**PUBLIC OFFERING**

ERIKS

# ERIKS GROUP N.V.

*(incorporated under Netherlands law with limited liability, with its corporate seat in Alkmaar)*

## Offering of ordinary shares with a nominal value of € 0.50 per share for an aggregate amount of up to € 110,000,000

Eriks Group N.V. (the **"Company"**) is offering new ordinary shares with a nominal value of € 0.50 per share for an aggregate amount of up to € 110,000,000 (the **"Firm Shares"**) in the offering (the **"Offering"**). The Offering consists of a public offering in the Netherlands and an offering internationally to certain institutional investors outside the United States. The statutory pre-emption rights (*voorkeursrechten*) in relation to the Firm Shares and, if the Over-Allotment Option (as defined below) will be exercised, any Over-Allotment Shares (as defined below), have been excluded for the Offering.

The Company is conducting the Offering in connection with the acquisition of all the issued and outstanding shares in WYKO Holding Ltd's capital (the **"Acquisition"**) from Royal Bank Investments Limited and certain other parties (see **"THE ACQUISITION"**) which was completed on 17 November 2006.

The Company has granted the Stabilisation Agent on behalf of the Underwriters (as defined below) an option (the **"Over-Allotment Option"**), exercisable within 30 calendar days after the Pricing Date (as defined below), pursuant to which the Stabilisation Agent, on behalf of the Underwriters, may require the Company to issue at the Offer Price (as defined below) additional new Ordinary Shares (as defined below), up to 15% of the total number of Firm Shares offered by the Company pursuant to the Offering (the **"Over-Allotment Shares"** and together with the Firm Shares, the **"Offer Shares"**), to cover over-allotments, if any, in connection with the Offering.

Subject to acceleration or extension of the timetable for the Offering and barring unforeseen circumstances, admission to listing of the Firm Shares, and any Over-Allotment Shares which may be part of the Over-Allotment Option if this has been exercised prior to the Settlement Date (as defined below), on Euronext Amsterdam N.V.'s Eurolist by Euronext (**"Eurolist by Euronext"**) under the existing symbol "ERIKG", ISIN Code NL 0000350387 and trading in these shares on Euronext Amsterdam N.V. (**"Euronext Amsterdam"**) is expected to occur on or about 26 January 2007 (the **"Listing Date"**).

The ordinary shares with a nominal value of € 0.50 per share in the Company's share capital (the **"Ordinary Shares"**) which are currently outstanding are listed and traded on Eurolist by Euronext. On 12 January 2007, the closing price of the Ordinary Shares on Eurolist by Euronext was € 51.45 per Ordinary Share.

**Investing in the Firm Shares involves risks.**

**See "RISK FACTORS" beginning on page 14 to read about factors that should be carefully considered before investing in the Firm Shares.**

The Firm Shares are being offered only in those jurisdictions in which, and only to those persons to whom, offers and sales of the Firm Shares may lawfully be made. The Firm Shares and any Over-Allotment Shares have not been and will not be registered under the US Securities Act of 1933, as amended (the **"Securities Act"**), or with any securities regulatory authority of any state or other jurisdiction in the United States. Accordingly, the Firm Shares being offered outside the United States are being distributed in accordance with the exemption from registration available under Regulation S under the Securities Act (**"Regulation S"**).

For a description of restrictions on offers, sales and transfers of the Firm Shares and the distribution of this Prospectus in other jurisdictions, see **"SELLING AND TRANSFER RESTRICTIONS"**.

Subject to acceleration or extension of the timetable for the Offering, prospective investors may subscribe for the Firm Shares between 15 January 2007 9:00 hours Amsterdam time until 23 January 2007 13:00 hours Amsterdam time (the **"Subscription Period"**).

The Offer Price will be determined based on the quoted share price as well as the demand in the Offering. The Offer Price and the exact number of Firm Shares offered in the Offering will be determined after the end of the Subscription Period and announced on 24 January 2007 (the **"Pricing Date"**). The Offer Price and the exact number of Firm Shares offered in the Offering will be set out in a pricing statement which will be deposited with the Netherlands Authority for the Financial Markets (*Stichting Autoriteit Financiële Markten*; **"AFM"**). The Offer Price and the exact number of Firm Shares offered in the Offering will also be announced in a press release and an advertisement in the Daily Official List (*Officiële Prijscourant*) of Euronext Amsterdam N.V. (the **"Daily Official List"**).

The timetable for the Offering may be accelerated or extended. Any such acceleration will be announced in a press release at least three hours before the proposed expiration of the accelerated Subscription Period. Any extension of the timetable for the Offering will be announced in a press release at least three hours before the expiration of the accelerated Subscription Period or original Subscription Period, as the case may be, provided that any extension will be for a minimum of one full business day.

Subject to acceleration or extension of the timetable for the Offering, the closing of the Offering is expected to occur on or about 26 January 2007 (the **"Settlement Date"**). If closing of the Offering does not take place on the Settlement Date or at all (see **"SUBSCRIPTION AND SALE – Termination Underwriting Agreement"**), the Offering will be withdrawn, all subscriptions for the Firm Shares will be disregarded, any allotments made will be deemed not to have been made and any subscription payments made will be returned without interest or other compensation. All dealings in the Firm Shares, and in the Over-Allotment Shares which may be part of the Over-Allotment Option if this has been exercised prior to the Settlement Date, prior to settlement and delivery are at the sole risk of the parties concerned.

Delivery of the Firm Shares, and the Over-Allotment Shares which may be part of the Over-Allotment Option if this has been exercised prior to the Settlement Date, is expected to take place on or about the Settlement Date through the book-entry facilities of Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. (**"Euroclear Nederland"**), in accordance with its normal settlement procedures applicable to equity securities and against payment for such Offer Shares in immediately available funds.

This document (the **"Prospectus"**) constitutes a prospectus for the purposes of Article 3 of the Directive 2003/71/EC (**"Prospectus Directive"**) and has been prepared in accordance with Article 5:2 of the Financial Markets Supervision Act (*Wet op het financieel toezicht*; the **"FMSA"**) and the rules thereunder. This Prospectus has been approved by and filed with the AFM.

*Global Coordinator and Bookrunner*

**Rabo Securities**

*Co-Lead Managers*

**Fortis** **SNS Securities**

Publication Date: 15 January 2007

# TABLE OF CONTENTS

## SUMMARY

This section constitutes the summary (the **"Summary"**) of the essential characteristics of and risks associated with, the Company, ERIKS (as defined below), the Ordinary Shares, and the Offering. This Summary should be read as an introduction to this Prospectus and any decision to invest in any Firm Shares should be based on a consideration of this Prospectus as a whole. Civil liability will attach to the Company in any state party to the European Economic Area (an **"EEA State"**) in respect of this Summary, including any translation hereof, only if this Summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in an EEA State under the national legislation of the EEA State where the claim is brought, the plaintiff may, under the national legislation of the state where the claim is brought, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.

### The Company

The Company is the Dutch holding company of a group of technical distribution companies. ERIKS procures, stores, processes, sells and distributes a wide range of high-quality mechanical engineering parts and provides a highly developed range of technical and logistics services. The Company aims to be an innovative, reliable and flexible partner to its customers and a reliable and cooperative partner with sufficient market share and volume to its manufacturers.

In 2006, ERIKS supplied more than 90,000 industrial customers (business-to-business), marketed a range of more than 600,000 articles, purchased worldwide from over 1,000 qualified suppliers/manufacturers and sent out more than 2 million shipments. Currently, ERIKS consists of more than 50 operating companies and has a presence in 13 countries. ERIKS' activities are divided into eight clusters, which each serve a specific geographical market area. The average number of full time equivalents (**"FTEs"**) employed by ERIKS in 2005 (i.e. excluding WYKO) (as defined below) is 2,081.

### Core activities and product groups

ERIKS' current range of mechanical engineering parts and associated services is divided into six core activities and their associated product groups:

- sealing technology
- power transmissions
- flow technology
- industrial plastics
- tools and maintenance products
- technical and logistics services

### Strategy

The Company believes it has the following competitive strengths:

- a large customer base and presence in important industrial segments
- broad and in-depth range of products/services
- innovative strength
- know-how-driven technical and logistics services
- ability to offer manufacturers volume and market share
- modern infrastructure (accommodation and ICT)
- entrepreneurship and highly trained employees
- financial health

Building on these competitive strengths, the Company strives to achieve the following objectives:

- to build a leading market position in Western and Central Europe
- to achieve a strong market share (top 3) for all core activities in its range, in all regions where ERIKS has its own branch operations
- to offer an extensive range of high-quality mechanical engineering parts
- to possess and offer a high level of know-how so as to be an innovative supplier

– to have a balanced distribution of sales across the main customer types (buying profiles) of Maintenance Repair Overhaul (**“MRO”**) and Original Equipment Manufacturers (**“OEM”**) in order to control its risk profile
– to expand existing activities in the United States
– to maintain activities in South East Asia autonomously

ERIKS’ strategy rests on the following pillars:

– autonomous growth
– growth through expansion
– employees
– efficient operational management
– realising synergy

**Summary of the Offering**

| | |
|---|---|
| **Issuer** | Eriks Group N.V., a limited liability company under the laws of the Netherlands, with its corporate seat in Alkmaar, the Netherlands |
| **Offer Shares** | The Company is offering Firm Shares for an aggregate amount of up to € 110,000,000 and any Over-Allotment Shares, as described below. |
| **Ordinary Shares outstanding** | At the Publication Date, the Company has 8,030,776 Ordinary Shares outstanding. |
| **Offering** | The Offering consists of a public offering of the Firm Shares in the Netherlands and an international offering to certain institutional investors outside the United States. |
| **Over-Allotment Option** | The Company has granted the Stabilisation Agent on behalf of the Underwriters an option, exercisable within 30 calendar days after the Pricing Date, pursuant to which the Stabilisation Agent, on behalf of the Underwriters, may require the Company to issue at the Offer Price the Over-Allotment Shares, to cover over-allotments, if any, in connection with the Offering. |
| **Pricing** | The Offer Price will be determined on the Pricing Date after taking into account the conditions and factors described elsewhere in this Prospectus and will be set out in a pricing statement which will be deposited with the AFM. The Offer Price will also be announced in a press release and in an advertisement in the Daily Official List. |
| **Allotment** | The allotment will occur following pricing, and is expected to take place on the first business day after the end of the Subscription Period. In the event that the Offering is over-subscribed, an investor may receive a smaller number of Firm Shares than the investor applied to subscribe for. Full discretion is retained as to how to allocate the Firm Shares applied for. |
| **Listing Date** | Subject to acceleration or extension of the timetable for the Offering, expected to be on or about 26 January 2007. |
| **Listing and trading** | Application has been made to list the Firm Shares on Eurolist by Euronext under the existing symbol “ERIKG”. Listing on Eurolist by Euronext and trading on Euronext Amsterdam of the Firm Shares are expected to occur on or about the Listing Date. If closing of the Offering does not take place on the Settlement Date or at all, the Offering will be withdrawn, all subscriptions for the Firm |

Shares will be disregarded, any allotments made will be deemed not to have been made, and any subscription payments made will be returned without interest or other compensation. All dealings in the Firm Shares, and in any Over-Allotment Shares issued prior to the Settlement Date, prior to settlement and delivery are at the sole risk of the parties concerned.

**Settlement Date**

Subject to acceleration or extension of the timetable for the Offering, closing of the Offering is expected to take place on or about 26 January 2007.

**Use of proceeds**

The Company will use the aggregate net proceeds from the Offering of the Firm Shares to repay part of the amount outstanding under the Bridge Loan (as defined below), as part of the refinancing of the Company's capital structure. The Company envisages repaying the remainder of the Bridge Loan with funds drawn down under the New Loan (as defined below).

If the Over-Allotment Option is exercised, the net proceeds from the issue of the Over-Allotment Shares will be received by the Company and will be used for the same purpose as the proceeds from the issue of the Firm Shares.

**Lock-up arrangements**

The Company has agreed with the Underwriters not to, among other things, issue, offer, pledge, sell, contract to sell, grant any option to purchase or otherwise dispose of, any Ordinary Shares (or any securities convertible into or exchangeable for Ordinary Shares or which carry rights to subscribe or purchase Ordinary Shares) or enter into a transaction (including a derivative transaction) having a similar effect or publicly announce any intention to do any of such things, during the period commencing on the date of the underwriting agreement among the Company and the Underwriters (the **"Underwriting Agreement"**), and ending 180 days after the Settlement Date, without the prior written consent of the Global Coordinator, in accordance with the Underwriting Agreement.

**Dividends**

Taking into account the Company's growth targets and the financial resources necessary to achieve these, the Company aims to continue to pursue a stable dividend policy. In general, the Company aims to reserve approximately 50% of the results available to holders of Ordinary Shares and to pay the remaining 50% as dividends. The shareholders will have the choice to receive dividends in the form of Ordinary Shares and/or cash.

The holders of Firm Shares, and any Over-Allotment Shares if (part of) the Over-Allotment Option will be exercised, will be entitled to dividends paid to holders of Ordinary Shares over the financial year 2006.

**Voting rights and ranking**

Holders of Ordinary Shares are entitled to one vote per Ordinary Share at a general meeting of shareholders of the Company (the **"General Meeting"**).

The rights of holders of Firm Shares will rank *pari passu* with each other and with the rights of the holders of all other Ordinary Shares with respect to voting rights and distributions.

| | |
|---|---|
| **Payment, delivery, clearing and settlement** | Payment for and delivery of the Firm Shares, and any Over-Allotment Shares which may be part of the Over-Allotment Option if this has been exercised prior to the Settlement Date, is expected to take place on the Settlement Date.<br><br>Payment and delivery will take place through the book-entry facilities of Euroclear Nederland, in accordance with its normal settlement procedures applicable to equity securities and against payment in immediately available funds. |
| **Share trading information** | ISIN: NL0000350387<br>Common Code: 011835619<br>Amsterdam Security Code Number: 35038<br>Eurolist by Euronext Symbol: "ERIKG". |
| **Global Coordinator and Bookrunner** | Rabo Securities |
| **Co-Lead Managers** | Fortis and SNS Securities |
| **Listing and Paying Agent** | Rabo Securities |
| **Stabilisation Agent** | Rabo Securities |

**Summary of essential risks**

The following is a summary of the essential, but not all of, the risks associated with ERIKS, the Offering and the Ordinary Shares. A more detailed discussion can be found elsewhere in this Prospectus.

**Risks associated with ERIKS**

- ERIKS is sensitive to economic conditions and the development of industrial output
- A significant portion of ERIKS' business is concentrated in the Netherlands, the United Kingdom, Belgium and Germany
- ERIKS faces substantial competitive pressures
- ERIKS could fail to effectively identify or execute strategic acquisitions, joint ventures, partnerships, investments or divestments
- If strategic acquisitions, joint ventures, partnerships, investments or divestments are pursued, ERIKS could fail to successfully implement and exploit them or realise anticipated benefits in a timely manner
- ERIKS generally depends on verbal agreements with manufacturers and with its customers ERIKS is exposed to the risk of these manufacturers not being able to meet ERIKS' requirements on a cost effective and timely basis and to the risk of these customers not willing to purchase ERIKS' products and services on a regular basis in the future
- ERIKS is exposed to the risk of a loss of members of ERIKS' management team or qualified employees
- ERIKS is exposed to the risk of ineffective systems and processes, and interruption, failure or breach thereof
- ERIKS relies on information technology systems which are not integrated across all its different operating group companies
- ERIKS is subject to risks resulting from defects in its products as well as warranty claims and other liabilities
- ERIKS' insurance coverage could prove to be insufficient
- The planned reorganisations with respect to the cluster ERIKS France may not result in the expected improvements
- ERIKS is exposed to liquidity risk, it may fail to obtain additional financing, if required, and to comply with financial covenants

**Risks relating to the Acquisition**

- ERIKS could fail to successfully implement and exploit the Acquisition or realise anticipated benefits in a timely manner
- ERIKS is exposed to the risk of losing manufacturers or customers as a result of the Acquisition

**Risks associated with the Offering and the Ordinary Shares**

– The price of Ordinary Shares is subject to volatility and an investor may be unable to sell Ordinary Shares at or above the price paid for them
– Future sales, or the possibility of future sales, of a substantial number of Ordinary Shares could depress the price of Ordinary Shares
– The Company may not be able to pay dividends in the future
– Dutch law and the Articles of Association contain anti-takeover provisions that may prevent or discourage takeover attempts that may be favourable to certain shareholders

**Summary of financial and operating information**

The following summary of financial and operating information should be read in conjunction with the Company's consolidated financial statements and notes thereto appearing elsewhere in this Prospectus.

**Consolidated balance sheet**

| (€ in millions, except percentages) | Nine months ended 30 September (unaudited) | | | |
|---|---|---|---|---|
| **Consolidated balance sheet** | | **2006 IFRS** | | **2005 IFRS** |
| **ASSETS** | | | | |
| **Fixed assets** | | | | |
| Intangible fixed assets | 38.2 | | 37.9 | |
| Tangible fixed assets | 44.0 | | 49.4 | |
| Other fixed assets | 3.1 | | 4.1 | |
| Total fixed assets | | 85.3 | | 91.4 |
| **Current assets** | | | | |
| Inventories | 65.8 | | 62.6 | |
| Accounts receivable trade | 87.7 | | 77.1 | |
| Other receivables | 4.3 | | 3.9 | |
| Liquid resources | 20.8 | | 10.1 | |
| Total current assets | | 178.6 | | 153.7 |
| **TOTAL ASSETS** | | 263.9 | | 245.1 |
| **STOCKHOLDERS' EQUITY AND LIABILITIES** | | | | |
| Equity | 141.2 | | 120.1 | |
| Minority interest | 0.5 | | 0.4 | |
| Total stockholders' equity | | 141.7 | | 120.5 |
| **Long-term liabilities** | | | | |
| Loans | 24.0 | | 28.8 | |
| Derivative financial instruments | 0.3 | | 2.7 | |
| Provisions (including deferred tax liability) | 13.3 | | 13.2 | |
| Total long-term liabilities | | 37.6 | | 44.7 |
| **Short-term liabilities** | | | | |
| Bank overdrafts | 13.0 | | 14.6 | |
| Other interest bearing liabilities | 3.1 | | 4.9 | |
| Accounts payable trade | 37.8 | | 30.8 | |
| Other short-term liabilities | 30.7 | | 29.6 | |
| Total short-term liabilities | | 84.6 | | 79.9 |
| **TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES** | | 263.9 | | 245.1 |

**(€ in millions, except percentages)**

| Consolidated balance sheet | | Year ended 31 December 2005 IFRS | | 2004 IFRS |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Fixed assets** | | | | |
| Intangible fixed assets | 37.8 | | 38.4 | |
| Tangible fixed assets | 48.6 | | 45.4 | |
| Other fixed assets | 3.5 | | 3.4 | |
| Total fixed assets | | 89.9 | | 87.2 |
| **Current assets** | | | | |
| Inventories | 61.5 | | 59.9 | |
| Accounts receivable trade | 75.6 | | 73.1 | |
| Other receivables | 2.3 | | 1.9 | |
| Liquid resources | 22.0 | | 32.8 | |
| Total current assets | | 161.4 | | 167.7 |
| **TOTAL ASSETS** | | 251.3 | | 254.9 |
| **STOCKHOLDERS' EQUITY AND LIABILITIES** | | | | |
| Equity | 127.6 | | 109.2 | |
| Minority interest | 0.4 | | 0.3 | |
| Total stockholders' equity | | 128.0 | | 109.5 |
| **Long-term liabilities** | | | | |
| Loans | 29.6 | | 35.5 | |
| Derivative financial instruments | 2.0 | | 0.0 | |
| Provisions (including deferred tax liability) | 12.4 | | 12.7 | |
| Total long-term liabilities | | 44.0 | | 48.2 |
| **Short-term liabilities** | | | | |
| Bank overdrafts | 16.7 | | 37.3 | |
| Other interest bearing liabilities | 7.9 | | 6.2 | |
| Accounts payable trade | 29.3 | | 25.9 | |
| Other short-term liabilities | 25.4 | | 27.8 | |
| Total short-term liabilities | | 79.3 | | 97.2 |
| **TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES** | | 251.3 | | 254.9 |

**(€ in millions, except percentages)**

| Consolidated balance sheet | | Year ended 31 December 2004 Dutch GAAP | | 2003 Dutch GAAP |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Fixed assets** | | | | |
| Intangible fixed assets | 33.3 | | 31.9 | |
| Tangible fixed assets | 47.8 | | 34.9 | |
| Other fixed assets | 0.1 | | 0.3 | |
| Total fixed assets | | 81.2 | | 67.1 |
| **Current assets** | | | | |
| Inventories | 58.3 | | 50.4 | |
| Accounts receivable trade | 73.1 | | 64.3 | |
| Other receivables | 3.3 | | 3.7 | |
| Liquid resources | 12.8 | | 18.1 | |
| Total current assets | | 147.5 | | 136.5 |
| **TOTAL ASSETS** | | 228.7 | | 203.6 |
| **STOCKHOLDERS' EQUITY AND LIABILITIES** | | | | |
| Equity | 105.3 | | 91.8 | |
| Minority interest | 0.3 | | 0.2 | |
| Total stockholders' equity | | 105.6 | | 92.0 |
| **Long-term liabilities** | | | | |
| Loans | 35.5 | | 12.2 | |
| Derivative financial instruments | 0.0 | | 0.0 | |
| Provisions (including deferred tax liability) | 12.4 | | 12.4 | |
| Total long-term liabilities | | 47.9 | | 24.6 |
| **Short-term liabilities** | | | | |
| Bank overdrafts | 17.3 | | 36.5 | |
| Other interest bearing liabilities | 6.2 | | 5.0 | |
| Accounts payable trade | 25.9 | | 24.9 | |
| Other short-term liabilities | 25.8 | | 20.6 | |
| Total short-term liabilities | | 75.2 | | 87.0 |
| **TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES** | | 228.7 | | 203.6 |

**Consolidated profit and loss account**

| (€ in millions, except percentages) | Nine months ended 30 September (unaudited) | | |
|---|---|---|---|
| **Consolidated income statement** | **2006 IFRS** | **2005 IFRS** | **Change** |
| Net sales | 372.8 | 336.7 | *10.7%* |
| **Operating result (EBITA)** | **31.5** | **24.8** | *27.1%* |
| as percentage of net sales | *8.5%* | *7.4%* | |
| Result from financial income and expenses | (1.0) | (2.0) | |
| Result from associates | — | — | |
| **Results before taxes** | **30.5** | **22.8** | |
| Taxes | (9.8) | (7.5) | |
| **Result after taxes** | **20.7** | **15.3** | *35.4%* |
| Minority interest | (0.1) | (0.1) | |
| **Result from ordinary activities** | **20.6** | **15.2** | *35.7%* |
| Amortisation intangible fixed assets from acquisitions | (0.1) | (0.1) | |
| **Net result** | **20.5** | **15.1** | *36.0%* |

| (€ in millions, except percentages) | Year ended 31 December | | |
|---|---|---|---|
| **Consolidated income statement** | **2005 IFRS** | **2004 IFRS** | **Change** |
| Net sales | 448.5 | 423.4 | *5.9%* |
| Cost of sales | (331.6) | (312.2) | |
| **Gross profit on sales** | **117.0** | **111.2** | |
| Gross profit margin | *26.1%* | *26.3%* | |
| Other operating income | 2.0 | 0.0 | |
| Sales expenses | (71.8) | (69.1) | *3.8%* |
| General administrative expenses | (11.4) | (10.8) | *5.3%* |
| **Operating result** | **35.8** | **31.3** | *14.4%* |
| as percentage of net sales | *8.0%* | *7.4%* | |
| Result from financial income and expense | (2.7) | (3.0) | |
| Result from associates | 0.0 | 0.0 | |
| **Results before taxes** | **33.1** | **28.3** | |
| Taxes | (11.0) | (9.8) | |
| **Result after taxes** | **22.1** | **18.6** | |
| At the disposal of stockholders | 22.1 | 18.5 | *19.3%* |
| Minority interest | 0.0 | 0.1 | |
| **Result after taxes** | **22.1** | **18.6** | *18.9%* |

| (€ in millions, except percentages) | Year ended 31 December | | |
|---|---|---|---|
| **Consolidated income statement** | **2004 Dutch GAAP** | **2003 Dutch GAAP** | **Change** |
| Net sales | 423.4 | 381.9 | *10.9%* |
| Cost of sales | (313.3) | (283.2) | |
| **Gross profit on sales** | **110.1** | **98.6** | |
| Gross profit margin | *26.0%* | *25.8%* | |
| Sales expenses | (69.1) | (64.7) | *6.8%* |
| General administrative expenses | (11.0) | (9.4) | *16.8%* |
| Amortization of goodwill | (2.8) | (2.5) | *10.3%* |
| **Operating result** | **27.2** | **22.0** | *23.7%* |
| as percentage of net sales | *6.4%* | *5.8%* | |
| Result from financial income and expense | (2.1) | (2.2) | |
| Result from associates | 0.0 | 0.0 | |
| **Results before taxes** | **25.1** | **19.8** | |
| Taxes | (9.3) | (7.7) | |
| **Result after taxes** | **15.8** | **12.1** | |
| At the disposal of stockholders | 15.7 | 12.0 | *31.4%* |
| Minority interest | 0.1 | 0.1 | |
| **Result after taxes** | **15.8** | **12.1** | *31.1%* |

**Consolidated cash flow statement**

| (€ in millions, except percentages, per share and share amounts) | Nine months ended 30 September (unaudited) | |
|---|---|---|
| **Cash flow statement** | **2006 IFRS** | **2005 IFRS** |
| ***Operating result (EBITA)*** | | |
| Result after taxes | 20.6 | 15.2 |
| Adjustments for: | | |
| Depreciation incl. amortization of software | 4.6 | 4.4 |
| Amortization of other intangible fixed assets | 0.1 | 0.1 |
| Cash flow from ordinary activities | 25.3 | 19.7 |
| Gain from sale fixed asset | (0.5) | — |
| Financial income and expense | 1.6 | 2.1 |
| Profit taxes | 9.8 | 7.5 |
| Movement in working capital | (7.3) | (1.7) |
| Other accounts receivable and short term | 2.5 | 0.1 |
| Movement in provisions | (0.3) | (1.2) |
| Movement in the fair value of derivative financial instruments | (0.3) | — |
| Minority interest | — | — |
| Movements in loans to investments in associates | — | (0.2) |
| Cash flow generated from operating activities | 30.8 | 26.3 |
| Interest paid | (1.7) | (2.4) |
| Profit taxes paid | (8.2) | (5.4) |
| **Net cash flow from operating activities** | **20.9** | **18.5** |
| ***Investing activities*** | | |
| Investments in property, plant and equipment | (4.1) | (8.9) |
| Disposals of property plant and equipment | 4.7 | 0.9 |
| Acquisition of group companies | (0.9) | (0.1) |
| Disposals of group companies | — | — |
| Movement in loan to associate | — | — |
| **Cash flow from investing activities** | **(0.3)** | **(8.1)** |
| ***Financing activities*** | | |
| Withdrawals on loans, including repayment obligations | — | — |
| Repayments on loans including repayment obligations | (10.3) | (7.9) |
| Withdrawals on bank overdrafts- current account overdrafts | 7.0 | (1.7) |
| Repayments on bank overdrafts- current account overdrafts | — | — |
| Cash dividend and costs paid | (7.5) | (3.1) |
| **Cash flow from financing activities** | **(10.8)** | **(12.7)** |
| **Cash flow on balance** | 9.8 | (2.3) |
| **Liquid resources and bank overdrafts at January 1** | 11.3 | 12.7 |
| Exchange differences | (0.3) | 0.6 |
| Contributions of liquid resources from acquisition/disposal of participating interests | — | — |
| **Liquid resources and bank overdrafts at December 31** | **20.8** | **11.0** |

**(€ in millions, except percentages, per share and share amounts)**

| Cash flow statement | Year ended 31 December 2005 IFRS | 2004 IFRS |
|---|---|---|
| ***Operating result (EBITA)*** | | |
| Result after taxes | 22.1 | 18.5 |
| Adjustments for: | | |
| Depreciation incl. amortization of software | 6.1 | 6.3 |
| Amortization of other intangible fixed assets | 0.1 | 0.1 |
| Cash flow from ordinary activities | 28.3 | 24.9 |
| Gain from sale fixed asset | — | — |
| Financial income and expense | 2.7 | 3.0 |
| Profit taxes | 11.0 | 9.8 |
| Movement in working capital | (0.6) | (10.0) |
| Other accounts receivable and short term | 0.0 | 2.4 |
| Movement in provisions | (1.1) | (0.4) |
| Movement in the fair value of derivative financial instruments | (0.1) | — |
| Minority interest | — | — |
| Movements in loans to investments in associates | — | — |
| Cash flow generated from operating activities | 40.2 | 29.7 |
| Interest paid | (3.0) | (3.1) |
| Profit taxes paid | (12.0) | (6.6) |
| **Net cash flow from operating activities** | **25.2** | **20.0** |
| ***Investing activities*** | | |
| Investments in property, plant and equipment | (10.0) | (15.8) |
| Disposals of property plant and equipment | 1.2 | 2.1 |
| Acquisition of group companies | (0.1) | (11.7) |
| Disposals of group companies | — | 1.2 |
| Movement in loan to associate | — | 0.2 |
| **Cash flow from investing activities** | **(8.8)** | **(24.0)** |
| ***Financing activities*** | | |
| Withdrawals on loans, including repayment obligations | 6.3 | 25.0 |
| Repayments on loans including repayment obligations | (10.4) | (5.0) |
| Withdrawals on bank overdrafts- current account overdrafts | — | — |
| Repayments on bank overdrafts- current account overdrafts | (11.3 | (20.0) |
| Cash dividend and costs paid | (3.1) | (1.7) |
| **Cash flow from financing activities** | **(18.5)** | **(1.7)** |
| **Cash flow on balance** | (2.1) | (5.7) |
| **Liquid resources and bank overdrafts at January 1** | 12.7 | 18.9 |
| Exchange differences | 0.7 | (0.5) |
| Contributions of liquid resources from acquisition/disposal of participating interests | — | — |
| **Liquid resources and bank overdrafts at December 31** | **11.3** | **12.7** |
| **Presentation in balance sheet** | | |
| Liquid resources | 22.0 | 32.7 |
| Banks – current account overdrafts | (10.7) | (20.0) |
| | **11.3** | **12.7** |

**(€ in millions, except percentages, per share and share amounts)**

| **Cash flow statement** | **Year ended 31 December 2004 Dutch GAAP** | **2003 Dutch GAAP** |
|---|---|---|
| ***Operating result (EBITA)*** | | |
| Result after taxes | 15.7 | 12.0 |
| Adjustments for: | | |
| Depreciation incl. amortization of software | 6.3 | 5.2 |
| Amortization of other intangible fixed assets | 2.8 | 2.5 |
| Cash flow from ordinary activities | 24.8 | 19.7 |
| Gain from sale fixed assets | — | — |
| Financial income and expense | — | — |
| Profit taxes | — | — |
| Movement in working capital | (10.1) | 3.9 |
| Movements in associates | — | — |
| Other accounts receivable and short term | 4.9 | 0.3 |
| Liabilities excl. repayments obligations on loans | — | — |
| Movement in provisions | (0.1) | (0.2) |
| Movement in the fair value of derivative financial instruments | — | — |
| Minority interest | 0.1 | 0.1 |
| Movements in loans to investments in associates | — | — |
| Cash flow generated from operating activities | 19.6 | 23.8 |
| Interest paid | — | — |
| Profit taxes paid | — | — |
| **Net cash flow from operating activities** | **19.6** | **23.8** |
| ***Investing activities*** | | |
| Investments in property, plant and equipment | (20.3) | (14.3) |
| Disposals of property plant and equipment | 2.1 | 0.6 |
| Acquisition of group companies | (12.4) | (8.6) |
| Disposals of group companies | 1.2 | 0.4 |
| Movement in loan to associate | 0.2 | 0.4 |
| **Cash flow from investing activities** | **(29.2)** | **(21.5)** |
| ***Financing activities*** | | |
| Withdrawals on loans, including repayment obligations | 24.5 | 9.2 |
| Repayments on loans including repayment obligations | — | — |
| Withdrawals on bank overdrafts – current account overdrafts | — | — |
| Repayments on bank overdrafts – current account overdrafts | — | — |
| Cash dividend and costs paid | (1.7) | (2.5) |
| **Cash flow from financing activities** | **22.8** | **6.7** |
| **Cash flow on balance** | 13.2 | 9.0 |
| **Liquid resources and bank overdrafts at January 1** | (18.4) | (29.2) |
| Exchange differences | — | — |
| Contributions of liquid resources from acquisition/disposal of participating interests | 0.7 | 1.8 |
| **Liquid resources and bank overdrafts at December 31** | **(4.5)** | **(18.4)** |

# RISK FACTORS

Before investing in the Firm Shares, prospective investors should consider carefully the following risks and uncertainties in addition to the other information presented in this Prospectus. The Company believes that the following risk factors are specific to the industry in which ERIKS operates, to ERIKS or to ERIKS' business, to the Acquisition, to the Ordinary Shares and to the Offering. If any of the following risks actually occurs, ERIKS' business, results of operations or financial condition could be materially adversely affected. In that event, the value of the Ordinary Shares could decline, and an investor might lose part or all of the investor's investment. In addition, prospective investors should realise that in the event two or more risks and/or uncertainties materialise simultaneously or accumulate, ERIKS' business, results of operations or financial condition could be even more adversely affected and the value of the Ordinary Shares could further decline. Although the Company believes that the risks and uncertainties described below are ERIKS' material risks and uncertainties, they are not the only ones ERIKS faces. Additional risks and uncertainties not presently known to the Company or that the Company currently does not deem material may also have a material adverse effect on ERIKS' business, results of operations or financial condition and could negatively affect the price of the Ordinary Shares.

Prospective investors should read the detailed information set out elsewhere in this Prospectus and should reach their own views before making an investment decision with respect to any Firm Shares. Furthermore, before making an investment decision with respect to any Firm Shares, prospective investors should consult their own stockbroker, bank manager, lawyer, auditor or other financial, legal and tax advisers and carefully review the risks associated with an investment in the Firm Shares and consider such an investment decision in light of the prospective investor's personal circumstances.

For a more detailed discussion of the business of ERIKS and the industry in which it operates, see **"INDUSTRY AND BUSINESS OVERVIEW"** and **"OPERATING AND FINANCIAL REVIEW"**.

## Risks relating to ERIKS and the industry in which it operates

***ERIKS is sensitive to economic conditions and the development of industrial output***

The size of the market in which ERIKS operates is related entirely to the development of industrial output (excluding construction). In ERIKS' main market, Western Europe, the trend is for industries to relocate to other parts of the world. Only the development of new industries and a healthy growth of the economy can ensure growth of the whole market. The OEM market for ERIKS' products is particularly sensitive to economic conditions and the development of industrial output. Any deterioration or merely a long-term persistence of a difficult economic environment could negatively affect the demand for ERIKS' products and services.

In addition, ERIKS is exposed to the risk of a significant deterioration of the financial position of its customers.

***A significant portion of ERIKS' business is concentrated in the Netherlands, the United Kingdom, Belgium and Germany***

In general, ERIKS generates more than 80% of its income in the Netherlands, the United Kingdom, Belgium and Germany and is therefore particularly exposed to the economic conditions and the development of industrial output (excluding construction) in these countries (see also ***"ERIKS is sensitive to economic conditions and the development of industrial output"***). Economic conditions and the level of industrial production in the Netherlands, the United Kingdom and Belgium have generally been difficult in the last few years both on an absolute and on a relative basis, but the market is showing signs of recovery. Economic conditions and the level of industrial production in Germany have been good in the last two years both on an absolute and on a relative basis. Any deterioration or merely a long-term persistence of the difficult economic environment in these countries could negatively affect the demand for ERIKS' products and services.

In addition, ERIKS is exposed to the risk of a significant deterioration of the financial position of its customers in these countries.

***ERIKS faces substantial competitive pressures***

There is substantial competition for the types of products and services which ERIKS provides. ERIKS faces competition from various national and international technical distribution companies which are active in the technical and logistics services industry. ERIKS is a provider of technical and logistics services in Western and Central Europe. ERIKS traditionally competes with numerous regional or specialised competitors, many of which are well established in their markets. Because of a trend towards consolidation in the industry, ERIKS increasingly competes with a number of international competitors in the markets in which it operates. As a result of this competition, ERIKS has, from time to time, experienced price pressures on a number of its products and services and in different geographic regions, particularly as competitors seek to win market share. If ERIKS is unable to offer competing, attractive, and innovative products and services that are also profitable, if it does not choose the right strategy or if it does not implement a strategy successfully, ERIKS could lose market share and/or incur losses on some or all of its activities and/or experience slower growth than in recent years. Changes in consumer demand, technological changes, regulatory changes and actions and other factors also affect competition. Competitive pressures could result in increased pricing pressures, particularly as competitors seek to gain market share.

In addition, manufacturers may reconfigure the distribution chain by pursuing direct relationships with ERIKS' customers, which could impact volume.

***ERIKS could fail to effectively identify or execute strategic acquisitions, joint ventures, partnerships, investments or divestments***

ERIKS selectively pursues opportunities to acquire, form joint ventures with or enter into partnerships in respect of or make investments in businesses, products, technologies or innovations which complement ERIKS' business and growth strategy. Divestments may also be beneficial for ERIKS' business, focus and growth strategy. ERIKS may not be able to identify suitable candidates for such acquisitions, joint ventures, partnerships, investments or divestments, or if ERIKS does identify suitable candidates, it may not be able to complete a transaction on acceptable terms, or at all.

***If strategic acquisitions, joint ventures, partnerships, investments or divestments are pursued, ERIKS could fail to successfully implement and exploit them or realise anticipated benefits in a timely manner***

Any acquisitions, joint ventures, partnerships, investments or divestments by ERIKS entails risks, such as:

- difficulties in realising cost, revenue or other anticipated benefits from the acquired entity, the joint venture, partnership, investment or divestment, including the loss of key employees from the acquired entity, the joint venture, partnership, investment or divestment
- costs of executing the acquisition, joint venture, partnership, investment or divestment, both in terms of capital expenditure and increased management attention
- potential for undermining ERIKS' growth strategy, ERIKS' relationship with customers, and/or partners or other elements critical to the success of ERIKS' business
- liabilities or losses resulting from ERIKS' control of the acquired entity, participation in the joint venture or partnership, investment or divestment
- liabilities or losses resulting from claims under guarantees, representations and warranties, and/or indemnities given by ERIKS to its counterparties in relation to an acquisition, joint venture, partnership, investment or divestment
- difficulties in integrating an acquired business in ERIKS' business or realising cost reductions from such integration
- failure to retain or hire certain individuals or qualified personnel who are able to integrate an acquired business in ERIKS' business

***ERIKS generally depends on verbal agreements with manufacturers and with its customers. ERIKS is exposed to the risk of these manufacturers not being able to meet ERIKS' requirements on a cost effective and timely basis and to the risk of these customers not willing to purchase ERIKS' products and services on a regular basis in the future***

The successful sale of ERIKS' products and the successful providing of ERIKS' services are dependent upon the availability of quality and affordability of products that are procured from ERIKS' manufacturers. ERIKS' manufacturers operate in an industry that has undergone significant consolidation in recent years and this consolidation is still ongoing.

ERIKS primarily purchases products from its manufacturers by placing orders and does generally not enter into further written agreements for a fixed term or fixed price. ERIKS' customers also primarily purchase ERIKS' products and services by placing orders and do generally not enter into further written agreements for a fixed term or a fixed price. As the terms and conditions of such verbal agreements are generally not laid down in writing, disagreements among the parties could be more difficult to overcome and a party's rights and/or obligations under such agreements could be more difficult to enforce than if such agreement would have been in writing, which could affect ERIKS.

Termination of the relationship with its manufacturers, variation of their terms or the failure of a party to comply with his obligations under the orders or an existing relationship could adversely affect ERIKS. The interruptions or loss of the supply of products to ERIKS could affect its ability to conduct its business. Alternative sources are not always available or may not be available on terms acceptable to ERIKS. If ERIKS' manufacturers should be unable or unwilling to meet ERIKS' demand for materials on a timely basis or on acceptable commercial terms, ERIKS' ability to deliver its products and services to its customers in a timely and cost-effective manner and its ability to comply with its customers could suffer.

Also, customers may not be willing to purchase ERIKS' products and services in the future. Such a loss of customers, the variation of the terms of existing relationships with customers or the failure of a party to comply with its obligations under the orders or an existing relationship could adversely affect ERIKS. The interruptions or loss of the demand of products or services could affect ERIKS.

***ERIKS is exposed to the risk of a loss of members of ERIKS' management team or qualified employees***

ERIKS' future success depends, among other things, on having a capable management team. Losing the services of one or more members of the management team could adversely affect ERIKS. Furthermore, the implementation and execution of the Company's strategy depend in part on the continued availability of qualified personnel throughout ERIKS, in particular qualified personnel to develop and maintain the necessary know-how. In view of the development of the labour market in the recent past no assurance can be given that the Company will be successful in the future in attracting and retaining, on acceptable terms, such personnel.

***ERIKS is exposed to the risk of labour disputes***

ERIKS' business operations or the business operations of third parties on which it relies may experience strikes, lockouts or other significant work stoppages. Any such action could negatively affect ERIKS' relations with its customers and manufacturers and its revenues.

***ERIKS is exposed to the risk of ineffective systems and processes, and interruption, failure or breach thereof***

ERIKS relies heavily on its operational processes and systems to conduct its business. Even with the back-up recovery systems and contingency plans that are in place, the Company cannot assure that interruptions, failures or breaches in security of these processes and systems will not occur or, if they do occur, that they will be adequately addressed. Any such interruptions, failures or breaches, even for a limited period of time, could result in, for example:

- interruptions in the services offered or information provided to customers, or inability to serve customers' needs in a timely fashion
- interruptions or errors in ERIKS' management information and/or information reported to customers
- considerable costs in terms of, for example, information retrieval and verification

Also, the Company cannot assure that interruptions, failures or breaches of ERIKS' communication and information systems as a result of external fraud will not occur or, if they do occur, that they will be adequately addressed.

Furthermore, ERIKS is exposed to the risk that its communication and information systems currently in place do not provide full and timely access to all necessary and to fully reliable information about the course of affairs in the different clusters and companies and their respective core activities or to sufficient information in order to be able to assess whether the continuity of the day-to-day operational activities is assured.

***ERIKS relies on information technology systems which are not integrated across all its different operating group companies***

ERIKS has implemented information technology systems in the larger group companies in the Netherlands and Belgium (SAP) and Germany (Pro Alfa) and intends to further roll out these systems across other operating group companies. ERIKS is exposed to the risk that this further integration of the information technology systems will not be implemented within the intended time schedule or not at all, which could affect ERIKS' ability to efficiently run its business. Furthermore, as ERIKS relies on these information technology systems any interruptions, failures or breaches in security of these systems could affect ERIKS' ability to efficiently run its business and the continuity of the day-to-day operational activities.

***ERIKS is subject to risks resulting from defects in its products as well as warranty claims and other liabilities***

ERIKS develops mechanical engineering parts and assembles hydraulic and sub systems and provides related technical and logistics services which may contain defects in design or manufacturing or other errors or failures. This is particularly a risk with new or upgraded products or services, where ERIKS' quality control procedures may fail to test for all possible conditions of use, or to identify all defects in the design, engineering or specifications of its products and services. Furthermore, ERIKS is subject to the risk that products and parts purchased by ERIKS from its manufacturers may malfunction and the risk of ensuing claims for consequential loss by its customers. Defects in any of ERIKS' products and services could result in diminished market acceptance for these products and services, a weakening of ERIKS' brand, product recalls in one or more of its markets or claims for money damages. Recalls may be costly and divert management's attention from the operation of its business. Generic or specific defects could require ERIKS to incur substantial expenses relating to replacements and repairs under its warranty programme, which covers certain of ERIKS' products for periods up to one year. Material defects in any of ERIKS' products and services could result in decreasing revenues, increased operating costs and the possibility of significant products liability.

***ERIKS' insurance coverage could prove to be insufficient***

ERIKS seeks to insure all reasonable risks, including the risks arising from fire damage, product liability, business interruption and loss of profits. There can be no assurance, however, that its insurance policies provide adequate and sufficient cover for all events and incidents. In addition, ERIKS' insurance policies do not protect it against reputational harm that may arise as a result of an event or an incident or against claims from its customers for loss of profit as a result of ERIKS' failure to deliver its products and services in a timely manner. Any extension or replacement of existing insurance policies may be for reduced coverage only, at less favourable terms, or against higher premiums.

***ERIKS may not be able to manage risks associated with its international sales and operations and with its potential expansion into new international markets***

ERIKS has activities or a presence in 13 countries, including, the United Kingdom, the Netherlands, Belgium, Germany, France, Ireland, Poland, the USA and South East Asia. As a result, ERIKS needs to manage a number of risks across its operations, such as differing labour regulations, environmental and other regulatory requirements and intellectual property protections. In addition, Central and Eastern European and South East Asian countries are subject to greater risks than more developed markets, including, in some cases, increased political, economic and legal risks. Countries in Central and Eastern Europe and South East Asia that the Company has identified as having potential for significant future growth may in fact grow at rates slower than anticipated, or not at all. The success of ERIKS' business depends, in part, upon its ability to succeed in these differing and sometimes fast changing economic, regulatory, social and political environments and it is exposed to the risk that it is unable to manage the risks associated with its international sales and operations and with its potential expansion into new international markets.

***The planned reorganisations with respect to the cluster ERIKS France may not result in the expected improvements***

In order to successfully implement ERIKS' two business models in the cluster ERIKS France and to improve the financial results of cluster ERIKS France, the Company announced the reorganisation of the three local branch operations (see **"INDUSTRY AND BUSINESS OVERVIEW – ERIKS France"**).

ERIKS is exposed to the risk that these planned reorganisations will not result in the improvements of the financial results within the expected timeframe or that these will not occur at all.

***ERIKS' success depends on its ability to continue to successfully identify, develop and market innovative products and services***

It is ERIKS' strategy to continue to introduce new and innovative products and services. Changes in customer requirements and preferences, regular product and service introductions and the emergence of new or substitute technology or evolving industry standards and practices could render existing products and services obsolete or less attractive. The success of ERIKS' innovation strategy depends on its ability to anticipate customer needs, provide new products, services and applications and differentiate such products, services and applications from those of its competitors. The introduction of new products and services may not meet customers' expectations, the customers' need for innovation or the required cost levels. ERIKS' success going forward will depend upon its ability to successfully identify, develop and market innovative products, services and applications that meet customer needs and are accepted in the market. There can be no assurance that ERIKS will be able to anticipate and respond to the demand for new products, services and applications in a timely and cost-effective manner, to adapt to technological advances or fulfil customer expectations.

***ERIKS may not be able to protect its intellectual property or it may be faced with claims that ERIKS infringes the intellectual property rights of others***

ERIKS does not generally protect its know-how through intellectual property rights as it is vested primarily in the skills and expertise of its personnel. ERIKS has a limited number of patents, trademarks, trade names, confidentiality clauses and agreements, copyrights and other registered and unregistered intellectual property rights to define and protect its rights to the intellectual property in its products and services. The Company cannot assure an investor that any of its registered or unregistered intellectual property rights, or claims to such rights, will now or in the future successfully protect what the Company considers to be material intellectual property in any or all of the jurisdictions in which ERIKS does business, or that its registered or unregistered rights subsequently will not be successfully opposed or otherwise challenged. The Company cannot assure investors that upon expiration of any of ERIKS' patents, its competitors will not commence manufacturing products or using technologies similar to those of ERIKS. To the extent that ERIKS' innovations and products are not protected by patents, copyrights or other intellectual property rights in any of ERIKS' key markets, third parties (including competitors) may be able to commercialise ERIKS' innovations or products or use ERIKS' know-how. In addition, legal protection of intellectual property rights in one country will not provide protection in certain other countries where ERIKS operates.

ERIKS may in the future face claims that it infringes the intellectual property rights of others. If any of ERIKS' products or services are found to infringe the patents or other intellectual property rights of others, its manufacture and sale of such products or services could be significantly restricted or prohibited and ERIKS may be required to pay substantial damages.

***ERIKS is subject to stringent environmental and health and safety laws, and other regulations and standards. There could be an adverse change or increase in these laws, regulations or standards governing ERIKS' business***

ERIKS' business is subject to a broad and increasingly stringent range of environmental, health and safety laws as well as other laws, regulations and standards in the jurisdictions in which it operates. The laws, regulations and standards relate to, among other things, safety codes, technical documentation. the use and handling of chemical and hazardous materials, waste disposal practices and the manufacturing, composition or quality of materials. These laws, regulations and standards result in significant compliance costs and expose ERIKS' operations to substantial legal liability.

It is possible that laws and regulations governing ERIKS' business or particular products and services could be amended or interpreted in a manner that is adverse to ERIKS, for example, to the extent that existing laws and regulations are amended or future laws and regulations are adopted that (i) reduce or restrict the sale of the products and services ERIKS offers, whether existing or new, or (ii) negatively affect the performance of the products and services ERIKS offers, whether existing or new. ERIKS' revenues and costs, profitability and available or required regulatory capital could also be affected by an increase or change in the degree of regulation in any of the markets in which ERIKS operates, whether existing or new. Due to the complexity of the regulatory environment in which ERIKS operates, it will entail more costs to ensure that ERIKS is, and will continue to be, in compliance with all applicable laws and regulations at all times, to the extent that the volume of regulation increases and the scope of the activities changes.

If ERIKS would be in breach of any existing or new laws or regulations now or in the future, ERIKS is exposed to the risk of intervention by the competent authorities, including investigation and surveillance, and judicial or administrative proceedings. In addition, ERIKS' reputation could suffer and ERIKS could be fined or prohibited from engaging in some of its business activities or be sued by customers if it does not comply with applicable laws or regulations.

***ERIKS is exposed to legal risks that may arise in the conduct of ERIKS' business and the outcome of related legal claims may be difficult to predict***

ERIKS faces legal risks in the conduct of its business. These legal risks could potentially involve, but are not limited to, disputes over the terms of transactions to which ERIKS is a party, disputes concerning the adequacy or enforceability of arrangements and agreements relating to ERIKS' products or services or transactions entered into by ERIKS, disputes regarding the terms and conditions of services and products, disputes regarding the compliance of ERIKS' products and services with environmental and safety regulations, disputes regarding irregularities with regard to the sale of products and services, disputes regarding the non-compliance of products and parts provided to ERIKS by its manufacturers and disputes regarding incorrect advice regarding its services and products provided by ERIKS. There are several manufacturing sites in the United Kingdom, which by their nature pose some environmental pollution liability risks. ERIKS faces risks relating to compliance with applicable laws and regulations with respect to the products and services it provides, which could lead to significant losses or reputational damage. These risks are often difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. It is inherently difficult to predict the outcome of many of the either pending or future claims, regulatory proceedings and other adversarial proceedings involving ERIKS, particularly those cases in which the matters are brought by claimants seeking damages of unspecified or indeterminate amounts or involving novel legal claims.

***ERIKS is exposed to failures in its risk management systems***

ERIKS invests time and effort in its strategies and procedures for managing various risks to which it is exposed. These strategies and procedures could nonetheless fail or not be fully effective under some circumstances, particularly if ERIKS is confronted with risks that it has not fully or adequately identified or anticipated. As ERIKS gains more experience it may need to make additional provisions. If circumstances arise that ERIKS did not identify, anticipate or correctly evaluate in developing its risk management and control system, ERIKS' losses could be greater than the maximum losses estimated by it.

***ERIKS is exposed to the risk of fire, accidents, incidents, catastrophic events, terrorist attacks and similar events***

Catastrophic events, terrorist attacks and similar events, as well as the responses thereto could create economic and political uncertainties, which could have a negative impact on the economic conditions under which ERIKS operates. In addition, ERIKS' business operations, manufacturing facilities, information systems and processes are vulnerable to damage or interruption from fire, accidents, incidents, catastrophic events, terrorist attacks and similar events. Insurance and other safeguards might only partially reimburse ERIKS for its losses. Significant interruptions from any of these causes could materially adversely affect ERIKS' business, results of operations or financial condition.

***The performance of ERIKS depends on its ability to accurately price its products and services***

The results of operations and financial condition of ERIKS depend, among other things, on its ability to set prices accurately.

ERIKS' ability to price its products and services accurately is subject to a number of uncertainties. As a result, rates and prices of products and services may be determined on the basis of inadequate or inaccurate data or inappropriate analyses, assumptions or methodologies. If ERIKS fails to establish adequate prices for its products and services, its revenues could decline while its expenses increase resulting in proportionately greater losses.

***ERIKS is exposed to liquidity risk, it may fail to obtain additional financing, if required, and to comply with financial covenants***

ERIKS' business operations require sufficient capital and ERIKS faces liquidity risks. In order to continue to be competitive, ERIKS may require making capital investment from time to time. Liquidity risks are determined by cash flows and access to financial resources. ERIKS generates cash flow through its sales and results and has access to credit facilities from external parties. ERIKS' ability to raise necessary funds in the future will depend on financial, economic and other factors, many of which are beyond its control, including, but not limited to concerns about ERIKS' credit strength, concerns about the market segments in which it is active, or by a general market disruption. If ERIKS is unable to finance its capital expenditures, acquisitions or other business activities in the contemplated manner, its business and results of operations could be adversely affected and it could not be able to pursue its plans.

ERIKS' debt covenants could limit its flexibility in planning for, and reacting to, competitive pressures and changes in its business, industry and general economic conditions and limit its ability to make strategic acquisitions and capitalise on business opportunities. Subject to the restrictions in ERIKS' debt agreements, ERIKS may borrow money from time to time for working capital, capital expenditures, acquisitions or other purposes. ERIKS will continue to need to use a portion of its cash flow to pay principal and interest on its debt, which will reduce the cash it can use for other purposes. If ERIKS' business does not perform satisfactorily, it may not be able to either pay principal and interest on its debt or refinance all or some of its debt on commercially acceptable terms.

***ERIKS is exposed to the level of interest rates***

The level of interest rates and changes in prevailing interest rates could adversely affect ERIKS' results. The level of interest rates determines the cost of capital borrowed by ERIKS. ERIKS holds debt instruments and interest rate derivatives for hedging purposes, which could be affected by the level of interest rates and changes in prevailing interest rates. There can be no assurance that ERIKS will be able to successfully manage interest rate risks or the potential negative impact of risks associated with sustained unfavourable interest rates.

***ERIKS is subject to currency-related risks***

ERIKS operates in markets with other currencies and purchases its materials and sells its products and services in various countries all over the world. To the extent these are not hedged and these cannot be translated into ERIKS' selling prices, ERIKS is exposed to certain currency fluctuations between the euro and such other currencies, including pound sterling, US dollar, Singapore dollar, Polish zlotys and Malaysian ringgits.

The euro is ERIKS' functional and reporting currency. Transactions in foreign currency are initially stated at the rate of exchange on the trade date. On the balance sheet date, all non-euro monetary assets and liabilities are converted at the exchange rate prevailing at that date. Exchange differences arising from the conversion and settlement of monetary assets and liabilities are taken to the income statement. For the purposes of the Company's consolidated income statement, non-euro denominated assets and liabilities are converted at average rates for the period under review. For the purposes of the Company's consolidated balance sheet, ERIKS converts non-euro denominated assets and liabilities into euro at the exchange rate prevailing at the balance sheet date. ERIKS does not hedge any translation exposure.

***Hedging transactions may limit gains or result in losses***

The Company uses derivatives for the purpose of risk management. This strategy has certain risks, including the risk that losses on a hedge position could reduce the cash available for ERIKS' operations and that such losses may exceed the amount invested in such instruments. The Company intends to use derivative instruments, including forward exchange contracts, interest and currency swaps, in its risk management strategy to limit the effects of changes in liquidity, interest rates, foreign exchange rate movements on its operations. A hedge may not be effective in eliminating all of the risks inherent in any particular position. The Company is also exposed to the credit risk of the relevant counterparty with respect to relevant payments under derivative instruments.

***ERIKS faces risks associated with the future impairment of goodwill***

The pro forma balance sheet of ERIKS included elsewhere in the Prospectus reports an amount of € 137.0 million for goodwill, comprising the historic ERIKS goodwill of € 34.8 million and the pro forma acquisition goodwill paid by ERIKS of € 102.2 million in connection with the Acquisition. The goodwill reported by ERIKS will be tested for impairment at least once annually or more frequently if changes in circumstances occur that require the performance of an interim impairment test. The goodwill may have to be impaired depending on the future cash flows of the relevant business. Any such impairment could affect ERIKS' net profit.

***ERIKS is exposed to the risk of changes in tax laws, or the interpretation thereof***

ERIKS could suffer from changes in tax laws or the interpretation thereof, changes in rates of taxation, or the withdrawal of existing tax rulings by relevant regulators and authorities. For example, ERIKS could suffer from deterioration of the conditions or the withdrawal of its existing tax rulings.

**Risks relating to the Acquisition**

***ERIKS could fail to successfully implement and exploit the Acquisition or realise anticipated benefits in a timely manner***

The Company recently concluded the Acquisition, which resulted in a group with almost twice the turnover (based on results in the financial years 2005 (ERIKS, excluding WYKO) and 2005/2006 (WYKO)) as before the Acquisition. The success of the Acquisition may in part be dependent upon the Company's ability to integrate WYKO without disruption to ERIKS' existing business and to realise cost reductions from such integration.

Furthermore, the success of the Acquisition will to a certain extent depend on the successful integration and motivation of WYKO personnel. It is possible that the failure to retain or hire certain individuals or qualified personnel will affect the ability of management to integrate WYKO successfully into ERIKS.

See also ***"ERIKS could fail to effectively identify or execute strategic acquisitions, joint ventures, partnerships, investments or divestments"*** and ***"If strategic acquisitions, joint ventures, partnerships, investments or divestments are pursued, ERIKS could fail to successfully implement and exploit them or realise anticipated benefits in a timely manner"*** above.

***ERIKS is exposed to the risk of losing manufacturers or customers as a result of the Acquisition***

Manufacturers and customers of ERIKS could decide to terminate their relationship with ERIKS as a result of the Acquisition.

Termination of the relationship with its manufacturers could adversely affect ERIKS. The loss of the supply of products to ERIKS may affect its ability to conduct its business. Alternative sources are not always available or may not be available on terms acceptable to ERIKS. As a result thereof, ERIKS' ability to deliver its products and services to its customers in a timely and cost-effective manner and its ability to comply with its customers could suffer. A loss of customers and a loss of the demand of products or services could adversely affect ERIKS.

See also ***"ERIKS generally depends on verbal agreements with manufacturers and with its customers. ERIKS is exposed to the risk of these manufacturers not being able to meet ERIKS' requirements on a cost effective and timely basis and to the risk of these customers not willing to purchase ERIKS' products and services on a regular basis in the future"*** above.

**Risks relating to the Ordinary Shares and the Offering**

***The price of Ordinary Shares is subject to volatility and an investor may be unable to sell Ordinary Shares at or above the price paid for them***

Since 1977, depositary receipts for the Ordinary Shares and since May 2005 the Ordinary Shares have been listed on Eurolist by Euronext. The Company has applied for admission of Firm Shares to listing and trading on Eurolist by Euronext. The Company cannot predict the extent to which an active market for Ordinary Shares will develop or be sustained after the Offering, or how the development of such a market might affect the market price for Ordinary Shares. An illiquid market for Ordinary Shares may result in lower trading prices and increased volatility, which could adversely affect the value of an investment in Ordinary Shares. Furthermore, the issue of the Firm Shares, and any Over-Allotment Shares that may be issued if the Over-Allotment Option is exercised, will dilute an existing investor's shareholding interest in the Company.

The Offer Price will be determined by the Company following recommendations from the Global Coordinator based on a number of factors, including, but not limited to, market conditions in effect at the time of the Offering, that may not be indicative of future performance. The market price of Ordinary Shares may fall below the Offer Price. The market price of Ordinary Shares could also fluctuate substantially due to various factors.

In the past, following periods of volatility in the market price of a company's securities, securities litigation has often been instituted against such companies. This type of litigation, if instituted against the Company, could result in substantial costs and a diversion of the Company's management's attention and resources.

***The volume of trading in Ordinary Shares has historically been low. This has an adverse effect on the liquidity, marketability and value of the Ordinary Shares***

A limited number of shareholders collectively own a substantial percentage of the Ordinary Shares (see **"RELATED PARTY TRANSACTIONS – Major shareholders"**). As a result, the average daily trading volume of shares is low and has resulted and may continue to result in an adverse effect on the liquidity, marketability and value of the Ordinary Shares.

***If closing of the Offering does not take place on the Settlement Date or at all, subscriptions for Firm Shares will be disregarded***

Application has been made to list the Firm Shares on Eurolist by Euronext under the existing symbol "ERIKG". The Company expects that Firm Shares will be admitted to listing and that trading in such shares will commence on the Settlement Date. Subject to acceleration or extension of the timetable for the Offering, the Settlement Date, on which the closing of the Offering is scheduled to take place, is expected to occur on or about 26 January 2007. The closing of the Offering may not take place on the Settlement Date or at all, if certain conditions or events referred to in the Underwriting Agreement are not satisfied or waived or occur on or prior to such date (see **"SUBSCRIPTION AND SALE"**). Such conditions include the receipt of officers' certificates and legal opinions and such events include the suspension of trading on Euronext Amsterdam or a material adverse change in the Company's financial condition or business affairs or in the financial markets. If closing of the Offering does not take place on the Settlement Date or at all, the Offering will be withdrawn, all subscriptions for Firm Shares will be disregarded, any allotments made will be deemed not to have been made and any subscription payments made will be returned without interest or other compensation. All dealings in Firm Shares, and in the Over-Allotment Shares which may be part of the Over-Allotment Option if this has been exercised prior to the Settlement Date, prior to settlement and delivery are at the sole risk of the parties concerned.

***Future sales, or the possibility of future sales, of a substantial number of Ordinary Shares could depress the price of Ordinary Shares***

Future sales of Ordinary Shares, or the perception that such sales will occur, could cause a decline in the market price of Ordinary Shares.

The Company cannot predict whether substantial numbers of Ordinary Shares will be sold in the open market following the Listing Date. A sale of a substantial number of Ordinary Shares, or the perception that such sales could occur, could materially and adversely affect the market price of Ordinary Shares and could also impede the Company's ability to raise capital through the issue of equity securities in the future.

***The Company may require additional capital in the future, which may not be available to it. Future financing to provide this capital may dilute an investor's shareholding in the Company***

The Company may raise capital in the future through public or private equity financings by ERIKS by issuing additional Ordinary Shares or other shares, debt or equity securities convertible into Ordinary Shares, or rights to acquire these securities, and exclude the pre-emption rights pertaining to the then outstanding Ordinary Shares. Any additional capital raised through the issue of additional Ordinary Shares may dilute an investor's shareholding interest in the Company. Furthermore, any additional financing ERIKS may need, may not be available on terms favourable to ERIKS or at all, which could adversely affect ERIKS 's future plans.

***If securities or industry analysts do not publish research or reports about ERIKS' business, or if they change their recommendations regarding Ordinary Shares adversely, the market price and trading volume of Ordinary Shares could decline***

The trading market for Ordinary Shares will be influenced by the research and reports that securities or industry analysts publish about the Company or ERIKS. If one or more of the analysts who cover the Company or ERIKS, or the industry in which it operates, downgrade Ordinary Shares, the market price of Ordinary Shares would likely decline. If one or more of these analysts ceases coverage of the Company or ERIKS or fails to regularly publish reports on the Company or ERIKS, the Company or ERIKS could lose visibility in the financial markets, which could cause the market price of Ordinary Shares or trading volume to decline.

***The Company may not be able to pay dividends in the future***

The Company's results could fluctuate and the Company's ability to pay dividends may be dependent on the Company achieving sufficient profits. The Company may not pay dividends if it believes that this would cause the Company to be less than adequately capitalised. The payment of dividends is further subject to regulatory, legal and financial restrictions. If dividends are not paid in the future, capital appreciation, if any, of the Ordinary Shares would be the investor's sole source of gains. (See **"DIVIDENDS AND DIVIDEND POLICY"**.)

***Holders of Ordinary Shares outside the Netherlands may not be able to exercise pre-emption rights***

In the event of an increase in the Company's share capital, holders of Ordinary Shares are generally entitled to full pre-emption rights unless these rights are excluded either by a resolution of the General Meeting, or by a resolution of the executive board (*Raad van Bestuur*) of the Company (the **"Executive Board"**) (if the Executive Board has been designated by the General Meeting for this purpose). See **"DESCRIPTION OF SHARE CAPITAL AND CORPORATE STRUCTURE – Issue of shares; pre-emption rights"**. In particular, certain holders of Ordinary Shares outside the Netherlands may not be able to exercise pre-emption rights unless local securities laws have been complied with.

***Dutch law and the Articles of Association contain anti-takeover provisions that may prevent or discourage takeover attempts that may be favourable to certain shareholders***

Like other companies in the Netherlands, the articles of association of the Company (the **"Articles of Association"**) contain anti-takeover provisions that may have the effect of preventing, discouraging or delaying a change of control. The Stichting Eriks Group (the **"Foundation"**) has been granted the right to acquire Preference Shares (as defined below) up to a maximum of 100% of the total par value of Ordinary Shares and Financing Preference Shares (as defined below) issued and outstanding at the time of the exercise of this option, minus € 0.50.

The issue of Preference Shares in this manner would cause substantial dilution to the voting power of any shareholder, including a shareholder attempting to gain control of the Company, and could therefore have the effect of preventing, discouraging or delaying a change of control that might have otherwise resulted in an opportunity for shareholders to sell Ordinary Shares at a premium to the then-prevailing market price. See **"DESCRIPTION OF SHARE CAPITAL AND CORPORATE STRUCTURE – Stichting Eriks Group"** and **"RELATED PARTY TRANSACTIONS – Option Agreement"**. This anti-takeover measure may have an adverse effect on the market price of Ordinary Shares.

## CERTAIN NOTICES TO INVESTORS

In this Prospectus, the "Company" refers to ERIKS Group N.V. and "ERIKS" refers to ERIKS Group N.V. and its consolidated subsidiaries, including WYKO Holdings Limited and its consolidated subsidiaries (unless the context requires otherwise).

