangible assets, other	2,974	1,620	-23	0	0	148	4,719
Total	38,869	8,079	-23	0	0	-265	46,660

in € thousands	Carrying amounts	
	31 Dec 2010	31 Dec 2009
Goodwill	221,704	202,789
Certificates	36,650	16,976
Licenses, rights	692	398
Trademarks	17,187	11,680
Patents & Technology	17,360	15,844
Intangible assets, other	7,426	6,521
Total intangible assets	301,019	254,208

The position 'Patents & Technology' at 31 December 2010 consists of kEUR 3,885 patents (31 December 2009: kEUR 3,294) and kEUR 13,475 technology (31 December 2009: kEUR 12,550).

In 2009 a non-recoverable patent had to be impaired completely. The impairment of kEUR 2,782 is recognised in amortisation of patents. In 2010 no impairment was recognized.

At 31 December 2010 bank borrowings are secured on intangible assets for the value of kEUR 48,372 (31 December 2009: 54,109).

Impairment tests for goodwill:

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to geographical areas. A summary of the goodwill allocation is presented below.

in € thousands	31 Dec 2010	31 Dec 2009
CGU EMEA	143,359	143,427
CGU Americas	75,216	56,102
CGU Asia-Pacific	3,129	3,260
	221,704	202,789

The recoverable amount of a CGU is determined based on fair-value-less-costs-to-sell calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the geographical area of the respective CGU.

The key assumptions used for fair-value-less-costs-to-sell calculations are as follows:

31 December 2010

in %	CGU EMEA	CGU Americas	CGU Asia-Pacific
Terminal value growth rate	1.50	1.50	1.50
Discount rate	8.98	8.90	10.00
Costs to sell	1.00	1.00	1.00

31 December 2009

in %	CGU EMEA	CGU Americas	CGU Asia-Pacific
Terminal value growth rate	1.50	1.50	1.50
Discount rate	9.76	9.61	9.59
Costs to sell	1.00	1.00	1.00

The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used were determined through a peer group. The costs to sell reflect management expectations.

Even if the discount rate would increase by +2% and terminal value growth rate would be 0%, the change of these key assumptions would not cause in any CGU the carrying amount to exceed its recoverable amount.

(18) Property, plant and equipment

The acquisition and manufacturing costs as well as accumulated depreciation of property, plant and equipment consisted of the following:

Property, Plant & Equipment / 2010

in € thousands	At 1 Jan 2010	Additions	Deductions	Transfers	Changes in consolidation	Currency effects	At 31 Dec 2010
Acquisition and manufacturing costs							
Land and building	69,720	486	-619	2,010	162	1,091	72,850
Machinery & tools	153,103	4,388	-5,569	6,133	2,803	2,833	163,691
Other equipment	41,316	2,300	-2,216	612	157	692	42,861
Assets under construction	4,661	10,657	-713	-8,755	0	303	6,153
Total	268,800	17,831	-9,117	0	3,122	4,919	285,555
Depreciation							
Land and building	35,640	1,882	-520	0	0	488	37,490
Machinery & tools	118,305	12,377	-5,917	0	0	1,317	126,082
Other equipment	31,797	2,593	-2,259	0	0	465	32,596
Assets under construction	0	0	0	0	0	0	0
Total	185,742	16,852	-8,696	0	0	2,270	196,168

Property, Plant & Equipment / 2009

in € thousands	At 1 Jan 2009	Additions	Deductions	Transfers	Changes in consolidation	Currency effects	At 31 Dec 2009
Acquisition and manufacturing costs							
Land and building	70,725	2,028	-3,321	115	0	173	69,720
Machinery & tools	152,729	4,193	-7,316	2,909	0	588	153,103
Other equipment	39,322	2,516	-1,861	1,113	0	226	41,316
Assets under construction	5,480	3,306	0	-4,137	0	12	4,661
Total	268,256	12,043	-12,498	0	0	999	268,800
Depreciation							
Land and building	35,161	2,141	-1,811	0	0	149	35,640
Machinery & tools	111,756	12,592	-6,110	0	0	67	118,305
Other equipment	30,101	2,813	-1,724	0	0	607	31,797
Assets under construction	0	0	0	0	0	0	0
Total	177,018	17,546	-9,645	0	0	823	185,742

in € thousands	Carrying amounts	
	31 Dec 2010	31 Dec 2009
Land and building	35,360	34,080
Machinery & tools	37,609	34,798
Other equipment	10,265	9,519
Assets under construction	6,153	4,661
Total	89,387	83,058

At 31 December 2010 the position machinery & tools includes kEUR 4,747 tools (31 December 2009: kEUR 3,147).

No impairment is recognised on property, plant and equipment in 2010 and 2009.

At 31 December 2010 bank borrowings are secured on land and buildings for the value of kEUR 60,284 (31 December 2009: 63,008).

Land and buildings include the following amounts where the group is a lessee under a finance lease:

in € thousands	31 Dec 2010	31 Dec 2009
Cost		
- capitalised finance leases	654	1,171
Accumulated depreciation	-654	-1,093
Net book amount	0	78

Machinery includes the following amounts where the group is a lessee under a finance lease:

in € thousands	31 Dec 2010	31 Dec 2009
Cost		
- capitalised finance leases	630	896
Accumulated depreciation	-571	-577
Net book amount	59	319

Other equipment includes the following amounts where the group is a lessee under a finance lease:

in € thousands	31 Dec 2010	31 Dec 2009
Cost		
- capitalised finance leases	600	415
Accumulated depreciation	-508	-375
Net book amount	92	40

The group leases various property, machinery, technical and IT equipment under non-cancellable finance lease agreements. The lease terms are between 3 and 10 years and ownership of the assets lies within the group.

