

2005

ANNUAL REPORT



“Creating value
through active
involvement”



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The course is set

During the course of their business development, companies also come across areas of impassible terrain, with many taking a few false steps and failing. ARQUES has the necessary know-how, the right strategy and the required will power to get these companies back on track and turn them into shining success stories.

Introduction by the Executive Board

Dear Shareholders and fellow Arquees,

We hereby have the pleasure of providing you - in order to mark the closing of the most successful financial year in the short company history of ARQUES Industries AG - with the 2005 annual report.

As you have surely noticed, this report has more than doubled in size compared to its predecessor. This can be traced back not only to the strong growth of the ARQUES Group, but also to the significantly increased effort to achieve transparency and detail. New this year, for example, are vintage reporting for segments, restructuring reports for the individual companies and an assessment of the participation portfolio based on the net asset value as of the end of 2005.

We can look back on financial year 2005 with satisfaction. All of the operating and strategic goals that we set for ourselves and announced at the General Meeting in July 2005 have been reached or even exceeded in many cases. Thus the ARQUES shares, after changing over to the regulated market in June 2005, were accepted on the SDAX already in September. The stock has been listed as one of the 30 largest stock exchange companies in Bavaria in BayX30 since December.

As far as sales and results are concerned, new best values were also achieved in the financial year under review. Consolidated annual sales tripled and the Guidance for the capital market prepared in the spring of last year had to be revised upward two times due to the successful development. Even the targets of the most recently published Guidance were again slightly exceeded.

ARQUES is a relatively young company, which only started up business operations in the second half of 2003. Our goal at that time was to get a foothold in the market with a unique and innovative business model. But with a motivated and, above all, highly qualified core team, we were able to close out the first year of business operations without the addition of outside capital and in the process, report a six-figure profit.

The goal of the following financial year, 2004, was then to strengthen the initial position we had reached and establish ourselves on the market as the leading turnaround specialist. Financial year 2004 ended with new peak values. Sales increased five-fold, profit also climbed to almost EUR 40 million and ARQUES established itself as the absolute market leader in the market of so-called "distressed companies" in Europe.

In financial year 2005 under review, in addition to the sales and earnings increases already mentioned, the changeover to the regulated market and being accepted in a number of stock indices, we ultimately succeeded in further expanding our market leadership. At the forefront of this achievement for ARQUES was establishing ourselves as a partner to international group companies for strategic group spin-offs.

We have had more success in this area than anticipated. ARQUES is the largest company in its field listed on the stock exchange and significantly underscored its growth track record through the numerous acquisitions of financial year 2005, which are continuing in 2006. After the partly spectacular takeovers from sellers such as Degussa, TYCO, Masco, KartstadtQuelle and, in 2006, Dynamit Nobel, ARQUES successfully positioned itself as an appropriate and accepted partner of large corporations. The acquisition of a French state-owned enterprise as the first German company whatsoever, specifically Evry Rotatives in Paris, underscores our position.

On the other hand, ARQUES has succeeded in establishing its own subsidiaries on the stock exchange. This was especially obvious in the case of ARQUANA, which under the leadership of ARQUES implemented a consolidation concept in the web offset printing field in an extremely short period of time and as early as the end of financial year 2005 had become one of the market leaders in Europe with annualized sales of more than EUR 120 million.

With tiskon, ARQUES acquired a company listed on the regulated market which can also be used for other activities in the future. And finally, the stock market launch of the SKW Group, which in 2005 was able to achieve world market leadership in the field of special chemistry for steel with almost EUR 200 million in sales and a market share of over 30%, is imminent.

ARQUES could then also introduce intelligent concepts for a possible exit.

ARQUES closed out financial year 2005 with the highest sales, the highest profit, the highest shareholders' equity and the highest cash funds holding in the company's history. And, in keeping with the ARQUES policy, ARQUES remained largely free of debt to banks. Except for a guaranty in the amount of EUR 250,000, ARQUES again had no need to issue guarantees or sureties for subsidiaries.

ARQUES is therefore optimally equipped to tackle the challenges and opportunities that arise in a constantly changing environment vigorously, keenly and with self confidence.

With annualized yearly sales of EUR 600 million at the end of 2005 and EUR 720 million at the end of the first quarter of 2006, ARQUES is already one of the largest companies in the SDAX. By exceeding the sales goal of EUR 1 billion projected for 2006, ARQUES will gradually leave the ranks of medium-sized companies. With more than 2,600 employees worldwide, ARQUES can already envision itself as a global company. At the end of this year, it could presumably be more than 4,000 employees.

ARQUES generates a great deal of interest among young executives, the so-called "High Potentials", which enabled us to experience a real stampede for all of our open positions last year. The mixture of experienced entrepreneurship, management responsibility, social prestige and the chance for high profits indeed has an almost magical force of attraction. Over 150 highly qualified candidates applied for the position of subsidiary manager, for example, all of whom were intelligent, pragmatic and well-educated top executives. ARQUES selected a total of 11 from this pool last year, with another 30 being placed on the short-list. The Management Board does not anticipate any shortage of executives.

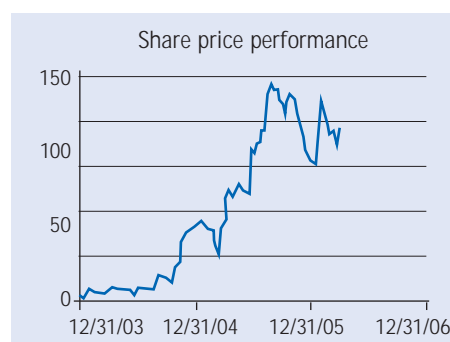
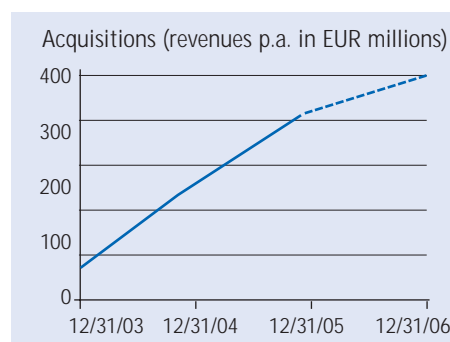
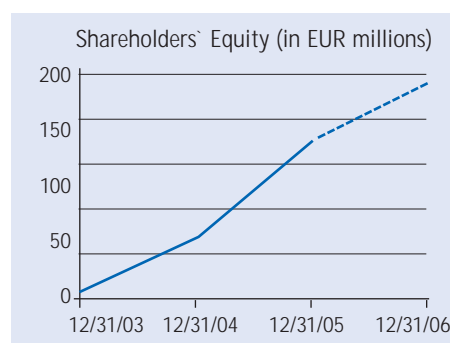
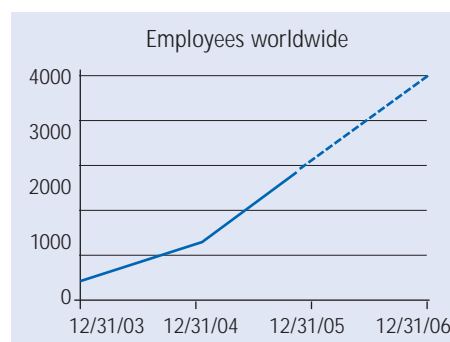
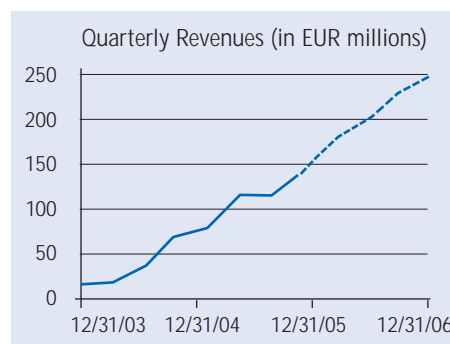
We are optimistic about continuing this successful trend in 2006. In the first quarter alone, new companies with more than EUR 120 million in sales could be added to the Group. The restructuring efforts of the "Operations" division also point to increasingly more effective processes, which again result in accelerated restructuring results.

Paradoxically, the financial situation of the company has improved sharply despite intensive acquisition activities. At year-end, a record level of liquid funds was achieved with minimal indebtedness.

While ARQUES was able to eke out a leading position as an operating company, a glance at the capital markets shows a more contradictory picture. Whereas the price per share from the beginning of 2005 (EUR 59.00) to the end of the month of September 2005 (EUR 140.00) still correlated with economic development, the share price development departed from the operating performance. Non-operational events resulted in uncertainty among our investors, a price loss and strong volatility of the ARQUES shares.

In presenting these audited figures for 2005, the outlook for the year 2006 and the acquisition successes, the Management Board is assuming that the share price will again become aligned more strongly with actual developments.

The frequently asked question as to which share price portrays a fair value of ARQUES is not easy to answer. But if one takes a look at the net asset value of the investment portfolio as of 12/31/2005 of EUR 284.7 million, one can see that the values calculated there are over the actual market capitalization of ARQUES by approximately EUR 240 million at present. For all comparable holding companies listed on the stock exchange, these net asset values are clearly below the stock exchange price. This also makes sense, since the additional charge represents the premium for a successful business model, which ARQUES undoubtedly possesses.



If we take a look at the operational group figures, the price-earnings ratio based on a price of EUR 100.00 and the estimated profit per share of EUR 22.18 for 2006 amounts to only 4.51. On the other hand, the capital market allows strongly growing companies price-earnings ratios of over 20 as a fair assessment. The ARQUES share is therefore not overvalued by any means. The ARQUES analysts estimate values of up to EUR 198.00 for the ARQUES share as a 12-month upside target. We would like to again exceed this as well.

ARQUES has always stated that it would like its shareholders to take part in its success. We would like to abide by this policy again this time.

Based on the excellent situation of the Company, the Management Board has recommended to the Supervisory Board that a dividend in the amount of EUR 2.05 per share

be paid out (+ 78%). The Management Board will also recommend that the General Meeting pass a resolution for a capital increase from Company funds, since the revenue reserves in the holding company have meanwhile increased to over EUR 50 million. This will result in 9 free shares per old share being granted to the shareholders, which from an economic perspective would result in a stock split of 1:10.

We hope that you, our cherished shareholders, will continue to have confidence in us and remain a contributing factor of our unique business concept. We thank you for your encouragement in turbulent times and for our part, would like to reward your confidence with a new set of peak values at year-end.

Together let's create an ever-evolving ARQUES that will increasingly become a driving force of economic dynamics.

Sincerely,
the Executive Board of ARQUES Industries AG

Dr. Martin Vorderwülbecke

Dr. Dr. Peter Löw (Chairman)

Markus Zöllner

The Executive Board



Dr. Dr. Peter Löw

Chairman of the
Executive Board

Following two courses of law studies, taking his doctor's degrees as Dr. jur. utr. and Dr. phil. as well as completing his MBA studies at INSEAD in Fontainebleau, Dr. Dr. Löw first took up a position as a consultant for McKinsey & Company. Following this, he established and managed his first medium-sized investment holding company, and others followed. To date, he has carried out over 70 company acquisitions and has had direct operational responsibility in numerous cases as managing director. He is the founder of ARQUES Industries AG and chairman of the Executive Board.



Dr. Martin Vorderwülbecke

Head of Finance
and Acquisitions

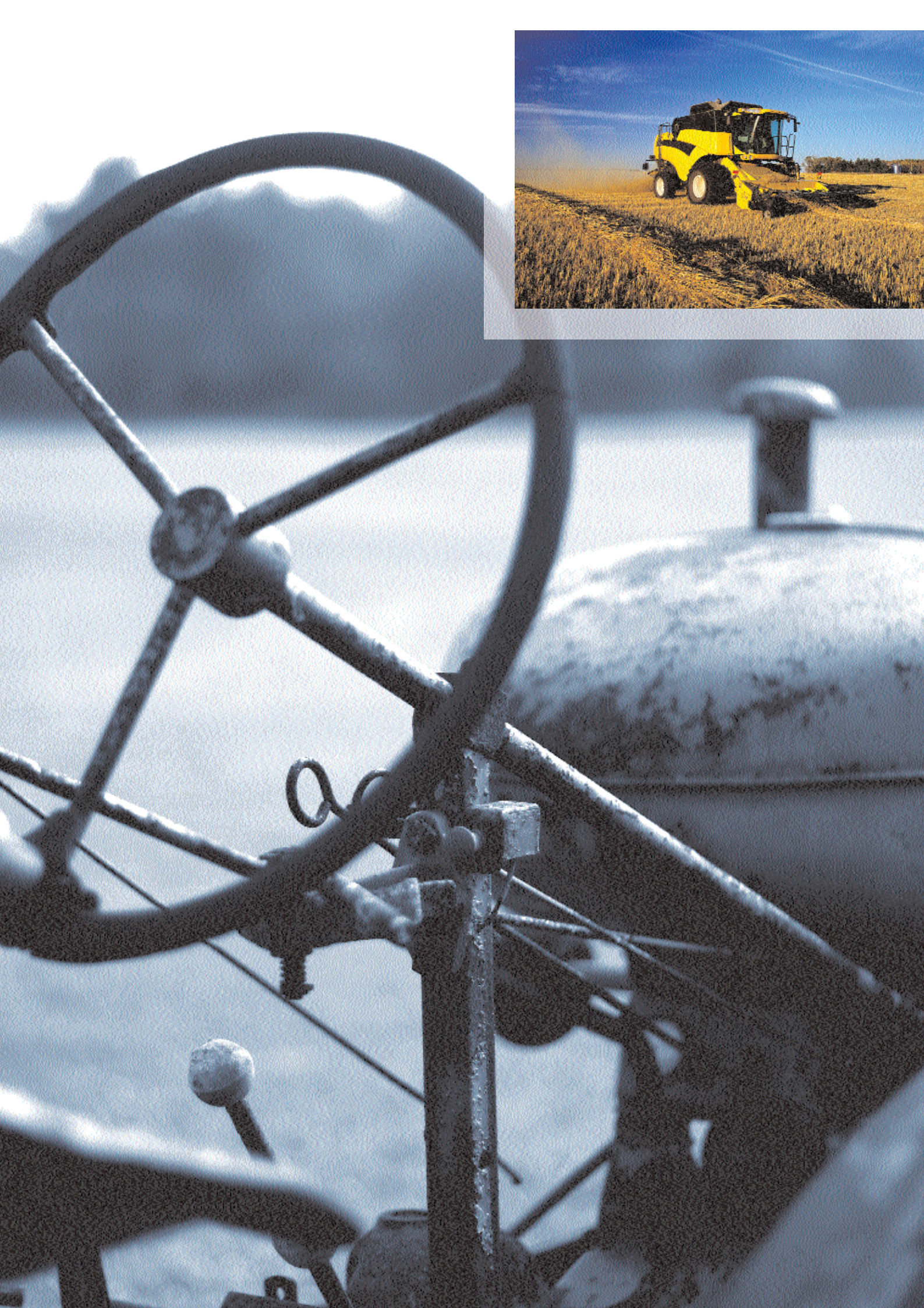
Following his law studies and the subsequent conferring of his doctorate, Dr. Vorderwülbecke worked for two years as a corporate consultant for IMM Industriemanagement München GmbH and was responsible for investment purchases with sales of EUR 300 million. He then completed his MBA studies at INSEAD in Fontainebleau. Together with Dr. Dr. Löw, he then founded his first medium-sized investment holding company, and others followed. To date he has carried out over 70 company acquisitions and was in many cases the managing director of these companies. Dr. Vorderwülbecke is a licensed attorney and has been a member of the Executive Board of ARQUES Industries AG since July 1, 2004.



Markus Zöllner

Head of
Operations

After completing his studies in industrial engineering, Mr. Zöllner worked in the telecommunications industry for over ten years. He was very instrumental in the development of VIAG Interkom (today o2), in which he held several management positions. In 2000 he successfully completed his MBA studies in the WHU-Kellogg program at Vallendar in Chicago. Most recently, Markus Zöllner was employed at the ARQUES subsidiaries Tesion Telekommunikationsnetze and Versatel Deutschland Gruppe as their managing director. Mr. Zöllner has been on the Executive Board at ARQUES Industries AG since the beginning of 2005 and is responsible for the operational management and restructuring of the ARQUES affiliated companies.



Good tools are needed to master a trade

Developing an ailing company into an enterprise that is competitive and strong in earnings power requires more than just financial resources. ARQUES has the right manpower and ideal operating structures to revitalize its subsidiaries on a sustainable basis.

Overview of Developments in 2005

January

January 1, 2005 - Markus Zöllner named Head of Restructuring

Markus Zöllner assumed his position as a new member of the Executive Board of ARQUES Industries AG at the beginning of the year. In November 2004, 37-year-old Zöllner had been appointed Head of the Restructuring Division. His area of responsibility encompasses mainly the operational management of the ARQUES subsidiaries.

February

February 28, 2005 - Executive Board member Dirk Markus removed from office

At an extraordinary meeting, the Supervisory Board of ARQUES Industries AG decided to dismiss Executive Board member Dirk Markus from office effective immediately. The contract governed by the law of obligations had not been renewed already in the preliminary stage. Dirk Markus had been responsible for the Finance and Restructuring divisions serving as the head of these divisions since December 5, 2002. His duties were taken over by Executive Board members Dr. Martin Vorderwülbecke and Markus Zöllner.

April

April 5, 2005 - ARQUES acquires Johler Druck GmbH

In its first acquisition of the year, ARQUES acquired the rotary offset printer Johler Druck GmbH, based in Neumünster, from the British group St Ives plc in early April. Johler Druck was established on the market as a specialist for high-quality printed advertising material. Due to its complementary make-up, this company represented an ideal supplement for ARQUES to its December 2004 acquisition of Colordruck Pforzheim GmbH & Co. KG. With its more than 100 employees, Johler Druck achieved sales of about EUR 25 million in 2004.

April 7, 2005 - ARQUES acquires SKS Stakusit Bautechnik GmbH

Retroactive to January 1, 2005 ARQUES acquired one of the leading providers of system technology for products pertaining to windows such as roller shutters and insect protection systems together with the takeover of Duisburg-based SKS Stakusit Bautechnik GmbH. Following the acquisition of the insulating protection and sanitary specialist E. Missel GmbH & Co. KG, SKS was the second company which ARQUES acquired from the globally active Masco Corporation based in Michigan, USA. Last year, the approximately 200 employ-

ees in more than 20 European countries achieved annual sales of about EUR 40 million.

April 12, 2005 - ARQUES acquires Jahnel-Kestermann Getriebewerke GmbH & Co. KG

ARQUES acquired its third subsidiary within only a few days on April 12 with 89% of the shares in Jahnel-Kestermann Getriebewerke GmbH & Co. KG in Bochum. The company is one of the worldwide leading manufacturers of high-performance drives for special applications. Jahnel-Kestermann achieves annual sales of about EUR 35 million with approx. 200 employees.

June

June 21, 2005 - ARQUES takes over Golf House Direktversand GmbH

On June 21, ARQUES took over 74.9% of the shares of Golf House Direktversand GmbH, based in Hamburg, from the Essen-based group KarstadtQuelle-Konzern. With its 19 branch offices and its mail order business, Golf House is one of the leading retailers in Germany of items pertaining to the sport of golf. In financial year 2004 Golf House employed approximately 175 people and achieved net sales of about EUR 22 million.

June 28, 2005 - ARQUES listed on the regulated market (Prime Standard)

ARQUES Industries AG has been listed on the regulated market (Prime Standard) of the Frankfurt stock exchange since June 28th. This move implemented a decision of the Ordinary General Meeting of July 2, 2004. ARQUES had already met the increased admission requirements of the regulated market from the beginning of the year, such as the preparation of quarterly reports and the publication of all capital market-related reports in both German and English.

June 30, 2005 - ARQUES sells Schierholz-Translift-Gruppe

Effective as of June 30, ARQUES sold the special systems builder Schierholz Translift to two investor groups. The company with the strongest sales, Louis Schierholz GmbH, was sold to some of the executive employees as part of a management buy-out. The smaller companies were acquired by the Swiss AIK Alpenländische Industriekapital AG.

July

July 1, 2005 - Dr. Stefan Gros becomes new Chief Financial Officer of ARQUES Industries AG

The previous three-member Executive Board consisting of Dr. Dr. Peter Löw (Chairman of the Executive Board), Dr. Martin Vorderwülbecke (Head of Acquisitions) and Markus Zöllner (Head of Operations) is expanded with the addition of Dr. Stefan Gros as the new Chief Financial Officer.

July 12, 2005 - ARQUES acquires the Italian adhesive tape manufacturer Evotape S.p.A.

Retroactive to June 1, 2005 ARQUES Industries AG took over 89% of the shares in the Italian adhesive tape producer Evotape S.p.A. based in San Pietro Mosezzo near Milan from the American Tyco group. The remaining shares went to the ARQUES shareholdings management. Evotape is a European market leader in packaged adhesive tapes and achieves sales of approx. EUR 65 million per year with about 280 employees.

July 13, 2005 - Capital increase successfully completed

ARQUES Industries was able to successfully place 200,000 new individual bearer shares. The capital stock of the company therefore increased to a total of EUR 2,226,667. By issuing another 200,000 shares through old shareholders, the free float was increased to over 50%.

July 14, 2005 - Ordinary General Meeting of ARQUES Industries AG

At the Ordinary General Meeting of July 14, ARQUES Executive Board Director Dr. Dr. Peter Löw stated that a sales volume of EUR 1 billion and admission to the SDAX or MDAX were the medium-term objectives of ARQUES Industries AG. In addition to other agenda items, the distribution of a dividend of EUR 1.15 was decided upon. PricewaterhouseCoopers AG was commissioned with the preparation of the audit report for financial year 2005.

August

August 10, 2005 - ARQUES acquires major share of listed Circel AG

As a platform for launching a subsidiary on the stock exchange, ARQUES acquired more than 95% of Circel Grundstücks- und Vermögensverwaltung AG, traded on the Munich stock exchange, from Rohrdorfer Zement AG. The business operations of Circel AG had been largely halted. The previous executive board and supervisory board resigned. ARQUES Executive Board members Dr. Dr. Peter Löw and Markus Zöllner were appointed as the new executive board.

September

September 16, 2005 - ARQUES decides to take over Sommer Fahrzeugbau GmbH & Co. KG

At its meeting of September 16, 2005 the ARQUES Executive Board decided to initially take over 94% of the shares in the company of Sommer Fahrzeugbau GmbH & Co. KG. The shares are to be put up by means of a capital increase through contributions in kind in exchange for the issuing of shares from the approved capital in ARQUES Industries AG. Sommer is a leading international special motor vehicle builder.

September 19, 2005 - ARQUES listed in SDAX

Thanks to the last rapidly increased free float market capitalization, the ARQUES share started out in 20th place on the SDAX. On September 5, following the rotational meeting of the stock index task force, Deutsche Börse AG announced the admission of ARQUES Industries AG to the selection index for "Small Caps".

October

October 18, 2005 - ARQUES subsidiary Circel acquires part of the French state print shop

By acquiring the Parisian print shop Evry Rotatives S.A.S., ARQUES subsidiary Circel Grundstücks- und Vermögensverwaltung AG became one of the few German groups to succeed in acquiring a French state-owned enterprise. Evry Rotatives was a subsidiary of the French national print shop and achieved annual sales of approx. EUR 20 million with about 80 employees. The acquisition of Evry Rotatives represented a first step toward internationalizing rotary offset activities in Europe.

October 19, 2005 - ARQUES subsidiary Circel buys Nord Offset Druck GmbH

Just one day after the acquisition of Evry Rotatives, a fourth print shop further expanded the ARQUES portfolio: ARQUES subsidiary Circel Grundstücks- und Vermögensverwaltung AG acquired Nord Offset Druck GmbH from Ellerbek near Hamburg. This enabled the joint product portfolio and the machinery of the ARQUES print shops to be further expanded and foundations for additional synergies to be laid. Nord Offset Druck employs a staff of approximately 70 employees and achieves sales of more than EUR 10 million per year.

October 20, 2005 - ARQUANA International Print & Media AG listed on the stock exchange

The stock exchange listing of the new print shop holding ARQUANA International Print & Media AG was completed as the affiliated print companies Johler Druck GmbH, Evry Rotatives S.A.S. and Nord Offset Druck GmbH were incorporated into the corporate shell of ARQUES subsidiary Circel Grundstücks- und Vermögensverwaltung AG. The ARQUES print shop Colordruck Pforzheim GmbH & Co. KG will function initially as a partner company. Dr. Friedrich-Carl Wachs was appointed Chairman of the Executive Board of ARQUANA International Print & Media AG.

October 20, 2005 - ARQUES announces the stock market launch of the SKW Group

On the heels of the print shop holding ARQUANA International Print & Media AG, ARQUES announced that it also wanted to list SKW Stahl-Metallurgie-Gruppe on the stock exchange via an over-the-counter corporate shell. To this end, ARQUES acquired 80% of the voting rights of Xerius Bioscience AG. The SKW-Group was originally to be brought into the corporation at the General Meeting of Xerius AG on December 5, 2005 as part of a capital increase through contributions in kind. Since the fiscal handling of the incorporation could not be clarified by the revenue office in advance, the stock exchange listing had to be postponed until 2006.

October 26, 2005 - ARQUES acquires majority of shares in listed tiscon AG Infosystems

By acquiring 77.98% of the shares in the IT consulting company tiscon AG Infosystems located in Neu-Ulm, the third listed subsidiary expanded the ARQUES portfolio. The seller was the Stuttgart-based cellent AG, a subsidiary of Landesbank Baden-Württemberg. tiscon is a full-service provider of business process management solutions. With 55 employees, tiscon achieved consolidated sales of EUR 8.2 million in financial year 2004.

November

November 21, 2005 - ARQUES acquires Austrian print shop Sochor Group GmbH

In the course of internationalization within the rotary offset segment, ARQUES acquired Sochor Group GmbH from the Austrian Zell am See. Sochor will be transferred to the listed ARQUES subsidiary ARQUANA International Print & Media AG. The Sochor Group is one of the largest rotary offset print shops in Austria. In 2004, sales of EUR 33 million could be achieved with about 170 employees.

December

December 8, 2005 - Changes in executive board

On December 8, 2005, the duties previously under the auspices of the Chief Financial Officer, Dr. Stefan Gros, were assumed by Dr. Martin Vorderwülbecke, who had served as Chief Financial Officer prior to Dr. Gros joining the company.

December 19, 2005 - ARQUES listed on BayX30

Since December 19, 2005, ARQUES has been listed on the Bavarian stock market index BayX30. A joint board of the Bayerische Landesbank and Deutsche Börse AG made the decision based on the set of rules and regulations for BayX30. On the cut-off date of November 30, 2005, ARQUES achieved 25th place on the ranking list of indexes of the Deutsche Börse among the largest listed companies based in Bavaria.

December 22, 2005 - Annualized consolidated group sales increase to almost EUR 600 million

Due to the acquisition of Wanfried-Druck Kalden GmbH by ARQUES subsidiary ARQUANA Print & Media AG, the

annualized sales of the ARQUES Group will increase to EUR 600 million. With this achievement, the originally targeted half billion was exceeded by almost 20%. Against this background, the ARQUES Executive Board substantiated the goal of reaching one billion in sales on an annualized basis by the end of the year 2006.



A golden harvest does not appear out of nowhere

Holistically analyzing a company and realizing its potential with one goal in mind - that is what sets ARQUES apart. The acquisitions team, the subsidiary managers and the task force all maintain pivotal roles in this process. By means of its highly qualified specialists and the right strategy, ARQUES cultivates and refines its subsidiaries.

The ARQUES Share

Development of the ARQUES shares

ARQUES shares continued their pleasing trend in the financial year under review and ended the year with a plus of 69% and a closing price of EUR 100.00 as of December 30, 2005 (closing price on December 30, 2004: EUR 59.00).

By the end of June 2005 the segment changeover of ARQUES shares to the regulated market (Prime Standard), previously decided at the Annual General Meeting of 2004, had been successfully completed. The share was then admitted to the SDAX selection index of the Deutsche Börse on September 19, 2005. In making this decision, the Deutsche Börse bore in mind the significantly increased free float market capitalization and the trading volume of the ARQUES shares, which had increased by leaps and bounds since being admitted into the Prime Standard.

The SDAX was able to advance by 36% in the comparable period. The MDAX increased in 2005 by 35%, the DAX by 27%.

At the time of reporting, the ARQUES shares listed at EUR 129.50 (April 6, 2006). The positive expectations for the future, which become manifest in the January 2006 published Guidance for the current financial year, allow us to project that the shares will continue their positive trend.

Statements of analysts

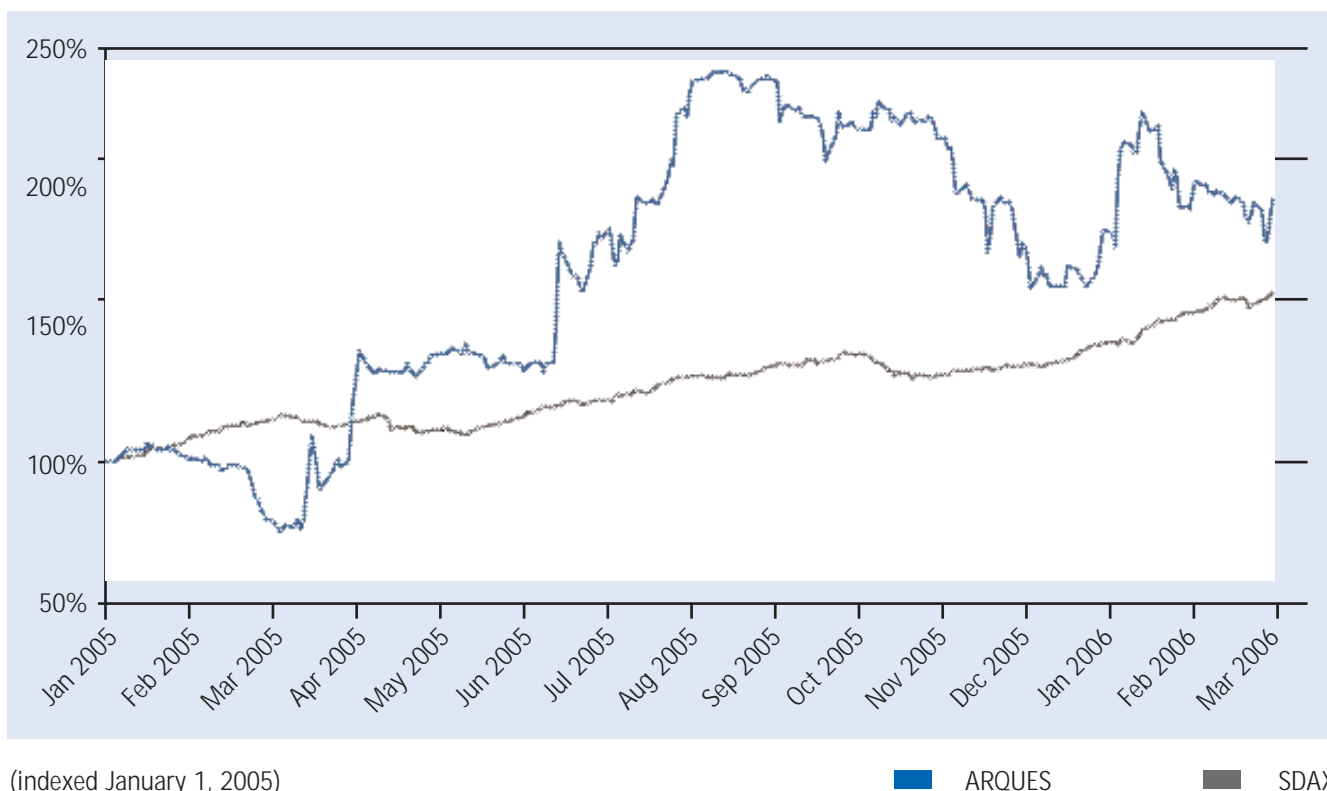
The analysts also envision that the price potential of the ARQUES shares will continue unabated for some time and they rate the future prospects for ARQUES Industries AG as positive. In addition to various recommendations in investor magazines, four analyses of the ARQUES shares have been published to date.

The majority of the submitted recommendations are to "buy" and envision the "fair value" of the ARQUES shares to be considerably higher than the current price level.

An expansion of coverage using additional international investment companies is planned for the current financial year.

Institute	Date	Recommendation	Upside target
HypoVereinsbank	February 2006	Buy	EUR 198.00
Berenberg Bank	March 2006	Buy	EUR 135.00
West LB	March 2006	Buy	EUR 130.00
HSBC Trinkaus & Burkhardt	April 2006	Buy	EUR 153.00

ARQUES share price (compared to SDAX)



Capital measures

Based on successful investor discussions, a cash capital increase in exchange for the issuing of 200,000 new shares was implemented in July 2005. At the same time, 200,000 shares were placed from the possession of old shareholders.

This transaction enabled the free float of the ARQUES shares to be increased to over 50% and the liquidity in the shares to be significantly increased.

Information on the ARQUES shares

WKN	515600
ISIN	DE0005156004
Stock exchange abbreviation	AQU
Type of share	Individual bearer share
Number of shares issued as of December 31, 2005	2,426,667
Capital stock	EUR 2,426,667
Closing price as of December 30, 2005	EUR 100.00
Market capitalization as of December 31, 2005	EUR 242,666,700.00
52-week high	EUR 140.60
52-week low	EUR 45.00
Earnings per share (diluted) as of Dec. 31, 2005	EUR 22.18
Price-earnings ratio*	4.51

*Calculation: share price / Earnings per share as of 12/30/2005

The trust that institutional investors showed us during this capital measure was reconfirmed in October 2005 by way of another increase in the capital stock by 200,000 new shares. The shares of Sommer Fahrzeugbau GmbH & Co. KG were invested in ARQUES Industries AG by means of a capital increase through contributions in kind in exchange for providing shares from the approved capital. Overall, the capital stock was increased by 400,000 shares in the financial year under review to 2,426,667 shares.

At the time of reporting, 22.8% of the capital stock is held by the company's Executive Board. The rest is in free float.

Investor relations

For ARQUES, Investor Relations means the timely communication of high-quality, transparent information to a broad financial community. To this end, ARQUES is present at a number of road shows, analyst and investor events. In this way, ARQUES has been able thus far to expand its investor base beyond Germany to Great Britain, the USA, Switzerland, Scandinavia and Benelux. Additional road shows in

other parts of the European mainland are planned for the current year. Investor Relations are rounded out by regular investor discussions at the company head office in Starnberg as well as public relations with the press by means of interviews and press conferences.

For shareholders who have more than a strictly financial interest in ARQUES, the ARQUEE Club was established at the beginning of 2004. It provides its members - the Arquees - with the option of participating in regularly occurring informational events of the ARQUES Group and thus to come into direct contact with the management and employees. Last year, in addition to a reception at the ARQUES head office in Starnberg, visits were made to the ARQUES subsidiaries Jahnel-Kestermann Getriebewerke GmbH & Co. KG and the second largest German news agency, ddp Deutscher Depeschendienst GmbH. The Arquees are very important to ARQUES, because this direct contact can provide motivation and suggestions for improvement with respect to the perceptions of the outside world.

The ARQUES Homepage is updated weekly with the latest information from the ARQUES Group under the category

Share ownership of the ARQUES executive bodies (April 2006)

Executive Board		Number of shares
Dr. Dr. Peter Löw	Chairman of the Executive Board	528,198
Dr. Martin Vorderwülbecke	Head of Finance and Acquisitions	1,000
Markus Zöllner	Head of Operations	23,688
Supervisory Board		Number of shares
Steven Wilkinson	Chairman of the Supervisory Board	59,001
Prof. Dr. Michael Judis	Vice Chairman	-
Dr. Gerd Fischer		-
Bernhard Riedel		-
Mathias Spindler		-

"Insider - News from the Group". All financial reports, ad hoc reports and press releases, the company calendar and the Annual General Meeting documents and a range of other information on the affiliated companies are available to the public at www.arques.de.

Net asset value of the investment portfolio

The value of the ARQUES investment portfolio as of the balance sheet date on December 31, 2005 is as follows:

Companies name	Net Asset Value (in EUR millions)
1. Teutonia	7.1
2. SKW	110.7
3. Missel	15.8
4. ddp	14.5
5. SKS Stakusit	13.6
6. Jahnel-Kestermann	11.4
7. Golf-House	10.8
8. Evotape	4.3
9. Sommer	26.4
10. Tiscon	8.3
11. Xerius	3.7
12. Arquana	58.2
Total	284.7

The value of the investment portfolio of ARQUES Industries AG was determined on the basis of a free cash flow to equity approach in accordance with Standard IDW S1: "Principles for conducting corporate assessments" of the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW) (institute of German accountants) and subjected to a review.

The listed subsidiaries ARQUANA International Print & Media AG, tiscon AG Infosystems and Xerius AG were included in the calculations with their pro rata market capitalization as of December 31, 2005.

Contact

ARQUES Industries AG
Investor Relations &
Corporate Communication

Anke Lüdemann, CEFA/CIIA
Tel.: +49 / 8151 / 651 - 0
info@arques.de

Corporate Governance

The term "corporate governance" refers to a responsible system of management and control of companies geared toward long-term added value. Efficient collaboration between the executive board and supervisory board, a clear system of rules, observing the interests of shareholders as well as openness and transparency in corporate communications are the essential aspects of good corporate governance. ARQUES Industries AG began orienting its activities according to the guidelines of § 161 AktG (stock corporation law) in financial year 2004 and interprets corporate governance as a process that is constantly being further developed and improved.

Declaration of compliance

The declaration of compliance with the Corporate Governance Code according to § 161 AktG was consistently made available to the shareholders: "The Executive Board and Supervisory Board of ARQUES Industries AG hereby declare, that the behavioral recommendations of the Code Commission announced in the electronic Federal Gazette regarding company management and monitoring are being complied with except for the following exceptions. The divergences are explained in the following comments."

Remuneration of the executive board

Contrary to Item 4.2.3 of the Code, the remuneration model does not include any variable components. Information about their physical form and method of reporting is therefore also omitted from the Notes to the consolidated financial statements. The members of the Executive Board do, however, hold a significant number of shares in the company.

Successor planning

Contrary to Item 5.1.2 of the Code, there is currently no long-term successor planning for the members of the Supervisory Board. This is also not necessary at present, since according to the articles of association the members of the Supervisory Board are elected for a period of one financial year only and replacement members are appointed at the Annual General Meeting. No age limit has been set for the members of the Executive Board to date. In the near future, the age limit for the members of the Executive Board shall be set at the age of 65.

Contrary to Item 5.4.1, no age limit is currently set for the members of the Supervisory Board either.

Remuneration of the Supervisory Board

Contrary to Item 5.4.7 of the Code, the members of the Supervisory Board currently do not receive any remuneration, which means that the reporting as to the method and level of emoluments is also omitted.

Annual audit

Currently the annual audit is not yet publicly available 90 days after the end of the financial year (Item 7.1.2 of the Code). The company will implement the recommendation as of the consolidated financial statements for financial year 2006.

