

ARQUES

2009



"Life is change." Nowhere is this more apparent than in today's business world. Just as evolution has formed the world and will continue to do so for eons, constant change is the driving force of any dynamic enterprise. ARQUES too is undergoing change: constantly evolving to perform and grow in an ever-changing business climate. We would even go so far as to say that we are on the brink of a new start, setting ARQUES on the road to success.

# Annual Report 2009



ARQUES Industries AG is an investment company that focuses on the restructuring of companies in transitional situations. ARQUES develops these companies, mainly acquired within the context of corporate spin-offs, to competitive enterprises with a positive yield in order to sell these afterwards with added value.

## BETEILIGUNGSPORTFOLIO



The Anvis Group is a primary developer and manufacturer of innovative functional solutions for the motional stability, comfort and safety of motor vehicles. The Group's product line encompasses the complete process chain with respect to anti-vibration systems, from the initial idea to serial production. The Anvis Group serves the automotive industry from its own sites and branch offices throughout the world.

Segment	Automotive
Revenues 2009	209 million Euro
Workforce (av. 2009)	approx. 1.800
Acquired	September 2007
ARQUES Share	90%



sold in April 2010

Fritz Berger is a leading distributor of caravanning, camping and leisure products in Europe, focusing primarily on Germany where it has a nationwide presence with more than 40 stores and sales partners. Besides the specialist outlets, the products are distributed by the company's own mail-order operation and online. In addition, Fritz Berger operates six Jack Wolfskin stores. The product portfolio ranges from comfortable awnings and camping furniture to special equipment like solar cells for RVs, outdoor clothing and accessories for all outdoor activities.

Segment	Mail Order Caravan Et Camping
Revenues 2009	46 million Euro
Workforce (av. 2009)	approx. 270
Acquired	Mai 2006
ARQUES Share	90%



Based in Sundern (in the Sauerland region of Germany), Carl Froh is a leading manufacturer of precision steel tubes and components built to customer specifications. The company produces low tolerance precision-welded steel tubes designed to meet special demands and develops comprehensive solutions for high quality components and modules for a diverse range of applications.

Segment	Steel
Revenues 2009	34 million Euro
Workforce (av. 2009)	approx. 180
Acquired	Juni 2008
ARQUES Share	100%



The business of Gigaset Communications is focused on the design, development, production and distribution of high quality home communication products under the Siemens Gigaset brand. The product portfolio includes fixed-line telephones and voice-over-IP models.

Segment	Telekcommunication
Revenues 2009	556 million Euro
Workforce (av. 2009)	approx. 1.950
Acquired	Oktober 2008
ARQUES Share	80.2%



Based in Stapelfeld (near Hamburg), SM Electronic distributes products under the "Skymaster" brand, including satellite and antenna receivers (digital TV), and electronic accessories for audio, video, home entertainment and multimedia, among other applications.

Segment	Electronics Wholesale
Revenues 2009 2009	26 million Euro
Workforce (av. 2009)	approx. 170
Acquired	Dezember 2007
ARQUES Share	90%

## Golf House

Golf House is the leading specialist retailer of golfing products and services in Germany, with a nationwide presence of 14 outlets. The product portfolio encompasses golf equipment such as clubs, bags and accessories, together with clothing and shoes from all the main manufacturers. The services offered include club fitting (which involves adjusting clubs to match the individual golfer), swing analysis and repairs. Golf House also operates a classical mail-order business and an online store.

Segment	Golfing Retail and Mail Order
Revenues 2009	26 million Euro
Workforce (av. 2009)	approx. 150
Acquired	Juni 2005
ARQUES Share	75%



van Netten is a manufacturer of innovative, high quality candies. Its principal customers include various retail customers in Germany and abroad. All products are manufactured at the production plant in Dortmund.

Segment	Industrial Confectionery
Revenues 2009	56 million Euro
Workforce (av. 2009)	approx. 250
Acquired	März 2007
ARQUES Share	90%



Oxxynova produces liquid dimethyl terephthalate (DMT), an input material used in polyester production. Among other things, DMT is used in the production of textile fibers, technical fibers, films, raw materials for paint and glue products, and technical plastics. Oxxynova is the biggest European producer of DMT for the free market.

Segment	Specialist Chemistry
Revenues 2009	56 million Euro
Workforce (av. 2009)	approx. 180
Acquired	Oktober 2006
ARQUES Share	90%



## WANFRIED-DRUCK KALDEN

Wanfried-Druck specializes in the production and printing of high quality packaging and labels. Among other things, it produces beverage packaging, folding boxes, and paper labels. Wanfried-Druck's customers come from the foodstuffs and beverages industry as well as non-food sectors.

Segment	Print
Revenues 2009	32 million Euro
Workforce (av. 2009)	approx. 200
Acquired	März 2007
ARQUES Share	100%

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## MILESTONES IN 2009

### January/February

- ARQUES sells four subsidiaries (BEA Group, ddp, Evotape and Rohner) in a portfolio transaction
- Hans Gisbert Ulmke becomes new CFO of ARQUES Industries AG
- ARQUES acquires the leading British driving school, the British School of Motoring (BSM) for a symbolic purchase price

### March

- Gas station service provider Rohé is sold following first restructuring phase
- Sommer Fahrzeugbau Group is sold – buyer persists with strategic development of the Sommer Group
- Swiss printing company weberbenteli is sold to a financial investor and management
- ARQUES continues to consolidate, presses ahead with debt reduction

### July

- ARQUES sells interest in ticon AG to a group of strategic investors
- Gigaset Communications GmbH sells broadband operations to Sagem Communications
- Michael Hütten is appointed to the Executive Board, with responsibility for Operations and Subsidiary Controlling

### August

- Hans Gisbert Ulmke is appointed Chairman of the Executive Board, with responsibility for Finance, HR, Legal Affairs and Corporate Communications
- New Supervisory Board is appointed

### September

- Actebis Group is sold to the Droege Group
- Dr. Georg Obermeier is elected Chairman of the Supervisory Board

### October/November

- Spanish logistics service provider Agencia Servicios Mensajería (ASM) is sold as ARQUES withdraws from operations in Spain
- The British School of Motoring (BSM) is sold as part of a management buyout following successful restructuring in less than 10 months

### December

- British automotive glass specialist Auto Windscreens is sold following successful restructuring
- Operating performance remains positive

## KEY FIGURES

EURM	2005	2006	2007	2008	2009
Consolidated revenues	417.5	768.2	2,102.3	5,505.0	3,492.0
Earnings before interest, taxes, depreciation and amortization (EBITDA)	58.9	126.2	202.7	111.5	17.7
Earnings before interest and taxes (EBIT)	46.1	100.2	140.5	-115.5	-139.8
Consolidated net profit	47.8	112.6	114.6	-145.7	-153.0
Free cash flow	15.5	36.4	-24.8	180.9	-68.9
Earnings per share (diluted, EUR)	2.19	4.60	4.43	-5.09	-5.51
Total assets	367.9	665.3	1,834.1	1,719.0	658.0
Shareholders' equity	142.2	274.8	401.0	266.4	121.5
Equity ratio (%)	38.7	41.3	21.9	15.5	18.5
Workforce	2,568	4,645	12,319	13,455	5,049

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# the will to succeed

As we see in nature, it is in turbulent times when innovation, resourcefulness and the sheer will to succeed become crucial for survival. Under extreme conditions plants do not have the option to give up. Instead, it seems that adversity forces them to grow with even greater resilience and resolve. Similarly, at ARQUES we remain committed to growth, our determination to succeed stronger than ever.





# LETTER TO THE SHAREHOLDERS

Dear shareholders,

ARQUES Industries AG faced the most difficult year in its history in 2009. Overshadowed by a very weak economic climate, the entire private equity industry was badly affected by the crisis on account of the restrictive credit policies applied by banks as well as merchandise and credit insurers, falling company valuations and far less accessible exit opportunities.

In line with this, the year under review was dominated mainly by a comprehensive, systematic streamlining of both our portfolio and our costs, following on from the change in the composition of the Executive Board. All in all, we have reduced the size of the portfolio of subsidiaries by disposing of 13 companies with aggregate revenues of more than EUR 4.8 billion. These measures, coupled with a clean-up of the remaining subsidiaries' balance sheets, required us to take impairments of EUR 77.8 million, which resulted in a large loss being recorded for 2009. The after-tax deficit amounts to EUR -153.0 million.

## Massive restructuring yields initial success

The measures that we initiated to strengthen the financial situation of our corporate group started to yield tangible results in 2009. For one, we succeeded in cutting EUR 124.3 million from our financial liabilities, representing more than two-thirds of the total since year-end 2008, thus staving off what might otherwise have become a dangerous imbalance. On the cost side, too, we have safely steered ARQUES back into calmer waters. The size of the holding company has been drastically reduced, helping to cut its costs by more than half.

In the light of a reviving economy and the restructuring successes we have achieved in the subsidiaries, we can look ahead to the future with a sense of cautious optimism. All of the remaining nine subsidiaries are aiming to report an operating profit in 2010. As far as can be envisaged today, the extraordinary items serving to depress earnings and the balance sheet will have a negligible effect in 2010. Our financial liabilities are projected to decline further; promising exit opportunities are starting to appear on the horizon again for one or two of our subsidiaries.

We would particularly like to highlight the progress made at our largest subsidiary, Gigaset Communications GmbH, in which we only acquired an interest of more than 80% at the end of 2008. Despite numerous difficulties, we already succeeded in returning the market leader for cordless phones to the black in 2009, earlier than originally planned. This success underscores the constantly strong restructuring competence

demonstrated by ARQUES. The foundation has been laid for sustainably profitable growth by rolling out innovative products and streamlining the organizational structure; earnings are expected to climb sharply in 2010. We are also looking to acquire the remaining minority interests at a very low price during the course of this year.

## Exploiting opportunities and potential in 2010

There are several points we would like to highlight in summing up the outlook for the ARQUES Group. As far as things look today, we have left the worst behind us, although 2010 will still be a challenging year. We have set ourselves a number of ambitious targets for the next twelve months. Topping the list is ensuring the turnaround of ARQUES and securing adequate financial liquidity. Given the restructuring successes to date, though, the goal of achieving an operating profit in the corporate group would seem to be realistic provided the economic recovery continues. Second, we aim to reinforce our M&A activities. Our medium-term goal is to stabilize the portfolio at 8 to 12 companies each with revenues of EUR 50 million to EUR 500 million. Third, we are looking to sustainably develop our subsidiaries in a way that creates value. Our current portfolio certainly contains the potential to do this. It remains our objective to broaden our investor base by being more pro-active in our investor relations work. And finally, we have set ourselves the goal of reaching a settlement to a dispute with a business partner that has unfortunately been the subject of public debate.

We already aim to focus more strongly on the growth of our company in the coming year, under the assumption, however, that our risks are minimized. Interesting possibilities are certainly out there, and we are looking to consistently exploit the opportunities that arise. The issues of liquidity and cash flow management will again top our list of priorities.

We will do everything in our power to return our company to a path of profitable growth. Should we succeed in this – and we are convinced that we will – our highly dissatisfactory share price, and hence the value of our company, will finally start to rise again. We would like to take this opportunity to thank our shareholders for remaining loyal to us even in such difficult times and express the hope that this loyalty will pay off soon. We would also like to thank our employees for all their hard work and commitment in fiscal 2009.

Sincerely

The Executive Board of ARQUES Industries AG



Hans Gisbert Ulmke



Michael Hütten



Hans Gisbert Ulmke (born 1956)

Chairman, appointed until January 2012

Responsible for Finance, Accounting, HR, Corporate Communications

#### Profile

- Studied economics and modern languages at Manchester University
- Worked in lending operations and the International Division of Dresdner Bank AG in Germany, China, Hong Kong, and elsewhere
- Many years of experience in various industrial enterprises in the areas of financial controlling, capital markets, treasury, taxes, and investor relations
- Executive Vice President of VIAG AG, Munich, responsible for finance/investor relations
- Eight years at E.ON AG, first as Executive Vice President for Finance then as Chief Financial Officer at the Munich-based E.ON Sales & Trading GmbH

Michael Hütten (born 1956)

Member of the Executive Board, appointed until July 2012

Responsible for Operations, Group Controlling, Acquisitions & Exit

#### Profile

- Studied economics and business administration at the Universities of Mainz and Cologne
- Deputy managing director at automotive supplier Friedrich Boesner, responsible for restructuring and realignment
- Board member of at Klöckner & Co AG with global responsibility for controlling, finance, reporting, taxes, IT, and insurance
- CFO at Düsseldorf-based Metro Cash & Carry GmbH, responsible for controlling, finance, reporting, taxes, information services, logistics, and legal affairs
- Bombardier Transportation, responsible for finance and controlling worldwide

# THE ARQUES BUSINESS MODEL

## The business model

ARQUES Industries AG is a private equity firm that concentrates on the restructuring of companies in situations of transition. ARQUES acquires most of the companies as part of corporate spin-offs before leading them back to competitive strength and profitability with a view to subsequently selling them again at a profit.

## Company objective

Our goal is to hold a stable portfolio of 8 to 12 companies, each with revenues of between €50 million and €500 million. Our purchase decisions are not restricted to specific industries. We aim to sustainably enhance our subsidiaries in a way that creates value. The holding periods for the companies are flexible; acquisitions and disposals are performed as opportunities arise.

Every subsidiary has a three-phase lifecycle:

### 1. Acquisition

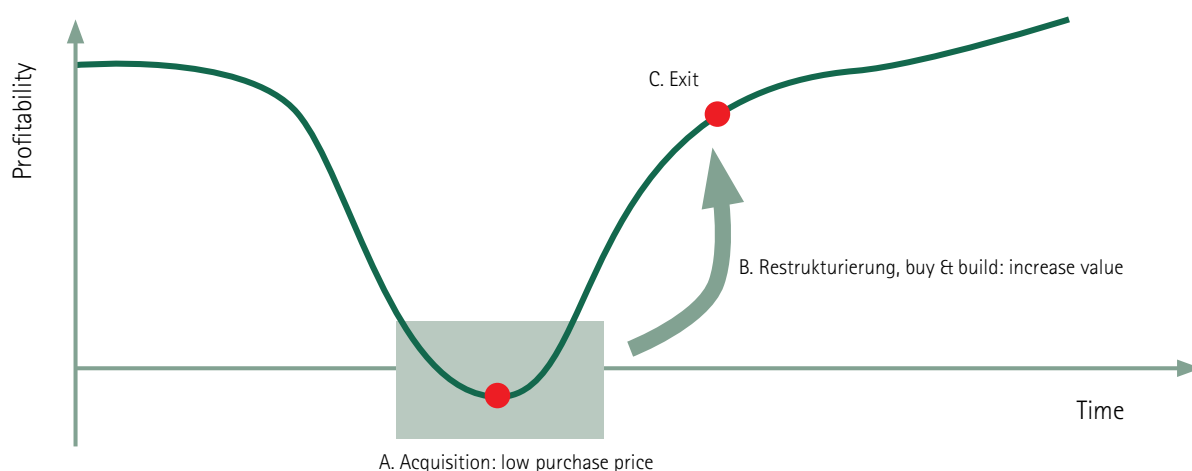
Our business model calls for targets to generally be acquired at prices that are less than their book value, and in some cases even for symbolic or negative purchase prices. Given the difficult economic climate at the present time, we are concentrating on buying companies with little balance sheet risk.

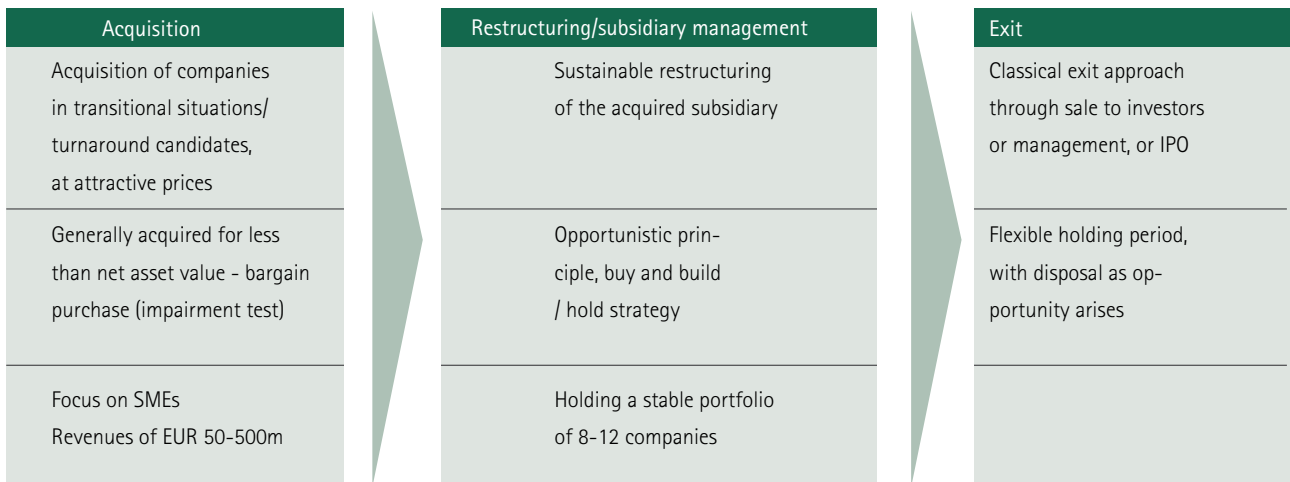
### 2. Restructuring and development

Following the acquisition, we deploy experienced restructuring managers in the new subsidiary in order to achieve the fastest possible restructuring and turnaround. Wide-ranging restructuring measures are initiated immediately after the acquisition in line with the company's actual situation. Once it has been successfully restructured, the subsidiary is systematically developed with a view to achieving and securing sustainable profitability. The subsidiary manager appointed by ARQUES generally takes a stake of between 5% and 10% in the subsidiary. The acquisition of a proportionate stake leads to greater motivation and identification with the company to be restructured.

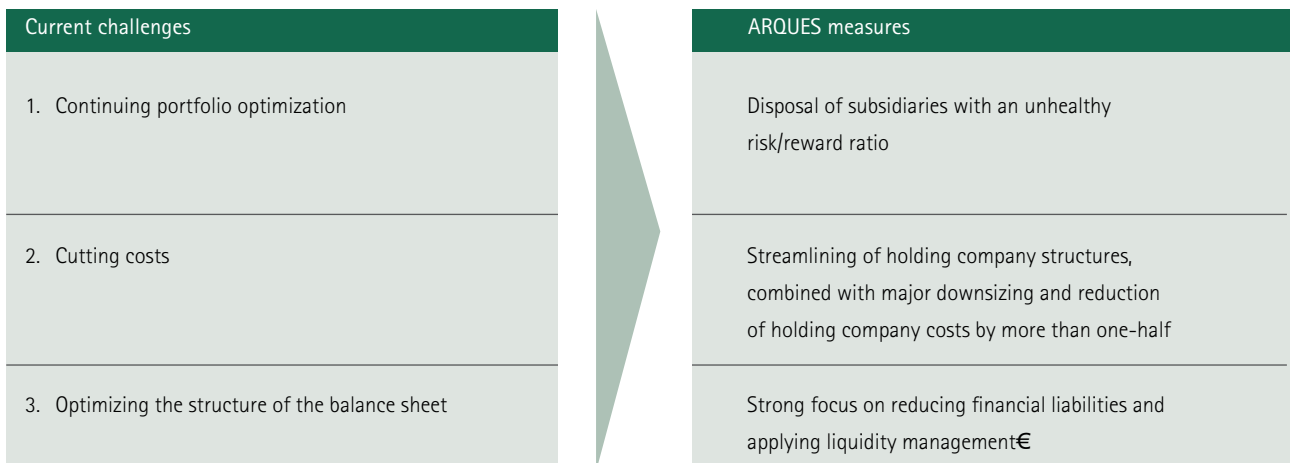
### 3. Exit

As soon as the basic reorganization steps have been completed and the subsidiary enters a phase of profitable growth, ARQUES initiates the process of selling the company in conjunction with the subsidiary manager. For this purpose, ARQUES maintains contacts with a wide range of potential buyers, who are in a position to exploit additional earnings, synergy, and growth potential on the basis of the restructuring measures performed by ARQUES.





Our business model also works in difficult economic climates, as in the present crisis. As it is often harder to sell companies, the holding period may under certain circumstances be longer than when the economic conditions are more propitious. The current environment provides for the following challenges:



## Strategy for 2010

- Securing the turnaround and liquidity at ARQUES Industries AG
- Reinforcement of M&A activities
- Sustainable development of the portfolio of subsidiaries to create value
- Broadening the investor base and increasing the attractiveness of ARQUES in the capital market
- Profitable growth under the assumption of a balanced opportunity/ risk situation
- Resolution of the dispute with the former owner of Gigaset

# a budding success story

From hardy cacti to fine roses all plants have specific conditions under which they grow best. In the year of its acquisition by ARQUES, Gigaset Communications not only wins prestigious awards but extends its leadership position in the European home communication market. Apart from showing our strict acquisition criteria it proves that our restructuring methods work. Our objective being that we all reap the benefits of our know-how and unflagging involvement.





# GIGASET

## Market leader in Europe

### Broad product range

Gigaset Communications GmbH offers its customers a broad range of products and services. This involves the design, development, production and distribution of high quality home communication products under the Siemens Gigaset brand. The portfolio includes fixed-line telephones (especially cordless phones) and Voice-over-IP models.

### Leading market position

Gigaset Communications is one of the biggest manufacturers of cordless phones worldwide and the clear European market leader for DECT phones. In fiscal 2009, Gigaset succeeded in increasing its share of the European market (measured by revenues) by three percentage points to 33% compared with the previous year. The company also registered considerable growth in the last fiscal year in Germany, where Gigaset holds down more than 50% and is the clear number one.

### Performance in 2009

The cost management program introduced by ARQUES as one of its restructuring measures already started to have an impact in the fiscal year just ended. The company's earnings developed far better than planned. This was reinforced by the disposal of the loss-making broadband operations in the second half of the year as part of the refocusing on core activities. Gigaset generated an operating profit on the back of an extremely good Christmas season.

### Challenging industry environment

A recent study indicates that the market for DECT phones in western Europe will stagnate over the coming years. Whereas the market for cordless phones in North America is contracting overall, the share of DECT products there will more than double. Experts are predicting rising sales of cordless phones in eastern Europe, the Middle East and Latin America. The economic crisis caused the volume of cordless phones sold in Europe to decline 3.4% year-on-year.

### Ambitious targets for 2010

- Gigaset Communications will continue to focus on its profitable core business involving voice products (cordless phones, phones for Voice over IP, and fixed-line phones). In doing so, it will concentrate on environmental, quality and design issues
- ARQUES will also optimize internal processes and implement measures aimed at cutting costs in all areas with the general assistance of restructuring managers
- The establishment of new internal processes and structures is scheduled for completion in 2010
- Targeted growth is expected to stem from product innovations together with an expansion of international activities. In addition, Gigaset plans to more actively address the SME segment in the future in parallel to its private customer operations
- The company will successively migrate the brand strategy from Siemens Gigaset to Gigaset in line with its multi-stage strategic plan. The new product design and branding has already been used in all new models since the start of 2010



EUR MILLIONS	2008	2009	2010 PLANNED
Revenues	588	556	498
EBITDA (adjusted)	-23	33	45-50
EBITDA margin (adjusted)	-4%	6%	9-10%
Workforce (full time equivalent as at Dec. 31)	2,116	1,787	1,700

## History

### Siemens Home and Office Communications GmbH & Co. KG (SHC)

- 10/2005 Siemens sets up SHC for its cordless voice, broadband, WiMAX and home media activities
- 10/2008 Siemens disposes of loss-making telecommunications divisions
- 10/2008 ARQUES buys 80.2% interest in SHC (+ option on remaining 19.8%)
- 10/2008 Company renamed Gigaset Communications GmbH

### Gigaset Communications GmbH

- 10/2008 ARQUES starts to restructure the company
- 06-10/2009 Disposal of non-core broadband, WiMAX, and home media activities
- 09/2010 Scheduled acquisition of the remaining 19.8% interest in Gigaset by ARQUES as per purchase agreement

## ARQUES Management Team

(l. to r.) Florian Englmaier  
 Philipp von Seherr-Thoss  
 Dr. Alexander Blum



## Successful turnaround

Before the subsidiary was acquired in October 2008, Gigaset faced the following challenges and difficulties:

- Ongoing reduction in revenues and profit margins on account of an unclear strategy and product mix
- Uncontrolled cost inflation, especially in the administration function
- Loss-making non-core activities preventing the development of the core business
- Declining competitiveness as a result of competition from low-cost economies
- Neglected innovation capability in the Cordless Voice segment due to lack of focus

Following an intensive due diligence phase, ARQUES took up these challenges and drew up a comprehensive restructuring strategy covering three levels: the product portfolio, the cost structure and the sales structure. The measures implemented for each of the various areas are described in the following three sections:

### 1. Restructuring measures at product level

ARQUES is focusing on Gigaset's core business and hence on the profitability of the product portfolio. In order to boost the company's earning power, we identified the high-margin products and thinned out the product portfolio accordingly. What remained were the profitable Cordless Voice activities (core business) in the strong-margin retail segment.

At the same time, we pared back or disposed of less profitable activities: the Operator business was reduced in size and all non-core activities, such as broadband, WiMAX and home media, sold.

In addition, we have initiated further measures aimed at sustainably strengthening the Gigaset enterprise at product level and keeping it competitive:

- Further margin optimization achieved by sustainably positioning the Gigaset brand
- Lengthening of the product lifecycle in line with market conditions
- Adjustment of the product lifecycle: reduction of capacity in development and product marketing
- Concentration on profitable country variants: reduction of production complexity

### 2. Restructuring measures at cost level

Consistent cost management and streamlined processes resulted in considerable savings at Gigaset. The objective was to adjust the organization and the cost structure to match those of a typical mid-sized enterprise. Various measures were initiated with this in mind:

- Slimming down the company to accommodate structures suitable for a mid-sized firm and streamlining processes
- Creating cost transparency by introducing KPIs
- Constantly monitoring the function budgets to ensure restructuring success

The measures taken already yielded initial results in 2009. This included reducing costs by a figure in the low double-digit millions, centralizing all commercial functions in the company in a single department and eliminating "support processes" by applying a rigid task assignment structure.