(19) Financial instruments

2010

in € thousands	Category IAS 39	Carrying amount 31 Dec	Measurement basis IAS 39				Measurement basis IAS 17	Fair value 31 Dec 2010
			Amort, Cost	Cost	FVTPL	Fair value		
Financial assets								
Available for sale financial assets	AfS	397		397			-	
Trade and other receivables	LaR	70,282	70,282				70,282	
Cash and cash equivalents	LaR	30,426	30,426				30,426	
Financial liabilities								
Borrowings	FLAC	360,097	360,097				355,343	
Derivative financial instruments – Hedge accounting								
Interest derivatives	n/a	5,550			5,550		5,550	
Trade payables	FLAC	48,311	48,311				48,311	
Other financial liabilities	FLAC	8,002	8,002				8,002	
Finance lease liabilities	n/a	894				894	849	
Totals per category								
Available for sale financial assets (AfS)		397		397			-	
Loans and receivables (LaR)		100,708	100,708				100,708	
Financial liabilities at amortised cost (FLAC)		416,410	416,410				411,656	

2009

in € thousands	Category IAS 39	Carrying amount 31 Dec 2009	Measurement basis IAS 39				Measurement basis IAS 17	Fair value 31 Dec 2009
			Amort, Cost	Cost	FVtPL	Fair value		
Financial assets								
Available for sale financial assets	AIS	397		397			-	
Derivative financial instruments - Held for trading								
Foreign exchange derivatives	FAHT	22			22		22	
Trade and other receivables	LaR	45,501	45,501				45,501	
Cash and cash equivalents	LaR	27,185	27,185				27,185	
Financial liabilities								
Borrowings	FLAC	335,154	335,154				329,836	
Derivative financial instruments - Held for trading								
Foreign exchange derivatives	FLHT	22			22		22	
Derivative financial instruments - Hedge accounting								
Interest derivatives	FLHT	7,968				7,968	7,968	
Trade payables	FLAC	29,953	29,953				29,953	
Other financial liabilities	FLAC	45	45				45	
Finance lease liabilities	n/a	1,157				1,157	1,041	
Totals per category								
Available for sale financial assets (AfS)		397		397			-	
Financial assets held for trading (FAHT)		22			22		22	
Loans and receivables (LaR)		72,686	72,686				72,686	
Financial liabilities held for trading (FLHT)		22			22		22	
Financial liabilities at amortised cost (FLAC)		365,152	365,152				359,834	

Trade and other receivables and cash and cash equivalents have short-term maturities. Their carrying amounts at the reporting date equal their fair values, as the impact of discounting is not significant.

Available for sale financial assets are recognised at cost. There is no active market for these instruments. Since no future cash flows can be reliably measured, the fair value cannot be determined using valuation techniques.

Trade payables and other financial liabilities have short times to maturity; therefore the carrying amounts reported approximate the fair values.

The fair values of long-term borrowings bearing fixed interest rates and finance lease liabilities are calculated as the present values of the payments associated with the debts based on the applicable yield curve and NORMA Group's credit spread curve (credit spread of 2.8% for finance lease liabilities and 6.1% for borrowings).

Derivative financial instruments held for trading and those used for hedging are carried at their respective fair values. They have been categorised entirely within level 2 in the fair value hierarchy (section 5.3).

None of the financial assets that are fully performing have been renegotiated in the last year.

In accordance with IFRS 7.20 (a) net gains and losses from financial instruments by measurement category are as follows:

in € thousands	2010	2009
Available for sale financial assets (AfS)	150	111
Loans and receivables (LaR)	-181	227
Financial instruments held for trading (FAHfT and FLHfT)	22	418
Financial liabilities at cost (FLAC)	-14,990	-22,238
	-14,999	-21,482

Net gains and losses of available for sale financial assets include dividend income from associates not accounted for using the equity method, net gains and losses of loans and receivables comprise currency effects, impairment of trade receivables, and interest income on short-term bank deposits. Fair value gains and losses on trading derivatives are net gains and losses of financial instruments held for trading and net gains and losses of financial liabilities at cost comprise interest expenses and currency effects on loans, borrowings and bank deposits.

(20) Other financial assets

Other financial assets consist of shares in the associated company Groen B.V. amounting to kEUR 397 at 31 December 2010 and 2009 respectively, that are supposed to be classified as available for sale assets. There is no active market for these instruments. Since no future cash flows can be reliably measured, the fair values cannot be determined using valuation techniques. Hence, these instruments are recognised at cost.

As per 31 December 2010, management does not have the intention to dispose of financial assets categorised as available for sale.

(21) Derivative financial instruments

in € thousands	31 Dec 2010		31 Dec 2009	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps – cash flow hedges	0	5,550	0	7,968
Foreign exchange derivatives – held for trading	0	0	22	22
Total	0	5,550	22	7,990
Less non-current portion	0	0	0	0
Interest rate swaps – cash flow hedges	0	0	0	7,968
Non-current portion	0	0	0	7,968
Current portion	0	5,550	22	22

(a) Foreign exchange derivatives

Foreign exchange derivatives are categorised as held for trading. The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2009 were kEUR 2,335. At 31 December 2010 NORMA Group had no foreign exchange derivatives in the balance sheet.

(b) Interest rate swaps

NORMA Group applies hedge accounting on interest rate swaps. The ineffective portion recognised in the profit or loss amounts to a profit of kEUR 11.

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2010 were mEUR 215 (31 December 2009: mEUR 218).

At 31 December 2010, the fixed interest rates vary from 3.2% to 3.6% (31 December 2009: 3.2% to 3.6%), and the floating rates are EURIBOR and LIBOR. Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of 31 December 2010 will be released to the profit or loss until 31 December 2011 (note 25).

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the consolidated statement of financial position.

(22) Trade and other receivables

The trade accounts receivables were as follows:

in € thousands	31 Dec 2010	31 Dec 2009
Trade accounts receivable	71,852	46,097
Less: allowances for doubtful accounts	-1,676	-1,507
	70,176	44,590

All trade accounts receivables are due within one year. The following table shows the ageing analysis for trade accounts receivables and other current receivables:

31 December 2010

in € thousands	not past due	< 30 days	30 - 90 days	91 - 180 days	181 days - 1 year	> 1 year	Total
Trade receivables	56,975	8,745	3,135	455	671	195	70,176
Other receivables	106	0	0	0	0	0	106
	57,081	8,745	3,135	455	671	195	70,282

31 December 2009

in € thousands	not past due	< 30 days	30 - 90 days	91 - 180 days	181 days - 1 year	> 1 year	Total
Trade receivables	28,809	8,570	4,557	1,647	987	20	44,590
Other receivables	911	0	0	0	0	0	911
	29,720	8,570	4,557	1,647	987	20	45,501

As of 31 December 2010 and 2009, there was no indication that accounts receivables that were neither past due nor impaired could not be collected.

