

A N N U A L R E P O R T 2 0 0 6

Realising Potential

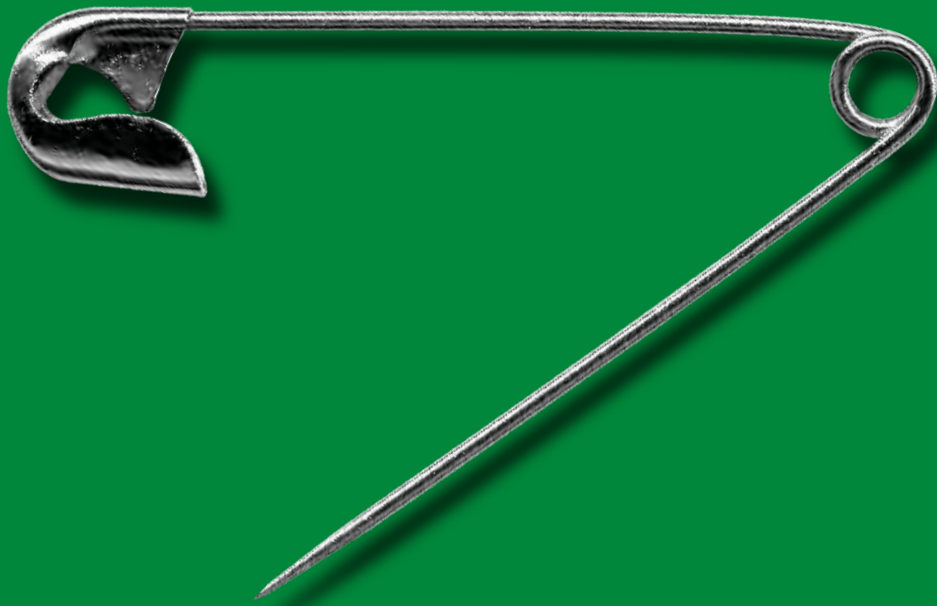
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Creating value
through active
involvement.

Identifying potential



Although the origin of the safety pin dates back to the Mycenaeans during the 14th century B.C. (Late Mycenaean III era), the modern safety pin was reinvented in 1849 by **Walter Hunt** an American mechanic and inventor of such items as the fountain pen, sewing machine, a forerunner of the rifle, a knife sharpener, street sweeping machinery, the velocipede, and the ice plough.

Hunt did not realise the significance of a good amount of these when he invented them; today, many are widely-used products. He thought little of the safety pin, and sold the patent for \$400 to a man whom he owed fifteen dollars.

Without vision some of the greatest ideas go to waste. This visionary talent is applied by the ARQUES acquisition team time and time again when selecting subsidiaries – with potential.

Preface by the Executive Board

Dear shareholders, employees, and friends of the company:

Fiscal 2006 was the most successful year in the history of our company to date, as demonstrated by the consolidated figures presented in this report. The capital market has also rewarded this strong performance by significantly boosting our share price.

In the fiscal year just completed, ARQUES succeeded in increasing its revenues by more than 80% to EUR 768.2 million (2005: EUR 417.5 million). Thanks to a variety of acquisitions, we still managed to record annualized revenues of EUR 1.2 billion at year-end 2006 despite a number of deconsolidations. Earnings before interest, taxes, depreciation and amortization (EBITDA) reached EUR 126.2 million after EUR 58.9 million in the prior year. Net income after taxes rose by EUR 62.8 million to EUR 110.6 million. Thus ARQUES generated earnings of EUR 4.60 per share (2005: EUR 2.19). The consistently strong growth of the ARQUES Group continues to go hand-in-hand with a solid balance sheet. At the end of 2006, the equity ratio totaled 41% (December 31, 2005: 39%). Furthermore, ARQUES can report net liquidity (cash and cash equivalents less amounts owed to banks) of EUR 42.3 million.

The thoroughly ambitious targets that we had set for ourselves, as presented at the Ordinary General Meeting in June 2006, had already been achieved by the end of the third quarter. For the two most important ratios, these targets were EBITDA of EUR 80 million on the back of annualized revenues of a billion euros. We were also able to comfortably beat our target for 2006 of carrying out ten acquisitions with aggregate revenues of EUR 500 million by

actually acquiring revenues of around EUR 800 million with 13 acquisitions concluded. Reflecting this positive performance, at the start of December we revised our forecasts upward for both 2006 and 2007.

The ARQUES strategy pays off

A key factor in the development of the corporate group and above all for gaining the confidence of the capital market was that, in 2006, ARQUES succeeded in carrying out notable company disposals, or exits, for the first time in its four-year history. Certainly the most significant step in this context was the IPO of SKW Stahl-Metallurgie Holding AG at the beginning of December 2006. By carrying out a classical IPO of one of our subsidiaries, we were able to demonstrate how ARQUES not only possesses outstanding acquisition skills; it can also call upon wide-ranging restructuring expertise. ARQUES is also capable of disposing of a restructured, revitalized company at a profit. Thus the IPO of SKW represents a confirmation of the ARQUES business model and was also seen as such by the specialist press and the financial world. The issue price for SKW Metallurgie shares amounted to EUR 29.00, and their value has risen strongly in response to positive assessments from financial analysts at the start of 2007. ARQUES has also posted a profit of more than EUR 19 million from the IPO to date. ARQUES currently still holds 57% of the shares in SKW, which represents a market capitalization of more than EUR 85 million at the time of reporting.

ARQUES has become firmly established as an esteemed partner for spin-offs carried out by international corporations.

On February 16th ARQUES sold its subsidiary, teutonia Kinderwagenfabrik GmbH, Hiddenhausen, to the American conglomerate Newell Rubbermaid. The transaction volume is around EUR 10 million and is thereby 20% above the net asset value as determined by ARQUES. ARQUES took over the unprofitable baby carriage manufacturer, teutonia, in April 2004 for a purchase price of EUR 100k. In almost three years, teutonia has been fundamentally restructured by the ARQUES task force and generated annual revenues of more than EUR 18 million in 2006 on a clearly profitable basis. (Revenues 2004: EUR 15 million).

As a result of its switch to the regulated market (Prime Standard segment) in September 2006, our similarly listed print holding, ARQUANA International Print & Media AG, has concentrated more heavily on the issues of transparency and capital market orientation in the fiscal year just completed. In addition, the company established itself more firmly as the consolidator in the European web offset market in 2006 and has made further progress in restructuring its print shops and integrating the subsidiaries into the holding. As a consequence, it was a logical step for ARQUES Industries AG to reduce its stake in ARQUANA to below 50%, thus giving the print holding greater freedom of action on the capital market as well. ARQUANA is accounted for in the ARQUES Group using the equity method with effect from December 29, 2006. ARQUES realized gains of more than EUR 14 million from the sale of ARQUANA shares in 2006.

In the transactions we conduct, we are benefiting more and more from our excellent reputation. ARQUES has become firmly established as an esteemed partner for spin-offs carried out by international corporations. Thus we acquired two companies from Degussa in 2006 – Oxxynova and Quab – and one each from the KarstadtQuelle Group (Fritz Berger), Dynamit Nobel (Rohner), the Röchling Group (BEA TDL) and the Switzerland-based Georg Fischer (Schwab) corporations, and Burda Medien (pwe Verlag). For the first time, the acquisition activities were supported by the international ARQUES subsidiaries formed to assist the expansion of our business model into other parts of Europe. To cite one example, the takeover of Farbendruck Weber AG in Switzerland was led by ARQUES Swiss. At the start

of fiscal 2007, moreover, our Spanish subsidiary, ARQUES Iberia, completed the takeover of Degussa's antioxidant business.

Reaching new dimensions

Our acquisitions have reached a new dimension in terms of revenues with the acquisition of Oxxynova, a chemicals company with a sales volume of more than EUR 180 million, and COS Distribution, an IT distributor with annual revenues of around EUR 270 million. Whereas the size of our transactions in 2005 averaged just under EUR 30 million in revenue terms, the equivalent figure for fiscal 2006 topped EUR 60 million. We expect this trend to continue into the future, with ARQUES acquiring companies with annual revenues of up to EUR 1 billion over the next few years.

The operating performance of our subsidiaries was also something to be proud of in 2006. We have been able to take numerous companies from our portfolio of holdings into the black. You will find a more detailed report on the development of our individual subsidiaries in the Group Management Report starting on page 26 ff.

We have also realized notable gains on the disposal of properties owned by the ARQUES Group. Properties with a net volume in excess of EUR 14 million were sold during fiscal 2006. We are working on the assumption that more transactions with a much a larger volume will be conducted in this field in the future. Further acquisitions have increased the portfolio of property in the corporate group (excluding ARQUANA) to around EUR 120 million today.

Moreover, we optimized our internal structures during fiscal 2006, which included expanding the Executive Board. Dr. Martin Vorderwülbecke, who previously acted as Head of Acquisitions at ARQUES, moved to the Finance division to become CFO. He had already performed this function on a temporary basis from March 1 to June 30, 2005 and since December 2005. Dr. Michael Schumann was added to the Executive Board, where he is responsible for the Acquisitions division that he had already headed from the start of 2004, playing a major role in numerous company acquisitions.

At the end of February 2007 ARQUES CEO and founder Dr. Dr. Peter Löw announced that he will not extend his expiring five year contract for private reasons. Dr. Löw wants to spend more time with his wife and five children in the future. With his withdrawal into private life Dr. Löw has sold the bulk of his ARQUES shares. The exisiting CFO and Co-CEO Dr. Vorderwülbecke will become CEO effective May 1, 2007.

We are committed to sharing the success of our business model with our investors and shareholders. Consequently, we will propose to the Ordinary General Meeting in June 2007 that a dividend of EUR 0.51, twice as high as last year, be distributed.

Our very good operating performance coupled with more intensive investor relations activities led to institutional investors showing much greater interest in ARQUES Industries during 2006, particularly in the Anglo-Saxon world. The ensuing greater demand for our shares is reflected in a 60% rise in the share price during 2006 to reach EUR 16.06 by year-end. Since financial market experts ascribe even more price potential to the company, the curve continued to point upward at the start of fiscal 2007, and by the end of March the price had reached more than EUR 17.00.

Optimism for 2007

The acquisitions already performed in 2007 coupled with the planned gains on disposal and the income from the sale of properties will ensure that the pattern of operating growth will continue through 2007. At the start of December 2006, we raised our annual forecasts sharply for the current fiscal year accordingly. We are confident of being able to achieve consolidated revenues of EUR 1.5 billion and EBITDA of EUR 180 million.

It would not have been possible for us to enjoy such a successful year in 2006 without the dedication and commitment of our employees. At this point, we wish to make known our heartfelt appreciation for the hard work put in by all our people. We would also like to express our thanks to all ARQUES shareholders and business partners for their trust and their encouragement. This will be an incentive for us to pleasantly surprise you yet again in the new fiscal year, 2007.

Sincerely,

The Executive Board of ARQUES Industries AG

The Executive Board

Dr. Dr. Peter Löw

Chairman of the Executive Board

After studying jurisprudence, gaining two doctorates (Dr. jur. utr. and Dr.phil.) and completing an MBA at INSEAD in Fontainebleau, France, Dr. Dr. Löw started working for McKinsey & Company as a consultant. He then went on to form and run his first mid-sized shareholding company in 1993. To date he has overseen more than a hundred company acquisitions and in many cases he has assumed direct operating responsibility in his function as managing director. He formed ARQUES Industries AG in 2002 and has been Chairman of the Executive Board ever since. Dr. Löw will not extend his contract as a board member and leave the ARQUES group on April 30, 2007 to withdraw into private life. Dr. Vorderwülbecke has been appointed new executive board chairman as of May 1, 2007.

Dr. Martin Vorderwülbecke

CFO

After studying jurisprudence and completing his doctorate, Dr. Vorderwülbecke spent two years working as a management consultant for IMM Industriemanagement München GmbH, where he was responsible for buying companies with aggregate revenues of EUR 300 million. He then went on to complete an MBA at INSEAD in Fontainebleau, France. Together with Dr. Dr. Löw, he subsequently formed his first mid-sized shareholding company in 1993. He, too, has experience with numerous company acquisitions, and in many cases has acted as managing director of these companies. A licensed attorney, Dr. Vorderwülbecke has been a member of the Executive Board at ARQUES Industries AG since July 1, 2004.

Markus Zöllner

COO

After studying industrial engineering, Mr. Zöllner worked in the telecommunications industry for more than ten years. He was involved in setting up VIAG Interkom (today known as o2), where he held various management positions. In 2000, he completed an MBA under the Kellogg-WHU Program in Vallendar, Chicago. Mr. Zöllner's most recent operational experience is as a managing director with the ARQUES subsidiaries Tesion Telekommunikationsnetze and Versatel Deutschland Group. A member of the Executive Board of ARQUES Industries AG since the start of 2005, Mr. Zöllner is responsible for the operational management and restructuring of the ARQUES subsidiaries.

Dr. Michael Schumann

Head of Acquisitions

After studying business administration and political science, Dr. Schumann acted as personal assistant to Professor Berthold Beitz (who represented the majority shareholder of the Krupp Group). In this function, he was involved in the merger between the Krupp Group and Hoesch AG, before joining the Treuhandanstalt in Berlin as a department head. His career has since seen him forming, managing, and subsequently selling various companies (including Branchen Medien Verlag GmbH and internet communities AG). Dr. Schumann has been head of the Acquisitions department of ARQUES Industries AG since the start of 2003, and has played a major role in numerous company acquisitions, including in transactions involving Degussa and the KarstadtQuelle Group. Dr. Schumann has been a member of the Executive Board of ARQUES Industries AG since October 2006.



RIGHT TO LEFT:
DR. DR. PETER LÖW,
DR. MARTIN VORDERWÜLBECKE,
DR. MICHAEL SCHUMANN,
MARKUS ZÖLLNER

attaining potential



Although **David H Houston** also invented the disc plough, most of the Scottish immigrant inventor's patents were related to photography. In fact, David Houston sold twenty-one patents related to photographic cameras to **George Eastman**, including a 1879 design for a small portable camera.

For that Eastman paid Houston \$5,000 dollars upfront and monthly royalties, enough money at that time to make Houston a happy, wealthy man and went on to mass marketed the first rolled film camera via his company, Kodak.

ARQUES also strives for a win/win situation which is why major companies such as Degussa, Masco and KarstadtQuelle favour ARQUES as a business partner when considering corporate spin-offs.

Review of fiscal 2006

First quarter	
March 1	ARQUES acquires Heinrich Heiland Manufacturer of transport protection covers based in Magstadt, with annual revenues of EUR 25 million
March 9	ARQUES acquires Rohner AG Swiss specialty chemicals company based in Pratteln (near Basel) with annual revenues of EUR 30 million
March 28	ARQUES subsidiary ARQUANA buys J.P. Bachem Long-standing, Cologne-based print shop with annual revenues of EUR 30 million
March 30	ARQUES acquires Hottinger Maschinenbau GmbH Mannheim-based plant engineer with annual revenues of EUR 20 million
March 31	ARQUES acquires Georg Fischer Schwab Sanitary ware specialist based in Pfullingen, with annual revenues of EUR 11 million / integration into Missel subsidiary planned
Second quarter	
April 25	ARQUES acquires Fritz Berger Neumarkt-based supplier of camping and outdoor equipment with annual revenues of EUR 34 million
May 30	Ordinary General Meeting of ARQUES Industries AG in Munich Stock split (1:10), dividend payment of EUR 2.05 per share (before stock split), new Supervisory Board elected
June 30	Former ARQUES subsidiary Colordruck Pforzheim folded into the ARQUANA print holding Pforzheim-based web offset print shop with annual revenues of EUR 33 million

Review of Fiscal 2006

Third quarter

July 10	Stock split (issue of free shares) takes effect at a ratio of 1:10
July 31	ARQUES subsidiary ddp acquires pwe Verlag Content and image agency based in Hamburg
August 7	ARQUES sells Heinrich Heiland with effect from June 30, 2006
August 25	ARQUES acquires Papiermühle Wolfsheck Paper mill in the southern Black Forest with annual revenues of EUR 65 million – product portfolio to be continued under the “Salto Paper“ brand
August 29	ARQUES acquires Swiss print shop Farbendruck Weber AG Print shop based in Biel/Bienne, Switzerland, with annual revenues of EUR 50 million taken over by ARQUES Swiss
September 11	ARQUES acquires Oxxynova from Degussa Marl-based chemicals company with annual revenues of EUR 182 million
September 20	ARQUANA listed on the regulated market Print subsidiary completes switch from OTC to the regulated market (Prime Standard segment)
September 27	ARQUES disposes of first properties Properties (Sommer & Evry) sold with a volume of more than EUR 14 million

Fourth quarter	
October 6	ARQUES Executive Board completed Dr. Michael Schumann appointed Head of Acquisitions Dr. Martin Vorderwülbecke, previously Head of Acquisitions, takes up position of CFO
October 26	SKW Stahl-Metallurgie Holding AG announces IPO in the 4th quarter of 2006 Listing on the regulated market (Prime Standard segment) planned
November 3	ARQUANA completes successful capital increase 200,000 new shares placed with institutional investors, cash and cash equivalents totaling EUR 5 million received
November 13	ARQUES acquires BEA TDL Technical service provider based in the Lausitz with annual revenues of around EUR 50 million
November 23-29	Bookbuilding for SKW Stahl-Metallurgie Holding AG – issue price for SKW Metallurgie AG shares set at EUR 29.00
December 1	SKW Stahl-Metallurgie Holding AG listed in the Prime Standard segment
December 4	ARQUES revises annual forecasts for 2006 and 2007 sharply upward
December 21	ARQUES subsidiary tiscon AG acquires COS IT distributor based in Linden with annual revenues of EUR 270 million
December 22	SKW Stahl-Metallurgie Holding AG subsidiary acquires Quab activities from Degussa Chemicals company based in Mobile, USA, with annual revenues of EUR 23 million
December 29	ARQUES reduces holding in ARQUANA to less than 50% Deconsolidation of the print holding

moulding potential



British merchant **Peter Durand** made a huge stride in food preservation with his 1810 invention of the can. So grateful for its contents were the hungry recipients that no one really complained about the effort required to simply open the can.

In 1858 **Ezra J. Warner** patented the first can opener: An intimidating combination of bayonet and sickle, eagerly adopted by the military during the Civil War.

Opening a can of peaches did however mean risking one's fingers until **William W. Lyman's** more user-friendly model was introduced in 1870, similar to the one we know today.

Similarly, the ARQUES subsidiaries have potential but need to be restructured and moulded to become efficient, profitable entities.

The ARQUES share

Healthy markets in 2006

The international capital markets benefited from a strong global economy in 2006. Following a period of market weakness caused by geopolitical risks and rapidly rising commodity prices, most shares started to take off in the second half of the year, with some of the major stock market indexes recording double-digit rises in percentage terms. Thus the Dow Jones reached a new record high of around 12,500 points at the end of December, and closed 2006 up 16% year-on-year. The Euro Stoxx 50 enjoyed a rise of comparable proportions, and the German indexes followed suit. The benchmark DAX index breached the 6,500-point threshold in mid-December and reached its highest level since February 2001. By year-end, the increase totaled 22%. The MDAX proved even more resilient, with a rise of 29%.

ARQUES share rises 60%

The ARQUES share again put in an outstanding climb in the fiscal year just completed, rising 60% to close the year at EUR 16.06. The main reasons for this were the good operating performance coupled with more intensive investor relations activities. This meant that the share was able to comfortably outpace the SDAX (plus 31%), to which the ARQUES stock has belonged since September 2005.

Positive analyst views ensured that the price of the ARQUES share continued to rise through to the editorial deadline of this report. The shares were trading above EUR 17.00 at the end of March 2007.

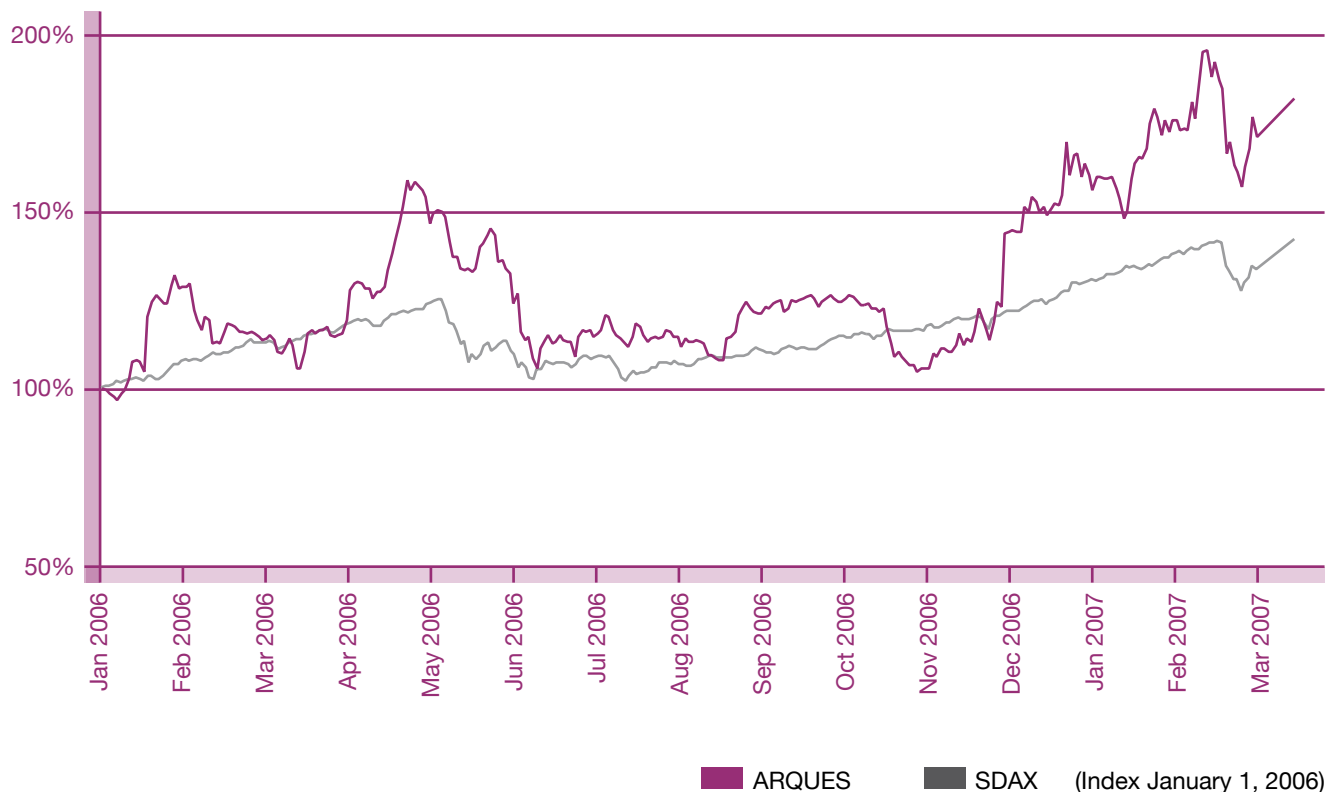
The goal: the MDAX

In January and February 2007, the Executive Board of ARQUES Industries AG reduced its holding in the company by around 20 percentage points. This simultaneously increased the company's free float to 100%.

This increases the chances of ARQUES achieving its medium-term objective of being added to the MDAX. The criteria for inclusion are a sufficiently large market capitalization and a correspondingly high volume of trading. When calculating the figures, Deutsche Börse uses the free float of each of the joint stock companies. According to statistics for the MDAX published by Deutsche Börse on February 28, 2007, ARQUES already occupies 67th position in terms of market capitalization and even 59th place in terms of trading volume. Companies wanting to join the MDAX must satisfy what is known as the "60/60" rule, meaning they occupy at least 60th place in both criteria.

Information regarding shares and options held by executives in corporate bodies and securities transactions conducted by members of the Executive Board and Supervisory Board subject to notification requirements is included in the Corporate Governance section starting on page 20 of the present report.

We are committed to sharing the success of our business model with our investors and shareholders.



Listed subsidiaries

For the first time, ARQUES had three listed subsidiaries in its portfolio at the end of 2006: SKW Stahl-Metallurgie Holding AG, ARQUANA International Print & Media AG, and tiskon AG Infosystems.

Certainly the most significant step in this context was the IPO of SKW Metallurgie AG on December 1, 2006. By carrying out a classical IPO of one of our holdings, we were able to demonstrate how ARQUES is also capable of disposing of a restructured, revitalized company at a profit, as established in the business model. The issue price for SKW Metallurgie shares amounted to EUR 29.00, and their value has risen strongly in response to positive assessments from financial analysts at the start of 2007. ARQUES placed some of the shares as part of the IPO, which yielded a profit of more than EUR 19 million. ARQUES still holds around 57% of the shares in SKW, which

represents a proportionate market capitalization of more than EUR 85 million as at the end of March 2007. At EUR approx. 150 million, the market capitalization of SKW Metallurgie overall was much higher at the end of March 2007 than the net asset value of EUR 110.7 million disclosed by ARQUES, which confirms the wisdom of this valuation method.

At the same time, our ARQUANA International Print & Media AG print holding has concentrated more heavily on the more stringent transparency criteria set notably by the key institutional investors as a result of its switch to the regulated market (Prime Standard segment) in September. As a consequence, it was a logical step for ARQUES Industries AG to reduce its holding in ARQUANA to below 50% at the end of 2006, thus giving the print holding greater freedom of action on the capital market.

tiscon AG Infosystems, which is traded on the regulated market (General Standard segment), is the third listed operating company in the ARQUES Group. At the end of December 2006, tiscon acquired the German IT distribution activities of Switzerland-based COS Computer Systems AG, with revenues of around EUR 270 million, under the terms of an asset deal. The move makes tiscon one of the five biggest German IT distributors and simultaneously market leader in the segment for IT distributors specializing in small and medium-sized enterprises.

Stock split completed in 2006

With effect from July 10, 2006, the company's capital stock was raised to EUR 24,266,670.00, thus increasing the number of shares in issue by a factor of ten. This implemented the resolution to carry out a stock split at a ratio of 1:10 approved by the Ordinary General Meeting.

Information on the ARQUES share	
WKN	515600
ISIN	DE0005156004
Stock market code	AQU
Reuters Xetra code	AQUG.DE
Bloomberg Xetra code	AQU GY
Stock type	No-par bearer shares
Share indexes	SDAX, CDAX, Classic All Share, GEX, Prime All Share, BayX30
Shares in issue at December 31, 2006	24,266,670
Capital stock	EUR 24,266,670
Closing price at December 29, 2006	EUR 16.06
Market capitalization at December 29, 2006	EUR 389,722,720.20
52-week high*	EUR 20.00
52-week low*	EUR 10.00
Earnings per share (diluted) at December 29, 2006	EUR 4.60
Price-earnings ratio**	3.4
* At the time of reporting ** Share price/earnings per share at December 31, 2006	

One of the most important duties of the ARQUES Executive Board is to maintain a dialog with investors and financial analysts.

Dividend proposal

We are committed to sharing the success of our business model with our investors and shareholders. Consequently, we will propose to the Ordinary General Meeting in June 2007 that a dividend of EUR 0.51, twice as high as last year, be distributed. This would put the payout rate for 2006 at 10% and the dividend yield (based on the price at year-end 2006) at 3%.

Analyst statements

At present three analysts regularly publish an opinion on the ARQUES share. Alongside WestLB and HSBC Trinkaus & Burkhart, SES Research also started to cover the ARQUES share in January 2007. The analysts' target prices amounted to EUR 19.50 – 30.00 at the time of reporting. The latest recommendations and target prices are published on www.arques.de.

Investor relations activities intensified

For ARQUES, investor relations involves providing timely communication and information for all capital market participants. ARQUES has presented itself at a series of roadshows and analyst and investor events over the course of the last year. As a result, we have succeeded in increasing awareness of the company and further expanding the investor base. According to the information we have, most institutional investors outside of the German market are in the UK (London and Edinburgh), the United States, Switzerland, and Austria. Our investor relations work is rounded off by holding regular investor meetings at the company's head office in Starnberg and keeping in contact with the press by means of interviews and press conferences. Communication with the capital market participants is something that is taken very seriously right at the very top. Consequently, one of the most important duties of the ARQUES Executive Board is to maintain a dialog with current and potential investors as well as financial analysts.

The ARQUEE Club was formed at the beginning of 2004 for shareholders who have more than a purely financial interest in ARQUES. This club gives its members – the Arquees – the chance to attend regular information events staged by the ARQUES Group and hence to have direct contact with both management and staff. The Arquees are important for ARQUES, as direct contacts can give rise to ideas and possible ways of improving the company's image.

All financial reports, ad hoc and press releases, the financial calendar together with General Meeting documents, and a range of information about the subsidiaries that is updated regularly are made publicly available on the ARQUES homepage www.arques.de. In addition, anyone is welcome to contact the Investor Relations team directly:

Contact Investor Relations and Corporate Communication

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Net asset value of the investment portfolio

The net asset value of the ARQUES investment portfolio at December 31, 2006 is outlined below:

	Name of company /group	Arques' share company value (in EUR millions)
1.	teutonia	8.6
2.	SKW	73.6*
3.	Missel (ncluding Schwab as of June 30, 2006)	24.0
4.	ddp	16.9
5.	SKS Stakusit	16.0
6.	Jahnel-Kestermann	35.0
7.	Golf-House	10.9
8.	Evotape	4.4
9.	Sommer	23.4
10.	Tiscon	14.5
11.	Xerius	2.2
12.	ARQUANA	29.7**
13.	Rohner	8.0
14.	Hottinger	6.5
15.	Fritz Berger	11.3
16.	Weber	8.0
17.	Salto Paper	***
18.	Oxxynova	11.5
19.	BEA TDL	6.0
20.	Iridium	***
	Total	310.5

* ARQUES' share reduced to 57.1% in connection with the IPO of December 1, 2006.

** ARQUES' share reduced to 48% (as compared with 68.2% at September 30, 2006).

*** To ensure an objective valuation basis, the new subsidiaries are included in the calculation of the net asset value of the investment portfolio only after they achieve a reliable planning basis.

The value of the investment portfolio of ARQUES Industries AG was measured and reviewed on the basis of the ratio of free cash flow to equity, in accordance with the Standard IDW S 1: "Principles for Conducting Company Valuations" of the German accounting standards association Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW).

The calculation was based on the operating budgets of the subsidiaries and the medium-term financing plans developed on that basis. The free cash flows were discounted to present value by application of a relevant interest rate for the company in question, based on a Capital Asset Pricing Model (CAPM) and current capital markets data.

For the exchange-listed subsidiaries SKW Stahl-Metallurgie Holding AG, ARQUANA International Print & Media AG, tiscon AG Infosystems and Xerius, the Group's share of those companies' market capitalization at December 31, 2006 was applied for purposes of the NAV calculation.

ARQUES Industries AG understands corporate governance as a process that is constantly being developed and improved.

Corporate Governance Report

ARQUES Industries AG is in compliance with the recommendations of the German Corporate Governance Code (“DCGK”), issued in 2002 and last expanded in June 2006, in all but a few points. ARQUES Industries AG understands corporate governance as a process that is constantly being developed and improved.

The Executive Board and Supervisory Board of ARQUES Industries AG have been deeply involved in complying with the DCGK specifications, especially the new requirements of June 12, 2006. This consultation process yielded the DCGK statement of compliance that you can read below. This statement has been posted at www.arques.de and will be updated to reflect any amendments.

Management and supervisory structure

Supervisory Board

ARQUES Industries AG, as a German stock corporation, is subject to the law governing stock corporations in Germany. For this reason, it has a dual management and supervisory structure featuring a four-member Executive Board and a six-member Supervisory Board.

The Supervisory Board appoints the members of the Executive Board and defines the allocation of duties. The Supervisory Board advises the Executive Board in the latter's management of the company's business. The Supervisory Board's bylaws stipulate at least two meetings in each six-month calendar period. The Supervisory Board meets regularly to deliberate on planning, business development, strategy and strategy implementation. Key Executive Board decisions require the approval of the Supervisory Board. In addition to reviewing the quarterly reports, the Supervisory Board discusses and approves the annual financial statements of ARQUES Industries AG and the consolidated financial statements of the ARQUES Group, paying special attention to the auditors' reports and the findings of the review conducted by the Supervisory Board's “Audit Committee,” which was formed for this purpose.

Executive Board

The Executive Board is the corporation's management body and is obligated to act in the company's interest. Its decisions are based on generating sustainable growth of the company's value. The Executive Board is responsible for the strategic orientation of the company and for planning and establishing the budget. The Executive Board's responsibilities include preparing quarterly financial statements, annual financial statements and consolidated financial statements. The Executive Board works closely with the Supervisory Board, providing regular and comprehensive reports on all relevant issues of the financial and earnings situation, strategic planning, business development and business risks.

Stock transactions of the Executive Board and Supervisory Board subject to mandatory reporting

The members of the Executive Board and Supervisory Board are legally obligated under § 15a of the Securities Trading Act (WpHG) to disclose the purchase or sale of shares of ARQUES Industries AG or related financing instruments if the total value of the transactions conducted by the member and persons close to the member reaches or exceeds EUR 5,000 within a calendar year (“directors' dealings”).

The following transactions were reported to the company in fiscal year 2006 pursuant to § 15a WpHG:

Name of person reporting	Position	Transaction date	Transaction type	Share price in EUR	Volume in shares	Volume in EUR
Markus Zöllner	COO	January 20, 2006	Purchase	120.00	12,600	1,512,000.00

The following reports pursuant to § 15a WpHG were received by the company in fiscal year 2007 as of the reporting date (March 30, 2007):

Name of person reporting	Position	Date	Transaction type	Share price in EUR	Volume in shares	Volume in EUR
Markus Zöllner	COO	January 17, 2007	Sale	15.60	100,000	1,560,000.00
Dr. Dr. Peter Löw	CEO	January 18, 2007	Sale	14.40	1,850,000	26,640,000.00
Dr. Dr. Peter Löw	CEO	February 23, 2007	Sale	17.64	3,000,000	52,920,000.00

Statement of compliance

The statement of compliance with the Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (AktG) has been made permanently available to the shareholders: "The Executive Board and Supervisory Board of ARQUES Industries AG state their compliance with the recommendations for conduct of the Code Commission for Corporate Management and Supervision published in the electronic version of the Federal Gazette (Bundesanzeiger) with the exception of the points outlined in the following."

D&O insurance

Notwithstanding Section 3.8 of the Code, the directors and officers liability insurance for the Executive Board and Supervisory Board does not include a deductible.

Executive Board compensation

Notwithstanding Section 4.2.3 of the Code, the compensation model for Executive Board members Dr. Dr. Peter Löw and Dr. Martin Vorderwülbecke does not include any variable components. The compensation model of Executive Board members Markus Zöllner and Dr. Michael Schumann, on the other hand, includes a profit-related component based on the appreciation of a virtual stock portfolio. There are no commitments in the event of termination of the role of Executive Board member. The company does not currently grant its Executive Board members any fringe benefits. The compensation report stipulated in Section 4.2.5 of the Code immediately follows the information addressing the other points of the Code.

Succession planning

Notwithstanding Section 5.1.2 of the Code, there is not currently any long-term planning for the succession of the Supervisory Board members. This is not called for at present because, under the articles of incorporation, members of the Supervisory Board are elected for just one fiscal year

In addition, both Mr. Zöllner and Dr. Schumann have individual agreements.

and substitutes are also appointed at the general meeting of shareholders.

Notwithstanding Section 5.4.1, no age limit has been established so far for members of the Supervisory Board.

Supervisory Board compensation

Notwithstanding Section 5.4.7 of the Code, the compensation for Supervisory Board members consists of fixed compensation plus a lump sum per meeting. There is therefore no profit-based portion of the compensation.

Annual Audit

Currently the annual audit is not yet publicly available 90 days after the end of the financial year (Section 7.1.2 of the Code). The company will implement the recommendation with the financial statements for the year 2007.

Compensation report

The compensation report stipulated by Section 4.2.5 of the Code outlines the principles applied in establishing Executive Board compensation and discloses the amount and structure of the income of Executive Board members. There is also a description of the underlying principles and amount of Supervisory Board compensation and information on stockholdings of the Executive Board and Supervisory Board.

1. Executive Board compensation

The responsibilities and contributions of the respective Executive Board member are taken into account in setting the compensation. Compensation in fiscal year 2006 was made up of a fixed annual salary plus profit-related compensation based on the appreciation of a virtual stock portfolio for Executive Board members Markus Zöllner and Dr. Michael Schumann.

In its meeting on October 5, 2006, the Supervisory Board also offered Executive Board members Dr. Dr. Peter Löw and Dr. Martin Vorderwülbecke a profit-based variable compensation component based on the appreciation of a virtual stock portfolio through the agreement to a stock options plan. The Executive Board members Dr. Löw and Dr. Vorderwülbecke expressly and voluntarily waived the offer of such a stock options plan, however.

Executive Board compensation is made up of the following components:

- Fixed compensation, paid out in the form of a monthly salary
- Variable compensation consisting on the one hand of a special payment whose amount is based on the appreciation of a “virtual stock portfolio” and on the other hand of an individual bonus agreement for Executive Board members Markus Zöllner and Dr. Michael Schumann.

The basis for calculating the variable compensation of Mr. Zöllner and Dr. Schumann is a specific number of shares in ARQUES Industries AG (“virtual stock portfolio”) valued at a specific share price (“initial value”). The amount of variable compensation is calculated in each case from the possible appreciation of the virtual stock portfolio over a specific period—that is, relative to a pre-determined future date (“valuation date”). The difference between the value of the virtual stock portfolio valued at the rate on the valuation date and its initial value (“appreciation”) yields the amount of variable compensation. The general policy is to pay out the appreciation in shares converted at the rate on the valuation date, but the company—represented by the Supervisory Board—reserves the right to instead pay out the appreciation in cash. Where shares are granted, an initial 12-month lock-up period applies.

The virtual stock portfolio of Mr. Zöllner includes 125,000 shares. The valuation date for 70,000 of these shares was January 31, 2007; for the other 55,000, it is September 30, 2007.

The current market value of the virtual stock portfolio held for Mr. Zöllner as of the date the shares were granted (May 30, 2006 for 70,000 shares and November 23, 2006 for 55,000 shares) comes to EUR 476,670.

The virtual stock portfolio for Dr. Schumann includes 125,000 shares. The valuation dates for all shares are January 31, 2008 and June 30, 2009 (but the initial value used to calculate the appreciation on June 30, 2009 will be the value of the virtual stock portfolio at the rate of January 31, 2008).

The current market value of the virtual stock portfolio held for Dr. Schumann as of the date the shares were granted (October 12, 2006) is EUR 746,250.

In addition, both Mr. Zöllner and Dr. Schumann have individual bonus agreements.

Mr. Zöllner receives a bonus for projects that involve the sale of operative company shareholdings of the ARQUES Group or its material assets ("asset deal") and for the sale of ARQUANA shares. However, this bonus applies to the sale of ARQUANA shares only after January 1, 2007.

Dr. Schumann receives a bonus based on a percentage of the cumulative acquired annual sales of new investments in the ARQUES Group. This bonus applies only to the acquisition of companies whose annual sales exceed EUR 10 million. The bonus is based on the calendar year, with all acquisitions still signed in the past year belonging to this year. The bonus agreement applies from 2006 forward. The bonus for each year is to be calculated and paid by February 20 of the following year. The total sales through August 31, 2006 that qualified for calculation of the bonus came to EUR 400 million.

The following compensation was set for the individual Executive Board members in fiscal year 2006:

Figures in EUR Fiscal year 2006	Cash compensation	Cash value of vehicle contribution	Cash value of company bonus	TOTAL
Dr. Dr. Peter Löw	120,000	5,040	0	125,040
Dr. Martin Vorderwülbecke	172,000	7,441	0	179,441
Markus Zöllner	172,000	0	500	172,500
Dr. Michael Schumann (as of October 5, 2006)	36,520	0	247,902	284,422
TOTAL	540,020	14,015	248,402	761,403



No members of the executive bodies currently have any options on the ARQUES stock.

The total salaries paid to former Executive Board members in 2006 came to EUR 266,034.

No additional compensation was paid to members of the Executive Board for their activities serving on the boards of subsidiaries or affiliates.

2. Supervisory Board compensation

Upon the suggestion of the Executive Board and Supervisory Board, the compensation for members of the Supervisory Board was first set by the general meeting of shareholders on May 30, 2006. Each member of the Supervisory Board receives annual compensation of up to EUR 16,000.00. Members may also claim fixed compensation of EUR 1,000.00 per month plus variable compensation in the form of a payment per meeting. The Chairman of the Supervisory Board receives a total of 50% extra compensation, or a maximum of EUR 24,000.00 annually.

Salaries of members of the ARQUES Industries Aktiengesellschaft Supervisory Board in 2006:

	paid EUR	Accrual EUR
Steven Wilkinson (through May 30, 2006)	-	-
Prof. Dr. Michael Judis	13,500.00	-
Dr. Gerhard Fischer	-	9,333.31
Bernhard Riedel	5,000.00	4,333.34
Matthias Spindler	9,333.31	-
Dr. Georg Obermeier	-	9,333.31
Dr. Rudolf Falter	-	9,333.31
TOTAL	27,833.00	32,333.27

Stockholdings of the Executive Board and Supervisory Board

The members of the ARQUES Executive Board held some 22.8% of issued shares as of the balance sheet date. Dr. Dr. Peter Löw held some 21.77%, Dr. Martin Vorderwülbecke approximately 0.04% and Mr. Markus Zöllner about 0.98%.

The Supervisory Board members Bernhard Riedel and Dr. Rudolf Falter held approximately 0.002% and 0.0008% as of the balance sheet date.

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



	Number of shares Dec. 31, 2006	Number of shares March 30, 2007	Number of options Dec. 31, 2006	Number of options March 30, 2007
Executive Board				
Dr. Dr. Peter Löw (CEO)	5,281,980	431,980	-	-
Dr. Martin Vorderwülbecke (CFO)	10,000	10,000	-	-
Markus Zöllner (COO)	236,880	136,880	-	-
Dr. Michael Schumann (Chief Acquisitions Officer)	-	-	-	-
Supervisory Board				
Prof. Dr. Michael Judis (Chairman)	-	-	-	-
Bernhard Riedel (Vice Chairman)	200	200	-	-
Dr. Gerhard Fischer	-	-	-	-
Mathias Spindler	-	-	-	-
Dr. Georg Obermeier	-	-	-	-
Dr. Rudolf Falter	500	500	-	-

Information on stock option rights and similar incentives

No members of the executive bodies currently have any options on the ARQUES stock.

Please refer to the information in the compensation report for more details on the virtual stock portfolios of Executive Board members Zöllner und Schumann.

Information on the company's stock option program can be found in note 24 of the consolidated financial statements.

Additional information on corporate governance at ARQUES

Detailed information on the activity of the Supervisory Board and on the cooperation between the Supervisory Board and Executive Board can be found in the report of the Supervisory Board on page 98 of this annual report.

Current developments and important information such as ad-hoc press releases, annual reports, interim reports, a financial calendar with key dates for ARQUES, securities transactions subject to mandatory disclosure ("directors' dealings") and information on the general meeting of shareholders are always available up to the minute on our website at www.arques.de. From the ARQUES homepage, you can also click on "Corporate News" for regular updates featuring the latest information from the ARQUES Group.

developing potential



Robert William Thomson's idea of providing a cushion of air between the road and vehicle was brilliant but sadly years ahead of its time. Although he patented the pneumatic tyre back in 1845, there were no motor cars and bicycles were only just starting to appear on the streets. This lack of demand together with the high production costs reduced pneumatic tyres to a mere curiosity.

Some 15 years later John **Boyd Dunlop** re-invented and successfully marketed the rubber tyre. Only this time the world had caught up, bicycles were now common and those novel motor cars were beginning to appear.

Consolidated Management Report of ARQUES Industries AG for fiscal 2006

General economic climate and industry environment

Global economy continues to expand through 2006

According to the experts of the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD), the world economy was able to repeat its strong performance from previous years in 2006. Consequently, the IMF is forecasting global economic growth of around 5.1% for 2006. The central banks of the United States, the euro area, and Japan have countered the pending inflationary pressure arising from in some cases rapidly increasing commodity prices by raising key interest rates in 2006, in some cases several times.^{1,2}

The IMF expects growth in the United States to total 3.4% last year, despite a cooling of the real estate market. In the countries of the euro zone, the OECD estimates 2006 economic growth at 2.7%, higher than the 2.2% forecast in the fall of 2006. The stronger-than-expected growth is attributed above all to the brighter economic conditions and increased domestic demand in the countries that use the euro. According to the OECD experts, this trend is being led by the accelerating economic growth in Germany.

Based on the average estimates of various economic research institutions and government statistical offices, Germany's gross domestic product is thought to have expanded at a rate of 2.5% in 2006. German exports are estimated to have increased at a rate of 12.4%, well above the

average export growth of the 13 countries using the euro (+7.6%). German imports are thought to have increased by 12.1% (average euro zone: +7.5%). Furthermore, consumer prices in Germany rose at a lower rate (+1.5%) than the average increase for the euro zone (+2.1%). The unemployment rate is estimated at 10.1%. Based on these estimates, the economic growth rates of the following selected EU countries in 2006 are estimated as follows: Great Britain +2.6%, France +2.4%, Italy +1.6%, Spain +3.6%, Netherlands +3.1%, Belgium +2.6% and Austria +2.4%.³

In their fall report published in October 2006, the leading German economic research institutions remained confident about developments in eastern and southeastern Asian markets. They expect Japan to see its gross domestic product rise by 2.7% year-on-year in 2006. Growth is estimated to have totaled 5.2% across the entire east Asian economic region in 2006.⁴

IMF calculations indicate that, with growth rates of around 10%, the emerging markets again performed very strongly in 2006. Economic expansion is expected to have reached 10% in China and 8.3% in India. The study suggests that central and eastern Europe have expanded at a healthy pace of 5.3%. Russia was the main driving force in this region, with estimated growth of 6.5% in 2006.

1 International Monetary Fund, World Economic Outlook, September 2006

2 Financial Times Deutschland, OECD glaubt nicht an US Rezession, September 6, 2006

3 www.wirtschaftsprognosen.com, February 28, 2007

4 Autumn Report of the German Economic Research Institutions, Die Lage der Weltwirtschaft, October 2006

Equity investment market and industry environment

According to research performed by industry analyst Private Equity Intelligence, the global private equity industry enjoyed yet another record year in 2006, managing to attract fresh equity capital of more than USD 400 billion for the first time (up 29% on the USD 311 billion recorded in 2005). The vast majority of this total is placed in the United States, whereas around a quarter of the funds are used for European investments.⁵

According to a study carried out by Incisive Media together with Bridgepoint Capital, the European equity investment market also reached a new all-time high in 2006, with a transaction volume of more than USD 160 billion. This record was driven primarily by the larger number of deals with a volume in excess of EUR 1 billion per transaction. Taken together, these added up to a volume of just under EUR 100 billion. A majority of the companies throughout Europe were sold out of family or private ownership. Britain again remained the biggest market for corporate takeovers in Europe in 2006, recording 26% of the total transaction value, followed by France in second place and Germany in third. The German equity investment market reported the fastest growth rate in Europe in 2006, at 63% (volume: EUR 25.5 billion in 101 transactions). If the European equity investment market is broken down by sector, industrial goods and services made up one third of the total, with EUR 34.5, followed by the media sector with EUR 24.9 billion, and the technology sector with EUR 22.7 billion.⁶

In the German equity investment market, the German Private Equity and Venture Capital Association (BVK) reported a 20% rise in the funds raised by German equity investment companies, to EUR 1.87 billion, up to and including the third quarter of 2006, and a 30% increase in investments, to EUR 1.45 billion, in 686 companies compared with the equivalent period last year. 58% of the investments related to buy-out deals with an aggregate volume of EUR 843.4 million, with small and medium-sized transactions dominating this field. Investments in venture capital were down around 2% on last year, making up 42%

of the aggregate total, or EUR 605.8 million. According to the BCK's statistics, turnaround cases only account for 0.1% of total investments.

The exit volume rose by 4% in the first three quarters of 2006, to reach EUR 1.39 billion. Of this total, 36.7% of the companies were disposed of to other affiliates, 21.2% under trade sales, and 16.8% within the framework of IPOs.⁷

The ARQUES Industries AG business model

The ARQUES Group focuses on a specific segment of the equity investment market, acquiring companies in situations of transition. This includes classical turnaround candidates, companies on corporations' disinvestment lists, companies with unresolved succession issues, and companies in need of high rationalization investment. As a general rule, these companies have already been generating losses for some time when they are acquired by ARQUES. Unsuccessful attempts have been made in some cases to restructure the companies or restore them to economic health. As a result, ARQUES is frequently in a position to acquire these companies for less than their book value, and in some cases even for negative purchase prices.

This type of price structure ensures that the losses following the takeover and the cost of restructuring are generally covered by what is known as a restructuring contribution made by the seller. When acquiring these companies, ARQUES concentrates increasingly on spin-offs from corporations, which now make up around 75% of the companies acquired by ARQUES. The remaining 25% of the companies acquired were family-owned before being purchased by ARQUES.

⁵ Private Equity Intelligence, Private Equity Online, January 5, 2007

⁶ 2006 Record Year for European Buyouts, Press Release January 22, 2007, www.bridgepointcapital.com

⁷ BVK statistics on the 3rd quarter of 2006, Bundesverband Deutscher Kapitalbeteiligungsgesellschaften e.V., November 14, 2006, www.bvk-ev.de

One major distinction from the targets of so-called private equity companies is that ARQUES primarily takes over companies which are in transition situations, with weak earnings and in need of reorganization.

ARQUES restructures the newly acquired affiliated companies and attempts to restore them to profitability by resolving the specific operating and/or structural problems and positioning them back on the market as competitive businesses with high earnings. The private equity industry aims to optimize profits in the companies they take over by applying financial engineering and cost-cutting techniques before making a profitable exit.

ARQUES is not normally under pressure to disinvest, as the purchase prices are generally low and financed out of equity capital. Overall, private equity companies are more likely to be potential buyers of companies restructured by ARQUES than competitors on the buying side.

The procurement market is set to remain stable, as the main factors underlying spin-offs of corporate operations and takeovers of family-run companies under the ARQUES model are not affected by an economic upturn. In our opinion, these factors include:

- corporations focusing on their core lines of business,
- the funding crisis faced by many small and mid-sized companies as a result of banks' unwillingness to extend credit (Basel II),
- the increasing number of unresolved successor issues as a result of demographic trends in Germany.

The sales market, which covers the demand for reorganized companies with boosted earnings, fluctuates and generally depends on the economic environment and especially the prosperity of the industry in question. ARQUES will always be able to find parties interested in reorganized companies from the respective industry in the form of strategic investors. However, we are also confident of attracting an increasing number of interested parties from the

private equity industry, who have identified further earnings and growth potential building on the reorganization work performed by ARQUES or are pursuing buy & build strategies.

The ARQUES business model works in both weak and strong market environments. In a weak market environment, there tend to be more companies getting into serious difficulties, which makes acquisition easier overall than in a healthy environment. However, the reorganization must then be carried out in a difficult environment. This is where the strong reorganization expertise that ARQUES can bring to bear comes into play.

In a healthy environment, on the other hand, fewer companies tend to become crisis-stricken and it is easier to paper over weaknesses. There are nevertheless still enough companies in transition situations on the market on account of the major structural changes in the world economy and the poor financial condition of German companies. The reorganization itself is easier to carry out in a period of economic expansion, with external stimuli helping the revenues side above all. This makes it possible to complete successful reorganization steps faster and simultaneously boosts the demand for restructured companies. Thus the ARQUES business model can prove successful in both a positive and a negative market environment.

When selecting its targets, ARQUES concentrates on acquiring mid-sized companies with a revenue volume of EUR 20 million to EUR 1 billion rather than entering specific industries. Its fast-rising track record has improved access to larger companies (with bigger deal sizes) and attracted further corporations as potential sellers for ARQUES over the last 12 months.

ARQUES is guided by the principle of having all the key process steps in all phases – acquisition, operational management and restructuring, as well as exit – carried out, monitored, and hence accounted for by its own staff. To do this, ARQUES is constantly expanding the know-how in individual departments, which helps to speed up the necessary decisions and gives ARQUES a competitive ad-

vantage as a result. The process already starts with the preselection of potential targets.

Each year, around a hundred of the 1,000 or so companies that are offered to ARQUES from its own network, directly by corporate groups, or from contacts with M&A consultants and investment banks, or which the Acquisition department identifies on the market, make it to the short list. The subsequent due-diligence process is carried out exclusively by in-house staff from the Analysis, Legal, Tax, and Finance departments.

After completing the acquisition, ARQUES installs managers with experience in the respective industry in the new subsidiary (the ARQUES subsidiary managers) in order to carry out the reorganization together with the staff of the acquired company in the shortest possible period of time.

In the first few months, our subsidiary managers receive intensive support from the ARQUES task force, a group of highly specialized restructuring experts.

The following reorganization steps are implemented, in some cases already shortly after the acquisition phase, depending on the individual company situation:

- Creation of new management structures
- Bank waivers and restructuring of liabilities to banks
- Setting up new, beneficial supplier relationships while settling legacy liabilities and arranging partial waivers, where appropriate
- Employee contributions
- Redundancy plans, agreements with works councils and trade unions
- Targeted partial disinvestments
- Improvement of working capital positions
- Reorganization of production processes

- Replacement of intercompany relationships
- Analysis of existing computer systems and frequently roll-out of state-of-the-art systems
- Streamlining of the product portfolio
- Development of new sales and marketing concepts

After a subsidiary has been successfully restructured, a new management team trained and deployed by the ARQUES subsidiary manager continues to run operations. The company is actively developed to achieve sustainable profitability.