### 3. Restructuring measures at sales level

All in all, revenue growth was achieved by realigning the sales structure and focusing on the Cordless Voice business. We managed to strengthen the company's sales function by reducing the administrative activities in national companies, applying a targeted pricing strategy, systematically improving logistics processes and investing more heavily in marketing activities. It is possible to summarize the diverse positive results from the restructuring strategy at sales level as follow:

- Product acceptance in the market reinforced
- Market share in Germany increased to 58% (clear market leader)
- Market leadership expanded in Europe (Italy, France, Netherlands, Austria, etc.)
- Risk reduced by focusing on the retail segment (high diversification level among customers)
- Broad sales opportunities tapped with a strong presence in more than 90% of the relevant distribution channels

## Restructuring results

- Operating turnaround already achieved in 2009, despite high restructuring costs. Positive EBITDA
- Further restructuring in 2010 and 2011 secured by own cash flows
- ARQUES Task Force Team presses on with restructuring
- Major potential for the future from innovative products in the premium price segment
- Gigaset – a sustainably successful business model built upon focusing and restructuring

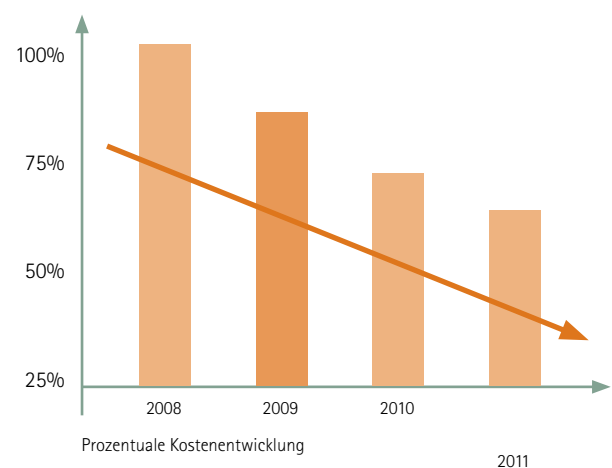
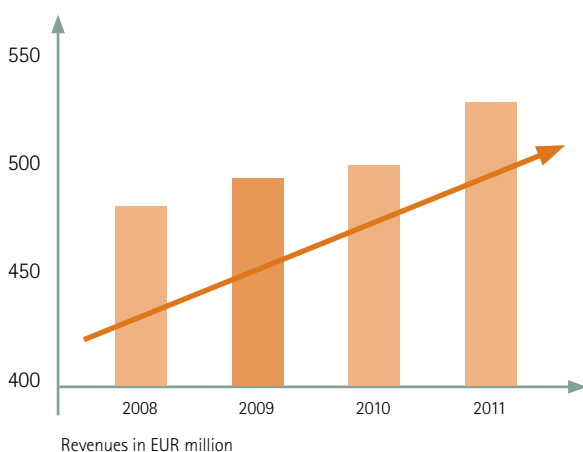
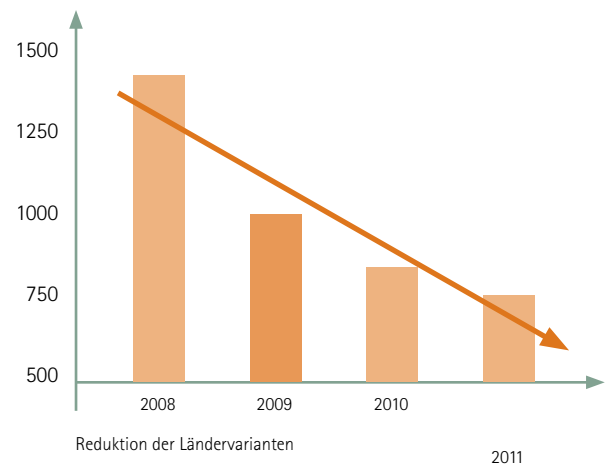
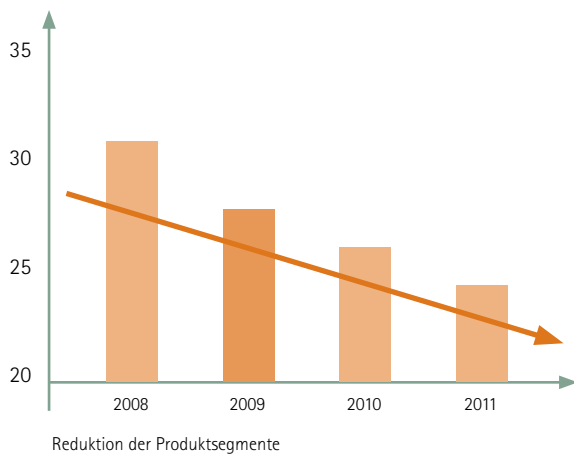
## Attraktiver Ausblick

- High-margin Cordless Voice business reflected in much better results
- Potential from restructuring in 2009 tapped for the first time on a full-year basis in 2010
- Further cost optimization continued into the subsequent years
- Product pipeline filled with a number of innovations

Additional opportunities not reflected in the budget arise from:

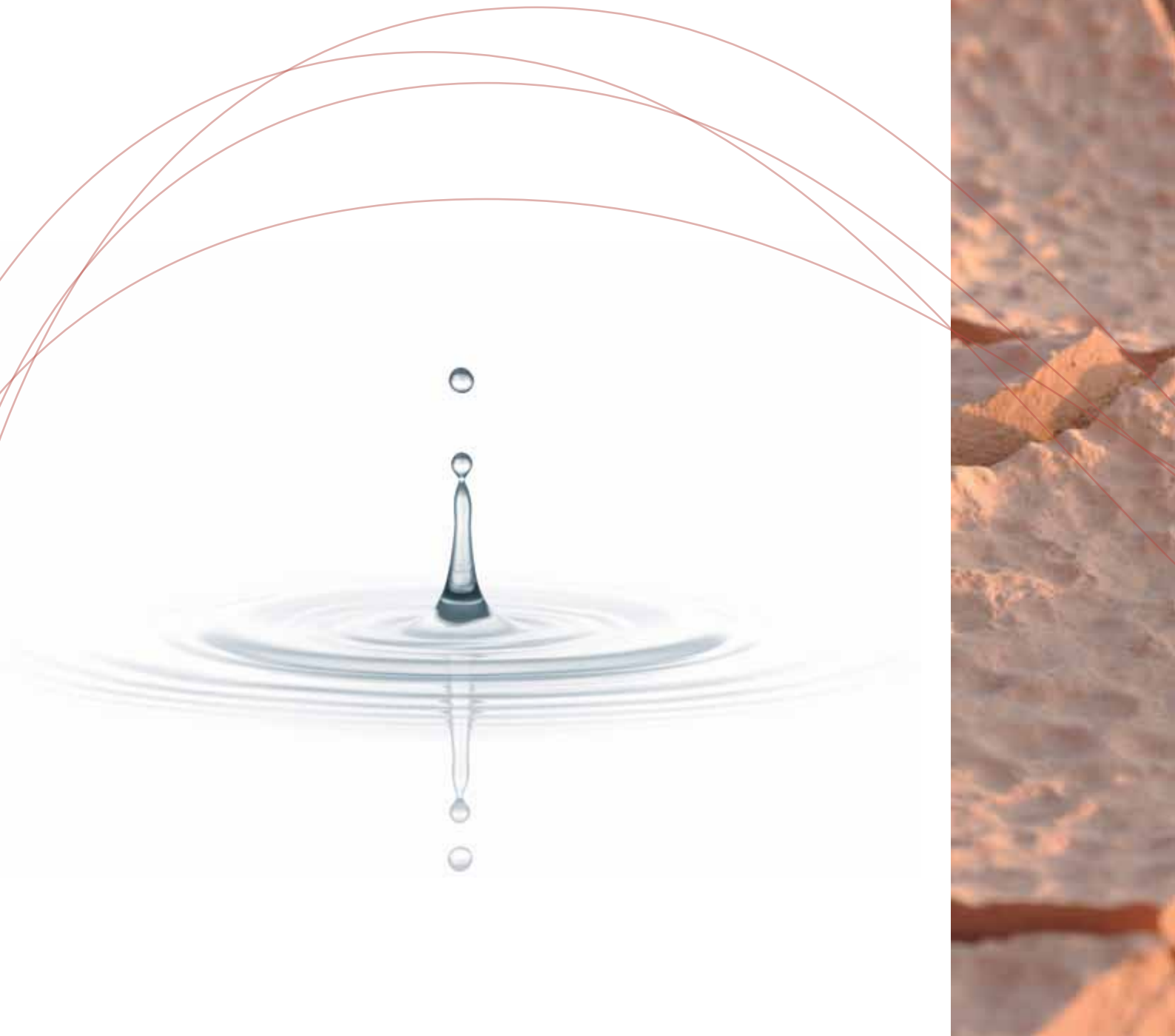
- new Gigaset Pro and Accessories segments
- further internationalization of the core business

## Restructuring successes in figures



# resilience under extreme conditions

Unsurprisingly the ARQUES share did not escape the worldwide economic recession unscathed. In nature, it is only when conditions are at their harshest that plants such as the Desert Rose choose to reproduce. This to ensure that their offspring are able to withstand the worst that nature can throw at them. Although 2009 has been the most difficult year in the company's history, ARQUES is poised for renewed growth and remains firmly committed to the expedient recovery of its share price.





# THE ARQUES SHARE

## Stock markets reflect global economy in 2009

The year on the stock markets was a mirror image of the turbulent economic climate in 2009. The collapse on global trade coupled with uncertainties on the capital markets caused share prices to tumble sharply in the first weeks of trading until around the beginning of March. Thus, for example, Germany's benchmark DAX index lost more than a quarter of its value through to its low for the year of less than 3,600 points on March 9, by which time it had fallen to a level not seen since 2004. Driven by hopes of stabilization in the global economy, however, the mood swung round completely on the stock exchanges. Prices in Germany rose constantly between then and the end of the year. The DAX closed the trading year up almost 24%, at just under 6,000 points, while non-blue-chip stocks performed even better in 2009. The SDAX index rose around 27% to close the year at 3,549 points.

### INFORMATION ON THE ARQUES SHARE (AS AT MARCH 2010)

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 price indices	CDAX, Classic All Share, Prime All Share

## Share Performance



## ARQUES share proves highly volatile

The price of the ARQUES Industries AG share fluctuated greatly during fiscal 2009. Starting from the closing price of EUR 2.52 at the end of 2008, it started the new year by rising to EUR 3.01, which simultaneously represented the high for the year. In the following two months, however, the share was not able to escape the general downward trend on the stock exchanges, declining to reach its low for the year of EUR 0.93 on March 5. The price recovered again over the following months on the back of a general calming on the markets. By mid-May, the share had risen to over EUR 2.40. It again proved necessary to take high non-recurring charges arising from write-downs and impairments on the portfolio of subsidiaries in 2009. The dissatisfactory quarterly results recorded primarily as a result of this led to the share price being marked down on more than one occasion. The price hovered in a range between EUR 1.50 and EUR 2.20 through to the end of the year accordingly. Speculation regarding contractual conditions at our Gigaset subsidiary resulted in the ARQUES share coming under pressure again at the end of the year, being worth

EUR 1.45 at the close of trading on December 30, 2009, which represents a decline of around 42% over the full twelve-month period. From the beginning of the year to June 2010 the ARQUES shares moved on a level around EUR 1.50. Due to speculations in the capital markets in terms of the postponement of the financial statements the share price came under pressure being worth EUR 1.03 at its low. The market capitalization had contracted to EUR 38.4 million by year-end 2009, based on a constant total of 26.45 million shares in issue. The daily trading volume averaged 275,996 shares in the reporting year after 477,005 in the prior year – a decline of 42%. The decrease can be attributed to the general decline in market trading coupled with falling interest in the ARQUES share. According to the statistics provided by Deutsche Börse AG, the ARQUES share ranked 112th (99th in 2008) in terms of market capitalization of all Prime Standard companies that are included in the TecDAX or DAX30 at the end of 2009 and 66th (45th in 2008) in terms of trading volume. The decline in market capitalization was the reason why the ARQUES share left the SDAX with effect from March 22, 2010.

## ARQUES share remains entirely free float

According to the definition used by Deutsche Börse AG, all of the shares in ARQUES continued to be free float at the end of 2009. The company is not at the present time aware of any shareholder holding 10% or more of the voting rights. The shares are mainly held by institutional investors from the United States, Britain, France, Switzerland and Germany, as well as private investors mostly from Germany.

The Corporate Governance section starting on page 20 of the present Annual Report contains more detailed information about shares and options held by members of the Executive Board and the Supervisory Board as well as securities transactions conducted by members of the Executive Board and the Supervisory Board subject to mandatory disclosure.

AKTIENKENNZAHLEN	2009	2008
Number of shares in issue	26,450,000	26,450,000
Capital stock (EUR)	26,450,000	26,450,000
Closing price on December 31 (EUR)	1.45	2.52
Market capitalization on December 31 (EUR millions)	38.4	66.7
Average daily trading volume (shares)	276,000	477,005
52-week high (EUR)	3.01	23.53
52-week low (EUR)	0.93	1.74
Earnings per share (diluted) at year-end (EUR)	-5.51	-5.09

### Investor relations: timely, comprehensive information for all capital market participants

Investor relations activities are a top priority at ARQUES. Among other things, this is demonstrated by the fact that the members of the Executive Board are personally available to answer questions from shareholders, analysts, fund managers and other interested parties whenever possible. They are assisted in this by the employees of the Investor Relations team.

The goal of investor relations activities at ARQUES is to supply comprehensive, timely information to all capital market participants and interested parties simultaneously.

In the period from January 1, 2009 to the end of fiscal 2009, all material company events were announced in four ad hoc reports pursuant to Section 15 of the German Securities Trading Act (WpHG) and 33 Corporate News reports. The wide-reaching communications channels of the Deutsche Gesellschaft für Ad hoc Publizität (dgap), the ARQUES homepages and also internal press and investor distributions lists were employed to achieve this. In terms of content, this primarily concerned the publication of the annual and quarterly results, the purchase or sales of corporate groups, changes on the Executive Board and Supervisory Board and the performance of major subsidiaries.

The Executive Board also used road shows, telephone conferences, the annual shareholders' meeting and numerous individual conversations

with investors and journalists to provide information about the development and potential of the company and the streamlining of the portfolio.

All financial reports, ad hoc and press releases, the financial calendar, annual shareholders' meeting documents and a wide range of current information regarding the subsidiaries is available at all times on the company website ([www.arques.de](http://www.arques.de)).

Investor relations activities in 2010 will focus on strengthening contacts with shareholders, investors, analysts and the media, building confidence and helping to increase the value of ARQUES following on from the highly dissatisfactory development of the share price over the last two years.

### Contact

If you have any questions or comments, please do not hesitate to contact the Investor Relations department of ARQUES Industries AG at the following address:

ARQUES Industries AG  
Hubert Wiedemann  
Arnulfstraße 37-39  
D-80636 Munich  
Tel.: +49 (0)89 2555-00330  
Fax: +49 (0)89 2555-00200  
Email: [info@arques.de](mailto:info@arques.de)

# stronger roots based on accountability

At ARQUES Industries AG, corporate governance, accountability and transparency form the basis of all dealings with our shareholders and subsidiaries. We are equally proud of the strong relationships that we have with our partners as we are of the solid reputation that we have built over a relatively short period of operation.

By adhering to strict business principles and the highest ethical values, ARQUES has laid a solid foundation from which to further succeed.





# CORPORATE GOVERNANCE REPORT

ARQUES Industries AG complies with the recommendations of the German Corporate Governance Code issued in 2002 and most recently amended on June 18, 2009 with only a few exceptions. ARQUES Industries AG views corporate governance as a process that is constantly being developed and improved.

On March 29, 2010, the Executive Board and Supervisory Board of ARQUES Industries AG issued the Statement of Compliance with the German Corporate Governance Code in the version of June 18, 2009 required by Section 161 of the German Stock Corporations Act (AktG). Furthermore, this declaration has been made permanently available to the shareholders on the company's homepage ([www.arques.de](http://www.arques.de)). The deviations from the German Corporate Governance Code have been documented accordingly.

## Management and supervisory structure - Supervisory Board

As a German stock corporation, ARQUES Industries AG is subject to the law covering stock corporations in Germany. For this reason, it has a two-tier management and supervisory structure.

The Supervisory Board appoints the members of the Executive Board and defines the division of its responsibilities. It monitors and advises the Executive Board in its management of the company's operations. Its bylaws stipulate at least two meetings in each six-month calendar period. The Supervisory Board meets at regular intervals 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 interim 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.

## Management and supervisory structure - 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 in the company's value. It is responsible for establishing the strategic orientation of the company and for planning and setting the budget. The Executive Board's responsi-

bilities also include preparing the quarterly financial statements, the annual financial statements, and the consolidated financial statements. It works closely with the Supervisory Board, providing regular and comprehensive reports on all issues relating to the company's financial and earnings situation, strategic planning, business development and business risks.

## Stock transactions of the Executive Board and Supervisory Board subject to mandatory disclosure

The members of the Executive Board and the Supervisory Board are legally obligated under Section 15a of the German Securities Trading Act (WpHG) to disclose the purchase or sale of shares in ARQUES Industries AG, or related financial instruments, if the total value of the transactions conducted by the member concerned or related parties reaches or exceeds €5,000.00 within a calendar year ("directors' dealings").

No transactions were reported to the company in fiscal 2009 and up to the date of preparation of the balance sheet in fiscal 2010 pursuant to Section 15a WpHG.

## Statement of Compliance

The Statement of Compliance with the German Corporate Governance Code pursuant by Section 161 AktG has been made permanently available to the shareholders: "The Executive Board and Supervisory Board of ARQUES Industries AG state their compliance and future compliance with the recommendations of the German Commission on corporate management and supervision as amended on June 18, 2009, and published in the electronic version of the Federal Gazette (Bundesanzeiger), with the exception of the points outlined below. The deviations are explained in the following statement."

## Succession planning

Contrary to Section 5.1.2, no age limit has been specified for the members of the Executive Board. Given the terms and conditions of the Executive Board contracts, succession does not appear necessary at the present time.

Contrary to Section 5.1.3, the Supervisory Board has not established any bylaws for itself.

Contrary to Section 5.4.1, no age limit has been specified for the members of the Supervisory Board.

## Supervisory Board compensation

Contrary to Section 5.4.6 of the Code, the members of the Supervisory Board are paid a fixed salary. The compensation does not include a profit-based component.

## Supervisory Board committees

Contrary to Sections 5.3.1 and 5.3.3, the Supervisory Board has not established any committees with the exception of the Audit Committee.

## Publication

The consolidated financial statements are not currently made publically accessible within 90 days of the end of the financial year (Section 7.1.2 of the Code). The company aims to implement this recommendation with effect from the consolidated financial statements for fiscal 2010.

## Principles of the compensation system for executives of ARQUES Industries AG

### Compensation paid to members of the Executive Board

The responsibilities and duties of the respective Executive Board member are taken into account when setting the compensation. The compensation granted in fiscal 2009 consisted of a fixed annual salary and success-related components. The variable components consist of bonus agreements for all active members of the Executive Board during the reporting period which are tied to the capital appreciation of a virtual share portfolio (and thus dependent on the company's success) and to the fulfillment of certain goals established for each Executive Board division (and thus dependent on the success of that division).

Specifically, the Executive Board compensation is composed of the following elements:

- The fixed compensation is paid in the form of a monthly salary.
- The variable compensation consists in part of a special bonus, the amount of which is determined with reference to the capital appreciation of a "virtual share portfolio," and in part of an individual bonus agreement for all active members of the Executive Board during the reporting period.

The basis for calculating the variable compensation with respect to the virtual share portfolio for all active members of the Executive Board during the reporting period is a specific number of shares in ARQUES Industries AG ("virtual share 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 share portfolio over a specific period – that is, relative to a pre-determined future date ("valuation date"). The difference between the value of the virtual share portfolio valued at the share price on the valuation date and its initial value ("capital appreciation") yields the amount of variable compensation. The general policy is to settle the capital appreciation in cash, converted at the share price at the valuation date.

### Compensation paid to members of the Supervisory Board

The compensation paid to members of the Supervisory Board was established for the first time by the annual shareholders' meeting on May 30, 2006, at the proposal of the Executive Board and Supervisory Board. Every member of the Supervisory Board receives maximum annual compensation of EUR 16,000.00. They are entitled to fixed compensation of EUR 1,000.00 per month and variable compensation in the form of meeting fees. The total compensation paid to the Chairman of the Supervisory Board is 50% higher, making for a maximum annual compensation of EUR 24,000.00. This compensation arrangement similarly lost its validity when the period of office of the Supervisory Board member expired. Consequently, the annual shareholders' meeting of August 5, 2009 resolved a new compensation arrangement as follows: "Each member of the Supervisory Board is paid a fixed fee of EUR 1,000.00 per month as well as a meeting fee of EUR 1,000.00 per Supervisory Board meeting where he took part. The Chairman of the Supervisory Board is paid a fixed fee of EUR 1,500.00 per month as well as a meeting fee of EUR 1,500.00 per Supervisory Board meeting or committee meeting where he took part. The fee shall become due on the end of the AGM resolving on the approval of actions for the preceding financial year."

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

The members of the Executive Board did not hold any shares in ARQUES Industries AG at the balance sheet date.

The members of the Supervisory Board held an aggregate of 900 shares in ARQUES Industries AG at the balance sheet date. This represents 0.0004% of issued shares.

The following table shows the breakdown of the shares held by members of the Executive Board and Supervisory Board:

	NUMBER OF SHARES AT 12/31/2009 OR WHEN LEAVING THE COMPANY	NUMBER OF SHARES WHEN THE BALANCE SHEET WAS PREPARED	NUMBER OF OPTIONS AT 12/31/2009	NUMBER OF OPTIONS WHEN THE BALANCE SHEET WAS PREPARED
<b>Executive Board</b>				
Hans Gisbert Ulmke, Chairman	0	0	0	0
Michael Hütten, member of the Executive Board	0	0	0	0
Felix Frohn-Bernau, member of the Executive Board until December 18, 2009	3,000	n/a	n/a	n/a
Bernd Schell, member of the Executive Board until September 29, 2009	550	n/a	n/a	n/a
<b>Supervisory Board</b>				
Dr. Georg Obermeier (Chairman until August 5 and from September 16, 2009)	0	0	-	-
Jean-François Borde (Vice Chairman since September 16, 2009)	0	0	-	-
Antoine Dréan	0	0	-	-
Dr. Rudolf Falter	500	500	-	-
David Hersh	0	0	-	-
Bernhard Riedel (Vice Chairman until August 5, 2009)	400	400	-	-

## Information on stock options and similar incentives

No members of the executive bodies currently hold any options on ARQUES shares. Please refer to the information in the compensation report for more details on the virtual stock portfolios of Executive Board members.

## Additional information on corporate governance at ARQUES

More detailed information about the activities of the Supervisory Board and the cooperation between the Supervisory Board and the Executive Board can be found in the Report of the Supervisory Board on page 23 of the present Annual Report.

Current developments and important information such as ad hoc and press releases, annual and interim reports, a financial calendar with key dates for ARQUES, securities transactions subject to mandatory disclosure ("directors' dealings") and information about the annual shareholders' meeting are constantly made available on our homepage at [www.arques.de](http://www.arques.de). You can also find the very latest news about the ARQUES Group updated regularly on the ARQUES website under "Corporate News."

# REPORT OF THE SUPERVISORY BOARD

Without doubt, 2009 was the most difficult year in the history of ARQUES Industries AG. Against the backdrop of the continuing global economic crisis, the company's main strategic focus was on reducing the risks in the corporate group, realigning the portfolio, making the best possible allocation of the restructuring and reorganization measures, and applying consistent cost management in the holding company and the subsidiaries. The Supervisory Board closely monitored the company's progress, as demonstrated by the numerous lengthy meetings and resolutions.

## Cooperation with the Executive Board

The Supervisory Board performed all duties required of it in accordance with applicable laws and the Articles of Incorporation while monitoring and advising the Executive Board in its work. In particular, it monitored the further strategic development of the company, as well as individual measures of importance. The Executive Board provided regular, comprehensive written and verbal reports to the Supervisory Board in due course regarding all issues related to the development of the company, the course of business and the performance of the Group - notably including the business development and cash flows - planned acquisitions and sales of subsidiaries or their separate business units. Also discussed were personnel development, the company's risk position and risk management, the development of liquidity and the budget, and fundamental questions of business policy and strategy.

## Activities of the Supervisory Board

The Supervisory Board discussed and thoroughly examined the quarterly reports of the Executive Board on fundamental questions regarding corporate planning (especially finance, liquidity, investment, and personnel planning) as well as transactions of potentially significant importance for the profitability or liquidity of the company.

At its meetings, the Supervisory Board questioned the management about the reports submitted to it, in particular on current developments, current acquisition and sales projects, and pending decisions, and discussed them in detail. It granted all necessary approvals following an in-depth examination of the documents submitted by the Executive Board.

In addition, the Chairman of the Supervisory Board also met regularly with the Executive Board to question the management on current developments, thoroughly discuss pending decisions, and prepare the resolutions of the Supervisory Board.

## Meetings and resolutions of the Supervisory Board in 2009

The Supervisory Board held a total of 17 meetings in fiscal 2009. Twelve meetings were held before the annual shareholders' meeting and five meetings afterward, and hence in the composition following the court appointment of members. At its meetings, the Supervisory Board discussed the reports provided by the Executive Board in detail, including the business development of the subsidiaries. The members of the Executive Board were also regularly present at the meetings, unless the agenda included matters regarding the Executive Board. In addition, the Supervisory Board adopted written resolutions in a total of six circular ballots.

The company's independent auditor, PricewaterhouseCoopers AG, also attended the meeting devoted to the annual financial statements for fiscal 2009 on July 13, 2010.

The Supervisory Board monitored the ongoing development of business and the implementation of the company's strategy in 2009 as intensely as the company's further strategic development, above all in light of the financial crisis. Special attention was given to the company's liquidity situation, as well as the type and scope of contingent liabilities.

## Activities of the Audit Committee

An Audit Committee was formed to enable us to carry out the tasks assigned to us by the law and the Company's Articles of Incorporation as efficiently as possible. This committee comprised three members in fiscal 2009.

The Supervisory Board's Audit Committee met five times in scheduled meetings and two times in ad-hoc meetings and received reports from the Executive Board and the independent auditor. Besides preparing resolutions regarding the annual financial statements, the Audit Committee's tasks also included commissioning the independent auditor for the annual and consolidated financial statements and setting the audit fee.

## Corporate Governance

The Supervisory Board regularly addresses the application and further development of the binding standards of good, responsible corporate governance. In particular, the revised version of the German Corporate Governance Code was discussed during 2009. On March 29, 2010 and in an updated version on July 13, 2010, the Executive Board and Supervisory Board issued a Statement of Compliance in accordance with Section 161 of the German Stock Corporation Act (AktG) and made it permanently available to shareholders on the company's website.

## Risk management

The Supervisory Board dealt with the issue of risk at great length in 2009, notably including the risk management system. The Executive Board reported in detail on the risk situation and major individual risks. The independent auditor examined the structure and function of the risk management system of ARQUES Industries and issued an unqualified opinion.

## Personnel matters regarding the Executive Board

The personnel matters regarding the Executive Board were the subject of particularly intensive discussion. During the Supervisory Board meeting held on February 2, 2009, Dr. Schumann's appointment to the Executive Board of ARQUES Industries AG (Chairman of the Executive Board) was terminated by mutual agreement with effect from February 28, 2009. Hans Gisbert Ulmke was appointed Chief Financial Officer until January 31, 2012 at this meeting. At its meeting on July 20, 2009, the Supervisory Board adopted a resolution to appoint Michael Hütten as a further member of the Executive Board of ARQUES Industries AG until July 20, 2012 with effect from July 21, 2009. At the Supervisory Board meeting on August 4, 2009, Hans Gisbert Ulmke was appointed Chairman of the Executive Board.