Reportable securities transactions of the Executive Board and the Supervisory Board

The members of the Executive Board and Supervisory Board in accordance with § 15a WpHG (securities trade act) are legally obligated to immediately inform the company about the acquisition or sale of shares of ARQUES Industries AG ("Directors Dealings").

In financial year 2005 the company received the following reports in accordance with § 15a WpHG:

Individual subject to disclosure requirement	Role	Date	Type of transaction	Price in EUR	Volume in units	Volume in EUR
Dr. Stefan Gros	Head of Finance*	July 13, 2005	Purchase	85.52	1,200	102,624.00
Markus Zöllner	Head of Operations	July 13, 2005	Purchase	85.52	5,000	427,600.00
Dr. Dr. Peter Löw	Executive Board Chairman	July 15, 2005	Sale	85.52	100,000	8,552,000.00
Dr. Dr. Peter Löw	Executive Board Chairman	July 18, 2005	Sale	85.52	11,500	983,480.00
Dr. Dr. Peter Löw	Executive Board Chairman	July 18, 2005	Sale	30.00	1,000	30,000.00
Dr. Dr. Peter Löw	Executive Board Chairman	July 26, 2005	Sale	95.00	15,000	1,425,000.00
Dr. Stefan Gros	Head of Finance*	October 25, 2005	Sale	133.10	56	7,453.60
Dr. Stefan Gros	Head of Finance*	October 31, 2005	Sale	131.50	200	26,300.00
Dr. Stefan Gros	Head of Finance*	October 31, 2005	Sale	131.00	300	39,300.00
Dr. Dr. Peter Löw	Executive Board Chairman	November 21, 2005	Sale	114.00	138,000	15,732,000.00
Dr. Stefan Gros	Head of Finance*	November 22, 2005	Sale	117.00	144	16,848.00
Dr. Stefan Gros	Head of Finance*	November 22, 2005	Sale	116.70	500	58,350.00
Dr. Dr. Peter Löw	Executive Board Chairman	December 12, 2005	Purchase	103.06	5,000	515,300.00
Dr. Martin Vorderwülbecke	Head of Acquisitions	December 12, 2005	Purchase	103.00	1,000	103,000.00
Dr. Dr. Peter Löw	Executive Board Chairman	December 16, 2005	Purchase	99.00	1,000	99,000.00
Dr. Dr. Peter Löw	Executive Board Chairman	December 19, 2005	Purchase	96.33	500	48,165.00

* Member of the Executive Board until December 8, 2005

In financial year 2006 the following reports were received by the company at the time of this declaration of compliance in accordance with § 15a WpHG:

Individual subject to disclosure requirement	Role	Date	Type of transaction	Price in EUR	Volume in units	Volume in EUR
Markus Zöllner	Head of Operations	January 20, 2006	Purchase	120.00	12,600	1,512,000.00

Shareholdings of the Executive Board and Supervisory Board

The members of the Executive Board and Supervisory Board hold the following shares and options in ARQUES Industries AG:

Member of the Executive Board	Role	Shareholdings as of 12/31/2005	Option holdings as of 12/31/2005
Dr. Dr. Peter Löw	Chairman of the Executive Board	528,198	-
Dr. Martin Vorderwülbecke	Head of Acquisitions	1,000	-
Markus Zöllner	Head of Operations	11,088	-
Member of the Supervisory Board	Role	Shareholdings as of 12/31/2005	Option holdings as of 12/31/2005
Steven Wilkinson	Chairman of the Supervisory Board	59,001	-
Prof. Dr. Michael Judis	Deputy chairman	-	-
Dr. Gerd Fischer	Member of the Supervisory Board	-	-
Bernhard Riedel	Member of the Supervisory Board	-	-
Mathias Spindler	Member of the Supervisory Board	-	-

Information on stock option rights and similar incentive systems

Information on the stock option plan of the company is included in the Notes (24) to the consolidated financial statements on page 103 ff. of this annual report.

Further information on corporate governance at ARQUES

More detailed information on the activities of the Supervisory Board as well as the collaboration between the Supervisory Board and the Executive Board can be found in the report of the Supervisory Board on page 59 ff. of this annual report.

Current developments and important information such as ad hoc and press releases, business and interim reports, the financial calendar with important dates on ARQUES and securities transactions subject to disclosure ("Directors Dealings") and information on the General Meeting are always made available on a timely basis on our website at www.arques.de. The ARQUES website under the category "Insider News from the Group" is also updated weekly with the latest information from the ARQUES Group.



Not lured by the sweet smell of quick success

Success fades faster than it arises, if it does not have a solid foundation. Sustainability when restructuring a company is therefore of utmost importance to ARQUES. That is why more and more conglomerates are depending on the know-how of ARQUES when spinning off parts of their corporate group.

Combined Management Report of ARQUES Industries AG for Financial Year 2005

General economic climate and industry environment

The global economy grew by about 4% in 2005, once again making it stronger than the overall trend for the medium term. The primary mover of global economic activity was once again China, whose economy continued to grow at a rapid pace of about 9%. Clear-cut differences were evident in the G8 states: while the economy in Japan - triggered by the increase in internal demand - developed quite positively during the first half of 2005, appreciable economic stimuli were only beginning to be detected in Western Europe after crossing over into the second half of the year. The gross domestic product increased continuously in the USA. More specifically, according to estimates of the Kieler Institut für Weltwirtschaft (Kiel institute of global economy), the growth rates in the year 2005 amounted to 2.3% in Japan, 1.5% in Western Europe and 3.6% in the USA. With a growth rate of 1.3%, the euro zone lagged behind the average increase in the economy witnessed in Central and Western Europe. The year 2005 was characterized throughout

the world by the steep increase in the price of oil, while the resulting negative impact that everyone feared was largely avoided due to the low interest rates; the weakening of the euro compared to the U.S. dollar in the euro countries facilitated export activities.

For 2006 the leading economic institutes are assuming an overall fairly constant growth within the industrialized countries under the premise of a stable oil price. Growth in Western and Central Europe is thus expected to increase from 1.5% in 2005 to about 2.0% in 2006, and a rate of increase of 1.5 - 2% is expected in the euro zone compared to 1.3% in 2005. In Japan and the USA, on the other hand, a slight slowdown of growth is anticipated. The Japanese gross domestic product is only expected to increase by another 2.0% following 2.3% in 2005, and the American economy is only expected to grow by 3.4% following 3.6% in 2005. Experts foresee the likelihood of a continued upswing in Germany. The gross domestic product is therefore expected to further increase by 1.2% - 1.5% according to estimates, following 0.8% in 2005. Exports will thus continue to be the pillar of German economic activity.

Based on the positive profit outlook of companies, investments will also be further expanded in 2006 according to the experts. The increase in the gross domestic product will also be revived by private consumption in the second half of 2006. Economic experts are going on the assumption of advance purchases by private households due to the announced increase in the value-added tax in 2007.^{1,2,3}

According to an analysis by Incisive Media and the affiliated company Bridgepoint, the transaction volume in the European equity-investment market exceeded the EUR 100 billion mark for the first time in 2005. Overall, the private equity investments in Europe increased accordingly by 43% to EUR 116.5 billion. This amounted to 28 transactions with a respective volume of over EUR 1 billion, with a cumulative value of 87% over that of the previous year. Nevertheless, the transactions of medium-sized companies were the main drivers of growth in the European private equity branch. The value of transactions amounting to EUR 25 - 500 million increased by 17% to EUR 42 billion for a total of 360 transactions in this area. The value of the spin-offs of group units thus increased by 21% to over EUR 36 billion, but compared to the total European transaction volume its share fell by 10% to below 30%. The number of sales by family-owned or privately owned enterprises increased by 32% to 228, which corresponds to a share of 38% of all European company acquisitions in 2005. With respect to industries, corporate transactions in the so-called "Old Economy" - companies from industry, machine building, the chemical industry and the service industry - earned the largest share of the overall volume at 46%. Transactions in the area of the consumer goods industry and retail trade as well as companies from the health care field showed distinct double-digit growth rates.⁴

According to a study by the Bundesverband Deutscher Kapitalbeteiligungsgesellschaften on the German private equity market, EUR 3 billion was invested here at home in the year 2005 compared to EUR 3.7 billion in 2004 (- 19%) for 983 private equity transactions. 65% of this amount was therefore invested in company acquisitions, with the rest being distributed as 22% to later-stage (expansion) venture capital and 13% to early-stage (early-phase) venture capital financing. The exit volume increased compared to the previous year by 26% to EUR 1.9 billion. 21% of the companies were sold to other affiliated companies or treated as trade sales, 17% within the scope of a stock market launch and another 14% through repayment of dormant holdings or shareholder loans.⁵

The ARQUES Group has focused its efforts on the special area of the equity investment market, specifically the acquisition of companies in situations of transition. Included here are the classic turn-around candidates, but also companies who are on the disinvestment lists of groups, companies with unresolved successor provisions and companies who are faced with high rationalization investments. As a rule, these companies have already been operating at a loss for some time at the point of takeover by ARQUES. In some cases, efforts at restructuring or to guide them back to a situation of economic strength were already made to no avail. ARQUES is therefore always able to acquire these companies at a price below their carrying value, sometimes even at negative purchase prices. Through this type of price structure, the losses after acquisition as well as the costs of restructuring can be financed by the seller.

This is a distinguishing feature from the target companies of so-called private equity corporations as these companies generally do not seek companies in need of reorganization. And now comes the second distinguishing characteristic of these corporations compared to the ARQUES model, because the purchase prices

1 Institut für Weltwirtschaft, Kieler Kurzberichte, December 8, 2005

2 ifo Institut für Wirtschaftsforschung, Konjunkturprognose 2006, December 19, 2005

3 Euro zone economic outlook, ifo, INSEE ISAE, January 13, 2006

4 European Buyout Market Tops EUR100 Billion for First Time in 2005, Press Release February 21, 2006, www.bridgepoint.com

5 2005: Positive Year for German Private Equity Branch, Press release of the Bundesverbands Deutscher Kapitalbeteiligungsgesellschaften e.V. dated February 14, 2006, www.bvk-ev.de

paid by private equity companies are generally quite a bit higher than those envisioned by the ARQUES concept. ARQUES restructures its investments and tries to reposition them on the market as competitive companies with renewed earnings by solving their respective operating and structural problems. The private equity industry strives toward considerably faster cost and profit optimization for the acquired companies culminating in a profit-bearing exit. ARQUES, on the other hand, is in principle not subject to any disinvestment pressure, since company acquisitions are financed by shareholders' equity. Overall, private equity companies are more likely to be potential acquirers of the companies restructured by ARQUES than competitors on the purchaser side.

The purchasing market will remain stable since the decisive factors of an economic upswing are not impacted. In our opinion, these factors include:

- Conglomerates focusing on their core business segments.
- The financing crisis of many medium-sized companies due to the hesitant extension of credit by banks (Basel II).
- The increasing number of unresolved successor provisions as a result of the demographic development in Germany.

The acquisition market fluctuates and generally depends on the economic environment and in particular on the prosperity of the respective industry. ARQUES will always be able to find interested parties from the respective industry, the so-called strategists, for reorganized companies. We are also ever more confident in finding interested parties from the private equity industry, who - based on the reorganization success of ARQUES - will identify additional earnings and growth potential or strive toward "buy-and-build strategies".

The ARQUES business model functions in both a good and bad market environment. When the market environment is not good, there are more weak companies, so that it becomes easier to acquire new subsidiaries. Of course the reorganization must also

take place in a difficult environment. The organizational know-how that so benefits ARQUES as a noted restructuring specialist is then in great demand.

If the investment climate becomes stabilized, on the other hand, fewer companies arrive at a state of crisis and corporate weaknesses are more likely to be patched up. Based on the strong structural changes in the global economy and the poor financial situation of German companies, there is still a sufficient number of companies on the market in transitional situations. The reorganization itself is easier to arrange in a healthy environment. Stimuli from the outside help boost sales, which is one major advantage. Successful reorganization can therefore be achieved more quickly and the demand for reorganized companies increases.

The ARQUES business model can therefore successfully hold its ground in the market in both a positive and a negative environment.

When selecting target companies, ARQUES does not limit itself to specific industries, but concentrates rather on medium-sized companies.

ARQUES is guided by the maxim of using its own employees to carry out all of the essential process steps, to monitor progress and therefore to carry the responsibility. This speeds up the necessary decision-making and thereby creates a competitive advantage for ARQUES. This process starts as early as the pre-selection of interesting target companies.

From the more than 2,000 firms which are offered each year from ARQUES' own network, from contacts with M&A consultants and with investment banks or which the Acquisition department finds on the market, approximately 100 end up on the short list each year. Even so, the subsequent due-diligence process is carried out solely by internal personnel from the Analysis, Legal, Tax and Finance departments.

After making a purchase, ARQUES dispatches managers with experience in the specific industry to the new subsidiary, in order to complete the reorganization in the shortest time frame possible in collaboration with the employees of the acquired company.

During the first several months our subsidiary managers receive strong support from the ARQUES task force, a group of highly specialized restructuring experts. Depending on the individual company situation and to some extent even during the acquisition, the following reorganization steps are implemented:

- Bank waivers and restructuring on the part of banks
- Setting up new, reasonable supplier relations while settling existing liabilities and partial waivers, if required
- Employee contributions
- Social compensation plan agreements with works councils and labor unions
- Targeted partial disinvestments
- Reorganization of production processes
- Discharge of intercompany relations
- Analysis of existing and often introduction of new computer systems
- Streamlining the product portfolio
- Development of new sales and marketing concepts

Following successful reorganization, ARQUES continues the positive course of development of the affiliated company using its own managers, with the goal of shifting these companies into a sustained profitable situation.

As a general rule, the managing directors of ARQUES have a stake in the affiliated company at a level of 10% of the company capital, for which they must participate "pro rata" in the actual purchase price. This results in a situation where the deployed manager identifies strongly with "his" subsidiary, therefore applying the highest level of motivation and total commitment.

The ARQUES Group and its affiliated companies

The parent company

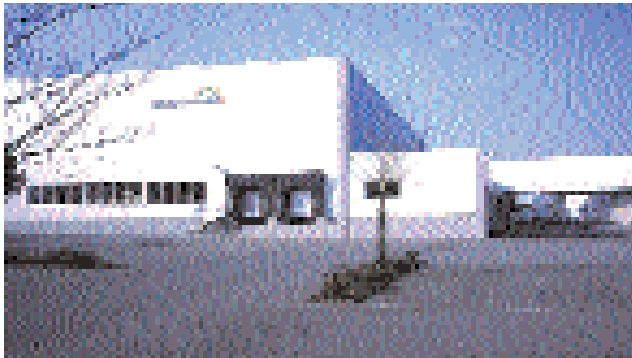
ARQUES Industries AG is the parent company of the ARQUES Group. It directly or indirectly holds all affiliated companies of the group.

ARQUES Industries AG is financed almost exclusively from its own capital resources. Two capital increases were successfully carried out in financial year 2005:

- In July 2005 the capital stock of ARQUES Industries AG was increased to 2,226,667 shares by placing 200,000 new shares. This capital increase was registered in the Commercial Register on July 13, 2005.
- On October 24, 2005 the capital stock was again increased by 200,000 new shares to 2,426,667 shares. The second capital increase took place as part of a capital increase with contributions in kind.

Financing of the affiliated companies takes place both by means of the restructuring contributions of the seller and via short-term and long-term bank loans at the level of the respective participating interest, as well as through shareholder loans and supplier credits. In principle, ARQUES pays attention to a healthy financing structure of the affiliated companies within the context of the company acquisition; this conservative position is reflected in an equity ratio of 39.7% within the group, while reaching even 88.4% at the holding level.

teutonia Kinderwagenfabrik GmbH



ARQUES acquired teutonia Kinderwagenfabrik GmbH in Hiddenhausen (NRW) (North Rhine-Westphalia), on April 1, 2004 from the British firm Britax. teutonia is a premium provider of strollers, baby carriages and joggers. The company is therefore a market leader in the most important European markets. Production sites are located in Germany and Poland.

Critical industry observation

According to trade commentary, the market for premium baby carriages was stable in 2005, with some regional variations. Buying restraint has therefore further intensified in the high-price segment. The number of births has continued to decline and is disproportionately low in families with high incomes.

Competitive pressure remains high. New providers and attempts on the part of established manufacturers to defend and/or expand their market position are increasingly resulting in price reductions and other concessions with respect to commercial trade. The trend toward buying components or complete frames/strollers from Asia is continuing even in the high-price segment.

Company situation, reorganization and development measures

The restructuring measures introduced by ARQUES after the acquisition are for the most part completed. In addition to adjusting the administrative organization, the primary goal was to improve the margins by making changes in the range of suppliers. By further strengthening sourcing from Eastern European and Asian countries, further savings could be implemented. The quality problems could also be remedied by concentrating on a few new partners, thus enabling savings to be achieved in the repair and service areas.

At the same time, essential changes were made to the product and product range policy: as part of these changes, the model range was renewed. The new developments were presented with a great deal of public fanfare at the "Kind + Jugend" (children & youth) trade show in Cologne, Germany in September 2005. The focus was on innovations in functionality, quality and design.

An additional area for corporate development is sales and marketing. Market share that has been lost - in particular in Germany - should therefore be recouped. Foreign business is also expected to expand significantly. Specific countries in Asia and south-west Europe are the primary markets of interest.

The most significant asset of teutonia is its high level of name recognition as a quality brand. Accordingly, after taking care of the previously mentioned quality and product range problems, our efforts will now be geared toward promoting the increased recognition of the teutonia brand. We hope that the new range of products, which is expected to be a key to entering into new countries, will also increase the potential that is already at hand.

The fourth quarter of 2005 was already profitable from an operational standpoint, and coupled with the continued increase in incoming orders following the fall trade show of 2005, leads us to expect that the 2006 budget will be easily met. Following on sales in 2005 of EUR 15 million, we anticipate sales of EUR 16 million and a clearly positive result for the year 2006. Strong sales growth and an above average increase in profit are expected for the year 2007.

SKW Stahl-Metallurgie Holding GmbH



On August 31, 2004 ARQUES acquired the steel chemistry business of Degussa subsidiary SKW Metallurgie AG. The company produces primarily cored wires under the Affival brand name in France, the USA and Korea. This technology developed by Affival enables a precisely measured and verified amount of chemical additive to be added during the production of steel. There is also a commercial office in Tokyo, Japan. A 30% interest (together with India's leading steel group, Tisco) is maintained in Jamipol in India. Group-wide purchasing and commercial trade in important basic chemical products is taking place in Unterneukirchen near Trostberg (Bavaria) under the familiar industry name of SKW Metallurgie.

Critical industry observation

The steel market was characterized by robust demand in 2005 as well. Worldwide steel production increased by 6% in 2005 to over 1 billion tons⁶. However, there were large regional differences: while the boom in China continued unchanged with an increase in production of 25%, the very high level of the previous year could not be maintained in the countries of the European Union, resulting in a decline of 2.5%. In the USA as well, steel production declined by 6%. The International Iron and Steel Institute is assuming growth of about 2% in North America and Central Europe for 2006.

Company situation, reorganization and development measures

The restructuring activities instigated after the ARQUES takeover in the year 2004 could be completed for the most part in 2005. Sales and marketing was more closely aligned to the margin-rich specialist products.

On the heels of the very promising initial sales success, the innovative and patent-protected product development of 2004, Papcal, turned out to be positive in 2005 as well. The advantage of this development is its benefit to the customer, since it results in a reduction of the amount of chemicals required.

The newly created structures in the purchasing department and the improved usage of modern EDP systems made it possible to better control the working capital and even more importantly, to make good use of the effects of price increases on the raw materials market through the timely safeguarding of low capacities.

The measures undertaken have enabled the group of companies to enjoy a very successful year in 2005. The company is a global market leader with an estimated market share (excluding China) of 30%⁷. The budget for 2006 is based on essentially the same sales position and results of operations. The company is planning a stock market launch in 2006 and further building on this, additional vertical and horizontal expansion; this entails both strengthening the procurement basis for raw materials and opening new plants (as already occurred at the beginning of 2006 in India) and the acquisition of competitors.

Depending on the success of the stock market launch, an even better performance is anticipated in 2007.

⁶ All industry figures: Source: International Iron and Steel Institute, Statistics November, Basis for figures Jan-Nov.
⁷ Estimate SKW-Management

E. Missel GmbH & Co. KG



E. Missel GmbH & Co. KG, based in Fellbach, has been part of the ARQUES Group since November 11, 2004. The company is an industrial provider of sound, thermal and fire insulation systems for pipes and floors and achieved a leading market position over the last several years in the field of high-quality structural reverberation insulation systems.

Critical industry observation

The weak economic period in the German building sector, which is laden with massive structural problems, will likely continue on into 2006. Apart from a short interruption in the year 1999, the recession in the German construction industry has been going on for twelve years now. Brought about by the cold winter along with the continued weak development of the overall economy, which is also marked by a great deal of uncertainty, investments in construction have declined by about 5% in 2005 and will decrease again in 2006 by over 1%. Various indicators are signaling a quick end to this descent, however, and then a slow and gradual recovery, which could lead to an increase in capital expenditure of approximately 1% in 2007. The process of contraction in the non-residential building (commercial construction sector and public building) will presumably stagnate and reverse during the course of 2006, while the recovery in residential building is only likely to become evident in 2007 due to the continued weakness in new construction. The abolition of the homeowner's tax deduction is of lesser significance to Missel due to its range of products.

Company situation, reorganization and development measures

The high costs in the area of general administration that were stumbled upon in 2004 at the time of the acquisition by the ARQUES Group were significantly reduced according to plan in 2005. The adjustments in personnel were completed in 2005. On December 31, 2005 there were still 62 employees working at Missel.

At the same time, a product and sales offensive was started. By means of innovations in the field of fire control and solar technology, growth markets in particular were made accessible. The quality of the sales organization was considerably improved by replacing and adding employees and trade representatives. Last but not least, in the summer of 2005 a new sales manager was brought on board to strengthen the management team. In addition to canvassing the core market in Germany, expansion of the foreign business is projected so as to become more independent of the continually declining trend in the construction industry in Germany.

In the year 2005 more emphasis was placed on a stronger presence of the Missel brand within the industry. Targeted participation in international and regional trade shows as well as stepped-up marketing measures geared toward end consumers and manufacturers took center stage in this endeavor.

In 2005 alone the budget could be clearly exceeded and very good profitability attained. Missel is anticipating a further upswing in sales and operating results for the years 2006 and 2007. Integration of the business operations of GF Schwab, which was purchased by ARQUES in March of 2006, is planned for 2006. Enhancement of the synergies provided here will further strengthen performance.

ddp Deutscher Depeschendienst GmbH



At the beginning of financial year 2005, the essential components of the business operations of the insolvent ddp Nachrichtenagentur were transferred over to the newly established ddp Deutscher Depeschendienst GmbH (a wholly owned ARQUES subsidiary). With approximately 300 permanent and freelance employees and more than 300 customers in all of the media (printed matter, television, radio and Internet), as well as other areas, ddp is the second largest German news agency.

Critical industry observation

With a share of more than 80%, ddp generates its sales by supplying the media with agency services. Declining advertising income and a decrease in the size of reader groups of the daily newspapers resulted in restructurings and cost savings over the last four years, which also have a lasting impact on agency services. New media cannot compensate for the declines in the classic market. Agencies are therefore developing new business segments, such as the provision of press releases commissioned by associations or business enterprises. Another phenomenon to be observed is the increased demand for photos, which enables the high-quality ddp Bilderdienst to profit. The Internet is growing in importance as a journalistic research tool, which in turn forces the agencies into molded internal activity.

Company situation, reorganization and development measures

Following the bankruptcy of the precursor company in November 2004, ddp was able to significantly expand its market position in

2005. While the largest German press agency, dpa, had to put up with a sales decline of 8.5%⁸ in 2004, ddp was able to continuously increase its sales, to as much as 25% in a monthly comparison of January to December. In addition to further savings in general costs, these sales increases have contributed significantly to the considerable improvement in results over a period of less than twelve months. The financial year 2005 was initially overshadowed by the termination of two large and economically affiliated customers (Axel-Springer-Verlag and ProSiebenSat1) at year-end 2004. In 2005 several publications from Axel-Springer-Verlag could be regained as customers.

The method of thorough journalistic quality control of offered services adopted by ddp and the development of a high-quality product combined with improved customer communications have resulted in a series of new acquisitions. While ddp-Textdienst makes up approx. 2/3 of total sales, the Bilderdienste (image services) have developed into a true workhorse of the ddp range of offerings based on market positioning and earning power. ddp has also expanded its range of products to include sports reporting by acquiring SPORTART, based in Potsdam, and to include entertainment images by acquiring the Danish company colourpress.com. The low-margin Teletext-creation was discontinued.

The change in management initiated by ARQUES was completed in May with the appointment of a new managing director and a new editor-in-chief.

The planned start-up losses remained within the self-defined framework (approx. EUR 1.5 million). The break-even point was reached in the fourth quarter of 2005. In working with ddp, ARQUES has therefore reorganized a company that after 34 years of continuous losses industry-wide, was considered to be unfit for reorganization. ARQUES views ddp not only as a purely economic commitment, but also as a central building block of media provision in Germany, safeguarded by the existence of the second largest German press agency.

Additional sales increases with positive results are planned for 2006 and 2007.

⁸ (Source: dpa annual report 2004)

Colordruck Pforzheim GmbH & Co. KG



At the end of 2004, 94% of the shares of Colordruck Pforzheim GmbH & Co. KG, one of the large German web offset printers, were acquired. A purchase option in favor of ARQUES, which can be exercised for EUR 1, is available with respect to the remaining 6%. The main thrust of Colordruck Pforzheim's offerings is in the area of printing and further processing of prospectuses, catalogs and magazines. Some of the key customers include newspaper publishers, mail order houses and large consumer goods producers. Within the German print industry, Colordruck is rated among the largest companies with 192 employees (status as of December 31, 2005).

Critical industry observation

Since mid-2005, sales, production activity and capacity utilization in the printing industry have all increased. More detailed information can be found in the section on the print holding company ARQUANA.

Demand for these products is marked by a stagnating market for printed advertising in magazines and newspapers as well as a regrouping of the advertising budget from print to online advertising. As for the providers, the existing overcapacities are causing stiff competition and an intense, ongoing price war.

Company situation, reorganization and development measures

Following the takeover by ARQUES, the new company management resorted to far-reaching restructuring measures. Thus, according to negotiations with the works council, a comprehensive package in the form of a collective reorganization agreement was devised. In addition to waiving vacation and holiday monies, this package provides for waiving salaries in the form of deferments as well as adjusting the weekly work hours. The number of employees was also adjusted to the present sales volume.

Moreover, by employing the ARQUES task force, better purchasing conditions could be achieved in the area of direct costs (raw materials and supplies as well as freight) on one hand, and savings in overhead could be realized on the other hand. Investment specifically targeted toward modernization enabled considerable savings to be realized in the area of operating costs (energy).

In spite of the above, ARQUES is not satisfied with the development of Colordruck. The year 2005 closed out with a loss of EUR 1.0 million (EBIT). By investing in a new sheet-fed printing machine, which also secures the employment situation, as well as the further expansion of the collaboration with the print holding company ARQUANA, ARQUES is looking toward the future with confidence even for Colordruck, because with sales remaining the same, a positive result is planned for 2006 and 2007.

The relationship with the print holding company ARQUANA is one of a business partner. Integration into ARQUANA has not happened up to now, because an earn-out provision exists with the senior shareholders. No agreement has been reached as to the level of a possible earn-out. Until final clarification, ARQUES is renouncing any integration.

SKS Stakusit Bautechnik GmbH



On April 7, 2005 ARQUES acquired all shares of SKS Stakusit Bautechnik GmbH based in Duisburg, retroactive to January 1, 2005. SKS is a medium-sized company dealing in plastics for the building supply industry, which develops, manufactures and markets complete roller shutter and insect protection systems, primarily in Europe.

Foreign sales are handled primarily by subsidiaries in Poland, Russia, the Ukraine, Greece and Romania.

Critical industry observation

In the year 2005 the economic conditions within the business environment of the construction supply industry continued to change. In contrast to the shrinking total domestic volume in the new construction and renovation sector, profitable sales were evident in the expanding other countries of Europe.

Company situation, reorganization and development measures

Despite these difficult overall circumstances, the SKS Group can look back on a very successful financial year 2005. By means of very extensive reorganization, the company achieved a pleasing positive overall result following a considerably negative previous year.

One part of this reorganization program was comprised of rigorous cost management, which entailed closing the building block manu-

facturing location in Steinhagen (Westphalia) and transferring it to the main location in Duisburg. This enabled the existing problems pertaining to quality and delivery reliability to be remedied. Consistent simplification of the range of products - with its too many varieties - resulted in both significant cost savings and a considerably reduced inventory. Savings were realized in negotiations with all suppliers, despite increases in raw material prices. By means of a reorganization pact worked out with the employee-elected representatives, a reduction of personnel costs and a flexible work schedule model were negotiated for the slower winter months, which reestablished the competitive edge.

Consistent reengineering of the core processes in the manufacturing area resulted in considerable increases in productivity, improved quality and better employee satisfaction.

To secure long-term competitiveness and reduce dependence on the flagging economic market in Germany, an overseas offensive was launched in 2005. The level of growth and the increased needs for comfort in the Eastern European markets appear to be most promising. We intend to stay abreast of this trend by establishing a new subsidiary in the Balkans in 2006.

Relocation of the outsourced extrusion manufacturing for plastic components from suppliers to the company-owned machinery is currently underway and will result in further increases in efficiency.

Sales in 2005 since being acquired by the ARQUES Group amounted to EUR 29.1 million, with profit (EBIT) at EUR 1.8 million.

The company is anticipating increased utilization in 2006 and 2007 after the above-described measures take full effect. Plans for increasing sales and lasting profits were therefore made for this time frame. The company is free of debt to banks.

Jahnel-Kestermann Getriebewerke GmbH & Co. KG



Jahnel-Kestermann Getriebewerke GmbH & Co. KG has been a part of ARQUES since April 11, 2005. Jahnel-Kestermann is a tradition-rich manufacturer of large drives for a number of industrial applications. The company supplies customers in the fields of mining, chemistry, cement, agitator technology, shipbuilding and wind energy systems. The Bochum-based company has markets throughout the world.

Critical industry observation

The market for wind power is growing by double digits throughout the world. While Germany has the greatest density of installed wind power systems worldwide and yet is still reporting low growth rates due to underlying political conditions, the worldwide business has been booming for years on end. Good contacts in the growth markets of China, India and the USA give Jahnel-Kestermann a good starting position for successfully participating in this development. Drive systems and components overall currently has a high level of utilization due to the strong demand coming in particular from the Asian countries.

Company situation, reorganization and development measures

Before acquisition by ARQUES, Jahnel-Kestermann had fallen into great difficulties due to the loss of a major customer. Despite a high volume of orders, the company could no longer service customer orders due to liquidity problems. The ARQUES management adjusted capacities in a way that was cost effective and achieved a quick rise in sales through its work schedule models and success-

ful negotiations with suppliers. An analysis of the profitability of individual business branches and concentration on the margin-rich business segments made it possible for the earnings position of the company to be rapidly improved. Reaching consensus with the employer representatives and IG Metall on a collective reorganization agreement contributed to reestablishing a position of competitiveness.

Another focal point in the reorganization was to ensure financing. The increased working capital requirement due to the increase in sales was achieved mainly by regrouping within the operating assets. Thus within the scope of a cooperation with Deutsche Montan Technologie Gesellschaft (DMT), the under-worked test bench equipment was sold to this company. In a countermove, DMT will take on the role of an independent tester for Jahnel-Kestermann in the future. Property and buildings not needed for business purposes were sold, and debt rescheduling of short-term lines into low-interest long-term loans with the principal banker were achieved.

The focus for 2006 is on an expansion of the service business, among other things, in particular for wind power systems, and on an increase in sales in the export business. Expanding already existing cooperations and entering into additional license agreements is expected to safeguard the sales growth in booming countries such as China and India. The implementation of a modern IT landscape for the production planning, marketing control and financial accounting divisions as well as expenditure on plant replacements in the production area are projected to be additional restructuring measures. In order to realign the company over the long term and guarantee efficient production, a new location concept is presently in the works. The profit/loss for the year 2005 is characterized by the situation before the acquisition by ARQUES, since extremely high losses still accrued in the first quarter. ARQUES managed to achieve the turnaround in about six months, so that earnings (EBIT) during the time of group affiliation were positive at EUR 0.8 million. Based on this successful development, ARQUES is planning to further expand the drives division.

For financial years 2006 and 2007 we are assuming increased sales and consistently good results of operations.

Golf House Direktversand GmbH



On June 22, 2005 ARQUES acquired 74.9% of the shares in Golf House Direktversand GmbH, based in Hamburg. This company is the leading specialist dealer for products pertaining to the sport of golf in Germany. With 16 branch offices, Golf House is represented all over the country in Germany. The product portfolio includes golf equipment such as clubs, trolleys, bags and accessories as well as clothing and shoes from all of the renowned manufacturers. Golf House is also active in the classic mail-order business and in on-line trade. The branch offices have a total sales area of approx. 7,000 m² and are located on attractive inner-city sites, which stand out for their high purchasing power and customer density.

Critical industry observation

The customers of Golf House are golfers. The number of golfers in Germany increased over the last several years on average by 6% per year. On the other hand, production relocations to low-wage countries have been causing the price of numerous golf products to drop for a number of years now. While this does lead to an increase in quantities sold in the marketplace, it does not result in any increase of market volume. Since the price reductions will weaken in the foreseeable future, a future increase in the number of golfers will also lead to an increase in the entire market volume.

Company situation, reorganization and development measures

After the acquisition of Golf House by KarstadtQuelle through ARQUES, the company was disconnected from the organizational and technical bond with the current shareholder. By the end of October, the company's own data processing system was introduced in the area of merchandise management and accounting. Purchasing was handled completely independently and separate from KarstadtQuelle. Accounting was again handled internally. All service agreements with the former partner were terminated, which will result in significant savings. Three loss-rendering branch offices were also closed by year-end. The distribution channel for the discount area, which was not in harmony with the positioning aimed for in the premium area, was closed.

A modernization program of selected branch offices is currently underway, which will put the experience and emotion of the sport of golf in the forefront and is therefore intended to address mainly the premium market target group. The distribution channel for the mail-order business as well as the partner model should be expanded by adding personnel in the areas of marketing and sales.

In the six months since it has belonged to ARQUES, sales of EUR 11.1 million and profit of EUR 1.2 million have been achieved.

For 2006 we are planning on Golf House sales of EUR 22.8 million with a profit that is standard for the industry. For 2007 we plan on further increases in sales with a respective additional increase in profit.

Evotape S.p.A.



Effective June 1, 2005, Evotape S.p.A. based in San Pietro Mosezzo (NO), Italy has been fully consolidated into ARQUES Industries AG. Evotape S.p.A., which previously was part of the Tyco Group, is the largest industrial manufacturer of packaging adhesive tape as well as one of the leading providers of masking tape in Europe. The company can look back on more than 40 years of experience in the adhesive tape business and is therefore one of the oldest companies in the industry worldwide. Evotape is currently realizing approx. 85% of its sales in other countries.

Critical industry observation

Within Europe, the market for products from Evotape is characterized by high machine production capacities and increasing competitiveness of the providers from the Asian territories. The growth markets are Asia/Pacific, the Middle East/Africa and Eastern Europe. Slight growth is anticipated for Western and Central Europe. The U.S. dollar to euro exchange rate also has an impact on the markets.

Company situation, reorganization and development measures

After the takeover of the company, a dramatic restructuring program was begun. In the personnel area alone, a reduction of about 10% of the labor force could be completed after just a few months. In addition, agreement was reached on an adjustment of the weekly working hours, a flexible work schedule model and the waiving of various bonuses. Impending price increases - brought forth by

the raw materials market - could be avoided by means of rapid conciliation with the major suppliers. Savings could also be achieved in overhead costs.

By disengaging from the conglomerate Tyco, a completely new market entry had to be worked out for the company within a very short time. Further measures for guaranteeing success were implemented by means of restructuring the international sales & marketing area and by supplementing the range of products, which were geared toward better margins and improved utilization of production capacities. Other important steps included winning back market share in the USA, developing new markets in Eastern Europe and expanding the product portfolio (acrylic tapes, printed tapes, specialty tapes).

By disengaging from Tyco Systems, the opportunity to install a "state of the art" IT environment emerged, which mainly enabled the transparency of product calculation to be enhanced. A CRM module to be added in 2006 is expected to improve control of sales.

Results of a "make or buy" analysis resulted in outsourcing parts of production in the ready-made area and shutting down some of the machinery.

New credit lines were implemented in negotiations with banks, in order to cover both the increased working capital requirement brought about by increased sales and transfer fee for guaranties of the former owner.

Since becoming a part of the ARQUES Group, sales in 2005 amounted to EUR 32 million, with losses of EUR - 4.4 million (EBIT). On the other hand, income from the reversal of negative goodwill arising from the capital consolidation amounted to EUR 8.1 million. Since most of the above-described measures - in particular those pertaining to personnel - do not take effect until 2006 according to Italian law, the break-even point is not expected until the first half of 2006. The offensive measures in sales & marketing and in the product portfolio areas should result in sales increases. A further sales increase to EUR 75.2 million with respectively higher profit is planned for 2007.

Sommer Fahrzeugbau GmbH & Co. KG



Sommer-Fahrzeugbau, one of the leading German manufacturers of commercial vehicle superstructures, trailers and semi-trailers, was acquired effective as of September 19, 2005. The Sommer Group is strategically well-positioned with plants in Germany (North Rhine-Westphalia and Saxony-Anhalt), France, Poland and Russia and focuses on the marketing and manufacture of vehicles for the courier, express mail and package delivery services as well as on multi-functional sector solutions for the freight forwarding trades.

Critical industry observation

Truck transport of cargo in Germany grew by about 3.2% in 2005 and will increase by approximately 2.7% annually in both Germany and in Eastern Europe over the next several years⁹. Expansion of the EU triggered a tough price war within the freight forwarding trades, resulting in restrained investment policy by companies in Germany and strong growth in the new member states.

Company situation, reorganization and development measures

At the time of acquisition by ARQUES, the company was in a severe crisis situation due to liquidity problems. Structural defects were also identified in the sales orientation and manufacturing organization. Initial steps included the creation of new management structures. The company management was trimmed down from four managing directors to just one. Sales & marketing was com-

pletely reorganized, and short-term reinforcements were found for marketing areas that were not covered. A new sales manager was appointed effective as of January 1, 2006. Negotiations with the employee-elected representatives resulted in reductions of personnel, in particular in the administrative area. In early 2006, negotiations resulted in closing the production segment and relocating production to East Germany.

The production shutdowns due to liquidity problems that were identified at the time of acquisition could be remedied within a very short time frame due to immediate measures undertaken by the task force. By year-end, the delivery backlogs could therefore be completely diminished. Debt waivers of considerable amounts could be implemented by means of negotiations.