The managing director appointed by ARQUES generally takes a 10% stake in the affiliated company, for which he is expected to make a proportionate contribution to the actual purchase price. This results in the manager identifying strongly with „his“ subsidiary, which helps to secure a high level of commitment and motivation.

The ARQUES Group and its affiliated companies

ARQUES Industries AG

ARQUES Industries AG is the parent company of the ARQUES Group. It directly or indirectly holds all affiliated companies of the corporate group. ARQUES Industries AG is financed almost exclusively from its own capital resources.

1:10 stock split

At the Regular Shareholders' Meeting of ARQUES Industries Aktiengesellschaft, Starnberg, held on May 30, 2006, a resolution was passed calling for the capital stock of ARQUES Industries AG to be revalued at a ratio of 1:10 by means of a stock split. To this end, the Company's capital stock was increased by EUR 21,840,003.00, from EUR 2,426,667.00 to EUR 24,266,670.00. The capital stock was increased out of Company funds without issuing new

shares. The corresponding amendment to the Articles of Incorporation was entered in the Commercial Register maintained by the Munich District Court under record HRB 146911 on June 27, 2006. The Company's capital stock now totals EUR 24,266,670.00, and is divided into 24,266,670 no-par bearer shares.

The affiliated companies of the ARQUES Group

Companz name	Acquisition date	ARQUES' share of equity at December 31, 2006	Sector
teutonia (sold: February 2007)	April 2004	100%	Baby carriages and strollers
SKW Stahl-Metallurgie	August 2004	57%	Steel metallurgy
Missel/Schwab	November 2004/March 2006	100%	Sanitary wares
ddp Nachrichtenagentur	November 2004	100%	Press agency
ARQUANA International Print & Media	since December 2004	48%	Web offset and packaging printing
SKS Stakusit	January 2005	100%	Roller shutter and insect protection systems
Jahnel-Kestermann	April 2005	100%	Specialty gears
Golf House	June 2005	74.9%	Retail and mail-order sales of golfing products
evotape	June 2005	100%	Adhesive tape
Sommer Fahrzeugbau	October 2005	100%	Motor vehicle production
tiscon AG Infosystems -COS, TOPEDO; avitos -Chikara	October 2005 December 2006 February 2007	77.94%	IT distribution
Rohner	March 2006	100%	Specialty chemicals
Hottinger	March 2006	100%	Core casting equipment
Fritz Berger	May 2006	100%	Retail and mail-order of camping articles
Farbendruck Weber	August 2006	100%	Web offset printing
Salto Paper	September 2006	100%	Papermaking
Oxxynova	September 2006	100%	Specialty chemicals
BEA TDL	November 2006	100%	Technical equipment for conveyance and energy applications
Iridium	January 2007	100%	Antioxidants

teutonia Group

teutonia has been part of the ARQUES Group since April 1, 2004. Based in Hiddenhausen, North Rhine-Westphalia, the company was taken over from British firm Britax and is a manufacturer of quality baby carriages, strollers, and joggers. teutonia is the market leader in a number of European countries in the premium segment. The company's production facilities are located in Germany and Poland.

Critical sector appraisal

According to the industry, the market for baby carriages in Germany is looking more positive than for a number of years, even though the birth rate remains at a very low level. In the long term, the German government's proposals to support families better in the future are fostering the positive mood. In December 2006, the children's outfitting sector benefited slightly from purchases brought forward to avoid the increase in value-added tax at the start of 2007. On the export side, the outlook for German manufacturers remains positive, thanks in part to the higher birth rates in other European countries. The prospects for good sales figures remain as good as ever. Overall, the customer structure is divided into two groups. One group values quality and originality, and prefers high quality products, while the second group of consumers tends to buy cheap products found primarily on the Internet and at second-hand markets.⁸

Competitive pressure in the low price segment above all remains correspondingly high. Alongside the ensuing discounts granted to retailers, the trend for sourcing components from low-wage countries continues unabated.

Company situation, business developments, restructuring and development measures

teutonia Kinderwagenfabrik GmbH performed extremely well in 2006. The company increased its revenues by around 36% year-on-year, putting it well ahead of budget (+13%), and the budgeted EBITDA figure was beaten by an impressive 17%. These results mean that teutonia performed much better than its peers in the premium baby carriages segment.

After the main restructuring measures had already been concluded at the end of 2005, the baby carriage manufacturer focused on increasing its revenues, entering new markets, and winning more market share. The new collection, which featured technical, functional, and quality enhancements, proved very popular with retailers and consumers alike. In line with this, the company's presence at Kind + Jugend, the world's biggest trade show for children's goods, was a big success, with orders received at the exhibition up 40% on last year. Baby carriages with swiveling wheels in general, and the Mistral S in particular, quickly turned into best-sellers. Also, the new carrycot and the twins' carriage "Team Alu," developed by the company as part of the revised fashion concept, were very well received by the trade public. Its revised product range enabled teutonia to not only gain additional shares of its core markets in Germany, Austria, and Switzerland, but also to establish itself as a quality brand in France, Ireland, Spain and Belgium.

The significant rise in new orders, up around 50% over the prior year, resulted in full capacity utilization at the production facilities in Germany and Poland. Final assembly, quality inspection and shipping are handled in Hiddenhausen. In the fourth quarter, teutonia introduced measures to increase production capacity with a view to accelerating the course of profitable growth it has taken up. Production costs remained almost unchanged on account of stable market prices, and it proved possible to further optimize the cost structure in some areas. As in the previous year, purchasing activities were concentrated in eastern Europe,

⁸ Press release from the children's outfitters at the world's biggest industry exhibition, "Kind + Jugend" in Cologne (September 15-17, 2006, www.kindundjugend.de)

especially Poland. teutonia's strict quality requirements are always fulfilled. Capital expenditures were limited to minor spending on machine tools.

The ARQUES subsidiary manager Bernd Schell relinquished his operational management duties in 2006.

Outlook

teutonia aims to improve its revenues and profits again in fiscal 2007. To achieve this, the baby carriage manufacturer intends to expand its presence in markets it has already tapped and establish itself in the United States and Britain. In addition, the company will build on its good reputation in 2007 and 2008 by adding innovative developments to its range.

The baby carriage manufacturer was sold to the U.S. corporation Newell Rubbermaid in February 2007. The German Federal Cartel Office approved the transaction on March 2, 2007.



SKW Stahl-Metallurgie Group

ARQUES took over the steel metallurgy business of Degussa subsidiary SKW Stahl-Metallurgie at the end of November 2004. In its core business, SKW Stahl-Metallurgie develops, produces, and sells products used in the desulphurization and refining of pig iron and steel. According to company information, the SKW Stahl-Metallurgie Group is a global market leader in developing and manufacturing industrial cored wires with special chemicals for the production of high-grade steel. The production of and trading in special chemicals represents another line of business. The SKW Stahl-Metallurgie Group supplies quality products from its own production plants to customers in more than 35 countries on three continents. Starting this fiscal year, the SKW Stahl-Metallurgie Group has also commenced operations involving Quab special chemicals, which it took over from Degussa, part of the RAG Group, at the end of 2006. SKW Stahl-Metallurgie Holding AG has been listed in the Prime Standard segment of the regulated market of the Frankfurt Stock Exchange since December 1, 2006.

Flotation of SKW Stahl-Metallurgie Holding AG

The shares of ARQUES' SKW Stahl-Metallurgie Holding AG subsidiary have been listed in the Prime Standard segment of the regulated market of the Frankfurt Stock Exchange since December 1, 2006. ARQUES completed a partial exit as part of this flotation, placing 600,000 SKW shares and selling a further 200,000 shares as part of the greenshoe option at December 31, 2006. A total amount of more than EUR 19 million accrued to ARQUES from the flotation, while SKW secured a further EUR 31.8 million directly from the capital increase amounting to 1,097,250 shares. ARQUES has undertaken neither to issue nor to sell any SKW Stahl-Metallurgie shares from the remaining 57% stake in SKW it holds for a period of six months (lock-up period). A soft lock-up period has been imposed through November 30, 2007, during which time ARQUES may not issue or dispose of further SKW Stahl-Metallurgie shares without the prior consent of the lead bank and only if it has good reason.

Critical sector appraisal

The global boom in the steel industry continued through fiscal 2006. According to data from the Iron and Steel Institute (ISI), steel production increased by 8.8% over last year. European steel makers in particular were nevertheless able to gain larger shares of the market, as the demand for high quality steel, which is produced mainly in Europe⁹, remains at a sustained high level. However, experts are predicting a slight fall in demand for steel and lower steel production in the first half of fiscal 2007. The estimates indicate that only demand for high-grade steel, which is important for SKW Stahl-Metallurgie, will remain strong.

Company situation, business developments, restructuring and development measures

SKW's revenues in 2006 declined slightly compared with the prior year, as planned. Besides the effects of changes in exchange rates, this development can be attributed to a streamlining of the product portfolio carried out in the „Powder & Granulates“ segment, where operations on the aluminum side with high revenues but low margins were switched to operations in the core metallurgy market with low revenues but high margins. This reorientation had a positive impact, as budgeted, on the earnings performance of SKW Stahl-Metallurgie AG.

The company's business performance varied from one region to the next at different times of the year. In the United States, business was very strong in the first half of the year, but the economic climate weakened considerably in the second half, which had an adverse effect on SKW's business performance there. In Europe, on the other hand, the first quarter of 2006 was marked by lower steel production and therefore weaker demand for the products of the SKW Stahl-Metallurgie Group. During the rest of the year, however, demand for the company's products increased markedly. In Asia, the business of the SKW Stahl-Metallurgie Group was adversely affected early in the year by the high inventory levels of steel manufacturers. As these inventories were depleted in the second quarter, the demand for the company's products improved.

⁹ Source: Homepage of the International Iron and Steel Institute, <http://www.worldsteel.org>

The SKW Stahl-Metallurgie Group doubled its capacity in India in January 2006 by opening a second plant (joint venture) in the country. At the same time, the new PapCal and No Splash Tip products developed under an R&D program proved extremely popular with customers, which resulted in higher new orders. The success of the company's R&D activities is reflected in the fact that more than 50% of development costs incurred in 2006 could be capitalized because they were directly linked to new products that could be sold in the market. This fact amply demonstrates the efficiency of the company's research and development activities. The Affval Group filed two patent applications in France and the United States in 2006. Other patent applications are being prepared. Almost 5% of the employees of SKW Stahl-Metallurgie work in R&D, collaborating closely with laboratories, independent research institutions and customers.

As in previous years, the product range of SKW Stahl-Metallurgie was focused on pig iron desulphurization and secondary metallurgy. Significant product innovations were developed in the Cored Wires segment (e.g., No-Splash Tip).

In the purchasing of key raw materials for the Cored Wires segment, SKW pursued the strategy of maintaining several strategic alliances in order to avoid becoming dependent on a single supplier or supplying country. In the Powder & Granulates segment, primary emphasis was devoted to securing the reliable supply of magnesium and carbide-based pig iron desulphurization agents; therefore, a primary supplier was used for both product groups.

The SKW Stahl-Metallurgie Group continued to reorganize its local companies and expand its sales activities in 2006, helping it to acquire new customers in Mexico, Hungary and Turkey.

In 2006, the SKW Stahl-Metallurgie (excluding the Jamipol joint venture in India) had an average of 225 employees worldwide (actual head count). The figures by region reveal that about 25% of the company's employees work in the United States, about 55% in France, about 10% in Germany and about 10% in eastern Asia (Japan and South Korea). Well-trained workers are a critical success factor for SKW Stahl-Metallurgie. In its continuing education activities, the company collaborates closely with universities specializing in metallurgical studies, among them the Institut National Polytechnique de Lorraine in France. The company is also supporting the doctoral research of several employees in the field of metallurgy. There were no significant personnel changes at SKW in 2006.

In order to effectively implement environmental protection principles in the context of industrial production, SKW Stahl-Metallurgie established a Center of Competence for Environmental Protection at its site in Solesmes, France. Extensive capital expenditures were made in this center already prior to 2006. By means of continuous training and awareness campaigns, the company has accumulated the its expertise in this area and alerted its employees to the dangers to health and the environment that can result from working with dangerous materials like lead, for instance. To date, no prior contamination or other site-related risks have been discovered in the production facilities of SKW Stahl-Metallurgie. However, the possibility of as yet undiscovered environmental risks at the production facility in Solesmes, France, cannot be ruled out because this site has been used for industrial applications for many years. The production activities of SKW Stahl-Metallurgie are extremely energy-intensive.

The main event of the year under review was the company's flotation on the regulated market (Prime Standard segment). The shares were traded on the Frankfurt Stock Exchange for the first time on December 1. Following on from an issue price of EUR 29 per share, the stock was trading at EUR 29.25, at December 31, 2006.

Outlook

In 2007, SKW Stahl-Metallurgie will concentrate first on integrating the newly acquired Quab business. The antitrust authorities did not approve the takeover of the Quab business from RAG until January 2007, which means that this segment was not consolidated yet in 2006.

Following the successful IPO in December 2006, the SKW Stahl-Metallurgie Group has set a number of growth targets for 2007. Among other measures, the company intends to establish new production facilities in various emerging countries of eastern Europe, Asia and Latin America. Furthermore, the company is currently evaluating various strategic alliances and possible acquisitions of established competitors in local markets. The company is also studying the possibility of vertical integration by establishing its own raw materials production capacities.

SKW Stahl-Metallurgie will continue its successful R&D program and expects it to produce further innovative new product developments in 2007.

In its "Memo/07/22" dated January 18, 2007, the European Commission stated that it had conducted unannounced on-site inspections of calcium carbide plants in Austria, Germany, Slovenia and Slovakia on January 16 and 17, 2007. The SKW Stahl-Metallurgie Group is also affected by these investigations. In this matter, the Group is fulfilling all legally prescribed cooperation and toleration duties in relation to the European Commission and all other competent authorities. The European Commission stated it has reason to believe that the companies affected by the inspections may have violated Article 81 of the Treaty of the European Community. The Management Board considers the accusations to be unfounded, but is nonetheless conducting an extensive internal investigation. Although not yet completed, this internal investigation is being pursued with the highest priority.





E. Missel and Georg Fischer Schwab

Missel has been part of the ARQUES Group since November 11, 2004. The Fellbach-based company is an industrial supplier of sound, thermal, and fire insulation systems for pipes and floors, and of high quality sanitary ware. GF Schwab, which was acquired in the first quarter of 2006 as part of the company's buy & build strategy, was merged with Missel with retroactive effect from March 31, 2006. Schwab operates in the sanitary ware segment and specializes in the production of cisterns and cover plates.

Critical sector appraisal

Following a long-standing structural crisis, the construction industry started to grow again in fiscal 2006. Revenues increased by 6.5% industry-wide, and the upturn even resulted in machinery and material bottlenecks in a few places. However, two to three percentage points of this rise in revenues can be attributed to higher commodity prices, which were passed on to customers. According to the Hauptverband der Deutschen Bauindustrie (HDB), a German industry association, the positive development was driven primarily by commercial construction, which benefited from the ongoing good climate in the economy as a whole. At the same time, construction projects brought forward to beat the cessation of construction subsidies and the rise in value-added tax on January 1, 2007 also reinforced the positive trend. The high number of orders on hand in the construction industry is expected to continue underpinning the positive industry trend again in 2007. The HDB projects revenues to rise by around 3.5% in nominal terms. The rising prices of copper and steel products, driven primarily by greater demand from countries like China and India, remain problematic.¹⁰

Sustained good growth rates were reported for products relating to renewables like solar energy in particular in 2006. This market is set to expand strongly in the coming years.

Company situation, business developments, restructuring and development measures

Schwab was operationally integrated into Missel in 2006. The legal merger of the two companies took effect retroactively to March 31, 2006. Various non-recurring and exceptional factors for which it is not permitted to establish provisions, coupled with the creation of a redundancy plan and the relocation of production from Pfullingen to Fellbach, proved a drag on results. At the same time, Missel and Schwab suffered lost revenues from the insolvency of the Schulte Group, the third-biggest specialist wholesaler of sanitary ware and heating systems in Germany. The Schwab brand matched the positive industry trend in terms of performance, whereas Missel lagged slightly behind.

The integration of the administrative and sales functions of GF Schwab was completed in the third quarter. The legal merger of Schwab into Missel, which took effect retroactively to March 31, 2006, was completed in the fourth quarter. Furthermore, Schwab's injection-molding operations, which had been based at the production facility in Pfullingen, were discontinued as of December 31, 2006. Accordingly, the production of cisterns was outsourced to a German supplier that has committed to upholding the company's strict quality standards. Schwab continues to engage in product development, sales and logistics. Twenty-two employees were laid off in connection with the integration of Schwab.

¹⁰ HDE press release: „Bauprognose 2007: Bauwirtschaft weiter auf Wachstumskurs / Bauindustrie erwartet 3,5% Umsatzwachstum“ dated January 11, 2007; source: www.bauindustrie.de

The product and sales campaign launched at Missel proved satisfactory. For example, the newly developed R90 fire-resistant insulating jacket and the collaboration with the technical insulation wholesale trade, which is to be expanded in the future, resulted in higher revenues. The operational integration of Schwab made it possible to tap considerable synergies, especially on the sales side. Thus Missel benefited from the name recognition of the Schwab brand outside Germany and acquired new customers in France, the Netherlands, and the Middle East, among other places. Schwab, on the other hand, gained from Missel in domestic operations, where it posted revenue growth of more than 10%. Following the relaunch of the Schwab brand and the makeover of its corporate identity, the company intends to push the international presence of its brands.

Following the separation from the Georg Fischer Group, the first order of business was to develop a new corporate identity and position Schwab as a brand name within Missel. To promote this objective in the sales environment, Missel presented its new, expanded line of products, including those of the Schwab brand, to distributors and contractors at numerous trade shows. Furthermore, the Schwab management placed great emphasis on product development. For this purpose, Missel invested considerable resources to set up a research and development program for the Schwab brand. The product innovations resulting from these activities (new cistern technology and small, fashionably designed cover plates) were introduced

to the market early in 2007. In its own R&D program, Missel developed new solar insulation products. Also, the management decided to expand the product line by adding new insulation materials to be presented early in 2007.

In time for the new fiscal year, Missel installed an ERP system to improve the efficiency of resource planning at the company.

Outlook

All the measures involved in integrating Schwab into Missel together with the reorganization this necessitated have been completed, and will take full effect in 2007. The synergies on the sales side coupled with new product developments are expected to yield double-digit revenue growth and a significant improvement in earnings. Missel again expects new product innovations to emerge from the R&D program in 2007.



ddp Nachrichtenagentur

In November 2004, the main operations of the insolvent ddp Nachrichtenagentur were acquired by ddp Deutscher Depeschendienst GmbH, which had been newly formed by ARQUES. ddp supplies news in written and image form in the fields of politics, business, miscellaneous news, entertainment, and culture. Around 100 permanent employees and 250 freelance text and photo journalists report on the day's events from the head office in Berlin and more than 20 regional offices located throughout Germany.

Critical sector appraisal

The media industry benefited from the general upturn in the economy in 2006. Thus according to media and advertising market researcher Nielsen Media Research, gross advertising spending in the classical media totaled EUR 20.1 billion in 2006. This represents a year-on-year rise of 5.1% for daily newspapers, popular magazines, specialist magazines, radio and TV stations, and posters. At the same time, the Internet segment also booked positive advertising spending. Nielsen Media Research expects the gross advertising market in the classical media to grow strongly again in 2007, even if at a somewhat lower rate than in 2006.¹¹

Company situation, business developments, restructuring and development measures

The ddp Nachrichtenagentur benefited from strong economic development on the customer side and increased its revenues by more than 15% in fiscal 2006. The main contributors were the disproportionately large rise in sales of individual images. In terms of EBITDA, the ddp Group broke even.

The commercial operations of the ddp news agency were dominated at first by the long winter at the start of the year and the Winter Olympics in Turin followed by the soccer World Cup in Germany in the summer. ddp responded to these top events by deploying more photo and text journalists, which resulted in higher expenditures than in the prior year.

With effect from August 1, ddp acquired pwe Verlag GmbH, a content and media agency, from Hubert Burda Medien, thus considerably expanding its product portfolio in the field of celebrities and lifestyle. And finally, image sales under the ddp, colourpress.com, defd, and a-life brands were pooled at the newly formed Deutscher Fotodienst (dfd), Hamburg.

At the end of 2006, the news agency discontinued its sports coverage, for profitability reasons. In its operations, ddp began distributing third-party content such as weather news and TV programming guides. In addition, ddp expanded its portal "ddp direkt" to include the marketing and distribution of press reports and corporate announcements. With regard to content, ddp stepped up its efforts to differentiate its market profile from the clear market leader dpa (market share > 80%) by bolstering its state agencies and offering a higher proportion of self-researched topics and news features.

¹¹ „Info & Zahlen“ and „Presse“ from Nielsen Media Deutschland - <http://www.nielsen-media.de>

Seven employees were added to the company's workforce in connection with the acquisition of pwe Verlags GmbH. Also, four budgeted positions were eliminated as part of the discontinuation of sports coverage. Nonetheless, layoffs were avoided to the greatest extent possible. Instead, the affected employees were reassigned to other positions within ddp.

Finally, the corporate structure was streamlined through the consolidation of various subsidiaries.

Outlook

Pooling image sales will lead to higher sales figures in this line of business in 2007. Besides serving its classical customers, the news agency ddp will increasingly approach Internet portals to offer its services in this area. At the same time, it intends to expand its ddp direkt press channel and launch large-scale marketing via the new ddp.de and ddp.direkt.de portals.



SKS Stakusit Group

The Duisburg-based SKS Group has been part of the ARQUES Group since April 7, 2005. SKS develops, produces, and markets complete roller shutter and insect-protection systems for the building supply industry throughout Europe.

Critical sector appraisal

Following a long-standing structural crisis, the construction industry started to grow again in fiscal 2006. Revenues increased by 6.5% industry-wide, and the upturn even resulted in machinery and material bottlenecks in a few places. However, two to three percentage points of this rise in revenues can be attributed to higher commodity prices, which were passed on to customers. According to the Hauptverband der Deutschen Bauindustrie (HDB), a German industry association, the positive development was driven primarily by commercial construction, which benefited from the ongoing good climate in the economy as a whole. The high number of orders on hand in the construction industry is expected to continue underpinning the positive industry trend again in 2007. The HDB projects revenues to rise by around 3.5% in nominal terms.¹²

Building suppliers benefited from this positive development, which proved to be even more marked in other expanding European countries.

Company situation, business developments, restructuring and development measures

In fiscal 2006, the SKS Group benefited from both the upturn in the construction and building supply industry in Germany and the positive developments in other European countries. Revenues and earnings were well above the prior-year level and considerably higher than the budgeted figures. Revenues were 7% over budget and earnings were about 260% over budget, due in part to the recognition of deferred tax assets.

The restructured business processes coupled with the insourcing of all profile extrusion activities carried out during 2006 helped the SKS Group to manufacture larger quantities more flexibly without having to increase the workforce and also to considerably enhance the quality of its products. The greater productivity and efficiency achieved as a result of this shaped the further course of business. In addition, the company's international orientation had positive effects. Newly formed subsidiaries in countries like Serbia and regional partnerships helped SKS to benefit from the boom in the European construction industry and simultaneously make it less dependent on the weaker domestic market. Initial steps have already been taken in France. A review is being conducted of SKS's products in that country and product development is being pursued. These steps are necessary to proceed with plans to increase the company's share of the French market.

The SKS Group is intensifying its marketing activities at home and abroad with a view to reinforcing the SKS Stakusit brand and exploiting growth markets outside Germany. At the same time, a complete set of new sales documentation was created during the course of 2006.

¹² HDE press release: „Bauprognose 2007: Bauwirtschaft weiter auf Wachstumskurs / Bauindustrie erwartet 3,5% Umsatzwachstum“ dated January 11, 2007; Source: www.bauindustrie.de

The newly developed products Top Duo and Profilia II were successfully positioned in the markets. The sales of both products have been very positive and substantial growth is anticipated in the coming years as well.

To further improve the qualifications of the company's personnel, numerous training measures were conducted, especially in the manufacturing areas, and highly skilled employees were recruited in 2006. A core team was created for component manufacturing. The personnel measures taken in 2005 yielded their full effects in 2006, leading to impressive efficiency gains.

Outlook

In 2007, SKS Stakusit plans to intensify its sales activities in selected countries (France, Spain, Hungary, Czech Republic) and for selected product groups (folding shutters, face-mounted shutter boxes), in order to exploit additional market potential in the medium-term future. Furthermore, the company will commence development activities in the product group of flush-mounted shutter boxes, in order to protect and extent its technology leadership position. Also, the company plans to optimize its production of finished components, in order to respond more flexibly to changing customer wishes.





Jahnel-Kestermann Getriebewerke

Jahnel-Kestermann Getriebewerke has belonged to ARQUES since April 11, 2005. Jahnel-Kestermann is one of the world's leading manufacturers and developers of high performance gears for all industrial applications. The old-established company supplies customers throughout the world in the fields of wind power, shipbuilding, and the sugar and chocolate industry, among others.

Critical sector appraisal

According to information published by the Bundesverband WindEnergie e.V. (BWE), the market for wind power performed surprisingly well in 2006, recording growth of more than 20%. With a total installed output in excess of 20,000 MW, Germany remains at the top of the world league tables. According to the BWE, some EUR 2.9 billion was invested in new wind parks in Germany during 2006. German manufacturers and suppliers of wind power plants, who lead the world in this segment, again benefited from strong growth in export markets in fiscal 2006 as well as the positive domestic environment. The world market expanded by around 30%, driven primarily by the United States, India, and China. More than EUR 15 billion was invested in wind power across the globe.¹³

Shipbuilding also reported robust growth in 2006. The ongoing boom in shipbuilding worldwide gave rise to sharp revenue growth among German suppliers, with exports playing a key role, accounting for around 65% of total output.

Company situation, business developments, restructuring and development measures

In fiscal 2006, Jahnel-Kestermann benefited mainly from its international customer structure in the manufacture of gears for wind power plants and the production of propeller drives for container ships and tankers. Even though the company was slightly under budget, it managed to grow faster than the industry with revenues up more than 20%. In terms of both EBITDA and EBIT, the manufacturer of high-grade gears achieved an increase of around EUR 3 million in earnings. The return on sales (EBITDA) totaled 6.6%. One company of the Jahnel-Kestermann-Group, JaKe Getriebewerke KG, is still overindebted.

Once the restructuring measures were completed, the company shifted its focus to increasing revenues and capacities in 2006. In total, Jahnel-Kestermann received new orders of approximately EUR 100 million in 2006. The orders on hand will last until the year 2009 and no new orders are being accepted for 2007. To accommodate the substantially larger volume of orders, Jahnel-Kestermann initiated the biggest program of investment in the company's history, with a volume of around EUR 7 million, to purchase new machinery and install a new IT landscape, including an ERP system. The company also invested considerable sums in highly qualified new employees and continuing education measures, among other things. Outsourcing programs are running at the same time. Alongside economic stimuli, building up and intensifying its sales activities paid off for Jahnel-Kestermann. Jahnel-Kestermann will have to raise new funds from banks or from ARQUES in order to finance its growth plans.

¹³ BWE press released dated January 16, 2007 - <http://www.wind-energie.de>

Product innovations in the propeller drive line of business for maritime customers and adding wide-ranging services to the business model coupled with attendance at more international trade fairs and an expansion of sales activities helped to accelerate the planned international strategy. Jahnel-Kestermann succeeded in winning new customers in the United States, India, China, and Canada and extended activities involving existing customers. The gear maker also opened new representative offices in the growth markets of the United States and India, and concluded development cooperation agreements in Poland and Switzerland.

The sustained strong demand for steel products worldwide at times led to delivery bottlenecks and rising production costs for Jahnel-Kestermann. The company has responded by concluding long-term master agreements in purchasing and sourcing. Jahnel-Kestermann also intends to expand its supplier base in order to attain a better purchasing position and reduce dependencies on individual suppliers.

Outlook

By giving its operations an international orientation, Jahnel-Kestermann has put itself in an ideal position to continue benefiting from the boom in both wind power and shipbuilding. The company intends to expand its activities primarily in the United States and India. The measures, some of which have already been implemented, initiated to increase capacity will result in a significant increase in revenues in 2007.



Golf House Direktversand Group

ARQUES acquired 74.9% of the shares in Golf House Direktversand GmbH on June 22, 2005. The company is the leading specialist for golf-related products and services in Germany, and has a nationwide presence with 15 branches. The product portfolio comprises golf equipment such as clubs, bags, and accessories, together with clothing and footwear from all prestigious manufacturers. The services offered include club fitting (adjusting clubs to suit the individual player), swing analysis, and repairs. Golf House also has a classical mail-order business and online operations.

Critical sector appraisal

2006 was a difficult year for the golf industry, despite the upturn in the economy. At first, the long winter and the associated late opening of golf courses served to slow operations. Private consumption weakened noticeably when the soccer World Cup 2006 got under way in Germany, with the effects most keenly felt in the period from June to October. The extreme climatic conditions in the following months - intensive heat and summer temperatures through to late fall - had a lasting effect on the important summer business and the season start with fall/winter goods.

Company situation, business developments, restructuring and development measures

Although Golf House performed better than the industry as a whole, the company failed to match expectations on account of the difficult situation faced by the industry. Consequently, revenues declined by almost EUR 1 million, while earnings in EBIT terms were slightly negative. Adjusted for changes in selling space, revenues rose 1% over the previous year. According to estimates of the management, the direct competitor lost 5% - 7%.

Golf House closed two loss-making outlets in 2006. The rented area of the branch in the Alstertal shopping center in Hamburg was returned to the landlord prematurely at the end of January 2006. The floor space of the Golf Discount Düsseldorf outlet closed in February 2006 was added to Golf House Düsseldorf, because this outlet has been operating successfully since March 2006 following redesign and renovation. This outlet concept was highlighted in the textile industry's "Läden 2006" yearbook for being the most innovative shop-fitting model. The Cologne branch was renovated in the fall of 2006 on the basis of this concept. An outlet was opened in Kuchen, Baden-Württemberg, to market surplus seasonal goods, with Runners Point, Bally, and Sport 2000 signed up as prestigious partners for this project.

After being restructured and reorganized, also in terms of personnel, the Marketing department devised a new catalog concept, which was very positively received by customers, competitors, and the industry alike. A continuing professional development program, which will be continued on a regular basis, was launched in the summer to train up branch managers in leadership, motivation, time management, operating organization, sales techniques, and negotiation. With the help of a newly created position, the Visual Merchandising department developed and im-

plemented a new set of uniform guidelines for decorations and merchandise presentation in the Golf House outlets. To improve customer loyalty and allow for a detailed analysis of purchasing behavior that can be used for direct marketing activities, the company took steps to collect customer data for more than half of all in-store transactions since the middle of fiscal year 2006.

Starting with fiscal year 2006, Golf House handled all its payroll accounting internally, thereby cutting the last tie with the previous owner, the KarstadtQuelle Group.

More professional goods management facilitated by a new material management system meant that surplus stocks were not excessive at the end of the year. This helped the company to boost the percentage gross profit on revenues, as did the optimized stock and range structure together with better purchasing terms.

Outlook

Additional investments in the branch network and the online distribution channel will be made in the first half of 2007. Alongside the further roll-out of the new branch concept, the warehouse outlet in Hamburg is to be converted and expanded to form a specialist golf market. In addition, Golf House has hired a mail-order expert to help expand the catalog and Internet activities with a view to achieving significant revenue growth in this area. The co-operation agreements concluded in 2006 will have an initial impact in 2007, leading to additional earnings from brands and royalties.



Evotape Group

The Evotape Group, based in San Pietro Mosezzo, Italy, has belonged to the ARQUES Group since June 1, 2005. Evotape is one of the biggest industrial manufacturers of packaging and masking tape in Europe.

Critical sector appraisal

The market for Evotape products in fiscal 2006 was again marked by high production capacity utilization levels and increasing pressure on prices, which was accelerated primarily by competition from Asia, and most notably China. At the same, the unfavorable euro/dollar exchange rate hit European market players. Rising oil prices and strong demand for natural rubber around the world resulted in a sharp increase in production costs for the industrial manufacturers of adhesive tape.

Company situation, business developments, restructuring and development measures

Evotape increased its revenues and earnings strongly in 2006 compared with the prior year. It proved possible to pass on some of the rising costs for raw materials to customers, and Evotape succeeded partly in compensating for the additional costs in places by optimizing its production processes. Evotape improved its liquidity situation significantly by means of a receivables sale.

Besides boosting its production output from both plants and increasing its efficiency, Evotape succeeded on the sales side in launching special products developed in-house on the market. The company also added masking tapes for outdoor applications to its product portfolio. The installation of a flexoprint printing machine for multicolor printing of packaging tape enabled the Italian company to further extend its product portfolio. The renewal and expansion of key production facilities within the framework of the company's capital expenditure program had the effect of reducing the company's operating expenses. Also, the Italian company successfully entered the Chinese market and acquired its first customers there by means of a highly profitable resale of a refined input product.

The company intensified its sales and marketing activities in 2006. At the IPACK-IMA trade show in Milan in February, Evotape presented itself to the trade public under the slogan "We tape the world." With a 20-member team in place, Evotape set itself apart from the competition and made many new, highly promising customer contacts. The company also revised and relaunched its homepage, optimizing the sales and marketing impact of its website.

Evotape's order books have remained healthy throughout the year. The company operated at full capacity and had to put on special shifts at times in order to deal with the volume of demand.

Following the workforce reduction of about 10% in 2005, no further measures of this kind were needed in 2006.

Outlook

The full order books at Evotape will again provide for a high level of capacity utilization in 2007. The Italian company will make further capital expenditures to increase productivity, enabling it, for instance, to install a new cutting machine in the first quarter. Evotape will systematically pursue projects aimed at cutting power consumption that have already been initiated. The product innovations emerging from the R&D program will again be the subject of intensive marketing in 2007, which will lead to higher revenues.



Sommer Fahrzeugbau Group

ARQUES acquired Sommer Fahrzeugbau Group on September 19, 2005. This company is a manufacturer of commercial vehicle superstructures, trailers, and semi-trailers. Sommer has production plants in Germany (Bielefeld, Laucha), France, Poland, and Russia.

Critical sector appraisal

According to figures from the German Federal Statistical Office,¹⁴ more than 75% of goods in Germany are still transported by road. Year-on-year, the quantity of goods transported by road (measured in tons) increased by 5.9%. At the same time, manufacturers of commercial vehicles recorded a sharp 12% rise in revenues during 2006. This rapid growth was driven essentially by the persistently strong foreign demand for trucks.¹⁵ The consistently high commodity prices could not be passed on to customers at all, or only with a delay, in places, which served to depress the results of the vehicle makers.

Company situation, business developments, restructuring and development measures

Sommer Fahrzeugbau was not able to fully benefit from the positive industry environment in fiscal 2006 and failed to meet its internal targets, despite increasing its revenues compared with the previous year. On account of non-recurring effects (severance packages) and other factors, the company recorded another net loss for the year, although it achieved a considerable improvement against 2005.

On the operating side, Sommer progressed with a production optimization program. Among other steps, the complete production of parcel delivery trucks was relocated from Bielefeld to Laucha (Sachsen-Anhalt), accompanied by a workforce reduction. A production concept that is already applied in the German plants was transferred to the facilities in other countries. As a result of the implementation of this new model coupled with capital spending on new equipment, Sommer succeeded in boosting its production efficiency significantly and considerably enhancing collaboration between the individual plants. Due to intermittent steel shortages, the company encountered difficulties in meeting its delivery deadlines. However, this problem affected the entire industry in 2006, not just the Sommer Fahrzeugbau Group, and consequently the company did not suffer image losses with its customers. Sommer was also forced to make changes in its production equipment because a supplier of input products introduced a model change.

The announced reorganization of the sales function is almost complete, and the organizational and personnel structure of the sales function has been adjusted to match the Sommer Group's international orientation, which led in some cases to the replacement of employees in key sales positions. Primary attention was given to the markets of Spain, the Benelux countries, Romania and Ukraine, where sales activities are to be intensified in the future. The participation in numerous international trade shows, including the IAA International Motor Show for Commercial Vehicles staged in Hanover in September 2006, paid off in terms of more than just the direct new orders worth more than EUR 2 million that were booked. Sommer successfully presented itself as a flexible partner that is capable of accommodat-

¹⁴ Statistisches Bundesamt, Press release dated January 16, 2007 - <http://www.destatis.de>

¹⁵ Press release of Verband der Automobilindustrie (VDA) dated January 16, 2007 - <http://www.vda.de>

ing specific customer wishes, even in small-series production, as a result of its decentralized production structure.

Staff changes were made in key positions of Purchasing, Finance and Service, and generally more employees were assigned to this area. The decentralization of the complex corporate group, which was initiated already back in 2005, enhanced the transparency and reduced the workload of the Finance department.

In fiscal 2005, moreover, Sommer, invested in modernizing its IT structure and added service and repair services to the product portfolio, which were very well received by customers.

Outlook

During the course of 2007, the Sommer-Fahrzeug Group is set to systematically continue down the more international course it has taken. Besides intensifying its sales activities in the growth markets, including in eastern Europe, Sommer also intends to expand its repair services. Furthermore, the company will unveil further product innovations from the R&D program in 2007.



tiscan AG Infosystems / COS Distribution

On October 26, 2005, ARQUES acquired a 77.98% interest in tiscan AG Infosystems, a company listed in the General Standard segment of the regulated market. Following the submission of the compulsory tender offer for the outstanding capital stock as required by the German Securities Trading Act (WpÜG), ARQUES held 78.82% of the shares in the company as the tender offer was not widely taken up.

Following the spin-off of the operational business of tiscan AG to a subsidiary and the approval granted by the shareholders' meeting to sell that subsidiary, the operations of tiscan AG Infosystems were discontinued. Shortly before the end of 2006, ARQUES presented a new business model for tiscan, based on IT distribution. As a result, tiscan acquired the German IT distribution operations of the Swiss company COS Computer Systems AG, including the operations of the companies COS Distribution, Avitos und TOPEDO, under the terms of an asset deal that took effect December 1.

Critical sector appraisal

According to the European Information Technology Observatory 2006, the information and communications technology industry grew by around 3.1% in Europe after 4.1% in 2005. The report indicated that growth in Germany slowed from 2.3% in 2005 to 1.6% in 2006. When the telecommunications market is excluded, the IT industry in Germany achieved growth of 2.6%. Faster growth (3%) is expected here in 2007 than in 2006.¹⁶ IT market expenditures in Germany increased moderately (+2.9%) over the previous year. The software segment of that market, which is served by COS Distribution GmbH, witnessed a substantial increase of 6.1%, while the hardware segment grew by only 0.2%.¹⁷ In the hardware segment, the highest growth rates were observed for entertainment electronics (flat-

screen TVs, projectors and game consoles).¹⁸ In 2007, IT expenditures are expected to rise by a total of 4.5%, led in particular by IT services, a segment in which tiscan does not operate.

Company situation, business developments, restructuring and development measures

Before the German activities of Switzerland-based COS Computer Systems AG in the field of IT distribution were acquired, the operations of tiscan AG Infosystems were dominated by measures to avoid costs. Alongside savings in marketing and other administrative expenses, large cost reductions could be achieved in the first half of the year by subletting the company premises. Under a resolution adopted by the Annual Shareholders' Meeting held on July 25, 2006, the tiscan AG subsidiary to which the operating business had previously been spun off was sold.

tiscan AG Infosystems announced on December 21 that it was taking over the German IT distribution activities of Switzerland-based COS Computer Systems AG under the terms of an asset deal covering COS Distribution AG, Avitos GmbH, and TOPEDO. All three companies have their head office in Linden, Hesse, and together generated revenues of more than EUR 270 million in 2005. The move makes tiscan one of the five biggest German IT distributors and simultaneously market leader in the segment for IT distributors specializing in small and medium-sized enterprises.

COS Distribution is one of the leading wholesalers of products for information technology, telecommunications, and entertainment electronics in Germany. COS supplies a wide range of products, including hardware and software, peripheral equipment, mobile computing devices, network equipment, voice telephony, home entertainment and consumer electronics to retail vendors. Thanks to the considerable breadth of this market and the percentage

¹⁶ European Information Technology Observatory 2006, Press Release dated October 12, 2006 - <http://www.eito.org>

¹⁷ Source: International Data Corporation (IDC), Computerwoche 51-52-2006

¹⁸ Source: EITO / BITKOM, Internetworld 25/2006

of revenue generated on the level of individual consumers, the company is not subject to any dependencies on specific customers. On the purchasing side, the company is likewise not subject to any dependencies on specific suppliers, as it purchases products from a broad-based group of more than 100 suppliers. Thanks to the restructuring measures that were initiated already by the previous owner, including (among other things) the redesign of the E-Shops to make them more customer-friendly, COS Distribution anticipates a substantial increase in sales and operating profitability. Furthermore, the company's internal processes are being optimized, which will result in lower operating costs.

Avitos is well established on the Internet as a mail-order vendor of IT-related products to consumers. The product portfolio comprises hardware and software, peripheral equipment, mobile computing devices, network equipment, voice telephony and consumer electronics. Avitos has initiated steps to widen its product portfolio and diversify its purchasing sources. In particular, the company plans to expand its portfolio substantially in the product areas of consumer electronics, digital imaging and gaming. As a result, Avitos stands to benefit from the positive development of the online B2C IT market, especially in 2007. The restructuring and optimization measures that have already been initiated will have a positive impact on the company's profit margins in 2007.

The company TOPEDO, which is also a member of the tison Group, has established itself as one of the PC assemblers operating in Germany. Besides manufacturing computers on a serial basis, TOPEDO also builds customized computers for its customers (so-called "Build-To-Order" or BTO PCs). The company produces desktop computers, notebook computers and high-performance

servers. TOPEDO distributes about 80% of its total production through COS Distribution and is therefore highly dependent on the latter company's revenue performance in the segment of ready-to-use PCs. In particular, TOPEDO stands to profit from the growing business investment in new computers, which is being driven in part by new processor technologies and in part by the introduction of the Microsoft Vista operating system.

Outlook

ARQUES intends to pursue a pan-European buy & build strategy to establish tison as a consolidator on the market for the distribution of IT products, which is especially fragmented in the segment covering small and medium-sized companies. Chikara Handels GmbH, which is based in Tiefenbach near Passau and has revenues totaling EUR 30 million, was acquired on February 13, 2007. Chikara Handels GmbH is an IT distributor specializing in supplying retail chains in the non-food sector. Further acquisitions in this line of business are planned for 2007.

This strategy of business expansion will generate significant improvements for the companies of the tison Group, both in purchasing and in sales. Moreover, the integration of the various subsidiaries and affiliates into tison AG Infosystems will generate synergy benefits in operations, which will lead, in turn, to higher revenues and earnings.

ARQUANA International Print & Media AG

ARQUANA International Print & Media AG was founded in 1922 as Niedermayer Papierwarenfabrik AG, Rosenheim. After the operational business was sold, the company was initially continued under the name Círcel Grundstück- und Vermögensverwaltung AG, Rohrdorf. In July 2005, ARQUES acquired 95% of the company's equity in December 2005 and renamed it ARQUANA International Print & Media AG. Since December 29, 2006, ARQUANA is no longer included in the consolidation group of ARQUES Industries AG. After two capital increases and share placements, the proportion of equity held in ARQUANA by ARQUES Industries AG fell below the 50% mark. Since that time, ARQUANA has been accounted for "at equity" in the consolidated financial statements of ARQUES.

Critical sector appraisal

The printing industry continued on a moderate recovery trend in 2006. Revenues, production output and capacity utilization increased under the effects of the generally better economic climate and gradually rising advertising expenditures. Revenues in 2006 were 2.2% higher than in 2005. Nonetheless, the industry was still burdened by excess capacities and steadily falling prices. Furthermore, the rising costs of paper, ink and energy weighed on earnings in 2006. The German National Association of Print and Media Companies (Bundesverband Druck & Medien) predicts that revenue growth in the printing industry will slow to 1%-2% in 2007.¹⁹

Company situation, business developments, restructuring and development measures

The consolidation process in the highly fragmented printing industry, which is dominated by small to mid-sized printers, continued unabated in 2006 as a result of the problematic market conditions and the substantial investments required to maintain competitiveness. Within this environment, ARQUANA AG successfully asserted its role as the consolidation leader.

The activities of the ARQUANA Group in 2006 were focused primarily on building the company's strategic position as the consolidation driver in the web offset and packaging printing sectors. ARQUANA also systematically pursued its buy & build strategy in 2006 by acquiring two new printing companies, the packaging and label printing specialist Wanfried-Druck Kalden, Wanfried b. Eschwege in the state of Hesse, and the Cologne-based sheet printing and web offset specialist Druckerei J.P. Bachem. Furthermore, the company Colordruck Pforzheim GmbH & Co. KG, which has been a member of the ARQUES Group since the end of 2004, was integrated into ARQUANA in 2006.

Significant capital investments were made in the individual production facilities in 2006. At Wanfried Druck Kalden, for example, a EUR 6 million capital expenditure program was approved in fiscal 2006 for the purpose of building a new production hall. Other capital expenditures related to the acquisition of a printing machine, improvements to prepress equipment and the installation of a modern IT system. These capital expenditures will boost the production capacity and efficiency of the label and packaging printer substantially. Among other capital expenditures, ARQUANA purchased a new wire stitcher for Jöhler Druck and a new product delivery system for Evry Rotatives.

In parallel with these measures, ARQUANA adapted its organizational structures to accommodate the continued growth trend and reinforced the first, second and third management levels. One new member was added to the Management Board, which now covers Sales & Market-

ing, Operations, Strategy & Restructuring and Finance. Also, the general managers of several printing plants were replaced with experienced industry experts. In November, the ARQUANA holding activities were relocated from Starnberg to Neumünster in order to bring the Management Board and corporate departments closer to the operational business. A new subsidiary, ARQUANA Sales GmbH, was created as an umbrella company for the groupwide sales function and placed under the management control of Jürgen Groth, the Management Board member in charge of Sales & Marketing. The staff of this newly created company have already begun to formulate and implement an umbrella brand strategy. To bolster the familiarity of the ARQUANA brand name, the holding company participated in numerous trade shows in Germany and in other European countries. Another new subsidiary, ARQUANA Technology GmbH, was created at the start of 2006 as an umbrella company to oversee the renovation and expansion of installed plant and equipment, including the financing, in order to create an up-to-date and homogeneous installed base for the group. Yet another company, ARQUEM Management GmbH, is responsible for centralized human resources management.

With regard to operational management, ARQUANA nearly completed the process of establishing a corporate Sales & Marketing department in 2006. This department is responsible for marketing the services of all the group companies and for optimizing the range of service offerings and capacities by means of centralized scheduling and ordering. Also, ARQUANA generated significant positive effects by centralizing key purchasing functions and implementing efficiency and quality enhancement measures (including measures to reduce paper and ink consumption, prevent down times in production and implement a uniform management information system). Nonetheless, the profitability of each company depends primarily on its progress in the restructuring process. To facilitate the operational integration, a Management Information System with GIS functions was installed in the printing companies. The new system ensures the free flow of information between the subsidiaries and the holding company and displays the status of all

projects at any time. By means of these controlling and process mechanisms, ARQUANA can respond quickly to developments throughout the group. Other key integration measures included the introduction of an ERP system at the start of 2006 and the harmonization of IT systems.

In its relationship to the capital markets, ARQUANA managed to complete the transition from OTC trading to the Prime Standard segment of the German Stock Exchange more quickly than expected. This was an important step towards the goal of creating a widely-traded, highly liquid share for the company. The Prime Standard listing gives ARQUANA AG access to a wider group of institutional investors, many of which are not even allowed, under their management regulations, to invest in smaller OTC stocks. Finally, two capital increases were conducted in 2006 to further strengthen the equity capitalization of the ARQUANA Group. The issuance of 364,712 new shares brought in fresh funds of approximately EUR 10.6 million.

ARQUANA finances the acquisition and ongoing financial needs of the holding company and the printing subsidiaries in part through loans. Depending on the restructuring progress and financial strength of the printing companies in question, they could possibly be unable to repay these loans in full to the lenders when they are due. If in such cases refinancing would prove to be impossible, the resulting situation could have negative effects on ARQUANA's net assets, financial condition and earnings performance. In 2007, ARQUANA plans to sell various operational properties and lease them back under long-term agreements, in order to raise funds to finance its growth strategy, to make necessary replacement investments and to continue restructuring the various printing companies. The Management Board believes that the planned sale of other properties will be successfully completed in 2007. If this plan cannot be successfully implemented, however, the absence of the corresponding cash inflows could threaten the financial stability of ARQUANA, if no alternative financing sources can be tapped. The Management Board is currently studying borrowing possibilities on the holding company level.

Outlook

In 2007, ARQUANA AG plans to continue pursuing its buy & build strategy by means of targeted acquisitions and through the continued integration and networking of the existing group companies. Concurrently, ARQUANA will commence implementation of a capital expenditure program to modernize its plant and equipment and so lay the foundation for further productivity gains and more flexible production alternatives for customers. In 2007, ARQUANA will continue to actively shape the consolidation process in the web offset industry, which is still in the midst of a situation of transition. The chief goal of the Print segment holding company is to modernize its plant and machinery, some of which needs to be replaced, through capital investments in new, high-capacity equipment. ARQUANA acquired its first new printing machine in March 2007, but the plan to purchase additional equipment could possibly fail in the face of financing difficulties. Such a development would pose a fundamental risk to ARQUANA's competitiveness.





Rohner

ARQUES acquired the Swiss company Rohner AG, based in Pratteln near Basel, from Dynamite Nobel GmbH with effect on March 9, 2006. This chemicals company specializes in the production of intermediate pharmaceutical products and has also established a firm position in the specialty chemicals business.

Critical sector appraisal

The chemicals sector was among the economic growth drivers in Switzerland in 2006. Whereas that country's GDP expanded at the rate of approximately 2.8%, the chemicals sector registered growth of more than 4%.²⁰ Economic growth in Switzerland is expected to slow to a rate of 1.8% in 2007, while the chemicals sector is expected to grow at a higher rate.

Company situation, business developments, restructuring and development measures

Rohner AG was generating losses when it was acquired by ARQUES and continued to operate at a loss, as expected, in 2006. Nonetheless, the company exceeded the budgeted sales and earnings figures by a considerable margin. By the end of 2006, the restructuring phase was nearly completed. Among other measures, a layoff mitigation plan developed jointly with the unions was adopted in 2006.

Because the previous owner had announced the closure of the company's plants, one of the first operational challenges for Rohner was to regain the trust and confidence of its customers. And that is exactly what the company did, as evidenced by the fact that long-term supply contracts were signed with two key customers. Enough orders were received during the course of 2006 that the original plan of concentrating production in two halls instead of four was temporarily suspended. Instead, the company will continue using three production halls until at least September 2007.

The product portfolio of Rohner AG has been streamlined since the company was acquired by ARQUES. The textile dyes and diazo printing chemicals business lines were discontinued and the corresponding building was closed at the end of 2006. In addition, the production of various other, unprofitable special chemicals was discontinued. Instead, Rohner focused on specialty chemicals and pharmaceutical compounds involving complex, multiphase synthesis operations. By coming out with new products, the company established a firm position in these niche markets. Rohner successfully passed the required customer audits in 2006 and consequently a positive flow of orders in 2007 was assured already at the end of 2006.

With regard to personnel measures, Rohner focused on building a highly qualified sales team in 2006. These measures are to be completed in early 2007. There had been considerable employee turnover as a result of the uncertainties that initially surrounded the company's future (137 resignations, 54 hires). As the company's outlook has stabilized, so too has the employee situation, and no significant changes are expected going forward.

Capital expenditures included nearly CHF 500,000 for a waste water treatment plant. Also, an amount of approximately CHF 200,000 was spent on a compactor for product packaging purposes.

In 2006, Rohner acquired Papiermühle Wolfsheck under the terms of an asset deal. For details regarding the business activities of this company, which is managed within the ARQUES Group under the name of Salto Paper, please refer to page 65.

Outlook

In the coming months, Rohner's future market positioning will be defined and implemented operationally during the course of 2007. This final phase of the restructuring process will serve to insulate the order flow from business cycle fluctuations. Starting in 2007, Rohner will actively market its products in the United States, the world's most important market for pharmaceutical products, through a newly founded subsidiary. The expansion of the company's business activities to the United States will be supported by an FDA audit which is planned for 2007.



Hottinger Maschinenbau Group

The plant engineering firm Hottinger Maschinenbau, based in Mannheim, has been a member of the ARQUES Group since the end of March 2006. This company specializes in the production of core machines, of the kind that are used in the automotive industry and for complex foundry applications. In fact, Hottinger is the world market leader in the niche segment of core machines.

Critical sector appraisal

According to the German Association of Mechanical and Plant Engineering Firms (VDMA, Verband Deutscher Maschinen- und Anlagenbau e.V.), the German mechanical and plant engineering sector attained record production of approximately 158 billion euros in 2006, reflecting growth of about 7% over the previous year. Foreign demand exceeded the high level of 2005 by 14% in real terms. Domestic orders jumped 21% but remained at a relatively modest level. For 2007, the VDMA predicts industry growth of approximately 4%.²¹

Company situation, business developments, restructuring and development measures

Buoyed by the positive industry environment and deriving clear benefits from its international business strategy and the intensification of its replacement parts business, Hottinger performed extremely well in 2006. Revenues were about 45% higher than the prior-year level and more than one third higher than planned. The earnings performance was also heartening, as Hottinger generated a positive result again in 2006.