During the Supervisory Board meeting on September 29, 2009, the appointment of Bernd Schell as a member of the Executive Board was terminated with effect from the end of September 29, 2009. At its meeting on December 18, 2009, the Supervisory Board accepted the resignation of Felix Frohn-Bernau as a member of the Executive Board.

The Executive Board currently consists of Hans Gisbert Ulmke (Chairman of the Executive Board with responsibility for Finance, Legal Affairs, Investor Relations/Press, and HR) and Michael Hütten (responsible for Operations and Acquisitions/Exit).

## Personnel matters regarding the Supervisory Board

The following individuals were members of the Supervisory Board in the reporting period:

- Dr. jur. Rudolf Falter
- Dr. jur. Gerhard Fischer until August 5, 2009
- Prof. Dr. jur. Michael Judis until August 4, 2009
- Othmar Freiherr von Diemar on August 5, 2009
- Franz Graf von Meran until August 5, 2009
- Dipl.-Kfm. Dr rer. pol. Georg Obermeier until August 5, 2009 and from August 24, 2009 (Chairman until August 5, 2009 and from September 16, 2009)
- Bernhard Riedel until August 5, 2009 and from August 24, 2009 (Deputy Chairman until August 5, 2009)
- Antoine Dréan from August 24, 2009
- Jean-François Borde from August 24, 2009 (Deputy Chairman from September 16, 2009)
- David Hersh from August 24, 2009

On August 4, 2009, Professor Michael Judis resigned his position on the Supervisory Board with immediate effect, which explains why the elected alternate member Othmar Freiherr von Diemar acted as a member of the Supervisory Board at the annual shareholders' meeting.

At the annual shareholders' meeting of the company held on August 5, 2009, Dr. Rudolf Falter was the only candidate to achieve the two-thirds majority required by the company's Articles of Association under item 5 on the agenda regarding elections to the Supervisory Board. This meant that the company did not have a properly constituted, quorate Supervisory Board with effect from the end of August 5, 2009. In compliance with Section 5.4.3 of the German Corporate Governance Code, Munich District Court – which is the competent court of registration – consequently appointed Dipl.-Kfm. Dr rer. pol. Georg Obermeier, Bernhard Riedel, Antoine Dréan, Jean-François Borde, and David Hersh to act as members of the Supervisory Board. During his meeting held on September 16, 2010, the Supervisory Board elected Dr. Georg Obermeier Chairman of the Supervisory Board and Jean-François Borde Vice Chairman of the Supervisory Board.

## Audit of the annual financial statements

The annual financial statements and the consolidated financial statements at December 31, 2009, as well as the combined management report and the accounting records, were audited by the elected independent auditor PricewaterhouseCoopers AG, Wirtschafts-prüfungsgesellschaft, Munich, and provided with an unqualified audit opinion. All financial statement documents and audit reports were submitted to all members of the Supervisory Board in due course ahead of the Supervisory Board's balance sheet meeting. These documents were carefully reviewed by the Audit Committee and the full Supervisory Board. At its meetings on December 18, 2009 and February 24, 2010, the Audit Committee questioned the independent auditor about the principal aspects of the audit activities and about specific findings of the audit; and at its meeting on March 29, 2010 and July 13, 2010, the Audit Committee discussed the annual financial statements in detail and questioned the auditor, who also attended this meeting. On the occasion of two meetings of the Audit Committee on June 16, 2010 and June 21, 2010 details on the financial statements have been discussed with the auditors.

The Audit Committee submitted a detailed report to the Supervisory Board during the meeting held on March 29, 2010 and July 13, 2010. The Supervisory Board took this opportunity to ask further questions of the auditor, who was also present at the meeting. It concurred with the auditor's findings and raised no objections based on the findings of its own review. The Supervisory Board approved the annual financial statements and the consolidated financial statements prepared by the Executive Board by way of a resolution, and raised no objections to the combined management report. The annual financial statements were thereby adopted.

In accordance with section 321 para 4a of the German Commercial Code the auditor has confirmed its independence.

## Explanatory notes to the management report

Regarding the explanatory notes to the management report in accordance with Section 171 AktG, the Supervisory Board makes reference to the disclosures on page 60 in the management report in accordance with Sections 289 (4) and 315 (4) of the German Commercial Code (HGB). Information regarding the company's subscribed capital, the provisions relevant to the appointment and dismissal of Executive Board members, amendments to the Articles of Incorporation, and the authority of the Executive Board to issue or buy back company shares can be found in the combined management report on page 60.

Munich, July 2010

On behalf of the Supervisory Board

Dr. Georg Obermeier

Chairman

# patience in reaping rewards

In the winemaking industry there are good and bad years, fabulous ones and then those which are best forgotten. In the case of ARQUES, the last two years may have been poor but fortunately not as disastrous as many other companies experienced. However, rather than looking back; at ARQUES we look forward to the next harvest. And, just like a discerning vigneron who knows that excellence cannot be rushed, at ARQUES we believe that we are still in the early stages of creating something of lasting value.





# COMBINED MANAGEMENT REPORT AT DECEMBER 31, 2009

## The business model of ARQUES Industries AG

ARQUES focuses on a specific segment of the equity investment market, acquiring companies in situations of transition. Examples of such situations include classic turnaround candidates and subsidiaries that large corporations are looking to sell. Corporate spin-offs account for more than 80% of the companies acquired. As a general rule, these companies had been generating losses for some time before being acquired by ARQUES. In some cases, unsuccessful attempts had already been made to restructure the companies and restore them to economic health. In accordance with the ARQUES business model, such companies are generally purchased for less than their book value, and in some cases even for symbolic or negative purchase prices, before being sold again by ARQUES after being restructured.

ARQUES' goal is to hold a stable portfolio of 8 to 12 corporate groups, each with revenues of between EUR 50 million and EUR 500 million. The aim is to sustainably enhance the companies in a way that creates value. The holding periods for the companies are flexible; acquisitions and disposals are performed as opportunities arise. The target market is western Europe.

Given the difficult economic climate at the present time, ARQUES is concentrating exclusively on buying companies which offer a beneficial risk/reward ratio.

As soon as the fundamental restructuring steps have been completed in the acquired company and the company has entered a phase of growth, ARQUES initiates the process of selling the company again. For this purpose, ARQUES maintains contacts with a wide range of potential buyers, who are in a position to exploit additional earnings and growth potential on the basis of the restructuring measures performed by ARQUES.

## The market for corporate acquisitions

The market for company acquisitions under the ARQUES business model will remain relatively stable into the future because corporations will spin off their subsidiaries and family-owned enterprises will be sold largely regardless of the prevailing economic conditions at any given time. The factors supporting these trends 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 growing number of unresolved corporate succession issues as a result of demographic trends in Germany;
- The ongoing difficult economic environment as a result of the financial crisis; and
- The lack of access to the capital market.

Nevertheless, competition in this market has intensified to the extent that new competitors in Europe may have an interest in the types of companies which ARQUES also seeks to acquire.

## The market for company sales

Demand on the market for company sales depends on both the economic environment and the prosperity of the industry involved. There should, however, always be strategic investors for the companies restructured by ARQUES. Among other things, this is due to the fact that ARQUES does not need to sell its subsidiaries for the highest possible prices on account of the fact that it will have paid a fairly low purchase price for these companies in most cases. Consequently, ARQUES is in a position to sell its subsidiaries at a price that will enable the buyer to exploit the potential to add value to the company. The selling process normally begins at the point when the company enters a phase of profitable growth.

In this regard, it has been observed that financial investors willing to purchase such companies can still be found, although the financing possibilities have been severely restricted of late due to the current situation on the credit markets.

## The ARQUES model under varying economic conditions

In principle, 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 and more large corporations seeking to divest peripheral activities as they refocus on their core business. Consequently, there tend to be more companies in the market for turnaround candidates than there would be in more prosperous times. In a weak market environment, however, the buying process is fraught with particular dangers because the acquisition candidates are generally already exposed to greater operational risks, which are not always predictable and are usually negative, during the sale process. Particular care therefore needs to be taken in this regard. Furthermore, the restructuring process is generally much more difficult and time-consuming in a weak economic environment. It is also more difficult to tap and maintain external sources of finance. The sale of successfully restructured subsidiaries is similarly much more difficult in a weak economic environment. In such a climate, the valuation multiples of companies, on which the sale prices which ARQUES can demand are based, tend to be much lower across the board in every industry. Furthermore, the general economic environment or the company's specific situation could make it necessary to resell the acquired companies at symbolic or even negative prices, if ARQUES' risks would be reduced by such a sale.

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 enough companies in transitional situations on the market on account of the major structural changes in the global economy and the tendency of large corporations to focus on their core business. The restructuring process itself can be carried out more easily and quickly in a period of economic expansion, with external factors boosting the companies' revenues in particular. This makes it possible to complete a successful restructuring more quickly and boosts the demand for restructured companies which give the buyers additional potential to add value in accordance with the ARQUES business model. In good economic times, both strategic investors and financial investors can be considered possible buyers. Depending on the size and industry of the company in question, moreover, the capital market may also be used as an exit channel.

The sale price depends on the current state of the economic environment, which directly influences the valuation multiples that can be achieved for companies. Because the ARQUES business model is geared to the strategy of acquiring companies at favorable purchase prices, the company is not compelled to sell them at the highest possible price in order to realize a profitable exit. In principle, therefore, ARQUES can sell its subsidiaries with a positive cash return even in times of lower company valuations.

## Acquisition process

When selecting its acquisition targets, ARQUES does not concentrate on specific industries but rather on small to mid-sized companies with annual revenues between EUR 50 million and EUR 500 million. In the future, ARQUES will focus even more heavily on acquiring companies that have a favorable risk/reward profile.

## Restructuring

After completing the acquisition, ARQUES generally installs managers with restructuring experience in the new subsidiary in order to carry out the reorganization in the shortest possible time. The goal is to achieve a sustainable, profitable earnings position. Depending on the situation of the company in question, the following restructuring steps are implemented, among others, in some cases immediately after the acquisition:

- Establishment of new management structures
- Review of controlling systems and if necessary the introduction of more efficient controlling systems
- Debt remission and rescheduling with banks
- Setting up new, beneficial supplier relationships while settling left-over debt and arranging partial concessions, where appropriate
- Employee concessions
- Redundancy plans, agreements with works councils and trade unions
- Targeted partial divestments
- Improvement of working capital positions
- Reorganization of production processes
- Replacement of intercompany relationships with the former corporate groups
- Analysis of existing IT systems and frequently the introduction of newer, more modern IT systems
- Product portfolio streamlining
- Development of new sales and marketing concepts

After a subsidiary has been successfully restructured, further development of the company is continued. The goal now is to achieve sustainable profitability. The difficult economic climate at present, which above all is affecting manufacturing industry, is making it necessary to carry out additional restructuring steps.

## Example of Gigaset: consistent restructuring yields success

The restructuring of Gigaset Communications GmbH was systematically continued and largely completed during 2009. An operating profit (EBITDA) was already recorded in the first year of the company belonging to the corporate group primarily on account of the clear focusing and concentration on the profitable cordless telephony (cordless-voice) activities coupled with consistent cost management. At the time of acquisition, Gigaset was still burdened by the former corporate structures and running at a considerable operating loss. Our restructuring managers helped to streamline all processes, adjust the product portfolio, prepare the repositioning of the brand, sharply cut costs, and modify the previous corporate structures to reflect the requirements of a mid-sized enterprise.

In March 2009, Gigaset Communications GmbH and Sagem Communications reached agreement on the sale of Gigaset's broadband business under the terms of an asset deal. The transaction was completed with economic effect from July 1, 2009. The loss-making broadband activities sold (including WiMAX) accounted for around 15% of Gigaset Communications' revenues in the past fiscal year (2007/2008). The disposal of units not forming part of the company's core business and the focus on the telephony segment was a significant step in the restructuring of ARQUES' Gigaset Communications subsidiary.

## Exit

The Acquisitions and Exits departments have been merged to form the ARQUES M&A department. This step ensures that the background and requirements associated with a successful sale at the end of the holding period are already taken into consideration when making the purchase decision. Furthermore, the company-specific knowledge of the individual companies that was acquired during the acquisition phase can also be applied in the selling process. As soon as the basic reorganization steps have been completed and the subsidiary enters a phase of profitable growth, ARQUES initiates the process of selling the .

## Value-based management

The ARQUES Group is managed on the basis of a value-based, two-phase model. Phase one 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, which can last up to one year, by means of agreements reached with the creditors, employees, suppliers, and customers of the newly acquired companies. The profitability of the acquired companies is improved in phase two. Management uses EBIT (earnings before interest and taxes) to monitor the progress of the measures implemented to achieve this objective.

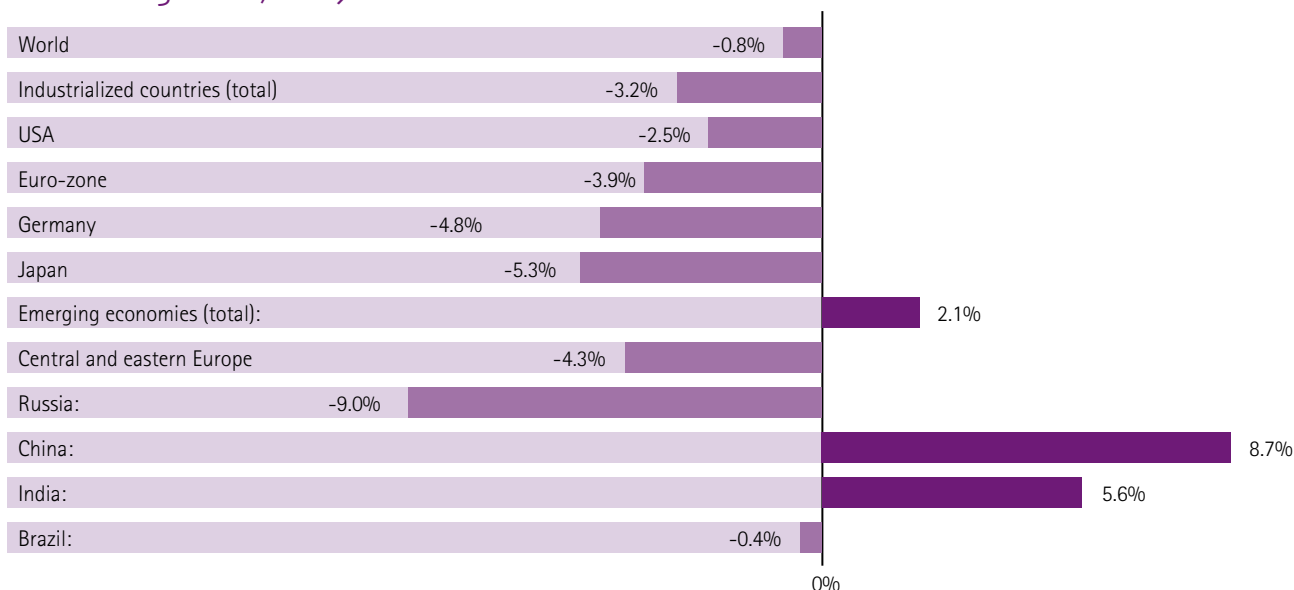
## General economic climate and industry environment

### Global economy firmly in the grip of recession in 2009

The global economy was firmly in the grip of the biggest global recession for more than 60 years in 2009. The traditional export-dependent industrialized nations in particular suffered badly from the massive decline in global trade. Only the concerted actions of central banks, which lowered their key interest rates to close to zero percent, together with wide-ranging economic stimulus packages by all the main governments prevented the financial system from collapsing. In addition, the interventions ensured that the bleak outlook that was still very much in evidence in the first half of 2009 had started to brighten by the end of the year. The International Monetary Fund (IMF) registered a decline of 0.8% in global economic output in 2009. The industrialized countries were particularly badly hit, seeing their aggregate output decline some 3.2%. At the same time, the emerging economies continued to expand, even if the 2.1% they recorded represents a slower pace than in the last few years. Driven by China (+8.7%) and India (+5.6%), the emerging economies of eastern and southeastern Asia grew a strong 6.5%. The two other BRIC states – Brazil and Russia – enjoyed widely differing fortunes. Brazil's economy remained relatively stable, contracting a mere 0.4%, whereas Russia suffered a decline of 9.0% in its economic output on account of its considerable reliance on commodities. Already hit hard by the financial crisis in 2008, the U.S. economy came off comparatively lightly, with aggregate output falling 2.5%. At the same time, the declines proved to be far more painful in the more export-reliant regions of the euro area (3.9%), especially Germany (4.8%), and Japan (5.3%).

The politically motivated stimulus packages and fiscal-policy measures were reinforced by an oil price that was around one-third below the record highs of 2008; average prices for other commodities over the year were also lower than in the previous year. This ensured that inflation rates only rose a very moderate 0.1% globally. The crisis also gave rise to widely varying exchange rates on the currency markets. At 1.43, the year-end rate for the euro against the dollar was practically unchanged, although it had fluctuated between 1.25 and 1.51 during the course of 2009.

## Economic growth, 2009:



Source: International Monetary Fund (IMF), World Economic Outlook Update January 26, 2010

## Equity investment market and operating conditions

The 2009 calendar year proved to be a very difficult period for equity investment firms and M&A transactions as well. According to an analysis by Thomson Reuters, the downward spiral could be stopped in the fourth quarter with a global transaction volume of EUR 625 billion following sharp declines in terms of both the number and volume of transactions. In the year as a whole, however, the M&A segment suffered a severe fall, with the aggregate value of transactions worldwide declining 28% to USD 2.1 trillion. Major transactions in particular were affected, as the decline in the number of mergers and acquisitions was relatively moderate, with the total falling 6.6% to around 38,000. In this context, the industry primarily suffered from the restrictive attitudes of banks toward extending loans in the first half of 2009. The private equity industry was hit particularly hard by this development. In Germany, for instance, private equity firms only conducted 111 (2008: 175) transactions. According to figures from Ernst & Young, the value of the associated deals contracted almost 50%, from EUR 15.1 billion to EUR 7.8 billion. Worldwide, private equity firms only made purchases worth USD 130 billion in 2009 – the lowest total since 2002. By way of comparison, acquisitions worth almost USD 800 billion were carried out during the boom years for the industry of 2007 and 2008. However, the numbers for the second half of the year indicate that the industry has bottomed out, with the value of the transactions in Germany climbing again sharply, from EUR 2.8 billion to EUR 5.0 billion. The German Private Equity and Venture Capital Association (BVK) has similarly expressed its optimism. Nevertheless, industry analysts believe that many private equity firms will fall victim of the crisis, with 20 to 30 percent of companies possibly disappearing from the market in the near future.

## Important events in fiscal 2009

### Preliminary comments

ARQUES, too, faced the most difficult year in the history of the company in 2009. Work on eliminating legacy burdens, reducing risk as necessary and realigning ARQUES as a consequence had already begun in 2008, which led to losses of value in that year and by extension to high write-downs. In 2009, ARQUES again had to recognize large-scale charges in the consolidated and separate financial statements. The global economic crisis is having a negative performance in our subsidiaries. In addition, ARQUES had paid excessive purchase prices in some cases and issued sweeping guarantees upon acquisition, which has similarly helped to depress the results. Some of our subsidiaries were not able to withstand the effects of the global recession and had to be sold at high book losses. Available financial resources were concentrated on the core portfolio. This, coupled with the essential reduction of debt, also challenged the financial capabilities of the holding company.

All in all, the net loss for the year of the holding company was more than halved compared with 2008, although the amounts still totals around EUR 45 million. The consolidated loss for the year has even risen again slightly compared with 2008. In both sets of figures, notably write-downs and other impairments not affecting liquidity taken in connection with the sale of companies triggered this negative business development. The global economic crisis has, however, also left a deep mark in the operating result (consolidated EBITDA); at just under EUR 18 million, this total is around 90% below the year-ago figure.

Nonetheless, the operating performance in the first quarter of 2010 does reflect clearly positive signs in almost all of our subsidiaries. Upon releasing the report on the first quarter of 2010, ARQUES was able to disclose a pre-tax profit again for the first time in nine quarters.

ARQUES believes it is in good shape for the future following the essential portfolio streamlining concluded in 2009 and the largely completed process of clearing the holding company's debt coupled with the loss-making reduction of risk. Risks to the continued existence of the company as a going concern remain from contingent liabilities entered into in 2008 and earlier years. Differing legal opinions between Siemens and ARQUES in connection with the acquisition of the interest in Gigaset in 2008 and its consequences which similarly endanger the continued existence of the company as a going concern are currently being clarified as part of arbitration proceedings. It is not possible at this time to definitively assess either the duration or the outcome of this process. Nevertheless, ARQUES continues to believe that its own legal opinion will prevail.

We aim to eliminate the liquidity risks endangering the continued existence of the holding company as a going concern by implementing further debt-restructuring measures and intra-Group financing measures as well as disposing of companies, where this is necessary and expedient. There is also the option of accepting new investors by implementing capital-raising measures. For more on this subject, please refer to the comments on financial commitments included in the sections entitled "Financial risk" and "Risks arising from contingent liabilities" in the Risk and Opportunities Report, which is contained in this combined management report.

As mentioned briefly above, the strategic focus of ARQUES Industries AG in fiscal 2009 was on reducing the risks in the corporate group, realigning the portfolio, making the best possible allocation of the restructuring and reorganization measures, and applying consistent cost management in the holding company and the subsidiaries. To achieve this, it was necessary among other things to dispose of subsidiaries that would have required high levels of financial commitment and risk to continue operating. In addition, companies were sold that had already been largely restructured in a short period of time and for which appropriate proceeds upon disposal could be achieved. Considerable progress is being made on the restructuring of the remaining portfolio, most notably in the case of Gigaset, which represents the most important subsidiary for ARQUES at present. Costs in the holding company were more than halved during the course of the year.

13 corporate groups were sold and one company acquired during the period under review. Thus the portfolio at December 31, 2009 consists of nine subsidiaries.

## Acquisition of the British School of Motoring (BSM) and the broadline distribution business of Ingram Micro

On February 11, 2009, ARQUES acquired the leading British driving school, the British School of Motoring (BSM), Bristol, for a symbolic purchase price. The seller was the British company RAC plc, a subsidiary of the insurance group AVIVA plc, the same company that sold Auto Windscreens in November 2008. The Actebis Group, which has since been sold, acquired Ingram Micro's broadline distribution business in Denmark as part of an asset deal. The distribution business of the Danish Ingram Micro subsidiary, including some of its employees and inventories, were integrated into the Danish subsidiary of the Actebis Group.

## 13 subsidiaries sold to various investors

ARQUES generated capital inflows totaling EUR 59.7 million on the sale of subsidiaries in fiscal 2009.

- In January 2009, ARQUES sold four corporate groups - the BEA Group, the news agency ddp, the Italian adhesive tape manufacturer Evotape, and the Swiss chemicals company Rohner - to a private equity firm for EUR 20 million as part of a portfolio transaction. In March 2009, ARQUES Industries AG sold its interests in Rohé, Sommer, and weberbenteli to various financial investors for symbolic prices.
- With effect from July 1, 2009, ARQUES sold the shares it held in tiskon AG to Russian investors for a symbolic price. Contrary to assurances given to us, financial commitments were not respected by the group of investors, resulting in tiskon having to declare bankruptcy shortly after the disposal.
- Similarly in July 2009, ARQUES Iberia was sold to the local management together with its subsidiaries for a symbolic price.
- Following the approval of the competent cartel authorities, ARQUES sold the Actebis Group to a strategic financial investor with effect from September 15, 2009. The purchase price totaled EUR 38.9 million. The majority of the proceeds were used to reduce the debt of the holding company.
- With effect from October 30, 2009, ARQUES sold logistics service provider Agencia Servicios Mensajería (ASM), Madrid, to an investor for a symbolic price.
- With effect from October 30, 2009, the British School of Motoring (BSM) was sold as part of a management buyout with a transaction volume of EUR 13.1 million. ARQUES had acquired the driving school in February 2009.

- Finally, ARQUES sold the British automotive glass specialist Auto Windscreens with effect from November 30, 2009, to a German-British family office as part of a secondary transaction with a transaction volume of EUR 10.7 million. This followed the successful completion of the initial restructuring phase.

## Bankruptcy of automotive supplier Capresa

As a result of the strained economic situation in Spain, the crisis in the automotive industry and the restrictive lending policies of Spanish banks, the unit sales of the Spanish automotive supplier Capresa collapsed. Consequently, the company was forced to file for bankruptcy on January 19, 2009.

## Changes on the Executive Board of ARQUES Industries AG

At its meeting held on February 2, 2009, the Supervisory Board of ARQUES Industries AG and Dr. Michael Schumann mutually agreed to cancel Dr. Schumann's appointment as Chairman of the Executive Board of ARQUES Industries AG with effect from February 28, 2009. At the same time, the Supervisory Board appointed Hans Gisbert Ulmke to act as Chief Financial Officer for a period of three years with effect from February 3, 2009. Hans Gisbert Ulmke was appointed Chairman of the Executive Board at the Supervisory Board meeting held on August 4, 2009.

At the Supervisory Board meeting on July 20, 2009, Michael Hütten was appointed to the Executive Board with effect from July 21, 2009. At the Supervisory Board meeting on September 29, 2009, the appointment of Bernd Schell was terminated with immediate effect.

Felix Frohn-Bernau resigned his position on the Executive Board of ARQUES Industries AG. The Supervisory Board accepted his resignation during its meeting on December 18, 2009.

Thus the Executive Board of ARQUES Industries AG consists of:

- Hans Gisbert Ulmke (Chairman, Finance, Legal Affairs, Corporate Communications, HR)
- Michael Hütten (Operations, Subsidiary Controlling, Acquisitions & Exit)

## Annual shareholders' meeting of ARQUES Industries AG

At the annual shareholders' meeting of ARQUES Industries AG held in Starnberg on August 5, 2009, the shareholders represented at the meeting approved a majority of the agenda items proposed by the management. Among other things, the shareholders represented adopted the agenda items pertaining to the ratification of the actions of the Executive Board and Supervisory Board, the election of the independent auditor, and the creation of an approved capital increase and condi-

tional capital. For further information about the annual shareholders' meeting, please refer to the "Report pursuant to Sections 120 (3) (2) and 175 (2) (1) AktG and Sections 289 (4), 315 (4) HGB" in the present annual report and our homepage at [www.arques.de](http://www.arques.de).

## Company Supervisory Board returned to full strength

With effect from the end of August 2009, Munich District Court appointed Bernhard Riedel, Dr. Georg Obermeier, Jean-Françoise Borde, Antoine Dréan and David Hersh to act as new members of the Supervisory Board of ARQUES Industries AG. At the annual shareholders' meeting on August 5, 2009, Dr. Rudolf Falter was the only candidate to receive the two-thirds majority required by the company's Articles of Incorporation. At its constitutive meeting on September 16, 2009, the ARQUES Supervisory Board elected Dr. Georg Obermeier to act as Chairman of the Supervisory Board and Jean-François Borde to act as Vice Chairman.