### Responsibility

The Company accepts responsibility for the information contained in this Prospectus. The Company declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is to the best of its knowledge, in accordance with the facts and contains no omission likely to affect the import of such information.

Potential investors should not assume that the information in this Prospectus is accurate as of any other date than the Publication Date. No person is or has been authorised to give any information or to make any representation in connection with the offering or sale of the Firm Shares and/or the Over-Allotment Shares, other than as contained in this Prospectus, and, if given or made, any other information or representation must not be relied upon as having been authorised by the Company or the Underwriters or any of their affiliates. The delivery of this Prospectus at any time after the Publication Date will not, under any circumstances, create any implication that there has been no change in the Company's affairs since the Publication Date or that the information set forth in this Prospectus is correct as of any time since the Publication Date.

No representation or warranty, express or implied, is made or given by the Underwriters or any of their affiliates as to the accuracy, completeness or fairness of any information contained in this Prospectus and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by any of the Underwriters or their affiliates as to the past or the future. Rabo Securities in its capacity as Global Coordinator, Bookrunner, Stabilisation Agent and Listing Agent for the Offering, does not accept any responsibility whatsoever for the contents of this Prospectus nor for any other statements made or purported to be made by it or on its behalf in connection with the Company, the Offering or the Offer Shares. Rabo Securities accordingly disclaims all and any liability whether arising in tort or contract or otherwise in respect of this Prospectus or any such statement.

### Presentation of financial and other information

The Company's audited financial statements for the years ended 31 December 2004 and 2003 have been prepared in accordance with accounting principles generally accepted in the Netherlands as applied by the Company (**"Dutch GAAP"**). The Company's audited financial statements for the year ended 31 December 2005, including comparative figures for 2004 and unaudited interim financial statements for the nine months period ended 30 September 2006, including comparative figures for 2005, have been prepared under IFRS.

The historical financial information in this Prospectus regarding WYKO has been derived from WYKO's annual accounts for its financial year 2005/2006, ending 30 April 2006, prepared by WYKO in accordance with accounting principles generally accepted in the United Kingdom as applied by WYKO (**"UK GAAP"**) and audited by its external auditors, PricewaterhouseCoopers LLP. The Company confirms that the historical financial information regarding WYKO in this Prospectus has been accurately reproduced and extracted from such accounts and such information.

The Company's consolidated financial information is extracted from the consolidated financial statements of the Company, and comparative figures, and notes thereto, that have been audited by PricewaterhouseCoopers Accountants N.V. (**"PwC"**), independent auditors. The consolidated financial information on the nine months ended 30 September 2006 and 2005 are derived from the interim financial statement 2006 of the Company. These figures are unaudited. See **"INDEX TO FINANCIAL INFORMATION"**. The discussion and analysis of the Company's financial condition and results of operations presented under **"OPERATING AND FINANCIAL REVIEW"** is primarily based upon the Company's audited consolidated IFRS financial statements and the Company's audited Dutch GAAP financial statements, respectively.

IFRS differs in certain significant respects from Dutch GAAP. As a result, the financial statements for the 2003 financial year are not stated on a basis that is comparable to the financial statements for the Company's 2005 financial year. IFRS and Dutch GAAP also differ in certain significant respects from UK GAAP. In making an investment decision, investors should rely upon their own examination of the

Company and its subsidiaries, the terms of the Offering and the financial information provided herein. Investors should consult their own professional advisors for an understanding of the differences between IFRS, Dutch GAAP and UK GAAP.

Certain figures contained in this Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances the sum of the numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given for that column or row.

All references in this Prospectus to "euro", "EUR" or "€" are to the currency introduced at the start of the third stage of the Economic and Monetary Union, pursuant to the Treaty establishing the European Economic Community, as amended by the Treaty on the EU. All references to "pounds sterling" or "£" are to the lawful currency of the United Kingdom. All references to "US dollar" or "US$" are to the lawful currency of the United States.

**Forward-looking statements**

This Prospectus contains forward-looking statements, including statements about the Company's beliefs, expectations, and targets. These statements, including, without limitation, the Company's financial objectives as set out in **"INDUSTRY AND BUSINESS OVERVIEW – Financial objectives"**, are based on the Company's current plans, estimates and projections, as well as the Company's expectations of external conditions and events. In particular the words "expect", "anticipate", "estimate", "may", "should", "believe", "intend", "plan", "aim", "could", "will", "potential", including the negative of these terms, and similar expressions, are intended to identify forward-looking statements. Forward-looking statements involve inherent risks, assumptions and uncertainties and speak only as of the date they are made. The Company undertakes no duty to and will not necessarily update any of them in light of new information or future events, except to the extent required by applicable law. The Company cautions investors that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements. These factors include, but are not limited to those discussed under **"RISK FACTORS"**.

**Market and industry data**

Market data and other statistical data used throughout this Prospectus are based on independent industry publications, government publications, reports by market research firms or other published independent sources, such as Eurostat, the statistical office of the European Communities. However, as there is not much industry and market data available about the specific industry and market in which ERIKS operates from independent industry publications, government publications, reports by market research firms or other published independent sources, data in this Prospectus is also based on good faith estimates of the Company, which are derived from the Company's review of internal surveys, as well as independent sources referred to above. Although the Company believes that these independent sources are reliable, it has not verified the information derived from independent sources independently and cannot guarantee its accuracy and completeness.

The information included in this Prospectus has been accurately reproduced and, as far as the Company is aware and able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

In this Prospectus, certain statements are made regarding ERIKS' competitive position and market leadership. The Company believes these statements to be true based on market data and industry statistics regarding the competitive position of certain of ERIKS' competitors.

**No incorporation of the Company's website**

The contents of the Company's website, including any websites accessible from hyperlinks on the Company's website, do not form part of this Prospectus.

**Stabilisation**

In connection with the Offering, the Global Coordinator in its capacity as stabilisation agent (the **"Stabilisation Agent"**) on behalf of the Underwriters, may over-allot up to 15% of the aggregate principal amount of the Firm Shares and may effect transactions that stabilise or maintain the market price of the Shares at levels above those which might otherwise prevail in the open market. Such transactions, if commenced, may be effected on Euronext Amsterdam, in the over-the-counter market or otherwise. There is no assurance that such stabilisation will be undertaken and, if it is, it may commence as early as the Pricing Date, may be discontinued at any time without prior notice and will end no later than 30 calendar days after the Pricing Date.

**Restrictions on offering and sale**

The distribution of this Prospectus and the Offering are restricted by law in certain jurisdictions. Therefore, persons into whose possession this Prospectus comes and persons who would like to purchase Firm Shares pursuant to the Offering should inform themselves about and observe such restrictions. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction.

As a condition to a purchase of any Firm Shares in the Offering, each purchaser will be deemed to have made, or in some cases, be required to make, certain representations and warranties, which will be relied upon by the Company, the Underwriters and others. See **"SELLING AND TRANSFER RESTRICTIONS"**. The Company and the Global Coordinator reserve the right, in their sole and absolute discretion, to reject any purchase of Firm Shares that they or the Underwriters believe may give rise to a breach or violation of any law, rule or regulation, see **"SELLING AND TRANSFER RESTRICTIONS"**.

The contents of this Prospectus are not to be considered or interpreted as legal, financial, business or tax advice. Each prospective investor should consult his or her own legal, financial, business and tax advisors before deciding to make any investment decision concerning the Firm Shares and in order to determine whether or not such prospective investor is lawfully permitted to purchase Firm Shares.

For a more detailed description of restrictions relating to the Offering, see **"SELLING AND TRANSFER RESTRICTIONS"**.

# USE OF PROCEEDS

**Rationale for the Offering**

The Offering is intended to refinance the Company's capital structure and to partially refinance the Acquisition.

**The Company**

The aggregate gross proceeds from the Offering of the Firm Shares are expected to amount to approximately € 110 million. The Company estimates receiving approximately € 105 million after deduction of the estimated expenses and commissions and applicable taxes (if any) payable by it in connection with the Offering.

The Company will use the aggregate net proceeds from the Offering, as part of the refinancing of the Company, to repay part of the amount outstanding under the Bridge Loan (as defined below). The Company envisages to repay the remainder of the Bridge Loan with funds drawn under the New Loan (as defined below), see **"THE ACQUISITION – Financing of Acquisition"**. The remainder of the New Loan will be used to repay the remaining existing facilities of the Company (see **"THE ACQUISITION – Financing of Acquisition – Mandate Letter"**).

If the Over-Allotment Option is exercised, the net proceeds from the issue of the Over-Allotment Shares will be received by the Company and will be used for the same purpose as the proceeds from the issue of the Firm Shares.

## DIVIDENDS AND DIVIDEND POLICY

### General

Distribution of profits only takes place following the adoption of the annual accounts from which it appears that such distribution is allowed. See **"DESCRIPTION OF SHARE CAPITAL AND CORPORATE STRUCTURE – Profits/dividends"** for a more detailed description.

The Executive Board may, subject to the approval of the supervisory board (*Raad van Commissarissen*) of the Company (the **"Supervisory Board"**) and subject to Dutch law and the Articles of Association, resolve to distribute an interim dividend.

On the proposal of the Executive Board, and subject to the approval of the Supervisory Board, the General Meeting may resolve that dividends are to be fully or partly paid in the form of Ordinary Shares instead of in cash or that the shareholder may choose between the two.

### Dividend history

The Company traditionally pays dividends in respect of the Ordinary Shares.

The dividends for the financial year 2005 amounted to € 1.40 per Ordinary Share. The payout percentage amounted to 50.4% (IFRS) of the net profit reported. The dividends for the financial year 2004 amounted to € 1.00 per Ordinary Share (adjusted for the current nominal amount of €0.50 each; at that time Ordinary Shares had a nominal amount of €1.00 each). The payout percentage amounted to 49.4% (IFRS). The dividends for the financial year 2003 amounted to € 0.80 per Ordinary Share (adjusted for the current nominal amount of €0.50 each; at that time Ordinary Shares had a nominal amount of €1.00 each). The payout percentage amounted to 50.1% (Dutch GAAP).

### Dividend policy

Taking into account the Company's growth targets and the financial resources necessary to achieve these, the Company aims to continue to pursue a stable dividend policy. In general, the Company aims to reserve approximately 50% of the results available to holders of Ordinary Shares and to pay the remaining 50% as dividends. The shareholders will have the choice to receive dividends in the form of Ordinary Shares and/or cash.

The Company does not give any assurances that it will declare any dividend in the future and gives no assurance as to the amount of any such dividend.

The Company's dividend policy is discussed at each annual General Meeting.

### Dividend ranking of Ordinary Shares

Upon issue, any Preference Shares or Financing Preference Shares will rank first and second, respectively, before Ordinary Shares with respect to any dividend which the Company may declare. See **"DESCRIPTION OF SHARE CAPITAL AND CORPORATE STRUCTURE – Profits/dividends"** for a more detailed description. As at the Publication Date, no Preference Shares or Financing Preference Shares are outstanding.

All Ordinary Shares, including, upon issue, the Firm Shares and, if the Over-Allotment Option will be exercised, any Over-Allotment Shares, rank equally in all respects and will be eligible for any dividend which the Company may declare on its Ordinary Shares.

### Manner and time of dividend payments

Payment of any dividend on Ordinary Shares in cash will be made in euro. Any dividends will be paid to shareholders through Euroclear Nederland, the centralised securities custody and administration system. Dividends would be credited automatically to shareholders' accounts without the need for shareholders to present documentation proving their ownership of the Ordinary Shares.

Dividends will be due and payable one month after they have been declared, unless the General Meeting determines otherwise upon proposal of the Executive Board.

### Uncollected dividends

A claim for any dividend declared lapses five years after the start of the second day on which it becomes due. Any dividend that is not collected within this period, reverts to the Company.

**Taxation on dividends**

In principle, dividend payments are subject to withholding tax in the Netherlands. See **"DUTCH TAXATION"** for a discussion of certain aspects of Dutch taxation of dividends and refund procedures.

# THE ACQUISITION

## Introduction

On 16 October 2006, the Company, Royal Bank Investments Limited and Others (as defined in the Sale and Purchase Agreement (as defined below)) (the **"Investor Sellers"**) and several individuals as listed therein, including Mr. Cook, Mr. Dixon and Mr. Wilson, (the **"Management Sellers"** and together with the Investor Sellers, the **"Sellers"**) entered into a sale and purchase agreement in relation to the sale and purchase of all issued and outstanding shares in the share capital of WYKO (the **"Sale and Purchase Agreement"**). The transfer of these shares was effected on 17 November 2006.

Through the acquisition of WYKO, ERIKS has taken a significant step towards meeting its commercial objectives (see **"INDUSTRY AND BUSINESS OVERVIEW – Strategy"**):

- WYKO is the largest supplier of engineering parts (particularly power transmissions, sealing technology, fluid power and maintenance products) in the United Kingdom with a market share of 10-15% (source: WYKO)
- WYKO will provide ERIKS with a major position in a new domestic market
- WYKO has a well-developed range of technical and logistics services
- WYKO will strengthen the position of ERIKS in its existing markets
- WYKO will provide ERIKS with a new market for product lines and services in the United Kingdom

The Company expects that the Acquisition will result in:

- better service provision to its pan-European customers
- expansion of WYKO's product range with ERIKS' product groups
- developing the OEM market in the United Kingdom (see **"INDUSTRY AND BUSINESS OVERVIEW – OEM"**)
- expansion of ERIKS' product range with WYKO products and services (in particular pneumatic and electromechanical power transmissions and outsourcing solutions)
- expansion of national and European logistics services

### History

WYKO was founded over 40 years ago in the United Kingdom. Between 1980 and 2000, WYKO experienced strong growth by acquiring many local distributors. In 1999, an investment fund of the Royal Bank of Scotland delisted WYKO. In the following years, further acquisitions were realised, some non-core activities were divested and WYKO's product range was expanded.

### WYKO

WYKO consists of a number of know-how driven and specialised business units which each serve their individual markets. The core of WYKO is WYKO Industrial Services (**"WIS"**), an engineering and distribution organisation with approximately 110 branch operations and 103 'insites' within customers. The valuation underlying the Acquisition is based on assumed annual sales (financial year 2006-2007) of WIS of approximately £ 218 million.

In addition, four specialised companies are part of WYKO. These companies develop, manufacture and sell a number of specific technical parts under their own brand names. The assumed annual external sales (financial year 2006-2007) of these four companies total approximately £ 22 million.

In the last 3 years WYKO realised an average growth in sales of 6% per year, which was achieved despite disappointing macro-economical figures in the United Kingdom. The main growth was achieved in the activities of outsourcing solutions.

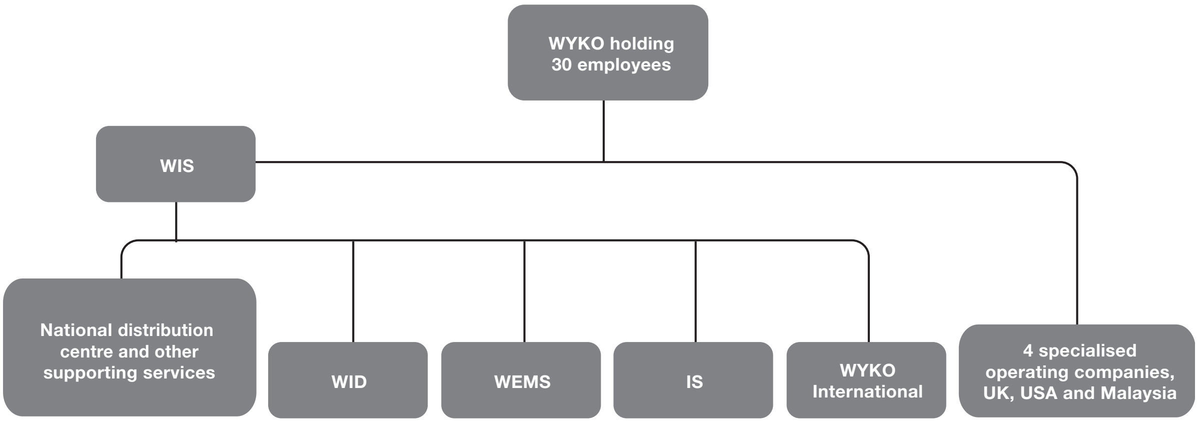
WYKO has a range of products and services for MRO customers. Furthermore, it is active in the field of repair, service and condition-monitoring of electromechanical components and systems in power transmissions and outsourcing solutions and insites. WYKO's product range consists of:

- power transmissions (hydraulics, pneumatics, electromechanical and bearings)
- sealings
- special technology

As at 30 April 2006, WYKO employed 2,034 employees.

**Organisation**

The total organisation of WYKO can be presented as follows:




WYKO Industrial Services (WIS) is subdivided into:

– WYKO Industrial Distribution (**"WID"**)
– WYKO Electrical and Mechanical Engineering Services (**"WEMS"**)
– WYKO Integrated Solutions (**"IS"**)

***WYKO Industrial Distribution (WID)***

This unit, with approximately 80 branch operations, 18 customer insites and 660 employees, offers WYKO's total products and services range to the MRO market. It is assumed that WID realises external sales (financial year 2006-2007) of approximately £ 100 million. Depending on the customer type, the market is approached by national account managers, regional representatives, specialised sales engineers and a national call centre. The national distribution centre located in Birmingham and the other support services have 170 employees.

***WYKO Electro Mechanical Engineering Services (WEMS)***

This unit has approximately 30 branch operations, some of which are shared with WID, and 548 employees. It is assumed that WEMS realises sales (financial year 2006-2007) of approximately £ 35 million. The repair activities include especially the repairing of electric motors, pumps, gear boxes, electronic control systems, and advising customers on increasing and optimising the capacity of existing manufacturing plants (condition monitoring services).

***WYKO Integrated Solutions (IS)***

This is a fast growing activity with 85 customer insites. It is assumed that external sales (financial year 2006-2007) of approximately £ 70 million is realised with 300 employees. Services are provided in-house to customers with a generally small team of 3 to 5 employees. In addition to the WYKO core products and services many other consumables are purchased and supplied.

***Mutual relationship between WID, WEMS and IS***

The mutual relationship between the traditional role of a stockist distributor, the option of offering logistics concepts and the repair and monitoring activities of the WEMS shops strengthen the three separate activities.

***WYKO International***

From its own branch operations in the Netherlands, Belgium, Germany, Slovakia and Ireland, WYKO International offers products and services to international customers with 76 employees. A branch operation in the Czech Republic is being set up.

**Specialised companies**

– Rencol (assumed sales £ 8.0 million (financial year 2006-2007)). This company with operations in the United Kingdom and Malaysia develops and manufactures a range of tolerance rings for applications in the automotive and computer industry

- Revolvo (assumed sales £ 2.5 million (financial year 2006-2007)). This company develops and manufactures a range of specialised bearings and supplies them to industrial end users and distributors
- WYKO Tire Technology (assumed sales £ 9.0 million (financial year 2006-2007)). With branch operations in the United Kingdom and the USA, tooling is developed and manufactured for car tyre manufacturers
- Pioneer Weston (assumed sales £ 2.5 million (financial year 2006-2007)). This company develops and manufactures a range of mechanical seals and rotary axle seals

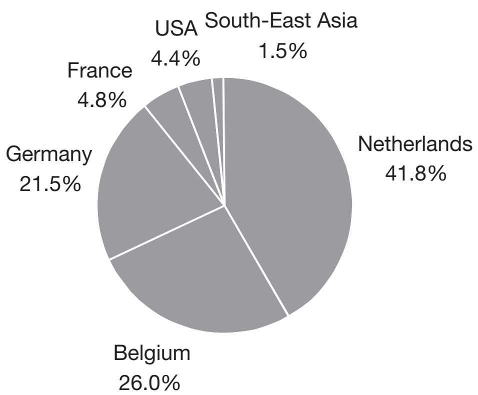
**Integration**

In order to advance the integration of WYKO's business operations into ERIKS an integration team has been formed consisting of Mr. Van der Zouw, Mr. Wilson and members of senior management. This team will identify issues, develop step plans to take up these issues and form a working group to execute these step plans.

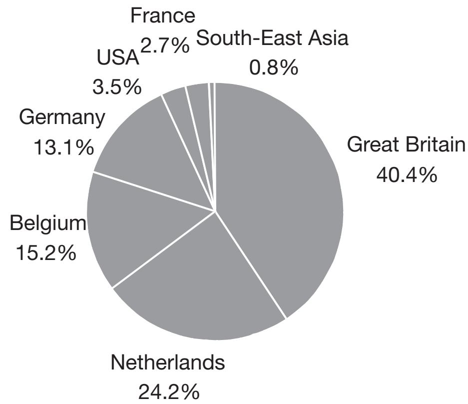
When integrating WYKO into the ERIKS operations, the Company intends to expand WYKO's product and service range with ERIKS' product groups (sealing, industrial hoses and valves) and to develop the integrated business model in respect of distribution, repair and outsourcing. The Company intends to implement ERIKS' two business models into the WYKO operations in the coming years. The Company intends to develop the OEM market in the United Kingdom. ERIKS' product range in the Netherlands, Belgium and Germany will be expanded in particular with WYKO pneumatic and electromechanical power transmission products and services and outsourcing solutions. Growth of WYKO's outsourcing activities will require investment in working capital.

Further to the Acquisition, the proportion of sales relating to MRO customers will increase to almost 65%. As follows from the charts below, the distribution of sales by country changes considerably as a result of the Acquisition.

**ERIKS (excluding WYKO)**

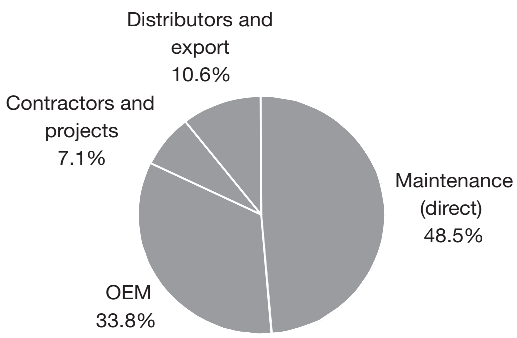



**ERIKS (including WYKO)**

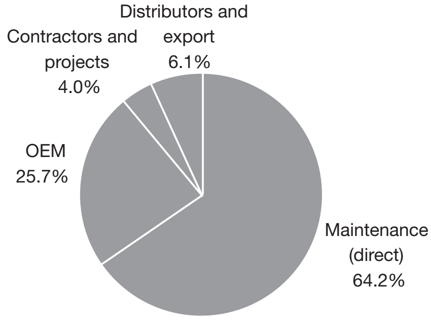



As follows from the charts below, the distribution of sales by customer type also changes considerably as a result of the Acquisition.

**ERIKS (excluding WYKO)**




**ERIKS (including WYKO)**



**Summary of the Sale and Purchase Agreement**

The principal terms and conditions of the Sale and Purchase Agreement are summarised below.

**Consideration**

The purchase price for all issued and outstanding shares in the share capital of WYKO amounted to £ 139 million (€ 206 million) on a cash and debt free basis. In addition, it was agreed that when any tax saving accrues to a member of ERIKS, the Company shall pay the Investor Sellers 50% of such tax saving (less the proportionate share of reasonable costs made in relation to achieving the tax saving). In this context, tax saving means the reduction or elimination of a tax liability, or repayment of tax, to the extent this occurs after 31 August 2006, in respect of any accounting period of ERIKS ending after 17 November 2006, and is the result of the use of any losses. Losses is construed as tax losses of WYKO to the extent that they have arisen before 31 August 2006 and to the extent that they give rise to any relief, allowance, deduction, exemption or set-off from, against or in respect of corporation tax, in the computation of income profits or gains for the purpose of corporation tax or any credit against corporation tax. It was agreed that ERIKS shall use all reasonable endeavours to utilise the relevant tax losses for the benefit of the Company within a 6 year period after completion of the Acquisition.

**Representations, warranties and indemnities**

The Sellers made certain representations, warranties and indemnities to the Company. These representations, warranties and indemnities are subject to certain limitations and restrictions on the Company bringing claims and, in the case of warranties, to certain general and specific disclosures. The Company believes that the liabilities associated with the Acquisition are adequately covered by the provisions in the Sale and Purchase Agreement.

**Covenant not to compete**

Subject to the Company's prior written consent, the Management Sellers will, amongst others, for a period of two years after the date of completion, not be involved in certain activities which compete with WYKO's business, not solicit, entice or seek to entice away WYKO's senior employees and they will not solicit or endeavour to solicit any WYKO customer who has been a customer during the period of two years immediately preceding the date of completion.

**WYKO**

Now that the Acquisition has been completed, WYKO's business will be divided among the existing clusters of ERIKS (see **"INDUSTRY AND BUSINESS OVERVIEW – Clusters"**), provided that WYKO's operations in the United Kingdom, WYKO Specialist Technology, WYKO Ireland and WYKO Nigeria will be part of the newly created cluster ERIKS UK. The Company intends to finalise the initial phase of integrating WYKO's business into ERIKS within approximately 12 months after completion of the Acquisition, which took place on 17 November 2006. Implementing ERIKS' business models is expected to take several years.

Shortly after the completion of the Acquisition, the (former) CFO of WYKO, Mr. J. Cook, stepped down from the executive board of WYKO in mutual agreement. His duties were taken over by WYKO's management. This resignation did not affect WYKO's day-to-day management or ERIKS in any other way and it is not expected to do so in the future.

**Financing of Acquisition**

The Company financed the purchase price for all the issued and outstanding shares in the capital of WYKO by means of a € 270,000,000 bridge credit facility with Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (**"Rabobank"**) as lender, dated 16 October 2006 (the **"Bridge Loan"**).

The following contains a summary of the material provisions of the Bridge Loan.

**Bridge Loan**

Pursuant to the Bridge Loan, up to € 220,000,000 is available to the Company for the purpose of the Acquisition and for the purpose of financing the costs related to the Acquisition. Part of this loan has also been used as working capital for WYKO. In addition, pursuant to the Bridge Loan, up to € 50,000,000 is available to the Company for the refinancing of all existing debt.

***Repayment***

The Bridge Loan will terminate on 16 July 2007 and any amount still outstanding will be due in full immediately on that date. The Bridge Loan may be prepaid at any time in whole or in part without premium or penalty, save for customary break-up costs. Any amount repaid or prepaid (whether voluntarily or otherwise) may not be re-borrowed.

***Interest rates***

Loans under the Bridge Loan bear interest at a percentage rate per annum (calculated on a 360/365 days basis) equal to IBOR, being EURIBOR or LIBOR, plus the margin and mandatory costs, if any. The margin equals 0.5% per annum.

The Company must select the interest periods for a loan. If the Company fails to do so in accordance with the Bridge Loan, the term will in principle be three months. The applicable margin on all overdue amounts owing under the loan documentation will generally increase by 1% per annum.

***Guarantees***

None of the Company's obligations under the Bridge Loan are guaranteed. The Company has not granted any security in relation to its obligations under the Bridge Loan.

***Covenants***

The Bridge Loan contains certain customary negative covenants. The Bridge Loan also requires the Company to deliver its financial statements to Rabobank, and to observe certain affirmative undertakings subject to materiality and other customary and agreed exceptions. These affirmative undertakings include, but are not limited to, undertakings related to (i) compliance with laws, (ii) pari passu ranking, (iii) no further indebtedness, (iv) proper insurance and (v) disposals and acquisitions.

***Events of default***

The Bridge Loan sets out certain customary events of default, including, but not limited to, a cross-default, the occurrence of which would allow Rabobank to accelerate all outstanding loans and terminate its commitments.

**Mandate letter**

The Company entered into a mandate letter with Rabobank pursuant to which Rabobank agreed to arrange and underwrite a € 200,000,000 unsecured multicurrency syndicated credit facility (the **"New Loan"**) to be used for the purpose of refinancing the Acquisition and all existing facilities of the Company. The mandate letter sets out the principal terms of the New Loan and is subject to the satisfaction of certain customary conditions, including, but not limited to, the Offering being completed, completion of legal, regulatory and financial due diligence in respect of ERIKS and the absence of events or circumstances which have adversely affected ERIKS' business or financial conditions, operations or performance since the date at which the Company's latest consolidated audited financial statements were prepared. Furthermore, the New Loan documentation must be prepared, executed and delivered within 9 months after the signing date of the Bridge Loan.

The principal terms of the New Loan include, but are not limited to, the following:

– unsecured multicurrency (€ and £) term loan for the amount of € 50,000,000 and an unsecured revolving loan for the amount of € 150,000,000
– 5 year term
– interest at a percentage rate equal to EURIBOR, plus the margin and certain mandatory costs, if any. The margin will depend on the leverage ratio.

## CAPITALISATION

The following table sets out the Company's consolidated capitalisation as at 30 November 2006 (amounts in € million) and has not been audited by an independent auditor.

| | |
|---|---|
| **Total current debt** | **223.1** |
| Guaranteed | 0 |
| Secured | 0.5 |
| Unguaranteed/unsecured | 222.6 |
| | |
| **Total non-current debt (excluding current portion of long term debt)** | **24.0** |
| Guaranteed | 0 |
| Secured | 18.9 |
| Unguaranteed/unsecured | 5.1 |
| | |
| **Shareholder's equity** | **120.7** |
| Share capital (1) | 4.0 |
| Legal reserves (2) | 0.9 |
| Other reserves (3) | 115.8 |
| Others | — |

Notes:

(1) The Company's authorised share capital amounts to € 19 million, consisting of 15 million Ordinary Shares with a nominal value of € 0.50 each, 19 million preference shares in the share capital of the Company with a nominal value of € 0.50 each (the **"Preference Shares"**) and 4 million financing preference shares in the share capital of the Company with a nominal value of € 0.50 each (the **"Financing Preference Shares"**). As at 12 January 2007, the issued and paid up share capital comprised 8,030,776 Ordinary Shares with a nominal value of € 0.50 each. (See **"DESCRIPTION OF SHARE CAPITAL AND CORPORATE STRUCTURE – History Company's share capital"**).

(2) The legal reserves comprise of the currency exchange reserve and the hedge reserve as per 30 September 2006. These reserves have not changed significantly as per 30 November 2006.

(3) The other reserves comprise of share premium (agio) and the retained earnings minus dividend paid in June 2006 as per 30 September 2006 and do not include the result for the current year.

# OPERATING AND FINANCIAL REVIEW

Although WYKO forms a substantial part of ERIKS as of the completion of the Acquisition, this prospectus contains no discussion of WYKO's financial condition and results of operations. The discussion in this chapter is limited to a discussion of ERIKS' financial condition and results of operations for the nine months ended 30 September 2006 and 2005 and the years ended 31 December 2005, 2004 and 2003, which periods all preceded the Acquisition. The Acquisition was completed on 17 November 2006. There has been no subsequent release of consolidated financial information by the Company and as such, it is not possible to discuss ERIKS' financial condition and results of operations relating to any period after the completion of the Acquisition. Furthermore, the Company is not in a position to discuss WYKO's financial condition and results of operations for any period preceding the Acquisition as the Company has only recently completed the Acquisition. The financial information in this Prospectus relating to WYKO on a stand alone basis is limited to WYKO's audited consolidated financial statements for the year ended 30 April 2006, including the notes thereto, included elsewhere in this Prospectus, that have been prepared in accordance with UK GAAP. See **"INDEX TO FINANCIAL INFORMATION – Financial statements WYKO"**.

The following discussion of ERIKS' financial condition and results of operations must be read in conjunction with the Company's unaudited consolidated financial information for the nine months ended 30 September 2006 and 2005, including the notes thereto, and the Company's audited financial statements for the years ended 31 December 2005, 2004 and 2003 including the notes thereto (see the F-pages). The Company's audited financial statements for the years ended 31 December 2004 and 2003 have been prepared in accordance with Dutch GAAP and have been prepared in accordance with the same accounting principles. The Company's audited financial statements for year ended 31 December 2005, including comparative figures for 2004 and unaudited interim financial statements for the nine months periods ended 30 September 2006, including comparative figures for 2005, have been prepared under IFRS.

The Company's consolidated financial statements prepared in accordance with Dutch GAAP and the Company's consolidated financial statement prepared in accordance with IFRS are not directly comparable as Dutch GAAP differs from IFRS in certain significant respects.

The following discussion contains forward-looking statements, which involve risks and uncertainties. The actual results may therefore differ significantly from the results discussed in the forward-looking statements. See **"CERTAIN NOTICES TO INVESTORS – Forward-looking statements"**.

## Acquisitions and divestments

The following acquisitions and divestments substantially affected ERIKS' financial condition and results of operations for the nine months ended September 30, 2006 and 2005 and the years ended 31 December 2005, 2004 and 2003.

### 2006

As of 1 January 2006, the activities of Acona Hydraulik Systeme, Germany, were acquired for € 0.1 million, which included € 0.1 million goodwill. The Company expects the annual contribution to sales at approximately € 3.5 million (financial year 2006).

As of 6 July 2006, all shares of RIV-Charleroi s.a., Belgium, were acquired for € 0.9 million (including costs). The Company expects the annual contribution to sales at approximately € 2.5 million (financial year 2006).

As of 1 October 2006, all shares of Passerotti sp.z.o.o. and all activities of Mowta Bogdan Porzych sp.z.o.o. were acquired for € 5.9 and € 1.5 million respectively. The Company expects the annual contribution to sales at approximately € 5 and € 1.5 million respectively (financial year 2006).

As of 1 November 2006, all shares of Turpen and Associates Inc., United States, were acquired for USD 7.4 million, which included USD 4.3 million goodwill. The Company expects the annual contribution to sales at approximately USD 11 million (financial year 2006).

### 2005

No acquisitions or disposals were made in the financial year 2005.

**2004**

As of 1 January 2004, the activities of a trading company in Roeselare, Belgium, were acquired via the Baudoin group for € 1.7 million, which included € 0.8 million goodwill. The annual contribution to sales amounted to approximately € 6 million (for the financial year 2004). As of 1 January 2004, the activities of ERIKS Aerospace, Inc. in the United States (annual sales USD 3.5 million) were disposed of with a book loss of USD 0.1 million. This book loss was offset by a book profit of USD 0.1 million from the settlement of the activities of ENA, Inc. in the United States that were sold in 2003.

As of 15 May 2004, all activities of Freudenberg Simrit B.V. in Naarden, the Netherlands, were acquired by ERIKS B.V. for € 1.7 million, of which € 1.3 million was goodwill. The expected annual contribution to sales amounted to approximately € 2.6 million for the full financial year 2004.

As of 1 June 2004, all trading activities of Steinebronn Industrietechnik in Germany were acquired. The total investment was € 9.1 million. The goodwill included in the purchase price for the assets amounted to € 2.1 million. The expected annual contribution to sales amounted to approximately € 28 million for the full financial year 2004.

**2003**

As of 1 January 2003, all shares of Van Eyle & Ruygers B.V., the Netherlands, were acquired for € 8.35 million, which included € 6.35 million goodwill. Annual contribution to sales was approximately € 24 million for the full financial year 2003.

## Critical accounting policies and estimates

### General

The consolidated financial statements of the Company and its consolidated subsidiaries are prepared using accounting principles in accordance with IFRS. Reference is made to the Company's financial statements for 2005 as included in this Prospectus.

### Significant estimates and formation of opinion by Executive Board

When preparing the annual figures, the Executive Board makes basic assumptions and estimates for the future which in practice can deviate from reality.

In this context, the annual goodwill impairment test in particular is regarded as being susceptible to changes. After the Acquisition, approximately 25% of the assets recorded in the balance sheet will consist of goodwill. For the purpose of impairment testing, goodwill is allocated to cash-generating units. If the recoverable value is lower than the carrying amount, the difference is charged to result as impairment loss. ERIKS' judgement relating to the fair value of assets and liabilities, including goodwill, is affected by factors such as assumed economic conditions and expectations about ERIKS' markets and operating performance. These factors may change over time and may cause ERIKS to record additional impairment charges which may adversely impact ERIKS' operating results and net profits.

Also fair value and hence the impairment charge is sensitive to the discount rate chosen. The discount rate is derived from the estimated weighted cost of capital, reflecting the risk profile of the cash-generating units. As the impairment charge is not tax deductible, any increase or decrease in impairment would impact net profit on a euro for euro basis.

Furthermore, when determining the value of deferred tax assets on account of off-settable losses, estimates were made as to future profits.

Valuation methods of external parties are used to assess the present value of the obligations under the defined benefit plan and of the plan assets and the derivative financial instruments.

### Derivative financial instruments

The Company uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange rate risks arising from operational and financing activities. In accordance with the group's treasury policy, derivative financial instruments will not be held or issued for trading purposes. Derivative financial instruments are carried at fair value.

The fair value of interest rate swaps is the estimated amount that would have to be received or paid to discontinue this swap as per the balance sheet date, taking the present interest rate into account.

The fair value of the forward currency contracts and the currency options is the published market price (forward exchange rate) at the balance sheet date.

## Material factors affecting the Company's results of operations and financial condition

The Company believes the following factors have had and will continue to have a material effect on ERIKS' results of operations and financial condition.

### Net sales

ERIKS derives revenues from the distribution of mechanical engineering components and the delivery of services to the Company's customers. Revenues are the proceeds from the goods and services supplied net of discount and sales tax. Revenue is recognised when the significant risks and reward of ownership are transferred to the buyer. Net sales from rendering services is recognised by the reference to the stage of completion.

The size of the market in which ERIKS operates is highly depending on the economic cycle, and the industrial output related to that. In its main market, Western Europe, the trend among customers is to relocate businesses to low cost countries, such as South East Asia and Eastern Europe. Only the development of new industries can ensure growth of the whole market. The sales of ERIKS are distributed widely over many customers because of its broad approach to the market, ERIKS' presence in materially all industries and ERIKS' contacts with different customer groups, this diversification should slow down the cycle effects on the operational and financial results. A large proportion of sales are generated in the maintenance market, which is less sensitive to fluctuations in the economy. The market for ERIKS' OEM products on the other hand shows a higher sensitivity to the economic cycle. ERIKS aims to mitigate the cyclicality risk profile by extending the number of operations in Belgium and the Netherlands that have strengthened ERIKS' position in the maintenance market. Although the market ERIKS operates in still is very fragmented, competition increasingly comes from manufacturers forwardly integrating in the value chain. Specifically in the OEM market, manufacturers are focusing to pass by distributors and directly deliver products to end users.

### Cost of sales

Cost of sales comprises the purchase price and reductions in value directly attributable to the goods supplied, as well as the costs of warehousing, production and distribution.

### Operating costs (selling and general administrative expenses)

Operating costs include payroll costs of all ERIKS employees. Many of ERIKS' operating costs, including variable payroll costs and costs of physical distribution, production and selling costs can be related directly to the business activity level.

The Company's head office costs are allocated to the group companies and are not reported separately in this chapter.

### Tax

The Company applies a group finance company regime available under Dutch tax law (*concern financieringsmaatschappij*). It has obtained a ruling on this regime, which ends as per 31 January 2008. No extension is possible. The Company is actively reviewing all options available to replace this regime with an equally attractive financing regime.

At year-end 2005 the company has € 4 million taxable losses available, which are not fully recognised as a deferred tax asset. Utilisation of these taxable losses depend on the ability of ERIKS to generate future taxable profits in the relevant jurisdictions and the relevant legal entities.

## Consolidated results of operations

The following discussion and analysis of the Company's consolidated results of operations and financial condition is based on the following Company's historical results:

– nine months ended 30 September 2006 and nine months ended 30 September 2005 under IFRS (unaudited)
– year ended 31 December 2005 and year ended 31 December 2004 under IFRS
– year ended 31 December 2004 and year ended 31 December 2003 under Dutch GAAP

**Comparison of the nine months ended 30 September 2006 and the nine months ended 30 September 2005 under IFRS**

***Consolidated results from operations***

| **(€ in millions, except percentages)** | **Nine months ended 30 September (unaudited)** | | |
|---|---|---|---|
| **Consolidated income statement** | **2006 IFRS** | **2005 IFRS** | **Change** |
| Net sales | 372.8 | 336.7 | *10.7%* |
| **Operating result (EBITA)** | **31.5** | **24.8** | *27.1%* |
| as percentage of net sales | *8.5%* | *7.4%* | |
| Result from financial income and expenses | (1.0) | (2.0) | |
| Result from associates | — | — | |
| **Results before taxes** | **30.5** | **22.8** | |
| Taxes | (9.8) | (7.5) | |
| **Result after taxes** | **20.7** | **15.3** | *35.4%* |
| Minority interest | (0.1) | (0.1) | |
| **Result from ordinary activities** | **20.6** | **15.2** | *35.7%* |
| Amortisation intangible fixed assets from acquisitions | (0.1) | (0.1) | |
| **Net result** | **20.5** | **15.1** | *36.0%* |

*Net sales*

The Company's revenues increased by € 36.1 million, or 10.7%, to € 372.8 million in the nine months ended 30 September 2006 from € 336.7 million in the nine months ended 30 September 2005. This increase was primarily due to organic growth of € 32.2 million, or 9.7%. The remainder of the increase in revenues was due to an increase of € 3.5 million due to the minor acquisitions in 2006 and an increase of € 0.4 million due to favourable exchange rates.

***Regional results of operations***

In the relevant periods ERIKS (excluding WYKO) is divided into six regional clusters. Each cluster serves a specific geographical market. A cluster engages in one or more core activities and disposes of all the disciplines needed to carry out complete operational management on its own. The following table sets forth the Company's revenues by cluster for the periods indicated:

**(€ in millions, except percentages, autonomous excluding currency fluctuations)**

| | **Nine months ended 30 September (unaudited)** | | | |
|---|---|---|---|---|
| **Revenues per cluster** | **2006 IFRS** | **2005 IFRS** | **Change in %** | **Autonomous in %** |
| Netherlands | 156.8 | 140.2 | *11.9%* | *10.3%* |
| Belgium | 93.2 | 87.1 | *7.0%* | *8.8%* |
| Germany | 83.4 | 73.9 | *12.9%* | *9.0%* |
| France | 17.1 | 16.5 | *3.1%* | *3.1%* |
| United States | 16.6 | 14.4 | *15.9%* | *14.3%* |
| South East Asia | 5.7 | 4.6 | *21.8%* | *15.9%* |
| | 372.8 | 336.7 | *10.7%* | *9.5%* |

In Germany, the sales increased with € 9.5 million, or 12.9% to € 83.4 million from € 73.9 million in the first nine months ended on 30 September 2005. This was partly caused by the acquisition of the trading activities of Acona Hydraulik-Systeme GmbH, as from 1 January 2006. The nine-month 2006 sales of Acona amounts to approximately € 2.9 million.

Further sales growth of the Belgium cluster is expected to be realised in the future, as RIV-Charleroi s.a. was acquired at 6 July 2006. In the third quarter of 2006, the sales of RIV-Charleroi amounted to approximately € 0.6 million.

***Revenues by core activity***

Revenues generated by ERIKS can be divided into the five following core activities; sealing technology, power transmissions, flow technology, industrial plastics and tools and maintenance products. The revenues of the different core activities for the periods indicated are presented below.

**(€ in millions, except percentages, autonomous including currency fluctuations)**

| | **Nine months ended 30 September (unaudited)** | | | |
|---|---|---|---|---|
| **Revenues per core activity** | **2006 IFRS** | **2005 IFRS** | **Change in %** | **Autonomous in %** |
| Sealing Technology | 84.1 | 75.7 | *11.1%* | *11.1%* |
| Power Transmissions | 129.8 | 118.2 | *9.8%* | *7.1%* |
| Flow Technology | 82.5 | 73.9 | *11.6%* | *11.5%* |
| Industrial Plastics | 21.4 | 19.3 | *10.9%* | *11.3%* |
| Tools and Maintenance products | 55.0 | 49.6 | *10.9%* | *10.4%* |
| **Total revenues** | 372.8 | 336.7 | *10.7%* | *9.7%* |

***Revenues per customer group***

**(€ in millions, except percentages, autonomous including currency fluctuations)**

| | **Nine months ended 30 September (unaudited)** | | | |
|---|---|---|---|---|
| **Revenues by customer group** | **2006 IFRS** | **2005 IFRS** | **Change in %** | **Autonomous in %** |
| Maintenance | 178.5 | 163.8 | *9.0%* | *7.8%* |
| OEM | 131.9 | 113.8 | *15.9%* | *14.3%* |
| Contractors and projects | 24.7 | 22.9 | *7.9%* | *10.4%* |
| Distributors and exports | 37.7 | 36.2 | *4.1%* | *3.5%* |
| **Total revenues** | 372.8 | 336.7 | *10.7%* | *9.7%* |

*Operating result*

The following table sets forth the Company's operating result per cluster:

**(€ in millions, except percentages)**

| | **Nine months ended 30 September (unaudited)** | | |
|---|---|---|---|
| **Operating results per cluster** | **2006 IFRS** | **2005 IFRS** | **Change in %** |
| The Netherlands | 17.5 | 12.4 | *41.1%* |
| Belgium | 7.7 | 6.6 | *16.7%* |
| Germany | 6.9 | 4.8 | *43.8%* |
| France | 0.1 | 0.5 | *(80.0%)* |
| United States | 1.9 | 1.5 | *26.7%* |
| South East Asia | 0.3 | 0.2 | *50.0%* |
| ERIKS group nv | (2.9) | (1.2) | |
| **Total operating results** | 31.5 | 24.8 | *27.1%* |

**Comparison of the year ended 31 December 2005 and the year ended 31 December 2004 under IFRS**

***Consolidated results from operations***

**(€ in millions, except percentages)**

| Consolidated income statement | Year ended 31 December 2005 IFRS | 2004 IFRS | Change |
|---|---|---|---|
| Net sales | 448.5 | 423.4 | *5.9%* |
| Cost of sales | (331.6) | (312.2) | |
| **Gross profit on sales** | 117.0 | 111.2 | |
| Gross profit margin | *26.1%* | *26.3%* | |
| Other operating income | 2.0 | 0.0 | |
| Sales expenses | (71.8) | (69.1) | *3.8%* |
| General administrative expenses | (11.4) | (10.8) | *5.3%* |
| **Operating result** | **35.8** | **31.3** | *14.4%* |
| as percentage of net sales | *8.0%* | *7.4%* | |
| Result from financial income and expense | (2.7) | (3.0) | |
| Result from associates | 0.0 | 0.0 | |
| **Results before taxes** | **33.1** | **28.3** | |
| Taxes | (11.0) | (9.8) | |
| **Result after taxes** | **22.1** | **18.6** | |
| At the disposal of stockholders | 22.1 | 18.5 | *19.3%* |
| Minority interest | 0.0 | 0.1 | |
| **Result after taxes** | **22.1** | **18.6** | *18.9%* |

*Net sales*

Total revenues increased by € 25.1 million, or 5.9%, to € 448.5 million in 2005 from € 423.4 million in 2004. An amount of € 12.4 million, or 2.9%, of this increase was due to autonomous growth and € 12.7 million, or 3%, was due to currency exchange differences and acquisitions made in 2004. Autonomous growth was realised despite the stagnated growth of the industrial output in most clusters.

***Revenues by cluster***

The following table sets forth the Company's revenues by cluster for the periods indicated:

**(€ in millions, except percentages, autonomous excluding currency fluctuations)**

| Revenues per cluster | Year ended 31 December 2005 IFRS | 2004 IFRS | Change in % | Autonomous in % |
|---|---|---|---|---|
| Netherlands | 187.7 | 181.4 | *3.4%* | *2.9%* |
| Belgium | 116.5 | 110.1 | *5.8%* | *5.8%* |
| Germany | 96.4 | 85.0 | *13.5%* | (*0.4%*) |
| France | 21.6 | 21.6 | *0.1%* | *0.1%* |
| United States | 19.9 | 19.6 | *1.3%* | *1.3%* |
| South East Asia | 6.4 | 5.7 | *13.0%* | *11.7%* |
| | 448.5 | 423.4 | *5.9%* | *2.9%* |

The revenue increase in the Netherlands of € 6.3 million or 3.4% is for the major part caused by autonomous growth, which represented 2.9% of the increase. This is entirely attributable to an increase of market share as the total industrial output in the Netherlands fell by 0.1%.

In Belgium, revenues have increased with € 6.4 million, 5.8% to € 116.5 million. The increase in market shares in all core activities attributed to the growth. This growth was realised despite the 2.2% decline in industrial output. The growth was achieved by continuously deepening and sharpening the commercial policy, intensification of the cooperation between companies, expansion in the use of logistics services and innovation and modernisation of machinery and the related services at Baudoin.

The German cluster increased revenue by € 11.4 million or 13.5% to € 96.4 million. There was no autonomous growth in 2005, but a slight decline of 0.4%. The growth in Germany was related to the acquisition of Steinebronn Industrietechnik GmbH in Stuttgart that was acquired in June 2004. The development of sales differed among the different branches. The development of the Maisach branch was disappointing. The sales and logistic organisation at Maisach has been reorganised in 2005. The branch operations in Bielefeld, Hannover and Neuss showed positive developments. The commercial and operational controls were adjusted in order to improve future sales.

Revenue in France increased slightly with 0.1% to € 21.6 million from € 21.6 million in 2005. With this slight increase, the cluster ERIKS France did not meet expectations. Problems are mainly attributable to the three local trading companies.

Growth in the cluster USA amounted to € 0.3 million or 1.3% to € 19.9 million. This increase has been realised through autonomous growth of the branch operations at Fort Worth, Texas and New Berlin, Wisconsin, which was partly offset by a decrease in sales at the branch operations in Seattle, Washington.

In South East Asia revenue showed an increase of € 0.7 million or 13% to € 6.4 million, of which 11.7% is represented by autonomous growths. The market position and operational control in South East Asia improved, caused by a better market approach.

***Revenues by core activity***

The revenues of the different core activities for the periods indicated are presented below.

**(€ in millions, except percentages, autonomous excluding currency fluctuations)**

| | **Year ended 31 December** | | | |
|---|---|---|---|---|
| **Revenues by core activity** | **2005** | **2004** | **Change** | **Auto-nomous** |
| | **IFRS** | **IFRS** | **in %** | **in %** |
| Sealing Technology | 100.3 | 96.3 | *4.1%* | *3.1%* |
| Power Transmissions | 155.5 | 147.6 | *5.3%* | *(1.7%)* |
| Flow Technology | 100.0 | 90.3 | *10.8%* | *9.5%* |
| Industrial Plastics | 25.7 | 24.7 | *4.1%* | *4.1%* |
| Tools and Maintenance products | 67.0 | 64.5 | *4.0%* | *3.5%* |
| **Total revenues** | 448.5 | 423.4 | *5.9%* | *2.9%* |

***Revenues per customer group***

**(€ in millions, except percentages, autonomous excluding currency fluctuations)**

| | **Year ended 31 December** | | | |
|---|---|---|---|---|
| **Revenues by customer group** | **2005** | **2004** | **Change** | **Auto-nomous** |
| | **IFRS** | **IFRS** | **in %** | **in %** |
| Maintenance | 217.6 | 205.5 | *5.9%* | *3.9%* |
| OEM | 151.6 | 141.1 | *7.4%* | *3.2%* |
| Contractors and projects | 31.7 | 28.7 | *10.5%* | *4.9%* |
| Distributors and exports | 47.6 | 48.1 | *(1.0%)* | *(3.2%)* |
| **Total revenues** | 448.5 | 423.4 | *5.9%* | *2.9%* |

*Gross profit*

As a result, the gross profits increased with 5.2% or € 5.8 million to € 117.0 million. The gross profit margin has decreased slightly with 0.2 percentage point to 26.1% in 2005 from 26.3% in 2004.

*Other operating income*

Due to the sale of a building in the Netherlands an operating income of € 2.0 million was reported in 2005. This income was classified as exceptional and is non-recurring.

*Sales expenses*

The sales expenses have increased with € 2.7 million or 3.8% to € 71.8 million. As the total sales increased with 5.9%, the sales have incurred lower sales costs.

*General administrative expenses*

Total general administrative expenses have increased with € 0.6 million or 5.3% to € 11.4 million in 2005.

*Operating result*

The operating result has increased with 14.4% or € 4.5 million to € 35.8 million from € 31.3 million in 2004. The operating result included the exceptional profit on the sale of the building as described above.

The following table sets forth the Company's operating result per cluster:

**(€ in millions, except percentages)**

| | Year ended 31 December | | |
|---|---|---|---|
| **Operating results per cluster** (before exceptional gain) | **2005 IFRS** | **2004 IFRS** | **Change in %** |
| The Netherlands | 17.8 | 17.3 | *2.9%* |
| Belgium | 9.0 | 8.1 | *11.5%* |
| Germany | 6.0 | 6.0 | *(0.1%)* |
| France | 0.5 | 0.9 | *(51.7%)* |
| United States | 2.0 | 1.6 | *21.2%* |
| South East Asia | 0.2 | 0.1 | *221.6%* |
| ERIKS group nv | (1.7) | (2.8) | |
| **Total operating results** | 33.8 | 31.3 | *8.1%* |
| Exceptional gain (the Netherlands) | 2.0 | 0.0 | |
| Total operating profit (EBITA) | 35.8 | 31.3 | *14.4%* |

*Result from financial income and expense*

The results from financial income and expense have decreased by € 0.3 million, or 9.8% to € 2.7 million in 2005. The financial income and expenses relate to time-weighted interest paid, taking into account the effective interest rate for the receivable or debt concerned. Changes in the fair value of derivative financial instruments as per 1 January 2005 (2005: € 0,1 million gain; 2004: not applicable) are also included under financial income and expenses.

*Taxes*

The tax on the result before taxes amounted to € 11.0 million for 2005 compared to € 9.8 million in 2004. The tax burden amounted to 33.2% in 2005, compared to 34.5% in 2004, mainly due to a decrease in the income tax rate in the Netherlands.

*Net profit*

The net profit increased with € 3.6 million or 19.3% to € 22.1 million in 2005 from € 18.5 million in 2004.

**Comparison of the year ended 31 December 2004 and the year ended 31 December 2003 under Dutch GAAP**

***Consolidated results from operations***

**(€ in millions, except percentages)**

| **Consolidated income statement** | **Year ended 31 December 2004 Dutch GAAP** | **2003 Dutch GAAP** | **Change** |
|---|---|---|---|
| Net sales | 423.4 | 381.9 | *10.9%* |
| Cost of sales | (313.3) | (283.2) | |
| **Gross profit on sales** | **110.1** | **98.6** | |
| Gross profit margin | *26.0%* | *25.8%* | |
| | | | |
| Sales expenses | (69.1) | (64.7) | *6.8%* |
| General administrative expenses | (11.0) | (9.4) | *16.8%* |
| Amortization of goodwill | (2.8) | (2.5) | *10.3%* |
| **Operating result** | **27.2** | **22.0** | *23.7%* |
| as percentage of net sales | *6.4%* | *5.8%* | |
| Result from financial income and expense | (2.1) | (2.2) | |
| Result from associates | 0.0 | 0.0 | |
| **Results before taxes** | **25.1** | **19.8** | |
| Taxes | (9.3) | (7.7) | |
| **Result after taxes** | **15.8** | **12.1** | |
| At the disposal of stockholders | 15.7 | 12.0 | *31.4%* |
| Minority interest | 0.1 | 0.1 | |
| **Result after taxes** | **15.8** | **12.1** | *31.1%* |

*Net sales*

Revenue increased by € 41.5 million or 10.9% to € 423.4 million in 2004 from € 381.9 million in 2003. The revenue increased by € 24.4 million due to acquisitions and by € 22.3 million or 6.0% due to autonomous growth. The sale of a company had a negative impact of € 2.8 million on the revenue and the lower exchange rate differences decreased the revenues by € 2.4 million.

***Revenues by cluster***

The following table sets forth the Company's revenues by cluster for the periods indicated:

**(€ in millions, except percentages, autonomous excluding currency fluctuations)**

| **Revenues per cluster** | **2004 Dutch GAAP** | **Year ended 31 December 2003 Dutch GAAP** | **Change in %** | **Auto-nomous in %** |
|---|---|---|---|---|
| Netherlands | 181.4 | 170.5 | *6.4%* | *5.6%* |
| Belgium | 110.1 | 98.1 | *12.2%* | *5.6%* |
| Germany | 85.0 | 63.4 | *33.9%* | *7.9%* |
| France | 21.6 | 22.1 | *(2.0%)* | *(2.0%)* |
| United States | 19.6 | 21.6 | *(8.9%)* | *17.3%* |
| South East Asia | 5.7 | 6.2 | *(8.5%)* | *(1.6%)* |
| | 423.4 | 381.9 | *10.9%* | *6.0%* |

In the Netherlands, revenue increased with € 10.9 million or 6.4% to € 181.4 million in 2004. Official statistics reported a 0.2% increase in the industrial output, therefore the increase in sales ERIKS realised was very strong. Autonomous growth was the main driver attributing 5.6% to the growth. Sales and market share increased in almost all product groups. The project market approach was successful through Noton B.V. Several other factors contributed to the growth as well, such as the expansion of technical and logistics services and the implementation of the TradCom e-portal. At Flexion B.V. a decrease in the sales occurred. The marketing mix of Flexion B.V. did no longer meet the demands of the customers and measures to improve the sales have been taken.

The revenue growth of € 12 million or 12.2% to € 110.1 million in Belgium can be explained by two reasons. First, the acquisition of a local distribution company at Roeselare and the successful integration of the Baudoin group had a positive effect on the revenue. Second, autonomous growth contributed to 5.6% of the growth.

For the German cluster, sales increased with € 21.6 million or 33.9% to € 85 million from € 63.4 million in 2003. The acquisition of Steinebronn Industrietechnik in Stuttgart has considerably expanded the market position of the German cluster. Furthermore, the approach of new market segments and the increased market share contributed to the autonomous growth of 7.9%. Higher productivity has had a positive impact on the operating results. For the German cluster the operating result increased by € 2.1 million or 53.9% to € 5.9 million.

The results in 2004 in France fell short of expectations. Measures previously taken to strengthen the management and expand the range of products and services did not produce the expected results. There are several causes for the shortfall, such as the absence of an effective working management team, a lack of clarity about the strategy and the absence of a uniform approach to the market. Revenue decreased by € 0.5 million or 2% to € 21.6 million.

For the United States cluster, overall sales decreased by € 2 million or 8.9% to € 19.6 million. However, this decrease is caused by the sale of the activities of ERIKS Aerospace Inc. The other three industrial distribution companies of ERIKS USA increased sales by 17.3% caused by autonomous growth. The expansion of the customer base, the expansion of the range of industrial products together with the development of a new logistics concept were the drivers for growth. Productivity and profitability increased at all the branch operations, which are reflected in the increased operating results despite the decreased sales.

In South East Asia, sales are lagging behind the economic development in this region. The sales revenue decreased by 8.5% or € 0.5 million to € 5.7 million. The causes for this decrease are the strong local competition, the departure of important product managers and the insufficient ability to create added value. The cluster has widely realigned its approach to the market, product managers are range geared towards knowledge and sales employees have received additional training in order to realise future sales growth.

***Revenues by core activity***

The revenues of the different core activities for the periods indicated are presented below.

**(€ in millions, except percentages, autonomous excluding currency fluctuations)**

| | **Year ended 31 December** | | | |
|---|---|---|---|---|
| **Revenues by core activity** | **2004 Dutch GAAP** | **2003 Dutch GAAP** | **Change in %** | **Auto-nomous in %** |
| Sealing Technology | 96.3 | 91.3 | *5.6%* | *8.9%* |
| Power Transmissions | 151.6 | 132.8 | *14.2%* | *2.0%* |
| Flow Technology | 90.3 | 83.2 | *8.5%* | *7.0%* |
| Industrial Plastics | 24.7 | 21.6 | *14.0%* | *14.6%* |
| Tools and Maintenance products | 60.5 | 53.0 | *14.1%* | *5.8%* |
| **Total revenues** | 423.4 | 381.9 | *10.9%* | *6.0%* |

***Revenues per customer group***

**(€ in millions, except percentages, autonomous excluding currency fluctuations)**

| Revenues by customer group | 2004 Dutch GAAP | 2003 Dutch GAAP | Change in % | Autonomous in % |
|---|---|---|---|---|
| | Year ended 31 December | | | |
| Maintenance | 210.8 | 187.7 | *12.3%* | *6.8%* |
| OEM | 139.5 | 121.4 | *14.9%* | *7.6%* |
| Contractors and projects | 26.4 | 24.7 | *6.9%* | *7.5%* |
| Distributors and exports | 46.7 | 48.1 | *(2.9%)* | *(2.3%)* |
| **Total revenues** | 423.4 | 381.9 | *10.9%* | *6.0%* |

*Gross profit*

The gross profits increased with 11.6% or € 11.5 million to € 110.1 million. The gross profit margin has increased slightly with 0.2 percentage point to 26.0% in 2004 from 25.8% in 2003.

*Sales expenses*

The sales expenses have increased with € 4.4 million or 6.8% to € 69.1 million. As the total sales increased with 10.9%, the sales have incurred lower sales costs.

*General administrative expenses*

Total general administrative expenses have increased with € 1.6 million or 16.8% to € 11.0 million in 2004.

*Operating result*

The operating result has increased with 23.7% or € 5.2 million to € 27.2 million from € 22 million in 2003. This increase in operating result was due to increased revenue and decreased costs.

The following table sets forth the Company's operating result per cluster:

**(€ in millions, except percentages)**

| **Operating results per cluster** (before amortisation of goodwill) | 2004 Dutch GAAP | 2003 Dutch GAAP | Change in % |
|---|---|---|---|
| | Year ended 31 December | | |
| The Netherlands | 16.7 | 15.2 | *9.6%* |
| Belgium | 7.8 | 5.4 | *43.6%* |
| Germany | 5.9 | 3.8 | *53.9%* |
| France | 0.7 | 0.5 | *41.1%* |
| United States | 1.6 | 1.4 | *11.4%* |
| South East Asia | 0.1 | (0.2) | *135.1%* |
| ERIKS group nv | (2.8) | (1.7) | |
| **Total operating results (EBITA)** | 30.0 | 24.5 | *22.3%* |
| Less amortization of goodwill | (2.8) | (2.5) | |
| Total operating profit (EBIT) | 27.2 | 22.0 | *23.7%* |

*Result from financial income and expense*

The results from financial income and expense have decreased by € 0.1 million, or 5.4% to € 2.1 million in 2004. The financial income and expenses relate to time-weighted interest paid, taking into account of the effective interest rate for the receivable or debt concerned.

*Taxes*

The tax on the result before taxes amounted € 9.3 million for 2004 compared to € 7.7 million in 2003. The tax burden amounted 37% in 2004, compared to 39% in 2003.

*Net profit*

The net profit increased with € 3.7 million or 31.4% to € 15.7 million in 2004 from € 12.0 million in 2003. There were no exceptional items included in the net result.

**<u>Liquidity and capital resources</u>**

The Company's principal source of liquidity are its operations. An overview of the Company's indebtedness is provided below.

**Comparison of the nine months ended September 2006 and the nine months ended 30 September 2005 under IFRS**

The following table summarises the cash flows for the nine months ended 30 September 2005 and 30 September 2006, in accordance with IFRS:

**(€ in millions, except percentages)**

| | **Nine months ended 30 September (unaudited)** | |
|---|---|---|
| | **2006 IFRS** | **2005 IFRS** |
| Net operating cash flow | 20.9 | 18.5 |
| Cash flow from investing activities | (0.3) | (8.1) |
| Cash flow from financing activities | (10.8) | (12.7) |
| **Net increase/ decrease in cash and cash equivalents** | 9.8 | (2.3) |
| **Cash and cash equivalents at the end of the period** | 20.8 | 11.0 |

The increase of the net operating cash flow was primarily due to the higher operating profit. The cash outflow from investing activities decreased with € 7.8 million to a cash outflow of € 0.3 million. The reason for the decrease of the cash outflow from investing activities is that less money was invested in property, plant and equipment (new building Alkmaar, the Netherlands).

With respect to the financing activities in the nine months of 2006 in comparison with the nine months of 2005, more loan repayments were made and more dividends were paid. However, less money has been withdrawn from the bank facility.

**Comparison of the year ended 31 December 2005 and the year ended 31 December 2004 under IFRS**

The following table summarises the cash flows for the year ended 31 December 2005 and the year ended 31 December 2004 in accordance with IFRS:

| **(€ in millions, except percentages)** | **Year ended 31 December** | |
|---|---|---|
| | **2005 IFRS** | **2004 IFRS** |
| Net operating cash flow | 25.3 | 20.0 |
| Cash flow from investing activities | (8.9) | (24.0) |
| Cash flow from financing activities | (18.5) | (1.7) |
| **Net increase/ decrease in cash and cash equivalents** | (2.1) | (5.7) |
| **Cash and cash equivalents at the end of the period** | 11.3 | 12.7 |

The increase of the net operating cash flow was mainly due to the higher operating profit for this period.

Investing activities have caused a cash outflow of € 8.9 million in 2005, which was € 15.1 million less than the outflow in 2004. Compared to 2004, in 2005 no large acquisitions took place, and the cash outflow for investments in property, plant and equipment (new building in Alkmaar) was lower.

The cash flow from financing activities decreased with € 16.8 million to € 18.5 million in 2005 from € 1.7 million in 2004. Compared to 2004, less money has been drawn and more repayments were made on (mortgage) loans and other bank facilities.

**Comparison of the year ended 31 December 2004 and the year ended 31 December 2003 under Dutch GAAP**

The following table summarises the cash flows for the year ended 31 December 2004 and the year ended 31 December 2003 in accordance with Dutch GAAP:

| **(€ in millions, except percentages)** | **Year ended 31 December** | |
|---|---|---|
| | **2004 Dutch GAAP** | **2003 Dutch GAAP** |
| Net operating cash flow | 19.6 | 23.8 |
| Cash flow from investing activities | (29.2) | (21.5) |
| Cash flow from financing activities | 22.8 | 6.7 |
| **Net increase/ decrease in cash and cash equivalents** | 13.2 | 9.0 |
| **Cash and cash equivalents at the end of the period** | (4.5) | (18.4) |

The net operating cash flow decreased with € 4.2 million to € 19.6 million from € 23.8 million in 2003, despite a higher operating profit in 2004. The decrease was caused by investments in increased working capital.

In 2004, the cash outflow for investing activities increased by € 7.7 million to a total outflow of € 29.2 million from € 21.5 million in 2003. The main drivers for this development were the investments in property, plant and equipment (construction of new building in Alkmaar) and a number of acquisitions that were completed. The largest acquisition that has been completed is the acquisition of Steinebronn Industrietechnik, which was acquired for € 9.1 million.