The amount of receivables that were impaired and provided for was as follows:

in € thousands	31 Dec 2010	31 Dec 2009
Trade receivables impaired and provided for	1,688	1,509
Allowances for doubtful accounts	-1,676	-1,507

The carrying amounts of the group's trade and other receivables are denominated in the following currencies:

in € thousands	31 Dec 2010	31 Dec 2009
Euro	37,318	27,028
US dollar	21,440	8,315
Chinese renminbi	2,957	1,495
UK pound	2,079	1,526
Australian dollar	1,731	1,770
Swedish crown	1,019	2,247
Other currencies	3,738	3,120
	70,282	45,501

All trade accounts receivable were impaired by specific valuation allowances. There have been no general allowances. Movements on the group provision for impairment of trade receivables are as follows:

in € thousands	31 Dec 2010	31 Dec 2009
At 1 January	1,507	1,982
Additions	468	125
Amounts used	-36	-622
Reversals	-338	0
Currency effects	75	22
At 31 December	1,676	1,507

The creation and release of allowances for doubtful accounts have been included in 'other operating income/expenses' in the consolidated statement of comprehensive income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The group does not hold any collateral as security.

At 31 December 2010 bank borrowings are secured on trade and other receivables for the value of kEUR 53,586 (31 December 2009: 39,950).

(23) Inventories

in € thousands	31 Dec 2010	31 Dec 2009
Raw materials	21,004	12,866
Work in progress	6,916	4,082
Finished goods and goods for resale	36,789	27,752
	64,709	44,700

At 31 December 2010 inventories amounting to kEUR 1,035 (31 December 2009: kEUR 586) were reduced to their net realisable value.

At 31 December 2010 bank borrowings are secured on inventories for the value of kEUR 37,892 (31 December 2009: kEUR 30,122).

(24) Other non-financial assets

in € thousands	31 Dec 2010	31 Dec 2009
Deferred costs	2,258	1,309
VAT assets	3,662	516
Other assets	3,298	3,485
	9,218	5,310

(25) Equity

Subscribed capital

The subscribed capital of the company amounts to EUR 76.250 and is fully paid. The liability of the shareholders for the obligations of the company to its creditors is limited to this capital. The amount of the subscribed capital is not permitted to be distributed by the company to its shareholders.

Capital reserves

The capital reserve contains:

- amounts (premiums) received for the issuance of shares,
- premiums paid by shareholders in exchange for the granting of a preference for their shares,
- amounts resulted from other capital contributions of the owners.

At 26 April 2010 the shareholders have contributed mEUR 15 to capital reserve. As of 31 December 2010 capital reserve amounts to kEUR 96,650 (31 December 2009: kEUR 81,650).

Treasury shares

At 20 December 2007 NORMA Group acquired its own shares through purchase from Dr. Peter Stehle (Chairman of the Supervisory Board). The total amount paid to acquire the shares was kEUR 592 and has been deducted from subscribed capital by the amount of EUR 450 (par value) and retained earnings by the amount of EUR 591,550 within shareholders' equity.

Retained earnings

in € thousands	Actuarial gain/loss	Total
Balance at 1 January 2009	737	-31,261
Loss for the year		-18,182
Actuarial gain/loss on post employment benefit obligations in year - net of tax		-18
Actuarial gain/loss on post employment benefit obligations (before tax)	-26	
Tax on actuarial gain/loss	8	
Balance at 31 December 2009	719	-49,461
Profit for the year		30,157
Actuarial gain/loss on post employment benefit obligations in year:		-812
Actuarial gain/loss on post employment benefit obligations (before tax)	-1,156	
Tax on actuarial gain/ loss	344	
Balance at 31 December 2010	-93	-20,116

Other reserves

in € thousands	Cash flow hedges	Exchange differences on translating foreign operations	Total
Balance at 1 January 2009	0	6,623	6,623
Cash flow hedges			-1,565
Fair value gains/losses in year	-2,207		
Tax on fair value gains/losses	642		
Currency translation		-1,279	-1,279
Balance at 31 December 2009	-1,565	5,344	3,779
Cash flow hedges			-894
Fair value gains/losses in year	-1,261		
Tax on fair value gains/losses	367		
Currency translation		-4,249	-4,249
Balance at 31 December 2010	-2,459	1,095	-1,364

(26) Retirement benefit obligations

Retirement benefit obligations result mainly from the German pension plan as this pension plan is the most significant pension plan in the group.

The German defined benefit pension plan was closed for new entrants in 1990 and provides benefits in case of retirement, disability, and death as life-long pension payments. The benefits entitlements depend on years of service and salary. The portion of salary that is above the income threshold for social security contribution leads to higher benefit entitlements compared to the portion of the salary up to that threshold. Employees hired after 1990 are eligible under a defined contribution scheme. The contributions are paid into an insurance contract providing lump sum payments in case of retirements and death.

The movement in cumulative actuarial gains/losses recognized in other comprehensive income (before tax) was as follows:

in € thousands	2010	2009
At 1 January	-1,014	-1,040
Actuarial gains/losses in recognised in other comprehensive income in the period (before tax)	1,156	26
At 31 December	142	-1,014

The amounts recognised in the consolidated statement of financial position are determined as follows:

in € thousands	31 Dec 2010	31 Dec 2009
Present value of obligations	9,063	8,058
Unrecognised past service cost	0	0
Liability in the balance sheet	9,063	8,058

Experience adjustments on plan liabilities were as follows:

in € thousands	2010	2009	2008	2007
Pension liability	9,063	8,058	7,939	9,110
Experience adjustments on plan liabilities	222	-169	-730	-37

The movement in the defined benefit obligation over the year is as follows:

in € thousands	2010	2009
At 1 January	8,058	7,939
Current service cost	90	263
Interest cost	400	414
Actuarial gains/ losses	1,156	26
Exchange differences	2	0
Benefits paid	-643	-584
Liabilities acquired in a business combination	0	0
Curtailments	0	0
Settlements	0	0
At 31 December	9,063	8,058

The amounts recognised in profit or loss are as follows:

in € thousands	2010	2009
Current service cost	90	263
Interest cost	400	414
Past Service Cost	0	0
Curtailment/Settlement	0	0
At 31 December	490	677

The principal actuarial assumptions are as follows:

in %	31 Dec 2010	31 Dec 2009
Discount rate	4.71	5.75
Inflation rate	2.00	2.00
Future salary increases	2.50	2.50
Future pension increases	2.00	2.00

The biometric assumptions are based on the 2005 G Heubeck life-expectancy tables.