## EU cartel proceedings against calcium carbide manufacturers: fine imposed

In July 2009, the European Commission imposed total fines of EUR 61.1 million in connection with its anti-trust investigations of various European companies operating in the calcium carbide sector. In this connection, a total fine of EUR 13.3 million was levied against SKW Stahl-Metallurgie Holding AG, ARQUES Industries AG, and SKW Stahl-Metallurgie GmbH, with each of them bearing joint and several liability. ARQUES has filed an appeal against this ruling. Notwithstanding the appeal that has been filed, ARQUES reached agreement with the European Commission in October 2009 on the payment procedures for the 50% of the total fine of EUR 6.65 million provisionally apportioned to ARQUES and subsequently finalized these procedures by mutual consent.

## Arbitration proceedings with Siemens AG

ARQUES is currently involved in arbitration proceedings with Siemens AG in connection with the acquisition of Gigaset Communications GmbH ("Gigaset") in 2008. Essentially, Siemens AG has claimed payment of an initial purchase price installment of EUR 15 million and that ARQUES Industries AG is obliged to pay the second and third purchase price installments of EUR 15 million in each case; furthermore, Siemens AG has requested the settlement of a payment commitment made to Gigaset by ARQUES for an original amount of EUR 19.6 million and demanded a ruling to the effect that ARQUES and not Gigaset is required to account for the purchase price of the shares in Gigaset. ARQUES, on the other hand, defends the legal position that Siemens AG is not entitled to demand the purchase price installment of EUR 15 million at present, that the currently existing payment commitment made to Gigaset that has not been demanded only totals EUR 6.6 million, and that the terms of the purchase agreement for the shares in Gigaset require Gigaset to account for the purchase price and that Gigaset is the party liable to pay the purchase price. ARQUES has obtained a legal opinion in this regard, which reaffirms this assessment.

## Assets, financial position and earnings of the parent company and the Group

### ARQUES Industries Aktiengesellschaft - Separate financial statements

#### Business developments and portfolio optimization

Fiscal 2009 was the most difficult year in the history of ARQUES Industries AG.

Accumulated risks from prior years combined with the effects of the global economic crisis. Both of these together again led to very high unbudgeted expenses in both the separate and consolidated financial statements.

The unavoidable reduction of debt at the holding company, coupled with the rising demand for finance in the portfolio companies resulting from the economic crisis, made it necessary to sell a number of portfolio companies as other sources of finance remained firmly closed.

Especially in the first half of the year, the course of 2009 was dominated by a further deterioration of the global economic crisis. This made it essential for us to review the entire portfolio in order to locate further areas in need of adjustment. During the course of this review,

the company identified the enterprises that it had become disproportionately complex and cost-intensive to restructure in a time of global crisis. The company has been systematically disposing of these enterprises since mid-2008. As expected, it was not possible to generate any substantial contributions to profits or liquidity inflows on these disposals. Instead, streamlining the portfolio resulted in high charges against earnings in both the separate financial statements and the consolidated financial statements. In a few cases, moreover, it was necessary to issue guarantees or make commitments that will lead to liquidity outflows in the future. Provisions have been set up for this in the present separate financial statements.

In 2008, Schöps, Hottinger and Eurostyle were the first three corporate groups to be sold as part of the portfolio streamlining. Further disposals like this followed in 2009 in the form of Rohé, Sommer, Weberbenteli, ASM, ARQUES Iberia and tiscon.

The portfolio deal completed in January 2009 (BEA, Evotape, ddp and Rohner) together with Actebis, BSM and AWS were successful disposals, the proceeds from which were used to reduce the debt of the holding company and to finance the rest of the Group.

In fiscal 2009, two significant purchase price guarantees were utilized at ARQUES Industries AG. An amount totaling around EUR 12 million was paid.

#### Key indicators of assets, financial position and earnings

		2009	2008
Cash and cash equivalents		EUR 4.2m	EUR 21.8m
Current financial liabilities		EUR 5.7m	EUR 43.1m
Equity ratio	$\frac{\text{Equity}}{\text{Total assets}}$	30.9%	43.3%
Return on equity	$\frac{\text{Net profit}}{\text{Equity}}$	negative	negative
Return on capital employed	$\frac{\text{Net profit}}{\text{Total assets}}$	negative	negative

The portfolio optimization together with impairment losses on financial assets and intragroup receivables on the one hand and the reduction of debt on the other hand had contrary effects on the equity ratio, resulting in this figure continuing to decline. The return ratios such as return on equity and return on capital employed remained negative. The reduction of obligations consumed a majority of the cash and cash equivalents on hand at the reporting date compared with 2008.

#### Assets

At December 31, 2009, the company's total assets amounted to EUR 82.6 million (prior year: EUR 163.5 million). The sharp decline results essentially from the continued portfolio optimization and risk reduction, and is thus

a consequence of the write-downs on investments in subsidiaries, value adjustments on receivables due from affiliated companies and losses on receivables, coupled with a major reduction of debt.

Even after the portfolio optimization, non-current financial assets still accounted for EUR 46.9 million or 56.9% (prior year: 56.4%) of the company's total assets. Most of the additions and disposals related to intra-group transactions and transfers to provisions or reversals of the capital reserves at various subsidiaries. The disposals were also characterized by the sales completed in fiscal 2009.

The receivables due from affiliated companies amounted to EUR 28.2 million as compared with EUR 46.3 million in the previous year. They again consist mainly of loan receivables due from affiliated companies.

The company's equity totaled EUR 25.5 million (prior year: EUR 70.8 million), corresponding to an equity ratio of 30.9% (prior year: 43.3%).

In the past fiscal year, the other provisions contained a provision for the anticipated execution of a guarantee that ARQUES had issued in connection with the sale of a subsidiary (EUR 6.8 million). Provisions totaling EUR 6.9 million were also set up for pending proceedings, litigation and asserted claims for compensation.

The liabilities due to banks fell to a total of EUR 5.7 million after EUR 43.2 million in the previous year. This figure highlights the extent to which the Group's external debt has been reduced.

Other liabilities of EUR 5.6 million relate to liabilities arising from the EU's antitrust proceedings against calcium carbide manufacturers. For more information about this fine, please refer to our comments in the section entitled "Significant events in fiscal 2009."

### Financial position and financing

At the reporting date, the company had taken out loans, some of which were secured by collateral, from a total of two banks (two current account overdraft facilities). One credit facility was already fully repaid in 2010. The remaining credit amount of EUR 2.0 million has been extended to July 2010 and is repayable on November 30, 2010.

Beyond these loans, the company did not have any further current or non-current financial liabilities at the reporting date.

Based on the current plans, ARQUES believes that it will not need to take on any further debt in fiscal 2010.

As in the previous years, the cash inflows in 2009 resulted mainly from the sale of subsidiaries and to a lesser extent Group cost allocations. Some of these funds were used to repay debt and to finance subsidiaries.

With regard to the fundamental risks associated with liquidity and financing, please refer to the discussion of financial risks in the Risk and Opportunities Report, which is contained in this combined management report.

### Earnings

ARQUES generated revenues of EUR 6.3 million (prior year: EUR 2.4 million) in fiscal 2009. These revenues derived from the consulting services provided to portfolio companies.

Other operating income amounted to EUR 13.4 million in fiscal 2009 after EUR 20.0 million in the previous year. The main reasons for this were the lower gains on the disposal of subsidiaries than in 2008 and a non-recurring gain on sales of loans recognized in 2008.

Purchased goods and services, consisting of services purchased from external consultants, amounted to EUR 2.1 million in fiscal 2009 (prior year: EUR 3.9 million).

Personnel expenses fell from EUR 8.4 million to EUR 6.6 million year-on-year. The main reason for this was the large number of positions eliminated in the holding company.

The write-downs of EUR 23.4 million on current assets essentially relate to individual value adjustments on loan receivables due from affiliated companies.

Other operating expenses fell sharply, with savings made in just about every area. Legal and consulting costs amounted to EUR 4.2 million in fiscal 2009 after EUR 6.0 million in fiscal 2008. There was also a decrease in the losses on sales of loans (decline of EUR 3.0 million) and the expenses relating to legal proceedings, litigation, claims for compensation and guarantees (decline of EUR 11.5 million).

Impairment losses of EUR 16.2 million were recognized on the company's non-current financial assets and marketable securities presented as current assets. Among other things, the total includes impairment losses on the interests held in WDK Holding GmbH (EUR 5.1 million) and Fritz Berger GmbH (EUR 4.6 million).

ARQUES collected dividends of EUR 4.3 million from portfolio companies in 2009 (prior year: EUR 10.0 million).

The company's interest expenses declined considerably as a result of the debt repayments made during the year.

The net loss for the year amounted to EUR 45.3 million after EUR 102.2 million in the previous year.

## ARQUES Industries Aktiengesellschaft – Consolidated financial statements

### Assessment of the economic environment in fiscal 2009

Fiscal 2009 proved to be the most difficult year in the history of the Group as well. Revenues declined significantly, notably on account of the sale of the Actebis Group and other company disposals. Despite its size, Gigaset was only able to offset part of this decline. Although changes in the portfolio represent the main reason for the fall in revenues, it is also important to recognize the part played by the global economic crisis in 2009 in causing our remaining portfolio companies to face declining revenues.

The completion of the necessary portfolio optimization and the other company disposals served to depress the EBIT on account of impairment losses totaling a further EUR 77.8 million after EUR 133.7 million in the previous year.

For more detailed information about the economic situation of the principal subsidiaries, please refer to the comments in the section of the combined management report entitled "ARQUES Group and subsidiaries" and to sections entitled in "Notes on company acquisitions" and "Notes on company sales" in the notes to the financial statements.

### Assets

Unlike in the previous year, the structure of the balance sheet at December 31, 2009 is no longer influenced by the trading activities of the Actebis Group. The Actebis Group is, however, included in the income statement for 2009 for a period of eight months.

### Asset structure analysis

In the course of its ordinary business activities, ARQUES purchases and sells companies in a wide range of economic sectors and industries. Consequently, the Group's asset structure is highly volatile, being composed of the very heterogeneous balance sheets of the companies comprised within the Group's current portfolio. The changes to the Group's assets from the previous year can be attributed in large part to the changes in the consolidation group over the course of the year. The company acquisitions and sales are explained in detail in the corresponding notes to the financial statements.

In accordance with the principle of fair value measurement, the assets and liabilities of the acquired companies are remeasured at the acquisition date as part of the purchase price allocation process. In accordance with the applicable accounting standards, any differences between the fair values and the carrying amounts are recognized in the balance sheet and income statement. In subsequent periods, the hidden reserves comprised within the carrying amounts of non-current amounts which were uncovered as part of the purchase price allocation process are amortized over the remaining useful lives of the non-current assets in question. This practice accounted for no small proportion of the still high depreciation and amortization charges recognized in 2009.

The total assets of the ARQUES Group amounted to EUR 658.0 million at December 31, 2009, which is much lower than the year-ago total on account of the changes in the portfolio. The non-current assets decreased from EUR 476.0 million to EUR 256.5 million.

The current assets fell by a disproportionately large amount compared with the previous year. Here, too, the loss of the trading activities of Actebis and other companies are the main cause. This structural change is made clear by the following breakdown of assets by operating segment:

SEGMENT ASSETS IN EURM	2009	2008	CHANGE
Steel	29.9	50.5	-41%
Print	18.6	72.9	-74%
Industrial Production	36.9	82.3	-55%
IT	0.0	591.5	-100%
Automotive	142.8	183.5	-22%
Retail	42.2	49.5	-15%
Specialty Chemistry	19.7	46.2	-57%
Communications	322.5	395.3	-18%
Holding	24.1	35.9	-33%
Service	8.0	180.3	-96%
Group adjustment	1.9	4.4	-57%
<b>Total</b>	<b>642.8</b>	<b>1,683.5</b>	<b>-62%</b>

The inventories declined from EUR 378.9 million in the previous year to EUR 93.7 million at the 2009 reporting date. A portion of the trade receivables had been assigned to various financing companies (factoring companies) at the reporting date.

The assets and liabilities held for sale were composed of the assets and liabilities of SM Electronic.

The Group held cash and cash equivalents in the amount EUR 74.9 million at the reporting date. The current financial liabilities were again reduced sharply in 2009, by EUR 87.1 million from EUR 136.8 million to EUR 49.7 million.

Of the Group's total assets, 39% (prior year: 28%) are non-current and 61% (prior year: 72%) current.

The Group's consolidated equity amounted to EUR 121.5 million at December 31, 2009 (prior year: EUR 266.4 million), corresponding to an equity ratio of 18.5% (prior year: 15.5%).

The Group's current and non-current financial liabilities declined appreciably, by EUR 124.3 million from EUR 212.0 million to EUR 87.7 million.

ARQUES maintains an active capital and asset management program with the goal of securing the continued operation of all Group companies and optimizing the ratio of equity to debt in the interest of all stakeholders. The capital structure is managed primarily on a decentralized basis, in the operating subsidiaries and business units. The capital management programs of the individual companies are monitored on

the Group level as part of a regular reporting process; where necessary, these programs are supported and optimized. The capital managed under such programs includes all current and non-current debts and liabilities and equity components. Decisions on dividend payments or capital-raising measures are made individually for every company on the basis of the internal reporting system and in consultation with the subsidiaries in question.

### Financial position

The restructuring success achieved in a given subsidiary is reflected in the ability of the restructured company to generate positive cash flows or at least not to use all available funds for restructuring purposes alone. Where free cash flows are generated or disposable funds are otherwise available, the company in question will be in a position to repay the shareholder loans extended to it. In some cases, such repayment could occur well before the company is able to pay dividends, as when the company still has loss carry-forwards to work off, for example.

In times of global economic crisis, strict cost and liquidity management commands the highest priority. In view of this necessity, ARQUES started in 2008 and continued in 2009 to subject the entire portfolio to a review, especially including the companies' future liquidity needs. As a result of this process, we identified several companies which it would be too complex or cost-intensive to restructure in times of crisis. ARQUES disposed of these companies in 2008 and 2009 in order to conserve liquidity for the Group.

### Cashflow

The Group's cash flow experienced the following negative development on account of the global economic crisis coupled with the changes in the portfolio and the lack of new companies acquired:

EURM	2009	2008
Cash flow from operating activities	-59.7	119.0
Cash flow from investing activities	-9.2	61.8
Free cash flow	-68.9	180.9
Cash flow from financing activities	-10.9	-106.2

In particular, the non-recurrence of positive one-time effects compared with 2008 led to these sharply negative changes. For example, almost EUR 80 million was recorded as inflows from the introduction of factoring in the cash flow from operating activities in 2008; the equivalent figure in fiscal 2009 was zero. The reduction of the liabilities allocated to the cash flow from operating activities is a further influencing factor worthy of note.

Also in 2008, cash and cash equivalents of EUR 95.1 million were assumed as part of company acquisitions; the equivalent total in 2009 was just EUR 1.7 million.

The Group recorded a cash outflow of EUR 10.9 million from financing activities. This can be attributed primarily to the repayment of financial liabilities.

For information on the risks associated with the financing structures, please refer to the section on financial risks in the Risk and Opportunities Report included in this combined management report.

### Key indicators of assets, financial position and earnings

		2009	2008
Equity ratio	Equity Total assets	18.5%	15.5%
Asset intensity	PP&E and intangible assets Total assets	37.2%	26.2%
Structure of liabilities	Current liabilities Total liabilities	73.9%	78.2%
Return on sales	EBIT Revenues	negative	negative
Return on equity	Consolidated net profit Equity	negative	negative
Return on capital employed	Consolidated net profit Total assets	negative	negative

## Earnings

### Revenues

ARQUES acquires companies from a wide range of industries. These industries form the basis for the primary segment reporting. Please refer to the relevant comments in the notes to the financial statements for the detailed description of the segment report.

Revenues of EUR 3,492.0 million were generated in fiscal 2009, representing a decrease of 37% compared with the total for the previous year. The change in revenues is essentially attributable to the disposal of the Actebis Group during the course of the year. The acquisitions and disposals had a significant impact on some of the segments:

REVENUES IN EURM	2009	2008	CHANGE
Steel	34.2	86.2	-60%
Print	45.7	81.3	-44%
Industrial Production	56.3	129.9	-57%
IT	2,287.5	3,974.3	-42%
Automotive	213.3	537.3	-60%
Retail	98.4	122.6	-20%
Specialty Chemistry	59.0	172.7	-66%
Communications	551.1	156.1	253%
Holding	40	0.0	0%
Service	146.5	244.6	-40%
Continuing operations	1,058.0	1,286.2	-18%
Discontinued operations	2,434.0	4,218.8	-42%
Total	3,492.0	5,505.0	-37%

Following the sale of the two IT distributors Actebis and tison, the Communications segment followed by the Automotive segment will be the key factors in the development of earnings from ongoing operating activities in the future.

### Key items in the income statement

Other operating income amounted to EUR 84.7 million in the reporting period, representing a considerable year-on-year decline. The main reason for this is the almost complete lack of income from the reversal of negative goodwill which has been so important for earnings in the past. This income had already decreased considerably in 2008. Nevertheless, substantial income of this type resulted in particular from the acquisition of Gigaset. In 2008, the amount totaled EUR 108.4 million, whereas only EUR 11.3 million was recorded in 2009.

This "non-recurring" income results from the first-time consolidation of the acquired companies. Income from the reversal of negative goodwill is recognized when the cost of an acquisition is less than the sum total of the fair values of the assets minus the liabilities and contingent liabilities of the acquired company. After repeated review, such differences are recognized as income in the period during which the acquisition occurred. According to IFRS, expenses from future restructuring measures may only be taken into account at the acquisition date if such restructuring measures had been resolved by the seller prior to the sale. In most cases, such expenses will be incurred after the acquisition either in the year during which the acquisition occurred or in subsequent years. The income from the reversal of negative goodwill recognized in fiscal 2009 was offset by the expenses of conducting the restructuring measures in the acquired companies. The change in other operating income primarily reflects the effects of changes in the consolidated group, foreign exchange gains, the remission of receivables by third parties and income from cost reimbursements granted by third parties.

At EUR 2,808.1 million, the cost of purchased goods and services in fiscal 2009 was below the year-ago total of EUR 4,717.5 million on account of changes in the consolidation group. This is essentially attributable to the fact the Actebis Group was not part of the consolidation group for the whole year. In addition, expenses were increased by the Gigaset Group being included for a complete fiscal year for the first time.

The same factors were behind the decline in personnel expenses (wages, salaries, social security and pension expenses), which fell from EUR 481.9 million to EUR 389.7 million in fiscal 2009 on account of changes in the consolidation group.

Other operating expenses fell from EUR 445.4 million in 2008 to EUR 372.0 million. The biggest constituents of this item are administrative expenses, shipping and freight expenses, expenses related to land and buildings, marketing expenses, consulting expenses, maintenance expenses, foreign exchange losses, value adjustments on receivables and losses on deconsolidation.

The EBIT was also significantly burdened by impairment losses taken in connection with the portfolio optimization process and the impact of the economic crisis on the earnings prospects of the various Group companies. All in all, it was necessary to recognize further impairment losses of EUR 77.8 million (prior year: EUR 133.7 million). EUR 11.9 million of this total related to SM Electronic, which was classified as held for sale at the reporting date. Impairment losses of EUR 38.9 million were recognized upon the sale of Actebis. Further impairment losses were taken on Gigaset (EUR 9.5 million) and Anvis (EUR 6.5 million), among others.

The net financial expenses improved considerably year-on-year. The main reasons for this were the much lower costs for finance leases and factoring coupled with the lower interest payments on loans taken out.

### Earnings performance

The EBITDA (earnings before interest, taxes, depreciation and amortization) for fiscal 2009 totaled EUR 17.7 million, which is EUR 93.8 million less than the year-ago figure of EUR 111.5 million. As mentioned above, the principal reason for this is the lower income from reversal of negative goodwill. At minus EUR 139.8 million, the EBIT (earnings before interest and taxes) was again lower than the total for the previous year.

The segment EBITDA totals contain the income or expenses from the reversal of negative goodwill, while the segment EBITs also contain the impairment losses and write-downs from the portfolio optimization process, which had a negative influence on nearly all the segments.

The following table shows the development of the segment results:

EBITDA IN EURM	2009	2008
Steel	-2.2	17.4
Print	3.0	8.9
Industrial Production	2.5	-9.9
IT	31.1	44.6
Automotive	1.7	7.0
Retail	-2.5	-13.6
Specialty Chemistry	-3.5	-7.4
Communications	12.4	69.1
Holding	-23.1	-27.2
Service	-1.7	22.5
Continuing operations	-11.7	44.4
Discontinued operations	29.4	67.1
<b>Total</b>	<b>17.7</b>	<b>111.5</b>

EBIT IN EURM	2009	2008
Steel	-5.3	6.4
Print	-5.7	-16.5
Industrial Production	-1.1	-14.6
IT	-19.2	25.6
Automotive	-18.1	-88.3
Retail	-19.0	-34.4
Specialty Chemistry	-5.1	-23.0
Communications	-38.3	52.6
Holding	-24.6	-27.4
Service	-3.4	4.0
Continuing operations	-117.3	-85.9
Discontinued operations	-22.5	-29.6
<b>Total</b>	<b>-139.8</b>	<b>-115.5</b>

The consolidated net loss for fiscal 2009 totaled EUR 153.0 million, which was again slightly higher than the year-ago total of EUR 145.7 million.

An amount of EUR 145.4 million of the consolidated net loss is attributable to the shareholders of ARQUES Industries AG (prior year: EUR 134.2 million).

### Summary assessment of earnings

ARQUES' earnings performance in the past fiscal year was affected primarily by events that exerted a negative impact on the consolidated net profit below the level of EBITDA; the EBITDA was again affected by the very sharp decline in income from the reversal of negative goodwill. In addition to the high level of ongoing depreciation, amortization and financial expenses, high impairment losses had to be charged in order to secure the future of the core portfolio. In this regard, it had become necessary to divest the Group of weaker subsidiaries.

## Employees

The performance, dedication and identification of the ARQUES Group's employees with the company and its goals are the most important factors for the company's business success. In fiscal 2009, the ARQUES Group had an average of 9,417 employees (prior year: 12,300). Of this number, 3,169 were hourly wage workers (prior year: 5,746), 6,079 were salaried employees (prior year: 6,286) and 169 were vocational apprentices (prior year: 268). The employees of the companies that were added or removed in 2009 were included on a pro rata basis. At December 31, 2009, the ARQUES Group had 5,049 employees (prior year: 13,455), including 1,804 hourly wage workers, 3,140 salaried employees and 105 vocational trainees.

## Report on the development of the ARQUES Group subsidiaries

### Summary of the subsidiaries of ARQUES Industries AG at December 31, 2009:

SUBSIDIARY	ACQUISITION DATE (SIGNING)	INDUSTRY
GolfHouse	June 2005	Retail and mail-order sales
Fritz Berger	May 2006	Retail and mail-order sales
Oxxynova	September 2006	Specialty chemicals
Wanfried Druck Kalden	March 2007	Package and label printing
Van Netten	April 2007	Confectionery maker / industry
Anvis	September 2007	Automotive supplier
SM Electronic	November 2007	Consumer electronics dealer
Carl Froh	April 2008	Steel processor / automotive supplier
Gigaset Communications	August 2008	Telecommunication

There follows a description of the development of the ARQUES subsidiaries in fiscal 2009 and the Actebis and tison subsidiaries sold in 2009 complete with their performance up to the date of disposal.



The Anvis Group is a primary developer and manufacturer of innovative functional solutions for the motional stability, comfort and safety of motor vehicles. The Group's product line encompasses the complete process chain with respect to anti-vibration systems, from the initial idea to serial production. The Anvis Group serves the automotive industry from its own sites and branch offices throughout the world.

## Industry analysis

Following a bad start to 2009, the international auto market performed better than had originally been expected at the turn of the year. At the beginning of last year, registrations of new cars were forecast to decline some 15 to 20%. On many international markets, however, state incentives, mostly in the form of tax breaks and car scrappage allowances, helped to revive sales of new vehicles such that car sales declined a mere 3% over the year as a whole. A greater decrease in worldwide auto sales was prevented by the Chinese market in particular, which proved extremely robust in 2009. The world car market is expected to mark time in 2010, assisted by growth in both Asian markets and the United States. In western Europe, on the other hand, the volume of new vehicle registrations is likely to fall as the incentives in some countries expire.

## Company situation, business developments, restructuring and development measures

The development of the Anvis Group in the first half of 2009 was still shaped by the difficult economic situation in the automotive industry. A marked improvement in the situation became evident in the second half of the year, with the company profiting from the good sales position of its main customer, VW, together with a general market recovery on account of the car scrappage schemes. In the year as a whole, however, revenues were around 20% below the year-ago total. The biggest decline in revenues was recorded in the truck segment.

The operating results were affected by the lower than planned revenues coupled with non-recurring expenditures incurred for the restructuring of production facilities and special shipping costs. Anvis's management reacted promptly to the difficult situation in the industry by initiating key counter-measures aimed at boosting efficiency.

This included partial plant closures and workforce reductions achieved by not renewing temporary contracts and releasing temporary staff. Furthermore, permanent staff were also released and vacant positions eliminated. It proved possible to considerably reduce both production costs and the working capital costs for inventories. At the same time, renegotiating contracts made it possible to involve customers in investment costs at an earlier stage and shorten periods allowed for payment. Receivables management was stepped up and investments planned for 2009 put back.

In the fourth quarter of 2009, the joint venture shares held in the Brazilian Anvis company Vibracoustic do Brasil Industria e Comercio de Artefatos de Borracha Ltda. were sold to the joint venture partner with economic effect from January 4, 2010.

## Outlook

The Anvis Group will continue to systematically apply the restructuring measures that have been initiated, again focusing on reducing both indirect costs and the cost of materials. Special attention will be paid to restructuring the Decize facility in France, where the reorganization and major streamlining of the production processes together with the reduction of administration are intended to help cut costs and boost productivity. The ANVIS Group expects to see its revenues grow around 5% in 2010, with profits rising slightly more.





Based in Sundern (in the Sauerland region of Germany) Carl Froh is a leading manufacturer of precision steel tubes and components built to customer specifications. The company produces low tolerance precision-welded steel tubes designed to meet special demands and develops comprehensive solutions for high quality components and modules for a diverse range of applications.

### Industry analysis

The steel tube industry is significantly affected by the general state of industry, especially the automotive industry. In the first four months of 2009, the production output of German industry was 19.3% less than the corresponding year-ago figure. Based on the positive signals coming from business sentiment indicators, the Federation of German Industries (BDI) spoke of a bottoming out of the recession in the second half of 2009 in its economic report. Following a completely dissatisfactory start to 2009, the international automotive industry fared better than feared at the beginning of the year. A global decline of 15% to 20% had been forecast for registrations of new cars at the start of last year. However, government incentives in many foreign markets, mostly in the form of tax breaks and car scrappage schemes, helped to revive the new car business, resulting in a decline of only 3 percent in sales of new cars over the year as a whole.