The cash flow from financing activities increased with € 16.1 million to € 22.8 million, from € 6.7 million in 2003. A larger amount was drawn under mortgaged credit facility in order to finance the construction of the new building in Alkmaar.

**Working capital**

In the Company's opinion, the working capital available to ERIKS is sufficient for its present requirements, which is for at least the next 12 months following the Publication Date.

**Contingent liabilities**

The following rights and liabilities were not included in the audited balance sheet for the years ended 31 December 2005, 2004 and 2003:

| **(€ in millions)** | **As at 31 December** | | |
|---|---|---|---|
| | **2005** | **2004** | **2003** |
| **Contingent liabilities** | | | |
| Guarantees and security deposits for banks and rental of business premises | 0.6 | 0.9 | 0.8 |
| **Financial liabilities** | | | |
| Concern investment liabilities entered into for property, plant and equipment | — | 4.5 | 10.8 |
| **Rental and operating lease obligations** | | | |
| These mainly relate to office buildings and vehicles | | | |
| – terms falling due within 1 year | 9.1 | 8.7 | 8.5 |
| – terms falling due between 1 and 5 years | 19.2 | 20.0 | 20.6 |
| – terms falling due after 5 years | 5.9 | 7.0 | 9.3 |
| | 34.2 | 35.7 | 38.4 |

## Current trading and prospects

The Company's results for the nine months ended 30 September 2006 and the Company's results since 30 September 2006 were in line with the Company's expectations, except for cluster ERIKS France. Industrial activity continued to develop positively in almost all countries of ERIKS' presence. The Company is confident about its prospects for the financial year 2006 and believes that ERIKS is well placed to develop the Company's business in line with the Company's stated strategy.

Except as disclosed in this Prospectus (see in particular **"Acquisitions and divestments – 2006"** and **"THE ACQUISITION"**), there has been no significant change in ERIKS' financial or trading position since 30 September 2006, the end of the last financial period for which interim financial information was published.

## Indebtedness

The indebtedness of ERIKS can be specified as follows:

| (€ in millions) | As at 30 September (unaudited) 2006 | As at 31 December 2005 | 2004 | 2003 |
|---|---|---|---|---|
| mortgage credit facility | 19.4 | 19.8 | 15.0 | — |
| senior debt loan | — | 4.5 | 10.5 | 13.5 |
| medium term loan | 7.0 | 8.0 | 10.0 | |
| lease obligations | 0.1 | 4.1 | 4.5 | — |
| other loans | 0.7 | 1.1 | 1.7 | 3.6 |
| | 27.1 | 37.5 | 41.6 | 17.1 |
| **Other bank facilities** | | | | |
| Total unsecured credit facilities (bank syndicate) | 91.6 | 89.6 | 89.6 | 90.2 |
| Total bank overdraft (including short term loans) | (7.8) | (5.4) | 4.5 | 12.8 |

### Mortgage credit facility

At year-end 2005 two loans were drawn under mortgage credit facilities originally totalling € 20.0 million. The business premises in Alkmaar and Roermond have been used as mortgage collateral. Financial ratios relating to interest cover and solvency have been agreed, which are amply met as per 31 December 2005.

### Senior debt

This refers to a stand-by facility, originally € 15.0 million. This stand-by facility is senior debt. Half of the outstanding part of the senior debt can be converted into a subordinated loan. As at 31 December 2006, this facility was not used. A total of € 6.0 million was repaid in 2005. At year-end 2005 the balance of this loan was € 4.5 million, which is included under short-term repayment obligations, as the entire loan has been repaid in 2006.

### Medium term loan

Loans from credit institutions also included a medium-term loan agreed with a credit institution in 2004 of € 10.0 million of which € 2.0 million is included under short-term repayment obligations as per 31 December 2005.

Certain financial ratios relating to interest cover and solvency have been agreed for these loans from credit institutions, which are amply met as per 31 December 2005.

### Lease obligations

Lease obligations relate to the financing of a building (€ 3.9 million, repayment up to an amount of € 2.3 million in the form of annuities until year-end 2014 with the option of purchasing the building in the interim) and computer hardware (€ 0.2 million to mid-2006). Average interest is 5%. As per 1 August 2006, the financial lease obligation has been repaid.

### Other bank facilities

At the end of 2005 the short-term loans with financial institutions amount to € 6.0 million (2004: € 17.3 million) and current account overdrafts of € 10.7 million (2004: € 20.0 million). As at 31 December 2005, a total of € 89.6 million is outstanding under unsecured credit facilities from five banks.

### Bridge Loan

See **"THE ACQUISITION – Financing of Acquisition – Bridge Loan"**.

### New Loan

See **"THE ACQUISITION – Financing of Acquisition – Mandate letter"**.

## Profit estimate for the year ended 31 December 2006

### Introduction

On 13 November 2006, the Company announced an expectation for the full year of 2006, including the following statement:

> *"Compared to 2005, ERIKS expects for the full year 2006 (excluding WYKO) that the financial results will increase by at least:*
>
> - *operating result, incl. exceptional gains* *+12.5%*
> - *net result* *+17.0%"*

This statement could be considered to qualify as a profit forecast within the meaning of the Regulation 2004/809/EC.

As at 15 January 2007, the Executive Board confirms that this statement is still correct. Now that the year-end of 2006 has passed, this statement qualifies as a profit estimate, rather than a profit forecast.

### Basis of preparation

This profit estimate for the year ended 31 December 2006 has been prepared using accounting policies which are consistent with those used by ERIKS in preparing its audited consolidated financial statements for the year ended 31 December 2005, including the notes thereto, except for the accounting treatment of derivative financial instruments. Effective 1 January 2006, ERIKS has applied hedge accounting for certain derivative financial instruments designated as a hedging instrument in accordance with IAS 39. Changes in the fair value of those instruments are recognised in shareholders' equity (hedge reserve), whereas in 2005 such changes were recognised directly in the result.

The estimate has been made in respect of operating result, including exceptional gains and net result, on the bases described above, rather than in respect of profit before tax as the Company believes that these measures provide more meaningful information to stakeholders and allows for greater comparability with prior years.

The estimate takes into account the published unaudited consolidated interim report for the nine months ended 30 September 2006, the results shown by unaudited management information for the 2 months ended 30 November 2006 and the Executive Board's estimate of the results for the month ended 31 December 2006.

**PwC's assurance report on prospective financial information**

To the Executive Board

***Introduction***

In accordance with your instructions we report on the profit estimate set out in this chapter of ERIKS' prospectus dated 15 January 2007 (the **"Profit Estimate"**).

It is the responsibility of the Executive Board to prepare the Profit Estimate, together with the material assumptions upon which it is based, in accordance with the requirements of EU Regulation 2004-809. It is our responsibility to provide the opinion required by Annex I item 13.2 of EU Regulation 2004-809. We are not required nor do we express an opinion on the possibility of achievement of result or on the assumptions underlining the Profit Estimate. We do not accept any responsibility for any financial information previously reported on and used in the compilation of the Profit Estimate beyond that owed to those to whom any reports on that financial information were addressed by us at the dates of their issue.

***Scope***

We performed our work in accordance with the Netherlands Standard 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'. Our work included an evaluation of the procedures undertaken by the Executive Board in compiling the Profit Estimate and the consistency of the Profit Estimate with the accounting policies normally adopted by the Company.

We planned and performed our work so as to obtain all the information and explanations we considered necessary in order to provide us with reasonable assurance that the Profit Estimate has been properly compiled on the basis stated. Since the Profit Estimate and the assumptions on which it is based relate to the future and may therefore be affected by unforeseen events, we can express no opinion as to whether the actual results reported will correspond to those shown in the Profit Estimate and differences may be material.
We believe that our work provides a reasonable basis for our opinion.

**Opinion**

In our opinion:

a) the Profit Estimate has been properly compiled on the basis stated in Part **"Profit estimate for the year ended 31 December 2006"** of the Prospectus dated 15 January 2007; and

b) the basis of accounting used for the Profit Estimate is consistent with the accounting policies of ERIKS group NV as mentioned in Part **"Profit estimate for the year ended 31 December 2006"** of the Prospectus dated 15 January 2007.

Amsterdam, 15 January 2007

PricewaterhouseCoopers Accountants N.V.

P. Jongerius RA

# UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

## Introduction, basis of preparation and assumptions used

### General

The following unaudited pro forma financial information of the combination has been prepared to illustrate the financial impact of the Acquisition.

The unaudited pro forma combined balance sheet of the Company illustrates the combined financial position of ERIKS and WYKO as at 31 December 2005, assuming that the Acquisition had occurred as at 31 December 2005. The Company's unaudited pro forma combined profit and loss account for the year ended 31 December 2005 illustrates the effects of the Acquisition as if this had occurred on 1 January 2005, the first day of the Company's financial year 2005.

WYKO's financial year is different from that of the Company and runs from 1 May through to 30 April. Therefore, the unaudited pro forma combined financial information combines the balance sheet of the Company as of 31 December 2005 with the balance sheet of WYKO as of 30 April 2006. Similarly, the Company's income statement over 2005 is combined with the income statement of WYKO over the period 1 May 2005 up to 30 April 2006.

The Company believes that if it had presented unaudited pro forma combined financial information whereby unaudited financial information for WYKO for the 12 months period ended 31 December 2005 would be used instead of the financial information for WYKO that are derived from the audited financial statements for the 12 months period ended 30 April 2006, the unaudited pro forma combined financial information would not present a materially different view for purposes of showing the effect of the Acquisition.

The aggregated individual figures of the Company and WYKO have been adjusted as explained further in the notes in this chapter. The unaudited pro forma combined financial information should be read in conjunction with the Company's audited financial statements for the financial year ended 31 December 2005, including the notes thereto, that have been prepared in accordance with IFRS, see **"INDEX TO FINANCIAL INFORMATION"** and **"OPERATING AND FINANCIAL REVIEW"**, as well as WYKO's audited combined financial statements for the financial year ended 30 April 2006, see **"INDEX TO FINANCIAL INFORMATION"**.

The unaudited pro forma combined financial information is included for illustrative purposes only. Because of its nature, the pro forma combined financial information addresses a hypothetical situation and, therefore, does not represent the combination's actual financial position or results. The final goodwill amount, the excess payment on top of the fair value of the acquired assets and liabilities, will be determined based on the opening balance as of 17 November 2006, which will differ from the balance sheet as of 30 April 2006. The Company does not claim or represent that the unaudited pro forma combined financial information is indicative of its financial position or results that would have been achieved had the Acquisition taken place as of the date indicated or that may be achieved in the future. There can be no assurance that the assumptions used in the preparations of the unaudited pro forma combined financial information will prove to be correct.

The unaudited pro forma combined financial information contains forward-looking statements. Forward-looking statements involve risks, uncertainties and assumptions. Undue reliance should not be placed on any forward-looking statements. For further information regarding forward-looking statements, see **"CERTAIN NOTICES TO INVESTORS – Forward-looking statements"**.

In the unaudited pro forma combined financial information the refinancing of the Company has been considered. The pro forma financial results have been recalculated as if the Bridge Loan has been drawn as of 1 January 2005. The use of the proceeds of the Offering to partly redeem the Bridge Loan has been considered as of mid March 2005. The remaining part of the Bridge Loan will be replaced by unguaranteed, unsecured senior debt as of mid May. In the balance sheet as of 31 December 2005 the Offering has been taken into consideration.

### Accounting policies used in preparing the unaudited pro forma combined financial information

The unaudited pro forma combined financial information has been prepared in a manner consistent with the accounting policies as applied by the Company in preparing its audited financial statements for the financial year ended 31 December 2005.

As of the Publication Date, the Company has not fully completed all of the detailed valuation studies necessary to arrive at the required estimates of the fair market value of the WYKO assets to be acquired and the WYKO liabilities to be assumed and the related allocations of purchase price, and the Company will continue to assess WYKO's accounting policies for any additional adjustments that may be required to conform WYKO's accounting policies to that of the Company, other than those noted in the pro forma adjustments described below.

However, as indicated in Note 1 (basis of accounting) to the unaudited pro forma combined financial information, the Company has made certain adjustments to the book values of the assets and liabilities of WYKO to reflect certain estimates of the fair values necessary to prepare the unaudited pro forma combined financial information, with the excess of the purchase price over the net assets of WYKO, as adjusted to reflect estimated fair values, recorded as goodwill and definite and indefinite-lived intangibles. Actual results may slightly differ from this unaudited pro forma combined financial information once the Company has determined the final purchase price for WYKO and has completed the valuation studies necessary to finalise the required purchase price allocation. The Company does not expect that such finalisation will result in material changes.

**Unaudited pro forma combined balance sheet as at 31 December 2005**

The unaudited pro forma combined balance sheet of the Company at 31 December 2005 illustrates the effects of the Acquisition as if this transaction had occurred on 31 December 2005.

The following table contains the unaudited pro forma combined balance sheet of the Company as at 31 December 2005 (in € thousands):

1.44 Euro = 1 GBP as of April 30, 2006

| | ERIKS Actual 31-12-2005 IFRS | WYKO Actual 30-4-2006[1)] UK GAAP | WYKO Conversion Adjustments unaudited IFRS | WYKO unaudited IFRS | ERIKS/ Pro Forma Combined unaudited IFRS | Pro Forma Adjustments unaudited | ERIKS/ Pro Forma Combined unaudited IFRS |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| **Non current assets** | | | | | | | |
| Intangibles: goodwill | 34,808 | 64,997 | 0 | 64,997 | 99,805 | 37,153 | 136,958 |
| Business comb. intangibles (PPA) | 1,093 | | 0 | 0 | 1,093 | 49,964 | 51,057 |
| Intangibles: software/others | 1,899 | 144 | 461 | 605 | 2,504 | 0 | 2,504 |
| Tangible fixed assets | 48,651 | 28,907 | (402) | 28,505 | 77,156 | 0 | 77,156 |
| -> Freehold properties | 35,103 | 13,754 | 59 | 13,813 | 48,916 | 0 | 48,916 |
| -> Leasehold properties | | 4,512 | 0 | 4,512 | 4,512 | 0 | 4,512 |
| -> Plant & equipment | 13,548 | 10,641 | (461) | 10,180 | 23,728 | 0 | 23,728 |
| Financial fixed assets | 52 | 392 | (392) | 0 | 52 | 0 | 52 |
| Deferred tax assets | 3,421 | 0 | 1,930 | 1,930 | 5,351 | 6,903 | 12,254 |
| **Current assets** | | | | | | | |
| Inventories/ WIP | 61,542 | 31,066 | 1,015 | 32,081 | 93,623 | 0 | 93,623 |
| A/R trade external | 75,565 | 58,954 | 278 | 59,232 | 134,797 | 0 | 134,797 |
| Miscellaneous receivables | 2,245 | 8,551 | (1,373) | 7,178 | 9,423 | 0 | 9,423 |
| **Cash** | 22,034 | 12,046 | 818 | 12,864 | 34,898 | 0 | 34,898 |
| **Assets totals** | 251,310 | 205,056 | 2,336 | 207,392 | 458,702 | 94,020 | 552,722 |
| **Liabilities** | | | | | | | |
| **Shareholders equity** | | | | | | | |
| Share capital and retained profits | 127,551 | (29,039) | 12 | (29,027) | 98,524 | 134,027 | 232,551 |
| Minority interest | 379 | | 377 | 377 | 756 | 0 | 756 |
| **Provisions** | 6,331 | 13,140 | (834) | 12,306 | 18,637 | 0 | 18,637 |
| **Deferred tax liability** | 7,234 | | 531 | 531 | 7,765 | 14,989 | 22,754 |
| **Long term liabilities** | | | | | | | |
| Loans external | 29,575 | 115,910 | 0 | 115,910 | 145,485 | (13,364) | 132,122 |
| Financial instruments | 1,961 | | 0 | 0 | 1,961 | 0 | 1,961 |
| **Current liabilities** | | | | | | | |
| Accounts payable trade | 29,344 | 48,094 | 7 | 48,101 | 77,445 | 0 | 77,445 |
| Corporate income tax | 1,870 | 261 | 104 | 364 | 2,234 | 0 | 2,234 |
| Repayment obligation loans/others | 7,883 | 37,351 | 0 | 37,351 | 45,234 | (45,234) | 0 |
| Bank overdrafts | 16,682 | 1,017 | 0 | 1,017 | 17,699 | 0 | 17,699 |
| Miscellaneous liabilities | 22,500 | 18,322 | 2,139 | 20,461 | 42,961 | 3,601 | 46,562 |
| **Liabilities totals** | 251,310 | 205,056 | 2,336 | 207,392 | 458,702 | 94,020 | 552,722 |

Note 1) Financial year WYKO ended 30 April 2006

The Company's actual numbers and WYKO's actual numbers are derived from their respective financial statements.

**Unaudited pro forma combined profit and loss account of ERIKS for the year ended 31 December 2005**

The unaudited pro forma combined profit and loss account of the Company for the financial year ended 31 December 2005 illustrates the effect of the Acquisition as if this transaction had occurred on 1 January 2005, the first day of the Company's financial year 2005.

The following table contains the unaudited pro forma combined income statement of the Company for the financial year ended 31 December 2005 (in € thousands):

| 1.46 Euro = 1 GBP average May 1, 2005 - April 30, 2006 | ERIKS Actual 2005 IFRS | WYKO Actual 2005/ 2006[1] UK GAAP | WYKO Conversion Adjustments unaudited IFRS | WYKO IFRS | Pro Forma | ERIKS/ WYKO Combined unaudited IFRS |
|---|---|---|---|---|---|---|
| **Net sales** | 448,549 | 352,867 | 2,044 | 354,911 | (21,102) | 782,357 |
| **Cost of sales** | 331,597 | 233,373 | 44,971 | 278,345 | (14,302) | 595,640 |
| **Gross profit on sales (€)** | **116,952** | **119,493** | **(42,927)** | **76,566** | **(6,801)** | **186,717** |
| Sales expenses | 71,751[2] | 67,952 | (29,487) | 38,465 | (656) | 109,560 |
| General administrative expenses | 11,361 | 38,524 | (16,717) | 21,807 | — | 33,168 |
| **Total expenses** | **83,112** | **106,476** | **(46,204)** | **60,272** | **(656)** | **142,728** |
| Amortisation intangibles | — | (5,236) | 5,236 | — | — | — |
| Other operating income | 1,956 | 357 | (449) | (92) | — | 1,864 |
| **Operational profit (EBIT)** | **35,796** | **8,139** | **8,063** | **16,202** | **(6,145)** | **45,853** |
| Financial results | (2,676) | (11,767) | (2,955) | (14,722) | 6,575 | (10,824) |
| Results from associates | 19 | — | — | — | — | 19 |
| **Profit before taxes** | **33,139** | **(3,628)** | **5,108** | **1,480** | **430** | **35,049** |
| Taxes | (11,000) | 240 | 76 | 316 | (628) | (11,312) |
| **Net results (incl. minority interest)** | **22,139** | **(3,388)** | **5,183** | **1,795** | **(198)** | **23,736** |
| Minority interest | 80 | — | 217 | 217 | — | 297 |
| **Net results at disposal stockholders** | **22,059** | **(3,388)** | **4,967** | **1,579** | **(198)** | **23,440** |

Note 1) Financial year WYKO is from 1 May 2005 til 30 April 2006

Note 2) According to ERIK's accounting policies amortisation intangibles related to acquisitions is included in sales expenses
Amortisation intangibles in combined pro forma income statement amounts € 4.6 million

The Company's actual numbers and WYKO's actual numbers are derived from their respective financial statements.

**Basis of accounting**

On 17 October 2006, the Company and WYKO announced the Acquisition. The allocation of the purchase price discussed below is preliminary, because the balance sheet at completion is still subject to changes and includes a number of preliminary estimates. The total purchase price of the Acquisition is as follows:

| | |
|---|---|
| Purchase price [1] | € 185.7 million |
| Transaction-related costs [2] | € 2.5 million |
| Total purchase price consideration | € 188.2 million |

Notes:

Costs directly related to the Acquisition (comprised of the Company's financial advisory, legal and other professional service fees).

The purchase price consideration (€ 185.7 million) has been arrived after having taken account of adjustments to the originally agreed price of GBP 139.0 million (€ 200.2 million). The adjustments mainly relate to debt-like items and taxes resulting in a discount of GBP 10.1 million (€ 14.5 million). For the purpose of the pro forma purchase price allocation, the purchase price is translated against the spot rate as per the balance sheet date.

Under the purchase method of accounting, the total purchase price as shown in the table above is allocated to WYKO's current and non-current assets, tangible assets, intangible assets (both definite and indefinite lived), and current and non-current liabilities based on their estimated fair values as of the date of the pro forma balance sheet.

The Executive Board has allocated the purchase price based on certain estimates that are described in the introduction to this unaudited pro forma combined financial information. The allocation of the purchase price and the estimated useful lives and first year depreciation and amortisation associated with certain assets is as follows (in € thousands):

| | **Amount** | **1st year depreciation & amortisation** | **Estimated useful life** |
|---|---|---|---|
| Net tangible assets: | | | |
| Current assets | 98,491 | | n/a |
| Non-current assets | 29,110 | 4,363 | 3-40 years |
| Current liabilities | (72,572) | | n/a |
| Non-current liabilities | (12,306) | | n/a |
| Identifiable intangible assets | | | |
| Customer relationships | 44,647 | 3,025 | 15 years |
| Trade name WYKO | 3,279 | 1,111 | 3 years |
| Distribution agreement | 2,038 | 346 | 6 years |
| Goodwil | 102,150 | | n/a |
| Net deferred tax assets/(liability) | (6,686) | | n/a |
| Total purchase price | 188,196 | 8,845 | |

The depreciation and amortisation related to the fair value adjustments to net tangible assets and the amortisation related to the definite lived intangible assets are reflected as pro forma adjustments to the unaudited pro forma combined profit and loss account.

**Identifiable intangible assets**

Customer contracts and relationships primarily relate to underlying customer relationships. The Company expects to amortise the fair value of these assets on a straight-line basis over an average estimated life of 15 years.

Trade name relates to the WYKO trade name (and other sub-brands), which the Company expects to have a definite useful life of 3 years and its fair value will be amortised over that period. In the event that management determines that the value of the trade name has become impaired, the Company will incur an impairment charge for the amount of impairment during the period in which the determination is made.

Distribution agreement relates to an exclusive distribution agreement which the Company expects to have a definite useful life of 6 years and will be amortised over that period.

Goodwill represents the excess of the purchase price over the fair value of the underlying net tangible and intangible assets and is approximately € 102 million, based on the WYKO balance sheet as of 30 April 2006. In accordance with IFRS 3 Business Combinations, goodwill will not be amortised, but instead will be tested for impairment at least annually (more frequently if certain indicators are present). In the event that management determines that the value of goodwill has become impaired, the Company will incur an accounting charge for the amount of impairment during the period in which the determination is made.

**Reclassifications and significant differences between UK GAAP and IFRS**

WYKO prepared its consolidated financial statements in accordance with UK GAAP, which differ in material respects from IFRS. For purposes of preparing the unaudited pro forma combined financial information, WYKO's financial information has been adjusted to conform to IFRS as applied by the Company. These adjustments have been made based on estimates of the Executive Board. The adjustments are unaudited, and may not fully reflect the application of IFRS per the periods presented had WYKO prepared its financial information using IFRS. After completion of the Acquisition, the Company started to perform a detailed review of WYKO's accounting policies and financial statement classification, and additional adjustments may be required to conform the WYKO financial statements to the Company's financial statements as presented under IFRS.

Certain WYKO accounts have been reclassified by the Company to conform to the Company's financial statement presentation. The tables are for informational purposes to clarify the reclassifications made to obtain the pro forma financial information of the combined company.

Although the Company does not expect that the detailed review will result in material changes to accounting policies or classifications other than those noted below, no such assurance can be given at this time. The following narratives give a brief description of the material differences between UK GAAP and IFRS as identified by the Company and the reclassifications involved.

Balance sheet information relating to WYKO as of 30 April 2006 (in € millions):

| | WYKO UK GAAP | Reclassification differences IFRS and UK GAAP | WYKO as presented pro forma on IFRS basis | Comment on reclassifications and differences |
|---|---|---|---|---|
| 1) Intangibles software | 0.2 | 0.4 | 0.6 | Reclassification software |
| 2) Property, plant & equipment | 28.9 | (0.4) | 28.5 | Reclassification software |
| 3) Financial fixed assets | 0.4 | (0.4) | 0.0 | Consolidation of joint venture |
| 4) Deferred tax assets | 0.0 | 1.9 | 1.9 | Ref. note A) |
| 5) Inventories/ WIP | 31.0 | 1.0 | 32.0 | Ref. note B) |
| 6) Miscellaneous receivables | 8.6 | (1.4) | 7.2 | Reclassification deferred taxes |
| 7) Cash | 12.0 | 0.8 | 12.8 | Consolidation of joint venture |
| 8) Provisions | 13.1 | (0.8) | 12.3 | Ref. note C) |
| 9) Miscellaneous liabilities | 18.3 | 2.2 | 20.5 | Ref. note D) |

**Note A)**

Deferred tax assets of € 1.4 million have been reclassified from miscellaneous receivables. The consideration of an obligation related to outstanding holiday days (€ 1.8 million) resulted in an additional deferred tax asset of € 0.5 million.

**Note B)**

IFRS is more prescriptive than UK GAAP in the costs that should be included in the inventory valuation. As a consequence, the Company includes certain directly attributable costs that were not included by WYKO. Therefore inventory valuation is adjusted for the mark-up that covers the directly attributable costs for bringing the inventory in the condition and location necessary for sale.

**Note C)**

The reduction of the provisions for dilapidations (€ 0.1 million) and onerous lease contracts (€ 0.7 million) expresses the impact of discounting as WYKO recorded these provisions at nominal value. The discounting of these provisions according to IFRS is based on the estimated timing of expected cash outflows using a risk specific interest rate.

**Note D)**

UK accounting standards provide no guidance how to deal with short term employee benefits, except for bonuses. WYKO did not recognise a liability for holiday days not yet spent. Since the Company combines the WYKO balance sheet for the period ended 30 April 2006 an accrual related to holiday days not spent in the first four months of 2006 has been recognised in the unaudited pro forma balance sheet.

Income statement information relating to WYKO for the financial year ended 31 December 2005 (in € millions):

| | **WYKO** | **Reclassification differences IFRS and UK GAAP** | **WYKO as presented pro forma** | **Comment on reclassifications and differences** |
|---|---|---|---|---|
| 1) Net sales | 352.9 | 2.0 | 354.9 | Consolidation JV Rencol MMI |
| 2) Cost of sales | 233.4 | 44.9 | 278.3 | Ref. note A) |
| 3) Sales expenses | 68.0 | (29.5) | 38.5 | Ref. note A) |
| 4) Gen. administrative costs | 38.5 | (16.7) | 21.8 | Ref. note A) |
| 5) Amortisation intangibles | 5.2 | (5.2) | 0.0 | Reversal amortisation goodwill |
| 6) Financial results | 11.8 | 2.9 | 14.7 | Reclassification refinancing costs |

The adjustments recorded in the unaudited pro forma income statement do not have a non-recurring nature.

**Note A)**

WYKO has a different way of allocating sales expenses and general administrative expenses to the costs of sales. This results in a reclassification of respectively € 23.5 and € 16.7 million from sales expenses and general administrative expenses to the costs of sales (total € 40.2 million).

Furthermore, the Company marks up the inventory valuation to cover directly attributable costs related to procurement and handling. Accordingly, this adjustment results in a rise of the costs of sales (€ 6.2 million). Depreciation costs (€ 1.6 million) taken into consideration by WYKO in the costs of sales have been reclassified to sales and general administrative expenses. Total impact is € 44.9 million.

The costs of refinancing (€ 3.4 million) included in the sales and general administrative expenses, have been reclassified to financial results. Financial results related to pension costs (€ 0.5 million) have been reclassified in the opposite direction. The net reclassification amounts € 2.9 million.

**Pro forma adjustments**

The pro forma adjustments are to reflect the allocation of the purchase price, amounts related to the Company's current and non-current tangible assets, intangible assets (both definite lived and indefinite lived), and current and non-current liabilities at an amount equal to the preliminary estimate of their fair values, the amortisation expense related to the estimated identifiable intangible assets, and changes in depreciation and amortisation expense resulting from the estimated fair value adjustments to net tangible assets and the income tax effect related to the pro forma adjustments.

There were no significant intercompany balances or transactions between the Company and WYKO as of the date and for the period of this pro forma combined financial information.

The pro forma combined accruals for corporate income tax do not reflect the amounts that would have resulted had the Company and WYKO filed consolidated income tax returns during the period presented.

The unaudited pro forma combined financial information does not take into account any synergy benefits and one-off costs of realising such synergies, nor any adjustments for liabilities that may result from integration activities, as the Executive Board and WYKO's management currently are in the process of making these assessments.

The pro forma adjustments included in the unaudited pro forma balance sheet of the combined financial information are as follows (in € millions):

| | ERIKS/ WYKO<br>UK GAAP | Pro forma adjust- ments IFRS and UK GAAP | ERIKS/ WYKO Pro forma combined unaudited IFRS | Comment on pro forma adjustments |
|---|---|---|---|---|
| 1) Goodwill | 99.8 | 37.2 | 137.0 | Ref. note A) |
| 2) Business comb. Intangibles | 1.1 | 50.0 | 51.1 | Ref. note B) |
| 3) Deferred tax assets | 5.4 | 6.9 | 12.3 | Relate to pensions/ capital allowances |
| 4) Deferred tax liability | 7.8 | 15.0 | 22.8 | Relate to capitalisation intangibles |
| 5) Shareholders equity | 127.6 | 105.0 | 232.6 | Ref. note C) |
| 6) Loans external | 145.5 | (13.4) | 132.1 | Ref. note D) |

**Note A)**

Under the purchase method of accounting, the total purchase price as shown in paragraph 1 (basis of accounting) is allocated to WYKO's assets and liabilities as of 30 April 2006. The allocation of the purchase price and the amortisation of the identifiable intangible assets have been elaborated in the above mentioned paragraph. The excess amount paid on top of the fair value of the net identifiable assets, is reported as goodwill.

**Note B)**

Identifiable intangible assets are customer relationships, the trade name WYKO and a distribution agreement. The total amount is € 50.0 million. The applicable deferred tax liability (€ 15 million) is taken into consideration. This amount is included in the netted amount of net deferred tax liability of € 6.7 million in the purchase price consideration elaborated in **"Basis of accounting"**.

**Note C)**

The Company intends to refinance its capital structure. The aggregate gross proceeds of the Offering are expected to amount to approximately € 110 million. The related expenses and commissions payable in connection with the Offering amount to approximately € 5 million. The net proceeds (€ 105 million) will be used to partly repay the Bridge Loan. These net proceeds are presented as increase of share capital.

**Note D)**

The pro forma adjustments relate to the Company's total refinancing. The net proceeds of the Offering (€ 105 million) have been considered to reduce the Bridge Loan. Due to the refinancing of the Company the repayment obligation loans (€ 45.2 million) has been reclassified to loans external. The refinancing results in lower external loans of € 13.4 million.

The pro forma adjustments included in the unaudited pro forma income statement of the combined financial information are as follows (in € millions):

| | ERIKS/ WYKO Pro forma combined unaudited IFRS | Pro forma adjust- ments | ERIKS/ WYKO Pro forma combined unaudited IFRS | Comment on pro forma adjustments |
|---|---|---|---|---|
| 1) Net sales | 803.4 | (21.1) | 782.3 | Ref. note A) |
| 2) Sales expenses | 110.3 | (0.7) | 109.6 | Ref. note B) |
| 3) Financial results | (17.4) | 6.6 | (10.8) | Ref. note C) |

**Note A)**

On 12 October 2005 Serco-Ryan Ltd., a wholly-owned subsidiary of WYKO was sold. For pro forma purposes the income statement of Serco-Ryan Ltd. is carved out resulting in lower sales (€ 21.1 million), lower cost of sales (€ 14.3 million) and lower sales expenses (€ 5.1 million). Due to the carve-out operational profits decreased by € 1.7 million.

**Note B)**

The amortisation of the intangible assets resulting from the purchase price allocation (PPA) amounts € 4.5 million. The amortisation has been recorded under selling expenses (netted with the carve-out of selling costs related to Serco-Ryan (€ 5.2 million) in the WYKO accounts). The net effect is € 0.7 million. For more details, see **"Basis of accounting"**.

**Note C)**

Related to the Acquisition the Company has negotiated a Bridge Loan. The pro forma financial results have been recalculated as if the Bridge Loan has been drawn on 1 January 2005. Consequently, the expected net proceeds of the Offering (€ 105 million) are considered to be used to repay a part of the Bridge Loan in March 2005. The Over-Allotment Option has not been taken into consideration. For pro forma purposes the repayment of the remainder of the Bridge Loan has been allocated in May 2005. Based on the terms and conditions of the Bridge Loan and the unguaranteerd, unsecured senior debt (€ 200 million), the credit needs, depreciation of the related commitment fees and other financial expenses, the financial results have been calculated to amount to approximately € 10.8 million. Consequently, this amount reflects the incremental financing costs of the Company on top of its regular financing costs in 2005. The Offering has been taken into consideration determining the incremental financing costs.

**Auditors' assurance report on pro forma combined financial information**

To the Executive Board

**Introduction**

We have examined the pro forma combined financial information set out in **"UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION"** of this Prospectus. The pro forma combined financial information has been prepared solely to show what the significant effects of the Acquisition, including the bridge facilities, the Offering and the refinancing, might have been on the consolidated balance sheet of the Company as at 31 December 2005 and profit and loss account of the Company for the year ended 31 December 2005, had the acquisition occurred at an earlier date.

The pro forma combined financial information is the responsibility of the Executive Board. It is our responsibility to provide the opinion required by Annex II item 7 of EU Regulation 2004-809. We are not responsible for expressing any other opinion on the pro forma combined financial information or on any of its constituent elements.

**Scope**

We conducted our examination in accordance with the Netherlands Standard 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'. Our work consisted primarily of comparing the unadjusted financial information with the source documents, obtaining evidence supporting the adjustments and discussing the pro forma combined financial information with the Executive Board.

**Opinion**

Based on our examination, in our opinion:

a) the pro forma combined financial information has been properly compiled on the basis stated in **"UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION"** of this Prospectus; and

b) such basis is consistent with the accounting policies of ERIKS group N.V. as described in **"UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION"** of this Prospectus.

**Emphasis of matter**

Without qualifying our opinion, we draw attention to the fact that, as outlined in **"Introduction, basis of preparation and assumptions used"**, this pro forma combined financial information is prepared by using management's assumptions. It is not necessarily indicative of the effects on the financial position that would have been attained had the above-mentioned Acquisition, including the bridge facilities, the Offering and the refinancing, actually occurred earlier as described in **"Introduction, basis of preparation and assumptions used"**. Moreover, the pro forma combined financial information is not intended to, and does not, provide all the information and disclosures necessary to present a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU.

Amsterdam, 15 January 2007

PricewaterhouseCoopers Accountants N.V.

P. Jongerius RA

# INDUSTRY AND BUSINESS OVERVIEW

## General

### Business description

The Company is the Dutch holding company of a group of technical distribution companies. ERIKS procures, stores, processes, sells and distributes a wide range of high-quality mechanical engineering parts and provides a highly developed range of technical and logistics services. The Company aims to be an innovative, reliable and flexible partner to its customers and a reliable and cooperative partner with sufficient market share and volume to its manufacturers.

In house, ERIKS possesses broad and in-depth knowledge of market developments, product properties, product applications, product processing, logistics and a corresponding modern infrastructure. By offering these six know-how domains, ERIKS is able to contribute positively to the businesses of its customers and manufacturers (see "**Core activities and product groups – Know-how**").

In 2006, ERIKS supplied more than 90,000 industrial customers (business-to-business), marketed a range of more than 600,000 articles, purchased worldwide from over 1,000 qualified suppliers/manufacturers and sent out more than 2 million shipments. ERIKS serves customers in many types of industry, including chemical, petrochemical, food, mechanical engineering, semiconductor, oil refineries, construction, off shore and metal.

Currently, ERIKS consists of more than 50 operating companies and ERIKS has a presence in 13 countries. The geographical focus of the group's activities is Western and Central Europe (the Netherlands, Belgium, Luxembourg, Germany, France, the United Kingdom, Ireland, Slovakia, Czech Republic and Poland) with additional operations in the United States and South East Asia (Singapore and Malaysia). Through the Acquisition (see "**THE ACQUISITION**"), ERIKS now also has a strong market position in the United Kingdom.

ERIKS' activities are divided into eight clusters, which each serve a specific geographical market area: ERIKS Netherlands, ERIKS Belgium, ERIKS Germany, ERIKS France, ERIKS UK, ERIKS Central Europe, ERIKS USA and ERIKS South East Asia (see – "**Clusters**"). The cluster ERIKS Central Europe was created after the acquisition of all shares in the capital of Passerotti sp.z.o.o. and all activities of Mowta Bogdan Porzych sp.z.o.o., which occurred on 1 October 2006. ERIKS UK was created upon completion of the Acquisition.

### History

The Company started as a family business and was established in Alkmaar as *Eriks Pakkingen en Rubber* in 1940. By 1956, ERIKS had several branches in the Netherlands and a presence in Belgium.

The international expansion of ERIKS continued in the late 1970's and the beginning of the 1980's. The Company opened branches in France and the USA. In this period, several industries started to move parts of their business to South East Asia. The Company responded to this trend in the industrial market by opening branch offices in Singapore and Malaysia, which now form the South East Asia cluster. In the late 1980's and the 1990's, ERIKS further expanded its activities.

## Core activities and product groups

ERIKS' current range of mechanical engineering parts and associated services is divided into six core activities and their associated product groups:

– sealing technology
– power transmissions
– flow technology
– industrial plastics
– tools and maintenance products
– technical and logistics services

**Sealing technology**

ERIKS has sub divided its sealing technology activities into the following product groups:

- O-rings
- dynamic sealing elements
- rubber technology
- flange gaskets

**Power transmissions**

ERIKS has sub divided its power transmissions activities into the following product groups:

- hydraulic hoses and accessories
- hydraulic parts and systems
- pneumatics
- electrical and mechanical transmissions
- bearings

**Flow technology**

ERIKS has sub divided its flow technology activities into the following product groups:

- valves and instrumentation
- industrial hoses and accessories
- plastic piping

**Industrial plastics**

ERIKS has sub divided its industrial plastics activities into the following product groups:

- machined plastic parts
- plastic semi-finished products

**Tools and maintenance products**

ERIKS has sub divided its tools and maintenance activities into the following product groups:

- tools
- maintenance products

ERIKS offers a broad range of different tools including hand tools, cutting tools, clamping tools, measuring tools, abrasives, welding and soldering tools, safety equipment, electrical tools, pneumatic tools, hydraulic tools, metal working machines, workshop furniture and special tools.

In the maintenance products range, ERIKS offers lubricants, mechanical fasteners, chemical fasteners and workshop equipment.

**Technical and logistics services**

ERIKS has sub divided its technical and logistics services activities into the following product groups:

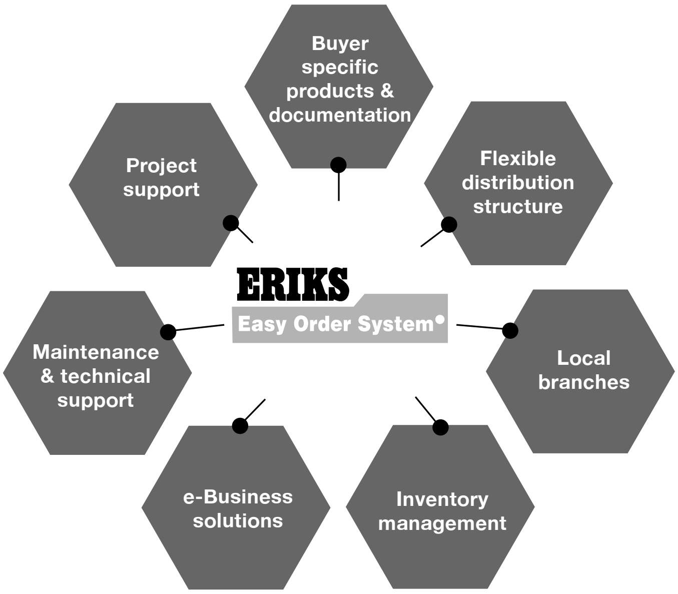
- supply chain management
- engineering and machining

***Supply chain management***

ERIKS aims to substantially reduce procurement costs for its customers by providing a wide spectrum of logistics services without compromising on reliability or flexibility. ERIKS advises customers on how to reduce stocks of technical parts and minimise administrative work. Various product packages can thus be integrated within one logistics concept.

*Easy Order System*

ERIKS offers its customers an extensive portfolio of technical and logistics services via its Easy Order System. ERIKS offers its customers the possibility to simplify or completely outsource the total procurement of major orders. ERIKS believes that the strength of the Easy Order System is the combination of technical and logistics services into integrated supply. By providing a wide range of engineering parts, ERIKS can fulfil the role of key supplier for various product groups, enabling its customers to reduce their number of suppliers.




The Easy Order System consists of a wide range of technical and logistics services, including:

- customer-specific products and packaging including certification
- packaging of ready-to-use sets of individual parts
- from planned to just in time delivery options
- local presence in major industrial areas
- 7 x 24 hours service
- storing of customer-dedicated stocks
- outsourcing solutions
- e-Business solutions (such as TradCom)
- on-site inspection, testing and repairs
- R&D and training facilities

***Engineering and machining***

The Company has extensive specialised technical knowledge of products, materials and applications available of its product range. ERIKS is therefore able, by in-house and external machining capacity, to customise products to customer specifications.

**<u>Know-how</u>**

ERIKS is committed to making a fundamental contribution to the operational management of its customers and manufacturers. The innovative capability this requires calls for a high-quality range of products and services backed up by a high level of know-how.

ERIKS makes a distinction between six know-how domains in each of its activities:

- Market know-how
  Knowledge of the demand side of the market (customers) and the supply side (sourcing know-how) enables the company to offer new products and services and enter new markets proactively and timely.
- Product know-how
  ERIKS possesses in-depth knowledge of products and their properties. ERIKS conveys this knowledge in different types of technical documentation.
- Application know-how
  ERIKS is able to:
  - understand the current and future applications (of its customers) and translate them into the use of the right products

  - translate issues which customers face into new products (product development)
  - brainstorm with customers on engineering for the design and maintenance of new products and systems (research and development).

- Product processing know-how (customizing)
  ERIKS is able to translate the customer's demands into new product specifications and ensure the availability of facilities (either in-house or through third parties) to adapt existing products to the specifications. ERIKS can offer maintenance facilities and services for the performance of maintenance on parts and systems delivered or deliverable by ERIKS.
- Logistics know-how
  ERIKS is able to analyse and streamline logistics streams and develop and ensure the availability of logistics concepts tailored to fit its customers (from identification of the customer's demands through to payment), both for the administrative and the physical parts of the process. ERIKS can make procurement more efficient for its customers.
- Knowledge needed to optimise the ERIKS infrastructure
  ERIKS has:
  - efficiently structured and modern accommodation, logistics and production
  - efficiently structured, modern and controllable ICT

## Sales and marketing

### Customers

ERIKS makes a distinction between the following types of customers or purchasing profiles:

- maintenance repair overhaul (MRO)
- original equipment manufacturers (OEM)
- projects
- distribution

Installation companies and engineering contractors are classified under MRO or "projects", depending on the type of purchase they make.

#### *MRO*

ERIKS' products and services are used directly in the servicing of systems and machines. The MRO customer group expects ERIKS to be able to adapt products to applications (processing), to offer maintenance services and repair facilities and to possess an extensive array of logistics services. Additionally, these customers demand simplified ordering procedures and integration of business processes.

The Company believes that main drivers of growth/decline of this market are product application know-how (see "**Know-how**"), provision of maintenance service and repair facilities and logistical concepts.

#### *OEM*

ERIKS' products and services are used in the manufacture of finished products by the customer.

The delivery of mechanical parts to product manufacturers is mainly focused on producers of high-quality products, who require high quality parts. In order for manufacturers to be successful in producing high-quality products, the on time delivery of constant high quality parts is of major importance.

For the OEM customer group it is particularly important to offer an in-depth range of products and services and to possess application know-how. ERIKS employs specialists who, the Company believes, have the know-how required for the different market segments and customer groups. In this setting, it is also important to offer logistics services that simplify ordering procedures and make it possible to control working capital and to offer extensive ERIKS documentation. Increasingly, ERIKS is being expected to play a part in research and development and take on a role in quality assurance.

The Company believes that main drivers of growth/decline of this market are market, product and application know-how to supply parts and systems tailored to fit the customers‘ applications (see “**Know-how**”), quality assurance, logistical concepts and sourcing know-how.

The Company expects that rolling out the commercial concept used by the clusters ERIKS Netherlands and ERIKS Belgium to the other clusters in Europe will offer good opportunities to increase sales to OEM customers.

**Projects**

ERIKS’ products and services are used in major maintenance stops of existing process plants and in the construction of new process plants and infrastructure works.

***Distribution***

In the distribution market, ERIKS approaches local dealers if its branch operations do not cover existing market regions. ERIKS’ products are exported to market regions where ERIKS does not have its own branch operations, especially to obtain the required volume. In these regions ERIKS approaches both national distributors and OEMs.

The Company believes that the main drivers of growth/decline of this market are the availability of products and attractive pricing.

**<u>Two business models</u>**

ERIKS’ system of distribution is based on two business models. Product managers work from a central business unit (competence centre) of the relevant cluster and generally maintain direct contact with OEM customers and other major customers. Regional managers are responsible for developing market position in a specific region. This can be done through ERIKS’ own branch operations and/or dealers, with the branch operations primarily maintaining direct contacts with the maintenance market. These two business models allow ERIKS to fulfil both the role of specialist and that of broad MRO supplier.

For OEM and MRO customers with specific demands, ERIKS is able to:

– contribute to research and development
– supply parts and systems tailored to fit the application
– fulfil its role in quality assurance
– ensure efficient procurement and logistics ERIKS is the solution-driven supplier of modules

For maintenance customers with general demands, ERIKS is able to:

– supply product and application know-how
– offer maintenance services and repair facilities
– provide an efficient administrative and logistics concept for supplying a wide and deep range of services and products

**<u>Manufacturers</u>**

Built on partnerships, ERIKS enters into preferably long-term relationships with manufacturers all over the world, based on its independent position. ERIKS’ size offers many manufacturers the prospect of substantial sales and a large market share.

**<u>Market opportunity</u>**

**Overview**

There is no accurate information about the size of the market in which ERIKS operates. The Company estimates that the total European market in the countries where ERIKS operates has a sales volume of more than € 20 billion. The Company estimates the size of the market based on information of manufacturers, distributors and information published by industrial organisations, such as VTH (*Verband Technischer Handel*) in Germany.

Market growth in the market for mechanical engineering parts is generally correlated with the growth in the overall industrial output. The industrial output in Western Europe increased in 2004 for the first time since 2000. The growth has not sustained in 2005. An important factor explaining the market development is the substantial relocation of manufacturing industry from Western Europe to low-wage countries in Eastern Europe and the Far East. ERIKS responded to this trend by focussing on those industries that are less suitable to be relocated such as food, pharmaceutical, chemistry, electronics and electro technical industries. The outlook for 2006 is generally positive. The growth of industrial output in Belgium, Germany and the USA for 2006 was good, growth in the Netherlands and France was positive in the beginning of 2006, but weakened later during the year. In the United Kingdom, industrial output declined in the past few years but the market is showing signs of recovery.

In 2005, the Company was able to profit from the economic growth and its strategy. The Company's production and sales showed a 10% autonomous growth. In the same year, inventory has risen in line with the turnover, while costs have risen less than the turnover. Selling prices have increased approximately 1-2% in 2005.

**ERIKS**

ERIKS serves a broad range of segments of industry, which makes ERIKS less dependent on developments in one particular market segment. ERIKS divides the industry in the following segments: machine engineering, chemical, petrochemical, construction industry, transport industry, agriculture, food, drinks and tobacco, rubber and metal, other industries and dealers and distributors. An important segment for ERIKS is machine engineering, which generally represents approximately 25% of ERIKS' sales.

**Competition**

The European market for the distribution of mechanical engineering parts remains very fragmented. A few competitors of equivalent size are operating in various countries and are pursuing an international expansion strategy. The combined market share of these international distributors including ERIKS is still relatively small. In addition to these international distributors, there are many small and medium-sized businesses, many of which are family owned businesses, that serve the market with one or more product groups nationally or regionally. Manufacturers of mechanical parts are also competing with ERIKS, especially for large OEM customers.

One of the Company's objectives is to achieve a strong market share (top 3) for all core activities in its range, in all regions where ERIKS has its own branch operations (see "**Strategy**"). The following table shows the market share per cluster and core activity:

| Core activity<br><br>Country/region | Sealing technology | Power trans-missions | Flow technology | Industrial plastics | Tools and maintenance products |
|---|---|---|---|---|---|
| The Netherlands | +++ | +++ | ++ | ++ | ++ |
| Belgium | ++ | ++ | ++ | + | ++ |
| Germany | + | ++ | + | n.a. | n.a. |
| France | + | + | + | n.a. | + |
| Central Europe | + | n.a. | + | n.a. | n.a. |
| UK | + | ++ | n.a. | n.a. | + |
| USA | ++ | n.a. | n.a. | + | n.a. |
| South East Asia | + | n.a. | + | n.a. | n.a. |

Source: Company

+++ = >25% + = <10%

+ = 10-25% n.a. = core activity not part of the cluster's range

**Strategy**

**Introduction**

The Company believes it has the following competitive strengths:

– a large customer base and presence in important industrial segments
– broad and in-depth range of products/services
– innovative strength
– know-how-driven technical and logistics services
– ability to offer manufacturers volume and market share
– modern infrastructure (accommodation and ICT)
– entrepreneurship and highly trained employees
– financial health

Building on these competitive strengths, the Company strives to achieve the following objectives:

- to build a leading market position in Western and Central Europe
- to achieve a strong market share (top 3) for all core activities in its range, in all regions where ERIKS has its own branch operations
- to offer an extensive range of high-quality mechanical engineering parts
- to possess and offer a high level of know-how so as to be an innovative supplier
- to have a balanced distribution of sales across the main customer types (buying profiles) of MRO and OEM in order to control its risk profile
- to expand existing activities in the United States
- to maintain activities in South East Asia autonomously

ERIKS' strategy rests on the following pillars:

- autonomous growth
- growth through expansion
- employees
- efficient operational management
- realising synergy

***Autonomous growth***

The coming years, the Company intends to focus on achieving profitable autonomous growth. The integration of WYKO, and the other companies which ERIKS recently acquired, into ERIKS' organisational structure will be an important focus. The Company intends to finalise the initial phase of integrating WYKO's business into ERIKS within approximately 12 months after completion of the Acquisition, which took place on 17 November 2006. Implementing ERIKS' business models is expected to take several years.

In order to grow autonomously, the Company believes that ERIKS must focus on meeting the wishes of its customers and that ERIKS must have a distinctive edge over its competitors. In this context, ERIKS will continue to increase and maintain the level of its know-how. This will allow ERIKS to enter new market segments and make it possible to develop and maintain an attractive/compelling marketing mix for each type of customer.

The Company further believes that in order to achieve autonomous growth, it should maintain and, where necessary, increase the level of the six know-how domains (see "**Know-how**"). This will allow ERIKS to enter new market segments and make it possible to develop and maintain a marketing mix for each type of customer.

*Entrepreneurship and management development*

In order to achieve and maintain the level of know-how, ERIKS continues to focus on the selection of employees with a strong feeling of entrepreneurship and the retaining of experienced and good management through its management development program.

*Well-trained employees*

The Company aims to have all six know-how domains present at all group companies and in their core activities. Monitoring, and where necessary improving, the level of know-how occurs through internal and external training programs and also by recruiting new employees.

*Broad and in-depth range of products and services*

In the Company's view, each cluster should have a broad and in-depth range of products and services in order to be able to meet the market's demands. The Company intends to further expand its range of products in certain clusters, such as ERIKS Germany, ERIKS France, ERIKS UK and ERIKS Central-Europe. ERIKS UK currently mainly serves customers in the MRO market. The coming years, the Company plans to integrate ERIKS UK into the ERIKS organisation with a focus on expanding the product range and increasing the level of know-how in order to be able to be an added value supplier to existing and new markets.

*International account management*

More and more customers of ERIKS seek a pan-European coverage to meet their procurement requirements. A specially created platform is used to serve customers who are seeking a pan-European coverage to meet their procurement requirements.

*Engineering and processing*

In close consultation with ERIKS' customers, ERIKS' sales and application engineers are actively involved in assisting customers in developing new products. Products can be adapted to the customers' specification at ERIKS' own facilities.

*Logistics services and ICT*

ERIKS offers its customers a wide range of logistics services, combined in the Easy Order System. The Easy Order System helps ERIKS' manufacturers, distributors and customers control order flows, reduce transaction costs and control the costs of maintaining inventories (supply chain management). To its MRO customers, ERIKS offers the TradCom e-portal as a total solution for planning purchases and procurement of customers' maintenance materials. The number of customers for this kind of logistics services has increased and the Company plans to further expand the Easy Order System to be able to continue to offer logistics services tailored to its customers' need. Furthermore, the Company intends to roll out WYKO's "insite solutions" program to the other clusters.

*"Couleur locale"*

ERIKS believes that customers should be approached on a local level. Therefore, ERIKS approaches its customers through branch operations in major industrial centres or through cooperation with local technical trading companies.

***Growth through expansion***

ERIKS' strategy has been focussed on the expansion of its market area in order to offer its manufacturers a market area of sufficient size and to offer its customers a broad package of products and services.

Through the Acquisition, ERIKS has notably expanded its market area in the United Kingdom, the Netherlands, Belgium, Germany, Slovakia and Ireland (see "**THE ACQUISITION**"). In Germany, ERIKS took over the trading activities of Acona Hydraulik-Systeme GmbH, with branch operations in Aachen and Magdeburg as of 1 January 2006 (see "**Clusters – ERIKS Germany**"). In Belgium, ERIKS acquired all commercial activities of RIV-Charleroi S.A., based in Charleroi, in July 2006. As of November 2006, ERIKS USA expanded through the acquisition of Turpen & Associates Inc. in Tulsa, Oklahoma. As of 1 October 2006, ERIKS expanded its activities in Central Europe through the acquisition of all shares in Passerotti Sp. z o.o., statutorily based in Bielsko-Biala and the enterprise of Mowta Bogdan Porzych, statutorily based in Gdansk.

The first priority is integrating the acquired businesses into the ERIKS organisation. After the initial integration is completed, the Company plans to further expand.

***Employees***

ERIKS attaches great importance to a good relationship with its employees. This includes offering employees good opportunities for self-development. ERIKS offers its employees an attractive package of remuneration and fringe benefits. ERIKS expects its employees to actively contribute to achieving the necessary growth and to demonstrate a high degree of personal responsibility.

***Efficient operational management***

ERIKS focuses on administrative and physical logistics. In several branch operations in the Netherlands and Belgium, ERIKS runs an advanced business information system ("**SAP**"). The Company plans to introduce this system at the other branch operations in the Benelux in the coming years to increase efficiency. In three to five years, the Company expects to roll out SAP to ERIKS UK. In Germany, the Company has introduced the business information system "Pro Alpha".

In physical logistics, ERIKS distinguishes between bulk (for all clusters), cluster and branch operation warehousing. The optimum division of these three areas is dependent on developments in the distribution channel. ERIKS continues to invest in premises and logistics tools to improve operational management where necessary.

***Realising synergy***

The Company focuses on realising synergy between all group companies wherever the possibility exists. Realising synergy between the recently acquired companies and existing ERIKS companies will have the Company's special attention in the coming years.

Within ERIKS, specially appointed employees – international product managers – coordinate the composition of the product range, choice of manufacturers, procurement, transfer of know-how, development and performance of logistics services, documentation and physical logistics. The international product managers and the product managers of the individual group companies work closely together to harmonise and modernise ERIKS' range of products.

In the field of ICT, synergy is achieved through ERIKS' central corporate information management department, which manages the SAP business information system, as implemented in several branch operations in the Netherlands and Belgium, and defines ICT policy and ICT standards for ERIKS.

**Financial objectives**

The following are the Company's current financial targets for the period 2007 – 2008; these targets are neither a profit estimate nor a profit forecast:

– an average sales growth of 10 to 15% (2005: 5.9%), roughly 5 to 7% of which will be achieved through autonomous growth and the remainder through acquisitions;
– an operating result (EBITA) as a percentage of capital invested of at least 15% (2005: 19%);
– a net debt/EBITDA ratio lower than 2.5 (year end 2005: approximately 1);
– an average rise in earnings per share of 5 to 10% (2005: 16.2%);
– a dividend payout, circumstances permitting, of approximately 50% of the profit from ordinary activities (2005: 50.4%).

## Clusters

**Introduction**

ERIKS is divided into clusters in order to control the envisaged autonomous growth and growth through acquisitions. ERIKS' activities are divided into eight clusters which each serve a specific geographical market area: ERIKS Netherlands, ERIKS Belgium, ERIKS Germany, ERIKS France, ERIKS UK, ERIKS Central Europe, ERIKS USA and ERIKS South East Asia.

Each cluster and company within ERIKS has an individual strategy and operational plan. Each of the clusters is managed by cluster managers who have a mandate to develop the market position in their geographical market area based on the strategic and operational plan developed at Company level. Depending on the development stage of the cluster, product managers and business unit managers in each cluster are responsible for the further development of the separate core activities and the product groups they encompass.

### ERIKS Netherlands

***Overview***

ERIKS Netherlands includes all core activities of ERIKS into its range. In the Netherlands, ERIKS has a good market position in all of its activities; in all core activities and related product groups, ERIKS Netherlands holds a market position in the top 3 (source: Company).

***Objectives and strategy***

ERIKS Netherlands strives to achieve the following objectives:

– complete the distribution concept for the Netherlands (the two business models)
– retain and build upon the top 3 positions for all core activities and related product groups
– approach the entire industrial market
– increase productivity

To complete the distribution concept, ERIKS Netherlands plans to expand local presence for all product groups. Furthermore, ERIKS Netherlands continues to build upon a clear and cluster-wide sales concept. ERIKS Netherlands intends to optimise the coordination between the centralised business units (competence centres) and the ERIKS service centres.

In order to retain and build upon its market position, ERIKS Netherlands focuses on improving market, product and logistics know-how. These know-how domains are important to drive the modernisation (innovation) of the range of products and services (product management). ERIKS Netherlands aims at expanding logistics services with the aim of optimising transaction costs in the supply chain. In order to maintain a high quality level, ERIKS Netherlands strives to possess tailored quality procedures at customer level. In the power transmissions activity, ERIKS Netherlands plans to create a unit called "Power Transmissions Netherlands", adapt the commercial structures and develop a matching range of products.

To be able to approach the entire industrial market, ERIKS Netherlands will maintain a marketing mix geared to the type of customer and the industrial market segment. ERIKS Netherlands plans to expand usage of the e-portal TradCom and increase local presence to reach the market more effectively.

ERIKS Netherlands intends to further increase productivity. ERIKS Netherlands intends to optimise the logistics structure and logistics processes. In addition, the optimisation of the organisation and usage of business information systems has ERIKS Netherlands' attention. Together with ERIKS Belgium, ERIKS Netherlands continues to work on the rolling out of the SAP business information system to all companies in these two clusters. Furthermore, ERIKS Netherlands will work on the integration of the ERIKS business information systems with those of customers and manufacturers through TradCom and Easy Order System.

***Financial objectives***

The following are ERIKS Netherlands' current financial targets for the period 2007 – 2008; these targets are neither a profit estimate nor a profit forecast:

– autonomous growth of 4 to 6% per year
– operating result of at least 8% of sales

**ERIKS Belgium**

***Overview***

ERIKS Belgium includes all core activities of ERIKS in its range. ERIKS Belgium's market position in all of its activities is good (source: Company).

***Objectives and strategy***

ERIKS Belgium strives to achieve the following objectives:

– complete the distribution concept for Belgium (the two business models)
– obtain and retain a top-3 position for all core activities and related product groups
– approach the entire industrial market
– increase productivity

To complete the distribution concept, ERIKS Belgium plans to implement the defined and elaborated commercial sales concept:

– approach the OEM customers and other designated customers via the business units (competence centres)
– offer maintenance customers a wide range of products and services via the local branch operations (service centres)
– let the business units take care of product management
– get the business units to support local salespeople as regards know-how.

To implement the sales concept, ERIKS Belgium will need to adapt responsibilities, powers and information management.

ERIKS Belgium strives to reinforce positions in the product groups of valves and instrumentation, flange gaskets and industrial plastics. ERIKS Belgium plans to refocus its power transmissions activities through the establishment of a unit called "Power transmissions Belgium". The range of products will be harmonised and expanded. Maintaining and further improving the level of the six know-how domains in commercial policy has ERIKS Belgium's attention to use this basis to develop new product/market combinations. In addition, ERIKS Belgium plans to expand processing facilities and logistics services and further develop quality procedures geared to individual customers.

ERIKS Belgium intends to further focus on approaching the entire industrial market. In order to be able to approach the entire industrial market, ERIKS Belgium strives to maintain a marketing mix tailored to fit each type of customer and industrial market segment. ERIKS Belgium will focus on further improving the commercial cooperation between its different operating companies and forward integration which includes further increasing the use of the TradCom e-portal, outsourcing solutions (insites) and other logistics services.

ERIKS Belgium believes that an increase in commercial cooperation between the different companies and systematic control of commercial field staff is an important means to further increase productivity. Together with ERIKS Netherlands, ERIKS Belgium will work on the rolling out of the SAP business information system to the other operating companies in these two clusters. Furthermore, ERIKS Belgium will work on the integration of the ERIKS business information systems with those of customers and manufacturers through TradCom and Easy Order System.

***Financial objectives***

The following are ERIKS Belgium's current financial targets for the period 2007 – 2008; these targets are neither a profit estimate nor a profit forecast:

– autonomous growth of 5 to 6% per year
– operating result equal to at least 8% of sales

**ERIKS Germany**

***Overview***

The most important core activities of ERIKS Germany are power transmissions, sealing technology and flow technology. The product management of these activities is organised centrally and, in cooperation with the management of the branch operations, the range of products is continuously being adapted to meet the specific needs of industrial customers in the various regions of Germany. Important initiatives have been taken to expand the range of sealing technology and the range of industrial hoses and accessories. Supported by logistics concepts and tailored to customers specifications, products are offered to the market. The last three years, the market position of ERIKS Germany has been strengthened through acquisitions in specific important regions.

***Objectives and strategy***

ERIKS Germany strives to achieve the following objectives:

– expand the existing core activities (especially power transmissions and sealing technology) in Germany (expand the market area and increase the market shares) and broaden the activities and market segments
– approach the market as a single organisational entity
– broaden the range of products and services
– achieve autonomous growth
– professionalize
– increase productivity

ERIKS Germany intends to roll out its existing concept to the "white" areas in Germany, Central Europe and Eastern Europe and to expand the industrial segments to be approached.

In order to approach the market as a single organisational entity, ERIKS Germany will increase uniform promotion and publicity when approaching major national and international customers. To facilitate this process, ERIKS Germany has introduced one centralised business information system with a shared database. The roll out of this system is almost completed.

To broaden the range of products and services, ERIKS Germany will ensure proactive product management at cluster level with good anchors at the branch operations.

ERIKS Germany aims to achieve autonomous growth through the expansion of all products groups with related technical services and processing facilities and the approach of new market segments. Where necessary, ERIKS Germany will increase market, product, application and processing know-how. ERIKS Germany also plans to expand logistics services and introduce the TradCom e-portal and outsourcing solutions (insites).

To further professionalize the organisation, ERIKS Germany will assure product management at cluster level and expand account management. The management development program and career supervision programs will be an important point of attention.

ERIKS Germany believes that the optimisation of its organisational structure and usage of the new business information system Pro Alpha will help to increase productivity. The next step will be the integration of the new business information system with those of customers and manufacturers. Where necessary, storage methods will be further modernised to increase efficiency.

***Financial objectives***

The following are ERIKS Germany's current financial targets for the period 2007 – 2008; these targets are neither a profit estimate nor a profit forecast:

– autonomous growth of 5% to 7% per year
– operating result equal to 7% to 8% of sales

**ERIKS France**

***Overview***

The present activities of the specialised branch operations (ERIKS s.a.s. and Adji s.a r.l.) and three local branch operations (Baudoux Industries s.a.s., Campion s.a.s. and Delaporte Hydraupole s.a s.) differ too much and do not sufficiently complement each other. The Company believes that a lack of volume obstructs a successful development of the two business models, and that the existing local activities can only be successful if the required volume is obtained through acquisition or by joining forces with a larger partner. Efforts in 2005 and 2006 have not brought the necessary success, since no suitable larger partners could be found. Reorganisations have been planned in the fourth quarter of 2006. The Company is currently in the process of executing these reorganisations.

***Objectives and strategy***

ERIKS France strives to achieve the following objectives:

– reorganise the three local branch operations
– further development into a specialised supplier
– expand product range and volume of the product group valves and the core activity sealing technology
– increase productivity

The three local companies will be reorganised. The Company expects that a further focus on markets and products should lead to better financial results. ERIKS s.a.s. will continue as a specialist for valves and sealing parts. ERIKS France plans to expand the existing specialised activities of ERIKS s.a.s. through autonomous growth and acquisitions.

To increase productivity, ERIKS France strives to further optimise the control of sales and the structure and use of the business information systems. The business information systems will then be integrated with those of customers and manufacturers.

***Financial objectives***

The following are ERIKS France's current financial targets for the period 2007 – 2008; these targets are neither a profit estimate nor a profit forecast:

– autonomous growth of 5 to 7% per year
– operating result equal to 7% of sales

**ERIKS UK**

***Overview***

ERIKS UK consists of WYKO's operations in the United Kingdom, Ireland and Nigeria, which are focused on power transmissions, sealing technology, fluid power and maintenance products (see "**THE ACQUISITION**"). The Acquisition offers ERIKS good opportunities for better service provision to its pan-European customers, expansion of WYKO's product range with ERIKS product groups developing the OEM market in the United Kingdom, expansion of ERIKS' product range with WYKO products and services (in particular pneumatic and electromechanical power transmissions and outsourcing solutions) and expansion of national and European logistics services

*Objectives and strategy*

ERIKS UK strives to achieve the following objectives:

- ERIKS' two business model concept
- expand product range
- approach market as one trading entity
- accelerate autonomous growth
- professionalize
- improve productivity

ERIKS UK plans to identify potential competence centres within the existing WYKO organisation. In order to support sales in the OEM sector, ERIKS UK intends to develop a specialised sales engineer team. ERIKS UK further intends to identify selective acquisition opportunities to establish competence in non-represented product groups.