Hottinger has a rather shallow production depth, so that valuable components such as robots and gas injection machines, as well as numerous smaller parts of lower value, need to be purchased from other suppliers. Following the acquisition by ARQUES, the Task Force adopted a new multi-sourcing strategy for the company's purchasing needs. By purchasing necessary parts from numerous suppliers, the company's purchasing risk was effectively minimized.

Directly after the acquisition, ARQUES achieved significant cost savings by renegotiating purchasing terms and convincing suppliers to waive their old debts. In addition, a restructuring package was adopted in consultation with employee representatives.

With regard to operational measures, priority was given to reorganizing and strengthening the Sales & Marketing department, stepping up the company's international activities and implementing a project-based organizational structure. By establishing international sales agencies and regional cooperation ventures, Hottinger successfully established a presence in all relevant markets (North and South America, China, Germany, France and Eastern Europe). Having implemented a sales process management program backed by efficient project management techniques, Hottinger presented itself to the market as a full-range plant engineer and service provider. These steps will benefit not only the plant engineering business, but also replacement parts and after-sales service.

As a result of customers' uncertainty regarding Hottinger's situation prior to the acquisition by ARQUES, the order flow was weak in the first and second quarters of 2006, but the situation improved markedly during the course of the second half. To boost its chances further, Hottinger participated in the relevant trade shows in Germany and abroad.

²¹ Press release of Verband der deutschen Maschinen- und Anlagenbauer (VDMA) dated December 20, 2007 - <http://www.vdma.org>

With regard to the company's workforce, it should be noted that employee turnover was relatively high in 2006 as a result of the initial uncertainty surrounding the company's future and the restructuring measures that were implemented. At the end of 2006, Hottinger had 64 employees (2005: 76). All together, 16 employees left the company (eight of whom due to restructuring measures) and four new persons were hired. Because the company's success depends very much on the technical expertise of its employees, continuing education measures are very important. Employees also received intensive training in matters of work safety.

Outlook

In view of the positive industry development and the reorganization of the sales process, Hottinger anticipates a growing volume of new orders in 2007. A highlight of the coming year will be the company's participation in the world's biggest trade show for foundry products and services, the GIFA 2007, to be held in Düsseldorf in June. Hottinger will use this occasion to present itself to a broad international trade public. In its development activities, Hottinger will intensify its cooperation with regional universities in order to further extend its technology leadership position.



Fritz Berger Group

ARQUES acquired the outdoor specialist Fritz Berger from the KarstadtQuelle Group under the terms of an asset deal on May 1, 2006. This company is the European market leader for leisure goods and camping gear. Its activities are focused in Germany and Austria. Fritz Berger distributes merchandise through a variety of channels, including its wide-ranging network of shops, mail-order catalog and online sales and as a wholesaler. Also, Fritz Berger operates four Jack Wolfskin franchises through a subsidiary.

Critical sector appraisal

In 2006, retail sales rose 0.8% in nominal terms and 0.1% in real terms over 2005.²² The increase over the previous year can be attributed in part to the fact that many consumers moved their purchases forward in advance of the increase in the value-added tax and in part to the sales boost delivered by the soccer World Cup that was held in Germany in 2006. The camping and outdoor sector benefited additionally from the long-lasting summer of 2006. For 2007, the HDE (German retail trade association) anticipates that retailers will increase their sales by 0.5-1.0% in nominal terms, although this will likely translate to a net decrease in inflation-adjusted terms.

Company situation, business developments, restructuring and development measures

In terms of both sales and earnings, Fritz Berger exceeded its budget targets in 2006. In comparing the figures for 2006 and those for 2005, it should be remembered that the months of January to April, when sales and earnings are typically weak, are not included in the figures for 2006. Other non-recurring factors related to the acquisition served to boost the company's performance in 2006.

The first restructuring measure undertaken after the acquisition was to make changes to the administrative organization of Fritz Berger, especially on the senior management level, to make it more efficient. Unavoidable layoffs were held to a single-digit figure. The ARQUES Task Force also renegotiated the terms of key purchasing and service agreements, generating significant cost savings as a result.

With regard to business strategy, it was decided to retain all three distribution channels, but to intensify online sales and improve the quality of the company's shops. After thorough analysis, the merchandise portfolio was streamlined. All product lines that did not sell well or did not yield satisfactory profit margins in 2006 and 2005 were discontinued as of 2007. As the next step, a critical review was conducted of the merchandise inventories of the Fritz Berger shops. Where necessary, certain merchandise groups were taken back to the central warehouse and replaced with more appealing products. In order to make these improvements, it was necessary to upgrade the merchandise management software. These measures, together with targeted sales actions, brought about a significant overall reduction of inventories.

Fritz Berger's capital expenditures consisted of software upgrades and the acquisition of furnishings and fixtures for the shops, as well as a new envelope-stuffing machine.

Fritz Berger then developed a new advertising and communication strategy, which was implemented successfully in the 2006 Fall Catalog and in the company's presence at the leading industry trade show, the Caravan-Salon in Düsseldorf. The discontinuation of inefficient marketing activities led to savings of approximately EUR 1.5 million.

²² German Federal Statistical Office, in a press release dated January 31, 2007: <http://www.destatis.de>

Outlook

In the current business year, Fritz Berger will first present its main catalog, based on the new communication strategy adopted in 2006. The company intends to strengthen its market position further by participating in regional trade shows. Fritz Berger is planning to relaunch its company website and introduce a Fritz-Berger customer card. The company will also take steps to further optimize its merchandise inventories and product assortments at all the

shops in time for the summer season. Finally, Fritz Berger plans to open new shops and convert consignment-based partner shops into full-fledged company shops. The company will continue to optimize its merchandise assortment and pursue a strategy based on the company's market positioning as a knowledgeable purveyor of high-quality brand-name goods.





Farbendruck Weber

ARQUES acquired the Swiss printing concern Farbendruck Weber AG, which is headquartered in Biel, from the French Partenaires-Livres Group on August 29, 2006. Weber is one of the leading suppliers of web offset printing products in Switzerland, with a highly modern installed base of plant and equipment.

Critical sector appraisal

The printing industry continued on a moderate recovery course in 2006, also in Switzerland. Revenues, production output and capacity utilization rates were all higher than the corresponding prior-year values. The positive development can be credited to the generally improved economic conditions and the gradually rising advertising expenditures. Nonetheless, numerous printing companies are being squeezed by excess capacities, falling prices, rising energy and commodity prices and the growing need to make necessary business investments. Based on industry surveys, experts are predicting that competition will intensify in 2007, but the industry as a whole will generate moderately higher revenues.

Company situation, business developments, restructuring and development measures

By means of so-called "quick wins," ARQUES succeeded in generating appreciable productivity gains at Farbendruck Weber within a very short period of time. As a result, the Swiss printing concern increased its revenues by around 10% in the time since it was acquired by ARQUES (September to December 2006), as compared with the corresponding prior-year period, slightly outperforming its budgeted targets and considerably outperforming the average revenue trend for the industry as a whole. This positive development was also aided by the strategic cooperation with ARQUANA International Print & Media AG, which gave Weber access to new customers, especially in Germany and Britain.

The first restructuring phase is nearly complete at Farbendruck Weber. Among other measures, the renegotiation of contracts with suppliers led to a significant decrease in the cost of purchased goods. Moreover, an agreement was reached with employees on new company regulations, which will remain in effect until 2009. The strategic partnership with ARQUANA generated substantial synergy benefits in the areas of sales, purchasing and prepress planning and support. These measures enabled the company to quickly boost the capacity utilization of its production equipment.

The introduction of a new software program improved the transparency of the order costing process and the installation of a new IT environment made it possible to optimize business processes. Quality is assured by means of a multi-stage inspection process, which begins with the receipt of printing data from the customer and extends to the printing plates used for the job. Within the production process, the company also conducts continuous sample inspections.

A new, highly modern base of plant and equipment has been installed at Weber, significantly boosting production capacities and efficiency and reducing production costs. The installation of this new equipment entailed only short production down times within the planned scope.

To further enhance efficiency, capital expenditures totaling CHF 7 million are planned for finishing and prepress operations in 2006.

Outlook

Weber anticipates that it will continue to operate at full capacity in 2007. The company also expects additional efficiency gains and revenue increases to result from the restructuring of various departments, which has already begun, and the planned capital expenditures. Also, Weber plans to acquire higher-margin job orders in the future, to increase the company's profitability. Finally, the company anticipates other positive effects from its strategic cooperation with ARQUANA.

Salto Paper / Papiermühle Wolfsheck

ARQUES acquired Papiermühle Wolfsheck, located in the southern section of the Black Forest region, as of September 1, 2006, under the terms of an asset deal. The paper mill produces base paper for wallpaper, magazine paper and specialty papers. ARQUES distributes the paper mill's products under the newly introduced brand name Salto Paper.

Critical sector appraisal

According to the German papermaking association (VDP, Verband Deutscher Papierfabriken e.V.), the papermaking industry in Germany is undergoing a phase of rising production volumes and growing cost pressures. The business situation varies widely from one paper type to another. For graphic papers, the volume and price trend is unsatisfactory in some cases, but the trend for newspaper is positive. High growth rates can be observed for packaging products, along with toilet paper and specialty papers.²³

According to the VDP, the sharp rise in raw material costs and especially energy costs is problematic. On average, energy costs represented about 12% of total sales revenue in 2006.

Company situation, business developments, restructuring and development measures

The ARQUES Task Force initiated fundamental restructuring measures immediately after the acquisition of Papiermühle Wolfsheck. Besides instituting a new administration and introducing new IT systems, ARQUES reorganized and internationalized the sales force. Contracts with suppliers and service providers were renegotiated. All in all, however, the restructuring of the paper mill has proven to be difficult. The costs of raw materials, and especially wood pulp, again increased dramatically right after the acquisition by

ARQUES. It remains to be seen whether and in what amount the higher input costs can be passed on to customers in the form of price increases. The company was able to raise prices in the niche segment of wallpaper base paper, in which Salto Paper holds a leading market position.

Within the scope of its R&D activities, which were intensified after the acquisition, the company developed new specialty papers for the woodworking industry and release papers and established distribution channels for these new products. It remains to be seen, however, whether these products can be successfully marketed.

Until February 28, 2007, Salto Paper was managed as a dependent division of Rohner AG. Since that time, the business is managed independently within the company Salto Paper AG, Switzerland.

Outlook

The measures initiated and in some cases completely executed in 2006 will have a positive impact on the company's operating results in 2007. It remains to be seen, however, whether the additional costs resulting from the higher prices of raw materials can be passed on to customers. On the production side, the company will continue to focus on specialty papers such as wallpaper base paper, silicon base papers and papers for the woodworking industry. On the sales side, the newly created brand of Salto Paper will be communicated to customers through active, internationally oriented marketing activities in order to enhance brand familiarity and extend the company's market position.

²³ Press Release of the Verband deutscher Papierfabriken dated December 7, 2006 - <http://www.vdp-online.de>



Oxxynova Group

ARQUES acquired the chemicals concern Oxxynova from Degussa on September 8, 2006. The antitrust authorities approved the transaction in early October of the same year. Oxxynova is the leading European producer of liquid and solid dimethyl terephthalate (DMT), an input for polyester production. DMT is used in the production of textile and technical fibers, films, input materials for paint and adhesive products and foil products. DMT offers concrete advantages over imported substitute products that can also be used as an input for polyester production. Oxxynova is by far the biggest European producer of DMT. The company uses none of its production output for its own purposes, but sells it all to customers.

Critical sector appraisal

The polyester industry was burdened by the higher costs of raw materials and energy in 2006. Due to the market situation, it was not possible, or only after a delay, to pass on the higher production costs to customers. This circumstance had a significant impact on the earnings performance of market participants. At the same time, the pressure exerted by foreign suppliers of substitute products for liquid DMT, especially from India and China, came to bear on the European market, which had been stable for years.

Company situation, business developments, restructuring and development measures

Oxxynova is still in the first restructuring phase. Immediately after the company was acquired by ARQUES, the Task Force renegotiated the existing contracts with suppliers, service providers and customers. The ARQUES Management also developed a plan to boost efficiency and commenced implementation of that plan.

In connection with the safety inspection which all chemical plants are required to undergo every five years, production was temporarily shut down at both facilities. The unforeseen problems that occurred when the machines were restarted had a significant adverse effect on both revenues and earnings. Oxxynova used the production down times to make necessary repairs and complete investment projects in new plant and equipment. The execution of this capital expenditure plan involving more than EUR 1 million will reduce the quantity of energy and raw materials consumed in the production process in the future.

Generally speaking, the company's performance in fiscal 2006 was very much influenced by the intense global competition, both in terms of price and quantities, affecting all stages of the value chain for the polyester market. While the PBT segment (polybutylene terephthalate, a technical synthetic) experienced above-average growth in 2006, the Technical Fibers und Foil segments were basically unchanged and the Textile Fibers and Chips segments sustained moderate revenue losses. The price competition in

the European DMT market intensified yet again at the start of 2007, due to the unsatisfactory capacity utilization of certain competitors. At the end of February 2007, a larger customer of Oxxynova, which had been sold repeatedly over a short period of time and was experiencing financial difficulties, shut down its plant. It is unclear at present whether this customer will recommence operations. Oxxynova is taking steps to find other buyers to offset the lost output, if only partially.

Outlook

The measures initiated in 2006 will show their full effects in 2007. Oxxynova expects to win additional market shares within its customer group. A shut-down will occur again in one production facility in connection with a scheduled safety inspection in 2007. The company is currently working on an intensive analysis of its technical plant and production capacities with the goal of fully exploiting the market potential through product developments, process conversions and the entry into new markets.



BEA TDL Group

ARQUES acquired BEA Elektrotechnik und Automation Technische Dienste Lausitz GmbH (BEA TDL) from the Röchling Group on November 11, 2006. BEA TDL installs electrical and automation systems in the following business segments: materials handling technology, water technology, and energy and environmental technology.

Critical sector appraisal

As a provider of technical services, BEA TSDL is especially dependent on the propensity for power supply companies to invest. Lignite currently makes up more than 40% of primary power generation in Germany, which makes it the most important domestic source of energy. Lignite mining in eastern Germany (Lausitz, Mitteldeutschland) and in the Rhineland could benefit in the long run from the agreed discontinuation of nuclear energy in Germany and the recently planned end of anthracite. Against this backdrop, German utilities are planning to invest several hundred million euros in opencast mining, for which BEA TDL develops, installs and maintains the electrical and automation systems, among other things. The energy and environmental technology line of business will become more important in conjunction with the planned investment of billions of euros in power plants by utilities.

Company situation, business developments, restructuring and development measures

BEA TDL benefited from the growth in the field of German opencast mining, recording higher new orders in this area for both installing electronic equipment in the mining systems and repair and maintenance. The order situation in the energy and environmental technology and the water technology lines of business deteriorated compared with the prior year. In total, the order flow was weaker than it was in the preceding year, as expected.

On the operating side, BEA TDL started to optimize its operating processes shortly after the takeover by ARQUES, while terms of delivery were renegotiated for purchasing, which led to initial savings. Furthermore, a redundancy plan, a reconciliation of interests and a job-protection agreement were agreed with trade union IG Metall. Strategically BEA TDL took steps to secure some of the investment being made in the booming global commodity and energy markets.

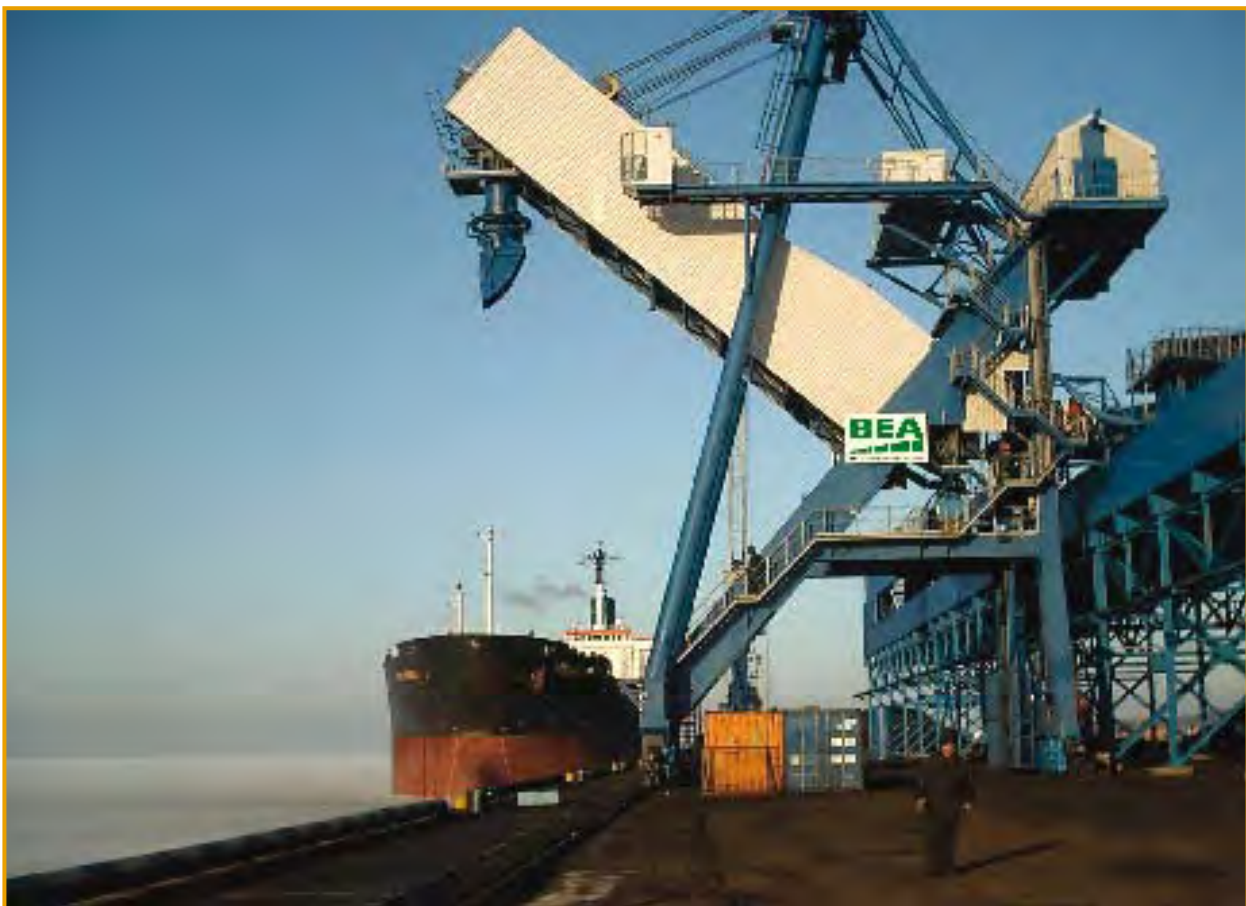
BEA TDL had 359 employees at December 31, 2006. Because the technical expertise of its employees is a critical prerequisite for the company's success, continuing education measures are particularly important. Such measures were focused on technical training and on automation and drive technologies in the areas of sales and project management, foreign language acquisition and ongoing training in matters of worker safety. In the future, the company plans to expand continuing education and training measures tailored to specific orders.

The company's capital expenditures in 2006 amounted to EUR 680,000. These funds were applied primarily to expand the Engineering space at the company's headquarters in Spremberg-Schwarze Pumpe, for necessary replacement investments in the area of measurement and testing equipment and for modernizing the company's IT systems.

BEA TDL conducts a research and development program in cooperation with Brandenburgische Technische Universität Cottbus, the Fraunhofer Institute and Fachhochschule Lausitz. In every such case, the collaboration is conducted on the basis of concrete orders and detailed task descriptions. In 2006, the company DEKRA Certification Services, Stuttgart, conducted a successful follow-up audit of the company's quality management system, which is certified under DIN EN ISO 9001. Furthermore, the certification of the management system for Safety, Health and Environmental Protection (SCC**, Version 2002) was confirmed until July 2008 by means of a follow-up audit conducted in 2006.

Outlook

BEA TDL aims to defend and expand its market position as one of leading providers of technical services for electrical and automation systems by reinforcing its core competence. At the same time, the company is looking to benefit from the regional growth markets by expanding and internationalising the sales function. It is also looking to enter the growing market for power plant reconditioning.



Other companies of the ARQUES Group

ARQUES Mediterranean Investment Limited and its ARQUES Value Invest Limited subsidiary are two Malta-based companies owned by ARQUES Industries AG. They are used to group together certain worldwide financing activities. Apart from a symbolic share that is required by Maltese law, they are wholly owned by ARQUES Industries AG. These companies use the euro as their accounting currency.

In extending the international scope of its business model, ARQUES Industries AG has formed ARQUES Industries AG, Vienna, in Austria, and ARQUES Iberia SA, Madrid, in Spain. Like the German parent, the business activity of the international companies involves taking over and actively restructuring companies.

Xerius AG

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

Mergers

The wholly owned ARQUES subsidiaries ARQUES Consult AG and ARQUES Task Force GmbH were merged into ARQUES Industries AG with retroactive effect from March 31, 2006. The transaction was entered in the Commercial Register on November 7.

Disposal of subsidiaries

Heinrich Heiland

Magstadt-based Heinrich Heiland GmbH, which manufactures transport protection covers, was sold at June 30, 2006 and is now owned by a foreign investor. Heiland had been a member of the ARQUES Group since February 23, 2006. As a result of the measures taken by the ARQUES task force in the first phase of restructuring, especially the closure of unprofitable business units, Heiland's revenues fell below the EUR 10 million level, and hence below ARQUES' investment threshold.

Value-based management

ARQUES' management controls the corporate group using a value-based, two-phase model. Phase 1 concentrates on stabilizing the liquidity situation of the new acquisitions in need of restructuring. The key performance indicator in this respect is the company's operational cash flow. Effects serving to boost liquidity are achieved in the first phase that can last up to one year by means of agreements with the creditors, employees, suppliers, and customers of the newly acquired companies. The earnings position of the acquired companies is improved in phase 2. Management uses EBIT (earnings before interest and taxes) to monitor the progress of the measures implemented to achieve this. This also involves grouping companies together by calendar year of acquisition (see also segment reporting by vintage years in the notes to the consolidated financial statements). The organization of the ARQUES Group, under which the managing director appointed as the subsidiary manager usually holds an equity stake in the target company, guarantees an uncomplicated, direct form of checks and balances in the companies. This arrangement effectively serves to prevent uncontrolled spending in current operations. The subsidiary manager also holds a direct stake in the subsequent sale proceeds and will therefore be motivated to bring about such a sale.

NET ASSETS, FINANCIAL POSITION AND EARNINGS OF THE SEPARATE PARENT COMPANY AND THE GROUP

ARQUES Industries Aktiengesellschaft – PARENT COMPANY'S SEPARATE FINANCIAL STATEMENTS

Business development in 2006

The business development of ARQUES Industries AG in 2006 was characterized by a considerably heightened level of acquisitions and significant restructuring successes, including the initial public offering of stock in SKW-Metallurgie Holding AG, the sale of shares in ARQUANA International Print & Media AG and the collection or sale of loan receivables that had been acquired for less than their nominal value.

Earnings

The revenues of EUR 1.9 million (PY: EUR 0) that were generated in 2006 resulted from consulting services related to the merger of Arques Task Force GmbH and Arques Consult Aktiengesellschaft (both as transferring legal entities) into ARQUES Industries AG (as the absorbing legal entity).

ARQUES increased its other operating income by 358% (PY: 103%) to EUR 37.8 million in 2006 (PY: EUR 8.2 million). Of this amount, income from the sale of shares and marketable securities classified as current assets accounted for EUR 9.6 million (PY: EUR 6.1 million), income from the sale of loan receivables to affiliated companies accounted for EUR 6.0 million and income from the sale of shares in SKW Stahl-Metallurgie Holding AG on the occasion of that company's IPO accounted for EUR 19.2 million. The above-mentioned loans had been purchased at less than their nominal values in connection with company acquisitions.

The cost of purchased services amounted to EUR 2.3 million in 2006. It was the first time that such expenses were incurred. These expenses also resulted from the merger of Arques Task Force GmbH and Arques Consult Aktiengesellschaft into ARQUES Industries AG.

The personnel expenses increased from EUR 0.9 million in 2005 to EUR 4.2 million in 2006. This increase resulted mainly from the assumption of new employees in connection with the merger of Arques Task Force GmbH and Arques Consult Aktiengesellschaft into ARQUES Industries Aktiengesellschaft and from the enlargement of the Executive Board.

The other operating expenses increased by 33% to EUR 5.3 million (PY: EUR 4.0 million). This increase resulted mainly from the above-mentioned merger and from an addition of EUR 1.0 million to the provision for general contract risks.

ARQUES did not collect any profit distributions from its subsidiaries in 2006 (PY: EUR 2.7 million). ARQUES is able to tap the liquidity generated as a result of restructuring successes by other means than by profit distributions, including the sale of shares in its subsidiaries and the collection of payments on loan receivables purchased in connection with a company acquisition.

ARQUES generated net interest income of EUR 0.9 million in 2006 (PY: EUR 1.0 million). The decrease from the previous year resulted mainly from the higher level of loan liabilities owed to affiliated companies.

The extraordinary expenses of EUR 2.1 million represented the merger loss on the merger of Arques Task Force GmbH and Arques Consult Aktiengesellschaft (both as transferring legal entities) into ARQUES Industries AG (as the absorbing legal entity).

Accordingly, the company's net profit for 2006 amounted to EUR 27.4 million, 413% higher than the prior-year figure of EUR 5.3 million. The accumulated profit amounted to EUR 27.4 million (PY: EUR 5.4 million).

The Management Board and Supervisory Board of ARQUES will propose distributing a dividend of EUR 0.51 for 2006 (PY: EUR 0.205).

Net assets and financial position

The company's total assets at December 31, 2006 amounted to EUR 115.3 million (PY: EUR 71.8 million). The significant increase over the previous year resulted from the merger of Arques Task Force GmbH and Arques Consult Aktiengesellschaft into ARQUES Industries AG and from the extensive investment activities that were again conducted in 2006.

As in the previous year, the most important asset category was that of financial assets, accounting for EUR 54.1 million (PY: EUR 38.4 million) or 46.9% (PY: 53.5%) of total assets.

Receivables due from affiliated companies amounted to EUR 20.4 million, after EUR 16.3 million in the previous year.

Cash and cash equivalents at December 31, 2006 amounted to EUR 20.3 million (17.7% of total assets), as compared with EUR 13.3 million in the previous year (18.5% of total assets).

The shareholders' equity amounted to EUR 85.8 million (PY: EUR 63.5 million). The equity ratio was 74.4% (PY: 88.4%). The return on equity was 31.9%, as compared with 8.4% in the previous year.

The tax provisions of EUR 0.2 million (PY: EUR 1.2 million) were calculated on the assumption that profits on the sale of shares in subsidiaries are tax-exempt in accordance with Section 8b (2) of the German Corporation Tax Act ("KStG").

The other provisions of EUR 4.3 million (PY: EUR 1.6 million) were composed of personnel provisions in the amount of EUR 2.5 million (PY: EUR 0.4 million) and miscellaneous other provisions in the total amount of EUR 1.8 million (PY: EUR 1.2 million), essentially including provisions for general contract risks in the amount of EUR 1.0 million, provisions

for the costs of the annual general meeting in 2006 in the amount of EUR 0.08 million and provisions for other outstanding invoices in the amount of EUR 0.2 million.

The liabilities due to banks amounted to EUR 5.0 million at the balance sheet date (PY: EUR 0). These liabilities were incurred in a giro account with a revolving working capital credit facility at Postbank München.

The other liabilities of EUR 0.8 million (PY: EUR 0.2 million) consisted mainly of wage and church tax to be withheld for December 2006 (EUR 0.6 million) and the social security contributions for December 2006 (EUR 0.01 million).

ARQUES Industries Aktiengesellschaft – CONSOLIDATED FINANCIAL STATEMENTS

Business development in 2006

The business development of the ARQUES Group in 2006 was characterized by operational improvements at the subsidiaries, as well as new company acquisitions and restructuring successes realized through the sale of shares in the individual subsidiaries.

Summary of revenues, earnings and financial position

At EUR 768.2 million, the revenues of the ARQUES Group were higher than the prior-year figure by EUR 350.7 million or 84.0%. Adjusted for discontinuing operations, the revenues for 2006 amounted to EUR 609.4 million (corresponding to 46.0%). The increase resulted mainly from additions to the consolidation group. The EBITDA¹ was higher by 114.3%, at EUR 126.2 million. Adjusted for discontinuing operations, the EBITDA was EUR 131.6 million (206.6%). The EBITDA contained income from the reversal of negative consolidation differences in the amount of EUR 92.8 million (for more information on this subject, see the section entitled "Income from the reversal of negative consolidation differences"). ARQUES generated "other operating income" on the sale of shares in subsidiaries in the amount of EUR 34.0 million. The consolidated net profit

was higher by 131.2% at EUR 110.6 million (PY: EUR 47.8 million). Adjusted for discontinuing operations, the consolidated net profit was EUR 125.6 million (262.6%). The cash and cash equivalents, at EUR 92.0 million, were 122.1% higher than the prior-year figure (PY: EUR 41.4 million).

Analysis of segment results

The segments of the ARQUES Group were expanded as a result of the new acquisitions effected in 2006. In particular, the SKW Group was reassigned to the new segment of Specialty Chemistry. Due to the deconsolidation of Arquana International Print und Media AG, the Print segment has been presented mainly under discontinuing operations in the consolidated financial statements for 2006. The segment results are summarized in the table below.

	REVENUES	2006 EUR mill.	2005 EUR mill.	Change in %
Speciality Chemistry		252.9	192.8	31.2
Print		18.7	0.0	-
Industrial Production		136.6	70.9	92.7
Holding		0.0	0.4	-
Steel		86.6	63.5	36.4
Other		114.6	34.1	236.1
Continuing operations		609.4	361.7	68.5
Discontinuing operations		158.8	55.8	184.6
Total		768.2	417.5	84.0

1 EBITDA: Defined as the income from ordinary activities before depreciation and amortization, impairment losses, net financial income/expenses and taxes. As an earnings indicator, EBITDA has not yet been completely defined according to international accounting standards.

2 EBIT: Defined as the income from ordinary activities before net financial income/expenses and taxes. As an earnings indicator, EBIT has not yet been completely defined according to international accounting standards.

	EBITDA ¹	2006 EUR mill.	2005 EUR mill.	Change in %
Speciality Chemistry		44.5	12.4	258.9
Print		10.1	0.0	-
Industrial Production		10.3	14.9	-30.9
Holding		37.8	3.8	894.7
Steel		0.8	0.1	700.0
Other		32.1	11.7	174.4
Group adjustment		-4.0	0.0	-
Continuing operations		131.6	42.9	206.8
Discontinuing operations		-5.4	16.0	-
Total		126.2	58.9	114.3

	EBIT ²	2006 EUR mill.	2005 EUR mill.	Change in %
Speciality Chemistry		39.6	10.6	273.6
Print		5.7	0.0	-
Industrial Production		7.6	13.5	-43.7
Holding		37.5	3.6	941.7
Steel		-4.2	-4.1	2.4
Other		28.2	10.0	182.0
Group adjustment		0.36	0.0	-
Continuing operations		114.6	33.6	241.1
Discontinuing operations		-14.5	12.5	-
Gesamt		100.2	46.1	117.4

As of 2006, the biggest revenue contributor was the Specialty Chemistry segment, with revenues of EUR 252.9 million, of which amount the SKW Group contributed EUR 185.8 million. Other companies in this segment include the companies of the Oxxynova Group, acquired in 2006, and Rohner AG. Though acquired during the year, the Oxxynova Group contributed EUR 44.1 million to the total segment revenues. The segment EBITDA includes income from negative consolidation differences in the amount of EUR 31.7 million.

The Print segment was mainly comprised of ARQUANA, which was deconsolidated in 2006 as a result of share sales. Consequently, this sub-group within the Print segment is presented under discontinuing operations. As a key shareholder, ARQUES continues to support the “buy & build” strategy managed by the print holding company ARQUANA. At the balance sheet date, the continuing operations of the Print segment consisted exclusively of the companies of Farbendruck Weber AG, which were acquired in 2006. The income from reversal of negative consolidation differences for this group of companies amounted to EUR 22 million.

The Industrial Production segment comprises the previously acquired companies SKS Stakusit, Missel and Evotape, and the companies Georg Fischer Schwab and Hottinger, which were acquired in 2006. The restructuring measures implemented at SKS Stakusit have been so successful that the company generated a positive EBIT of EUR 2.5 million in 2006. The restructuring measures being implemented at the other companies of this segment are proceeding according to plan. The EBITDA figure also contained income from the reversal of negative consolidation differences in the amount of EUR 5.1 million.

The Other segment comprises the previously acquired companies ddp, GolfHouse, teutonia and tiscon, and the newly acquired companies Saltopaper, Fritz Berger and BEA. With tiscon, ARQUES is pursuing a “buy & build” strategy in the IT distribution sector. As a result of new acquisitions, this segment was considerably expanded in 2006 and ARQUES plans to expand it further through additional acquisitions in the future. The EBITDA figure also

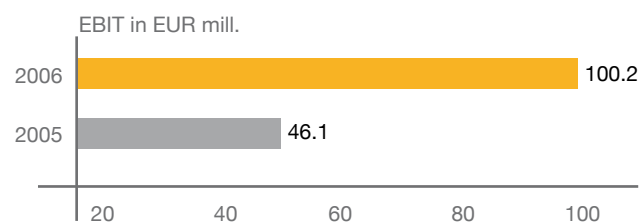
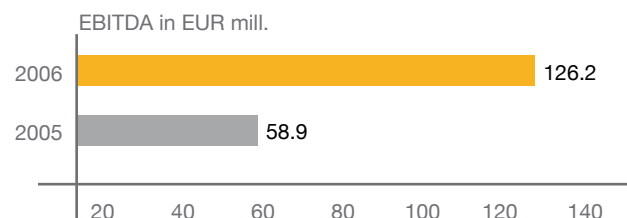
contained income from the reversal of negative consolidation differences in the amount of EUR 33.9 million.

Aside from various shelf companies, the Holding segment comprises the Group parent companies (ARQUES Industries AG, ARQUES Mediterranean Invest Ltd., Malta, ARQUES Value Invest Ltd., Malta and ARQUES Industries AG, Vienna, Austria). This segment generated especially strong earnings in 2006 because ARQUES Industries AG generated income of EUR 34.0 million from the sale of company shares. Also, ARQUES Value Invest Ltd., Malta, generated income of EUR 3.1 million from the fair value measurement of shareholder loans in connection with the transitional consolidation of the ARQUANA sub-group.

The Steel segment comprises two companies that operate as suppliers or processors for the steel industry (Jahnel Kestermann Group and Sommer Group). Following the creation of the new Specialty Chemistry segment, the SKW Group was reassigned from the Steel segment to this new segment, in accordance with its business activities, and the prior-year comparison values were adjusted accordingly.

Earnings

The earnings of the ARQUES Group (EBITDA and EBIT) are presented in the tables below.



The earnings performance of the ARQUES Group is heavily influenced by the “other operating income” generated in connection with the acquisition and subsequent sale of companies.

Other operating income

The ARQUES Group generated other operating income of EUR 169.9 million in 2006, 178.1% higher than the prior-year figure (PY: EUR 61.1 million). Of this amount, EUR 8.0 million related to discontinuing operations. From the perspective of the overall company, this increase resulted from various factors, including income from the reversal of negative consolidation differences in the amount of EUR 92.8 million (PY: EUR 38.4 million), income from the sale of shares in SKW Metallurgie Holding AG in the amount of EUR 25.6 million and from the sale of shares in ARQUANA International Print & Media AG in the amount of EUR 8.4 million, income from the reversal of provisions in the amount of EUR 5.3 million (PY: EUR 4.8 million) and miscellaneous other operating income in the amount of EUR 24.8 million (PY: EUR 4.7 million).

Income from the reversal of negative consolidation differences

The income from the reversal of negative consolidation differences amounted to EUR 92.8 million in 2006, as compared with EUR 38.4 million in 2005. It resulted from the first-time consolidation of the companies and groups Farbendruck Weber, Rohner, Oxxynova, Fritz Berger, BEA TDL, COS, ddp, Wolfsheck and Georg Fischer Schwab.

Such income is generated when the cost of a company acquisition is less than the sum of the fair values of the company's assets, less the liabilities and contingent liabilities of the purchased company. In accordance with fair value principles, the assets and liabilities are usually remeasured at fair value and the companies are generally acquired without debts and encumbrances. Differences between the fair values and the carrying amounts often occur in land and buildings. When pension liabilities exist, however, the fair value of such obligations is often higher than the carrying amount according to the accounting regulations of the

German Commercial Code or other national accounting regulations because the discounting allowed under IFRS is generally lower. The fair values of liabilities are remeasured in the case of obligations under incomplete contracts, order book losses, warranties, etc.

In most cases, a large portion of the income from the reversal of negative consolidation differences can be attributed to the consolidation effect relative to the shareholder loans purchased in connection with company acquisitions. Such shareholder loans are stated at nominal value on the books of the purchased company without regard to the acquisition, but are recognized as assets and measured at the usually much lower acquisition cost on the books of the purchasing company.

During the period of affiliation with the Group, the fair value measurement of assets and liabilities will usually affect nearly all the items of the consolidated income statement.

The income from the reversal of negative consolidation differences must be recognized as income in the period during which the acquisition occurred. Such income may not be distributed over the entire restructuring phase, in synchronicity with the corresponding restructuring expenses, because in some cases the restructuring phase may last longer than twelve months. From an economic perspective, this income represents the final contribution of the seller to the future restructuring of the company, which is initiated by ARQUES. Thus, the income from the reversal of negative consolidation differences recognized in 2006 is offset by the restructuring expenses, such as layoff mitigation plans or plant closures, for the companies acquired in 2006. But the income statement also includes restructuring expenses when they relate to acquisitions from prior periods.

From the Group perspective, therefore, this income is essential to offset the expenses for restructuring measures. As mentioned above, this treatment frequently leads to income and expenses that span more than one reporting period, because the income is recognized at the time of the acquisition, but the expenses are usually recognized at a later time.

Expenses

For the overall company, the personnel expenses increased from EUR 80.3 million in 2005 to EUR 168.4 million in 2006, due mainly to the companies added to the consolidation group.

On an overall company basis, the other operating expenses amounted to EUR 122.8 million, 111.1% higher than the year-ago figure. This increase, too, is almost entirely due to the companies added to the consolidation group.

Net interest expenses

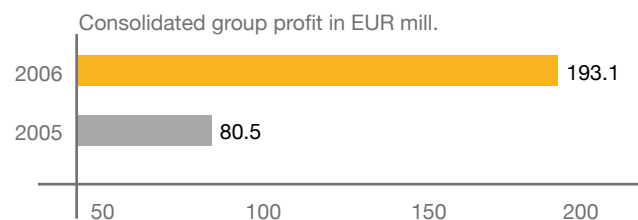
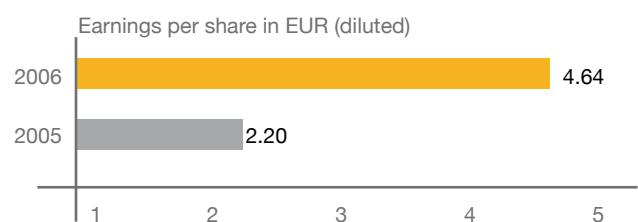
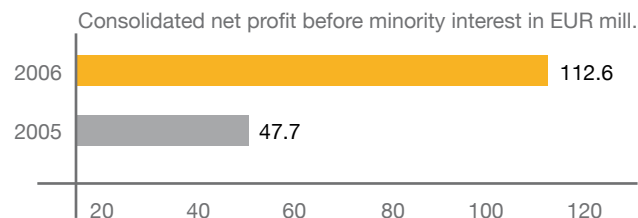
On an overall company basis, the consolidated net interest expenses for 2006 amounted to EUR -3.3 million, as compared with EUR -1.2 million in 2005. The increase resulted mainly from the liabilities due to banks assumed in connection with the acquisitions effected in 2006.

Tax rate

The Group's tax rate at the end of 2006 was -13.24%, as compared with -4.62% in the previous year. The negative tax rate resulted mainly from the income from the reversal of negative consolidation differences, which were not offset by current or deferred income tax expenses. Instead, the corresponding deferred taxes are accounted for already in the process of calculating the income from the reversal of negative consolidation differences. Thus, the income from the reversal of negative consolidation differences are after-tax values.

Consolidated net profit, accumulated profit and earnings per share

In accordance with the foregoing, the consolidated net profit before minority interest amounted to EUR 112.6 million, 135.7% higher than the prior-year figure of EUR 47.7 million. Consequently, the diluted earnings per share came to EUR 4.60, after EUR 2.19 in 2005. The basic earnings per share amounted to EUR 4.64, after EUR 2.20 in 2005.



Cash flow aspects

The total net result of those Group companies, the acquisition of which gave rise to income from the reversal of negative consolidation differences in 2006 (not including the income from the reversal of negative consolidation differences), was a net loss of EUR 7.0 million. This figure contained significant start-up and restructuring losses which are normally incurred after the acquisition, in accordance with the ARQUES business model (acquisition of loss-making companies).

The progress of restructuring is reflected not least of all in the ability of the company in question to generate positive cash flows or not to use all their existing cash for restructuring purposes. When free cash flows are generated or disposable funds are available, the company will be able to repay its shareholder loans. This may happen considerably before the time when the company is able to distribute a dividend, as when loss carry-forwards still need to be used because the restructuring phase has been short, but the loss-making history is much longer.

By this means, the Group companies were able to repay EUR 8.2 million (PY: EUR 8.8 million) to the Group holding company in 2006. These funds were freely available to the Group.

Net assets and financial position

The total assets of the ARQUES Group at December 31, 2006 amounted to EUR 665,283 thousand (PY: EUR 367.9 million). The substantial increase over the previous year was especially due to the extensive investment activities carried out in 2006. As in the previous year, the most important item of assets was that of property, plant and equipment, accounting for EUR 152.5 million (PY: EUR 130.8 million) or 22.9% of total assets. Trade receivables amounted to EUR 138.8 million, as compared with EUR 77.7 million in the previous year. At the balance sheet date, the Group held cash and cash equivalents in the total amount of EUR 92.0 million, as compared with EUR 41.4 million in the previous year.



The Group's equity ratio at year-end 2006 (including minority interests) improved to 41.3%, as compared with 38.7% in the previous year.

The maturity structure of the Group's assets showed the following development in 2006:

	2006 EUR mill.	2006 %	2005 EUR mill.	2005 %	2004 EUR mill.	2004 %
Non-current assets	227.2	34.1	159.4	43.3	55.7	36.2
Current assets excluding cash and cash	346.1	52.0	167.1	45.4	85.4	55.5
Cash and cash equivalents	92.0	13.8	41.4	11.3	12.9	8.3
Total assets	665.3	100.0	367.9	100.0	154.0	100.0
Shareholders' equity	274.8	41.3	142.2	38.7	51.9	33.7
Non-current liabilities	118.4	17.8	82.7	22.5	32.7	21.2
Current liabilities	272.1	40.9	143	38.8	69.4	45.1
Total shareholders' equity and liabilities	665.3	100.0	367.9	100.0	154.0	100.0

The proportional decrease in the non-current liabilities and the increased liquidity reflect the improved financial condition of the Group, which can be attributed in part to the successful IPO of SKW Stahl Metallurgie Holding AG, and the associated inflow of cash, and in part to the deconsolidation of the ARQUANA sub-group, and the associated decrease in non-current liabilities.

Cash flow

The cash flow showed the following development in 2006:

	Continuing operations		Discontinuing operations		Overall company	
	2006 EUR mn	2005 EUR mn	2006 EUR mn	2005 EUR mn	2006 EUR mn	2005 EUR mn
Net cash flow	4.8	-7.2	-2.7	0.0	2.1	-7.2
CF investing activities	43.3	14.4	-9.0	8.3	34.3	22.7
Free cash flow	48.1	7.2	-11.6	8.3	36.5	15.5
CF financing activities	7.5	12.8	4.6	0.6	12.1	13.4

With regard to the cash flow statement of the ARQUES Group, various factors need to be taken into consideration, due to the substantial enlargement of the consolidation group and the acute situation of many subsidiaries undergoing the restructuring phase. In particular, the following three points should be taken into consideration:

- Accumulation of working capital as a restructuring measure;
- Non-cash changes in working capital caused by the addition or removal of companies to or from the consolidation group;
- Net cash inflow upon acquisition of the company.

Due to the acute situation of the acquired companies, it is often necessary for ARQUES to inject fresh funds into the subsidiary immediately after the acquisition. For example, ARQUES may have paid only a symbolic purchase price for a given company, but will have to provide fresh funds to that company to finance its inventories or pay off excess trade payables. In the consolidated financial statements, these payments are not presented as investments, but as the accumulation of working capital. In the cash flow statement, such payments result in a negative operating cash flow. Nonetheless, these measures have a positive effect on the subsidiary in question.

The most important items of the cash flow statement are inventories, trade receivables and trade payables. In 2006, the inventories and trade receivables increased by a total of EUR 168.8 million. These changes resulted almost exclusively from changes in the consolidation group of the ARQUES Group. Liabilities (including the other liabilities and other provisions) increased by EUR 120.7 million as a result of changes in the consolidation group.

Despite an investment volume of EUR 25.2 million on an overall company basis, ARQUES generated a cash inflow from investing activities of EUR 34.3 million. This was possible because ARQUES generated proceeds of EUR 62.2 million on the sale of companies. This circumstance makes it clear that, by virtue of the ARQUES business model, its cash flow should be regarded from a comprehensive perspective, because the operating start-up losses and restructuring costs, plus the required working capital financing, are partially offset by the restructuring contributions of the sellers and the favorable purchase prices, but also by the profits on the sale of companies, which result from the value-adding restructuring activities of the company.

The overall company generated a net cash inflow of EUR 12.1 million from its financing activities. The cash inflows of EUR 22.9 million from the borrowing of short-term financial liabilities were offset by cash outflows of EUR 5.0 million for dividend payments, payments under finance leases and payments for the repayment of long-term financial liabilities in the total amount of EUR 5.9 million.

Balance sheet and financial indicators

		2006 continuing	2006 dis- continuing	2006 total	2005 continuing	2005 dis- continuing	2005 total
Equity ratio	Equity	n/a	n/a	41.3%	n/a	n/a	38.6%
	Total assets						
Asset intensityw	PP&E and intangible assets	n/a	n/a	25.7%	n/a	n/a	37.8%
	Total assets						
Current liabilities to total liabilities	Current liabilities	n/a	n/a	69.7%	n/a	n/a	63.3%
	Total liabilities						
Gross profit margin	EBIT	18.8%	-9.1%	13.0%	9.3%	22.4%	11.0%
	Revenues						
Financing ratio	Scheduled depreciation/ amortization	76.1%	270.2%	102.6%	103.5%	118.1%	107.1%
	Capital investments						
Return on equity	Consolidated net profit	45.7%	-5.5%	40.2%	24.4%	9.3%	33.6%
	Equity						
Overall return on equity	Consolidated net profit	18.9%	-2.3%	16.6%	9.4%	3.6%	13.0%
	Total assets						

The summary of key indicators mirrors the principal developments of 2006.

Whereas the key balance sheet indicators reflect the disposal of non-current assets and liabilities of the ARQUANA sub-group, the income statement indicators affirm the strong earnings performance of the Group, resulting primarily from the sale of shares in Group companies.

Employees

At December 31, 2006, the ARQUES Industries Group had a worldwide total of 4,870 employees. Thus, the number of dependent employees increased from exactly 2,568 (at December 31, 2005) to 4,870 (+90%). The total wages and salaries amounted to almost EUR 140 million.

Of the 4,870 employees, 4,631 are employed in Europe and 239 in the rest of the world. A total of 4,156 employees are employed in the countries of the European Union, 475 in other countries of Europe, 19 in the countries of Asia and 61 in the countries of North America. These figures do not include the employees of the Indian joint venture

of the SKW Group. This breakdown underscores the ARQUES' positioning as a global group with a clear focus on Europe.

In Germany, the employment figures for 2006 are as follows:

In total, there were 3,226 employees in Germany at December 31, 2006, indicative of a 101% increase over the previous year (1,608 employees).

A total of 240 apprentice-trainees are employed in the ARQUES companies.

Disclosures pursuant to Section 289 (4) and Section 315 (4) HGB

The subscribed capital of ARQUES Industries AG amounts to EUR 24,266,670 and is divided into 24,266,670 no-par bearer shares, each representing an imputed proportion of the company's share capital in the amount of EUR 1.00 per share. All company shares are of the same class of shares.

To the knowledge of the Executive Board, there exist no restrictions on voting rights or share transfers.

In fiscal year 2006, the Executive Board Chairman Dr. Dr. Peter Löw held a total of 5,281,980 shares in ARQUES Industries AG, corresponding to a voting rights share of 21.77%.

With regard to the issuance of new shares, the Executive Board is authorized, by virtue of Article 4 (3) of the company's Articles of Incorporation, to increase the share capital, with the consent of the Supervisory Board, by up to EUR 12,000,000.00, by issuing new bearer shares in exchange for cash and/or in-kind contributions, on one or more occasions in the time until May 30, 2011 (Authorized Capital 2006/I). In such cases, the existing shareholders will be offered a subscription right. The Executive Board is authorized, with the consent of the Supervisory Board, to stipulate the share rights and terms of issuance and to adopt the details governing the execution of the capital increase.

The Executive Board is authorized, with the consent of the Supervisory Board, to exclude the statutory subscription right of existing shareholders in the following cases:

- a) When the capital increase is effected in exchange for cash contributions and the proportion of the share capital represented by the new shares does not exceed 10% of the share capital at the time of issuing the new shares and the issue price of the new shares is not significantly less than the listed price of the exchange-traded shares of the same class and features at the time of final adoption of the issue price by the Executive Board, according to the provisions of Section 203 (1) and (2), Section 186 (4) AktG;
- b) Insofar as the exclusion of the subscription right is necessary to grant a subscription right to the holders of convertible bonds or warrants issued by the company, in the necessary amount that will allow them to exercise their warrant or conversion right or fulfill the conversion obligation;
- c) Insofar as the capital increase in exchange for in-kind contributions or mergers serves the purpose of acquiring companies, parts of companies or investments in companies or of issuing shares to employees;
- d) for fractional amounts.

In accordance with Section 71 (1) (8) AktG, the company has been authorized by its annual shareholders' meeting to purchase the company's own shares for purposes other than trading, in an amount representing up to 9% of the company's share capital, in the time until July 31, 2008. This authority can be exercised in full or in part on one or more occasions. The shares are to be purchased on the stock exchange. The amount by which the purchase price is higher or lower than the average unitary price of the shares in the XETRA closing auction of the Frankfurt Stock Exchange in the three preceding trading days may not exceed 10%. The shares acquired by virtue of this authorization may be sold for cash also by some other means besides on the stock exchange, if the purchased company shares are sold at a price that is not significantly less than the exchange-listed price of the company shares having

the same features at the date of the sale. In such a case, the number of shares to be sold, together with the new shares issued by virtue of the authorization to issue new shares under exclusion of the shareholders' subscription right in accordance with Section 186 (3) (4) AktG, may not exceed 10% of the share capital. In such cases, the subscription right of shareholders associated with the company's own shares will be excluded.

In addition, the Executive Board is authorized to sell the purchased company shares by some other means than on the stock exchange and under exclusion of the shareholders' subscription right if such a sale would serve the purpose of (a) acquiring companies, investments in companies, operational assets, industrial property rights or licenses to such rights, or the purpose of (b) avoiding fractional subscription rights.

Moreover, the Executive Board is authorized, with the consent of the Supervisory Board, to retire the purchased company shares without need of further resolution by the annual shareholders' meeting.

There are no shares endowed with special features that would confer a right of control. Also, there are no arrangements pertaining to a coordinated exercise of voting rights held by employees.

The rules governing the appointment and dismissal of Executive Board members are conformant with Sections 84 et seq. AktG. By virtue of Article 5 (1) of the company's Articles of Incorporation, the Supervisory Board only determines the exact number of Executive Board members. The rules governing the responsibility and requirements for amending the articles of incorporation are conformant with Sections 179-181 AktG.

There exist no indemnification agreements between the company and the members of its Executive Board in the event of a takeover offer. Furthermore, the company has not entered into any agreements that would be subject to the condition precedent of a change of control resulting from a takeover offer.

At the reporting date, the Company had received no notification regarding a holding in the company's capital in excess of the 10% threshold.

Risk report

The future business development of the ARQUES Group entails certain opportunities and risks. The Company's risk strategy consists of exploiting the available opportunities and limiting the associated risk by implementing the appropriate tools.

The order in which the opportunities and risks are described is not intended to imply any weighting or importance of the individual opportunities and risks or their probability of occurring.

Opportunities of the ARQUES business model

The business model of ARQUES Industries AG involves acquiring medium-sized companies in situations of transition and actively restructuring them. Once they have been made financially sound, they are either sold (IPO, trade sale) or kept over the long term as so-called "cash cows." ARQUES strives for medium-term investment periods (3 to 5 years). Short-term involvement is not in the interest of the Company. In all three phases - acquisition, restructuring, exit - ARQUES is presented with great business opportunities.