Currently a new integrated production concept is being introduced across all locations. It will include determining which of the five production sites will be used for prefabrication or final fabrication. Due to the divestiture of the complex association of companies initiated under corporate law, transparency in the financial area must be improved and unnecessary administrative activities streamlined.

Since the group affiliation of the Sommer Group, sales of EUR 17.6 million have been achieved in 2005. Losses since the acquisition amount to EUR 0.6 million.

In 2006 the Sommer Group is assuming sales of EUR 53.3 million with a net income for the year of EUR 4.5 million.

In 2007, with sustained positive results of operations, sales are expected to further increase.

⁹ (Source VDA Auto annual report 2005).

tiscon AG Infosystems



On October 26, 2005 ARQUES acquired 77.98% of tiscon AG Infosystems in Neu-Ulm, a company listed on the regulated market (General Standard). From the business model, tiscon AG Infosystems is a full-service provider for business process management solutions.

Critical industry observation

This company depends on the development of the IT industry, which is marked by strong consolidation since the boom years of 1999 and 2000. Although a recovery was noted in this segment in the year 2005, smaller companies are still experiencing difficulties holding their own on the market. For 2006 the entire IT market is expecting growth of approx. 3%, while the area of IT services, which is the main focus of tiscon, is expected to grow by 5.5%.

Company situation, reorganization and development measures

This company is the smallest independently operating company of the ARQUES Group. But it was not the operating activities that were the main area of focus when deciding to acquire the company. The interest stemmed more from the fact that tiscon is listed on the regulated market (General Standard).

According to the regulations of the WpÜG, ARQUES had submitted a takeover bid for the remaining 22.02% of the share capital,

which was only accepted to a very limited degree, however, so that today Arques holds 77.82% of the shares.

Immediately after the acquisition by ARQUES, operational cost reduction measures were introduced: the surplus personnel, particularly in the administrative area, were reduced, unprofitable business segments were closed and long-term lease liabilities were reduced by means of sub-leasing. Based in its dependence on one major customer, the lingering pressure for offshoring and the small size of the company, the question meanwhile arose as to whether the business model had validity over the long term. But due to the very good liquidity position, the future of tiscon is by no means endangered.

Since belonging to the ARQUES group of companies, the company has had a loss of EUR 0.5 million in 2005. Another sharp decline in sales is anticipated for 2006 due to the active reduction of the operating business. This should be largely compensated by cost reductions. But from ARQUES' perspective, regardless of the development of its activities in the field of business process management, tiscon opens up some interesting strategic perspectives due to its listing on the stock exchange and its good liquidity position. It is not yet possible to make a statement with respect to 2007.

ARQUANA International Print & Media AG



Overview of the company and company situation

ARQUANA International Print & Media AG (ARQUANA) was established on April 25, 1922 as Niedermayer Papierwarenfabrik Aktiengesellschaft, in Rosenheim. After selling the operating business, the company continued to be operated under the name of Círcel Grundstücks- und Vermögensverwaltung AG, in Rohrdorf. On July 27, 2005 ARQUES acquired 95% of the shares of the company.

At the extraordinary General Meeting on December 2, 2005 the company was renamed to ARQUANA International Print & Media AG.

The purpose of ARQUANA is to consolidate the sharply fragmented European web offset market and become the medium-sized European market leader in this segment.

A site strategy was drafted which could be used to achieve synergies among the individual print shops of the ARQUANA Group, which are regionally distributed in accordance with the market. The fragmented market of web offset printing is characterized by overcapacities, high fixed costs and ongoing innovative pressures. By bundling the medium-sized print shops, ARQUANA achieves clear-cut customer advantage: it provides a comprehensive product portfolio, has backup capability available in case of machine malfunctions, can react flexibly to customer requests due to the decentralized organization or printing and delivery and has a high

level of technical competence and value for the money. The printing industry is observing the expansion of the business with a great deal of attention.

The acquisition department of ARQUES supports the expansion plans of ARQUANA. For any required reorganization and integration of the acquired company, the print shop holding company can revert to the know-how of the ARQUES task force.

As of year-end 2005 the following print shops were acquired: Johler Druck GmbH, Neumünster, Nord Offset Druck GmbH, Ellerbek near Hamburg, Evry Rotatives S.A.S., Paris, a former subsidiary of the French national print shop and the Austrian Sochor Group GmbH. In December 2005 the decision was made to acquire Wanfried-Druck Kalden GmbH, Wanfried near Eschwege/Hessen, which became effective on February 16, 2006 upon closing of the agreement.

On October 18, 2005 a subsidiary of ARQUANA acquired all of the shares of the French Evry Rotatives S.A.S. (Evry) from the French national print shop. Evry's core business is web offset printing. The production resources, four large printing machines, are located in a modern print shop building, which was constructed by the national print shop about 10 years ago on the Parisian Highway. Among the customers of the Evry print shop, in addition to ministers and governmental units, are publishers and industrial companies. The technical capacities enable sales of over EUR 40 million to be achieved. The company assets include modern and unencumbered machinery, which is equipped with two 64-page machines and a full-automatic post-processing, among other things. The company site in the south of Paris encompasses almost 100,000 m².

On October 19, 2005 ARQUANA acquired 100% of the shares of Johler Druck GmbH (Johler) by way of a subsidiary of ARQUES. Johler was founded in 1876 and is a traditional north German web offset printing company. The company has been established on the market for years as a printer of printed advertising materials such as newspaper inserts and catalogs. Production takes place on the approximately 20,000 m² company-owned commercial property in

Neumünster, where newspaper inserts, prospectuses, folders, flyers and magazines by the million are printed daily. Its core customers include existing retail store chains and publishers, financial service providers, travel businesses and companies in the fashion industry. Its products are sold primarily in Germany, Scandinavia and England.

Since becoming part of the group in 2005, Johler has generated sales of EUR 17.8 million with a net loss for the year of EUR -0.7 million. Following the excellent restructuring progress, sales of EUR 27 million with an EBIT of EUR 0.6 million are budgeted for 2006. The initial losses were more than covered by the restructuring contribution of the seller.

For financial year 2006 and beyond the company anticipates a significant expansion of sales revenue as well as an improved earnings situation with slightly positive net results for the year.

Nord Offset Druck GmbH is another company that has also been fully owned by ARQUANA since October 19, 2005. On October 2, 2005 the company acquired the essential components of the business operations of the insolvent Firma Nord-Offset Sonntag and Wachholtz Offsetdruck GmbH, Ellerbek, and now carries on production at the same location.

The previous (and thus also the new) company is a traditional north German web offset company. The company has been producing quality printed materials with high-quality UV-printer's varnish for many years. Production takes place on rented property of about 3,300 m² in Ellerbek, where the main emphasis is on covers for magazines and newspaper and magazine inserts on a daily basis. Among the key customers are well-known magazine publishers and agencies, who have been customers for many years. The products are sold primarily in Germany.

Since the takeover by ARQUANA, sales of EUR 3.0 million have been achieved with break-even results. The budget for 2006 projects sales of EUR 10 million with a net income for the year of EUR 0.5 million.

On December 15, 2005 ARQUANA acquired from ARQUES 98.2% of the shares of Sochor Group GmbH, Zell am See, Austria. ARQUES had acquired the company for immediate resale to ARQUANA on November 18, 2005. The Sochor Group is one of the largest web offset print shops in Austria. In the rump business year 2005 (02/28 - 12/31/2005) it achieved sales according to local law of EUR 26 million, which corresponds to EUR 30 million on an annualized basis. The company is state-of-the-art and owns all of its own business property. Sochor is currently undergoing reorganization, which should reestablish its sustained earnings capacity.

Based on the time frame of the takeover before year-end, the regrouping of the financial year and the problems of comparing with the previous year's financial statements, it is not meaningful to review the earnings figures for Sochor for 2005. Since the takeover by ARQUES, a loss of EUR 0.7 million accrued based on pro rata sales of EUR 2.8 million.

For 2006 and 2007 the company is assuming a significant expansion of sales revenue with a considerable improvement in the earnings situation.

Critical industry observation

Sales, production activity and capacity utilization have all increased in the printing industry since the middle of 2005.

During the time from January to September 2005 sales in the German printing industry with its 1,692 operations employing 20 or more people, amounted to EUR 12.4 billion. That corresponds to growth of 2.9% compared to the same period the previous year. Domestic sales increased by 3.1% and foreign sales increased by 1.3%.

Sales of approx. EUR 17 billion are anticipated for the total year, which corresponds to approx. 2.8%.

Production during the period from January through September 2005 was higher than the same period last year by 4.2% and capacity utilization finally increased significantly to 84.7% in September, making it 2.5 percentage points higher than in September 2004.

The printing industry is anticipating a decline in production for the first quarter of 2006: 26% of the companies expect negative economic impact, and only 7% are anticipating more positive influences. Price pressure will also intensify: 30% of the businesses are assuming lower prices in the first quarter, while only 4% are figuring on price increases.

The demand side is characterized by a stagnating market for printed advertising in magazines and newspapers as well as a regrouping of the advertising budget from printed matter to online advertising. On the provider side, the existing overcapacities are resulting in stiff competition and a lingering, intense price war.

Company situation, reorganization and development measures

As of the cutoff date of December 31, 2005, ARQUANA had a total of 398 employees. The exact employee numbers of the individual subsidiaries of ARQUANA are shown in the Notes to the consolidated financial statements.

As of December 31, 2005 ARQUES held 79.75% of the shares of ARQUANA International Print & Media AG, and after the capital increase in early 2006, it was about 81.0%.

One of the focal points of the new company orientation within ARQUANA is on setting up a centrally controlled sales network, which will take into account the performance of all locations. The extensive machinery owned by ARQUANA also makes it possible to offer total solutions in printing to big customers and thereby stand out from the medium-sized competitors. Through targeted forcing of sales, it was possible to far exceed the utilization of the sites compared to the same period the previous year.

After incorporating the company into ARQUANA, a new market entry was implemented for all of the companies under the umbrella concept "A company of the ARQUANA Group", in order to demonstrate the new orientation of the companies to the outside world as well.

By deploying the ARQUES task force, synergies could be created very quickly for purchasing. So, for example, the costs for printing ink could be reduced by up to 20% per location. ARQUANA negotiated new general agreements with major suppliers at improved conditions, which benefits each individual company. In addition, paper purchasing was centralized so as to negotiate better conditions with suppliers as a large customer.

ARQUANA purposefully invests in efficiency and quality improvement measures, which will have a positive effect on the profitability of the companies starting with the second quarter of 2006. The measures help to significantly reduce paper and ink usage as well as to decrease the down times in production.

Collective reorganization agreements were implemented in the individual companies, such as individually agreed salary adjustments, with the aim of lowering the unit labor cost and increasing the share of performance-based remuneration.

By introducing an elaborate management information system, reporting between the locations could be standardized and the quality of sales and management decisions improved.

ARQUANA outlook

ARQUANA will continue to grow in 2006 and 2007, through additional acquisitions on one hand and from within on the other. Currently the goal for 2007 is to reach EUR 360 million on an annualized basis with a stable earnings and financial position. In February 2006 a capital increase of EUR 5.8 million could be implemented based on subscription rights at a price level of EUR 35.

The positive development of the print shop subsidiary ARQUANA and the strong growth it is striving toward means a great deal of value added for ARQUES. The increase in the free float associated with the planned changeover of ARQUANA to the regulated market will result in profits gained for ARQUES.

When the print shops Sochor and Wanfried were acquired, ARQUANA shares could be used as the currency of acquisition; this is also planned for other ARQUANA acquisitions. This signifies an acknowledgement of the ARQUANA concept by industry insiders, since the sellers of the companies remain committed for a long time as shareholders of ARQUANA and trust in a further increase in value of the ARQUANA shares.

In March 2006 the planned acquisition of Kölner J.P.Bachem GmbH & Co. KG was announced. This company boasts sales of approx. EUR 30 million, achieved solely in rotary machine printing.

Disposal of subsidiaries

On June 30, 2005 the Schierholz Translift Group, which has been a part of ARQUES since August 2003, was sold to two investor groups. The company within this group that has the strongest sales, the German firm Louis Schierholz GmbH, was sold to executive employees as part of a management buy-out at a level of 94%. The second largest company of the group, Schierholz Translift Schweiz AG, along with the two smaller companies, the French firm Digitron Translift S.A.S. and the British firm Digitron Translift Ltd., were transferred to a Swiss affiliated company with the par-

ticipation of management. The Translift-Schierholz Group was entered in the books in the year 2003 under IFRS regulation IAS 22, which was valid at that time. Since this regulation was abolished in the year 2004, a portion of these earnings - according to the new law (IFRS 3) - must be posted directly to shareholders' equity without entering into the income statement. This means that the sale does indeed increase the shareholders' equity of the ARQUES Group by EUR 2.2 million, but only about EUR 0.2 million of this is shown as income.

Other companies of the ARQUES Group

ARQUES established two companies on Malta, ARQUES Mediterranean Investment Limited and its subsidiary ARQUES Value Invest Limited. The companies' main goal is to bundle certain financing activities worldwide. Except for a symbolic portion, which is required according to Maltese law, they belong completely to ARQUES Industries AG. The companies do their calculations in euros.

ARQUES also has a 100% interest in ARQUES Consult AG. This company essentially renders the services of the ARQUES task force vis-à-vis the corporate group companies. The company works in deficit, since the task force is only billed to the subsidiaries at a maximum of its own costs. ARQUES wants to consciously set itself apart from private equity companies, which withdraw money from their subsidiaries by means of allocations or fees. In 2006 the company is to be merged with ARQUES Industries AG.

Xerius AG

Xerius AG is a so-called corporate shell, which is listed over the counter and on XETRA and is traded on the Frankfurt, Munich, Stuttgart and Berlin-Bremen stock exchanges. The company has capital stock of EUR 0.35 million, 79.21% of which is held by ARQUES Industries AG.

Value-oriented corporate control

ARQUES management controls the group with a value-oriented two-phase model. In Phase 1 special value is placed on stabilizing the liquidity position of the new acquisitions in need of restructuring. The essential indicator for this is the operating cash flow of

these companies. In the first phase, which can last up to one year, liquidity-increasing effects are achieved through agreements with the creditors, employees, suppliers and customers of the newly acquired companies.

In Phase 2 the results of operations of the acquired companies are improved. The success of the measures introduced for this purpose is checked by the company management on the basis of earnings before interest and taxes (EBIT). The companies are therefore combined according to the calendar years of acquisition (see also Notes to the consolidated financial statements - Segment reporting according to vintage years).

Assets, financial position and results of operations of the individual company and of the group

ARQUES Industries Aktiengesellschaft - Individual financial statements

Course of financial year 2005

The financial year 2005 of ARQUES Industries AG was characterized mainly by the considerable expansion of the investment portfolio as well as two capital increases for financing the transactions.

Results of operations

In financial year 2005 ARQUES increased the other operating income by 103% to kEUR 8,239 (previous year: kEUR 4,066). Of this, kEUR 4,746 accrued to income from sales of investments held as current assets, kEUR 1,368 to income from using these investments as acquisition currency in connection with the acquisition of a company, and kEUR 1,760 to redemptions of acquired loans (previous year: kEUR 2,750). The loans were acquired within the scope of company purchases for the purchase prices falling below the nominal amounts.

Personnel expenditure increased in financial year 2005 from kEUR 254 to kEUR 917. The reason for this includes both the enlargement of the Executive Board and the severance pay expense of an Executive Board member who has resigned from office.

The other operating expenses increased by 62% to kEUR 3,986. The cost increase results mainly from the expenditures for the capital increases executed in financial year 2005 and the costs for the segment changeover and acceptance of ARQUES in the SDAX.

ARQUES received distributions in 2005 in the amount of kEUR 2,732 (previous year: kEUR 1,014). This corresponds to an increase of

169% compared to the previous year. Based on the good results of operations of the affiliated companies, a higher distribution would also have been possible. However, for strategic group reasons the Executive Board did not consider this to be necessary.

The company generated interest income of kEUR 1,026 in financial year 2005 following kEUR 432 the previous year. The 138% increase results mainly from the expansion of group financing.

The tax rate of the company at the end of financial year 2005 is 23.7% compared to 13.8% the previous year, due mainly to the fact that in the previous year a large portion of tax-free income was included in the net income for the year.

The net income for the year thus increased by 127% to kEUR 5,334, compared to kEUR 2,349 the previous year. The net profit amounts to kEUR 5,410.

The Executive Board and Supervisory Board of ARQUES propose distributing a dividend of EUR 2.05.

Assets and financial position

The balance sheet total of the company as of December 31, 2005 was kEUR 71,809 (previous year: kEUR 17,226). This marked increase is based mainly on the extensive investment activity in the reporting year. The main assets, as in the previous year, are the financial assets at kEUR 38,428 or 53.5% of the balance sheet total. Accounts receivable due from affiliated companies exist in the amount of kEUR 16,287 compared to kEUR 8,112 the previous year. At the end of the financial year, the company has liquid funds amounting to kEUR 13,289 at its disposal (18.5% of the balance sheet total) compared to kEUR 2,910 the previous year.

The company's shareholders' equity comes to kEUR 63,456 (previous year: kEUR 16,070). This corresponds to an equity ratio of 88.4% (previous year: 93.3%). By means of the capital increase in July 2005, the company received funds totaling kEUR 18,152,

which were used mainly for the acquisition and financing of affiliated companies. The capital increase resolved in September 2005 was made against a contribution in kind of all shares of the "Imandros" Vermögensverwaltungs-AG and resulted in an increase in shareholders' equity of kEUR 26,232.

ARQUES Industries Aktiengesellschaft - Consolidated financial statements

Course of financial year 2005

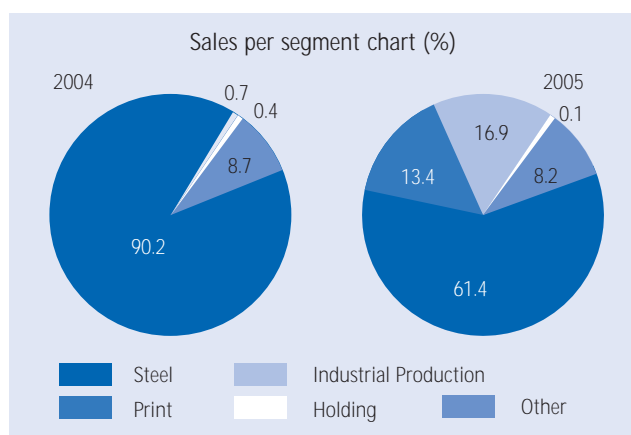
The financial year 2005 of the ARQUES Group was particularly marked by operating progress in the corporate group companies and by additional company acquisitions. The consolidated annualized sales as of December 31, 2005 therefore reached more than EUR 400 million. In addition to the acquisition of ten corporate groups, the switchover to the regulated market took place already in June 2005. ARQUES Industries AG has been listed under ISIN DE0005156004 or WKN 515600 in the SDAX since September 19, 2005.

Results of operations

Sales revenue

Sales of the ARQUES Group increased compared to the previous year by EUR 288.9 million or 224.7% to EUR 417.5 million.

SALES	2005	2004	Change
	EUR mill.	EUR mill.	in %
Steel	256.3	116.0	+ 120.9
Print	55.8	0.0	+ > 1,000
Industrial Production	70.9	0.9	+ > 1,000
Holding	0.4	0.5	- 20.0
Other	34.1	11.2	+ 204.5
Total	417.5	128.6	+ 224.7



Analysis of segment results

The largest segment is the Steel segment. The largest company in this segment is the SKW Group. It was acquired on 08/30/2004. For this reason, the sales and earnings power of this company is not yet completely reflected in the comparison figures of the year 2004. SKW contributed EUR 192.8 million to segment sales. The reorganization of this company was completed in spring of 2005 and it is now concentrating on increasing growth and efficiency. Other companies in this segment are Jahnel Kestermann and Sommer Fahrzeugbau, which are involved in a similar industrial and competitive environment. Both companies were acquired in 2005 and despite enormous restructuring success, were only able to contribute little (Jahnel Kestermann) or nothing at all (Sommer Fahrzeugbau) to the segment results. This amounted to EUR 13.3 million (EBITDA).

The Print segment had sales of EUR 55.8 million. This segment exhibits the greatest growth dynamics. At the end of the first quarter of 2006, annualized sales of this segment were already at EUR 180 million. ARQUES is pursuing a buy-and-build concept with the print holding company ARQUANA. The various companies (except Colordruck Pforzheim) realize intense synergies at all levels of added value. The companies remained in Phase 1 of the reorganization during the reporting year, which is characterized primarily by restructuring expenses. Segment results are accordingly EUR 16.2 (EBITDA). Income from the reversal of negative goodwill arising from the capital consolidation of EUR 15.8 million is included in this amount.

The Industrial Production segment includes the companies SKS Stakusit, Missel and Evotape. These companies produce for commercial customers. SKS and Missel are close to construction. Missel (taken over in November 2004) entered into Phase 2 of the corporate development in spring of 2005 and has been profitable since that time. The reorganization activities at SKS Stakusit are progressing according to plan. Evotape was the most difficult case of reorganization. Although the restructuring plan of the new management was implemented promptly and successfully, the breakthrough to profitability, as expected, could not yet be achieved in 2005. The reorganization contribution of the former shareholder is more than sufficient for the complete financing, however. At SKS and Evotape, income from the reversal of negative goodwill arising from the capital consolidation of EUR 12.9 million could be realized. The EBITDA was EUR 14.9 million.

The companies ddp, Golf House, teutonia and tiskon are all combined in the Other segment. The highly in-deficit company teutonia, acquired at a symbolic purchase price in the year 2004, reached its turn-around point with the successful presentation of its new collection at the fall trade show in Cologne. The company has been turning a profit since the fourth quarter of 2005. Even ddp reached the "black zero" in the final quarter, according to plan. Golf House, after years of losses, was able to report a profit as early as the first half of the year since belonging to the group, due to radical measures. The smallest ARQUES company - tiskon AG - tested out the possibility of external growth in the period of less than two months. This segment was able to finish out the year with sales of EUR 34.1 million and an EBITDA of EUR 11.8 million. The income from the reversal of negative goodwill arising from the capital consolidation included therein amounted to EUR 10.2 million.

The Holding segment is characterized by the services of the task force. This represents an ARQUES speciality and is the basis for the rapid restructuring successes. With external revenue of EUR 0.4 million, this segment achieved a profit (EBITDA) of EUR 3.8 million. Income from the reversal of negative goodwill arising from the capital consolidation is not to be allocated to this segment. The

profit results mainly from the successful replacement of ARQUANA shares, which more than compensated for the holding costs.

Other operating income

In financial year 2005 the ARQUES Group increased its other operating income by 56.2% to kEUR 62,089 (previous year: kEUR 39,745). This results among other things from the income from the sale of 14.8% of the shares in ARQUANA International Print & Media AG of kEUR 6,110, income from the release of provisions of kEUR 4,771 (previous year kEUR 2,215) as well as other operating income of kEUR 4,745 (previous year kEUR 3,250). Primarily, however, the other operating income results from income from the reversal of negative goodwill arising from the capital consolidation in the amount of kEUR 39,356 (previous year: kEUR 24,424).

Income from the release of negative differences from the capital consolidation

Income aspects

The income from the reversal of negative goodwill arising from the capital consolidation in financial year 2005 amounted to kEUR 39,356 compared to kEUR 24,424 the previous year. It originated from the initial consolidation of the companies or rather groups of companies SKS, Johler, Golf House, Evotape, Sommer, Evry Rotatives and tiscn.

If the net fair value of the assets, liabilities and contingent liabilities recognized exceeds the cost of the business combination, any excess is recognized in profit or loss. Following this market value idea, the assets and liabilities of the acquired companies, which were generally debt-free and unencumbered, were revaluated. Differences between the fair value and the carrying values frequently occur when valuating property and buildings. If pension liabilities exist, the fair value in this case is often higher than the carrying value according to German GAAP or other national GAAP, since

IFRS provides for less discounting in this case. The fair value of the liabilities are also determined for pending transactions, losses in order backlogs, guarantee commitments, etc.

One regular and significant portion of the income from the reversal of negative goodwill arising from the capital consolidation is comprised of the consolidation effect with respect to the shareholder loans also acquired, which are recognized in liabilities at nominal values for the acquired company and not influenced by the purchase process, but are capitalized for the acquiring company, at the generally significantly lower group acquisitions costs.

The determination of the market value of the assets and liabilities undertaken generally has an effect on almost all items of the consolidated income statement during affiliation with the group.

The income from the reversal of negative goodwill arising from the capital consolidation is to be shown as income in the period of acquisition. It cannot be distributed over the entire reorganization phase according to the occurrence of the restructuring expenses, which can also last longer than twelve months in some individual cases. From an economic perspective, they represent the last contribution of the seller to the impending reorganization of the company, which is initiated by ARQUES. In this respect, the 2005 income from the reversal of negative goodwill arising from the capital consolidation is seen alongside the losses from the reorganization expenses such as social security schemes or plant closures of the companies acquired in 2005. If these accrue to acquisitions from the previous periods, they are reported in the group income statement but also reorganization expenses.

In the group's opinion, this income therefore also helps compensate considerably for the reorganization expenses activities on the earnings side. As just demonstrated, this regularly results in disencumbering or encumbering effects extending beyond the period, since the income must be recorded at the time of acquisition but the expenses generally do not need to be recorded until later.

Liquidity aspects

If not all of the group companies are considered, but solely those that in the year 2005 posted income from the reversal of negative goodwill arising from the capital consolidation, it turns out that in 2005 they achieved after-tax results - without taking into account the income from the reversal of negative goodwill arising from the capital consolidation - in the overall amount of kEUR -3,313. Already included therein are all (higher) start-up and restructuring losses, which according to the ARQUES business model (acquisition of companies in deficit) regularly accrue after the acquisition.

The companies being considered here with income from the reversal of negative goodwill arising from the capital consolidation, had at the time of acquisition liquid funds on hand after the deduction of liabilities to banks ("net cash") of kEUR 28,002.

The progress of the reorganization is evident not least in the ability of the company being reorganized to again generate positive cash flow or not to require all of the financial resources on hand for reorganization purposes. If free cash flow is generated or if other available funds exist, it may be possible to redeem existing shareholder loans. This can at times occur clearly before the time of ability to distribute profits, specifically at that time when loss carryforwards must still be reduced, because the reorganization phase is short and the history of loss is long, for example.

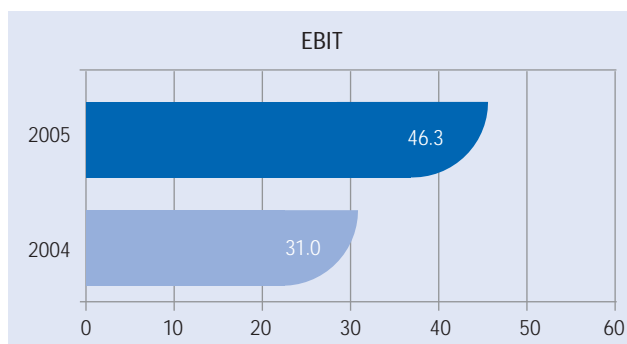
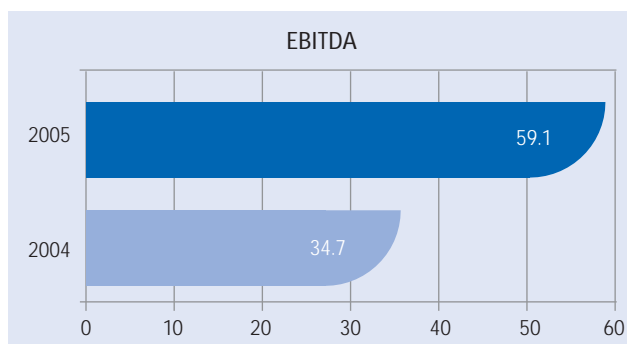
In 2005, therefore, kEUR 8,757 from the group companies could already be repatriated following the restructuring successes. This amount was freely available to the group.

Expenses

Personnel expenses increased in financial year 2005 from kEUR 32,396 to kEUR 80,603. Additions to the scope of consolidation were the reason for this increase.

The other operating expenses increased by 282.07% to kEUR 58,189. This increase can also be attributed largely to the additions to the scope of consolidation.

Research and development expenses in the amount of kEUR 122 are included in the expenses.

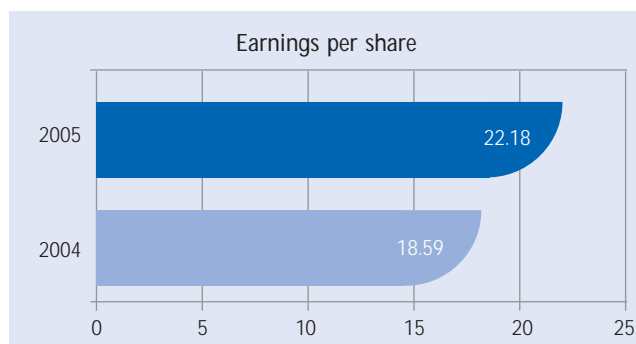
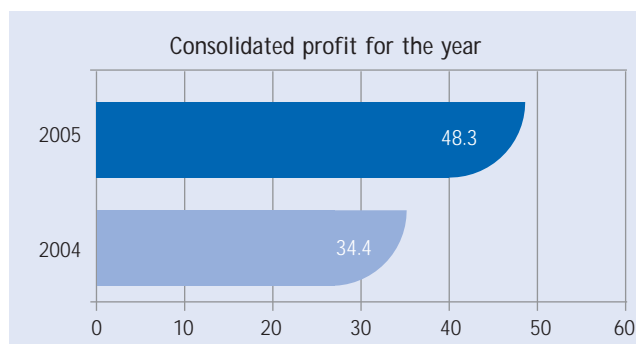


In financial year 2005, the group generated net interest loss in the amount of kEUR -1,127 following kEUR -596 the previous year. This increase results primarily from the liabilities due to banks acquired as part of the acquisitions in the reporting year.

The tax rate of the group as of the end of financial year 2005 is -4.8% compared to -10.3% the previous year. The low tax rate results primarily from the income from the reversal of negative goodwill arising from the capital consolidation, which is not seen alongside any current or deferred income tax expense. Instead, in

the calculation of income from the release of negative differences from the capital consolidation, the associated deferred taxes were already deducted. The income from the reversal of negative goodwill arising from the capital consolidation therefore already are net of cash.

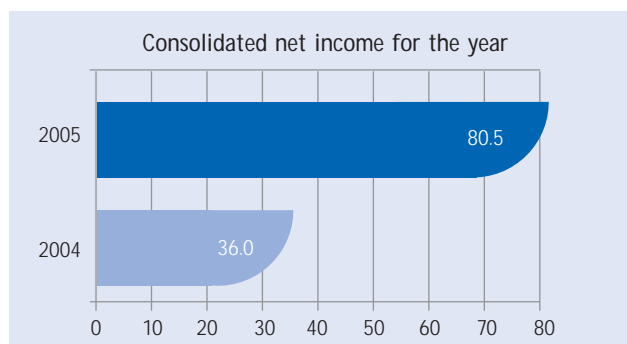
The group net income for the year thus increased by 40.4% to kEUR 48,268 compared to kEUR 34,370 the previous year. The diluted earnings per share thus increased to EUR 22.18 compared to EUR 18.59 the previous year. The undiluted earnings per share increased to EUR 22.22 compared to EUR 18.59 the previous year.



The group net income for the year thus reached kEUR 80,526 (+ 123.5%) compared to kEUR 36,030 the previous year.

Net assets and financial position

The balance sheet total of the company as of December 31, 2005 amounts to kEUR 359,923 (previous year: kEUR 154,023). This significant increase is based primarily on the substantial investment activity in the reporting year. The primary assets as in the previous year are comprised of property, plant and equipment at kEUR 125,558 or 34.9% of the balance sheet total. Trade receivables amount to kEUR 76,700 compared to kEUR 39,148 the previous year. Due to a capital increase in July 2005, liquid funds totaling kEUR 17,500 accrued to the group, which were used primarily for the acquisition and financing of affiliated companies. At the end of the financial year, liquid funds in the amount of kEUR 43,521 are available within the group compared to kEUR 12,860 the previous year.



The balance sheet structure of the group is developed as follows:

	2005 EUR mill.	2005 %	2004 EUR mill.	2004 %
Long-term assets	152.0	42.2	55.7	36.2
Short-term assets with out liquidity	164.4	45.7	85.4	55.5
Liquidity	43.5	12.1	12.9	8.4
Total assets	359.9	100.0	154.0	100.0
Shareholders' equity	142.7	39.7	51.9	33.7
Long-term liabilities	75.0	20.8	32.7	21.2
Short-term liabilities	142.2	39.5	69.4	45.1
Total liabilities	359.9	100.0	154.0	100.0

The equity ratio within the group could be increased from 33.7% to 39.7% (incl. minority share).

With respect to the financial position of ARQUES Industries Aktiengesellschaft, reference is made to the consolidated cash flow statement attached to the Notes to the consolidated financial statements.

Cash Flow

The ARQUES Group is characterized by a tremendous growth. Furthermore, ARQUES is growing through the acquisition of companies that urgently have to be restructured. Therefore three factors have to be considered in regarding the cash flow presentation. Firstly, it must be remembered that changes resulting from the acquisition of consolidated companies are eliminated in the cash flow statement. For example, if an acquired company has inventories of EUR 5 million when it is acquired, this does not affect the cash flow. Only further changes to these inventories after the acquisition date (e.g. an increase in inventories to improve deliverability) are recorded as a cash outflow. Secondly, the business concept of ARQUES in the majority of cases requires the target company to be provided with cash and cash equivalents directly after its takeover. Thus, for example, ARQUES pays only a symbolic purchase price for a company, but will then have to provide new funds to finance stores or to reduce excessive supplier liabilities. These payments are not shown as investing activities but as an increase in working capital in the consolidated financial statements. In the cash flow statement they lead to a negative cash flow from operating activities.. However, the measures have a positive effect on the acquired company. Finally, the cash flow statement also shows that the acquired companies were purchased below net asset values. This can be seen from the fact that the business combinations do not lead to an outflow of funds, as it is usual, but to a net inflow of funds.

The Group incurred a cash outflow from operating activities of EUR 7.2 million. This cash flow is characterized mainly by inventories, trade receivables and trade accounts payable. Inventories and accounts receivable increased overall by EUR 69.4 million. Of this, EUR 54.4 million relates to changes in the consolidation scope of ARQUES Group. However, EUR 15.0 million were invested by ARQUES Group in inventories and accounts receivable. Liabilities (including other liabilities and other provisions) increased by EUR 65.8 million due to additions to the consolidation scope. However, these liabilities have been successfully reduced by EUR 4.5 million in less than twelve months (e.g. by redemptions within the scope of creditor debt composition proceedings).

ARQUES realized a cash inflow from investing activities of EUR 19.1 million. ARQUES succeeded, in fact, in acquiring cash in the amount of EUR 37.0 million when purchasing the companies. After deducting the purchase price paid of EUR 16.0 million, investments in the fixed assets of EUR 8.7 million and other items, the above-mentioned net cash inflow remained. This cash inflow was used largely for the reorganization of the companies acquired. The respective cash outflow for the reorganization is disclosed in the cash flow items Gross cash flow and Change in working capital. At this point it becomes very clear that in accordance with the ARQUES business model, the cash flow should be looked at consistently, since the operating start-up losses and reorganization costs as well as the required working capital financing are seen alongside the reorganization contributions of the seller and favourable purchase prices.

ARQUES recorded a cash inflow of EUR 18.7 million from financing activities. The inflow consisted mainly of EUR 17.5 million from a capital increase. Opposite to the inflows incurred outflows of EUR 2.3 million for dividend payments and of EUR 1.7 million net for the repayment of financial liabilities.

Balance sheet and financial indicators

		2005 %	2004 %
Return on revenues	$\frac{\text{EBIT}}{\text{Revenues}}$	11.1	24.2
Fixed assets intensity	$\frac{\text{Property, plant and equipment and intangible assets}}{\text{Balance sheet total}}$	37.2	30.6
Liability structure	$\frac{\text{Short-term liabilities}}{\text{Total liabilities}}$	65.5	68.0
Financing ratio	$\frac{\text{Depreciation and amortization}}{\text{Capital expenditure}}$	106.9	88.8
Equity ratio	$\frac{\text{Shareholders' equity}}{\text{Balance sheet total}}$	39.7	33.7

Employees

The ARQUES Industries Group employed a total of 2,568 employees worldwide as of year-end 2005 (December 31, 2005). Thus the number of dependent employees increased by exactly 1,000 compared to the previous year (December 31, 2004) to 2,568 (+ 157%). The total wage and salary amount increased to almost EUR 70 million. Of the 2,568 employees, 2,439 were employed in Europe and 129 in the rest of the world. 2,258 employees originated from EU countries, 181 from other European countries, 72 from the Asian region and 57 from the North American region. The employees from the Indian production joint venture of the SKW Group are not included here. This breakdown confirms the fact that ARQUES is a global group with a distinct emphasis on Europe.

In Germany, the situation in the financial year 2005 under review turned out as follows:

Overall as of December 31, 2005 1,608 employees were on board, which represents a plus of 105% compared to year-end 2004 (784 employees). Already taken into account here is the fact that due to the sale of Louis Schierholz GmbH in the summer of 2005, approx. 220 positions are no longer reported within the group.

As part of the necessary, already implemented restructuring activities, 471 employees lost their jobs in Germany in 2005, and 203 employees were newly hired during the same time period.

There were 138 trainees within the ARQUES business operations, of which 48 were able to pass their final examinations in 2005. The apprenticeship training positions that became open were completely filled with new trainees.

Seven (7) social security schemes and 8 company pay scale agreements could also be newly concluded with the employee-elected representatives.

The paid social security costs borne by the ARQUES Group in Germany amounted to a total of EUR 9.1 million in 2005, of which EUR 4.7 million alone was for pension insurance funds and EUR 1.4 million for unemployment insurance.

In Germany alone, a total of 3 firms were able to be saved from immediately impending or already occurring insolvency. A total of 496 jobs could therefore be permanently preserved, which saved the public authorities from having to make disbursements in the double-digit millions (excluding insolvency loss funds).

Risk report

The future business development of the ARQUES Group involves certain opportunities and risks. The risk policy consists of using the available opportunities and limiting the associated risk by implementing the appropriate tools.

The selected presentation of risks does not include any statement as to the weighting and/or the significance of the individual risks or to the probability of their occurrence. Nor do the risks listed below assert any claim of completeness. Other risks and uncertainties, which are not known to the Company at present or which the Company feels are insignificant from today's perspective, could also have a considerable impact on the business operations of the Company and have negative effects on the business outlooks as well as on the net assets, financial position and results of operations of the ARQUES Group.