### Company situation, business developments, restructuring and development measures

Due to the negative economic trend and the substantial drop in the prices for materials, Carl Froh's revenues were substantially lower in the first half of 2009. Accordingly, the company initiated counter-measures, including short-time working for a large number of employees. As part of its program to optimize production processes, Carl Froh overhauled a tube welding machine and invested smaller sums in machining equipment. Carl Froh acquired several new orders in the reporting period that had not been contained in the budget, including the biggest order in the company's history, for an amount of EUR 25 million and with a term until 2011.

### Outlook

Carl Froh expects the component production market to revive, which will lead to more stable prices for raw materials. In connection with its newly acquired orders, the company will make partial investments in its material flow and optimize its logistics, which should lead to improved productivity.



Fritz Berger is a leading distributor of caravanning, camping and leisure products in Europe, focusing primarily on Germany where it has a nationwide presence with more than 40 stores and sales partners. Besides the specialist outlets, the products are distributed by the company's own mail-order operation and online. In addition, Fritz Berger operates six Jack Wolfskin stores. The product portfolio ranges from comfortable awnings and camping furniture to special equipment like solar cells for RVs, outdoor clothing and accessories for all outdoor activities.

### Industry analysis

According to figures from the Federal Statistical Office, the number of overnight stays on camp sites in Germany increased 7.6% to around 22.7 million during the summer period from May to October. At the same time, the number of registrations of new recreational vehicles in Germany fell sharply (caravans -13.3%, motorhomes -16.2%). This is offset by a clear revival in the market for used RVs.

### Company situation, business developments, restructuring and development measures

Fritz Berger succeeded in substantially increasing its revenues and earnings year-on-year in fiscal 2009 and operated at a profit. Based in Neumarkt in der Oberpfalz, Germany, the company opened seven new leisure stores in Heidelberg, Wutöschingen, Quickborn, Paderborn, Neustrelitz, Pfullingen, and Hachenburg during the reporting period. The camping and outdoor expert expanded operations involving its proprietary Berger brand and offered its customers numerous top sellers, reductions, discounts, and permanently cut-price items in its main 2009 catalog. Customer loyalty measures were implemented with the roll-out of a Fritz Berger customer card.

### Outlook

Fritz Berger will open four new outlets as planned in 2010, which will help to boost its revenues. At the same time, the company will intensify its marketing activities and place more emphasis on the proprietary Berger brand. Fritz Berger aims to double its earnings (EBITDA) in 2010. Fritz Berger was sold to a strategic investor with effect from April 29, 2010.

# Gigaset

The business of Gigaset Communications is focused on the design, development, production and distribution of high quality home communication products under the Siemens Gigaset brand. The product portfolio includes fixed-line telephones and voice-over-IP models. Gigaset Communications is one of the biggest manufacturers of cordless phones worldwide and the clear European market leader for DECT phones. The main production facility is in Bocholt, Germany, where Gigaset's products are manufactured according to the highest quality and environmental standards.

## Industry analysis

As a result of the economic situation, the global market for cordless phones will continue to consolidate through 2010 before returning to growth in the subsequent years. The market in Europe is expected to remain constant from 2009 in terms of value. The slight decline in the western European market over the next few years will be offset by minor growth in eastern European markets. In North America, the market consolidation is predicted to continue through 2010, with the overall market expected to pick up again from 2011. The product segment served by Gigaset is projected to enjoy double-digit growth rates over the next few years as a result of the substitution of analog and other digital transmission technologies by DECT 6.0 and an expected complete penetration of the North American market for cordless fixed-line telephones by 2013. The markets in the Middle East, Africa, Asia, and South America represent further areas of growth. For these regions, it is expected that the rapid decline in analog transmission technologies will lead to growth in digital telephones in general, and DECT phones in particular, from 2011 at the latest, thus ensuring that the market segment targeted by Gigaset will develop well.

## Company situation, business developments, restructuring and development measures

In fiscal 2009, Gigaset Communications GmbH succeeded in increasing its share of the European market (measured by revenues) by three percentage points to 33% compared with the previous year. Gigaset also registered considerable growth in Germany, where the company holds down more than 50% of the market.

Revenues in the core "voice" business (telephony) were ahead of budget in the core markets of western Europe. In Russia, on the other hand, the economic crisis meant that the expected revenues were not achieved, as was also the case for activities involving VoIP products.

The strict cost management program that the ARQUES Industries Task Force has implemented since the acquisition of Gigaset Communications GmbH is starting to have an impact, such that the company's

earnings developed far better than planned. This was reinforced by the disposal of the loss-making broadband operations in the second half of the year. Gigaset generated an operating profit on the back of an extremely good Christmas season.

The company successfully implemented most of the steps required to separate itself from the complex corporate structure of the former owner during the reporting period. The company also intensified its efforts to establish a stand-alone corporate structure suitable for a medium-sized enterprise like Gigaset. Important aspects of that work include strict cost management, the elimination of parallel structures in commercial functions, the simplification and consolidation of country structures, and the standardization and streamlining of the IT systems and processes. Furthermore, the supplier structure was adjusted to match the new mid-sized organization, which achieved considerable savings. The headcount was also reduced in a socially responsible manner.

In March 2009, Gigaset and Sagem Communications reached an agreement on the sale of Gigaset's broadband business by way of an asset deal. The transaction was completed with effect from July 1, 2009. The spin-off of the loss-making broadband division, which was no longer part of the company's core business, was a fundamental objective in the restructuring of the company. In October, Gigaset sold its home media activities, which generated around 90% of its revenues in Spain, to an indirect subsidiary of ARQUES Industries AG in Spain.

Gigaset also added new, high-quality cordless phones for private households, small firms and home offices to its product portfolio. The company unveiled the Gigaset E490/495, a robust, functional telephone that can be used under tough conditions and targeted at technically demanding target groups such as tradesmen. The new Gigaset C590/595 and Gigaset S790/S79 phones feature outstanding sound, versatile applications and attractive designs. The readers of the trade magazine connect voted the flagship Gigaset SL 785 cordless phone product of the year. This award is indicative of Gigaset's leading position in the German market. When designing its phones, Gigaset places great emphasis on what are known as eco-functions, such as energy-saving power units and variable functions to reduce transmission power. The base station in new generation Gigaset models shuts down transmission when it goes into standby mode. Aside from innovative new product developments, Gigaset also rolled out a new software program used to synchronize data between Gigaset phones and the computer. For product launches, Gigaset relies on specific marketing activities aimed at the relevant target group and does not attend costly major events.

Gigaset continued its wide-ranging research and development work during the year under review. Its activities focused on the Digital Enhanced Cordless Telecommunications standard for cordless telephony (DECT). The company has set the pace in DECT innovation over the last

few years. With regard to Voice over IP technology, Gigaset is relying on new standards. Technological advances in the field of Voice over IP telephony can entail large-scale investments in R&D, which Gigaset is involved in by proactively concentrating on specific fields in its R&D program. The emphasis on R&D is one of the key factors underpinning Gigaset's success in a competitive market environment.

Gigaset was able to extend the licensing rights to the well-known Siemens name for a transitional period in the year under review. The company also developed a plan to change over to the Gigaset brand which is now being implemented on a step-by-step basis.

The company funds itself by using the cash flows from its current operations and by utilizing factoring. A restructuring loan with a period of three years also exists. The capital base provided for Gigaset by the previous owner at the time of acquisition by ARQUES continues to form a solid foundation.

A modern machine made available at the production facility in Bocholt by the disposal of the broadband activities was used to replace an older piece of equipment, which served to enhance efficiency. Production costs were substantially reduced in 2009 overall.

## Outlook

Gigaset Communications GmbH will continue to focus on its profitable core business involving voice products (cordless phones, phones for Voice over IP, and fixed-line phones). In doing so, it will concentrate on the environmental, quality and design issues. ARQUES will also optimize internal processes and implement measures aimed at cutting costs in all areas with the general assistance of the Task Force. Furthermore, the establishment of new internal processes and structures is scheduled for completion in 2010.

Targeted growth is expected to stem from product innovations together with an expansion of international activities. In addition, Gigaset plans to more actively address the SME segment in the future in parallel to its private customer operations.

As a result of the disposal of non-core business activities completed in 2009, Gigaset expects its revenues to decline and its profit margin to increase at the same time.

The company will successively migrate the brand strategy from Siemens Gigaset to Gigaset in line with its multi-stage strategic plan. Revenues of around EUR 500 million and an operating profit before restructuring costs of EUR 45–50 million are projected for fiscal 2010.

A new management team for the sales, restructuring, project management, IT and HR activities was appointed at Gigaset Communications GmbH with effect from February 15, 2010.

# Golf House

Golf House is the leading specialist retailer of golfing products and services in Germany, with a nationwide presence of 14 outlets. The product portfolio encompasses golf equipment such as clubs, bags and accessories, together with clothing and shoes from all the main manufacturers. The services offered include club fitting (which involves adjusting clubs to match the individual golfer), swing analysis and repairs. Golf House also operates a classical mail-order business and an online store.

## Industry analysis

Despite a rise in the membership of the German Golf Association (DGV), the market volume for golfing equipment and accessories in Germany declined slightly in 2009. The strained market in the United States and Britain together with the shrinking southeast European markets of Portugal and Spain, plus France, has put downward pressure on prices, which has now reached the German market. The competitive situation in the golf industry has intensified, with growth only possible at most from displacement at the present time. The golf market is expected to revive somewhat in 2010, but this depends on the general economic climate coupled with seasonal weather conditions.

## Company situation, business developments, restructuring and development measures

Golf House was able to expand its revenues around 4% year-on-year in a shrinking market, thanks above all to the strong performance of its distance business over the internet and mail-order helping it to continue growing. This performance has enabled Golf House to extend its market leadership in Germany. Nevertheless, the profit margin deteriorated against the backdrop of rapidly contracting international sales markets in the United States and Britain.

Golf House succeeded in acquiring around 20,000 new customers in Germany by constantly implementing its locational strategy as a modern "center of competence" together with a range of targeted marketing activities. Golf House attended trade fairs in Cologne and Hamburg and acted as co-sponsor of a professional tournament in Munich, among other things. At the same time, the company concluded cooperation agreements with golf courses and a series of amateur tournaments.

## Outlook

Golf House expects to enjoy further growth in 2010, particularly in online and mail-order operations as well as in individual expanding outlets. The company believes that improved terms with suppliers and strict cost management will lead to an improved profit margin. The interest held was sold in July 2010.

Oxxynova produces liquid dimethyl terephthalate (DMT), an input material used in polyester production. Among other things, DMT is used in the production of textile fibers, technical fibers, films, raw materials for paint and glue products, and technical plastics. Oxxynova is the biggest European producer of DMT for the free market.

## Industry analysis

According to the German Chemical Industry Association (VCI), the chemicals industry in Germany suffered one of the most difficult years in its history, with production contracting by an average of 10% and revenues by an average of 12.5% – although the declines were much larger in some segments of the market. The experts predict that production will increase 5% and revenues 6% in 2010. Some of the previous overcapacity in DMT production has been eliminated. Nevertheless, pressure remains on the European market, emanating in part from Asian vendors of products in the polyester value chain and also from the persistently low order volumes. Demand for DMT was significantly below the year-ago level overall.

## Company situation, business developments, restructuring and development measures

The effects of the economic crisis on the automotive and chemicals industries led to a sharp decline in the demand for DMT in fiscal 2009. Revenues were well below the year-ago figure accordingly, although net income improved significantly as a result of the non-recurrence of one-off negative effects included in 2008. At the same time, the company succeeded in gaining market shares. Oxxynova's customers ran down their stocks and ran their production at a very low level through to the middle of the year. Oxxynova adjusted its production to match the much lower demand and implemented measures aimed at enhancing efficiency at this lower level of production. The lower capacity utilization rate together with the associated deterioration in energy efficiency caused production costs to rise, however. The company responded to the fall in demand for DMT by applying a program of strict cost management comprising a number of individual measures.

The first signs of revival in the sales market for DMT products became apparent in the third quarter, reflected at Oxxynova by more new orders and higher requests for delivery. This enabled the company to cover its costs for this period. In the last quarter of the year, the production facility in Steyerberg operated at full capacity, although this still

failed to completely offset the lower volumes produced in the previous quarters. It proved a particular challenge to keep up with the orders, some of which were placed at very short notice, in a focused way and to constantly adjust the production processes to match the changing underlying conditions. Overall, DMT production over the year as a whole was much lower than in the prior year.

The extension of a factoring agreement until 2011 helped to secure the further funding of the company.

## Outlook

Oxxynova is working on the assumption that demand for DMT will gradually rise again as the general economy recovers and that the company's revenues will be higher than in 2009. Delivery volumes have not been requested by customers for 2010, however, on account of the general uncertainty regarding the speed of economic recovery and orders continue to be placed at very short notice. The production processes are being further enhanced, and the installation of additional engineering equipment is expected to reduce third-party distillation and shipping costs.





Based in Stapelfeld (near Hamburg), SM Electronic distributes products under the "SKYMASTER" brand, including satellite and antenna receivers (digital TV), and electronic accessories for audio, video, home entertainment and multimedia, among other applications.

## Industry analysis

According to the European Information Technology Observation industry association (EITO), revenues from consumer electronics products declined 8.0% year-on-year. According to BITKOM, the German market for digital consumer electronics will perform very well by European standards in 2010 and match the level of the prior year. The EU market, on the other hand, is expected to contract around 5%. The strongest revenue growth will be recorded for Blu-ray players, at around 70%.

## Company situation, business developments, restructuring and development measures

SM Electronic succeeded in reducing its losses year-on-year, benefiting from the effects of the restructuring measures that have already been implemented. Its revenues were below the year-ago total following the streamlining of the product portfolio and the termination of uneconomic customer contracts, coupled with the general economic situation. The company is in the middle of restructuring, which involves working on a sustainable increase in profitable revenues at the same time as modifying operating costs.

The company significantly reduced its charge-off rate by insourcing the refurbishment business (involving the quality-assured overhaul and corrective maintenance of products). Furthermore, SM Electronic started to handle all aspects of product returns again in-house during the reporting period and was therefore able to considerably reduce

processing times. Inventories have been tracked continually since the beginning of the year, allowing for precise, day-to-day analysis.

SM Electronic stepped up its sales activities and increased its workforce in this function. At the same time, the company pressed ahead with the roll-out of newly developed and visually appealing terminal devices for satellite reception. In this connection, the company attended the ANGACable trade fair in Cologne in June 2009 and the IFA preview events in Hamburg and Munich in July. At these events, the company presented the first SKYMASTER-branded receiver featuring PVR functionality (Personal Video Recorder). These receivers can store programs and movies on an internal or external hard drive. According to tests carried out by the technical press, SKYMASTER digital TV receivers (HDTV receivers) are among the best on the market in terms of value for money. The company also unveiled its first digital family receiver, the SKYMASTER DX 60, which is noted for being intuitive to operate. In Switzerland, SM Electronic entered into a strategic partnership with a major supplier of electronic products for home improvement and specialty stores.

## Outlook

SM Electronic will expand its sales force and intensify its sales activities. In this context, the company is exploring the possibility of growing its business with new brands. Additional profitable growth is expected on the basis of new licensing agreements with Grundig and Telefunken coupled with the joint marketing of the SKYMASTER brand.

In addition, SM Electronic will look to offer more procurement and merchandising services to partners through its subsidiary in Hong Kong and its own merchandising team in Germany.

In January 2010, shares in the SM Electronic Group were sold to the subsidiary manager for a symbolic price. Subject to the occurrence of further conditions precedent, the shares still held by ARQUES will likely be transferred to the subsidiary manager in full in July 2010.





van Netten is a manufacturer of innovative, high quality candies. Its principal customers include various retail customers in Germany and abroad. All products are manufactured at the production plant in Dortmund.

### Industry analysis

The German confectionery industry experienced a contraction in 2009. Whereas candy sales in Germany were down 2.5% year-on-year according to the industry association (BDSI), the 0.6% decline in revenues proved to be fairly moderate. One reason for this was that a proportion of the substantially higher prices for cocoa could be passed on to consumers. Sales of bonbons declined 3.0% compared to the prior year, while a fall of 1.9% was recorded in sales of fruit gummy.

### Company situation, business developments, restructuring and development measures

On account of the industry-wide decline and the deliberate decision to forego unprofitable sales promotions, van Netten's revenues were slightly below the prior year level, although the company did significantly increase its operating income and generate a positive EBITDA.

van Netten established contacts with new foreign customers at the International Confectionery Trade Fair (ISM) held in Cologne in February 2009. The company also presented new products at this industry gathering. On the production side, the long-established Dortmund-based company implemented measures to increase capacity in the lozenges segment and invested in new packaging equipment. A switch has been made in the recipes for some existing products from artificial ingredients to natural flavors and colors.

The candy manufacturer also stepped up its sales activities with the aim of expanding its export business primarily in Poland and Russia and added new sales staff. The company achieved further cost savings by continually enhancing its recipes, optimizing its processes, restructuring its activities and renegotiating an IT services agreement.

### Outlook

Conducting research into and increasingly utilizing natural ingredients is enabling van Netten to meet changing customer demands in this area and reinforce customer loyalty. Against this backdrop, and on the basis of the impact of restructuring measures that have already been implemented, the company is planning for a further improvement in its earnings coupled with a slight rise in its revenues.



## WANFRIED-DRUCK KALDEN

Wanfried-Druck specializes in the production and printing of high quality packaging and labels. Among other things, it produces beverage packaging, folding boxes, and paper labels. Wanfried-Druck's customers come from the foodstuffs and beverages industry as well as non-food sectors.

### Industry analysis

The general crisis has been in constant evidence since the fall of 2008 in the form of greater price and competitive pressure. The Fachverband Faltschachtelindustrie e. V. (FFI) industry association believes that the industry contracted 12% in 2009. Whereas the suppliers to the foodstuff industry have escaped relatively lightly, the suppliers to the automotive and other non-food industries have suffered severe collapses. The price pressure, triggered by the market practices of the discounters, has in the meantime arrived across the entire value chain. The current forecasts give no reason to believe that the situation will improve greatly in 2010 either.

### Company situation, business developments, restructuring and development measures

Wanfried-Druck managed to increase its revenues in the past fiscal year, while the industry averaged a decline of 10%. This success can be attributed in large part to the very close, long-term relationships with its customers together with the high quality of Wanfried-Druck's products. Alongside the planned restructuring measures, Wanfried-Druck was forced to reduce its costs further in 2009 and optimize its processes, above all on the production side, as a result of the general economic crisis and the associated pressure on margins and greater competition in the print industry coupled with increased expectations from the foodstuff industry. The measures taken included decommissioning an older printer in the summer of 2009 which was only scheduled for replacement in mid-2010; the workforce contributed by waiving some of their pay.

### Outlook

As a result of the effects of the economic downturn in the print industry and the seasonal course of business, Wanfried-Druck finds itself in a difficult situation in which it is reliant on external loans. Wanfried-Druck is countering this with strict cost management and a restructuring plan involving the owners, banks, employers and employees in equal measure. Implementation of the restructuring plan will help the company to enjoy stable development again.

tiscon AG is an equity investment firm that holds investments in the IT distribution sector. The Group essentially comprises the following companies: COS Distribution, Avitos, E-Logistics and Chikara.

In July 2009, ARQUES sold the shares it held in tiscon AG to a group of investors. After these investors failed to meet their financial commitments, tiscon was forced to file for bankruptcy shortly after the sale.



The Actebis Group is an ICT distributor operating throughout Europe. It distributes information technology and telecommunications products, and mobile communication and entertainment electronic products. Actebis is represented by its own subsidiaries in Germany, France, the Netherlands, Austria, Denmark, Norway and Sweden. Telecommunications distributor NT plus, which operates in the German market, is also affiliated with the Actebis Group. In addition to its extensive product assortment, the Actebis Group also offers a wide range of sales, marketing services and e-services (including electronic connections) together with financial and logistics services for specialist retailers.

## Industry analysis

According to figures from the European Information Technology Observation industry association (EITO), revenues from IT, telecommunications, and consumer electronics products shrank 2.2% year-on-year. The telecommunications segment recorded the smallest drop, of 0.7%, while revenues from consumer electronics items declined the most (8%) and the IT segment contracted 2.6%. Experts predict that revenues will stabilize in 2010, with the ICT market suffering a contraction of 0.5%.

## Company situation, business developments, restructuring and development measures

The Actebis Group has performed well overall during the entire period it has been affiliated with the ARQUES Group. Falling revenues across the entire industry were countered by an increase in net income. The positive earnings figure was mainly the result of growth in Actebis's northern European companies in Denmark, Norway and Sweden. In Germany, the ICT wholesale business slowed down considerably from the start of 2009. Nonetheless, Actebis Peacock again performed very well in this difficult market environment.

The Actebis Group reaped the benefits from its lean corporate processes and structures, which are constantly being optimized. This enabled Actebis to achieve cost leadership and operate at a high level of efficiency.

The two affiliates NT plus and Actebis Peacock started off the second quarter of 2009 in Germany with a jointly organized, one-day ICT trade fair known as Channel Trends+Visions 2009 staged in the Jahrhunderthalle in Bochum. At this event, the two companies and 140 manufacturers presented a wide range of IT and telecommunications prod-

ucts and services together with product solutions emerging from the convergence of information technology and telecommunications. The event drew about 4,500 visitors and the response was positive on all sides. In the words of Actebis Peacock and NT plus customers, the event set a new benchmark for the industry.

The SAP merchandise management system, which was introduced at NT plus without problems at the beginning of the year, proved successful after only a very short period of time. In the first half of the year, ICT specialty retailers reaped the benefits of faster and easier order processing, automated incoming goods processes, and the ability to ship merchandise on behalf of third parties. By this means, NT plus set the course for a larger and improved product offering and put the conditions in place for further growth. In July, the regulatory authorities in Denmark approved the acquisition of the broadline distribution business of Ingram Micro. Thus, some of the employees and the inventories of the Danish Ingram Micro branch have officially belonged to Actebis Denmark since July 2009.

## Outlook

At the beginning of August 2009, ARQUES sold its holding in the Actebis Group to a strategic financial investor. Following the approval of the competent cartel authorities, the transaction was concluded with effect from September 15, 2009. ARQUES received proceeds of EUR 38.9 million from the disposal.



## Report on opportunities and risks

The ARQUES business model is geared to exploiting above-average business opportunities which also entail particular risks in both the holding company and the subsidiaries.

ARQUES's risk policy consists of exploiting available opportunities and limiting the associated risk on the basis of an integrated risk management process through the use of appropriate instruments.

## Opportunities of the ARQUES business model

ARQUES acquires companies in situations of transition and deploys its team of in-house specialists from various fields to turn them into competitive and profitable companies. Once they have been made financially sound, these companies are sold again in line with the current market situation. Short-term involvement without identifiable restructuring progress is, however, not in the interest of the company. In all three phases of the business model – acquisition, restructuring and exit – ARQUES is presented with tremendous business opportunities which should essentially be manifested at the end of the entire process in the gain in the value of the company or the difference between the purchase price and the sale price of the company. Furthermore, the operating results of the restructured companies also contribute to the success of the ARQUES Group. In addition, the bargain purchase proceeds to be recognized in accordance with the International Financial Reporting Standards (IFRS) in the event of acquisitions serve to boost earnings. ARQUES explains these at length in order to give shareholders a clear picture of the operating performance achieved.

### Acquisitions

In the future, ARQUES will concentrate more heavily on acquiring companies for which the risk situation is considered far less significant than the opportunities.

### Restructuring

The ARQUES subsidiary manager is the operational leader of the on-site restructuring process. The subsidiary manager generally holds an interest in the company's capital and manages the restructuring process under his own responsibility as an executive body, meaning in the function of a managing director. In its function as majority shareholder, ARQUES Industries AG monitors the company's development.

The ARQUES Task Force includes internal and external specialists from the fields of accounting and controlling, IT, HR and labor law, legal affairs and tax, banking and finance, sales and marketing, and purchasing. These people are called in on a permanent or temporary basis, depending on the phase of restructuring and the concrete needs of the subsidiary.

## Exits

The Exits department was combined with the Acquisitions department in fiscal 2009 to form the ARQUES M&A department. Alongside the benefits of lower costs on account of more efficient project work, this step ensures above all that the requirements of a successful disposal process at the end of the holding period can already be taken into consideration and guaranteed when making the purchase decision. Furthermore, the knowledge of the subsidiaries that is gained during the purchase phase can also be specifically applied in the selling process. The ARQUES business model calls for the best possible sale of a successfully developed company following the completion of the basic restructuring steps.

## Risks of the ARQUES business model

Risk is a fundamental component of all business activity. It comprises the danger that corporate objectives will not be achieved as a result of external or internal events, actions or decisions, and in extreme cases that the continued existence of the company is in jeopardy.

When selecting its investment targets, ARQUES generally concentrates on companies that can be acquired at the lowest possible purchase price due to their poor operating performance and that exhibit considerable potential for capital appreciation after being successfully restructured. As such, the companies in question are often in a state of acute distress at the time of acquisition and there is great need for restructuring. At the same time, ARQUES is a partner to large corporate groups that are looking to spin off the peripheral activities and subsidiaries that no longer fit with their core business. At the time when such companies are acquired by ARQUES, moreover, their operating performance is generally well below the industry average and harbors both considerable restructuring potential and restructuring risk, as they have often not been optimally managed due to the fact that they did not belong to the core business of their former owners. When selecting acquisitions, ARQUES does not focus on any specific industry, but searches out suitable acquisition candidates in nearly every industry.

## General economic risk

### Economic risk

The general economic climate in Germany, the European Union and worldwide influences the operating performance of ARQUES Industries AG in a variety of ways.

The recent economic downturn triggered by the financial crisis, which has been described as a meltdown in some places, together with restrained consumption and investments across the globe had an effect on the business activity and above all on the orders and earnings position of the companies of the ARQUES Group in both 2008 and in 2009. The reticence on the part of banks with regard to lending also led to the postponement of investment projects and new requirements in terms of liquidity management. Depending on the general business climate

and the impact of the economic stimulus and financial packages that have been adopted and implemented, there will likely be additional opportunities and risks for the operating performance of the ARQUES subsidiaries.

The current economic and market climate in each instance normally has an influence on the operating restructuring and development of the subsidiaries and represents a major factor regarding the best possible disposal of a successfully run company at the end of the holding period following the completion of the basic restructuring steps.

## Industry risk

Industry risk is the risk that affects a particular market or sector. Given the mixed nature of the portfolio, this can take very different forms and have very different effects in the various ARQUES companies. In the chemicals segment, for instance, this might entail reduced demand for a specific chemical product that can be substituted by a cheaper material. Basically all industries are exposed to changes in commodity prices and the risk of new, aggressive competitors entering the market. In general, it can be noted that planning security has diminished in all the subsidiaries, in that customers are providing less concrete information on future unit sales quantities, placing their orders at shorter notice, delaying their purchase decisions and fundamentally re-examining their projects.