Acquisition

ARQUES has a twelve-member acquisition team with vast experience taking over companies in situations of transition. Thanks to the sophisticated network of contacts built up by the acquisitions team, ARQUES always has information on a large number of attractive takeover candidates and can thus make investment decisions from a pool of up to 1,000 companies a year. ARQUES has also established itself as a partner to large enterprises for spin-offs, and further transactions are expected in this sector. As an SDAX-listed company, moreover, ARQUES is appreciated as a serious, transparent and fair partner in transactions. The result is that ARQUES always has an adequate supply of acquisition offers. A unique, proven method of analysis

in selecting candidates minimizes the risk of acquiring a company that, in the view of the previous owner, can no longer be turned around.

Expanding the acquisition market through internationalization

ARQUES Industries AG has internationalized its business model, beginning with Spain, Austria and Switzerland. The result is not only a geographic and thus quantitative expansion of its acquisitions market but a strategic advantage - for example, through the operative development ("buy and build strategy") of affiliated companies at a European level. The vast experience of the acquisition team has made it possible for ARQUES to now acquire companies with annual sales of up to EUR 1 billion while preserving an appropriate, careful business analysis.

Restructuring

In restructuring its affiliates, ARQUES profits from its own team of reorganization experts with expertise in all key business areas. These highly specialized teams of the ARQUES Task Force are deployed under the command of an ARQUES subsidiary manager. Broad-based restructuring success can be achieved within the shortest possible time, as multiple, project-specific teams are usually involved with one company simultaneously.

The ARQUES subsidiary manager is the operative head of the on-site restructuring. He or she has a major shareholding in the affiliated company's capital and acts as an executive body - like a general manager or board of directors - in implementing measures independently and with all liability risks. The high degree of decentralized autonomy raises the personal potential. The absence of typical corporate approval chains and bureaucratic controls gives the subsidiary manager great leeway, which in turn gives the company external mobility. This allows restructuring plans to proceed rapidly.

This restructuring model - with a subsidiary manager and task force - makes it possible for ARQUES Industries AG to restructure its affiliated companies quickly and soundly. ARQUES will continue to apply this concept in the future to successfully restructure its affiliates and remain an attractive employer to numerous management and restructuring experts through a high degree of autonomy and performance-based compensation.

Sell-offs/exits

ARQUES AG will continue to expand its exit activities following the successful IPO of the ARQUES subsidiary SKW Stahl-Metallurgie in December 2006 and the sale of the baby carriage manufacturer teutonia in February 2007. ARQUES Industries AG can increase its profitability sharply through the sale of companies using an appropriate personnel structure that will support and promote this trend. The exit activity will grow in tandem with the acquisitions of ARQUES.

Company-related risks

Management risks

The purpose of ARQUES Industries AG is to hold direct and indirect participating interests in companies and groups of companies that form an economic unit ("affiliated companies").

When acquiring participating interests, ARQUES concentrates on companies that can be acquired at the lowest possible purchase price and have plenty of potential to increase in value. This presupposes that the companies in question are often in an acute distress at the time of acquisition and that there is great need for reorganization. When selecting companies, the Company does not focus on any specific industry. The success of the Company's business model depends to a large extent on the people at ARQUES who are responsible for the transaction. They must first select companies that can be reorganized fairly quickly at appropriate expense. The people responsible must also continue to manage the company profitably after the reorganization. The Company can be financially successful

only if all of these conditions are met. ARQUES deploys its own people to select, reorganize and manage the companies. "Its own people" means either permanent employees of the ARQUES Group or those working with the Company on a permanent basis.

Consequently, the Company relies heavily on the management skills and especially the business management expertise of these people. It is furthermore dependent on the ability to call upon a sufficient number of people for the Acquisition department, the reorganization and the operational management of the affiliated companies when required. An expansion of the participation portfolio alone, be it planned or due to the lack of exit options, would constitute a situation in which the Company would have to hire additional, trained staff. This can be difficult, as ARQUES is reliant on highly trained personnel with practical experience for the business model to succeed. The reorganization of distressed companies in particular places high demands on the responsible managers.

Controlling

At the time of acquisition, many of ARQUES' affiliated companies are facing acute distress that needs to be remedied quickly and effectively. This depends greatly on the skill of the ARQUES employees assigned to the task and on the oversight of the Executive Board. Only the use of a comprehensive, reliable information system makes it possible to inform the Executive Board promptly about unfavorable developments in the affiliated companies. The ARQUES Group has such an information system in place and is continually developing it further. Nevertheless, there is always the possibility that, in individual instances, the information system may fail or be misapplied by the employees involved, resulting in a failure to promptly identify negative economic developments within an affiliated company.

Failure of reorganization

The Company's goal is to always achieve the fastest possible reorganization of an affiliated company in order to keep operating losses as low as possible after the acquisition. This can fail if, for example, it becomes evident that the cost of reorganization would be too high, the market po-

sition of the industry deteriorates or management makes mistakes in the reorganization. The result can be the insolvency of the affiliated company, and ARQUES could under certain circumstances lose all of the financial resources it had used to acquire and finance the affiliated company. If the Company had used bank loans to fund the acquisition and reorganization of the affiliated company - which it has not done to date - it would be obligated to continue repaying these funds even after the affiliated company became insolvent. All costs accruing to ARQUES in connection with an affiliated company are allocated to that affiliated company. These include the Company's costs for the subsidiary manager and other members of the task force provided by ARQUES. If the reorganization fails, ARQUES does not receive any reimbursements of such costs from the affiliated company concerned.

To date, no affiliated company of ARQUES has become insolvent except the SKW subsidiary La Roche de Rame, which had already been shut down at the time of acquisition.

Dependence on people in key positions

One of the main factors underpinning the Company's long-term success is the wealth of experience gained in acquiring, restructuring, and selling companies by the members of the Executive Board: Dr. Peter Löw, Dr. Martin Vorderwülbecke, Markus Zöllner and Dr. Michael Schumann. If one of these key persons were to leave the Company, it might prove difficult or impossible to hire a suitable executive capable of carrying on the business successfully. This in turn could have a serious impact on the development of the ARQUES Group.

On February 27, 2007, Dr. Dr. Peter Löw, CEO of ARQUES Industries AG, notified the Supervisory Board and the Company that he would no longer renew his expiring contract and will leave the ARQUES Group effective April 30. Current CFO and Deputy CEO Dr. Martin Vorderwülbecke will succeed Dr. Dr. Peter Löw effective May 1, 2007. He was appointed new CEO on March 29, 2007 by the Supervisory Board. Dr. Vorderwülbecke has been a member of the ARQUES Industries AG Executive Board since 2004. His appointment as CEO ensures continuity of the ARQUES business model.

Economic and market-related risks

Economic risks

The general economic climate in Germany, the EU and worldwide has a varied impact on business development. As a general rule, a weak economic situation leads to an improved acquisition market for ARQUES Industries AG. More companies become distressed, are put up for sale in their entirety or seek to dispose of operations to procure liquidity. The disposal market is worse, however, as fewer companies are potentially interested in acquiring and it is more difficult to reorganize the affiliated company. A poor economic environment can also adversely affect the reorganization and development of the affiliated companies, whereas a stronger economy normally improves the disposal market and general economic situation of the affiliated companies while making acquisitions more expensive. Success therefore depends in part on the ability of ARQUES' employees to leverage the current economic situation and future trend to the best effect for the Company.

Industry risks

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

Industry risks and opportunities of affiliated companies

The affiliated companies of the ARQUES Group are active in various markets with different products. There is therefore a greatly diversified industry-specific risk that is low for the affiliated companies collectively.

The economic development of each individual affiliated company can be negatively affected by a worsening market position in the respective industry - leading in extreme cases to the insolvency of the affiliated company - without the management of the affiliated company being able to do anything to prevent it.

The following presents the industry-specific risks of the affiliated companies currently held by ARQUES Industries AG.

The teutonia Group is a premium supplier of baby carriages and is thus at the mercy of consumer trends, especially in its home market of Germany. The growing polarization between high-end products on the one hand and low-price products made in China on the other hand could entice suppliers from the lower and middle price segment into the premium range. Within Europe, industry-specific products are being offered by fewer and fewer manufacturers. The annual pressure to present new models leads to risks in the area of quality. No specific environmental risks are known or foreseeable. There are certain dependencies on the various executives due to specific expertise in sales, production and development.

As a premium supplier of baby carriages, teutonia will profit from the 2007 increase in cash payments to parents by the German government, as this will improve the parents' financial situation. The improved financial situation will increase parents' willingness to purchase high-quality products. Thanks to its reworked and expanded product portfolio, the teutonia Group also has the opportunity to acquire a greater share of the German market and edge out its competitors. Finally, there are numerous markets that teutonia has not yet penetrated and in which the new products could be sold with success.

The baby carriage manufacturer was sold in February 2007 to the US Newell Rubbermaid corporation.

The SKW Stahl-Metallurgie Group is a supplier of high-quality steel additives to the global steel industry. This limits the dependency of the Group, which produces worldwide, on the demand and price situation of regional markets. But the global steel market is subject to price cycles that

can affect the ability and willingness of customers to pay and can also affect the quantity of long-term sales where demand is price-sensitive. The high global market share of the SKW Group is based on its leadership in quality. There is a risk of a potential drop in margins if competitors can lessen the quality advantage. The attractiveness of the market could entice additional competitors. No specific environmental risks to SKW Stahl-Metallurgie are known, although such risks can not be entirely excluded, especially at the plant in France. Risks could develop through fires or other sources of environmental degradation as a result of improper handling or storage of the materials used. The strong focus on expertise and the decentralized structure create a particular dependency on the executives.

The SKW Stahl-Metallurgie Group sees its business opportunities primarily in the increasing global demand for steel and the trend toward higher-quality steels. Thanks to the successful IPO and the associated capital increase, the Group has enough capital available to implement an active strategy of expansion. The SKW management also sees an opportunity to win new market shares through the customer concentration that is currently underway. In the future, the international steel groups will choose their suppliers based on the capacity to supply internationally. The SKW Stahl-Metallurgie Group's international presence gives it a further opportunity for growth here. A high level of technical expertise and strong R&D focus make the SKW Group well poised to position itself even more as an expert partner for global steel groups.

Quab Inc. manufactures additives for the production of industrial starch that is used primarily in the paper industry. Although an end or weakening of the use of paper was heralded with the rise of electronic communication, this did not come to pass. On the contrary, sales in the paper industry have risen at a uniform rate in recent years more or less parallel to the growth of the overall economy. This trend is expected to continue in the years ahead.

Another downstream market for Quab products is the personal hygiene industry, where Quab products are used in shampoos, conditioners and liquid soaps. This industry is also relatively crisis-resistant and is growing disproportionately fast in emerging countries like India and China.

The Missel Group is an industrial supplier of soundproofing, insulation and fireproofing systems for heating, plumbing and sewage pipes in the premium segment. Compact elements and front-wall installation systems are also produced and sold for the sanitary market under the brands Missel and Schwab. With these products, Missel has proportional exposure to the general trend in the construction industry. A large portion of sales in Germany stems from a few large purchasing associations and large retailers and is thus dependent on their commercial success. This weakens the Missel Group's position in price negotiations. The robust market of the purchasers' house brands also puts pressure on industry brands. Some patents expired in 2005, intensifying the competitive situation for certain solutions. There is no known environmental risk facing Missel. International business is dominated by several OEM customers. Exports account for a share of approximately 40%. Missel is responding to the economic trend in Germany's construction industry by expanding its product line with new sound insulation products, pushing multi-channel management and strengthening its efforts toward internationalization.

One source of business opportunities available to the Missel Group lies in the consistent pursuit of internationalization. The high name recognition of the Schwab brand abroad also opens up new markets for Missel products. A construction boom coupled with increased demand for high-quality products can be seen in eastern Europe, especially in southeastern Europe. Here the Missel Group plans to improve its position and access new markets with new, high-quality products and increased sales activities. By intensifying its cooperation with purchasing associations and large retailers, Missel can manage to win greater market share in its home market of Germany. One factor could be the product innovations developed through R&D in the field of solar insulation.

The ddp Group is the second-largest German press agency. It includes a well-known image service and an extensive image archive. The customers are regular subscribers who generally redistribute the news themselves. The customer structure includes several large customers. The significance of press agencies continues to grow due to ongoing concentration in the German media market and the increasing trend for media companies to do without their own editorial staff. There are no suppliers. Over the long term, the Internet and other electronic channels could supplant the importance of press agencies to a certain extent. Competition from the dominant press agency dpa makes it difficult for ddp to further increase its sales volume, as customers generally have a long-term commitment to dpa. There are no apparent environmental risks or particular personnel risks.

The ddp Group sees its business opportunities primarily in intensifying its photo business, in further developing online content and in distributing so-called third products such as weather and television programming information. In addition, ddp will continue to expand its "ddp direkt" platform for marketing press releases and business reports. By expanding its portfolio this way, it will be possible for the ddp Group to establish itself in these individual high-earnings niches.

The SKS Stakusit Group supplies intelligent roll-down shutter and insect protection systems for windows, making it dependent on the general trend of the construction industry. This market dependence is contrasted by high geographic diversification. SKS has several important key clients, along with the dependency this entails. Strong competition creates intense price pressure. No environmental risks are known. There is a certain dependency on the executives, especially in the eastern European distribution centers, as the executives there possess regionally specific distribution and production know-how.

The new developments introduced in 2006 (Top Duo and Profilia II) will help the SKS Stakusit Group expand its good market position as the construction industry recovers. Through its newly founded subsidiary in Belgrade, SKS will be able to strengthen its position in exports and gain market share in the southeastern European construction industry, which is characterized by a growing demand for quality products. After successfully testing its products, the SKS Group will also manage to establish itself in the French market. Further optimization of the production processes and investments in machinery will result in an increase in the Group's capacities and a related improvement in sales and profits.

The Jahnel-Kestermann Group produces special gear and drive units for use in a variety of industries that are very independent in their development, including wind power, maritime and other industrial applications. The major area of business growth is centered around applications in wind farms. A longer period of sustained growth at the international level is anticipated in this market segment. This is driven by the growing awareness of existing and future environmental risks from conventional energy production (climate change, CO₂ debate). The international nature of the clientele leads to a high distribution of risk. Some customers generate large shares of sales, but the present distribution of business across seven key customers spread around the world (US, Canada, Germany, India, China, etc.) limits the risk. Increasing mass production is enhancing the pressure on margins in some segments such as drive mechanisms for the wind industry. Jahnel-Kestermann has responded by consistently focusing on this type of mass production market. This approach is supported by investment in the appropriate machinery and systems. By outsourcing gear testing to Deutsche Montan Technologie GmbH, the company has been able to achieve quality and distribution advantages over its competitors, but there is a strong dependency on this service provider. There are potential environmental risks at the production facility in Bochum as a result of the long-standing production and operation of a hardening shop. However, no active cleanup projects are currently pending. There is a dependency on executives, especially in the areas of construction and development.

The capacities of the Jahnel-Kestermann Group are already completely booked for 2007; no new orders are being accepted for this year. Jahnel-Kestermann will expand its position in the growth markets for wind energy (US, India, China) through increased sales activities. At the same time, extensive investments in machinery will allow the Group to significantly expand both the capacity and the efficiency of its production. This in turn will increase sales and profits. Jahnel-Kestermann will also reduce its in-house production content and overcome raw material bottlenecks in production through partnerships with new suppliers.

The Golf House Group, as a commercial enterprise, is primarily exposed to general fluctuations in consumer trends. The sport of golf is gaining mass appeal, so the risks are similar to those in the overall sports equipment market. The end consumer is very price-sensitive on account of the high degree of transparency. The supply pool is focused on a few suppliers, who as a result are very powerful. This is the reason for the development of house brands. The logistics center will move in early 2007 from Holzwickende to Hamburg, and the warehouse management system will be connected to the enterprise resource planning system through an interface. This may result in temporary delivery problems. In personnel, business success is particularly dependent on the branch managers, as is typical for the industry. Periods of extreme weather such as a long, snowy winter or a very hot summer can have negative effects on customer buying patterns.

Planned investments in the network of branch offices and online direct mail business will allow the Golf House Group to achieve sustainable sales growth in 2007. Connecting the ERP system to a higher-performance warehouse management system will also have a positive effect on the trend of sales and earnings. The success of a pilot project could also pave the way for expansion of the business model to a wholesale function for so-called Pro Shops.

The Evotape Group manufactures packaging and adhesive tape and various specialized tapes for the standard and premium segments. Evotape products are distributed worldwide. Customers include the makers of familiar brands of tape and other businesses, such as automobile manufacturers. Since adhesive tape is used in almost all

sectors, there is no dependency on a particular industry. The customer structure leads to a great dependency on some key accounts, however. There is also a great dependency on a few suppliers with large market shares. There is a risk of further price increases for raw materials, especially for petroleum derivatives and rubber. It is difficult to get customers to accept price increases. Overcapacity creates a lot of pressure on margins and competitiveness. Increased competition from Asia is anticipated. The property in Santi Cosma e Damiano shows some environmental contamination. A specialty firm is carrying out ongoing cleanup operations. When work is complete, the past environmental degradation will be cleaned up. Parts of the roof may also be contaminated. This is being constantly monitored. There is a risk of dependency on sales executives through the relationship with some key customers.

Replacement and renovation investments that have been initiated will allow the Evotape Group to further increase its production capacity while lowering production costs in 2007. Measures to improve product quality and expand services will enhance customer satisfaction and could result in a growth in orders. In 2007, the Evotape Group will further expand the strong market position it achieved in China in the course of fiscal year 2006.

The Sommer Fahrzeugbau Group produces specialized vehicles for the German and European market at several facilities in Europe. There is a certain dependency on some large customers. The company is exposed to a great deal of price pressure in some segments through competition from other companies who focus on mass production with simplified solutions. In some areas, suppliers have monopolies. This carries risks in the power of the supplier to fix prices. Not only have material bottlenecks in raw materials and components resulted in higher prices, but the delivery lead times have in some cases been lengthened considerably throughout the industry. The autonomous management style in the eastern facilities is difficult. There are no reports of significant environmental risks. The decentralized structure of the production facilities leads to a particular dependency on the local executives.

The Sommer Fahrzeugbau Group will implement the production and plant concept - successfully introduced in Germany in 2006 - at its foreign production facilities as well, thereby achieving an increase in production capacity. The product innovations already introduced in part in September 2006 at Nutzfahrzeuge IAA will result in a significant sales jump for Sommer in 2007. This trend should be supported by the intensification of sales activities that has already begun in eastern Europe and the CIS. Sommer will also attain greater customer retention by expanding its repair service throughout Germany.

The tiscon Group - with its subsidiaries COS Distribution, Avitos and TOPEDO - has been active in IT distribution since December 2006 and is therefore subject to the typical risks of that industry. The IT distribution industry, especially among small and medium-sized businesses, is characterized by very strong competition and a very high number of market participants (approximately 40,000 active IT traders). In Germany, moreover, the customers are very price-sensitive, which has a negative effect on margins. There is a certain dependency on management and technical personnel with specialized knowledge of IT and distribution.

COS Distribution is one of the leading wholesalers for IT, telecommunications and consumer electronic products in Germany. COS supplies resellers with hardware and software, peripheral equipment, mobile computing, network electronics, telephony, home entertainment and consumer electronics. There is no risk of customer dependency thanks to the broad customer base and the share of sales held by individual customers. The risk of dependency on suppliers is counteracted with supply sources that are widely distributed among over 100 suppliers.

The restructuring measures introduced in the second half of 2006 will enable COS Distribution to significantly increase its productivity in sales and gross income. The more customer-friendly design of the E-Shop will allow COS Distribution to acquire new IT resellers as customers and also profit from the positive trend in the industry in 2007. COS Distribution will also be able to tap into new markets across Europe through implementation of the tiscon Group's "Buy & Build" strategy, thereby significantly increasing its share

of exports. As it acquires a larger market share and increases sales as a result, COS Distribution will be able to reduce costs and increase its profit margin by optimizing workflows.

Avitos is among the established online IT mail-order businesses for the end consumer sector. The product portfolio includes hardware, software, peripheral equipment, mobile computing, network equipment, telephony and consumer electronics. The German online mail-order business had a successful year in 2006. The overall increase in e-commerce sales is also reflected in the end user e-commerce for information and telecommunications products, the market segment of Avitos GmbH. Industry experts forecast continued strong growth of e-commerce in the coming years. The ability to compare prices online using search engines creates a risk of a continued drop in margins and an accompanying risk of sales losses. Avitos is responding to this trend by expanding its product portfolio and supply sources. This product portfolio expansion will allow Avitos to profit from the positive trend of the online B2C IT market in 2007. The margin in 2007 will remain positive thanks to restructuring and optimization measures that have been introduced, such as the relaunch of the E-Shop.

TOPEDO, also part of the tiscon Group, has become an established PC assembler in Germany. In addition to mass-produced computers, TOPEDO also produces built-to-order PCs and notebooks. The focus is on desktop computers, however, so the assembler is profiting only slightly from the ever-growing demand for notebooks. TOPEDO distributes some 80% of its total production through COS Distribution, making it highly dependent on the latter company's revenue performance in the segment of ready-to-use PCs. The price competition among assemblers resulted in a sustained stagnation in sales at TOPEDO in the past. This trend continued in 2006. In particular, the still unresolved issue of computer Internet copyright fee and the failure to calculate all the licensing fees into the computer prices led to major price differences and planning uncertainties in the market.

On the one hand, TOPEDO will participate in the performance of COS Distribution. On the other hand, the assembler will tap into new sales channels through the expansion policy of its parent company ticon, allowing it to reduce its dependency on the business development of COS Distribution. As of 2007, the company's portfolio has grown to include high-performance servers. This is a very high-margin sector that will sustainably improve TOPEDO's profitability. Overall, the company will profit from the growing willingness to invest in new computers due in part to new processor technology and the introduction of Microsoft's Vista operating system. By optimizing its workflows while lowering costs, the company will also improve its sales and revenue situation.

The ARQUANA Group is the result of various web offset printing companies that were merged with the objective of consolidating the European web offset print market, which is strongly fragmented and characterized by small and medium-sized businesses, and becoming the European market leader in this sector over the medium term. ARQUANA's "buy and build" strategy is based on acquiring medium-sized printing companies and successfully integrating them into a consolidated printing group. The resulting strong need for expertise and the regionally decentralized structure of the ARQUANA Group leads to particular dependencies on management and local executives.

The web offset market is characterized by lessened demand in recent years, overcapacities through continuous investments in more powerful machinery and a strong drop in profit margins. The high number of insolvencies among smaller competitors only partially compensates for the resulting overcapacities. ARQUANA is confronting this challenge through a uniform trans-regional sales concept designed to acquire key customers across multiple regions while ensuring that all printing presses are used at a high capacity with orders that are appropriate and thus attractive for the specific equipment. The company is also reducing the dependency of the presses on one specific type of order by vertically integrating upstream and downstream production steps. The market effect described here and the capital intensity also leads to investment pressure with the resulting financial, procurement and production risks. The production of printing materials can potentially be harmful to the environment.

The merger of several offset printing companies enables ARQUANA to establish itself as a partner to large corporations at the European level and acquire corresponding print orders. The further restructuring and integration of the Group's printing companies into the holding company generates clear synergies that have a positive effect on sales and profits. By taking over additional medium-sized web offset printing companies throughout Europe, ARQUANA is gaining access to new markets, where it will be able to position itself as a consolidation leader. ARQUANA will be able to apply the same strategy to the label and package printing sector and improve its position through corporate takeovers.

The German web offset industry finds itself in the midst of a situation of transition. The long-established mid-sized printing companies with annual sales from EUR 25 to EUR 35 million will not be able in the long term to satisfy the growing demands of their customers. At the same time, the pressure to invest in new, much more productive printing machines will continue to intensify, posing serious financing problems for mid-sized printing companies, in particular (Basel II). Therefore, the web offset printing industry is expected to witness further corporate bankruptcies in 2007. This development will create both risks and opportunities for ARQUANA.

The opportunities consist in the withdrawal of inefficient capacities from the market. That also means that ARQUANA will be able to acquire additional printing companies at favorable prices in specific cases. The risks consist in the fact that weak companies will continue to drag prices down before they reach insolvency, thereby reducing the profit margins of the entire industry to a level that is not healthy over the long term. There is also a risk that ARQUANA will not be able to acquire new companies in the future. Other risks relate to ARQUANA's installed base of plant and machinery, some of which needs to be replaced. Although ARQUANA announced the successful purchase of a new, high-capacity printing machine in March 2007, there still exists the risk that its plan to purchase additional equipment will fail in the face of financing difficulties. Insofar as the print holding company wishes to finance the acquisition of new equipment by realizing hidden reserves in its real estate portfolio, there exists the risk that it will be unable to

make such sales. If ARQUANA does not succeed in modernizing its plant and machinery in the medium-term future, its competitiveness could be fundamentally endangered.

As of December 29, 2006, ARQUANA no longer belongs to the consolidation group of ARQUES Industries AG. After two capital increases and sales of shareholdings, ARQUES Industries AG's share in ARQUANA fell below the 50% mark. Since this time, ARQUANA has been incorporated into the consolidated financial statements of ARQUES at equity.

Rohner AG was taken over in March 2006 in a loss posture attributable in part to a dependency on large customers. The industry is subject to strong price pressure from Asia in the area of non-complex synthetics. Industry leaders also use their market power to exert further price pressure on suppliers. The greatest business risk facing Rohner is the inability to position itself in niche markets in the pharmaceuticals and specialty chemicals industry with complex, multiphase, non-large-volume synthetics and create a broader customer and product portfolio. In the pharmaceuticals division, the Food and Drug Administration (FDA) audit in the world's most important pharmaceuticals market - the United States - is expected in 2007. A negative result could significantly weaken Rohner's customer structure. In personnel, Rohner is dependent on actual chemistry specialists, but there is a large pool of such persons in the "chemistry triangle" where Germany, France and Switzerland meet near Basel. In environmental matters, cleanup is required in the ground under the company offices. Cleanup is also required at two waste dumps in which Rohner must participate. In addition to these known and calculatable risks, there may also be a cost disadvantage from the new EU legislation relating to the registration, evaluation and authorization of chemicals (REACH) in comparison to non-European markets. Stronger legal requirements relating to building earthquake safety are to be expected in the coming years, especially for buildings with a potential risk such as chemical storage plants.

A positive FDA audit will allow Rohner to establish itself on the US market, one of the world's largest and most important, thereby significantly expanding its customer structure. At the same time, Rohner's existing modern production facilities and production know-how will allow it to establish itself in high-margin niche markets. The result will be both increased capacity and improved sales and profits at Rohner.

The Hottinger Maschinenbau Group manufactures core casting equipment for foundries. The main customers are automobile manufacturers and the independent foundries supplying the automobile manufacturers. This customer structure creates a dependency on the performance of the automotive industry and the cycles of motor models. There is also a dependency on certain suppliers stipulated by customers based on company standards. Furthermore, there is a risk that manufacturers of smaller core casting equipment will become competitors of Hottinger through new developments. This risk can be classified as small, as the industry can be characterized as conservative. The complexity of the machinery creates a dependency on technical personnel, especially engineers and sales personnel. One of the Hottinger Group's properties has environmental risks from contamination that is the subject of litigation with the previous owner. No environmental risks derive from the production process itself.

Hottinger can profit from the dominant drive toward innovation (reduction of CO₂ emissions) in the automotive industry: The demand for lightweight cast aluminum products and thin-walled motors is likely to increase, and their production requires innovative core casting equipment, which Hottinger produces. Expansion of the spare parts business will also have a positive effect on the business development of the Hottinger Group. Finally, the equipment manufacturer has the potential to sign lucrative service agreements with its customers when new orders are placed.

On the capital side, the company's continued positive trend depends on the liquidity and amount of guarantee furnished. The loss of larger customer payments could have a negative effect on liquidity. This risk can be classified as very slight due to the customer structure that includes large

corporations with excellent credit ratings. Hottinger intends to counter this risk by purchasing trade credit insurance. The issue of the amount of guarantee is more critical. Since all down payments generally must be backed by payment guarantees and guarantees must be provided regularly, the company's ongoing growth will depend on the future amount of guarantees available. Negotiations with banks and guarantee insurers are in progress to enable continuous expansion of the scope of available guarantees.

The Fritz Berger Group, as a commercial enterprise, is primarily exposed to general fluctuations in consumer trends. The camping and outdoor industry is also dependent in large measure on the weather. The position of Fritz Berger as a leading specialty mail-order business in this segment can be limited by market penetration of new competitors such as the manufacturers of camping trailers. At the same time, the expansion of activities of other sales sectors such as discount retailers can also lead to reductions in sales. Tax increases for camping trailers and recreational vehicles as well as a further rise in gasoline prices could lead to a drop in sales of these vehicles and thus have an indirect negative effect on the purchase of accessories. In personnel, business success is particularly dependent on the branch managers, as is typical for the industry.

The Fritz Berger Group hopes to increase acceptance among existing customers and win new customers through its new main catalog layout and redesigned website. The Fritz Berger customer card, to be introduced in 2007, can help achieve greater brand loyalty. The new orientation of the product line toward high-end products will distinguish Fritz Berger as a supplier of high-quality products. The "return to the brand" should yield positive business results, especially in the textile division. With regard to POA sales, new facilities should lead to an increase in sales while the closing of outlets that are too small or unprofitable will optimize results. The conversion of some commission-based operations into Berger-owned outlets will create greater efficiency and higher sales.

The Salto Paper Group produces base paper for wallpaper, magazine paper and specialty papers. These markets are characterized by overcapacity through constant invest-

ments in more powerful machinery. The risk of a further drop in margins is especially acute in the magazine paper sector. Salto Paper products are distributed worldwide. This brings with it a currency risk, as a portion of the invoices are issued in US dollars. The supply of new lumber presents a risk for the supply of raw materials. No environmental risks are known. The separation of Salto Paper from the distribution organization of the previous owner created the risk of an unsecured capacity of one paper machine. Another risk exists in the age of some paper machines. The decentralized structure of Salto Paper leads to a particular dependency on the local executives. There is also the risk that third parties may exercise the right of preemption for the utilized water rights. This could severely restrict or completely block access to the water needed in production, significantly increasing the cost base. The intensive sales focus on special papers that was introduced carries an additional investment risk in the expansion or change of existing paper-making equipment.

The Salto Paper Group will be able to expand its recognition and win new customers through active participation in international trade fairs. Product innovations stemming from the R&D program, special papers for the wood processing industry and release papers, may even enable Salto Paper to establish itself in a high-margin niche market. The Salto Paper Group will be able to maintain its position as the market leader for base paper for wallpaper.

The Farbendruck Weber Group is one of the leading quality web offset printing companies in Switzerland. The web offset market in Switzerland is characterized by overcapacity and very strong competition among the various printing companies. The price level and market volume will continue to fall in the coming years. Over the medium term, prices will adjust to the level of the neighboring EU countries. The result will be continued high investment pressure in the industry, as a company can only produce at competitive prices with modern machinery. Farbendruck Weber is meeting these challenges first by modernizing throughout the company: After the company successfully brought online the three most modern 16-page web-fed printing presses in Europe (investment volume: over CHF 20 million), investment plans for 2007 include a fundamental renewal

of the bookbinding and prepress equipment (volume: CHF 7 million). Farbendruck Weber will build on this to consistently expand its market positioning as a quality printer to attain a high degree of added value with correspondingly higher margins. The market effect described here and the capital intensity also leads to investment pressure with the resulting financial, procurement and production risks. The production of printing materials can potentially be harmful to the environment.

Through extensive investment in its machinery, the Farbendruck Weber Group can maintain its leading role in the web offset printing market in Switzerland. The strategic partnership with the print holding ARQUANA International Print & Media AG creates distribution and production capacity synergies that will have a significantly positive effect on business development in 2007.

The Oxxynova Group produces dimethylterephthalate (DMT), a raw material for the manufacturing of polyester, at two facilities. These polyesters are used primarily for the production of textile fibers and technical fibers, technical foils and films and as a specialized plastic for the electronics and automotive industries. The main risks of the business, besides the industry-specific risks of the customers, are overcapacities in DMT production, further increases in energy costs, the possibility that customers might replace DMT with something else and the fact that a large share of sales is attributable to a few large customers. No specific environmental risks are known at the production facilities. There are certain dependencies on the various executives due to specific expertise in marketing and production.

The Oxxynova Group plans to expand its position as the European market leader in DMT production through the investment program that has been introduced, which is designed to lower production costs and increase efficiency. The company still has a need for liquidity in 2007. This need must be covered by banks or the shareholders.

The BEA TDL Group constructs electrical engineering and automation systems in the fields of conveyance technology, water technology, energy technology and environmental technology. The risks to which BEA TDL is exposed

through its business include unanticipated technical problems or problems at business partners. BEA TDL responds to these risks not only through careful selection of business partners but through consistent project management monitored by a system of project-controlling measures and communicated through monthly reports to management. BEA TDL minimizes credit risks not only by hedging accounts receivable and partially rendered services but through intense collaboration with its key customers, who have a high creditworthiness rating, and through consistent and timely debtor management and trade credit insurance coverage. BEA TDL has a high number of commercial employees from its history of numerous employee takeovers through spin-offs of opencast mines and power plants. There remain employment risks in continuously utilizing such employees in the face of a weak economy, high price pressure and price competition, the drop in orders for the cleanup of opencast mines and the growing use of technology requiring less maintenance. BEA TDL, as a medium-sized business group, is in a tough competitive relationship with large enterprises such as Siemens and ABB, who also operate in this field.

The BEA TDL Group has initiated steps to profit from investments in lignite mining in Germany. In 2007 BEA also intends to profit from the expansion and internationalization of sales from the regional growth markets.

Industry risks for ARQUES Industries AG

ARQUES Industries AG, in its function as holding company for the reorganization of companies, is also exposed to industry-specific risks. It is quite conceivable, for example, that the emergence of new competitors will lead to increased demand, driving up the price for acquiring companies. However, this risk is considered low on account of the depth of the purchasing market in ARQUES' favor due to the difficult situations in many industries.

Financial risks

Interest rate, currency and cash flow risks

The companies of the ARQUES Group generate income in foreign currencies. As a general rule, the Group neutralizes the related currency risks by obtaining currency-matched financing for its international activities.

Future changes in capital market interest rates could lead to changes in the market value of fixed-income securities, uncertificated receivables and the plan assets used to fund the pension obligations. As a rule, therefore, ARQUES holds only highly fungible securities, with short to medium-term maturities, and enters into customary transactions with banks to hedge its interest rate risks.

To hedge its cash flow risks and protect its liquidity, ARQUES employs various instruments to refinance and hedge its receivables, including factoring arrangements and credit insurance, among other measures. In addition, ARQUES maintains sufficient credit facilities to cover temporary liquidity bottlenecks.

The steps taken to manage interest rate, currency and cash flow risks are generally performed by the subsidiaries themselves, after consultation with the Group's Corporate Finance Department. The steps taken to protect the Group's liquidity are performed centrally by ARQUES Industries AG.

Tax-related risks

Tax-related risks, like all other business risks, are isolated at the level of the individual affiliated companies and not accumulated through a profit or loss transfer agreement or group taxation at the holding level, for example. By exploiting commonly occurring tax carry forwards, the company manages to present a below-average taxation ratio. Earnings from the sale of affiliated companies remain largely tax-free. The company minimizes any legal risks by obtaining regular external tax and legal advice through reports prepared by recognized law offices and auditing companies.

Risk management

Risk management in the ARQUES Group is performed as part of corporate controlling. Weekly reports on the current status of the affiliated companies are presented to the Executive Board. As part of the monthly financial reports, an actual vs. planned comparison is carried out and, if needed, the budget and current forecast adjusted accordingly. Providing timely information to the Executive Board and the subsidiary manager makes it possible to draw and implement necessary plans of action at short notice.

The risk management system also includes regular site visits by members of the Executive Board to all affiliated companies to obtain information on the latest developments. Subsidiaries with international operations hold several management-level meetings each year. Increasing the size of the ARQUES task force also makes it possible to intervene quickly and forcefully should a subsidiary get into financial difficulty. The ARQUES business model, which involves the local managing director holding a financial interest in the company he or she is reorganizing, ensures that local interests are aligned with ARQUES' interests, thus helping to minimize risk.

A new controlling tool was implemented at the beginning of 2006 when the Cognos software was rolled out throughout the corporate group. Starting in 2006, this program has facilitated direct access to collated data on the individual companies and sub-groups. It has also enabled the managers responsible for the sub-groups to carry out consolidations within their sub-groups and hence to keep a closer eye on the net assets position and results of operations of the companies they monitor.

A computer-guided, systematic risk management system was set up in 2006. An experienced corporate group auditor was hired who monitors the ongoing implementation and use of the system in addition to carrying out in-house auditing.

Other significant events in fiscal year 2006

With effect from October 5, 2006, the Company's Supervisory Board decided to restructure the ARQUES Executive Board and appoint Dr. Michael Schumann to the position of Head of Acquisitions. Dr. Martin Vorderwülbecke, who had previously headed the Acquisitions department at the Executive Board level, was reassigned to the post of CFO and Deputy Chairman of the Executive Board.

Report per §§ 289 (2) no. 5 and 315 (2) no. 4 HGB on the basic characteristics of the Executive Board compensation system

The responsibilities and contributions of the respective Executive Board member are taken into account in setting the compensation. Compensation in fiscal year 2006 was made up of a fixed annual salary plus profit-related compensation based on the appreciation of a virtual stock portfolio for Executive Board members Markus Zöllner and Dr. Michael Schumann.

In its meeting on October 5, 2006, the Supervisory Board also offered Executive Board members Dr. Dr. Peter Löw and Dr. Martin Vorderwülbecke a profit-based variable compensation component based on the appreciation of a virtual stock portfolio through the agreement to a stock options plan. The Executive Board members Dr. Löw and Dr. Vorderwülbecke expressly and voluntarily waived the offer of such a stock options plan, however.

Executive Board compensation is made up of the following components:

- Fixed compensation, paid out in the form of a monthly salary
- Variable compensation consisting on the one hand of a special payment whose amount is based on the appreciation of a "virtual stock portfolio" and on the other hand of an individual bonus agreement for Executive Board members Markus Zöllner and Dr. Michael Schumann.

The basis for calculating the variable compensation of Mr. Zöllner and Dr. Schumann is a specific number of shares in ARQUES Industries AG ("virtual stock portfolio") valued at a specific share price ("initial value"). The amount of variable compensation is calculated in each case from the possible appreciation of the virtual stock portfolio over a specific period—that is, relative to a pre-determined future date ("valuation date"). The difference between the value of the virtual stock portfolio valued at the rate on the valuation date and its initial value ("appreciation") yields the amount of variable compensation. The general policy is to pay out the appreciation in shares converted at the rate on the valuation date, but the company—represented by the Supervisory Board—reserves the right to instead pay out the appreciation in cash. Where shares are granted, an initial 12-month lock-up period applies.

The virtual stock portfolio of Mr. Zöllner includes 125,000 shares. The valuation date for 70,000 of these shares was January 31, 2007; for the other 55,000, it is September 30, 2007.

The current market value of the virtual stock portfolio held for Mr. Zöllner as of the date the shares were granted (May 30, 2006 for 70,000 shares and November 23, 2006 for 55,000 shares) comes to EUR 476,670.

The virtual stock portfolio for Dr. Schumann includes 125,000 shares. The valuation dates for all shares are January 31, 2008 and June 30, 2009 (but the initial value used to calculate the appreciation on June 30, 2009 will be the value of the virtual stock portfolio at the rate of January 31, 2008).

The current market value of the virtual stock portfolio held for Dr. Schumann as of the date the shares were granted (October 12, 2006) is EUR 746,250.

In addition, both Mr. Zöllner and Dr. Schumann have individual bonus agreements.

Mr. Zöllner receives a bonus for projects that involve the sale of operative company shareholdings of the ARQUES Group or its material assets ("asset deal") and for the sale of ARQUANA shares. However, this bonus applies to the sale of ARQUANA shares only after January 1, 2007.

Dr. Schumann receives a bonus based on a percentage of the cumulative acquired annual sales of new investments in the ARQUES Group. This bonus applies only to the acquisition of companies whose annual sales exceed EUR 10 million. The bonus is based on the calendar year, with all acquisitions still signed in the past year belonging to this year. The bonus agreement applies from 2006 forward. The bonus for each year is to be calculated and paid by February 20 of the following year. The total sales through August 31, 2006 that qualified for calculation of the bonus came to EUR 400 million.

The following compensation was set for the individual Executive Board members in fiscal year 2006:

Figures in EUR Fiscal year 2006	Cash compensation	Cash value of company vehicle contribution	Cash value of profit/based bonus	TOTAL
Dr. Dr. Peter Löw	120,000	5,040	0	125,040
Dr. Martin Vorderwülbecke	172,000	7,441	0	179,441
Markus Zöllner	172,000	0	500	172,500
Dr. Michael Schumann (as of October 5, 2006)	36,520	0	247,902	284,422
TOTAL	540,020	14,015	248,402	761,403

The total salaries paid to former Executive Board members in 2006 came to EUR 266,034.

No additional compensation was paid to members of the Executive Board for their activities serving on the boards of subsidiaries or affiliates.



Events after the balance sheet date

Takeover of antioxidant operations from Degussa

On February 1, 2007, ARQUES took over the antioxidants activities of Degussa GmbH. This includes the Spanish main offices, Degussa Sant Celoni S.A. in Barcelona, and the antioxidants operations of the British Degussa Knottingley Ltd. based in Knottingley. The acquisition was carried out by the Spanish ARQUES subsidiary ARQUES Iberia S.A. The acquired units produce antioxidants for plastics, lubricants, foodstuffs, beauty care & wellness, and paints. They enjoy a leading position in the global market for these products. The companies most recently generated sales of some EUR 60 million. Antioxidants are used to protect products against negative influences such as oxidation, agglutination, changes in color or changes in odor. It has not yet been possible to complete the closing, so the company has not yet been incorporated into the corporate group.

Takeover of Chikara Handels GmbH by ARQUES subsidiary tiscon AG Infosystems

On February 13, 2007, the ARQUES subsidiary tiscon AG Infosystems took over the IT distributor Chikara Handels GmbH, located in Tiefenbach near Passau, Germany. Chikara Handels GmbH is an IT distributor specializing in the supply of non-food items to retail chains. The company was slightly profitable in generating sales of over EUR 30 million in 2006 with its approximately 20 employees. The transaction was approved by the antitrust authorities on February 22, 2007. The transaction is the second step in the "buy & build" course set by tiscon in the market for the distribution of IT products. This market is particularly strongly fragmented in the segment of small and medium-sized businesses. tiscon had taken over the German IT distributors COS Distribution, Avitos and Topedo in late 2006.

Sale of teutonia Kinderwagenfabrik GmbH, Hiddenhausen

Effective March 15, 2007, ARQUES sold teutonia Kinderwagenfabrik GmbH to the US consumer goods group Newell Rubbermaid, Atlanta (Georgia). The relevant antitrust authorities approved the deal on March 2, 2007. The sales price is made up of a payment of EUR 9.3 million plus additional cash-relevant and non-cash-relevant payments. ARQUES took over the manufacturer of baby carriages, which was losing money at the time, in April 2004 for a purchase price of EUR 100,000. teutonia was thus the oldest affiliated company so far in the ARQUES Group. In the nearly three years since the takeover, teutonia underwent a fundamental restructuring by ARQUES. In 2006, it reached annual sales of over EUR 18 million with clear profits (2004 sales: EUR 15 million).

Change on Executive Board

On February 27, 2007, Dr. Dr. Peter Löw, CEO of ARQUES Industries AG, notified the Supervisory Board and the Company that he would no longer renew his expiring contract and will leave the ARQUES Group effective April 30. Current CFO and Deputy CEO Dr. Martin Vorderwülbecke will succeed Dr. Dr. Peter Löw effective May 1, 2007. He was appointed on March 29, 2007 by the Supervisory Board.

The new member of the executive board responsible for Exit is Felix Frohn-Bernau who was appointed to the board by the ARQUES Industries AG supervisory board in its general meeting on March 29. The 38 year old Felix Frohn-Bernau has been working for the ARQUES group in managerial positions since 2004. ARQUES does justice to the current corporate development by means of the extension of the executive board in the strategically important Exit department. In accordance with its business model which foresees the sale of acquired and revitalised subsidiaries after three to five years, ARQUES Industries AG expects an increase in the sale of subsidiaries from its portfolio in the future.

Outlook

Outlook for the world economy in 2007 and 2008

The International Monetary Fund (IMF) expects the economic upturn to continue through 2007. Experts believe that growth in global economic performance (GDP) will touch 4.9% in 2007. The IMF forecasts call for the U.S. economy to expand by 2.9% and output in the euro area to increase by 2.0%, with Germany expected to grow at a slower pace of 1.3%. The economists expect growth to total 2.1% in Japan. In their fall report, the leading economic research institutions in Germany continued to see strong growth potential in the emerging markets, with Russia (plus 6.0%), China, which the economists predict will hit the 10.0% mark, and India (plus 7.3%) acting as the most powerful growth drivers. Growth of 6.3% is predicted for the emerging markets overall.

The Organization for Economic Cooperation and Development (OECD) sets an optimistic tone for 2008 as well, predicting that growth will reach 2.3% in the euro area, 2.7% in the United States, and 2.0% in Japan. The 30 key industrialized member states of the OECD can look forward to a 2.7% increase in their economic performance.

The experts consider the greatest risks to their forecasts to again stem from commodity prices and the closely related development of inflation rates and interest rates. Severe declines on the capital and real estate markets are not included in the forecasts either, nor are unforeseeable geopolitical tensions or terrorist attacks.

Outlook for ARQUES Industries AG

During the past fiscal year, ARQUES succeeded in doubling consolidated revenues on an annualized basis, from EUR 580 million at December 31, 2005 to some EUR 1.2 billion at December 31, 2006. In consolidated terms, consolidated revenues grew by 84%, from EUR 417.5 million at December 31, 2005 to EUR 768.2 million at December 31, 2006. A total of 13 companies were acquired in 2006, with aggregate annualized revenues of around EUR 800 million. This rapid growth was achieved without taking up additional equity capital. Indeed, ARQUES paid a dividend of EUR 2.05 per share (before the stock split) to the shareholders last fiscal year, an increase of 78.3% over the year before. This represents a total payout of EUR 4.97 million in 2006. At year-end, moreover, the corporate group had a net cash position of EUR 42.3 million

The existing subsidiaries are for the most part developing well, and the initiated restructuring measures are taking effect. Consequently, the management team expects these companies to report rising revenues coupled with a disproportionate increase in profitability in 2007. The respective outlooks for the individual subsidiaries are given together with descriptions of the companies concerned, on page 32-70.

Given the revenue dimensions already reached today together with the larger transactions involved in individual acquisitions and the good reputation the Company enjoys on the market, the management team expects to conclude larger acquisitions that could exceed a revenue volume of 500 million in individual cases. The ongoing trend for major corporations to dispose of non-core activities backs this expectation. To allow the further growth plans to be implemented, more people were hired for the Acquisition department, the task force and individual holding functions during 2006.

Against this backdrop, ARQUES management has published a revenue target of EUR 1.5 billion for fiscal 2007, with EBITDA of EUR 180 million. Given these figures, management is looking to acquire companies with annualized revenues of EUR 800 million. This would match the volume of revenues acquired in 2006. Taking into account the deconsolidation of sold subsidiaries and the acquisition of new portfolio companies, the Executive Board expects consolidated revenues of at least EUR 2 billion with proportional operating results in 2008.

The Group is confident of its ability to continue its profitable course of growth in the subsequent years as well. In particular, it is possible that the consolidated revenues could increase significantly faster through a further rise in the average sales volume per transaction.



Report of the Supervisory Board

In the past fiscal year, the Supervisory Board fulfilled all of its responsibilities under the law and according to the articles of incorporation, supervising and providing consultative support to the Executive Board. In particular, the Supervisory Board tracked the strategic development of the company and individual measures of significance. The Executive Board provided the Supervisory Board with regular, current and comprehensive reports on all relevant issues of corporate planning and strategic development, on company performance and the state of the corporate group, on planned new acquisitions, planned sales of subsidiaries or parts thereof, the risk profile, risk management and the budget trends.

Activity of the Supervisory Board

At its meetings, the Supervisory Board received regular and comprehensive briefings on the state of the company. These briefings focused on the trend of the business and financial situation, planned acquisitions, planned sales of subsidiaries or parts thereof, personnel developments and fundamental questions of corporate policy and strategy.

The Supervisory Board discussed and thoroughly examined the Executive Board's quarterly reports on fundamental issues of corporate planning (in particular financial, investment and personnel planning), company performance (in particular the sales volume and the state of the company) and transactions of potentially major significance to the profitability or liquidity of the company.

In the Supervisory Board's six meetings, it questioned the company management about the management reports, particularly regarding current developments and acquisition and sales projects as well as about pending decisions. The Supervisory Board discussed these issues thoroughly and granted the necessary approvals following an in-depth examination of the documents submitted by the Executive Board.

The Chairman of the Supervisory Board also met regularly with the Executive Board to question the management on current developments and thoroughly discuss pending decisions.

Supervisory Board Meetings and Resolutions in 2006

The Supervisory Board met a total of six times in fiscal year 2006. The members of the Executive Board were also present at these meetings. In addition, the Supervisory Board passed three written resolutions by circulated ballot.

The company auditor also attended the April 20, 2006 balance sheet meeting for the annual financial statements of fiscal year 2005.

In its meetings, the Supervisory Board discussed the Executive Board reports in detail, including the economic development of the subsidiaries. Supervision of the Executive Board is, along with consultation on and discussion of the company's strategic orientation, the core responsibility of the Supervisory Board.

In the past year under review, the Supervisory Board carefully observed not only the ongoing trend of business and implementation of the corporate strategy but the strategic evolution of the company and the sustained strong growth of the corporation with the growing financial and personnel demands that accompany this.

Corporate Governance

The Supervisory Board is regularly involved in applying and further developing the binding standards of good and responsible corporate governance. The Executive Board and Supervisory Board issued an updated statement of compliance pursuant to § 161 of AktG on April 18, 2007. This report is permanently available to shareholders on the company website.

In accordance with the recommendations of the code, the Supervisory Board obtained a statement by the auditor on May 10, 2006 outlining any professional, financial or other relationships between the auditor and the company that could justify doubt as to the auditor's independence (statement of independence). The statement also includes the scope of other consultation services that were provided to the company in the past fiscal year.

Personnel Matters of the Executive Board

The personnel matters of the Executive Board were a particular point of discussion. In the October 5, 2006 meeting of the Supervisory Board, Dr. Michael Schumann was appointed as a new member of the Executive Board with immediate effect. In the March 29, 2007 meeting, Mr. Felix Frohn-Bernau was appointed as a new member of the Executive Board effective March 30, 2007. The Supervisory Board reached an agreement with Dr. Peter Löw on the end of his position on the Executive Board effective April 30, 2007. Dr. Martin Vorderwülbecke was named Chairman of the Executive Board effective May 1, 2007.

Personnel Matters of the Supervisory Board

The Chairman of the Supervisory Board, Mr. Steven Wilkin-son, resigned from his position on the Supervisory Board at the conclusion of the company's general meeting of shareholders on May 30, 2006. Dr. Georg Obermeier and Dr. Rudolf Falter were elected as new members of the Supervi-sory Board during the May 30, 2006 general meeting. Prof. Dr. Michael Judis was elected Chairman of the Supervisory Board and Mr. Bernhard Riedel was elected Vice Chairman of the Supervisory Board in the extraordinary session of the Supervisory Board that followed the general meeting. Prof. Dr. Michael Judis and Mr. Bernhard Riedel are members of the Audit Committee of the Supervisory Board.

Review of Annual Financial Statements

The annual financial statements and consolidated financial statements of December 31, 2006 and the consolidated management report, including the accounting records, were audited by the accounting firm PricewaterhouseC-ooopers AG of Munich and given an unqualified approval in the Independent Auditor's Report. All auditor reports and documents relating to the annual financial statements were submitted to the full Supervisory Board at the proper time in advance of the Supervisory Board's balance sheet meeting. These documents were carefully examined by the full Supervisory Board. On April 16, 2007, the Audit Com-mittee of the Supervisory Board thoroughly discussed the annual financial statements in the presence of the auditor and directed questions to the auditor.

The Audit Committee provided the Supervisory Board with a detailed report in the Supervisory Board meeting of April 18, 2007. The Supervisory Board took the opportunity to further question the auditor, who attended the Supervisory Board meeting. The Supervisory Board accepts the find-ings of the auditor and raised no objections from the con-clusions reached following its own review. The Supervisory Board voted to approve the annual financial statements and consolidated financial statements prepared by the Execu-tive Board. The Supervisory Board raised no objection to the consolidated management report. The annual financial statements are thereby adopted.

The meeting of April 18, 2007 also included an examina-tion of the Executive Board's proposal for distribution of the company's profits. The Supervisory Board accepts the Executive Board's profit distribution proposal.

Notes on the Management Report

With regard to the notes on the management report pursuant to § 171 AktG, the Supervisory Board refers to the informa-tion on page 80 of the management report pertaining to §§ 289 (4), 315 (4) HGB. Information relating to the company's subscribed capital, regulations governing the appointment and dismissal of members of the Executive Board, changes to the articles of incorporation and the authority of the Execu-tive Board to issue or buy back shares can be found on page 80 of the company's consolidated management report.

The Supervisory Board wishes to express its emphatic ap-preciation for the efforts of the entire Executive Board and its gratitude for the consistently trustworthy and fruitful dialog. We also wish to extend our special warm thanks to all em-ployees, whose great commitment and dedication contrib-uted significantly to the success of the ARQUES Group.