Expected contributions to post-employment benefit plans for the year 2011 are kEUR 596.

(27) Provisions

The development of provisions was as follows:

Provisions for other liabilities / 2010

in € thousands	At 1 Jan 2010	Additions	Amounts used	Unused amounts reversed	Unwinding of discount	Foreign currency translation	At 31 Dec 2010
Guarantees	492	40	0	0	0	0	532
Restructuring	2,072	143	-718	-1,147	0	11	361
Early retirement	3,757	1,599	-1,526	0	211	0	4,041
Operational performance incentive cash programme	0	987	0	0	0	0	987
Other personnel related obligations	586	105	-160	0	24	0	555
Others	1,170	1,082	-891	-50	0	52	1,363
Total provisions	8,077	3,956	-3,295	-1,197	235	63	7,839

Provisions for other liabilities / 2009

in € thousands	At 1 Jan 2009	Additions	Amounts used	Unused amounts reversed	Unwinding of discount	Foreign currency translation	At 31 Dec 2009
Guarantees	683	0	0	-191	0	0	492
Restructuring	1,977	1,979	-1,819	-66	0	1	2,072
Early retirement	3,847	1,490	-1,802	0	222	0	3,757
Operational performance incentive cash programme	294			-294			0
Other personnel related obligations	2,263	0	-1,674	-121	114	4	586
Others	724	1,014	-283	-364	0	79	1,170
Total provisions	9,788	4,483	-5,578	-1,036	336	84	8,077

Provisions for other liabilities

in € thousands	31 Dec 2010			31 Dec 2009		
	Total	thereof current	thereof non-current	Total	thereof current	thereof non-current
Guarantees	532	532	0	492	492	0
Restructuring	361	361	0	2,072	2,072	0
Early retirement	4,041	22	4,019	3,757	0	3,757
Operational performance incentive cash programme	987	987	0	0	0	0
Other personnel related obligations	555	0	555	586	160	426
Others	1,363	1,353	10	1,170	1,170	0
Total provisions	7,839	3,255	4,584	8,077	3,894	4,183

The accounting for early retirement ("Altersteilzeit") is based on actuarial valuations considering assumptions such as a discount rate of 3.1% as well as the 2005 G Heubeck life-expectancy tables. For signed early retirement contracts as well as potential early retirement contracts a liability has been recognized. The liability includes additional compensation ("Aufstockungsbeträge") as well as deferred salary payments ("Erfüllungsrückstände").

For further details concerning 'operational performance incentive cash programme' see note 34.

(28) Borrowings

in € thousands	31 Dec 2010	31 Dec 2009
Non-current		
Bank borrowings	304,035	308,892
Shareholder loan	11,900	11,434
	315,935	320,326
Current		
Bank borrowings	37,506	14,828
Other borrowings (e.g. Factoring)	6,656	0
	44,162	14,828
Total borrowings	360,097	335,154

(a) Bank borrowings

Bank borrowings mature until 2016 and bear average coupons of 0.6%, 0.3% and 0.7% annually for loans denominated in Euro, US-Dollar and Swedish Crowns respectively (2009: 1.6%, 0.8% and 1.3% annually).

NORMA Group is currently preparing to go public on the Frankfurt (Germany) stock exchange in 2011. In this event, all bank borrowings (kEUR 353,441) and also some other liabilities (kEUR 7,470) have to be repaid according to the existing agreements. To face this risk NORMA Group is currently in negotiations with a banking consortium in order to arrange a complete refinancing of the group. The maturity of the new financing structure will be similar to the present structure. According to present negotiations and based on the current economic situation and the future outlook of the company there are no material reasons to believe that NORMA would not achieve a similar maturity and interest rate structure. Since the present contracts are not cancelled yet and the new financing structure would also be long term, the major part of the present borrowings is presented as non-current.

At 31 December bank borrowings were secured by the carrying amounts of the following assets:

in € thousands	31 Dec 2010	31 Dec 2009
Intangible Assets	48,372	54,109
Property, plant and equipment	60,284	63,008
Trade and other receivables	53,586	39,950
Inventories	37,892	30,122
Cash and cash equivalents	16,488	17,922
	216,622	205,111

Bank borrowings are further secured by shares of various consolidated companies of the NORMA Group.

The carrying amounts of the group's borrowings are denominated in the following currencies:

in € thousands	31 Dec 2010	31 Dec 2009
EUR	183,087	183,550
USD	142,255	128,369
SEK	16,199	11,801
	341,541	323,720

(b) Shareholder loan

In 2006 NORMA Group has received a loan from 3i Funds in the original amount of mEUR 34.7. In 2007 mEUR 30.0 have been contributed to capital reserve. The remainder of mEUR 4.7 is part of the group's long-term borrowings.

The loan is denominated in Euro and bears fixed interest of 10.0% per annum. The annual interest expenses of kEUR 466 are accrued until the shareholder loan falls due; the entire amount will be repayable in 2016 or in case of shareholder's exit, if earlier.

The outstanding balance as per 31 December 2010 of mEUR 11.9 contains the remaining amount of the loan (mEUR 4.7) and the accrued interests since the issuance of the loan. There is no compound interest on any interest accrued.

(29) Other non financial liabilities

in € thousands	31 Dec 2010	31 Dec 2009
Non-current		
Other Liabilities	0	335
	0	335
Current		
Non-income tax liabilities	2,918	3,406
Social liabilities	2,309	2,852
Personnel related liabilities (e.g. holiday, bonus, premiums)	12,984	4,781
Other liabilities	3,562	5,320
Deferred Income	0	140
	21,773	16,499
Total other non-financial liabilities	21,773	16,834

(30) Other financial liabilities

in € thousands	31 Dec 2010	31 Dec 2009
Non-current		
Lease liabilities	577	863
	577	863
Current		
Other liabilities to 3i Funds or other 3i entities	0	43
Lease liabilities	317	294
Vendor Loan R.G. RAY acquisition	7,470	0
Contingent consideration Craig Assembly acquisition	515	0
Other liabilities	17	2
	8,319	339
Total other financial liabilities	8,896	1,202

The future aggregate minimum lease payments under non-cancellable finance leases and their respective present values are as follows:

in € thousands	31 Dec 2010	31 Dec 2009
Gross finance lease liabilities - minimum lease payments		
No later than 1 year	336	329
Later than 1 year and no later than 5 years	609	875
Later than 5 years	0	36
	945	1,240
Future finance charges on finance lease	51	83
Present value of finance lease liabilities		
No later than 1 year	317	294
Later than 1 year and no later than 5 years	577	829
Later than 5 years	0	34
	894	1,157

Lease liabilities are effectively secured because the rights to the leased assets will revert to the lessor in the event of default.