In a reflection of the broad range of industries represented in the ARQUES investment portfolio, the degree to which the various subsidiaries have been affected by the downturn triggered by the financial crisis varies. While those companies that depend on the automotive industry have experienced a relatively sharp drop in demand, those companies that operate in the foodstuffs or wholesale sectors are performing comparatively well. Based on the results of its risk analysis, ARQUES already began taking steps to optimize its investment portfolio in mid-2008 and systematically continued this process in 2009. ARQUES has identified and sold the subsidiaries that are particularly risk-intensive. These steps have significantly improved the Group's risk profile. If the economic climate would not improve or even deteriorate again sharply, some of the current subsidiaries of the ARQUES Group might experience further order losses and revenue declines, along with the possible loss of important customers, which would have a correspondingly negative impact on the earnings performance of the given subsidiary. ARQUES counters foreseeable further pressure on profit margins by implementing additional cost saving measures and capacity adjustments, including short-time working and the elimination of jobs. Furthermore, the capital expenditure programs announced by the subsidiaries would be scaled back or postponed in order to conserve liquidity.

The fall in energy and commodity prices as a result of the global recession has had a positive effect on the production costs of the individual

companies. In this respect, the companies are working to achieve an optimal position by implementing structured procurement strategies and entering into medium-term and long-term master agreements.

The ARQUES business model calls for industry risk to be countered with appropriate operational measures at the level of, and under the responsibility of, the respective subsidiaries.

At the level of the holding company, even more stringent cost management was introduced in response to the economic crisis, the structures further streamlined and the workforce adjusted accordingly. These steps already made it possible to reduce the costs at the holding company as planned in 2009.

## Company-related risk

### Acquisitions

The ARQUES Group specializes in the acquisition of companies in transitional situations (e.g., traditional turnaround candidates, corporate spin-offs, unresolved succession arrangements). In most cases, these companies will already have been generating losses for some time when they are acquired by ARQUES.

Despite careful analysis, ARQUES is still subject to the risk of purchasing a company that cannot be restructured successfully, or only at a high cost in terms of effort and resources (risk of unsuccessful acquisition). In such a case, ARQUES would seek to sell the company ahead of plan, with the result that those financial resources invested by ARQUES for the acquisition and financing of the subsidiary which were not recovered by the sale proceeds would have to be written off. Because ARQUES usually pays only a symbolic purchase price for a distressed company, or at least a purchase price that is less than the book value of the company's assets, the economic loss would be manageable in such cases. In the case of acquisitions involving larger purchase prices, ARQUES is exposed to the risk of losing the entire amount of the purchase price, plus any further obligations that ARQUES may have assumed in connection with the acquisition.

If ARQUES would not be able to quickly sell a distressed subsidiary, the latter could in the worst case become insolvent (see the section entitled "Restructuring" below).

### Restructuring

The company's goal is always to achieve the fastest possible restructuring of the subsidiary in order to keep its liquidity needs, above all, and its operating losses as low as possible after the acquisition. This can fail if, for example, it becomes evident that the restructuring cost is too high, the market position of the industry deteriorates or the management makes mistakes in the restructuring process. In the worst case,

the subsidiary could become insolvent and ARQUES could, under certain circumstances, lose all the financial resources it had used to acquire and finance the subsidiary. If the company had secured bank loans to fund the acquisition and restructuring of the subsidiary, or if it had guaranteed such loans, it would be obligated to continue repaying these loans even after the subsidiary became insolvent. The costs accruing to ARQUES in connection with a subsidiary are generally allocated to that subsidiary. They include the company's costs for the subsidiary manager and other members of the Task Force provided by ARQUES. If the restructuring would fail, therefore, ARQUES would in the worst case lose all the financial and human resources invested in the subsidiary and would not receive any reimbursement of these costs from the subsidiary. In such cases, moreover, ARQUES may not even be able to sell the subsidiary successfully or for a substantive purchase price.

### Exits

With regard to selling restructured subsidiaries, the risk is that no buyer would be found for a given subsidiary. As a result of the current economic and financial crisis, the number of M&A transactions has fallen substantially, limiting the exit options for ARQUES. If ARQUES would not be able to sell a restructured subsidiary, it would have to continue operating and developing that company, which would tie up management capacities. If the economy would worsen further, some of the previously achieved restructuring successes might be negated, the company might generate less operating income and could, in the worst case, require additional financial resources from ARQUES as the parent company. Furthermore, it could become necessary within the framework of strategic decisions to venture into new markets, expand the offering of products and services or invest in new production units, which would require the parent company to invest additional financial resources in the subsidiary.

Another risk in company sales is the possibility that the buyer would, after the sale is completed, seek to invoke any warranties issued by ARQUES as part of the purchase contract in order to lower the agreed purchase price.

### Management and HR risk

The success of the ARQUES business model depends to a large extent on the people who are responsible for the transactions, the departure of whom could have a negative impact on the business performance of the corresponding companies.

First, companies must be selected that can be restructured fairly quickly and at reasonable cost. Thereafter, the responsible managers in Operations must continue to manage the company profitably after the restructuring, so that it can ultimately be sold at an attractive price. ARQUES can only be financially successful when all of these conditions

are met. ARQUES generally deploys its own people to acquire, restructure and manage the subsidiaries. "Its own people" means either permanent employees of the ARQUES Group or those working with the company on a permanent basis. In this regard, the ARQUES Group is fundamentally exposed to the risk that management would make bad decisions. It could turn out, for example, that a purchased company cannot be successfully restructured or only at an inordinately high cost (see the section entitled "Acquisitions" above); or the restructuring could fail because of mistaken actions (see the section entitled "Restructuring" above). Under both scenarios, it may not be possible to sell the subsidiary or only at terms that are not favorable for ARQUES.

Consequently, the business success of ARQUES is partly dependent on the management skill and especially the business management expertise of these people. An expansion of the equity investment portfolio alone, be it planned or due to lack of exit options, could give rise to a situation in which the company would have to hire additional trained personnel. This could present difficulties, 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. Consequently, ARQUES has defined a total of up to ten companies as the ideal size of its equity investment portfolio.

A further element of HR risk pertains to the company's ability to hire and retain skilled staff. As a listed company with good connections in the private equity industry, ARQUES has a relatively high profile among people seeking jobs. This enables ARQUES to select suitable candidates from a pool of applicants and cover its personnel requirements. If necessary, professional headhunters can be called in or the ARQUES network tapped. Incentive programs to retain employees have also been put in place as appropriate for the respective company situation.

### Information systems and reporting structure

Reliable, consistent and meaningful information systems and reporting structures are required to monitor and manage the corporate group and run the subsidiaries. ARQUES possesses professional accounting, controlling, information and risk management systems and has established a regular system of subsidiary controlling and risk management throughout the company. Appropriate IT support is provided around the clock to ensure that the systems are available at all times. The Executive Board is kept regularly informed about sustainable developments in the subsidiaries promptly.

Nevertheless, it is not inconceivable that the information system could fail at some specific point, or will not be operated properly by the employees concerned and negative economic developments in a subsidiary would therefore not be flagged promptly.

### Other company-related risks

As a holding company engaged in the restructuring of companies, ARQUES Industries AG is also exposed to certain industry-specific risks:

It is fundamentally possible that new competitors would enter the market, increasing the demand for, and therefore also the prices of, the companies sold in this market. It should be noted, however, that the current structural crisis affecting so many industries actually tends to broaden the purchase market for ARQUES.

With regard to receivables of some ARQUES companies in relation to other Group companies, the Group would be exposed to default risk if the company owing such obligations would be unable to meet them. Insofar as guarantees such as purchase price guarantees, for example, were issued in connection with the acquisition of individual companies, and if the underlying obligations cannot be serviced from the cash flow of the given subsidiary, ARQUES Industries AG would have to make good on those obligations by putting up its own liquidity. With the exception of the contingent liabilities presented in the notes to the financial statements, there are no legal grounds on which ARQUES could be compelled to stand for the liabilities of the subsidiaries. The contingent liabilities consist mainly of payment guarantees to secure the fulfillment of purchase price payment obligations in connection with the acquisition of companies.

Various measures have been taken to decentralize the personnel structures within the Group by making sure that the persons holding senior managerial positions in the lead companies of the Group do not also hold such positions in the fully consolidated subsidiaries. The purpose of this organizational measure is to reduce the risk of making false decisions and liability risk. ARQUES will continue to apply this process.

### Operational development of the group companies

Due to the operating activities of its subsidiaries, ARQUES is directly impacted by the economic downturn, the financial crisis and the reduced availability of credit. The current situation has made the company's restructuring and turnaround work much more difficult than in the past. Unforeseeable events could have an extremely negative impact on the performance of even those companies that have already made good progress in their restructuring efforts. This relates both to their operating performance and the availability of finance in the form of credit lines, factoring and credit insurance. And those companies that have already optimized their costs will have less room to make further cost cuts in the face of sharply reduced demand for their products and services.

Banks and trade credit insurers have become considerably more restrictive in the granting of loans since the beginning of the financial

crisis. This phenomenon has made debt financing much more difficult and also more expensive. The counter-measures taken include further improvements in working capital management, the restructuring of financial providers, renegotiations with banks, customers and suppliers, and the introduction of alternative financing vehicles such as sale-and-lease-back transactions.

In some subsidiaries, moreover, the financial crisis and the resulting deterioration in general economic conditions led to unforeseeable order decreases and cancellations, as the customers of those subsidiaries were themselves unable to run their production facilities at full capacity and are postponing new capital expenditure. The ARQUES subsidiaries affected responded to these developments by means of capacity adjustments, cost reduction programs – including downsizing measures and short-time working – and the financial and intensive operational support of ARQUES.

Moreover, the financial crisis has also made it more difficult to sell companies, and the valuation multiples that can be realized have fallen considerably.

ARQUES has also responded to the difficult economic conditions triggered by the financial crisis and the tremendous uncertainty in the market for corporate transactions by, in extreme cases, selling off individual subsidiaries at unfavorable terms. This is the case when the ability to restructure those companies successfully has been rendered considerably more expensive and when ARQUES was able to reduce the level of risk in its portfolio by this means.

## Financial risk

### Liquidity of the group companies

Most of the subsidiaries of the ARQUES Group find themselves in a situation of strained liquidity and have additional liquidity needs, especially at the time of acquisition and in the initial restructuring phase. The liquidity requirements are satisfied first of all by utilizing the restructuring contribution of the seller, then by selling any assets that are not required for the subsidiary's operations, and then by applying the subsidiary's own operating cash flow and by making recourse to borrowing; or they are satisfied directly by ARQUES. Thus, one of the first restructuring tasks of the ARQUES Task Force is to free up cash for use by the subsidiary.

ARQUES manages the liquidity requirements of the subsidiaries by means of careful liquidity controlling. Like any other company, however, ARQUES is subject to the risk of unforeseen financing requirements during the course of the subsidiary's affiliation with the Group, whether because the general economic environment or industry situation suffers an extreme deterioration or because the subsidiary loses important customers, its suppliers run into critical bottlenecks, negotiations

with trade unions and works councils are not successful, or for other reasons. As a result of such developments, it may not be possible to achieve the earnings improvements that had originally been planned. Furthermore, it could happen that the former financing partners of the subsidiary use the acquisition by ARQUES as an excuse to discontinue the business relationship or impose unreasonable terms and conditions on a further cooperation. Such developments could entail the consequence that ARQUES would have to use its own resources to cover any liquidity shortfalls due to the lack of other financing sources.

Considerably more restrictive policies on the part of trade credit insurers would pose a liquidity risk for some of ARQUES's subsidiaries because the reduction or cancellation of trade credit insurance usually prompts the suppliers to shorten their payment terms considerably. Such a development would increase the subsidiary's need for liquidity. If the cumulative amount of the liquidity needs would increase, the holding company may find it necessary to quickly sell other group companies in order to concentrate available liquidity on the company's core portfolio.

In general, such liquidity risks are managed, and the liquidity planning and financing structures are reviewed, by the subsidiaries locally, in consultation with the Corporate Finance Department.

### Debt and liquidity of the parent company

The debt of the parent company has been systematically reduced over the course of the last two fiscal years. As of July 2010, the holding company only has a small amount of debt left outstanding with external creditors. Resilient repayment agreements are in place regarding the remaining obligations. The reduction of debt over the last two fiscal years has placed a major burden on the financial capabilities of the holding company, which has resulted in financial shortfalls in the past. The holding company will again face liquidity shortfalls that it needs to master over the coming months. Since it remains difficult to obtain additional funds, the holding company is again reliant upon a structured process to analyze whether it is necessary to sell subsidiaries in times of short liquidity in order to bridge any liquidity shortfalls that arise which could otherwise entail risks endangering the continued existence of the company as a going concern. In such cases, the appropriateness of the purchase price compared with the other opportunities and risks is examined particularly closely. In addition, the holding company is making use of intragroup financing opportunities as has been made increasingly possible by the easing of the economic crisis. Debt-restructuring measures and deferred repayment agreements are being implemented and deployed as further ways of overcoming liquidity shortfalls. Even if it is hard to achieve in the current environment, the holding company also fundamentally has the option of obtaining financial resources by means of capital-raising activities such as exploiting the approved capital increase.

Furthermore, guarantees and commitments issued by the company in 2008 or earlier years during company acquisitions or thereafter may have a negative effect on the company's performance or the continued existence of the holding company as a going concern.

### Interest rate, currency and liquidity risk

ARQUES Industries AG continually optimizes its corporate financing system and limits its financing risk in order to preserve the Group's financial independence. The need for financing fundamentally exposes the Group to the risk that the agreed terms of financing would be changed by the financing partner to the detriment of ARQUES Industries AG, and these changes would have to be accepted as a result of liquidity constraints or would themselves give rise to such constraints. The ongoing financial crisis kept this risk constantly high again in 2009. The financing risks are tracked by the risk management system and also monitored closely as part of liquidity management.

The companies of the ARQUES Group generate income in foreign currencies. The associated foreign currency risk is generally hedged by means of currency-matched financing of the international activities in question or other currency hedges. Changes in capital market interest rates could lead to changes in the market value of fixed-income securities and uncertified receivables and in the plan assets used to fund pension obligations. ARQUES conducts customary banking transactions to hedge its interest rate risk on a case-by-case basis.

To hedge its cash flow risk and protect the Group's liquidity, ARQUES employs various instruments to fund and protect its receivables, including factoring and credit default insurance, for example.

Interest rate, currency and liquidity risk is generally managed by the individual subsidiaries locally, in consultation with the Corporate Finance Department.

For more information on this subject, please refer to the detailed comments regarding IFRS 7 in the notes to the consolidated financial statements. ARQUES Industries AG itself did not employ any financial instruments in fiscal 2009 or fiscal 2008.

### Tax risk

Like all other operating risks, tax risk is isolated at the level of the individual subsidiaries and is not aggregated at holding company level by way of intercompany tax relationships or Group-level taxation, for instance. By exploiting the frequently available tax loss carry-forwards, ARQUES succeeds in obtaining below-average rates of taxation. Income from the sale of subsidiaries is still largely tax-exempt. ARQUES minimizes any legal risks by obtaining expert opinions on tax issues from recognized law firms, auditing firms and other external experts on a regular basis.

## Risks arising from contingent liabilities

### Guarantees of the parent company

ARQUES Industries AG has issued guarantees for purchase price payments in the past. Furthermore, the parent company has issued guarantees or payment assurance in favor of its subsidiaries. If these guarantees and payment assurances, which are deemed to be contingent liabilities from today's perspective, would be executed or claimed in close succession and in larger amounts, such a scenario would represent a threat to the continued existence of the company as a going concern.

### Legal risk

In connection with its ordinary activities, ARQUES Industries AG is involved in, or may in the future be involved in, various lawsuits and judicial administrative proceedings, or such proceedings may be initiated or pursued in the future. Although the outcome of the individual proceedings cannot be predicted with any certainty, given the imponderability generally associated with legal disputes, it is believed, based on current assessments, that these proceedings will not have a seriously adverse effect on the Group's earnings performance, beyond the risks accounted for as liabilities or provisions in the present financial statements.

In July 2009, the European Commission imposed total fines of EUR 61.1 million in connection with its anti-trust investigations of various European companies operating in the calcium carbide sector. In this connection, a total fine of EUR 13.3 million was levied against SKW Stahl-Metallurgie Holding AG, ARQUES Industries AG, and SKW Stahl-Metallurgie GmbH, with each of them bearing joint and several liability. ARQUES has filed an appeal against this ruling. Notwithstanding the appeal that has been filed, ARQUES reached agreement with the European Commission in October 2009 on the payment procedures for the 50% of the total fine of EUR 6.65 million provisionally apportioned to ARQUES and subsequently finalized these procedures by mutual consent.

ARQUES is currently involved in arbitration proceedings with Siemens AG in connection with the acquisition of Gigaset Communications GmbH ("Gigaset") in 2008. Essentially, Siemens AG has claimed payment of a purchase price installment of EUR 15 million and demanded a ruling to the effect that ARQUES Industries AG is obliged to pay the second and third purchase price installments of EUR 15 million in each case. Furthermore, Siemens AG has requested the settlement of a payment commitment made to Gigaset by ARQUES for an original amount of EUR 19.6 million and demanded a ruling to the effect that ARQUES and not Gigaset is required to account for the purchase price of the shares in Gigaset. ARQUES, on the other hand, defends the legal position that Siemens AG is not entitled to demand the purchase price installment of EUR 15 million, that the currently existing payment commitment made to Gigaset that has not been demanded only totals EUR 6.6 million, and that the terms of the purchase agreement for the shares in Gigaset require Gigaset to account and be liable for the purchase price.

Should, against expectations, Siemens AG be able to assert its claims in full in the arbitration proceedings, this could represent a danger to the continued existence of the company and the Group as a going concern.

It is not possible at this time to definitively assess either the duration or the outcome of this process. Nevertheless, ARQUES continues to believe that its own legal opinion will prevail.

## Report on the opportunities and risks of the subsidiaries

The subsidiaries of the ARQUES Group operate in various markets with different products. Within the ARQUES Group, therefore, the industry-specific risk is diversified, although the current portfolio exhibits a concentration in the two sectors of consumer electronics (Gigaset) and automotive (Anvis, Carl Froh). The economic development of every subsidiary can be negatively impacted by a variety of factors besides the customary vagaries of the business cycle. In theory, for instance, the market situation of a given industry could deteriorate very quickly, leading in the worst case to the insolvency of a subsidiary operating in that industry, without there being anything the management of that subsidiary could do to prevent it. As a general rule, the specific risks applicable to each subsidiary are managed on a decentralized basis by the companies themselves.

In the following section, we discuss the industry-specific opportunities and risks facing the subsidiaries currently held by ARQUES Industries AG.

The **Anvis Group** is a primary developer and manufacturer of innovative functional solutions for the motional stability, comfort and safety of motor vehicles, primarily supplying the automotive industry. The company has its own facilities and branches close to the automotive industry in Europe, the United States, Asia, South America (until January 4, 2010) and South Africa (the last two as 50% joint ventures). Accordingly, the company is exposed to the general economic risks of the automotive industry.

The joint venture in South America – Vibracoustic do Brasil Ltda based in Taubaté, Brazil – was sold on December 14, 2009 with economic effect from January 4, 2010.

Anvis is relatively heavily dependent on the Volkswagen Group (VW, Audi, Seat and Skoda represent around 40% of total revenues, including revenues from subcontractors) as well as the French automobile manufacturers Renault/Nissan and PSA (around 15% each), such that the loss of a major customer would have an extremely negative impact on the development of revenues and earnings. The car scrappage scheme in Germany has helped the VW Group in particular, which was able to uncouple itself from the generally negative industry trend through this sales incentive. The equivalent scheme in France has assisted Anvis' two

biggest customers. In this regard, the Anvis Group succeeded in extracting itself increasingly from the generally poor industry trend toward the end of the year. The cessation of the sales incentives mentioned above means that the outlook for 2010 is, if anything, not so good. A recovery will only take hold slowly, and only if the falling sales figures in the small-car segment can be offset by higher sales of mid-sized and luxury vehicles. In addition to the general industry risk, however, Anvis is exposed to the specific risk that key customers have prejudices against the present majority shareholder, and have consequently expressed doubt about the award of future contracts to Anvis (primarily Renault and VW).

The supplier structure is generally stable, although past experience indicates there is a risk of delayed deliveries in two to three instances each year. This could give rise to the customer facing considerable costs for special shipments and possibly also for lost production. Anvis responds to this uncertainty by identifying alternative suppliers and integrating them in its purchasing processes.

The costs of the raw materials and supplies used in the production of anti-vibration systems fluctuate in line with demand. Prices for plastics and natural rubber have fallen slightly and are likely to remain stable. The cost of pressings is stable at the present time. One difficulty facing the company is that its customers are demanding that Anvis pass on the price cuts that have been seen on the spot markets, even if Anvis has been largely unable to realize these cost savings on account of existing supply contracts. This pressure applied by customers will serve to additionally depress the earnings of the Anvis Group.

Anvis is countering the **economic risk** in its customer industries and **price risk** by constantly seeking to enhance its performance for its customers with innovative and reliable products and services. The company has also assigned a major role to research and development activities with a view to achieving innovation leadership in terms of the design, materials and manufacturing process for its core products. This will help to both mitigate possible risks arising from technological change and shape this change.

In order to counter the price reductions and capacity-related pressure on earnings, the Anvis Group is ceaselessly applying measures in all its plants to increase productivity, optimize processes and reduce labor costs. The productivity of the plant in Decize, France is dissatisfactory, but has at least now stabilized. The productivity of the plant in Mexico, on the other hand, is completely dissatisfactory, leading to permanent losses. In addition to the earnings risk mentioned above, Mexico is also exposed to the risk of currency fluctuations (euro against the U.S. dollar), as materials are mostly purchased in euros and invoices are denominated in dollars. The continued local sourcing of raw materials serves to limit this risk.

Anvis sees business opportunities in its international position and in participation in fast-growing markets like China, India and Russia. In addition, Anvis intends to step up its sales efforts in the U.S. market, which is currently in a state of upheaval following the collapse of GM and Chrysler. The existing good relationships with customers like VW and BMW, who are looking to target the North American market more in order to compensate for declining sales volumes in Europe, will have a positive impact here. The company sees further opportunities to reinforce its industrial operations through global leadership. One important factor in this area involves tapping new markets for the railway business in Russia. The company believes that hiring specialists provides good opportunity to continually enhance its expertise and knowledge management system. Furthermore, the company is working constantly to optimize its production and process structures, including the introduction of consistent cost unit accounting. The task of improving the processes is supported among other things by the optimization of the Anvis ERP system in its facilities worldwide.

The previously acute liquidity situation has eased considerably over the last few months. In addition, new instruments aimed at making liquidity management more efficient are currently being implemented.

Based in Sundern, in the Sauerland region of Germany, **Carl Froh** is a manufacturer of precision tubes and components built to customer specifications. The company manufactures low-tolerance welded precision steel tubes designed to meet special demands. It also develops comprehensive solutions for premium-quality components and modules for a wide range of applications. By virtue of its locally rooted expertise, Carl Froh is capable of manufacturing welded and custom-rolled tubes that meet the highest quality standards. The steel processor has a broad customer base. It generates almost half its revenue with customers in the automotive industry and almost one-third with industrial customers. As a result of phased-out product series and the significant production cuts in the automotive industry, Carl Froh is subject to the risk of orders being cancelled or reduced at short notice. Carl Froh intends to counter these developments by pursuing an expanded product strategy and by acquiring new orders in the industrial sector, especially for high-quality specialized products.

On the purchasing side, Carl Froh exhibits the dependence on strip steel that is typical for this industry. The company is frequently not able to pass on higher steel prices to customers until after a certain delay. In general, the cost of raw materials and supplies has increased, due in particular to steel prices which rose again in 2008. Since the end of 2008, however, steel prices had decreased substantially, before going on to stabilize in the second quarter of 2009. Raw material prices started to rise again from the third quarter of 2009, while predictions for the cost of materials in 2010 differ widely. Carl Froh was able to conclude agreements for 2010 at a low level, without any rises in the cost of raw materials.

Carl Froh has modern production equipment that is the state of the art. The company plans to continually renew its production peripherals to ensure that its pre-production and post-production areas are also state of the art. In addition, Carl Froh is planning to make innovation investments in connection with new orders. These measures are intended to further improve product quality in the short- to medium-term and to tap new areas of production, so as to capture a larger share of the value chain. This includes the rapid restructuring of production from push to pull on schedule together with the associated effects such as lower inventories, shorter production throughput times and greater flexibility in response to customer requests through KANBAN systems. Carl Froh has successfully introduced TPM (Total Productive Management) and boosted customer satisfaction by reorganizing order management and processing.

The introduction of a new ERP system (abas) will lead to more efficient production planning and consequently to a further reduction in stocks of semi-finished and finished goods. The new ERP system was introduced in financial accounting as of January 1, 2010, and the go-live in the other business units is scheduled for July 2010 in connection with Babtec (quality assurance) and Zeus (payroll).

Specific investments are required to further reduce the risk of production down times. In support of these goals, the company provides regular training and continuing education activities for new and existing employees. Employee turnover at Carl Froh has been very low for years and the company can rely completely on its top performers in key positions. Finally, the company intends to improve the age structure of its workforce by sponsoring more vocational training programs for younger employees.

A pollution abatement facility for aluminum is to be acquired in 2010 in order to counter the potential environmental risk arising from waste gases released during welding. A further environmental investment is to be made in the form of a surface water collection and purification plant.

The weak economic climate coupled with the ensuing operating loss for 2009 caused a liquidity shortage at times during the course of the year. Counter-measures have been initiated, including the utilization of additional supplier loans and short-time working. Furthermore, inventories were considerably reduced during 2009 (approximately 40%), with further potential ready to be tapped in 2010. Moreover, negotiations are under way with the City of Sundern regarding the sale of unused land. The company is considering the disposal of some parts of the facility that are not required for the core operating business. Purchase price obligations involving Carl Froh falling due in 2010 are covered by a letter of comfort provided by ARQUES Industries AG. The parent company already recognized provisions for this in its annual financial statements for 2009.

As part of the short-time working measure mentioned above, a reduction of around 14% in the weekly working hours in 2010 has been agreed with all employees. This move will primarily affect personnel costs and will also make it possible for Carl Froh to respond more flexibly to additional demand as the economy recovers or to cover temporary peaks in customer orders. This means that both human resources and expertise are available at all times without restriction and flexibly for the benefit of the customer.

The **Fritz Berger Group** was sold at the end of April 2010.

**Gigaset Communications** operates in the market for consumer terminal devices (telecommunications terminals), and specifically in the markets for cordless and analog telephones. Gigaset Communications holds a very strong position in the retail segment by virtue of its strong brand name and its well-balanced product assortment. The company ranks fifth in the world in the market for DECT phones (Digital Enhanced Cordless Telecommunications, a leading cordless phone standard) and is the clear market leader in western Europe.