ERIKS UK will develop a strategy to adopt the ERIKS trading name across the WYKO network.

In order to accelerate autonomous growth, ERIKS UK plans to continue its initiative to leverage its customer base between the distribution, electromechanical services and integrated solutions operations. To accelerate integrated solutions and corporate accounts growth, ERIKS UK intends to leverage the ERIKS customer base. ERIKS UK will utilise ERIKS' know-how to penetrate process industries with existing and new product groups. ERIKS UK intends to continue its call centre initiative for customers for the smaller MRO customers and will consider the use of the TradCom portal for these customers. Furthermore, ERIKS UK intends to invest in electronic repair and condition monitoring resource.

To further professionalize its organisation, ERIKS UK plans to implement a full staff-training program. ERIKS UK intends to review the branch staffing profile and develop a plan to ensure that sufficient product know-how is accessible to customers within its cluster. ERIKS UK plans to continue to populate article database to improve responsiveness to customer enquiries.

To further improve productivity, ERIKS UK intends to investigate and, if needed, to re-model the current primary processes and logistics.

*Financial objectives*

The following are ERIKS UK's current financial targets for the period 2007 – 2008; these targets are neither a profit estimate nor a profit forecast:

- autonomous growth of 5 to 7% per year
- increase operating result to 7% in 3 to 4 years (currently 5%)

**ERIKS Central Europe**

*Overview*

As of 1 October 2006, the Company has acquired all shares in Passerotti Sp. z o.o., statutorily based in Bielsko-Biala and the enterprise of Mowta Bogdan Porzych, statutorily based in Gdansk. These companies now form the cluster ERIKS Central Europe.

The activities of Passerotti comprise the marketing, sale and customizing of products and services in the field of sealing technology and mechanical power transmission. Sales are realised in machine and equipment construction (OEM customers) as well as with industrial end users (MRO customers), in all sectors of industry in Poland.

Mowta is specialised in the marketing and trade of valves and instrumentation. Sales are realised especially to industrial end users (MRO customers) and in projects in the chemical, petrochemical, food and energy industry.

*Objectives and strategy*

ERIKS Central Europe strives to achieve the following objectives:

- expand its presence
- intensify cooperation between the different operating companies
- broaden the range of products and services
- realise autonomous growth
- professionalize
- increase productivity

ERIKS Central Europe strives to have a presence in all important industrial areas within its geographical area. Furthermore, ERIKS Central Europe plans to expand the number of core activities.

In order to intensify the cooperation between the companies within the cluster, ERIKS Central Europe will gradually introduce the ERIKS business model including the ancillary matrix organisation.

ERIKS Central Europe plans to broaden the range of products and services through pro-active product management at cluster level, supported by international product managers.

ERIKS Central Europe intends to achieve autonomous growth by improving market, product, application and product processing know-how (customizing). Furthermore, ERIKS Central Europe will focus on expanding the range per core activity, the development of logistics services and the support of a European account management.

ERIKS Central Europe plans to implement uniform management information systems, professionalize product management and introduce career guidance programs.

To increase productivity, ERIKS Central Europe intends to introduce one business information system throughout the entire cluster and to modernise logistics and storing methods.

***Financial objectives***

The following are ERIKS Central Europe's current financial targets for the period 2007 and beyond; these targets are neither a profit estimate nor a profit forecast:

– autonomous growth of at least 10% per year
– operating result of 10% of sales

**ERIKS USA**

***Overview***

ERIKS USA approaches customers with a range of high-quality sealing elements and industrial plastics backed up by product, application, processing and logistics concepts know-how. The customer base expanded in 2006. Utilising the know-how and market position of ERIKS' European companies, ERIKS USA can take advantage of worldwide sourcing opportunities.

***Objectives and strategy***

ERIKS USA strives to achieve the following objectives:

– approach the market as "ERIKS USA"
– expand its presence in the USA
– achieve autonomous growth
– enlarge the market area
– retain level of productivity

ERIKS USA intends to intensify commercial and operational cooperation between the different branch operations, in order to be able to approach the market as a unity. ERIKS USA strives to realise synergy through the joint development of products and services.

In November 2006, ERIKS acquired Turpen & Associates, Inc. in Tulsa, Oklahoma. Turpen's activities consist of marketing, sale, and the customizing of products and services in the field of sealing technology, industrial plastics and bearings. The coming years, ERIKS USA will focus on integrating Turpen into the ERIKS organisation. In the future, ERIKS USA may consider further acquisitions of specialised suppliers of sealing elements, rubber products and industrial plastics to expand its presence in the USA.

To achieve autonomous growth, ERIKS USA will work on expanding the range and services. ERIKS USA intends to invest in top-flight market, product, application and processing know-how and make use of the sourcing know-how available within ERIKS. Furthermore, ERIKS USA plans to expand processing facilities and approach new market segments.

In the coming years, ERIKS USA may roll out its business concepts via small acquisitions.

To retain productivity, ERIKS USA intends to further optimise the use of the business information system and physical and administrative logistics with customers and manufacturers.

*Financial objectives*

The following are ERIKS USA's current financial targets for the period 2007 – 2008; these targets are neither a profit estimate nor a profit forecast:

- autonomous growth of 4 to 6% per year
- operating result equal to 8% of sales

**ERIKS South East Asia**

*Overview*

ERIKS South East Asia focuses on some specific market segments in the region. The cluster has developed a range of products and services that require product and application know-how and processing facilities. With the help of international product managers, sales staff is receiving training to acquire product and application know-how. The sourcing opportunities available within ERIKS are being utilised.

*Objectives and strategy*

ERIKS South East Asia strives to achieve the following objectives:

- obtain a product mix tailored to fit its principal markets
- build an image as an industrial distributor/supplier with added value

This necessitates essential and permanent improvement of the marketing mix by:

- professional and pro-active product management
- increased marketing know-how
- profiling the company as a specialist through further development of the technical added value to be offered (know-how and processing), focused mainly on sealing elements, rubber products and valves
- direct approach to industrial end users in the defined market segments
- systematic control of office and field sales.
- obtaining volume and sufficient market share
- increasing productivity

*Financial objectives*

The following are ERIKS South East Asia's current financial targets for the period 2007 – 2008; these targets are neither a profit estimate nor a profit forecast:

- autonomous growth of between 5 and 10%
- operating result of between 5 and 6%

**Investments**

The Company's principal investments that are in progress are the roll out of the business information systems SAP to all operating companies in the clusters ERIKS Netherlands and ERIKS Belgium and the rolling out of the business information system Pro Alpha to all operating companies in the cluster ERIKS Germany (see – "**Clusters - ERIKS Netherlands, ERIKS Belgium and ERIKS Germany**").

Another important investment that is in progress is the establishment of new operating companies in the Netherlands to expand local presence (see "**Clusters- ERIKS Netherlands**").

All investments in progress are financed from the Company's internal funds.

**Organisational structure**

The Company is the holding company of more than 50 operating companies in various countries. Generally, the Company holds directly or indirectly a 100% interest in these operating companies.

The material subsidiaries of the Company are:

- Van Eyle & Ruygers & Schwartz B.V., a wholly-owned subsidiary, incorporated in the Netherlands
- Flexion B.V., a wholly-owned subsidiary, incorporated in the Netherlands
- ERIKS B.V., a wholly-owned subsidiary, incorporated in the Netherlands
- ERIKS N.V., a wholly-owned subsidiary, incorporated in Belgium
- Heusinger & Salmon GmbH, a wholly-owned subsidiary, incorporated in Germany
- Steinebronn Industrietechnik GmbH, a wholly-owned subsidiary, incorporated in Germany
- WYKO, a wholly-owned subsidiary, incorporated in the United Kingdom

**Legal and arbitration proceedings**

ERIKS is and, in the past twelve months, has been involved in a number of disputes and commercial litigation, mostly concerning alleged product defects. None of these has, is expected to have or has had in the past twelve months significant effects on ERIKS' financial position or profitability.

**Property, plants and equipment**

As at the Publication Date, ERIKS owns buildings in various countries:

- the Netherlands: Alkmaar, Hoogezand and Roermond. The properties in Alkmaar and Roermond have been used as mortgage collateral for a total amount of € 20 million
- Belgium: Brussels, Antwerp and Roesselare
- France: Rouen
- Germany: Mannheim, Hannover and München
- the United Kingdom: Birmingham (Redfern Road), Chesterfield, Harworth, Dudley, Halesowen (Hereward Rise), Kirkby-in-Ashfield, Redruth, Totton (Commercial Road), Great Yarmouth
- USA: Greenback, Tennessee
- Scotland: Broxburn, Glasgow (Jessie Street), Inverness

## SUPERVISORY BOARD, MANAGEMENT AND EMPLOYEES

**Management structure**

The Company has a two-tier board structure, consisting of an Executive Board and a Supervisory Board. The Executive Board is responsible for the policy and operations of the Company under the supervision of the Supervisory Board.

**Supervisory Board**

As at 12 January 2007, the members of the Supervisory Board are:

| Name | Date of birth | Business experience and activities |
|---|---|---|
| J.L. Bouma | 9 June 1934 | Mr. Bouma, the chairman of the Supervisory Board, is a Dutch national. He was first appointed to the Supervisory Board in 1986 and his term ends immediately after the annual General Meeting to be held in 2007.<br><br>Mr. Bouma is a former professor of business economics at the University of Groningen and a former deputy chairman of the board of AEGON Association. Mr. Bouma is a member of the Royal Dutch Academy of Sciences and is a member of the supervisory boards of Albron B.V., SNS REAAL N.V., Intereffekt Investment Funds N.V., Koop Holding Europe B.V., O. de Leeuw B.V., Raab Karcher Bouwstoffen B.V., Middle Europe Real Estate N.V., Burgfonds Holding B.V. and Versatel Telecom International N.V. |
| R.J.A. van der Bruggen | 26 November 1947 | Mr. Van der Bruggen is a Dutch national. He was first appointed to the Supervisory Board in 2005 and his term ends immediately after the annual General Meeting to be held in 2009.<br><br>Mr. Van der Bruggen is CEO of Imtech N.V.<br><br>Mr. Van der Bruggen is a member of the supervisory board of Gelderse Vallei Hospital and member of the advisory boards of ABN AMRO Bank N.V. and Cisco Systems. |
| R.A.A. Oliemans | 17 February 1944 | Mr. Oliemans is a Dutch national. He was first appointed to the Supervisory Board in 1997 and his term ends immediately after the annual General Meeting to be held in 2010.<br><br>Mr. Oliemans is chairman of the supervisory board of Blydenstein Willink N.V., member of the advisory council of VM&M B.V.<br><br>Mr. Oliemans is former CEO of Ammeraal Conveyor Belting B.V. and former CEO of Frans Maas Groep N.V. |
| A. Wateler | 12 May 1946 | Mr. Wateler is a Dutch national. He was first appointed to the Supervisory Board on 16 May 2006 and his term ends immediately after the annual General Meeting to be held in 2010.<br><br>Mr. Wateler is chairman of the supervisory boards of BN International B.V. and of Bruynzeel Home Products |

| | | |
|---|---|---|
| | | B.V. and member of the supervisory boards of Fashion Fund, Gamma Holding and Duke Street Capital, member of the investment committee of Ergon Capital Partners and member of the board of directors of Stichting Preferente Aandelen Grolsch.<br><br>Mr. Wateler is the former managing director of Parcom Ventures B.V. Parcom Ventures B.V. is part of ING Group N.V. and holds an interest in Eriks N.V. |

The Company is not aware of any potential conflicts between any duties of the members of the Supervisory Board to the Company and their private interests and/or other duties.

In relation to the members of the Supervisory Board, the Company is not aware of (i) any convictions in relation to fraudulent offences in the last five years; (ii) any bankruptcies, receiverships or liquidations of any entities to which they were associated in the last five years; (iii) any official public incrimination and/or sanctions of such person by statutory or regulatory authorities (including designated professional bodies) or disqualification by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer in the last five years.

The Company's registered address is the business address of the members of the Supervisory Board (see "**DESCRIPTION OF SHARE CAPITAL AND CORPORATE STRUCTURE – General**").

**Executive Board**

As at 12 January 2007, the members of the Executive Board are:

| Name | Date of Birth | Business experience and activities |
|---|---|---|
| J. van der Zouw | 20 June 1954 | Mr. Van der Zouw is a Dutch national. He was appointed to the Executive Board on 1 January 2002 and was appointed as chairman of the Executive Board with the title of CEO on 12 May 2005 for an unlimited period of time.<br><br>After completing his naval engineering degree, Mr. Van der Zouw started his professional career as a marine engineer in 1974. He joined Stork as sales and project engineer in 1977, responsible for Eastern Europe and Africa. In 1980, Mr. Van der Zouw started working for Eriks B.V. as product specialist and later as product manager, where he contributed to the positioning of ERIKS as a leading valve supplier. He then joined Econosto in 1986, as sales manager and later as deputy officer of the subsidiary Petrecon (supplier of valves for the chemical, petro chemical and oil and gas industry). From 1988 until his return to ERIKS, Mr. Van der Zouw occupied various management positions at Transmark, including the position of CEO of Transmark International since 1995. In 1999, Mr. Van der Zouw returned to ERIKS when he was appointed as managing director of ERIKS B.V. |
| J.G. de Boer | 23 December 1953 | Mr. De Boer is a Dutch national. He was appointed to the Executive Board with the title of CFO on 1 January 1996 for an unlimited period of time.<br><br>Mr. De Boer is chartered accountant and started his professional career as an assistant controller and later accountant at Dijker and Doornbos Accountants |

| | | |
|---|---|---|
| | | (currently forming part of PwC). He joined ERIKS in 1985, initially as controller. He was appointed as group controller in 1991. |
| M. Beckers | 25 September 1951 | Mr. Beckers is a Belgian national. He was appointed to the Executive Board on 17 May 2005 for an unlimited period of time.<br><br>After completing his A1 Industrial Chemistry degree at the Rega Institute, Catholic University Leuven, Mr. Beckers started working at Proctor & Gamble as product development technician. He occupied various positions at Proctor & Gamble, such as packaging manager, packaging coordinator and project coordinator. From 1984 to 1990, he worked at Duracell Europe as packaging manager Europe. Between 1990 and 1994, Mr. Beckers was member of the board of Volta Industries in Italy. In 1994, he joined Dover Elevators Europe in the United Kingdom, initially as Business Development Director and later as Managing Director. Between 1997 and 2005 he worked at Geveke in the Netherlands, starting as managing director of two subsidiaries and joining the executive board of Geveke in 2001; initially as COO and then as CEO until December 2003. Mr. Beckers joined ERIKS in May 2004 as cluster manager ERIKS Belgium and general manager ERIKS N.V. in Hoboken. |
| H.J. Maier | 28 December 1960 | Mr. Maier is a German national. He was appointed to the Executive Board on 1 January 2002 for an unlimited period of time.<br><br>After completing his law degree at the University of Tübingen and University of Munich, Mr. Maier finalised his formal training as a lawyer at the superior law court Hamm/Westf. In 1990, he started his professional career at Wörmann, Maier & Partner Rechtsanwälte, Notare, in Germany as assistant attorney-at-law to become a partner. In 1992, Mr. Maier joined H+S Group as managing director of Heusinger + Salmon GmbH & Co. As a result of the take-over of the H+S Group by ERIKS in 1997, he became managing director of the H+S Group. In 1999, he was appointed as managing director of the cluster ERIKS Germany and member of Group Council ERIKS, followed by the appointment as member of the Executive Board in 2002.<br><br>Mr. Maier is a member of the supervisory board of Flexicon AG in Germany. |
| B. Wilson | 9 February 1955 | Mr. Wilson is a British national. He was appointed to the Executive Board as of 17 November 2006 for an unlimited period of time.<br><br>Mr. Wilson started his professional career in 1972. After having occupied various positions, he joined PPG Investments Ltd. in 1983, initially as finance director and later as managing director. In 1986, he started working at Langside Ltd. as managing director until he joined George Boyd Ltd. as managing director |

| | | |
|---|---|---|
| | | in 1990. In 1994, he was employed by Würth Group as managing director of Monks and Crane Industrial Group Ltd. and later as coordinator of Würth Industrial Group. In November 2003, Mr. Wilson was appointed as CEO of WYKO Group Ltd.<br><br>Mr. Wilson also acted as non executive director for FPT Group Ltd from November 1998 to March 2002. FPT Group Ltd. was sold to WYKO in 2002. |
| M. Dixon | 6 October 1964 | Mr. Dixon is a British national. He was appointed to the Executive Board as of 17 November 2006 for an unlimited period of time.<br><br>After completing his BSC Chemistry degree at the Imperial College of Science and Technology in 1986, Mr. Dixon started as assistant chartered accountant at Ernst & Whinney in 1986. He became chartered accountant in 1989. In 1990, he joined Barratt Developments plc as corporate accountant. In 1994, he started as group accountant at Calder Group Ltd., which merged with Rubicon Group plc in 1995. As a result of this merger, Mr. Dixon was appointed as group financial controller of Rubicon Group plc in 1995 and was appointed to the executive committee in 1996. In 1998, he joined FPT Group Ltd., initially as group finance director and, as of 2000, as group managing director. During 2002, FPT Group Ltd. was sold to WYKO. Mr. Dixon took a temporary main board assignment to implement the merger of the two companies and left WYKO in November 2002. In November 2003, he was invited, together with Mr. Wilson, to return to WYKO as COO. |

The Company is not aware of any potential conflicts between any duties of the members of the Executive Board to the Company and their private interests and/or other duties.

Other than voluntary liquidations of companies within ERIKS in the ordinary course of business, in relation to the members of the Executive Board the Company is not aware of (i) any convictions in relation to fraudulent offences in the last five years; (ii) any bankruptcies, receiverships or liquidations of any entities to which they were associated in the last five years; (iii) any official public incrimination and/or sanctions of such person by statutory or regulatory authorities (including designated professional bodies) or disqualification by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer in the last five years.

The Company's registered address is the business address of the members of the Executive Board (see "**DESCRIPTION OF SHARE CAPITAL AND CORPORATE STRUCTURE – General**").

**Remuneration**

The aggregate remuneration, which includes fees, salary, bonuses, special pension fund contributions and additional benefits, paid by the Company in the financial year 2005 for services in all capacities to the members of the Supervisory Board and the Executive Board (including former members), amounted to € 1.8 million. The total amounts set aside or accrued in 2005 to provide pension, retirement or similar benefits for the members of the Executive Board (including former members) amounted to € 327,000.

The following tables provide the remuneration (including any contingent or deferred compensation) of each member of the Supervisory Board and Executive Board for their services in all capacities to the Company for the financial year 2005:

Remuneration of the members of the Supervisory Board in 2005 (in € thousands):

| | |
|---|---|
| J.L. Bouma | 35 |
| R.J.A. van der Bruggen (appointed as of May 2005) | 16.3 |
| H.E. Jonker Roelants (resigned as of May 2005) | 14 |
| R.A.A. Oliemans | 28 |
| A. Wateler | n.a. |
| Total | 93.3 |

Remuneration (including bonuses) for the members of the Executive Board in 2005 (in € thousands):

| | Regular payments | Pension contribution | Severance payment | Profit-sharing and bonuses | Total |
|---|---|---|---|---|---|
| J. van der Zouw (appointed as of May 2005) | 280 | 88 | n.a. | 127 | 495 |
| H. Kreuger (resigned as of May 2005) | 111 | 58 | n.a. | 104 | 273 |
| J.G. de Boer | 222 | 72 | n.a. | 101 | 395 |
| M. Beckers (appointed as of May 2005) | 139 | 42 | n.a. | 63 | 244 |
| H.J. Maier | 222 | 67 | n.a. | 101 | 390 |
| B. Wilson (appointed as of 17 November 2006) | n.a. | n.a. | n.a. | n.a. | n.a. |
| M. Dixon (appointed as of 17 November 2006) | n.a. | n.a. | n.a. | n.a. | n.a. |
| Total | 974 | 327 | n.a. | 496 | 1,797 |

For additional information on executive remuneration, see "**Employment agreements**".

**Employment agreements**

Currently, no other service contracts, other than those described below, exist which provide benefits to members of the Supervisory Board or the Executive Board.

***Mr. J. van der Zouw***

As at 12 January 2007, the employment agreement between the Company and Mr. Van der Zouw provides for an annual salary of € 330,000 gross, including holiday benefits. Mr. Van der Zouw is entitled to an annual bonus to be determined by the Supervisory Board on the basis of the Company's results and Mr. Van der Zouw's individual performance. Mr. Van der Zouw's bonus may not exceed 50% of his annual gross salary. Of this 50%, a maximum of 25% is based on quantitative targets, such as growth and profitability. A maximum of 25% is based on qualitative targets, such as fulfilment of the main points of the policy plan. Furthermore, Mr. Van der Zouw is entitled to a bonus pursuant to the LTIP (as defined below; see "**Long term incentive plan for the Executive Board**"). Mr. Van der Zouw is entitled to a company car.

The employment agreement has been entered into for an indefinite period of time. The employment agreement may be terminated by the Company with a notice period of four months and by Mr. Van der Zouw with a notice period of two months.

In case of termination of the employment (i) by the Company other than in case of termination with immediate effect because of an urgent cause or (ii) by either party and the cause of such termination is not within Mr. Van der Zouw's control (such as a take-over or merger of the Company), Mr. Van der Zouw will be entitled to a compensation equal to two months extra salary for each year of service with a maximum of 12 months. The exact amount of this compensation will be determined taking into account all relevant circumstances. Other than summarised, Mr. Van der Zouw's employment agreement does not provide for severance payment upon termination of employment with the Company.

***Mr. J.G. de Boer***

As at 12 January 2007, the employment agreement between the Company and Mr. De Boer provides for an annual salary of € 240,000 gross, including holiday benefits. Mr. De Boer is entitled to an annual bonus to be determined by the Supervisory Board on the basis of the Company's results and Mr. De Boer's individual performance. Mr. De Boer's bonus may not exceed 50% of his annual gross salary. Of this 50%, a maximum of 25% is based on quantitative targets, such as growth and profitability. A maximum of 25% is based on qualitative targets, such as fulfilment of the main points of the policy plan. Furthermore, Mr. De Boer is entitled to a bonus pursuant to the LTIP (see "**Long term incentive plan for the Executive Board**"). Mr. De Boer is entitled to a company car.

The employment agreement has been entered into for an indefinite period of time. The employment agreement may be terminated by each party with a notice period of six months. This notice period is in violation with Dutch law. On the basis of the existing case law, it is unclear how such provision must be interpreted; it may result in a notice period of six months for the Company and three months for Mr. De Boer, but it may also result in a different notice period, including, but not limited to, twelve months for the Company and six months for Mr. De Boer.

In case of termination of the employment (i) by the Company other than in case of termination with immediate effect because of an urgent cause or (ii) by Mr. De Boer because he is no longer prepared to perform his duties in view of changed circumstances as a result of which Mr. De Boer may no longer be required to do so, Mr. De Boer will be entitled to a compensation equal to one and a half time Mr. de Boer's gross salary (including bonus and other emoluments) over the preceding twelve months. The exact amount of this compensation will be determined taking into account all relevant circumstances. Other than summarised, Mr. De Boer's employment agreement does not provide for severance payment upon termination of employment with the Company.

***Mr. M. Beckers***

Mr. Beckers has entered into an employment agreement with the Company and an employment agreement with Eriks N.V. (Belgium). As at 12 January 2007, the employment agreements provide for a total annual salary of € 240,000 gross. Mr. Beckers is entitled to an annual bonus to be determined by the Supervisory Board on the basis of the Company's results and Mr. Becker's individual performance. Mr. Becker's bonus may not exceed 50% of his annual gross salary. Of this 50%, a maximum of 25% is based on quantitative targets, such as growth and profitability. A maximum of 25% is based on qualitative targets, such as fulfilment of the main points of the policy plan. Furthermore, Mr. Beckers entitled to a bonus pursuant to the LTIP (see "**Long term incentive plan for the Executive Board**"). Mr. Beckers is entitled to a company car.

The employment agreements have been entered into for an indefinite period of time.

The employment agreement between Mr. Beckers and the Company may be terminated by the Company with a notice period of four months and by Mr. Beckers with a notice period of two months. In case of termination of the employment between Mr. Beckers and the Company (i) by the Company other than in case of termination with immediate effect because of an urgent cause or (ii) by either party and the cause of such termination is not within Mr. Beckers' control (such as a take-over or merger of the Company), Mr. Beckers' will be entitled to a compensation equal to two months extra salary for each year of service with a maximum of 12 months. The exact amount of this compensation will be determined taking into account all relevant circumstances. Other than summarised, Mr. Beckers' employment agreement with the Company does not provide for severance payment upon termination of employment with the Company.

The employment agreement between Mr. Beckers and Eriks N.V. may be terminated by each party taking into account a notice period of two months, to be increased with one month per year of service or the payment of a compensation equal to the salary for such period. Furthermore, each party may terminate the agreement with immediate effect because of gross negligence of the other party without prejudice to any rights to damages. Other than summarised, Mr. Beckers' employment agreement with Eriks N.V. does not provide for severance payment upon termination of employment with Eriks N.V.

***Mr. H.J. Maier***

Mr. Maier has entered into an employment agreement with the Company and an employment agreement with Eriks Holding Deutschland GmbH (Germany). As at 12 January 2007, the employment agreements provide for an annual salary of € 240,000 gross. Mr. Maier is entitled to an annual bonus to be determined by the Supervisory Board on the basis of the Company's results and Mr. Maier's individual performance. Mr. Maier's bonus may not exceed 50% of his annual gross salary. Of this 50%, a maximum of 25% is based on quantitative targets, such as growth and profitability. A maximum of 25% is based on qualitative targets, such as fulfilment of the main points of the policy plan. Furthermore, Mr. Maier is entitled to a bonus pursuant to the LTIP (see "**Long term incentive plan for the Executive Board**"). Mr. Maier is entitled to a company car.

The employment agreements have been entered into for an indefinite period of time.

The employment agreements may be terminated by the Company or Eriks Holding Deutschland GmbH with a notice period of four months and by Mr. Maier with a notice period of two months. In case of termination of the employment between Mr. Maier and the Company (i) by the Company other than in case of termination with immediate effect because of an urgent cause or (ii) by either party and the cause of such termination is not within Mr. Maier's control (such as a take-over or merger of the Company), Mr. Maier will be entitled to a compensation equal to two months extra salary for each year of service with a maximum of 12 months. The exact amount of this compensation will be determined taking into account all relevant circumstances. Other than summarised, Mr. Maier's employment agreements do not provide for severance payment upon termination of employment with the Company or Eriks Holding Deutschland GmbH.

***Mr. B. Wilson***

As at 12 January 2007, the employment agreement between WYKO and Mr. Wilson provides for an annual salary of £ 260,000 gross. Mr. Wilson is entitled to an annual bonus to be determined by the Supervisory Board on the basis of the Company's results and Mr. Wilson's individual performance. Mr. Wilson's bonus may not exceed 50% of his annual gross salary. Of this 50%, a maximum of 25% is based on quantitative targets, such as growth and profitability. A maximum of 25% is based on qualitative targets, such as fulfilment of the main points of the policy plan. Furthermore, Mr. Wilson is entitled to a bonus pursuant to the LTIP (see "**Long term incentive plan for the Executive Board**"). Mr. Wilson is entitled to a company car.

The employment agreement has been entered into for an indefinite period of time.

The employment agreements may be terminated by WYKO with a notice period of four months and by Mr. Wilson with a notice period of two months. WYKO may also terminate the employment agreement without taking into account the aforementioned notice period, provided that it will continue to pay an amount equal to the base salary and other benefits Mr. Wilson would be entitled to for the remaining period. Furthermore, WYKO may terminate the employment agreement with immediate effect in case certain events, such as Mr. Wilson being incapacitated by reason of ill-health or accident from performing his duties for a period of more than 52 weeks in the two years preceding the notice, a serious or material breach of his obligations under the employment agreement, Mr. Wilson being found guilty of a serious criminal offence.

In case of termination of the employment between Mr. Wilson and WYKO (i) by WYKO other than in case of termination with immediate effect because of an urgent cause or (ii) by either party and the cause of such termination is not within Mr. Wilson's control (such as a take-over or merger), Mr. Wilson will be entitled to a compensation equal to two months extra salary for each year of service with a maximum of 12 months. The exact amount of this compensation will be determined taking into account all relevant circumstances. Other than summarised and under normal circumstances, Mr. Wilson is entitled to a compensation fee of one month per year of service with a maximum of twelve months. For the purpose of calculating these severance payments, only years of service after the date of the Acquisition shall qualify. Other than summarised, Mr. Wilson's employment agreements do not provide for severance payment upon termination of employment with WYKO.

***Mr. M. Dixon***

As at 12 January 2007, the employment agreement between WYKO and Mr. Dixon provides for an annual salary of £ 205,000 gross. Mr. Dixon is entitled to an annual bonus to be determined by the Supervisory Board on the basis of the Company's results and Mr. Dixon's individual performance. Mr. Dixon's bonus may not exceed 50% of his annual gross salary. Of this 50%, a maximum of 25% is based on quantitative targets, such as growth and profitability. A maximum of 25% is based on qualitative targets, such as fulfilment of the main points of the policy plan. Furthermore, Mr. Dixon is entitled to a bonus pursuant to the LTIP (see "**Long term incentive plan for the Executive Board**"). Mr. Dixon is entitled to a company car.

The employment agreement has been entered into for an indefinite period of time.

The employment agreement may be terminated by WYKO with a notice period of four months and by Mr. Dixon with a notice period of two months. WYKO may also terminate the employment agreement without taking into account the aforementioned notice period, provided that it will continue to pay an amount equal to the base salary and other benefits Mr. Dixon would be entitled to for the remaining period. Furthermore, WYKO may terminate the employment agreement with immediate effect in case certain events, such as Mr. Dixon being incapacitated from performing his duties by reason of ill-health or accident for a period of more than 52 weeks in the two years preceding the notice, a serious or material breach of his obligations under the employment agreement or Mr. Dixon being found guilty of a serious criminal offence.

In case of termination of the employment between Mr. Dixon and WYKO (i) by WYKO other than in case of termination with immediate effect because of an urgent cause or (ii) by either party and the cause of such termination is not within Mr. Dixon's control (such as a take-over or merger), Mr. Dixon will be entitled to a compensation equal to two months extra salary for each year of service with a maximum of 12 months. The exact amount of this compensation will be determined taking into account all relevant circumstances. Other than summarised and under normal circumstances, Mr. Dixon is entitled to a compensation fee of one month per year of service with a maximum of twelve months. For the purpose of calculating these severance payments, only years of service after the date of the Acquisition shall qualify. Other than summarised, Mr. Dixon's employment agreements do not provide for severance payment upon termination of employment with WYKO.

## Loans to management

No loans have been made by the Company to any member of the Executive Board or any member of the Supervisory Board.

## Shareholdings

The following tables provide the number of Ordinary Shares held by each member of the Supervisory Board and Executive Board as at 12 January 2007.

**Supervisory Board**

| | |
|---|---|
| J.L. Bouma | 1,674 |
| R.J.A. van der Bruggen | 0 |
| R.A.A. Oliemans | 0 |
| A. Wateler | 0 |
| Total | 1,674 |

**Executive Board**

| | |
|---|---|
| J. van der Zouw | 3,288 |
| J.G. de Boer | 4,928 |
| M. Beckers | 0 |
| H.J. Maier | 556 |
| B. Wilson (appointed as of 17 November 2006) | 0 |
| W. Dixon (appointed as of 17 November 2006) | 0 |
| Total | 8,772 |

## Board practices

### Supervisory Board

The Supervisory Board supervises the policies of the Executive Board, and the Company's general course of affairs and business. In performing their duties, members of the Supervisory Board must serve the Company's interests and those of the Company's business.

The Supervisory Board must consist of at least three members. The General Meeting determines the number of members of the Supervisory Board. Only natural persons can be members of the Supervisory Board. The members of the Supervisory Board are appointed by the General Meeting for a maximum period of four years. A member of the Supervisory Board may be re-appointed provided that he will not be in office for a total period exceeding twelve years, unless the General Meeting, on proposal of the Supervisory Board, decides otherwise. The members of the Supervisory Board are required to resign according to a rotation schedule determined by the Supervisory Board.

The Executive Board shall invite the Supervisory Board within sixty days after a vacancy appears to make a non-binding nomination for a new member of the Supervisory Board. A resolution to appoint a person that has been nominated by the Supervisory Board requires an absolute majority of the votes cast. A resolution to appoint a person that has not been nominated by the Supervisory Board requires an absolute majority of the votes cast, provided that such majority represents at least one third of the issued and outstanding share capital of the Company. If less than one third of the issued and outstanding share capital is represented but an absolute majority of the votes is cast in favour of the proposal to appoint the nominated member of the Supervisory Board, a new General Meeting may be convened. At such second meeting, the relevant resolution to appoint the nominated member of the Supervisory Board requires an absolute majority of the votes cast, irrespective of the percentage of issued and outstanding share capital represented.

The remuneration of each member of the Supervisory Board is determined by the General Meeting. The expenses of the members of the Supervisory Board are reimbursed by the Company.

Resolutions of the Supervisory Board are validly adopted by an absolute majority of votes cast by the members of the Supervisory Board represented in the meeting, provided that the majority of Supervisory Board members is represented. A member of the Supervisory Board does not participate in the vote on a topic or transaction in respect of which he has a conflict of interest with the Company. Such member will not be taken into account for the purpose of determining the number of members of the Supervisory Board present or represented. Resolutions of the Supervisory Board can be taken outside a meeting by unanimous vote.

The Supervisory Board appoints a chairman and a vice-chairman from among its members and may appoint a secretary and a vice-secretary. The Supervisory Board has adopted rules governing its internal organisation.

Pursuant to the Articles of Association, the General Meeting may suspend or dismiss a Supervisory Director at any time taking into account the applicable provisions of the Articles of Association.

**Executive Board**

The Executive Board is responsible for the management of the Company under the supervision of the Supervisory Board.

The Supervisory Board determines the number of members of the Executive Board. The General Meeting is entitled to appoint members of the Executive Board. The Supervisory Board appoints a chairman from amongst the members of the Executive Board.

The Executive Board shall invite the Supervisory Board within sixty days after a vacancy appears to make a non-binding nomination for a new member of the Executive Board. A resolution to appoint a person that has been nominated by the Supervisory Board requires an absolute majority of the votes cast. A resolution to appoint a person that has not been nominated by the Supervisory Board requires an absolute majority of the votes cast, provided that such majority represents at least one third of the issued and outstanding share capital of the Company. If less than one third of the issued and outstanding share capital is represented but an absolute majority of the votes is cast in favour of the proposal to appoint the nominated member of the Supervisory Board, a new General Meeting may be convened. At such second meeting, the relevant resolution to appoint the nominated member of the Supervisory Board requires an absolute majority of the votes cast, irrespective of the percentage of issued and outstanding share capital represented.

Pursuant to the Articles of Association, the General Meeting may suspend or dismiss a member of the Executive Board at any time taking into account the applicable provisions of the Articles of Association. The Supervisory Board is also entitled to suspend (but not to dismiss) a member of the Executive Board.

The General Meeting adopts a remuneration policy for the Executive Board on the proposal of the Supervisory Board. The remuneration policy applicable at the date of this Prospectus was adopted by the General Meeting on 12 May 2005 and 16 May 2006. The Supervisory Board determines the salary and other terms and conditions of employment of the members of the Executive Board in accordance with the remuneration policy.

The Executive Board and each member of the Executive Board are entitled to represent the Company.

Certain resolutions of the Executive Board identified in the Articles of Association require the approval of the Supervisory Board. Furthermore, the Executive Board requires the approval of the General Meeting for resolutions regarding a significant change in the identity or nature of the Company or its business.

The Executive Board has adopted rules governing its internal organisation. These rules may only be amended with the approval of the Supervisory Board.

In the event of a conflict of interest between a member of the Executive Board in its private capacity and the Company, the Company must be represented by a member of the Supervisory Board designated by the Supervisory Board, unless the General Meeting designates a person for such purpose. If a member of the Executive Board has a conflict of interest with the Company other than as referred to in the preceding sentence, he and each of the other members of the Executive Board, still have the power to represent the Company in that matter, unless the General Meeting designates a person for such purpose.

In case one or more members of the Executive Board are prevented from acting or are absent, the remaining members of the Executive Board are, or the only remaining member of the Executive Board is, temporarily in charge of the entire management. The Supervisory Board may designate one or more temporary executive directors for the relevant period. In case all members of the Executive Board are, or the only member of the Executive Board is, prevented from acting or are/is absent, the Supervisory Board will assume the management temporarily or it may designate one or more temporary executive directors.

## Liability of members of the Supervisory Board and the Executive Board

Under Dutch law, members of management may be liable to the Company for damages in the event of improper or negligent performance of their duties. They may be jointly and severally liable for damages to the Company and to third parties for infringement of the Articles of Association or of certain provisions of the Dutch Civil Code. In certain circumstances, members of management may also incur additional specific civil and criminal liabilities. Members of the Executive Board, the Supervisory Board, and certain executive officers of the Company are insured under an insurance policy against damages resulting from their conduct when acting in the capacities as such members or officers.

In addition, the Articles of Association stipulate that current and former members of the Executive Board and the Supervisory Board are entitled to reimbursement of:

- costs of conducting a defence against claims based on acts or failures to act in the exercise of their duties or the exercise of any other duties currently or previously performed by them at the Company's request
- any damages or fines payable by them as a result of an act or failure to act as referred to above
- costs of appearing in other legal proceedings in which they are involved as current or former members of the Executive Board or the Supervisory Board, with the exception of proceedings primarily aimed at pursuing a claim on their own behalf.

There shall, however, be no entitlement to reimbursement if and to the extent that:

- it has been established by a Dutch court in a final and conclusive decision that the act or failure to act of the person concerned may be characterised as wilful *(opzettelijk)*, intentionally reckless *(bewust roekeloos)* or seriously culpable *(ernstig verwijtbaar)* conduct, unless (i) Dutch law provides otherwise or (ii) this would be unacceptable in view of the requirements of reasonableness and fairness *(redelijkheid en billijkheid)* when taking into account the relevant circumstances; or
- the costs or financial loss of the person concerned are covered by an insurance and the insurer has paid out the costs or financial loss.

## Labour relations

### Employees

The average numbers of FTEs employed by ERIKS, excluding WYKO, in the last three years were:

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| **Total number of employees** ................................................ | 1,942 | 2,011 | 2,081 |

Source: Company

The following chart shows the number of FTEs employed by the Company, ERIKS Netherlands, ERIKS Belgium, ERIKS Germany, ERIKS France, ERIKS USA and ERIKS South East Asia, respectively, in the last three years at year-end (as WYKO did not yet form part of ERIKS at those dates, the chart does not include ERIKS UK):

| | **2003** | **2004** | **2005** |
|---|---|---|---|
| **Company** | 16 | 15 | 15 |
| **ERIKS Netherlands** | 786 | 811 | 842 |
| **ERIKS Belgium** | 556 | 579 | 576 |
| **ERIKS Germany** | 292 | 398 | 410 |
| **ERIKS France** | 135 | 121 | 128 |
| **ERIKS USA** | 88 | 77 | 73 |
| **ERIKS South East Asia** | 56 | 61 | 59 |
| **Total** | 1,929 | 2,062 | 2,103 |

Source: Company

The increase in the number of employees at ERIKS Netherlands was due mainly to the recruitment of new employees for local branch operations and the expansion of existing business.

**Conditions of employment**

The overall remuneration package at ERIKS is related to the customary remuneration structures (primary and secondary employee benefits) prevailing in the countries and regions concerned. Primary employee benefits consist of fixed and variable parts. The size of the variable part depends on an employee's personal accomplishments and on the Company's results. Pension plans have been put in place for employees in a few countries and regions. The Company's objective is to base these plans on collective schemes linked to available contributions. The employer's annual contribution is fixed under such schemes.

In 2005, the Company developed in consultation with the relevant labour unions and works councils a standard package of employee benefits, in addition to the applicability of the collective labour agreement (see "**Collective labour agreement**") for all employees of the ERIKS Netherlands cluster, including the Company. Furthermore, various social and pension schemes (including pre-pension schemes) were modified in preparation for amended legislation that came into force at the start of 2006.

***Collective labour agreement***

All employees of the ERIKS Netherlands cluster, with the exception of employees in management positions, are covered by the collective labour agreement for technical wholesale business (*CAO Technische Groothandel*). This collective labour agreement is in principle renegotiated bi-annually. The current collective labour agreement runs from 1 January 2006 until and including 31 December 2007.

**Works councils**

Within ERIKS there are currently works councils at Eriks B.V. (Netherlands), Flexion B.V. (Netherlands), van Eyle & Ruygers-Schwartz B.V. (Netherlands), Eriks N.V. (Belgium), Baudion N.V. (Belgium) and Hill & Müller GmbH (Germany).

A works council is a representative body of the employees of an enterprise elected by the employees.

Pursuant to Dutch law, the managing board of any company that runs an enterprise with a works council, must seek the non-binding advice of the works council before taking certain decisions with respect to the enterprise, such as those related to a major restructuring, a change of control, or the appointment or dismissal of a member of the managing board in case such member alone or jointly with others, directly controls the management of the enterprise. If the decision to be taken is not in line with the advice of the works council, the implementation of the relevant decision must be suspended for one month, during which period the works council may appeal against the decision. Certain other decisions directly involving employment matters that apply either to all employees or certain groups of employees, may only be taken with the works council's consent. In the absence of such prior consent, the decision may nonetheless be taken with the prior consent of the courts.

Pursuant to Belgian law, a works council is entitled to receive certain information, such as financial and economic information and information regarding employment, from the managing board of any company that runs an enterprise with a works council. The managing board must seek the non-binding advice of the works council before taking certain decisions, for example with respect to modifications in the structure of the enterprise, collective dismissal, closure of the enterprise or of its branches. A works council has decisive power in respect of certain topics, for example in relation to the dates of yearly vacation, and organisational rules concerning parental leave. A works council also has a number of supervision tasks, for example regarding the observance of industrial and social legislation, and is entrusted with the task of managing certain employee benefits.

On 7 December 2005, various works councils of the Netherlands and Belgium entities within ERIKS entered into an agreement with the Company to install a central employee participation council, named the Euro Covenant Council. The purpose of this council is to represent the common interest of ERIKS' employees regarding topics that relate to the ERIKS' enterprises in Europe, for example by discussing ERIKS' policy with the CEO of the Executive Board bi-annually. The council has certain advisory powers and information rights.

Furthermore, the various works councils and other employee representative bodies of the enterprises in the cluster ERIKS Netherlands entered into an agreement with the Company to install a group works council, named the Cluster Works Council. The purpose of this council is to represent the common interests of employees of the cluster ERIKS Netherlands, regarding topics that relate for these companies. The council has certain advisory and approval power and information rights.

**Long term incentive plan for the Executive Board**

On 21 August 2006, the Supervisory Board approved a long-term incentive program for the Executive Board (the "**LTIP**"). Under the LTIP, the members of the Executive Board will be entitled to a bonus of 85% of 50% of their gross annual salary provided that the following criteria are met. The increase of ERIKS' turnover increased more than 25% in three years and the return on the aggregate invested capital including activated goodwill over a period of three years is more than 15% (EBITA divided by aggregate invested capital). These criteria may be amended from time to time. The LITP became effective retroactively as of the period 2003-2005. As a result thereof, Mr. Van der Zouw, Mr. De Boer and Mr. Maier received a bonus in 2006.

# DESCRIPTION OF SHARE CAPITAL AND CORPORATE STRUCTURE

## General

The Company is a public limited liability company (*naamloze vennootschap*) and was incorporated under the laws of the Netherlands on 12 May 1952. The corporate seat of the Company is in Alkmaar, the Netherlands. The registered office of the Company is Arcadialaan 14, Victory Building 32-c, 1813 KN Alkmaar, the Netherlands and the Company is registered in the Commercial Register by the Chamber of Commerce Noord-West Holland (*handelsregister van de Kamer van Koophandel en Fabrieken in Noord-west Holland*) under number 37013289. The telephone number of the Company is +31 (0)72 5475888. The Articles of Association were most recently amended by notarial deed on 23 May 2005 before H.J. Steinvoort, civil law notary in Amsterdam. The N.V. number under which the Company is registered wit the Ministry of Justice is N.V. 64.738.

The following description of the Company's share capital and corporate structure does not purport to be complete and is qualified in its entirety by reference to the full text of the Articles of Association.

## Corporate purpose

Pursuant to article 2 of the Articles of Association, the Company's corporate objects are to participate in, to conduct the management of, and to finance other business enterprises and companies of whatever nature, to acquire, exploit, encumber and dispose of registered assets (*registergoederen*), to borrow and lend funds, as well as to manage and invest capital. In addition, the Company may provide security for and guarantee liabilities of third parties and finally conduct all activities which are incidental or may be conducive to any of the foregoing.

## Share capital

### History Company's share capital

On 23 May 2005, after close of trading on Euronext Amsterdam, the then 3,887,039 outstanding Ordinary Shares with a nominal value of € 1.00 each, were split into 7,774,078 Ordinary Shares with a nominal value of € 0.50 each. On that same date, after close of trading on Euronext Amsterdam, the depositary receipts issued for the Ordinary Shares were delisted and the Ordinary Shares decertified. As of 24 May 2005, the Ordinary Shares, with a nominal value of € 0.50 each, were listed and traded on Euronext Amsterdam.

The following table sets forth the Company's authorised *(maatschappelijk)* and issued *(geplaatst)* share capital, as well as the nominal value of the Ordinary Shares, the Preference Shares and the Financing Preference Shares (together with the Ordinary Shares and the Preference Shares, the **"Shares"**) as at 12 January 2007.

| | Nominal value per Share | Number of Shares authorised | Number of Shares issued |
|---|---|---|---|
| **Ordinary Shares** | € 0.50 | 15,000,000 | 8,030,776 |
| **Preference Shares** | € 0.50 | 19,000,000 | 0 |
| **Financing Preference Shares (two series*)** | € 0.50 | 4,000,000 | 0 |

* The Articles of Association provide for two series of Financing Preference Shares: Series A and Series B

All issued and outstanding Ordinary Shares are issued under Dutch law and are fully paid up.

### Shareholders' register

The names and addresses of shareholders are entered in the shareholders' register maintained by the Executive Board and kept at the Company's offices. This register also indicates the number of shares held by each shareholder and the amount paid up on each Share. The register also includes the names and addresses of persons who hold certain ownership rights (for example, usufruct) or a right of pledge in respect of Shares, to the extent Shares are not entered into the collective deposit (*verzameldepot*) and giro deposit (*girodepot*) on the basis of the Securities Giro Act (*Wet Giraal Effectenverkeer*).

On request of the shareholder, the usufructary or the pledgee, the Company is required to provide an extract from the register of shareholders in respect of such person's rights to any Shares. The registers are available at the Company's corporate office in Alkmaar, the Netherlands, for inspection by shareholders, as well as inspection by usufructaries and pledgees insofar as the rights attached to depositary receipts issued with the cooperation of the Company have been granted to them.

### Ordinary Shares

#### *General*

Ordinary Shares are issued in registered form only. No share certificates are issued for Ordinary Shares. Ordinary Shares must be fully paid up upon issue.

#### *Transfer of Ordinary Shares*

Transfer of an Ordinary Share which are not entered into the collective deposit (*verzameldepot*) and giro deposit (girodepot) on the basis of the Securities Giro Act requires an instrument of transfer and, if the Company is not a party to the transfer, a written acknowledgment by the Company of the transfer.

### Financing Preference Shares

#### *General*

Financing Preference Shares are issued in registered form only. No share certificates are issued for Financing Preference Shares. Financing Preference Shares must be fully paid up upon issue and have preferred dividend rights as described under "**Profits/dividends**" below.

#### *Transfer of Financing Preference Shares*

A transfer of a Financing Preference Share requires the approval of the Executive Board, which approval is subject to the approval of the Supervisory Board. A holder of Financing Preference Shares who intends to transfer his Financing Preference Shares must request the Executive Board for approval in writing.

### Preference Shares

#### *General*

Preference Shares are issued in registered form only. No share certificates are issued for Preference Shares. At least 25% of the par value of Preference Shares must be paid up upon subscription ("**call amount**"). The call amount must be equal for each Preference Share. Preference Shares have preferred dividend rights as described under "**Profits/dividends**" below.

The Executive Board may, subject to the approval of the Supervisory Board, determine an additional amount that must be paid on Preference Shares which have not yet been paid in full and the date on which such additional amount must be paid.

#### *Transfer of Preference Shares*

A transfer of a Preference Share requires the approval of the Executive Board, which approval is subject to the approval of the Supervisory Board. A holder of Preference Shares who intends to transfer his Preference Shares must request the Executive Board for approval in writing.

## Issue of shares; pre-emption rights

### Issue of shares

Shares may be issued pursuant to a resolution of the General Meeting, unless the General Meeting has delegated this authority to the Executive Board. The delegation of this authority can only be made for a definite period of not more than five years and may not be extended in excess of five years.

The authority to issue Ordinary Shares was delegated to the Executive Board. The delegation applies for (i) a maximum of 20% of the total number of issued Ordinary Shares as per 16 May 2006 and (ii) such additional number of authorised Ordinary Shares as may be required to refinance the Acquisition. The delegation referred to under (i) will end on 16 May 2008, unless extended by the General Meeting and the delegation referred to under (ii) will end on 15 May 2007, unless extended by the General Meeting.

The authority to issue Preference Shares was delegated to the Executive Board for a period ending on 12 May 2010. The Executive Board requires the approval of the General Meeting for a resolution to issue Preference Shares if, as a consequence of such issuance the nominal amount of the issued Preference Shares may or will exceed the nominal amount of any issued Financing Preference Shares and and of the issued Ordinary Shares. Furthermore, if the Executive Board adopts a resolution to issue Preference Shares, it must explain the relevant issuance in a General Meeting within four weeks after such issuance, unless such explanation has already been provided in advance.

The body authorised to resolve to issue Shares determines the price and further terms and conditions of the issuance. A resolution to issue Shares and to determine the price and further terms and conditions of the issuance is subject to the approval of the Supervisory Board.

The above also applies to the granting of rights to subscribe for Shares, such as options, but does not apply to an issue of Shares pursuant to the exercise of such (previously granted) rights.

A resolution of the General Meeting to issue Ordinary Shares or to designate the Executive Board as the corporate body to do so, requires a prior or simultaneous resolution of each group of holders of Shares of a specific class whose rights will be affected. This does not apply if only Ordinary Shares have been issued.

### Pre-emption rights

In general, each holder of Ordinary Shares has a pre-emption right in respect of Ordinary Shares to be issued in proportion to the aggregate amount of his Ordinary Shares.

Pre-emption rights may be limited or excluded by a resolution of the General Meeting, which requires a majority of at least two-thirds of the votes cast, if less than one half of the issued share capital is represented at the meeting. The General Meeting may delegate this authority to the Executive Board, which resolution also requires a majority of at least two-thirds of the votes cast, if less than one half of the issued share capital is represented at the meeting. The delegation of this authority can only be made for a definite period of not more than five years and may not be extended in excess of five years. A resolution to limit or exclude pre-emption rights requires the approval of the Supervisory Board.

The authority to limit or exclude pre-emption rights has been delegated to the Executive Board. The delegation in respect of an issue of Ordinary Shares referred to under (i) in "**Issue of shares**" above will end on 16 May 2008, unless extended by the General Meeting and the delegation in respect of an issue of Ordinary Shares referred to under (ii) in "**Issue of shares**" above will end on 15 May 2007, unless extended by the General Meeting.

The above also applies to the granting of rights to subscribe for Ordinary Shares, such as options, but does not apply to an issue of Ordinary Shares pursuant to the exercise of such (previously granted) rights.

Holders of Ordinary Shares shall not have pre-emption rights in respect of issuances of Financing Preference Shares or Preference Shares. Holders of Financing Preference Shares or Preference Shares have no pre-emption rights in respect of issuances of any Shares. Pre-emption rights do not apply with respect to Shares issued against contribution in kind or Shares issued to the Company's employees or to employees of one of its group companies.

## Stichting Eriks Group

### General

The Foundation was incorporated on 16 June 1989. Its principal office is located at Arcadialaan 14, Victory Building 32-c, 1813 KN Alkmaar, the Netherlands. The objective of the Foundation is to promote the interests of the Company and of the enterprises that form part of the Company's group and the interests of all stakeholders in order to safeguard such interests. The Foundation may accomplish its objects by way of acquiring Preference Shares and to exercise the voting rights on such shares in the Company's interests and the interests of its stakeholders. The board of the Foundation consists of three board members. Furthermore, the Foundation's articles provide for an observer who is entitled to attend the meetings of the Foundation's board and to speak at such meetings. A board member shall be appointed by the board of the Foundation with the approval of the Company's

Supervisory Board, with due observance of the criteria for independence set out in the articles of the Foundation. The observer is appointed by the Executive Board from among its members. Currently, the observer in the Foundation is Mr. J. de Boer. He is not a member of the board of the Foundation and as such has no formal influence on the voting in the board meeting. Board resolutions will be adopted by a majority of the votes cast in a meeting where all board members and the observer have been properly convened. The Foundation is represented vis-à-vis third parties by the entire board.

**Call option**

On 25 October 1989, the Company granted the Foundation right to subscribe for Preference Shares. This call option currently enables the Foundation to acquire such number of Preference Shares as equals the nominal amount of all outstanding Ordinary Shares and all outstanding Financing Preference Shares, if any, at the time of the relevant exercise of the option, less € 0.50 (the "**Call Option**"). The terms and conditions of this option are laid down in an option agreement between the Company and the Foundation, which agreement was most recently amended on 24 May 2005 (the "**Option Agreement**") (see "**RELATED PARTY TRANSACTIONS – Option Agreement**"). When exercising the option and exercising its voting rights on the Preference Shares acquired as a result of exercising the option, the Foundation must act in the Company's interest and the interests of the Company's stakeholders. The purpose of the Foundation's call option is to create a period of time in which the Company can study the available alternatives in case of an imminent change of control that might not be in the best interests of the Company and its stakeholders.

**Repurchase of Shares by the Company**

The Executive Board may, subject to the authorisation of the General Meeting and subject to Dutch law, cause the Company to acquire for consideration fully paid-up Shares. However, such repurchase is only permitted, if and to the extent that (i) the shareholders' equity, less the payment required to make the repurchase, does not fall below the sum of called-up and paid-up capital and any reserves required by Dutch law or the Articles of Association; and (ii) the Company and its subsidiaries would thereafter not hold Shares with an aggregate nominal value exceeding 10% of the Company's issued share capital. The General Meeting must specify in the authorisation, which would be valid for not longer than eighteen months, the number of Shares which may be acquired, the manner in which they may be acquired and the limits within which the price must be set. At the date of this Prospectus, the General Meeting has not authorised the Executive Board to acquire shares in the Company's own share capital.

No votes may be cast at a General Meeting on any Shares held by the Company or its subsidiaries. Nonetheless, the holders of a right of usufruct and the holders of a right of pledge in respect of Shares held by the Company or a subsidiary are not excluded from any right they may have to vote on such shares, if the right of usufruct or the right of pledge was granted prior to the time such share became held by the Company or such subsidiary.

**Capital reduction**

Subject to the provisions of Dutch law and the Company's Articles of Association, the General Meeting may resolve to reduce the issued share capital by (i) cancelling a class of Shares or (ii) reducing the par value of Shares through an amendment of the Articles of Association. Dutch law and the Articles of Association contain detailed provisions regarding partial repayment of Ordinary Shares and cancellation of Ordinary Shares. A resolution of the General Meeting to reduce the share capital requires a majority of at least two-thirds of the votes cast, if less than half of the issued and outstanding share capital is represented.

**Liquidation**

The General Meeting may resolve to dissolve the Company. Such resolution, if adopted upon proposal of the Executive Board with the approval of the Supervisory Board, requires an absolute majority of votes cast. If adopted otherwise, such resolution requires a majority of at least two-thirds of the votes cast, provided that at least three-fourth of the issued and outstanding share capital is represented.

In the event of a dissolution and liquidation of the Company, the assets remaining after payment of all debts and liquidation expenses will be distributed among the holders of Ordinary Shares in proportion to the par value of their Ordinary Shares, subject to liquidation preference rights of holders of Preference Shares and Financing Preference Shares, if any.

**Management and supervision on management**

See "**SUPERVISORY BOARD, MANAGEMENT AND EMPLOYEES – Board practices**" for a description of the duties and authorities of the members of the Executive Board and the Supervisory Board, the rules for their appointment, suspension and dismissal, the rules for the determination of their remuneration.

**General Meeting**

General Meetings of shareholders are held in Alkmaar or Amsterdam, the Netherlands. The annual General Meeting must be held ultimately in June. Additional extraordinary General Meetings may also be held, whenever considered appropriate by either the Supervisory Board or the Executive Board.

The convocation of the General Meeting shall be published in the form of an advertisement in at least one national daily Dutch newspaper and the Daily Official List. The agenda for the annual General Meeting must contain certain subjects as specified in the Articles of Association, including, among other things, the adoption of the annual accounts, the discharge of the members of the Executive Board and the members of the Supervisory Board for the relevant financial year and the appropriation of that part of the Company's profits that is at the disposal of the General Meeting. In addition, the agenda shall include such items as have been included therein by the Executive Board or the Supervisory Board. The agenda shall also include such items as one or more shareholders and others entitled to attend General Meetings, representing at least one-hundredth of the issued share capital or representing a value of at least € 50,000,000, have requested the Executive Board to include in the agenda, at least sixty days before the day of the convocation. The Executive Board and the Supervisory Board may decide not to place items so requested on the agenda, if they are of the opinion that doing so would be detrimental to vital interests of the Company or that the items so requested do not belong to the competence of the General Meeting. No resolutions shall be adopted on items other than those which have been included in the agenda.

The General Meeting is chaired by the chairman of the Supervisory Board. If the chairman of the Supervisory Board or his or her substitute is absent, the meeting appoints another person. The chairman designates the secretary. Members of the Executive Board and members of the Supervisory Board may attend a General Meeting. In these meetings, they have an advisory vote. The chairman of the meeting may decide to admit other persons to the meeting.

The chairman of the meeting decides on issues relating to the admission to the meeting, the exercise of voting rights, the outcome of a vote and all other matters in relation to the conduct of the meeting.

All holders of Shares and others entitled to attend General Meetings are authorised to attend the General Meeting, to address the meeting and, in so far as they have such right, to vote.

The Executive Board may determine that such will apply to those who:

- are a shareholder (or are entitled to attend General Meetings) as per a record date, determined by the Executive Board
- are registered as such in a register (or one or more parts thereof) designated thereto by the Executive Board in as far as, at the request of the applicant, the holder of the register has given notice in writing to the Company prior to the General Meeting, that the relevant shareholder (or other person entitled to attend General Meetings) has the intention to attend the General Meeting, regardless who will be shareholder (or other person entitled to attend General Meetings) at the time of the General Meeting (this notice requirement also applies to the proxy holder who holds a written proxy). The notice must contain the name and the number of shares which will be represented in the General Meeting. The convocation of the General Meeting will contain the time, the place of meeting and the procedures for registration and/or notification.

The Executive Board must obtain the approval of the General Meeting and the Supervisory Board for resolutions regarding a significant change in the identity or nature of the Company or its business.

**Voting rights**

Each Share is entitled to one vote. Subject to certain exceptions provided by Dutch law or the Articles of Association, resolutions of the General Meeting are passed by an absolute majority of votes cast.

No votes may be cast at a General Meeting in respect of Shares which are held by the Company or its subsidiaries. Nonetheless, the holders of a right of usufruct and the holders of a right of pledge in respect of Shares held by the Company or a subsidiary are not excluded from any right they may have to vote on such Shares, if the right of usufruct or the right of pledge was granted prior to the time such Share became held by the Company or such subsidiary. Neither the Company nor its subsidiaries may cast votes in respect of a Share in respect of which it holds a right of usufruct or a right of pledge. Shares which are not entitled to voting rights pursuant to the preceding sentences will not be taken into account for the purpose of determining the number of shareholders that vote and that are present or represented, or the amount of the share capital that is provided or that is represented at a General Meeting.

Holders of a material number of Shares do not have other voting rights than other holders of Shares.

**Annual accounts**

The Company's financial year coincides with the calendar year. Dutch law requires that within five months after the end of the Company's financial year, unless the General Meeting has extended this period by a maximum period of six months because of special circumstances, the Executive Board prepares annual accounts, an annual report and other information required by law with respect to such financial year and makes such available together with the report of the independent accountant to the shareholders for adoption by the General Meeting.

**Profits/dividends**

Distribution of profits only takes place following the adoption of the annual accounts from which it appears that such distribution is allowed. Pursuant to the Articles of Association profits shall be distributed as follows. Firstly, a percentage, calculated in accordance with the Articles of Association, will be distributed to the holders of Preference Shares. From any profits remaining after such distribution, if any, the Executive Board may reserve as much as it deems fit, subject to the approval of the Supervisory Board. From the profit then remaining a percentage, calculated in accordance with the Articles of Association, will be distributed to the holders of Financing Preference Shares. Finally, the remainder of the profits will be at the free disposal of the General Meeting either to be reserved in whole or in part or to be distributed in whole or in part to the holders of Ordinary Shares in proportion to their holding of Ordinary Shares.

If the profit in any financial year is not sufficient to meet the above distributions on Preference Shares or Financing Preference Shares, the deficit shall be paid, insofar as possible, from the Company's freely distributable reserves. If the distributions on Preference Shares or Financing Preference Shares cannot be made in full, the deficit shall be paid from the profit earned in subsequent years.

No distribution may be made on Financing Preference Shares for as long as any dividend, whether current or in arrears, is owed on Preference Shares. No distribution may be made on Ordinary Shares as long as any dividend is owed on Preference Shares or Financing Preference Shares.

The Executive Board may resolve, subject to the approval of the Supervisory Board and subject to Dutch law and the Articles of Association, to distribute an interim dividend.

On the proposal of the Executive Board, and subject to the approval of the Supervisory Board, the General Meeting may resolve that dividends are to be fully or partly paid in the form of Ordinary Shares instead of in cash or that the shareholder may choose between the two.

Dividends shall be due and payable one month after they have been declared, unless the General Meeting determines otherwise on the proposal of the Executive Board.

**Amendment of the Articles of Association**

The General Meeting may resolve to amend the Articles of Association. Such resolution, if adopted upon proposal of the Executive Board with the approval of the Supervisory Board, requires an absolute majority of votes cast. If adopted otherwise, such resolution requires a majority of at least two-thirds of the votes cast, provided that at least three-fourth of the issued and outstanding share capital is represented.

**Obligations of shareholders to disclose holdings**

Holders of Ordinary Shares may be subject to reporting obligations under the FMSA. Shareholders are advised to seek professional advice on their obligations.

**Shareholders**

Pursuant to the FMSA, each person whose holding of voting rights and/or capital interest, directly or indirectly, in a public limited liability company incorporated under Dutch law of which the (depositary receipts for) shares are admitted to trading on a regulated market in the EEA (such as the Company), amounts to 5% or more must notify the AFM immediately by means of a standard form.

Any person who directly or indirectly acquires or disposes of an interest in the Company's capital and/or voting rights must immediately notify the AFM by means of a standard form if, as a result of this acquisition or disposal, the percentage of capital interest or voting rights held directly or indirectly meets, exceeds or falls below the following thresholds: 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%.

The Company is required to notify the AFM immediately if the Company's share capital or voting rights have changed by 1% or more since its previous notification on outstanding capital and voting rights. The Company must notify the AFM of the Company's outstanding share capital and voting rights at least once per calendar quarter, within eight days after the end of the quarter. Anyone whose direct or indirect capital interest and/or holding of voting rights meets or passes the thresholds referred to in the previous paragraph as a result of a change in the share capital or voting rights that are outstanding must notify the AFM no later than the fourth trading day after the AFM has published the change in the Company's share capital and/or voting rights.

Once every calendar year, holders of a 5% or larger interest in the Company's share capital or voting rights whose interest has, in the period after their most recent notification to the AFM, changed (in composition) as a result of certain acts (including, but not limited to, the exchange of shares for depositary receipts and vice versa, and the exercise of a right to acquire shares) must notify the AFM. The notification must be effected within four weeks after the end of the calendar year.

Subsidiaries, within the meaning of the relevant regulation under the FMSA, do not have reporting obligations under the FMSA, as their, direct and indirect, interests are attributed to their (ultimate) parent. Any person may qualify as a parent for purposes of the FMSA, including an individual. A person who disposes of a 5% or larger interest in the Company's share capital or voting rights and who ceases to be a subsidiary for these purposes must immediately notify the AFM. As of that moment, all notification obligations under the FMSA will become applicable to the former subsidiary.

For the purpose of calculating the percentage of capital interest or voting rights, among other metrics, the following interests must be taken into account: (i) shares or depositary receipts for shares or voting rights directly held (or acquired or disposed of) by any person, (ii) shares or depositary receipts for shares or voting rights held (or acquired or disposed of) by such person's subsidiaries or by a third party for such person's account or by a third party with whom such person has concluded an oral or written voting agreement (including a discretionary power of attorney), and (iii) shares or depositary receipts for shares or voting rights which such person, or any subsidiary or third party referred to above, may acquire pursuant to any option or other right held by such person (or acquired or disposed of, including, but not limited to, on the basis of convertible bonds).

Special rules apply with respect to the attribution of shares or depositary receipts for shares or voting rights which are part of the property of a partnership or other community of property. A holder of a pledge or right of usufruct in respect of shares or depositary receipts for shares can also be subject to the reporting obligations of the FMSA, if such person has, or can acquire, the right to vote on the shares or, in the case of depositary receipts, the underlying shares. If a pledgee or usufructuary acquires the voting rights on the shares or depositary receipts for the shares which are the subject of such pledge or usufruct arrangement, this may trigger a corresponding reporting obligation for the holder of the shares or depositary receipts for the shares.

The FMSA and the rules promulgated pursuant thereto contain detailed rules that set out how its requirements apply to certain categories of holders, including but not limited to (managers of) investment funds, investment managers, custodians, market makers, clearing and settlement institutions, brokers and credit institutions.