Munich, April 2007

On behalf of the Supervisory Board,

Prof. Dr. Michael Judis
Chairman

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement for January 1 to December 31, 2006

EUR'000	Notes	Continuing operations
Revenues	1	609,359
Change in finished goods and work in progress		-782
Other own work capitalized	2	2,958
Other operating income	3	162,046
Cost of materials	4	-424,052
Personnel expenses	5	-121,659
Other operating expenses	6	-96,239
EBITDA¹		131,631
Depreciation and amortization		-16,247
Impairment losses		-690
EBIT²		114,694
Income from associated companies	7	716
Other interest and similar income	8	983
Interest and similar expenses	9	-1,890
Financial result		-191
Income from ordinary activities		114,503
Income taxes	10	11,101
Consolidated profit for the year	38	125,604
Minority Interests	11	-4,628
Shareholders of ARQUES Industries AG		120,976
Earnings per share³	12	
- Basic earnings per share in EUR		4.99
- Diluted earnings per share in EUR		4.94

¹ EBITDA: Income from ordinary activities before depreciation and amortization, impairment losses, financial result and income taxes. As an earnings indicator, EBITDA has not yet been

² EBIT: income from ordinary activities before financial result and income taxes. As an earnings indicator, EBIT has not yet been precisely defined in accordance with international accounting

³ EPS figures have been adjusted for the stock split.

2006		2005		
Discontinuing operations	Total	Continuing operations	Discontinuing operations	Total
158,844	768,203	361,689	55,812	417,501
-654	-1,436	3,871	494	4,365
59	3,017	1,577	0	1,577
7,895	169,941	44,886	16,231	61,117
-98,218	-522,270	-255,176	-32,067	-287,243
-46,740	-168,399	-64,215	-16,045	-80,260
-26,576	-122,815	-49,703	-8,486	-58,189
-5,390	126,241	42,929	15,939	58,868
-9,101	-25,348	-9,346	-3,446	-12,792
0	-690	0	0	
-14,491	100,203	33,583	12,493	46,076
0	716	846	0	846
160	1,143	786	60	846
-2,527	-4,417	-1,173	-874	-2,047
-2,367	-2,558	459	-814	-355
-16,858	97,645	34,042	11,679	45,721
1,830	12,931	595	1,518	2,113
-15,028	110,576	34,637	13,197	47,834
6,603	1,975	-700	609	-91
-8,425	112,551	33,937	13,806	47,743
-0.35	4.64	1.56	0.64	2.20
-0.34	4.60	1.56	0.63	2.19

precisely defined in accordance with international accounting standards.
standards.

Consolidated Balance Sheet at December 31, 2006

ASSETS				
EUR'000		Notes	12/31/2006	12/31/2005
Non-current assets				
Intangible assets	13	18,171	8,216	
Property, plant and equipment	14	152,541	130,823	
Investment property	15	2,119	2,288	
Shares in associated companies	16	17,762	3,603	
Financial assets	17	9,751	1,013	
Other non-current assets		88	0	
Deferred tax assets	29	26,718	13,451	
Total non-current assets			227,150	159,394
Current assets				
Inventories	18	114,095	58,239	
Receivables from percentage of completion	19	16,641	2,876	
Trade receivables	20	138,783	77,679	
Available-for-sale financial assets		65	73	
Other assets	21	55,190	17,078	
Tax refund claims		5,839	73	
Cash and cash equivalents	22	92,006	41,434	
			422,619	197,452
Non-current assets held for sale	23	15,514	11,018	
Total current assets			438,133	208,470
Total assets			665,283	367,864

Consolidated Balance Sheet at December 31, 2006

Equity and liabilities			
EUR'000	Notes	12/31/2006	12/31/2005
Shareholders' equity			
Subscribed capital		24,267	2,427
Additional paid-in capital		31,444	53,284
Reserves		5,302	4,866
Other cumulative shareholders' equity		186,413	80,586
		247,426	141,163
Minority interests		27,378	1,014
Total shareholders' equity	24	274,804	142,177
Non-current liabilities			
Provisions for pensions	25	23,962	15,707
Provisions	26	17,991	3,858
Financial liabilities	27	11,661	17,730
Liabilities from finance lease	28	35,237	19,760
Other liabilities		500	1,998
Deferred tax liabilities	29	29,049	23,686
Total non-current assets		118,400	82,739
Current liabilities			
Provisions	26	20,813	13,630
Financial liabilities	30	38,051	20,200
Trade payables	31	144,517	73,907
Tax liabilities	32	12,142	6,236
Other liabilities	33	56,556	28,975
Total current liabilities		272,079	142,948
Total shareholders' equity and liabilities		665,283	367,864

Statement of Changes in Consolidated Equity in the Fiscal Years 2006 and 2005

	EUR'000	Subscribed capital	Additional paid in capital
December 31, 2004		2,027	9,905
1 Appropriation to profit reserves			
2 Dividend payment 2004			
3 Capital increase		400	43,379
4 Changes in minority interests from disposals			
5 Other changes			
6 Total transactions with shareholders		400	43,379
7 Consolidated net profit			
8 Minority interests			
9 Consolidated profit after minority interests		0	0
10 Stock option program			
11 Currency translation differences			
12 Total changes not recognized in profit or loss		0	0
13 Total net income (9+12)		0	0
December 31, 2005		2,427	53,284
Adjustment per IFRS 3,61ff			
December 31, 2005		2,427	53,284
1 Appropriation to profit reserves			
2 Dividend payment 2005			
3 Stock split		21,840	-21,840
4 Changes in minority interests from SKW IPO			
5 Other changes in minority interest			
6 Total transactions with shareholders		21,840	-21,840
7 Consolidated net profit 2006			
8 Minority interests			
9 Consolidated profit after minority interests		0	0
10 Stock option program			
11 Currency translation differences			
12 Available-for-sale securities			
13 Other changes			
14 Total changes not recognized in profit or loss		0	0
15 Total net income (9+14)		0	0
December 31, 2006		24,267	31,444

Profit reserves	Other cumulative shareholders' equity	Minority interests	Consolidated equity
3,230	35,265	1,474	51,901
1,636	-1,636		0
	-2,330		-2,330
			43,779
	203	-203	0
	7	-166	-159
0	-2,120	-369	41,290
	48,253		48,253
		15	15
0	48,253	15	48,268
	278		278
	965		965
0	1,243	0	1,243
0	49,496	15	49,511
4,866	81,005	1,120	142,702
	-419	-106	-525
4,866	80,586	1,014	142,177
436	-436		0
	-4,975		-4,975
			0
		25,913	25,913
		2,426	2,426
0	-4,975	28,339	23,364
	112,551		112,551
		-1,975	-1,975
0	112,551	-1,975	110,576
	880		880
	-2,262		-2,262
	-4		-4
	73		73
0	-1,313	0	-1,313
0	111,238	-1,975	109,263
5,302	186,413	27,378	274,804

Consolidated Cash Flow Statement at December 31, 2006

EUR`000	Continuing operations 01/01-12/31/2006*
Earnings before taxes (EBT)	114,503
Reversal of negative consolidation differences	-91,229
Depreciation and amortization of PP&E and intangible assets	16,937
Increase(+)/ decrease (-) in pension provisions	-419
Profit (-)/loss (+) on the sale of property, plant and equipment	-482
Profit (-)/loss (+) on the sale of non-current financial assets	-34,095
Profit (-)/loss (+) on currency translation	-858
Issuance of stock options	880
At-equity valuation result	-716
Net interest income/expenses	907
Other non-cash income and expenses	1,309
Dividends received	390
Interest received	743
Interest paid	-964
Income taxes paid	-2,472
Increase(-)/ decrease (+) in inventories	6,640
Increase(-)/ decrease (+) in trade receivables and other receivables	-2,895
Increase(+)/ decrease (-) in trade payables, other liabilities and other provisions	-4,530
Increase(+)/ decrease (-) in other balance sheet items	1,127
Cash inflow (+)/outflow (-) from/for operating activities (net cash flow)	4,776
Purchase price paid for shares in companies	-6,885
Cash acquired with the acquisition of shares	7,644
Cash transferred on the sale of shares	72
Proceeds from the sale of shares in companies	62,202
Cash inflows from the sale of non-current assets	2,305
Cash outflows for investments in non-current assets	-22,044
Cash inflow (+)/outflow (-) from/for investing activities	43,294
Free cash flow	48,070
Cash inflows from borrowing of non-current financial liabilities	12,195
Cash inflows from borrowing(+)/repayment (-) of non-current financial liabilities	1,452
Cash outflows for liabilities under finance leases	-1,194
Capital increase of ARQUES Industries AG	0
Dividend payment	-4,975
Cash inflow (+)/outflow (-) from/for financing activities	7,478
Net funds at beginning of period	31,293
IFRS 3,61ff, adjustment	0
Increase(+)/decrease (-) in restricted cash	1,313
Change in net funds	55,548
Net funds at end of period	88,154

* Prior-year figures have been adjusted.

Discontinuing operations 01/01-12/31/2006*	Total 01/01-12/31/2006*	Continuing operations 01/01-12/31/2005*	Discontinuing operations 01/01-12/31/2005*	Total 01/01-12/31/2005*
-16,858	97,645	34,042	11,679	45,721
-1,541	-92,770	-23,545	-14,839	-38,384
9,101	26,038	12,062	709	12,771
-20	-439	-241	-663	-904
-150	-632	-436	0	-436
0	-34,095	-6,307	0	-6,307
61	-797	840	-200	640
0	880	278	0	278
0	-716	-846	0	-846
2,367	3,274	387	814	1,201
-1,189	120	-309	-462	-771
0	390	336	77	413
71	814	714	-74	640
-65	-1,029	-1,267	0	-1,267
-20	-2,492	-1,943	-115	-2,058
-79	6,561	-2,343	-18	-2,361
3,858	963	-14,990	2,800	-12,190
1,374	-3,156	-4,634	165	-4,469
415	1,542	985	140	1,125
-2,675	2,101	-7,217	13	-7,204
-2,476	-9,361	-15,078	-887	-15,965
621	8,265	28,380	6,815	35,195
-4,441	-4,369	-6,101	0	-6,101
0	62,202	9,114	0	9,114
553	2,858	1,316	2,501	3,817
-3,212	-25,256	-3,235	-163	-3,398
-8,955	34,339	14,396	8,266	22,662
-11,630	36,440	7,179	8,279	15,458
10,750	22,945	-5,673	547	-5,126
-4,012	-2,560	3,253	173	3,426
-2,162	-3,356	0	-119	-119
0	0	17,547	0	17,547
0	-4,975	-2,330	0	-2,330
4,576	12,054	12,797	601	13,398
7,054	38,347	12,600	260	12,860
0	0	0	-2,087	-2,087
0	1,313	-1,283	1	-1,282
-7,054	48,494	19,976	8,880	28,856
0	88,154	31,293	7,054	38,347

realising potential



William Frisbie's pies were sold in circular tin pans bearing the family name. Students at nearby Yale University not only enjoyed eating the tasty pies, but had fun tossing around the empty pie pan.

Meanwhile, **Walter Frederick's** interest in UFOs propelled him into designing a toy flying saucer. The "Wham-O" Company, California, bought Frederick's idea and when Wham-O president **Richard Knerr** discovered college students tossing Frisbie pans for fun he had the name for his toy and the world had a new pastime.

A. GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

ARQUES Industries Aktiengesellschaft, Starnberg, Germany (hereinafter “ARQUES” or the “company”) has its main offices at Münchner Str. 15a in 82319 Starnberg and is registered with the Munich district court under the No. HRB 146.911. The company’s shares have been traded on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange since June 28, 2005. The company’s stock has been included in the SDAX index at December 31, 2006.

The business activity of the ARQUES Group consists in the acquisition and restructuring of companies in “situations of upheaval” — unresolved successions, modernizations, corporate spin-offs and economic crises. ARQUES acquires such companies in order to make them competitive and profitable.

The consolidated financial statements are denominated in euros (EUR), as most Group transactions are conducted in this currency.

The consolidated income statement uses the cost summary method. The “income from the reversal of negative differences from capital consolidation” is presented within the item of other operating income in keeping with IFRS regulations and is thus included in the “earnings before interest, taxes, depreciation and amortization” (EBITDA). The consolidated balance sheet is organized by the maturity structure of the constituent items. Assets and liabilities are considered short-term if they are payable within one year.

Accordingly, assets and liabilities are classified as long-term if they remain within the Group for more than one year. Trade payables and receivables and inventories are presented as short-term items. Deferred tax assets and li-

abilities are presented as long-term items. Minority interests held by shareholders outside the Group are presented within shareholders’ equity.

To improve the clarity of presentation, items of the consolidated balance sheet and the consolidated income statement have been combined wherever possible and logical. Such items are broken down and explained in the notes to the consolidated financial statements. Prior-year comparison figures are presented only for those companies that were included in the consolidation group for the prior-year financial statements.

In accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), separate figures (including prior-year comparison figures) are presented for continuing and discontinuing operations (or non-current assets held for sale) in the income statement and cash flow statement for 2006. Also, a combined total of both continuing and discontinuing operations is presented in the income statement and cash flow statement. This presentation method was also chosen for the tables in the notes to the financial statements. Unless otherwise noted, the comments in the text section of the notes to the financial statements refer to the combined presentation. Comments on discontinuing operations may be found in Note (38).

B. SUMMARY OF BASIC ACCOUNTING AND VALUATION PRINCIPLES

With the adoption on June 6, 2002 of the directive of the European Parliament and European Union Council of Ministers regarding the application of international accounting standards, all capital market-oriented companies are obligated to prepare their consolidated financial statements according to the International Financial Reporting Standards (IFRS) for the financial years beginning after December 31,

2004. Pursuant to Section 315a HGB, ARQUES Industries AG is obligated to prepare its consolidated financial statements in accordance with the accounting standards of the International Accounting Standards Board (IASB).

The consolidated financial statements of ARQUES, including the prior-year comparison values, were prepared in accordance with IFRS as applicable in the European Union and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC). All the IFRS and IAS standards and the IFRIC or Standing Interpretations Committee (SIC) interpretations required for financial year 2006 have been observed.

The consolidated financial statements have been supplemented by a Group Management Report and further explanations required under HGB and the German Stock Corporations Act (AktG). The financial statements of all fully consolidated domestic and foreign companies subject to obligatory or voluntary audits under national regulations have been audited or otherwise reviewed by independent auditors. The financial statements of 36 domestic and 22 foreign companies that are individually and collectively insignificant have not been audited.

In December 2004, the IASB published IFRS 6 Exploration for and Evaluation of Mineral Resources, which was adopted by the European Union and must be applied as of January 1, 2006. This represents an interim solution designed to enable companies active in this industry to comply with IFRS without making significant changes to their accounting practices. The application of this standard had no effect on the ARQUES consolidated financial statements. In January 2006, the European Union adopted related amendments to IFRS 1 First-Time Adoption of IFRS and IFRS 6 Exploration for and Evaluation of Mineral Resources. The amendments make it clear that companies applying IFRS for the first time, which apply IFRS 1 in a financial year beginning before January 1, 2006 and which also already apply IFRS 6 voluntarily, do not need to apply all the rules of IFRS 6 to the comparison year. Because IFRS 6 is not relevant to the companies included in the consolidated financial statements of ARQUES Industries AG, this amendment did not have an effect on the consolidated financial statements.

On August 18, 2005, the IASB published IFRS 7 Financial Instruments: Disclosures. This Standard contains new requirements for improving the disclosures of financial instruments included in the financial statements of companies. It supersedes IAS 30 and some of the requirements contained in IAS 32. IFRS 7 is applicable in financial years beginning on or after January 1, 2007. The application of this standard will have no effect on the classification and valuation of the financial instruments of ARQUES. The application of IFRS 7 will lead to more extensive Notes concerning the financial assets and risks of ARQUES.

In December 2005, the IASB published an amendment to IAS 21 Effects of Changes in Foreign Exchange Rates. This amendment was adopted by the European Union and must be applied as of January 1, 2006. The amendment states that monetary assets and liabilities of a parent company (reporting entity) or one of its subsidiaries that are related to a foreign operation must be classified as part of the net investment in a foreign operation, regardless of the functional currency provided that the other requirements are met. This means that any resulting currency differences in the consolidated financial statements must (initially) be recognized separately in shareholders' equity, with no effect on income. The application of this amendment had no effect on the consolidated financial statements of ARQUES.

In November 2005, the European Union adopted the amendment of IAS 39 Financial Instruments ("Fair Value Option"), which must be applied as of January 1, 2006. On November 19, 2004, the European Union Commission had adopted IAS 39 with certain restrictions. One exception was the application of the unrestricted "Fair Value Option" to financial liabilities. The amended version adopted by the European Union Commission in November 2005 restricts the application of the "Fair Value Option." According to the newly adopted regulations in IAS 39.9 and IAS 39.11A, financial instruments can generally only be classified under the category "at fair value through profit or loss" if certain criteria are met. Financial instruments that were classified in the category "at fair value through profit or loss" are subject to the detailed disclosure provisions in IAS 39 and the similarly adapted IAS 32 and must meet the regulation requirements. ARQUES exercises the fair value option in certain cases (see the comments in Section C under Receivables measured at fair value through profit or loss).

In December 2005, the European Union adopted another amendment to IAS 39 Financial Instruments (Cash Flow Hedging of Forecast Intragroup Transactions), which must be applied as of January 1, 2006. This amendment of IAS 39 allows companies to treat future intragroup transactions denominated in a foreign currency, the occurrence of which is highly probable, as underlying transactions in the consolidated financial statements if certain conditions are met. Such transactions may now be designated as hedged underlying transactions in relation to foreign currency cash flow hedges as long as they are denominated in a currency other than the functional currency of the company effecting the transaction and the currency risk affects the consolidated profit of the Group. This amendment had no effect on the consolidated financial statements.

In January 2006, the European Union adopted amendments of IAS 39 Financial Instruments and IFRS 4 Financial Guarantee Contracts, which must be applied as of January 1, 2006. These amendments state that obligations from financial guarantee contracts must be reported as liabilities in the balance sheet of the obligated company. The application of these amendments had no effect on the consolidated financial statements of ARQUES.

Also in January 2006, the European Union adopted the amendment of IAS 1 Presentation of Financial Statements (Capital Disclosures). This amendment requires additional capital disclosures by companies, including the methods used by management to measure and manage capital and any capital requirements imposed by regulatory authorities.. The application of this amendment had no effect on the recognition and measurement of capital items of ARQUES.

In November 2005, the European Union adopted IFRIC 4 (Determining Whether an Arrangement Contains a Lease), which must be applied as of January 1, 2006. The interpretation defines the criteria by which an arrangement is to be identified as a lease and must therefore be accounted for in accordance with IAS 17 Leases. The application of this provision resulted in the identification of a lease at the Wolfsheck paper mill acquired in FY 2006. Accordingly, there were no retroactive effects.

Also in November 2005, the European Union adopted IFRIC 5 (Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds),

which must be applied as of January 1, 2006. These rules are not relevant to the Group companies and were therefore not applied.

In September 2005, IFRIC 6 (Liabilities Arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment) was published. IFRIC 6, which must be applied as of January 1, 2006, clarifies that it is not the production or sale in itself of historical used equipment that requires the manufacturer to establish a corresponding provision. Instead, participation in the market during the measurement period is the obligating event according to IAS 37.14a. Because the application of this rule would not produce any significant effects on the consolidated financial statements of ARQUES, it was not applied.

In November 2005, IFRIC 7 (Applying the Restatement Approach under IAS 29) was published. IFRIC 7 contains guidelines on the application of IAS 29 when hyperinflation is first identified. The interpretation clarifies that IAS 29 is to be applied as if the country had always been hyperinflationary. IFRS 7 is obligatory for financial years beginning on or after March 1, 2006. ARQUES did not apply rules IFRIC 7 ahead of time but will do so as of the obligatory date. The application of IFRIC 7 is not expected to have significant effects on the consolidated balance sheet.

In addition, the following IASB or IFRIC standards were adopting during the course of FY 2006 but were not yet applied to the consolidated financial statements of December 31, 2006, because their application was not yet obligatory (and they were not applied in advance) or they were not yet adopted by the European Commission.

- IFRS 7 (Financial Instruments: Disclosures)
- IFRS 8 (Operating Segments);
- IFRIC 8 (Scope of IFRS 2);
- IFRIC 9 (Reassessment of Embedded Derivatives);
- IFRIC 10 (Interim Financial Reporting and Impairment);
- IFRIC 11 (IFRS 2: Group and Treasury Share Transactions);
- IFRIC 12 (Service Concession Arrangements).

The foregoing interpretations that have not yet been applied will have no effect or no significant effect on recognition and measurement at ARQUES. But particularly with regard to IFRS 7 and IFRS 8 significant changes in disclosure

requirements are established that will lead to significant changes and additional disclosure in the ARQUES notes to the consolidated financial statements. ARQUES will apply the new rules from the time when their application is obligatory. Changes in the accounting and valuation methods are explained in the Notes. Those standards for which the date of obligatory application falls after the balance sheet date have not been applied in advance. Thus, the early application of standards had no effect on the net assets, financial position and operating results of the Group.

The separate financial statements of the companies included in the consolidated financial statements are based on uniform accounting and valuation principles. The principal accounting and valuation methods applied in preparing the present consolidated financial statements are described below.

The consolidated financial statements were prepared in accordance with the principle of historical acquisition or production cost, except for available-for-sale financial assets and derivative financial instruments, which are measured at fair value. The consolidated financial statements of ARQUES Industries AG were prepared on the assumption of a going concern.

Scope and methods of consolidation

Subsidiaries are all companies (including special-purpose entities) whose financial and business policies are controlled by the Group, usually accompanied by a share of voting rights greater than 50%. The existence and effect of potential voting rights, which can be exercised in the present or converted, are also taken into account in determining whether such control exists. Subsidiaries are included in the consolidated financial statements (full consolidation) from the date on which the control passes to the Group. They are deconsolidated from the date on which such control ends.

Capital consolidation of the subsidiaries is carried out according to IAS 27 (Consolidated and Separate Financial Statements). Accordingly, the carrying amount of the investment is eliminated against the parent's share of equity in the subsidiary, which is remeasured at the date of acquisition (remeasurement method). The acquisition cost is measured as the fair value of the assets transferred, the equity instruments issued and the liabilities created or assumed on the date of exchange, plus the directly al-

locable transaction costs. For the initial consolidation, the assets, liabilities and contingent liabilities that can be identified as part of a business combination are measured at fair value at the date of acquisition, without regard to any minority interests. The excess of the acquisition cost over the Group's share of the net assets measured at fair value is recognized as goodwill. If the acquisition cost is less than the fair value of net assets of the acquired subsidiary, the difference is recognized directly in the income statement, after conducting an additional review.

The profits or losses of the subsidiaries acquired or sold during the year are included in the consolidated income statement from the time when the Group's control over the subsidiary began to the time when it ended. Intra-group transactions, balances and unrealized profits and losses on transactions between Group companies are eliminated. In the event of unrealized losses, the transferred assets are subjected to an impairment test.

Minority interests in the consolidated equity and profit are presented separately from the parent's share of equity and profit. The attribution of equity and profit to minority shareholders gives rise to profits and losses, which are recognized in the consolidated income statement.

Jamshedpur Injection Powder Ltd. of Jamshedpur, India, was consolidated at equity. 29 companies were sold or deconsolidated in 2006. The ARQUANA sub-group was deconsolidated and will be presented at equity henceforth. Two companies of the SKS Group were in liquidation on the balance sheet date (SKS-France s.a.r.l., Stiring Wendel, France, and SKS Stakusit Bautechnik Beteiligungs GmbH i.L., Duisburg, Germany). Seven companies whose individual and collective effects on the net assets, financial position and operating results of the Group are not material were not consolidated. These subsidiaries are carried at amortized cost.

The balance sheet date of the consolidated companies is the same as the balance sheet date of the parent company, except for the company presented at equity (Jamshedpur Injection Powder Ltd. of Jamshedpur, India, March 31).

The List of Shareholdings is presented as an addendum to this report and has been filed with the Munich Local Court (Registry Court).

The comparability of the financial statements is restricted by the changes in the consolidation group and by restructuring effects. The significant effects of such changes are noted additionally with respect to the individual items.

Associated companies

Associated companies are companies over which the Group exercises significant influence but which it does not control. Such an association is usually accompanied by 20% to 50% of the voting rights. Investments in associated companies are presented according to the equity method. This means that differences arising on initial consolidation are treated according to the principles of full consolidation and measured initially at cost. The Group's interest in associated companies includes the goodwill constituted at the acquisition, minus accumulated impairments.

The Group's share of the profits or losses of associated companies is recognized in the net financial income or expenses of the consolidated income statement from the date of acquisition. The Group's share of changes in the provisions is recognized in the Group's provisions. The accumulated changes after the acquisition are set off against the carrying amount of the investment.

Unrealized profits and losses from transactions between Group companies and associated companies are eliminated in the proportion corresponding to the Group's share of equity in the associated companies. In the event of unrealized losses, the transferred assets are subjected to an impairment test. The accounting and valuation methods of the associated companies were adapted to those of the Group to ensure uniform Group-wide accounting and valuation methods.

Segment reporting

A business segment is a group of assets and operational activities that provides products or services that differ from those of other segments with respect to their risks and rewards. A geographic segment provides products or services within a specific economic area that differs from other economic areas with respect to the risks and rewards.

In segment reporting, the Group's operating divisions are structured according to their principal activities (primary segmentation) and geographical characteristics (second-

ary segmentation). The primary segments of the ARQUES Group are the Steel, Print, Industrial Production, Specialty Chemistry, Holding and Other activities. The Specialty Chemistry segment was integrated for the first time in 2006. In its segment reporting, the Group observes the accounting and valuation methods of the underlying IFRS consolidated financial statements. Intrasegmentary consolidations were conducted. The segment depreciation and amortization refers to the intangible assets and the property, plant and equipment attributed to that segment.

The company prepares a separate segment report broken down by calendar year of purchase ("vintage years"), in addition to the segment reports required under IFRS.

Recognition of income and expenses

Revenue is measured as the fair value of the consideration received or to be received in the future. It represents the amounts that receivable for goods and services in the ordinary course of business. Discounts, sales taxes and other sales-related taxes are deducted from revenue. Sales taxes and other taxes are deducted from revenues only when ARQUES is not the economic tax debtor, in which case the taxes are merely a transitory item. Revenues are recognized on the sale of goods and services when substantially all the risks and rewards incident to ownership of the goods have been transferred to the customer and the company no longer holds a right of disposal of the kind that is customarily associated with ownership, nor any other effective right of disposal over the goods, and when the revenues and the related expenses incurred or still to be incurred can be measured reliably and it is considered sufficiently probable that economic benefits will flow to the company as a result of the transaction.

Please refer to the notes on construction contracts for information on the recognition of revenue under such contracts.

Interest income and expenses are recognized as they accrue by application of the effective interest method, based on the outstanding loan amount and the applicable interest rate. The applicable interest rate is exactly the rate by which the estimated future cash inflows over the term of the financial asset can be discounted to the net carrying amount of the asset. Such taxes are deducted from interest income and interest expenses when ARQUES is not

the economic tax debtor, as when the taxes in question are merely transitory items.

Dividend income from financial assets is recognized when the shareholder acquires a legally grounded claim for payment of the dividend.

The payments received under finance leases are divided into interest and principal components, using methods of financial mathematics.

Expenses not eligible for capitalization are recognized as expenses in the income statement in the period in which they occur.

Borrowing costs

Borrowing costs are recognized as expenses in the period in which they occur.

Government grants

Income subsidies are allocated to the periods in which the related costs occur and deducted from the corresponding expenses. Subsidies for capital investments are deducted from the acquisition cost of the corresponding assets, thereby reducing the basis for depreciation.

Income taxes

Income tax expenses are composed of current income tax expenses and deferred taxes.

Current income tax expenses are calculated on the basis of the taxable income for the year. Taxable income differs from the profit presented in the income statement, as the former excludes expenses and income which will be taxable or tax-deductible in subsequent years or never at all. The Group's current income tax liability is calculated on the basis of the tax rates applicable or enacted on the balance sheet date.

Deferred tax liabilities are recognized for temporary differences relating to associated companies because the company does not have control over the date of reversal of the temporary differences. Deferred tax liabilities are recognized for temporary differences relating to investments in subsidiaries unless the Group has control over the date of reversal of the

temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxes represent the expected future increases or decreases in taxes resulting from the differences between the carrying amounts of assets and liabilities in the IFRS financial statements and the tax balance sheet, from consolidation procedures and from tax loss carry-forwards when it is considered probable they can be utilized. The balance sheet-oriented liability method is applied.

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets insofar as it is likely that taxable income against which the deductible temporary differences can be applied will be available in the future. If it is not likely that taxable income will be available in the future, deferred tax assets are recognized to the extent that deferred tax liabilities exist.

In consideration of the specific aspects of the ARQUES business model, the recognition of deferred tax assets on tax loss carry-forwards is subject to the following rules:

- In cases when the acquired company is in need of restructuring, deferred tax assets are not recognized, as a rule, on tax loss carry-forwards at the acquisition date, except in amounts up to the amount of deferred tax liabilities that have been recognized, provided that netting is permissible.
- In the case of companies that have a history of generating losses instead of profits, deferred tax assets are recognized even after the acquisition date only up to the amount required to offset deferred tax liabilities.
- Only in the case of companies that have a history of generating profits instead of losses, with an expectation of positive results in the future as well, are deferred tax assets recognized on existing tax loss carry-forwards in the full amount.

At subsequent balance sheet dates, the company will conduct a review in order to determine whether the tax loss carry-forwards can be used in the future in the amount expected at the date of recognition of the corresponding deferred tax assets. When tax loss carry-forwards exist, they can be applied in full against current taxes in Germany up to an amount of EUR 1 million; beyond that amount, they can only be applied at the rate of 60%.

Such deferred tax assets and liabilities are not recognized if the temporary difference results from goodwill or from the initial recognition (except in the case of business combinations) of other assets and liabilities that result, in turn, from events that affect neither the taxable income nor the profit or loss for the year. In the case of goodwill arising on initial consolidation, deferred taxes are recognized when the temporary differences are, by way of exception, tax-deductible.

Deferred tax payables and receivables are netted if they are owed to and by the same tax authority and have the same maturity structure.

The carrying amounts of deferred tax assets are reviewed every year on the balance sheet date and reduced if it is no longer probable that sufficient taxable income will be available to fully or partially recover the asset. Deferred taxes are calculated on the basis of the tax rates applicable at the time the liability is settled or the asset is recovered. Deferred taxes are generally recognized in the income statement, except for those items that are recognized directly in equity.

Profits on the sale of shares in subsidiaries or other associated companies under the Group's management control are treated as tax-exempt because ARQUES has not in such cases realized a short-term trading profit, but a restructuring profit resulting from its entrepreneurial activities.

Internally generated intangible assets-research and development costs

Expenditures for research activities are recognized as costs. An internally generated intangible asset produced as a result of the Group's development activities is recognized as an asset only if the criteria of IAS 38 are met. If an internally generated intangible asset cannot be recognized according to the criteria set out in IAS 38, the development costs are recognized as expenses in the period in which they occur.

Internally generated intangible assets are amortized over the period during which they are expected to generate economic benefits for the Company. If the development work has not yet been completed at the balance sheet date, the capitalized assets are subjected to an impairment test; upon completion of the development phase, an impairment test is conducted only when indications point to the possibility of an impairment.

Patents, licenses (including software) and trademarks

Purchased patents, licenses and trademarks are measured initially at their historical cost. They have definite economic lives and are carried at cost less accumulated amortization.

When there are indications of an impairment, the intangible assets qualifying for systematic amortization are subjected to an impairment test and, if applicable, are reduced to the recoverable amount as defined by IAS 36.

Amortization is charged on a straight-line basis over an estimated economic life that has been standardized for the following intangible assets:

- Patents, utility designs, trademarks, publication rights/copyrights/performance rights: 3–5 years
- Brands, company logos, ERP software and Internet domain names: 5–10 years
- Copyright-protected software: 3 years

Customer group and adventurous contracts

Customer relationships and advantageous contracts. If customer lists, customer relationships or advantageous contracts are capitalized in connection with the purchase price allocation process pursuant to IFRS 3, they are amortized over their estimated economic lives. When indications point to the possibility of an impairment, these assets are subjected to an impairment test and written down to the lower recoverable amount according to IAS 36.

Goodwill

The goodwill arising on consolidation represents the excess of the acquisition cost over the Group's share of the fair value of the identifiable assets and liabilities of a subsidiary or jointly managed company at the date of acquisition. According to IFRS 3, goodwill may not be subjected to scheduled amortization. Instead, IAS 36 provides that an impairment test should be carried out every year, and also when there are indications of an impairment. If necessary, the goodwill is reduced to its recoverable amount (impairment-only approach). Every impairment loss is recognized immediately in income and original values may not be reinstated at a later time. When a subsidiary or jointly managed company is sold, the attributable amount of goodwill is included in the calculation of the profit or loss on the sale.

For purposes of the impairment test, the goodwill is allocated to the cash-generating units or groups of such cash-generating units that are expected to derive a benefit from the underlying business combination.

Property, plant and equipment

All property, plant and equipment are valued at their historical acquisition or production cost, less accumulated depreciation. The acquisition or production cost includes the transaction costs directly allocable to the purchase. Subsequent acquisition or production costs are added to the cost of the asset only if it is probable that future economic benefits will flow to the Group and the costs can be reliably determined. All other repair and maintenance expenses are recognized as expenses in the income statement of the financial year in which they occur.

Land is not subject to scheduled depreciation. All other assets, are depreciated to their residual carrying amounts on a straight-line basis over the expected economic lives of the assets, as follows:

- Factory buildings: 20 years
- Administrative buildings: 25 years
- Other buildings: 10 years
- Plant facilities: 3–10 years
- Machinery and equipment: 2–15 years
- Operational equipment: 4–10 years
- Business equipment: 3–10 years

The residual carrying amounts and economic lives are reviewed every year on the balance sheet date and adjusted as necessary. If the carrying amount of an asset exceeds its estimated recoverable amount, it is immediately written down to the latter value. Profits or losses on the disposal of assets is calculated as the difference between the proceeds on disposal and the carrying amount and are recognized in the income statement.

Investment property

Investment property is real estate held for the purpose of generating rental income or capital appreciation. Investment property is measured at acquisition or production cost minus accumulated depreciation and impairments (acquisition cost model). The fair value at the balance sheet date is disclosed in the notes to the consolidated financial statements.

Non-current assets held for sale

Non-current assets (and groups of assets) classified as held for sale are measured at the lower of amortized cost or fair value, minus the cost of sale. Non-current assets and groups of assets, including the liabilities directly allocable to these groups, are classified as held for sale if their carrying amounts can be recovered better through sale than through continued use. This condition is considered to be met only 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 indefinite economic lives are not subjected to scheduled depreciation but are subjected to an annual impairment test. Assets qualifying for scheduled depreciation are subjected to an impairment test when certain events or changed circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is recognized in the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the asset's value in use and its fair value, minus the cost of sale. For the impairment test, assets are aggregated at the lowest level at which cash flows can be identified separately (cash-generating units).

If an impairment loss is later reversed, the carrying amount of the asset (or cash-generating unit) is increased to the newly estimated recoverable amount. The increase in the carrying amount is limited to the value that would have resulted if no impairment loss had been recognized in prior years. Reversals of impairment losses are recognized immediately in profit or loss for the period. Impairment losses in goodwill are not reversed.

With the exception of the goodwill presented in the balance sheet, there were no intangible assets with indefinite economic lives in the past financial year.

Leases

Leases are classified as finance leases when by virtue of the leasing conditions substantially all the risks and rewards associated with ownership are transferred to the lessee. All other leases are classified as operating leases.

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 lease payments or at the lower fair value according to IAS 17 and depreciated over its economic life. If it is not sufficiently certain at the inception of the lease that ownership will transfer to the lessee, the asset is depreciated in full over the shorter of the lease term or the economic life.

The corresponding liability to the lessor is recognized in the balance sheet as an obligation under finance leases within the item of liabilities due to other creditors. The lease payments are divided into an interest portion and a lease obligation repayment portion in such a way as to ensure a constant rate of interest on the outstanding liability.

Lease payments under an operating lease are recognized as expenses in the income statement on a straight-line basis over the lease term, unless another systematic approach better reflects the period of use for the lessee.

When ARQUES is the lessor under a finance lease, it recognizes a lease receivable due from the lessee in the balance sheet, instead of an asset. The amount of the lease receivable corresponds to the lessor's net investment in the leased property at the time of recognition as an asset. The finance income received under finance leases is recognized over time in a pattern that reflects a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease. Rental income received under operating leases is recognized as income on a straight-line basis over the term of the respective lease.

Inventories

Inventories are measured at the lower of the acquisition/production cost or the net realizable value. Acquisition or production cost includes direct material costs and direct production costs (if applicable), as well as those overhead costs incurred in bringing the inventories to their current location and condition. Acquisition or production cost are measured according to the weighted average cost method. The net realizable value represents the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale. When necessary, valuation allowances are charged to account for overstocking, obsolescence and reduced salability.

Construction contracts

When the outcome of a construction contract can be estimated reliably, the contract revenues and costs are recognized as revenues and expenses by reference to the stage of completion on the balance sheet date. The stage of completion is generally determined as the ratio of the contract costs incurred for the work performed at the balance sheet date to the estimated total contract costs, unless that method does not accurately reflect the stage of completion. Payments for changes in the contract scope, subsequent requests and bonuses are included to the extent agreed. The Group recognizes a receivable for all ongoing construction contracts under which the sum of costs incurred minus revenues recognized is greater than the sum of interim invoices. The Group recognizes a liability for all ongoing construction contracts under which the sum of the interim invoices exceeds the costs incurred minus the revenues recognized. If the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only in the amount of the incurred contract costs that are likely recoverable. Order costs are recognized as expenses in the period in which they occur. If it is probable that the total contract costs will exceed the total contract revenues, the anticipated loss is recognized immediately as an expense.

Trade receivables

Trade receivables are measured initially at fair value and subsequently measured at amortized historical cost, based on the effective interest method, with deductions made for any impairments. An impairment loss is recognized in trade receivables when there are objective indications that the amounts due cannot be collected in full. The amount of the impairment loss is measured as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows from this receivable, discounted by the effective interest rate. The impairment loss is charged to the income statement. If the reasons for the impairment losses recognized in prior periods no longer exist, the impairment losses are reversed accordingly.

Receivables measured at fair value through profit or loss

Purchased receivables under shareholder loans are classified as financial instruments measured at fair value through

profit or loss. In accordance with IAS 39, these receivables are classified on the basis of the fair values according to the documented risk management and asset portfolio management strategy of these receivables and an assessment of their future performance capacity. In the consolidated financial statements of ARQUES, a considerable quantity of receivables under shareholder loans is eliminated in the consolidation process. If the receivables in question were not classified in this way, but were instead measured at amortized cost, only the purchase price paid for those receivables at the acquisition date would be recognized when the company owing the receivables would be transitionally accounted for by some other consolidation method than full consolidation or would be deconsolidated. Because the purchase price paid for such receivables is usually only of a symbolic amount, any appreciation in the receivables resulting from the successful restructuring of that company would not be adequately presented. This treatment serves to enhance the relevance of the information contained in the financial statements of ARQUES.

The purchased receivables are measured on the basis of contractually agreed repayment plans which are based on market rates of interest, plus an appropriate risk premium. Changes in the fair value of such assets are recognized in profit or loss. The carrying amounts of such assets are reviewed at the balance sheet date or whenever circumstances point to a change in the fair value of such assets.

The receivables measured at fair value through profit or loss are presented within the item of Other assets.

Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits, other short-term, highly fungible financial assets with an original term of no more than three months, which are not subject to the risk of a change in value, and current account overdraft facilities. When they have been utilized, current account overdraft facilities are recognized in the balance sheet as liabilities due to banks under current liabilities.

Financial assets

Financial assets are divided into the following categories: assets at fair value through profit or loss, loans and receivables, assets held to maturity and assets available for sale. The classification depends on the purpose for which

the respective financial assets were acquired. The management determines the classification of financial assets at the time of initial recognition and reviews the classification at every balance sheet date.

(a) At fair value through profit or loss

This category has two subcategories: financial assets classified as "held for trading" from the outset and financial assets classified as "at fair value through profit or loss" from the outset. A financial asset is assigned to this category if it was purchased with the intention of selling it in the short term or if it was so designated by the management. Derivatives also belong to this category. Assets in this category are presented as current assets if they are either held for trading or are expected to be recovered within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. They arise if the Group provides money, goods or services directly to a borrower without the intention of trading this receivable. They are presented as current assets as long as their due date is not more than 12 months after the balance sheet date, in which case they are recognized as non-current assets. Loans and receivables are presented 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 determinable payments and fixed terms, which the management has the intention and ability of holding until maturity.

Loans are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. ARQUES assigns loans to this category. Loans are initially measured at fair value and subsequently measured at amortized, based on the effective interest method, with deductions made for any impairments. If loans are due in more than 12 months, they are presented as non-current assets. They are presented as current assets when they are due in not more than 12 months of the balance sheet date or, if they should be due in more than 12 months, when they are normally recovered in the ordinary course of business.

(d) Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that either have been assigned to this category or have not been assigned to any other category. They are presented as non-current assets if the management does not intend to sell them within 12 months of the balance sheet date.

All purchases and sales of financial assets are recognized at the trade date, the date on which the Group commits to purchase or sell the asset. Financial assets that do not belong to the “at fair value through profit or loss” category are measured initially at fair value plus transaction costs. They are charged off when the rights to payments from the investment have expired or been transferred and the Group has transferred substantially all the risks and rewards associated with ownership. In subsequent periods, financial assets available for sale and assets in the “at fair value through profit or loss” category are measured at fair value. Loans and receivables and financial investments held to maturity are measured at amortized cost, based on the effective interest method.

Realized and unrealized profits and losses resulting from the changes in fair value of assets in the “at fair value through profit or loss” category are recognized in the income statement for the period in which they occur. Unrealized profits and losses from the changes in fair value of non-monetary securities in the “financial assets available for sale” category are recognized in equity. If securities held in the category of financial assets available for sale are sold or sustain impairment losses, the accumulated fair value adjustments formerly recognized in equity are recognized in the income statement as profits or losses from financial assets.

The fair values of exchange-listed shares are based on the current offering prices of those shares. If there is no active market or the assets in question are not listed on an organized exchange, the fair value is determined by means of appropriate methods, including reference to recent transactions between independent business partners, the current market prices of other assets that are essentially similar to the asset under consideration, discounted cash flow methods or option price models that take the specific circumstances of the issuer into account.

An impairment test is conducted at every balance sheet date to determine whether objective indications point to an impairment of a financial asset or group of financial assets. In the case of equity instruments classified as financial assets available for sale, a significant or lasting decrease in the fair value below the historical acquisition cost of equity instruments is taken into account for the purpose of determining whether equity instruments have sustained an impairment loss. If such an indication exists in the case of assets available for sale, the total, accumulated loss — measured as the difference between the historical acquisition cost and the current fair value, less previously impairment losses recognized in earlier periods — is deducted from equity and recognized in the income statement. After impairment losses in equity instruments have been recognized in the income statement, they can no longer be reversed.

Shareholders' equity

Shares are classified as equity. Costs directly allocable to the issuance of new shares or options are recognized in equity on an after-tax basis as a deduction from the issue proceeds.

If a Group company purchases company shares (treasury shares), the value of the consideration paid, including the directly allocable transaction costs (on an after-tax basis) are deducted from the company's equity until such time as the shares are redeemed, re-issued or resold. When such shares are subsequently re-issued or sold, the consideration received — after deduction of directly allocable additional transaction costs and the corresponding income taxes — is recognized in the company's equity. The Group did not hold any company shares (treasury shares) at the balance sheet date.

Provisions

Provisions are established to account for a present legal or constructive obligation resulting from a past event, if it is “more likely than not” that the settlement of the obligation will lead to an outflow of economic benefits and if it is possible to reliably determine the amount of the provision. In the case of several similar obligations, the likelihood of an outflow of economic benefits is assessed with reference to the overall group of obligations.

In the ARQUES group particularly provisions for unfavourable contracts that are identified in purchase price allocations are recognized.

Non-current provisions are discounted to present value if the effect is significant. The discount rate applied for this purpose is the interest rate before taxes that best reflects the current market environment and risks of the obligation.

Employee benefits

Pension obligations

There are various pension schemes in place within the ARQUES Group, including both defined benefit and defined contribution plans. Defined contribution plans are plans for post-employment benefits, under which the company pays defined contributions to an independent entity (pension fund or insurance carrier) and has neither a legal nor a constructive obligation to pay further contributions if the pension fund does not have sufficient assets to cover all the benefits relating to the employees' services in the past financial year or earlier periods. A defined benefit plan is any plan that is not a defined contribution plan.

The liability from defined benefit plans recognized in the consolidated balance sheet is based on the present value of the defined benefit obligation less the fair value of the pension plan assets at the balance sheet date, with due consideration given to actuarial gains and losses and service cost to be recognized in subsequent periods.

The pension provisions for the company's pension plan are measured in accordance with the projected unit credit method prescribed in IAS 19 (Employee Benefits). They are measured anew by independent actuaries at every balance sheet date. Under this method, the pension provisions are calculated on the basis of the known pensions and vested pension rights at the balance sheet date, as well as the anticipated future increases in salaries and pensions and the expected income from pension plan assets. The pension plan assets of the ARQUES Group consist of the employer's pension liability insurance, which has been pledged to the pension beneficiaries, and other assets which meet the definition of plan assets according to IAS 19. Any actuarial gains or losses between the pension obligations determined in the manner de-

scribed above and the present value of the expected pension obligations at the end of a given financial year are recognized in the balance sheet only if they differ from the pension obligation or plan assets by more than 10%. In such a case, they are recognized as income or expenses over the average remaining employment period of the qualifying employees, beginning in the following year. Past service costs are recognized over the period of time remaining until the pension rights are vested. The interest portion of the additions to provisions recognized as pension expenses is recognized as interest expenses within net financial income or expenses.

Payments under a defined contribution pension plan are recognized as personnel expenses in the income statement.

Share-based payment

In financial year 2005, ARQUES established a share-based payment plan for its executive officers. Under this plan, compensation is rendered through the issuance of company shares. This plan was continued in 2006. The fair value of the services rendered by the employees in exchange for the granting of options is recognized as an expense. The total cost, which is recognized as an expense over the vesting period, is measured as the fair value of the options granted. The fair value of the options is measured by means of a Monte Carlo simulation. Non-market-based barriers to exercising options are reflected in the assumptions concerning the anticipated number of options to be exercised. The estimated number of options that can be exercised is reassessed at every balance sheet date, based on the Group's estimate of the number of shares that will become vested. The effects of any changes made to the original estimates are recognized in the income statement and by means of a corresponding adjustment in equity over the time remaining until the shares become vested.

Share purchases of subsidiary managers

In accordance with the "subsidiary manager" model practiced at ARQUES, the company offers selected employees the chance to purchase shares in companies to be restructured. In most cases, the subsidiary manager will purchase such shares concurrently with the ARQUES' acquisition of the company in question, but may also purchase shares at a later time. If the fair value of such shares at the grant date exceeds the purchase price paid by the subsidiary

manager, the difference is recognized directly in equity, in accordance with IFRS 2. The fair value of the shares is determined with reference to the fair value of the corresponding company at the transfer date. If the transfer occurs concurrently with the share purchase, the purchase price is applied as the fair value.

Termination benefits

Termination benefits are provided when the Group terminates an employee's employment before the normal retirement date or when the employee leaves voluntarily in exchange for those benefits. The Group recognizes termination benefits when it has a demonstrable obligation to terminate the employment of current employees on the basis of a detailed formal plan that cannot be retracted or if it has a demonstrable obligation to pay such benefits when the employee has voluntarily accepted the termination of his employment. Termination benefits that fall due more than 12 months after the balance sheet date are discounted to present value. Termination benefits payable are presented within the personnel provisions. Also, the employee benefits payable under the German model of partial early retirement known as *Altersteilzeit* are stated within this item as well.

Profit-sharing and bonus plans

For bonus and profit-sharing payments, the Group recognizes a liability in the balance sheet and an expense in the income statement on the basis of a measurement procedure that takes into account the profit to which the Group shareholders are entitled, after certain adjustments. The Group recognizes a provision when it has a contractual obligation or a constructive obligation based on past business practices.

Liabilities

The financial liabilities are composed of liabilities and derivative financial instruments with negative fair values. Liabilities are measured at amortized cost. This means that current liabilities are measured at the amounts required to repay or settle the underlying obligations, while non-current liabilities and long-term debts are measured at amortized cost according to the effective interest method. Liabilities under financial leases are measured at the present value of the future minimum lease payments.

According to the definition of IAS 32, assets can be designated as equity from the company's perspective only when there is no requirement to repay those assets or provide other financial assets instead. The company's assets may be subject to repayment obligations if (minority) shareholders hold a right of redemption and when the exercise of this right establishes a claim for compensation from the company. Such capital made available to minority shareholders is recognized as a liability under IAS 32 even when it is classified as shareholders' equity under the laws and regulations of a given country.

Current items are those that are due in up to one year, while non-current items are due in more than one year.

Foreign currencies

Functional currency and reporting currency

The items appearing in the financial statements of every Group company are measured on the basis of the currency used in the primary economic environment of that Group company (functional currency). The consolidated financial statements are denominated in euros, which represent both the functional and the reporting currency of the Group.

Transactions and balances

Foreign currency transactions are translated to the functional currency at the exchange rates in effect on the transaction date. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities in foreign currency to the functional currency at the exchange rate on the balance sheet date are recognized in the income statement. Currency translation differences in non-monetary items for which changes in fair value are recognized in income are included as part of the profit or loss from measurement at fair value. On the other hand, currency translation differences in non-monetary items such as available-for-sale investments for which changes in fair value are recognized in equity are included in the market valuation reserve within the item of equity.

Group companies

The profits and losses and balance sheet items of all Group companies whose functional currency (none of which being

the currency of a hyperinflationary economy) differs from the (Group) reporting currency are translated to the (Group) reporting currency as follows:

- Assets and liabilities are translated at the exchange rate on the balance sheet date; however, equity is translated at the historical exchange rate.
- Income and expenses are translated at the average exchange rate for the period covered by the income statement.
- All currency translation differences are recognized as a separate item within equity.

When a foreign business is sold, any resulting currency translation differences, plus the changes in equity that had previously been recognized in the reserve for currency translation differences, are recognized in the income statement as part of the gain or loss on the sale. Any goodwill and fair value adjustments that result when a foreign company is purchased are treated as assets and liabilities of the foreign company and translated at the exchange rate on the balance sheet date.

The exchange rates applied for the translation of key currencies (equivalent for one euro) underwent the following changes in 2006:



1 EURO		Exchange rate at		Average exchange rate	
		12/31/2006	12/31/2005	2006	2005
Switzerland	CHF	1.6069	1.5551	1.5731	1.5483
Czech Republic	CZK	27.4850	29.0000	28.3383	29.7820
Denmark	DKK	7.4560	7.4605	7.4591	7.4518
Britain	GBP	0.6715	0.6853	0.6818	0.6838
India	INR	58.2021	53.9200	56.8700	55.0900
Japan	JPY	156.9300	138.9000	146.0625	137.1010
Korea	KRW	1,224.8100	1,184.4200	1,198.1483	1,275.9100
Malta	MTL	0.4293	0.4293	0.4293	0.4299
Poland	PLN	3.8310	3.8600	3.8951	4.0230
Romania	ROL	3.3835	3.6802	3.5244	3.6209
Russia	RUB	34.6800	33.9200	34.1124	35.1884
Ukraine	UAH	6.9152	5.9716	6.5410	6.3708
USA	USD	1.3170	1.1797	1.2557	1.2441

Litigation and claims for compensation of loss or damage

By virtue of their ordinary business activities, the companies of the ARQUES Group are currently involved or may in the future be involved in various litigation and administrative proceedings. Although the outcome of individual cases cannot be predicted with certainty, given the general unpredictability of legal disputes, the Management believes, based on the current status of information, that these cases will not have a seriously adverse effect on the Group's profit performance, beyond the risks accounted for as liabilities or provisions in the annual financial statements.

The European Commission informed ARQUES in mid-January 2007 that it had conducted unannounced on-site inspections of calcium carbide plants in Austria, Germany, Slovenia and Slovakia, including plants of the SKW Stahl-Metallurgie Group. The European Commission stated that it has reason to believe that the inspected companies may have violated Article 81 of the Treaty of the European Community (cartel law). The Management Board of SKW Stahl Metallurgie AG considers the accusations to be unfounded, as the findings of an extensive internal investigation are supposed to confirm. Moreover, the SKW Stahl-Metallurgie Group fulfills all its cooperation and toleration duties in relation to the European Commission.

Assumptions and estimates made for accounting and valuation purposes

In preparing the consolidated financial statements, it was necessary to make certain assumptions and estimates that have a bearing on whether and to what extent assets and liabilities, income and expense and contingent liabilities of the reporting period are recognized in the balance sheet. Such assumptions and estimates relate mainly to the recognition and measurement of intangible assets, the adoption of uniform groupwide economic lives for property, plant and equipment and intangible assets and the recognition and measurement of provisions. Furthermore, the tax planning of future profits and losses, which serves as the basis for the recognition of deferred tax assets, also relies on estimates, insofar as the deferred tax assets exceed the deferred tax liabilities that have been recognized. The assumptions and estimates made in these respects are based on the current status of available information. In particular, the expected course of business developments in the future was assessed on the basis of the circumstances known at

the time when the consolidated financial statements were prepared and realistic assumptions regarding the future development of the operating environment. If the basic operating conditions that are not subject to the management's control would differ from the assumptions made, the actual performance figures may differ from the original estimates.