(31) Trade payables

All trade payables are due to third parties within one year.

For information regarding trade payables refer to notes section 3.12.

Other notes

(32) Information on the consolidated statement of cash flows

In the cash flow statement a distinction is made between cash flows from operational activities, investing activities and financing activities.

Cash flows from operating activities represent the cash effects of transactions and other events relating to the principal revenue-producing activities. The group participates in a reverse-factoring-program. The payments to the factor are included in cash flows from operating activities, since this best represents the economic substance of the transaction. Other non-cash expenses and revenues in Fiscal Year 2010 mainly include the non-cash valuation of interest rate swaps to kEUR -4,079 in 2010 (2009: kEUR -3,641) and net foreign exchange valuation on financing activities to kEUR 2,857 in 2010 (2009: kEUR -8,433). Cash flows resulting from interest paid (2010: kEUR -20,180; 2009: kEUR -20,140) are disclosed as cash flows from financing activities.

Cash flows from investing activities include the cash effects of transactions relating to the acquisition and disposal of long-term asset.

Cash flows from financing activities comprise of proceeds from borrowings (2010: kEUR 18,521, 2009: kEUR 0), repayments of borrowing (2010: kEUR -16,401; 2009: kEUR -12,998), and proceeds from capital increase (2010: kEUR 15,000, 2009: kEUR 0). Furthermore cash flows resulting from interest paid are included (2010: kEUR -20,180, 2009: kEUR -20,140).

Cash is comprised of cash on hand and demand deposits of kEUR 30,426 at 31 December 2010 (31 December 2009: kEUR 27,060). Cash equivalents included investments with short maturity of kEUR 0 at 31 December 2010 (31 December 2009: kEUR 125). Cash and cash equivalents of kEUR 1,289 at 31 December 2010 (31 December 2009: kEUR 446) was restricted.

(33) Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the chief operating officer. The chief operating officer, who is responsible for allocating resources and assessing performance of the segments has been identified as the senior group management. For details regarding senior management refer to **note 38**.

NORMA Group segments the company at a regional level. The reportable segments of NORMA Group are EMEA, Americas, and Asia-Pacific. NORMA Group's vision includes regional growth targets. Distribution services are focused regionally and locally. EMEA and Americas have linked regional intercompany organisations of different functions. Therefore the group's management reporting and controlling system has a strong regional focus. The product portfolio does not vary between these segments.

For details regarding the composition of the segments refer to the list of group and financial holding companies in **section 4**.

NORMA Group measures the performance of its segments through a measure of profit or loss which is referred to as "adjusted EBITDA".

EBITDA comprises of revenue, changes in inventories of finished goods and work in progress, raw materials and consumables used, other operating income and expenses and employee benefit expenses. EBITDA is measured in a manner consistent with that in the statement of comprehensive income.

The adjustments of EBITDA relate to restructuring costs (closure of facilities, transfer of products, severances), non-recurring/non-period related costs/income (mainly cost of acquisitions, cost of integrations and non-recurring items) and other group and normalised items (mainly group stewardship and extraordinary items as defined by banking definition).

Inter-segment revenue is generally recorded at values that approximate third-party selling prices.

Segment assets comprise of all assets less (current and deferred) income tax assets. Segment liabilities comprise of all liabilities less (current and deferred) income tax liabilities. Taxes are shown in the reconciliation. Segment assets and liabilities are measured in a manner consistent with that in the statement of financial position.

Capex equals additions to non-current assets.

Segment Reporting / 2010

	EMEA	Americas	Asia-Pacific	Total segments	Reconciliation	Consolidated group
in € thousands	2010	2010	2010	2010	2010	2010
Revenue from external customers	336,682	123,767	29,955	490,404	0	490,404
Inter-segment revenue	23,573	7,180	1,061	31,814	-31,814	0
Total segment revenue	360,255	130,947	31,016	522,218	-31,814	490,404
Contribution to consolidated group sales	73%	27%	6%		-6%	
Adjusted EBITDA	80,995	23,016	1,673	105,684	-6,436	99,248
Segment assets*	399,539	205,302	30,179	635,020	-56,237	578,783
Segment liabilities**	208,676	157,649	14,685	381,010	119,371	500,381
CAPEX	14,995	4,141	1,976	21,112	0	21,112
Number of Employees***	2,025	488	317	2,830	23	2,853

* included allocated goodwills, taxes are shown in reconciliation

** taxes are shown in reconciliation

*** Number of Employees (average heads)

Segment Reporting / 2009

	EMEA	Americas	Asia-Pacific	Total segments	Reconciliation	Consolidated group
in € thousands	2009	2009	2009	2009	2009	2009
Revenue from external customers	244,563	68,121	17,110	329,794	0	329,794
Inter-segment revenue	12,878	4,526	29	17,433	-17,433	0
Total segment revenue	257,441	72,647	17,139	347,227	-17,433	329,794
Contribution to consolidated group sales	78%	22%	5%		-5%	
Adjusted EBITDA	42,038	10,415	837	53,290	-247	53,043
Segment assets*	349,313	141,882	20,925	512,120	-42,415	469,705
Segment liabilities**	165,286	135,740	17,121	318,147	112,430	430,577
CAPEX	7,401	4,838	2,961	15,200	0	15,200
Number of Employees***	2,068	386	240	2,694	23	2,717

* included allocated goodwills, taxes are shown in reconciliation

** taxes are shown in reconciliation

*** Number of Employees (average heads)

The reconciliation of the segments' adjusted EBITDA is as follows:

in € thousands	2010	2009
Total segments' adjusted EBITDA	105,684	53,290
Holdings	-6,268	-165
Eliminations	-168	-82
Total adjusted EBITDA of the group	99,248	53,043
Restructuring costs	-1,250	-20,634
Non-recurring/ non-period related costs	-15,536	-5,069
Other group and normalised items	-725	-1,159
EBITDA of the group	81,737	26,181
Depreciation and Amortization	-25,428	-22,843
Impairments	0	-2,782
Financial costs	-14,862	-21,308
Profit (previous year loss) before tax	41,447	-20,752

In 2009 a non-recoverable patent had to be impaired completely. The impairment of kEUR 2,782 was recognised in the segment Americas. In 2010 no impairment was recognized.