**Management**

Pursuant to the FMSA, members of the Executive Board and Supervisory Board and any other person who has (co)managerial responsibilities in respect of the Company or who has the authority to make decisions affecting the Company's future developments and business prospects and who has regularly access to inside information relating, directly or indirectly, to the Company, must give written notice to the AFM by means of a standard form of any transactions conducted on his own account relating to Ordinary Shares or in securities the value of which is determined by the value of Ordinary Shares.

In accordance with the FMSA and the regulations promulgated thereunder certain persons who are closely associated with members of the Executive Board, Supervisory Board or any of the other persons as described above, are required to notify the AFM of any transactions conducted on their own account relating to Ordinary Shares or in securities the value of which is determined by the value of Ordinary Shares. The FMSA and the regulations promulgated thereunder determines the following categories of persons: (i) the spouse or any partner considered by national law as equivalent to the spouse, (ii) dependent children, (iii) other relatives who have shared the same household for at least one year at the relevant transaction date, (iv) any legal person, trust or partnership whose, among other things, managerial responsibilities are discharged by a person referred to under (i), (ii) or (iii) above.

The AFM must be notified within five days following the relevant transaction date. Under certain circumstances, notification may be postponed until the date the value of the transactions amounts to € 5,000 or more per calendar year.

**Non-compliance**

Non-compliance with the notification obligations under the FMSA could lead to criminal fines, administrative fines, imprisonment or other sanctions. In addition, non-compliance with some of the notification obligations under the FMSA may lead to civil sanctions, including suspension of the voting rights relating to the Ordinary Shares held by the offender for a period of not more than three years and a prohibition applicable to the offender to acquire Ordinary Shares or the voting on the Ordinary Shares for a period of not more than five years.

**Public registry**

The AFM keeps a public registry of and publishes all notifications made pursuant to the FMSA.

**Obligations of shareholders to make a public offer**

Currently there is no obligation under Dutch law for a shareholder whose interest in a company's share capital or voting rights passes a certain threshold to make a public offer for all or part of the issued and outstanding shares in the share capital of the company. However, when the European Directive 2004/25/EC of 21 April 2004 relating to the public take over bid is implemented in the Netherlands, a shareholder who has acquired a certain percentage or more of the Ordinary Shares or of the Company's voting rights will be obliged to make a public offer for all issued and outstanding shares in the Company's share capital. The draft legislation for the implementation of this Directive issued by the Dutch Ministry of Finance proposes to set the threshold at 30%.

**Cross-border exercise of shareholders' rights**

On 10 January 2006, the European Commission has presented a proposal for a Directive to facilitate the cross-border exercise of shareholders' rights in listed companies, through the introduction of minimum standards. The proposed Directive seeks to ensure that shareholders, no matter where in the EU they reside, have timely access to complete information and simple means to exercise certain rights, voting rights in particular, at a distance.

## CORPORATE GOVERNANCE

**General**

The Executive Board and Supervisory Board acknowledge the importance of good corporate governance. For many years the Company has formally and informally maintained a clear dividing line between the responsibilities of the Executive Board and those of the Supervisory Board. Disclosures to shareholders and other stakeholders are as open as possible. The Company considers recommendations by shareholders and acts upon these, provided that such recommendations promote ERIKS' continuity and take into account the interests of all stakeholders.

On 9 December 2003, the Dutch Corporate Governance Committee, also known as the Tabaksblat Committee, released the Dutch corporate governance code (the "**Code**"). The Code contains 21 principles and 113 best practice provisions for listed companies in respect of their managing boards, supervisory boards, shareholders and general meetings of shareholders, financial reporting, auditors, disclosure, compliance and enforcement standards.

The Code applies to all Dutch companies listed on a government-recognised stock exchange, whether in the Netherlands or elsewhere. Such companies are required under Dutch law to disclose in their annual reports whether or not they apply those provisions of the Code that are addressed to the managing board or supervisory board of the company and, if they do not apply those provisions, to give the reasons for such non-application. This disclosure requirement commenced with respect to the annual reports for the financial years beginning on or after 1 January 2004.

Since the entering into force of the Code, the Company has taken various actions towards compliance with the provisions of the Code. On the Executive Board's recommendation, the General Meeting held 12 May 2005 resolved to:

- discontinue the voluntary application of the statutory structure regime (structuurregime)
- delist the depositary receipts issued for Ordinary Shares and decertify the Ordinary Shares
- retain the anti-takeover measure through the possibility to issue Preference Shares up to 100% of the issued share capital of the Company

The anti-takeover construction that remains in place exists only to create a period of time in which the Company can study the available alternatives in case of an imminent change of control that might not be in the best interests of the Company and its stakeholders.

Holders of Ordinary Shares have full voting rights and are directly involved in:

- approving Company policy and strategy
- appointing members of the Executive Board and Supervisory Board
- adopting the financial statements
- adopting policy on dividends

with due observance of the statutory provisions and the Articles of Association.

**Compliance with the Code**

The Executive Board and Supervisory Board endorse the basic principle of the Code, namely that the Company is a long-term partnership of various parties who are involved in it. The stakeholders are the groups and individuals who directly or indirectly influence achievement of the Company's objectives or are influenced by them, being employees, shareholders and other capital providers, manufacturers and customers, and also the public sector and community groupings.

The Executive Board and Supervisory Board have a responsibility to weigh these interests, generally with a view to ensuring the Company's continuity. The Company strives to create long-term shareholder value. The Executive Board and Supervisory Board take into account the interests of the various stakeholders. The Company has implemented the Code taking into account the status of the Company as a relatively small listed company, the need for efficient working procedures and the existing contracts, arrangements and legislation.

The following documents are available on the Company's website (www.eriks.com):

- Articles of Association
- corporate governance/compliance manual
- regulations for the Executive Board
- regulations for the Supervisory Board
- outline of the size and composition of the Supervisory Board
- code of conduct, including whistle-blowing procedure

– ERIKS rules on insider trading
– minutes of General Meetings

Not all best practice provisions apply to the Company. The Company has not applied a limited number of best practice provisions of those that are applicable to it.

The best practice provisions of the Code currently not applied by the Company are:

**Chapter II: The Executive Board**

***II.1.1. A director shall be appointed for a maximum period of 4 years.***

– The current contracts with the members of the Executive Board have an indefinite term and will be honoured
– The Company follows developments in the labour market

***II.2.6. The Executive Board shall draw up a scheme laying down rules on the ownership of and transactions in securities by directors other than those issued by their "own" company. A director shall periodically report changes with respect to securities he owns to the compliance officer. Pursuant to best practice provision III.7.3, the same applies to the Supervisory Board.***

The role of members of the Supervisory and Executive Board (small cap) does not involve maintaining close relationships with large financial networks. Any knowledge they acquire from other listed companies is subject to insider trading laws. From this perspective, it is not considered expedient for board members to report trade in non-ERIKS securities.

***II.2.7. The maximum severance payment in the event of involuntary severance shall be one year's salary.***

The current contracts with members of the Executive Board have been concluded for an indefinite term and will be honoured. Any severance payments will be determined from case to case, depending on the person's contract, employment history (internal and external), statutory provisions and market conditions.

***II. 2.10.d. The remuneration report of the Supervisory Board shall contain an explanation of the extent to which the provision contained in II.2.7. is endorsed.***

See explanation to best practice provision II.2.7.

**Chapter III: The Supervisory Board**

***III.3.5. A member of the Supervisory Board may serve on the board not more than three four-year terms.***

The Company subscribes to the main rule, but the Executive Board and the Supervisory Board wish to be able to make an exception if the need arises. In the interest of quality and continuity on the Supervisory Board, it may be necessary for members to serve on the Supervisory Board for a longer period. The Articles of Association provide that a member of the Supervisory Board may serve on the board for more than twelve years if the General Meeting so determines at the proposal of the Supervisory Board.

***III.4.3. The Supervisory Board shall be assisted by the company secretary.***

Given its size, the Company does not consider a specifically appointed company secretary appropriate. The Supervisory Board and its chairman are assisted by Company employees, who together will fulfil the tasks of a company secretary.

***III.5.1. The Supervisory Board shall appoint an audit committee, a remuneration and a selection and appointment committee.***

Given the size of the Supervisory Board, the Company does not consider it meaningful to appoint specific committees. All matters are discussed by the full board.

## Chapter IV: General Meeting of Shareholders

***IV.3.1. All shareholders shall be able to follow meetings with analysts, presentations for analysts and/or investors and press conferences in real time via web casting, telephone lines or other means.***

For practical and cost reasons, this provision is not implemented by the Company. Obviously, all relevant information is disclosed on the Company's website without delay.

# RELATED PARTY TRANSACTIONS

**Major Shareholders**

The following table shows information about the ownership of the Ordinary Shares as at the date of this Prospectus, as follows from the public register of the AFM as at 12 January 2007:

| Name shareholder | Percentage | Date of most recent notification |
|---|---|---|
| ING Groep N.V. | 24.18% | 1 November 2006 |
| Kempen Capital Management N.V. | 10.18% | 1 November 2006 |
| Delta Deelnemingen Fonds N.V. | 7.35% | 1 November 2006 |
| Darlin N.V. | 5.78% | 1 November 2006 |
| Aviva plc | 5.28% | 1 November 2006 |

There are no agreements or arrangements between the Company and any of the shareholders listed above.

**Option Agreement**

On 25 October 1989, the Company and the Foundation entered into an agreement pursuant to which the Company granted the Foundation the right to subscribe for a number of Preference Shares up to a maximum of the number of outstanding Ordinary Shares at the moment of subscription. In 2000, the Company decided to limit the possibility to issue Preference Shares without the prior approval of the General Meeting and to amend the Option Agreement to the effect that the Foundation would be entitled to subscribe for a number of Preference Shares with a maximum of half the number of all outstanding shares, not being Preference Shares, at the moment of subscription. The Option Agreement was amended accordingly on 25 October 2000.

The Option Agreement was most recently amended on 24 May 2005. On 12 May 2005, the General Meeting decided, due to the developments in the debate in the Netherlands on corporate governance and the delisting of the depositary receipts issued for Ordinary Shares and decertification of the Ordinary Shares, to extend the possibility to issue Preference Shares without the prior approval of the General Meeting resulting in an issue of such number of Preference Shares equal to the nominal amount of the outstanding Ordinary and Financing Preference Shares less € 0.50 and to amend the Option Agreement accordingly.

Pursuant to the Option Agreement as most recently amended, the Foundation may subscribe at any time for such number of Preference Shares as equals the nominal amount of all outstanding Ordinary Shares and all outstanding Financing Preference Shares, if any, at the time of the relevant exercise of the option, less € 0.50. (See also "**DESCRIPTION OF SHARE CAPITAL AND CORPORATE STRUCTURE – Preference Shares**".) Currently, the Foundation may subscribe up to a maximum of 19 million Preference Shares. Should the proportion of the Company's authorised capital that may be issued in the form of Preference Shares be raised, then the aforementioned maximum of 19 million will be raised accordingly. Both the Company and the Foundation have committed themselves to take the necessary corporate action.

Furthermore, pursuant to the Option Agreement, the Company has issued 7,774,077 Preference Shares, which the Foundation has accepted, subject to the condition precedent that:

- a third party announces to make or announces to intend to make a public offer or makes a public offer without announcing to do so, on all or part of the (depositary receipts of) Ordinary Shares and the Executive Board and the Supervisory Board do not announce publicly and simultaneously with the announcement of such offer or with the offer itself that they recommend the acceptance of such offer or that they will recommend the acceptance of such offer;
- the Company received payment on such Preference Shares (being 25% of the par value of such Preference Shares); and
- the Foundation did not yet acquire Preference Shares pursuant to its exercise of the Call Option.

The number of Preference Shares to be issued and subscribed for in accordance with the above have been and will be automatically adjusted in case of any issue of Ordinary Shares or Financing Preference Shares, any repurchase by the Company of Ordinary Shares or Financing Preference Shares, any delivery to a third party of such repurchased Ordinary Shares or Financing Preference Shares, any split of Ordinary Shares or Financing Preference Shares or any amalgation of Ordinary Shares or Financing Preference Shares.

The Foundation may not transfer or encumber its rights under the Option Agreement or the Preference Shares acquired pursuant to the Option Agreement without the prior written approval of the Executive Board and the Supervisory Board.

The Company may not cancel the Call Option unilaterally. The Option Agreement may be terminated by either party thereto taking into account a notice period of at least 12 months, but not before 31 December 2010 and after such date only on 31 December of each subsequent five-year period.

Parties will discuss a possible amendment of the Option Agreement in case of implementation of the Directive 2004/25/EC (13th Directive, regarding a public take-over bid) by the Dutch legislator. As at the date of this Prospectus, such discussions have not been started.

## DUTCH TAXATION

The following is intended as general information only and it does not purport to present any comprehensive or complete description of all aspects of Dutch tax law which could be of relevance to a holder of Ordinary Shares (a "**Shareholder**"). Each investor should therefore consult their tax adviser regarding the tax consequences of any purchase, ownership or disposal of Ordinary Shares.

The following summary is based on the Dutch tax law as applied and interpreted by Dutch tax courts and as published and in effect on the date hereof, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect.

Any reference hereafter made to a treaty for the avoidance of double taxation concluded by the Netherlands, includes the Tax Convention for the Kingdom of the Netherlands (*Belastingregeling voor het Koninkrijk*).

### Withholding Tax

A Shareholder is generally subject to Dutch dividend withholding tax at a rate of 15% on dividends distributed by the Company. Generally, the Company is responsible for the withholding of such dividend withholding tax at source; the dividend withholding tax is for the account of the Shareholder.

Dividends distributed by the Company include, but are not limited to:

(i) distributions of profits in cash or in kind, whatever they be named or in whatever form;

(ii) proceeds from the liquidation of the Company, or proceeds from the repurchase of Ordinary Shares by the Company, in excess of the average paid-in capital recognised for Dutch dividend withholding tax purposes;

(iii) the par value of shares issued to a Shareholder or an increase in the par value of Ordinary Shares, to the extent that no contribution, recognized for Dutch dividend withholding tax purposes, has been made or will be made; and

(iv) partial repayment of paid-in capital, that is

- not recognised for Dutch dividend withholding tax purposes, or
- recognised for Dutch dividend withholding tax purposes, to the extent that the Company has net profits *(zuivere winst)*, unless
  - (a) the General Meeting has resolved in advance to make such repayment, and
  - (b) the par value of the Ordinary Shares concerned has been reduced with an equal amount by way of an amendment to the articles of association of the Company.

Notwithstanding the above, no withholding is required in the event of a repurchase of Ordinary Shares, if certain conditions are fulfilled.

If a Shareholder is a resident or deemed to be a resident of the Netherlands or, in case of an individual, has opted to be treated as a resident of the Netherlands, such Shareholder is generally entitled to a full credit for any Dutch dividend withholding tax against his Dutch (corporate) income tax liability and to a refund of any residual Dutch dividend withholding tax.

If a Shareholder is a resident of a country other than the Netherlands under the provisions of a treaty for the avoidance of double taxation between the Netherlands and such country, such Shareholder may, depending on the terms of such treaty, be entitled to an exemption from, reduction in or refund of, Dutch dividend withholding tax on dividends distributed by the Company.

If a Shareholder is subject to Dutch corporate income tax and is entitled to the participation exemption in relation to the benefits derived from its Ordinary Shares and such Ordinary Shares are attributable to an enterprise carried out in the Netherlands, such Shareholder will generally be entitled to an exemption from or a full refund of Dutch dividend withholding tax on dividends distributed by the Company.

If a Shareholder:

(i) takes one of the forms listed in the Annex 2003 to the Parent-Subsidiary Directive (Directive 90/435/EEC) (the "**Parent-Subsidiary Directive**"); and

(ii) he or a related entity *(verbonden lichaam)* owns Ordinary Shares representing 5% or more of the total issued and outstanding capital of the Company; and

(iii) he is a resident of another member state of the European Union according to the tax laws of that member state and, under the terms of a double taxation agreement concluded by that member state with a third state, is not considered to be resident for tax purposes outside the European Union; and

(iv) he is subject, without the possibility of an option or of being exempt, to a tax listed in article 2 of the Parent-Subsidiary Directive;

such Shareholder will generally be eligible for an exemption from or full refund of Dutch dividend withholding tax on dividends distributed by the Company. If a Shareholder does not meet the requirement under (ii) above, the Shareholder may nevertheless be entitled to the exemption or refund described above, if such Shareholder meets all the other requirements and:

(i) has owned 5 percent or more of the total issued and outstanding capital of the Company for an uninterrupted period of one year; and

(ii) the dividend is distributed by the Company within three years after the end of this period.

Furthermore, if a Shareholder:

(a) is a legal entity;

(b) is a resident for tax purposes of a member state of the European Union;

(c) is not subject to a tax levied by reference to profits by that member state; and

(d) would not have been subject to Dutch corporate income tax had the Shareholder been a resident of the Netherlands for corporate income tax purposes;

such Shareholder will generally be eligible for a full refund of Dutch dividend withholding tax on dividends distributed by the Company.

According to Dutch domestic anti-dividend stripping rules, no credit against Dutch (corporate) income tax, exemption from, reduction in or refund of, Dutch dividend withholding tax will be granted if the recipient of the dividend paid by the Company is not considered to be the beneficial owner (*uiteindelijk gerechtigde*) of such dividends as meant in these rules.

**<u>Taxes on income and capital gains</u>**

This section does not purport to describe the possible Dutch tax considerations or consequences that may be relevant to a Shareholder:

(i) who receives Ordinary Shares or has received Ordinary Shares or benefits from the Ordinary Shares as income from employment or deemed employment or otherwise as compensation;

(ii) that is an entity that is not subject to Dutch corporate income tax or is in full or in part exempt from Dutch corporate income tax (such as pension funds); or

(iii) that is an investment institution (*beleggingsinstelling*) as defined the CITA.

**Residents of the Netherlands**

The description of certain Dutch tax consequences in this paragraph is only intended for the following Shareholders:

(i) individuals who are resident or deemed to be a resident of the Netherlands for purposes of Dutch income tax;

(ii) individuals who opt to be treated as a resident of the Netherlands for purposes of Dutch income tax ((i) and (ii) jointly "**Dutch Individuals**"); and

(iii) entities that are a resident or deemed to be a resident of the Netherlands for the purposes of the CITA ("**Dutch Corporate Entities**").

***Dutch Individuals engaged or deemed to be engaged in an enterprise or in miscellaneous activities***

Any benefits derived or deemed to be derived by a Dutch Individual from Dutch Enterprise Shares (as defined below), including any capital gains realized on the disposal thereof, are generally subject to income tax at statutory progressive rates with a maximum of 52%.

**Dutch Enterprise Shares** are Ordinary Shares or any right to derive benefits from Ordinary Shares:

(a) which are attributable to an enterprise from which a Dutch Individual derives profits, whether as an entrepreneur or pursuant to a co-entitlement to the net worth of such enterprise (other than as an entrepreneur or a shareholder); or

(b) of which the benefits are taxable in the hands of a Dutch Individual as benefits from miscellaneous activities (*inkomsten uit overige werkzaamheden*) including, without limitation, activities which are beyond the scope of active portfolio investment activities.

### *Dutch Individuals having a (fictitious) substantial interest*

Any benefits derived or deemed to be derived by a Dutch Individual from Ordinary Shares, excluding Dutch Enterprise Shares, (including any capital gains realized on the disposal thereof) that are attributable to a (fictitious) substantial interest (such shares being "**Substantial Interest Shares**") are generally subject to income tax in the Dutch Individual's hands at statutory rates up to 25%.

Generally, a Shareholder has a substantial interest (*aanmerkelijk belang*) in the Company if such Shareholder, alone or together with his partner, directly or indirectly:

(i) owns, or holds certain rights on, shares representing 5% or more of the total issued and outstanding capital of the Company, or of the issued and outstanding capital of any class of shares of the Company;

(ii) holds rights to acquire shares, whether or not already issued, representing 5% or more of the total issued and outstanding capital of the Company, or of the issued and outstanding capital of any class of shares of the Company; or

(iii) owns, or holds certain rights on, profit participating certificates that relate to 5% or more of the annual profit of the Company or to 5% or more of the liquidation proceeds of the Company.

A Shareholder will also have a substantial interest if his partner or one of certain relatives of the Shareholder or of his partner has a (fictitious) substantial interest.

Generally, a Shareholder has a fictitious substantial interest (*fictief aanmerkelijk belang*) in the Company, if (a) he has disposed of, or is deemed to have disposed of, all or part of a substantial interest or (b) he is an individual and has transferred an enterprise in exchange for shares in the Company, on a non-recognition basis.

### *Dutch Individuals not engaged or deemed to be engaged in an enterprise or in miscellaneous activities or having a (fictitious) substantial interest*

Generally, a Dutch Individual who owns Ordinary Shares, excluding Dutch Enterprise Shares and Substantial Interest Shares, will be subject annually to an income tax imposed on a fictitious yield on such Ordinary Shares under the regime for savings and investments (*inkomen uit sparen en beleggen*). Irrespective of the actual income or capital gains realized, the annual taxable benefit of all the assets and liabilities of a Dutch Individual that are taxed under this regime, including the Ordinary Shares, is set at a fixed amount. The fixed amount equals 4% of the average fair market value of the assets reduced by the liabilities measured, in general, at the beginning and end of every calendar year. The tax rate under the regime for savings and investments is a flat rate of 30%.

### *Dutch Corporate Entities*

Any benefits derived or deemed to be derived (including any capital gains realized on the disposal) from Ordinary Shares that are held by a Dutch Corporate Entity are generally subject to corporate income tax at statutory rates up to 25.5%. However, a Dutch Corporate Entity is generally entitled to the participation exemption in relation to benefits derived from Ordinary Shares, if:

(i) he or a related entity owns 5% or more of the total issued and outstanding capital of the Company; or

(ii) he has owned 5 percent or more of the total issued and outstanding capital of the Company for an uninterrupted period of one year and the benefit from the Ordinary shares is enjoyed within three years after the end of this period.

### Non-residents of the Netherlands

A Shareholder that is not a resident or deemed to be a resident of the Netherlands or, in case of an individual, has not opted to become a resident of the Netherlands, will not be subject to any Dutch taxes on income or capital gains in respect of the ownership and disposal of the Ordinary Shares, other than dividend withholding tax as described above, except if:

(i) the Shareholder derives profits from an enterprise, whether as entrepreneur or pursuant to a co-entitlement to the net worth of such enterprise other than as an entrepreneur or a shareholder, which enterprise is, in whole or in part, carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) in the Netherlands, to which Ordinary Shares are attributable;

(ii) the Shareholder is an individual and derives benefits from miscellaneous activities (*resultaat uit overige werkzaamheden*) carried out in the Netherlands in respect of Ordinary Shares, including, without limitation, activities which are beyond the scope of active portfolio investment activities;
(iii) the Shareholder is entitled other than by way of the holding of securities to a share in the profits of an enterprise effectively managed in the Netherlands to which the Ordinary Shares are attributable; or
(iv) the Shareholder has a (fictitious) substantial interest in the Company and the Substantial Interest Shares are not attributable to the assets of an enterprise.

However, a Shareholder referred to under (i) and (iii) above, other than an individual, may under certain circumstances be entitled to the participation exemption in relation to benefits derived from Ordinary Shares, if:
(i) he or a related entity party owns 5% or more of the total issued and outstanding capital of the Company, or
(ii) he has owned 5 percent or more of the total issued and outstanding capital of the Company for an uninterrupted period of one year and the benefit from the Ordinary shares is enjoyed within three years after the end of this period.

**Gift Tax and Inheritance Tax**

No Dutch gift tax or inheritance tax is due in respect of any gift of Ordinary Shares by, or inheritance of Ordinary Shares on the death of, a Shareholder, except if:
(i) the Shareholder is a resident or is deemed to be a resident of the Netherlands;
(ii) at the time of the gift or the death of the Shareholder, such Shareholder has an enterprise (or an interest in an enterprise) which is, in whole or in part, carried on through a permanent establishment or permanent representative in the Netherlands to which the Ordinary Shares are attributable;
(iii) the Ordinary Shares are acquired by way of a gift from a Shareholder who passes away within 180 days after the date of the gift and who is not and is not deemed to be at the time of the gift, but is, or is deemed to be at the time of his death, a resident of the Netherlands; or
(iv) the Shareholder is entitled to a share in the profits of an enterprise effectively managed in the Netherlands, other than by way of the holding of securities or through an employment contract, to which enterprise Ordinary Shares are attributable.

For purposes of Dutch gift or inheritance tax, an individual who is of Dutch nationality will be deemed to be a resident of the Netherlands if he has been a resident in the Netherlands at any time during the ten years preceding the date of the gift or his death. For purposes of Dutch gift tax, an individual, irrespective of his nationality, will be deemed to be a resident of the Netherlands if he has been a resident of the Netherlands at any time during the 12 months preceding the date of the gift.

**Other Taxes and Duties**

No other Dutch taxes and duties (including capital tax and stamp duty) are due by or on behalf of a Shareholder in respect of or in connection with the purchase, ownership and disposal of the Ordinary Shares.

# THE OFFERING

## Introduction

### Firm Shares in the Offering

The Offering consists of an offering of Firm Shares by the Company for an aggregate amount of up to € 110,000,000. The Offering consists of a public offering in the Netherlands and an international offering to certain institutional investors outside the United States.

### Over-Allotment Option

In addition, the Company has granted the Stabilisation Agent on behalf of the Underwriters the Over-Allotment Option, exercisable within 30 calendar days after the Pricing Date, pursuant to which the Stabilisation Agent, on behalf of the Underwriters, may require the Company to issue at the Offer Price Over-Allotment Shares to cover over-allotments, if any, in connection with the Offering.

In connection with the Offering the Stabilisation Agent, on behalf of the Underwriters, may over-allot or effect transactions that stabilise or maintain the market price of the Firm Shares at levels above those which might otherwise prevail in the open market. Such transactions, if commenced, may be effected on Euronext Amsterdam, in the over-the-counter market or otherwise. There is no assurance that such stabilisation will be undertaken and, if it is, it may commence as early as the Pricing Date, may be discontinued at any time without prior notice and will end no later than 30 calendar days after the Pricing Date.

The table below sets forth the maximum aggregate amount of Firm Shares offered in the Offering, and the maximum aggregate amount of Over-Allotment Shares which the Company may be required to issue in case of exercise of the Over-Allotment Option.

| | **Total maximum aggregate amount of Firm Shares** (no exercise of Over-Allotment Option) | **Total maximum aggregate amount of Offer Shares** (full exercise of Over-Allotment Option) |
|---|---|---|
| Firm Shares | € 110,000,000 | € 110,000,000 |
| Over-Allotment Shares | none | € 16,500,000 |

## Offer Price

The Offer Price will be determined on the basis of a book-building process and on the basis of the quoted share price as well as the demand in the Offering. The definitive Offer Price and the exact number of Shares offered in the Offering will be determined by the Company following recommendations from the Global Coordinator taking into account market conditions, a qualitative assessment of demand for the Firm Shares, and any other factors deemed appropriate.

The Offer Price and the exact number of Shares offered in the Offering will be determined after termination of the Subscription Period and will be announced on the Pricing Date in a press release and in an advertisement in the Daily Official List, and details thereof will be set out in a pricing statement which will be deposited with the AFM.

## Timetable

Subject to acceleration or extension of the timetable for the Offering, the timetable below sets forth certain expected key dates for the Offering.

| **Event** | **Date** |
|---|---|
| Start of Subscription Period (9:00 hrs.) | 15 January 2007 |
| End of Subscription Period (13:00 hrs.) | 23 January 2007 |
| Pricing and allocation | 23 January 2007 |
| Pricing Date | 24 January 2007 |
| Listing Date | 26 January 2007 |
| Settlement Date | 26 January 2007 |

## Subscription

### Subscription Period

Subject to acceleration or extension of the timetable for the Offering, prospective investors may apply to subscribe for the Firm Shares during the period commencing on 15 January 2007 at 09:00 hours Amsterdam time and ending on 23 January 2007 at 13:00 hours Amsterdam time. In the event of an acceleration or extension of the Subscription Period, pricing, allocation, listing and first trading and payment for and delivery of the Firm Shares, and any Over-Allotment Shares if issued prior to the Settlement Date, in the Offering may be advanced or extended accordingly. If a significant new factor, material mistake or inaccuracy relating to the information included in the Prospectus, which could affect the assessment of the Firm Shares by prospective investors arises or is noted prior to the end of the Subscription Period, a supplement to the Prospectus will be published and investors who have already agreed to purchase Firm Shares may withdraw their subscriptions within three business days following the publication of the supplement.

### Acceleration or extension

Any acceleration of the timetable for the Offering will be published in a press release at least three hours before the proposed termination of the accelerated Subscription Period. Any extension of the timetable for the Offering will be published in a press release at least three hours before the end of the original Subscription Period, provided that such extension will be for a minimum of one full business day.

### Over-subscription

In the event the Offering is over-subscribed, the investor may receive a smaller number of Firm Shares than the investor applied to subscribe for. The Global Coordinator, on behalf of the Underwriters, may, at its own discretion and without stating the grounds, reject any subscriptions wholly or partly.

## Allocation

Allocation to investors that applied to subscribe for Firm Shares will be made on the basis of systematic allocation and full discretion will be exercised as to whether or not and how to allocate the Firm Shares applied for. As a result, certain investors may not be allocated Firm Shares that they applied to subscribe for. Ultimately, the Company will determine the allocation of the Firm Shares following recommendations from the Global Coordinator.

Investors will be informed of their relevant allocation though the regular channels of Rabobank, Fortis and SNS Securities, or any other member of Euronext Amsterdam which has agreed to the conditions set by the Global Coordinator in respect of the Offering.

Investors participating in the Offering will be deemed to have checked whether and confirmed that they meet the selling and transfer restrictions as discussed in "**SELLING AND TRANSFER RESTRICTIONS**". If in doubt, investors should consult their professional advisors.

All Firm Shares will be offered as part of a single offering. There is no separate tranche for specific investors.

## Application

The period during which applications to subscribe for Firm Shares may be received from investors will commence on 15 January 2007 at 09:00 hours Amsterdam time and end on 23 January 2007 at 13:00 hours Amsterdam time, subject to acceleration or extension.

Investors wishing to purchase Firm Shares may submit a share application, free of charge, through the regular channels of Rabobank, Fortis and SNS Securities or any other member of Euronext Amsterdam which has agreed to the conditions set by the Global Coordinator applicable to the acceptance of share applications. Retail investors can only subscribe on a *bestens* basis. Investors should inquire about the costs that such financial intermediaries may charge and will be solely responsible for any such costs. The treatment of subscriptions is not determined on the basis of which firm they are made through or by.

Applications must be received by the Global Coordinator before 13:00 hours Amsterdam time on the last day of the Subscription Period (currently expected to be 23 January 2007), subject to acceleration. In the event of an acceleration of the Subscription Period, the pricing, allocation, listing and first trading and payment for and delivery of the Firm Shares, and any Over-Allotment Shares if issued prior to the Settlement Date, in the Offering may be advanced accordingly.

Retail investors are entitled to cancel or amend their application, at the financial intermediary where their original application was submitted, at any time prior to the end of the Subscription Period.

## Other

### Payment

Payment for the Firm Shares, and payment for any Over-Allotment Shares if issued prior to the Settlement Date, will take place on the Settlement Date. The Offer Price of the allocated Firm Shares must be paid in full in euro. It is exclusive of any taxes and expenses, if any, which must be borne by the investor. The Offer Price of the Firm Shares must be paid by investors in cash upon remittance of their share application or, alternatively, by authorising their financial intermediary to automatically debit their bank account with such amount for value on the Settlement Date.

### Delivery, clearing and settlement

The Firm Shares will be registered shares which are entered into the collection deposit *(verzameldepot)* and giro deposit *(girodepot)* on the basis of the Securities Giro Act *(Wet Giraal Effectenverkeer)*. Application has been made for the Firm Shares to be accepted for delivery through the book-entry facilities of Euroclear Nederland. Delivery of the Firm Shares and any Over-Allotment Shares if issued prior to the Settlement Date, is expected to take place on or about 26 January 2007 through the book-entry facilities of Euroclear Nederland, in accordance with its normal settlement procedures applicable to equity securities and against payment for such Offer Shares in immediately available funds.

The address of Euroclear Netherlands is Damrak 70, 1012 LM Amsterdam, the Netherlands.

Subject to acceleration or extension of the timetable for the Offering, the Settlement Date, on which the closing of the Offering is scheduled to take place, is expected to occur on or about 26 January 2007, the third business day following the date on which the Subscription Period has ended (T+3). The closing of the Offering may not take place on the Settlement Date or at all, if certain conditions or events referred to in the Underwriting Agreement (see "**SUBSCRIPTION AND SALE – Termination Underwriting Agreement**") are not satisfied or waived or occur on or prior to such date. Such conditions include the receipt of officers' certificates and legal opinions and such events include the suspension of trading on Euronext Amsterdam or a material adverse change in the Company's financial condition or business affairs or in the financial markets.

There are certain restrictions on the transfer of the Company's Ordinary Shares, as detailed in "**DESCRIPTION OF SHARE CAPITAL AND CORPORATE STRUCTURE – Transfer of Ordinary Shares**".

### Listing and trading

Application has been made to list the Firm Shares on Eurolist by Euronext under the existing symbol "ERIKG". Subject to acceleration or extension of the timetable for the Offering, trading in the Firm Shares and any Over-Allotment Shares if issued prior to such date, on Eurolist by Euronext is expected to commence on or about 26 January 2007. If closing of the Offering does not take place on the Settlement Date or at all, the Offering will be withdrawn, all subscriptions for the Firm Shares will be disregarded, any allotments made will be deemed not to have been made and any subscription payments made will be returned without interest or other compensation. All dealings in the Firm Shares, and in any Over-Allotment Shares which may be part of the Over-Allotment Option if this has been exercised prior to the Settlement Date, prior to settlement and delivery are at the sole risk of the parties concerned.

### Lock-up

The Company has agreed with the Underwriters not to, among other things, issue, offer, pledge, sell, contract to sell, grant any option to purchase or otherwise dispose of, any Ordinary Shares (or any securities convertible into or exchangeable for Ordinary Shares or which carry rights to subscribe or purchase Ordinary Shares) or enter into a transaction (including a derivative transaction) having a similar effect or publicly announce any intention to do any of such things, during the period commencing on the date of the Underwriting Agreement and ending 180 days after the Settlement Date, without the prior written consent of the Global Coordinator, in accordance with the Underwriting Agreement.

**Ranking**

The rights of holders of Firm Shares, and, if the Over-Allotment Option will be exercised, any Over-Allotment Shares, will rank pari passu with each other and with the rights of the holders of all other Ordinary Shares with respect to voting rights and distributions. The Firm Shares, and any Over-Allotment Shares if the Over-Allotment Option will be exercised will be entitled to dividends paid to holders of Ordinary Shares over the financial year 2006. Each Ordinary Share entitles the holder thereof to cast one vote at the General Meeting. See “**DESCRIPTION OF SHARE CAPITAL AND CORPORATE STRUCTURE – General Meeting**”.

## Roles

**Global Coordinator and Bookrunner**

Rabo Securities is acting as Global Coordinator and Bookrunner in connection with the Offering.

**Co-Lead Managers**

Fortis and SNS Securities are acting as Co-Lead Managers in connection with the Offering.

**Listing and Paying Agent**

Rabo Securities is Listing Agent and Paying Agent for the listing of the Firm Shares on Eurolist by Euronext.

**Stabilisation Agent**

Rabo Securities is the Stabilisation Agent with respect to the Firm Shares on Eurolist by Euronext.

# SUBSCRIPTION AND SALE

The Offering is an offering of Firm Shares for an aggregate amount of up to € 110,000,000 consisting of a public offering in the Netherlands and an international offering to certain institutional investors outside the United States.

Rabo Securities is the Global Coordinator and Bookrunner and is the representative of the Underwriters and also acts as Listing Agent, Paying Agent and Stabilisation Agent for the Offering. The commission to be paid by the Company to the Underwriters amounts to € 2,275,000 assuming that the Over-Allotment Option is not exercised and assuming the maximum proceeds of Firm Shares is included in the Offering. The Company will pay certain costs and expenses incurred in connection with the Offering. The total costs of the Offering are expected to amount to approximately € 5,000,000.

Subject to the terms and conditions set forth in the Underwriting Agreement, the Company agrees to issue to the Underwriters, and the Underwriters severally agree to procure purchasers for, and failing which to purchase from the Company, and pay for, the percentage of Firm Shares listed opposite the names of the Underwriters below.

**Percentage of Firm Shares**

| | |
|---|---|
| Rabo Securities | 77.5% |
| Fortis | 15.0% |
| SNS Securities | 7.5% |
| Total | 100.0% |

**Default**

If an Underwriter defaults, the Underwriting Agreement provides that in certain circumstances, the underwriting commitments of the non-defaulting Underwriters may be increased or the Underwriting Agreement may be terminated.

**Representations and warranties**

In the Underwriting Agreement, the Company has given certain representations and warranties and undertakings to the Underwriters. In addition, the Company has agreed to indemnify the Underwriters against certain liabilities in connection with the Offering. Each of the parties to the Underwriting Agreement has agreed that it will not offer or sell any securities, or distribute any prospectus or offering document in connection therewith in violation of the provisions of the Underwriting Agreement or in violation of any Netherlands or non-Netherlands legislation, regulation or filing requirement of any applicable regulatory authority.

**Termination Underwriting Agreement**

The Underwriting Agreement provides that, upon the occurrence of certain events, such as a material adverse change in the Company's financial condition or business affairs or in the financial markets, and on certain other conditions, the Underwriting Agreement will be terminated (provided that the Underwriters, upon the decision of the Global Coordinator, have the right to waive the satisfaction of any such conditions or part thereof). In this event, the Offering will be withdrawn, all subscriptions for the Firm Shares will be disregarded, any allotments made will be deemed not to have been made, any subscription payments made will be returned without interest or other compensation. All dealings in the Firm Shares, and in any Over-Allotment Shares issued prior to the Settlement Date, prior to settlement and delivery are at the sole risk of the parties concerned.

**Addresses Underwriters**

The legal names and addresses of the Underwriters are:

- Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., acting through its investment banking division Rabo Securities: Rembrandt Tower, Amstelplein 1, 1096 HA Amsterdam, the Netherlands
- Fortis Bank (Nederland) N.V.: Blaak 555, 3011 GB Rotterdam, the Netherlands
- SNS Securities N.V.: Nieuwezijds Voorburgwal 162-170, 1012 SJ Amsterdam, the Netherlands

## Stabilisation and short positions

In connection with the Offering, the Stabilisation Agent, on behalf of the Underwriters, may over-allot or effect transactions that stabilise or maintain the market price of the Ordinary Shares at levels above those which might otherwise prevail in the open market. Such transactions, if commenced, may be effected on Euronext Amsterdam, in the over-the-counter market or otherwise. There is no assurance that such stabilisation will be undertaken and, if it is, it may commence as early as the Pricing Date, may be discontinued at any time without prior notice and will end no later than 30 calendar days after the Pricing Date.

If a short position in the Firm Shares is created in connection with the Offering, for example if the Stabilisation Agent, on behalf of the Underwriters, sells more Firm Shares than the Company offers pursuant to the Prospectus, the Stabilisation Agent may reduce that short position by purchasing Ordinary Shares in the open market. The Stabilisation Agent, on behalf of the Underwriters, may also elect to reduce any short position by exercising all or part of the Over-Allotment Option.

Purchases of Ordinary Shares to stabilise the trading price or to reduce a short position may cause the price of the Ordinary Shares to be higher than it might be in the absence of such purchases.

None of the Company or any of the Underwriters makes any representation or prediction as to the direction or the magnitude of any effect that the transactions described above may have on the price of the Ordinary Shares. In addition, none of the Company or any of the Underwriters makes any representation that the Stabilisation Agent will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

## Potential conflicts of interest

The Underwriters which are regulated in the Netherlands by the Dutch Central Bank (*De Nederlandsche Bank N.V.*) and the AFM, in relation to the Offering and the Listing Agent in relation to the listing of the Offer Shares are acting exclusively for the Company and for no one else and will not be responsible to anyone other than to the Company for giving advice in relation to, respectively, the Offering and the listing of the Offer Shares.

The Underwriters (and/or their respective affiliates) have from time to time engaged, and may in the future engage, in commercial banking, investment banking and financial advisory and ancillary transactions in the course of their business with us or any parties related to us in respect of which the sharing of information is generally restricted for reasons of confidentiality, by internal procedures or by rules and regulations. As a result of these transactions, these parties may have interests that may not be aligned, or could potentially conflict, with an investor's and the Company's interests.

For example, Rabo Securities is acting as Global Coordinator and Bookrunner for the Offering. Members of the group to which Rabo Securities belongs are also acting as the Company's debt providers with respect to the Acquisition and have provided credit facilities to the Company. Fortis Merchant Banking, Corporate Finance & Capital Markets advised the Company in relation to the Acquisition.

## Selling restrictions

The Underwriters have agreed to restrictions on where and to whom they and any dealer purchasing from them may offer and sell Firm Shares as part of the distribution of the Firm Shares.

## No public offering outside the Netherlands

No action has been or will be taken in any jurisdiction other than the Netherlands that would permit a public offering of the Firm Shares, or the possession, circulation or distribution of this Prospectus or any other material relating to the Company or the Firm Shares in any jurisdiction where action for that purpose is required. Accordingly, the Firm Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the Firm Shares may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

## Non-Dutch stamp taxes

Purchasers of the Firm Shares may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the Offer Price.

# SELLING AND TRANSFER RESTRICTIONS

## Notice to investors

The offer of Firm Shares to persons resident in, or who are citizens of, a particular jurisdiction may be affected by the laws of that jurisdiction. Investors should consult their professional advisers as to whether the investor requires any governmental or other consents or needs to observe any other formalities to enable the investor to purchase the Firm Shares.

None of the Company, or the Global Coordinator are taking any action to permit a public offering of the Firm Shares in any jurisdiction outside the Netherlands. Receipt of this Prospectus will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this Prospectus will be sent for information purposes only and should not be copied or redistributed. Except as otherwise disclosed in this Prospectus, if the investor receives a copy of this Prospectus, the investor may not treat this Prospectus as constituting an invitation or offer to the investor of the Firm Shares being offered in the Offering, unless, in the relevant jurisdiction, such an offer could lawfully be made to the investor, or the Firm Shares could lawfully be dealt in without contravention of any unfulfilled registration or other legal requirements. Accordingly, if the investor receives a copy of this Prospectus or any other offering materials or advertisements the investor should not distribute or send the same, to any person, in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If the investor forwards this Prospectus or any other offering materials or advertisements into any such territories (whether under a contractual or legal obligation or otherwise) the investor should draw the recipient's attention to the contents of this section.

Subject to the specific restrictions described below, investors (including, without limitation, any investor's nominees and trustees) wishing to subscribe for the Firm Shares being offered in the Offering, must satisfy themselves as to full observance of the applicable laws of any relevant territory including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories.

The information set out in this section is intended as a general guideline only. Investors that are in any doubt as to whether they are eligible to subscribe for the Firm Shares being offered in the Offering, should consult their professional adviser without delay.

As a condition to a purchase of any Firm Shares in the Offering, each purchaser will be deemed to have made, or in some cases, be required to make, certain representations and warranties, which will be relied upon by the Company, the Underwriters and others. The Company and the Global Coordinator reserve the right, in their sole and absolute discretion, to reject any purchase of Firm Shares that they or the Underwriters believe may give rise to a breach or violation of any law, rule or regulation.

## For investors outside the United States of America

Each investor of the Firm Shares will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

- the investor, and the person, if any, for whose account it is acquiring such Firm Shares (a) is outside the United States and (b) is acquiring the Firm Shares in an offshore transaction meeting the requirements of Regulation S;
- the investor is aware that the Firm Shares have not been and will not be registered under the Securities Act and are being distributed and offered outside the United States in reliance on Regulation S; and
- the Firm Shares may not be offered, sold, pledged or otherwise transferred in the United States or to or for the account of a U.S. person (as defined in regulation S) except in accordance with Rule 903 or 904 of Regulation S or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in accordance with any applicable securities laws of any state or other jurisdiction of the United States; and
- the investor acknowledges that the Company, the Underwriters and others will rely upon the truth and accuracy of the foregoing representations and agreements. Any certificate representing the Firm Shares or any depositary receipts representing the right to receive deposited Firm Shares shall bear a legend setting forth the foregoing transfer restrictions.

**For investors in the United States of America**

Terms used in this paragraph that are defined in Regulation S are used herein as defined therein.

The Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States.

Accordingly, the Firm Shares may not be offered, sold, pledged or otherwise transferred in the United States or to or for the account of a U.S. person (as defined in regulation S) except in accordance with Rule 903 or 904 of Regulation S or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in accordance with any applicable securities laws of any state or other jurisdiction of the United States.

**For investors in the European Economic Area**

In relation to each Relevant Member State (as defined below), each Underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Firm Shares to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of the Firm Shares to the public in that Relevant Member State:

- in the period beginning on the date of publication of a prospectus in relation to the Firm Shares which has been approved by the competent authority in that Relevant Member State in accordance with the Prospectus Directive or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) total balance sheet assets of more than € 43,000,000 and (3) an annual net turnover of more than € 50,000,000, as shown in its last annual or consolidated accounts; or
- at any time in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Articles 3 or 4 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Firm Shares to the public**" in relation to any Firm Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Firm Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Firm Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive includes any relevant implementing measure in each Relevant Member State.

**For investors in the United Kingdom**

Neither this Prospectus nor any other offering material has been submitted to the clearance procedures of the Financial Services Authority in the United Kingdom. The Firm Shares have not been offered or sold and, prior to the expiry of a period of six months from the sale of the Firm Shares, will not be offered or sold to persons in the United Kingdom except to "qualified investors" as defined in section 86 of FSMA (as defined below).

Each Underwriter represents, warrants and agrees that:

- it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business;
- it has not offered or sold and will not offer or sell the Firm Shares other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses;
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of the Firm Shares in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or in respect of which an exemption (as set out in the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005) applies; and

– it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Firm Shares in, from or otherwise involving the United Kingdom.

**For investors in Germany**

This Prospectus may not be distributed, and the Firm Shares may not be offered or sold, in the Federal Republic of Germany other than to persons who are qualified investors as defined in Section 2 no. 6 of the WpPG, or to less than 100 non-qualified investors. Nothing in this Prospectus should be construed as investment advice to persons other than such permitted recipients or as otherwise constituting a public offering within the meaning of the WpPG or any other laws applicable in the Federal Republic of Germany.

**For investors in Japan**

The Firm Shares have not been and will not be registered under the Securities and Exchange Law of Japan (Law No. 25 of 1948, as amended), and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan (which term as used herein includes any corporation or other entity organised under the laws of Japan), or to others for offering or sale, directly or indirectly, in Japan or to, or for the account of, any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of the laws of Japan.

**For investors in Canada**

This communication does not constitute an offer to sell or issue or the solicitation of an offer to buy or subscribe for the Firm Shares and is not for distribution into Canada. The Firm Shares have not been and will not be qualified by a prospectus for sale to the public under applicable Canadian securities laws and, subject to certain exceptions, may not be, directly or indirectly offered or sold within Canada or to, or on behalf of, any national, resident or citizen, including any corporation or other entity, of Canada. Any failure to comply with these restrictions may constitute a violation of the Canadian securities laws.

# GENERAL INFORMATION

## Market Information

### Eurolist by Euronext

The Ordinary Shares have been listed on Eurolist by Euronext since 1977. The trading symbol of the Ordinary Shares on Eurolist by Euronext is "ERIKG". The Company is subject to Dutch securities regulations and supervision by the relevant Dutch authorities in respect of listed companies.

The relevant regulator in the Netherlands is the AFM. The AFM is the competent authority for approving prospectuses published for admission of securities to trading on Eurolist by Euronext and/or for public offering of securities. The AFM is also the competent authority with respect to market abuse regulation, such as publication of inside information by listed companies. The surveillance unit of Euronext Amsterdam monitors and supervises all trading operations.

## Corporate resolutions

The issue of the Firm Shares, and, if the Over-Allotment Option will be exercised prior to the Settlement Date, any Over-Allotment Shares, will take place on the Settlement Date pursuant to the following resolutions: (i) resolutions of the General Meeting adopted on 16 May 2006 and 13 November 2006 to delegate to the Executive Board the authority to resolve to issue Ordinary Shares and exclude or limit pre-emptive rights; (ii) resolutions of the Executive Board and the pricing committee of the Executive Board, adopted on 4 January 2007 and expected to be adopted on 23 January 2007; (iii) resolutions of the Supervisory Board and the approval committee of the Supervisory Board, adopted on 8 January 2007 and expected to be adopted on 23 January 2007.

## Significant change in ERIKS' financial or trading position

Except as disclosed in this Prospectus (see in particular **Acquisitions and divestments – 2006** and **THE ACQUISITION**), there has been no significant change in ERIKS' financial or trading position since 30 September 2006, the end of the last financial period for which either interim financial information were published.

## Availability of documents

Copies, in Dutch and in English, of the consolidated audited annual financial statements of the Company for the years ended 31 December 2005, 31 December 2004 and 31 December 2003 and the Articles of Association are available free of charge at the Company's head office at Arcadialaan 14, Victory Building, Alkmaar, the Netherlands, during normal business hours and from the Company's website www.eriks.com, for the life of this Prospectus.

Copies of this Prospectus and any supplement to this Prospectus (if any) may be obtained at no cost from the date of this Prospectus at either of the following addresses:

- ERIKS group N.V.: Victory Building, Arcadialaan 14, 1810 KB Alkmaar, the Netherlands, fax: + 31 (0)72 547 58 89, e-mail: group@eriks.com
- Rabo Securities, Equity Capital Markets: Rembrandt Tower, Amstelplein 1, 1096 HA Amsterdam, the Netherlands, fax: + 31 (0)20 460 49 49, e-mail: prospectus@rabobank.com

## Independent auditors

PricewaterhouseCoopers Accountants N.V., independent auditors, have audited, and rendered unqualified auditors' reports on, the Company's financial statements for each of the financial years ended 31 December 2005, 2004 and 2003. The address of PwC is Thomas R. Malthusstraat 5, 1066 JR, Amsterdam, the Netherlands. The partner of PwC who has signed the aforementioned auditors' reports is a member of the Royal Dutch Institute of Chartered Accountants *(Koninklijk Nederlands Instituut voor Registeraccountants).*

PricewaterhouseCoopers LLP, whose address is Cornwall Court, 19 Cornwall Street, Birmingham B3 2DT, the United Kingdom, has audited the statutory accounts of WYKO Holdings Limited for the year ended 30 April 2006 and has issued an audit report in respect of those accounts. Such report was unqualified and did not include a statement under section 237(2)-(3) of the UK Companies Act 1985. PricewaterhouseCoopers LLP is a member firm of the Institute of Chartered Accountants in England and Wales.

The Company confirms that the information in PwC's and PricewaterhouseCoopers LLP's reports in "**INDEX TO FINANCIAL INFORMATION**" has been accurately reproduced and that as far as it is aware and able to ascertain from information published by that party, no facts have been omitted which would render PwC's and PricewaterhouseCoopers LLP's reports inaccurate or misleading.

PwC has given, and has not withdrawn, its written consent to the inclusion of its reports and the references to itself herein in the form and context in which they are included.

## INFORMATION INCORPORATED BY REFERENCE

The following information as included in the document stated below which has previously been published and has been filed with the AFM shall be deemed to be incorporated in, and to form part of, this Prospectus:

- Financial statements of the Company for the year ended 31 December 2003 (consolidated and corporate financial statements) and the unqualified auditors' report thereto, as included in the Company's annual report 2003 (in the English language)

The non-incorporated parts of the Company's annual report 2003 are not relevant for a prospective investor.

This document is available free of charge at the Company's head office at Arcadialaan 14, Victory Building, Alkmaar, the Netherlands, during normal business hours and from the Company's website www.eriks.com.

## DEFINITIONS

| | |
|---|---|
| **Acquisition** | The acquisition by the Company of all the issued and outstanding shares in the capital of Wyko Holdings Ltd. as effected on 17 November 2006 |
| **AFM** | Netherlands Authority for the Financial Markets (Stichting Autoriteit Financiële Markten) |
| **Articles of Association** | The Articles of Association of the Company, as most recently amended on 23 May 2005 |
| **Bookrunner** | Rabo Securities, in its capacity as bookrunner |
| **Bridge Loan** | € 270,000,000 bridge credit facility between the Company and Rabobank, dated 16 October 2006 |
| **CEO** | Chief executive officer |
| **CFO** | Chief financial officer |
| **CITA** | The 1969 Corporate Income Tax Act |
| **Code** | The Dutch corporate governance code issued on 9 December 2003 |
| **Company** | Eriks Group N.V. |
| **Co-Lead Managers** | Fortis and SNS Securities |
| **COO** | Chief operating officer |
| **Daily Official List** | The *Officiële Prijscourant* of Euronext Amsterdam |
| **Dutch Corporate Entities** | Corporate entities (including associations which are taxed as corporate entities) that are resident or deemed to be resident in the Netherlands for purposes of the CITA and which invest in the Ordinary Shares |
| **Dutch GAAP** | Accounting principles generally accepted in the Netherlands as applied by the Company |
| **Dutch Individuals** | Individuals who are resident or deemed to be resident in the Netherlands or, with respect to personal income taxation, individuals who opt to be taxed as a resident of the Netherlands for purposes of Dutch taxation and who invest in the Ordinary Shares |
| **€ or EUR or euro** | The currency of the European Monetary Union |
| **EEA State** | Each stated party to the Agreement relating to the European Economic Area |
| **ERIKS** | The Company and its consolidated subsidiaries (unless the context requires otherwise), including WYKO Holdings Limited and its consolidated subsidiaries (unless the context requires otherwise) |
| **EU** | European Union |
| **Euroclear Nederland** | Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. |
| **Eurolist by Euronext** | Euronext Amsterdam N.V.'s Eurolist by Euronext |
| **Euronext Amsterdam** | Euronext Amsterdam N.V. |
| **Executive Board** | The executive board *(Raad van Bestuur)* of the Company |
| **Financing Preference Shares** | Financing preference shares in the share capital of the Company with a nominal value of € 0.50 each |
| **Firm Shares** | New Ordinary Shares offered in the Offering |
| **FMSA** | Financial Markets Supervision Act *(Wet op het financieel toezicht)* |
| **Foundation** | Stichting Eriks Group, formerly named Stichting ERIKS Holding |
| **FSMA** | Financial Services and Markets Act 2000 |

| | |
|---|---|
| **FTEs** | Full time equivalents |
| **GDP** | Gross domestic product |
| **General Meeting** | General meeting of shareholders of the Company |
| **Global Coordinator** | Rabo Securities, in its capacity as global coordinator |
| **IFRS** | International Financial Reporting Standards |
| **Investor Sellers** | Royal Bank Investments Limited and Others as defined in the Sale and Purchase Agreement |
| **IS** | WYKO Integrated Solutions |
| **Listing Agent** | Rabo Securities in its capacity as listing agent |
| **Listing Date** | The date on which trading in the Firm Shares, and any Over-Allotment Shares if issued prior to the Settlement Date, on Eurolist by Euronext is expected to commence, which, subject to acceleration or extension of the timetable for the Offering, is expect to be on or about 26 January 2007 |
| **LTIP** | Long term incentive plan for the Executive Board |
| **Management Sellers** | Several individuals listed in the Sale and Purchase Agreement |
| **MRO** | Maintenance Repair Overhaul |
| **New Loan** | €200,000,000 unsecured multicurrency syndicated credit facility to be arranged and underwritten by Rabobank to refinance the Acquisition and other existing facilities of the Company |
| **OEM** | Original Equipment Manufacturers |
| **Offering** | The offering of the Firm Shares and any Over-Allotment Shares as described in this Prospectus |
| **Offer Price** | € [•] per Firm Share |
| **Offer Shares** | Firm Shares and any Over-Allotment Shares |
| **Option Agreement** | The option agreement entered into on 25 October 1989 between the Company and the Foundation, as most recently amended on 24 May 2005. |
| **Ordinary Shares** | Ordinary shares in the share capital of the Company with a nominal value of € 0.50 each |
| **Over-Allotment Option** | Option exercisable within 30 calendar days after the Pricing Date, pursuant to which the Stabilisation Agent, on behalf on the Underwriters, may require the Company to issue at the Offer Price Over-Allotment Shares, to cover over-allotments, if any, in connection with the Offering |
| **Over-Allotment Shares** | Additional new Ordinary Shares issued by the Company which it may be required to issue in whole or in part pursuant to the Over-Allotment Option of up to 15% of the total number of Firm Shares issued by the Company pursuant to the Offering |
| **Parent-Subsidiary Directive** | Directive 90/435/EEC |
| **Paying Agent** | Rabo Securities in its capacity as paying agent |
| **Preference Shares** | Preference shares in the share capital of the Company with a nominal value of € 0.50 each |
| **Pricing Date** | The date on which the Offer Price is expected to be announced, which, subject to acceleration or extension of the timetable for the Offering, is expect to be on or about 24 January 2007 |
| **Prospectus** | This prospectus, dated 15 January 2007 |
| **Prospectus Directive** | Directive 2003/71/EC |

| | |
|---|---|
| **Publication Date** | 15 January 2007, the date on which this Prospectus is published |
| **PwC** | PricewaterhouseCoopers Accountants N.V. |
| **Rabobank** | Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. |
| **Regulation S** | Regulation S under the Securities Act |
| **Relevant Implementation Date** | The date on which the Prospectus Directive is implemented in that Relevant Member State |
| **Relevant Member State** | Each Member State of the EEA which has implemented the Prospectus Directive |
| **Sale and Purchase Agreement** | Sale and purchase agreement entered into by the Company, the Investor Sellers and the Management Sellers, dated 16 October 2006 in relation to the sale and purchase of all issued and outstanding shares in the share capital of WYKO Holdings Ltd. |
| **Securities Act** | The US Securities Act of 1933, as amended |
| **Sellers** | The Investor Sellers and the Management Sellers |
| **Settlement Date** | The date on which the closing of the Offering is scheduled to take place, which, subject to acceleration or extension of the timetable for the Offering, is expected to be on or about 26 January 2007 |
| **Shareholder** | A holder of Ordinary Shares |
| **Shares** | Ordinary Shares, Preference Shares and Financing Preference Shares |
| **Stabilisation Agent** | Rabo Securities in its capacity as stabilisation agent |
| **Subscription Period** | Subject to acceleration or extension of the timetable for the Offering, the period commencing on 15 January 2007 at 9:00 Amsterdam time and ending on 23 January 2007 at 13:00 Amsterdam time |
| **Substantial Interest Shares** | Dutch Enterprise Shares (including any capital gains realised on the disposal thereof) that are attributable to a (fictitious) substantial interest |
| **Summary** | The section of this Prospectus entitled **SUMMARY** commencing on page 5 |
| **Supervisory Board** | The supervisory board *(Raad van Commissarissen)* of the Company |
| **Underwriters** | Rabo Securities, Fortis and SNS Securities |
| **Underwriting Agreement** | The underwriting agreement among the Company and the Underwriters and dated 23 January 2007 |
| **UK GAAP** | Accounting principles generally accepted in the United Kingdom as applied by WYKO |
| **WEMS** | WYKO Electrical and Mechanical Engineering Services |
| **WID** | WYKO Industrial Distribution |
| **WIS** | WYKO Industrial Services |
| **WYKO** | Wyko Holdings Ltd. and/or Wyko Holdings Ltd. and its consolidated subsidiaries, as applicable |

(This page is intentionally left blank)

## INDEX TO FINANCIAL INFORMATION



Note: Unless stated otherwise, references to page numbers in the following F-pages are references to the page numbers of the respective annual accounts in which the financial statements of the Company are originally included, and which are available from the Company's website www.eriks.com.

## COMPANY'S 2004 FINANCIAL STATEMENTS

## ACCOUNTING POLICIES

### General

The financial statements of the holding company and of all its group companies are drawn up using the accounting policies set out below. These accounting policies therefore apply to the consolidated financial statements as well.

The financial statements have been drawn up in accordance with generally accepted accounting principles in the Netherlands.

The policies used to value assets and liabilities are based on historical cost. Assets and liabilities are carried at their face value, unless otherwise stated.

### Comparison with the previous financial year

The policies have not changed from those in operation in the previous financial year.

### Consolidation policies

The assets, liabilities, income and expenses of group companies are consolidated in full.

The share of third parties in the equity and net profits and losses is therefore disclosed separately.

(a) Group companies

Group companies means those companies in which ERIKS group nv exercises decisive influence over the policy to be pursued. Group companies are included in the consolidated figures from the date on which decisive influence over those companies is acquired.

The results of group companies sold during the year under review are consolidated until the moment that the decisive influence is relinquished. Intra-group transactions and balance sheet items have been eliminated.

(b) Minority interests

As a rule, interests over which the group does not exercise decisive influence are included in the consolidated balance sheet under "Financial fixed assets".

A list of the clusters and group companies is set out on page 104 and onwards of this report.

### Acquisition and disposal of participating interests

Newly acquired participating interests are carried at net asset value, using the accounting policies applied by the ERIKS group. The net asset value is based on the fair value of identifiable assets and liabilities at the time of the acquisition. The acquisition cost consists of the purchase price paid for the acquisition, plus any costs directly attributable to the acquisition.

The difference between the acquisition cost and net asset value, the goodwill, is capitalized and amortized straight-line over the remaining useful economic life up to a maximum of 15 years. If facts or circumstances occur such as to create reasonable doubt about whether the book value can be recouped, an exceptional downward value adjustment to realizable value will be made, if necessary.

Upon disposal of participating interests, the difference between selling price and net asset value, as well as the balance of goodwill at book value at the time of the disposal, are taken to the statement of income.

The euro is the functional and reporting currency in these financial statements.

### Foreign currency

Transactions in foreign currency are stated for the first time at the rate of exchange on the trade date. On the balance sheet date, all monetary assets and liabilities are converted at the closing rate of exchange. Translation gains and losses arising from the conversion and settlement of monetary assets and liabilities are taken to the statement of income. In the consolidation, the statement of income of group companies reported in foreign currencies is converted at average rates for the period under review. The balance sheet of group companies reported in foreign currencies is converted at the closing rate of exchange. Translation gains and losses arising from this, as well as translation gains and losses on fixed financing of foreign participating interests stated in foreign currency, are taken direct to stockholders' equity.

**Intangible fixed assets**

Goodwill is capitalized and amortized over the useful economic life up to a maximum of 15 years. See the notes on 'Acquisition and disposal of participating interests' for how goodwill is determined. Up to and including the 1999 financial year, goodwill was charged direct to the stockholders' equity.

Other intangible fixed assets, including development costs, are charged in full to the statement of income in the year of acquisition.

**Tangible fixed assets**

Tangible fixed assets are carried at cost, net of straight-line depreciation based on their estimated useful economic lives. Insofar as not used in operations, tangible fixed assets are carried at book value or net realizable value, whichever is the lower.

**Impairment of fixed assets**

Each year an assessment is carried out to see whether there are any indications of impairment of fixed assets and, if necessary, the realizable value of the assets is checked.

Realizable value is the higher of the net realizable value and the present value of the company. The present value of the company is calculated on the basis of the discounted cash flow taken from the long-range budget. Assets are written down if their realizable value is less than their book value.

**Financial fixed assets**

Participating interests over which significant influence can be exercised are carried at their net asset value or a proportionate share thereof, as appropriate. Significant influence is assumed to be present in the case of an interest of more than 20%. Other participating interests are valued at cost.

Receivables from participating interests and other receivables are carried at their face value, where necessary net of provisions for bad debts or diminutions in value.

**Inventories**

Inventories of trade goods and raw materials are carried at the lower of historical cost, being the average purchase price plus transport and other additional expenses, and market price. The risk of obsolescence is allowed for.

Work in progress is carried at production cost, consisting of the costs of wages and materials and a margin for indirect production costs and overheads.

**Accounts receivable trade**

Accounts receivable trade are carried at face value. If it is anticipated that receivables may not be able to be collected in full, a provision will be made for bad debts.

**Provisions**

Provisions are actual or legally enforceable commitments arising from an event in the past, making it likely that an outflow of funds will be necessary, and where a reliable estimate can be made of the extent of the commitment.

The provisions formed for pension obligations have been based on actuarial principles. Maintenance provisions are formed in order to equalize maintenance costs.

**Deferred taxes**

A deferred tax provision or deferred tax asset is formed for temporary differences between the commercial value of assets and liabilities and their value for tax purposes at the expected rate in the settlement year, in so far as laid down by law.

Deferred tax assets on account of available off-settable losses are carried, in so far as it is reasonable to expect that these losses will be realized from anticipated future tax gains. These receivables are included under other receivables.

**Principles for the determination of the result**

Profits or losses for the year are determined on the basis of the accounting policies set out above.

Deliveries of goods are treated as sales as soon as all significant rights and risks related to the ownership of the goods pass to the purchaser. Revenues from services provided are treated as sales when the service requested has been performed.

Costs are allocated to the year to which they relate.

**Net sales**

Net sales are the revenues from third parties for goods and services supplied, net of discounts and sales tax.

**Cost of sales**

Cost of sales is made up of the purchase price and reductions in value directly attributable to the goods supplied, as well as the costs of warehousing, production and distribution.

**Depreciation**

Depreciation of tangible fixed assets, which is calculated at fixed percentages of cost, is based on their useful economic lives. Book gains and losses on the disposal of tangible fixed assets are included in the operating result.

**Taxation**

Tax on the profit or loss is calculated using the standard tax rate in force in the financial year concerned, allowing for tax relief facilities and deferred tax movements.

**Interest received and interest paid**

Interest received and interest paid is time-weighted, taking account of the effective interest rate for the receivable or debt concerned.

**Consolidated cash flow statement**

The cash flow statement has been prepared according to the indirect method, based on the statement of income and the other movements between the opening and closing balances. Cash and cash equivalents consist of liquid resources and current account overdrafts.

Movements between the opening and closing balance resulting from the acquisition and disposal of consolidated participating interests are shown as part of the investing activities. Interest paid and received is accounted for as part of the cash flow from operating activities.

**Corporate statement of income**

Under article 402 of Title 9, Book 2 of the Civil Code, it is sufficient for the statement of income to state the ‘net result of group companies’, and the ‘other net results’.