The products of Gigaset Communications are widely used and appreciated by customers in the retail distribution sector by virtue of the company's strong brand name and innovative product portfolio. In the final analysis, the very good market positioning reflects this high level of product acceptance. Because the company normally cooperates with such customers on the basis of steady, long-term relationships, the dependence on individual retailers and distributors is generally minor. When venturing into new markets, however, the company may be subject to greater dependence on individual customers at first. For its purchasing of raw materials and supplies, the company generally works with at least two suppliers. Gigaset Communications has established a supplier management center in Shanghai to manage and control its cooperation with suppliers in Asia. Gigaset seeks to avoid becoming dependent on individual suppliers with respect to prices, unit quantities and innovations by cultivating a broad supplier base. Nonetheless, the company is partially dependent on individual suppliers. Furthermore, a large number of components required for the company's production operations are purchased in the U.S. dollar zone, giving rise to currency risk. Such risk is hedged primarily by means of forward currency contracts. Finally, there is a risk associated with the fact that Gigaset's production activities are concentrated at a single manufacturing facility in Bocholt.

Gigaset Communications will be allowed to use the renowned Siemens brand name for its products until 2011. Thereafter, there is a risk that the loss of licensing rights to the Siemens brand name could have a negative impact on the company's brand familiarity and market position, especially in regions outside of Europe, due to the strong international competition that prevails in those regions. The company intends

to engage in targeted PR and marketing activities to familiarize a broad swath of the public with the Gigaset brand name and thereby protect its market position. The slow transition from the Siemens Gigaset brand to the (standalone) Gigaset brand will continue in the period through 2011.

The company counters the risk of receivables losses by carrying trade credit insurance and applying strict receivables management and a robust reminder system. Based on historical data, the risk of receivables losses is considered to be low. Gigaset Communications is subject to relatively strong seasonal liquidity fluctuations. The company has adequate cash, current receivables and assets to meet its current payment obligations. As a general rule, the company is subject to the risk of general price erosion for its product assortment and the risk that its market will shrink in the medium-term future.

Proactive management of R&D programs will help to cut costs and simultaneously accelerate technological progress in future-looking segments like Voice over IP telephony (VoIP).

As is the case with every company, the positive development of the Gigaset Group over the next two fiscal years will depend on the company achieving its revenue, profit, cost-saving, and liquidity targets. Existing factoring lines are to be continued in order to avoid expensive refinancing measures. Gigaset Communications sees business opportunities in tapping regional growth markets (North America and Asia) using the established Gigaset brand and the existing worldwide distribution network. The company possesses ample specialized expertise in research and development to meet the rising technological demands of the market and even to roll out innovative new products itself. Nonetheless, the company is generally subject to risks associated with delays to research and development projects, although these are to be considered low for Gigaset. In its production operations, the company benefits from its well-established value chain and logistical operations, which are understood, especially in Europe, to be something that differentiates the company from its competitors that manufacture their products outside of Europe, due to delivery time and flexibility considerations.

Gigaset Communications sees additional business opportunities in pursuing partnerships with contract manufacturers. Under such partnerships, the products of other manufacturers would be sold or different products combined under the Gigaset brand or, over the next two years, under the Siemens label.

Finally, the Bocholt production facility has been honored on many occasions for its efficient production processes.

As a retail sales company, **Golf House Direktversand GmbH** is generally exposed to fluctuations in consumer spending behavior. Because

the products sold in this market are highly comparable, and ample information can be obtained about them from the media, consumers tend to be very price-sensitive. The supply pool is focused on a few suppliers, who as a result are very powerful. This is the reason for the further development of house brands. As is typical for this industry, the company's success is highly dependent on the quality of its employees. Periods of extreme weather, such as hot summers or early, snowy winters, can have a negative impact on consumer purchasing behavior. With the new expansion strategy of a specialist "center of competence" coupled with a large-scale web shop, Golf House is operating successfully through two major distribution channels. This makes Golf House the most complete provider in Germany for golf.

The installation of a modern customer database has made it possible to conduct direct marketing activities in a more targeted and efficient manner. On the logistics side, the company cooperates with a professional service provider who is capable of meeting the demands of a multi-channel retailer (mail-order/online and in-store sales). Golf House again succeeded in expanding its market leadership in 2009 on the back of revenue growth of 4%. This achievement was all the more remarkable given the difficult operating environment in 2009, with falling margins in the hardware segment triggered by massive problems in international sales markets. Golf House will continue to pursue its center of competence strategy at its facilities. The mail-order/online business also performed very well.

**Oxxynova GmbH** produces dimethyl terephthalate (DMT), an input material used in polyester production. Polyesters are used primarily for the production of textile fibers and technical fibers, foils and films, and as a specialized plastic for the electronics and automotive industries.

The industry-specific risk consists primarily in the possibility that customers could substitute other products for DMT. Another risk in Oxxynova's business stems from the fact that it generates a large proportion of its unit sales with only a few large-scale customers and with customers in the automotive industry and that it is dependent on a small number of suppliers. The financial and economic crisis led to a massive decline in sales at Oxxynova in the first quarter of 2009. Beginning in the second quarter of 2009, however, sales started to recover, although their level in the fourth quarter of 2009 was still below the total recorded prior to the crisis.

Oxxynova relocated all its head office activities complete with the sales and administration functions to Steyerberg at the end of 2008 and concentrated DMT production at the Steyerberg facility. DMT production had already been discontinued at the Lülldorf facility at the start of 2008. These restructuring measures lowered the risk arising from excess capacity in the field of DMT production and secured the long-term profitability of the remaining facility. At the same time, Oxxynova

has joined with ARQUES and a strategic investor to examine the extent to which the existing plant in Lülldorf can be utilized by converting processes and entering a new market. In the event of a positive outcome, these new activities would be contributed to a separate company (joint venture), thus relieving Oxxynova of the residual costs associated with the closed facility. Should it prove impossible to sell or find another usage for the site, it would be necessary to dismantle the facility. The information currently available indicates that the dismantling costs would likely be covered by the proceeds from the sale of scrap. A definitive closure could put further pressure on liquidity as a result of local obligations. The definite goal is for Oxxynova to concentrate exclusively on the production and marketing of DMT with the one major facility in Steyerberg.

Another fundamental risk is that customers whose revenues may not be fully eligible for credit insurance may run into economic difficulties, leading to defaults on payments. As is usual in this industry, there is a dependence on the senior executives in charge of marketing and production due to their specific expertise in these areas. Furthermore, Oxxynova is bound through 2014 by a contractual obligation associated with a sale-and-lease-back agreement for the Steyerberg facility. A residual financial risk would come into effect if the facility would be disposed of prior to the expiration of the three-year term.

The company is exposed to liquidity and financing risk as a result of the general economic conditions and the course of business in 2009. The options for taking on further external finance are limited by the current funding structure. The loss of sale-and-lease-back, factoring and intragroup loans as funding components together with the reduction of supplier credits loans could entail risks endangering the continued existence of the company as a going concern if it would prove impossible to close the ensuing funding gaps by other means. Based on the current financial plans, however, we believe that Oxxynova will continue to be in a position to meet all its payment obligations as they fall due in the future.

**SM Electronic** distributes satellites and antenna receivers (digital TV) under the "SKYMASTER" brand as well as electronic accessories for audio, video, home cinema, car HiFi, navigation and multimedia, among other applications. Based in Stapelfeld near Hamburg, the company has a relatively broad customer base and supplies large specialist outlets, department stores and retail chains in Germany and other European countries. The company is thus exposed to the general fluctuations in the consumer purchasing behavior. The company has long-term contracts with major customers. SM Electronic is constantly adding new lines and segments to its business activities with a view to enhancing the existing product and customer portfolio. The German consumer electronics market is characterized by a large number of participants and strong downward pressure on prices. On the products side, the high

rate of product returns has been considerably reduced. The situation regarding purchasing remains unchanged, however, and the business is exposed to fluctuations in the dollar exchange rate.

As is usual for the industry, the company is dependent on its management in the purchasing and sales functions. There are large fluctuations in new orders received. SM Electronic is looking to exploit major business opportunities by optimizing its product portfolio and reorganizing its international operations. SM Electronic will be able to greatly enhance its cost structure sustainably by optimizing its internal processes, modernizing its IT systems and centralizing the services it provides.

**van Netten** is a confectionery manufacturer based in Dortmund that supplies large retail chains and discount retailers mainly with private label and trade brand products. The company has a few major customers, giving rise to the associated dependencies. The loss of a major customer would have a sustained negative impact on van Netten's business development. The downward pressure on prices is high owing to strong competition. Other factors such as the rising cost of energy, logistics and raw materials continue to put pressure on the company's cost structure. As a result of the economic and financial crisis, van Netten is finding that suppliers and customers are increasingly restrictive with regard to their respective receivables. There is a certain dependence on employees with specialized expertise in product development and sales. van Netten has a broad supplier base at its disposal, so there is hardly any dependence on individual suppliers.

The company has modern production and development equipment and is therefore capable of completely satisfying individual customer requests. Accordingly, van Netten is seeking to expand its existing customer relationships with newly developed confectionery, among other things, and to advance the internationalization of its operations. van Netten sees considerable opportunities for expansion, above all in its export markets.

**Wanfried-Druck Kalden** produces folding boxes and labels. Its customers include large corporate groups in the food, consumer goods and beverage industries. To this extent, the company is subject to the general fluctuations in consumer purchasing behavior. The market segments of labels and folding boxes are dominated by medium-sized enterprises. Consequently, the risks to future development exist primarily in the market and competitive environment together with the ensuing pressure on margins. There is strong competition among market participants, with the attendant risk of declining market prices. There is also strong pressure to invest in new, more efficient machinery. Wanfried-Druck has a relatively small customer base of about 200 customers, so that the loss of one major customer would immediately have a lasting impact on its revenues and earnings. The continuing concentration process among its customers is increasing the pressure on its profit

margins. Owing to the limited number of paper and box suppliers, there is a certain dependence in the procurement market. Price increases in this area can generally only be passed on to customers after a certain delay.

Wanfried-Druck managed to increase its revenues by a good 7% in the past fiscal year, while the industry averaged a decline of 10%. However, an older printer was decommissioned in the summer of 2009, to be replaced by a new machine. As this cannot be completed before late summer 2010, and the company is registering greater competitive pressure as a result of the general crisis, it is assumed that no tangible growth will be recorded in 2010. At the same time, the company does not expect to suffer any major loss of revenues on account of the very close, long-term relationships with its customers.

As a result of the effects of the economic downturn on the print industry and the seasonal course of business, Wanfried-Druck finds itself in a difficult situation in which it is reliant on external loans. Wanfried-Druck is countering this with strict cost management and a restructuring plan involving the owners, banks, employers and employees in equal measure. The initial results of the negotiations with all parties involved have been so encouraging that it is safe to assume that positive decisions will be adopted for the measures in the best interests of the company and all the parties involved will make an appropriate contribution. Assuming that the restructuring plan is implemented promptly and effectively, the company can look forward to a stable performance in 2010.

Description of the main features of the internal control and risk management system with regard to the accounting process at ARQUES Industries AG and the ARQUES Group (Section 289 (5) and Section 315 (2) (5) HGB)

### Internal control and management through Group-wide planning and reporting processes

The internal control system in the ARQUES Group encompasses all the principles, procedures and measures implemented with a view to guaranteeing the efficiency, regularity and effectiveness of the accounting system employed and securing compliance with all legal provisions.

As a private equity firm, it is especially important for ARQUES to monitor and manage the development and the risks in the individual subsidiaries promptly and consistently. This takes the form of a regular planning and reporting process built around uniform Group-wide accounting guidelines (ARQUES Accounting Manual).

The timely availability of high-quality, consistent information is essential for this to happen. The accounting and controlling units in

the individual subsidiaries and the holding company are responsible for providing the requisite data resources. Appropriate processes and process-integrated and process-neutral monitoring activities are implemented in line with the respective company situation and industry. Furthermore, one of the first restructuring measures involves specialists from the holding company Task Force optimizing the accounting and controlling processes in the subsidiaries and modifying them to match the requirements and conventions of the ARQUES Group. Where necessary, support is provided as appropriate for the individual situation. This process ensures rapid access to the information required for the Group management.

The preparation and analysis of the information from the subsidiaries are essentially performed at ARQUES by the Subsidiary Controlling, Financial Accounting and Reporting, Liquidity Management and Risk Controlling units of the Finance department and by the Task Force, which is attached to the Operations department. The completeness and correctness of the accounting data are verified on a regular basis. The independent auditors and other audit bodies are integrated in the control environment of the ARQUES Group by means of process-neutral audit activities. In particular, the audit of the consolidated financial statements by the independent auditors and the audit of the separate financial statements of the Group companies that are consolidated form the main process-neutral monitoring measures with regard to the consolidated accounting process.

The Supervisory Board of ARQUES Industries AG, represented notably by the Audit Committee, is also integrated in the internal monitoring system of ARQUES with process-neutral audit activities.

The bookkeeping and accounting processes are of a general nature and are clearly defined by the following measures, among others, within the framework of the annual and quarterly financial statements in particular:

Structural information:

- Accounting at ARQUES is carried out locally in the respective subsidiaries and in the holding company for matters relating to the holding company.
- The separate financial statements are prepared in accordance with the local accounting provisions and adjusted to match the provisions of the International Financial Reporting Standards (IFRS) as applicable in the EU for the purposes of consolidated accounting and the provisions of commercial law in accordance with Section 315a (1) HGB.

- The ARQUES Accounting Manual ensures that uniform accounting and valuation methods are applied throughout the corporate group.
- Accounting events are recorded in individually selected professional accounting systems that have been adapted to meet local requirements such as DATEV and SAP.

Process and control information:

- Central and local tasks and responsibilities are defined.
- Control mechanisms, such as the principle of dual control, computerized validation, manual controls and change notices are implemented.
- Schedules and process plans for separate and consolidated financial statements are drawn up and distributed or made generally available.
- The reporting packages submitted by the Group companies are analyzed and, where necessary, corrected.
- Technical plausibility checks are carried out at Group level. There is a single-stage consolidation process involving a professional consolidation system.
- Standardized, complete sets of forms are used.
- Experienced, skilled staff are deployed.
- The independent auditors perform a control function as a process-neutral instrument within the framework of their statutory audit assignment.

Standardized reports on the performance of the subsidiaries are submitted to the Executive Board at regular intervals. When required, special reports and ad hoc analyses are created promptly. Furthermore, the Executive Board always has the option of directly approaching employees from the Finance department, the Task Force or the respective subsidiary manager locally.

The ARQUES planning and reporting process is based on a professional, standardized consolidation and reporting system, in which the data is entered manually or using automatic interfaces. The system is available to the corporate departments for administration purposes. Qualitative analysis and monitoring functions are ensured by internal reports and a user-friendly interface.

## Group-wide systematic risk management

Risk management at ARQUES forms an integral part of company management and planning. The purpose of risk management is to help achieve the goals set as part of the business strategy by systematically and promptly identifying, recording, reporting upon and managing risks at all levels and in all units. This makes it possible to avoid developments that might jeopardize the company's continued existence and to make best use of the available business opportunities.

In this context, the risk profile and the risk management process are defined, coordinated and monitored at corporate level and implemented on the ground in the holding company and the individual subsidiaries. The risks are identified, systematically recorded and assessed, and measures defined, wherever the greatest expertise and assessment capability exists.

Uniform standards for risk recording, documentation and monitoring exist throughout the corporate group, as documented in the ARQUES Risk Management Manual. The central risk manager monitors compliance with the provisions it contains.

ARQUES employs a systematic, web-based risk management system known as ArqRisk to record all risks throughout the corporate group and to show the risks separated for each subsidiary or in consolidated form from the corporate viewpoint. This system makes it possible to already control and manage the individual risks efficiently at subsidiary level and at the same time to provide a current, complete picture of risk situation in the Group. The outcome is the best possible way of ensuring compliance with, and monitoring of, the risk strategy defined for the ARQUES Group by the Executive Board.

The mechanisms in the system were again specified in fiscal 2009 and adjusted to precisely match the current underlying conditions during fiscal 2009 in response to the changes in the portfolio of subsidiaries. The corporate risk manager is tasked with constantly refining and improving the system, monitoring and coordinating the Group-wide risk management system and reporting to company management.

Alongside training courses and seminars, checklists and what is known as the Risk Atlas are provided as tools to assist systematic risk identification system. The Risk Atlas shows the areas to which risks can typically be allocated at ARQUES, in accordance with the following structure.

- Market risk (economy/industry/competition, products/patents/certificates, legal environment, customers)
- Company/process risk (research/development, procurement, production, sales/marketing, delivery/after-sales, accounting/finance/controlling, organization/internal audit/IT, HR, insurance, special events, acquisition/operations/exit)

- Finance risk (earnings, liquidity, debt/financing, equity, taxes, other financial risks)
- Contingent liabilities (guarantees/contingent liabilities, other financial commitments, legal disputes, liability for executive bodies)

A 4x4 matrix is used to assess risks on a quantitative basis for the factors of probability of occurrence and extent of loss or damage. This relates to the possible impact on earnings of a negative event over a time horizon of 12 months. Appropriate risk-mitigation or risk-avoidance measures and the name of the risk manager are recorded for each individual risk alongside the rationale for the evaluation. The extent of the damage or loss is assessed after measures have been implemented but not before. The results of the classification are correlated in a so-called risk map or visualized in a portfolio.

Reports on the current situation of all the subsidiaries are submitted to the Executive Board on a regular basis.

The risk situation is fully updated on a quarterly basis. Furthermore, the emergence of substantial new risks or the materialization of substantial existing risks are documented and reported immediately to the Executive Board, regardless of the normal reporting schedule. The Executive Board, in turn, informs the company's Supervisory Board about the risk situation and risk management at regular intervals.

The business responsibility for the risk management process lies with the operating units at the level of the subsidiaries. The operational risk management system is based in these units accordingly. Moreover, every employee is responsible for identifying and managing risk within his or her immediate area of responsibility. The management of every subsidiary is responsible for coordinating and tracking risk. All risks and information deemed to be significant on the basis of risk management criteria must be reported immediately to the management as well as the Corporate Group Executive Board and the corporate risk manager, where appropriate.

Other risk management activities include personal visits by members of the Executive Board to the subsidiaries on a regular basis in order to obtain a first-hand impression of their current development and the integration of risk considerations in the annual planning rounds. Furthermore, the ARQUES Task Force is available to provide massive and prompt intervention in the event of undesirable developments at individual subsidiaries. Finally, the ARQUES business model, under which every subsidiary manager holds an equity stake in the company to be restructured under his leadership, ensures that the subsidiary's interests are aligned with those of ARQUES.

In parallel to the risk management process, the Subsidiary Controlling department carries out monthly actual vs. planned comparisons, adjusting the budget and ongoing forecast promptly, where required. Weekly periods are reviewed with regard to liquidity management. The timely provision of information to the Executive Board and the subsidiary management makes it possible to draw up and implement necessary counter-measures at short notice.

### Qualifying comments

The internal control and risk management system makes it possible to fully track, collate and assess company-related issues and present them in the consolidated financial statements. It is, however, fundamentally impossible to completely exclude the possibility of personal discretionary decisions, defective controls, human error or other circumstances, any or all of which may serve to reduce the effectiveness of the control and risk management system employed.

### Summary of the opportunity and risk situation

In addition to implementing a large number of concrete cost reduction measures in the subsidiaries, including the introduction of short-time working and lay-offs, ARQUES has reviewed its entire portfolio with the aim of identifying the subsidiaries which it would be too cost-intensive to restructure in times of global economic crisis. In the meantime, ARQUES has divested itself of some of these subsidiaries in a way that entailed large book losses and is constantly reviewing the remaining portfolio with regard to the respective opportunity and risk profile. By means of these sales, ARQUES was able to avoid having to provide additional financial assistance to these subsidiaries which would otherwise have been essential from an economic perspective.

In response to the general economic conditions, ARQUES has initiated and largely implemented various steps to reduce costs in the holding company as well. Thus, the holding company's fixed costs have been reduced as planned compared with 2008. ARQUES achieved this reduction by eliminating a significant number of jobs and massively reducing the services it purchases from outside contractors.

Even in these persistently difficult economic times, some parties have a concrete interest in purchasing individual portfolio companies of ARQUES and negotiations are being currently conducted to this end.

Furthermore, ARQUES still has the option of reinforcing its equity base by issuing new stock through the use of the authorized capital.

ARQUES Industries AG and the ARQUES Group are exposed to financial risks and risks arising from contingent liabilities that could pose a threat to its continued existence as a going concern. In view the measures that have already been implemented and those that have been planned, the Executive Board is currently of the opinion that the assumptions

underlying the current business plan will come to fruition, such that the Group will have adequate financial resources to secure the continued existence of ARQUES Industries AG and the ARQUES Group, despite the risks described above. Alongside further debt-restructuring measures and intragroup financing measures, ARQUES assumes in its present corporate plan that it will sell further subsidiaries as and when necessary or expedient in order to finally stabilize the company and the corporate group and give them adequate financial resources to be able to make targeted purchases of promising subsidiaries again. Therefore, the separate financial statements of the parent company and the consolidated financial statements of the Group have been prepared on the assumption of a going concern.

### Report pursuant to sections 120 (3) (2) and 175 (2) (1) AktG and sections 289 (4), 315 (4) HGB

**Number 1:** The subscribed capital of ARQUES Industries AG amounts to EUR 26,450,000.00 and is divided into 26,450,000 no-par bearer shares, each representing an imputed portion of the company's share capital of EUR 1.00 per share. Each share conveys the same rights and one vote.

**Number 2:** Generally speaking, the company's shares are freely transferrable within the limits of the relevant laws and regulations. Certain restrictions on voting rights arise from the provisions of the German Stock Corporations Act (AktG) and other laws. For example, shareholders may be subject to a voting prohibition under certain conditions (Section 136 AktG). Furthermore, the company derives no rights and therefore no voting rights from its holdings in treasury shares (Section 71b AktG). The Executive Board is not aware of any restrictions on the voting rights or transferability of the company's shares. However, reference is made to the fact that the members of the Executive Board, other employees and other persons who have access to insider information are subject to the restrictions set forth in the company's insider trading guidelines.

**Number 3:** At the reporting date, the company had received no notification regarding a holding in the company's capital in excess of the 10% threshold.

**Number 4:** At the reporting date, there were no shares endowed with special features that would confer rights of control.

**Number 5:** There are no arrangements pertaining to a coordinated exercise of the voting rights held by employees by virtue of holding shares in the company.

**Number 6:** 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. At the present time, more extensive or specific rules within the company's Articles of Incorporation are not deemed necessary. The other applicable laws and regulations are set forth in the German Stock Corporations Act (AktG). The applicable provisions of the Articles of Incorporation are set forth in Section II (Executive Board), Section III (Supervisory Board) and Article 16 of the Articles of Incorporation.

#### Number 7:

##### I. Conditional Capital 2008/I

For the purpose of fulfilling an "ARQUES Industries AG Stock Option Plan 2008," the possibility was created, by resolution of the annual shareholders' meeting of ARQUES Industries AG of July 3, 2008, of granting subscription rights ("options") for new bearer shares to members of the Executive Board, selected employees of the company and members of the management of affiliated companies. The shares to be issued when the options are exercised can be provided from the Conditional Capital. In addition, the Executive Board is authorized to serve the exercised options from the company's treasury shares. The company was further authorized to grant a cash settlement for the purpose of fulfilling its obligations under the options.

Specifically, the annual shareholders' meeting of July 3, 2008 adopted the following resolution:

- (a) The share capital of the company shall be increased conditionally by a nominal amount of up to EUR 1,300,000 through the issuance of up to 1,300,000 new bearer shares ("Conditional Capital 2008/I"). The conditional capital increase is authorized exclusively for the purpose of granting subscription rights ("options") to members of the Executive Board, selected employees of the company and members of the management of affiliated companies ("beneficiaries") in connection with the "ARQUES Industries AG Stock Option Plan 2008" ("Stock Option Plan"). The conditional capital increase shall be carried out only to the extent that options are granted in connection with the Stock Option Plan, the beneficiaries make use of such options and the company does not issue any treasury shares or grant a cash settlement for the purpose of fulfilling the options. The new shares shall qualify for dividends from the beginning of the fiscal year in which they are created by way of issuance. If they are issued before the annual shareholders' meeting, such shares shall also qualify for dividends from the profit of the last complete fiscal year.  
  
The Executive Board shall be authorized, with the consent of the Supervisory Board, to grant options to the beneficiaries in the time until June 30, 2012. The responsibility for granting shares to mem-

bers of the Executive Board of the company shall lie exclusively with the Supervisory Board of the company.

#### (b) The Stock Option plan entails the following key points:

1. Content of the options  
Every option entitles the holder to purchase one share of ARQUES Industries AG ("ARQUES share").
2. Group of beneficiaries  
Under the Stock Option Plan, options for new bearer shares shall be granted to members of the Executive Board, selected employees of the company and members of the management of affiliated companies. The total number of options that can be granted to all groups in the time until June 30, 2012 is up to 1,300,000 options ("total volume"). The options shall be divided among the individual groups of beneficiaries as follows:
  - (a) For members of the Executive Board, no more than 600,000 options (representing up to approx. 46%),
  - (b) For selected employees of the company or members of the management of an affiliated company, no more than 500,000 options (representing up to approx. 38.5%),
  - (c) For members of the management of affiliated companies, no more than 200,000 options (representing up to 15.5%).
3. Purchase periods  
The options may be granted on one occasion or in several tranches within 45 (forty five) days of the date of announcement of the results of the past fiscal year, or within 45 (forty five) days of the date of announcement of the results of the first, second or third quarter of a current fiscal year, but not later than two weeks before the end of the respective quarter in every case.  
  
The date of allotment of the options ("allotment date") shall be uniform for the tranches. Insofar as members of the Executive Board are concerned, the allotment dates shall be set by the Supervisory Board, and otherwise by the Executive Board.
4. Life of the options, restricted periods  
The options shall have a total life of ten years from the allotment date and can be exercised for the first time after expiration of a vesting period. The vesting period shall be at least two years. Any options that are not exercised before the end of their lives shall expire without replacement or compensation. No options may be exercised in the period beginning on the 15th calendar day prior to the publication of the quarterly results or the annual results and ending on the first trading day inclusive after the publication of the quarterly results or annual results ("restricted periods").  
  
Otherwise, the beneficiaries shall be bound to observe the re-

strictions arising from general laws and regulations, such as the German Securities Trading Act, for example (insider trading).

## 5. Success targets and execution price

### (a) Success targets

The determining factor for setting the success targets shall be the unweighted opening price of the ARQUES share in the XETRA trading system (or comparable successor system) of the Frankfurt Stock Exchange on the option exercise date or, in the case of the relative success target, additionally the status of the MDAX (or comparable successor index) on the allotment date and on the option exercise date.

The options can only be exercised

- if the opening price of the ARQUES share in the XETRA trading system (or comparable successor system) on the Frankfurt Stock Exchange on the option exercise date is at least 15% higher than the exercise price ("absolute success target"), and
- if the price of the ARQUES share in the XETRA trading system (or comparable successor system) on the Frankfurt Stock Exchange performs better than the MDAX (or comparable successor index) during the period from the allotment date to the option exercise date ("relative success target").