The reconciliation of the segments' assets and liabilities is as follows:

in € thousands	31 Dec 2010	31 Dec 2009
Total segment assets	635,020	512,120
Income tax assets	13,345	9,324
Holdings	59,104	36,232
Eliminations	-128,686	-87,971
Group assets	578,783	469,705

in € thousands	31 Dec 2010	31 Dec 2009
Total segment liabilities	381,010	318,147
Income tax liabilities	38,852	23,309
Holdings	212,480	177,514
Eliminations	-131,961	-88,393
Group liabilities	500,381	430,577

Assets of the Holdings include mainly cash; the liabilities include mainly long-term borrowings.

External sales per country, measured according to the place of domicile of the company which manufactures the products, are as follows:

in € thousands	2010	2009
Germany	214,245	170,148
USA	123,766	68,121
Other countries	152,393	91,525
	490,404	329,794

The non-current assets per country include non-current assets less deferred tax assets, derivative financial instruments, and shares in consolidated related parties.

in € thousands	31 Dec 2010	31 Dec 2009
Germany	119,858	123,892
USA	162,962	111,711
Other countries	126,137	123,068
Consolidation	-15,748	-18,247
	393,209	340,424

(34) Operational performance incentive cash programme

In 2008, NORMA Group implemented the OPICP under which eligible executive managers of the second management level are granted phantom shares of NORMA Group GmbH entitling the participants to receive cash-payments in case of an exit event (IPO/sale). NORMA Group Holding GmbH, a subsidiary of NORMA Group GmbH, is the obligor under this programme, i.e. the entitlement to the payment of an incentive amount is awarded from NORMA Group Holding GmbH to the individual beneficiaries. NORMA Group Holding GmbH will be reimbursed for the costs which incur as a result of the execution of the programme by the shareholders of NORMA Group GmbH. The reimbursement claim can only be recognized in case of an exit.

The amount of cash paid to the beneficiaries is based on the sales/liquidations proceeds and the number of phantom shares held by the manager. This amount is based on the equity value of NORMA Group GmbH minus prior ranking payments to other shareholders in the course of exit. The phantom shares vest on the occurrence of an exit event (IPO/sale). The termination of the eligible manager's employment prior to the anticipated exit event results in forfeited phantom shares.

In accordance with IFRS 2 (see also Section 3.16) the awards from OPICP are treated as cash-settled. Thus, a liability is recognized as of each balance sheet date at the amount of the respective fair value of the phantom shares.

At 1 January 2008 the OPICP was implemented for 9 participants. The total share programme is designed for the issuance of up to 1,100,000 shares of which 355,000 shares were issued as of 31 December 2008. The expected duration of the programme is 2012.

Phantom shares issued as of 31 December 2009	810,000
Phantom shares granted in 2010	260,000
Phantom shares forfeited in 2010	0
Phantom shares issued as of 31 December 2010	1,070,000
Provisions as of December 2009 (in € thousands)	0
Provisions as of December 2010 (in € thousands)	987
(-) Expenses/(+) Income in 2009 (in € thousands)	294
(-) Expenses/(+) Income in 2010 (in € thousands)	-987

(35) Contingencies

The group has contingent liabilities in respect of legal claims arising in the ordinary course of business.

NORMA Sweden is subject of an environmental examination by Uppsala municipality's environmental department. NORMA Sweden had to examine a sold premise. Under Swedish law the person who carried on an activity that caused pollution is deemed to be primarily responsible for remedial actions, i.e. investigations and remediation. After the examination in November 2009 the environmental department reviewed the report and ordered that further tests should be made. NORMA Sweden has opposed this and so far the environmental department has not replied to their response.

NORMA Group does not believe that any of these contingent liabilities will have a material adverse effect on its business or any material liabilities will arise from contingent liabilities.

(36) Commitments

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

in € thousands	31 Dec 2010	31 Dec 2009
Property, plant and equipment	999	1,943
	999	1,943

There are no material commitments concerning intangible assets.

(b) Operating lease commitments

The group leases various vehicles, property and technical equipment under non-cancellable operating lease agreements. The lease terms are between one and 10 years. The group also leases various technical equipment under cancellable operating lease agreements.

There are two significant operating lease arrangements with annual lease payments of more than kEUR 200, concerning the leasing of land and buildings. One is held by NORMA Germany (non-cancellable lease term 10 years, soonest termination in 2012), the second one is held by NORMA UK (non-cancellable lease term 10 years, soonest termination in 2016). Except for usual renewable options the lease contracts do not comprise other options.

Lease expenditure (including non-cancellable and cancellable operating leases) amounting to kEUR 6,536 in 2010 (2009: kEUR 6,088) is included in profit or loss in 'other operating expenses'.

The following table shows the future aggregate minimum lease payments under non-cancellable operating leases:

in € thousands	31 Dec 2010	31 Dec 2009
No later than 1 year	4,311	1,578
Later than 1 year and no later than 5 years	8,400	2,825
Later than 5 years	2,710	621
	15,421	5,024

(37) Business combinations

R.G. RAY

On 21 May 2010, the group acquired 100% of the share capital of R.G. RAY Coporation, Illinois, USA, (R.G. RAY) for kEUR 36,942 and obtained the control of R.G. RAY, a designer and manufacturer of heavy duty engineered clamps for use in engine, pump/filtration, aircraft, commercial vehicle and industrial applications operating in North America. As a result of the acquisition, the group is expected to increase its presence in North America and also to extend its product range in international markets.