Company-related risks

Management risks

The business purpose of ARQUES Industries AG is the direct and indirect participation in companies and groups of companies which form an economic unit (hereinafter referred to as: "Affiliated Companies")

When acquiring an interest in companies, ARQUES concentrates on companies that can be acquired at the lowest possible purchase price and have high potential to increase in value. This presupposes that the respective companies are often in an acute crisis situation at the time of acquisition and that there is a great need for reorganization. When selecting companies, the Company does not focus in any way on a specific industry. The success of the business model of the Company therefore depends largely on the persons at ARQUES who are responsible for the transaction. They must first select companies that can be reorganized fairly quickly and at an appropriate expense. The responsible persons must also continue to manage the company profitably after the reorganization. The Company can only be financially successful if all of these prerequisites are at hand. ARQUES carries out the selection, the reorganization and the management of companies with its own personnel. Its own

personnel means that these persons are either permanent employees of ARQUES or that they collaborate with the Company on a permanent basis.

The Company therefore depends heavily on the management skill and in particular on the business management know-how of these persons. It is furthermore reliant on the fact that in case of need, it can revert back to a sufficiently large number of persons for the Acquisition department, the reorganization and the operating management of the affiliated companies. An expansion of the participation portfolio alone, whether planned or due to the lack of an opportunity for disposal, would constitute a situation in which the Company would have to acquire additional qualified personnel. This can be difficult, since ARQUES is reliant on highly qualified employees with practical experience in order for the business model to succeed. The reorganization of companies in crisis situations alone places high demands on the responsible managers. This holds even more so if the affiliated company is involved in an industry in which the personnel of ARQUES have little or no previous experience.

Controlling

Many affiliated companies of ARQUES are in an acute crisis at the time of acquisition, which must be quickly and effectively remedied. This depends very much on the skill of the ARQUES employees assigned to this task and on the monitoring of the situation by the Executive Board. Only by using a comprehensive and reliable information system can the Executive Board be informed early on regarding unfavorable developments in the affiliated companies. The ARQUES Group has such an information system and continuously updates it. Nevertheless, there is always the possibility that the information system may fail in a specific individual case or not be correctly handled by the respective employees, resulting in negative economic developments within an affiliated company not being indicated in a timely manner.

Failure of the reorganization

The Company's goal is always to achieve the fastest possible reorganization of an affiliated company, to keep operating losses after the acquisition as low as possible. This can fail, for example if it turns out that the costs of the reorganization will be too high, the market position of the industry deteriorates or management makes mistakes in the reorganization. This can result in the affiliated company becoming insolvent. As a result, under certain circumstances ARQUES loses all of the financial resources which the Company used for the acquisition and financing of the affiliated company. If the Company had financed the acquisition and reorganization of the affiliated company with loan funds from a credit institute - which it has not done up to now - it would be obligated to continue to repay these funds even after the insolvency of the affiliated company. All costs accruing to ARQUES in connection with the respective affiliated company are allocated to the affiliated company. These include, for example, the Company's costs for the subsidiary manager and other employees of the task force, which are provided by ARQUES. If the reorganization should fail, ARQUES does not receive any reimbursement of costs from the respective affiliated company.

To date, no affiliated companies of ARQUES have gone into insolvency, with the exception of the SKW subsidiary La Roche de Rame, which had already been shut down at the time of acquisition.

Dependence on persons in key positions

One of the essential components for the future success of the Company is the many years of experience of the Executive Board in the acquisition, the reorganization and the disposal of companies, specifically the gentlemen Dr. Dr. Peter Löw, Dr. Martin Vorderwülbecke and Markus Zöllner. If one of these key people were to leave the company, the situation could arise where no suitable executive could be found to successfully carry on the business, which could have a considerably negative impact on the development of the ARQUES Group.

Economic and market-related risks

Economic risks

The general economic development in Germany, the EU and worldwide has a multifaceted impact on business development. In general, the following can be said: a poor general economic trend has as a consequence that the purchasing market for ARQUES Industries AG improves. More companies arrive at a critical state, are altogether for sale or are disposing of parts of the business to procure liquidity. The disposal market is of course worse, since potentially fewer companies are interested in acquisition and the reorganization of the affiliated company becomes more difficult. A poor economic situation can also adversely affect the organization and further economic development of the affiliated company. A good economic situation, on the other hand, generally improves the disposal market and general economic development of the affiliated company, but makes the acquisition more expensive. Thus, it also depends on the skill of the ARQUES employees to use the respective economic situation and further development in a way that is optimal for the Company.

Industry risks

Industry risks are risks that affect a particular market, for example a decreasing demand for printed products due to heightened use of other media such as the Internet, or the appearance of new aggressive competitors. Such risks generally only affect affiliated companies of ARQUES in a specific market segment. The specific industry risk for companies such as ARQUES Industries AG is a different type of risk.

Industry risks of the affiliated companies

The affiliated companies of the ARQUES Group are active in different markets with various types of products. The industry-specific risk is therefore greatly diversified and low for the entire group of all affiliated companies.

The economic development of each individual affiliated company can be negatively impacted by a worsening market situation in the respective industry in the extreme case, up to and including insolvency of the affiliated company, without the management of the affiliated company being able to prevent it.

In the information below, the industry-specific risks of the affiliated companies currently held by ARQUES Industries AG will be presented.

As a commercial enterprise, Golf House Direktversand GmbH is exposed mainly to the general fluctuations of the consumer climate. The sport of golf is developing more and more into a broad-based sport, which means that similar risks as for the entire sporting equipment market apply. The end consumer is very sensitive to price due to the high level of transparency. Because the pool of products is geared toward just a few suppliers, the suppliers wield a great deal of power, which is why the private brands are being further developed. Due to a changeover of one of the logistics service providers, short-term supply shortages could occur in early 2006. When it comes to personnel, business success is particularly dependent on the branch office managers, which is typical for the industry. Golf House does not have any environmental risk.

E. Missel GmbH & Co. KG, an industrial provider of sound and thermal insulation systems for pipes and floors for the premium segment, is commensurately exposed to the general trend of the construction industry. A large part of its sales is achieved with a few major customers and wholesalers and therefore depends on their business success while at the same time weakening its position in price negotiations. A few patents will run out in 2005, which may intensify the competitive situation for certain solutions. No known environmental risk exists for Missel.

The SKW Stahl-Metallurgie Group is a supplier of high-quality steel additives for the worldwide steel industry. The dependency of this worldwide production group on the demand and price situation of regional markets is therefore limited, although of course

the steel market is a cyclical business throughout the world. This means that there is the risk of a cyclical collapse of prices, which could feed through into the solvency and payment propensity of the customers. The high global market share is due to quality leadership. There is some risk of a possible drop in margins, if competitors are able to catch up on this head start in quality. This attractive market could also draw other competitors to join in. No known environmental risks exist for SKW, although this cannot be entirely ruled out, particularly at the old location in France. The improper handling or storage of the materials being used could result in danger of fire or other immissions. There is also a certain dependence on the executives due to the strong know-how orientation and the decentralized structure.

Sommer Fahrzeugbau GmbH & Co. KG produces special motor vehicles for the German and European market at several locations in Europe. There is an above-average dependence on a few large customers. In some segments the company is exposed to high price pressure due to the simplified solutions of competitors who are oriented toward series production. There is some risk of damage to reputation, which originated due to delivery delays during the time before the takeover. Suppliers hold monopoly positions in some areas. This holds risks with respect to the price-based power of the supplier. The direction of the independent management in the eastern locations is difficult. There are no reports about any environmental risk worthy of mention. The decentralized structure of the production sites leads to a special dependence on the managers on site.

SKS Stakusit Bautechnik GmbH is a provider of intelligent roller shutter and insect protection systems for windows and is therefore subject to the general trends of the construction industry. Market dependency is face to face with a high level of geographic diversification. There are a few important large customers who are dependent for those reasons. Stiff competition keeps price pressure high. There are no known environmental risks. There is a certain dependence on the managers, mainly in the sales sites in Eastern Europe, since they have the sales and production know-how spe-

cific to that region.

Jahnel-Kestermann Getriebewerke GmbH & Co. KG produces special drives for applications in a number of industries, which are very independent in their development. Jahnel-Kestermann drive technology is used by energy producers, in the sugar and chocolate industry as well as for maritime applications, among others. The international nature of the customers also results in a high level of risk distribution. However, a large share of the sales is achieved with just a few customers. Due to increasing series production, margin pressure is increasing in some segments such as drives for the wind industry. Due to the external handling of drive testing at Deutsche Montan Technologie GmbH, the company has secured competitive advantage in quality and sales, but there is a strong dependency on this service provider. Production conversions planned for 2006 could lead to delivery and quality problems. Environmental risks could occur at the production site in Bochum due to the many years of production and the operation of a hardening shop, although currently no active reorganization measures are planned. There is a dependency on managers, particularly in the area of design and development.

ARQUANA International Print & Media AG unites the major ARQUES print shops under one roof. Included in the portfolio as of the cutoff date December 31, 2005 were Johler Druck GmbH, Nord Offset Druck GmbH, Evry Rotatives S.A.S. and Sochor Group GmbH. All subsidiaries print using the web offset process. This market is characterized by a decline in demand over the last several years, overcapacities due to continuous investment in more efficient machinery and a sharp drop in margins. The high number of insolvencies of smaller competitors compensates for the ensuing overcapacities only in part. ARQUANA confronts this challenge with a nationwide sales concept, which ensures a high level of utilization of all printing machines with projects that are suitable for the machinery and therefore very attractive projects. The vertical integration of upstream and downstream production steps also helps the company reduce its dependency on printing machines of a certain job type. There are also investment pressures with the resulting financial, procurement and production risks. The manufacture

of printed products can be potentially damaging to the environment; however, there is no particular known negative impact on the environment at the acquired printing locations at this time. The regional decentralized structure of the ARQUANA Group brings about dependencies on local managers and plant managers.

ddp Deutscher Depeschendienst GmbH is the second largest German news agency. It has a well-known images service as well as an extensive image archive. Customers are permanent subscribers who generally further distribute the news themselves. There are several large customers who make up the customer base. The importance of the press agencies is increasing due to the process of concentration within the German media market and the increasing relinquishment of one's own editorial department. There are no suppliers. The Internet and other electronic methods could replace the importance of press agencies to a certain extent over the long term. Competition from the all-powerful news agency dpa makes it difficult for ddp to further increase its sales, since customers are often committed to dpa for the long term. Environmental risks and particular risks in the area of personnel are not evident.

teutonia Kinderwagenfabrik GmbH is a premium provider of baby carriages and strollers. Risks include a further decline in the birth rate and the momentary consumer restraint in the central market of Germany. Providers that were previously represented in the lower price segment could attempt to expand into the high-priced carriages and strollers. The pressure to turn to new models leads to risks in the area of quality. While components are purchased from a production process that is potentially hazardous to the environment, no specific internal environmental risks are evident or known. Due to the specific knowledge in sales, production and development, there are certain dependencies on the respective managers.

Evotape S.p.A. manufactures packaging and adhesive tapes as well as various specialty adhesive tapes in both the standard and premium segments. The Evotape products are marketed worldwide. Well-known adhesive tape brands are included among the custo-

mers, as well as other companies such as automobile manufacturers. Since adhesive tapes can be used in virtually all areas, there is no particular industry dependency. In any case, the customer structure is greatly dependent on a few large customers. Dependency on a few suppliers with large market shares is also high. There is the danger of further price increases for raw materials, primarily for crude oil derivatives and rubber. It is difficult to impose price increases on customers. Due to overcapacities, margin and competitive pressures are high. Increased competition from Asia is expected. Some negative impact on the environment can be observed at the property in Santi Cosma e Damiano, which is currently being continuously improved by a specialist in the field. After completion of this work, the environmental burdens from the past will be cleared out. Parts of the building's roof could also be contaminated, and the situation is being monitored continuously. Due to the strong customer relationships with a few large customers, there is a risk of dependency on sales managers.

ticon AG Infosystems was largely dependent on one major customer who makes up approx. half of total sales. This customer decided in early 2006 to relocate its entire activities in this area to foreign countries, which inevitably affected ticon. Due to the sub-critical size of the company, it will presumably not be possible to compensate for the loss of sales over the short term, which will likely result in a large burden on earnings because of the fixed cost blocks. There are no environmental risks here. The departure of management and technical staff, who have very specialized know-how in various IT niches, will endanger the future of the company. In April 2006 ticon introduced a business unit into a subsidiary and sold it to a former Executive Board member under the condition precedent of approval by the General Meeting. The remaining business operations are being discontinued.

Industry risks for ARQUES Industries AG

Even ARQUES Industries AG, as the holding company for the reorganization of companies, is exposed to industry-specific risks. It is quite conceivable, for example, that the emergence of new competitors will lead to increased demand and the price for acquiring companies will rise. But due to the breadth of the purchasing market in favor of ARQUES based on the crisis in many industries, this risk is assessed as low.

Financial risks

Currency risks

Currency risks exist within the ARQUES Group if affiliated companies carry on transactions with purchases from foreign suppliers, such as exporting products overseas, or if affiliated companies are maintaining subsidiaries in other countries. In the case of exporting, for example, an increasing euro price generally results in a decline in sales figures, which can hurt the operating results of the affiliated company. At the present time the currency risks are not significant for lack of larger foreign subsidiaries and the structure of the business of the affiliated companies. This can change, however, with the purchase of each additional affiliated company.

Interest rate risks

ARQUES Industries AG and the affiliated companies within the ARQUES Group are exposed to risks related to changes in interest rates. The operating business activities of the affiliated companies are financed primarily by bank loans, although the bank loans are not very high in the overall group. Rising interest rates therefore increase the financing costs of the affiliated companies. These could have a negative impact on the net assets, financial position and results of operations of the ARQUES Group.

Tax-related risks

The group controlling company has not yet undergone a company audit by the responsible revenue office, so that issues regarding the tax treatment of holding companies have not yet been completely clarified.

Risk management

Within the ARQUES Group, risk management takes place as part of the group-wide controlling. Weekly reports on the current status of all affiliated companies are presented to the Executive Board. As part of the monthly financial statements, an actual vs. planned comparison is carried out and if needed, the budget and current forecast are adjusted to real-time. Timely information from the Executive Board and the subsidiary management enable the required action plans to be worked out and implemented on short notice.

Other elements of risk management include regular visits by the executive boards to all affiliated companies on site, to obtain information about their current development. Internationally operating subsidiaries hold several management-level meetings each year. By greatly expanding the ARQUES task force, it is also possible to intervene quickly and forcefully in the event that an affiliated company is in financial distress. The ARQUES business model, i.e. the respective managing director on site holding a stake in the company he is reorganizing, ensures that interests are in line with ARQUES and therefore minimizes risk.

At the beginning of 2006, a group-wide controlling instrument was implemented by introducing the Cognos software. As of 2006, this enables direct access to data prepared on the individual companies or the sub-groups; it also enables the responsible managers of the sub-groups to carry out consolidations within their sub-groups using this software and therefore to better observe the net assets and results of operations of their companies. The Executive Board will also systematically work on an improved system of risk observation in the year 2006. Setting up a group audit is also planned.

Other important events

Since August 2005, the Deutsche Prüfstelle für Rechnungslegung e.V. (FREP) has examined the 2004 consolidated financial statements of ARQUES Industries AG within the scope of a cause-related audit. This examination was undertaken in close cooperation with ARQUES and completed in December 2005. The results were amicably determined and published in the electronic Federal Gazette on February 3, 2006. The required adjustments of the figures in the 2004 financial report were made within the scope of the consolidated financial statements here at hand.

Executive Board member Dr. Dirk Markus was recalled from the office of the Executive Board by the Supervisory Board on February 28, 2005. His release did not have any financial impact on the Company, since the contract of service had already ended previously.

On December 8, 2005 the appointment of Chief Financial Officer Dr. Stefan Gros was revoked by the Supervisory Board of ARQUES Industries AG and his contract of service was terminated. An agreement dated 02/27/2006 stipulated the mutually agreed resignation as of 03/31/06. Dr. Gros had been appointed to the Executive Board effective as of July 1, 2005. His duties have been taken over from that time on by Dr. Martin Vorderwülbecke, who carried out the role of Chief Financial Officer already during the time before Dr. Gros joined the company. Detailed provisions were made in the 2005 financial statements for the financial effects of the termination of this contract of service.

Events after the balance sheet date

Upon entering into the agreement of February 16, 2006, the 100% takeover of the package printing specialist Wanfried Druck Kalden GmbH by the ARQUES subsidiary ARQUANA International Print & Media AG, which had already been announced in December 2005, was completed. Wanfried-Druck specializes in the production and printing of high-quality packages and labels. Some of the products

manufactured include paper labels, folded boxes, chocolate bar wrappers and system packages for beverages. Customers come from the food and tobacco industry as well as from the non-food area. The company has state-of-the-art machinery and a fully developed quality and environmental management system. The production halls are located on the company's own property of approx. 17,000 m².

Heinrich Heiland GmbH, Magstadt, was acquired on February 23, 2006. The company achieved sales of almost EUR 25 million in 2005. Heiland manufactures primarily in Slovakia; internally developed transport protection covers for new cars comprise an interesting future target market for the company.

On March 9, 2005 ARQUES acquired Rohner AG in Basel, Switzerland. This company produces chemicals for customers in the life sciences area as well as base material chemicals and generated sales of EUR 32 million in 2005.

Hottinger Maschinenbau GmbH in Mannheim was purchased on March 3, 2006. Hottinger generated sales of approx. EUR 17 million in 2005 and is expected to generate a profit of EUR 0.5 million according to the preliminary budget for 2006. Hottinger manufactures special machines for foundry technology in Mannheim, which are exported worldwide.

ARQUANA has also contractually agreed to purchase the Cologne print shop J.P.Bachem; the closing is still pending.

Arques Industries AG also acquired all of the capital shares in Georg Fischer Schwab GmbH & Co KG from Georg Fischer AG. The transaction took place on March 31. The company, formerly part of the GF Piping Systems group of companies, produces and markets

coil boxes and smoke-screen systems for sanitary engineering. Sales were approximately EUR 11 million over the last several years, with a total of 55 employees.

Outlook

The existing affiliated companies are off to a good start in the current financial year 2006. Management is therefore expecting these companies to show an increase in sales with growing profitability.

Since the second half of 2005, more staff was hired in the Acquisition department and for the task force to manage additional growth. The acquisitions network was significantly expanded. The acquisitions pipeline is well filled and there are seven full-time experts working in the acquisitions division since the start of 2006.

We will continue on with the path already forged in the acquisition of companies in transitional and turnaround situations. With our reinforced acquisitions team and the favorable experiences of the last two years, we anticipate acquiring companies with annualized sales of approx. EUR 400 - 600 million each year.

On this basis, management expects to achieve sales of EUR 0.78 billion for financial year 2006 and an EBITDA of EUR 80 million. For financial year 2007, sales of EUR 1.3 billion and an EBITDA of EUR 130 million are planned.

Additional purchases in the first quarter of 2006 have increased the annualized sales by approx. EUR 120 million, which means that the planning for the first quarter of 2006 has already been exceeded.

The Executive Board of ARQUES Industries AG



Dr. Martin Vorderwülbecke



Dr. Dr. Peter Löw



Markus Zöllner

Report of the Supervisory Board

The Supervisory Board performed all of the duties incumbent upon it under German law and the company's articles of incorporation and advised and supervised the Executive Board in its work during the fiscal year. The Executive Board also promptly and comprehensively informed the Supervisory Board on a regular basis, either in writing or verbally, in respect of all relevant issues of corporate planning and strategic further development, about the development of the groups business and the commercial activities of the group including budget development, risk position and risk management.

The supervisory activities encompass the following main responsibilities:

- Requesting and reviewing quarterly reports regarding basic questions of corporate planning (in particular the financial, investment and personnel planning), the development of business (in particular sales and the position of the company) as well as regarding business transactions which could be of considerable importance to the profitability or liquidity of the company (see also § 90 section 1 AktG, stock corporation law);
- Posing questions to the management in the six Supervisory Board meetings regarding the reports presented, current developments and pending decisions;
- Ongoing discussions between the Chairman of the Supervisory Board and members of the Executive Board posing questions to the management related to these discussions on current developments and pending decisions;
- Reviewing the annual financial statements, the consolidated financial statements, the Management Report and the Group Management Report prepared by the Executive Board as well as

posing questions regarding the above to the members of the Executive Board.

The Supervisory Board was involved in all significant, strategic corporate decisions and thoroughly discussed, reviewed and - where required - approved these.

The members of the Executive Board were also present at the six meetings summoned during the year 2005, specifically on February 28, April 25, July 14, October 25, December 7 and December 16. The company's auditors also attended the balance sheet meeting on April 25 in accordance with § 171 section 1 AktG (stock corporation law).

The Supervisory Board established an audit committee in financial year 2005. The discussions with the Supervisory Board pertained mainly to the current business development as well as to the corporate strategy and its implementation. The Supervisory Board is particularly concerned with personal issues of the Executive Board, as well as with broader issues of the company's capital market activities. In addition to the overall business situation, the subjects of intense deliberation in financial year 2005 included the strategic further development of the company, the continued strong growth of the group as well as the segment change from the informal market to the regulated market (Prime Standard) and the associated financial communications requirements. The financial and personnel challenges in particular, as well as the risks associated with the rapid development of the business, were regularly discussed in detail.

The Supervisory Board dealt with the standards of good and responsible corporate management contained in the German Corporate Governance code. In accordance with § 161 AktG (stock corporation law), the Executive Board and Supervisory Board submitted an updated declaration of conformance on March 29, 2006 and ensured that it was accessible at all times to the shareholders on the company's website.

In accordance with the recommendations of the Code, the Supervisory Board obtained a statement from the auditors on July 13, 2005, as to which professional, financial or other relations might exist between the auditors and the company which could justify doubt as to their independence (declaration of independence). The statement also included the various other advisory activities that were rendered for the company during the financial year under review.

The annual financial statements and the consolidated financial statements as of December 31, 2005 as well as the Management Report and the Group Management Report were audited as part of the accounting services of the selected auditors PwC PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Munich, and provided with an unqualified audit certificate. All financial statement documentation and audit reports were made available to the members of the Supervisory Board in due time before the balance sheet meeting of the Supervisory Board. The Supervisory Board carefully examined these documents and thoroughly discussed in the presence of the auditors. The Supervisory Board is in agreement with the results of the audit by the auditors and raises no objec-

tions following the final results of its own examination. The Supervisory Board endorsed the annual financial statements and the consolidated financial statements prepared by the Executive Board in the version of the audit report of PwC PricewaterhouseCoopers AG by a resolution of April 20, 2006. The annual financial statements are thereby adopted.

The Supervisory Board would like to take this opportunity to express its explicit appreciation for the work performed by the Executive Board team and thank them for the constantly trusting and fruitful exchange of information. Our severe thanks is due in particular to all our employees whose special diligence and commitment has been critical to the success of the ARQUES Group.

Munich, April 2006

Steven Wilkinson
Chairman of the Supervisory Board

Members of the Supervisory Board

Memberships in other supervisory boards and
other comparable supervisory bodies

Steven Wilkinson

Chairman

Manager, Pöcking

CEO of Buchanan Capital Holding AG, Starnberg

Director of Buchanan Holdings Ltd., Ballasalla, Isle of Man, UK

Member of the Supervisory Board of Ludwig Beck

am Rathauseck - Textilhaus Feldmeier AG, Munich

Prof. Dr. Michael Judis

Vice chairman

Lawyer, Munich

Dr. Gerhard Fischer

Member of the Board of Süddeutsche

Bodencreditbank AG, Munich, retired

Chairman of the Supervisory Board of Demos AG, Seeshaupt

Oliver Gorny

Manager, Herrsching

until July 14, 2005

Mathias Spindler

Real estate economist, Munich

Investment manager, Comfort München GmbH, Munich

Dr. Friedrich-Carl Wachs

Manager, Munich

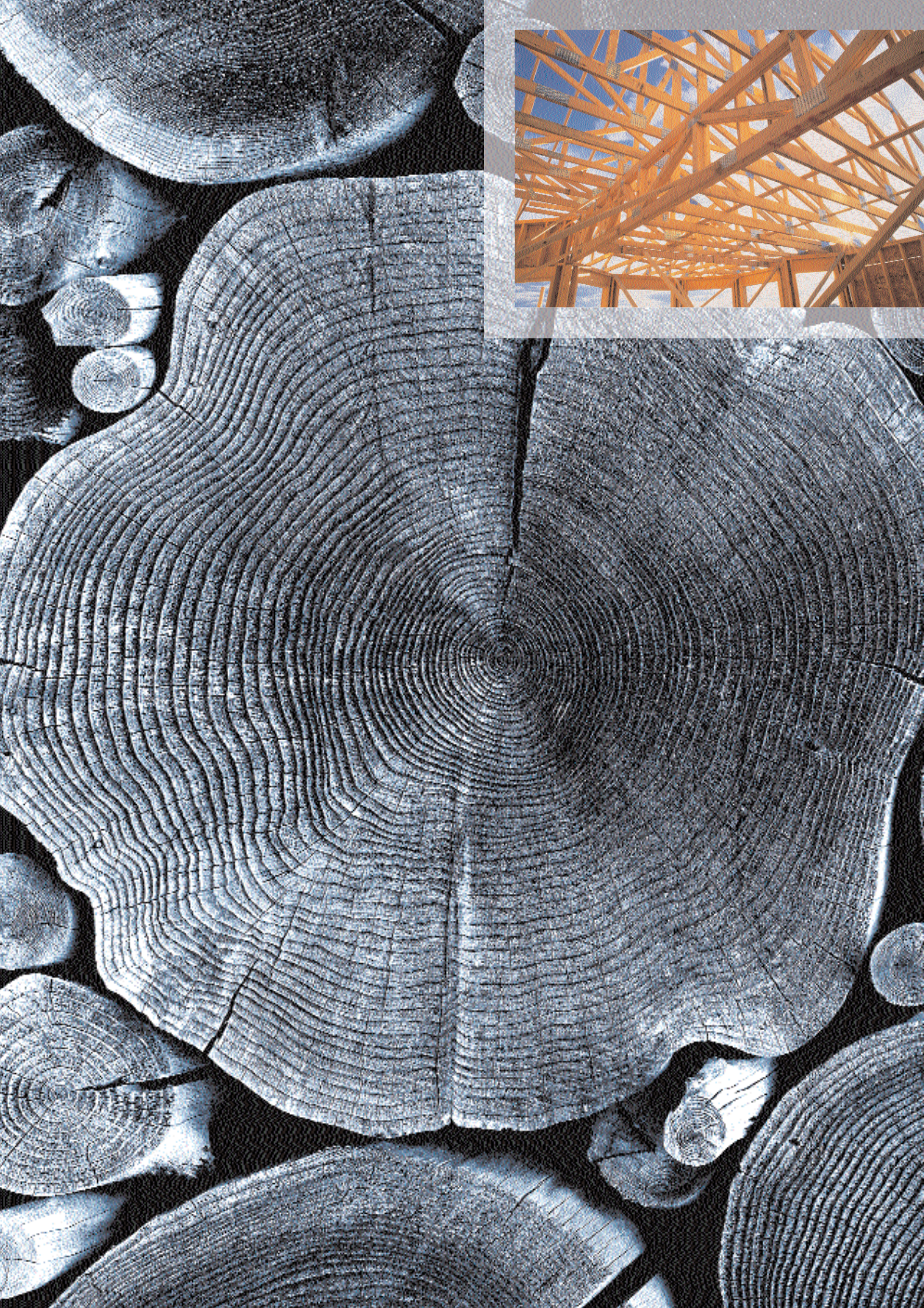
CEO of ARQUANA International Print & Media AG, Starnberg

until November 16, 2005

Bernhard Riedel

Lawyer, Munich

since July 14, 2005



Vitality in clear-cut structures

Form gives material its purpose - ARQUES systematically develops dynamic enterprises from companies in transitional situations. To guarantee harmonious interaction between the new form and the revitalized substance, ARQUES places the highest value on precision, structure and transparency.

Consolidated Financial Statements of ARQUES Industries AG

Consolidated Income Statements January 1 - December 31, 2005

		2005	2004
	Notes	EUR '000	EUR '000
1. Revenues	1	417,501	128,570
2. Change in finished goods and work in progress		4,365	-195
3. Other own work capitalized	2	1,577	0
4. Other operating income	3	62,089	39,745
5. Cost of materials	4	-287,635	-85,806
6. Personnel expenses	5	-80,603	-32,396
7. Other operating expenses	6	<u>-58,189</u>	<u>-15,230</u>
8. Earnings before interest, taxes, depreciation and amortization (EBITDA)		59,105	34,688
9. Depreciation and amortization of intangible assets, property, plant and equipment		<u>-12,771</u>	<u>-3,641</u>
Earnings before interest and taxes (EBIT)		46,334	31,047
10. Income from associated companies	7	846	110
11. Income from loans outstanding		0	199
12. Other interest and similar income	8	920	102
13. Interest and similar expenses	9	<u>-2,047</u>	<u>-698</u>
Income from ordinary activities		46,053	30,760
14. Income taxes	10	2,200	3,175
15. Income before minority interests		48,253	33,935
16. Minority interest	11	<u>15</u>	<u>435</u>
17. Net income		48,268	34,370
18. Retained earnings carried forward		<u>32,258</u>	<u>1,660</u>
19. Retained earnings		80,526	36,030
Earnings per share	12		
- Basic earnings per share in EUR		<u>22,22</u>	<u>18,59</u>
- Diluted earnings per share in EUR		<u>22,18</u>	<u>18,59</u>

Consolidated Balance Sheet as of December 31, 2005

ASSETS

		12/31/2005	12/31/2004
	Notes	EUR `000	EUR `000
Non-current assets			
Intangible assets	13	8,189	2,522
Property, plant and equipment	14	125,558	44,595
Investment property	15	2,288	2,277
Shares in associated companies	16	3,603	3,170
Financial assets	17	1,013	765
Other long-term assets		0	26
Deferred tax assets	29	<u>11,361</u>	<u>2,380</u>
Total non-current assets		152,012	55,735
Current assets			
Inventories	18	58,559	32,324
Receivables from percentage of completion	19	2,876	7,789
Trade accounts receivable	20	76,700	39,148
Financial assets available for sale		73	73
Other assets	21	16,641	6,093
Tax refund claims		73	1
Cash and cash equivalents	22	<u>43,521</u>	<u>12,860</u>
		198,443	98,288
Non-current assets held for sale	23	<u>9,468</u>	<u>0</u>
Total current assets		207,911	98,288
Total assets		359,923	154,023

Consolidated Balance Sheet as of December 31, 2005

SHAREHOLDERS' EQUITY AND LIABILITIES

		12/31/2005	12/31/2004
	Notes	EUR `000	EUR `000
Shareholders' equity	24		
Subscribed capital		2,427	2,027
Additional paid-in capital		53,284	9,905
Reserves		4,866	3,230
Other cumulative shareholders' equity		<u>81,005</u>	<u>35,265</u>
		141,582	50,427
Minority interest		<u>1,120</u>	<u>1,474</u>
Total shareholders' equity		142,702	51,901
Non-current liabilities			
Provisions for pensions	25	15,707	4,598
Provisions	26	3,858	4,681
Financial liabilities	27	17,730	9,095
Liabilities from finance lease	28	10,936	5,710
Other liabilities		1,998	0
Deferred tax liabilities	29	<u>24,818</u>	<u>8,639</u>
Total non-current liabilities		75,047	32,723
Current liabilities			
Provisions	26	12,930	8,042
Financial liabilities	30	20,200	12,093
Trade accounts payable	31	72,882	36,665
Tax liabilities	32	6,236	172
Other liabilities	33	<u>29,926</u>	<u>12,427</u>
Total non-current liabilities		142,174	69,399
Total shareholders' equity and liabilities		359,923	154,023

Statement of Changes in Shareholders' Equity For Fiscal years 2005 and 2004

EUR '000	Subscribed capital	Additional paid-in capital	Retained earnings	Other cumulative shareholders' equity	Minority interest	Total shareholders' equity
December 31, 2003	1,600	92	95	3,260	394	5,441
Capital increase	427	9,813				10,240
Dividend payment 2003				-1,600		-1,600
Net income 2004 (before IAS 8)				38,294	435	38,729
Currency translation				-94		-94
Other changes				435	-1	434
Reclassification acc. to IFRS 3.81			3,135			3,135
IAS 8				-5,030	646	-4,384
December 31, 2004	2,027	9,905	3,230	35,265	1,474	51,901
Capital increase	400	43,379				43,779
Dividend payment 2004				-2,330		-2,330
Transfer to reserves			1,636	-1,636		0
Net income 2005				48,253	15	48,268
Share option plan				278		278
Currency translation				965		965
Changes in minority interest due to disposals				203	-203	0
Other changes				7	-166	-159
December 31, 2005	2,427	53,284	4,866	81,005	1,120	142,702

Consolidated Cash Flow Statement January 1 – December 31, 2005

	from 01/01/2005 - 12/31/2005 EUR 000	from 01/01/2004 - 12/31/2004 EUR 000
1. Income from ordinary activities	46,053	30,760
2. Recognition of negative goodwill	-39,356	-29,424
3. Depreciation/amortization of property, plant and equipment, and intangible assets	12,771	3,641
4. Increase (+)/decrease (-) in provisions for pensions	-904	83
5. Profit (-)/loss (+) from the sale of shares in companies	-6,361	0
6. Profit (-)/loss (+) from the sale of fixed assets	-436	-1,785
7. Profit (-)/loss (+) from the sale of financial assets	54	0
8. Profit (-)/loss (+) from currency translation	640	81
9. Issue of stock options	278	0
10. Income from associated companies	-846	-110
11. Net interest income	1,070	165
12. Dividends received	413	199
13. Interest received	640	102
14. Interest paid	-1,267	-698
15. Income tax paid	<u>-2,058</u>	<u>-591</u>
16. Gross cash flow	10,691	2,423
Change in working capital		
17. Increase (-)/ decrease (+) in inventories	-2,361	4,546
18. Increase (-)/ decrease (+) in trade receivables and other receivables	-12,190	2,119
19. Increase (+)/ decrease (-) in trade accounts payable, other liabilities and other provisions	-4,469	-6,452
20. Increase (+)/ decrease (-) in other balance sheet items	<u>1,125</u>	<u>-1,114</u>
21. Net cash provided - (+)/- used (-) by operating activities (net cash flow)	-7,204	1,522
22. Cash paid for business combinations	-15,965	-6,545
23. Cash acquired from business combinations	37,000	2,393
24. Proceeds from the sale of shares in companies	9,114	0
25. Cash disposed of in the sale of shares in companies	-6,101	0
26. Proceeds from the sale of non-current assets	3,817	0
27. Purchases of non-current assets	<u>-8,743</u>	<u>-4,234</u>
28. Net cash provided- (+)/-used (-) in investing activities	19,122	-8,386
29. Proceeds from the issuance (+)/repayment (-) of current financial liabilities	-5,126	2,729
30. Proceeds from the issuance of non-current financial liabilities	3,426	4,734
31. Proceeds from the issuance of liabilities from finance lease	5,226	0
32. Proceeds from capital increase of ARQUES Industries AG less costs of the capital increase	17,547	10,240
33. Dividends paid by ARQUES Industries AG	<u>-2,330</u>	<u>-1,600</u>
34. Net cash provided- (+)/-used(-) by financing activities	18,743	16,103
35. Cash and cash equivalents at the beginning of the period	12,860	3,621
36. Change in cash and cash equivalents	<u>30,661</u>	<u>9,239</u>
37. Cash and cash equivalents at the end of the period	43,521	12,860

A. GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARQUES Industries Aktiengesellschaft, Starnberg, Germany, (abbreviated to "ARQUES" or "company") is domiciled at Münchner Str. 15a in 82319 Starnberg and is registered at the Munich Local Court (HRB 146911). The company's shares have been traded on the regular market (Prime Standard) of the Frankfurt Securities Exchange since June 28, 2005. As of December 31, 2005, the company belonged to the SDAX.

The business activities of the ARQUES Group is the acquisition and restructuring of companies in "situations of upheaval", e.g. in cases of unresolved successor provisions, modernizations, group spin-offs or economic emergency situations. ARQUES purchases the companies in order to develop them into competitive and strong-earning companies.

The consolidated financial statements are prepared in euros, since this is the currency of most of the group transactions.

The period-accounting method is applied for the group income statement. The "Income from the reversal of negative differences from capital consolidation" is reported in accordance with IFRS regulations under other operating income and thus is included in „Results before interest, taxes, depreciation and amortization (EBITDA)". The breakdown of the consolidated balance sheet, in contrast to the previous year, takes place after maturity. The balance sheet statements of the previous year were adjusted accordingly. Assets and debts are considered current if they are payable within one year. Minority holdings belonging to external shareholders are reported as a component of the shareholders' equity and no longer as a separate item between shareholders' equity and outside capital.

To improve the clarity of the presentation, items of the consolidated balance sheet and the group income statement

were combined, where possible and meaningful. These items are categorized and respectively explained in the Notes to the consolidated financial statements. The previous year's figures have been adjusted to the current presentation.

B. SUMMARY OF THE ESSENTIAL ACCOUNTING POLICIES

With the adoption of the directive of the European Parliament and the Council of Ministers of the European Union regarding the application of international accounting standards on June 6, 2002, all capital market-oriented companies are obligated to prepare their consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) for financial years beginning after December 31, 2004. According to § 315a HGB, ARQUES Industries AG is required to prepare its consolidated financial statements in accordance with the provisions of IASB.

This consolidated financial statements of ARQUES, including the figures for the previous year, has been prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the European Union and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC). The consolidated financial statements has been prepared on the basis of the principle of historic procurement and production costs, restricted by the valuation of financial assets available for sale and derivative financial instruments which are valued at the demonstrable current value.

All of the IFRSs and/or IASs which are mandatory for financial year 2005 as well as interpretations of the International

Financial Reporting Interpretation Committee (IFRIC) or Standing Interpretations Committee (SIC) were complied with. It must be noted that IFRS 3 was applied in 2004 in agreement with the transitional provisions of the standard only to acquisitions after March 31, 2004. The consolidated financial statements were supplemented by a group management report and other explanations required in accordance with HGB (German Commercial Code) or AktG (stock corporation law). The included financial statements of all fully consolidated domestic and foreign companies obligated to undergo an audit or examination in accordance with national regulations or voluntarily audited were audited by independent auditors. Annual reports from 28 domestic and 10 foreign companies, which individually and as a whole are insignificant, have not been audited. The annual report is prepared on the premise that the company is an ongoing concern.

The preparation of consolidated financial statements which are in compliance with the IFRSs requires estimates. In addition, the application of company-wide accounting policies necessitates assessments by management. Divisions with more evaluation leeway or greater complexity or divisions whose approvals and estimates are of pivotal significance for the consolidated financial statements are each elucidated separately below.

In February 2004, IASB published IFRS 2 for share-based payment. This standard regulates the accounting of share-based remuneration systems such as the granting of share options to employees. IFRS 2 defines how share-based remuneration is to be accounted and assessed, and requires companies to include the financial effects of such share-based remuneration - including costs for transactions where share options are granted to employees - in their income statements. As a share option program was only introduced

at ARQUES in 2005, the first application of IFRS 2 does not affect the consolidated financial statements as of 12/31/2004.

In March 2004, the IASB published an amendment to IAS 39 (Financial instruments: recognition and measurement). The amendment simplifies the implementation of IAS 39 by allowing companies to use the possibilities offered by hedge accounting to hedge against interest risks under less strict conditions than before. This amendment does not affect the consolidated financial statements of ARQUES.