Our estimates are based on experience and other assumptions that are considered realistic under the given circumstances. The actual values may differ from the estimated values. These estimates and assumptions are continually reviewed.

Estimates made for purposes of the purchase price allocation

Estimates are also usually made to determine the fair value of assets and liabilities acquired in the context of business combinations. Land, buildings and technical plant and machinery are typically appraised by an independent expert. Marketable securities are measured at their market value. Expert appraisals of the market values of property, plant and equipment are subject to a certain degree of uncertainty as a result of the assumptions applied for this purpose. Depending on the type of asset and difficulty of the valuation, we determine the fair values of any intangible assets either by consulting an independent expert or measuring the fair value internally, using an appropriate valuation method that is usually based on a projection of all future cash flows.. Depending on the type of asset and the availability of pertinent information, we apply different valuation techniques based on cost, market price or income approaches. The capitalized income approach is quite often applied special to measure the value of intangible assets. For example, the relief-from-royalty method is used to measure the value of brands and licenses. Under this method, we estimate the cost 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 cost savings are then discounted to present value and applied as the value of the intangible asset. In determining the values of intangible assets, it is necessary to make estimates concerning the economic lives of those assets, in particular, which are subject to a certain degree of uncertainty as a result of the assumptions applied for this purpose. In determining the fair value of contingent liabilities, assumptions also need to be made with regard to the probability that the corresponding obligations will have to be settled in the future. By their nature, such assumptions are subject to a certain degree of uncertainty.

ARQUES considers the estimates made with respect to the economic lives of certain assets, the assumptions regarding general economic conditions and the developments in the industries in which the ARQUES Group is active and the estimated present values of future payment streams to be reasonable. Nonetheless, changes in the relevant assumptions and circumstances may necessitate corrections in the future, which could, in turn, result in additional impairment losses in the future if the developments anticipated by ARQUES do not materialize. Additional effects may result from provisional purchase price allocations that are based on the best information available at the balance sheet date which may change due to new information in subsequent periods.

Estimates made for purposes of the impairment test of goodwill

In accordance with IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), goodwill is subjected to an impairment test every year and more often, when events or changed circumstances indicate the possibility of an impairment loss. The systematic amortization of goodwill is prohibited. For purposes of the impairment test, the net carrying amounts of each individual cash-generating unit within the ARQUES Group is compared with the recoverable amount, defined as the higher of the fair value less costs to sell or the value in use. In accordance with the relevant definitions, the strategic business units of the ARQUES group are considered to be cash-generating units.

If the carrying amount of the cash-generating unit is higher than the recoverable amount, an impairment loss is recognized in the amount of the difference. The impairment loss so calculated is first deducted from the goodwill of the affected strategic unit. Any remaining amount is then deducted from the value of the other assets of the affected strategic business unit in proportion to their carrying amounts.

The recoverable amount is calculated as the present value of the future cash flows expected to result from the continued use by the strategic business unit, plus the value on disposal at the end of the asset's economic life. The future cash flows were estimated on the basis of on current business plans of ARQUES. The capital costs at ARQUES are calculated as the weighted average cost of capital (WACC), based on each business unit's share of total capital. The equity capital costs are determined as the expected invest-

ment returns for each business unit, based on the information available in the capital markets. ARQUES bases Debt capital costs are calculated with reference to the average debt capital costs of each strategic business unit, based on from bonds with an average residual term of 10 years.

Estimates made with regard to receivables measured at fair value

The fair value of receivables is measured on the basis of contractually agreed payment plans. The assumptions made with regard to expected future payments are generally based on the free cash flows available to the company that owes the receivable, which are based, in turn, on that company's budget. Those free cash flows are based on assumptions and estimates. The budgets are subject to planning risks and uncertainties, which are reflected in the credit risk of the companies in question. The credit risk is accounted for by means of adequate discount rates and risk margins in relation to the company's progress in the restructuring process. The discount rate is determined as the current EURIBOR plus a safety margin suited to the creditor in question. The fair values calculated on this basis are subject to a certain degree of uncertainty as a result of the necessary assumptions and estimates made for this purpose. If these assumptions and estimates applied for the purpose of fair value measurement undergo changes in subsequent periods, the values are adjusted accordingly.

Income taxes

The Group is required to pay income taxes in various countries based on different tax base measurement rules. The worldwide provision for accrued taxes is determined on the basis of profits calculated in accordance with local laws and regulations and the applicable local tax rates. Nonetheless, there are many business transactions, for which the final taxation cannot be determined conclusively in the regular course of business. The amount of provisions for expected tax audits is based on estimates of whether and in what amount additional income taxes will be payable as a result of such tax audits. Provisions of an adequate amount have been established to account for the risk of different-than-expected tax treatment. ARQUES has not established a provision for profits on the sale of shares in subsidiaries or other associated companies because such profits are not to be regarded as short-term trading profits, but as the restructuring profits resulting from the Group's entrepreneur-

ial activities. If the final taxation of these business transactions differs from the initial assumptions, this difference will have an impact on the current and accrued taxes for the period in which the final taxation is determined.

In addition, estimates are required in order to assess whether it is necessary to recognize impairment losses in deferred tax assets. Such an assessment depends on an estimate of the probability that the temporary differences or tax loss carry-forwards for which the deferred tax assets were recognized will reverse or can be used in the future. The question is whether taxable profits will be generated in the future periods in which the temporary tax differences will reverse and the tax loss carry-forwards can be applied. Thus, unlike the treatment applied in the previous year, the time horizon applied for the purpose of determining whether such temporary tax differences will reverse is no longer limited to a one-to-three year forecast period, but is unlimited in time. Uncertainties are inherent in the interpretation of complex tax regulations and the amount and timing of future taxable income. Due to the wide-ranging international activities of the Group, any differences between the actual profits or losses generated and the management's assumptions in this regard or future changes to these assumptions may lead to different tax results in future periods.

Provisions

In determining the amount of provisions to be recognized, assumptions need to be made concerning the probability of a future outflow of economic resources. Such assumptions represent the best-possible estimate of the underlying situation, but are nonetheless subject to a certain degree of uncertainty as a result of the assumptions applied for this purpose. In determining the amount of provisions to be recognized, assumptions also need to be made concerning the amount of the possible outflow of economic resources. A change in these assumptions could lead to a change in the necessary amount of provisions to be recognized. Here as well, the assumptions made for this purpose give rise to uncertainties.

The determination of the present value of pension obligations depends very much on the choice of discount rate to be applied and the underlying actuarial assumptions.. This discount rate is determined anew at every balance sheet

date as the interest rate paid by the highest-grade corporate bonds in the currency in which the pension benefits are payable, the maturity of which matches the due date of the pension obligations. Future changes in this interest rate can thus lead to significant changes in the amount of pension obligations.

When the consolidated financial statements were prepared, the underlying assumptions and estimates were not subject to any significant risks, so that, from today's perspective, it should not be necessary to make any significant adjustment in the subsequent year to the carrying amounts of the assets and liabilities stated in the consolidated balance sheet.

Financial risk management

Financial risk factors

The Group is subject to various financial risks as a result of its business activities: Market risk (including foreign currency risk, fair value interest rate risk and market price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's comprehensive risk management program is focused on the unpredictability of developments in the financial markets and aims to minimize potentially adverse effects on the financial situation of the Group. The Group employs derivative financial instruments to hedge against certain risks. Risk management is conducted by the Group Finance Department according 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 guidelines address the treatment of foreign currency risk, interest rate and credit risk, the use of derivative and non-derivative financial instruments and the investment of surplus liquidity. ARQUES does not apply hedge accounting for these transactions.

Foreign exchange risk

By virtue of its international activities, the Group is exposed to foreign currency risk based on changes in the exchange rates of various foreign currencies, primarily the U.S. dollar. Foreign currency risks are inherent in anticipated future transactions, recognized assets and liabilities and net investments in foreign companies. A foreign currency risk

arises when future business transactions and recognized assets and liabilities are denominated in a currency that is not the functional currency of the Group. To hedge against such risks from expected future transactions and recognized assets and liabilities, the Group companies employ forward exchange contracts as needed. Such contracts are coordinated with Group Finance.

The Group holds investments in foreign companies whose net assets are subject to the risk of exchange rate fluctuations. The foreign currency risk inherent in the net assets of foreign companies in the United States is managed primarily by means of borrowing in the local currency.

Credit risk

There are no significant concentrations of credit risks within the Group.

Liquidity risk

Cautious liquidity management entails the need to hold sufficient reserves of cash and cash equivalents and marketable securities, along with access to sufficient committed lines of credit and the ability to issue securities on the market. In view of the dynamic nature of the business environment in which the Group operates, a central goal of Group Finance is to maintain the necessary financial flexibility by keeping unused lines of credit in sufficient amounts.

Adjustments to the comparison figures from the consolidated financial statements for 2005

The figures at January 1, 2006 were adjusted in accordance with IFRS 3.61 ff. The purchase price allocation reflected in the consolidated financial statements at December 31, 2005 for the subsidiary Evry Rotatives S.A.S., which was acquired in the fourth quarter of 2005, was preliminary within the meaning of IFRS 3.61 ff. The adjustments that have been made reflect the final purchase price allocation.

By virtue of the ARQUES business model, preliminary purchase price allocations within the meaning of IFRS 3.61 ff. can be expected to occur in the future as well, due to the time-intensive and complex demands of a purchase price allocation and the time required for the independent auditor to audit the results. Depending on the complexity of the acquisition, this process can take several months. However, IFRS 3.61 ff. provides that an acquisition be recognized as soon as valid preliminary figures are available, not when the purchase price allocation is finally completed. With a view to the qualitative requirements of the IFRS Framework, the prompt provision of preliminary information is considered preferable to the delayed provision of exact information.

The most important adjustment made to the prior-year comparison figures for Evry Rotatives S.A.S. related to a real estate lease concerning which it was not sufficiently certain at the end of the year, in the company's judgment, that the property in question would pass into the ownership of Evry Rotatives S.A.S. Therefore, this property was not recognized as an asset in the initial accounting treatment. At January 1, 2006, the adjustments made to the completed purchase price allocation related to non-current assets in the amount of EUR 7,382 thousand, current assets in the amount of EUR 559 thousand, non-current liabilities in the amount of EUR 7,692 thousand and current liabilities in the amount of EUR 774 thousand. The effect on the profit or loss until January 1, 2006 amounted to EUR -419 thousand and the minority interests were reduced by EUR 106 thousand.

A detailed account of the adjustments made is presented in the tables below:

EUR'000	Consoli- dated Financial Statements 12/31/2005	Adjustment per IFRS 3.61	Consolidated Financial Statements 12/31/2005 adjusted
ASSETS			
Non-current assets			
Intangible assets	8,189	27	8,216
Property, plant and equipment	125,558	5,265	130,823
Investment property	2,288		2,288
Shares in associated companies	3,603		3,603
Financial assets	1,013		1,013
Other non-current assets	0		0
Deferred tax assets	11,361	2,090	13,451
Total non-current assets	152,012	7,382	159,394
Current assets			
Inventories	58,559	-320	58,239
Receivables from percentage of completion	2,876		2,876
Trade receivables	76,700	979	77,679
Available-for-sale financial assets	73		73
Other assets	16,641	437	17,078
Tax refund claims	73		73
Cash and cash equivalents	43,521	-2,087	41,434
Non-current assets held for sale	9,468	1,550	11,018
Total current assets	207,911	559	208,470
Total assets	359,923	7,941	367,864
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Subscribed capital	2,427		2,427
Additional paid-in capital	53,284		53,284
Profit reserves	4,866		4,866
Other cumulative shareholders' equity	81,005	-419	80,586
	141,582	-419	141,163
Minority interests	1,120	-106	1,014
Total shareholders' equity	142,702	-525	142,177
Non-current liabilities			
Provision for pensions	15,707		15,707
Provisions	3,858		3,858
Financial liabilities	17,730		17,730
Liabilities from finance lease	10,936	8,824	19,760
Other liabilities	1,998		1,998
Deferred tax liabilities	24,818	-1,132	23,686
Total non-current assets	75,047	7,692	82,739
Current liabilities			
Provisions	12,930	700	13,630
Financial liabilities	2,200		20,200
Trade payables	72,882	1,025	73,907
Tax liabilities	6,236		6,236
Other liabilities	29,926	-951	28,975
Total current liabilities	142,174	774	142,948
Total shareholders' equity and liabilities	359,923	7,941	367,864

	Consolidated Financial Statements 12/31/2005	Adjustment per IFRS 3.61	Consolidated Financial Statements 12/31/2005 adjusted
1. Revenues	417,501		417,501
2. Change in finished goods and work in progress	4,365		4,365
3. Other own work capitalized	1,577		1,577
4. Other operating income	62,089	-972	61,117
5. Cost of materials	-287,635	392	-287,243
6. Personal expenses	-80,603	343	-80,260
7. Other operating expenses	-58,189		-58,189
8. EBITDA	59,105	-237	58,868
9. Depreciation and amortization	-12,771	-21	-12,792
10. EBIT	46,334	-258	46,076
11. Income from associated companies	846		846
12. Interest and similar expenses	920	-74	846
13. Financial result	-2,047		-2,047
Income from ordinary activities	46,053	-332	45,721
14. Income taxes	2,200	-87	2,113
15. Consolidated profit for the year	48,253	-419	47,834
16. Minority interest	15	-106	-91
17. Net income	48,268	-525	47,743
18. Retained earnings carried forward	32,258		32,258
19. Retained earnings	80,526	-525	80,001
Earnings per share *			
- Basic earnings per share in EUR	22.22	-0.24	21.98
- Diluted earnings per share in EUR	22.18	-0.24	21.94
*) Earnings per share before stock split			



C. NOTES TO THE INCOME STATEMENT AND BALANCE SHEET

1. Revenues

The consolidated revenues break down as follows:

	2006 EUR'000			2005 EUR'000		
	Continuing operations	Discontinuing operations	Total	Continuing operations	Discontinuing operations	Total
Revenues from sales of goods	585,166	158,844	744,010	356,160	55,812	411,972
Revenues from long-term construction contracts	9,941	0	9,941	4,388	0	4,388
Revenues from sales of services	14,252	0	14,252	1,141	0	1,141
	609,359	158,844	768,203	361,689	55,812	417,501

Of the total revenues from construction contracts, EUR 9.9 million related to the companies of Sommer Group (PY: EUR 0). Jahnel-Kestermann Getriebewerke GmbH & Co. KG, which appeared within this item in the previous year, did not generate any revenues from construction contracts in 2006.

Of the total revenues from sales of services, EUR 10.9 million related to BEA Technische Dienstleistungen GmbH and EUR 3.3 million to ticon AG Infosystems (PY: EUR 1,141 thousand). For more information on this subject, please refer to the comments in the section on segment reporting.

2. Other own work capitalized

The other own work capitalized in the total amount of EUR 3,017 thousand (PY: EUR 1,577 thousand) resulted mainly from the capitalization of archive materials of the subsidiary ddp Deutscher Depeschendienst GmbH, in the amount of EUR 2,040 thousand (PY: EUR 1,577 thousand) and from SKW Group in the amount of EUR 840 thousand (PY: EUR 0). An amount of EUR 59 thousand (PY: EUR 0) related to discontinuing operations.



3. Other operating income

The other operating income breaks down as follows:

	2006 EUR'000			2005 EUR'000		
	Continuing operations	Discontinuing operations	Total	Continuing operations	Discontinuing operations	Total
Income from the reversal of negative consolidation differences	91,229	1,541	92,770	23,545	14,839	38,384
Income from deconsolidations	25,578	0	25,578	0	0	0
Income from sales of shares in minority interests	8,413	0	8,413	6,110	0	6,110
Income from the reversal of provisions	4,324	1,049	5,373	4,390	381	4,771
Income from costs charged to third parties	3,261	740	4,001	886	168	1,054
Income from the reversal of devaluation allowances	1,594	40	1,634	1,368	208	1,576
Rental income	1,462	0	1,462	0	0	0
Compensation for loss or damage	1,862	0	1,862	0	0	0
Income from the charge-off of payables due to suppliers	945	0	945	1,851	0	1,851
Income from the disposal of property, plant and equipment	871	801	1,672	0	0	0
Income from exchange rate changes	614	92	706	1,319	206	1,525
Income from the disposal of non-current financial assets	297	87	384	837		837
Government subsidies	350	0	350	254	10	264
Other operating income	21,246	3,545	24,791	4,326	419	4,745
	162,046	7,895	169,941	44,886	16,231	61,117

In accordance with IFRS 3.56, income from the reversal of negative consolidation differences was recognized in the amount of EUR 92,770 thousand (PY: EUR 38,384 thousand) when the fair values of the identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition. After additional review, any remaining excess must be recognized directly in income according to IFRS 3.56 (b).

The income from the reversal of negative consolidation differences related to the following acquisitions:

Name of acquired company	2006 EUR'000		
	Continuing operations	Discontinuing operations	Total
Weber Group	20,442	0	20,442
Wanfried Group	0	210	210
Bachem Group	0	1,331	1,331
Hottinger Group	1,194	0	1,194
Georg Fischer Schwab Group	3,875	0	3,875
Rohner AG	20,924	0	20,924
Oxxynova Group	10,732	0	10,732
Fritz Berger Group	12,942	0	12,942
pwe-Verlag Gesellschaft für Medienpublikationen mbH	319	0	319
Salto Group	18,057	0	18,057
BEA Group	481	0	481
COS Group	2,190	0	2,190
Other	73	0	73
	91,229	1,541	92,770

Name of acquired company	2005 EUR'000		
	Continuing operations	Discontinuing operations	Total
Evry Rotatives S.A.S.	0	8,233	8,233
Evotape S.p.a.	8,101	0	8,101
GOLF HOUSE Group	6,976	0	6,976
Johler Druck GmbH	0	6,606	6,606
SKS Group	4,653	0	4,653
tiscon AG Infosystems	3,212	0	3,212
Sommer Group	414	0	414
Schierholz Translift Global Manufacturing & Finance AG	138	0	138
Sportart GmbH	51	0	51
	23,545	14,839	38,384

The income from deconsolidations contained income from the sale of shares in SKW Stahl-Metallurgie Holding AG on the occasion of that company's issuance of stock in 2006. The deconsolidation profit resulted from the capital increase and the accompanying inflow of funds to ARQUES, after adjusting for the dilution effect.

The income from sales of shares in minority interests related to ARQUANA International Print & Media AG.

The government subsidies in 2006 consisted of a personnel expenses subsidy of the European Union for ddp Group.

The other operating income of EUR 24,791 thousand consisted mainly of income from seller loans redeemed at advantageous terms, in the amount of EUR 4,764 thousand. This item also contained the effects of the fair value measurement of receivables, in the amount of EUR 3,149 thousand. For more information on this subject, please refer to our comments in the section on Other assets (No. 21).



4. Material costs

	2006 EUR'000			2005 EUR'000		
	Continuing operations	Discontinuing operations	Total	Continuing operations	Discontinuing operations	Total
Raw materials and supplies	302,850	74,612	377,462	166,456	26,039	192,495
Purchased goods	92,030	169	92,199	70,189	11	70,200
Purchased services	19,651	14,428	34,079	10,516	4,791	15,307
Other	9,521	9,009	18,530	8,015	1,226	9,241
	424,052	98,218	522,270	255,176	32,067	287,243

The material costs related mainly to SKW Group, in the amount of EUR 145.2 million (PY: EUR 157.6 million), Evotape S.p.a. in the amount of EUR 54.5 million (PY: EUR 25.6 million), Jahnelt-Kestermann Getriebewerke GmbH & Co. KG in the amount of EUR 22.2 million (PY: EUR 13.2 million), Sommer Group in the amount of EUR 33.6 million (PY: EUR 10.6 million) and Oxxynova Group in the amount of EUR 42.7 million.

The purchased services related to BEA Group in the amount of EUR 3,144 thousand, ddp Group in the amount of EUR 2,977 thousand (PY: EUR 2,608 thousand) and Jahnelt-Kestermann Getriebewerke GmbH & Co. KG in the amount of EUR 2,889 thousand (PY: EUR 1,888 thousand).



5. Personnel expenses

	2006 EUR'000			2005 EUR'000		
	Continuing operations	Discontinuing operations	Total	Continuing operations	Discontinuing operations	Total
Wages and salaries	100,957	38,172	139,129	52,599	14,033	66,632
Social security, pension and other benefit costs	20,702	8,568	29,270	11,616	2,012	13,628
	121,659	46,740	168,399	64,215	16,045	80,260

The personnel expenses related mainly to SKW Group in the amount of EUR 13.0 million (PY: EUR 11.9 million), Sommer Group in the amount of EUR 13.3 million (PY: EUR 11.9 million), Rohner AG in the amount of EUR 14.5 million, Jahnelt Kestermann Getriebewerke GmbH & Co. KG in the amount of EUR 12.8 million (PY: EUR 8.8 million), Fritz Berger Group in the amount of EUR 5.1 million, ddp Group in the amount of EUR 7.1 million (PY: EUR 6.9 million) and Evotape S.p.a. in the amount of EUR 10.0 million (PY: EUR 6.2 million).

The wages and salaries contain, in the amount of EUR 73 thousand, expenses for a subsidiary manager who acquired an equity interest in the subsidiary according to the

Arques investment model only after a certain delay. According to IFRS 2, the delayed investment is to be recognized as share-based compensation. The fair value of the corresponding economic benefit was measured as the percentage of the company's value corresponding to the shares held at the date when the share-based compensation was granted. The company value was determined by application of a discounted cash flow method. The discount rate before taxes applied for this purpose, determined on the basis of capital markets data, was 8.66%. The growth discount was set at 1.5%. In accordance with IFRS 2, the related expenses were recognized directly in equity, where they appear within the item of "Other changes" in the Statement of Changes in Shareholders' Equity.

6. Other operating expenses

The other operating expenses break down as follows:

	2006 EUR'000			2005 EUR'000		
	Continuing operations	Discontinuing operations	Total	Continuing operations	Discontinuing operations	Total
Administrative expenses	24,755	3,724	28,479	12,175	1,288	13,463
Outgoing freight/ transport costs	18,876	5,428	24,304	10,725	1,986	12,711
Expenses for land/ buildings (including rental expenses)	14,578	1,745	16,323	6,182	1,839	8,021
Maintenance of operational and office equipment	3,837	3,238	7,075	1,028	0	1,028
Marketing and re- presentation expenses	10,367	2,665	13,032	6,892	1,429	8,321
Consulting expenses	9,199	2,656	11,855	5,573	863	6,436
Valuation allowances for receivables	4,825	403	5,228	3,005	452	3,457
Expenses of exchange rate changes	1,482	21	1,503	449	6	455
Losses on disposal of non-current assets	1,017	663	1,680	0	0	0
Other	7,303	6,033	13,336	3,674	623	4,297
	96,239	26,576	122,815	49,703	8,486	58,189

The losses on disposal of non-current assets related to Arques Values Invest Ltd., Malta (EUR 555 thousand), Evry (EUR 392 thousand) and the Sommer Group (EUR 306 thousand).

The "Other" item consisted mainly of miscellaneous tax expenses, including land tax and wealth tax, in the amount of EUR 2,737 thousand, and warranty expenses in the amount of EUR 1,362 thousand.

The sharp increase in nearly all items can be attributed to changes in the consolidation group.

7. Income from associated companies

The income from consolidated companies in the amount of EUR 716 thousand (PY: EUR 846 thousand) related to Jamshedpur Injection Powder Ltd., Jamshedpur / India.

8. Other interest and similar income

The Other interest and similar income in the amount of EUR 1,143 thousand (PY: EUR 786 thousand) consisted mainly of interest on current accounts and time deposits.

9. Interest and similar expenses

The Interest and similar expenses in the amount of EUR 4,417 thousand (PY: EUR 1,173 thousand) consisted mainly of interest on liabilities due to banks.



10. Income taxes

The income tax income/expenses break down as follows:

	2006 EUR'000			2005 EUR'000		
	Continuing operations	Discontinuing operations	Total	Continuing operations	Discontinuing operations	Total
Current tax expenses	3,246	381	3,627	4,809	174	4,983
Deferred tax income on temporary differences	-9,481	2,188	-7,293	-3,048	-1,692	-4,740
Deferred tax income from capitalization of tax loss carry-forwards	-4,866	-4,399	-9,265	-2,356	0	-2,356
Total deferred tax income	-14,347	-2,211	-16,558	-5,404	-1,692	-7,096
Total income tax income	-11,101	-1,830	-12,931	-595	-1,518	-2,113

Based on an interpretation of the law that is backed by an expert legal opinion, ARQUES considers all sales of shares in its subsidiaries to be essentially tax-exempt because the sale proceeds do not represent a short-term trading profit, but a restructuring profit resulting from the company's active entrepreneurial commitment.

The item of deferred tax income on temporary differences resulted mainly from the reversal of deferred tax liabilities in respect of shareholder loans acquired in connection with company acquisitions. These loans have been repaid in the meantime.

The differences between the actual income tax expenses and the expected income tax expenses are presented in the reconciliation statement below. The expected income tax expenses are determined as profit before income taxes multiplied by the expected income tax rate. The expected income tax rate, composed of the German corporation tax, the solidarity surtax and the local trade tax, amounts to 37%.

The tax-exempt income consisted mainly of proceeds on the sale of shares in SKW Stahl-Metallurgie Holding AG in connection with that company's IPO.

	2006 EUR'000	2005 EUR'000
Profit before income taxes	97,645	45,721
- expected income tax rate	37.00%	37.00%
- expected income tax expenses	36,129	16,917
Effect of income from the reversal of negative consolidation differences	-34,325	-14,562
Tax-exempt income	-10,241	-1,722
Income tax variances	-873	-955
Capitalization of deferred taxes not capitalized to date	-2,127	-927
Non-period current taxes	-473	-903
Non-tax-deductible expenses	2,025	252
Effects of tax rate changes	-180	-23
Tax credits	-4,651	0
Valuation at-equity	232	0
Other effects	1,553	-190
Stated income tax income	-12,931	-2,113
Effective tax rate	-13.24%	-4.62%

The tax credits resulted mainly from the tax-privileged dividend income from the financial holding company domiciled in Malta.

The deferred tax liabilities from equity valuation were recognized for temporary differences between the stated value of the shares in ARQUANA Print & Media AG in the IFRS balance sheet as compared with the tax balance sheet.

The Other effects resulted mainly from consolidation measures in connection with the shareholder loans, as the repayment of those loans necessitated the reversal of the corresponding deferred tax liabilities.

11. Minority interests in the consolidated net profit

The consolidated net profit of EUR 110,576 thousand (PY: EUR 47,834 thousand) contains minority interests in the amount of EUR -1,975 thousand (PY: EUR 91 thousand).

12. Earnings per share

The basic and diluted earnings per share were calculated on the basis of the following data:

	2006 EUR'000			2005 EUR'000		
	Continuing operations	Discontinuing operations	Total	Continuing operations	Discontinuing operations	Total
NET PROFIT						
Basis for the basic earnings per share (period net profit allocable to shareholders of the parent company)	120,976	-8,425	112,551	33,937	13,806	47,743
Effect of potential diluting shares	0	0	0	0	0	0
Basis for diluted earnings per share	120,976	-8,425	112,551	33,937	13,806	47,743
NUMBER OF SHARES OUTSTANDING						
Weighted average shares outstanding for the basic earnings per share	24,266,670	24,266,670	24,266,670	2,172,271	2,172,271	2,172,271
Effect of potential diluting shares: stock options	179,022	179,022	179,022	3,771	3,771	3,771
Weighted average shares outstanding for the diluted earnings per share	24,445,692	24,445,692	24,445,692	2,176,042	2,176,042	2,176,042
Basic earnings per share	4.99	-0.35	4.64	1.56	0.64	2.20*
Diluted earnings per share	4.94	-0.34	4.60	1.56	0.63	2.19*

* Figures adjusted for the stock split.

Dividend proposal

At the annual general meeting to be held on June 21, 2007, the Executive Board and Supervisory Board of ARQUES Industries AG will propose distributing a dividend of EUR 0.51 (PY: EUR 0.205) per share to the shareholders.

13. Intangible assets

	Franchises, industrial property rights and similar rights and licenses EUR'000	Goodwill EUR'000	Other intangible assets EUR'000	Advance payments EUR'000	Total EUR'000
Acquisition cost at 01/01/2006	5,165	3,475	1,759	1	10,400
Companies added to consolidation group	12,489	0	1	0	12,490
Companies removed from consolidation group	-1,314	-3,781	0	-6	-5,101
Currency translation differences	-7	0	-22	0	-29
Additions	1,418	3,695	3,007	56	8,176
Disposals	-401	-697	-1	0	-1,099
Transfers	21	0	33	-50	4
Balance at 12/31/2006	17,371	2,692	4,777	1	24,841
Amortization at 01/01/2006	-1,979	-46	-158	-1	-2,184
Companies removed from consolidation group	396	0	0	0	396
Currency translation differences	4	0	0	0	4
Impairments (IAS 36)	0	-536	-30	0	-566
Additions	-4,089	0	-545	0	-4,634
Disposals	314	0	0	0	314
Balance at 12/31/2006	-5,354	-582	-733	-1	-6,670
Net carrying amount at 12/31/2005	3,186	3,429	1,601	0	8,216
Net carrying amount at 12/31/2006	12,017	2,110	4,044	0	18,171

	Franchises, industrial property rights and similar rights and licenses EUR'000	Goodwill EUR'000	Other intangible assets EUR'000	Advance payments EUR'000	Total EUR'000
Acquisition cost at 01/01/2005	4,777	58	0	104	4,939
Companies added to consolidation group	4,173	0	182	0	4,355
Companies removed from consolidation group	-4,466	0	0	0	-4,466
Additions	599	3,598	1,577	116	5,890
Disposals	-22	-181	0	0	-203
Transfers	77	0	0	-219	-142
Correction per IFRS 3,61	27	0	0	0	27
Balance at 12/31/2005	5,165	3,475	1,759	1	10,400
Amortization at 01/01/2005	-2,371	-46	0	0	-2,417
Companies removed from consolidation group	2,309	0	0	0	2,309
Currency translation differences	1	0	0	0	1
Additions	-1,893	0	-158	-1	-2,052
Disposals	-25	0	0	0	-25
Balance at 12/31/2005	-1,979	-46	-158	-1	-2,184
Net carrying amount at 12/31/2004	2,406	12	0	104	2,522
Net carrying amount at 12/31/2005	3,186	3,429	1,601	0	8,216

The intangible assets consisted of advantageous contracts capitalized in connection with the purchase price allocation in the amount of EUR 4,139 thousand, as well as internally generated intangible assets.

The internally generated intangible assets consisted of an image archive of the ddp Group, the carrying amount of which was EUR 3,115 thousand at the balance sheet date (PY: EUR 1,601 thousand), as well as capitalized research and development expenses of the SKW Group, the carrying amount of which was EUR 929 thousand (PY: EUR 0) at the balance sheet date. In total, the Group incurred research and development expenses of approximately EUR 1,500 thousand in 2006.

Other important intangible assets include the right to use waste water treatment equipment, in the amount of EUR 1,161 thousand, and the capitalized cost of consulting services related to the introduction of SAP at COS Group, in the amount of EUR 929 thousand. The remaining economic life of the capitalized consulting services is 35 months. The waste water treatment right requires new capital expenditures every year, which are then capitalized and amortized over an economic life of 10 years.

Intangible assets are measured at amortized acquisition cost.

In conducting the impairment test for the other intangible assets, it was discovered that the carrying amounts were not less than the recoverable amounts of those assets in all cases. In those cases in which the impairment test indicated that the recoverable amount was less than the carrying amount, an impairment loss was recognized in the amount of the difference, in accordance with IAS 36. Consequently, the intangible assets for which impairment losses were recognized have been written off completely.

The goodwill is mainly related to the ddp Group, the teutonia Group, the Evotape Group, the Jahnel-Kestermann Group and the Sommer Group.

To fulfill the requirements of IFRS 3, in conjunction with IAS 36, and to identify any impairments in goodwill, ARQUES allocated the goodwill to cash-generating units, based on its internal reporting structure, and conducted an impairment test.

The goodwill of the ddp Group at the balance sheet date amounted to EUR 1,364 thousand (PY: EUR 1,333 thousand). The goodwill represents the expectation of positive developments in the lucrative image market. The ddp Group represents the cash-generating unit, according to the definition of IAS 36, to which the goodwill was assigned. The fair value of the ddp Group was calculated by application of a discounted cash flow method, based on a five-year cash flow plan. The discount rate before taxes applied for this purpose was 9.34%. Based on a detailed business plan, the growth discount was set at 1.5%. Based on this calculation, there was no need to recognize an impairment loss in the goodwill for that company because the value in use was higher than the residual carrying amount.

The goodwill of the teutonia Group at the balance sheet date amounted to EUR 157 thousand. It resulted from the acquisition of shares in the holding company of the teutonia Group. The fair value of the goodwill was determined on the basis of the net realizable amount less the costs to sell. The sale transaction was completed successfully in the months of February and March 2007.

The goodwill of the Evotape Group at the balance sheet date amounted to EUR 100 thousand. It resulted from subsequently incurred acquisition costs. The Evotape Group represents the cash-generating unit, according to the definition of IAS 36, to which the goodwill was assigned. The fair value of the Evotape Group was calculated by application of a discounted cash flow method, based on a four-year cash flow plan. The discount rate before taxes applied for this purpose was 15.71%. Based on a detailed business plan, the growth discount was set at 1.5%. Based on this calculation, there was no need to recognize an impairment loss in the goodwill of that company because the value in use was higher than the residual carrying amount.

The goodwill of the Jahnel-Kestermann Group at the balance sheet date amounted to EUR 83 thousand (PY: EUR 305 thousand). The change from the previous year resulted in part from the acquisition of additional shares in the holding company of the Jahnel-Kestermann Group, and in part from the reduction of the existing goodwill due to the recognition of deferred tax assets for tax loss carry-forwards that existed at the acquisition date, but for which no such deferred tax assets had been recognized. In accordance with IFRS 3.65, in conjunction with IAS 12.61, the goodwill was reduced and deferred tax income was recognized in the same amount of the goodwill reduction, such that the transaction had no overall effect on the income statement. The Jahnel-Kestermann Group represents the cash-generating unit, according to the definition of IAS 36, to which the goodwill acquired in 2006 was assigned. The fair value of the Jahnel-Kestermann Group was calculated by application of a discounted cash flow method, based on a four-year cash flow plan. The discount rate before taxes applied for this purpose was 17.71%. Based on a detailed business plan, the growth discount was set at 1.5%. Based on this calculation, there was no need to recognize an impairment loss in the goodwill of that company because the value in use was higher than the residual carrying amount.

With regard to an item of goodwill recognized in the Sommer Group in the current financial year, it was determined, with reference to the cash-generating unit to which the goodwill was assigned, that the existing goodwill cannot be justified in the current situation. Accordingly, an impairment loss of EUR 231 thousand was recognized in that item of goodwill.

The item of companies removed from the consolidation group in the current year consisted of the accumulated cost and depreciation that was removed from the books as a result of the deconsolidation of Arquana companies.



14. Property, plant and equipment

EUR'000	Land, leasehold rights	Buildings, including buildings on non-owned land (excl. finance leases)	Buildings, including buildings on non-owned land (finance leases)
Acquisition cost at 01/01/2006	21,813	44,529	8,469
Companies added to consolidation group	8,759	40,889	9,726
Companies removed from consolidation group	-6,825	-17,167	-8,469
Currency translation differences	9	-45	0
Additions	297	2,085	0
Disposals	-4,214	-10,362	0
Transfers	-2,429	-12,461	282
Balance at 12/31/2006	17,410	47,468	10,008
Depreciation at 01/01/2006	-350	-2,766	-90
Companies removed from consolidation group	0	2,244	90
Currency translation differences	0	7	0
Additions	-196	-3,706	-11
Impairments (IAS 36)	0	-38	0
Transfers	0	272	0
Disposals	0	677	0
Balance at 12/31/2006	-546	-3,310	-11
Net carrying amount at 12/31/2005	21,463	41,763	8,379
Net carrying amount at 12/31/2006	16,864	44,158	9,997
Acquisition cost at 01/01/2005	14,568	15,200	0
Companies added to consolidation group	13,260	28,506	0
Companies removed from consolidation group	-7,861	0	0
Currency translation differences	0	1	0
Additions	0	88	0
Disposals	-152	-13	0
Transfers	175	747	0
Correction per IFRS 3.61	1,823	0	8,469
Balance at 12/31/2005	21,813	44,529	8,469
Depreciation at 01/01/2005	-2,533	-54	0
Companies removed from consolidation group	2,381	0	0
Currency translation differences	0	-3	0
Additions	-198	-1,335	0
Transfers	0	-690	0
Disposals	0	-684	0
Correction per IFRS 3.61	0	0	-90
Balance at 12/31/2005	-350	-2,766	-90
Net carrying amount at 12/31/2004	12,035	15,146	0
Net carrying amount at 12/31/2005	21,463	41,763	8,379

Technical equipment, plant and machinery (excl. finance leases)	Technical equipment, plant and machinery (finance leases)	Other equipment, operational and office equipment (excl. finance leases)	Other equipment, operational and office equipment (finance leases)	Advance payments and construction in progress	Total
45,821	14,384	7,758	0	1,091	143,865
27,177	27,165	6,164	3,005	2,167	125,052
-25,572	-16,923	-2,035	-19	-1,025	-78,035
-1,107	-9	-158	0	-26	-1,336
5,122	1,285	2,106	495	5,150	16,540
-5,780	-668	-816	0	-67	-21,907
1,631	53	1,015	0	-3,269	-15,178
47,292	25,287	14,034	3,481	4,021	169,001
-4,272	-2,287	-3,277	0	0	-13,042
4,749	4,352	745	19	0	12,199
915	12	90	0	0	1,024
-11,020	-3,033	-2,607	-62	0	-20,635
-20	0	-66	0	0	-124
807	0	-807	0	0	272
2,597	2	570	0	0	3,846
-6,244	-954	-5,352	-43	0	-16,460
41,549	12,097	4,481	0	1,091	130,823
41,048	24,333	8,682	3,438	4,021	152,541
11,977	6,053	9,199	0	637	57,634
42,773	7,317	2,764	0	146	94,766
-4,117	0	-5,687	0	0	-17,665
1,525	0	208	0	0	1,734
2,559	1,014	786	0	1,521	5,968
-4,636	0	471	0	-361	-4,691
745	0	17	0	-852	832
-5,005	0	0	0	0	5,287
45,821	14,384	7,758	0	1,091	143,865
-3,472	-1,040	-5,940	0	0	-13,039
3,576	0	5,221	0	0	11,178
-1,197	0	-123	0	0	-1,323
-6,392	-1,247	-1,466	0	0	-10,638
0	0	0	0	0	-690
3,145	0	-969	0	0	1,492
68	0	0	0	0	-22
-4,272	-2,287	-3,277	0	0	-13,042
8,505	5,013	3,259	0	637	44,595
41,549	12,097	4,481	0	1,091	130,823

In conducting the impairment test for property, plant and equipment, it was discovered that the carrying amounts were not less than the recoverable amounts of those assets in all cases. In those cases in which the impairment test indicated that the recoverable amount was less than the carrying amount of those assets, an impairment loss was recognized in the amount of the difference, in accordance with IAS 36. As a result, the corresponding items were written off completely. The carrying amount of these assets prior to recognition of the impairment losses amounted to EUR 124 thousand.

The property, plant and equipment also contained leased technical equipment, plant and machinery in the amount of EUR 24,333 thousand (PY: EUR 12,097 thousand), for which the Group is considered to be the beneficial owner by virtue of the underlying contracts ("finance leases"). These leases related in particular to Farbendruck Weber AG (EUR 19,256 thousand), Wolfsheck BetriebsGmbH (EUR 2,629 thousand) and Jahnke-Kestermann Getriebewerk GmbH & Co. KG (EUR 769 thousand; PY: EUR 1,142 thousand). The leases of Farbendruck Weber AG related to printing machines. The lease of Wolfsheck BetriebsGmbH is a steam delivery agreement, considered to be a lease agreement according to the definitions of IFRIC 4, under which the steam supplier installed a steam generator on the premises of Wolfsheck BetriebsGmbH. Wolfsheck BetriebsGmbH is the sole purchaser of the steam generated. As a result of the classification of leases as finance leases, the property, plant and equipment contained buildings in the amount of EUR 9,997 thousand (PY: EUR 8,379 thousand) and Other equipment, operational and office equipment in the amount of EUR 3,438 thousand (PY: EUR 0). The leased buildings related to the operational and administrative building of the COS Group in the amount of EUR 9,726 thousand and the SKW Group in the amount of EUR 271 thousand (PY: EUR 0). The leased Other equipment, operational and office equipment related mainly to COS Distributions GmbH (EUR 2,879 thousand) and EVOTAPE S.P.A. (EUR 473 thousand; PY: EUR 0). In the case of COS Distributions GmbH, the leased equipment consisted of an automated small parts warehouse.

Of the total property, plant and equipment, an amount of EUR 4,259 thousand (PY: EUR 15,176 thousand) has been pledged as collateral for non-current financial liabilities.

The item of Companies removed from the consolidation group related to the acquisition and production costs and the accumulated depreciation of assets removed from the consolidation group in connection with the deconsolidation of the Arquana companies in 2006.

The transfers for the current financial year also included assets which were transferred to the item of Non-current assets held for sale in accordance with IFRS 5. This item related to the acquisition costs of Land and leasehold rights in the amount of EUR -2,435 thousand and Buildings in the amount of EUR -12,554 thousand. Accumulated depreciation of buildings was transferred in the amount of EUR 272 thousand.

For more information on the Group's activities as a lessor, please refer to Note (39).

15. Investment property

	2006 EUR'000	2005 EUR'000
Acquisition cost at 01/01	2,420	2,330
Additions	0	90
Change in consolidation group	0	0
Acquisitions	0	0
Disposals	-90	0
Balance at 12/31	2,330	2,420
Depreciation at 01/01	-132	-53
Additions	-79	-79
Change in consolidation group	0	0
Acquisitions	0	0
Disposals	0	0
Balance at 12/31	-211	-132
Net carrying amount at 12/31	2,119	2,288

The investment property related to a developed parcel of land of ARQUES Industries AG in Burnhaupt le Haupt, France. The building is depreciated by the straight-line method over an economic life of 25 years. The revenues generated in 2006 amounted to EUR 60 thousand (PY: EUR 221 thousand). The fair value of the investment property, determined by way of an expert appraisal in 2004, was approximately EUR 2,139 thousand. It is assumed that the recoverable amount exceeded the residual carrying amount at December 31, 2006, so that it was not necessary to recognize an impairment loss.

16. Shares in associated companies

The 30.22% equity interest in the associated companies Jamshedpur Injection Powder Ltd., Jamshedpur/India, are consolidated at equity. Because it was not possible to prepare separate interim financial statements at December 31, 2006 the equity interest was consolidated on the basis of the estimated profit or loss at December 31, 2006. The company generated a profit of EUR 2,466 thousand in the financial year from April 1, 2005 to March 31, 2006. In the balance sheet at March 31, 2006, the total assets amounted to EUR 7,289 thousand, the shareholders' equity amounted to EUR 5,942 thousand and the liabilities amounted to EUR 1,797 thousand. The addition in the current financial year consisted almost entirely of the consolidation at equity of ARQUANA International Print & Media AG, the fair value of which at December 31, 2006 amounted to EUR 29.7 million. The revenues generated in 2006 amounted to EUR 158,844 thousand.

Concerning assets, liabilities and equity of ARQUANA International Print & Media AG we refer to in Note 37.

The at-equity values showed the following development in 2006:

	2006 EUR'000	2005 EUR'000
Balance at 1/1	3,603	3,170
Addition	14,084	-
Group share of net profit	716	768
Exchange rate differences	-195	135
Income taxes	-56	-57
Profit distribution collected in 2006	-390	-413
Balance at 12/31	17,762	3,603

17. Financial assets

	2006 EUR'000	2005 EUR'000
Acquisition cost at 01/01	1,013	765
Changes in consolidation group	-1,684	800
Additions	10,777	393
Disposals	-355	-945
Balance at 12/31	9,751	1,013

The financial assets consisted of loans extended to associated companies, in the amount of EUR 9,385 thousand, and loans extended by the SKW Group to third parties, in the amount of EUR 366 thousand.

The other non-current assets were composed exclusively of shares in non-consolidated affiliated companies, in the amount of EUR 88 thousand (PY: EUR 0).

18. Inventories

The inventories break down as follows:

	12/31/ 2006 EUR'000	12/31/ 2005 EUR'000
Raw materials and supplies	43,066	29,778
Semi-finished goods, semi-finished services	11,180	5,359
Finished goods and trading stock	59,081	23,082
Advance payments	768	20
	114,095	58,239

Inventories are measured at the lower of acquisition or production cost and the net realizable value less costs to sell at the balance sheet date. The valuation adjustments contained within the Material costs amounted to EUR 4,171 thousand at the balance sheet date (PY: EUR 5,168 thousand). The valuation adjustments were charged mainly for slow-moving inventories and insufficient salability.

Of the raw materials and supplies, EUR 25,829 thousand related to the Specialty Chemistry segment (thereof SKW Group EUR 14,090 thousand, Oxxynova EUR 9,968 thousand and Rohner AG EUR 1,771 thousand; PY: SKW Group EUR 13,139 thousand), and EUR 7,110 thousand related to the Steel segment (thereof Sommer Group EUR 6,193 thousand (PY: EUR 6,611 thousand) and Jahnelt Kestermann Getriebewerke GmbH & Co. KG EUR 917 thousand (PY: EUR 1,036 thousand)).

The work in progress related mainly to Hottinger Group (EUR 3,402 thousand), Rohner AG (EUR 1,982 thousand), Sommer Group (EUR 1,830 thousand) (PY: EUR 1,878 thousand) and Weber Group (EUR 1,639 thousand). The finished goods related to Tiscon Group in the amount of EUR 13,843 thousand, SKW Group in the amount of EUR 5,458 thousand (PY: EUR 6,644 thousand), Rohner AG in the amount of EUR 4,932 thousand and Oxxynova Group in the amount of EUR 4,312 thousand. The trading stock related to Fritz Berger Group in the amount of EUR 6,793

thousand, SKW Group in the amount of EUR 6,395 thousand (PY: EUR 6,523) and Golf House Group in the amount of EUR 3,570 thousand (PY: EUR 2,647 thousand).

Of the total amount of inventories, EUR 929 thousand (PY: EUR 964 thousand) was pledged as security for non-current financial liabilities.

19. Receivables under construction contracts

	12/31/ 2006 EUR'000	12/31/ 2005 EUR'000
Costs incurred, plus accumulated profit	16,641	2,876
Less invoices issued for down payments	0	0
	16,641	2,876
thereof: future receivables under percentage of completion	16,641	2,876
thereof: payables under percentage of completion	0	0

The receivables under construction contracts related to Jahnelt-Kestermann Getriebewerke GmbH & Co. KG (EUR 7,744 thousand PY: EUR 2,876 thousand) and to BEA Elektrotechnik & Automation GmbH (EUR 8,897 thousand). Construction contracts are accounted for by the cost-to-cost method in connection with the percentage-of-completion method.

If the value of the work performed to date exceeds the advance payments, a receivable is recognized; in the reverse case, a payable is recognized. Provisions were established to account for anticipated losses under construction contracts.

20. Trade receivables

	12/31/ 2006 EUR'000	12/31/ 2005 EUR'000
Receivables before valuation allowances	140,427	80,048
Valuation allowances	-1,644	-2,369
Carrying amount of receivables	138,783	77,679

Of the stated amount, EUR 27,113 thousand related to SKW Group (PY: EUR 30,211 thousand), EUR 21,925 thousand to Oxxynova Group, EUR 21,318 thousand to tiskon Group, EUR 17,101 thousand to Evotape S.p.a. (PY: EUR 13,981 thousand), EUR 10,037 thousand to Salto Paper Group, EUR 8,472 thousand to Jahnelt Kestermann Getriebewerke GmbH & Co. KG (PY: EUR 6,322 thousand), EUR 4,540 thousand to Rohner AG and EUR 2,324 thousand to Sommer Group (PY: EUR 5,319 thousand). All the receivables presented here are due in less than one year.

Of the total trade receivables, EUR 642 thousand was pledged as security for trade payables. EUR 460 thousand was pledged for financial liabilities.

21. Other assets

The Other assets break down as follows:

	12/31/ 2006 EUR'000	12/31/ 2005 EUR'000
Receivable negative purchase prices	11,368	0
Tax receivables	11,114	9,201
Receivables from share sales	5,505	0
Prepaid expenses	4,131	673
Receivables measured at fair value	3,149	0
Other receivables	19,923	7,204
	55,190	17,078

The receivable from negative purchase prices related to Salto Paper Group. It resulted from the contractual agreements concluded in connection with the acquisition of that company.

The tax receivables presented within this item do not contain any income tax receivables, which are presented separately. The tax receivables presented here consisted in particular of sales tax refund claims in the amount of EUR 10,675 thousand (PY: EUR 8,375 thousand), of which amount EUR 3,425 thousand related to Evotape S.p.a. (PY: EUR 3,609 thousand), EUR 2,257 thousand related to Salto Paper Group, EUR 2,067 thousand related to SKW Group (PY: EUR 2,476 thousand), EUR 900 thousand related to Sommer Group (PY: EUR 132 thousand), EUR 803 thousand related to Oxxynova Group, EUR 259 thousand related to Hottinger Group and EUR 247 thousand related to DDP Group (PY: EUR 182 thousand).

The receivables from share sales in the amount of EUR 5,505 thousand related entirely to ARQUES Industries AG. They consisted mainly of a receivable due from Nord LB in connection with the sale of shares in SKW Group.

Of the prepaid expenses, EUR 1,676 thousand related mainly to the Tiskon Group (PY: EUR 28 thousand), EUR 712 thousand to Rohner AG, EUR 677 thousand to the SKW Group (PY: EUR 205 thousand), EUR 334 thousand to Salto Paper Group and EUR 315 thousand to the Hottinger Group.

The receivables measured at fair value in the amount of EUR 3,149 thousand related to receivables under shareholder loans due from Jöhler Druck GmbH and Color-druck Pforzheim GmbH & Co. KG, two companies that belong to ARQUANA International Print & Media AG. The receivables were acquired in connection with the acquisition of these companies. No derivatives or comparable financial instruments were purchased or concluded to hedge the credit risk. The income from the measurement at fair value of these receivables is presented in the full amount for the first time in the present financial statements because the companies in question had formerly been included in the ARQUES consolidation group. Compared with prior periods, the credit risk has been reduced from the level of prior periods by virtue of the restructuring progress of both companies. Thus, the amount presented in the present financial statements was higher than the

intragroup values of the prior period. The assigned value reflects the credit risk, which is based, in turn, on the company's restructuring process. Consequently, the receivable was measured at half its nominal value. These carrying amounts are reviewed on subsequent balance sheet dates or when indications point to the possibility of an impairment.

The Other receivables break down as follows: EUR 7,342 thousand related to the Oxxynova Group and consisted mainly of the receivables remaining after a factoring transaction; EUR 2,009 thousand (PY: EUR 182 thousand) related to Arques Industries AG and consisted mainly of loan receivables due from Nord Offset Druck GmbH in the amount of EUR 1,071 thousand, due from Arques Verwaltungen GmbH in the amount of EUR 253 thousand, due from WS 3014 AG in the amount of EUR 122 thousand and due from Wanfried Druck Kalden GmbH in the amount of EUR 15 thousand. In addition, EUR 1,603 thousand related to Sommer Group (PY: EUR 2,136 thousand) and consisted mainly of receivables remaining after a factoring transaction; EUR 1,782 thousand related to Fritz Berger Group and consisted mainly of rental guarantees; EUR 1,268 thousand (PY: EUR 1,221 thousand) related to SKS Group and consisted mainly of rent receivables; EUR 514 thousand (PY: EUR 307 thousand) related to Teutonia Group and consisted mainly of the asset value of the employer's claim for compensation under the pension liability insurance.

22. Cash and cash equivalents

This item comprised cash on hand and cash in bank deposits that are due in less than three months, as well as other cash equivalents originally due in less than three months. The stated value consisted mainly of bank accounts, in the amount of EUR 87,225 thousand. Of the cash and cash equivalents, EUR 3,852 thousand (PY: EUR 3,087 thousand) was pledged as security for the contractual performance of projects and as loan collateral ("restricted cash").

23. Non-current assets held for sale

The total non-current assets held for sale amounted to EUR 15,514 thousand in 2006 (PY: EUR 11,018 thousand). This item contained land in the amount of EUR 2,624 thousand and buildings in the amount of EUR 12,890 thousand. The company has decided to sell these items of land and buildings in the short-term future, so as to recover the market value through sale instead of through continued use. The items in question have been offered for sale and it is assumed that the sales will be completed within one year. The estimated sale proceeds less the costs to sell exceed the carrying amounts in all cases. Thus, an impairment loss according to IFRS 5 was not necessary.

24. Shareholders' equity

Subscribed capital

The shareholders present and represented at the annual general meeting of May 30, 2006 resolved to increase the share capital from EUR 2,426,667 to EUR 24,266,670, without issuing new shares, by transferring a total of EUR 21,840,003 from the additional paid-in capital account presented in the balance sheet at December 31, 2005, to the share capital account.

Following notification of the capital increase to the Commercial Register on June 27, 2006, it was implemented with retroactive effect to July 10, 2006.

Also, a 1:10 stock split (now 10 new shares for each shareholder, previously 1 share per shareholder) was resolved. Thus, the subscribed capital of ARQUES Industries Aktiengesellschaft in the amount of EUR 24,266,670 is divided into 24,266,670 no-par bearer shares, endowed with all voting and dividend rights.