The goodwill of 13,235 arising from the acquisition is attributable to the stronger market position in North America and to the extended product range in international markets.

in € thousands	Note	2010
Considerations at 21 May 2010		
Cash		28,808
Fair value of seller notes		8,134
Total consideration		36,942
Acquisition-related costs (included in administrative expenses in the consolidated income statement of the year ended 31 December 2010)		1,487
Recognised amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents		476
Property, plant and equipment	(18)	390
Trade names and trademarks (included in intangibles)	(17)	5,938
Technology (included in intangibles)	(17)	3,823
Contractual customer relationship (included in intangibles)	(17)	18,790
Inventories	(23)	4,678
Trade and other receivables	(22)	7,170
Trade and other payables	(31)	-5,899
Contingent liability	(35)	-333
Deferred income tax liabilities	(16)	-11,326
Total identifiable net assets		23,707
Goodwill	(17)	13,235
		36,942

The seller notes reflect the issuance of two interest-bearing promissory notes with fair values of kEUR 4,674 and 3,460. The fair values (present value) of the two interest-bearing promissory notes are equal to their principal payments. The seller notes are due within one year.

The fair value of trade and other receivables is kEUR 7,170 and includes trade receivables with a fair value of kEUR 6,094. The gross contractual amount for trade receivables due is kEUR 6,277, of which 183 is expected to be uncollectible.

The fair value of the acquired identifiable intangible assets of kEUR 28,551 (including customer relationships, trade names and trademarks and unpatented technology) is provisional pending receipt of the final valuations for those assets.

A contingent liability of kEUR 333 has been recognised for an unfavourable leasehold interest. As of 31 December 2010, the amount recognised for the contingent liability is kEUR 0.

The revenue included in the consolidated statement of comprehensive income since 21 May 2010 contributed by R.G. RAY was kEUR 22,477. R.G. RAY also contributed profit of kEUR 1,461 over the same period.

Had R.G. RAY been consolidated from 1 January 2010, the consolidated statement of comprehensive income would show revenue of kEUR 33,680 and profit of kEUR 2,692.

Craig Assembly

On 23 December 2010, the group acquired 100% of the share capital of Craig Assembly Inc., Michigan, USA, ("Craig Assembly") for kEUR 8,585 and obtained the control of Craig Assembly, a supplier of custom engineered products for the glycol cooling hose market operating in North America. As a result of the acquisition, the group is expected to increase its presence in North America and also to extend its product range in international markets.

The goodwill of kEUR 2,708 arising from the acquisition is attributable to the stronger market position in North America and to the extended product range in international markets.

None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for Craig Assembly and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

in € thousands	Note	2010
Considerations at 23 December 2010		
Cash		8,070
Contingent consideration		515
Total consideration		8,585
Acquisition-related costs (included in administrative expenses in the consolidated income statement of the year ended 31 December 2010)		317
Recognised amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents		439
Property, plant and equipment	(18)	2,732
Technology (included in intangibles)	(17)	381
Licences and other intangibles (included in intangibles)	(17)	92
Contractual customer relationship (included in intangibles)	(17)	2,913
Inventories	(23)	929
Trade and other receivables	(22)	1,775
Trade and other payables	(31)	-1,681
Deferred income tax liabilities	(16)	-1,703
Total identifiable net assets		5,877
Goodwill	(17)	2,708
		8,585

The contingent consideration arrangement requires the group to pay the former owners of Craig Assembly a maximum undiscounted amount of kEUR 890. The contingent consideration is earned on a prorated basis for each dollar of the adjusted EBITDA between kUSD 2,694 and 2,993 regarding the financial year from 1 April 2010 to 31 March 2011 (FY 2010/11). If Craig Assembly fails to meet the minimum threshold of adjusted EBITDA of kUSD 2,694 in FY 2010/11, the former owners of Craig Assembly would not be entitled to any additional compensation.

The potential undiscounted amount of all future payments that the group could be required to make under this contingent consideration arrangement is between kEUR 0 and kEUR 890.

The fair value of the contingent consideration arrangement of kEUR 515 was estimated by applying the income approach. The fair value estimates are based on a discount rate of 22.0% and assumed probability-adjusted EBITDA in FY 2010/11 in Craig Assembly of kUSD 2,794 to 2,896.

As of 31 December 2010, there was no increase of the contingent consideration.

The fair value of trade and other receivables is kEUR 1,775 and includes trade receivables with a fair value of kEUR 1,315. The gross contractual amount for trade receivables due is kEUR 1,315, of which none is expected to be uncollectible.

The fair value of the acquired property, plant and equipment of kEUR 2,732 is provisional pending receipt of the final valuations for those assets.

The fair value of the acquired identifiable intangible assets of kEUR 3,386 (including customer relationships and unpatented technology) is provisional pending receipt of the final valuations for those assets.

Had Craig Assembly been consolidated from 1 January 2010, the consolidated statement of comprehensive income would show revenue of kEUR 8,283 and profit of kEUR 1,025.

(38) Related party transactions

The shareholders of NORMA Group GmbH are investment funds related to the UK listed investment company 3i Group plc or managed by its subsidiary, 3i Investments plc ("3i Funds"), institutional investors of former subgroups, current management and former members of management. The 3i Funds have significant influence through each of their voting rights in the company.

The following transactions were carried out with related parties:

(a) Sales of goods and services

There are no material sales of goods and services to non-consolidated companies, to the shareholders of NORMA Group, to key management or to other related parties in 2010 and 2009.

(b) Purchases of goods and services

in € thousands	2010	2009
Purchases of management services		
- 3i Deutschland Gesellschaft für Industriebeteiligungen mbH (subsidiary of 3i Group plc)	340	306
	340	306

Management services are bought on normal commercial terms and conditions. There are no material balances at the year-end arising from these transactions.

Except for the purchases of management services, there are no material sales of goods and services from non-consolidated companies, from the shareholders of NORMA Group, from key management or from other related parties in 2010 and 2009.

(c) Loan from 3i Funds

In 2006 NORMA Group has received a loan from 3i Funds at the original amount of mEUR 34.7. In 2007 mEUR 30.0 have been contributed to capital reserve. The remainder of mEUR 4.7 is part of the group's long-term borrowings.

The loan is denominated in Euro and bears fixed interest of 10.0% per annum. The annual interest expenses of kEUR 466 are accrued until the loan falls due; the entire amount will be repayable in 2016 or in case of shareholder's exit, if earlier.

The outstanding balance as per 31 December 2009 and 2010 contains the remaining amount of the loan (mEUR 4.7) and the accrued interests since the issuance of the loan. There is no compound interest on any interest accrued.

(d) Reimbursement claim from 3i Funds

NORMA Group will be reimbursed by 3i Funds for the costs which incur as a result of the execution of the Cash-Incentive-Programme. The reimbursement claim can only be recognised in case of an exit (refer to **note 34** Operational performance incentive cash programme).