The standard IFRS 5 (Non-current Assets for Sales and Discontinued Operations), also published in March 2004 by IASB, has provisionally applied from 01/01/2005.

In May 2004, the International Financial Reporting Interpretations Committee (IFRIC) published IFRIC 1 (Changes in Existing Decommissioning, Restoration and Similar Liabilities). The interpretation governs the procedure in the event of changes to disposal, restoration and similar liabilities which are capitalized within the framework of the procurement or production costs of a material asset and which are simultaneously reported as provisions. Accordingly, adjustments have to be made both to the reported amounts in the event of changes to the expected payment streams and interest rates, as well as an increase in the liability over time. This change does not affect the ARQUES consolidated financial statements.

In November 2004, IFRIC published an amendment to SIC-12 (Consolidation-Special Purpose Entities). This change includes plans for equity compensation plans within the scope of SIC-12. This means that a company that outsources the establishment of a share-based remuneration system to a trust fund (or comparable company) has to consolidate it if there is a possibility of control, if it applies IFRS. By contrast, alongside post-employment benefit plans, all other

non-current payments due to employees are no longer covered by SIC-12. Their treatment in the balance sheet is consistently covered by IAS 19 (Employee benefits). The underlying situation here of a share-based remuneration system outsourced to a trust fund does not apply to ARQUES, and to this extent the amendment to SIC-12 does not affect our consolidated financial statements.

In December 2004, IAS 19 was amended in respect of the recording of actuarial profits and losses in conjunction with the valuation of pension provisions and the possibility of a neutral recording of these actuarial profits and losses was allowed in the shareholders' equity instead of by applying the "corridor method" or by the immediate, effective recording. As of December 31, 2005, ARQUES had not exercised this right of choice and continues to calculate the amount of pension provisions as before. Accordingly, the actuarial profits and losses are distributed over the employees' remaining time of employment if the corridor is exceeded or undercut by 10%. To this extent, no adjustment was necessary for the consolidated financial statements as of 12/31/2004.

In December 2004, the IASB published IFRS 6 Exploration and evaluation of mineral resources, which has been incorporated by the EU and has to be applied from 01/01/2006. This represents an interim solution, which is expected to enable the companies operating in this industry to comply with the IFRSs without significant changes to their accounting practices. IFRS 6 will not have any effect on ARQUES.

On August 18, 2005 the IASB published IFRS 7 (Financial instruments: disclosures). This standard contains new requirements for improving the information on financial instruments included in the financial statements of the companies. It replaces IAS 30 and some of the requirements contained in IAS 32. IFRS 7 is to be applied for financial years that begin on or after January 1, 2007. The application

of this standard will not have any significant impact on ARQUES.

In 2005 the International Financial Reporting Interpretations Committee published IFRIC 7 for the application of the restatement approach under IAS 29 Financial reporting in hyperinflationary economies and various interpretation outlines. The application of these interpretations will not have any impact on ARQUES. As of the balance sheet date, IFRIC 7 and IFRIC 8 were still in the endorsement process of the European Union or the EFRAG (European Financial Reporting Advisory Group).

In addition, the following standards were published by IASB or IFRIC during the course of financial year 2005, however, they are not applied to the consolidated financial statements as of December 31, 2005 as they do not have to be applied or have not yet been incorporated by the European Commission:

- Amendment to IAS 1 (Capital disclosures),
- Amendment to IAS 39 and IFRS 4 (Financial guarantee contracts),
- Amendment to IAS 21 (Net investment in a foreign operation),
- Amendment to IFRS 4 (Revised guidance on implementing IFRS 4),
- IFRIC 4 (Determining whether an arrangement contains a lease),
- IFRIC 5 (Rights to interests arising from decommissioning, restoration and environmental funds).

The preceding interpretations which have not yet been applied will in the future not have any effect or will only have an insignificant effect on the consolidated financial statements of ARQUES. ARQUES will apply the new regulations at the time of compulsory application. Changes to the methods of accounting and assessment are explained in the

Notes. Standards with a period of application that falls after the balance sheet date were not applied prematurely. The premature application of standards therefore had no impact on the net assets, financial position and results of operations of the group.

The annual reports of the companies included in the consolidated annual report are all subject to standard principles of accounting and assessment. The main accounting policies applied in the preparation of these consolidated financial statements are illustrated in the information that follows.

C. SCOPE AND METHODS OF CONSOLIDATION

Subsidiaries include all companies (including special purpose companies) for which the group exercises control over the financial and business policies; regularly accompanied by a voting right share of more than 50%. When determining whether the group has control, the possible existence and effects of potential voting rights, which can currently be exercised or converted, are taken into account. Subsidiaries are generally included in the consolidated financial statements (full consolidation) from the point in time at which the control has transferred to the group. They are deconsolidated at that point in time at which the control ends.

The capital consolidation of the subsidiaries is performed in accordance with IAS 27 (Consolidated and separate financial statements) by offsetting the subsidiary's book value with the newly valued shareholders' equity of the subsidiary as of the time of purchase (new valuation method). The acquisition costs of the purchase correspond to the fair value of the sacrificed assets, the paid-out equity instruments and the liabilities that have accrued or been taken over at the time of the transaction (date of exchange) plus the costs directly attri-

butable to the purchase. Within the context of a corporate merger, the identifiable assets, debts and contingent liabilities are measured at their fair values at the time of acquisition for the first consolidation, regardless of the amount of minority shares. The surplus of the acquisition cost of the purchase over the shares held by the group in the net asset measured at fair value is reported as goodwill. If the acquisition costs are lower than the net asset measured at fair value of the acquired subsidiary, the difference will be recorded directly in the income statement after an additional review. The shares of the minority shareholders are reported at the portion of the fair values of the recorded assets and liabilities corresponding to the minority share.

The earnings of the subsidiaries acquired or sold during the course of the year are included in the income statement at the time of the beginning or end of the controlling possibility. Internal group transactions, account balances and unrealized income from transactions between group companies are eliminated. Unrealized losses are likewise eliminated, unless the transaction refers to an impairment of value of the transferred asset.

Shares in the consolidated shareholders' equity and in the net income for the year accruing to minority shareholders are reported separately from the shares accruing to the parent company.

Jamshedpur Injection Powder Ltd., Jamshedpur, India, has been included at equity. Nine companies were sold or deconsolidated in 2005. Two companies of the SKS Group were in administration as of the reporting date (SKS-France s.a.r.l., Stiring Wendel, France, and SKS Stakusit Bautechnik Beteiligungs GmbH i.L., Duisburg). Seven companies whose effects on the asset, financial and income situation individually and as a whole are insignificant are not consolidated. These subsidiaries are reported with continued procurement and production costs. "Imandros" Vermögensverwaltung-

AG, Starnberg, MDI Mediterranean Direct Invest AG, Starnberg, and Arques Industrie Finanz GmbH have used the exemption option according to § 264 section 3 HGB.

The reporting date of the companies included corresponds to the annual reporting date of the parent company - except for the company included at equity on the reporting date (Jamshedpur Injection Powder Ltd., Jamshedpur, India), colourpress A/S, Denmark, and Evotape S.p.A., Italy.

The list of holdings is enclosed with this report as an annex and is deposited with the Munich Local Court (registration court).

The comparability of the reports is affected by the change in the consolidation group and by the effects of restructuring. Significant effects are also outlined in the notes on the individual items.

Associated companies

Associated companies are companies over which the group exercises influence but which it does not control; regularly accompanied by between 20 and 50% of the voting rights. Participations in associated companies are reported according to the equity method. Accordingly, differences from the first consolidation are treated corresponding to the principles of full consolidation and are initially reported at their procurement costs. The group interest in associated companies includes the goodwill which accrued at acquisition.

The groups' share of income in the financial results of associated companies is recorded in the income statement from the time of acquisition on, and the share of changes to the provisions is recorded in the group provisions. The cumulative changes after acquisition are offset against the carrying value of the subsidiary.

Segment reporting

A business segment is a group of assets and operating activities which provides products or services which differ from those of other business divisions in terms of risk and opportunities. A geographic segment provides products or services to a certain economic area, whose risks and opportunities differ from those of other economic areas.

In the segment reporting, business divisions are structured according to their main activities (primary segmenting) and geographic features (secondary segmenting). The primary segments in the ARQUES Group are the divisions "Steel", "Print", "Industrial Production", "Holding" and "Other". The segment reporting corresponds with the accounting and valuation methods of the underlying IFRS consolidated financial statements. Intersegmentary consolidations have been carried out. Depreciations on intangible assets and material assets are reported as segment depreciations.

Due to the large number of enquiries from the capital market, the company has decided to prepare a separate report according to calendar year of purchase ("vintage years") in additions to the segmenting required according to IFRS.

Realization of income and expense

Revenue is measured at the fair value of the consideration received or to be received and represents the amounts that are to be received for goods and services in the course of normal business activities. Rebates, sales tax and other taxes in connection with the purchase are to be set off. The sale of goods is recorded with delivery if ownership and risk have transferred to the purchaser. Revenues from the sale of services are reported according to the progress of the servi-

ces in relation to all the services to be provided in the financial year in which the services are provided.

With regard to the realization of income for production orders, we refer to the notes regarding the stocks.

Interest income is deferred as it accrues, taking into account the outstanding loan amount and the interest rate being applied. The interest rate to be applied is precisely that interest rate which discounts the estimated future cash inflows over the term of the financial asset to the net carrying value of the asset.

Dividend income from financial assets is recorded at the time of legal claim for payment by the shareholder.

For finance leases, the payments received are divided into interest and amortization using mathematical methods of finance.

Expenses that cannot be entered in the balance sheet are charged to expenditure in the income statement at the time they are accrued.

Borrowing costs

Borrowing costs within the group are recorded as income in the period in which they occur.

Government grants

Income allowances are allocated to the periods in which the associated costs occur and deducted from the respective expenses.

Taxes on income

The income tax costs represent the total of current tax costs and deferred taxes.

The current tax costs are calculated on the basis of the taxable income for the year. The taxable income differs from the net income in the income statement as it excludes expenditure and income which are taxable in subsequent years, which are not taxable or which are deductible. The group's liability for the current tax costs is calculated based on the tax rates applicable or agreed as of the reporting date.

Deferred tax liabilities which arise as a result of temporary differences in conjunction with participation in subsidiaries and associated companies are reported unless the time when the temporary differences are reversed can be controlled by the group and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred taxes are the expected tax charges or relief from the differences between the book values of assets and debts in the IFRS annual report and the tax basis from consolidation procedures and on probably realizable losses carried forward. The accounts-based liability method is applied. Deferred tax liabilities are generally recorded for all taxable temporary differences and deferred tax claims insofar as it is likely that taxable income is available, for which the deductible temporary differences can be used. Such assets and debts are not reported if the temporary difference results from goodwill or from the initial reporting (except for corporate mergers) of other assets and debts, which in turn result from events which affect neither the taxable income nor the annual net income.

Deferred tax receivables and liabilities are balanced insofar as they exist towards the same tax authority for the same period.

The book value of deferred tax claims is checked every year on the reporting date and reduced if it is no longer likely that sufficient taxable income is available to fully or partly recover the claim. Deferred taxes are calculated on the basis of the tax rates applicable at the time of equalization of the debt or realization of the asset. Deferred taxes are generally recorded against the results, except for items which are booked directly in the shareholders' equity.

Self-produced intangible assets - Research and development costs

Expenditure for research activities is reported as costs. A self-produced intangible asset which comes from the group's development is only capitalized if the criteria according to IAS 38 are met. Insofar as a self-produced intangible asset cannot be reported according to IAS 38, the development costs are reported as costs in the period in which they were incurred.

Patents, licenses (including software) and trademarks

Acquired patents, licenses and trademarks are recorded at their historical acquisition/manufacturing cost. They have specific service lives and are measured at their acquisition/manufacturing cost less cumulative depreciation.

If there are indications of an impairment of value, the scheduled depreciable intangible assets undergo an impairment test and if applicable, are devalued to the obtainable amount as defined by IAS 36.

Depreciation is according to the straight-line method for an estimated service life, which was uniformly determined for the following intangible assets:

- Patents, samples, trademarks, contractual/copyright/performance rights: 3 - 5 years
- Brands, company logos, ERP software and Internet domain names: 5 - 10 years
- Copyright protected software: 3 years

Goodwill

The goodwill which accrues within the framework of the consolidation represents the surplus of the acquisition cost of a company acquisition over the group's share of the fair value of the identifiable assets and liabilities of a subsidiary or jointly operated company at the time of acquisition. Goodwill with an unspecified term is not subject to scheduled depreciation according to IFRS 3. Instead, they are subject to an impairment test annually and additionally if there is an appropriate reason for one, and, if necessary, are devalued to their achievable amount ("impairment-only approach"). The goodwill is distributed across the cash generating units for the purpose of an intrinsic value test. Each impairment of value is immediately recorded as income. A later reinstatement of original values does not occur. When a subsidiary or jointly operated company is sold, the attributable amount of goodwill is included in the determination of income from the sale.

Property, plant and equipment

All property, plant and equipment are valued at their historic acquisition/manufacturing costs minus their depreciation. Acquisition/manufacturing costs include the directly attributable expenses. Subsequent acquisition/manufacturing costs are only recorded as part of the acquisition cost of the asset when it is likely that future economic benefit will accrue to the group as a result and the costs of the asset can be reliably determined. All other repairs and maintenance

are recorded as being charged to expenditure in the income statement in the financial year in which they have occurred.

Property is not systematically depreciated. Depreciation is on a straight-line basis for all other assets, with the acquisition costs being depreciated over the expected useful life of the assets on the residual carrying value as follows:

- Factory buildings: 20 years
- Administrative building: 25 years
- Other buildings: 10 years
- Plant facilities: 3 - 10 years
- Machinery and machining equipment: 2 - 15 years
- Plant and equipment: 4 - 10 years
- Furniture and fixtures: 3 - 10 years

The residual carrying values and economic useful lives are checked on every balance sheet date and adjusted if necessary. If the carrying value of an asset exceeds its estimated obtainable amount, it is depreciated immediately at the latter value. Income from the disposals of assets are determined as the difference between the disposal revenue and the carrying value and recorded as income.

Investment property

Investment property includes real estate that is held to achieve rental income and/or for purposes of appreciation. They are measured at their acquisition or manufacturing cost reduced by depreciation and impairment of value (acquisition cost model). The fair value as of the balance sheet date is specified in the group Notes.

Non-current assets held for sale

Non-current assets (and groups of assets), which are classified as held for sale, are assessed at the lower of the two amounts from continued procurement costs and the current value minus the costs of sale. Non-current assets and groups of assets are classified as held for sale if their book value can better be redeemed through a sale rather than through continued use. This condition is only considered met if the sale is highly likely and the asset (or group of assets held for sale) is available for immediate sale in its current condition.

Impairment of non-financial assets

Assets with an unspecified life are not subject to scheduled depreciation; they are examined every year for any impairment requirement. Assets subject to scheduled depreciation are checked for impairment requirement if corresponding events or changes highlight the fact that the book value can no longer be achieved. An impairment loss is reported at the achievable amount exceeding the book value. The achievable amount is the higher of the current value of the asset minus costs of sale and the utility value. For the intrinsic value test, assets are summarized at the lowest level for which cash flow can be separately identified (cash generating units).

In the event of a subsequent reversal of an impairment, the book value of the asset (the cash generating unit) is increased to the newly estimated achievable amount. The increase in book value is restricted to the value which would be determined if an impairment charge had not been reported in previous years for the asset (cash generating unit). A reverse of the impairment charge is recorded immediately against the results. Impairment charges on goodwill valuations are not reversed.

There were no intangible assets with unspecified lives except for the reported goodwill.

Leasing

Leasing contracts are classified as finance lease if essentially all of the risks and reward associated with ownership are transferred to the lessee through the leasing conditions. All other leasing contracts are classified as operating leasing.

An asset that was rented or leased and is the economic property of the respective group company ("finance lease") is capitalized at the present value of the leasing rates or the lower fair value according to IAS 17 and depreciated according to its useful life. If, at the start of the lease relationship, it is not sufficiently certain that ownership shall transfer to the lessee, the asset is depreciated in full over the shorter of the two periods; term of the lease or life.

The respective liability due to the lessor is reported in the balance sheet as an obligation from finance leasing under the liabilities due to other creditors. The lease payments are allocated to interest payments and reduction of the leasing obligation so as to achieve a constant payment of interest on the remaining liability.

Lease payments within an operating lease relationship are reported by straight-line depreciation as costs in the income statement over the term of the lease unless another systematic basis better corresponds to the term of use for the lessee.

In cases where ARQUES is the lessor, a leasing receivable vis-à-vis the lessee is entered in the balance sheet instead of an asset in the case of finance leasing. The amount of the leasing receivable corresponds to the net investment value of the leased object at the time it is added. The income from finance leasing is thus distributed to the periods in such a way that the constant periodic payment of interest on the

outstanding net investment value from the leasing relationship is shown. Rental income from operating leases is recorded as income using the straight-line method over the term of the respective leasing relationship.

Inventories

Inventories are measured at the lower value arising from the acquisition or manufacturing costs and the net selling value. Acquisition or manufacturing costs comprise direct material costs and, if applicable, direct production costs as well as those overhead costs that have accrued in order to transfer the inventories to their present site in their present condition. Acquisition or manufacturing costs are calculated according to the weighted average method. The net selling value represents the estimated selling price less all estimated costs up to completion as well as the costs of marketing, selling and distribution. Where necessary, devaluations are made for over-stocking, obsolescence and reduced marketability.

Construction contracts

If the earnings from a construction contract can be reliably estimated, the revenue and costs will be recorded according to the progress of the project on the balance sheet date. This can generally be determined from the ratio of the accrued contract costs as of the balance sheet date to the estimated total contract costs, unless this would result in a distortion of the performance progress. Payments for deviations in the overall contract, supplementary claims and premiums are included in the agreed scope. The group reports a receivable for all current production orders with a capitalized balance towards customers for which the total of the partial invoices exceeds the costs incurred plus the reported income. The group reports a liability for all current production orders

with an accrued balance towards customers for which the total of the partial invoices exceeds the costs incurred plus the reported income. If the earnings of a construction contract cannot be reliably estimated, the contract revenue can only be recorded at the amount of the accrued contract costs that are likely to be earned; contract costs are recorded as expense in the period in which they accrue. If it is likely that the total contract costs will exceed the total contract revenue, the expected loss is recorded immediately as expenditure.

Trade receivables

Trade receivables are initially reported at their fair value and subsequently at amortized cost using the effective interest method as well as deducting any impairment of value. An impairment of value is recorded for trade receivables if there are objective indications that the receivable amounts due cannot be completely realized. The amount of the impairment of value is measured as the difference between the carrying value of the receivable and the present value of the estimated future cash flows from this receivable, discounted by the effective interest rate. The impairment of value is recorded as income. If the reasons for the valuation adjustments made in previous periods no longer exist, respective appreciation will take place.

Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits, other highly liquid current financial assets with an original term of a maximum of three months and current account yields. Exploited current account advances are shown in the balance sheet as liabilities due to banks under current debts.

Financial assets

Financial assets are divided into the following categories: assets valued at fair value through profit or loss, loans and receivables, assets held to maturity and assets available for sale. The classification depends on the respective purpose for which the financial assets were purchased. The management determines the classification of financial assets at initial valuation and examines the classification as of each reporting date.

(a) At fair value through profit or loss

This category has two sub-categories: financial assets held for trading from the beginning, and those classified from the beginning as being "at fair value through profit or loss". A financial asset is allocated to this category if it has been purchased principally with a short-term intention for sale or if the financial asset has been designated correspondingly by the management. Derivatives also belong to this category. Assets in this category are reported as current assets if they are either held for trading or are intended to be realized within 12 months after the reporting date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not listed on an active market. They arise when the group provides money, goods or services directly to the borrower without the intention of trading this receivable. They are included among the current assets provided their due dates do not exceed 12 months after the balance sheet date. The latter are reported as non-current assets. Loans and receivables are contained in the balance sheet under Trade receivables and other assets.

(c) Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or adjustable payments and fixed terms which the group management intends to and can keep until maturity.

Loans are non-derivative financial assets with fixed or determinable payments, which are not listed on an active market. These are allocated to this category by ARQUES. They are initially carried at their fair value and subsequently measured at amortized cost using the effective interest method and deducting impairments of value. If their due dates exceed 12 months, they are reported as non-current assets. They are included among the current assets provided their due dates do not exceed 12 months after the balance sheet date.

(d) Financial assets available for sale

Financial assets available for sale are non-derivative financial assets which either have been allocated to this category or which have not been allocated to another of these categories. They are allocated to the non-current assets insofar as the management does not intend to sell them within 12 months of the reporting date.

All purchases and sales of financial assets are reported as of the trading date, the date on which the group commits to purchase or sell the asset. Financial assets which do not belong to the "at fair value through profit or loss" category are initially reported at their current value plus transaction costs. They are taken off the books when the rights to payments from the investment have expired or are transferred and the group has essentially transferred all risks and rewards associated with its possession. After to their initial valuation, financial assets available for sale and assets in the "at fair value through profit or loss" category are valued at their current value. Loans and receivables and financial

investments held to maturity are reported at continued procurement costs subject to the effective interest method.

Realized and unrealized income and losses from the change of assets' current values in the "at fair value through profit or loss" category is recorded against the results in the period in which they occur. Unrealized income from the change in current value of non-monetary securities in the "financial assets available for sale" category is recorded in shareholders' equity. If securities of the category of financial assets available for sale are sold or reduced in value, the cumulative adjustments of fair value in the shareholders' equity are recorded on the income side as income from financial assets in the income statement.

The current value of listed shares is recorded according to the current bid price. If there is no active market for financial assets, or if these are unlisted assets, the current value is calculated using suitable valuation methods. These include references to recent transactions between independent business partners, the use of current market prices of other assets which are substantially similar to the asset being considered, discounted cash flow methods, and option price models which take into account the specific circumstances of the issuer.

A review to determine whether objective indications for impairment in value of a financial asset or a group of financial assets exist is undertaken at every balance sheet date. In the case of equity instruments which are classified as available for sale, a substantial or permanent reduction in the current value below the procurement costs of these equity instruments is taken into account when determining to what extent the equity instruments are impaired. If such a reference exists for assets available for sale, the cumulative loss - measured as the difference between the procurement costs and the current fair value minus previously recorded impairment losses in respect of the asset being

considered - is moved from shareholders' equity and recorded in the income statement. Impairment losses of equity instruments recorded once in the income statement are not reversed against the results.

Shareholders' equity

Common stock is classified as shareholders' equity. Costs to be attributed directly to the issuing of new shares or options are accounted for net after taxes in the shareholders' equity as a deduction from the issuing revenues. Costs to be attributed directly to the issuing of new shares or options or costs which are directly associated with the acquisition of a company are included in the acquisition cost of the respective company acquisition as part of the consideration for the acquisition.

If a group company purchases equity shares in the corporation (treasury shares), the value of the consideration paid, including directly attributable additional costs (net after taxes) are to be deducted from the shareholders' equity which the shareholders of the company are entitled to, until the shares are called in, re-issued or resold. If such shares are subsequently re-issued or sold, the compensation received, net after deducting directly attributable additional transaction costs and associated income taxes, is reported in the shareholders' equity to which the shareholders of the company are entitled. As of the reporting date, the company does not hold any shareholders' equity shares in the company (treasury shares).

Provisions

Provisions are made if the group has a present legal or factual obligation that results from an event that occurred in the past, if it is more likely than not that settlement of the obligation will result in a burden on the assets and if the

amount of the provision could be reliably determined. If there are a number of similar obligations, the likelihood of a burden to the assets is determined on the basis of the group of these obligations.

Non-current provisions are discounted - provided this has a significant effect.

Benefits to employees

Pension obligations

Only performance-oriented pension schemes are in place within the ARQUES Group. The actuarial valuation of the pension provisions for the company pension scheme takes place according to the method of continuous one-time premiums (projected unit credit method) prescribed in IAS 19 (Payments to employees) with an actuarial valuation being carried out at each balance sheet date. Within the scope of this projected unit credit method, the pensions and acquired future rights known on the balance sheet date, the increases in salaries and pensions to be expected in the future and the income expected from planned assets are taken into consideration. The budget assets of the ARQUES Group comprise the reinsurance pledged to the pension beneficiaries. Any actuarial profits or losses resulting at year-end between the pension obligations so determined according to plan and the actual future rights present value are therefore only entered on the balance sheet if they are outside of a variation range of 10% of the scope of obligation. In this case they are distributed as of the following year over the average remaining service period of the authorized employees and recorded as income or expense. Additional attributable service costs are immediately recorded against the results. The interest portion included in the pension expenses of the additions to provisions is shown as interest expense within the financial results.

Share-based payment

In financial year 2005, ARQUES established a share-based remuneration plan for senior employees which is equalized through the issue of company shares. The fair value of the employment services rendered by the employees as compensation for the granting of options is recorded as expense. The total expense to be recorded for the period up to the non-forfeit ability of the options is determined from the fair value of the granted options. The fair value of the options is determined using a Monte Carlo simulation. Non-market based barriers to exercise are taken into account in the assumptions regarding the number of options which are expected to be exercisable. The estimate of the number of options that are expected to become exercisable is checked on every balance sheet date. The group therefore estimates the number of shares that are non-forfeitable. The effects of changes to the original estimates, if necessary, to be considered are taken into account in the income statement and by a corresponding adjustment in the shareholders' equity over the remaining term to non-forfeitability.

Payments due to termination of the employment relationship

Payments due to termination of the employment relationship are paid if an employee is dismissed before the regular start of pension payments or if an employee leaves the employment relationship voluntarily in exchange for severance pay. The group records severance pay if it is demonstrably required to terminate the employment relationship of current employees in accordance with a detailed formal plan that cannot be retracted or if it must demonstrably pay severance for an employment relationship voluntarily terminated by the employee. Payments that fall due after more than 12 months following the balance sheet date are discounted to their present value.

Profit-sharing and bonus plans

For bonus payments and profit-sharing, a liability and expense is entered on the liabilities side and/or recorded based on a valuation procedure which takes into account the profit to which the group shareholders are entitled after certain adjustments. The group recognizes a provision as a liability in those cases in which there is a contractual obligation or if a factual obligation results due to the business practices of the past.

Foreign currencies

Functional currency and reporting currency

The items included in the financial statements of each group company are measured on the basis of the currency that corresponds to the currency of the primary economic environment in which the company operates (functional currency). The consolidated financial statements are prepared in euros, which represents the functional currency and reporting currency of the company.

Transactions and account balances

Foreign currency transactions are converted to the functional currency using the exchange rates at the time of the transaction. Profit and loss resulting from the fulfillment of such transactions as well as from the conversion to the reporting date rate of monetary assets and liabilities maintained in foreign currency are reported in the income statement. Conversion discrepancies for non-monetary items, whose changes in fair value are offset as income, are to be reported as part of the profit or loss from the fair value valuation. On the other hand, conversion discrepancies for non-monetary items, such as available-for-sale participations whose changes in fair value are taken into account in the shareholders' equity, are recorded in the market assessment reserves in shareholders' equity.

Group companies

The results and balance sheet items of all group companies which have a currency that is different from the (group) reporting currency, are converted as follows in the (group) reporting currency:

- Assets and liabilities are converted using the reporting date for each balance sheet date; by contrast the shareholders' equity is converted at historic rates.
- Income and expense are converted at the average rate for each income statement and
- All conversion differences that result are recorded as a separate item in the shareholders' equity.

If a foreign business is sold, these currency differences are recorded in the income statement against the results as part of the profit or loss of the sale. Goodwill and adjustments to the current value, which occur in the event of a foreign company being purchased, are treated as assets and debts of the foreign company and are converted as of the reporting date.

The exchange rates used as the basis for the currency conversion of essential currencies have developed as follows: (equivalent to EUR 1):

1 EURO		Reporting date rate		Average price	
		12/31/2005	12/31/2004	2005	2004
Switzerland	CHF	1.5551	1.5429	1.5483	1.5438
Czech Republic	CZK	29.0000	30.4640	29.7820	31.8910
Denmark	DKK	7.4605	-	7.4518	-
Great Britain	GBP	0.6853	0.7051	0.6838	0.6787
India	INR	53.9200	-	55.0900	-
Japan	JPY	138.9000	139.6500	137.1010	134.4000
Korea	KRW	1,184.4200	1,410.0500	1,275.9100	1,422.6200
Malta	MTL	0.4293	-	0.4299	-
Poland	PLN	3.8600	4.0845	4.0230	4.5268
Romania	ROL	3.6802	-	3.6209	-
Russia	RUR	33.9200	-	35.1884	-
Ukraine	UAH	5.9716	-	6.3708	-
USA	USD	1.1797	1.3620	1.2441	1.2440

Legal disputes and claims for compensation

Companies of the ARQUES Group are involved in various trials and official procedures within the framework of the general business activity or these could be instigated or asserted in the future. Even if the outcome of the individual cases cannot be foreseen in respect of the uncertainty with which legal disputes are associated, there will be no considerably damaging effect on the group's income situation beyond the current estimates of the risks accounted for in the annual report as liabilities or provisions.

Liabilities

The financial liabilities comprise liabilities and the so-called current value of derivative financial instruments. The liabilities are assessed at continued procurement costs. For short-term liabilities this means that they are assessed at their repayment or fulfillment amount. Non-current liabilities and financial debts are reported at continued procurement costs according to the effective interest method. Liabilities from financial leases are reported at the cash value of the minimum lease payments.

In accordance with IAS 32, shareholders' equity only exists

from the company's perspective if there is no requirement to repay the capital or to provide other financial assets instead. Repayment obligations from the company's assets can exist if (minority) shareholders are entitled to a right of termination and simultaneously the exercise of this right justifies a settlement claim against the company. This capital made available to minority shareholders is reported as a liability even if it is considered shareholders' equity according to national law.

Current items were those which were reported with a residual term of up to one year; non-current items have a residual term of more than one year.

Assumptions and approximations in the accounting methods

When preparing the consolidated financial statements, certain assumptions must be made and approximations used, which have had an impact on the amount and reporting of the assets and liabilities in the balance sheet, the income and expense and the contingent liabilities of the reporting period. They pertain primarily to the assessment of the value of intangible assets, the uniform group determination of beneficial service lives for property, plant and equipment and intangible assets as well as the method of accounting for provisions. The assumptions and approximations are based on certain premises, which are rooted in the level of knowledge currently available. In particular with respect to the expected future business development, the circumstances at hand at the time of preparing the consolidated financial statements as well as what was considered to be a realistic view of future development of the environment were used as the basis. Due to developments of these general conditions that differ from the assumptions and which are outside the area of influence of the management, the numbers that materialize may deviate from the originally anticipated estimated values.

Our estimates are based on experience and other assumptions which are considered appropriate given the circumstances. The actual values can differ from the estimates. The estimates and assumptions are continually examined.

Within the framework of business combinations, estimates are also generally used to calculate the fair value of the purchased assets and liabilities. Real estate, buildings and technical plant and machinery are typically assessed by an independent expert, while marketable securities are assessed at their market value. If there are intangible assets, we either use an independent external expert or calculate the fair value internally using a suitable valuation method which is generally based on a forecast of all future cash flows - depending on the type of asset and difficulty of the valuation. Depending on the type of asset and the availability of the information, different valuation techniques are applied which differ by cost, market price and capital value based methods. The income approach is preferred because of the particular importance of intangible assets. For example, when valuing brands and licenses which use the so-called relief-from-royalty method, which among other things estimates costs savings resulting from the fact that the company owns the brands and licenses itself and does not have to pay any fees to a licensor. The resulting savings give the value of the intangible asset after discounting. ARQUES considers the estimates made in respect of the estimated life of certain assets, the assumptions about macroeconomic conditions and development in the branches where the ARQUES Group is active, and the estimate of the cash values of future payments to be reasonable. At the same time, altered assumptions or changed circumstances can make corrections necessary. These can lead to additional extraordinary depreciations or even the reinstatement of original values in the future if the developments expected by ARQUES are reversed.

In accordance with IAS 36 (Impairment of assets) and IAS 38 (Intangible assets), goodwill is examined annually for possible impairments. If events occur or circumstances change, which

indicate a possible impairment, the value examination also has to be performed more frequently. The scheduled depreciation of goodwill is prohibited. Within the framework of the value examination of assets, the residual book value of the individual cash generating units within the ARQUES Group is compared with their respective achievable recoverable amount, i.e. the higher value of the fair value less costs to sell and its value in use. Corresponding to the definition of a cash generating unit, the strategic units of the ARQUES group are principally used as cash generating units.

In cases where the book value of the cash generating unit is higher than its recoverable amount, there is an impairment loss for the amount of the difference. As a first step, the goodwill of the respective strategic unit is subject to depreciation to the amount of the loss impairments calculated in this way. A residual amount is divided across the other assets of the respective strategic business unit in proportion to their book value.

When calculating the recoverable amount of the cash value of the future payments expected on the basis of the continued use by the strategic business unit and their destruction at the end of use are assumed. The forecast of the payments is based on the current planning by ARQUES. The capital costs are calculated at ARQUES as weighted average cost of capital (WACC). The shareholders' equity costs correspond to the expected returns from the respective company divisions and are derived from capital market information. ARQUES applies the average loan capital costs of the respective company division calculated from loans with an average residual term of 10 years as loan capital costs.

The group is required to pay revenue tax in various countries. Therefore, substantial assumptions are necessary in order to calculate the worldwide tax provisions. There are many business transactions and calculations where the final taxation cannot be calculated conclusively during the usual course of business. The group assesses the amount of the

provisions for expected tax audits on the basis of estimates as to whether and to what extent additional taxes are payable. Insofar as the final taxation of these business transactions differs from the initial assessment, this is calculated in the period in which the taxation is conclusively calculated and affects the actual and deferred taxes.

At the time of the preparation of the consolidated financial statements, the underlying assumptions and approximations were not subject to any significant risks, so that from today's perspective we do not anticipate any significant adjustment of the carrying values of the assets and liabilities reported in the group balance sheet in the year to come.

Financial risk management

Financial risk factors

The group is subject to various financial risks as a result of its business activity: Market risk (including foreign currency risk, fair value interest risk and market price risk), credit risk, liquidity risk and cash flow risk. The group's comprehensive risk management focuses on the unforeseeability of developments in the financial markets and aims to minimize the potentially negative effects on the financial situation of the group. The group uses derivative financial instruments to hedge against certain risks. Risk management is conducted by the central finance department (Group Finance) corresponding to the guidelines issued by the Executive Board. Group Finance identifies, assesses and secures financial risks in close cooperation with the group's operative units. The Executive Board issues written principles for cross-divisional risk management as well as for specific divisions, such as dealing with foreign currency risk, interest and credit risk, the use of derivative and non-derivative financial instruments and investing liquidity surpluses.

Foreign exchange risk

The group is active internationally and as a result of this it is exposed to a foreign currency risk that is based mainly on exchange rate fluctuations of various foreign currencies, mainly the U.S. dollar. Foreign currency risks arise from expected future transactions, reported assets and debts, and from net investments in foreign companies. A foreign currency risk arises if future business transactions, reported assets and debts are in a currency which is not the functional currency of the company. In order to secure such risks from expected future transactions, reported assets and debts, the group companies use forward contracts, if necessary, which are concluded with Group Finance.

The group holds participations in foreign companies whose net assets are subject to the risk of exchange rate fluctuations. The foreign currency risk from the net assets of foreign companies in the USA is primarily managed through financial debts in the corresponding foreign currency.

Credit risk

There are no significant concentrations in respect of possible credit risks within the group.

Liquidity risk

Careful liquidity management includes holding sufficient reserves of liquid funds and tradable securities, the possibility of financing through committed lines of credit to an adequate amount and the ability to issue securities on the market. Because of the dynamics of the business environment in which the group operates, the aim of Group Finance is to maintain the necessary flexibility in financing through the existence of sufficiently unused lines of credit.

Adjustments to the comparison information from the 2004 consolidated financial statements according to IAS 8

Due to the decision by the German federal financial supervisory authority (BaFin) in Frankfurt, of January 27, 2006 and an audit report agreed by ARQUES by mutual consent with the German audit office (Deutsche Prüfstelle für Rechnungslegung, DPR), in the 2005 consolidated financial statements ARQUES has adjusted the items of the income statement for the 2004 consolidated financial statements in accordance with IAS 8.

a) The DPR stated that in conjunction with the purchase of the SKW Group, separate goodwill of EUR 3.0 million had been reported incorrectly along with income from the reversal of negative differences from the capital consolidation. On the other hand, after the findings of the audit the "PapCal" patent should have been reported separately at EUR 3.0 million.

ARQUES has adjusted the first consolidation of the SKW Group as follows according to the principles of the DPR audit:

The assets have been re-examined within the framework of the first consolidation of the purchased company Affival S.A.S. (France). It was found that a devaluation made in 2004 at the time of the acquisition was not justified due to the earning power of the company and had to be reversed. As a result of this correction, the current value is reported at EUR 4.608 million higher, whereby the depreciations in 2004 increase by kEUR 325. This amount includes EUR 1.4 million which the DPR also mentioned in its audit report. As a result of this entry, the goodwill allocated to Affival S.A.S. is automatically removed; the valuation of this goodwill was objected to by the DPR. Moreover, the report states that the "PapCal" patent should have been reported in the first consolidation at EUR 3.0 million. The "PapCal" patent has not been capi-

talized, however, as a further examination of the facts in accordance with IFRS 3 in conjunction with IAS 38 showed that the information required for the valuation of the patent as of the acquisition date was not fully available.

The audit points 2 and 6 are covered by these adjustments.

The corrections of findings by the DPR in conjunction with the correction of the error causing the findings lead overall to an increase in EBITDA and the net income of EUR 0.208 million.

b) Furthermore, in financial year 2004 ARQUES outlined income from the appreciation of receivables of EUR 3.8 million, which relate to purchased internal receivables as a result of the SKW purchase. Instead of reporting other operating income from the appreciation of receivables, ARQUES should have reported the same amount from a reversal of negative differences from the capital consolidation within the framework of the first consolidation. The previous year's report has been adjusted accordingly; there is no effect on the amount of the EBITDA. Point 5 of the DPR audit is covered with this adjustment.

c) In 2004, ARQUES divided the current value of the holding in Jamshedpur Injections Power Ltd., India, of EUR 3.1 million, purchased through the purchase of the SKW group, and reported it separately as goodwill of EUR 1.5 million and as a participation of EUR 1.6 million. According to the audit findings, the participation should have been reported at EUR 3.1 million so that goodwill of EUR 1.5 million is removed without affecting the results. Point 8 of the DPR audit is covered with this adjustment.

DPR Audit points 1 (information omitted from the Notes), 3 (shareholders' equity statement as of 01/01/2004), 4 (gross reporting for additions to the fixed assets), 7 (application of standards) and 9 (method for reversing negative differences according to IAS 22) did not affect the balance sheet or the income statement, so that no adjustments were necessary in the 2005 consolidated financial statements except for the correspondingly adjusted schedule of assets. Insofar as was necessary according to IAS 8.49, omitted information has been included in this report.