Thus, the share capital was increased by EUR 21,840,003 from EUR 2,426,667 to EUR 24,266,670 at the balance sheet date.

Additional paid-in capital

The additional paid-in capital account corresponds to the additional paid-in capital of ARQUES Industries Aktiengesellschaft. Following the transfer of EUR 21,840 thousand from the additional paid-in capital account to the subscribed capital account, the additional paid-in capital was reduced from EUR 53,284 thousand at December 31, 2005 to EUR 31,444 thousand at the balance sheet date.

Profit reserves

The profit reserves in the total amount of EUR 5,302 thousand are composed of the statutory reserve of ARQUES Industries Aktiengesellschaft, in the amount of EUR 94 thousand, and the profit reserves, to which EUR 436 thousand was transferred by virtue of the profit appropriation resolution of May 30, 2006.

Minority interests

The adjustment entry for minority shareholders related mainly to the new Specialty Chemistry segment. The other changes related to the newly acquired companies, changes in existing subsidiaries and the deconsolidated minority interests of ARQUANA International Print & Media AG.

Authorized capital

The shareholders present and represented at the annual general meeting of May 30, 2006 resolved to annul the Authorized Capital 2005/I. By virtue of the same resolution, the Executive Board was authorized to increase the share capital, with the consent of the Supervisory Board, on one or more occasions in the time until May 30, 2011, by a total of up to EUR 12,000 thousand, by issuing new bearer shares in exchange for cash or in-kind contributions (Authorized Capital 2006/I). In this connection, the subscription right of existing shareholders can be excluded. At the balance sheet date, the Authorized Capital amounted to EUR 12,000 thousand.

Stock options

In fiscal year 2005, ARQUES introduced a stock option program for its executive managers. Under this program, stock options were granted in 2006 for a total of 535,000 shares (PY: 434,000 shares (after stock split)) of ARQUES Industries AG, in 16 different tranches. Unlike standard options, these stock options do not feature fixed exercise prices. Instead, the stock option beneficiary can request the delivery of a certain number of shares in ARQUES Industries AG on each of up to three delivery and valuation dates. The number of shares to be delivered on a given delivery date is determined on the basis of the performance of the ARQUES share since the first valuation date (calculation for the first tranche) or the final valuation date (= final exercise date). If the share price development has been negative, no shares will be delivered. The stock options will expire if the employee leaves the Group before they become vested.

The valuation results for each tranche are presented in the table below:



Tranche	Grant Date	EUR Initial Price/First Valuation Date	Delivery date 1 / 2	Final price EUR	Interest rate	Volatility	EUR Fair Value
1	01/02/2006	100.00	12/31/2007	99.50	2.83%	54.38%	28.19
2	02/07/2006	100.00	11/30/2007	116.15	2.87%	54.52%	38.23
3	03/14/2006	125.00	02/29/2008	105.20	3.12%	53.84%	23.92
4	01/11/2006	97.90	12/31/2007	102.00	2.81%	54.10%	39.40
5	04/04/2006	115.00	02/28/2008	129.50	3.28%	52.66%	42.48
6	05/30/2006	100.00	01/31/2007	143.05	3.00%	42.58%	45.86*
7	07/20/2006	12.50	06/30/2008	11.78	3.50%	53.75%	3.07
8	08/23/2006	11.00	06/30/2008	11.35	3.47%	52.16%	3.11
9	08/31/2006	10.00	11/30/2008	12.20	3.49%	50.91%	4.37
10	10/02/2006	12.00	08/31/2008	12.49	3.52%	48.94%	3.35
11	10/06/2006	01/01/2007	01/01/2009	12.60	3.53%	50.75%	3.41
12	11/23/2006	10.00	09/30/2007	12.20	3.63%	39.07%	2.83
13	11/24/2006	11.18	12/31/2008	11.98	3.58%	49.80%	3.54
14	12/04/2006	10.00	12/31/2008	14.37	3.53%	49.20%	5.83
15	12/22/2006	03/30/2007	03/31/2009	15.19	3.78%	50.44%	4.19
16/I	10/12/2006	10.00	01/31/2008	12.30	3.58%	39.23%	3.29
16/II	10/12/2006	01/31/2008	06/30/2009	12.30	3.59%	50.58%	2.68
16/III	10/12/2006	10.00	01/31/2008/ 06/30/2009				

*Before stock split

At the balance sheet date, 854,000 stock options (PY: 434,000) were outstanding but not yet exercisable. The stock options were valued by means of a Monte Carlo simulation. For this purpose, a simulation was conducted of the lognormal-distributed process for the price of the ARQUES share, in order to measure the share's perfor-

mance between two valuation dates. The subscription rights granted are composed of up to three sub-options. In the simulation model, each one of these sub-options is valued separately. The fair value of each subscription right is determined as the sum of the part-options.

The value at each Grant Date was measured with reference to the following interest rates, which served as the basis for determining the required interest rate for each stock option calculation. (The interest rates were determined on the basis of the yield curve at each Grant Date. For this reason, the interest rates for a given delivery date vary depending on the different grant dates.)



Tranche	Grant Date	1 year	2 years	3 years	4 years	5 years
1	01/02/2006	2.71%	2.87%	2.97%	3.05%	3.12%
2	02/07/2006	2.75%	2.96%	3.08%	3.17%	3.27%
3	03/14/2006	2.93%	3.18%	3.29%	3.37%	3.46%
4	01/11/2006	2.70%	2.86%	2.94%	3.01%	3.09%
5	04/04/2006	3.09%	3.36%	3.47%	3.56%	3.66%
6	05/30/2006	3.17%	3.36%	3.47%	3.57%	3.67%
7	07/20/2006	3.39%	3.57%	3.66%	3.72%	3.80%
8	08/23/2006	3.46%	3.55%	3.59%	3.62%	3.68%
9	08/31/2006	3.48%	3.54%	3.56%	3.59%	3.63%
10	10/02/2006	3.59%	3.58%	3.58%	3.60%	3.62%
11	10/06/2006	3.59%	3.59%	3.59%	3.60%	3.64%
12	11/23/2006	3.69%	3.70%	3.68%	3.68%	3.70%
13	11/24/2006	3.67%	3.65%	3.62%	3.62%	3.64%
14	12/04/2006	3.62%	3.59%	3.58%	3.59%	3.61%
15	12/22/2006	3.83%	3.85%	3.85%	3.85%	3.87%
16/I	10/12/2006	3.64%	3.65%	3.66%	3.68%	3.72%
16/II	10/12/2006	-	-	-	-	-

The interest rates were calculated on the basis of the yield curves for German government bonds. For purposes of the Monte-Carlo simulation, discrete dividends were assumed. The following dividend estimates were applied for calculation purposes:

Year (payment)	2006 EUR	2007 EUR	2008 EUR	2009 EUR
Dividend	0.15	0.30	0.39	0.40

The dividend communicated at the time of preparing the annual report amounted to EUR 0.51. This would have lead to a reduction in the value of the stock options, but the information basis on the grant date is nonetheless authoritative for purposes of determining the applicable value. Therefore, the calculation was not adjusted, but will be adjusted for future calculations.

Traded options or similar products of ARQUES Industries AG did not exist at the time when the expert opinion was drafted. For this reason, an implied volatility could not be determined on this basis. The historical volatility applied for purposes of the calculation was based on daily closing prices. The life span of the stock options was applied as the time period for determining the historical volatility. Because there were no special events that would have necessitated an adjustment, no such adjustment was made for individual days. By virtue of ARQUES' business model and growth strategy, the company's share can be expected to undergo considerable price movements in the future as well, for which reason the volatilities applied for calculation purposes are considered to be good estimates.

ARQUES has the option of settling the claims of the stock option beneficiaries either in cash or with shares. As a rule, ARQUES settles these claims with shares.

A total of 115,000 stock options were exercised in 2006. A total amount of EUR 691 thousand was expended in settlement of these claims. The claims were settled with shares. The stock options were exercised at the average share price indicated for the following periods (after adjusting for the stock split), based on the various exercise prices: January EUR 11.43, April EUR 15.85 and September EUR 12.48.

No stock options expired or were forfeited in 2006.

The Group recognized expenses of EUR 880 thousand for share-based compensation in 2006. The average remaining life span of the stock options (with reference to the first possible exercise date) is 16 months. The amounts received upon exercise of the options, after the deduction of all directly allocable transaction costs, were credited to the subscribed capital and additional paid-in capital accounts. The stock options were taken into account for purposes of calculating the diluted earnings per share.

25. Pension obligations

Provisions for pensions and similar obligations have been established for a total of 16 Group companies. The total amount of provisions in the amount of EUR 23,962 thousand (PY: EUR 15,707 thousand) related to the following companies in particular:

- Jahnel-Kestermann Getriebewerke GmbH & Co. KG (EUR 6,748 thousand; PY: EUR 6,762 thousand),
- Evotape S.p.a. (EUR 4,640 thousand; PY: EUR 4,335 thousand),
- Oxxynova GmbH & Co. KG (EUR 3,565 thousand),
- Farbendruck Weber AG (EUR 2,894 thousand),
- Georg Fischer Schwab GmbH & Co. KG (EUR 1,584 thousand),
- Rohner AG (EUR 747 thousand) and
- SKW Stahl-Metallurgie GmbH (EUR 741 thousand; PY: EUR 677 thousand).

The present value of vested pension benefits under defined benefit plans at the companies of the ARQUES Group showed the following development in 2006:

	2006 EUR'000	2005 EUR'000
Balance at 01/01	18,046	4,490
Companies added to consolidation group	93,842	15,541
Companies removed from consolidation group	-2,355	-2,503
Current service cost	905	383
Subsequent service cost	1	56
Interest expenses	760	391
Pension benefits paid	-2,052	-663
Plan adjustments	-980	-
Actuarial gains/losses	141	351
Balance at 12/31	108,308	18,046

The amount of provisions established for pension obligations was derived as follows:

	12/31/ 2006 EUR'000	12/31/ 2005 EUR'000
Present value of vested pension benefits	108,308	18,046
- internally financed	86,691	-
- externally financed	21,617	18,046
Actuarial gains/losses not recognized	-3,151	-633
Subsequent service cost not recognized	-18	232
Fair value of plan assets	-80,122	-1,938
Foreign currency effects	-1,055	0
	23,962	15,707

The following items were presented as pension expenses in 2006:

	2006 EUR'000	2005 EUR'000
Current service cost	905	373
Expected income from plan assets	-421	-22
Compounding of expected pension obligations	760	390
Amortization of actuarial gain/losses	110	1
Effects of plan adjustments	-231	0
Total pension expenses	1,123	742

The plan assets showed the following development:

	2006 EUR'000	2005 EUR'000
Fair value of plan assets at January 1	1,938	476
Expected income from plan assets	421	-22
Actuarial gains/losses	-151	1
Employer contributions	260	0
Employee contributions	260	0
Benefits paid	-1,402	-106
Changes in consolidation group	78,796	1,590
Fair value of plan assets at December 31	80,122	1,938

Plan adjustments result mainly from pension obligations taken over with the acquired companies and afterwards reassigned to the former owner.

The current contribution payments were presented as current expenses within the operating profit/loss for 2006. For the Group as a whole, they amounted to EUR 8,209 thousand (PY: EUR 4,710 thousand).

The calculation was based on the following actuarial assumptions:

	12/31/ 2006	12/31/ 2005
Discount rate	3.0 - 4.5	4.0 - 4.5
Salary trend	1.0 - 3.0	0
Pension trend	1.2 - 2.0	1
Employee turnover	*	0

* depending on age

The expected return on plan assets is 5%.



26. Provisions

	Balance at 01/01/ 2006 EUR'000	Reclass- ification	Changes in consolidation group EUR'000	Utilization EUR'000	Addition EUR'000	Reversal EUR'000	Dis- counting	Currency effect	Balance at 12/31/ 2006 EUR'000
Restructuring	1,401	0	299	-991	2,804	-441	0	-5	3,067
Environmental protection	0	0	9,196	-475		-460	0	20	8,281
Warranties	1,718	0	1,090	-503	1,158	-614	0	-115	2,734
Anticipated losses	2,141	0	11,013	-2,661	1,467	-1,633	4	-4	10,327
Personnel	6,090	-4,580	3,172	-764	1,194	-240	0	2	4,874
Other	6,138	0	4,475	-8,269	9,238	-1,985	0	-76	9,521
	17,488	-4,580	29,245	-13,663	15,861	-5,373	4	-178	38,804

The restructuring provisions in the total amount of EUR 3,067 thousand (PY: EUR 1,401 thousand) related mainly to the following companies:

- Severance payments of EUR 700 thousand for BEA Elektrotechnik und Automation GmbH, EUR 602 thousand (PY: EUR 0) for Sommer Fahrzeugbau GmbH & Co KG, EUR 698 thousand (PY: EUR 0) for Missel Group and EUR 188 thousand for COS Group;
- Other restructuring expenses of EUR 252 thousand for Rohner AG and EUR 108 thousand (PY: EUR 216 thousand) for Evotape S.p.a.;
- Financial commitments of EUR 249 thousand (PY: EUR 0) related to the termination of rental and lease agreements for Missel Group.

The environmental protection provision of EUR 8,281 thousand related entirely to Rohner AG and consisted mainly of landfill restoration measures.

The warranties in the total amount of EUR 2,734 thousand (PY: EUR 1,718 thousand) related mainly to Jahnel Kestermann Getriebewerke GmbH & Co. KG in the amount of EUR 635 thousand (PY: EUR 920 thousand), BEA Group in the amount of EUR 600 thousand, SKS Group in the amount of EUR 455 thousand (PY: EUR 475 thousand), COS Group in the amount of EUR 282 thousand, Sommer Group in the amount of EUR 172 thousand (PY: EUR 68 thousand) and Teutonia Group in the amount of EUR 141 thousand (PY: EUR 101 thousand).

Provisions for anticipated losses in the total amount of EUR 10,327 thousand (PY: EUR 2,141 thousand) related mainly to Oxxynova Group in the amount of EUR 4,643 thousand, Fritz Berger Group in the amount of EUR 4,049 thousand, Rohner Group in the amount of EUR 906 thousand and Golf House Direktversand GmbH in the amount of EUR 558 thousand (PY: EUR 842 thousand). These provisions resulted mainly from disadvantageous contracts.

The personnel-related provisions in the total amount of EUR 4,874 thousand (PY: EUR 6,090 thousand) were established mainly for the following items:

- Early partial retirement plans (Altersteilzeit): EUR 2,112 thousand for Oxxynova Group, EUR 896 thousand for

Salto Paper Group, EUR 658 thousand (PY: EUR 682 thousand) for Jahnel Kestermann Getriebewerke GmbH & Co KG and EUR 243 thousand (PY: EUR 181 thousand) for Missel Group;

- Employee service anniversaries: EUR 335 thousand for Salto Paper Group, EUR 353 thousand for Oxxynova Group and EUR 144 thousand for Rohner AG.

The other provisions in the total amount of EUR 9,521 thousand (PY: EUR 6,138 thousand) related mainly to Evotape S.p.a. in the amount of EUR 1,902 thousand for quality assurance and legal obligations, SKS Group in the amount of EUR 1,105 thousand (PY: EUR 1,583 thousand) for outstanding credits and counter-guarantee claims of the subsidiaries, Salto Paper Group in the amount of EUR 1,897 thousand for contract termination costs and electricity purchases from non-group companies, ticon AG in the amount of EUR 1,227 thousand (PY: EUR 2,125 thousand) for rental property vacancy costs and COS Group in the amount of EUR 673 thousand for customer bonuses and an SAP maintenance agreement.

The maturity structure of provisions is presented below:

	12/31/ 2006 EUR'000	12/31/ 2005 EUR'000
Non-current provisions	17,991	3,858
Current provisions	20,813	13,630
	38,804	17,488

The non-current provisions related mainly to environmental protection provisions (EUR 6,709 thousand), provisions for anticipated losses (EUR 3,287 thousand), provisions for early partial retirement plans (Altersteilzeit) (EUR 2,769 thousand) and other provisions (EUR 2,865 thousand).

The interest effect of EUR 4 thousand related to interest expenses for the provisions for anticipated losses.

For information on the methods used to measure the value of provisions, please refer to the section entitled "Assumptions and estimates applied for accounting and valuation purposes."

27. Non-current financial liabilities

	12/31/ 2006 EUR'000	12/31/ 2005 EUR'000
Liabilities to banks	7,434	14,539
Other financial liabilities	4,227	3,191
	11,661	17,730

The liabilities to banks in the amount of EUR 7,434 thousand, which are due in more than 12 months, consisted of redeemable loans for the following companies:

	EUR'000	Interest rate
E. Missel GmbH & Co. KG	3,693	3.6% - 3.7%
Jahnel-Kestermann Getriebewerke GmbH & Co. KG	2,332	4.5% - 5.25%
Affival Inc.	1,289	7.22%
Other	120	

The liability of Affival Inc. is denominated in U.S. dollars; the remaining loans are payable in euros.

The other financial liabilities in the total amount of EUR 4,227 thousand (PY: EUR 3,191 thousand) included a shareholder loan to SKS Stakusit Bautechnik GmbH with an indefinite term and bearing interest at the rate of 1.5% p.a., in the amount of EUR 2,441 thousand (PY: EUR 2,441 thousand), as well as a non-interest-bearing loan in relation to third parties of Fritz Berger GmbH, in the amount of EUR 1,453 thousand (PY: EUR 0), and a non-interest-bearing loan of the seller of BEA Group, in the amount of EUR 333 thousand.

Of the total amount stated, liabilities of EUR 6,308 thousand (PY: EUR 7,718 thousand) are due in more than five years.

Following the acquisition of new subsidiaries, an attempt is made in some cases to negotiate an immediate repayment of the financial liabilities assumed with the lending banks. When the outcome of such negotiations is positive, the early repayment penalties incurred are recognized immediately in income.

Transaction costs incurred in connection with the borrowing of new, non-current financial liabilities are distributed over the term of the corresponding liability by means of the effective interest method.

Of the liabilities to banks, an amount of EUR 4,259 thousand is secured by land and buildings, EUR 929 thousand by inventories and EUR 460 thousand by trade receivables.

28. Liabilities from finance lease

Within the property, plant and equipment presented in the consolidated balance sheet, the items of Buildings, Technical equipment, plant and machinery and Other equipment, operational and office equipment contain assets for which the Group is considered to be the economic owner by virtue of the underlying lease agreements ("finance leases"). The Group's liabilities under finance leases for 2006 and 2005 are presented in the tables below:



EUR'000	2006			2005		
	Nominal value	Discount amount	Present value	Nominal value	Discount amount	Present value
Due in up to 1 year	6,588	1,774	4,814	3,206	375	2,831
Due in 1 - 5 years	19,810	3,669	16,141	19,899	2,970	16,929
Due in more than 5 years	17,490	3,208	14,282	0	0	0
Total	43,888	8,651	35,237	23,105	3,345	19,760

The significant lease agreements within the ARQUES Group include the following: a lease for an operational and administrative building of COS Group, with a remaining lease term of 192 months; a lease agreement for a steam generator of Wolfsheck BetriebsGmbH, with a remaining lease term of 63 months; two web offset printing machines of Farbendruck Weber, with remaining lease terms of 108 months each. The remaining lease terms are counted from the balance sheet date. The lease for the steam generator contains an obligation to purchase the machine at the residual value if the lease renewal option is not exercised. The other leases mentioned above do not contain any further options.

The prior-year comparison values were adjusted for the correction per IFRS 3.61ff of Evry Rotatives S.A.S. This adjustment increased the nominal value by EUR 11,080 thousand, the discount amount by EUR 2,256 thousand and the present value by EUR 8,824 thousand.

29. Deferred tax assets and deferred tax liabilities

Deferred taxes result from the different values applied in the IFRS financial statements as compared with the tax financial statements of the Group companies, and from consolidation measures.

The deferred tax liabilities and deferred tax assets are distributed among the following items:



	EUR'000 12/31/2006	EUR'000 12/31/2005
Deferred tax assets		
Intangible assets	785	0
Property, plant and equipment	1,712	682
Financial assets	74	17
Inventories	328	353
Receivables and other current assets	899	730
Provisions	5,441	772
Liabilities	6,478	5,676
Tax loss carry-forwards	12,690	6,341
Total deferred tax assets	28,407	14,571
thereof current	6,006	1,855
thereof non-current	22,401	12,716
Deferred tax liabilities		
Intangible assets	1,814	829
Property, plant and equipment	15,988	15,377
Financial assets	261	
Inventories	2,676	144
Receivables and other current assets	1,569	735
Non-current assets held for sale	2,336	0
Provisions	826	254
Liabilities	5,268	7,467
Total deferred tax liabilities	30,738	24,806
thereof current	7,589	1,133
thereof non-current	23,149	23,673
Net balance of deferred tax assets and liabilities	1,689	1,120
Deferred tax assets presented in the balance sheet	26,718	13,451
Deferred tax liabilities presented in the balance sheet	29,049	23,686

No deferred tax assets were recognized for partial amounts of existing corporation tax loss carry-forwards in the amount of EUR 77,261 thousand (PY: EUR 84,510 thousand) or for partial amounts of trade tax loss carry-forwards in the amount of EUR 72,245 thousand (PY: EUR 72,892 thousand). These loss carry-forwards are basically not subject to any limitations in time. For more information on this subject, please refer to the section on accounting and valuation principles.

The costs of the capital increase conducted in 2006 were financed from company funds and no deferred taxes were recognized for the allocable costs because they were deemed immaterial.

Deferred tax liabilities of EUR 232 thousand were recognized in 2006 for temporary differences in connection with associated companies. Specifically, they related to ARQUANA International Print & Media AG, which was accounted for at equity for the first time in 2006.

Deferred tax liabilities of EUR 28 thousand were recognized for temporary differences in connection with subsidiaries. Specifically, they related to Teutonia Kinderwagenfabrik GmbH, which was sold at the beginning of the current business year.

Otherwise, no deferred tax liabilities were recognized for temporary differences in connection with shares in subsidiaries and associated companies in the amount of EUR 1,034 thousand (PY: EUR 227 thousand).

In the interest of optimizing the Group's overall tax burden, a Maltese financial holding company was established in 2005 in order to reduce future income tax charges. The European Commission has formally asked the Maltese government to repeal the tax advantages used for this purpose by the end of 2010. At the present time, this tax model does not pose any tax risks.

For more information on this subject, please refer to our comments in Section 10.

30. Current financial liabilities

	12/31/ 2006 EUR'000	12/31/ 2005 EUR'000
Liabilities to banks	23,136	17,958
Other short-term financial liabilities	14,915	2,242
Total	38,051	20,200

The current liabilities to banks consisted mostly of current account overdraft facilities. They related mainly to SKW Group in the amount of EUR 6,044 thousand (PY: EUR 7,000 thousand), COS Group in the amount of EUR 5,210 thousand, Arques Industries AG in the amount of EUR 5,001 thousand (PY: EUR 0), Weber Group in the amount of EUR 3,186 thousand and Evotape S.p.a. in the amount of EUR 2,567 thousand (PY: EUR 0).

The interest accruing on these liabilities fell within a range from 3.25% to 13.75% p.a. The wide range reflects the sometimes considerable differences in the interest rates of different countries.

The Other current financial liabilities in the total amount of EUR 14,915 thousand (PY: EUR 2,242 thousand) related mainly to Oxxynova Group in the amount of EUR 10,357 thousand, Rohner AG in the amount of EUR 2,700 thousand and the short-term portion of the non-interest-bearing loan of BEA Group in the amount of EUR 1,667 thousand. (For more on this subject, please refer to the comments concerning non-current liabilities).

Of the current liabilities to banks, EUR 3,487 thousand consisted of liabilities denominated in U.S. dollars, EUR 637 thousand consisted of a loan denominated in Japanese yen and EUR 3,186 thousand consisted of a liability repayable in Swiss francs.

31. Current trade payables

The trade payables are owed to third parties. They are stated at their nominal or repayment value and are all due in less than one year.

The total amount of EUR 144,517 thousand (PY: EUR 73,907 thousand) related to the following groups in particular: COS Group in the amount of EUR 24,305 thousand; Oxxynova Group in the amount of EUR 24,303 thousand; SKW Group in the amount of EUR 21,287 thousand (PY: EUR 21,755 thousand), Evotape S.p.a. in the amount of EUR 20,172 thousand (PY: EUR 17,200 thousand), Jahnel-Kestermann Getriebewerke GmbH & Co. KG in the amount of EUR 10,627 thousand (PY: EUR 6,676 thousand); Farbendruck Weber AG in the amount of EUR 9,400 thousand; Salto-Paper Group in the amount of EUR 8,892 thousand; Sommer Group in the amount of EUR 6,947 thousand (PY: EUR 6,370 thousand); BEA Group in the amount of EUR 5,484 thousand and Rohner AG in the amount of EUR 3,122 thousand.

The prior-year comparison value was increased by an amount of EUR 1,025 thousand as a result of the correction per IFRS 3.61 ff. of Evry Rotatives S.A.S.

Because the trade payables are all due in the short term, the repayment amount is equivalent to the fair value. Therefore, no discounting effects were taken into account, for which reason the stated amount is equivalent to the fair value.

Of the total trade payables, an amount of EUR 642 thousand is secured by trade receivables.

32. Tax liabilities

This item consisted entirely of liabilities for income taxes. They related mainly to SKW Group in the amount of EUR 1,903 thousand (PY: EUR 766 thousand), Sommer Group in the amount of EUR 1,566 thousand (PY: EUR 1,329 thousand) and Rohner Group in the amount of EUR 1,084 thousand. This item also contained income tax liabilities of ARQUES Value Invest Ltd, Malta, in the amount of EUR 5,141 thousand (PY: EUR 0), which were offset by tax refund claims of the shareholder ARQUES Mediterranean Invest Ltd, Malta, in the amount of EUR 4,542 thousand (PY: EUR 0).

33. Current other liabilities

	12/31/ 2006 EUR'000	12/31/ 2005 EUR'000
Liabilities for outstanding invoices	8,993	5,921
Other taxes	5,452	4,323
Social security contributions	1,901	3,963
Wages and salaries	3,445	3,795
Deferred income	1,205	874
Advance payments received	16,171	2,386
Other personnel liabilities	11,818	0
Other miscellaneous liabilities	7,571	7,713
Total	56,556	28,975

The prior-year comparison value was increased by an amount of EUR 951 thousand as a result of the correction per IFRS 3.61 ff. of Evry Rotatives S.A.S.

The Other personnel liabilities were mainly composed of the following items and matters:

- Unused vacation days at December 31, 2006: BEA Elektrotechnik und Automation GmbH in the amount of EUR 767 thousand, Wolfscheck Betriebs GmbH EUR 577 thousand, Sommer Group EUR 450 thousand (PY: EUR 0), Weber Group EUR 415 thousand, EUR 415 thousand related to Oxxynova Group, teutonia Group (PY: EUR 179 thousand) EUR 388 thousand, Jahnel-Kestermann Group EUR 376 thousand (PY: EUR 336 thousand), Rohner Group EUR 185 thousand, Fritz Berger Group EUR 172 thousand, Missel Group EUR 143 thousand (PY: EUR 91 thousand) and Hottinger Group EUR 118 thousand;

- Management bonuses: Oxxynova Group EUR 1,092 thousand, ARQUES Industries AG EUR 618 thousand (PY: EUR 0), SKW Group EUR 463 thousand (PY: EUR 301 thousand), Rohner Group EUR 445 thousand, Golf House Direktversand GmbH EUR 202 thousand (PY: EUR 180 thousand), SKS Group EUR 177 thousand (PY: EUR 277 thousand), Fritz Berger Group EUR 175 thousand and Jahnel-Kestermann Group EUR 116 thousand (PY: EUR 58 thousand);
- Compensation for flexible work hours: Weber Group EUR 411 thousand, Oxxynova Group EUR 440 thousand and Salto Paper Group EUR 129 thousand.

These liabilities do not bear interest. Because they are due in less than one year, the stated repayment amounts are equivalent to the fair values of the liabilities.

34. Business segments and geographical segments

Currently, the Group is divided into business segments, based on the principal activities or industrial sectors of its operating companies. These sectors form the basis for the primary segment reporting format.

The primary business segments are as follows:

- The Steel segment comprises two companies (Jahnel-Kestermann Group and Sommer Group), which are suppliers or processors in the steel industry;
- The Print segment comprises all the Group's printing companies, plus (as of 2006) the presentation at equity of ARQUANA Group;
- The Industrial Production segment comprises all activities related to industrial production, which are characterized by relatively simple production processes (SKS Group, Missel Group, Hottinger Group, Evotape Group);
- The Holding segment comprises all activities related to Group management and administration;

e) The newly established Specialty Chemistry segment comprises the subsidiaries that operate in the sector of specialty chemicals (Rohner AG, Oxxynova Group). When this new segment was created, SKW Group was reassigned to this segment from the Steel segment by virtue of its business activities.

f) The Other segment comprises all other activities of the Group that are not directly related to one of the foregoing segments.

As a rule, sales and revenues between the segments are conducted at prices that would also be charged for business with third parties. Administrative expenses are charged as cost allocations. Impairment losses of EUR 536 thousand in the Steel segment and EUR 153 thousand in the Other segment were completely recognized in income in 2006.

The figures for the primary business segments for 2006 are presented in the table below:



2006 / EUR'000	Steel	Print	Industrial Production
Revenues			
External revenues (continuing operations)	86,645	18,727	136,594
<i>discontinuing operations</i>	0	158,844	0
Internal revenues (continuing operations)	0	0	5
<i>discontinuing operations</i>	0	184	0
Total revenues (continuing operations)	86,645	18,727	136,599
<i>discontinuing operations</i>		158,844	
Segment profit or loss/EBIT			
(continuing operations)	-4,240	5,731	7,616
<i>discontinuing operations</i>	0	-14,491	0
Income from associated companies			
Net financial income/expenses			
Profit before taxes			
Income tax expenses			
Net profit for the year			
Minority interests in net profit			
Consolidated net profit for the year			
Balance sheet			
Assets			
Segment assets	65,722	52,586	86,792
Shares in associated companies	0	14,084	0
Unassigned assets			
Group assets			
Liabilities			
Segment liabilities	49,244	41,102	55,124
Unassigned liabilities			
Group liabilities			
Other information			
- Current investment expenditures	6,085	8,325	1,943
- Investment expenditures for acquisitions	0	72,463	3,722
- Amortization, depreciation and impairments	4,310	11,060	2,279

Specialty Chemistry	Holding	Other	Eliminations	Consolidated
252,821	-6	114,578	0	609,359
0	0	0	0	158,844
0	2,348	1,614	-3,967	0
0	0	0	-184	0
252,821	2,342	116,192	-3,967	609,359
				158,844
39,550	37,504	28,177	356	114,694
0	0	0	0	-14,491
				716
				-3,274
				97,645
				12,931
				110,576
				1,975
				112,551
203,638	76,197	166,128	-3,543	647,520
3,678	0	0	0	17,762
				0
				665,282
106,221	20,978	115,562	2,247	390,478
				0
				390,478
4,291	1,193	3,579	-700	24,716
32,827	0	28,530		137,542
4,300	234	3,165	0	25,348

The 2005 comparison figures for the primary business segments are presented in the table below:

2005 / TEUR'000	Steel	Print	Industrial Production
Revenues			
External revenues (continuing operations)	63,532	0	70,892
<i>discontinuing operations</i>	0	55,812	0
Internal revenues (continuing operations)	0	0	0
<i>discontinuing operations</i>	0	0	0
Total revenues (continuing operations)	63,532	0	70,892
<i>discontinuing operations</i>	0	55,812	0
Segment profit or loss/EBIT (continuing operations)	-4,123	0	13,464
<i>discontinuing operations</i>	0	12,493	0
Income from associated companies			
Net financial expenses			
Profit before taxes			
Income tax expenses			
Net profit for the year			
Minority interests in net profit			
Consolidated net profit for the year			
Balance sheet			
Assets			
Segment assets	78,645	100,335	58,657
Shares in associated companies	0		
Unassigned assets			
Group assets			
Liabilities			
Segment liabilities	33,649	35,578	32,076
Unassigned liabilities			
Group liabilities			
Other information			
- Current investment expenditures	90	2,919	774
- Investment expenditures for acquisitions	35,485	41,418	12,859
- Depreciation, amortization and impairments	4,219	3,446	1,444

Specialty Chemistry	Holding	Other	Eliminations	Consolidated
192,738	399	34,128	0	361,689
0	0	0	0	55,812
0	0	0	0	0
0	0	0	0	0
192,738	399	34,128	0	361,689
0	0	0	0	55,812
10,604	3,633	10,005		33,583
0	0	0		12,493
				846
				-1,201
				45,721
				2,113
				47,834
				-91
				47,743
71,014	17,916	26,947	-1,700	351,814
3,603				3,603
				12,447
				367,864
30,423	9,093	7,932	-142	148,609
				77,078
				225,687
4,063	651	3,451		11,948
7,402	0	1,957		99,121
1,826	121	1,736		12,792

In the table below, the consolidated revenues are broken down by geographical markets, regardless of the origin of the goods and services:

	2006 EUR'000			2005 EUR'000		
	Continuing operations	Discontinuing operations	Total	Continuing operations	Discontinuing operations	Total
Germany	207,112	96,026	303,138	117,389	37,578	154,967
Europe - European Union	171,771	58,978	230,749	103,803	16,041	119,844
Europe - other	90,322	3,798	94,120	11,878	2,193	14,071
Rest of world	140,154	42	140,196	128,619	0	128,619
	609,359	158,844	768,203	361,689	55,812	417,501

In the table below, the carrying amounts of segment assets and the additions to property, plant and equipment and intangible assets, are broken down by the geographical areas in which the assets are located:

	2006 EUR'000	2005 EUR'000
Current investment expenditures		
Germany	17,297	7,227
Europe - European Union	2,745	3,852
Europe - Other	1,493	4
Rest of world	3,181	865
	24,716	11,948
Acquisitions		
Germany	71,798	52,190
Europe - European Union	23	44,181
Europe - Other	65,721	172
Rest of world		2,578
	137,542	99,121
Segment assets		
Germany	391,792	189,296
Europe - European Union	92,011	125,571
Europe - Other	130,070	1,253
Rest of world	33,647	27,753
	647,520	343,873



Segment reporting by “vintage years”

The ARQUES business model is very much based on the successful restructuring of the acquired companies. This business model is not very well represented by means of segment reporting based on industrial sectors. Segment reporting based on “vintage years” provides a vertical cross-section of the company’s activities on the time axis. By this means, the restructuring progress can be measured.

Under this type of presentation, the key profit or loss figures of the acquired companies are aggregated by year of acquisition, based on the initial consolidation of these companies. Logically, the holding company and the special-purpose entities and shelf



EUR'000	2003	2004	2005	2006	Other (eliminations)	group
Revenues	0	245,971	385,017	154,409	-17,194	768,203
Total income	150	249,985	402,101	244,173	43,316	939,725
EBITDA	129	18,202	-14,282	134,636	-12,444	126,241
EBIT	129	13,333	-31,180	128,472	-10,551	100,203
EBT	129	13,286	-33,892	127,828	-9,706	97,645

companies comprised within the Holding segment are not included in this presentation. Instead, the “vintage years” report covers only operating companies because only they are subject to restructuring activities.

In 2002, the company had not yet commenced any operating activities. Therefore, the assignment begins with the 2003 financial year. The revenues and profits or losses presented in the table under 2003 relate entirely to Schierholz Translift Global Manufacturing & Finance AG.

The operating profits of the companies acquired prior to 2005 did not contain income from the reversal of negative consolidation differences in 2006. That follows because income from the reversal of consolidation differences can only be generated in the year of acquisition.

All together, the companies acquired in 2006 generated EBITDA before income from the reversal of negative consolidation differences of EUR -3.3 million. The aggregate loss resulted from the fact that start-up and restructuring losses must be charged in full to the income statement according to IFRS.

However, this amount is offset by income from the reversal of consolidation differences in the amount of EUR 92,770 thousand. This is the amount by which the sum of fair values of the acquired assets, after deduction of all liabilities, exceeded the purchase prices. If it had been possible to establish provisions in the acquisition balance sheet for the not inconsiderable start-up and restructuring costs, the acquired net assets would have been less, while the purchase prices would have remained the same, and the income from reversal of consolidation differences would

have been reduced by this amount. In the reverse case, however, the operating start-up losses would have been less by approximately the same amount. For ARQUES as a restructuring group, the application of IFRS 3 requirements regarding the initial consolidation of acquired companies has produced the result that the customary restructuring and start-up losses must be systematically recognized as losses, without recognizing the restructuring contributions of the previous owner.

The parent company ARQUES Industries AG generated income of EUR 8.4 million from the sale of shares representing 30.45% of the equity of ARQUANA International Print & Media AG and income of EUR 25.6 million on the initial public offering of stock in SKW Stahl-Metallurgie Holding AG.

35. Cash flow statement

The cash flow statement shows how the net funds of ARQUES changed in 2006 and 2005. In accordance with IAS 7, the cash flows are classified according to cash flows from operating activities, cash flows from investing activities and cash flows from financing activities. For the sake of clarity, the prior-year comparison figures were adjusted to reflect the current structure.

The ARQUES Group is characterized by an extremely high level of growth. ARQUES also achieves growth through acquiring companies in dire need of restructuring. Thus, three factors are in particular need to be considered when interpreting the cash flow statement. First, it should be remembered that the cash flow statement eliminates those changes that resulted from the addition of companies to the consolidation group. For example, the acquisition of a company with a merchandise inventory of EUR 5 million has no bearing on the cash flow statement. Only the inventory changes that occur after this first-time consolidation (as in the case when the inventory is increased to improve delivery capacity) are reflected in the cash flow statement. Second, ARQUES provides cash to the acquired companies, in most cases, immediately after the acquisition, by virtue of its business model. For example, ARQUES may have paid only a symbolic purchase price for a given company, but then provides fresh cash for inventory financing or to pay down past-due trade payables owed to suppliers. These figures are not presented in the consolidation

financial statements as investing activities, but as the accumulation of working capital. In the cash flow statement, they lead to negative cash flow from operating activities. However, the measures taken have a positive effect on the subsidiary in question. Finally, the cash flow statement also reveals that the acquired companies were purchased for less than their net asset values.

The net funds in the total amount of EUR 88,154 thousand (PY: EUR 38,347 thousand) were composed of checks, cash on hand and cash in banks, less the cash that ARQUES was not able to use for operational purposes because it had been pledged as security for liabilities, which amounted to EUR 3,852 thousand at the balance sheet date (PY: EUR 3,087 thousand).

The cash flow statement begins with the period profit or loss before taxes (EBT). The gross cash flow represents the surplus of cash inflows over cash outflows before any uses of funds. The cash outflow for operating activities additionally includes the change in working capital.

ARQUES paid a total of EUR 9,361 thousand for new acquisitions of company shares in 2006. By means of these same acquisitions, ARQUES acquired cash in the amount of EUR 8,265 thousand. ARQUES generated total proceeds of EUR 62,202 thousand from sales of company shares. The cash transferred in connection with these same sales amounted to EUR -4,369 thousand. In total, the purchase and sale of shares in companies increased the net funds by EUR 56,737 thousand in 2006.

36. Disclosures concerning company acquisitions

The following business combinations effected in 2006 are material according to the definition of IFRS 3.68 and have therefore been presented separately: Rohner AG, Weber Group, Oxxynova Group and COS Group. The other company acquisitions are presented on an aggregate basis due to materiality considerations.

ARQUES applied the following criteria for purposes of determining the materiality of business combinations:

1. If the annualized revenues of the acquired company, determined in accordance with IFRS principles, represented 7.5% or more of the consolidated Group revenues at the acquisition date, the company or group of companies was considered to be material.

2. If the positive EBIT of the acquired company, determined in accordance with IFRS principles, represented 7.5% or more of the total EBITs of those Group companies that generated a positive EBIT, the company or group of companies was considered to be material. For this purpose, any income from the reversal of negative consolidation differences was deducted from the EBIT.

3. If the negative EBIT of the acquired company, determined in accordance with IFRS principles, represented 7.5% or more of the total EBITs of those Group companies that generated a negative EBIT, the company or group of companies was considered to be material. For this purpose, any income from the reversal of negative consolidation differences was deducted from the EBIT.

4. If the assets of the acquired company, determined in accordance with IFRS principles, represented 7.5% or more of the consolidated total assets at the balance sheet date, the company or group of companies was considered to be material.

If at least one of the above-mentioned criteria was met, the company in question was considered to be material and was therefore presented separately within the disclosures required by IFRS 3. Purchased immaterial shelf companies were not presented within the notes on company acquisitions.

For purposes of the purchase price allocation, assets were measured according to one of the three following methods based on IDW RS HFA 16: the market price method, the net present value method or the cost method.

When the market price method is applied, the fair value of a given asset is determined with reference to current transactions involving comparable assets. This value is adjusted to reflect specific characteristics such as age, selling features or the transaction environment. The market price method is applied in particular for measuring the value of property, plant or equipment, including buildings or machinery, for which an active market exists.

In most cases, intangible assets were acquired in connection with business combinations. Publicly accessible market prices are rarely available for these types of transactions. In most cases, it is not possible to identify knowledgeable, willing parties at any given time. That is because the intangible assets are not generic, but have very special characteristics depending on the company in question.

When the net present value method was applied, the fair value was determined by applying a risk-adjusted discount rate to determine the present value of the future cash flows to be generated by the asset in question. Thus, the fair value is deemed equivalent to the present value of the expected future cash flows. The value determined in this way is based on the estimates and projections of the management, which were based, in turn, on the current expectations and assumptions concerning the future performance of the asset in question and on the selection of an appropriate risk-adjusted discount rate.

The cost method is applied only for the purpose of determining the fair value as part of the purchase price allocation process. Under this method, the management may consider those costs which would be required to produce an exact duplicate of the asset in question (reproduction cost method). Alternatively, the management may consider the costs of producing an equivalent asset for the intended usage (replacement cost method). The management must also determine whether it is necessary to apply discounts to account for technical, physical and/or economic obsolescence. The value depletion was determined on the basis of the anticipated useful life based on economic criteria. If the economic life cannot be determined reliably, certain reference values may be considered, especially in the case of assets that have been completely depreciated, as a means of determining the remaining usage potential of the asset in question.

Rohner AG

ARQUES acquired Rohner AG (89%), Pratteln, in March 2006. Rohner AG has been included in the consolidated financial statements of ARQUES since March 1, 2006.

The purchase price for the acquired company was EUR 1. In connection with the acquisition, a shareholder loan of EUR 79,366 thousand was acquired for a purchase price of

EUR 1. Based on these cash flows and the fair value of the purchased assets and liabilities, a negative consolidation difference of EUR 20,924 thousand was established. This amount was recognized as income in the income statement within the item of Other operating income.

The profit generated by the acquired companies from the acquisition date to December 31, 2006 amounted to EUR 824 thousand. This figure already contains all start-up and acquisition losses, as well as restructuring losses. It does not contain the Other operating income from the reversal of negative consolidation differences. The revenues generated from January 1, 2006 to the acquisition date amounted to EUR 6,692 thousand and the annualized revenues amounted to EUR 29,557 thousand. The profit or loss generated from January 1, 2006 to the acquisition date was not determined because it was not relevant to the consolidation process. For reasons of practicality, a retroactive restatement of the monthly values from January 1, 2006 to the acquisition date was not effected. The values for the months prior to the acquisition would not be comparable with those after the acquisition, due to the restructuring measures that have been initiated in accordance with the ARQUES business model, and would therefore be misleading.



The assets and liabilities acquired in connection with this acquisition are presented in the table below:

EUR'000	Carrying Amount	Fair Value
Non.current assets		
Intangible assets	1,115	1,115
Land	410	410
Buildings	10,614	10,614
Technical equipment, plant and machinery	3,278	3,278
Deferred tax assets	254	510
Current assets		
Inventories	11,319	11,319
Trade receivables	5,852	5,852
Other assets	8,973	8,973
Cash and cash equivalents	825	825
Liabilities		
Provisions	-13,445	-13,445
Trade payables	-4,112	-4,112
Other liabilities	-87,244	-87,244
Deferred tax liabilities	-3,310	-3,820
Net assets		-65,725
Minority interests		7,283
Net assets acquired		-58,442

Rohner AG had already made all the necessary valuation adjustments in the prior-year financial statements. No adjustments were made in the purchase price allocation process.

The cash acquired in this transaction amounted to EUR 825 thousand, giving rise to an overall cash inflow of EUR 825 thousand.

No business divisions were given up or sold in connection with this acquisition.

Weber Group

ARQUES acquired Weber Group (Ariolan Consulting AG (100%), Partenaires Edelweiss SA (99.98%), Farbendruck Weber AG (100%), Gravor S.A (100%) and Actual Sàrl (100%) in September 2006. Also acquired as part of this transaction was the company WED S.A. (100%), which is in liquidation). Weber Group has been included in the consolidated financial statements of ARQUES since September 1, 2006.

The purchase price for the acquired companies was EUR 4,516 thousand. Of this amount, EUR 2,629 thousand was paid in cash. The incidental costs contained in the purchase price amounted to EUR 1 thousand. As part of the transaction, 20,105 treasury shares of ARQUANA International Print & Media AG, worth EUR 495 thousand at the applicable stock exchange price, were issued. Based on these cash flows and the fair value of the purchased assets and liabilities, a negative consolidation difference of EUR 20,442 thousand was established. This amount was recognized as income in the income statement within the item of Other operating income.

The loss generated by the acquired companies from the acquisition date to December 31, 2006 amounted to EUR 684 thousand. This figure already contains all start-up and acquisition losses, as well as restructuring losses. It does not contain the Other operating income from the reversal of negative consolidation differences. The revenues generated from January 1, 2006 to the acquisition date amounted to EUR 28,584 thousand and the annualized revenues amounted to EUR 47,499 thousand. The profit or loss generated from January 1, 2006 to the acquisition date was not determined because it was not relevant to the consolidation process. For reasons of practicality, a retroactive restatement of the monthly values from January 1, 2006 to the acquisition date was not effected. The values for the months prior to the acquisition would not be comparable with those after the acquisition, due to the restructuring measures that have been initiated in accordance with the ARQUES business model, and would therefore be misleading.

The assets and liabilities acquired in connection with this acquisition are presented in the following table:

EUR'000	Carrying Amount	Fair Value
Non.current assets		
Intangible assets	1	210
Land	2,597	1,866
Buildings	8,937	18,333
Technical equipment, plant and machinery	20,990	28,563
Other assets	510	770
Deferred tax assets	1,328	1,335
Current assets		
Inventories	4,543	4,543
Trade receivables	4,995	4,995
Other assets	2,467	2,467
Cash and cash equivalents	379	379
Liabilities		
Provisions	-6,266	-6,298
Trade payables	-7,984	-7,984
Other liabilities	-20,450	-20,450
Deferred tax liabilities	0	-3,768
Net assets		24,961
Minory interests		-3
Net assets acquired		24,958

The cash acquired in this transaction amounted to EUR 379 thousand, giving rise to an overall cash outflow of EUR 2,250 thousand.

No business divisions were given up or sold in connection with this acquisition.

Salto Group

ARQUES acquired the business operations of Salto Group by way of an asset deal in September 2006. The absorbing companies have been included in the consolidated financial statements of ARQUES since September 1, 2006.

The purchase price for the acquired companies and assets amounted to EUR 85 thousand. It was paid in cash. Based on these cash flows and the fair value of the purchased assets and liabilities, a negative consolidation difference of EUR 18,057 thousand was established. This amount was recognized as income in the income statement within the item of Other operating income.

The loss generated by the acquired companies from the acquisition date to December 31, 2006 amounted to EUR 3,465 thousand. This figure already contains all start-up and acquisition losses, as well as restructuring losses. It does not contain the Other operating income from the reversal of negative consolidation differences. The revenues generated from January 1, 2006 to the acquisition date amounted to EUR 43,082 thousand and the annualized revenues amounted to EUR 61,209 thousand. The profit or loss generated from January 1, 2006 to the acquisition date was not determined because it was not relevant to the consolidation process. For reasons of practicality, a retroactive restatement of the monthly values from January 1, 2006 to the acquisition date was not effected. The values for the months prior to the acquisition would not be comparable with those after the acquisition, due to the restructuring measures that have been initiated in accordance with the ARQUES business model, and would therefore be misleading.

The assets and liabilities acquired in connection with this acquisition are presented in the following table:

EUR'000	Carrying Amount	Fair Value
Non current assets		
Intangible assets	12	12
Land	837	837
Buildings	60	60
Technical equipment, plant and machinery	4,129	4,129
Deferred tax assets	1,015	1,015
Current assets		
Inventories	4,470	4,470
Other assets	20,708	20,708
Cash and cash equivalents	25	25
Liabilities		
Provisions	-3,401	-3,761
Trade payables	-16	-16
Other liabilities	-6,140	-6,140
Deferred tax liabilities	-1,191	-1,191
Net assets		20,148
Minority interests		-2,006
Net assets acquired		18,142

The cash acquired in this transaction amounted to EUR 25 thousand, giving rise to an overall cash outflow of EUR 60 thousand.

No business divisions were given up or sold in connection with this acquisition.

Oxxynova Group

ARQUES acquired Oxxynova Group (consisting of Oxxynova Holding GmbH (100%), Oxxynova GmbH & Co. KG (100%), Oxxynova Verwaltungs-GmbH (100%) and certain assets by way of an asset deal) in the fourth quarter of 2006. ARQUES holds 90% of the equity of Oxxynova

Group. It has been included in the consolidated financial statements of ARQUES since October 1, 2006.

Oxxynova Group was included in the consolidated financial statements of ARQUES on the basis of preliminary figures. Because the processes of converting the financial statements to IFRS and conducting the purchase price allocation are time-intensive, the best available information at the time of preparing the financial statements was used.

The purchase price for the acquired companies and assets amounted to EUR 12,937 thousand. Of this amount, EUR 2,642 thousand was paid in cash. The remaining amount is paid in the form of a vendor loan. The incidental costs included in the purchase price amounted to EUR 65 thousand. Based on these cash flows and the fair value of the purchased assets and liabilities, a negative consolidation difference of EUR 10,732 thousand was established. This amount was recognized as income in the income statement within the item of Other operating income.

The loss generated by the acquired companies from the acquisition date to December 31, 2006 amounted to EUR 7,670 thousand. This loss was mainly caused by an unplanned production shut-down and other production problems. In particular, one piece of equipment was not in good operating order. However, these problems were solved by the end of the year. The loss figure already contains all start-up and acquisition losses, as well as restructuring losses. It does not contain the Other operating income from the reversal of negative consolidation differences. The revenues generated from January 1, 2006 to the acquisition date amounted to EUR 148,133 thousand and the annualized revenues amounted to EUR 192,262 thousand. The profit or loss generated from January 1, 2006 to the acquisition date was not determined because it was not relevant to the consolidation process. For reasons of practicality, a retroactive restatement of the monthly values from January 1, 2006 to the acquisition date was not effected. The values for the months prior to the acquisition would not be comparable with those after the acquisition, due to the restructuring measures that have been initiated in accordance with the ARQUES business model, and would therefore be misleading.

The assets and liabilities acquired in connection with this purchase are presented in the following table:

EUR'000	Carrying Amount	Fair Value
Non-current assets		
Intangible assets	4	5,178
Land	1,843	2,436
Buildings	735	2,894
Technical equipment, plant and machinery	7,969	4,713
Other assets	2,624	2,624
Deferred tax assets	643	2,557
Current assets		
Inventories	12,238	11,742
Trade receivables	25,588	25,588
Other assets	7,780	7,780
Cash and cash equivalents	182	182
Liabilities		
Provisions	-16,648	-16,914
Trade payables	-18,674	-18,674
Other liabilities	-1,746	-1,746
Deferred tax liabilities	-1,585	-3,499
Net assets		24,861
Minority interests		-1,192
Net assets acquired		23,669

The cash acquired in this transaction amounted to EUR 182 thousand, giving rise to an overall cash outflow of EUR 2,460 thousand.

No business divisions were given up or sold in connection with this acquisition.

COS Group

ARQUES acquired COS Group (consisting of Topedo GmbH (100%) and certain assets by way of an asset deal) through

its exchange-listed subsidiary ticon AG in the fourth quarter of 2006. It has been included in the consolidated financial statements of ARQUES since December 21, 2006.

COS Group was included in the consolidated financial statements on the basis of preliminary figures. Because the processes of converting the financial statements to IFRS and conducting the purchase price allocation are time-intensive, the best available information at the time of preparing the financial statements was used.

The purchase price for the acquired companies and assets amounted to EUR 300 thousand, corresponding in full to the value of 500,000 shares of ticon AG, which were measured at fair value at the acquisition date. Based on these cash flows and the fair value of the purchased assets and liabilities, a negative consolidation difference of EUR 2,190 thousand was established. This amount was recognized as income in the income statement within the item of Other operating income.

The loss generated by the acquired companies from the acquisition date to December 31, 2006 amounted to EUR 202 thousand. This figure already contains all start-up and acquisition losses, as well as restructuring losses. It does not contain the Other operating income from the reversal of negative consolidation differences. The revenues generated from January 1, 2006 to the acquisition date amounted to EUR 258,078 thousand and the annualized revenues amounted to EUR 263,300 thousand. The profit or loss generated from January 1, 2006 to the acquisition date was not determined because it was not relevant to the consolidation process. For reasons of practicality, a retroactive restatement of the monthly values from January 1, 2006 to the acquisition date was not effected. The values for the months prior to the acquisition would not be comparable with those after the acquisition, due to the restructuring measures that have been initiated in accordance with the ARQUES business model, and would therefore be misleading.