The latter item represents the income and expenses of ERIKS group nv.

## CONSOLIDATED STATEMENT OF INCOME

| In EUR thousands | Ref. | | 2004 | | 2003 |
|---|---|---|---|---|---|
| Net sales | 1. | | 423,393 | | 381,863 |
| Cost of sales | | | 313,325 | | 283,235 |
| Gross profit on sales | | | 110,068 | | 98,628 |
| Sales expenses | | 69,131 | | 64,737 | |
| General administrative expenses | | 10,968 | | 9,390 | |
| Amortization of goodwill | 7. | 2,777 | | 2,517 | |
| Total expenses | | | 82,876 | | 76,644 |
| Operating result | 3. | | 27,192 | | 21,984 |
| Result on financial fixed assets | | | | (55) | |
| Interest received | | 880 | | 821 | |
| Interest paid | | (2,969) | | (2,975) | |
| Balance of financial income and expenses | | | (2,089) | | (2,209) |
| Result from ordinary activities before taxes | | | 25,103 | | 19,775 |
| Taxes on result from ordinary activities | 6. | | 9,295 | | 7,715 |
| Result from ordinary activities after taxes | | | 15,808 | | 12,060 |
| Minority interest | 14. | | (62) | | (76) |
| **Net result** | | | 15,746 | | 11,984 |
| Average number of stocks issued | | | 3,830,666 | | 3,700,720 |
| Net earnings per stock (in euro) | | | 4.11 | | 3.24 |
| Operating result before amortization of goodwill (EBITA) | | | 29,969 | | 24,501 |
| Result from ordinary activities after taxes and before amortization of goodwill | | | 18,585 | | 14,577 |

## CONSOLIDATED BALANCE SHEET

| Before profit appropriation proposal<br>In EUR thousands | Ref. | December 31, 2004 | | December 31, 2003 | |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Fixed assets** | | | | | |
| Intangible fixed assets | 7. | **33,263** | | 31,855 | |
| Tangible fixed assets | 8. | **47,864** | | 34,958 | |
| Financial fixed assets | 9. | **71** | | 282 | |
| | | | **81,198** | | 67,095 |
| **Current assets** | | | | | |
| Inventories | 10. | **58,292** | | 50,431 | |
| Accounts receivable trade | | **73,111** | | 64,321 | |
| Other receivables | 11. | **3,290** | | 3,681 | |
| Liquid resources | 12. | **12,804** | | 18,079 | |
| | | | **147,497** | | 136,512 |
| **Total ASSETS** | | | **228,695** | | 203,607 |
| **LIABILITIES** | | | | | |
| **Group capital** | | | | | |
| Stockholders' equity | 13. | **105,328** | | 91,760 | |
| Minority interest | 14. | **296** | | 234 | |
| | | | **105,624** | | 91,994 |
| **Provisions** | 15. | | **12,412** | | 12,389 |
| **Long-term liabilities** | 16. | | **35,456** | | 12,169 |
| **Short-term liabilities** | | | | | |
| Bank overdrafts | 17. | **17,317** | | 36,459 | |
| Repayment obligations on long-term liabilities falling due within one year | 16. | **6,184** | | 4,953 | |
| Suppliers | | **25,887** | | 24,916 | |
| Other short-term liabilities | 18. | **25,815** | | 20,727 | |
| | | | **75,203** | | 87,055 |
| **Total LIABILITIES** | | | **228,695** | | 203,607 |
| **Total capital**<br>balance sheet total -/- intangible fixed assets -/- liquid resources | | | **182,628** | | 153,673 |
| **Net capital invested**<br>balance sheet total -/- intangible fixed assets -/- financial fixed assets -/- liquid resources -/- interest-free debts (suppliers and other short-term liabilities) | | | **130,855** | | 107,748 |
| **Working capital**<br>inventories + accounts receivable trade -/- suppliers | | | **105,516** | | 89,836 |

## CONSOLIDATED STATEMENT OF MOVEMENTS IN STOCKHOLDERS' EQUITY

**As part of group capital**

| In EUR thousands | Ref. | Stock capital | Paid-in surplus | Other reserves | Undistri-buted profit | Total stock-holders' equity |
|---|---|---|---|---|---|---|
| **Balance January 1, 2003** ....... | | **3,629** | **476** | **68,438** | **10,706** | **83,249** |
| Profit appropriation 2002......... | | 123 | | 8,110 | (10,706) | **(2,473)** |
| Translation losses on foreign participating interests ............. | | | | (1,000) | | **(1,000)** |
| Result for 2003 financial year .. | | | | | 11,984 | **11,984** |
| **Balance December 31, 2003 / January 1, 2004** ..................... | 13. | **3,752** | **476** | **75,548** | **11,984** | **91,760** |
| Profit appropriation 2003......... | | 135 | | 10,107 | (11,984) | **(1,742)** |
| Translation losses on foreign participating interests ............. | | | | (436) | | **(436)** |
| Result for 2004 financial year .. | | | | | 15,746 | **15,746** |
| **Balance December 31, 2004** . | 13. | **3,887** | **476** | **85,219** | **15,746** | **105,328** |

With regard to the profit appropriation for 2002 and 2003, see the notes on the stockholders' equity.

## CONSOLIDATED CASH FLOW STATEMENT

| In EUR thousands | Ref. | | 2004 | | 2003 |
|---|---|---|---|---|---|
| Net result | | **15,746** | | 11,984 | |
| Depreciation | 8. | **6,245** | | 5,191 | |
| Amortization of goodwill | 7. | **2,777** | | 2,517 | |
| **Cash flow from ordinary activities** | | | **24,768** | | 19,692 |
| **Movements in operational financing:** | | | | | |
| Working capital | | **(10,126)** | | 3,930 | |
| Other accounts receivable and short-term liabilities, excluding repayment obligations falling due within 1 year | | **4,945** | | 278 | |
| Provisions | | **(112)** | | (154) | |
| | | | **(5,293)** | | 4,054 |
| Minority interest | 14. | | **62** | | 76 |
| **Cash flow from operational activities** | | | **19,537** | | 23,822 |
| Investments in tangible fixed assets | 8. | **(20,270)** | | (14,339) | |
| Disposal of tangible fixed assets | 8. | **2,079** | | 635 | |
| Acquisition of participating interests | 2. | **(12,409)** | | (8,627) | |
| Disposal of participating interests | 2. | **1,230** | | 436 | |
| Movement in financial fixed assets | | **211** | | 397 | |
| **Cash flow from investing activities** | | | **(29,159)** | | (21,498) |
| Movement in long-term liabilities, including repayment obligations falling due within 1 year | | **24,518** | | 9,167 | |
| Cash dividends and costs paid | 13. | **(1,742)** | | (2,473) | |
| **Cash flow from financing activities** | | | **22,776** | | 6,694 |
| **Cash flow on balance** | | | **13,154** | | 9,018 |
| **Liquid resources and bank overdrafts, January 1** | | | **(18,380)** | | (29,178) |
| Contributions of liquid resources from acquisition/disposal of participating interests | | | **713** | | 1,780 |
| **Liquid resources and bank overdrafts, December 31** | | | **(4,513)** | | (18,380) |

## NOTES TO THE CONSOLIDATED ACCOUNTS

**In EUR thousands**

### 1. Segmented information

The information is broken down by cluster. This primary segmentation ties in with the information organizational structure and the management of the ERIKS group. The nature of the business operations is so similar across the clusters that secondary segmentation is not considered expedient.

**Net sales**

Net sales to third parties went up from EUR 381.9 million in 2003 to EUR 423.4 million in 2004, or by 10.9 percent.

| By cluster | 2004 | 2003 |
|---|---|---|
| ERIKS Netherlands | **181,436** | 170,488 |
| ERIKS Belgium | **110,070** | 98,118 |
| ERIKS Germany | **84,961** | 63,438 |
| ERIKS France | **21,605** | 22,054 |
| ERIKS USA | **19,634** | 21,552 |
| ERIKS South-east Asia | **5,687** | 6,213 |
| | **423,393** | 381,863 |

Intra-group sales between the clusters is small-scale.

| By region (in %) | 2004 | 2003 |
|---|---|---|
| The Netherlands | **41.0** | 42.4 |
| Belgium | **22.7** | 22.3 |
| Germany | **20.8** | 17.2 |
| France | **6.2** | 7.3 |
| Rest of Europe | **3.2** | 3.4 |
| United States | **4.6** | 5.7 |
| South-east Asia | **1.5** | 1.7 |
| | **100.0** | 100.0 |

**Operating result**

| By cluster | 2004 | 2003 |
|---|---|---|
| ERIKS Netherlands | **16,672** | 15,212 |
| ERIKS Belgium | **7,789** | 5,423 |
| ERIKS Germany | **5,902** | 3,834 |
| ERIKS France | **728** | 516 |
| ERIKS USA | **1,604** | 1,440 |
| ERIKS South-east Asia | **73** | (208) |
| ERIKS group nv | **(2,799)** | (1,716) |
| | **29,969** | 24,501 |
| Deduct: amortization of goodwill | **(2,777)** | (2,517) |
| | **27,192** | 21,984 |

**Personnel**

The average number of people employed by the group during the year, expressed in terms of full man/years, allocated by cluster was as follows:

| | 2004 | 2003 |
|---|---|---|
| ERIKS group nv | **15** | 15 |
| ERIKS Netherlands | **806** | 801 |
| ERIKS Belgium | **580** | 555 |
| ERIKS Germany | **353** | 291 |
| ERIKS France | **124** | 136 |
| ERIKS USA | **75** | 88 |
| ERIKS South-east Asia | **58** | 56 |
| | **2,011** | 1,942 |

**Other information by cluster**

**Year-end 2004**

| | | | | | Investments | | Depreciation | |
|---|---|---|---|---|---|---|---|---|
| | Goodwill | Other assets | Liabilities | Participating interests | Tangible fixed assets | Intangible fixed assets | Tangible fixed assets | Intangible fixed assets |
| ERIKS Netherlands | 6,501 | 93,737 | 73,136 | | 16,600 | 1,349 | 3,071 | 514 |
| ERIKS Belgium | 9,313 | 53,888 | 49,671 | 71 | 2,812 | 770 | 2,032 | 772 |
| ERIKS Germany | 6,702 | 34,365 | 20,379 | | 582 | 2,066 | 750 | 568 |
| ERIKS France | | 11,516 | 7,832 | | 185 | | 326 | |
| ERIKS USA | | 7,810 | 3,452 | | 46 | | 83 | |
| ERIKS South-east Asia | | 3,176 | 2,186 | | 45 | | 120 | |
| ERIKS group nv | 10,747 | (9,060) | (33,289) | | | | (137) | 923 |
| | 33,263 | 195,432 | 123,367 | 71 | 20,270 | 4,185 | 6,245 | 2,777 |

**Year-end 2003**

| | | | | | Investments | | Depreciation | |
|---|---|---|---|---|---|---|---|---|
| | Goodwill | Other assets | Liabilities | Participating interests | Tangible fixed assets | Intangible fixed assets | Tangible fixed assets | Intangible fixed assets |
| ERIKS Netherlands | 5,666 | 65,566 | 44,805 | | 8,656 | 223 | 2,318 | 442 |
| ERIKS Belgium | 9,315 | 49,845 | 47,825 | 71 | 1,774 | (2,833) | 1,887 | 839 |
| ERIKS Germany | 5,204 | 23,177 | 16,879 | | 3,382 | | 529 | 431 |
| ERIKS France | | 10,857 | 7,500 | 8 | 379 | | 324 | |
| ERIKS USA | | 8,224 | 4,446 | 203 | 45 | | 167 | |
| ERIKS South-east Asia | | 3,457 | 2,399 | | 84 | | 101 | |
| ERIKS group nv | 11,670 | 10,626 | (12,007) | | 19 | 9,183 | (135) | 805 |
| | 31,855 | 171,752 | 111,847 | 282 | 14,339 | 6,573 | 5,191 | 2,517 |

**2. Acquisition and disposal of participating interests**

As of 1 January 2004, the activities of a distribution company in Roeselare, Belgium, were acquired via the Baudoin group for EUR 1.7 million, which included EUR 0.8 million goodwill. Annual contribution to sales is EUR 6 million.

As of 15 May 2004, all activities of Freudenberg Simrit bv of Naarden were acquired via ERIKS bv for EUR 1.7 million, of which EUR 1.3 million was goodwill. Annual contribution to sales is EUR 2.6 million.

As of 1 June 2004 in Germany, all trading activities of Steinebronn Industrietechnik were acquired. The total investment was EUR 9.1 million. The goodwill included in the purchase price for the assets amounted to EUR 2.1 million. Annual contribution to sales is EUR 28 million.

As of 1 January 2004, the activities of ERIKS Aerospace, Inc. in the United States (annual sales USD 3.5 million) were disposed of with a book loss of USD 0.1 million. This book loss was offset by a book profit of USD 0.1 million from the settlement of the activities of ENA, Inc. in the United States that were sold in 2003.

## 3. Operating result

The operating result includes the following personnel costs:

| | 2004 | 2003 |
|---|---|---|
| Wages and salaries | **73,959** | 68,874 |
| Social security costs | **16,654** | 15,556 |
| Pension costs | **4,072** | 3,977 |
| | **94,685** | 88,407 |
| Average number of group employees | **2,011** | 1,942 |
| Average salary costs per employee | **47.1** | 45.5 |

The operating result also includes the following items:

| | 2004 | 2003 |
|---|---|---|
| Depreciation of tangible fixed assets | **6,245** | 5,191 |
| Amortization of intangible fixed assets | **2,777** | 2,517 |
| Impairments of fixed assets | **222** | |
| Result on sale of tangible fixed assets | **176** | 582 |
| Amounts on account of rents paid and operational lease | **9,325** | 9,083 |
| Audit fee | **521** | 505 |

## 4. Personnel remuneration

### Pension and pre-pension schemes

A number of pension and pre-pension schemes are operated within the group, which all meet the local laws and regulations.

The pension obligations of most of the Dutch business units are administered by the ERIKS company pension fund (defined contribution scheme).

Most of the other pension obligations, including those of the foreign business units, are administered by external insurers/reinsurers or insured by local authorities.

The majority of the current schemes can be characterized as defined contribution schemes. A small number of the schemes operating in Belgium and the Netherlands can be characterized as defined benefit schemes.

### Profit-sharing and bonus schemes

The group operates profit-sharing and bonus schemes for its personnel. With regard to the remuneration of directors, see the notes under point 5.

## 5. Remuneration of the Board

### Remuneration of the Supervisory Board

| Number of depositary receipts | Members | Remuneration 2004 | Remuneration 2003 |
|---|---|---|---|
| 781 | J.L. Bouma | **35.0** | 25.0 |
| | H.E. Jonker Roelants | **28.0** | 20.4 |
| | R.A.A. Oliemans | **28.0** | 20.4 |

All members of the Supervisory Board receive a fixed annual salary that does not depend on the results in any single year.

No options on depositary receipts for ERIKS group nv stocks were granted to the members of the Supervisory Board.

**Remuneration of the Executive Board**

The current members of the Executive Board possessed a total of 7,214 depositary receipts for ERIKS stocks at year-end 2004. No options on depositary receipts for ERIKS group nv stocks were granted to members of the Executive Board.

In 2004 the members of the Executive Board received the following salaries, bonuses and benefits:

| **Number of depositary receipts** | **Members** | **Gross salary** | **Bonus contri-bution** | **Pension** | **Total 2004** | **Total 2003** |
|---|---|---|---|---|---|---|
| 3,604 | H. Kreuger | 333 | 167 | 100 | 600 | 960 |
| 2,300 | J.G. de Boer | 204 | 102 | 64 | 370 | 353 |
| 260 | H.J. Maier | 188 | 94 | 59 | 341 | 299 |
| 1,050 | J. van der Zouw | 204 | 102 | 64 | 370 | 353 |

Total remuneration and the composition of the remuneration package is determined based on the market rate for similar positions. Salaries are reviewed annually.

The level of bonuses depends on the following criteria:
- quantitative: achievement of the annual objectives for growth and profitability
- qualitative: realization of the main points of the policy plan.

In the year under review, almost all of the qualitative and quantitative objectives used to determine the bonus were realized.

The remuneration package also includes contributions to pension schemes and disability benefit schemes equivalent to about 30 percent of the fixed salary.

**6. Tax on result**

Tax on the result on ordinary activities for 2004 and 2003 amounted to EUR 9,295 and EUR 7,715 respectively.

The tax burden amounted to 37.0 percent in 2004 and 39.0 percent in 2003

| | **2004** | **2003** |
|---|---|---|
| Weighted average of statutory rates for tax on result | **35.2** | 35.2 |
| Tax effect of offsettable losses not carried over | **0.9** | 1.2 |
| Tax effect of carry-over losses claimed | **(0.3)** | (0.2) |
| Tax effect of amortization of goodwill | **3.1** | 3.8 |
| Permanent differences, including the effect of group financing | **(1.7)** | (1.8) |
| Taxes paid for previous years | **(0.2)** | 0.8 |
| Effective tax rate | **37.0** | 39.0 |

The average statutory tax rate is the average of the statutory taxation rates applicable in the countries in which the ERIKS group operates, weighted on the basis of the profits or losses on ordinary activities before tax in each of these countries.

**Off-settable losses**

At year-end the losses off-settable against tax and their valuation can be broken down as follows:

| | 2004 | 2003 |
|---|---|---|
| Carry-over period within 1 year | **500** | 259 |
| Carry-over period between 1 and 5 years | **1,801** | 1,666 |
| Carry-over period after 5 years | **939** | 1,208 |
| Total off-settable losses | **3,240** | 3,133 |
| Of which valued as active deferred tax included in 11. Other receivables | **42** | 152 |

## 7. Intangible fixed assets

The intangible fixed assets comprise goodwill.

Movements in intangible fixed assets in 2004 were as follows.

| | | |
|---|---|---|
| Accumulated goodwill at January 1, 2004 | **38,049** | |
| Accumulated amortization at January 1, 2004 | **6,194** | |
| **Balance sheet value at January 1, 2004** | | 31,855 |
| Movements in the balance sheet value: | | |
| Goodwill paid | **4,185** | |
| Amortization | **2,777** | |
| | | 1,408 |
| Accumulated goodwill at December 31, 2004 | **42,234** | |
| Accumulated amortization at December 31, 2004 | **8,971** | |
| **Balance sheet value at December 31, 2004** | | 33,263 |

The goodwill in 2004 relates to the acquisition of the activities stated under 2. Acquisition and disposal of participating interests. There has been no reason or situation giving rise to impairment of fixed assets.

## 8. Tangible fixed assets

The book value of the tangible fixed assets can be broken down as follows:

| | Land and buildings | Machines and equipment | Other operating assets | Total |
|---|---|---|---|---|
| **At January 1, 2004** | | | | |
| At cost | 31,070 | 18,956 | 43,324 | **93,350** |
| Accumulated depreciation | 8,523 | 15,479 | 34,390 | **58,392** |
| Balance sheet value | 22,547 | 3,477 | 8,934 | **34,958** |
| **Movements in the balance sheet value:** | | | | |
| Book value contribution from acquisitions and disposals | | 202 | 776 | **978** |
| Investments | 12,931 | 1,221 | 6,118 | **20,270** |
| Book value disposals | (1,702) | (7) | (370) | **(2,079)** |
| Foreign exchange and classification differences | | (1) | (17) | **(18)** |
| Depreciation | (1,201) | (1,194) | (3,850) | **(6,245)** |
| **At December 31, 2004** | | | | |
| At cost | 40,757 | 19,823 | 48,065 | **108,645** |
| Accumulated depreciation | 8,182 | 16,125 | 36,474 | **60,781** |
| Balance sheet value | 32,575 | 3,698 | 11,591 | **47,864** |
| Depreciation rates | 0-4% | 7-20% | 5-25% | |

The other operating assets are made up of transport and IT equipment, and office and warehouse fixtures and fittings.

At year-end 2004, the book value of tangible fixed assets under financial lease was EUR 4,455.

In the Netherlands a liability of EUR 15,250 has been entered into to build new premises in Alkmaar. EUR 12,566 of this investment is included in "land and buildings" at the balance sheet date.

## 9. Financial fixed assets

These relate to the following participating interests which are not included in the consolidation:

| | | 2004 | 2003 |
|---|---|---|---|
| ENA, Inc. | (100.0%) | | 194 |
| HFS Group, Inc. | (33.3%) | | 17 |
| TradCom nv | (25.0%) | **71** | 71 |
| | | **71** | 282 |

Tradcom nv is a company that manages an internet portal. The activities of ENA, Inc. were disposed of on 30 June 2003.

The participating interest in HFS Group, Inc. was disposed of on 1 January 2004 as part of the sale of Aerospace, Inc.

## 10. Inventories

The inventories were made up of the following:

| | 2004 | 2003 |
|---|---|---|
| Trade stocks | **56,843** | 49,443 |
| Work in progress | **1,029** | 449 |
| Raw materials | **420** | 539 |
| | **58,292** | 50,431 |

## 11. Other receivables

The other receivables comprised:

| | | |
|---|---|---|
| Deferred tax assets | **1,363** | 1,398 |
| Other | **1,927** | 2,283 |
| | **3,290** | 3,681 |

Based on the expected period for realization the deferred tax assets can be broken down as follows:

| | | |
|---|---|---|
| Less than 1 year | **727** | 375 |
| More than 1 year | **636** | 1,023 |
| | **1,363** | 1,398 |

## 12. Liquid resources

This represents for the most part an account considered to be a stockholders' equity account for tax purposes. All liquid resources are freely available and for the most part administered in cash pools.

## 13. Stockholders' equity

### Subscribed and paid-up capital stock

The subscribed and paid-up capital stock consists of 3,887,039 common stocks of EUR 1.= par value each, or EUR 3,887,039.

### Authorized capital stock

The authorized capital stock amounts to EUR 15.0 million and is made up of:

- 8 million common stocks of EUR 1.= par value
- 2 million cumulative financially preferred stocks of EUR 1.= par value
- 5 million preference stocks of EUR 1.= par value.

Development of the number of stocks issued and the average number of stocks issued

| | 2004 | 2003 |
|---|---|---|
| Number of stocks issued at January 1 | **3,751,743** | 3,629,287 |
| Stock dividend | **135,296** | 122,456 |
| Number of stocks issued at December 31 | **3,887,039** | 3,751,743 |
| Average number of stocks issued | **3,830,666** | 3,700,720 |

**Other reserves and undistributed profit**

Movements in other reserves and undistributed profit were as follows:

| | Other reserves | | Undistributed profit | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| **At January 1** | **75,548** | 68,438 | **11,984** | 10,706 |
| **Movements**: | | | | |
| Profit appropriation | | | | |
| – cash dividend | | | **(1,673)** | (2,413) |
| – stock dividend | | | **(135)** | (123) |
| – costs associated with the issue of the stock dividend | | | **(69)** | (60) |
| – addition of remainder to other reserves | **10,107** | 8,110 | **(10,107)** | (8,110) |
| Sub-total after profit appropriation | **85,655** | 76,548 | | |
| Exchange differences on the net asset value and participating interests in the permanent financing of foreign investments | **(436)** | (1,000) | | |
| Result for financial year | | | **15,746** | 11,984 |
| **At December 31** | **85,219** | 75,548 | **15,746** | 11,984 |

## 14. Minority interest

Movements in the minority interest were as follows:

| | **2004** | **2003** |
|---|---|---|
| Balance January 1 | **234** | 158 |
| Add: share in result | **62** | 76 |
| Balance December 31 | **296** | 234 |

## 15. Provisions

| | **Balance January 1, 2004** | **Movement due to acquisition/ disposal** | **Addition** | **Withdrawal** | **Balance December 31, 2004** |
|---|---|---|---|---|---|
| Pensions | 1,665 | | 73 | (98) | 1,640 |
| Other obligations to personnel. | 450 | | 995 | (67) | 1,378 |
| Deferred taxes | 5,528 | (214) | 524 | (209) | 5,629 |
| Reorganization and restructuring | 1,228 | 135 | 971 | (1,057) | 1,277 |
| Maintenance | 983 | | 128 | (490) | 621 |
| Environment | 113 | | | (113) | |
| Other | 2,422 | | 114 | (669) | 1,867 |
| | 12,389 | (79) | 2,805 | (2,703) | 12,412 |

Expected settlement time by category of provision:

| | Less than 1 year | More than 1 year |
|---|---|---|
| Pensions | 100 | 1,540 |
| Other obligations to personnel | 136 | 1,242 |
| Deferred taxes | 375 | 5,254 |
| Reorganization and restructuring | 626 | 651 |
| Maintenance | 621 | |
| Other | 1,007 | 860 |
| At December 31, 2004 | 2,865 | 9,547 |
| At December 31, 2003 | 1,876 | 10,513 |

The actuarial calculations for the pensions are based on an actuarial interest of 6.0 percent.

**16. Long-term liabilities**

The long-term liabilities comprised:

| | 2004 | 2003 |
|---|---|---|
| – mortgage credit facility | **14,750** | |
| – loans from credit institutions | **15,500** | 10,500 |
| – lease obligations | **4,098** | |
| – other loans | **1,108** | 1,669 |
| | **35,456** | 12,169 |

**Mortgage credit facility**

In 2004, two mortgage credit facilities together totaling EUR 20.0 million were agreed.

At year-end 2004, EUR 15.0 million had been drawn. The most important conditions of these facilities are:

| | | |
|---|---|---|
| Principal per facility | EUR 10,000 | EUR 10,000 |
| Drawn at year-end | EUR 5,000 | EUR 10,000 |
| Term | 20 years to 2024 | 20 years to 2024 |
| Interest period | 3 months | 3 months |
| Interest | EURIBOR + 0.85% | EURIBOR + 0.85% |
| Repayment | Linear, quarterly | Interest only |

Business premises in Alkmaar and Roermond have been used as mortgage collateral. Financial ratios relating to interest cover and solvency have been agreed, which are amply met.

An amount of EUR 13,750 has a remaining term longer than 5 years. Interest rate swaps have been used to agree the interest on these loans until 2014.

**Loans from credit institutions**

This refers to a stand-by facility, originally EUR 15.0 million. The most important conditions of this facility are:

| | Senior-debt loan | Subordinated loan |
|---|---|---|
| Principal per facility | EUR 15.0 | |
| Balance at year-end | EUR 10.5 | |
| Term | 5 years to 2008 | 5 years to 2008 |
| Interest period | 1, 3, 6 or 12 months | 1, 3, 6 or 12 months |
| Interest | EURIBOR + 1.25% | EURIBOR + 2.75% |
| Repayment | Linear, half-yearly | First 3 years interest only, then 1/5 per year and remainder at end of term |

This stand-by facility has been drawn as a senior-debt loan.

Half of the outstanding part of the senior-debt loan can be converted into a subordinated loan. This facility has not been used yet.

At year-end 2004 the balance of this loan was EUR 10.5 million, of which EUR 3 million was presented as repayment obligations on long-term liabilities falling due within 1 year.

Loans from credit institutions also included a medium-term loan agreed with a credit institution in 2004 of EUR 10.0 million of which EUR 2.0 million is included under the shortterm repayment obligations.

The most important conditions of this loan are:

| | |
|---|---|
| Principal | EUR 10,000 |
| Term | 5 years to 2009 |
| Interest period | 3 or 6 months |
| Interest | EURIBOR + 0.80% |
| Repayment | Linear, half-yearly |

Certain financial ratios relating to interest cover and solvency have been agreed for these loans from credit institutions, which are amply met.

**Lease obligations**

Lease obligations relate to the financing of a building (repayment in the form of annuities until year-end 2014) and computer hardware (to mid-2006), which are treated as a financial lease from 2004. Average interest is 5%.

**17. Bank overdrafts**

This item represents short-term loans with financial institutions and current account overdrafts. Five banks have provided a total of EUR 89.6 million in unsecured credit facilities.

**18. Other short-term liabilities**

The other short-term liabilities comprised:

| | **2004** | **2003** |
|---|---|---|
| Corporate income tax | **2,912** | 184 |
| Other tax and social security costs | **6,592** | 6,468 |
| Other short-term liabilities and accruals | **16,311** | 14,075 |
| | **25,815** | 20,727 |

**19. Financial instruments**

For management of liquidity, currency and interest rate risks, the ERIKS group uses financial instruments such as currency options, forward exchange contracts, interest and currency swaps. These contracts are never used for speculative purposes.

**Interest rate risk management**

ERIKS uses interest rate swaps to achieve the appropriate risk profile regarding fixed and variable interest rate exposure.

At year-end, the following interest rate swaps were outstanding:

| Currency | Amount | Fixed interest payable | Term until |
|---|---|---|---|
| USD | 3.1 million | 4.99% | April 2005 |
| EUR | 10.0 million | 5.76% | July 2005 |
| EUR | 10.0 million | 4.175% | August 2006 |
| EUR | 10.0 million | 3.1% | March 2007 |
| EUR | 5.0 million | 3.335% | March 2008 |
| EUR | 5.0 million | 3.508% | May 2008 |
| EUR | 10.0 million | 3.746% | May 2009 |
| EUR | 10.0 million | 4.392% | May 2014 |
| EUR | 5.0 million | 4.525% | June 2014 |

The interest receivable is variable. The interest rate swaps had a market value of EUR -2,365 as of the balance sheet date (2003: EUR -1,329).

**Currency risk management**

Currency options are entered into for the purpose of hedging risks arising from purchasing and sales liabilities. Total transactions outstanding as of the balance sheet date were not material in relation to the business as a whole or the market value of the currency options at December 31, 2004.

**20. Liabilities not included in the balance sheet**

The following liabilities were not included in the balance sheet:

| in EUR thousands | 2004 | 2003 |
|---|---|---|
| **Contingent liabilities** | | |
| Guarantees and security deposits | **876** | 759 |
| **Financial liabilities** | | |
| Investment liabilities entered into for tangible fixed assets | **4,529** | 10,810 |
| **Rental and lease obligations** | | |
| Terms expire within 1 year | **8,750** | 8,515 |
| Terms expire between 1 and 5 years | **20,000** | 20,632 |
| Terms expire after 5 years | **6,985** | 9,312 |

## CORPORATE STATEMENT OF INCOME

| In EUR thousands | 2004 | 2003 |
|---|---|---|
| Net result of group companies | **16,334** | 11,249 |
| Other income and expenses after tax | **(588)** | 735 |
| Net result | **15,746** | 11,984 |

## CORPORATE BALANCE SHEET

**Before profit appropriation proposal**

| In EUR thousands | Ref. | December 31, 2004 | | December 31, 2003 | |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Fixed assets** | | | | | |
| **Intangible fixed assets** | 1. | | **10,747** | | 11,670 |
| **Tangible fixed assets** | | | **111** | | 174 |
| **Financial fixed assets** | 2. | | | | |
| Group companies | | **70,576** | | 57,682 | |
| Loans to group companies | | **80,885** | | 78,709 | |
| | | | **151,461** | | 136,391 |
| **Current assets** | | | | | |
| Receivables | 3. | **856** | | 1,863 | |
| Liquid resources | 7. | **7,167** | | 11,780 | |
| | | | **8,023** | | 13,643 |
| **Total ASSETS** | | | **170,342** | | 161,878 |
| **LIABILITIES** | | | | | |
| **Stockholders' equity** | 4. | | | | |
| Stock capital | | **3,887** | | 3,752 | |
| Paid-in surplus | | **476** | | 476 | |
| Other reserves | | **85,219** | | 75,548 | |
| Undistributed profit | | **15,746** | | 11,984 | |
| | | | **105,328** | | 91,760 |
| **Provisions** | 6. | | **3,316** | | 3,438 |
| **Long-term liabilities** | 7. | | **15,500** | | 10,500 |
| **Short-term liabilities** | | | | | |
| Bank overdrafts | 7. | **37,428** | | 50,203 | |
| Repayment obligations on long-term liabilities falling due within one year | 7. | **5,000** | | 3,000 | |
| Other short-term liabilities | 5. | **3,770** | | 2,977 | |
| | | | **46,198** | | 56,180 |
| **Total LIABILITIES** | | | **170,342** | | 161,878 |

## NOTES TO THE CORPORATE ACCOUNTS

**In EUR thousands**

### 1. Intangible fixed assets

The intangible fixed assets comprise goodwill.

Movements in intangible fixed assets were as follows:

| | | |
|---|---|---|
| Accumulated goodwill at January 1, 2004 | **13,133** | |
| Accumulated amortization at January 1, 2004 | **1,463** | |
| **Balance sheet value at January 1, 2004** | | **11,670** |
| Movements in the balance sheet value: | | |
| Goodwill paid | | |
| Amortization | **923** | |
| | | **(923)** |
| Accumulated goodwill at December 31, 2004 | **13,133** | |
| Accumulated amortization at December 31, 2004 | **2,386** | |
| **Balance sheet value at December 31, 2004** | | **10,747** |

### 2. Financial fixed assets

**Group companies**

Movements in financial fixed assets were as follows

| | **2004** | 2003 |
|---|---|---|
| Balance January 1 | **57,682** | 44,718 |
| Movements: | | |
| – capital contributions to group companies | **7,500** | 19,969 |
| – disposals / deconsolidation of group companies | | |
| – profit from participating interests | **16,334** | 11,249 |
| – foreign exchange difference | **(436)** | (1,000) |
| – declared dividends | **(10,504)** | (17,254) |
| Balance December 31 | **70,576** | 57,682 |

**Loans to group companies**

Movements in this account were as follows:

| | | |
|---|---|---|
| Balance January 1 | **78,709** | 90,679 |
| Movements: | | |
| – issued in the period under review | **44,236** | 36,324 |
| – repaid in the period under review | **(41,788)** | (47,580) |
| – foreign exchange difference | **(272)** | (714) |
| Balance December 31 | **80,885** | 78,709 |

The loans to group companies have a maximum term of 5 years. The amount in loans with a term of more than 1 year is EUR 35,916.

The interest charged on these loans to group companies is between 4.1 and 7.45 percent.

### 3. Receivables

The accounts receivable comprised:

| | **2004** | 2003 |
|---|---|---|
| Amounts owed by group companies | | 817 |
| Deferred taxes | **737** | 796 |
| Other taxes and social security costs | **64** | |
| Other receivables and accruals | **55** | 250 |
| Balance December 31 | **856** | 1,863 |

### 4. Stockholders' equity

For notes on the stockholders' equity, see the consolidated statement of movements in stockholders' equity and the notes to the consolidated balance sheet.

### 5. Other short-term liabilities

These are made up as follows:

| | **2004** | 2003 |
|---|---|---|
| Corporate income tax | **985** | 383 |
| Other taxes and social security costs | | 23 |
| Debt to group companies | **538** | 177 |
| Other liabilities and accruals | **2,247** | 2,394 |
| Balance December 31 | **3,770** | 2,977 |

### 6. Provisions

| | **Balance January 1, 2004** | **Addition** | **Withdrawal** | **Balance December 31, 2004** |
|---|---|---|---|---|
| Other obligations to personnel | | 180 | | 180 |
| Deferred taxes | 516 | 150 | | 666 |
| Reorganization and restructuring | 305 | 500 | (239) | 566 |
| Other | 2,617 | | (713) | 1,904 |
| | 3,438 | 830 | (952) | 3,316 |

Expected settlement time by category of provision:

| | **Less than 1 year** | **More than 1 year** |
|---|---|---|
| Other obligations to personnel | | 180 |
| Deferred taxes | | 666 |
| Reorganization and restructuring | 200 | 366 |
| Other | 1,045 | 859 |
| At December 31, 2004 | 1,245 | 2,071 |
| At December 31, 2003 | 708 | 2,730 |

### 7. Explanation

For an explanation of the liquid resources, long-term liabilities, bank overdrafts and the repayment obligations on long-term liabilities falling due within 1 year, see the notes to the consolidated balance sheet.

## 8. Liabilities not included in the balance sheet

ERIKS group nv has assumed liability to the banks in the for any debts owed to the banks by certain group balance sheetcompanies amounting to EUR 3.5 million on the balance sheet date.

ERIKS group nv and its wholly-owned group companies in the Netherlands file a consolidated corporate income tax return.

Alkmaar, February 24, 2005

**The Executive Board**

H. Kreuger
J.G. de Boer
H.J. Maier
J. van der Zouw

**Supervisory Board**

J.L. Bouma
H.E. Jonker Roelants
R.A.A. Oliemans

## OTHER INFORMATION

**Auditors' report**

To: the General Meeting of Stockholders of ERIKS group nv

Introduction

In accordance with your instructions we have audited the financial statements of ERIKS group nv, Alkmaar, for the year 2004. These financial statements are the responsibility of the company's Executive Board.

Our responsibility is to express an opinion on these financial statements based on our audit.

**Scope**

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Executive Board of the company, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2004 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

24 February 2005

PricewaterhouseCoopers Accountants N.V.

## COMPANY'S 2005 FINANCIAL STATEMENTS

## ACCOUNTING POLICIES

### General

The consolidated financial statements of the holding company and of all its group companies are drawn up using the accounting policies set out below.

The financial statements have been drawn up by the Executive Board and were discussed in detail during the Supervisory Board meeting of February 27, 2006 as part of the annual report. It has been decided to present these financial statements to the General Meeting of Stockholders to be held on May 16, 2006 for adoption.

The 2005 financial statements are the first financial statements drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. IFRS 1 has been applied for the preparation of the consolidated accounts. The previous financial year's comparative figures have been adjusted accordingly as at January 1, 2004. The ERIKS group has elected to apply the IFRS 1 exemption of IAS 32/39 regarding financial instruments which apply as of 1 January 2005. The chapter 'Schedules reflecting first-time adoption of IFRS' on page 100* and onwards provides an explanation of the transition to IFRS and the corresponding effects on the reported financial information.

### Accounting policies

The policies used to value assets and liabilities are based on historical cost, unless otherwise stated. The preparation of financial statements under IFRS requires management to make judgments, estimates and assumptions (and continually review these) about the application of guidelines and the reported amounts of assets and liabilities, income and expenses. The estimates and assumptions are based on historical experience and various other factors considered reasonable given the circumstances. Actual results may however differ from these estimates.

Changes as a result of revision of estimates and assumptions are recognized in the period in which the estimates are revised and in future periods if applicable.

### Basis of consolidation

The assets and liabilities as well as income and expense of group companies are consolidated in full. Group companies are those companies whose policies to be pursued are or can be controlled by ERIKS group nv. Group companies are included in the consolidated figures from the date on which ERIKS group nv obtains control. The results of group companies sold during the year under review are consolidated until the date on which control ceases.

Unrealized gains or losses on intra-group transactions and balance sheet items have been eliminated.

A list of clusters and group companies is set out on pages 118 and 119 of this report.

### Acquisition and disposal of group companies

Newly acquired group companies are accounted for using the purchase accounting method and are measured as the net fair value of identifiable assets, liabilities and contingent liabilities (net asset value) at the time of acquisition. The acquisition cost consists of the purchase price paid for the acquisition, plus any costs directly attributable to the acquisition.

The difference between the acquisition cost and net value, the goodwill, is allocated to cash-generating units and tested for impairment annually.

If the acquisition cost is lower than the net fair value of the acquired assets, liabilities and contingent liabilities, the difference is taken to the statement of income.

Upon disposal of group companies, the difference between selling price and the balance of assets, liabilities and contingent liabilities to be transferred at carrying value, as well as the balance of goodwill at carrying value, are taken to the statement of income.

### Foreign currency

The euro is the functional and reporting currency of the ERIKS group.

* See F-49

Transactions in foreign currency are initially stated at the rate of exchange on the trade date. On the balance sheet date, all non-euro monetary assets and liabilities are converted at the closing rate of exchange. Exchange differences arising from the conversion and settlement of monetary assets and liabilities are taken to the statement of income.

In the consolidation, the statement of income of group companies reported in non-euro currencies is converted at average rates for the period under review. The balance sheet of group companies reported in non-euro currencies is converted at the closing rate of exchange. Currency translation differences arising from this, as well as exchange differences on fixed financing of foreign participating interests stated in foreign currency, are taken direct to stockholders' equity.

Upon disposal of the participating interests reporting in non-euro currencies the exchange differences included in stockholders' equity via the statement of income are recognized as part of the book profit or loss on the disposal.

**The major exchange rates used over the past few years were:**

| | **2005** | **2004** | **2003** |
|---|---|---|---|
| USD / EUR - closing rate ........................................................ | 0.84538 | 0.73233 | 0.79491 |
| USD / EUR - average rate...................................................... | 0.80379 | 0.80392 | 0.88522 |
| SGD / EUR - closing rate........................................................ | 0.51020 | 0.44903 | 0.46729 |
| SGD / EUR - average rate ..................................................... | 0.48305 | 0.47583 | 0.50807 |

**Derivative financial instruments**

ERIKS group nv uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange rate risks arising from operational and financing activities. In accordance with the group's treasury policy derivative financial instruments will not be held or issued for trading purposes. Derivative financial instruments are carried at fair value. Value adjustments are recognized directly in the result.

The fair value of interest rate swaps is the estimated amount that would have to be received or paid to discontinue this swap as per the balance sheet date, taking the present interest rate into account. The fair value of the forward currency contracts and the currency options is the published market price (forward exchange rate) at the balance sheet date.

**Intangible fixed assets**

**Goodwill**

How goodwill is determined is explained in 'Acquisition and disposal of group companies'.

**Intangible fixed assets from acquisitions**

Intangible fixed assets from acquisitions are stated at the fair value of the acquired identified (intangible) fixed assets on the acquisition date less accumulated amortization and impairment losses. Amortization of intangible fixed assets from acquisitions is calculated on a straight-line basis over their useful lives.

**Other**

Other intangible fixed assets acquired by the ERIKS group, such as software, are carried at cost less accumulated straight-line amortization over their useful lives and impairment losses. Internally generated intangible fixed assets are recognized in the balance sheet if their costs can be reliably estimated and if it is likely that ERIKS will benefit economically from the asset.

**Property, plant and equipment**

Items of property, plant and equipment are stated at cost net of accumulated straight-line depreciation based on their useful lives and impairment losses. Insofar held for sale, property, plant and equipment are carried at book value or fair value less selling costs, whichever is the lower.

Costs relating to property, plant and equipment incurred after the initial investment was made, such as maintenance costs, are in principle charged to the statement of income and are only taken to the balance sheet if they result in an upward value adjustment of the asset.

Gains or losses on the sale of property, plant and equipment are recognized in the operating result. The residual values of property, plant and equipment as well as their useful lives are reviewed each year and adjusted if appropriate.

**Leasing**

Lease contracts are classified as finance leases if substantially all risks and rewards incidental to ownership are transferred to the ERIKS group. Property, plant and equipment acquired through finance leases are recognized at the lower of the fair value and present value of the minimum number of lease payments at the lease's inception, net of straight-line depreciation in accordance with the estimated useful life and impairment losses.

A lease is classified as an operating lease if the risks and rewards incidental to ownership remain with the lessor. Operating lease costs are recognized as an expense in the statement of income on a straight-line basis over the lease term.

**Impairment**

Each year an assessment is made of whether there is evidence that an asset is possibly impaired. If there is evidence that the book value of an asset is no longer recoverable, the recoverable value is measured. The recoverable value of an asset is the higher of its (direct) realizable value and its value in use. The value in use is calculated on the basis of the present value of future cash flows derived from the multi-year budget. Assets with an indefinite useful life, including goodwill, are subject to annual impairment testing. These assets are allocated to cash-generating units for the purpose of impairment testing.

If the recoverable value is lower than the carrying amount, the difference is charged to result as impairment loss.

**Associates**

Associates over which significant influence can be exercised are initially carried at cost. The initial valuation at cost is subsequently adjusted to the (proportionate share in) the results of the associates. Significant influence is presumed in the case of an interest of more than 20 percent.

Other participating interests in which an interest of less than 20 percent is held are, in principle, carried at fair value, unless the fair value cannot be reliably determined.

Associates' results are recognized separately in the statement of income.

Receivables from associates and other participating interests are carried at face value, net of provisions for bad debts and impairment losses where necessary.

**Inventories**

Inventories of trade goods and raw materials are carried at the lower of cost, being the average purchase price plus transport and other additional expenses, and net realizable value.

Work in progress is carried at production cost, consisting of the costs of wages and materials and a margin for indirect production costs and overheads.

**Accounts receivable trade and other receivables**

Accounts receivable trade are carried at face value. If it is anticipated that receivables may not be able to be collected in full, a provision will be made for bad debts.

**Stockholders' equity**

Dividend payable to stockholders is recognized as a liability at the time the General Meeting of Stockholders approves the profit appropriation.

**Loans and repayment obligations**

Loans payable are initially recognized at fair value, taking attributable transaction costs into account. After initial recognition, loans are subsequently measured at amortized cost using the effective interest method. Repayment obligations on loans within 1 year after the balance sheet date are presented as short-term liabilities.

**Employee benefits**

The group operates a number of pension and pre-pension plans, all of which meet the local laws and regulations. The pension obligations of nearly all Dutch business units are administered by the ERIKS company pension fund (collective defined contribution plan). Most of the other pension obligations, including those of the foreign business units, are administered by external insurers/reinsurers or are insured by local authorities. The majority of the current schemes can be characterized as defined contribution plans. A small number of the schemes can be characterized as defined benefit plans.

**(a) Defined contribution plan**

Defined contribution plans are plans for which the ERIKS group pays fixed contributions in favor of the employee, without there being any entitlement on the part of or any obligation towards these employees. Obligations with respect to contributions for pension and related plans based on defined contributions are charged to the statement of income in the period to which they relate.

**(b) Defined benefit plan**

Under defined benefit plans employees receive a defined pension; the amount depends on age, salary level and years of service. The obligation included in the balance sheet is the present value of the projected pension payments at the balance sheet date net of the fair value of plan assets.

Unrecognized actuarial gains and losses and unrecognized past service pension costs are netted. Each year independent actuaries calculate the obligations arising from defined benefit plans using the projected unit credit method based on interest rates applied for high-quality company bonds.

Actuarial gains and losses that exceed 10 percent of the higher of plan assets or obligations resulting from changes in actuarial assumptions are taken to the statement of income during the expected, average future years of service of the employees involved.

The past service pension costs which have not yet been recognized are taken directly to the statement of income unless remaining in service for a number of years (vesting period) is a condition for the changes in the pension plan. If so, the past service costs are processed on a straight-line basis during the vesting period.

**(c) Jubilee benefits**

The provision for jubilee benefits is based on actuarial calculations with a discount rate approaching the yield on high-quality company bonds at the balance sheet date.

**Other provisions**

Provisions are actual or legally enforceable obligations arising from an event in the past, making it likely that an outflow of resources will be required, and where a reliable estimate can be made of the extent of the obligation. Provisions are determined by discounting the expected future cash flows using a current interest rate.

A reorganization provision is formed when there is a detailed formalized plan for the reorganization and the reorganization has commenced or been announced to the parties involved prior to or on the balance sheet date.

**Deferred taxes**

A deferred tax liability or deferred tax asset is recognized in accordance with the liability method for temporary differences between the commercial value of assets and liabilities and their value for tax purposes at the expected rate in the settlement year, in so far as laid down by law.

Deferred tax assets on account of available off-settable losses are recognized, in so far as it is reasonable to expect that these losses will be set off.

**Revenue recognition**

Net sales are the revenues from third parties for goods and services supplied, net of discounts and sales tax. The sale of goods is recognized as revenue when the significant risks and rewards of ownership of the goods are transferred to the buyer. Revenue from the rendering of services is recognized by reference to the stage of completion.

**Cost of sales**

Cost of sales is made up of the purchase price and reductions in value directly attributable to the goods supplied, as well as the costs of warehousing, production and distribution.

**Taxation**

Tax on the profit or loss is calculated using the standard tax rate in force in the financial year concerned, allowing for tax relief facilities and deferred tax movements.

Taxation relating to items that are taken directly to equity is also taken to equity.

**Financial income and expense**

Financial income and expense relates to time-weighted interest received and interest paid, taking account of the effective interest rate for the receivable or debt concerned. Changes in the fair value of derivative financial instruments are also included under financial income and expense.

**Consolidated cash flow statement**

The cash flow statement has been prepared according to the indirect method, based on the statement of income and the other movements between the opening and closing balances. Cash and cash equivalents consist of liquid resources and current account overdrafts.

Movements between the opening and closing balance resulting from the acquisition and disposal of consolidated participating interests are shown as part of the investing activities. Interest paid and received and profit taxes are accounted for as part of cash flow from operating activities.

**Significant estimates and formation of opinion by Executive Board**

When preparing the annual figures, the Executive Board of ERIKS group nv makes basic assumptions and estimates for the future which in practice can deviate from reality.

In this context, the annual goodwill impairment test in particular is regarded as being susceptible to changes. Furthermore, when determining the value of deferred tax assets on account of off-settable losses, estimates were made as to whether these assets are realizable.

Valuation methods of external parties are used to assess the value of the defined benefit plan and the derivative financial instruments. The basic assumptions and estimates made for that purpose were reasonably determined.

## CONSOLIDATED STATEMENT OF INCOME

| In EUR thousands | Ref. | | 2005 | | 2004 |
|---|---|---|---|---|---|
| Net sales | 1. | | **448,549** | | 423,393 |
| Cost of sales | | | **331,597** | | 312,195 |
| Gross profit on sales | | | **116,952** | | 111,198 |
| Sales expenses | | **71,751** | | 69,131 | |
| General administrative expenses | | **11,361** | | 10,786 | |
| Total expenses | | | **83,112** | | 79,917 |
| | | | **33,840** | | 31,281 |
| Other operating income | 3. | | **1,956** | | |
| Operating result | 3. | | **35,796** | | 31,281 |
| Result from financial income and expense | 5. | | **(2,676)** | | (2,969) |
| Result from associates | | | **19** | | |
| Result before taxes | | | **33,139** | | 28,312 |
| Taxes | 6. | | **11,000** | | 9,760 |
| Result after taxes | | | **22,139** | | 18,552 |
| At the disposal of stockholders | | | **22,059** | | 18,490 |
| Minority interest | 17. | | **80** | | 62 |
| Net result | | | **22,139** | | 18,552 |
| Average number of stocks issued | | **7,869,455** | | 7,661,332 | |
| Profit per stock (in euro) | | **2,80** | | 2,41 | |

## CONSOLIDATED BALANCE SHEET

| In EUR thousands | Ref. | 31 december 2005 | | 31 december 2004 | |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Fixed assets** | | | | | |
| Intangible fixed assets | 7. | **37,800** | | 38,411 | |
| Property, plant and equipment | 8. | **48,651** | | 45,381 | |
| Associates | 9. | **52** | | 71 | |
| Deferred tax assets | 21. | **3,421** | | 3,302 | |
| Total fixed assets | | | **89,924** | | 87,165 |
| **Current assets** | | | | | |
| Inventories | 10. | **61,542** | | 59,950 | |
| Accounts receivable trade | 11. | **75,565** | | 73,111 | |
| Other receivables | 11. | **2,245** | | 1,927 | |
| Liquid resources | 12. | **22,034** | | 32,765 | |
| Total current assets | | | **161,386** | | 167,753 |
| Total ASSETS | | | **251,310** | | 254,918 |
| **STOCKHOLDERS' EQUITY AND LIABILITIES** | | | | | |
| Stockholders' equity | | | | | |
| Stock capital | 13. | **3,969** | | 3,887 | |
| Paid-in surplus | 13. | **476** | | 476 | |
| Other reserves | 14. | **261** | | (436) | |
| Retained earnings | 15. | **122,845** | | 105,282 | |
| | | | **127,551** | | 109,209 |
| Minority interest | 17. | | **379** | | 299 |
| Total stockholders' equity | | | **127,930** | | 109,508 |
| **Long-term liabilities** | | | | | |
| Loans | 18. | **29,575** | | 35,456 | |
| Derivative financial instruments | 24. | **1,961** | | | |
| Employee benefits | 19. | **4,115** | | 4,539 | |
| Other provisions | 20. | **1,053** | | 1,511 | |
| Deferred tax liabilities | 21. | **7,234** | | 6,765 | |
| Total long-term liabilities | | **43,938** | | 48,271 | |
| **Short-term liabilities** | | | | | |
| Bank overdrafts | 22. | **16,682** | | 37,278 | |
| Repayment obligations on loans | 18. | **7,883** | | 6,184 | |
| Suppliers | | **29,344** | | 25,887 | |
| Employee benefits | 19. | **611** | | 171 | |
| Other provisions | 20. | **552** | | 1,632 | |
| Profit taxes | | **1,870** | | 2,912 | |
| Other short-term liabilities | 23. | **22,500** | | 23,075 | |
| Total short-term liabilities | | **79,442** | | 97,139 | |
| **Total liabilities** | | | **123,380** | | 145,410 |
| **Total STOCKHOLDERS' EQUITY AND LIABILITIES** | | | **251,310** | | 254,918 |

**Additional information:**

| | 2005 | 2004 |
|---|---|---|
| **Total capital**<br>balance sheet total -/- intangible fixed assets (excluding software) -/- liquid resources | **193,375** | 186,225 |
| **Net capital invested**<br>total stockholders' equity + interest-bearing long-term and short-term liabilities -/-intangible fixed assets (excluding software) -/- associates -/- liquid resources | **139,609** | 134,280 |
| **Working capital**<br>inventories + accounts receivable trade -/- suppliers | **107,763** | 107,174 |

## CONSOLIDATED STATEMENT OF MOVEMENTS IN TOTAL STOCKHOLDERS' EQUITY

| In EUR thousands | Ref. | Stock capital | Paid-in surplus | Other reserves | Retained earnings | Minority interest | Total |
|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2004** .... | | **3,752** | **476** | | **88,669** | **237** | **93,134** |
| Currency translation differences from foreign group companies.. | | | | (436) | | | (436) |
| Income / (expense) recognized in stockholders' equity ............. | | | | (436) | | | (436) |
| Result after taxes ...................... | | | | | 18,490 | 62 | 18,552 |
| **Total result** .............................. | | | | **(436)** | **18,490** | **62** | **18,116** |
| **Profit appropriation 2003** ........ | | **135** | | | **(1,877)** | | **(1,742)** |
| **Balance at December 31, 2004** | | **3,887** | **476** | **(436)** | **105,282** | **299** | **109,508** |
| Fair value of derivative financial instruments ................. | | | | | (2,022) | | (2,022) |
| Deferred taxes ........................... | | | | | 697 | | 697 |
| **Balance at January 1, 2005** | | **3,887** | **476** | **(436)** | **103,957** | **299** | **108,183** |
| Currency translation differences from foreign group companies.. | | | | 697 | | | 697 |
| Income / (expense) recognized in stockholders' equity ............. | | | | 697 | | | 697 |
| Result after taxes ...................... | | | | | 22,059 | 80 | 22,139 |
| **Total result** .............................. | | | | **697** | **22,059** | **80** | **22,836** |
| **Profit appropriation 2004** ........ | | **82** | | | **(3,171)** | | **(3,089)** |
| **Balance at December 31, 2005** | 13-17 | **3,969** | **476** | **261** | **122,845** | **379** | **127,930** |

With regard to the profit appropriation for 2003 and 2004, see the notes on retained earnings (15.).

# CONSOLIDATED CASH FLOW STATEMENT

| In EUR thousands | Ref. | 2005 | 2005 | 2004 | 2004 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Result after taxes | | **22,139** | | 18,552 | |
| Adjustments for: | | | | | |
| Depreciation, incl. amortization of software | 7-8. | **6,103** | | 6,245 | |
| Amortization of other intangible fixed assets | 3. | **82** | | 109 | |
| Cash flow from ordinary activities | | **28,324** | | 24,906 | |
| Financial income and expense | 5. | **2,676** | | 2,969 | |
| Profit taxes | 6. | **11,000** | | 9,760 | |
| Movement in working capital | | **(589)** | | (9,958) | |
| Movements in associates | | **19** | | | |
| Other accounts receivable and short-term liabilities, excl. repayment obligations on loans | | **(13)** | | 2,371 | |
| Movement in provisions | | **(1,052)** | | (403) | |
| Movement in the fair value of derivative financial instruments | | **(61)** | | | |
| **Cash flow generated from operating activities** | | | **40,304** | | 29,645 |
| Interest paid | | **(2,979)** | | (3,123) | |
| Profit taxes paid | | **(12,042)** | | (6,567) | |
| | | | **(15,021)** | | (9,690) |
| **Net cash flow from operating activities** | | | **25,283** | | 19,955 |
| **Investing activities** | | | | | |
| Investments in property, plant and equipment and software | 7-8. | **(9,951)** | | (15,798) | |
| Disposals of property, plant and equipment and software | 7-8. | **1,162** | | 2,097 | |
| Acquisition of group companies | 2. | **(55)** | | (11,696) | |
| Disposals of group companies | 2. | | | 1,230 | |
| Movement in loan to associate | | | | 211 | |
| **Cash flow from investing activities** | | | **(8,844)** | | (23,956) |
| **Financing activities** | | | | | |
| Withdrawals on loans, including repayment obligations | 18. | **6,258** | | 25,000 | |
| Repayments on loans, including repayment obligations | 18. | **(10,440)** | | (4,954) | |
| Repayments on bank overdrafts – current account overdrafts | 22. | **(11,250)** | | (20,000) | |
| Cash dividend and costs paid | 15. | **(3,089)** | | (1,742) | |
| Cash flow from financing activities | | | **(18,521)** | | (1,696) |
| **Cash flow on balance** | | | **(2,082)** | | (5,697) |
| **Liquid resources and bank overdrafts at January 1** | | | **12,737** | | 18,870 |
| Exchange differences | | | **697** | | (436) |
| **Liquid resources and bank overdrafts at December 31** | 12. | | **11,352** | | 12,737 |
| **Presentation in balance sheet** | | | | | |
| Liquid resources | | | **22,034** | | 32,765 |
| Banks - current account overdraft | | | **(10,682)** | | (20,028) |
| | | | **11,352** | | 12,737 |

## NOTES TO THE CONSOLIDATED ACCOUNTS

**In EUR thousands**

### 1. Segmented information

The information is broken down geographically by cluster. This primary segmentation ties in with the organizational structure, risk profile and the management of the ERIKS group. The nature of the business operations is so similar across the clusters that secondary segmentation is not considered expedient.

**Net sales**

Net sales to third parties increased from EUR 423.4 million in 2004 to EUR 448.5 million in 2005, or by 5.9 percent.

| By cluster | 2005 | 2004 |
|---|---|---|
| ERIKS Netherlands | **187,669** | 181,436 |
| ERIKS Belgium | **116,502** | 110,070 |
| ERIKS Germany | **96,430** | 84,961 |
| ERIKS France | **21,636** | 21,605 |
| ERIKS USA | **19,883** | 19,634 |
| ERIKS South-east Asia | **6,429** | 5,687 |
| | **448,549** | 423,393 |

Intra-group sales between the clusters is small-scale.

| By region (in %) | 2005 | 2004 |
|---|---|---|
| The Netherlands | **39.7** | 41.0 |
| Belgium | **22.7** | 22.7 |
| Germany | **22.4** | 20.8 |
| France | **5.8** | 6.2 |
| Rest of Europe | **3.5** | 3.2 |
| United States | **4.4** | 4.6 |
| South-east Asia | **1.5** | 1.5 |
| | **100.0** | 100.0 |

**Personnel**

The average number of people employed by the group during the year, expressed in terms of full time equivalents, allocated by cluster was as follows:

| By cluster | 2005 | 2004 |
|---|---|---|
| ERIKS Netherlands | **824** | 806 |
| ERIKS Belgium | **580** | 580 |
| ERIKS Germany | **407** | 353 |
| ERIKS France | **127** | 124 |
| ERIKS USA | **71** | 75 |
| ERIKS South-east Asia | **57** | 58 |
| ERIKS group nv | **15** | 15 |
| | **2,081** | 2,011 |

## Operating result

| By cluster | 2005 | 2004 |
|---|---|---|
| ERIKS Netherlands | **17,837** | 17,333 |
| ERIKS Belgium | **9,047** | 8,116 |
| ERIKS Germany | **5,976** | 5,984 |
| ERIKS France | **457** | 947 |
| ERIKS United States | **1,970** | 1,626 |
| ERIKS South-east Asia | **238** | 74 |
| ERIKS group nv | **(1,685)** | (2,799) |
| | **33,840** | 31,281 |
| Other operating income | **1,956** | |
| Operating result | **35,796** | 31,281 |
| Financial income and expense | **(2,676)** | (2,969) |
| Result from associates | **19** | |
| Taxes | **(11,000)** | (9,760) |
| Result after taxes | **22,139** | 18,552 |

## Other information by cluster

### Year-end 2005

| | | | | Associates | | Investments | | Depreciation | |
|---|---|---|---|---|---|---|---|---|---|
| | Goodwill and intangible fixed assets from acquisition | Other assets | Liabilities | Associates | Result from associates | Property, plant and equipment and software | Goodwill and intangible fixed assets from acquisition | Property, and equipment and software | Goodwill and intangible fixed assets from acquisition |
| ERIKS Netherlands | 6,924 | 96,851 | 73,806 | | | 7,611 | | 2,912 | 57 |
| ERIKS Belgium | 10,085 | 60,433 | 52,582 | 52 | (19) | 1,335 | | 1,867 | |
| ERIKS Germany | 7,222 | 37,432 | 21,531 | | | 471 | 55 | 985 | 25 |
| ERIKS France | | 12,949 | 9,481 | | 38 | 224 | | 282 | |
| ERIKS United States | | 9,136 | 5,185 | | | 68 | | 72 | |
| ERIKS South-east Asia | | 3,709 | 2,051 | | | 54 | | 105 | |
| ERIKS group nv | 11,670 | (5,101) | (41,256) | | | 188 | | (120) | |
| | 35,901 | 215,409 | 123,380 | 52 | 19 | 9,951 | 55 | 6,103 | 82 |

**Year-end 2004**

| | | | | Associates | | Investments | | Depreciation | |
|---|---|---|---|---|---|---|---|---|---|
| | Goodwill and intangible fixed assets from acquisition | Other assets | Liabilities | Associates | Result from associates | , Property, plant and equipment and software | Goodwill and intangible fixed assets from acquisition | Property, plant and equipment and software | Goodwill and intangible fixed assets from acquisition |
| ERIKS Netherlands | 6,981 | 96,292 | 75,409 | | | 16,600 | 1,349 | 3,071 | 34 |
| ERIKS Belgium...... | 10,085 | 52,883 | 48,624 | 71 | | 2,812 | 770 | 2,032 | |
| ERIKS Germany.... | 7,192 | 35,305 | 20,381 | | | 582 | 2,066 | 750 | 75 |
| ERIKS France........ | | 11,374 | 7,636 | | | 185 | | 326 | |
| ERIKS United States................... | | 7,092 | 2,555 | | | 45 | | 83 | |
| ERIKS South-east Asia ...................... | | 2,651 | 1,634 | | | 46 | | 120 | |
| ERIKS group nv .... | 11,670 | 13,393 | (10,829) | | | | | (137) | |
| | 35,928 | 218,990 | 145,410 | 71 | | 20,270 | 4,185 | 6,245 | 109 |

## 2. Acquisition and disposal of group companies

No group companies were acquired or disposed of in 2005.

The following activities were acquired in 2004:

As of January 1, 2004, the activities of a distribution company in Roeselare, Belgium, were acquired via the Baudoin group for EUR 1.7 million, which included EUR 0.8 million in goodwill. Annual contribution to sales is EUR 6 million.

As of May 15, 2004, all activities of Freudenberg Simrit bv, Naarden were acquired via ERIKS bv for EUR 1.7 million, of which EUR 0.4 million related to assets and EUR 0.8 million to intangible fixed assets from acquisition. The remaining EUR 0.5 million was recognized as goodwill. Annual contribution to sales is EUR 2.6 million.

As of June 1, 2004 all trading activities in Germany of Steinebronn Industrietechnik GmbH were acquired. The investment totaled EUR 9.1 million, EUR 7.4 million of which related to identified assets and liabilities. The intangible fixed assets included in the purchase price for the assets amounted to EUR 0.4 million and the remaining goodwill to EUR 1.7 million. Annual contribution to sales is EUR 28 million.

As of January 1, 2004, the activities of ERIKS Aerospace, Inc. in the United States (annual sales USD 3.5 million) were disposed of for an amount of EUR 1.2 million with a minor book loss.

**Total overview of acquisitions:**

| | **2005** | 2004 |
|---|---|---|
| Paid to third parties.......................................................................... | **55** | 12,409 |
| Fair value of acquired assets and liabilities (see breakdown below).......... | | (9,449) |
| Goodwill paid..................................................................................... | **55** | 2,960 |

In accordance with the contractual stipulations an amount of EUR 55 was paid in 2005 as a supplement to the original 2004 purchase price.

Goodwill paid represents the value allocated to the acquired internal organization, infrastructure, profit-earning capacity and synergy.

The following assets and liabilities at fair value were involved in the acquisition of the aforementioned activities:

| | **2005** | 2004 |
|---|---|---|
| Liquid resources | | 713 |
| Property, plant and equipment | | 1,011 |
| Intangible fixed assets from acquisitions: | | |
| – brand name | | 375 |
| – clients | | 450 |
| – suppliers | | 400 |
| Subtotal | | 1,225 |
| Working capital | | 7,134 |
| Other accounts receivable and liabilities | | (634) |
| Net assets acquired | | 9,449 |

| | **2005** | 2004 |
|---|---|---|
| Purchase prices paid, including costs | **(55)** | (12,409) |
| Acquired liquid resources | | 713 |
| Cash flow on account of acquisition | **(55)** | (11,696) |
| Cash flow on account of disposal | | 1,230 |
| Net cash flow on account of acquisitions and disposal | **(55)** | (10,466) |

**3. Operating result**

Operating result includes the following personnel costs:

| | **2005** | 2004 |
|---|---|---|
| Wages and salaries | **78,472** | 73,959 |
| Social security costs | **16,806** | 16,654 |
| Defined contributions plan costs | **4,345** | 3,491 |
| Defined benefit plan costs | **167** | 290 |
| | **99,790** | 94,394 |
| Average number of group employees | **2,081** | 2,011 |
| Average salary costs per employee | **48.0** | 46.9 |

Operating result also includes the following items:

| | **2005** | 2004 |
|---|---|---|
| Depreciation and impairment of property, plant and equipment | **4,950** | 5,268 |
| Amortization of software | **1,153** | 977 |
| Amortization of intangible fixed assets from acquisitions | **82** | 50 |
| Gain on the sale of property, plant and equipment | **209** | 176 |
| Amounts on account of rents paid and operating lease | **9,912** | 9,325 |
| Audit fees | **533** | 521 |
| **Other operating income:** | | |
| Gain on the sale of office building | **1,956** | |

## 4. Remuneration of the board

### Remuneration of the Supervisory Board

| Number of stocks | Members | Remuneration 2005 | 2004 |
|---|---|---|---|
| 1,616 | J.L. Bouma | **35.0** | 35.0 |
| 0 | R.J.A. van der Bruggen (appointed as of May 2005) | **16.3** | |
| 0 | H.E. Jonker Roelants (resigned as of May 2005) | **14.0** | 28.0 |
| 0 | R.A.A. Oliemans | **28.0** | 28.0 |

All members of the Supervisory Board receive a fixed annual remuneration that does not depend on the results in any single year. No options on ERIKS group nv stocks were granted to the members of the Supervisory Board.