In addition to these changes, the following changes have been made in accordance with IAS 8 within the framework of preparing the 2005 consolidated financial statements:

d) The other adjustments to assets within the framework of the purchase of ALS Business of the SKW Group mainly relate to an originally reported goodwill which has to be eliminated within the framework of the first consolidation.

e) Within the framework of the purchase of the SKW Group, an adjustment to the currency translation has been made in order to include the exchange rate as of the reporting date for translating foreign currency companies at the time of the first consolidation.

f) As a result of the first consolidation of the Colordruck Group, financial lease relationships have been identified and recorded in accordance with IAS 17. Moreover, the minority holdings have been adjusted.

g) Within the framework of the first consolidation of the Missel Group, financial debts have been adjusted which could not be allocated to ARQUES.

h) In the first consolidation of the teutonia Group, financial debts which could not be allocated to ARQUES were eliminated. Furthermore, deferred taxes in provisions formed in a previous year were taken into account.

i) The greatest change is to subject purchased loans towards subsidiaries to full taxation at the moment of their occurrence. As a result, ARQUES forms tax provisions in full for internal group demands towards subsidiaries, even if they have been purchased without value, in place of capital, for a symbolic price and cannot be collected.

j) In the previous year, tax provisions reported under provisions and provisions for outstanding invoices were reallocated to other current liabilities. Current and non-current provisions were also adjusted.

k) The reallocation of deferred taxes relates to consolidation entries in the previous year.

The following list contains all the changes made by ARQUES in accordance with IAS 8.

The entries changing the net income for 2004 mainly relate to deferred taxes for loans purchased within the framework of corporate acquisitions.

Another adjustment in the comparison figures relates to the reallocation of income from the reversal of negative differences from capital consolidation to other operating income. The item "Income from the reversal of negative differences from capital consolidation" reported separately in the previous year, is reported in the 2005 consolidated financial statements as "Other operating income" and within the EBITDA / EBIT in accordance with the provisions of IFRS.

In summary, the adjustments are as follows:

Facts	Note	Assets	Liabilities	Income statement
		EUR '000	EUR '000	EUR '000
Setting off calculated goodwill within the scope of acquiring ALS Business from the SKW Group	a)			
Intangible assets		-3,005		
Income from the reversal of negative goodwill from capital consolidation				-3,005
Other cumulative shareholders' equity			-3,005	
Transfer of the fair values within the scope of acquiring ALS Business from the SKW Group	a)			
Property, plant and equipment		3,208		
Depreciation/amortization				-325
Income from the reversal of negative goodwill from capital consolidation				3,533
Other cumulative shareholders' equity			3,208	
Divergent reporting of the adjustment of the present value of the fixed assets of Affival S.A., Frankreich	a)			
Other operating income (income from the additions to fixed assets)				-1,400
Income from the reversal of negative goodwill from capital consolidation				1,400
Divergent reporting of the difference from the purchase price of receivables from ALS-Business and the expected inflows	b)			
Other operating income (income from the addition of receivables)				-3,750
Income from the reversal of negative goodwill from capital consolidation				3,750
Adjustment of the fair value of the subsidiary Jamshedpur Injections Power Ltd., India	c)			
Shares in associated companies		1,452		
Intangible assets		-1,452		
Other transfers of assets within the scope of acquiring ALS Business from the SKW Group	d)			
Intangible assets		-87		
Other cumulative shareholders' equity			-87	
Income from the reversal of negative goodwill from capital consolidation				-87
Adjustment of the currency translation within the scope of acquiring ALS Business from the SKW Group	e)			
Other cumulative shareholders' equity			669	
Other cumulative shareholders' equity - currency translation			-669	
Income from the reversal of negative goodwill from capital consolidation				669
Finance leasing conditions within the scope of acquiring the Colordruck Group	f)			
Property, plant and equipment		5,013		
Obligations arising from finance lease			5,710	
Income from the reversal of negative goodwill from capital consolidation				-649
Other cumulative shareholders' equity			-649	
Minorities			-48	
Transfer of minorities within the scope of acquiring the Colordruck Group	f)			
Minority interests			694	
Income from the reversal of negative goodwill from capital consolidation				-694
Other cumulative shareholders' equity			-694	

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Facts	Note	Assets	Liabilities	Income statement
		EUR `000	EUR `000	EUR `000
Transfer based on subsequent acquisition costs of acquiring the Missel Group	g)			
Income from the reversal of negative goodwill from capital consolidation				-651
Other liabilities			651	
Other cumulative shareholders' equity			-651	
Transfer of deferred taxes to restructuring provisions for the Teutonia Group	h)			
Intangible assets		-925		
Deferred taxes		740		
Other cumulative shareholders' equity			-185	
Deferred tax expense				-185
Transfer of capital consolidation for the Teutonia Group	h)			
Intangible assets		1,027		
Other liabilities			1,027	
Deferred taxes on acquired shareholder loan	i)			
Deferred tax liabilities			8,261	
Other cumulative shareholders' equity			-5,053	
Income from the reversal of negative goodwill from capital consolidation				-8,221
Deferred tax income				3,168
Intangible assets		3,208		
Reclassification of tax provisions and provisions for outstanding invoices and reclassification of current and non-current provisions	j)			
Non-current liabilities - provisions			752	
Current liabilities - provisions			-3,957	
Other liabilities			3,205	
Transfer of deferred taxes	k)			
Deferred tax liabilities			-2,086	
Other cumulative shareholders' equity			2,086	
Deferred tax income				2,086
Other effects				2
Sum of IAS 8 adjustments		9,179	9,179	-4,359
Adjustment of minorities due to disposal of shares				203
Total changes in retained earnings carried forward				-4,156
Status of retained earnings carried forward as of 12/31/2004				40,389
Status of retained earnings carried forward as of 01/01/2005				36,233

	Consolidated financial statements 2004 EUR '000	Adjustment according to IAS 8 EUR '000	Consolidated financial statements 2004 adjusted EUR '000	Adjustment according to IFRS 3.81 EUR '000	Consolidated financial statements 2004 adjusted EUR '000
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ASSETS

Non-current assets					
Intangible assets	621	-1,234	-613	3,135	2,522
Investment, plant and equipment	36,374	8,221	44,595		44,595
Investment property	2,277		2,277		2,277
Shares in associated companies	1,718	1,452	3,170		3,170
Financial assets	765		765		765
Other non-current assets	26		26		26
Deferred tax assets	1,640	740	2,380		2,380
Total non-current assets	43,421	9,179	52,600	3,135	55,735
Current assets					
Inventories	32,324		32,324		32,324
Receivables from percentage of completion	7,789		7,789		7,789
Trade accounts receivable	39,148		39,148		39,148
Financial assets available for sale	73		73		73
Other assets	6,094		6,094		6,094
Cash and cash equivalents	12,860		12,860		12,860
Non-current assets held for sale	0		0		0
Total current assets	98,288	0	98,288	0	98,288
Total assets	141,709	9,179	150,888	3,135	154,023

EQUITY AND LIABILITIES

Shareholders' equity					
Subscribed capital	2,027		2,027		2,027
Additional paid-in capital	9,905		9,905		9,905
Reserves	95		95	3,135	3,230
Other cumulative shareholders' equity	40,295	-5,030 *)	35,265		35,265
	52,322	-5,030	47,292	3,135	50,427
Minority interest	828	646	1,474		1,474
Total shareholders' equity	53,150	-4,384	48,766	3,135	51,901
Non-current liabilities					
Provisions for pensions	4,598		4,598		4,598
Provisions	3,929	752	4,681		4,681
Financial liabilities	9,095		9,095		9,095
Liabilities from finance lease	0	5,710	5,710		5,710
Other liabilities	0		0		0
Deferred tax liabilities	2,464	6,175	8,639		8,639
Total non-current liabilities	20,086	12,637	32,723	0	32,723
Current liabilities					
Provisions	11,999	-3,957	8,042		8,042
Financial liabilities	12,093		12,093		12,093
Trade accounts payable	36,665		36,665		36,665
Other liabilities	7,716	4,883	12,599		12,599
Total current liabilities	68,473	926	69,399	0	69,399
Total Shareholders' equity and liabilities	141,709	9,179	150,888	3,135	154,023

The difference in the earnings acc. to the income statement is based on the currency translation difference and other effects amounting to kEUR 2

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EUR '000	Consolidated financial statements 2004	Adjustment acc. to IAS 8	Consolidated financial statements 2004 adjusted
1. Revenues	128,570		128,570
2. Change in finished goods and work in progress	-195		-195
3. Other operating income	15,471	24,274	39,745
4. Cost of materials	-85,806		-85,806
5. Personnel expenses	-32,396		-32,396
6. Other operating expenses	-15,230		-15,230
7. Earnings before interest, taxes, depreciation and amortization (EBITDA)	10,414	24,274	34,688
8. Depreciation and amortization of intangible assets, property, plant and equipment	-3,316	-325	-3,641
Earnings before interest and taxes (EBIT)	7,098	23,949	31,047
9. Income from non-current financial investments and from associated companies	309		309
10. Other interest and similar income	102		102
11. Interest and similar expense	-698		-698
Income (loss) from ordinary activities	6,811	23,949	30,760
12. Income taxes	-1,894	5,069	3,175
13. Income before minority interests	4,917	29,018	33,935
14. Minority interest	435		435
Income from the reversal of negative goodwill from capital consolidation (classification of 2004)	33,377	-33,377	0
15. Net income	38,729	-4,359	34,370
16. Retained earnings carried forward	1,660		1,660
17. Retained earnings	40,389	-4,359	36,030
Undiluted and diluted earnings per share in EUR	20.71		18.59

D. NOTES ON THE INCOME STATEMENT AND THE BALANCE SHEET

1. Revenues

The group's revenues comprise the following:

	2005	2004
	<u>EUR' 000</u>	<u>EUR' 000</u>
Revenues from the sale of finished goods	411,972	114,770
Revenues from long-term production contracts	4,388	13,800
Revenues from the sale of services	<u>1,141</u>	<u>0</u>
	417,501	128,570

The revenues from construction contracts relate to Jahnle-Kestermann Getriebewerke GmbH & Co. KG. Moreover, we refer to the notes regarding segment reporting.

2. Own work capitalized

Income from own work capitalized relate to the image archive of the subsidiary getaklik Medien GmbH.

3. Other operating income

Other operating income comprises the following:

	2005	2004
	<u>EUR' 000</u>	<u>EUR' 000</u>
- Income from the reversal of negative goodwill from capital consolidation	39,356	29,424
- Income from the disposal of shares in minorities	6,110	0
- Income from the release of provisions	4,771	2,215
- Income from the writing off of trade payables	1,851	0
- Income from the reversal of allowances	1,576	554
- Income from changes of exchanges rates	1,525	439
- Income from charges to third parties	1,054	361
- Income from disposal of financial assets	837	1,593
- Government grants	264	0
- Income from the appreciation of property, plant and equipment	0	259
- Income from negative goodwill in accordance with IAS 22.61	0	1,650
- Other operating income	<u>4,745</u>	<u>3,250</u>
	62,089	39,745

Income from the disposal of financial assets mainly results from the disposal of 14.8% in ARQUANA International Print & Media AG.

Income from the reversal of negative goodwill from capital consolidation of kEUR 39,356 (previous year: kEUR 29,424) is reported in accordance with IFRS 3.56 (b) insofar as the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination. After a reassessment of the remaining excess, it is immediately recognized in profit or loss in accordance with IFRS 3.56 (b).

The entries mainly account for the following business combinations:

<u>Name and registered office of the company</u>	<u>EUR '000</u>
Year 2005	
Evry Rotatives S.A.S., Bondoufle, France	9,205
Evotape S.p.a., San Pietro Mosezzo, Italy	8,101
GOLF HOUSE-Group, Essen	6,976
Johler Druck GmbH, Neumünster	6,606
SKS-Group, Duisburg	4,653
tiscon AG Infosystems, Neu-Ulm	3,212
Sommer-Group	414
Schierholz Translift Global	
Manufacturing & Finance AG, Barr, Switzerland	138
Sportart GmbH, Berlin	<u>51</u>
	39,356
Year 2004	
SKW-Group	21,664
Colordruck-Group, Pforzheim	6,799
E. Missel GmbH & Co. KG, Fellbach/Stuttgart	<u>961</u>
	29,424

4. Cost of materials

	2005	2004
	<u>EUR '000</u>	<u>EUR '000</u>
Raw materials and supplies	192,887	56,668
Purchased goods	70,200	22,146
Purchased services	15,307	5,764
Other	<u>9,241</u>	<u>1,228</u>
	287,635	85,806

Material costs mainly relate to the SKW Group (EUR 157.6 million), Evotape S.p.A. (EUR 25.6 million) and Jahnel Kestermann Getriebewerke GmbH & Co. KG (EUR 13.2 million) as well as to the Sommer Group with EUR 10.6 million.

5. Personnel expenses

	2005	2004
	<u>EUR '000</u>	<u>EUR '000</u>
Wages and salaries	66,975	26,417
Social security and other pension costs	<u>13,628</u>	<u>5,979</u>
	80,603	32,396

Personnel expenses mainly relate to the SKW Group (EUR 11.9 million), Colordruck (EUR 9.8 million), Jahnel Kestermann Getriebewerke GmbH & Co. KG (EUR 8.8 million), the Schierholz Group (EUR 8.6 million), which belonged to the group until 06/30/2005, ddp Group EUR (EUR 6.9 million) and Evotape S.p.A. (EUR 6.2 million).

6. Other operating expenses

Other operating expenses comprises the following:

	2005	2004
	<u>EUR '000</u>	<u>EUR '000</u>
Administrative costs	13,463	2,739
Freight out / transport costs	12,711	3,087
Expenditure for property / buildings	9,049	3,194
Marketing and representation expenses	8,321	1,902
Consulting costs	6,436	1,795
Losses incurred or provided for on loans	3,457	505
Expenses from changes in the exchange rate	455	1,245
Other	<u>4,297</u>	<u>763</u>
	58,189	15,230

Research and development costs of kEUR 122 are included in Other.

7. Income from associated companies

Income from associated companies of kEUR 846 (previous year: kEUR 110) relate to Jamshedpur Injection Powder Ltd., Jamshedpur, India.

8. Other interest and similar income

The other interest and similar income of kEUR 920 (previous year: kEUR 102) mainly results from interest on current account credit balances and fixed term deposits.

9. Interest and similar expenses

The other interest and similar costs of kEUR 2,047 (previous year kEUR 698) mainly result from interest on liabilities due to financial institutions.

10. Income taxes

Revenue tax cost comprises the following:

EUR '000	2005	2004
Current income taxes	4,983	995
Deferred taxes on temporary differences	-4,827	-703
Deferred taxes from tax loss carried forward	-2,356	-3,467
Total deferred taxes	<u>-7,183</u>	<u>-4,170</u>
Total income taxes	-2,200	-3,175

The reporting of deferred tax income results mainly from the reversal of deferred tax liabilities based on repayments or amortizations of shareholder loans. Those deferred tax liabilities were formed on these shareholder loans in the course of business combinations.

The following reconciliation describes the differences between reported income taxes and expected income taxes. Expected income taxes are derived from the results before income taxes multiplied by the expected tax rate. The expected tax rate includes the statutory German corporation tax, the solidarity surcharge and trade tax and totals 37%.

EUR '000	2005	2004
Income before income taxes	46,053	30,760
Expected income tax rate	37.00%	39.80%
Expected income taxes	17,040	12,242
Effect from the income from the reversal of negative goodwill from capital consolidation	-14,562	-10,609
Tax-free income	-1,722	-1,486
Tax rate differences	-955	-665
Capitalization of previously unrecognized deferred tax assets	-927	-2,086
Effect of taxes from previous years	-903	269
Non-deductible expenses	252	228
Effects from tax rate changes	-23	11
Tax credits	-	-247
Other effects	<u>-400</u>	<u>-832</u>
Reported income taxes	-2,200	-3,175
Effective tax rate	-4.78%	-10.32%

The low effective tax rate is mainly due to the result from the reversal of negative goodwill from capital consolidation, which is not offset by current or deferred income taxes.

11. Minority interest

The net income of kEUR 48,268 (previous year: kEUR 34,370) includes other shareholders' losses of kEUR 15 (previous year: kEUR 435).

12. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

EARNINGS (in EUR '000)	2005	2004
Basis for basic earnings per share (attributable pro rata earnings for the period of the parent company shareholders)	48,268	34,370
Effect of diluting potential ordinary shares	<u>0</u>	<u>0</u>
Basis for diluted earnings per share	48,268	34,370
NUMBER OF SHARES (units)		
Weighted average of number of ordinary shares for undiluted earnings per share	2,172,271	1,848,888
Effect of diluting potential ordinary shares: stock options	<u>3,771</u>	<u>0</u>
Weighted average of number of ordinary shares for diluted earnings per share	<u>2,176,042</u>	<u>1,848,888</u>
Basic earnings per share (in EUR)	<u>22.22</u>	<u>18.59</u>
Diluted earnings per share (in EUR)	<u>22.18</u>	<u>18.59</u>

Dividends

In 2005, in accordance with a resolution of the General Meeting of July 14, 2005, a total of EUR 2,330,667.05 from the net income for the financial year 2004 of ARQUES Industries AG was disbursed. This corresponds to a dividend of EUR 1.15 per share.

The Executive Board and Supervisory Board of ARQUES Industries AG will propose to the shareholders at the General Meeting of the company on May 30, 2006, that a dividend of EUR 2.05 per share from the annual net income of ARQUES Industries AG be disbursed (a total of EUR 4,974,667.35) and that the remainder be carried forward to a new account.

13. Intangible assets

The self-produced intangible assets include an image archive of the ddp Group with a fair value as of the reporting date of kEUR 1,601. The image archive has a residual life of 5 years.

Goodwill mainly relates to the ddp Group (kEUR 1,333), the Print segment (kEUR 1,309) and the Jahnel Kestermann Group (kEUR 305).

In order to fulfill the requirements of IFRS 3 in conjunction with IAS 36 and in order to calculate any impairment of goodwills, ARQUES assigned the goodwills to cash generating units in accordance with the internal reporting structure. For details of the impairment tests performed according to IAS 36 in conjunction with IFRS 3, we refer to point 36.

As a result of changing the accounting provisions from IAS 22 to IFRS 3, the negative goodwill for teutonia Kinderwagenfabrik GmbH (kEUR 980) and Schierholz-Translift Global Manufacturing & Finance AG (kEUR 2,157) previously reported under goodwill are reallocated to reserves without affecting net income (IFRS 3.81).

	Concessions, industrial property rights and similar rights and values EUR' 000	Goodwill EUR' 000	Self-produced intangibles assets EUR' 000	Advance payments EUR' 000	Total EUR' 000
Acquisition costs on 01/01/2005	4,777	58	0	104	4,939
Additions to consolidated group	4,173	0	182	0	4,355
Disposals from consolidated group	-4,466	0	0	0	-4,466
Additions	599	3,598	1,577	116	5,890
Disposals from consolidated group	-22	-181	0	0	-203
Account transfer	77	0	0	-219	-142
Total as of 12/31/2005	5,138	3,475	1,759	1	10,373
Depreciation on 01/01/2005	-2,371	-46	0	0	-2,417
Disposals from consolidated group	2,309	0	0	0	2,309
Currency translation	1	0	0	0	1
Additions	-1,893	0	-158	-1	-2,052
Disposals	-25	0	0	0	-25
Total as of 12/31/2005	-1,979	-46	-158	-1	-2,184
Net carrying value on 12/31/2004	2,406	12	0	104	2,522
Net carrying value on 12/31/2005	3,159	3,429	1,601	0	8,189

	Concessions, industrial property rights and similar rights and values EUR' 000	Goodwill EUR' 000	Self-produced intangibles assets EUR' 000	Advance payments EUR' 000	Total EUR' 000
Acquisition costs on 01/01/2004	4,281	3	0	0	4,284
Additions to consolidated group	594	-3,771	0	104	-3,073
Currency translation	34	0	0	0	34
Additions	167	0	0	0	167
Disposals	-332	2,847	0	0	2,515
Account transfers	33	-2,157	0	0	-2,124
Reclassification in the retained reserves	0	3,136	0	0	3,136
Total as of 12/31/2004	4,777	58	0	104	4,939
Depreciation on 01/01/2004	-1,514	0	0	0	-1,514
Currency translation	-7	0	0	0	-7
Additions	-839	-46	0	0	-885
Account transfers	-28	0	0	0	-28
Disposals	17	0	0	0	17
Total as of 12/31/2004	-2,371	-46	0	0	-2,417
Net carrying value on 12/31/2003	2,767	3	0	0	2,770
Net carrying value on 12/31/2004	2,406	12	0	104	2,522

14. Property, plant and equipment

	Land and leasehold rights	Buildings, including buildings on third-party land	Plant and equipment (without finance lease)	Plant and equipment (finance lease)
	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition costs on 1/1/2005	14,568	15,200	11,977	6,053
Additions to consolidated group	13,260	28,506	42,773	7,317
Disposals of consolidated group	-7,861	0	-4,117	0
Currency translation	0	1	1,525	0
Additions	0	88	2,559	1,014
Disposals	-152	-13	-4,636	0
Account transfer	175	747	745	0
Total as of 12/31/05	19,990	44,529	50,826	14,384
Depreciation on 1/1/05	-2,533	-54	-3,472	-1,040
Disposals of consolidated group	2,381	0	3,576	0
Currency translation	0	-3	-1,197	0
Additions	-198	-1,335	-6,392	-1,247
Account transfers	0	-690	0	0
Disposals	0	-684	3,145	0
Total as of 12/31/2005	-350	-2,766	-4,340	-2,287
Net carrying value on 12/31/2005	12,035	15,146	8,505	5,013
Net carrying value on 12/31/2005	19,640	41,763	46,486	12,097
	Land and leasehold rights	Buildings, including buildings on third-party land	Plant and equipment (without finance lease)	Plant and equipment (finance lease)
	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition costs on 1/1/2004	7,912	0	4,277	0
Additions to consolidated group	6,706	15,318	9,585	5,539
Currency translation	-49	0	-559	0
Additions	25	262	260	514
Disposals	-26	-647	-2,300	0
Account transfers	0	267	714	0
Total as of 12/31/2005	14,568	15,200	11,977	6,053
Depreciation on 1/1/2004	-2,245	0	-3,549	0
Currency translation	44	0	490	0
Additions	-332	-54	-1,409	-1,040
Account transfers	0	0	28	0
Disposals	0	0	968	0
Total as of 31.12.2004	-2,533	-54	-3,472	-1,040
Net carrying value on 12/31/2003	5,667	0	728	0
Net carrying value on 12/31/2004	12,035	15,146	8,505	5,013

Other fixtures and fittings, tools and equipment	Payments on account and Fixed assets in course of construction	Total
EUR '000	EUR '000	EUR '000
9,199	637	57,634
2,764	146	94,766
-5,687	0	-17,665
208	0	1,734
786	1,521	5,968
471	-361	-4,691
17	-852	832
7,758	1,091	138,578
-5,940	0	-13,039
5,221	0	11,178
-123	0	-1,323
-1,466	0	-10,638
0	0	-690
-969	0	1,492
-3,277	0	-13,020
3,259	637	44,595
4,481	1,091	125,558
Other fixtures and fittings, tools and equipment	Payments on account and fixed assets in course of construction	Total
EUR '000	EUR '000	EUR '000
5,721	0	17,910
3,265	1,464	41,877
-66	2	-672
236	305	1,602
-76	0	-3,049
119	-1,134	-34
9,199	637	57,634
-5,081	0	-10,875
36	0	570
-908	0	-3,743
0	0	28
13	0	981
-5,940	0	-13,039
640	0	7,035
3,259	637	44,595

Property, plant and equipment also include kEUR 12,097 (previous year: kEUR 5,013) for leased technical equipment and machinery which is allocated to the group as commercial owner because of the arrangement of the underlying leasing agreement ("Finance Leases").

The contracts refer in particular to Sochor Group GmbH (kEUR 6,294) and Colordruck Pforzheim GmbH & Co. KG (kEUR 3,947). The leased objects are printing machines.

Property, plant and equipment of kEUR 15,176 serve as security for long-term financial liabilities.

15. Investment property

	2005	2004
	EUR '000	EUR '000
Acquisition cost on 01/01	2,330	0
Additions	90	2,330
Total as of 12/31	2,420	2,330
Depreciation on 01/01	53	0
Additions	79	53
Total as of 12/31	132	53
Net carrying value 12/31	2,288	2,277

Investment property mainly refers to a developed property belonging to ARQUES Industries AG in Burnhaupt le Haupt, France. The building is subject to straight-line depreciation over 25 years. Revenues received in the current period total kEUR 221. The fair value of the investment property according to an appraisal in 2004 amounted to kEUR 2,139. It can be assumed that the net realizable value exceeds the carrying amount as of 12/31/2005 and thus no impairment is necessary.

16. Shares in associated companies

The 30% share in the associated company Jamshedpur Injection Powder Ltd., Jamshedpur, India, is shown in the balance sheet at equity. As no separate interim report as of December 31, 2005 was prepared, the valuation is based on an estimated result as of December 31, 2005. Accordingly, in the financial year 2005 the annual net income of the company amounted to kEUR 2,560. The total assets in the last available annual report as of March 31, 2005 was kEUR 7,270 and the shareholders' equity kEUR 4,876.

The at-equity value developed as shown below for financial year 2005:

	2005	2004
	<u>EUR '000</u>	<u>EUR '000</u>
Status on 01/01	3,170	3,060
Pro rata income for the year	768	199
Currency translation	135	-62
Income tax	-57	-27
Collected distribution of income	-413	0
Total as of 12/31	<u>3,603</u>	<u>3,170</u>

	2005	2004
	<u>EUR '000</u>	<u>EUR '000</u>
Acquisition cost on 01/01	765	148
Changes in consolidated group	800	793
Additions	393	135
Disposals	-945	-325
Currency translation	0	14
Net carrying value on 12/31	<u>1,013</u>	<u>765</u>

17. Financial assets

kEUR 800 of the financial assets relate to Evry Rotatives S.A.S. This amount is for non-current receivables due from former shareholders to equalize lease liabilities.

18. Inventories

The inventories comprise the following:

	12/31/2005	12/31/2004
	<u>EUR '000</u>	<u>EUR '000</u>
Raw materials and supplies	30,098	15,817
Work in progress	5,359	1,780
Finished products and goods	23,082	11,497
Payments on account	20	3,231
	<u>58,559</u>	<u>32,324</u>

The inventories are valued at the lower of cost or net realizable value which value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. As of the reporting date, the impairments totaled kEUR 5,168. The impairments were mainly charged for over-range of coverage and insufficient marketability.

The stocks of raw materials and supplies refers to kEUR 20,707 for the Steel segment (SKW Group kEUR 13,139 and Sommer Group kEUR 6,611) and kEUR 4,784 for the Print segment (Colordruck Pforzheim GmbH & Co. KG kEUR 1,526 and Johler Druck GmbH kEUR 1,152).

Work in progress mainly refers to the Sommer Group (kEUR 1,878), Evotape S.p.A. (kEUR 1,180) and Johler Druck GmbH (kEUR 725). Finished products and goods of kEUR 6,644 refer to the SKW Group, while stocks of goods of kEUR 6,523 come from the SKW Group, kEUR 4,731 from the SKS Group and kEUR 2,647 from the Golf House Group.

Inventories of kEUR 964 serve as security for non-current financial liabilities.

19. Receivables from percentage of completion

	12/31/2005	12/31/2004
	<u>EUR '000</u>	<u>EUR '000</u>
Accrued costs plus cumulative income	2,876	45,101
less progress billings	<u>0</u>	<u>37,312</u>
	2,876	7,789
of which: future receivables from percentage of completion	2,876	10,334
of which: liabilities from percentage of completion	0	2,545

The receivables from percentage of completion result from Jahnelt Kestermann Getriebewerke GmbH & Co. KG. construction contracts are reported according to the percentage of completion method (POC method) or the zero profit method. The zero profit method is applied if the degree of completion to be reported, which is necessary for the POC method, cannot be calculated. When applying the POC method, the cost to cost method is used.

Insofar as the cumulative output exceeds prepayments, a receivable is recognised, and if prepayments exceed the cumulative output a liability is recognised. Expected losses are taken into consideration by recognition of a provision for impending losses.

The change compared to the previous year results from the deconsolidation of the Schierholz companies.

20. Trade accounts receivable

	12/31/2005	12/31/2004
	<u>EUR '000</u>	<u>EUR '000</u>
Receivables from value adjustment	79,069	39,640
Value adjustment	<u>-2,369</u>	<u>-492</u>
Book value of the receivables	76,700	39,148

The accounts show kEUR 30,211 for the SKW Group, kEUR 13,981 for Evotape S.p.A., kEUR 6,322 for Jahnelt Kestermann Getriebewerke GmbH & Co. KG and kEUR 5,319 for the Sommer Group. All trade receivables as shown in the table are due within one year.

21. Other assets

Other assets include the following amounts:

	12/31/2005	12/31/2004
	<u>EUR '000</u>	<u>EUR '000</u>
Tax receivables	9,001	1,724
Accrual and deferral	751	543
Social security receivables	415	265
Employee receivables	367	67
Other receivables	<u>6,107</u>	<u>3,493</u>
	16,641	6,093

The positions include kEUR 8,933 for the Sommer Group, kEUR 3,395 for the SKW Group, kEUR 3,615 for Evotape S.p.A. and kEUR 1,180 for the SKS Group. Claims for sales tax refunds are included in the tax receivables to the total of kEUR 8,375.

22. Cash and cash equivalents

This position includes cash deposits and credits held with banks with a term shorter than 3 months and financial securities with an original maturity of less than 3 months. The accounts mainly include ARQUES Industries AG (kEUR 13,289), tiskon AG Infosystems (kEUR 6,404) and Evry Rotatives S.A.S. (kEUR 5,012).

kEUR 3,087 is pledged as security for the contractual implementation of projects and as credit security ("Restricted Cash").

23. Non-current assets held for sale

The accounts mainly contain kEUR 8,050 from Sommer Fahrzeugbau GmbH & Co. KG, Bielefeld, and relate to real estate in Bremen, which transferred to Sommer Fahrzeugbau GmbH & Co. KG, Bielefeld as a result of the accretion of C.H. Bunge KG (GmbH & Co.), Bremen, as of January 1, 2004. The fair value was EUR 10 million. The building proportion (70%) is depreciated at 2%. The land is held for sale.

24. Shareholders' equity

Share capital

The subscribed shareholder's equity of ARQUES Industries AG of EUR 2,426,667.00 is divided into 2,426,667 individual share certificates. The cash capital increase on July 13, 2005 and the capital increase through contribution in kind on October 1, 2005 increased the share capital in financial year 2005 from EUR 2,026,667 to EUR 2,426,667.

Capital reserve

The capital reserve corresponds to the capital reserve of ARQUES Industries AG. This includes essentially the premium on the capital increases carried out in financial years 2004 and 2005 at ARQUES Industries AG. Capital reserves increased in financial year 2005 by kEUR 43,984 to kEUR 53,284. The valuation of the capital reserves includes the costs for the capital increase of kEUR 961 minus deferred taxes (kEUR 356).

Reserves

Reserves totaling kEUR 4,866, apart from a reallocation according to IFRS 3.81 of kEUR 3,135 also includes kEUR 95 as statutory reserves of ARQUES Industries AG and retained profit of kEUR 1,636 which has been allocated in accordance with a profit distribution resolution of July 14, 2005.

Minority interests

Minority interests mainly relate to the Print segment.

Authorized capital

According to a resolution of the General Meeting of July 14, 2005, the previously authorized capital 2004/I was canceled and by means of a change to the articles of association, new authorized capital 2005/I was created. Based on the resolution, the Executive Board will be authorized, with approval of the Supervisory Board, to increase the capital stock during the period ending on June 30, 2010 one time or in partial amounts totaling up to kEUR 1,000 by issuing new individual bearer shares in exchange for cash and/or non-cash contributions. With approval of the Supervisory Board, the Executive Board can make decisions regarding the content of the stock corporation laws and the conditions for issuing shares as well as determine the details for carrying out the capital increase. With approval of the Supervisory Board, the subscription rights of the shareholders may be excluded in those cases specified by resolution.

Share options

In the 2005 financial year, ARQUES introduced an employee program for executive employees in the form of share options. As part of this stock option plan, options on a total of 16,400 stocks of ARQUES Industries AG in ten different tranches were issued in 2005. In contrast to standard options, the subscription rights are not furnished with fixed exercise prices. The person entitled to options can request the delivery of a specific number of ordinary shares in ARQUES Industries AG on each of up to three delivery and

valuation dates. The number of shares to be delivered as of a reporting date is calculated on the basis of the performance of ARQUES shares since the date of issue (calculation for the first tranche) and the last valuation date (= last time of exercise). There is no furnishing of shares in the event of a negative performance. The subscription rights are forfeited if the employee leaves the group before the options are non-forfeitable.

The design characteristics of the various tranches are shown in the following table:

Tranche	Grant date	Initial cutoff date	Exercise time periods			Number of shares
1	January 3, 2005	January 1, 2005	January 1, 2006	January 1, 2007	January 1, 2008	3000
2	January 26, 2005	January 31, 2005	January 31, 2006	January 31, 2007	January 31, 2008	4,000
3	January 28, 2005	April 30, 2005	April 30, 2006	April 30, 2007	April 30, 2008	1,000
4	July 14, 2005	September 30, 2005	September 30, 2006	September 30, 2007	September 30, 2008	500
5	September 9, 2005	January 1, 2006	January 1, 2007	January 1, 2008	January 1, 2009	1,000
6	October 14, 2005	January 10, 2005	January 10, 2006	January 10, 2007	January 10, 2008	3,000
7	October 27, 2005	January 1, 2006	January 1, 2007	January 1, 2008	January 1, 2009	1,000
Tranche	Grant date		Initial price	Delivery cutoff date		Number of shares
8	November 1, 2005		EUR 110.00	October 31, 2007		900
9	November 4, 2005		EUR 110.00	October 31, 2007		1,000
10	November 11, 2005		EUR 110.00	September 30, 2007		<u>1,000</u>
						16,400

As of the balance sheet date, 16,400 stock options are outstanding but not yet exercisable. A Monte Carlo simulation is used for the valuation. Thus a simulation of the lognormal process is carried out for the price of the ARQUES share in order to determine the performance of the share between two cutoff dates. The granted subscription rights are comprised of up to three partial options. In the model, each of these partial options is measured separately. The fair value of each subscription right results from the sum of the partial options.

The valuation as of the respective grant date is based on the following interest rates:

Tranche	Grant date	Cutoff date	Interest rate	Cutoff date	Interest rate	Cutoff date	Interest rate
1	January 3, 2005	January 1, 2006	2.23%	January 1, 2007	2.45%	January 1, 2008	2.65%
2	January 26, 2005	January 31, 2006	2.18%	January 31, 2007	2.39%	January 31, 2008	2.60%
3	January 28, 2005	April 30, 2006	2.21%	April 30, 2007	2.45%	April 30, 2008	2.64%
4	July 14, 2005	September 30, 2006	2.10%	September 30, 2007	2.23%	September 30, 2008	2.38%
5	September 9, 2005	January 1, 2007	2.09%	January 1, 2008	2.18%	January 1, 2009	2.30%
6	October 14, 2005	January 10, 2006	2.26%	January 10, 2007	2.30%	January 10, 2008	2.49%
7	October 27, 2005	January 1, 2007	2.41%	January 1, 2008	2.59%	January 1, 2009	2.71%
8	November 1, 2005	October 31, 2007	2.63%				
9	November 4, 2005	October 31, 2007	2.66%				
10	November 11, 2005	September 30, 2007	2.69%				

The interest rates were calculated from yield curves for federal government bonds. Within the framework of the Monte Carlo simulation, discontinuous dividends were assumed. The following estimates for the dividends were used in the calculation:

Year (payment)	2005	2006	2007	2008
	EUR	EUR	EUR	EUR
Dividend	1.15	1.50	1.70	1.70

The short history as of January 2, 2004 was used as the basis for determining volatility. The following volatilities were used for the calculations:

Tranche	Grant Date	Volatility
1	January 3, 2005	56.17%
2	January 26, 2005	54.67%
3	January 28, 2005	54.51%
4	July 14, 2005	58.51%
5	September 9, 2005	56.39%
6	October 14, 2005	55.50%
7	October 27, 2005	55.09%
8	November 1, 2005	54.93%
9	November 4, 2005	54.77%
10	November 11, 2005	54.54%

Traded options or similar products belonging to ARQUES Industries AG did not exist at the time the appraisal was prepared, so an implied volatility could not be derived. The historic volatility used is based on daily closing prices. The history was analyzed and therefore only the period from January 2, 2004 was used as the basis. As no special events exists which would have made an adjustment necessary, no adjustment was made for individual days. Because of the business model and the growth strategy aimed for, larger share price movements are also expected for ARQUES in the future, which is why the volatilities used are considered a good estimate.

The fair values of the subscription rights and partial options on the respective grant date turn out to be as follows:

Tranche	Grant date	Closing price	Sub-option 1	Sub-option 2	Sub-option 3	Subscription right	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
1	January 3, 2005	59.50	13.10	12.54	12.26	37.90	114
2	January 26, 2005	62.62	13.34	12.92	12.58	38.84	155
3	January 28, 2005	62.00	13.17	12.71	12.40	38.28	38
4	July 14, 2005	101.27	22.95	22.43	22.26	67.64	34
5	September 9, 2005	139.10	31.12	30.70	30.51	92.33	92
6	October 14, 2005	128.90	68.36	28.43	28.14	124.93	375
7	October 27, 2005	130.49	28.58	28.33	28.16	85.07	85
8	November 1, 2005	132.00	39.84	-	-	39.84	36
9	November 4, 2005	130.49	47.48	-	-	47.48	47
10	November 11, 2005	126.60	43.58	-	-	43.58	44
							<u>1,020</u>

No options were realized, exercised or forfeited in reporting year 2005.

The group recorded a total expense of kEUR 278 in 2005 in connection with share-based remuneration to be fulfilled in equity instruments. The average residual term of the share options based on the first possible exercise date is 24 months. The payments received upon exercise of the options are credited to the share capital and the capital reserves after deduction of directly attributable transaction costs.