(e) Key management compensation

Key management includes senior management and executive directors. Further key management includes members of the advisory board and the supervisory board.

Senior management:

Werner Deggim
Dr. Othmar Belker
Bernd Kleinhens
John Stephenson (executive/Chief operations officer)
Stephan König (executive/Director human resources)

Advisory Board:

Craig Stinson
Dr. Christoph Schug
Dr. Ulf von Haacke
Hajo Knoch
Nils Bergström

Supervisory Board:

Dr. Peter Stehle
Dr. Ulf von Haacke
Thomas Kaltenschnee

The compensation paid or payable to key management for employee services is shown below:

in € thousands	2010	2009
Salaries and other short-term employee benefits	4,046	2,464
Termination benefits	0	1,109
	4,046	3,573

Salaries and other short-term employee benefits comprise salaries, bonuses, benefits resulting from the use of leased cars, compensation for management services received from certain members of the advisory board and remunerations of the supervisory board.

Balances at the year-end arise from bonuses amounting to kEUR 2,254 at 31 December 2010 (31 December 2009: kEUR 370).

Executive managers working within the NORMA Group were allowed to buy 10.7% of the shares of NORMA Group. In the course of the accession, the managers had to pay the fair value of the shares received.

The intention of the programme is to incentivise the managers to work towards a possible IPO/sale of NORMA Group or a group company of NORMA Group and thus to reward the management's contribution to NORMA Group and therefore NORMA Group's growth and to further-long-term success of the company. For that reason exit events were defined, leading to an IPO or a partial or entire sale of the NORMA Group. In the event of this anticipated exit, the eligible executive managers shall be participating in a possible increase in the value of the group. If the 3i Funds decide to accept an offer for the acquisition of at least 70% of the shares in NORMA Group, than all remaining Shareholders, which include the participating managers, are obliged to sell their shares pro rata to the aggregate shareholding contemplated to be sold by the 3i Funds. In the event of a sale and transfer of at least 50% of the shares in NORMA Group GmbH by 3i Funds and in the event that certain other criteria are met, participating managers are offered an equal opportunity to participate in such transaction or transactions on a pro rata basis. All proceeds from exit events are paid to participating managers by other shareholder or acquirers of the shares.

If and to the extent that an employee ceases his employment before the occurrence of an exit event (so-called leaver event), the executive manager grants 3i Investors the right to purchase and acquire all of his shares (leaver shares) held at the signing or anytime thereafter in accordance with the provisions set out in the shareholders agreement. In some specified cases MABA (shareholder of NORMA Group GmbH) offers selected managers to purchase and acquire the leaver shares pursuant to the terms and conditions set forth in the shareholders agreement. The purchase price for the leaver shares will be determined, depending on the reason for leaving, as the higher or lower of the fair market value of the leaver shares or the equity investment of the leaver plus interest on these equity investments. In these cases NORMA Group has no obligation to settle the entitlements.

In accordance with IFRS 2 (see also section 3.16) the award is treated as equity-settled. Since the executive managers had to pay the market fair value of the shares in course of the accession, the fair value of the equity-settled grant is zero and therefore no expenses have to be recognised at any time (neither in case of an exit nor in case of a leaver event). In addition, no undue advantages are granted to the managers in case of an exit or leaver event which are not also granted to other shareholders.

(39) Additional required notes according to § 315a par. 1 of the Germany Commercial Code (HGB)

The compensation and remunerations of senior management, advisory board and supervisory board of NORMA Group GmbH for the period 2010 were as follows:

in € thousands	2010
Total senior management	2,422
Total advisory board	312
Total supervisory board	34
	2,768

In 2010 fees for the auditor, PriceWaterhouseCoopers and its network companies, were expensed as follows:

in € thousands	2010
Audit fees	521
Audit-related fees	0
Tax consulting fees	0
Other fees	2,322
	2,843

The average headcount was split in the following categories:

Numbers	2010
Direct labour	1,497
Indirect labour	558
Salaried	798
	2,853

The category 'direct labour' consists of employees that are directly engaged in the production process; employees that manufacture products. The numbers directly fluctuate according to the level of output. The category 'indirect labour' consists of personnel that don't directly produce products, but support production. Salaried employees are employees in admin/sales/general function.

Name, place of domicile and share in capital acc. to § 313 par. 2 No. 1 HGB of the consolidated group companies is presented in section 4. According to § 313 par. 2 No. 4 S. 3 HGB there is no requirement to present the equity and result of the year for Groen B.V.

(40) Events after the balance sheet date

In 2010 NORMA Group has set up legal entities in order to develop its market position in growing regions. The group has started sales facilities in South Korea, Malaysia, Turkey, and production facilities in Russia and in Thailand. In 2011 NORMA Group will expand its business in these countries. In Serbia NORMA Group is currently setting up a major production plant, which will start manufacturing in the second quarter of 2011.

On 5 January 2011 the group acquired 45.16% of the share capital of Fijaciones NORMA S.A. (Spain) for a cash consideration of mEUR 4.45, which was so far held by non-controlling interests. After this transaction the group owns 100% of the shares. Non-controlling interests of Fijaciones NORMA S.A. amount mEUR 1.77 as of 31 December 2010.

In 2011, this acquisition would be accounted for as an equity transaction. The carrying amounts of the group's equity and non-controlling interests would be reduced by mEUR 1.77 to reflect the changes in the interests in the subsidiary. The remaining difference between the amount by which the non-controlling interests would be adjusted and the fair value of the consideration paid would be recognised directly in equity and attributed to the group.

NORMA Group is currently preparing to go public at the Frankfurt (Germany) stock exchange in 2011. In this event, all bank borrowings (kEUR 353,441) and also some other liabilities (kEUR 7,470) have to be repaid immediately according to the existing agreements. To face this risk NORMA Group is currently in negotiations with a banking consortium in order to arrange a complete refinancing of the group. The maturity of the new financing structure will be similar to the present structure. According to the present negotiations and based on the current economic situation and the future outlook of the company there are no material reasons to believe that NORMA would not achieve a similar maturity and interest rate structure.

Maintal, 7 March 2011

NORMA Group GmbH

Werner Deggim

Dr. Othmar Belker

Bernd Kleinhens