### Remuneration of the Executive Board

The current members of the Executive Board held a total of 7,469 ERIKS stocks at year-end 2005. No options on ERIKS group nv stocks were granted to members of the Executive Board. In 2005 the members of the Executive Board received the following salaries, bonuses and benefits:

| Number of stocks | Members | Gross salary | Bonus | Pension-contri-bution | Total 2005 | Total 2004 |
|---|---|---|---|---|---|---|
| 2,174 | J. van der Zouw (appointed as of May 2005) | 280 | 127 | 88 | **495** | 370 |
| | H. Kreuger (resigned as of May 2005) | 111 | 104 | 58 | **273** | 600 |
| 4,758 | J.G. de Boer | 222 | 101 | 72 | **395** | 370 |
| 537 | H.J. Maier | 222 | 101 | 67 | **390** | 341 |
| | M. Beckers (appointed as of May 2005) | 139 | 63 | 42 | **244** | |

Total remuneration and the composition of the remuneration package is determined based on the market rate for similar positions. Salaries are reviewed annually.

The level of bonuses depends on the following criteria:

– quantitative: achievement of the annual objectives for growth and profitability
– qualitative: realization of the main points of the policy plan.

In the year under review, almost all of the qualitative and quantitative objectives used to determine the bonus were realized. The remuneration package also includes contributions to pension plans and disability benefit schemes equivalent to about 30 percent of the fixed salary.

Upon his appointment in 2001 a variable remuneration scheme was agreed with the former chairman. The estimate for the payment which can be qualified as former director's remuneration amounts to EUR 0.6 million, EUR 0.2 million of which relates to the 2005 year under review.

## 5. Financial income and expense

This item can be broken down as follows:

| | 2005 | 2004 |
|---|---|---|
| **Financial income** | | |
| Movement in the fair value of derivative financial instruments | **61** | |
| **Financial expense** | | |
| Bank interest | **1,619** | 2,501 |
| Interest expense on loans | **895** | 151 |
| Interest expense on finance lease | **275** | 265 |
| Other financial (income) and expense | **(52)** | 52 |
| Total financial expense | **2,737** | 2,969 |
| Balance of financial income and expense | **2,676** | 2,969 |

The formal IFRS requirements for application of hedge accounting were not met in full in 2005. Consequently, all movements in the fair value of derivative financial instruments have been recognized in the statement of income.

## 6. Taxes

Tax on the result before taxes for 2005 and 2004 amounted to EUR 11,000 and EUR 9,760 respectively. The tax burden amounted to 33.2 percent in 2005 and 34.5 percent in 2004.

| | **2005** | 2004 |
|---|---|---|
| Weighted average of statutory rates for profit tax | **33.1** | 35.3 |
| Tax effect of offsettable losses not carried over | **0.9** | 0.8 |
| Tax effect of carry-over losses claimed | **(0.4)** | (0.7) |
| Effect of group financing | **(1.2)** | (1.7) |
| Expenses (not) deductible for tax purposes (permanent differences) | **0.8** | 0.1 |
| Effect on deferred taxes, including tax rate change | **(0.1)** | 0.8 |
| Taxes settled for previous years | **0.1** | (0.1) |
| Effective tax rate | **33.2** | 34.5 |

The average statutory tax rate is the average of the statutory taxation rates applicable in the countries in which the ERIKS group operates, weighted on the basis of the profits or losses on ordinary activities before tax in each of these countries.

## 7. Intangible fixed assets

Intangible fixed assets comprise goodwill, intangible fixed assets from acquisitions (brand name, client relations, supplier relations) and software.

Movements in intangible fixed assets in 2004 and 2005 were as follows:

| | **Goodwill** | **From acquisition** | **Software** | **Total** |
|---|---|---|---|---|
| **At January 1, 2004** | | | | |
| Cost | 31,855 | | 7,915 | **39,770** |
| Accumulated amortization and impairments | | | 6,138 | **6,138** |
| Balance sheet value | 31,855 | | 1,777 | **33,632** |
| **Movements in 2004** | | | | |
| Contribution from acquisition and disposal | | | 179 | **179** |
| Investments | 2,960 | 1,225 | 1,522 | **5,707** |
| Disposals | (3) | | (26) | **(29)** |
| Amortization and impairments | (59) | (50) | (977) | **(1,086)** |
| Exchange differences | | | 8 | **8** |
| **At December 31, 2004 / January 1, 2005** | | | | |
| Cost | 34,812 | 1,225 | 9,459 | **45,496** |
| Accumulated amortization and impairments | 59 | 50 | 6,976 | **7,085** |
| Balance sheet value | 34,753 | 1,175 | 2,483 | **38,411** |
| **Movements in 2005:** | | | | |
| Investments | 55 | | 577 | **632** |
| Disposals | | | (5) | **(5)** |
| Amortization | | (82) | (1,153) | **(1,235)** |
| Exchange differences | | | (3) | **(3)** |
| **At December 31, 2005** | | | | |
| Cost | 34,867 | 1,225 | 10,013 | **46,105** |
| Accumulated amortization and impairments | 59 | 132 | 8,114 | **8,305** |
| Balance sheet value | 34,808 | 1,093 | 1,899 | **37,800** |
| Amortization percentages in 2004 and 2005 | 0 | 6.7% | 20-33% | |

Goodwill relates to the acquisition of the activities stated under Acquisition and disposal of group companies. We refer to the notes to 'Acquisition and disposal of group companies' (see 2.) for a breakdown of intangible fixed assets from acquisition.

The annual impairment test was conducted based on discounted cash flow projections. The balance sheet value of goodwill has been allocated to the cash-generating units as follows:

| | 2005 | 2004 |
|---|---|---|
| ERIKS bv | 5,447 | 5,447 |
| Van Eyle & Ruygers-Schwartz bv | 6,142 | 6,142 |
| Elmeq (group) | 3,531 | 3,531 |
| Vemoflex nv | 3,486 | 3,486 |
| Baudoin nv | 9,314 | 9,314 |
| Cluster Germany | 6,888 | 6,833 |
| **Balance sheet value of goodwill at December 31** | 34,808 | 34,753 |

The recoverable amount of the cash-generating units in which goodwill has been capitalized is the higher of the cash-generating unit's fair value less costs to sell and its value in use. The value in use is determined on the basis of future cash flows from a three-year projection. Cash flows after three years are extrapolated taking a zero percent annual growth rate into account. The pre-tax discount rate applied to calculate the future cash flow is 9.7 percent (2004: 9.7 percent) The impairment tests did not lead to impairment.

## 8. Property, plant and equipment

The book values of property, plant and equipment can be broken down as follows:

| | Land and buildings | Machinery and equipment | Other operating assets | Total |
|---|---|---|---|---|
| **At January 1, 2004** | | | | |
| Cost | 31,070 | 18,956 | 35,409 | **85,435** |
| Accumulated depreciation and impairments | 8,523 | 15,479 | 28,252 | **52,254** |
| Balance sheet value | 22,547 | 3,477 | 7,157 | **33,181** |
| **Movements in 2004:** | | | | |
| Contribution from acquisition and disposal | | 202 | 597 | **799** |
| Investments | 12,931 | 1,221 | 4,596 | **18,748** |
| Book value disposals | (1,702) | (7) | (344) | **(2,053)** |
| Exchange differences | | (1) | (25) | **(26)** |
| Depreciation | (1,201) | (1,194) | (2,873) | **(5,268)** |
| **At December 31, 2004 / January 1, 2005** | | | | |
| Cost | 40,757 | 19,823 | 38,606 | **99,186** |
| Accumulated depreciation and impairments | 8,182 | 16,125 | 29,498 | **53,805** |
| Balance sheet value | 32,575 | 3,698 | 9,108 | **45,381** |
| **Movements in 2005:** | | | | |
| Contribution from acquisition and disposals | | | | |
| Investments | 3,627 | 800 | 4,947 | **9,374** |
| Book value disposals | (835) | (10) | (361) | **(1,206)** |
| Classification differences | 855 | (3) | (852) | |
| Exchange differences | 1 | 2 | 49 | **52** |
| | (1,120) | (999) | (2,831) | **(4,950)** |
| **At December 31, 2005** | | | | |
| Cost | 43,398 | 19,607 | 31,076 | **94,081** |
| Accumulated depreciation and impairments | 8,295 | 16,119 | 21,016 | **45,430** |
| Balance sheet value | 35,103 | 3,488 | 10,060 | **48,651** |

| | | | | |
|---|---|---|---|---|
| Depreciation percentages in 2004 and 2005 | 0-4% | 7-20% | 5-25% | |
| Balance sheet value finance lease at December 31, 2005 | 3,898 | | 220 | **4,118** |
| Balance sheet value finance lease at December 31, 2004 | 4,049 | | 406 | **4,455** |

The other operating assets are made up of transport and IT equipment, and office and warehouse fixtures and fittings. In the Netherlands, the construction of a new office building in Alkmaar was completed and the building is now in use. Construction costs totaled EUR 15.9 million. The building is included in 'land and buildings'. The buildings in Alkmaar and Roermond owned by the group have been used as mortgage collateral for a total amount of EUR 20 million.

No events or changes in circumstances have taken place that would lead to impairment.

**9. Associates**

This item concerns the following associate:

| | **2005** | 2004 |
|---|---|---|
| TradCom nv (25.0%) | **52** | 71 |

TradCom nv is a company for which an internet portal is managed.

**10. Inventories**

Inventories were made up of the following:

| | **2005** | 2004 |
|---|---|---|
| Trade stocks | **60,057** | 58,501 |
| Raw materials | **603** | 420 |
| Work in progress | **882** | 1,029 |
| | **61,542** | 59,950 |

**11. Accounts receivable trade and other receivables**

This item can be broken down as follows:

| | **2005** | 2004 |
|---|---|---|
| Accounts receivable trade | **79,069** | 76,504 |
| Less: provision | **(3,504)** | (3,393) |
| Accounts receivable trade | **75,565** | 73,111 |
| Other receivables and prepayments | **2,245** | 1,927 |
| Other receivables | **2,245** | 1,927 |

The fair values of the receivables is the same as the reported balance sheet values.

**12. Liquid resources**

This item represents for the most part an account considered to be a stockholders' equity account for tax purposes and positive bank balances administered for the most part in cash pools. All liquid resources are freely available.

The following items are applicable for the purpose of the cash flow statement:

| | **2005** | 2004 |
|---|---|---|
| Liquid resources | **22,034** | 32,765 |
| Banks - current account (see 22.) | **(10,682)** | (20,028) |
| | **11,352** | 12,737 |

## 13. Stockholders equity

### Subscribed and paid-up capital stock

In May 2005, the common stocks of par value EUR 1.= were split into two common stocks of par value EUR 0.50. The subscribed and paid-up capital stock at year-end 2005 consists of 7,937,581 common stocks of EUR 0.50 par value each, or EUR 3,968,791.

### Authorized capital stock

The authorized capital stock amounts to EUR 19 million and consists of:

- 15 million common stocks of EUR 0.50 par value each
- 4 million cumulative financially preferred stocks of EUR 0.50 par value each
- 19 million preferred stock of EUR 0.50 par value each.

### Development of the number of stocks issued and the average number of stocks issued

The number of stocks in 2004 has been converted to a par value of EUR 0.50 each for comparison purposes.

| | **2005** | 2004 |
|---|---|---|
| Number of common stocks issued at January 1 | **7,774,078** | 7,503,486 |
| Stock dividend | **163,503** | 270,592 |
| Number of common stocks issued at December 31 | **7,937,581** | 7,774,078 |
| Average number of common stocks issued | **7,869,455** | 7,661,332 |

The paid-in surplus reserve can be qualified as paid-up capital.

## 14. Other reserves

Other reserves comprise the foreign exchange difference reserve on account of exchange gains and losses on the net asset value of foreign participating interests and the share in the permanent financing of foreign participating interests. Movements were as follows:

### Exchange difference reserve

| | |
|---|---|
| **At January 1, 2004** | |
| **Movements** | |
| Exchange differences | (436) |
| **At December 31, 2004 / January 1, 2005** | (436) |
| **Movements** | |
| Exchange differences | 697 |
| **At December 31, 2005** | **261** |

The exchange difference reserve is not at the free disposal of stockholders.

### 15. Retained earnings

Movements were as follows:

| | **2005** | 2004 |
|---|---|---|
| **At January 1** | **103,957** | 88,669 |
| Profit appropriation: | | |
| – cash dividend | **(3,032)** | (1,673) |
| – stock dividend | **(82)** | (135) |
| – costs associated with the issue of stock dividend | **(57)** | (69) |
| Sub-total after profit appropriation | **100,786** | 86,792 |
| Result for financial year | **22,059** | 18,490 |
| **At December 31** | **122,845** | 105,282 |
| IFRS adjustment as of January 1, 2005 | | |
| – fair value of derivative financial instruments | | (2,022) |
| – less: tax effect | | 697 |
| **At January 1, 2005** | | 103,957 |

### 16. Earnings per stock

Earnings at the disposal of stockholders per stock are as follows:

| | **2005** | 2004 |
|---|---|---|
| Average number of stocks issued | **7,869,455** | 7,661,332 |
| Net earnings per stock (in euro) | **2.80** | 2.41 |

### 17. Minority interest

Movements in this item were as follows:

| | **2005** | 2004 |
|---|---|---|
| **Balance at January 1** | **299** | 237 |
| add: share in result | **80** | 62 |
| **Balance at December 31** | **379** | 299 |

### 18. Loans

Loans comprise:

| **2005** | **Total** | **Long-term** | **Short-term** |
|---|---|---|---|
| – mortgage credit facility | **19,750** | **19,250** | **500** |
| – loans from credit institutions | **12,500** | **6,000** | **6,500** |
| – lease obligations | **4,110** | **3,776** | **334** |
| – other loans | **1,098** | **549** | **549** |
| | **37,458** | **29,575** | **7,883** |

| 2004 | Total | Long-term | Short-term |
|---|---|---|---|
| – mortgage credit facility | 15,000 | 14,750 | 250 |
| – loans from credit institutions | 20,500 | 15,500 | 5,000 |
| – lease obligations | 4,472 | 4,098 | 374 |
| – other loans | 1,668 | 1,108 | 560 |
| | 41,640 | 35,456 | 6,184 |

**Mortgage credit facility**

At year-end 2005 two loans were withdrawn under mortgage credit facilities originally totaling EUR 20.0 million. The most important conditions that apply to these facilities are:

| | | |
|---|---|---|
| Principal per facility | EUR 10,000 | EUR 10,000 |
| Balance at year-end | EUR 9,750 | EUR 10,000 |
| Term | 20 years to 2025 | 20 years to 2024 |
| Interest period | 3 months | 3 months |
| Interest | euribor + 0.85% | euribor + 0.85% |
| Repayment | Linear, quarterly | Interest only |

Business premises in Alkmaar and Roermond have been used as mortgage collateral. Financial ratios relating to interest cover and solvency have been agreed, which are amply met. An amount of EUR 17,250 has a remaining term longer than 5 years.

**Loans from credit institutions**

This refers to a stand-by facility, originally EUR 15.0 million. The most important conditions of this facility are:

| | **Senior-debt loan** | **Subordinated loan** |
|---|---|---|
| Principal per share | EUR 15,000 | |
| Balance at year-end | EUR 4,500 | |
| Term | 5 years to 2008 | 5 years to 2008 |
| Interest period | 1, 3, 6 or 12 months | 1, 3, 6 or 12 months |
| Interest | euribor + 1.25% | euribor + 2.75% |
| Repayment | Linear, half-yearly | First 3 years interest only, then 1/5 per year and remainder at end of term |

This stand-by facility has been drawn as a senior-debt loan. Half of the outstanding part of the senior-debt loan can be converted into a subordinated loan. This facility has not yet been used. A total of EUR 6.0 million was repaid in 2005. At year-end 2005 the balance of this loan was EUR 4.5 million, which is included under short-term repayment obligations. The reason for this is that the entire loan will be repaid in 2006, contrary to the repayment schedule.

Loans from credit institutions also included a medium-term loan agreed with a credit institution in 2004 of EUR 10.0 million of which EUR 2.0 million is included under short-term repayment obligations. The most important conditions of this loan are:

| | |
|---|---|
| Principal | EUR 10,000 |
| Balance at year-end | EUR 8,000 |
| Term | 5 years to 2009 |
| Interest period | 3 or 6 months |
| Interest | euribor + 0.80% |
| Repayment | Linear, half-yearly |

Certain financial ratios relating to interest cover and solvency have been agreed for these loans from credit institutions, which are amply met.

**Lease obligations**

Lease obligations relate to the financing of a building (EUR 3,925, repayment up to an amount of EUR 2,269 in the form of annuities until year-end 2014 with the option of purchasing the building in the interim) and computer hardware (EUR 185 to mid-2006). Average interest is 5 percent.

The repayment installments on the lease obligation can be specified as follows:

| | **2005** | 2004 |
|---|---|---|
| Within 1 year | **334** | 374 |
| Between 1 and 5 years | **677** | 817 |
| After 5 years | **3,099** | 3,281 |
| | **4,110** | 4,472 |

## 19. Employee benefits

Employee benefits can be broken down as follows:

| | **2005** | 2004 |
|---|---|---|
| Present value of expected and projected pension payments | **5,241** | 5,181 |
| Fair value of plan assets | **2,782** | 2,684 |
| Net obligations | **2,459** | 2,497 |
| Unrecognized actuarial differences | **(66)** | |
| Defined benefit plan obligations | **2,393** | 2,497 |
| Early retirement obligations | **1,861** | 1,744 |
| Jubilee obligations | **472** | 469 |
| | **4,726** | 4,710 |
| **Presentation in the balance sheet:** | | |
| – Short-term | **611** | 171 |
| – Long-term | **4,115** | 4,539 |

Movements in the valuation of the defined benefit plan obligations were as follows:

| | **2005** | 2004 |
|---|---|---|
| **Balance at January 1** | **2,497** | 2,547 |
| Contributions paid by employer | **(337)** | (340) |
| Costs recognized in result | **167** | 290 |
| Actuarial differences | **66** | |
| **Balance at December 31** | **2,393** | 2,497 |

The costs recognized in the statement of income can be broken down as follows:

| | **2005** | 2004 |
|---|---|---|
| Current service pension costs, less distributions made to participants | **112** | 217 |
| Interest on obligations | **231** | 201 |
| Expected return on plan assets | **(98)** | (128) |
| Result from changes in pension plan | **(78)** | |
| | **167** | 290 |

The following actuarial assumptions were made when calculating the defined benefit plan obligations:

| | **2005** | 2004 |
|---|---|---|
| Discount rate at December 31 | **5.25%** | 5.25% |
| Expected return on plan assets | **4.5%** | 4.5% |
| Future salary increases, including inflation adjustment | **4.0%** | 4.0% |

### 20. Other provisions

Other provisions can be broken down as follows:

| | **Reorga-nization** | **Other** | **2005 Total** | Reorga-nization | Other | 2004 Total |
|---|---|---|---|---|---|---|
| **Balance at January 1** | **1,277** | **1,866** | **3,143** | 1,228 | 2,535 | 3,763 |
| Movement due to acquisition / disposal | | | | 135 | | 135 |
| Addition | **80** | **71** | **151** | 971 | 114 | 1,085 |
| Withdrawal | **(782)** | **(907)** | **(1,689)** | (1,057) | (783) | (1,840) |
| **Balance at 31 December** | **575** | **1,030** | **1,605** | 1,277 | 1,866 | 3,143 |
| **Presentation in balance sheet:** | | | | | | |
| – Short-term | **381** | **171** | **552** | 626 | 1,006 | 1,632 |
| – Long-term | **194** | **859** | **1053** | 651 | 860 | 1,511 |

The other provisions refer to guarantees and product liability.

### 21. Deferred taxes

Based on the expected realization term, deferred taxes can be specified as follows:

| | **2005** | 2004 |
|---|---|---|
| **Deferred tax assets** | | |
| Short-term < 1 year | **313** | 1,150 |
| Long-term > 1 year | **3,108** | 2,152 |
| | **3,421** | 3,302 |
| **Deferred tax liabilities** | | |
| Short-term < 1 year | **396** | 851 |
| Long-term > 1 year | **6,838** | 5,914 |
| | **7,234** | 6,765 |

**Off-settable losses**

At year-end the losses off-settable against tax and their valuation can be broken down as follows:

| | **2005** | 2004 |
|---|---|---|
| Carry-over period within 1 year | **417** | 500 |
| Carry-over period between 1 and 5 years | **1,633** | 1,801 |
| Carry-over period after 5 years | **1,991** | 939 |
| Total off-settable losses | **4,041** | 3,240 |
| Of which valued as deferred tax asset | **64** | 42 |

### 22. Bank overdrafts

This item represents short-term loans with financial institutions amounting to EUR 6,000 (2004: EUR 17,250) and current account overdrafts of EUR 10,682 (2004: EUR 20,028). The interest on short-term loans has been fixed for the longer term through interest rate swaps.

Five banks have provided a total of EUR 89.6 million in unsecured credit facilities.

### 23. Other short-term liabilities

Other short-term liabilities comprised:

| | **2005** | 2004 |
|---|---|---|
| Other taxes and social security costs | **7,161** | 6,592 |
| Other short-term liabilities and accruals | **15,339** | 16,483 |
| | **22,500** | 23,075 |

### 24. Financial instruments

Derivative financial instruments such as forward currency contracts and interest rate and currency swaps are used to control the cash, interest rate and foreign exchange rate risks run. These contracts are never used for speculative purposes. The policy focuses on full hedging of interest rate and currency positions.

#### Interest rate risk management

The ERIKS group uses interest rate swaps to achieve the appropriate risk profile regarding fixed and variable interest rate exposure. This is important because the interest rate level determines the cost of borrowed capital. At the present low interest rates, the policy is geared to fixing interest rates for the medium to long term.

#### Exchange rate risk management

Forward currency contracts and currency options are entered into for the purpose of hedging major risks arising from purchasing and sales transactions.

The fair value of derivative financial instruments at the balance sheet date is as follows:

| | **2005** | 2004 |
|---|---|---|
| Interest rate swap | **1,695** | |
| Other derivative financial instruments | **266** | |
| | **1,961** | |
| Of which short-term (< 1 year) | **221** | |

#### Interest rate swaps

The ERIKS group applies interest rate swaps to control interest rate risks; the interest on the existing (strategic) financing requirements is fixed for the longer term.

The principal amounts linked to the interest rate swap contracts in place at year-end total EUR 64.8 million (2004: EUR 65.0 million and USD 3.1 million) at fixed interest rates varying from 2.7 percent to 4.5 percent (2004: 3.1 to 5.8 percent). Interest received is variable.

#### Other derivative financial instruments

The group uses forward currency contracts and currency options to hedge exchange rate risks. The fair value of the other outstanding derivative financial instruments amounts to EUR -266.

### 25. Rights and liabilities not included in the balance sheet

The following rights and liabilities were not included in the balance sheet:

| | **2005** | 2004 |
|---|---|---|
| **Contingent liabilities** | | |
| Guarantees and security deposits for banks and rental of business premises | **602** | 876 |
| **Financial liabilities** | | |
| Concern investment liabilities entered into for property, plant and equipment | | 4,529 |
| **Rental and operating lease obligations** | | |
| These mainly relate to office buildings and vehicles | | |
| – terms falling due within 1 year | **9,085** | 8,750 |
| – terms falling due between 1 and 5 years | **19,254** | 20,000 |
| – terms falling due after 5 years | **5,900** | 6,985 |

### 26. Related-party transactions

The group companies, associates, the ERIKS pension fund and the Supervisory and Executive Board are related parties of the ERIKS group.

See pages 118 and 119 for a list of group companies and associates.

See the notes under point 4 for a specification of remuneration of the Board.

The 2005 statement of income reflects an amount of EUR 2.4 million relating to pension contributions paid to the ERIKS pension fund by the affiliated (Dutch) companies.

### 27. Events after the balance sheet date

The trade activities of Acona Hydraulik-Systeme GmbH established in Germany were acquired at January 1, 2006. Annual contribution to sales is EUR 3.0 million.

Alkmaar, February 27, 2006

**The Executive Board**

J. van der Zouw
J.G. de Boer
H.J. Maier
M. Beckers

**Supervisory Board**

J.L. Bouma
R.J.A. van der Bruggen
R.A.A. Oliemans

## SCHEDULES REFLECTING FIRST-TIME ADOPTION OF IFRS

The 2005 financial statements are the first ones that have been drawn up in accordance with IFRS. The accounting policies have been applied to the financial data for 2005 as well as to the comparative figures for 2004.

The following schedules and notes provide details on the transition from Dutch GAAP to IFRS and the effects thereof on the balance sheet and statement of income.

The operational cash flow is unaffected by the transition to IFRS.

A. Reconciliation IFRS opening balance sheet at January 1, 2004 (transition date)
B. Reconciliation IFRS balance sheet at December 31, 2004 and January 1, 2005 respectively
C. Reconciliation of statement of income for 2004
D. Reconciliation of cash flow statement 2004
E. Further notes to the opening balance sheet at January 1, 2004 (transition date)
F. Reconciliation of stockholders' equity at January 1, 2004, December 31, 2004 and January 1, 2005.

## A. RECONCILIATION IFRS OPENING BALANCE SHEET AT JANUARY 1, 2004 (TRANSITION DATE)

| In EUR thousands | Dutch GAAP at December 31, 2003 | Effect of transition to IFRS: Reclassification | Effect of transition to IFRS: Adjustment | IFRS at January 1, 2004 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Fixed assets** | | | | |
| Intangible fixed assets | 31,855 | | 1,777 | 33,632 |
| Property, plant and equipment | 34,958 | | (1,777) | 33,181 |
| Associates | 282 | | | 282 |
| Deferred tax assets | | 1,398 | 1,939 | 3,337 |
| Total fixed assets | 67,095 | 1,398 | 1,939 | 70,432 |
| **Current assets** | | | | |
| Inventories | 50,431 | | 1,408 | 51,839 |
| Accounts receivable trade | 64,321 | | | 64,321 |
| Other receivables | 3,681 | (1,398) | | 2,283 |
| Liquid resources | 18,079 | | | 18,079 |
| Total current assets | 136,512 | (1,398) | 1,408 | 136,522 |
| **Total ASSETS** | 203,607 | | 3,347 | 206,954 |
| **STOCKHOLDERS' EQUITY AND LIABILITIES** | | | | |
| **Stockholders' equity** | | | | |
| Stock capital | 3,752 | | | 3,752 |
| Paid-in surplus | 476 | | | 476 |
| Other reserves | 75,548 | (75,548) | | |
| Retained earnings | 11,984 | 75,548 | 1,137 | 88,669 |
| Total | 91,760 | | 1,137 | 92,897 |
| Minority interest | 234 | | 3 | 237 |
| Total stockholders' equity | 91,994 | | 1,140 | 93,134 |
| **Long-term liabilities** | | | | |
| Loans | 12,169 | | | 12,169 |
| Derivative financial instruments | | | | |
| Employee benefits | | 2,115 | 1,991 | 4,106 |
| Other provisions | 12,389 | (7,643) | (983) | 3,763 |
| Deferred tax liabilities | | 5,528 | 597 | 6,125 |
| Total long-term liabilities | 24,558 | | 1,605 | 26,163 |
| **Short-term liabilities** | | | | |
| Bank overdrafts | 36,459 | | | 36,459 |
| Repayment obligations on loans | 4,953 | | | 4,953 |
| Suppliers | 24,916 | | | 24,916 |
| Corporate income tax | | 184 | | 184 |
| Other short-term liabilities | 20,727 | (184) | 602 | 21,145 |
| Total short-term liabilities | 87,055 | | 602 | 87,657 |
| Total liabilities | 111,613 | | 2,207 | 113,820 |
| **Total STOCKHOLDERS' EQUITY AND LIABILITIES** | 203,607 | | 3,347 | 206,954 |

## B. RECONCILIATION IFRS BALANCE SHEET AT DECEMBER 31, 2004 AND JANUARY 1, 2005 RESPECTIVELY

| In EUR thousands | Effect of transition to IFRS at December 31, 2004 | | | | Effect of transition to IFRS at January 1, 2005 | |
|---|---|---|---|---|---|---|
| | Dutch GAAP | Reclas- sification | Adjust ment | IFRS at Decem- ber 31, 2004 | Adjust- ment | IFRS at January 1, 2005 |
| **ASSETS** | | | | | | |
| **Fixed assets** | | | | | | |
| Intangible fixed assets | 33,263 | | 5,148 | 38,411 | | **38,411** |
| Property, plant and equipment | 47,864 | | (2,483) | 45,381 | | **45,381** |
| Associates | 71 | | | 71 | | **71** |
| Deferred tax assets | | 1,363 | 1,939 | 3,302 | **697** | **3,999** |
| Total fixed assets | 81,198 | 1,363 | 4,604 | 87,165 | **697** | **87,862** |
| **Current assets** | | | | | | |
| Inventories | 58,292 | | 1,658 | 59,950 | | **59,950** |
| Accounts receivable trade | 73,111 | | | 73,111 | | **73,111** |
| Other receivables | 3,290 | (1,363) | | 1,927 | | **1,927** |
| Liquid resources | 12,804 | 19,961 | | 32,765 | | **32,765** |
| Total current assets | 147,497 | 18,598 | 1,658 | 167,753 | | **167,753** |
| **Total ASSETS** | 228,695 | 19,961 | 6,262 | 254,918 | **697** | **255,615** |
| **STOCKHOLDERS' EQUITY AND LIABILITIES** | | | | | | |
| **Stockholders' equity** | | | | | | |
| Stock capital | 3,887 | | | 3,887 | | **3,887** |
| Paid-in surplus | 476 | | | 476 | | **476** |
| Other reserves | 85,219 | (85,655) | | (436) | | **(436)** |
| Retained earnings | 15,746 | 85,655 | 3,881 | 105,282 | **(1,325)** | **103,957** |
| Total | 105,328 | | 3,881 | 109,209 | **(1,325)** | **107,884** |
| Minority interest | 296 | | 3 | 299 | | **299** |
| Total stockholders' equity | 105,624 | | 3,884 | 109,508 | **(1,325)** | **108,183** |
| **Long-term liabilities** | | | | | | |
| Loans | 35,456 | | | 35,456 | | **35,456** |
| Derivative financial instruments | | | | | **2,022** | **2,022** |
| Employee benefits | | 3,018 | 1,692 | 4,710 | | **4,710** |
| Other provisions | 12,412 | (8,647) | (622) | 3,143 | | **3,143** |
| Deferred tax liabilities | | 5,629 | 1,136 | 6,765 | | **6,765** |
| Total long-term liabilities | 47,868 | | 2,206 | 50,074 | **2,022** | **52,096** |
| **Short-term liabilities** | | | | | | |
| Bank overdrafts | 17,317 | 19,961 | | 37,278 | | **37,278** |
| Repayment obligations on loans | 6,184 | | | 6,184 | | **6,184** |
| Suppliers | 25,887 | | | 25,887 | | **25,887** |
| Profit taxes | | 2,912 | | 2,912 | | **2,912** |
| Other short-term liabilities | 25,815 | (2,912) | 172 | 23,075 | | **23,075** |
| Total short-term liabilities | 75,203 | 19,961 | 172 | 95,336 | | **95,336** |
| Total liabilities | 123,071 | 19,961 | 2,378 | 145,410 | **2,022** | **147,432** |
| **Total STOCKHOLDERS' EQUITY AND LIABILITIES** | 228,695 | 19,961 | 6,262 | 254,918 | **697** | **255,615** |

## C. RECONCILIATION OF STATEMENT OF INCOME FOR 2004

| In EUR thousands | Dutch GAAP 2004 | Effect of transition to IFRS Reclas-sification | Adjust-ment | IFRS 2004 |
|---|---|---|---|---|
| Net sales | 423,393 | | | 423,393 |
| Cost of sales | 313,325 | (880) | (250) | 312,195 |
| Gross profit on sales | 110,068 | 880 | 250 | 111,198 |
| Sales expenses | 69,131 | | | 69,131 |
| General administrative expenses | 10,968 | 109 | (291) | 10,786 |
| Amortization of intangible fixed assets, excluding software | 2,777 | (109) | (2,668) | |
| Total expenses | 82,876 | | (2,959) | 79,917 |
| | 27,192 | 880 | 3,209 | 31,281 |
| Other operating income | | | | |
| Operating result | 27,192 | 880 | 3,209 | 31,281 |
| Result financial income and expense | (2,089) | (880) | | (2,969) |
| Result from associates | | | | |
| Result before taxes | 25,103 | | 3,209 | 28,312 |
| Taxes | 9,295 | | 465 | 9,760 |
| Result after taxes | 15,808 | | 2,744 | 18,552 |
| Minority interest | (62) | | | (62) |
| Result at the disposal of stockholders | 15,746 | | 2,744 | 18,490 |

## D. RECONCILIATION OF CASH FLOW STATEMENT 2004

| In EUR millions | | Effect of transition to IFRS | | |
|---|---|---|---|---|
| | Dutch GAAP 2004 | Reclas-sification | Adjust-ment | IFRS 2004 |
| **Operating activities** | | | | |
| Result after taxes | 15,746 | 62 | 2,744 | 18,552 |
| Adjustments for: | | | | |
| Depreciation, including amortization of software | 6,245 | | | 6,245 |
| Amortization of other intangible fixed assets | 2,777 | | (2,668) | 109 |
| **Cash flow from ordinary activities** | 24,768 | 62 | 76 | 24,906 |
| Financial income and expense | | 2,969 | | 2,969 |
| Profit taxes | | 9,295 | 465 | 9,760 |
| Movements in working capital | (10,126) | 418 | (250) | (9,958) |
| Other accounts receivable and short-term liabilities, excluding repayment obligations on loans | 4,945 | | (2,574) | 2,371 |
| Movement in provisions | (112) | | (291) | (403) |
| Minority interest | 62 | (62) | | |
| **Cash flow generated from operating activities** | **19,537** | **12,682** | **(2,574)** | **29,645** |
| Financial expense paid | | (2,969) | (154) | (3,123) |
| Profit taxes paid | | (9,295) | 2,728 | (6,567) |
| **Net cash flow from operating activities** | **19,537** | **418** | | **19,955** |
| **Investing activities** | | | | |
| Investments in property, plant and equipment and software | (20,270) | 4,472 | | (15,798) |
| Disposals of property, plant and equipment and software | 2,079 | 18 | | 2,097 |
| Acquisition of associates | (12,409) | 713 | | (11,696) |
| Disposal of associate | 1,230 | | | 1,230 |
| Movement in loan to associate | 211 | | | 211 |
| **Cash flow from investing activities** | **(29,159)** | **5,203** | | **(23,956)** |
| **Financing activities** | | | | |
| Withdrawals on loans, including repayment obligations (Dutch GAAP is net) | 24,518 | 482 | | 25,000 |
| Repayments on loans, including repayment obligations | | (4,954) | | (4,954) |
| Repayment bank overdrafts - current account overdrafts | | (20,000) | | (20,000) |
| Cash dividend and costs paid | (1,742) | | | (1,742) |
| **Cash flow from financing activities** | **22,776** | **(24,472)** | | **(1,696)** |
| **Cash flow on balance** | 13,154 | (18,851) | | (5,697) |
| **Liquid resources and bank overdrafts at January 1** | (18,380) | 37,250 | | 18,870 |
| Transfer of liquid resources from acquisition/ disposal associates | 713 | (713) | | |
| Exchange differences | | (436) | | (436) |
| **Liquid resources and bank overdrafts at December 31** | **(4,513)** | **17,250** | | **12,737** |

## E. FURTHER NOTES TO THE IFRS OPENING BALANCE SHEET AT JANUARY 1, 2004 (TRANSITION DATE)

### E1. Intangible assets

**Goodwill and intangible fixed assets from acquisitions**

The ERIKS group has applied IFRS 3 to all acquisitions made on or after January 1, 2004 (the IFRS transition date). A number of intangible fixed assets have been identified during the financial year which relate to two acquisitions made in 2004 and which have been separately recognized in the balance sheet, reducing goodwill. Various components of intangible fixed assets from acquisition are amortized from the date of acquisition (June 2004) based on the expected useful live.

In accordance with IFRS 3 remaining goodwill is no longer periodically amortized as of January 1, 2004 (under Dutch GAAP goodwill was amortized over its expected useful life of 15 years).

The carrying amount of goodwill under Dutch GAAP at December 31, 2003 was taken and qualified as cost under IFRS at January 1, 2004. As a consequence, the IFRS result over 2004 is EUR 2.7 million higher than the Dutch GAAP result.

Under IFRS, goodwill must be tested for impairment each year. The impairment test conducted did not lead to impairment in 2004.

**Software**

On the transition date January 1, 2004 a total of EUR 1.8 million of software was reclassified from property, plant and equipment to intangible fixed assets in accordance with IFRS.

### E2. Property, plant and equipment

With respect to IFRS 1 (first-time adoption of IFRS), the ERIKS group decided not to revalue (individual components) of property, plant and equipment to fair value. Therefore, the carrying amount at December 31, 2003 under Dutch GAAP was taken and recognized as the carrying amount under IFRS. In accordance with IAS 16 the estimated useful life of the different components identified was re-evaluated at January 1 and December 31, 2004.

### E3. Inventories

The interpretation of purchasing costs under IFRS is broader than under Dutch GAAP. Application of IFRS has resulted in a higher valuation of inventories. Taking deferred taxes into account an amount of EUR 0.9 million has been added to stockholders' equity at January 1, 2004.

### E4. Deferred tax assets and liabilities

Under Dutch GAAP the tax component of unclaimed offsettable losses was capitalized if there was more than reasonable assurance that the losses could indeed be set off. IFRS has had no effect on the valuation. Deferred tax assets and liabilities are no longer offset under IFRS as was the case under Dutch GAAP.

### E5. Stockholders' equity

An exception under IFRS 1 was made for the first-time adoption of IFRS in that the total accumulated currency translation differences of all foreign group companies with a reporting currency other than the euro was set at nil as per the transition date of January 1, 2004. Under Dutch GAAP the amount recognized in stockholders' equity each year was not accumulated.

### E6. Employee benefits

Under Dutch GAAP pension costs are recognized based on contributions charged. As per the transition date of January 1, 2004, IAS 19 is applied to a number of defined benefit plans applicable within the group. With effect from that date, a supplementary pension provision of EUR 1.0 million was formed and charged to stockholders' equity net of deferred taxes.

Furthermore, obligations on account of jubilee benefits have been recognized under employee benefits in accordance with IFRS (IAS 19). A provision of EUR 0.5 million was calculated at January 1, 2004 based on actuarial principles and charged to stockholders' equity net of deferred taxes.

### E7. Other provisions

Under IAS 37 it is no longer permitted to recognize provisions for major maintenance. The effect of the release of the maintenance provision under Dutch GAAP to stockholders equity amounts to EUR 0.6 million at January 1, 2004, taking (deferred) taxes into account.

### E8. Derivative financial instruments

With a view to the derivative financial instruments used within the ERIKS group the choice was made to apply IAS 32 and IAS 39 as of January 1, 2005. Compared to Dutch GAAP this has led to recognition of the fair value of derivative financial instruments in the balance sheet as a reduction of stockholders' equity (EUR 1.3 million) at January 1, 2005, taking deferred taxes into account. Under Dutch GAAP derivative financial instruments were not recognized in the balance sheet at fair value.

## F. RECONCILIATION OF STOCKHOLDERS' EQUITY AT JANUARY 1, 2004, DECEMBER 31, 2004 AND JANUARY 1, 2005

| **In EUR thousands** | **January 1, 2004** | **December 31, 2004** | **January 1, 2005** |
|---|---|---|---|
| Total stockholders' equity in accordance with Dutch GAAP | **91,760** | **105,328** | **105,328** |
| Discontinued goodwill amortization | | 2,668 | **2,668** |
| Adjustments to valuation of inventories | 1,408 | 1,658 | **1,658** |
| Employee benefits | (1,991) | (1,691) | **(1,691)** |
| Other provisions - maintenance provision | 983 | 622 | **622** |
| Valuation of derivative financial instruments | | | **(2,022)** |
| Other adjustments | (605) | (178) | **(178)** |
| Tax effects | 1,342 | 802 | **1,499** |
| Subtotal of differences in stockholders' equity due to IFRS | 1,137 | 3,881 | **2,556** |
| Total stockholders' equity in accordance with IFRS | **92,897** | **109,209** | **107,884** |

## CORPORATE STATEMENT OF INCOME

| In EUR thousands | 2005 | 2004 |
|---|---|---|
| Net result of group companies | **21,197** | 18,155 |
| Other income and expense after taxes | **862** | 335 |
| Net result | **22,059** | 18,490 |

## CORPORATE BALANCE SHEET

**Before proposed appropriation of profit**

| In EUR thousands | Ref. | December 31, 2005 | | December 31, 2004 | |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Fixed assets** | | | | | |
| **Intangible fixed assets** | 5. | | **11,752** | | 11,670 |
| **Property, plant and equipment** | | | **137** | | 111 |
| **Financial fixed assets** | | | | | |
| Group companies | 6. | **79,950** | | 73,539 | |
| Loans to group companies | 6. | **66,320** | | 80,885 | |
| Deferred tax assets | | **821** | | 742 | |
| | | | **147,091** | | 155,166 |
| **Current assets** | | | | | |
| Receivables | 7. | **442** | | 119 | |
| Liquid resources | | **4,849** | | 7,167 | |
| | | | **5,291** | | 7,286 |
| **Total ASSETS** | | | **164,271** | | 174,233 |
| **STOCKHOLDERS' EQUITY AND LIABILITIES** | | | | | |
| **Stockholders' equity** | 8. | | | | |
| Stock capital | | **3,969** | | 3,887 | |
| Paid-in surplus | | **476** | | 476 | |
| Exchange difference reserve | | **261** | | (436) | |
| Other reserves | | **100,786** | | 89,536 | |
| Result for the financial year | | **22,059** | | 15,746 | |
| | | | **127,551** | | 109,209 |
| **Provisions** | 9. | | **1,615** | | 3,326 |
| **Long-term liabilities** | | | | | |
| Loans | | **6,000** | | 15,500 | |
| Derivative financial instruments | | **1,961** | | | |
| | | | **7,961** | | 15,500 |
| **Short-term liabilities** | | | | | |
| Bank overdrafts | | **17,304** | | 37,428 | |
| Repayment obligations on loans | | **6,500** | | 5,000 | |
| Profit taxes | | **1,295** | | 985 | |
| Other short-term liabilities | 10. | **2,045** | | 2,785 | |
| | | | **27,144** | | 46,198 |
| **Total STOCKHOLDERS' EQUITY AND LIABILITIES** | | | **164,271** | | 174,233 |

## NOTES TO THE CORPORATE ACCOUNTS

**In EUR thousands**

### 1. Accounting policies

The ERIKS group nv corporate financial statements are prepared in accordance with the statutory provisions included in Part 9 of Book 2 of the Netherlands Civil Code. The option granted in Section 362 (8) of Book 2 of the Netherlands Civil Code to apply the same accounting policies to the corporate accounts as those of the consolidated accounts is invoked.

### 2. Changes in accounting policies

With effect from the 2005 financial year, ERIKS group nv prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. For the consolidated financial statements the first-time adoption of these accounting policies has led to changes in the accounting policies for and valuation of assets, provisions and liabilities (the 'IFRS 1 adjustments'). The majority of these IFRS 1 adjustments were implemented in the comparative figures at January 1, 2004 with retrospective effect, except for changes relating to financial instruments which were implemented at January 1, 2005.

ERIKS group nv has opted to apply the accounting policies for the consolidated financial statements to the corporate financial statements as well with effect from 2005. Consequently, stockholders' equity and result after taxes in the corporate accounts are, in principle, equal to stockholders' equity in the consolidated accounts. This principle is generally accepted in the Netherlands. Another benefit is the simplified reporting basis since ERIKS group nv now only needs to apply one set of accounting policies for its (consolidated) associates.

The effects for the 2004 financial statements were as follows:

- a change in stockholders' equity at January 1, 2004 and December 31, 2004 following the IFRS 1 adjustments;
- a change in the result for 2004 following the IFRS 1 adjustments;
- a change in stockholders' equity at January 1, 2005 following the application of accounting policies for financial instruments.

The effects of the changes in accounting policies on equity and result are the same as described in 'Schedules reflecting first-time adoption of IFRS'.

### 3. Compilation of stockholders' equity

With effect from January 1, 2005 the applicable statutory provisions relating to forming and keeping statutory and revaluation reserves were amended. As a result of these statutory provisions as well as of the adjusted accounting policies stockholders' equity is now compiled differently. We refer to the notes to stockholders' equity for further details.

### 4. Accounting policies

The accounting policies used for the corporate financial statements are the same as those used for the consolidated financial statements. We refer to accounting policies stated in the consolidated financial statements if no further accounting policies are provided.

Further to Section 402, Part 9 of Book 2 of the Netherlands Civil Code it suffices if the statement of income states the 'net result of group companies' and 'other income and expenses after taxes', the latter represents the income and expenses of ERIKS group nv.

#### Intangible fixed assets

Intangible fixed assets comprise goodwill and software.

Goodwill is determined in accordance with the accounting policies applicable to the consolidated financial statements. Goodwill included in the corporate balance sheet concerns goodwill relating to direct investments in group companies.

Goodwill relating to indirect investments in group companies is capitalized at the level of the ERIKS group nv associates who acquired these interests, in the item net asset value of these associates.

Goodwill relating to direct interests in other associates over which ERIKS group nv has significant influence is included in the acquisition price of these interests.

**Financial fixed assets**

Investments in group companies and other companies over which ERIKS group nv has control are recognized at net asset value. Net asset value is determined by valuing assets, provisions and liabilities and calculating the result in accordance with the accounting policies applied for the consolidated financial statements. When calculating the net asset value, the transitional provisions for determining values and the valuation principles of the first-time application of the accounting policies applied in the consolidated financial statements are taken into account.

Other investments in companies over which ERIKS group nv has significant influence but not controlling influence on the corporate and financial policies are accounted for in accordance with the equity method. This is initially done at cost. Subsequently, the value of these associates is increased or decreased to recognize ERIKS group nv's share in the results of the associate, based on the principles for determining the result as applied in the consolidated accounts as well as the share in other movements in the associate's equity allocable to ERIKS group nv after the acquisition date. When determining the value in accordance with the equity method, the transitional provisions for determining values and the valuation principles of the first-time application of the accounting policies applied in the consolidated financial statements are taken into account. With effect from January 1, 2004 the carrying amount of goodwill allocable to associates over which ERIKS group nv has significant influence is recognized as part of the associate's carrying amount.

**5. Intangible fixed assets**

Movement in intangible fixed assets in 2004 and 2005 were as follows:

| | Goodwill | Software | Total |
|---|---|---|---|
| Cost at January 1, 2004 | 11,670 | | 11,670 |
| Accumulated amortization | | | |
| **Balance sheet value at January 1, 2004** | 11,670 | | 11,670 |
| **Movements in balance sheet value for 2004:** | | | |
| Investments | | | |
| Amortization and impairments | | | |
| Cost at December 31, 2004 and January 1, 2005 | 11,670 | | 11,670 |
| Accumulated amortization | | | |
| **Balance sheet value at December 31, 2004 and January 1, 2005** | 11,670 | | 11,670 |
| **Movements in balance sheet value for 2005:** | | | |
| Investments | | **82** | **82** |
| Amortization and impairment | | | |
| | | **82** | **82** |
| Cost at December 31, 2005 | **11,670** | **82** | **11,752** |
| Accumulated amortization | | | |
| **Balance sheet value at December 31, 2005** | **11,670** | **82** | **11,752** |

No events or changes in circumstances have taken place that would lead to impairment. See the notes to the consolidated financial statements.

### 6. Financial fixed assets

Movements in the value of group companies were as follows:

| | **2005** | 2004 |
|---|---|---|
| Balance at January 1 | **73,539** | 58,824 |
| Movements: | | |
| – capital contributions to group companies | **500** | 7,500 |
| – disposals / deconsolidation of group companies | **278** | |
| – profit from participating interests | **21,197** | 18,155 |
| – foreign exchange difference | **697** | (436) |
| – declared dividends | **(16,261)** | (10,504) |
| Balance at December 31 | **79,950** | 73,539 |

Movements in loans to group companies were as follows:

| | **2005** | 2004 |
|---|---|---|
| Balance at January 1 | **80,885** | 78,709 |
| Movements: | | |
| – issued in the period under review | **25,294** | 44,236 |
| – repaid in the period under review | **(40,407)** | (41,788) |
| – foreign exchange difference | **548** | (272) |
| Balance at December 31 | **66,320** | 80,885 |

The loans to group companies have a maximum term of five years. The amount in loans with a term of more than one year is EUR 32,874 (2004: EUR 35,916). The interest rates charged on these loans to group companies are between 4.1 and 7.5 percent.

### 7. Receivables

The receivables comprised:

| | **2005** | 2004 |
|---|---|---|
| Other taxes and social security costs | **49** | 64 |
| Amounts due from group companies | **136** | |
| Other receivables and prepayments | **257** | 55 |
| Balance at December 31 | **442** | 119 |

## 8. Stockholders' equity

For notes on stockholders' equity and the paid-in surplus, see the notes to the consolidated balance sheet. Movements in the exchange difference reserve, other reserves and result for the financial year were as follows:

| | Exchange difference reserve | Other reserves | Result for the financial year |
|---|---|---|---|
| **At January 1, 2004** | | 76,685 | 11,984 |
| **Movements in 2004:** | | | |
| IFRS adjustment of 2004 result | | 2,744 | |
| Profit appropriation for 2003: | | | |
| – Cash dividend paid | | | (1,673) |
| – Stock dividend | | | (135) |
| – Costs associated with the issue of stock dividend | | | (69) |
| – Addition to other reserves | | 10,107 | (10,107) |
| Foreign exchange difference on net asset value of foreign participating interests | (436) | | |
| Result for the financial year | | | 15,746 |
| **At December 31, 2004** | (436) | 89,536 | 15,746 |
| **IFRS adjustment:** | | | |
| – derivative financial instruments | | (2,022) | |
| – less: tax effect | | 697 | |
| **At January 1, 2005** | (436) | 88,211 | 15,746 |
| **Movements in 2005:** | | | |
| Profit appropriation for 2004: | | | |
| – Cash dividend paid | | | (3,032) |
| – Stock dividend | | | (82) |
| – Costs associated with the issue of stock dividend | | | (57) |
| – Addition to other reserves | | 12,575 | (12,575) |
| Foreign exchange difference on net asset value of foreign participating interests | 697 | | |
| Result for the financial year | | | 22,059 |
| **At December 31, 2005** | **261** | **100,786** | **22,059** |

## 9. Provisions

The following provisions were recognized:

| | Balance at January 1, 2005 | Addition | Withdrawal | Balance at December 31, 2005 |
|---|---|---|---|---|
| Employee benefits | 190 | | | 190 |
| Deferred tax liabilities | 666 | 73 | (467) | 272 |
| Reorganization | 566 | | (272) | 294 |
| Other | 1,904 | | (1,045) | 859 |
| | 3,326 | 73 | (1,784) | 1,615 |

Expected settlement time by category of provision:

| | Less than 1 year | More than 1 year |
|---|---|---|
| Employee benefits | | 190 |
| Deferred tax liabilities | | 272 |
| Reorganization | 100 | 194 |
| Other | | 859 |
| At December 31, 2005 | 100 | 1,515 |
| At December 31, 2004 | 1,245 | 2,081 |

**10. Other short-term liabilities**

This item can be broken down as follows:

| | **2005** | 2004 |
|---|---|---|
| Other taxes and social security costs | **91** | |
| Amounts due to group companies | | 538 |
| Other liabilities and accruals | **1,954** | 2,247 |
| Balance at December 31 | **2,045** | 2,785 |

**11. Related-party transactions**

For a list of related parties, including remuneration of the board, reference is made to the notes to the consolidated financial statements.

**12. Rights and liabilities not included in the balance sheet**

ERIKS group nv has assumed liability to the banks for any debts owed to the bank by certain group companies amounting to EUR 4.9 million at the balance sheet date.

ERIKS group nv and its wholly-owned group companies in the Netherlands file a consolidated corporate income tax return.

## OTHER INFORMATION

### Auditors' report

**To the General Meeting of Stockholders of ERIKS group nv**

**Introduction**

We have audited the financial statements of ERIKS group nv for the year 2005 included in this report. These financial statements consist of the consolidated financial statements and the corporate financial statements. These financial statements are the responsibility of the company's executive board. Our responsibility is to express an opinion on these financial statements based on our audit.

**Scope**

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Opinion with respect to the consolidated financial statements**

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the company as at December 31, 2005 and of the result and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code as far as applicable.

Furthermore, we have to the extent of our competence, established that the report of the Executive Board is consistent with the consolidated financial statements.

**Opinion with respect to the corporate financial statements**

In our opinion, the corporate financial statements give a true and fair view of the financial position of the company as at December 31, 2005 and of the result for the year then ended in accordance with accounting principles as generally accepted in the Netherlands and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Furthermore, we have to the extent of our competence, established that the report of the Executive Board is consistent with the corporate financial statements.

Amsterdam, February 27, 2006

PricewaterhouseCoopers Accountants N.V.

P. Jongerius RA

## COMPANY'S UNAUDITED CONSOLIDATED FINANCIAL INFORMATION FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2006 AND 2005

**Amounts in EUR millions**

| Financial | 9 months 2006 | 9 months 2005 | Change |
|---|---|---|---|
| ● Sales | 372.8 | 336.7 | +10 .7% |
| ● Autonomous growth, excluding currency fluctuations | +9.5% | +2.8% | |
| ● Operating result (EBITA including amortisation of software | 31.5 | 24.8 | +27.1% |
| ● Operating result as a percentage of sales | 8.5% | 7.4% | |
| ● Operating result as a percentage of average net capital invested | 31.6% | 25.1% | |
| ● Result from ordinary activities before amortisation of goodwill / intangible fixed assets from acquisitions | 20.6 | 15.2 | +35.7% |
| ● Net result | 20.5 | 15.1 | +36.0% |

**Commercial / Operational**

- Intensification of the market approach and the introduction of new products and services have resulted in autonomous growth. Autonomous growth for the past seven quarters:

| | | | |
|---|---|---|---|
| Q1 2006: | +11.6% | Q1 2005: | +1.7% |
| Q2 2006: | + 7.8% | Q2 2005: | +4.9% |
| Q3 2006: | + 9.2% | Q3 2005: | +1.9% |
| | | Q4 2005: | +3.2% |

- Strengthening and expansion of production management and the sales organisations.
- Process optimisation and investments in infrastructure. Productivity increased partly as a result of this.
- Preparation of a recovery plan for ERIKS France.

**Expansion**

- Acquisition of the trading activities of Acona Hydraulik-Systeme GmbH in Aachen, Germany, as per 1 January 2006. Annual sales approx. EUR 3.5 million.
- Acquisition of RIV-Charleroi s.a., Belgium, as per 6 July 2006 (see press release of 7 July 2006). Annual sales approx. EUR 2.5 million.
- Acquisition of Passerotti sp. z.o.o. in Bielsko-Biala, Poland, and the activities of Mowta in Gdansk, Poland (see press release of 28 September 2006). Annual sales approx. EUR 6.5 million. The results of both companies will be included in the consolidation as from 1 October 2006.
- Acquisition of Turpen & Associates, Inc. in Tulsa, Oklahoma, USA, as per 1 November 2006 (see press releases of 15 September 2006 and 3 November 2006). Annual sales approx. USD 11 million.
- Announcement of the intention to acquire WYKO Holdings Ltd. in Halesowen (near Birmingham), Great Britain (see press release of 17 October 2006). The intention for this acquisition will be put to the shareholders for approval during the extraordinary general meeting of shareholders which is held today. The assumed sales for the financial year 2006/2007 amounts to approx. GBP 240 million.

**AMOUNTS PER ORDINARY SHARE OF EUR 0.50 PAR VALUE (x EUR 1.00)**

| | 9 months 2006 | 9 months 2005 | Total 2005 |
|---|---|---|---|
| Net result | 2.57 | 1.92 | 2.80 |
| Result from ordinary activities before amortisation of goodwill / intangible fixed assets from acquisitions | 2.58 | 1.93 | 2.80 |
| Cash flow from ordinary activities | 3.15 | 2.49 | 3.60 |
| Stockholders' equity (as per 30 September and 31 December respectively) | 17.59 | 15.13 | 16.07 |
| Weighted annual average number of ordinary shares issued | 7,991,945 | 7,869,455 | 7,869,455 |
| Total number of ordinary shares issued | 8,030,776 | 7,937,581 | 7,937,581 |

**CONSOLIDATED PROFIT AND LOSS ACCOUNT (EUR millions)**

| | 9 months 2006 | | 9 months 2005 | |
|---|---|---|---|---|
| | | in % | | in % |
| Net sales | 372.8 | 100.0 | 336.7 | 100.0 |
| Operating result | 31.5 | 8.5 | 24.8 | 7.4 |
| Financial income and expenses | (1.0) | (0.3) | (2.0) | (0.6) |
| Result from ordinary activities before taxes | 30.5 | 8.2 | 22.8 | 6.8 |
| Taxes on result from ordinary activities | (9.8) | (2.6) | (7.5) | (2.2) |
| Group result after taxes | 20.7 | 5.6 | 15.3 | 4.6 |
| Minority interest | (0.1) | (0.1) | (0.1) | (0.1) |
| Result from ordinary activities before amortisation of goodwill / intangible fixed assets from acquisitions | 20.6 | 5.5 | 15.2 | 4.5 |
| Amortisation of goodwill / intangible fixed assets from acquisitions | (0.1) | - | (0.1) | - |
| Net result | 20.5 | 5.5 | 15.1 | 4.5 |
| Average number of employees | 2,154 | | 2,076 | |

**SALES**

Sales for the first 9 months of 2006 amounted to EUR 372.8 million, an increase of 10.7% compared to the same period last year (+EUR 36.1 million). This increase can be further specified as follows:

– an increase of EUR 3.5 million due to the acquisitions realised in 2006;

– an increase of EUR 0.4 million due to higher exchange rates;

– autonomous growth of EUR 32.2 million or 9.5%.

**(EUR millions)**

| **Sales by cluster** | **9 months 2006** | **9 months 2005** | **Change in %** | **Autonomous growth in % (excluding currency fluctuations)** |
|---|---|---|---|---|
| ERIKS Netherlands ...................... | 156.8 | 140.2 | +11.9 | +10.3 |
| ERIKS Belgium ........................... | 93.2 | 87.1 | +6.3 | + 8.8 |
| ERIKS Germany .......................... | 83.4 | 73.9 | +9.0 | + 9.0 |
| ERIKS France ............................. | 17.1 | 16.5 | +3.1 | + 3.1 |
| ERIKS Europe ............................. | 350.5 | 317.7 | +10.3 | + 9.2 |
| ERIKS USA ................................. | 16.6 | 14.4 | +15.9 | +14.3 |
| ERIKS South-east Asia .............. | 5.7 | 4.6 | +21.8 | +15.9 |
| | 372.8 | 336.7 | +10.7 | + 9.5 |

| **Sales by core activity** | | | **Autonomous growth in % (including currency fluctuations)** |
|---|---|---|---|
| Sealing Technology ..................... | 84.1 | 75.7 | +11.1 |
| Power Transmissions .................. | 129.8 | 118.2 | + 7.1 |
| Flow Technology ........................ | 82.5 | 73.9 | +11.5 |
| Industrial Plastics ....................... | 21.4 | 19.3 | +11.3 |
| Tools and Maintenance Products .................................... | 55.0 | 49.6 | +10.4 |
| | 372.8 | 336.7 | + 9.7 |

| **Sales by customer group** | | | |
|---|---|---|---|
| Maintenance (direct) .................... | 178.5 | 163.8 | + 7.8 |
| OEM .......................................... | 131.9 | 113.8 | +14.3 |
| Contractors and projects ............ | 24.7 | 22.9 | +10.4 |
| Distributors and export .............. | 37.7 | 36.2 | + 3.5 |
| | 372.8 | 336.7 | + 9.7 |

**OPERATING RESULT**

The operating result increased by EUR 6.7 million or 27.1%, equalling 8.5% of sales (2005: 7.4%). The 2006 operating result (third quarter) includes an extraordinary income of EUR 0.5 million (book profit realised on the sale of a building).

**FINANCIAL INCOME AND EXPENSES**

**Specification:**

| (EUR millions) | 9 months 2006 | 9 months 2005 |
|---|---|---|
| Movements in actual value financial derivatives | 0.6 | – |
| Interest paid | (1.6) | (2.0) |
| | (1.0) | (2.0) |

**TAXES ON RESULT FROM ORDINARY ACTIVITIES**

The tax burden on the result for the first half year 2006 amounted to 32.2% (2005: 33.0%).

**CONSOLIDATED BALANCE SHEET AS PER 30 SEPTEMBER 2006 (EUR millions)**

| | 30 September 2006 | 31 December 2005 |
|---|---|---|
| **ASSETS** | | |
| **Fixed assets** | | |
| Intangible fixed assets: - goodwill and from acquisitions | 36.3 | 35.9 |
| Intangible fixed assets: - software | 1.9 | 1.9 |
| Tangible fixed assets | 44.0 | 48.6 |
| Deferred tax assets | 3.0 | 3.4 |
| Investments in associates | 0.1 | 0.1 |
| | 85.3 | 89.9 |
| **Current assets** | | |
| Inventories | 65.8 | 61.5 |
| Accounts receivable trade | 87.7 | 75.6 |
| Other current assets | 4.3 | 2.3 |
| Liquid resources | 20.8 | 22.0 |
| | 178.6 | 161.4 |
| **Total ASSETS** | 263.9 | 251.3 |
| **LIABILITIES** | | |
| Shareholders' equity | 141.2 | 127.6 |
| Minority interest | 0.5 | 0.3 |
| | 141.7 | 127.9 |
| **Long-term liabilities** | | |
| Provisions | 13.3 | 12.4 |
| Loans | 24.0 | 29.6 |
| Derivative financial instruments | 0.3 | 2.0 |
| | 37.6 | 44.0 |
| **Short-term liabilities** | | |
| Bank overdrafts - current account overdrafts | 13.0 | 16.7 |
| Suppliers | 37.8 | 29.3 |
| Repayment obligations on long-term loans | 3.1 | 7.9 |
| Other short-term liabilities | 30.7 | 25.5 |
| | 84.6 | 79.4 |
| **Total LIABILITIES** | 263.9 | 251.3 |
| **Total capital** (balance sheet total -/- intangible fixed assets [except for software] -/- liquid resources) | 206.8 | 193.4 |
| **Net capital invested** | 138.3 | 139.6 |
| **Working capital** | 115.7 | 107.8 |

**MOVEMENTS IN SHAREHOLDERS' EQUITY (EUR millions)**

| | 30 September 2006 |
|---|---|
| Balance 31 December 2005 | 127.6 |
| add: net result 9 months | 20.5 |
| less: cash dividend 2005 | (7.5) |
| less: exchange differences on net asset value and participating interests in the permanent financing of foreign participations | (0.3) |
| add: hedge reserve | +0.9 |
| Balance 30 September 2006 | 141.2 |

**CONSOLIDATED CASH FLOW STATEMENT (EUR millions)**

| | 9 months 2006 | 9 months 2005 |
|---|---|---|
| **Operating activities** | | |
| Result after taxes (before minority interests) | 20.6 | 15.2 |
| Adjustments for: | | |
| - depreciations, including amortisation of software | 4.6 | 4.4 |
| - amortisation of other intangible fixed assets | 0.1 | 0.1 |
| Cash flow from ordinary activities | 25.3 | 19.7 |
| Exceptional gain on the sale of a building | (0.5) | - |
| Financial income and expenses | 1.6 | 2.1 |
| Income tax | 9.8 | 7.5 |
| Movements in working capital | (7.3) | (1.7) |
| Other accounts receivable and short-term liabilities, excl. repayment obligations | 2.5 | (0.1) |
| Movements in provisions | (0.3) | (1.2) |
| Movements in fair value of derivative financial instruments | (0.3) | - |
| Cash flow generated from operating activities | 30.8 | 26.3 |
| Financial expenses paid | (1.7) | (2.4) |
| Income tax paid | (8.2) | (5.4) |
| **Cash flow from operating activities** | 20.9 | 18.5 |
| Investments in tangible fixed assets and software | (4.1) | (8.9) |
| Disposals of tangible fixed assets and software | 4.7 | 0.9 |
| Acquisition of participating interests | (0.9) | (0.1) |
| Disposal of participating interests | - | - |
| **Cash flow from investing activities** | (0.3) | (8.1) |
| Withdrawals on loans, including repayment obligations | - | - |
| Repayment of loans, including repayment obligations | (10.3) | (7.9) |
| Withdrawals on bank overdrafts - current account overdrafts | 7.0 | (1.7) |
| Cash dividend and costs paid | (7.5) | (3.1) |
| **Cash flow from financing activities** | (10.8) | (12.7) |
| **Cash flow on balance** | 9.8 | (2.3) |
| **Liquid resources 1 January** | 11.3 | 12.7 |
| Exchange differences | (0.3) | 0.6 |
| **Liquid resources 30 September** | 20.8 | 11.0 |

**QUARTERLY RESULTS 2006 (EUR millions)**

| | 1st quarter | | 2nd quarter | | 3rd quarter | |
|---|---|---|---|---|---|---|
| | | in % | | in % | | in % |
| Sales | 125.4 | 100.0 | 124.9 | 100.0 | 122.5 | 100.0 |
| Operating result (EBITA) | 11.2 | 8.9 | 10.5 | 8.4 | 9.9 | 8.1 |
| Financial income and expenses | (0.2) | (0.1) | (0.4) | (0.3) | (0.5) | (0.4) |
| Result from ordinary activities before taxes | 11.0 | 8.8 | 10.1 | 8.1 | 9.4 | 7.7 |
| Taxes | (3.7) | (2.9) | (3.2) | (2.6) | (2.9) | (2.4) |
| Result from ordinary activities after taxes and before amortisation of goodwill | 7.3 | 5.9 | 6.9 | 5.5 | 6.5 | 5.3 |
| Minority interest | - | - | - | - | (0.1) | (0.1) |
| Result from ordinary activities | 7.3 | 5.9 | 6.9 | 5.5 | 6.4 | 5.2 |
| Amortisation of goodwill / intangible fixed assets from acquisitions | (0.1) | (0.1) | - | - | - | - |
| Net result | 7.2 | 5.8 | 6.9 | 5.5 | 6.4 | 5.2 |
| Average number of employees | 2,124 | | 2,149 | | 2,189 | |
| Autonomous growth | +11.6% | | +7.8% | | +9.2% | |

**QUARTERLY RESULTS 2005 (EUR millions)**

| | 1st quarter | | 2nd quarter | | 3rd quarter | |
|---|---|---|---|---|---|---|
| | | in % | | in % | | in % |
| Sales | 111.2 | 100.0 | 114.9 | 100.0 | 110.6 | 100.0 |
| Operating result (EBITA) | 8.6 | 7.7 | 8.3 | 7.2 | 7.8 | 7.0 |
| Financial income and expenses | (0.6) | (0.5) | (0.7) | (0.6) | (0.7) | (0.6) |
| Result from ordinary activities before taxes | 8.0 | 7.2 | 7.6 | 6.6 | 7.1 | 6.4 |
| Taxes | (2.7) | (2.4) | (2.4) | (2.1) | (2.4) | (2.2) |
| Result from ordinary activities after taxes and before amortization of goodwill | 5.3 | 4.8 | 5.2 | 4.5 | 4.7 | 4.2 |
| Minority interest | - | - | - | - | - | - |
| Result from ordinary activities | 5.3 | 4.8 | 5.2 | 4.5 | 4.7 | 4.2 |
| Amortization of goodwill / intangible fixed assets from acquisitions | (0.1) | (0.1) | - | - | - | - |
| Net result | 5.2 | 4.7 | 5.2 | 4.5 | 4.7 | 4.2 |
| Average number of employees | 2,058 | | 2,070 | | 2,100 | |
| Autonomous growth | +1.7% | | +4.9% | | +1.9% | |

**FINANCIAL DATA BY CLUSTER (EUR millions)**

| | 9 months 2006 | 9 months 2005 |
|---|---|---|
| **ERIKS Netherlands** | | |
| Sales | 156.8 | 140.2 |
| EBITA | 17.5 | 12.4 |
| Average number of employees | 856 | 821 |
| **ERIKS Belgium** | | |
| Sales | 93.2 | 87.1 |
| EBITA | 7.7 | 6.6 |
| Average number of employees | 585 | 579 |
| **ERIKS Germany** | | |
| Sales | 83.4 | 73.9 |
| EBITA | 6.9 | 4.8 |
| Average number of employees | 428 | 407 |
| **ERIKS France** | | |
| Sales | 17.1 | 16.5 |
| EBITA | 0.1 | 0.5 |
| Average number of employees | 131 | 126 |
| **ERIKS USA** | | |
| Sales | 16.6 | 14.4 |
| EBITA | 1.9 | 1.5 |
| Average number of employees | 75 | 71 |
| **ERIKS South-east Asia** | | |
| Sales | 5.7 | 4.6 |
| EBITA | 0.3 | 0.2 |
| Average number of employees | 64 | 57 |
| **ERIKS group nv** | | |
| EBITA | -2.9 | -1.2 |
| Average number of employees | 15 | 15 |

## WYKO'S 2006/2005 FINANCIAL STATEMENTS

## DIRECTORS' REPORT

The directors present their report and audited financial statements of the company for the year ended 30 April 2006.