25. Provisions for pensions

Provisions for pensions and similar obligations and values are formed by a total of 12 group companies. The total amount of the provisions of kEUR 15,707 (previous year kEUR 4,598) relates to the following companies in particular:

- Jahnel-Kestermann Getriebewerke GmbH & Co. KG (kEUR 6,762; acquisition 2005),
- Evotape S.p.A. (kEUR 4,335; acquisition 2005)
- Socher Group GmbH (kEUR 2,355; acquisition 2005)
- SKW Stahl-Metallurgie GmbH (kEUR 677; previous year kEUR 615),
- Affival S.A. (kEUR 451; previous year kEUR 505) and
- teutonia Kinderwagenfabrik GmbH (kEUR 433; previous year kEUR 400)

The vested rights reported by the companies of the ARQUES Group on the basis of defined benefit plans developed as follows:

	2005	2004
	EUR '000	EUR '000
Total as of 01/01	4,490	0
Additions to consolidated group	15,541	1,920
Disposals from consolidated group	-2,503	
Current service cost	383	2,555
Past service cost	56	43
Interest cost	391	153
Pensions paid	-663	-119
Actuarial gains/losses	351	-62
Total as of 12/31	18,046	4,490

The amount of provisions for pension obligations is derived as follows:

	12/31/2005	12/31/2004
	EUR '000	EUR '000
Defined benefit obligation	18,046	4,490
Actuarial gains/losses not recognised	-633	108
Past service cost not yet recognised	232	
Fair value of plan assets	-1,938	
	15,707	4,598

Pensions costs for the current period comprise of:

	2005	2004
	EUR '000	EUR '000
Service cost	373	54
Expected income from plan assets	-22	0
Interest cost	390	153
Actuarial gains/losses recognised	1	46
Total pension expense	742	253

With defined contribution plans, the company pays contributions to state or private pension insurance organizations on the basis of statutory or contractual provisions or voluntarily. There are no further payment obligations for the company upon payment of the contributions.

The current contribution payments are reported as costs in the respective year in the operating results and in the 2005 financial year total kEUR 4,710 (previous year: kEUR 535) in the group.

The calculation is based on the following actuarial assumptions in %:

	12/31/2005	12/31/2004
Discount rate	4.0 - 4.5	5.0 - 5.5
Salary trend	0	1.75 - 2.25
Pension trend	1	1.25 - 1.75
Fluctuation	0	0

26. Provisions

	Total as of 01/01/2005	Change in scope of consolidation	Use	Addition	Release	Total as of 12/31/2005
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Restructuring	4,663	1,293	-2,888	1,018	-2,685	1,401
Guarantee	930	952	-461	949	-652	1,718
Impending losses	2,044	1,707	-1,905	1,104	-809	2,141
Personnel	3,480	1,791	-1,683	2,623	-421	5,790
Other	1,606	3,001	-1,606	2,941	-204	5,738
	12,723	8,744	-8,543	8,635	-4,771	16,788

The restructuring provisions of kEUR 1,401 mainly comprise the following:

- Settlement payments in the companies Evotape S.p.A. kEUR 600, Jahnel-Kestermann Getriebewerke GmbH & Co KG kEUR 167 and Golf House Direktversand GmbH kEUR 90
- Other restructuring costs at Evotape S.p.A. of kEUR 216 and Jahnel Kestermann Getriebewerke GmbH & Co KG of kEUR 130
- Financial liabilities from the cancellation of rent and lease agreements for the SKS Group kEUR 97

Provisions for impending losses of kEUR 2,141 were mainly recognised at Johler Druck GmbH for kEUR 659; Colordruck Pforzheim GmbH & Co KG for kEUR 251; Golf House Direktversand GmbH for kEUR 842 and Sommer Vermögensgesellschaft GmbH & Co KG for kEUR 234.

The guarantees of kEUR 1,718 mainly relate to Jahnel-Kestermann Getriebewerke GmbH & Co KG with kEUR 920 and the SKS Group with kEUR 475.

In conjunction with provisions in personnel of kEUR 5,790, the following circumstances are mostly taken into account:

- Holiday entitlement not taken as of 12/31/2005: SOCHOR GROUP GmbH kEUR 564. Jahnel-Kestermann Getriebewerke GmbH & Co KG kEUR 336. Colordruck GmbH & Co KG kEUR 293. Johler Druck GmbH kEUR 273 Teutonia Group kEUR 179
- Bonuses and awards for the companies: SKW Group kEUR 301. SKS Group kEUR 277. Tiscon AG Infosystems kEUR 221. Golf House Direktversand GmbH kEUR 180
- Remuneration for flexible working time in the companies: Colordruck GmbH & Co KG kEUR 719. Sochor Group GmbH kEUR 365. SKS Group kEUR 68
- Part-time employment for older staff: in the companies Jahnel-Kestermann Getriebewerke GmbH & Co KG kEUR 682. Colordruck GmbH & Co KG kEUR 286. Missel GmbH & Co KG kEUR 181.

The other provisions of kEUR 5,738 mainly relate to the following companies: tiscon kEUR 2,125, ARQUES Industries kEUR 1,114, SKS Group kEUR 1,583, Colordruck kEUR 216, Golf House kEUR 163.

The maturities of the provisions are divided as follows:

	2005	2004
	<u>EUR '000</u>	<u>EUR '000</u>
Non-current provisions	3,858	4,681
Current provisions	<u>12,930</u>	<u>8,042</u>
	16,788	12,723

The non-current provisions mainly refer to provisions for anticipated losses (kEUR 842), provisions for old-age part-time employment (kEUR 881) and other provisions (kEUR 1,412) with a maturity between one and five years.

The interest effect from the revaluation of non-current provisions is immaterial from a group perspective.

27. Non-current financial liabilities

	12/31/2005	12/31/2004
	<u>EUR '000</u>	<u>EUR '000</u>
Liabilities due to banks	14,539	7,114
Other financial liabilities	<u>3,191</u>	<u>1,981</u>
	17,730	9,095

The liabilities due to banks of kEUR 14,539 with a maturity of more than 12 months refer to loans for the following group companies:

	<u>EUR '000</u>	<u>Interest</u>
Sochor Group GmbH	5,769	1% - 3.75%
Jahnel-Kestermann		
Getriebewerke GmbH & Co. KG	2,451	4.5% - 5.25%
Johler Druck GmbH	1,800	Euribor + 1.2%
E. Missel GmbH & Co. KG	3,861	3.6% - 3.7%
Colordruck Pforzheim		
GmbH & Co. KG	656	5.05%
Others	2	

The other financial liabilities of kEUR 3,191 result from kEUR 750 from a silent holding of SOCHOR GROUP GmbH, and an unlimited shareholder loan to SKS Stakusit Bautechnik GmbH (kEUR 2,441) which earns interest at 1.5% p.a.

Of the amount reported, a total of EUR 7,718 has a residual term of more than 5 years.

All current financial liabilities have been renegotiated or re-founded after the addition of the subsidiaries to the ARQUES Group by employees of the ARQUES Group and are concluded at normal market conditions and interest binding.

28. Liabilities from finance lease

The material property, plant and equipment of the group include technical plant and equipment which are allocated to the group as the commercial owner on the basis of the underlying lease contracts ("Finance Leases"). The group's lease obligations for finance leases for the reporting year 2005 and 2004 are contained in the following tables:

	Year 2005		
	Nominal value <u>EUR '000</u>	Discount value <u>EUR '000</u>	Cash value <u>EUR '000</u>
Time to maturity up to 1 year	3,206	375	2,831
Time to maturity 1 - 5 years	<u>8,819</u>	<u>714</u>	<u>8,105</u>
Total	12,025	1,089	10,936

	Year 2005		
	Nominal value <u>EUR '000</u>	Discount value <u>EUR '000</u>	Cash value <u>EUR '000</u>
Time to maturity up to 1 year	1,505	368	1,137
Time to maturity 1 - 5 years	<u>5,163</u>	<u>590</u>	<u>4,573</u>
Total	6,668	958	5,710

Noteworthy lease contracts in the ARQUES Group are the contracts for MAN web offset machines Lithoman with a residual, non-cancelable term of 14 months without a bargain purchase option, a gear-driven cross section grinding machine with a residual, non-cancelable term of 37 months without a bargain purchase option and a web offset machine with a residual, noncancelable term of 69 months without a bargain purchase option.

29. Deferred tax assets and deferred tax liabilities

Deferred taxes result from the different valuations between IFRS and tax balance sheets of the group companies and from consolidation measures.

The deferred tax liabilities and deferred tax assets are resulting from the following positions:

Deferred tax assets	EUR' 000 12/31/2005	EUR' 000 12/31/2004
Fixed assets	379	0
Financial assets	17	0
Inventories	353	62
Receivables and other short-term assets	730	61
Provisions	772	767
Liabilities	5,676	1,970
Tax losses carried forward	4,554	179
Total deferred tax assets	12,481	3,039
thereof current	1,855	890
thereof non-current	10,625	2,148
Deferred tax liabilities		
Intangible assets	829	990
Fixed assets	15,377	2,134
Inventories	144	0
Receivables and other current assets	735	0
Provisions	254	0
Liabilities	8,599	6,176
Total deferred tax liabilities	25,938	9,300
thereof current	1,133	0
thereof non-current	24,805	9,300
Offsetting of deferred tax assets and liabilities	1,120	659
Balance sheet amount of deferred tax assets	11,361	2,380
Balance sheet amount of deferred tax liabilities	24,818	8,639

For tax loss carryforwards for corporation tax of kEUR 84,510 (previous year kEUR 68,301) and for trade tax of kEUR 72,892 (previous year kEUR 59,349,) no deferred tax assets were recorded. These tax loss carryforwards are not subject to any temporal restrictions. In the event of existing tax loss carryforwards, the current taxable income in Germany can be offset to a total of kEUR 1,000. The remaining taxable income can be offset only up to 60% with tax loss carryforwards.

In principle, deferred tax assets on existing tax loss carryforwards are not recognized in the course of business combinations as of the acquisition date, except up to the amount of the deferred tax liabilities, insofar as it can be assumed that deferred tax assets can be offset against deferred tax liabilities. Tax loss carryforwards are reviewed at each balance sheet date whether the tax loss carryforwards can be used in future. Recognition only occurs if there is a positive plan for the respective companies that taxable income will be available in the future, and it therefore seems probable that the tax loss carryforwards losses can actually be utilized. Due to the characteristics of the ARQUES business model, a planning period of one year is required for tax loss carryforwards to be recognized. The SKW Group is an exception; because of the advanced company development a planning horizon of three years applies.

In the course of a capital increase, income taxes of kEUR 356 are directly offset against the costs of the capital increase.

In the current financial year, no deferred tax liabilities were recorded for temporary differences in conjunction with shares in subsidiaries, branch offices and associated companies and shares in joint ventures totalling kEUR 227.

To optimize the group's tax charge, in 2005, a Maltese financial holding company was established in order to reduce future income tax charges.

We also refer to note 10.

30. Current financial liabilities

	12/31/2005	12/31/2004
	EUR '000	EUR '000
Liabilities due to banks	17,958	9,779
Liabilities due to shareholders	-	1,564
Other current financial liabilities	2,242	750
Total	20,200	12,093

The current financial liabilities mainly refer to current account overdrafts. They mainly refer to the SKW Group (EUR 7.0 million) and Sochor Group GmbH (EUR 4.6 million). The interest lies within a band of 3.125% - 6.9% p.a. The interest difference lies in the more favorable conditions in Europe compared to those in North America.

31. Trade accounts payable

The trade payables relate to third parties. They are assessed at the nominal value or repayment amount and are due in full within one year.

The total of kEUR 72,882 refers in particular to the SKW Group (kEUR 21,755), Evotape S.p.A. (kEUR 17,200), Jahnel-Kestermann Getriebewerke GmbH & Co. KG (kEUR 6,676), the Sommer Group (kEUR 6,370) and SOCHOR GROUP GmbH (kEUR 5,430).

32. Tax liabilities

This item only summarizes liabilities from income taxes. They mainly relate to MDI with EUR 1.4 million, the Sommer Group with EUR 1.3 million and ARQUES Industries AG with EUR 1.2 million.

33. Other current liabilities

	12/31/2005	12/31/2004
	<u>EUR '000</u>	<u>EUR '000</u>
Liabilities from outstanding invoices	5,921	2,406
Other taxes	4,323	1,996
Social security contributions	3,963	1,692
Wages and salaries	3,795	1,808
Deferrals and accruals	874	18
Advance payments	2,386	1,171
Other miscellaneous liabilities	<u>8,664</u>	<u>3,336</u>
Total	<u>29,926</u>	<u>12,427</u>

34. Business segments and geographic segments

The group is currently divided into business segments corresponding to the main activities and industrial divisions. These divisions form the basis of the primary format of the segment reporting. The primary business segments are divided as follows:

- a) The Steel segment includes three companies, which are active as supplier (SKW) or processor (Jahnel-Kestermann and Sommer) in the steel industry
- b) The Print segment contains all the group's printing companies
- c) The Industrial Production segment contains all activities from industrial production, which are characterized by relatively simply structured production processes
- d) The Holding segment includes all activities of the group steering and administration
- e) The Other segment contains all other activities of the group that do not directly relate to the above segments.

In last year's consolidated financial statements for 2004, the segment report was broken down according to the structures of the companies. Production companies were allocated to the Industry segment in 2004. Adjacent divisions, notably the activity of the parent company, were allocated to the Services segment. The representation of the previous year has been adjusted correspondingly.

There were no intersegment sales in the reporting period.

The segment information about the primary business segments 2005 is provided below:

	Steel 2005 EUR '000	Print 2005 EUR '000	Industrial Production 2005 EUR '000	Holding 2005 EUR '000	Other 2005 EUR '000	Elimi- nations 2005 EUR '000	Consoli- dated 2005 EUR '000
Revenues							
External revenues	256,270	55,812	70,892	399	34,128		417,501
Internal revenues	0	0	0	0	0	0	0
Total revenues	256,270	55,812	70,892	399	34,128	0	417,501
Segment results/EBIT	6,481	12,753	13,464	3,633	10,004		46,335
Income from associated companies	846						846
Financial result							-1,127
Income before taxes							46,054
Income tax expense							2,200
Net income for the year							48,254
Minority shares in net income for the year							15
Group net income for the year							48,269
Balance sheet							
Assets							
Segments assets	149,659	92,394	58,657	17,916	26,947	-1,700	343,873
Shares in associated companies	3,603						3,603
Assets not allocated							12,447
Group assets							359,923
Liabilities							
Segment liabilities	64,072	27,112	32,076	9,093	7,932	-142	140,143
Liabilities not allocated							77,078
Group liabilities							217,221
Other information							
- Capital expenditure	4,153	2,919	774	651	3,451		11,948
- Acquisitions	42,887	41,418	12,859	0	1,957		99,121
- Depreciation	6,045	3,425	1,444	121	1,736		12,771

The comparison data for the primary business segments 2004 are as follows:

	Steel 2004 EUR '000	Print 2004 EUR '000	Industrial Production 2004 EUR '000	Holding 2004 EUR '000	Other 2004 EUR '000	Elimi- nations 2004 EUR '000	Consoli- dated 2004 EUR '000
Revenues							
External revenues	116,050	0	853	515	11,152	0	128,570
Internal revenues	44	0	0	1,140	0	-1,184	0
Total revenues	116,094	0	853	1,655	11,152	-1,184	128,570
Segment results / EBIT	25,022	8,999	2,452	1,656	-9,954	2,872	31,478
Income from associated companies							110
Income / expense from financial investments							199
Financial results							<u>-596</u>
Income before taxes							30,760
Income tax expense							3,175
Income after taxes and before minority shares							33,935
Minority shares of group results							<u>435</u>
Group net income for the year							34,370
Balance sheet							
Assets							
Segment assets	93,304	29,461	7,021	14,180	17,173	-11,673	149,466
Shares in associated companies	3,170	0	0	0	0	0	3,170
Assets not allocated							<u>1,387</u>
Group assets							154,023
Liabilities							
Segment liabilities	52,021	12,662	2,677	1,364	12,148	-953	79,919
Liabilities not allocated							<u>22,203</u>
							102,122
Group liabilities							
Other information	728	514	277	2,372	208	0	4,099
- Capital expenditure	8,863	20,240	6,811	7	2,883	0	38,804
- Depreciation	2,721		50	72	798	0	3,641

The following table contains a breakdown of the revenues from sale according to geographic markets regardless of the origin of the goods and services:

	2005	2004
	EUR '000	EUR '000
Germany	154,967	42,985
Europe - European Union	119,844	42,787
Europe - other	14,071	6,890
Rest of world	<u>128,619</u>	<u>35,908</u>
	417,501	128,570

The net book values of the segment assets and additions to the material and intangible assets, broken down by geographic region where the assets are located, are represented below:

	2005	2004
	EUR '000	EUR '000
Capital expenditure		
- Germany	7,227	3,443
- Europe - European Union	3,852	361
- Europe - other	4	14
- Rest of world	865	281
	11,948	4,099
	2005	2004
	EUR '000	EUR '000
Acquisitions		
- Germany	52,190	28,335
- Europe - European Union	44,181	7,067
- Europe - other	172	690
- Rest of world	<u>2,578</u>	<u>2,712</u>
	99,121	38,804
	2005	2004
	EUR '000	EUR '000
Segment assets		
- Germany	189,296	85,722
- Europe - European Union	125,571	44,181
- Europe - other	1,253	634
- Rest of world	<u>27,753</u>	<u>18,929</u>
	343,873	149,466

Segment reporting according to vintage years

The ARQUES business model is heavily based on a successful restructuring of the purchased companies. While reporting according to industry segment can only unsatisfactorily represent this business model, segment reporting by vintage years provides a vertical cross section through the companies along the time axis. As a result, the restructuring progress can be made measurable.

	2003	2004	2005
	EUR '000	EUR '000	EUR '000
Revenues	20,434	246,517	150,152
Total returns	18,687	258,891	200,217
EBITDA	-2,089	16,761	40,362
EBIT	-2,800	11,296	33,887
EBT	-2,898	11,194	33,738
		other	Group
		EUR '000	EUR '000
Revenues		398	417,501
Total returns		7,738	485,532
EBITDA		4,071	59,105
EBIT		3,950	46,334
EBT		4,019	46,053

According to this form of representation, the main figures for each of the purchased companies are allocated by year of purchase, whereby the time of allocation is the first consolidation. The holding level, including special purpose and stock companies are disregarded because of the nature of the situation. Only operative units are included as restructuring activities only take place here. In 2002 the company had not yet started any operative business. To this extent, the allocation starts in 2003.

The sales and events in the table listed under 2003 only refer to the Schierholz-Translift Group, which was first consolidated on June 30, 2005.

The companies acquired in 2004 only had operating profits in 2005 without income from the reversal of negative goodwill from capital consolidation. This is due to the nature of the situation as income from the reversal of negative goodwill from capital consolidation can only arise in the year of purchase. None of the companies purchased in 2004 were sold in 2005. This does not refer to the partial transfers within the framework of the subsidiary management program, which are not significant from an overall perspective. As a result, it is clear from the figures that the restructuring measures in vintage year 2004 were successful.

The companies acquired in 2005 have a total EBITDA before income from the reversal of negative differences from capital consolidation of just EUR 1.0 million. This is mainly due to the fact that the initial and restructuring losses have to be taken into account in full against the results in accordance with the principles of IFRS.

However, these are offset by income attributable to the business combinations from the reversal of negative goodwill from capital consolidation of kEUR 39,256, insofar as the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination. If it had been possible to restore the not inconsiderable initial and restructuring losses to the acquisition accounts, this forming of provisions would have lead to the purchased net assets being lower at the same purchase price, which would have meant income from the reversal of negative goodwill from capital consolidation reduced by this amount arising. By contrast, however, the initial operative losses would have been less by roughly the same amount. As a result, the provisions of IFRS 3 regarding the first consolidation of acquired companies

lead, in ARQUES's case as a restructuring group, to the usual restructuring and initial losses having to be reported systematically as losses without taking into account the restructuring contributions of former shareholders.

Moreover, at the level of ARQUES Industries AG as parent company, income is derived from the sale of 14.8% of the shares in ARQUANA International Print & Media AG of EUR 6.1 million. Except for Evotape S.p.A., the Sommer Group and Evry Rotatives S.A.S. purchased in the fourth quarter, Sochor Group GmbH and the tiskon Group, all other companies of the vintage year 2005 already had positive results. The turn-around for the above companies is not planned until the first half of 2006.

35. Cash flow statement

The cash flow statement discloses how the funds of ARQUES developed in the reporting period and the previous period. Cash flows have been broken down according to IAS 7 into cash in and outflows from operating, investing and financing activity. The previous year's figures have been adjusted to the current structure for reasons of transparency.

The ARQUES Group is characterized by tremendous growth. Furthermore, ARQUES is growing through the acquisition of companies that urgently have to be restructured. Therefore three factors have to be considered in regarding the cash flow presentation. Firstly, it must be remembered that changes resulting from the acquisition of consolidated companies are eliminated in the cash flow statement. For example, if an acquired company has inventories of EUR 5 million when it is acquired, this does not affect the cash flow. Only further changes to these inventories after the acquisition date (e.g. an increase in inventories to improve deliverability) are recorded as a cash outflow. Secondly, the business

concept of ARQUES in the majority of cases requires the target company to be provided with cash and cash equivalents directly after its takeover. Thus, for example, ARQUES pays only a symbolic purchase price for a company, but will then have to provide new funds to finance stores or to reduce excessive supplier liabilities. These payments are not shown as investing activities but as an increase in working capital in the consolidated financial statements. In the cash flow statement they lead to a negative cash flow from operating activities. However, the measures have a positive effect on the acquired company. Finally, the cash flow statement also shows that the acquired companies were purchased below net asset values. This can be seen from the fact that the business combinations do not lead to an outflow of funds, as it is usual, but to a net inflow of funds.

The funds of kEUR 43,521 (previous year: kEUR 12,860) includes the balance sheet items cash and cash equivalents, in which financial assets with an original maturity of up to three months are included alongside checks, cash and bank balances. Of the cash and cash equivalents of kEUR 43,521, kEUR 3,087 are restricted as a security for liabilities and therefore can not be used by ARQUES for operational purposes.

The starting point of the cash flow statement is the income from ordinary activities (EBT). The gross cash flow shows the cash inflow before any fund commitment. In addition, the change in working capital is taken into account in the cash outflow from operating activities.

In 2005, ARQUES paid kEUR 15,965 for business combinations. This is offset by cash acquired of kEUR 37,000. From company sales ARQUES realized a total sale price of kEUR 9,114. The cash disposed of with the sale of shares totalled kEUR 6,101. Overall, the acquisition and sale of company shares in 2005 led to an cash inflow of kEUR 24,048.

The capital increase by contribution in kind of a nominal kEUR 26,232 to purchase the Sommer Group must be mentioned as significant non cash transaction. Explanations about this transaction, and about other acquisitions and disposals of company shares are included in note 36 "Business combinations".

36. Business combinations

The following business combinations completed in 2005 are material as defined in IFRS 3.68 and therefore are disclosed separately: SKS Group, Evotape Group and Sommer Group. The other business combinations are disclosed in aggregate based on materiality.

The following criteria have been applied by ARQUES in conjunction with determining the materiality of business combinations:

1. The annualized revenues of the acquired company, in accordance with IFRS, are considered in relation to the annualized consolidated revenues as of the time of acquisition. At 10% and more of the consolidated revenues, the company or group of companies is considered material.
2. The positive EBIT of the acquired company, in accordance with IFRS, is considered in relation to the total EBIT of the group companies with a positive EBIT. At 10% and more, the company or group of companies is considered material. Any income from the reversal of negative goodwill from capital consolidation is excluded from the EBIT.
3. The negative EBIT of the acquired company, in accordance with IFRS, is considered in relation to the total EBIT of the group companies with a negative EBIT. At 10% and more, the company or group of companies is considered

material. Any income from the reversal of negative goodwill from capital consolidation is excluded from the EBIT.

4. The assets of the acquired company in accordance with IFRS, are considered in relation to the consolidated balance sheet total as of 12/31/2005. At 10% and more, the company or group of companies is considered material.

If at least one criterion is met, a company is considered material and therefore disclosed separately in accordance with IFRS 3. Acquired immaterial shell companies are not disclosed in the business combination note.

In the course of the purchase price allocation the assets are valued on the basis of IDW RS HFA 16 according to one of the three following models: the market approach, the income approach or the cost approach.

In the market approach fair value of an asset is identified by using the information provided by recent transactions of similar assets and comparing it with the underlying transaction. The information is adjusted based on the factors age, condition, or type of sale to show the specific characteristics of the assets. This approach is used for the valuation of fixed assets like buildings and machinery as for those there is a known market.

Usually intangible assets are sold as part of a business combination; therefore market prices are rarely available to public. In most cases it will not be possible to find willing buyers and sellers at any time, since the intangible assets are not homogenous, but are very special for certain companies.

Fair value in the income approach is determined by discounting future cash flows of the respective asset with an appropriate risk-adjusted interest rate. Thus, the fair value equals the sum of the present values of future expected

cash flows. The valuation is based on estimates and forecasts of the management about current expectations and assumptions about future conditions as well as an adequate risk adjusted discount rate.

The cost approach is only applied to derive the fair value in the course of the purchase price allocation. Thereby it can be referred to costs, which are necessary, in order to produce an exact duplicate of the asset (reproduction cost method). Alternatively, it is possible to refer to costs for the production of an asset with equivalent use (recovery cost approach). Discounts have to be considered to allow for technical, physical and/or economic obsolescence. The discount has to be based on the expected economic useful life. Insofar as the determination of the economic useful life cannot be proven sufficiently, so-called reference values can be reasonably taken into account, especially for fully depreciated assets, in order to represent the existing use potential.

SKS Group

In spring 2005, ARQUES acquired SKS Group (SKS Stakusit Bautechnik GmbH (85%) and its wholly owned subsidiaries SKS Stakusit Polska Sp.z.o.o, SKS GUS GmbH, SKS Stakusit RO SRL and SKS Stakusit Hellas-Rolladen und Balkonanlagen Einmannengesellschaft mbH), 99% of SKS Stakusit Ukraine GmbH (inactive) and 100% of the inactive SKS-Stakusit GmbH, Austria). SKS Group was included in the consolidated financial statements of ARQUES from 04/01/2005.

The purchase price for the acquired companies was kEUR 1,175. Of this, kEUR 354 was paid in cash and kEUR 821 was treated as additional cost of to the business combinations on the basis of a purchase price adjustment clause, of which the occurrence is probable. The costs directly attributable to the business combination totalled kEUR 1. In the course of the business combination a shareholder loan of kEUR 13,782 was acquired at a price of EUR 1. A negative goodwill of

kEUR -4,653 resulted from the payments and the assets and liabilities acquired. The negative goodwill was recorded in net income and disclosed in the consolidated income statement under other operating income.

The results of the companies acquired from the acquisition date to 12/31/2005 was kEUR 3,004. This already includes all start-up and takeover losses as well as the losses from the restructuring. Other operating income from the reversal of negative goodwill from capital consolidation is not included. Revenues from 01/01/2005 until the acquisition date totalled kEUR 5,894. The results from 01/01/2005 until the acquisition date were not calculated as the related results were not relevant for the consolidation. A retroactive conversion as of 01/01/2005 was not performed due to the business model, as the values calculated for the previous months were not comparable to those after restructuring, as a result of the restructuring measures taken, and thus would lead to distorted results.

Assets and liabilities acquired are as follows:

	<u>Book value in EUR '000</u>	<u>Fair value in EUR '000</u>
Non-current assets		
Intangible assets	469	469
Land	125	125
Buildings	189	189
Plant and equipment	1,158	1,158
Other assets	434	434
Current assets		
Inventories	6,270	6,270
Trade accounts receivable	2,931	2,931
Other assets	1,182	1,182
Cash and cash equivalents	3,073	3,073
Liabilities		
Provisions	-5,650	-5,650
Trade accounts payable	-1,594	-1,594
Other liabilities	-17,268	-17,268
<u>Deferred tax liabilities</u>	<u>-575</u>	<u>-575</u>
Net assets		-9,256
<u>Minority interest</u>		<u>-1,302</u>
Net assets acquired		-7,954

As mostly all necessary valuation allowances had been considered in the SKS Group previous financial statements, no adjustments had to be made in the course of the purchase price allocation.

Cash acquired totalled kEUR 3,073, which led to an overall cash inflow of kEUR 2,719.

In the course of the business combination no business segments were discontinued or sold.

Evotape Group

In June 2005, ARQUES acquired Evotape Group (Zugspitze VV AG (89.1%) and Evotape S.p.A (100%)). Evotape Group was included in the consolidated financial statements of ARQUES from 06/01/2005.

The purchase price for the companies acquired totalled kEUR 2,347 and was paid in cash. The costs directly related to the business combinations included in the purchase price

totalled kEUR 1. No commissions were paid to brokers. A negative goodwill of kEUR -8,101 resulted from the payments and the assets and liabilities acquired, which was recorded in net income and disclosed in the consolidated income statement under other operating income.

The results of the companies acquired from the acquisition date to 12/31/2005 was kEUR 3,432. This already includes all start-up and takeover losses as well as the losses from the restructuring. Other operating income from the reversal of negative goodwill from capital consolidation is not included. Revenues from 01/01/2005 until the acquisition date are not disclosed as the business combination was an asset deal. The results from 01/01/2005 until the acquisition date were not calculated as the related results were not relevant for the consolidation. A retroactive conversion as of 01/01/2005 was not performed due to the business model, as the values calculated for the previous months were not comparable to those after the restructuring, as a result of the restructuring measures taken, and thus would lead to distorted results.

Assets and liabilities acquired are as follows:

	<u>Book value in EUR '000</u>	<u>Fair value in EUR '000</u>
Non-current assets		
Buildings	5,100	5,100
Plant and equipment	6,990	6,990
Current assets		
Inventories	4,378	4,378
Trade accounts receivable	15,729	15,729
Other assets	221	221
Cash and cash equivalents	3,149	3,149
Liabilities		
Provisions	-7,385	-7,609
Trade accounts payable	-14,187	-14,187
Other liabilities	-1,838	-1,838
Net assets		11,933
Minority interest		1,485
Net assets acquired		<u>10,448</u>

Cash acquired totalled kEUR 3,149, which led to an overall cash inflow of kEUR 802.

In the course of the business combination no business segments were discontinued or sold.

Sommer Group

In the third quarter of 2005, ARQUES purchased Sommer Group ("Imandros" Vermögensverwaltungs-AG (100%), Sommer Vermögensgesellschaft mbH & Co. KG (94%) and their wholly owned subsidiaries Sommer Fahrzeugbau GmbH & Co. KG, Sommer Fahrzeugwerk Laucha GmbH & Co. KG, Sommer France S.A.R.L., Sommer Polska Sp.z.o.o., ZAO Novtruck, Sommer GmbH & Co. Beteiligungsgesellschaft, Sommer Holding AG, Sommer Produktions AG & Co. KG, Sommer Verwaltungs GmbH, Sokol Sp.z.o.o., Fahrzeugwerk Laucha Beteiligungs GmbH, Sommer South East Europe SRL). Sommer Group was included in the consolidated financial statements of ARQUES from 09/19/2005.

The purchase price for the companies acquired totalled kEUR 27,232. Of this, kEUR 1,000 was paid half in cash and half allowed for broker costs and kEUR 26,232 was settled through the issue of 200,000 ARQUES shares. A negative goodwill of kEUR -414 resulted from the acquisition of Sommer Group, which was recorded in net income and disclosed in the consolidated income statement under other operating income.

The results of the companies acquired from the acquisition date to 12/31/2005 was kEUR -663. This already includes all start-up and takeover losses as well as the losses from the restructuring. Other operating income from the reversal of negative goodwill from capital consolidation are not included. The Revenues from 01/01/2005 until the acquisition

date totalled kEUR 51,576. The results from 01/01/2005 until the acquisition date were not calculated as the related results were not relevant for the consolidation. A retroactive conversion as of 01/01/2005 was not performed as the values calculated for the previous months were not comparable to those after the restructuring, as a result of the restructuring measures taken, and thus would lead to distorted results.

Assets and liabilities acquired are as follows:

	Book value in EUR '000	Fair value in EUR '000
Non-current assets		
Intangible assets	1,333	3,450
Land	6,900	6,900
Buildings	12,926	12,926
Plant and equipment	1,193	1,193
Other assets	464	464
Financial assets	4	4
Deferred tax assets	295	295
Current assets		
Inventories	10,429	10,614
Trade accounts receivable	5,752	5,752
Other assets	10,358	10,358
Cash and cash equivalents	7,806	7,806
Liabilities		
Provisions	-2,499	-2,499
Trade accounts payable	-15,406	-15,406
Other liabilities	-7,759	-7,759
Deferred tax liabilities	<u>-4,491</u>	<u>-6,213</u>
Net assets		27,885
<u>Minority interest</u>		<u>239</u>
Net assets acquired		27,646

Cash acquired totalled kEUR 7,806, which led to an overall cash inflow of kEUR 7,306 less kEUR 500 broker costs.

In the course of the business combination no business segments were discontinued or sold.

Other business combinations in 2005

In late 2004, ARQUES acquired ddp Group, comprising ddp Deutscher Depeschendienst GmbH (100%), ddp Journalisten GmbH (100%), ddp ttx production GmbH (100%) and ddp/Dow Jones Wirtschaftsnachrichten GmbH (50.1%). The companies were included in the consolidated financial statements from 01/01/2005.

In the second quarter of 2005, ARQUES acquired sportart GmbH (100%), the Jahnel Kestermann Group (Jahnel Holding GmbH (90.4%, 94% allowing for shares held by the company), Jahnel Kestermann Verwaltungsgesellschaft mbH (90.4%, 94% allowing for shares held by the company), Jahnel Kestermann Getriebewerke GmbH & Co. KG (100%), Jöhler Druck GmbH (100%) and the Golf House Group (Arques Sport Handelsgesellschaft mbH (100%) and Golf House Direktversand GmbH (74.9%)).

Jahnel Kestermann Group and sportart GmbH were included in the consolidated financial statements of ARQUES from 04/01/2005, Jöhler Druck GmbH and Golf House Group from 06/01/2005.

In the third quarter of 2005, ARQUES acquired colourpress A/S (75.20%) which was included in the consolidated financial statements of ARQUES as from 07/01/2005. ARQUANA International Print & Media AG (95%) and Xerius Bioscience AG (80%) were also purchased in the third quarter. ARQUANA International Print & Media AG was included in the consolidated financial statements of ARQUES from 07/27/2005 and Xerius Bioscience AG from 09/30/2005.

In the fourth quarter of 2005, ARQUES acquired tiscor Group (tiscor AG Infosystems (77.98%) and wistec Consulting und Systemtechnologie GmbH (100%)) and through the listed subsidiary ARQUANA International Print & Media AG

100% of Nord Offset Druck GmbH, SOCHOR GROUP GmbH and Evry Rotatives S.A.S.

Nord Offset Druck GmbH was included in the consolidated financial statements of ARQUES from 10/01/2005, tiscor Group, SOCHOR GROUP GmbH and Evry Rotatives S.A.S. were included from 11/01/2005.

The purchase price for the companies acquired was kEUR 15,631. Of this, kEUR 10,199 was paid in cash. Purchase price adjustment clauses of which the occurrence is considered probable, were taken into account to the amount of kEUR 2,484 75,000 shares in ARQUANA International Print & Media AG were issued at a price of EUR 20, to the amount of kEUR 1,500. The published price was not used for reference at the time of the purchase due to the high proportion of company-held shares and the thinness of the market and the therefore unreliable market pricing. In the course of the business combinations shareholder loans of kEUR 32,533 were acquired.

Goodwill totalling kEUR 3,199, which is reported under long-term assets, resulted from the acquisition of ddp Group, Jahnel Kestermann Group, colourpress A/S, ARQUANA International Print & Media AG, Xerius Bioscience AG and SOCHOR GROUP GmbH.

Goodwill from the acquisition of ddp Group, which also owns colourpress A/S, amounted to kEUR 1,333 as of the balance sheet date. The goodwill represents the expected positive developments in an attractive image market. The ddp Group represents the cash generating unit as defined in IAS 36, to which the goodwill has been allocated. The fair value of ddp Group was calculated on the basis of a DCF model. The calculation is performed based on a 3-year cash flow planning. The discount rate was calculated on the basis of the capital asset pricing model and is 8.5%. The calculation did not reveal any need for an impairment of the goodwill.

Goodwill of ARQUANA International Print & Media AG and of SOCHOR GROUP GmbH totalled kEUR 1,309 as of the balance sheet date. The goodwill mainly reflects the future synergy effects of the ARQUANA Group being established. The Print segment represents the cash generating unit as defined in IAS 36 for these two units and therefore the goodwill has been allocated to this segment as well. The market value of ARQUANA International Print & Media AG was used as reference for the impairment test. No need for an impairment was detected.

The goodwill of the Jahnel Kestermann Group totalled kEUR 305 as of the balance sheet date. This mainly represents the specific expertise of the employees in an existing niche market. Jahnel Kestermann Group represents the cash generating unit as defined in IAS 36, to which the goodwill has been allocated. The current value of the Jahnel Kestermann Group was calculated on the basis of a DCF model. The calculations were based on the cash flow forecasts. The discount rate was calculated on the basis of the capital asset pricing model and is 8.4%. The calculation did not reveal any need for an impairment of the goodwill.

Goodwill of XERIUS Bioscience AG as of the balance sheet date totalled kEUR 376. The cash generating unit for this company is ARQUES, as it is a corporate shell, which has been purchased for future transactions. On the basis of the current market value of ARQUES, there is no need for an impairment of the goodwill.

A negative goodwill from the capital consolidation of kEUR -26,050 resulted from the purchase of sportart GmbH, Golf House Group, tiskon Group, Johler GmbH and Evry S.A.S.

The inclusion of Evry Rotatives S.A.S. in the consolidated financial statements was based on provisional accounts. As the information gathering is difficult to organize and therefore a reliable IFRS conversion and purchase price allocation

is not guaranteed, this has not yet been undertaken. The current accounts are based on an audited local report and a provisional valuation of the purchased machinery on the basis of its own estimates and estimates by print machine dealers.

The results of the companies acquired from the acquisition date to 12/31/2005 was kEUR -1,876. This already includes all start-up and takeover losses as well as the losses from the restructuring. Other operating income from the reversal of negative goodwill from capital consolidation is not included. Revenues from 01/01/2005 until the acquisition date totalled kEUR 48,842. The results from 01/01/2005 until the acquisition date were not calculated as the related results were not relevant for the consolidation. A retroactive conversion as of 01/01/2005 was not performed as the values calculated for the previous months were not comparable to those after the restructuring, as a result of the restructuring measures taken, and thus would lead to distorted results.

Assets and liabilities acquired are as follows:

	<u>Book Value in EUR`000</u>	<u>Fair Value in EUR`000</u>
Non-current assets		
Intangible assets	399	399
Land	2,309	6,077
Buildings	7,006	10,283
Plant and equipment	30,978	40,735
Other assets	1,875	2,003
Financial assets	801	801
Deferred tax assets	1,591	2,565
Current assets		
Inventories	7,526	7,526
Trade accounts receivable	17,129	17,129
Other assets	2,704	4,121
Cash and cash equivalents	22,972	22,972
Liabilities		
Provisions	-18,816	-21,138
Trade accounts payable	-19,671	-19,671
Other liabilities	-60,087	-60,087
Deferred tax liabilities	-6,215	-10,617
Net assets		3,098
<u>Minority interest</u>		-1,389
Net assets acquired		4,487

Cash acquired totalled kEUR 22,972 which led to an overall cash inflow of kEUR 12,773.