The assets and liabilities acquired in connection with this purchase are presented in the following table:

EUR'000	Carrying Amount	Fair Value
Non-current assets		
Intangible assets	1,547	2,001
Buildings	9,990	10,006
Other assets	3,602	4,129
Deferred tax assets	4,079	4,079
Current assets		
Inventories	14,370	14,370
Trade receivables	22,786	22,786
Other assets	2,605	2,605
Cash and cash equivalents	462	462
Liabilities		
Provisions	-5,428	-5,428
Trade payables	-25,454	-25,454
Other liabilities	-19,542	-19,542
Deferred tax liabilities	-6,270	-6,639
Net assets		3,375
Minority interests		-885
Net assets acquired		2,490

The cash acquired in this transaction amounted to EUR 462 thousand, giving rise to an overall cash inflow of EUR 462 thousand.

No business divisions were given up or sold in connection with this acquisition.

Other acquisitions in 2006

ARQUES acquired the still outstanding shares of Jahnel-Kestermann Group in January 2006. This group was already fully included in the consolidated financial statements for 2005.

ARQUES acquired Wanfried Group, consisting of Wanfried Druck Kalden GmbH (100%) and its 100% subsidiary Wanfried S.a.r.l., through its exchange-listed subsidiary ARQUANA International Print & Media AG, at the end of February 2006. This group has been included in the consolidated financial statements of ARQUES since March 1, 2006.

ARQUES acquired Heinrich Heiland GmbH, Magstadt, a manufacturer of transport protection systems, in March 2006. During the restructuring phase, this company's key performance indicators came out below the critical mass required for ARQUES as a result of the unavoidable closure of two production lines. Therefore, the company was quickly resold in June 2006.

ARQUES acquired Hottinger Group (Hottinger Maschinenbau GmbH & Co. KG (89%), Hottinger Verwaltungsgesellschaft mbH (100%), Hottinger Maschinenbau GmbH (100%), Grundstücksverwaltungsgesellschaft Wittener Strasse mbH (100%) and Hottinger North America Inc. (100%)) in March 2006. These companies have been included in the consolidated financial statements of ARQUES since March 1, 2006.

ARQUES acquired Bachem Group (Verwaltungsgesellschaft J. P. Bachem mbH (100%) and J. P. Bachem GmbH & Co. KG (100%)) through its exchange-listed subsidiary ARQUANA International Print & Media AG, and Georg Fischer Schwab Group (Georg Fischer Schwab Management GmbH (100%), Georg Fischer Schwab Beteiligungs-GmbH (100%) and Georg Fischer Schwab GmbH & Co. KG) in April 2006. These companies have been included in the consolidated financial statements of ARQUES since April 1, 2006.

ARQUES acquired the business operations of Fritz Berger GmbH & Co. KG, including the 100% interest in Sport Berger GmbH, by way of an asset deal in May 2006. These companies have been included in the consolidated financial statements of ARQUES since May 1, 2006.

ARQUES acquired all the shares in the papermaking company PSM S.A., Cedex, France, in June 2006. During the post-merger integration, new decisions were made regarding strategic business sectors, which made it unnecessary to retain this company. Therefore, it was resold in July 2006.

ARQUES acquired a 100% interest in pwe-Verlag Gesellschaft für Medienpublikationen mbH in August 2006. This company has been included in the consolidated financial statements of ARQUES since August 1, 2006.

ARQUES acquired BEA Group (BEA Elektrotechnik und Automation Technische Dienste Lausitz (100%), BEA POLSKA Elektrotechnika i Automatyizacja Sp. z o.o. (100%) and BEA BALKAN Elektrotechnik i Automatisazia EOOD (100%) in November 2006. The two companies that are not based in Germany were not consolidated for reasons of materiality). BEA Group has been included in the consolidated financial statements of ARQUES since November 1, 2006.

The purchase price for the acquired companies amounted to EUR 8,092 thousand. Of this amount, EUR 3,505 thousand was paid in cash. In connection with this transaction, 77,040 treasury shares of ARQUANA International Print & Media AG, representing a value of EUR 2,787 thousand, were issued. A contractually fixed price of EUR 37.50 was applied for the acquisition because a market price could not be determined reliably as a result of insufficient market breadth at that time. For future acquisitions, the current stock market price will be applied. Shareholder loans of EUR 13,385 thousand were acquired in connection with these acquisitions. These acquisitions gave rise to negative consolidation differences in the total amount of EUR 20,352 thousand.

The profit generated by the acquired companies from the acquisition date to December 31, 2006 amounted to EUR 4,245 thousand. This figure already contains all start-up and acquisition losses, as well as restructuring losses. It does not contain the Other operating income from the reversal of negative consolidation differences. The revenues generated from January 1, 2006 to the acquisition date amounted to EUR 60,814 thousand and the annualized revenues amounted to EUR 169,414 thousand. The profit or loss generated from January 1, 2006 to the acquisition date was not determined because it was not relevant to the consolidation process. For reasons of practicality, a retroactive restatement of the monthly values from January 1, 2006 to the acquisition date was not effected. The values for the months prior to the acquisition would not be comparable with those after the acquisition, due to the restructuring measures that have been initiated in accordance with the ARQUES business model, and would therefore be misleading.

The assets and liabilities acquired in connection with this acquisition are presented in the table below:

EUR'000	Carrying Amount	Fair Value
Non-current assets		
Intangible assets	984	4,010
Land	2,492	3,275
Buildings	6,428	9,526
Technical equipment, plant and machinery	7,730	14,560
Other assets	3,794	3,794
Financial assets	510	510
Deferred tax assets	4,464	6,656
Current assets		
Inventories	26,590	26,590
Trade receivables	29,265	29,265
Other assets	5,242	5,900
Cash and cash equivalents	7,833	7,833
Liabilities		
Provisions	-16,370	-24,366
Trade payables	-13,831	-13,831
Other liabilities	-48,152	-49,855
Deferred tax liabilities	-1,770	-7,829
Net assets		16,038
Minority interests		-1,010
Net assets acquired		15,028

The cash acquired in this transaction amounted to EUR 7,833 thousand, giving rise to an overall cash inflow of EUR 4,328 thousand.

No business divisions were given up or sold in connection with these acquisitions.

The disclosures required by IFRS 3.70 (b) are not practicable. In the opinion of the management, the disclosures would be misleading in view of the restructuring measures that have been initiated.

Acquisitions of new, immaterial shelf companies have not been presented herein.

Acquisitions after December 31, 2006

SKW Group acquired the QUAB business of Degussa Corporation, which belongs to RAG Group, by way of an asset deal in January 2007. At the time when the consolidated financial statements were prepared, the final purchase price had not yet been established because the post-closing process, by means of which the final working capital will be determined, has not yet been completed. Therefore, the final purchase price will be announced in the interim report for the first quarter of 2007.

ARQUES acquired the antioxidants business of Degussa (Degussa Sant Celoni S.A. (100%) and certain assets of Degussa Knottingley Ltd.) through Arques Iberia S.A. by way of an asset deal in February 2007.

Also in February 2007, ARQUES acquired 90% of Chikara Handels GmbH, Tiefenbach near Passau, through its exchange-listed subsidiary tiscon AG.

The purchase price for the company acquisitions effected in February amounted to EUR 0 in cash and 40,000 shares of tiscon AG with a value of EUR 224 thousand. In connection with the acquisition of Chikara Handels GmbH, so-called "earn-out clauses" were stipulated, under which up to 200,000 additional shares of tiscon AG may be transferred by the year 2009, depending on the attainment of certain defined targets.

With regard to the company acquisitions effected after December 31, 2006, ARQUES does not plan to give up or sell any business divisions.

The other disclosures required by IFRS 3.66 (a) are impracticable because the purchase price allocation had not yet been completed at the time of preparing the consolidated financial statements. Therefore, the required information was either unavailable or could not be determined reliably.

37. Notes on company sales

The following companies were deconsolidated in 2006 in connection with the sale of shares in ARQUANA International Print & Media AG:

- ARQUANA International Print & Media AG
- Evry Rotatives S.A.S.
- Nord Offset Druck GmbH
- Sochor Group GmbH
- Wanfried-Druck Kalden GmbH
- Wanfried SARL
- Altstadtsee 69. VV GmbH
- Arquana Sales GmbH
- Verwaltungsgesellschaft J.P. Bachem mbH
- J.P. Bachem GmbH & CoKG
- CTP Colonia GmbH
- Mediterranean Print & Media Holding Limited
- Weilchensee 433. VV GmbH
- Weilchensee 434. VV GmbH
- Arquana Value Invest Limited
- ARQUANA Media GmbH
- ARQUANA New Co. III GmbH
- ARQUANA New Co. IV GmbH
- ARQUANA New Co. V GmbH
- Colordruck - WS 3021
- Colordruck Pforzheim Verwaltungs GmbH
- Colordruck Pforzheim GmbH & Co. KG
- Colordruck Immobilien GmbH
- Colordruck Immobilien GmbH & Co. KG
- ARQUEM Management GmbH
- ARQUANA Technology GmbH
- Jöhler Druck GmbH
- Arques Verwaltungsgesellschaft mbH

A summary of the significant assets and liabilities transferred in connection with company sales is presented in the following table.

	12/31/2006 EUR'000
Assets transferred	
Intangible assets	4,705
Property, plant and equipment	65,836
Financial assets	2,192
Inventories	10,340
Trade receivables	21,297
Other assets	30,749
Total assets	136,049
Liabilities transferred	
Pension obligations	7,933
Provisions	10,580
Current financial liabilities	20,101
Non-current financial liabilities	17,119
Trade payables	39,732
Other liabilities	17,098
Total liabilities	112,563

ARQUES acquired Heinrich Heiland GmbH, Magstadt, a manufacturer of transport protection systems, in March 2006. During the restructuring phase, this company's key performance indicators came out below the critical mass required for ARQUES as a result of the unavoidable closure of two production lines. Therefore, the company was quickly resold in June 2006.

ARQUES acquired all the shares in the papermaking company PSM S.A., Cedex, France, in June 2006. During the post-merger integration, new decisions were made regarding strategic business sectors, which made it unnecessary to retain this company. Therefore, it was resold in July 2006.

38. Discontinuing operations

IFRS 5 stipulates special presentation requirements for certain assets and liabilities held for sale and for discontinuing operations. For the sake of transparency and comparability, primary emphasis has been given to continuing operations in the ARQUES financial statements, while information on discontinuing operations has been presented on an aggregate basis for each applicable item of the balance sheet, income statement and cash flow statement.

The Executive Board and Supervisory Board of ARQUES Industries AG resolved in December 2006 to divest significant elements of the printing activities consolidated within the ARQUANA sub-group. The stock of ARQUANA International Print & Media AG has been listed on the Prime Standard segment of the Frankfurt Stock Exchange since September 19, 2006. The separation was implemented in the form of a reduction to below 50% of the equity share in ARQUANA held by ARQUES Industries AG. Accordingly, the ARQUANA sub-group was deconsolidated in the consolidated financial statements of ARQUES as of December 29, 2006. It will be accounted for at equity henceforth.



The amounts contained in the consolidated financial of ARQUES Industries AG which are assignable to discontinuing operations include, besides the Print segment, all assets, liabilities, expenses and income allocable to the discontinuing ARQUANA activities. The information presented below is relevant from the perspective of the ARQUES Group. It is not meant to be a complete presentation of the ARQUANA activities and the remaining ARQUES activities.

The amount which includes all consolidation effects from the perspective of the ARQUES Group is presented in the consolidated income statement as per IFRS 5.

The relevant cash flow information is presented in the consolidated cash flow statement of ARQUES.

The results of the deconsolidated ARQUANA activities refer to the full year 2006, as the deconsolidation took effect at December 29, 2006. For reasons of materiality, no accruals or deferrals were recognized at year-end.

39. Disclosures regarding leases – lessor

The Sommer Group has leased some of its produced automobiles to others. The relevant information is presented in the table below:

	2006 EUR'000	2005 EUR'000	
Outstanding lease payments	275	685	
+ unguaranteed residual values	0	0	
= Gross investment	275	685	
- unrealized financial income	16	39	
= Net investment	259	646	
- present value of unguaranteed residual values	0	0	
= Present value of minimum lease payments	259	646	
	up to 1 year EUR'000	1 to 5 years EUR'000	more than 5 years EUR'000
Total gross investment	129	146	0
Accumulated valuation allowances for uncollectable minimum lease payments	129	146	

At the balance sheet date, the accumulated valuation allowances for receivables under the said leases amounted to EUR 6,126 thousand. All the automobiles in question have been completely depreciated.

40. Other financial commitments

At the balance sheet date, the Group was subject to various other financial commitments, including commitments under rental and lease agreements for buildings, land, machinery, tools, office furnishings and other equipment. In the table below, the total amount of future payments under non-cancelable agreements is presented and broken down by due dates.



	12/31/2006 EUR'000	12/31/2005 EUR'000
Rental and lease commitments, due		
- in less than one year	6,107	8,623
- in two to five years	18,345	22,621
- in more than five years	26,679	6,494
Other commitments, due		
- in less than one year	17,571	27,705
- in two to five years	127	3,870
- in more than five years	0	3,217
Total	68,829	72,530

The total other financial commitments amounted to EUR 68,829 thousand (PY: EUR 72,530 thousand), of which amount EUR 51,131 thousand (PY: EUR 2,845 thousand) related to commitments under non-cancelable operating leases. Of this amount, in turn, EUR 18,047 thousand (PY: EUR 1,079 thousand) related to plant and machinery, EUR 2,052 thousand (PY: EUR 926 thousand) related to other commitments under operating leases and EUR 31,032 thousand (PY: EUR 23,153 thousand) related to rental agreements for land and buildings.

The miscellaneous other financial commitments amounted to EUR 17,698 thousand (PY: EUR 34,793 thousand). Of this amount, EUR 10,984 thousand (PY: EUR 26,253 thousand) related to firm orders under agreements for the supply of goods and services at SKW Stahl-Metallurgie GmbH and EUR 6,329 thousand (PY: EUR 0) related to firm order obligations for intangible assets and for property, plant and equipment at Jahnelt-Kestermann Getriebewerke GmbH & Co. KG. The remaining miscellaneous financial commitments resulted from service and maintenance agreements.

In addition, there existed various smaller guarantees in the total amount of EUR 479 thousand.

The overall decrease in the Other financial commitments was due to the deconsolidation of the ARQUANA subgroup (see Note 37).

41. Contingent liabilities

The contingent liabilities at the balance sheet date related to the following matters:

In connection with the acquisition of the significant assets of Fritz Berger GmbH & Co. KG, ARQUES Industries AG issued a three-year rental guarantee for two buildings. Because the vendor will pay a rent subsidy secured by a corporate guarantee for the same period of time, the maximum risk (as in the case of insolvency, for example) amounted to EUR 782 thousand.

In connection with the acquisition of 100% of the shares of Oxxynova Holding GmbH, the company Mainsee 410. VV GmbH undertook to maintain both operating sites for the next five years and to pay a contract penalty of initially EUR 15 million if the undertaking is not fulfilled. The contract penalty will be reduced to EUR 12 million as of September 8, 2007 and then further reduced in increments to zero. Also in connection with the acquisition of 100% of the shares of Oxxynova Holding GmbH, ARQUES Industries AG issued a guarantee of up to EUR 10 million, limited to a term of five years after the purchase agreement takes legal effect. This risk is covered by an insurance policy.

In connection with the acquisition of the QUAB business, ARQUES Industries AG issued a guarantee, limited by amount to US\$10 million and limited in time to a period of five years, to indemnify the seller for any claims for compensation of loss or damage. Applying the exchange rate at December 31, 2006, of EUR 1 = US\$ 1.3200, the amount of this guarantee translates to EUR 7,575,575.75. This risk is covered by an insurance policy

In connection with the release from encumbrances issued in exchange for the redemption of an existing land charge, which was a necessary condition for the sale of the operational properties of E. Missel GmbH & Co. KG, ARQUES Industries AG issued a guarantee of indefinite duration, limited by amount to EUR 2 million. The land charge had been agreed with the seller as a condition of the acquisition of E. Missel GmbH & Co. KG, to protect the seller against any subsequent liability of the former general partner for a

period of five years from the closing date. The guarantee was issued in order to maintain the obligation towards the former general partner of E. Missel GmbH & Co. KG while also making it possible to sell the operational properties. The risk is considered to be low because no events that would give rise to a subsequent liability have occurred to date, about two years after the transaction.

The time of occurrence of any possible obligations under the contingent liabilities cannot be estimated at the present time.

42. Notes according to § 264 (b) Nr. 3a HGB

The companies Sommer Fahrzeugbau GmbH & Co. KG, Sommer Produktions AG & Co. KG and Sommer Vermögensgesellschaft mbH & Co. KG as well as Oxxynova GmbH & Co. KG are taking advantage of the liberation according to § 264 (b) HGB (German Commercial Code).

43. Executive Board and Supervisory Board

The following persons served on the Executive Board in 2006:

- Dr. Dr. Peter Löw, Kaufmann, Starnberg (Chairman)
- Dr. Martin Vorderwülbecke, lawyer, Munich (Vice Chairman, Chief Financial Officer)
- Markus Zöllner, master's degree in business and engineering, Bichl (Vice President Operations)
- Dr. Michael Schumann, master's degree in business, Feldafing (since October 5, 2006), (Vice President Acquisitions)
- Dr. Stefan Gros, businessman, Valley (resigned from the Executive Board, December 7, 2005, resigned from the company March 31, 2006), (Chief Financial Officer)

The other management board activities of the Executive Board members essentially included positions on the supervisory boards or executive boards or the position of chief executive of affiliated companies and subsidiaries of ARQUES Industries Aktiengesellschaft. Specifically, the Executive Board members who actively served on the board in 2006 and in the time until the preparation of the consolidated financial statements (March 2007) held the following other supervisory board and executive board positions:

Dr. Dr. Peter Löw

GROUP COMPANIES		
Supervisory Board		Head office
ARQUANA International Print & Media AG (Chairman, until November 28, 2006)		Starnberg
ARQUES Industries AG (Chairman)		Vienna (Austria)
Arques Industries Capital AG (Chairman)		Starnberg
„Imandros“ Vermögensverwaltungs-AG (Chairman)		Starnberg
MDI Mediterranean Direct Invest AG		Starnberg
WS 3021 Vermögensverwaltung AG (Chairman, until December 22, 2006)		Starnberg
WS 3022 Vermögensverwaltung AG (Chairman)		Starnberg
XERIUS AG		Starnberg
Zugspitze 66. VV AG (Chairman)		Munich
Executive Board		Head office
Arques Consult AG (until November 7, 2006)		Starnberg
NON-GROUP COMPANIES		
Supervisory Board		Head office
High Definition Industries AG		Munich
Internet Communities AG		Starnberg
TEK AG		Munich
The Growth Group AG		Starnberg
Executive Board		Head office
Palais Sonnenhof Executive AG		Starnberg
TEK Consulting AG		Karlsruhe
WS 3013 Vermögensverwaltung AG (until January 30, 2006)		Starnberg
WS 3014 Vermögensverwaltung AG (until January 16, 2007)		Starnberg

Dr. Martin Vorderwülbecke

GROUP COMPANIES		
Supervisory Board		Head office
ARQUANA International Print & Media AG (Vice Chairman, until January 5, 2007)		Starnberg
ARQUES Industries AG Vienna (Vice Chairman)		(Austria)
MDI Mediterranean Direct Invest AG (-)		Starnberg
SOMMER Holding AG (Chairman)		Bielefeld
tiscon AG Infosystems (Chairman)		Neu-Ulm
SKW Stahl-Metallurgie Holding AG		Unterneukirchen
XERIUS Bioscience AG (Vice Chairman)		Starnberg
Evotape S.p.a. San Pietro Mosezzo (Italy)		
ARQUES Austria Invest AG (Vice Chairman)		Vienna (Austria)
Executive Board		Head office
Arques Consult AG (until November 7, 2006)		Starnberg
Arques Industrie Asset AG		Starnberg
Arques Industrie Wert Beteiligungs AG		Starnberg
Arques Industries Capital AG		Starnberg
„Imandros“ Vermögensverwaltungs-AG		Starnberg
WS 3022 Vermögensverwaltung AG		Starnberg
Zugspitze 66. VV AG		Munich
GROUP COMPANIES		
Executive Board		Head office
High Definition Industries AG		Munich

Markus Zöllner

GROUP COMPANIES	
Supervisory Board	Head office
ARQUANA International Print & Media AG (Chairman)	Starnberg
Arques Industrie Asset AG (Vice Chairman)	Starnberg
Arques Industrie Wertbeteiligungs AG (Vice Chairman)	Starnberg
ARQUES Industries AG	Vienna (Austria)
Arques Industries Capital AG (Vice Chairman)	Starnberg
GOLF HOUSE Direktversand GmbH (Advisory Board)	Hamburg
SOMMER Holding AG (Vice Chairman)	Bielefeld
XERIUS AG (Chairman)	Starnberg
Zugspitze 66. VV AG (Vice Chairman)	Munich
SKW Stahl-Metallurgie Holding AG (Chairman)	Unterneukirchen
ARQUES Austria Invest AG	Vienna (Austria)
Executive Board	Head office
Arques Consult AG (until November 7, 2006)	Starnberg
„Imandros“ Vermögensverwaltungs-AG	Starnberg
MDI Mediterranean Direct Invest AG	Starnberg
tiscon AG Infosystems (until January 30, 2007)	Neu-Ulm
Evotape S.p.a. (President)	San Pietro Mosezzo (Italy)
Rohner AG Pratteln	Pratteln (Switzerland)
WS 3021 Vermögensverwaltung AG (until December 12, 2006)	Starnberg

Dr. Michael Schumann

GROUP COMPANIES	
Supervisory Board	Head office
Arques Consult AG (until November 7, 2006)	Starnberg
Arques Industrie Asset AG (Chairman)	Starnberg
Arques Industrie Wert Beteiligungs AG (Chairman)	Starnberg
„Imandros“ Vermögensverwaltungs-AG (Vice Chairman)	Starnberg
tiscon AG Infosystems	Neu-Ulm
Zugspitze 66. VV AG (Vice Chairman)	Munich
GOLF HOUSE Direktversand GmbH (Advisory Board)	Hamburg
Arques Industries Capital AG	Starnberg
SOMMER Holding AG	Bielefeld
NON-GROUP COMPANIES	
Supervisory Board	Head office
Palfinger S.A. (Denmark)	Esbjerg (Denmark)

The following persons served on the Supervisory Board in 2006:

- **Steven Wilkinson**, businessman, Pöcking (Chairman, until May 30, 2006)

Other supervisory board and executive board positions:
Executive Board 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 of Blackpool Pleasure Beach Holding Ltd., Blackpool (GB)

- **Prof. Dr. Michael Judis**, lawyer, Munich (Chairman)

Other supervisory board and executive board positions:
Executive Board of Akademie für angewandte Kommunikation sowie der Open Pictures AG, Munich, Co-founder and partner of the business/finance magazine for small to mid-sized companies "Erfolgreich Selbständig"; Shareholder representative of all shareholders of Palan AG, Munich, Second Chairman of the association Europäischer Mittelstands-Verband.

- **Bernhard Riedel**, lawyer, Munich (Vice Chairman)
- **Dr. Gerhard Fischer**, jurist, Munich

Other supervisory board and executive board positions:
Chairman of the Supervisory Board of Demos Wohnbau Beteiligungsgesellschaft AG, Seeshaupt, CREDITREFORM Nuremberg, and Aumüller KG, Nuremberg

- **Mathias Spindler**, real estate economist (EBS), Munich

Other supervisory board and executive board positions:
Director Investment of Comfort München GmbH, Munich (until 12/2006), Chief Executive Officer of IC Immobilien Consulting- und Anlagegesellschaft mbH (since 01/2007)

- **Dr. rer. pol. Georg Obermeier**, master's degree in business, Munich (since May 30, 2006)

Other supervisory board and executive board positions:
Supervisory Board member of Billfinger Berger Industrial Services AG (formerly: Rheinhold & Mahla AG), Munich, Österreichische Regulierungsbehörde für Strom & Gas, Energie-Control GmbH, Vienna, Austria, ARQUES Industries AG, Starnberg and SKW Stahl-Metallurgie Holding AG, Unterneukirchen
Administrative Board member of Kühne & Nagel International AG, Schindellegi, Switzerland
Managing Partner of Obermeier Consult GmbH

- **Dr. Rudolf Falter**, lawyer, tax counselor, Supervisory Board member, Raubling (since May 30, 2006)

Other supervisory board and executive board positions:
Advisory Board of Bayernfonds Immobilienverwaltung Objekt Neuer Markt Erlangen GmbH & Co KG (until 06/2006)

44. Shares and options held by Executive Board and Supervisory Board members

At the balance sheet date, the members of the ARQUES Executive Board held shares representing approximately 22.8% of the total shares outstanding. Of this amount, Dr. Dr. Peter Löw held shares representing approximately 21.77%, Dr. Martin Vorderwülbecke approximately 0.04% and Mr. Markus Zöllner approximately 0.98%.

At the balance sheet date, the Supervisory Board members Bernhard Riedel and Dr. Rudolf Falter held 200 and 500 shares, respectively, representing 0.002% and 0.0008%, respectively, of the total shares outstanding.

The Executive Board and Supervisory Board members do not currently hold any stock options on shares of ARQUES.

45. Compensation of Executive Board and Supervisory Board members

Compensation Report

The following Compensation Report according to Section 4.2.5. of the German Corporate Governance Code explains the principles applied in determining the compensation of the Executive Board members and indicates the amount and structure of the compensation granted to Executive Board members. The following report also explains the principles and indicates the amount of the compensation granted to Supervisory Board members and provides information on the shareholdings of Executive Board and Supervisory Board members.

1. Executive Board compensation

In determining the compensation, the duties and contributions of each Executive Board member are taken into account. The compensation granted in 2006 was structured as follows: a fixed annual salary and a success-based compensation component for the Executive Board members Markus Zöllner und Dr. Michael Schumann, determined with reference to the value growth of a hypothetical stock portfolio.

In its meeting of October 5, 2006, the Supervisory Board offered a variable compensation component, also determined with reference to the value growth of a theoretical stock portfolio, to the Executive Board members Dr. Dr. Peter Löw and Dr. Martin Vorderwülbecke, in the form of a stock options agreement. However, the Executive Board members Dr. Dr. Löw and Dr. Vorderwülbecke expressly and voluntarily declined any such stock options agreement.

Specifically, the Executive Board compensation is composed of the following components:

- The fixed compensation component is paid out as a monthly salary;
- The variable compensation component consists of a special bonus, the amount of which is determined with reference to the value growth of a hypothetical stock portfolio, and an individual bonus agreement for the Executive Board members Markus Zöllner and Dr. Michael Schumann.

The starting basis for calculating the variable compensation of Mr. Zöllner and Dr. Schumann is a certain number of shares in ARQUES Industries AG ("hypothetical stock portfolio"), measured at a certain share price ("starting value"). The amount of variable compensation is determined with reference to the possible value growth of the hypothetical stock portfolio over a given period of time, which is to say, at a predetermined future time ("valuation date"). The difference between the value of the hypothetical stock portfolio at the share price on the valuation date and the starting value ("value growth amount") yields the amount of variable compensation. As a rule, the variable compensation agreement provides for the delivery of shares as payment of the value growth amount, determined at the share price on the valuation date. However, the company as represented by the Supervisory Board reserves the right to pay the value growth amount in cash rather than shares. If shares are granted, a 12-month lock-up period will ensue.

The hypothetical stock portfolio for Mr. Zöllner is composed of 125,000 shares. The valuation date is January 31, 2007 for 70,000 of those shares, and September 30, 2007 for the remaining 55,000 shares.

The fair value of the hypothetical stock portfolio for Mr. Zöllner amounted to EUR 476,670 at the respective grant dates (May 30, 2006 for 70,000 shares and November 23, 2006 for 55,000 shares).

The hypothetical stock portfolio for Dr. Schumann is composed of 125,000 shares. The valuation dates for all shares are January 31, 2008 and June 30, 2009. (The starting value for calculating the value growth amount at June 30, 2009 is the value of the hypothetical stock portfolio at the share price of January 31, 2008).

The fair value of the hypothetical stock portfolio for Dr. Schumann amounted to EUR 746,250 at the grant date (October 12, 2006).

In addition, individual bonus agreements have been made for Mr. Zöllner and Dr. Schumann.

Mr. Zöllner receives a bonus for projects involving the sale of operating subsidiaries or significant assets ("asset deal") of ARQUES Group and for the sale of ARQUANA shares. With regard to the sale of ARQUANA shares, however, this agreement applies only as of January 1, 2007.

Dr. Schumann receives a bonus that is determined as a percentage of the cumulative revenues of the newly acquired subsidiaries of ARQUES Group. Only acquired companies with annual revenues of more than EUR 10 million qualify for the bonus. The measurement period for each bonus is the calendar year. All acquisitions for which the "signing" took place in the previous year are applied to the current year. The bonus agreement is already in effect for 2006. The bonus is to be calculated and settled by no later than February 20 of the following year. As of August 31, 2006, the cumulative revenues qualifying for the bonus calculation amounted to EUR 400 million.

The following compensation was granted to each member of the Executive Board in 2006:

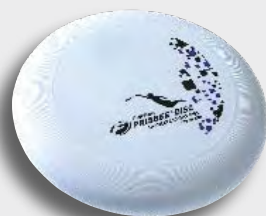
Figures in EUR 2006	Cash compensation	Monetary benefit of company car	Monetary benefit of success-based bonus	TOTAL
Dr. Dr. Peter Löw	120,000	5,040	0	125,040
Dr. Martin Vorderwülbecke	172,000	7,441	0	179,441
Markus Zöllner	172,000	0	500	172,500
Dr. Michael Schumann (since 10/05/2006)	36,520	0	247,902	284,422
TOTAL	540,020	14,015	248,402	761,403

Total compensation of EUR 266,034 was paid to former Executive Board members in 2006.

No further compensation was granted to the Executive Board members for their service on the executive boards or supervisory boards of subsidiaries and affiliates.

2. Compensation of the Supervisory Board

Compensation for the Supervisory Board was resolved for the first time at the annual general meeting of May 30, 2006, at the proposal of the Executive Board and Supervisory Board. Every member of the Supervisory Board receives an annual compensation of no more than EUR 16,000, composed of a fixed compensation of EUR 1,000 per month and a variable compensation in the form of a meeting bonus. The Supervisory Board Chairman receives compensation that is on aggregate 50% higher than that of the other board members, namely a maximum annual amount of EUR 24,000.



The compensation granted to each member of the Supervisory Board of ARQUES Industries Aktiengesellschaft in 2006 is presented in the table below:

Supervisory Board member	Paid EUR	Provision EUR
Steven Wilkinson (until May 30, 2006)	-	-
Prof. Dr. Michael Judis	13,500.00	-
Dr. Gerd Fischer	-	9,333.31
Bernhard Riedel	5,000.00	4,333.34
Matthias Spindler	9,333.31	-
Dr. Georg Obermeier	-	9,333.31
Dr. Rudolf Falter	-	9,333.31
TOTAL	27,833.31	32,333.27

3. Shareholdings of Executive Board and Supervisory Board members

At the balance sheet date, the shareholdings of the members of the Executive Board of ARQUES represented approximately 22.8% of shares outstanding. Of this amount, Dr. Dr. Peter Löw held shares representing approximately 21.77%, Dr. Martin Vorderwülbecke approximately 0.04% and Mr. Markus Zöllner approximately 0.98%.

At the balance sheet date, the Supervisory Board members Mr. Bernhard Riedel and Dr. Rudolf Falter held shares representing approximately 0.002% and 0.0008%, respectively, of the shares outstanding.



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

	Number of shares December 31, 2006	Number of shares at date of preparation of annual financial statements	Number of options at December 31, 2006	Number of options at date of preparation of annual financial statements
Vorstand				
Dr. Dr. Peter Löw (Chairman)	5,281,980	431,980	-	-
Dr. Martin Vorderwülbecke (Chief Financial Officer)	10,000	10,000	-	-
Markus Zöllner (Vice President Operations)	236,880	136,880	-	-
Dr. Michael Schumann (Vice President Acquisitions)	-	-	-	-
Supervisory Board				
Prof. Dr. Michael Judis (Chairman)	-	-	-	-
Bernhard Riedel (Vice Chairman)	200	200	-	-
Dr. Gerhard Fischer	-	-	-	-
Mathias Spindler	-	-	-	-
Dr. Georg Obermeier	-	-	-	-
Dr. Rudolf Falter	500	500	-	-

Disclosures concerning stock options and similar incentive systems

At the present time, the members of the Executive Board and Supervisory Board do not hold stock options on the ARQUES share.

Additional information on corporate governance at ARQUES

For detailed information on the activities of the Supervisory Board and on the cooperation between the Supervisory Board and the Executive Board, please refer to the Report of the Supervisory Board, on page 98 of this annual report.

Up-to-date information on current developments and other important information, including ad hoc announcements and press releases, annual reports and interim reports, the financial calendar with important dates for ARQUES and securities dealings subject to regulatory reporting require-

ments (“directors’ dealings”), as well as information on the annual general meeting, are published on the company’s home page www.arques.de. Furthermore, the ARQUES home page is regularly updated with the latest information from the ARQUES Group under the heading “Insider – News from the Group.”

46. Disclosures concerning relations with related parties

In accordance with IAS 24, related parties are defined as persons or companies that can be influenced by or can exert influence over the reporting entity.

The companies listed below are considered related parties from the perspective of the ARQUES Group, according to the definition of IAS 24, because they have been or can be influenced by the active Executive Board members of the ARQUES Group.

Related parties include EMG Holding GmbH, TDBW GmbH, The Growth Group AG, Palais Sonnenhof Executive AG, WS 3014 Vermögensverwaltung AG and TEK AG. No business relations were maintained with any other related parties in 2006.

The following other significant business transactions were conducted between the Group and the related parties:

	2006 EUR'000
Expenses of purchased services and cost allocation charges	
- EMG Holding GmbH (consulting services and lease payments)	41
- TDBW GmbH (consulting services and lease payments)	182
- The Growth Group AG (consulting services)	70
TOTAL	293
Income from purchased services and cost allocation charges	
- WS 3014 Vermögensverwaltung AG (interest income)	4

The payments for consulting services and lease payments to EMG Holding GmbH and to TDBW GmbH consisted entirely of the Executive Board compensation of the CFO Dr. Martin Vorderwülbecke. The consulting services charged to ARQUES by Growth Group AG in 2006 consisted mainly of marketing services, including the organization of the company’s annual general meetings and the conception of its financial reports.

At the balance sheet date, the Group was owed receivables by WS 3014 Vermögensverwaltung AG (EUR 122 thousand) and the Group owed payables to EMG Holding GmbH (EUR 24 thousand).

47. Professional fees for the independent auditors

The professional fees (total compensation plus expenditures, exclusive of input tax) incurred in 2006 for the independent auditors according to the definition of Section 318 of the German Commercial Code (HGB) (including affiliated companies according to the definition of Section 271 (2) HGB) amounted to EUR 1,500 thousand. Of this amount EUR 1,086 thousand were auditing fees, EUR 303 thousand other consultation fees, EUR 36 thousand tax consulting fees and miscellaneous services amounted to EUR 75 thousand. This only concerns group companies based in Germany.

48. Employees

The Group had an average of 4,909 employees in 2006 (PY: 2,662). Of this number, 2,797 were hourly workers (PY: 1,523), 1,866 were salaried employees (PY: 997) and 246 were apprentice-trainees (PY: 142). At the balance sheet date of December 31, 2006, the Group had a total of 4,780 employees (December 31, 2005: 2,568).

49. Declaration of Conformity with the German Corporate Governance Code

The Executive Board and Supervisory Board of ARQUES Industries Aktiengesellschaft issued the Declaration of Conformity pursuant to Section 161 of the German Stock Corporations Act (AktG) on March 29, 2006. This declaration has been made permanently available to the shareholders at the company’s home page www.arques.de. The deviations from the German Corporate Governance Code have been duly noted.

50. Disclosures pursuant to Section 160 (1) AktG in conjunction with Section 25 WpHG and Section 15a WpHG

The following notifications concerning the voting rights threshold limits defined in Section 21 of the German Securities Trading Act (WpHG) and Section 25 WpHG were received in 2006 and in the time until the preparation of the consolidated financial statements:

JPMorgan Asset Management Holding Inc. London, Great Britain, filed a notification pursuant to Section 21 WpHG stating that it has held shares representing 3.02% of voting rights (732,094 shares) since February 28, 2007.

JPMorgan Chase & Co. London, Great Britain, filed a notification pursuant to Section 21 WpHG stating that it has held shares representing 3.03% of voting rights since (736,448 shares) February 28, 2007.

The Executive Board member Dr. Dr. Peter Löw, Starnberg, filed a notification pursuant to Sections 41 (4a), 21 WpHG stating that he held 14.14% of the voting rights at (3,431,980 shares) January 20, 2007. By way of a separate notification dated February 23, 2007, his share of the voting rights had changed to 1.78% (431,980 shares). At the balance sheet date, Dr. Dr. Peter Löw held 21.77% of the voting rights.

The following notifications pursuant to Section 15a WpHG were received by the company in 2006:



Person obligated to file a notification	Position	Transaction date	Transaction type	Share price in EUR	Number of shares	Value in EUR
Markus Zöllner	Vice President Operations	January 20, 2006	Purchase	120.00	12,600	1,512,000.00

The following notifications pursuant to Section 15a WpHG were received by the company in 2007 in the time until the preparation of the consolidated financial statements:

Person obligated to file a notification	Position	Transaction date	Transaction type	Share price in EUR	Number of shares	Value in EUR
Markus Zöllner	Vice President Operations	January 17, 2007	Sale	15.60	100,000	1,560,000.00
Dr. Dr. Peter Löw	Executive Board Chairman	January 18, 2007	Sale	14.40	1,850,000	26,640,000.00
Dr. Dr. Peter Löw	Executive Board Chairman	February 23, 2007	Sale	17.64	3,000,000	52,920,000.00

51. Important events after the balance sheet date

SKW Group acquired the QUAB business of Degussa Corporation, which belongs to RAG Group, by way of an asset deal in January 2007. At the date of preparing the balance sheet, the final purchase price had not yet been established because the post-closing process, by means of which the final working capital will be determined, has not yet been completed. Therefore, the final purchase price will be announced in the interim report for the first quarter of 2007.

It was announced on February 1, 2007 that ARQUES Iberia S.A., a subsidiary of ARQUES Industries AG, will acquire the antioxidants business of Degussa GmbH. This business includes the Spanish parent company, Degussa Sant Celoni S.A., in Barcelona, and the antioxidants business of the British company Degussa Knottingley Ltd., with its head office in Knottingley. This transaction is contingent on the approval of the competent cartel authorities and the respective Supervisory Boards.

The business units acquired produce antioxidants for the production of plastics, lubricants and food products, beauty care and wellness products and dyes. According to the latest available figures, they generated revenues of approximately EUR 60 million.

On February 13, 2007, tiskon AG Infosystems, a subsidiary of ARQUES Industries AG, announced its acquisition of Chikara Handels GmbH. This company is an IT distributor that focuses on non-food retail chains. With about 20 employees, the company generated revenues of more than EUR 30 million on a slightly profitable basis in 2006. As a result of this acquisition, tiskon's total revenues swelled to more than EUR 330 million. The subsidiary anticipates that it will be able to harness significant operational synergy benefits in the cooperation between Chikara and the affiliated companies COS, Avitos, Topedo (acquired at the end of 2006).

On February 16, 2007 ARQUES Industries AG announced the sale of Teutonia Kinderwagen GmbH to the U.S. consumer goods company Newell Rubbermaid. The necessary approval of the cartel authorities is expected by the end of March 2007 and had not yet been granted at the time of preparing the consolidated financial statements. Acquired

in April 2004, Teutonia Kinderwagen GmbH was the oldest subsidiary of ARQUES Industries AG.

It was announced on February 27, 2007 that Dr. Dr. Peter Löw did not renew his employment contract as the Executive Board Chairman of ARQUES Industries AG, after five years in this position. Instead, he plans to retire from the company. Dr. Martin Vorderwülbecke will succeed him as Executive Board Chairman as of May 1, 2007. The necessary appointment by the Supervisory Board is planned for the scheduled meeting of March 29, 2007. Dr. Vorderwülbecke has served on the Executive Board of ARQUES since July 1, 2004. Prior to that position, he served on the company's Supervisory Board.

Felix Frohn-Bernau was appointed new member of the executive board responsible for Exit by the ARQUES Industries AG supervisory board in its general meeting on March 29. The 38 year old has been working for the ARQUES group in managerial positions since 2004.

52. Release for publication of the consolidated financial statements pursuant to IAS 10.17

The present consolidated financial statements were released for publication by the Executive Board on March 29, 2006. The consolidated financial statements can be changed in connection with the annual general meeting.

Starnberg, March 29, 2007

ARQUES Industries Aktiengesellschaft

- The Executive Board -



Auditor's Report

We have audited the consolidated financial statements prepared by the ARQUES Industries AG, 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 AG, Starnberg, for the business year from January 1st, 2006 to December 31st, 2006. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) and supplementary provisions of the 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 financial 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, supplementary provisions of the 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, March 29th, 2007

PricewaterhouseCoopers

Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft

(Wagner) Wirtschaftsprüfer

(ppa. Schwarzfischer) Wirtschaftsprüfer

List of Shareholdings at December 31, 2006

	Location of Head Office	Equity Share in % (direct)	Equity Share in % (indirect)	Currency	Equity at Dec 31, 2006 *	Profit/Loss 2006 *	Revenues 2006 *	Employees average***)
<div>Group parent company</div> <div>ARQUES Industries Aktiengesellschaft</div> <div>ARQUES Industries AG, Austria</div> <div>- Arques Alpha Value Development GmbH (A)</div> <div>- Arques Asset Invest GmbH (A)</div> <div>- Elbwiese 71 - VV GmbH</div> <div>- BEA Elektrotechnik und Automation</div> <div>- Technische Dienste Lausitz GmbH</div> <div>- Arques Beta Beteiligungs GmbH (A)</div> <div>- Arques Capital GmbH (A)</div> <div>- Ariolan Consulting AG</div> <div>- Partenaires-Edelweiss S.A.</div> <div>- Actual SARL</div> <div>- Farbendruck Weber AG</div> <div>- Gravor S.A.</div> <div>- W.E.D. S.A.</div> <div>- Arques Commercial GmbH (A)</div> <div>- IVMIP-AG</div> <div>- Rohrer AG</div> <div>- Salto Paper</div> <div>- FAV Forrest Asset Verwaltungs AG</div> <div>- Wolfsheck Betriebs GmbH</div> <div>- Arques Delta Aktiva Verwaltung GmbH (A)</div> <div>- Arques Epsilon Industriekapital GmbH (A)</div> <div>- Arques European Asset Management GmbH (A)</div> <div>- Arques Austria Invest AG (A)</div> <div>- Arques Iberia S.A.</div> <div>- Iversia Invest S.L.</div> <div>- Vastec Corporate S.L.</div> <div>- Arques Intellectual Property Ltd.</div> <div>- Arques Operational Ltd.</div> <div>- Arques Property Ltd.</div> <div>- Arques Gamma Vermögensverwaltungs GmbH (A)</div> <div>- Arques Immobilien Verwaltungs GmbH (A)</div> <div>- Arques Industries Finanzverwaltungs GmbH (A)</div> <div>- Hottinger Maschinenbau GmbH</div> <div>- Hottinger North America Inc.</div> <div>- Arques Süd Beteiligungs GmbH (A)</div> <div>- Mainsee 410 - VV GmbH</div> <div>- Oyxynova Holding GmbH</div> <div>- Oxxynova Verwaltungs GmbH</div> <div>- Oxxynova GmbH & Co. KG</div> <div>- Arques Wert Invest GmbH (A)</div> <div>- Arques Asset Invest GmbH</div> <div>- Arques Asset Verwaltungs GmbH</div> <div>- Hottinger GmbH & Co. KG</div> <div>- Grundstücksverwaltungs Wittenen Str. mbH</div> <div>- Hottinger Verwaltungs GmbH</div> <div>- Arques Capital GmbH</div> <div>- Arques Commercial GmbH</div> <div>- Arques Finanz GmbH</div> <div>- Arques Sport Handelsgesellschaft mbH</div> <div>- GOLF HOUSE Direktversand GmbH</div> <div>- Arques Immobilien Verwaltungs GmbH</div> <div>- Arques Immobilien GmbH & Co. KG</div> <div>- Arques Immobilien Wert Beteiligungs GmbH</div> <div>- Arques Immobilien Wert GmbH & Co. KG</div> <div>- Arques Industrie Asset AG</div> <div>- Arques Industrie Finanz GmbH</div> <div>- SKS Stakusit Bautechnik GmbH</div> <div>- SKS-Stakusit GmbH</div> <div>- SKS Stakusit Hellas-Rolladen und Balkonanlagen</div> <div>- Einmannengesellschaft mbH</div> <div>- SKS Stakusit-Polska Sp.z.o.o.</div> <div>- SKS-Stakusit RO SRL</div> <div>- Arques Industrie Wert Beteiligungs AG</div> <div>- Arques Industries Capital AG</div> <div>- Arques Invest GmbH</div> <div>- Arques Invest Beteiligungs GmbH</div> <div>- Arques Invest Central GmbH</div> <div>- Arques Invest Consult GmbH</div> <div>- Arques Invest Verwaltungsgesellschaft mbH</div> <div>- Arques Mediterranean Investments Ltd.</div> <div>- Arques Value Invest Ltd.</div> <div>- Arques Global Purchase Company Limited</div> <div>- Arques Süd Beteiligungs GmbH</div> <div>- Arques Wert Central GmbH</div> <div>- Arques Wert Consult GmbH</div> <div>- Georg Fischer Schwab Management GmbH</div> <div>(since January 31, 2007 merged with</div> <div>A. Wert Consult GmbH, retroactive to March 31, 2006)</div> <div>Arques Wert Finanz GmbH</div> <div>Arques Wert Industrie GmbH</div> <div>Arques Wert Industriebeteiligungs GmbH</div> <div>Arques Wert Invest GmbH</div> <div>- Georg Fischer Schwab Beteiligungs GmbH</div> <div>(since February 20, 2007 merged with</div> <div>A. Wert Invest GmbH, retroactive to March 31, 2006)</div> <div>- E. Missel GmbH & Co. KG</div> <div>Fritz Berger GmbH</div> <div>(formerly: Arques Asset Beteiligungs GmbH)</div> <div>- Sport Berger Ausrüstung für</div> <div>Draußen und Unterweg GmbH</div> <div>„Imandros“ Vermögensverwaltungs-AG</div> <div>- SOMMER Vermögensgesellschaft mbH & Co. KG</div> <div>- Sommer Fahrzeugbau GmbH & Co. KG</div> <div>- Sommer France S.A.R.L.</div> <div>- Sommer Verwaltungs GmbH</div> <div>- SOMMER Holding AG</div> <div>- Sommer Maschinen GmbH</div>	Starnberg	-	-	EUR'000	85,846	27,364	1,940	25
	Vienna / Austria	100.00%	-	EUR'000	3,163	-162	0	2
	Vienna / Austria		100.00%	EUR'000	33	-2	0	5
	Vienna / Austria		100.00%	EUR'000	-8	-43	0	3
	Dresden		100.00%	EUR'000	1,778	-47	0	
	Spremberg		90.00%	EUR'000	1,100	0	44,967	353
	Vienna / Austria		100.00%	EUR'000	33	-2	0	5
	Vienna / Austria		100.00%	EUR'000	29	-6	0	1
	Baar / Switzerland	-	100.00%	CHF'000	-33	-133	45	6
	Bienne / Switzerland		99.98%	CHF'000	14,940	765	900	
	Bienne / Switzerland		100.00%	CHF'000	942	75	3,361	22
	Brügg / Switzerland		100.00%	CHF'000	18,510	-3,829	70,586	271
	Brugg / Switzerland		100.00%	CHF'000	1,266	226	3,030	25
	Brügg / Switzerland			CHF'000	0	0	0	
	Vienna / Austria		100.00%	EUR'000	34	-1	0	1
	Baar / Switzerland		90.00%	CHF'000	92	-8	0	6
	Pratteln / Switzerland		99.03%	CHF'000	27,728	346	35,969	195
	Pratteln / Switzerland		100.00%	CHF'000	18,484	-4,618	19,692	6**
	Baar / Switzerland	-	100.00%	CHF'000	1,261	243	5,042	6
	Forbach-Langenbrand		100.00%	EUR'000	1,320	320	14,388	214
	Vienna / Austria		100.00%	EUR'000	33	-2	0	5
	Vienna / Austria		100.00%	EUR'000	33	-2	0	5
	Vienna / Austria		100.00%	EUR'000	31	-4	0	1
	Vienna / Austria		94.00%	EUR'000	55	-15	0	4
	Madrid / Spain		94.00%	EUR'000	60	0	0	1
	Madrid / Spain		100.00%	EUR'000	1	-2	0	
	Madrid / Spain		100.00%	EUR'000	1	-2	0	
	Cardiff / Great Britain		100.00%	GBP	100	0	0	1
	Cardiff / Great Britain		100.00%	GBP	100	0	0	
	Cardiff / Great Britain		100.00%	GBP	100	0	0	
	Vienna / Austria		100.00%	EUR'000	33	-2	0	5
	Vienna / Austria		100.00%	EUR'000	30	-5	0	3
	Vienna / Austria		90.00%	EUR'000	27	-8	0	3
	Mannheim		100.00%	EUR'000	1,632	706	15,562	67
	Bingham Farms / USA		100.00%	USD'000	-115	-7	0	
	Vienna / Austria		90.00%	EUR'000	26	-9	0	3
	Frankfurt/Main		100.00%	EUR'000	-190	-215	0	3
	Marl		100.00%	EUR'000	14,767	-6,694	0	
	Marl		100.00%	EUR'000	29	1	0	
	Marl		100.00%	EUR'000	6,180	-3,986	182,486	211
	Vienna / Austria		100.00%	EUR'000	30	-5	0	3
	Starnberg	100.00%	-	EUR'000	18	-5	0	
	Starnberg	100.00%	-	EUR'000	532	-31	0	
	Mannheim		100.00%	EUR'000	2,678	854	108	
	Mannheim		100.00%	EUR'000	137	-234	0	
	Mannheim		100.00%	EUR'000	38	2	0	
	Starnberg	100.00%	-	EUR'000	23	0	0	
	Starnberg	100.00%	-	EUR'000	29	20	0	
	Starnberg	99,11%	-	EUR'000	2,484	0	0	
	Starnberg	-	100.00%	EUR'000	5,573	11	0	
	Hamburg	-	74.90%	EUR'000	-4,994	-44	20,305	
	Starnberg	100.00%	-	EUR'000	23	0	0	
	Starnberg	100.00%	-	EUR'000	759	9	0	
	Starnberg	100.00%	-	EUR'000	23	0	0	
	Starnberg	100.00%	-	EUR'000	0	-1	0	
	Starnberg	100.00%	-	EUR'000	48	0	0	
	Starnberg	99,11%	-	EUR'000	800	-17	0	
	Duisburg	-	85.00%	EUR'000	-5,214	2,577	33,247	211
	Moscow / Russian Federation	-	100.00%	RUB'000	23,317	669	106,561	
	Thessalonica / Greece		100.00%	EUR'000	122	20	1,985	16
	Wroclaw / Poland		100.00%	PLN'000	3,954	426	7,233	17
	Brasov / Romania		100.00%	RON'000	2,404	785	8,203	**
	Starnberg	100.00%	-	EUR'000	48	0	0	
	Starnberg	100.00%	-	EUR'000	42	-1	0	
	Starnberg	100.00%	-	EUR'000	23	0	0	
	Starnberg	100.00%	-	EUR'000	23	0	0	
	Starnberg	100.00%	-	EUR'000	20	-3	0	
	Starnberg	100.00%	-	EUR'000	23	0	0	
	Starnberg	100.00%	-	EUR'000	23	0	0	
	St. Julians / Malta	99,98%	-	EUR'000	29,034	14,058	0	
	St. Julians / Malta	-	99.95%	EUR'000	15,000	6,354	0	2
	St. Julians / Malta		99.95%	EUR'000	2	-9	0	0
	Starnberg	100.00%	-	EUR'000	23	0	0	
	Starnberg	100.00%	-	EUR'000	23	0	0	
	Starnberg	99,11%	-	EUR'000	14	-2	0	
	Pfullingen		100.00%	EUR'000	25	-3	0	
	Starnberg	100.00%	-	EUR'000	18	-9	0	
	Starnberg	100.00%	-	EUR'000	23	0	0	
	Starnberg	100.00%	-	EUR'000	23	0	0	
	Starnberg	99,11%	-	EUR'000	399	14	0	
	Fellbach / Stuttgart	-	100.00%	EUR'000	4,376	-634	15,869	108
	Neumarkt	90.00%	-	EUR'000	1,136	111	24,582	174
	Neumarkt	100.00%	100.00%	EUR'000	-93	134	4,723	42
	Starnberg	-	-	EUR'000	24,143	259	0	
	Bielefeld	-	94.00%	EUR'000	1,888	-100	0	
	Bielefeld	-	100.00%	EUR'000	-3,213	-4,617	29,697	205
	Marmoutier / France	-	100.00%	EUR'000	517	-175	2,497	17
	Bielefeld	-	100.00%	EUR'000	54	-5	0	
	Bielefeld	-	100.00%	EUR'000	41	-4	0	
	Bielefeld		100.00%	EUR'000	-96	-1	0	

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Disclaimer

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