**Principal activity**

The principal activity of the Group is the provision of a wide range of engineering services to industrial customers including:

- distribution of bearings, mechanical and electrical power transmission products, seals, sealing products, hydraulic and pneumatic equipment/components and tools;
- repair of electrical equipment and motors, pumps and gearboxes; and
- manufacture and supply of automotive tyre building tooling, specialist bearing products and specialist fasteners.

**Business review, results and dividend**

The Wyko group of companies comprise two operating divisions, Wyko Industrial Services and Specialist Technology. Wyko Industrial Services (WIS) is made up of four inter-related strands, Industrial Distribution, Outsourcing Solutions, International and electromechanical and electronic repair workshops. There are currently 75 distribution branches, 29 workshops and 86 Outsourcing Solutions on-site locations servicing 40 blue-chip customers. The International business comprises branch outlets in Germany, Netherlands, Belgium (2 locations) and Slovakia together with export operations servicing primarily Continental Europe, the Middle East and Northern Africa.

Specialist Technology comprises four niche manufacturing businesses, two of which are dominant worldwide players in their respective markets with the other two operating as complementary businesses to the WIS operations.

The single most important measure of the Group's performance is defined as being the operating profit in continuing operations before exceptional costs and goodwill amortisation. In the year to 30 April 2006, this KPI improved by a satisfactory 2.7% to £10.58 million (2005: £10.30 million). After accounting for profit arising within discontinued activities, the amortisation of goodwill, the share of joint venture operating profit, the profit on disposal of Serco Ryan Ltd, interest payable and other finance costs, the group made a loss before tax of £2.48 million (2005: £4.49 million loss). Group sales in the year in continuing operations grew by 3.4% to £226.6 million (2005: £219.1 million). Total turnover amounted to £241.0 million, compared to £260.0 million in 2005. Net cash inflow from operating activities amounted to £10.9 million (2005: £16.5 million).

The WIS business differentiates itself from all competitors by offering a unique combination of branch based industrial distribution, electromechanical repairs and outsourcing solutions.

**Strategy**

The overriding objective of the Group is to maximise the growth in operating profit before non-recurring items and goodwill.

There are three main strategies that have been adopted to continue to develop the operating performance of the group. These may be summarised as follows:

1) Continue to grow market share in the UK market by targeting specific customer groups and product initiatives and also by effective cross selling between WYKO operations. An example of this is the National Call Centre opened at the beginning of July 2006, which will develop the transactional business in conjunction with the branch network.
2) Continue to develop the fast growing Outsourcing Solutions business both in the UK and in Continental Europe; and
3) Develop our successful business model to new geographies. As a first step in June 2006 a new green field site was opened in Bratislava, Slovakia and this will be followed by another new branch in Dublin, which will be operational during September 2006. Other international branch expansion projects are under consideration, either as green field sites or by acquisition.

**Future Outlook**

The outlook for the Group is excellent. Underpinned by major gains in Outsourcing Solutions contracts both in the U.K. and continental Europe, 2007 is expected to see further growth in revenues and operating margins in continuing operations and consolidation of the group's current position as the leading technical motion and control MRO provider in the U.K market. In addition, negotiations regarding the Group's banking arrangements were concluded in December 2005, resulting in committed facilities for a five-year period.

**Principal Risks and Uncertainties**

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks affecting the Group are set out below.

1) Reliance on large contracts.
The loss of major contracts or the lack of new contracts would severely constrain the potential for group revenues to grow. Overheads associated with a particular contract are, however, demountable and would be removed if a contract was lost, or not incurred as planned if new business was not won. The pipeline of potential contract wins and the respective progress of negotiations is a key area of focus at monthly group Board meetings.

2) Competition.
The group operates in an extremely competitive environment regarding product pricing. Aggressive pricing from competitors could potentially lead to gross margin attrition. The group seeks to avoid selling on a cost-plus basis and commoditising of products, emphasising the engineering added value of its service offering as a means of overcoming this challenge.

3) Employees.
The groups' performance depends to a significant degree on the regional management and local branch-based staff. The resignation of key individuals and the inability to recruit people with appropriate experience and skills from the local community could adversely impact the Group's results. To mitigate these issues, the Group has introduced a Leadership Programme, a Continuous Improvement Team gathered from across all levels of the business units and an ongoing Training Structure In addition, a number of incentive schemes have been implemented that are linked to both the group's results and performances within the individual business units that are designed to retain key individuals. Employee turnover statistics are a KPI within the business.

4) Disaster Recovery.
The key operational risk to the overall group business is an incident that disrupts or terminates the Head Office function at Halesowen. Back-up servers and a continuous power supply are in situ at Halesowen to ensure continuity of I.T. capability at the site. Although a full disaster recovery plan is not yet in place, it is under review.

**Key Performance indicators ("KPIs")**

| KPI | 2006 | 2005 | Definition, Method of Calculation and Analysis |
|---|---|---|---|
| Growth in Sales (%) | 3.4 | 8.5 | Year on Year sales growth in continuing operations, expressed as a percentage.<br><br>The increase is as expected, with growth being derived primarily from Outsourcing Solutions contract wins. |
| Gross margin (%) | 33.8 | 32.1 | Gross margin is the ratio of gross profit to group sales, expressed as a percentage.<br><br>The growth was expected and was due to avoiding selling on a cost-plus basis and avoiding commoditisation of products by using engineering added value solutions as a key differentiator to the competition. |
| Stock turn (days) | 49.4 | 58.0 | Total stocks divided by cost of sales and multiplied by 365.<br><br>This improvement followed a repatriation programme of stocks from branches to the central distribution warehouse. |
| Debtor days | 56.1 | 56.8 | Total trade debtors (excluding VAT assumed at 17.5%), divided by turnover in ongoing businesses, multiplied by 365.<br><br>The modest improvement reflects further tightening of controls over debt collection. |
| Growth in operating profit (%) | 2.7 | 65.5 | Year on year growth in operating profit expressed as a percentage. Operating profit is in relation to continuing operations before goodwill amortisation and exceptional costs.<br><br>The growth in operating profits disclosed in the statutory accounts has been adversely affected by the re-classification of non-recurring costs as a charge against operating profits. The operating profit on 2005 has been boosted by a one-off £1.8 million credit that arose following change to the Group's defined benefit pension scheme. The KPI excluding the one-off credit is 24.5%. |
| Despatch accuracy (%) | 99.6 | 99.5 | The accuracy of all picks made in the central distribution warehouse, expressed as a percentage.<br><br>The results confirm a world-class level of performance in the key area of distribution from the central warehouse to the branch network. |
| Staff turnover (%) | 16.9 | 19.6 | The number of leavers divided by the average number of employees in the year.<br><br>The improvement in staff retention has resulted from the training and leadership programmes combined with an improvement in communications to staff e.g. via the introduction of a Quarterly Group Newsletter, The WYKO Intranet Forum and the Continuous Improvement programme. |

**Directors and their interests**

The directors who held office during the year are given below:

W.C.N. Wilson

M.R.G Dixon

J.C. Cook

A. Thompson

A. Lawley appointed 28 June 2005

D.G. Hawkins resigned 28 June 2005

The beneficial interests of the directors in the share capital of the company at 30 April were as follows:

| | 2006<br>£1 Ordinary shares<br>Number | 2005<br>£1 Ordinary shares<br>Number |
|---|---|---|
| W.C.N. Wilson | 133,041 | 133,041 |
| M.R.G. Dixon | 133,040 | 133,040 |
| J.C. Cook | 74,452 | 74,452 |

No other director had any interest in the share capital of the company at any time during the year.

**Employment policy**

Considerable value is placed upon the commitment and involvement of employees in the operation and development of the Group's businesses. The Group recognises that the maximisation of its potential requires employees to be well trained, highly motivated and properly informed.

All employees receive appropriate training via predominantly in-house programmes with most new employees attending induction courses designed to familiarise them with the Group's products and services.

Communication with employees is achieved through regular briefings at various levels as well as via the groupwide intranet and quarterly Group newsletters.

The Group is committed to the principle of equal opportunity in employment. Our employment policies for recruitment, selection, training, development and promotion are designed to ensure that no job applicant or employee receives less favourable treatment on the grounds of race, colour, nationality, ethnic or national origin, religion, political beliefs, disability, sex or marital status.

**Charitable donations**

Charitable donations made by the Group within the UK during the period amounted to £4,000 (2005: £15,000)

**Auditors**

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the forthcoming Annual General Meeting.

**Statement of Directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

On behalf of the Board

J.C. Cook

Company secretary

6 September 2006

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WYKO HOLDINGS LIMITED

We have audited the financial statements of WYKO Holdings Limited for the year ended 30 April 2006 which comprise the Profit and Loss Account, the Balance Sheets, the Cash Flow Statement, the statement of recognized gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and the group as at 30 April 2006 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors

Birmingham, 6 September 2006

## Consolidated Profit and Loss Account

## For the year ended 30 April 2006

| | Notes | 2006 Total before Exceptional Costs and Goodwill amortisation £000 | 2006 Exceptional Costs and Goodwill amortisation £000 | 2006 Total £000 | 2005 Total before Exceptional Costs and Goodwill amortisation (restated) £000 | 2005 Exceptional Costs and Goodwill amortisation (restated) £000 | 2005 Total (restated) £000 |
|---|---|---|---|---|---|---|---|
| **Turnover** | | | | | | | |
| - continuing operations | | **226,595** | - | **226,595** | 219,075 | - | 219,075 |
| - discontinued operations | | **14,413** | - | **14,413** | 40,461 | - | 40,461 |
| Share of joint venture's turnover | | **816** | - | **816** | 481 | - | 481 |
| **Total turnover** | 2 | 241,824 | - | 241,824 | 260,017 | - | 260,017 |
| Less: share of joint venture | | (816) | - | (816) | (481) | - | (481) |
| **Group Turnover** | | **241,008** | - | **241,008** | 259,536 | - | 259,536 |
| Cost of sales | | (159,339) | (55) | (159,394) | (176,164) | - | (176,164) |
| **Gross profit** | | **81,669** | **(55)** | **81,614** | 83,372 | - | 83,372 |
| Selling & distribution costs | | (46,335) | (76) | (46,411) | (53,130) | (193) | (53,323) |
| Administrative expenses | | (23,619) | (2,693) | (26,312) | (16,956) | (4,197) | (21,153) |
| **Group operating profit before goodwill amortisation** | | | | | | | |
| - continuing operations | 3,4 | 10,579 | (2,824) | 7,755 | 10,302 | (3,010) | 7,292 |
| - discontinued operations | 3,4 | 1,136 | - | 1,136 | 2,984 | (1,380) | 1,604 |
| Amortisation of goodwill | | - | (3,576) | (3,576) | - | (3,960) | (3,960) |
| **Group operating profit / (loss)** | | **11,715** | **(6,400)** | **5,315** | 13,286 | (8,350) | 4,936 |
| Share of joint venture operating profit | | 183 | - | 183 | 64 | - | 64 |
| **Operating profit / (loss) including joint venture** | | **11,898** | **(6,400)** | **5,498** | 13,350 | (8,350) | 5,000 |
| Profit on sale of businesses | 24 | - | 61 | 61 | - | - | - |
| Amounts written-off investments | 12 | - | - | - | - | (80) | (80) |
| **Profit / (loss) on ordinary activities before interest** | | **11,898** | **(6,339)** | **5,559** | 13,350 | (8,430) | 4,920 |
| Net interest payable and similar charges | 7 | | | (7,723) | | | (9,042) |
| Other finance costs | 6 | | | (314) | | | (370) |
| **Loss on ordinary activities before tax** | 3 | | | **(2,478)** | | | (4,492) |
| Tax on loss on ordinary activities | 8 | | | 164 | | | (193) |
| **Loss for the financial year** | 9,20 | | | **(2,314)** | | | (4,685) |

### Note of historical cost profits and losses

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Reported loss on ordinary activities before taxation | **(2,478)** | (4,685) |
| Difference between historical cost depreciation and actual charge on revalued amounts of fixed assets | **81** | - |
| Historical cost loss on ordinary activities before taxation | **(2,397)** | (4,685) |
| Historical cost loss for the year after taxation and dividends | **(2,233)** | (4,685) |

## Consolidated Balance Sheet

**As at 30 April**

| | Notes | 2006 £000 | 2005 (restated) £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 10 | **45,221** | 57,655 |
| Tangible assets | 11 | **20,067** | 20,883 |
| Investments | 12 | **272** | 119 |
| | | **65,560** | 78,657 |
| **Current assets** | | | |
| Stocks | 13 | **21,566** | 27,976 |
| Debtors | 14 | **46,862** | 51,864 |
| Cash at bank and in hand | | **8,362** | 9,035 |
| | | **76,790** | 88,875 |
| **Creditors: amounts falling due within one year** | | | |
| Borrowings | 15,17 | **(26,635)** | (45,889) |
| Other creditors | 15 | **(46,287)** | (54,129) |
| | | **(72,922)** | (100,018) |
| **Net current assets / (liabilities)** | | **3,868** | (11,143) |
| **Total assets less current liabilities** | | **69,428** | 67,514 |
| **Creditors: amounts falling due after more than one year** | | | |
| Borrowings | 16,17 | **(79,786)** | (74,574) |
| Other creditors | 16 | **(679)** | (656) |
| | | **(80,465)** | (75,230) |
| **Provision for liabilities and charges** | 18 | **(2,260)** | (3,268) |
| **Net liabilities excluding pension liability** | | **(13,297)** | (10,984) |
| Pension liability | | **(6,862)** | (13,921) |
| **Net liabilities including pension liability** | | **(20,159)** | (24,905) |
| **Capital and reserves** | | | |
| Called up share capital | 19 | **2,453** | 2,453 |
| Share premium | 20 | **54,530** | 54,530 |
| Revaluation reserve | 20 | **5,026** | 5,107 |
| Other reserves | 20 | **14** | (139) |
| Profit and loss account | 20 | **(82,182)** | (86,856) |
| **Shareholders' funds** | | **(20,159)** | (24,905) |
| **Shareholders' funds comprise** | | | |
| Equity interests | | **(74,694)** | (79,440) |
| Non-equity interests | | **54,535** | 54,535 |
| | | **(20,159)** | (24,905) |

**Parent Company Balance Sheet**
**As at 30 April**

| | Notes | 2006 £000 | 2005 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 12 | **116,095** | 116,095 |
| **Current assets** | | | |
| Debtors | 14 | **1,300** | 17,470 |
| Cash at bank and in hand | | - | 589 |
| | | **1,300** | 18,059 |
| **Creditors: amounts falling due within one year** | | | |
| Borrowings | 15,17 | **(26,044)** | (40,294) |
| Other creditors | 15 | **(1,262)** | (1,834) |
| | | **(27,306)** | (42,128) |
| **Net current liabilities** | | **(26,006)** | (24,069) |
| **Total assets less current liabilities** | | **90,089** | 92,026 |
| **Creditors: amounts falling due after more than one year** | | | |
| Borrowings | 16,17 | **(76,063)** | (74,227) |
| Other creditors | 16 | **(679)** | (656) |
| | | **(76,742)** | (74,883) |
| **Net assets** | | **13,347** | 17,143 |
| **Capital and reserves** | | | |
| Called up share capital | 19 | **2,453** | 2,453 |
| Share premium | 20 | **54,530** | 54,530 |
| Profit and loss account | 20 | **(43,636)** | (39,840) |
| **Shareholders' funds** | | **13,347** | 17,143 |
| **Shareholders' funds comprise** | | | |
| Equity interests | | **(41,188)** | (37,392) |
| Non-equity interests | | **54,535** | 54,535 |
| | | **13,347** | 17,143 |

The financial statements on pages 6 to 34 were approved by the Board of Directors on 6 September 2006 and were signed on its behalf by:

M R G Dixon

J C Cook

## Consolidated Cash Flow Statement

| Year ended 30 April | Notes | 2006 £000 | 2005 £000 |
|---|---|---|---|
| **Net cash flow from operating activities** | 21 | **10,901** | 16,501 |
| **Dividends from joint venture** | | **-** | 32 |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | **453** | 110 |
| Interest paid | | **(5,920)** | (4,020) |
| Interest element of finance lease rentals | | **(80)** | (60) |
| Costs of raising debt finance | | **(257)** | (44) |
| | | **(5,804)** | (4,014) |
| **Taxation** | | | |
| UK Corporation tax paid | | **-** | (13) |
| Overseas tax paid | | **(438)** | (150) |
| | | **(438)** | (163) |
| **Capital expenditure and financial investment** | | | |
| Purchase of tangible fixed assets | | **(2,731)** | (1,508) |
| Sale of tangible fixed assets | | **51** | 7 |
| | | **(2,680)** | (1,501) |
| **Acquisitions and disposals** | | | |
| Disposal of businesses | | **13,958** | - |
| | | **13,958** | - |
| **Cash inflow before financing** | | **15,937** | 10,855 |
| **Financing** | | | |
| Issue of 'A' Preference shares | | **-** | 2,500 |
| New loans | | **29,462** | - |
| Repayment of loans | | **(38,764)** | (1,251) |
| Principal payments under capital leases | | **(297)** | (172) |
| | | **(9,599)** | 1,077 |
| **Increase in cash in the year** | 22 | **6338** | 11,932 |

**Other Group Statements**

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 30 April 2006**

| | 2006 £000 | 2005 (restated) £000 |
|---|---|---|
| Loss for the financial year | **(2,314)** | (4,685) |
| Foreign currency translation loss | **153** | (168) |
| Gain on revaluation of properties | - | 5,107 |
| Actuarial gain/ (loss) recognised in pension scheme | **6,907** | (1,236) |
| Total recognised gains and losses for the year | **4,746** | (982) |
| Prior Year adjustment | **(14,845)** | - |
| Total gains and losses recognised since last annual report | **(10,099)** | (982) |

**RECONCILIATION OF MOVEMENT OF SHAREHOLDERS' FUNDS**

| | 2006 £000 | 2005 (restated) £000 |
|---|---|---|
| Loss for the financial year | **(2,314)** | (4,685) |
| Foreign currency translation loss | **153** | (168) |
| Gain on revaluation of properties | - | 5,107 |
| New preference share capital subscribed | - | 54,535 |
| Actuarial gain/(loss) recognised in pension scheme | **6,907** | (1,236) |
| Net increase in shareholders' funds | **4,746** | 53,553 |
| Opening shareholders' funds (£(10.06)m before prior year adjustment) | **(24,905)** | (78,458) |
| Closing shareholders' funds | **(20,159)** | (24,905) |

## Notes to the Accounts

### 1 Accounting policies

**Basis of accounting**

The financial statements comply with applicable UK Accounting Standards and are prepared under the historical cost convention as modified by the revaluation of certain land and buildings.

A summary of the more important accounting policies, which have been applied consistently, is set out below together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

**Changes in accounting policy**

The Group has adopted FRS 17, 'Post retirement benefits', in these financial statements. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect of the prior year adjustments are given in Note 20.

**Consolidation**

The consolidated financial statements comprise the financial statements of the parent company and its subsidiary undertakings. Acquisition accounting is used to account for all acquisitions. The results of businesses acquired or sold during the year are included from or up to the date control passes. Intra group sales and profits are eliminated fully on consolidation.

In accordance with the exemptions given by Section 230 of the Companies Act 1985 the holding company, WYKO Holdings Limited, has not presented its own profit and loss account.

**Foreign currencies**

Assets and liabilities of the foreign subsidiaries are translated into sterling at the rate ruling at the balance sheet date. The results of foreign subsidiaries are translated into sterling at the average rate for the year. Exchange differences arising from these translations are taken direct to reserves.

Transactions in foreign currencies are translated into sterling at the rate of exchange on the day of the transaction or at a contracted rate if it is covered by a forward contract. Assets and liabilities denominated in foreign currencies are translated into sterling at the rate ruling on the balance sheet date or, if appropriate, any forward contract rates. Exchange differences arising from these translations are taken to the profit and loss account.

**Goodwill**

Goodwill represents the difference between the fair value of the consideration given on the acquisition of a business and the fair value of the net assets acquired, determined in accordance with Financial Reporting Standard ("FRS") 7.

Goodwill has been capitalised and is being amortised over its estimated useful life, subject to a maximum period of 20 years, in accordance with FRS 10.

This goodwill will be charged or credited to the profit and loss account on subsequent disposal of the business to which it relates.

**Intangible assets**

Trademarks are included at cost and depreciated in equal annual instalments over 5 years which is their estimated useful economic life. Provision is made for any impairment.

**Depreciation**

Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each fixed asset over its expected useful life, as follows:

| | |
|---|---|
| Plant, equipment and vehicles | 10% to 25% per annum straight line |
| Computers | 33% per annum straight line |
| Patents | written-off as incurred |
| Freehold and long leasehold buildings | 2% per annum straight line |
| Short leasehold properties | straight line over the period of the lease |

Provision is made for any impairment in the period in which it arises.

Improvements to new leasehold premises are capitalised and the cost amortised over 5 years or the period of the lease, whichever is shorter. All other leasehold improvements are written off to the profit and loss account as they are incurred.

Freehold land and assets in the course of construction are not depreciated.

**Fixed asset investments**

Investments in subsidiaries are stated at their original cost less provision for any permanent diminution in value.

**Stocks**

Stocks and work in progress are stated at the lower of cost and net realisable value, which is calculated based on expected future usage. In the case of work in progress and finished goods, cost includes an appropriate proportion of production overheads. Progress payments received are deducted from work in progress.

**Deferred taxation**

In accordance with FRS 19, deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax is measured on a non-discounted basis.

Deferred tax assets are recognised to the extent that they are regarded recoverable and that there will be suitable taxable profits from which the future reversal can be deducted.

**Hire purchase and leases**

Tangible fixed assets acquired under hire-purchase or finance leases are capitalised at the present value of the minimum lease payments and the outstanding obligations, less financing charges, are included under borrowings in the balance sheet.

Interest is charged to the profit and loss account so as to give a constant periodic rate of charge on the outstanding obligations in each accounting period.

Rentals paid under operating leases are charged to the profit and loss account as incurred.

**Pension costs**

**UK Defined Benefit Scheme**

The UK defined benefit schemes are valued triennially by an independent actuary using the Projected Unit Method of valuation. In accordance with FRS 17, current and past service costs, adjusted for settlements and curtailments, are charged to operating profit and the expected return on net asset less interest on scheme liabilities is charged or credited to finance income. Actuarial gains and losses are recognised through the Statement of Recognised Gains and Losses.

**Defined contribution schemes**

Contributions to the defined contribution schemes in the UK and the USA have been charged against profits in the year.

**Finance costs**

Finance costs, comprising the cost of raising debt finance plus interest charges, are recognised in the profit and loss account over the term of the debt at a constant carrying amount.

**Debt**

Debt is initially stated at the amount of net proceeds after deduction of issue costs. The carrying amount is increased by the amortisation of issue costs and the capitalisation of certain elements of the interest charge and reduced by payments made in the period.

The interest payable and the amortisation of issue costs are taken to the profit and loss account so as to produce a constant rate of return over the period to the expected date of redemption of the debt.

**Research and development**

Expenditure on research and development is charged against revenue in the period in which it is incurred.

**Turnover**

Turnover represents the amounts invoiced to external customers in respect of goods and services provided during the year, excluding value added tax and is recognised when goods are dispatched to customers.

## 2 Segmental Analysis

| Divisional analysis | 2006 Turnover £000 | 2006 Loss before tax £000 | 2006 Net assets £000 | 2005 Turnover £000 | 2005 Loss before tax £000 | 2005 Net assets (restated) £000 |
|---|---|---|---|---|---|---|
| Industrial Services | **207,798** | **10,562** | **27,975** | 203,352 | 9,227 | 24,986 |
| Specialist Technology | **18,797** | **1,797** | **6,400** | 15,723 | 1,198 | 5,711 |
| | **226,595** | **12,359** | **34,375** | 219,075 | 10,425 | 30,697 |
| Share of joint venture | **816** | **183** | **272** | 481 | 64 | 119 |
| | **227,411** | **12,542** | **34,647** | 219,556 | 10,489 | 30,816 |
| Central Operations | — | **(1,780)** | **5,191** | — | (2,018) | 8,349 |
| Exceptional items | — | **(2,824)** | — | — | (4,763) | — |
| Interest, financing and goodwill | — | **(11,613)** | **(53,135)** | — | (11,184) | (56,955) |
| Pension creditor | — | — | **(6,862)** | — | — | (13,921) |
| **Total continuing operations** | **227,411** | **(3,675)** | **(20,159)** | 219,556 | (7,476) | (31,711) |
| **Total discontinued operations** | **14,413** | **1,136** | — | 40,461 | 2,984 | 6,806 |
| Profit on disposal of business | — | **61** | — | — | — | — |
| **Total** | **241,824** | **(2,478)** | **(20,159)** | 260,017 | (4,492) | (24,905) |

| **Geographical Analysis** **Origin** | 2006 Turnover £000 | 2006 Loss before tax £000 | 2006 Net assets £000 | 2005 Turnover £000 | 2005 Loss before tax £000 | 2005 Net assets (restated) £000 |
|---|---|---|---|---|---|---|
| United Kingdom | | | | | | |
| – continuing operations | **213,163** | **9,157** | **36,445** | 206,332 | 7,840 | 35,348 |
| – discontinued operations | **14,413** | **1,136** | — | 40,461 | 2,984 | 6,806 |
| – total | **227,576** | **10,293** | **36,445** | 246,793 | 10,824 | 42,154 |
| USA | **4,596** | **734** | **2,059** | 4,651 | 431 | 1,903 |
| Europe | **8,029** | **482** | **1,274** | 7,618 | 60 | 1,928 |
| Asia | **1,623** | **389** | **60** | 955 | 140 | (14) |
| Exceptional items | — | **(2,824)** | — | — | (4,763) | — |
| Interest, financing and goodwill | — | **(11,613)** | **(53,135)** | — | (11,184) | (56,955) |
| Pension creditor | — | — | **(6,862)** | — | — | (13,921) |
| Profit on disposal of business | — | **61** | — | — | — | — |
| **Total** | **241,824** | **(2,478)** | **(20,159)** | 260,017 | (4,492) | (24,905) |

| **Turnover – market supplied** | 2006 £000 | 2005 £000 |
|---|---|---|
| United Kingdom | | |
| – continuing operations | 199,247 | 195,756 |
| – discontinued operations | 13,592 | 39,804 |
| – total | 212,839 | 235,560 |
| Americas | | |
| – continuing operations | 7,392 | 5,916 |
| – discontinued operations | 275 | 168 |
| – total | 7,667 | 6,084 |
| Europe | | |
| – continuing operations | 12,015 | 10,928 |
| – discontinued operations | 546 | 489 |
| – total | 12,561 | 11,417 |
| Asia and Australasia | 6,921 | 5,421 |
| Africa | 1,836 | 1,535 |
| **Total** | 241,824 | 260,017 |

### 3 Loss on ordinary activities before taxation

| Loss on ordinary activities before taxation is stated after charging / (crediting): | 2006 £000 | 2005 £000 |
|---|---|---|
| Depreciation: | | |
| Tangible fixed assets | | |
| – owned | 2,689 | 2,817 |
| – subject to finance leases or hire purchase | 237 | 243 |
| Amortisation of goodwill | 3,576 | 3,960 |
| Amortisation of other intangible fixed assets | 50 | 50 |
| Loss / (profit) on disposal of tangible fixed assets | 11 | 5 |
| Rentals under operating leases | | |
| Plant and machinery | 2,962 | 2,836 |
| Other | 2,402 | 2,583 |
| Auditors' remuneration | | |
| Audit work | 166 | 172 |
| Other services provided by group auditors | 53 | 104 |
| Deficit on foreign exchange | (123) | 58 |
| Exceptional items (see note 4) | 2,824 | 4,763 |

The audit fee in respect of the parent company amounted to £4,100 (2005: £4,000)

### 4 Exceptional items

| | 2006 £000 | 2005 (restated) £000 |
|---|---|---|
| **Serco-Ryan restructuring:** | | |
| Redundancies and payments in lieu | — | 505 |
| Dilapidations and onerous lease provisions | — | 742 |
| Costs of relocating, merging and closing branches | — | 622 |
| Write-off of redundant fixed assets | — | 133 |
| | — | 2,002 |
| **Industrial Services restructuring:** | | |
| Redundancies and payments in lieu | — | 296 |
| Dilapidations and onerous lease provisions | — | 377 |
| Costs of relocating, merging and closing branches | — | 823 |
| | — | 1,496 |
| **Costs relating to previous management:** | — | 104 |
| Other redundancy costs | 326 | 46 |
| Other dilapidations and onerous lease provisions | — | 66 |
| Costs associated with re-financing exercise | 2,198 | 332 |
| Overseas pension charge | 176 | — |
| Other items | 96 | 344 |
| Opening of new businesses | 28 | — |
| Total exceptional costs | 2,824 | 4,390 |

The exceptional finance charges result from the Group's successfully negotiation of new UK financing arrangements with effect from 16 December 2006 and the repayment of the entire outstanding Senior debt and Bank of Scotland working capital facilities in the year.

## 5 Directors and employees

| | 2006 Number | 2005 Number |
|---|---|---|
| The average number of persons employed by the Group during the year was | 2,110 | 2,288 |

| | £000 | £000 (restated) |
|---|---|---|
| **Their aggregate payroll costs were:** | | |
| Wages and salaries | 50,079 | 51,775 |
| Social security costs | 5,539 | 5,654 |
| Other pension costs | 1,526 | (84) |
| | 57,144 | 57,345 |
| **Directors' remuneration** | | |
| Emoluments | 915 | 684 |
| Fees paid to third parties in respect of directors' services | 21 | 21 |
| Pensions and pension related payments | 116 | 101 |
| Compensation for loss of office | — | 46 |
| | 1,052 | 852 |

There are no retirement benefits accruing to any director under a defined benefit scheme (2005: nil)

No payments have been made to a money purchase pension scheme in respect of any director.

| | 2006 £000 | 2005 £000 |
|---|---|---|
| **Highest paid continuing director** | | |
| Total emoluments | 326 | 272 |

## 6 Pensions

The Group has operated a number of pension schemes during the year. There are two UK defined benefit schemes; the WYKO Group Retirement Benefit Scheme ("the WYKO Scheme"), which is a final salary scheme and the FPT Group Pension Scheme ("the FPT Scheme"), which offers both final salary and money purchase benefits. The assets of each scheme are held in separate trustee administered funds. The Group has continued to operate the majority of schemes established in subsidiaries at the date of their acquisition.

The WYKO Scheme and the defined benefit section of the FPT Scheme are both closed to new entrants and as the age of the active membership increases, the current service cost will increase under the actuarial method currently used (although this may be offset to some extent by a reducing salary roll as members leave active service).

The FRS17 results have been based on the results of the draft triennial actuarial valuation at 30 April 2006 for the WYKO Scheme and the actuarial valuation as at 31 October 2003 for the FPT Scheme updated to 30 April 2006 by a qualified actuary.

The contributions currently being paid by the Group are 11.3% of Pensionable Salaries to the WYKO Scheme and 30.5% of Pensionable Salaries to the defined benefit section of the FPT Scheme. In addition Group contributions of approximately £8,000 were made to the defined contribution section of the FPT Scheme.

The pension costs relating to each scheme were as follows:

| | 2006<br>£000 | 2005 (restated)<br>£000 |
|---|---|---|
| WYKO Scheme / FPT scheme | 905 | (668) |
| US defined contribution scheme | 54 | 49 |
| UK defined contribution schemes | 567 | 535 |
| | 1,526 | (84) |

The financial assumptions used to calculate the Schemes' liabilities include:

| **Valuation method** | **Projected unit method** | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| Inflation assumption | 2.7% | 2.8% | 3.0% |
| Salaries rate of increase | N/A | 3.3% | 3.5% |
| Pension increases in payment (where linked to inflation) | 2.6% | 2.8% | 3.0% |
| Discount rate for Scheme liabilities | 5.2% | 5.3% | 5.6% |

Scheme assets are stated at their market value at 30 April 2006. The assets and the expected rates of return for the schemes were:

| | **Expected long term rate of return at 30 April** | | | **Value at 30 April** | | |
|---|---|---|---|---|---|---|
| | **2006** | **2005** | **2004** | **2006<br>£000** | **2005<br>£000** | **2004<br>£000** |
| Equities and property | 8.0% | 7.0% | 7.0% | 41,326 | 29,914 | 33,265 |
| Bonds | 5.5% | 5.5% | 5.5% | 4,914 | 4,295 | 3,930 |
| Gilts | 4.5% | 4.5% | 4.5% | 10,580 | 10,842 | 4,980 |
| Cash | 4.0% | 4.0% | 3.0% | 1,150 | 1,288 | 630 |
| Total market value of assets | | | | 57,970 | 46,339 | 42,805 |
| Present value of Schemes' liabilities | | | | (64,832) | (60,260) | (57,015) |
| Deficit in Schemes (prior to deferred tax) | | | | (6,862) | (13,921) | (14,210) |

| | **2006<br>£000** | **2005<br>£000** |
|---|---|---|
| **Analysis of amount (charged) / credited to operating profit** | | |
| Current service cost | (905) | (1,132) |
| Past service cost | — | — |
| Settlement and curtailments | — | 1,800 |
| Total operating (charge) / credit | (905) | 668 |
| **Analysis of amount charged to other financial income** | | |
| Expected return on assets | 2,889 | 2,779 |
| Interest on scheme liabilities | (3,203) | (3,149) |
| Net charge | (314) | (370) |

| | 2006 £000 | 2005 £000 |
|---|---|---|
| **Analysis of amounts recognised in the statement of total recognised gains and losses** | | |
| Actual return less expected return on pension scheme assets | 7,929 | 659 |
| Experience losses arising on the scheme liabilities | (596) | (726) |
| Changes in assumptions underlying the present value of the scheme liabilities | (426) | (1,169) |
| Actuarial gain/(loss) recognised in the statement of recognised gains and losses | 6,907 | (1,236) |

**Movement in the deficit during the year**

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Deficit in the scheme at the beginning of the year | (13,921) | (14,210) |
| Current service cost | (905) | (1,132) |
| Employer contributions | 1,371 | 1,227 |
| Past service costs | — | — |
| Settlements and curtailments | — | 1,800 |
| Other financial costs | (314) | (370) |
| Actuarial gain / (loss) | 6,907 | (1,236) |
| Deficit in the scheme at the end of the year | (6,862) | (13,921) |

**History of experience gains and losses**

| | 2006 | | 2005 | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|---|---|
| | £000 | % of scheme assets | £000 | % of scheme assets | £000 | % of scheme assets | £000 | % of scheme assets |
| Difference between expected and actual return on scheme assets | 7,929 | 14% | 659 | 1% | 4,810 | 11% | (10,093) | (29)% |
| Experience gains and losses on scheme liabilities | (596) | (1%) | (726) | (1%) | 449 | 1% | (412) | (1)% |
| Total amount recognised in the statement of total recognised gains and losses | 6,907 | 11% | (1,236) | (2%) | 2,314 | 4% | (12,230) | (24)% |

## 7 Net interest payable and similar charges

| | 2006 £000 | 2005 £000 |
|---|---|---|
| **Interest payable:** | | |
| on bank loans and overdrafts | 2,347 | 3,912 |
| on asset based financing | 1,158 | — |
| on mezzanine debt | 3,467 | 3,086 |
| on shareholder loan stock | 88 | 1,449 |
| on hire purchase agreements and finance leases | 80 | 60 |
| Amortisation of debt issue costs | 507 | 608 |
| Write-off of debt issue costs on early repayment of senior debt | 717 | — |
| | 8,364 | 9,115 |
| Interest receivable | (641) | (73) |
| | 7,723 | 9,042 |

## 7 Net interest payable and similar charges (continued)

Interest payable and similar charges can be further analysed as follows:

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Cash interest payable: | | |
| Bank loans and overdrafts and asset based financing (net) | **2,864** | 3,839 |
| Cash element of interest on mezzanine debt | **2,844** | — |
| Cash element of interest on shareholders loan stock | — | — |
| Hire purchase and finance leases | **80** | 60 |
| | **5,788** | 3,899 |
| Non cash interest: | | |
| Capitalised mezzanine interest | **623** | 3,086 |
| Deferred interest on shareholder loan stock | **88** | 76 |
| Capitalised interest on shareholder loan stock | — | 90 |
| Interest on shareholder loan stock converted to preference share capital | — | 1,283 |
| Amortisation of debt issue costs | **1,224** | 608 |
| | **1,935** | 5,143 |
| | **7,723** | 9,042 |

## 8 Tax on loss on ordinary activities

| | 2006 £000 | 2005 (restated) £000 |
|---|---|---|
| UK Corporation tax on profits of the year | — | — |
| Adjustments in respect of previous periods | — | — |
| | — | — |
| Share of joint venture's taxation | **(29)** | (12) |
| Overseas taxation | **(430)** | (294) |
| Total current tax charge | **(459)** | (306) |
| Deferred tax: | | |
| Origination and reversal of timing differences | **564** | 18 |
| Overseas timing differences | **59** | 95 |
| | **164** | (193) |

The tax assessed for the year is higher than the standard rate of tax in the UK. The factors affecting the tax charge for the period are analysed below:

| | 2006 | 2005 |
|---|---|---|
| Loss on ordinary activities before tax | (2,478) | (4,492) |
| Loss on ordinary activities at standard rate of UK corporation tax - 30% (2005: 30%) | 744 | 1,348 |
| Effects of: | | |
| Expenses not deductible for tax purposes | (1,421) | (1,106) |
| Timing differences | 208 | (505) |
| Different rate tax on overseas earnings | 138 | (43) |
| Creation of tax losses | (128) | |
| Adjustments to tax charge in respect of previous periods | — | — |
| **Current tax charge for the year** | (459) | (306) |

## 9 Loss of the holding company

WYKO Holdings Limited has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The loss dealt with in the accounts of the company is £3,796,000 (2005: £5,865,000).

## 10 Intangible fixed assets

| Group | Goodwill<br>£000 | Trade Name<br>£000 | Total<br>£000 |
|---|---|---|---|
| **Cost:** | | | |
| At 1 May 2005 | 78,318 | 250 | 78,568 |
| Amount written-off on disposal of subsidiary (note 24) | (11,551) | — | (11,551) |
| At 30 April 2006 | 66,767 | 250 | 67,017 |
| **Amortisation:** | | | |
| At 1 May 2005 | 20,813 | 100 | 20,913 |
| Charge for the year | 3,576 | 50 | 3,626 |
| Amount written-off on disposal of subsidiary (note 24) | (2,743) | — | (2,743) |
| At 30 April 2006 | 21,646 | 150 | 21,796 |
| **Net book amount:** | | | |
| At 30 April 2006 | 45,121 | 100 | 45,221 |
| At 30 April 2005 | 57,505 | 150 | 57,655 |

## 11 Tangible fixed assets

| | | Leasehold properties | | | |
|---|---|---|---|---|---|
| Group | Freehold properties<br>£000 | Leases of 50 years and over<br>£000 | Leases under 50 years<br>£000 | Plant, equipment and vehicles<br>£000 | Total<br>£000 |
| **Cost or valuation** | | | | | |
| At 1 May 2005 | 9,681 | 1,822 | 1,590 | 31,273 | 44,366 |
| Additions | 7 | — | 3 | 2,721 | 2,731 |
| Disposals | — | — | — | (551) | (551) |
| Disposal of subsidiary | — | — | — | (1,524) | (1,524) |
| Currency adjustments | 28 | — | 1 | 147 | 176 |
| At 30 April 2006 | 9,716 | 1,822 | 1,594 | 32,066 | 45,198 |
| **Depreciation:** | | | | | |
| At 1 May 2005 | — | — | 190 | 23,293 | 23,483 |
| Charge for the year | 168 | 36 | 57 | 2,665 | 2,926 |
| Disposals | — | — | — | (489) | (489) |
| Disposal of subsidiary | — | — | — | (892) | (892) |
| Currency adjustments | — | — | 1 | 102 | 103 |
| At 30 April 2006 | 168 | 36 | 248 | 24,679 | 25,131 |
| **Net book amount:** | | | | | |
| At 30 April 2006 | 9,548 | 1,786 | 1,346 | 7,387 | 20,067 |
| At 30 April 2005 | 9,681 | 1,822 | 1,400 | 7,980 | 20,883 |

The total net book amount of fixed assets includes an amount of £356,000 (2005: £594,000) in respect of assets capitalised under finance leases or hire purchase.

The company held no tangible fixed assets at any time during the year.

Freehold properties and leases of over 40 years were revalued at 30 April 2005 on the basis of an open market valuation for existing use, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors, by DTZ Debenham Tie Leung, Chartered Surveyors.

For properties held at valuation the comparable amounts determined according to the historical cost convention would be:

| **At 30 April 2006:** | **Freehold Land & Buildings £000** | **Leases of 50 years and over £000** | **Leases of under 50 years £000** | **Total £000** |
|---|---|---|---|---|
| Cost | 7,338 | 1,304 | 715 | 9,357 |
| Depreciation | (1,275) | (426) | (155) | (1,856) |
| **Net book amount** | 6,063 | 878 | 560 | 7,501 |
| At 30 April 2005: | | | | |
| Cost | 7,338 | 1,304 | 715 | 9,357 |
| Depreciation | (1,159) | (400) | (146) | (1,705) |
| **Net book amount** | 6,179 | 904 | 569 | 7,652 |

**Future capital expenditure**

Capital commitments at 30 April 2006 for which no provision has been made in the accounts are as follows:

| | **2006 £000** | **2005 £000** |
|---|---|---|
| Contracted for | 464 | 653 |

## 12 Investments

**Group**

| | **£000** |
|---|---|
| At 1 May 2005 | 119 |
| Attributable profit retained by joint venture | 154 |
| Translation exchange differences | (1) |
| At 30 April 2006 | 272 |

The Group holds 51% of the issued ordinary share capital of Rencol MMI Technology Pte Limited, a company incorporated in Singapore to manufacture and distribute tolerance rings. The Directors believe that the Group shares effective control of the company with the holder of the remaining 49% of the shares and consequently have treated the investment as an investment in a joint venture.

| | **2006 £000** | **2005 £000** |
|---|---|---|
| Group share of gross assets of the joint venture | 451 | 329 |
| Group share of the gross liabilities of the joint venture | (179) | (210) |
| Investment in joint venture | 272 | 119 |

As a result of an impairment review, a provision was established against the Group's investment in EuroSourceLine UK Limited during the year ended 30 April 2005, writing-down the carrying value of the investment to £ nil. The directors are of the opinion that the provision is still necessary.

| Company | Investment in subsidiaries £000 |
|---|---|
| Cost: | |
| At 1 May 2005 and 30 April 2006 | 116,095 |

| Principal subsidiary companies | Country of incorpo-ration | Holding | Class of Shares | Nature of Business |
|---|---|---|---|---|
| Wyko Group Limited | UK | 100% | Ordinary | Holding company |
| Wyko Investments Limited | UK | 100% | Ordinary | Holding company |
| Wyko Industrial Services Limited * | UK | 100% | Ordinary | Industrial services |
| Wyko Inc. * | USA | 100% | Ordinary | Manufacture of tyre building equipment |
| Rencol Tolerance Rings Ltd * | UK | 100% | Ordinary | Manufacture of tolerance rings |
| WYKO Tire Technology Ltd * | UK | 100% | Ordinary | Manufacture of tyre building equipment |
| Revolvo Ltd * | UK | 100% | Ordinary | Manufacture of specialist bearings |
| Pioneer Weston International Ltd * | UK | 100% | Ordinary | Manufacture of seals and sealing products |
| Lilleshall Limited * | UK | 100% | Ordinary | Holding company |
| FPT Group Limited * | UK | 100% | Ordinary | Holding company |
| WYKO Antriebstechnik GmbH * | Germany | 100% | Ordinary | Industrial services |
| WYKO Aandrijvingen N.V. * | Belgium | 100% | Ordinary | Industrial services |
| WYKO Aandrijftechniek B.V. * | Netherlands | 100% | Ordinary | Industrial services |
| Wyko Overseas Holdings * | UK | 100% | Ordinary | Holding company |

Subsidiaries marked * are held via intermediate holding companies

## 13 Stocks

| | Group 2006 £000 | Group 2005 £000 |
|---|---|---|
| Raw materials and consumables | 1,983 | 1,706 |
| Work in progress | 3,026 | 3,050 |
| Finished goods and goods held for resale | 16,557 | 23,220 |
| | 21,566 | 27,976 |

The company did not hold stock at any time during the year.

## 14 Debtors

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Group | Company | Group (restated) | Company |
| | £000 | £000 | £000 | £000 |
| **Amounts falling due within one year** | | | | |
| Trade debtors | 40,926 | — | 47,448 | — |
| Amounts owed by group undertakings | — | 1 | — | 15,611 |
| Corporation tax recoverable | 2 | 1,205 | — | 1,842 |
| Other debtors | 3,786 | 79 | 1,482 | 2 |
| Called up share capital not paid | 13 | 13 | 13 | 13 |
| Prepayments and accrued income | 1,160 | 2 | 2,564 | 2 |
| | 45,887 | 1,300 | 51,507 | 17,470 |
| **Amounts falling due after more than one year** | | | | |
| Deferred taxation recoverable | 975 | — | 357 | — |
| **Total debtors** | 46,862 | 1,300 | 51,864 | 14,740 |

## 15 Creditors: amounts falling due within one year

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Group | Company | Group (restated) | Company |
| | £000 | £000 | £000 | £000 |
| Borrowings (see note 17) | 26,635 | 26,044 | 45,889 | 41,386 |
| **Other creditors** | | | | |
| Trade creditors | 33,387 | — | 39,512 | — |
| Amounts owed to group undertakings | — | — | — | — |
| Corporation tax | 181 | — | 205 | — |
| Other taxation and social security | 3,615 | 5 | 3,946 | 3 |
| Other creditors | 3,073 | 882 | 1,352 | 1,393 |
| Accruals and deferred income | 6,031 | 375 | 9,114 | 438 |
| | 46,287 | 1,262 | 54,129 | 1,834 |

## 16 Creditors: amounts falling due after more than one year

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Group | Company | Group (restated) | Company |
| | £000 | £000 | £000 | £000 |
| **Borrowings (see note 17)** | 79,786 | 76,063 | 74,574 | 74,227 |
| **Other creditors** | | | | |
| Deferred interest payments | 679 | 679 | 656 | 656 |

## 17 Borrowings

| | Group 2006 Within one year £000 | Company 2006 After one year £000 | 2005 Within one year £000 | After one year £000 | Group £000 | Company £000 |
|---|---|---|---|---|---|---|
| Overdrafts | 706 | — | 26,381 | — | 7,755 | 2,674 |
| Amounts due in respect of discounted receivables | 22,575 | — | — | — | — | — |
| Property loan | 3,236 | 3,614 | — | — | — | — |
| Senior debt | — | — | — | — | 38,712 | 38,712 |
| Mezzanine debt | — | 23,625 | — | 23,625 | 22,038 | 22,038 |
| 10% unsecured loan stock | — | 53,277 | — | 53,277 | 53,277 | 53,277 |
| | 26,517 | 80,516 | 26,381 | 76,902 | 121,782 | 116,701 |
| Hire purchase and finance leases | 238 | 109 | — | — | 644 | — |
| 4% loan notes | 254 | — | 37 | — | 217 | — |
| Gross borrowings | 27,009 | 80,625 | 26,418 | 76,902 | 122,643 | 116,701 |
| Deferred costs of raising debt finance | (374) | (839) | (374) | (839) | (2,180) | (2,180) |
| Net borrowings | 26,635 | 79,786 | 26,044 | 76,063 | 120,463 | 114,521 |

The invoice discounting facility bears interest at 1.5% over base rate. The limit of the facility is £30 million and has a duration of five years.

The 'property loan' is a loan secured against the Group's UK freehold and long leasehold properties. The loan bears interest at 2.5% over base and is repayable in quarterly instalments commencing in May 2006.

The mezzanine loan is repayable in full on 31 October 2008 and carries interest at 10% above LIBOR.

£1,009,000 of the loan stock bears interest at 10% whilst the holders of the balance have agreed to a waiver of all interest in the year. The loan stock is repayable in five equal annual instalments commencing in 2009.

£15 million of the senior debt was repaid on 12 October 2005 and the balance was repaid on 16 December 2005 following the Group's successful refinancing.

The 4% loan notes, are repayable on demand. £37,000 of the loan notes have a final repayment date of 3 May 2008 and the balance have a final repayment date of 1 June 2009.

## 17 Borrowings (continued)

### Analysis by year of repayment

| | Group 2006 Bank loans and overdrafts £000 | Group 2006 Other Borrowings £000 | Group 2006 Total £000 | Group 2005 Total £000 | Company 2006 Total £000 | Company 2005 Total £000 |
|---|---|---|---|---|---|---|
| Due within one year | 26,517 | 492 | 27,009 | 46,981 | 26,418 | 41,386 |
| Amounts payable by instalments | | | | | | |
| between 1 and 2 years | 685 | 109 | 794 | 225 | - | - |
| between 2 and 5 years | 2,055 | 44,736 | 46,791 | 22,160 | 44,736 | - |
| after 5 years | 874 | 32,166 | 33,040 | 53,277 | 32,166 | 75,315 |
| Due after more than 1 year | 3,614 | 77,011 | 80,625 | 75,662 | 76,902 | 75,315 |
| **Gross borrowings** | 30,131 | 77,503 | 107,634 | 122,643 | 103,320 | 116,701 |

| | Group 2006 £000 | Group 2005 £000 |
|---|---|---|
| Hire purchase and finance lease obligations included above areas follows: | | |
| Amounts payable: | | |
| Within one year | 275 | 376 |
| Between 1 and 2 years | 115 | 275 |
| Between 2 and 5 years | - | 115 |
| | 390 | 766 |
| Less: finance charges allocated to future periods | (43) | (122) |
| | 347 | 644 |
| Hire purchase and finance lease obligations are analysed as follows: | | |
| Current obligations | 238 | 297 |
| Non-current obligations | 109 | 347 |
| | 347 | 644 |

## 18 Provision for liabilities and charges

| | Property provisions | | Deferred Taxation | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| | £000 | £000 | £000 | £000 |
| At 1 May 2005 | (3,268) | - | - | - |
| Transfer from debtors | - | - | 357 | - |
| Transfer from profit and loss account | (301) | - | 623 | - |
| Disposal of subsidiary | 771 | - | (4) | - |
| Utilised in the year | 538 | - | - | - |
| Exchange movement | - | - | (1) | - |
| | (2,260) | - | 975 | - |
| Transfer to debtors | - | - | (975) | - |
| At 30 April 2006 | (2,260) | - | - | - |

The property provisions represent the directors' assessment of the Group's liability for leasehold dilapidations and the anticipated future costs to be incurred over the remaining lease terms of vacant properties.

Full provision has been made for deferred taxation at 30% in respect of:

| | Group | Company | Group | Company |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Capital allowances in advance of depreciation | 77 | - | 2 | - |
| Other timing differences | 688 | - | 325 | - |
| Overseas timing differences | 85 | - | 30 | - |
| Tax losses carried forward | 125 | - | - | - |
| | 975 | - | 357 | - |

Deferred tax assets of £2,859,000 arising from depreciation in advance of capital allowances have not been recognised (2005: £3,757,000), as it is not clear whether these amounts will be utilised in the foreseeable future.

In addition, no provision has been made for deferred tax assets, resulting from unutilised losses totalling £16,161,000 (2005: £17,162,000) as it is not clear whether these amounts will be utilised in the foreseeable future.

No provision has been made for overseas withholding tax that would be payable if retained earnings of overseas subsidiaries were distributed. There is presently no intention to distribute these earnings.

No provision has been made for any liabilities arising on the sale of Group properties as they are covered by brought forward capital losses.

## 19 Share Capital

| | Authorised | | Allotted and called up | | | |
|---|---|---|---|---|---|---|
| | Number | £000 | Number | Fully Paid £000 | Part Paid | Total £000 |
| **Equity share capital** | | | | | | |
| Ordinary shares of £1 each At 1 May 2005 and 30 April 2006 | 475,558 | 476 | 475,558 | 463 | 13 | 476 |
| 'A' ordinary shares of £1 each At 1 May 2005 and 30 April 2006 | 2,155,630 | 2,155 | 1,972,350 | 1,972 | - | 1,972 |
| **Total** | 2,631,188 | 2,631 | 2,447,908 | 2,435 | 13 | 2,448 |
| **Non-equity share capital** | | | | | | |
| 'A' Preference shares of £0.0001 each At 1 May 2005 and 30 April 2006 | 2,500,000 | - | 2,500,000 | - | - | - |
| 'B' Preference shares of £0.0001 each At 1 May 2005 and 30 April 2006 | 52,035,417 | 5 | 52,035,417 | 5 | - | 5 |
| **Total at 1 May 2005 and 30 April 2006** | **54,535,417** | 5 | 54,535,417 | 5 | - | 5 |
| **Share capital at 30 April 2005 and 30 April 2006** | **57,166,605** | 2,636 | 56,983,325 | 2,440 | 13 | 2,453 |

The rights relating to each class of share in issue at 30 April 2006 are as follows:

i) the ordinary shares and A ordinary shares rank pari passu as if one class of share for the purposes of income;

ii) the A and B preference shares carry no right to participate in or receive any dividends;

iii) in the event of winding up the company or otherwise reducing capital, the assets shall be applied;

first in repaying to the holders of the A preference shares the amounts paid up on such shares (including any premium);

secondly in repaying the holders of the B preference shares the amounts paid up on such shares (including any premium);

thirdly in paying the holders of A ordinary shares £1 per share together with any arrears or accruals of dividends on the shares; then

in paying the holders of ordinary shares £1 per share; then

the balance of the assets, up to £1,000,000 per share shall be distributed amongst the holders of the A ordinary share and ordinary shares pari passu as if the shares constituted one class;

iv) the ordinary shares carry one vote per share and the A ordinary shares carry ten votes per share.

## 20 Reserves

| | Share premium account £000 | Revaluation reserve £000 | Other reserves £000 | Profit and loss account £000 |
|---|---|---|---|---|
| **Group** | | | | |
| At 1 May 2005 as previously reported | 54,530 | 5,107 | (139) | (72,011) |
| Prior year adjustment (FRS17) | - | - | - | (14,845) |
| At 1 May 2005 as restated | 54,530 | 5,107 | (139) | (86,856) |
| Loss for the year deducted from reserves | - | - | - | (2,314) |
| Pension scheme actuarial gain | - | - | - | 6,907 |
| Foreign exchange adjustments | - | - | 153 | - |
| Depreciation on revalued amounts | - | (81) | - | 81 |
| At 30 April 2006 | 54,530 | 5,026 | 14 | (82,182) |
| **Company** | | | | |
| At 1 May 2005 | 54,530 | - | - | (39,840) |
| Loss for the year deducted from reserves | - | - | - | (3,796) |
| At 30 April 2006 | 54,530 | - | - | (43,636) |

## 21 Net cash flow from operating activities

| | 2006 £000 | 2005 (restated) £000 |
|---|---|---|
| **Continuing activities** | | |
| Group operating profit | 4,179 | 1,896 |
| Depreciation / amortisation | 6,482 | 6,639 |
| Goodwill written-off | - | 46 |
| Loss on disposal of fixed assets | 11 | 21 |
| Difference between pension charge and cash contribution | (466) | - |
| Decrease in stocks | 829 | 599 |
| Increase in trade debtors | (596) | (1,992) |
| Decrease in prepayments / other debtors | 973 | 325 |
| (Decrease) / increase in trade creditors | (1,041) | 5,107 |
| Increase in other taxation and social security | 16 | 81 |
| Increase in accruals/other creditors and provisions | 114 | 1,759 |
| Exchange rate adjustments | 27 | (59) |
| Net cash inflow from continuing activities | 10,528 | 14,422 |
| **Discontinued activities** | | |
| Operating profit | 1,136 | 772 |
| Depreciation | 70 | 385 |
| Decrease in stocks | 1,003 | 540 |
| Decrease in debtors | 684 | 2,022 |
| Decrease in creditors and provisions | (2,520) | (1,640) |
| Net cash inflow from discontinued activities | 373 | 2,079 |
| Total net cash inflow from operating activities | 10,901 | 16,501 |

## 22 Reconciliation of net cash flow to movement in net borrowings

| | 2006 | 2005 (restated) |
|---|---|---|
| | £000 | £000 |
| Increase in cash in the year | 6338 | 11,932 |
| Cash inflow from new loans | (29,462) | - |
| Cash outflow from the repayment of loans and finance leases | 39,061 | 1,423 |
| Cost of raising debt finance | 257 | 44 |
| Decrease in net debt resulting from cash flows | 16,194 | 13,399 |
| Other non-cash items | | |
| Loan stock converted to preference share capital | - | 27,970 |
| New finance leases & Hire Purchase contracts | - | (712) |
| Interest capitalised | (1,639) | (2,243) |
| Amortisation of debt issue costs | (1,224) | (608) |
| Exchange rate adjustments | 38 | (37) |
| Decrease in net borrowings during the year | 13,369 | 37,769 |
| Net borrowings at 1 May | (111,428) | (149,197) |
| Net borrowings at 30 April | (98,059) | (111,428) |
| Cash at bank and in hand | 8,362 | 9,035 |
| Borrowings due within one year (see Note 16) | (26,635) | (15,153) |
| Borrowings due after one year (see Note 16) | (79,786) | (105,310) |
| | (98,059) | (111,428) |

## 23 Analysis of net borrowings

| | At 1 May 2005 £000 | Cash Flow £000 | Disposals £000 | Exchange Non cash changes £000 | At Move ments £000 | 30 April 2006 £000 |
|---|---|---|---|---|---|---|
| Cash at bank and in hand | 9,035 | 5,133 | (5,844) | - | 38 | 8,362 |
| Overdrafts | (7,755) | 7,049 | - | - | - | (706) |
| | 1,280 | 12,182 | (5,844) | - | 38 | 7,656 |
| Debt due within 1 year | (7,699) | 38,764 | - | (57,130) | - | (26,055) |
| Debt due after 1 year | (106,545) | - | - | 26,029 | - | (80,516) |
| Finance leases | (644) | 297 | - | - | - | (347) |
| Cost of debt finance | 2,180 | 257 | - | (1,224) | - | 1,213 |
| | (112,708) | 39,318 | - | (32,325) | - | (105,715) |
| Net borrowings | (111,428) | 51,500 | (5,844) | (32,325) | 38 | (98,059) |

## 24 Disposal of subsidiary

On 12 October 2005 Serco-Ryan Limited, a wholly owned subsidiary of WYKO Holdings Limited, was sold to Trifast Plc for a gross consideration of £17 million (of which £1.8 million was utilised in repaying a Serco-Ryan Intercompany loan). £2 million of the consideration is payable in shares of Trifast Plc on the first anniversary of the sale.
The profit on the sale shown below is after accounting for costs incurred in making the sale and also after charging £8,808,000 of goodwill which had previously been capitalised.

| | £000 | £000 |
|---|---|---|
| Tangible fixed assets | | 632 |
| Stock | | 4,578 |
| Debtors | | 6,752 |
| Creditors and provisions | | (12,614) |
| Cash and borrowings | | 5,844 |
| | | 5,192 |
| Capitalised goodwill | | 8,808 |
| | | 14,000 |
| Consideration | | |
| Cash | 13,169 | |
| Deferred | 2,000 | |
| Disposal costs | (1,108) | |
| | | 14,061 |
| Profit on disposal | | 61 |

Serco-Ryan Limited contributed £373,000 to the Group's net operating cash flows.

## 25 Lease commitments

Annual commitments under non-cancellable operating leases are as follows:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Land & Buildings £000 | Other £000 | Land & Buildings £000 | £000 |
| **Group** | | | | |
| Operating leases which expire: | | | | |
| Within 1 year | 112 | 66 | 171 | 580 |
| Between 1 and 5 years | 929 | 1,629 | 1,675 | 2,625 |
| After 5 years | 1,094 | - | 1,739 | - |
| | 2,135 | 1,695 | 3,585 | 3,205 |

**Company**

The company had no operating lease commitments at any time during either year.

## 26 Contingent liabilities

At 30 April 2006 there were contingent liabilities to the Group's bankers as follows:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Group £000 | Company £000 | Group £000 | Company £000 |
| Performance bonds and guarantees | 163 | - | 278 | - |
| Forward exchange contracts | - | - | 138 | - |
| Letters of credit | - | - | 64 | - |
| | 163 | - | 480 | - |

The company guarantees the borrowings of its principal subsidiaries to its bankers. The contingent liability at 30 April 2006 was £nil (2005: £2,719,000)

## 27 Related party transactions

The company has taken advantage of the exemption, allowed by Financial Reporting Standard No. 8, not to disclose transactions and balances with related party undertakings which are at least 90% owned by the Group.

During the year the Group traded with Rencol MMI Technology Pte Limited, making sales of £204,000 (2005: £125,000) and receiving fees of £585,000 (2005: £313,000).

## 28 Ultimate controlling party

The directors' interests in the ordinary shares of the company are shown in the directors' report. Of the 1,972,350 'A' ordinary shares, 59.27% are held by Royal Bank Investments Limited and 23.89% held by RBDC Parallel Ventures Limited Partnership.

**ISSUER**

Eriks Group N.V.
Arcadialaan 14, Victory Building
P.O Box 1088, 1810 KB Alkmaar
The Netherlands

**LEGAL ADVISORS TO THE COMPANY**

As to Dutch law

De Brauw Blackstone Westbroek N.V.
Burgerweeshuispad 301
1076 HR Amsterdam
The Netherlands

**GLOBAL COORDINATOR AND BOOKRUNNER**

Rabo Securities
Rembrandt Tower, Amstelplein 1
1096 HA Amsterdam,
The Netherlands

**CO-LEAD MANAGERS**

Fortis
Blaak 555
3011 GB Rotterdam
The Netherlands

SNS Securities
Nieuwezijds Voorburgwal 162-170
1012 SJ Amsterdam
The Netherlands

**LEGAL ADVISOR TO THE GLOBAL COORDINATOR**

Allen & Overy
Apollolaan 15
1077 AB Amsterdam,
The Netherlands

**INDEPENDENT AUDITORS**

PricewaterhouseCoopers Accountants N.V.
Thomas R. Malthusstraat 5
1066 JR Amsterdam,
The Netherlands

**LISTING AGENT AND PAYING AGENT**

Rabo Securities
Rembrandt Tower, Amstelplein 1
1096 HA Amsterdam,
The Netherlands

IMPRIMA - 161170