In the course of the business combination no business segments were discontinued or sold.

Information in accordance with IFRS 3.70 is practically impossible to provide. In the company's opinion, the values calculated on the basis of the restructuring measures introduced would lead to distorted results.

Business combinations after 12/31/2005

In January 2006, ARQUES acquired the remaining outstanding shares in Jahnel Kestermann Group, from this time the Group also has to be fully included in the consolidated financial statements.

In February, ARQUES acquired 100% of Wanfried-Druck Kal-den GmbH, Wanfried and 100% of Heinrich Heiland GmbH, Magstadt, through its listed subsidiary ARQUANA International Print & Media AG.

In March 2005, ARQUES acquired 100% of Hottinger Maschinenbau GmbH, Mannheim. Also in March, Rohner AG, Pratteln, and Georg Fischer Schwab GmbH & Co. KG, Pfullingen, were both acquired in full.

The purchase price for these companies totalled kEUR 700 in cash and 25,000 ARQUANA International Print & Media AG shares.

The acquisition of J.P. Bachem GmbH & Co. KG was contractually agreed in the first quarter of 2006. However, as the closing was still outstanding, there was no controlling interest as of the completion of the annual financial statements.

37. Business disposals

In the 2005 financial year, the following companies were sold or deconsolidated:

- Schierholz Translift Schweiz AG, Obernau, Switzerland
- Louis Schierholz GmbH, Bremen
- Schierholz Immobilien Verwaltungs GmbH, Starnberg (formerly: Möck Immobilien Verwaltungs GmbH)
- Schierholz Immobilien GmbH & Co. KG, Starnberg (Möck Immobilien GmbH & Co. KG)
- Digitron Translift Ltd., Redford, Great Britain
- Digitron Translift S.A.S., Marne la Vallée, France
- Schierholz Dopravni technika s.r.o., Plzen-Litice, Czech Republic
- SKS Panjur ve Balkon Sitemleri Sanayiic ve dis Ticaret Limited Sireketi, Turkey
- WS 5003 Limited, Calthorpe, Great Britain

Schierholz Group was recorded in 2003 under the IFRS regulation IAS 22 applicable at the time. As this provision was abolished in 2004, part of the final consolidation results has to be directly included in the shareholders' equity without affecting net income according to the new regulation (IFRS 3). This means that the sale increases the shareholders' equity of ARQUES Group by EUR 2.2 million, but only EUR 0.2 million is shown in net result.

The following table provides an overview of the major items of the assets and liabilities which were disposed of in the course of the business disposals.

<u>Assets disposed</u>	<u>EUR '000</u>
Intangible assets	2,157
Fixed assets	6,486
Financial assets	431
Inventories	4,914
Trade accounts receivables	7,175
Other assets	9,732
Total assets	30,895
<u>Liabilities disposed</u>	<u>EUR '000</u>
Provisions for pensions	2,886
Provisions	4,923
Current financial liabilities	270
Non-current financial liabilities	5,766
Trade accounts payable	16,407
Other liabilities	3,519
Total liabilities	33,771

38. Commitments

As of the balance sheet date there were commitments, notably from rent and lease contracts for buildings, land, machinery, tools, office and other equipment. The total of the future payments from contracts, which cannot be cancelled, comprises the following maturities:

	12/31/2005 EUR '000	12/31/2004 EUR '000
Rent and lease contracts, due		
- within 1 year	8,623	1,525
- between 2 and 5 years	22,621	4,507
- after 5 years	6,494	6,178
Other, due		
- within 1 year	27,705	6,572
- between 2 and 5 years	3,870	6,204
- after 5 years	3,217	31

Commitments total kEUR 72,530 (previous year: kEUR 25,017). Finance lease commitments totalling kEUR 11,739 (previous year: kEUR 5,710) comprise the following: Plant and machinery kEUR 11,726 and fleet kEUR 13 (previous year: kEUR 0). Of a total of kEUR 2,845 (previous year: kEUR 1,050) for operating leases, kEUR 1,079 (previous year: kEUR 34) is for plant and machinery, kEUR 926 (previous year: kEUR 594) for other operating leases, kEUR 755 (previous year: kEUR 422) for fleet and kEUR 85 (previous year: kEUR 0) for IT. The rental agreements include kEUR 23,153 (previous year: kEUR 11,160).

Other financial commitments total kEUR 34,793 (previous year: kEUR 12,807), whereby a significant proportion of kEUR 26,253 refers to the open purchase orders from delivery and service contracts for SKW Metallurgie GmbH and maintenance contracts of kEUR 8,540 (previous year: kEUR 807).

39. Contingencies

As of the balance sheet date, there were contingencies of kEUR 2,692. Contingencies refer to the following:

Towards a supplier to a former second-tier subsidiary of ARQUES there is a surety for kEUR 250. The surety is limited until November 9, 2006. A security deposit of approximately 35% of the surety has been provided by the former second-tier subsidiary of ARQUES.

SOCHOR GROUP GmbH entered into note contingencies for kEUR 328 towards a customer. Moreover, there is a possible liability in conjunction with an employee settlement of kEUR 200.

SKW Stahl-Metallurgie GmbH entered into a contract as of August 30, 2004 to take over a two-year employment guarantee. Should this not be observed, up to kEUR 614 can become payable in compensation.

The timing of the possible claim from the commitments cannot be estimated at present.

40. Executive bodies of the company

In financial year 2005, the following persons carried out executive board activities:

- Dr. Dr. Peter Löw, Businessman, Starnberg
(Chairman of the Executive Board)
- Dr. Martin Vorderwülbecke, Attorney, Munich
- Markus Zöllner, Business Engineer, Bichl
- Dr. Dirk Markus, Businessman, Munich (until 02/28/2005)
- Dr. Stefan Gros, Businessman, Valley (from 05/31/2005
until the end of his Board duties on 12/07/2005)

The other corporate agent activities of the members of the managing boards include mainly the roles of Supervisory Board, Executive Board or CEO of affiliated companies or subsidiaries of ARQUES Industries AG. The Executive Board members in office until 31/12/2005 will also carry out the following additional corporate agent functions:

Dr. Dr. Peter Löw

Chairman of the Supervisory Board of ARQUANA International Print & Media AG, Starnberg, Arques Industries Capital AG, Starnberg, "Imandros" Vermögensverwaltung AG, Starnberg, MDI Mediterranean Direct Invest AG, Starnberg, WS 3021 Vermögensverwaltung AG, Starnberg, WS 3022 Vermögensverwaltung AG, Starnberg and Zugspitze 66. VV AG, Munich.

Member of the Supervisory Board of XERIUS Bioscience AG, Starnberg, Internet Communities AG, The Growth Group AG, Starnberg and TEK AG, Starnberg.

Director of ARQUES Industries AG, Starnberg, Arques Consult AG, Starnberg and Palais Sonnenhof Executive AG, Starnberg.

President of Schierholz Translift Global Manufacturing & Finance AG, Baar, Switzerland.

Dr. Martin Vorderwülbecke

Chairman of the Supervisory Board of Sommer Holding AG, Bielefeld and tiskon AG Infosystems, Neu-Ulm. Vice Chairman of the Supervisory Board of ARQUANA International Print & Media AG, Starnberg and XERIUS Bioscience AG, Starnberg.

Member of the Supervisory Board of MDI Mediterranean Direct Invest AG, Starnberg and Evotape S.p.A., San Pietro Mosezzo, Italy.

Director of ARQUES Industries AG, Starnberg, Arques Consult AG, Starnberg, Arques Industrie Asset AG, Starnberg, Arques Industrie Wertbeteiligungs AG, Starnberg, Arques Industrie Capital GmbH, Starnberg, "Imandros" Vermögensverwaltungs- AG, Starnberg, WS 3022 Vermögensverwaltung AG, Starnberg, Zugspitze 66. VV AG, Munich and High Definitions Industrie AG, Munich.

Markus Zöllner

Chairman of the Supervisory Board of XERIUS Bioscience AG, Starnberg.

Vice Chairman of the Supervisory Board of ARQUANA International Print & Media AG, Starnberg, Arques Industrie Asset AG, Starnberg, Arques Industrie Wertbeteiligungs AG, Starnberg, Arques Industrie Capital AG, Starnberg and SOMMER Holding AG, Bielefeld. Member of the Supervisory Board of Zugspitze 66. VV AG, Munich. Member of the Advisory Board of Golf House Direktversand GmbH, Hamburg.

Member of the Board of ARQUES Industries AG, Starnberg, Arques Consult AG, Starnberg, "Imandros" Vermögensverwaltungs AG, Starnberg, MDI Mediterranean Direct Invest AG, Starnberg, tison AG Infosystems, Neu-Ulm, WS 3021 Vermögensverwaltung AG, Starnberg and Rohner AG, Pratteln, Switzerland.

President of Evotape S.p.A., San Pietro Mosezzo, Italy.

The following persons served as members of the Supervisory Board in financial year 2005:

- Steven Wilkinson, Businessman, Pöcking (Chairman of the Supervisory Board)
Other corporate agent functions:
Director of Buchanan Capital Holding AG, Starnberg
Director of Buchanan Holdings Ltd., Ballasalla, Isle of Man (GB)
Supervisory Board of Ludwig Beck am Rathauseck-Textilhaus Feldmeier AG, Munich
Non Executive Director Blackpool Pleasure Beach Holding Ltd., Blackpool (GB)
- Prof. Dr. Michael Judis, Attorney at Law, Munich (Vice Chairman)
- Dr. Gerd Fischer, Attorney at Law, Munich
Other corporate agent functions:
Chairman of the Supervisory Board of Demos AG, Seeshaupt
- Oliver Gorny, Businessman, Herrsching (until 07/14/2005)
- Bernhardt Riedel, Attorney at Law, Munich (from 07/14/2005)
- Mathias Spindler, Real Estate Economist (EBS), Munich
Other corporate agent functions: Head of Investment of Comfort München GmbH, Munich
- Dr. Friedrich-Carl Wachs, Attorney at Law, Munich (until 02/12/2005)

41. Ownership of shares and options by members of the executive bodies

As of the reporting date, holdings belonging to members of the Executive Board of ARQUES totaled around 22.8% of the shares issued. Of this, Dr. Dr. Peter Löw owns around 21.77%, Dr. Martin Vorderwülbecke around 0.04% and Mr. Markus Zöllner around 0.46%.

The vice chairman of the supervisory board, Mr. Steven Wilkinson, held around 2.43% of the shares as of the reporting date.

At present there are no ARQUES share options belonging to members of the executive bodies.

42. Remuneration of the executive bodies

Remuneration for the Executive Board of ARQUES Industries AG in financial year 2005 is represented as follows:

	<u>Fixed EUR '000</u>
Dr. Dr. Peter Löw	100
Dr. Martin Vorderwülbecke	168
Markus Zöllner	158
Dr. Dirk Markus (until 02/28/05)	14
Dr. Stefan Gros (5/31 - 12/31/05)	<u>92</u>
	532

Other variable remuneration, pension provisions and share-based compensation are not currently granted to the members of the executive board. As of the reporting date, provisions for settlements of kEUR 225 were formed for departing board members.

The Supervisory Board did not receive any remuneration in 2005.

No advances or loans were paid to the bodies of the parent and subsidiary companies within the ARQUES Group, nor were any cross-liabilities entered into for this group of persons.

43. Related party transactions

In accordance with IAS 24, related parties are defined as those persons and companies which can be influenced by the reporting company or which can influence the company.

The companies listed below are in the opinion of the ARQUES Group related parties as defined in IAS 24 since

they can be or have been influenced by active or former board members of ARQUES Group.

The related persons or companies include EMG Holding GmbH, Fundatio AG, Internet Communities AG, Palais Sonnenhof Executive AG, Simsen AG, Weltkunst Verlag AG and TEK AG. The remuneration paid to the above companies in 2005 totalled less than kEUR 5.

IAS 24.10 requires an overall assessment of the economic substance of a relationship. Because of the economic importance of the contribution in kind described below, through which PF Clearing GmbH became a shareholder of ARQUES, PF Clearing GmbH has been qualified as a related party.

By notarized contract of October 4, 2005, PF Clearing GmbH contributed "Imandros" Vermögensverwaltungs-AG, Starnberg, as a contribution in kind in return for 200,000 new shares in ARQUES Industries AG. The economic substance of "Imandros" is the business of the Sommer Group. "Imandros" holds 94% of the parent company of the Sommer Group; for the remaining shares a purchase option for a symbolic price exists. These new shares are not yet licensed for trading on the stock markets and therefore have a separate security identification number ("WKN"). For this reason, PF Clearing GmbH still holds these shares, and thus holds at least 8.2% of the shares in ARQUES Industries AG. PF Clearing has stated that it will hold these shares for external interest.

The following significant transactions also took place between the group and related parties.

On 06/20/2005, PF Clearing GmbH granted Arques Finanz GmbH a loan of EUR 2.0 million. This loan was repaid on 07/25/2005.

On 04/22/2005, PF Clearing GmbH acquired Zugspitze 66. VV AG for kEUR 55 from ARQUES Industries AG.

	2005
	EUR' 000
Expense for purchased services and other charges	
- TDBW GmbH (consulting services and lease payments)	182
- The Growth Group AG (consulting services)	52
- Lotus AG (consulting services)	15
- PF Clearing GmbH (interest expense)	8
- PF Clearing GmbH (trust remuneration)	<u>2</u>
	259
Income from purchased services and other charges	
- WS 3014 Vermögensverwaltung AG (interest income)	8
- PF Clearing GmbH (interest income)	4
- PF Clearing GmbH (agency fee)	3
- Time Beteiligungs AG (consulting services)	<u>27</u>
	42

On 09/14/2005, ARQUES Industries AG granted PF Clearing a loan of EUR 2.0 million at 4% p.a., which was repaid on 09/27/2005. On 09/21/2005, PF Clearing GmbH purchased Arques Industries Consult GmbH from ARQUES Industries AG for kEUR 26 and sold it on 10/19/2005 to Johler Druck GmbH for kEUR 30.

PF Clearing GmbH also holds 1.8% of the shares in Sochor Group GmbH in trust for ARQUANA International Print & Media AG; it previously held these shares in trust for ARQUES Industries AG.

Through a notarized purchase agreement of April 5, 2005, Arques Wert Finanz GmbH, Starnberg, purchased 85% of the shares in SKS Stakusit Bautechnik GmbH, Duisburg, from Arques Wert Beteiligungs GmbH (purchase price: kEUR 350). A subsequent price adjustment clause for assuming the vendor's tax liabilities has been agreed. The provision foresees that the purchase price increases by the amount, by which the tax payments undercut the amount kEUR 1,093.

As of the balance sheet date, there were receivables due from WS 3014 Vermögensverwaltung AG (kEUR 117) and PF Clearing GmbH (kEUR 4). As of the balance sheet date there were liabilities due to The Growth Group AG (kEUR 6) and TDBW GmbH (kEUR 17).

44. Auditors' fees

The following fees (total remuneration plus disbursements without input tax) were incurred in the financial year 2005 for the auditors as defined in § 318 HGB (including affiliated companies as defined in § 271 section 2 HGB):

- a) Statutory balance sheet audit: kEUR 479
- b) Other confirmation or valuation services: kEUR 7
- c) Tax consultancy services: kEUR 25
- d) Other services: kEUR 51

45. Employees

In financial year 2005, an average of 2,662 people were employed (previous year: 997 employees). Of these, 1,523 were salaried, 997 were waged employees and 142 were apprentices. As of the reporting date 12/31/2005, the number of employees totaled 2,568 (12/31/2004: 1,000).

46. Declaration regarding the Corporate Governance Code

The Executive Board and Supervisory Board of ARQUES Industries AG submitted the prescribed declaration according to § 161 AktG on 03/29/2006 and has also made it accessible to shareholders under www.arques.de. The deviations from the German Corporate Governance Code are documented correspondingly.

47. Information according to § 160 section 1 AktG in conjunction with § 25 WpHG and § 15a WpHG

In the financial year 2005, the following notifications were made in respect of exceeding or undercutting the voting rights threshold according to § 21 WpHG and § 25 WpHG:

LOTUS Aktiengesellschaft, Munich, reported according to § 21 WpHG that since June 28, 2005 it holds a total of 10.15% of the voting rights. According to a separate notification of July 13, 2005, the proportion of voting rights changed to 6.8% and on August 29, 2005 to 3.9%. DEUTSCHER INVESTMENT-TRUST Gesellschaft für Wertpapiieranlagen mbH, Frankfurt, reported according to § 21 WpHG that since September 20, 2005 it holds a total of 5.06% of the voting rights. According to a separate notification of October 11, 2005, the proportion of voting rights changed to 4.81% and on November 21, 2005 to 4.87%.

The director Dr. Dr. Peter Löw, Starnberg, reported according to § 21 WpHG that since June 28, 2005 he holds a total of 38.8% of the voting rights. According to a separate notification of November 21, 2005, the proportion of voting rights changed to 21.46%. As of the reporting date, Dr. Dr. Peter Löw held 21.77% of the voting rights.

Buchanan Holdings Ltd., Ballasalla, Isle of Man, reported according to § 21 WpHG that since June 28, 2005 it owned a total of 13.47% of the voting rights. According to a separate notification of July 11, 2005, the proportion of voting rights changed to 0.00%, on July 13, 2005 to 9.76%, on August 29, 2005 to 4.86%, on November 21, 2005 to 8.09% and on November 29, 2005 to 3.8%.

In the financial year 2005, the company received the following notifications according to § 15a WpHG:

Reporter	Role	Date	Type of transaction	Price in EUR `000	Volume in units	Volume in EUR `000
Dr. Stefan Gros	Head of Finance*	July 13, 2005	Purchase	85.52	1,200	102,624.00
Markus Zöllner	Head of Operations	July 13, 2005	Purchase	85.52	5,000	427,600.00
Dr. Dr. Peter Löw	Chairman of the Executive Board	July 15, 2005	Sale	85.52	100,000	8,552,000.00
Dr. Dr. Peter Löw	Chairman of the Executive Board	July 18, 2005	Sale	85.52	11,500	983,480.00
Dr. Dr. Peter Löw	Chairman of the Executive Board	July 18, 2005	Sale	30.00	1,000	30,000.00
Dr. Dr. Peter Löw	Chairman of the Executive Board	July 26, 2005	Sale	95.00	15,000	1,425,000.00
Dr. Stefan Gros	Head of Finance*	October 25, 2005	Sale	133.10	56	7,453.60
Dr. Stefan Gros	Head of Finance*	October 31, 2005	Sale	131.50	200	26,300.00
Dr. Stefan Gros	Head of Finance*	October 31, 2005	Sale	131.00	300	39,300.00
Dr. Dr. Peter Löw	Chairman of the Executive Board	November 21, 2005	Sale	114.00	138,000	15,732,000.00
Dr. Stefan Gros	Head of Finance*	November 22, 2005	Sale	117.00	144	16,848.00
Dr. Stefan Gros	Head of Finance*	November 22, 2005	Sale	116.70	500	58,350.00
Dr. Dr. Peter Löw	Chairman of the Executive Board	December 12, 2005	Purchase	103.06	5,000	515,300.00
Dr. Martin Vorderwülbecke	Head of Acquisitions	December 12, 2005	Purchase	103.00	1,000	103,000.00
Dr. Dr. Peter Löw	Chairman of the Executive Board	December 16, 2005	Purchase	99.00	1,000	99,000.00
Dr. Dr. Peter Löw	Chairman of the Executive Board	December 19, 2005	Purchase	96.33	500	48,165.00

* Member of the Executive Board until December 8, 2005

48. Significant events after the balance sheet date

The 100% take over of the packaging print specialist Wanfried Druck Kalden GmbH, which had been announced in December 2005, was completed by the ARQUES subsidiary ARQUANA International Print & Media AG with closing of the contract on February 16, 2006. Wanfried Druck specializes in the production and printing of high-quality packages and labels. It produces, for example, paper labels, folded boxes, chocolate bar wrappers and system packaging for beverages. Customers come from the food and tobacco industry as well as the non-food industry. The company has state-of-the-art machinery and a fully developed quality and environmental management system. The production halls are located on the company's own property of approx. 17,000 m².

On February 23, 2006, Heinrich Heiland GmbH, Magstadt, was taken over. The company had sales of almost EUR 25 million in 2005 and according to the provisional budget should have sales of EUR 30 million in 2006 and net income of EUR 2 million. Heiland mainly has production in Slovakia; the interesting future division of the company are self-developed transport protection covers for new cars.

On March 1, 2006, an extraordinary general meeting was held where merely editorial changes to the articles of incorporation were made.

On March 3, 2006, Hottinger Maschinenbau GmbH in Mannheim was acquired. In 2005, Hottinger had sales of

approximately EUR 17 million and according to the provisional budget for 2006 should have a net income of EUR 0.5 million. Hottinger produces specialist machinery in Mannheim for foundry engineering, which are exported worldwide.

Furthermore, ARQUANA contractually agreed the acquisition of the Cologne printers J.P. Bachem; the closing is still outstanding.

On March 9, 2006, ARQUES acquired Rohner AG, Basle. This company produces for customers from the life sciences sector and basic chemicals, and had sales of EUR 32 million in 2005.

On March 30, 2006, ARQUES acquired GF Schwab GmbH, Pfullingen. The company has sales of approximately EUR 11 million and should be integrated operationally into the Mixel company.

49. Approval of the consolidated report according to IAS 10.17

These consolidated financial statements were approved for publication by the Executive Board on April 17, 2006. The consolidated financial statements can be amended within the framework of the General Meeting.

Starnberg, April 17, 2006

ARQUES Industries Aktiengesellschaft
- The Executive Board -

Independent Auditor's Report

We have audited the consolidated financial statements prepared by the ARQUES Industries Aktiengesellschaft, Starnberg, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the ARQUES Industries Aktiengesellschaft for the business year from January 1st, 2005 to December 31st, 2005. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) and supplementary provisions of the shareholder agreement/ articles of incorporation are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated finan-

cial statements and in the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the shareholder agreement/ articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, April 17th, 2006

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Hartmann)	(ppa. Schwarzfischer)
Wirtschaftsprüfer	Wirtschaftsprüfer

Publisher information

Publisher

ARQUES Industries AG

Münchner Strasse 15a

D-82319 Starnberg

Germany

Phone: +49 (0)8151 651 - 0

Fax: +49 (0)8151 651 - 500

info@arques.de • www.arques.de

Editorial staff

ARQUES Industries AG

Investor Relations &

Corporate Communications

Anke Lüdemann, CEFA/CIIA

Concept, Design, Production

ARQUES Industries AG

Task Force Marketing

Helmut Kremers

kremers@arques.de

Disclaimer

This version of the annual report is an English translation of the German original, which takes precedence in all legal respects.

“ARQUES will
continue to grow,
rapidly but
sensibly, with
deliberation.

Without
pressure or haste
ARQUES will take
advantage of the
opportunities it is
presented with.”

Dr. Dr. Peter Löw
Executive Board Chairman

at the annual
general meeting in 2004

Consolidated Financial Statements of ARQUES Industries AG - List of participating interests as of December 12, 2005

		Registered office	Equity interest (%) (direct)	Equity interest (%) (indirect)	Currency	Shareholders' equity as of 12/31/05*	Earnings 2005*	Revenues 2005*	Employees average no.**
Corporate parent									
1	ARQUES Industries Aktiengesellschaft	Starnberg	-	-	KEUR	63,456	5,334	0	3
Consolidated companies									
2	Arquana International Print & Media AG (formerly: Círcel Grundstücks- und Vermögensverwaltung AG)	Starnberg	79.75%	-	KEUR	2.385	158	0	0
3	- Nord Druck Mitarbeiter GmbH (formerly: Sommer Service Systeme GmbH / in future: ARQUEM Management GmbH)	Starnberg	-	100.00%	KEUR	3	2	838	61
4	- ARQUANA Technology GmbH (formerly: Nord Druck Management GmbH or Petersberg 270. VV GmbH)	Starnberg	-	100.00%	KEUR	22	-3	0	0
5	- Johler Druck GmbH	Neumünster	-	100.00%	KEUR	2,908	-555	11,208	106
6	- Nord Offset Druck GmbH (formerly: Arques Industrie Consult GmbH)	Ellerbeck	-	100.00%	KEUR	23	-2	3,299	0
7	- Arques Verwaltungsgesellschaft mbH	Starnberg	-	100.00%	KEUR	8	-17	0	0
8	- Evry Rotatives S.A.S.	Bondoufle / France	-	100.00%	KEUR	-1,778	-645	1,751	77
9	- SOCHOR GROUP GmbH	Zell am See / Austria	1.80%	98.20%	KEUR	-3,538	-5,469	25,551	191
10	Arques Asset Beteiligungs GmbH	Starnberg	100.00%	-	KEUR	23	-2	0	0
11	Arques Asset Invest GmbH	Starnberg	100.00%	-	KEUR	23	-2	0	0
12	Arques Asset Verwaltungs GmbH (formerly: Arques Invest Finanz GmbH)	Starnberg	100.00%	-	KEUR	23	-2	0	0
13	Arques Beteiligungs Finanz GmbH	Starnberg	100.00%	-	KEUR	23	-2	0	0
14	Arques Capital GmbH	Starnberg	100.00%	-	KEUR	23	-2	0	0
15	Arques Commercial GmbH	Starnberg	100.00%	-	KEUR	9	-3	0	0
16	Arques Consult AG	Starnberg	100.00%	-	KEUR	-1,253	-1,154	1,340	6
17	Arques Finanz GmbH (formerly: WS 3020 GmbH)	Starnberg	100.00%	-	KEUR	2,484	-41	0	0
18	- Arques Sport Handelsgesellschaft mbH (formerly: Karstadt Sport Handelsgesellschaft mbH)	Starnberg	-	100.00%	KEUR	5,561	11	0	0
19	- GOLF HOUSE Direktversand GmbH	Hamburg	-	74.90%	KEUR	-12,450	-5,027	21,242	167
20	Arques Immobilien Verwaltungs GmbH (formerly: WS 2017 Vermögensverwaltung GmbH)	Starnberg	100.00%	-	KEUR	23	0	0	0
21	Arques Immobilien GmbH & Co. KG (formerly: WS 4002 Vermögensverwaltung GmbH & Co. Consult KG)	Starnberg	100.00%	-	KEUR	0	0	0	0
22	Arques Immobilien Wert Beteiligungs GmbH	Starnberg	100.00%	-	KEUR	22	-2	0	0
23	Arques Immobilien Wert GmbH & Co. KG	Starnberg	100.00%	-	KEUR	0	-2	0	0
24	Arques Industrie Asset AG	Starnberg	100.00%	-	KEUR	48	-2	0	0
25	Arques Industrie Wert Beteiligungs AG	Starnberg	100.00%	-	KEUR	48	-2	0	0
26	Arques Industries Capital AG	Starnberg	100.00%	-	KEUR	42	-8	0	0
27	Arques Invest GmbH	Starnberg	100.00%	-	KEUR	23	-2	0	0
28	Arques Invest Beteiligungs GmbH	Starnberg	100.00%	-	KEUR	23	-2	0	0
29	Arques Invest Central GmbH	Starnberg	100.00%	-	KEUR	23	-2	0	0
30	Arques Invest Consult GmbH	Starnberg	100.00%	-	KEUR	23	-2	0	0
31	Arques Invest Verwaltungsgesellschaft mbH	Starnberg	100.00%	-	KEUR	23	-2	0	0
32	Arques Süd Beteiligungs GmbH	Starnberg	100.00%	-	KEUR	23	-2	0	0
33	Arques Task Force GmbH	Starnberg	100.00%	-	KEUR	-8	-33	72	1
34	Arques Wert Central GmbH	Starnberg	100.00%	-	KEUR	23	-2	0	0
35	Arques Wert Consult GmbH	Starnberg	99.11%	-	KEUR	16	-5	0	0
36	- E. Missel GmbH & Co. KG	Fellbach / Stuttgart	-	100.00%	KEUR	2,193	1,257	9,683	64
37	Arques Wert Finanz GmbH	Starnberg	100.00%	-	KEUR	27	754	0	2
38	Arques Wert Industrie GmbH	Starnberg	100.00%	-	KEUR	23	-2	0	0
39	Arques Wert Industriebeteiligungs GmbH	Starnberg	100.00%	-	KEUR	23	-2	0	0
40	Arques Wert Invest GmbH	Starnberg	99.11%	-	KEUR	2,385	1,340	0	0
41	"Imandros" Vermögensverwaltungs-AG	München	100.00%	-	KEUR	23,884	-15	0	0
42	- SOMMER Vermögensgesellschaft mbH & Co. KG	Bielefeld	-	94.00%	KEUR	-2,012	1,201	72	0
43	- Sommer Verwaltungs GmbH	Bielefeld	-	100.00%	KEUR	58	-1	0	0
44	- SOMMER Holding AG	Bielefeld	-	100.00%	KEUR	45	0	0	0
45	- Sommer Produktions AG & Co. KG	München	-	100.00%	KEUR	2,962	476	0	0
46	- Fahrzeugwerk Laucha Beteiligungs-GmbH	Laucha	-	100.00%	KEUR	41	1	0	0
47	- Sommer Fahrzeugwerk Laucha GmbH & Co. KG	Laucha	-	100.00%	KEUR	302	504	24,710	95
48	- Sommer Fahrzeugbau GmbH & Co. KG	Bielefeld	-	100.00%	KEUR	1,404	-4,213	32,856	194
49	- Sommer France S.A.R.L.	Marmoutier / France	-	100.00%	KEUR	672	-78	2,488	19
50	- Sommer GmbH & Co. Beteiligungsgesellschaft KG	Bielefeld	-	100.00%	KEUR	438	-5	0	0
51	- ZAO Novtruck (closed stock corporation)	Welikiy Novgorod / Russian Federation	-	100.00%	kRUB	-6,570	-8,999	61,353	112
52	- Sommer Polska Sp.z.o.o.	Brzezno / Poland	-	100.00%	kPLN	-5,890	-3,861	46,503	158
53	- Sokol Sp.z.o.o.	Brzezno / Poland	-	100.00%	kPLN	772	-4	183	0
54	- Sommer South East Europe SRL	Bragadiru / Rumania	-	100.00%	kRON	-77	-468	3,169	0
55	Schierholz-Translift Holding GmbH (formerly: Arques Investment GmbH)	Starnberg	100.00%	-	KEUR	20	-1	0	0
56	SKW Stahl-Metallurgie Holding GmbH (formerly: Arques Beteiligungs-GmbH bzw. WS 4002 GmbH)	Unterneukirchen	99.01%	-	KEUR	1,025	-5	0	2
57	- SKW Stahl-Metallurgie GmbH (formerly: SKW Stahl-Technik Verwaltungs GmbH)	Unterneukirchen	-	100.00%	KEUR	2,110	3,393	66,490	15
58	- SKW France S.A.S.	Solesmes / France	-	100.00%	KEUR	6,590	-95	0	2
59	- Affival S.A.S.	Solesmes / France	-	100.00%	KEUR	13,378	2,706	70,952	140
60	- Affival Inc.	Amherst / USA	-	100.00%	kUSD	9,071	3,783	80,572	44
61	- Affival KK	Tokyo / Japan	-	100.00%	kJPY	1,069,948	451,352	839,177	3
62	- Affival Korea Co. Ltd.	Soul / Korea	-	100.00%	kKRW	63,045	6,593	10,942,210	16
63	Arques Mediterranean Investments Ltd.	Xbiex / Malta	99.98%	-	kMTL	16	-21	0	0
64	- Arques Value Invest Ltd.	Xbiex / Malta	-	99.95%	kMTL	4,194	4,192	0	0
65	teutonia Kinderwagenfabrik GmbH (formerly: BRITAX-teutonia Kinderwagenfabrik GmbH)	Hiddenhausen	89.01%	-	KEUR	416	-1,179	13,466	85
66	- teutonia Polska Sp.z.o.o.	Wloclawek / Poland	-	100.00%	kPLN	-1,842	-495	8,557	63
67	tiscon AG Infosystems	Neu-Ulm	77.82%	-	KEUR	5,034	-2,987	7,499	78
68	- WISTEC Consulting und Systemtechnologie GmbH	Neu-Ulm	-	100.00%	KEUR	-1,680	73	44	0
69	WS 2018 Vermögensverwaltung GmbH	Starnberg	100.00%	-	KEUR	15	-7	0	0
70	- Jahnel Holding GmbH	Bochum	-	86.40%	KEUR	17	4	0	0
71	- Jahnel-Kestermann Verwaltungsgesellschaft mbH (formerly: Jahnel-Kestermann Getriebewerke GmbH)	Bochum	-	86.40%	KEUR	-8	-9	0	0
72	- Jahnel-Kestermann Getriebewerke GmbH & Co. KG	Bochum	-	100.00%	KEUR	-2,753	-2,415	29,128	206
73	WS 3021 Vermögensverwaltung AG	Starnberg	99.11%	-	KEUR	1.168	-26	0	0
74	- Colordruck Pforzheim Verwaltungs GmbH	Pforzheim	-	94.00%	KEUR	502	3	0	0
75	- Colordruck Pforzheim GmbH & Co. KG	Pforzheim	-	94.00%	KEUR	428	-1,315	30,875	186
76	- Colordruck Grundstücks Verwaltungs GmbH	Pforzheim	-	100.00%	KEUR	21	-1	0	0
77	- Colordruck Immobilien GmbH & Co. KG	Pforzheim	-	100.00%	KEUR	16,210	-146	334	0
78	WS 3022 Vermögensverwaltung AG	Starnberg	99.01%	-	KEUR	2,785	-62	103	2
79	- ddp Deutscher Depeschendienst GmbH	Berlin	-	100.00%	KEUR	22	-894	9,366	0
80	- ddp Journalisten GmbH	Berlin	-	100.00%	KEUR	41	-234	5,646	135
81	- ddp ttx production GmbH	Berlin	-	100.00%	KEUR	54	-72	286	6
82	- ddp/Dow Jones Wirtschaftsnachrichten GmbH	Berlin	-	50.10%	KEUR	70	26	725	7
83	- getaklik Medien GmbH (formerly: WS 2020 Vermögensverwaltung GmbH)	Starnberg	-	100.00%	KEUR	1,334	28	238	0
84	- sportart gmbH	Teltow	-	100.00%	KEUR	-52	-243	179	4
85	- colourpress.com A/S	Haderslev / Denmark	-	75.20%	kDKK	-610	-215	3,490	6
86	Xerius BioScience AG (in future: Xerius AG)	Bremen	79.21%	-	KEUR	332	-38	0	0
87	WS 5001 Limited	Birmingham / England	100.00%	-	KEUR	4	-2	0	0
88	WS 5002 Limited	Birmingham / England	100.00%	-	KEUR	-1	-1	0	0
89	MDI Mediterranean Direct Invest AG (formerly: Schierholz-Translift AG bzw. WS 3018 Vermögensverwaltung AG)	Starnberg	70.00%	30.00%	KEUR	597	743	130	0
90	- Zugspitze 66. V V AG	München	-	89.11%	KEUR	39	-11	0	0

		Registered office	Equity interest (%) (direct)	Equity interest (%) (indirect)	Currency	Shareholders' equity as of 12/31/05*	Earnings 2005*	Revenues 2005*	Employees average no.**
91	- Evotape S.p.a.	San Pietro Mosezzo / Italy	-	100.00%	KEUR	7,464	-4,430	32,033	269
92	Schierholz-Translift Global Manufacturing & Finance AG (formerly: Agria AG)	Baar / Switzerland	90.15%	3.28%	kCHF	2,161	-1,432	0	0
93	Arques Industrie Finanz GmbH	Starnberg	99.11%	-	KEUR	13	-12	0	0
94	- SKS Stakusit Bautechnik GmbH	Duisburg	-	85.00%	KEUR	-7,791	1,618	30,328	190
95	- SKS-Stakusit AGmbH	Moskau / Russian Federation	-	100.00%	kRUB	22,648	-3,663	84,012	17
96	- SKS Stakusit Hellas-Rolladen und Balkonanlagen Einmanngesellschaft mbH	Nea Magnisia / Greece	-	100.00%	KEUR	79	-21	1,987	14
97	- SKS Stakusit-Polska Sp.z.o.o.	Wroclaw / Poland	-	100.00%	kPLN	3,700	12	7,543	19
98	- SKS-Stakusit RO SRL	Braslov / Rumania	-	100.00%	kRON	2,045	437	6,858	10

At-equity

	Jamshedpur Injection Powder Ltd. ^{1,2}	Jamshedpur / India	-	30.22%	kINR	262,930,548	104,343,148	552,999,063	
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Non-consolidated companies

1	SKS Stakusit Bautechnik Beteiligungs GmbH i.L. (in liquidation) ²	Duisburg	-	100.00%	KEUR				
2	Affival do Brasil Ltda. (no operating activity) ²	Rio de Janeiro / Brazil	-	100.00%					
3	SKW La Roche de Rame S.A.S. (in bankruptcy) ²	La Roche de Rame / France	-	100.00%	KEUR				
4	SKS-Stakusit GmbH (no operating activity) ²	Fürstenfeld / Austria	-	100.00%	KEUR				
5	SKS-Stakusit GUS GmbH (no operating activity) ²	St. Ljuberzy / Russian Federation	-	100.00%	kRUR				
6	SKS-Stakusit Ukraine GmbH (no operating activity) ²	Kiev / Ukraine	-	100.00%	kUAH				
7	Golf House Schweden A.B. (no operating activity) ²	Stockholm / Sweden	-	100.00%	kSK				

* The values for the domestic affiliated companies comply with the financial statements prepared according to the provisions under commercial law as of 12/31/2005.

The foreign financial statements are based principally on local gaap.

The following financial statements were included based on the IFRS consolidation package: Evry, Affival Inc., Colourpress, Evotape, Imandros, Sommer Novtruck

The following financial statements include rump financial years: Johler (08-12/2005), Sochor (03-12/2005), Nord Offset Druck (03-12/2005), Zugspitze (04-12/2005),

Arques Ind. Invest AG (01-08/2005), Arques Task Force GmbH (04-12/2005), Arques Industrie Finanz GmbH (03-12/2005), Arques Industrie Capital AG (09-12/2005),

Arques Finanz GmbH (05-12/2005), Arques Verwaltungsgesellschaft mbH (05-12/2005)

**Calculation of average number of employees was based on the average number at month-end

¹ Financial statements as of 03/31/2005

² No current data available as of 12/31/2005.

Conversion rates of foreign currencies		Reporting date rate 12/31/2005	Average rate 2005
Switzerland	CHF	1.5551	1.5483
Czech Republic	CZK	29	29.782
Denmark	DKK	7.4605	7.4518
Great Britain	GBP	0.6853	0.6838
India	INR	53.92	55.09
Japan	JPY	138.9	137.101
Korea	KRW	1184.42	1275.91
Malta	MTL	0.4293	0.4299
Poland	PLN	3.86	4.023
Rumania	RON	3.6802	3.6209
Russia	RUB	33.92	35.1884
Ukraine	UAH	5.9716	6.3708
USA	USD	1.1797	1.2441