If both the absolute and the relative success target are met, any option can be exercised within its lifetime (with due consideration given to Section 3).

### (b) Exercise price

The exercise price for an ARQUES share when an option is exercised shall be equal to the unweighted average of the opening price of the ARQUES share on the Frankfurt Stock Exchange in the XETRA trading system (or comparable successor system) on the 10 (ten) trading days of the Frankfurt Stock Exchange prior to the respective allotment date for the option. At a minimum, the lowest issue amount according to the definition of Section 9 (1) AktG shall be paid as the exercise price.

## 6. Capital and structural measures, protection against dilution

If the company would increase its share capital during the life of the option while granting a direct or indirect subscription right to the shareholders, the exercise price shall be reduced in accordance with the option terms and conditions. The exercise price shall not be reduced if the beneficiary would have been given a direct or indirect subscription right to the new shares, that puts him in a position as though he had already exercised the options under the Stock Option Plan. The option terms and conditions may stipulate adjustment rules for such cases of

capital, structural or comparable measures. Section 9 AktG remains unaffected.

In the event of extraordinary, unforeseen development of the kind mentioned in the German Corporate Governance Code in its latest applicable version, the company shall be entitled to set an appropriate maximum limit on option gains. The company shall be similarly entitled in the event that option gains would lead to an inappropriate overall remuneration of the individual beneficiary.

## 7. Non-transferability

The options are not transferrable and can only be exercised by the beneficiaries. In case of death, the options may be bequeathed to the spouse or life partner, the children or other heirs of the beneficiary. The exercise terms and conditions may stipulate that the heir or heirs of the beneficiary must exercise the options within three months of the inheritance, but not before expiration of the vesting period.

## 8. Fulfillment of the options

The beneficiaries may be offered the chance to purchase treasury shares or receive a cash settlement in lieu of having ARQUES shares issued to them from the Conditional Capital 2008/I created for this purpose.

The decision as to which alternative will be offered to the beneficiaries in every particular case shall be made by the Supervisory Board, insofar as the beneficiaries are members of the Executive Board of the company, and otherwise by the Executive Board. In making this decision, the Executive Board and Supervisory Board shall be guided by no other considerations than the interests of the shareholders and the company. The option terms and conditions shall be formulated in such a way as to create this option for the company.

The cash settlement shall be equal to the difference between the exercise price and the opening price of the ARQUES share in the XETRA trading system (or comparable successor system) on the option exercise date.

## 9. Other rules and regulations

The other detailed rules applicable to the granting and fulfillment of options and the other exercise terms and conditions shall be adopted by the Supervisory Board, to the extent that members of the Executive Board of the company are concerned, and otherwise by the Executive Board.

The other rules and regulations shall include the following, in particular:

- (a) The determination of the number of options granted to individual beneficiaries or groups of beneficiaries;

- (b) The adoption of provisions appropriate to the execution of the Stock Option Plan;
- (c) The procedures for granting and exercising the options;
- (d) The adoption of vesting periods beyond the minimum vesting period of two years, including the adoption of staggered vesting periods for specific sub-sets of options, and the modification of vesting periods in connection with the statutory requirements to be fulfilled in special cases, such as a change of control over the company;
- (e) The rules applicable to the treatment and exercise of options in special cases, such as, for example, the departure of the beneficiary from the company, change of control over the company or conduct of a "squeeze-out" process.

#### 10. Taxation

All taxes payable in connection with the exercise of the options or the sale of ARQUES shares by the beneficiaries shall be borne by the beneficiaries.

#### 11. Reporting duty

The Executive Board and Supervisory Board shall report on the utilization of the Stock Option Plan and the options granted to the beneficiaries in every year in the annual report for that year.

## II. Conditional Capital 2009

The annual shareholders' meeting of August 5, 2009 adopted a resolution permitting the issue of warrant bonds and/or convertible bonds.

The resolution specifically states:

Authorization of the Executive Board to issue warrant bonds and/or convertible bonds:

#### a) Authorization period, nominal amount, number of shares

The Executive Board is authorized - subject to the consent of the Supervisory Board - up until August 4, 2014 to do the following once or more than once:

- issue warrant bonds and/or convertible bonds in an aggregate amount of up to EUR 100,000,000 ("bonds") via the company or companies where the company holds a majority interest, directly or indirectly ("subordinate group companies"), and
- take over the guarantee for such bonds issued by group companies subordinate to the company, and
- issue to the bond holders warrant rights or conversion rights totaling up to 11,925,000 registered no-par value shares in the company with a prorated amount in the share capital of up to EUR 11,925,000 as defined in more detail in the relevant terms and conditions for the bonds.

Each of the issues may be divided into partial debentures of equal rank.

In the event of issuance of convertible bonds, the conversion ratio results from the division of the nominal amount of a partial debenture by the fixed conversion price for one registered no-par value share in the company. The conversion ratio is rounded to four decimal places. The terms and conditions of the bond may establish an additional payment to be made in cash and provide that unconvertible fractional amounts are pooled and/or compensated in cash. The terms and conditions of the bond may also provide an obligation of conversion.

#### b) Subscription right, exclusion of subscription right

The shareholders are basically entitled to a subscription right to the bonds; the bonds may as well be taken over by a bank or a banking syndicate with the instruction to offer them for subscription to the shareholders. However, the Executive Board is authorized - subject to the consent of the Supervisory Board - to exclude the shareholders' subscription right to the bonds

- if they are issued for cash contribution and the issue price is not significantly below the theoretical market value of the bonds calculated on acknowledged methods of financial mathematics, which is only applicable, however, to the extent that the shares issued to service the warrant rights and/or conversion rights thereby constituted will not in the aggregate exceed 10% of the share capital by any of either the effective date or the time of exercising this authorization. The prorated amount of the share capital allocable to shares issued or sold from August 5, 2009 until the end of the term of this authorization with the exclusion of the subscription right directly or accordingly applying Section 186 (3) sentence 4 of the AktG shall be deducted from this amount of 10% of the share capital. Furthermore, the prorated amount of the share capital allocable to the shares issued or yet to be issued to service conversion rights or warrant rights or obligations of conversion shall be deducted from the said amount, provided that the underlying bonds were issued during the term of this authorization with the exclusion of the subscription right pursuant to Section 186 (3) sentence 4 of the AktG; or
- in order to except fractional amounts created on the basis of the subscription ratio from the shareholders' subscription right to the bonds.

#### c) Exercise or conversion price, protection against dilution

The exercise price or conversion price shall be calculated on the following basis:

- aa) Where the bonds do not establish any obligation of conversion, the exercise price or conversion price is equivalent to 150% of the arithmetic mean of the closing price of the company's

shares in the Xetra trading system at the Frankfurt Stock Exchange (or a similar successor system) on the last five stock exchange trading days prior to the date of fixing the issue amount of the bonds. This arithmetic mean of the closing prices is further referred to as "reference price."

- bb) In the event of issuance of bonds establishing an obligation of conversion, the conversion price will be equivalent to the following amount:
- 100% of the reference price, provided that the arithmetic mean of the closing prices of the company's shares in the Xetra trading system at the Frankfurt Stock Exchange (or a similar successor system) is less than or equal to the reference price on the twenty stock exchange trading days ending on the third day prior to the date of conversion;
  - 115% of the reference price, provided that the arithmetic mean of the closing prices of the company's shares in the Xetra trading system at the Frankfurt Stock Exchange (or a similar successor system) is higher than or equal to 115% of the reference price on the twenty stock exchange trading days ending on the third trading day prior to the date of conversion;
  - the arithmetic mean of the closing prices of the company's shares in the Xetra trading system at the Frankfurt Stock Exchange (or a similar successor system) on the twenty stock exchange trading days ending on the third trading day prior to the date of conversion, provided that such value exceeds the reference price and is lower than 115% of the reference price;
  - notwithstanding the provisions above, 150% of the reference price, provided that the holders of the bonds exercise an existing conversion right prior to the occurrence of the obligation of conversion.
- cc) Notwithstanding Section 9 (1) of the AktG, the exercise price and/or conversion price can be reduced on the basis of an anti-dilution clause as defined in more detail in the terms and conditions, where the company increases the share capital until the expiration of the exercise period and/or conversion period granting a subscription right to its shareholders or issues or guarantees further bonds and, in doing so, does not grant any subscription rights to the holders of warrant rights or the creditors of convertible bonds. The terms and conditions may also provide a value-preserving adjustment of the exercise price and/or conversion price in case of other events suitable to dilute the value of the warrant rights and/or the conversion rights.
- dd) By any means the prorated amount in the share capital of the shares to be subscribed to per bond must not exceed the nominal amount of the bonds.

Sections 9 (1) and 199 of the AktG remain unaffected.

#### d) Other configuration options

The Executive Board is authorized - with the consent of the Supervisory Board and taking into account the above requirements - to determine the further details of the issue and features of the bonds and their terms and conditions by itself and/or in consultation with the bodies of the subordinate group company issuing the bonds, especially interest rate, issue price, term and division of shares, constitution of an obligation of conversion, fixing of an additional cash payment, compensation or pooling of fractional amounts, cash payment instead of delivery of shares, delivery of existing shares instead of issuing new shares, protection against dilution and exercise period and/or conversion period.

#### Conditional capital increase

The share capital is conditionally increased by up to EUR 11,925,000 by issuing up to 11,925,000 new registered no-par value shares with profit participation from the beginning of the financial year when they are issued. The purpose of the conditional capital increase is to grant shares to the holders of warrant bonds and/or creditors of convertible bonds which are issued for cash contribution by the company or a subordinate group company based on the authorization of the AGM on August 5, 2009. The issue of new shares shall be made at the exercise price and/or conversion price as fixed in the above authorization. The conditional capital increase shall only be performed to the extent in which the warrant rights and/or conversion rights conferred by the bonds are exercised or obligations of conversion under the bonds are complied with, respectively, and provided that no cash compensation is granted or treasury shares are used to effect the service. The Executive Board is authorized - subject to the consent of the Supervisory Board - to determine the further details for the implementation of the conditional capital increase (Conditional Capital 2009).

#### Authorized capital

##### I. Authorized Capital 2006/I

With regard to the issuance of new shares, the Executive Board shall be 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 a total of up to EUR 9,816,670 by issuing new bearer shares in exchange for cash or in-kind contributions, on one or more occasions up to May 30, 2011 (Authorized Capital 2006/I). In such cases, the existing shareholders shall be offered a subscription right. The Executive Board shall be 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 shall be 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, 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 rights or fulfill the conversion obligation;
- c) Insofar as the capital increase in exchange for in-kind contributions or mergers serves the purpose of either acquiring companies, parts of companies or investments in companies or of issuing shares to employees;
- d) For fractional amounts.

## II. Authorized Capital 2009

With regard to the issuance of new shares, the Executive Board shall be authorized, by virtue of Article 4 (3) of the company's Articles of Incorporation, subject to the consent of the Supervisory Board, to increase the share capital within the period until August 4, 2014 by up to EUR 3,400,000.00, as a whole or in partial amounts, by issuing new registered no-par value shares with profit participation as of the beginning of the financial year when they are issued for cash contribution and/or contribution in kind (Authorized Capital 2009). The shareholders are basically entitled to a subscription right.

The new shares may as well be taken over by one or several credit institution(s) with the instruction to offer them to the shareholders for subscription (indirect subscription right).

The Executive Board is authorized - subject to the consent of the Supervisory Board - to decide on the contents of the rights attached to the shares and the terms and conditions for the issue of shares, as well as to determine the details for the implementation of the capital increase.

In addition, the Executive Board is authorized, subject to the consent of the Supervisory Board, to exclude the shareholders' subscription right in the following cases:

- a) In case of capital increases for cash contributions, if the issue amount of the new shares is not significantly below the exchange price at the time of the final fixing of the issue amount, and the

shares issued pursuant to sub-clause a) of this authorization with the exclusion of the subscription right for cash contribution do not in the aggregate exceed 10% of the share capital by any of either the effective date or the time exercising this authorization. The prorated amount of the share capital allocable to shares issued or sold from August 5, 2009 until the end of the term of this authorization with the exclusion of the subscription rights directly or accordingly applying Section 186 (3) sentence 4 of the AktG shall be deducted from this amount of 10% of the share capital. Furthermore, the prorated amount of the share capital allocable to the shares issued or yet to be issued to service conversion rights or warrant rights or obligations of conversion shall be deducted from the said amount, provided that the underlying bonds were issued during the term of this authorization with the exclusion of the subscription right pursuant to Section 186 (3) sentence 4 of the AktG;

- b) Where it is required to grant to the holders and/or creditors of convertible bonds or warrant bonds issued by the company or subordinate group entities, a subscription right to new shares in the amount they would be entitled to after the exercise of the warrant right and/or conversion right or after the compliance with the obligation of conversion;
- c) Where the capital increase for contribution in kind is made for the purpose of the (also indirect) acquisition of businesses or parts thereof, equity interests therein or other assets;
- d) For the exception of fractional amounts from the subscription right. The authorization of the Executive Board granted by the annual shareholders' meeting of May 30, 2006 in sub-clause 2 a) of item 7 on the agenda to exclude - subject to the consent of the Supervisory Board the legal subscription right of the shareholders applicable to the Authorized Capital 2006/I,  
*"a) When the capital increase is effected in exchange for cash contributions, 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;"*  
 is cancelled.

## Share buyback authorization

The annual shareholders' meeting on July 3, 2008 resolved the following authorization:

- a) The existing authorization to purchase and utilize treasury shares that had been resolved by the annual shareholders' meeting of June

21, 2007 under Agenda Item 10 shall be annulled for the period of effect of the following authorization.

- b) In accordance with Section 71 (1) (8) AktG, the company shall be authorized, in the time from July 4, 2008 to January 3, 2010, to purchase treasury shares representing up to 10% of the share capital in effect at the time of the resolution for other purposes than for trading. The shares are to be purchased on the stock exchange. The amount by which the purchase price (excluding incidental transaction costs) is higher or lower than the average standard quoted price of the shares in the XETRA closing auction (or comparable successor system) of the Frankfurt Stock Exchange on the three preceding trading days may not exceed 10%.
- c) The Executive Board shall be authorized, with the consent of the Supervisory Board, to sell the purchased treasury shares for cash also by some other means than on the stock exchange under exclusion of the shareholders' subscription rights if the purchased treasury shares would be sold at a price that is not significantly less than the exchange-listed price of the treasury shares of the same class and having the same features on the date of the sale. In such a case, the number of shares to be sold, together with the number of new shares to be issued by virtue of the authorization to issue new shares under exclusion of the shareholders' subscription rights in accordance with Section 186 (3) (4) AktG, may not in total exceed 10% of the share capital.
- d) The Executive Board shall be authorized further, with the consent of the Supervisory Board, to sell the purchased treasury shares by some other means than on the stock exchange under the exclusion of the shareholders' subscription rights if such a sale would serve the purpose of (i) transferring them to third parties, in part or in full, as consideration for business combinations or for the (even indirect) acquisition of companies, investments in companies, operating assets, industrial property rights or license rights; (ii) avoiding fractional subscription rights; or (iii) satisfying the obligations under the subscription rights for shares (options) that will have been granted to members of the Executive Board and selected employees of the company by virtue of the authorization to grant subscription rights resolved by the annual shareholders' meeting of July 3, 2008. Insofar as shares are granted to members of the Executive Board, the responsibility shall lie exclusively with the Supervisory Board.
- e) The Executive Board shall be authorized further, with the consent of the Supervisory Board, to retire the purchased treasury shares without need of further resolution by the annual shareholders' meeting.

- f) The foregoing authorizations can be exercised on one or more occasions, in full or in parts, individually or jointly. However, the purchase of treasury shares may not exceed the restrictions set forth in paragraph b). The subscription right of existing shareholders for the company's treasury shares shall be excluded to the extent that the shares in question are to be used in accordance with the authorizations set forth in paragraphs c) and d).

The number of treasury shares held by the company remained unchanged in the reporting period at 48,118. Writedowns of EUR 45,038.45 were charged on 48,118 treasury shares at December 31, 2009, marking their book value to the total market value of EUR 68,038.85 or EUR 1.41 per share. These shares represented EUR 48,118 or 0.18% of the share capital at December 31, 2009.

**Number 8:** A loan agreement concluded by ARQUES contains a so-called "change of control" clause. Under this loan agreement, ARQUES is obligated to report any and every change of control. In the event of such changes, the bank will be entitled to cancel the loan agreement with immediate effect if the change in the ownership structure would, in the opinion of the lending bank, bring about significant disadvantages for ARQUES' business performance, outlook or financial position.

**Number 9:** There exist no agreements between the company and the members of its Executive Board or its employees that would call for compensation in the event of a takeover offer.

## German Corporate Governance Code - ARQUES complies with Code recommendations

Corporate governance is an issue that ARQUES takes very seriously. In the year under review the Executive Board and the Supervisory Board dealt with issues relating to compliance with the Code's rules, notably including the new recommendations added to the Code in the revised version dated June 18, 2009. ARQUES Industries AG complies with the recommendations of the German Corporate Governance Code issued in 2002 and most recently amended on June 18, 2009 with only a few exceptions. ARQUES Industries AG views corporate governance as a process that is constantly being developed and improved.

On March 29, 2010, the Executive Board and the Supervisory Board of ARQUES Industries AG issued the Statement of Compliance with the revised version of the German Corporate Governance Code dated June 18, 2009 required by Section 161 AktG and reaffirmed the Statement on July 13, 2010. They also made the Statement permanently available to the shareholders on the company's homepage ([www.arques.de](http://www.arques.de)). The deviations from the German Corporate Governance Code are documented accordingly.

## Statement of Compliance

The Statement of Compliance with the German Corporate Governance Code pursuant to Section 161 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 of the German Commission on corporate management and supervision as amended on June 18, 2009, and published in the electronic version of the Federal Gazette (Bundesanzeiger), with the exception of the points outlined below. The deviations are explained in the following statement."

## Succession planning

Contrary to Section 5.1.2, no age limit has been specified for the members of the Executive Board. Given the terms and conditions of the Executive Board contracts, succession does not appear necessary at the present time.

Contrary to Section 5.1.3, the Supervisory Board has not established any bylaws for itself.

Contrary to Section 5.4.1, no age limit has been specified for the members of the Supervisory Board.

## Supervisory Board compensation

Contrary to Section 5.4.6 of the Code, the members of the Supervisory Board are paid a fixed salary. The compensation does not include a profit-based component.

## Supervisory Board committees

Contrary to Sections 5.3.1 and 5.3.3, the Supervisory Board has not established any committees with the exception of the Audit Committee.

## Publication

The consolidated financial statements are not currently made publically accessible within 90 days of the end of the financial year (Section 7.1.2 of the Code). The company aims to implement this recommendation with effect from the consolidated financial statements for fiscal 2010.

The reasons for not complying with the Code recommendations will be published on the internet at [www.arques.de](http://www.arques.de) in mid-July.

## Report on corporate governance at ARQUES Industries AG

### Functioning of the Executive Board

The Executive Board manages the company, a strategic holding company, under its own responsibility with the goal of permanently increasing the company's value and achieving the corporate objectives that have been defined. It conducts business in accordance with the rel-

evant statutory provisions, the company's Articles of Incorporation and the Executive Board's by-laws, and collaborates with the other company bodies in a relationship based on trust.

The Executive Board defines the goals and strategies for the corporate group, its sub-groups and subsidiaries and sets the guidelines and principles for the corporate policy derived from this. It coordinates and controls the activities, specifies the portfolio, develops and deploys managers, distributes the resources and decides upon the corporate group's financial management and reporting.

The members of the Executive Board have joint responsibility for managing the company as a whole. Irrespective of the overall responsibility of all members of the Executive Board, the individual members each have personal responsibility for managing the areas assigned to them under the relevant Executive Board resolutions. The distribution of tasks to the members of the Executive Board is defined in a written schedule of responsibilities. The Executive Board in its entirety decides upon all matters of fundamental and essential significance and upon all cases specified by law or other means. The Executive Board's by-laws specify the measures that must be dealt with and decided upon by the Executive Board as a whole. Executive Board meetings are held at regular intervals and are convened by the Chairman of the Executive Board. In addition, any member may call for a meeting to be convened. Where the law does not require unanimity, the Executive Board adopts resolutions upon a simple majority of the votes cast. In the event of a tie, the Chairman has the casting vote. According to the Executive Board's by-laws and schedule of responsibilities, the Chairman of the Executive Board is specifically responsible for leading and coordinating the Group Executive Board. It represents the company and corporate group vis-à-vis third parties and the workforce in matters that affect more than just parts of the company or the corporate group. In addition, it has special responsibility for certain Corporate Center units and their areas of activity. Given the low number of members of the Executive Board and the company's function as a strategic holding company, the Executive Board has not formed any committees.

### Supervisory Board: guidance and supervision

The Supervisory Board is tasked with supervising and advising the Executive Board. It consists of six members. The Supervisory Board is directly involved in decisions of fundamental importance for the company; it also agrees the company's strategic orientation with the Executive Board and discusses the progress achieved on implementing the business strategy with the Executive Board. The Chairman of the Supervisory Board coordinates the body's work and chairs its meetings. The Executive Board keeps the Supervisory Board constantly informed about the company's policies, planning and strategy as part of a regular exchange of views. The Supervisory Board approves the annual plan and the financial framework, and adopts the annual fi-

financial statements of ARQUES Industries AG and the consolidated financial statements of the ARQUES Group, together with the combined management report, taking into account the reports submitted by the independent auditors.

### Supervisory Board committees

**Audit Committee:** The Audit Committee comprises three members. Dr. Rudolf Falter, who was a member of the Audit Committee in the year under review, meets the statutory requirements regarding independence and expertise in the field of accounting and auditing that are expected of a member of the Supervisory Board and the Audit Committee.

The Audit Committee met five times during 2009. Among other things, its duties include reviewing the company's accounts, the annual and consolidated financial statements prepared by the Executive Board, the combined management report, the proposal for the utilization of the unappropriated net profit of ARQUES AG, and the quarterly reports and interim management reports of the ARQUES Group. The Audit Committee draws up proposals for the approval of the annual financial statements by the Supervisory Board on the basis of the independent auditors' report on the audit of the annual financial statements of ARQUES AG and the consolidated financial statements of the ARQUES Group, and the combined management report. The Audit Committee is also responsible for the company's relations with the independent auditors. The committee submits a proposal regarding the election of the independent auditors to the Supervisory Board, prepares the assignment of the audit assignment for the independent auditors elected by the annual shareholders' meeting, suggests focal points for the audit and sets the fees payable to the independent auditors. Furthermore, the committee monitors the independence, qualification, rotation and efficiency of the independent auditors. In addition, the Audit Committee looks at the company's internal control system, the procedures used to record, control and manage risk and the internal audit system. The Audit Committee is also responsible for compliance issues and dealing with any new developments in this field.

The Report of the Supervisory Board provides details on the activities of the Supervisory Board and its committees.

### Stock transactions involving members of the Executive Board and Supervisory Board

Under Section 15a of the German Stock Trading Act (Wertpapierhandelsgesetz), members of the Executive Board and the Supervisory Board, together with related parties, are obligated to disclose the purchase or sale of shares of ARQUES AG if the total value of such transactions reaches or exceeds EUR 5,000 in a given calendar year. ARQUES publishes information regarding such transactions immediately on its homepage and notifies the German Federal Financial Supervisory Au-

thority (Bundesanstalt für Finanzdienstleistungsaufsicht) in writing accordingly; the information is submitted to the Commercial Register for archiving. ARQUES AG was not notified of any such transactions in fiscal 2009.

### Corporate compliance

Our commercial activities are based on the legal systems in various countries and regions, which give rise to diverse obligations and duties for the ARQUES Group and its employees at home and abroad. ARQUES always conducts its operations responsibly and in compliance with the statutory provisions and official regulations applicable in the countries where Group companies operate. ARQUES expects all of its employees to act in conformity with legal and ethical norms in their day-to-day activities. Indeed, every single employee influences the company's reputation by his or her professional behavior. A constant dialog and close monitoring lays the foundation for conducting our business activities responsibly and in compliance with the applicable law.

### Detailed reporting

In order to ensure a high level of transparency, we notify our shareholders, financial analysts, media and other interested parties at regular intervals about the state of the company and key commercial developments. ARQUES informs its shareholders four times a year about the course of business, the company's assets, financial position and earnings together with the associated risks. In accordance with the statutory obligation, the members of the company's Executive Board confirm that, to the best of their knowledge, the annual financial statements, the consolidated financial statements and the combined management report provide a true and fair view of the company. The annual financial statements of ARQUES AG, the consolidated financial statements of the ARQUES Group and the combined management report will be published within 90 days of the end of the respective fiscal year in the future. Shareholders and third parties receive further information during the course of the year from the semi-annual financial report and quarterly financial reports for the first and third quarters. In addition, ARQUES releases information in press and analyst conferences. ARQUES also employs the internet as a means of publishing current information. This provides access to timetables for the key publications and events including the annual reports, quarterly financial reports and the annual shareholders' meeting. In line with the principle of fair disclosure, we treat all shareholders and key target groups alike when providing information. We use appropriate media channels to make information about important new circumstances available to a broad public without delay. Besides the regular reporting cycle, we release ad hoc notifications about circumstances that are not publicly known that could significantly affect the price of the ARQUES share were they to be disclosed.

## Principles of the compensation system for executives of ARQUES Industries AG

### Compensation paid to members of the Executive Board

The responsibilities and duties of the respective Executive Board member are taken into account when setting the compensation. The compensation granted in fiscal 2009 consisted of a fixed annual salary and success-related components. The variable components consist of bonus agreements for all active members of the Executive Board during the reporting period which are tied to the capital appreciation of a virtual share portfolio (and thus dependent on the company's success) and to the fulfillment of certain goals established for each Executive Board division (and thus dependent on the success of that division).

Specifically, the Executive Board compensation is composed of the following elements:

- The fixed compensation is paid in the form of a monthly salary.
- The variable compensation consists in part of a special bonus, the amount of which is determined with reference to the capital appreciation of a "virtual share portfolio," and in part of an individual bonus agreement for all active members of the Executive Board during the reporting period.

The basis for calculating the variable compensation with respect to the virtual share portfolio for all active members of the Executive Board during the reporting period is a specific number of shares in ARQUES Industries AG ("virtual share 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 share portfolio over a specific period – that is, relative to a pre-determined future date ("valuation date"). The difference between the value of the virtual share portfolio valued at the share price on the valuation date and its initial value ("capital appreciation") yields the amount of variable compensation. The general policy is to settle the capital appreciation in cash, converted at the share price at the valuation date.

The employment contract with Dr. Schumann contained an individual bonus agreement based on the profit for the year shown in the consolidated financial statements.

Mr. Frohn-Bernau and Mr. Schell received individual bonus agreements involving the sale of the operating subsidiaries of the ARQUES Group or their significant assets ("asset deal"), the size of which is based on the net return on the interest sold. The net return corresponds to the cash price actually received for the interest sold by ARQUES, regardless of shares, loans or other significant assets (asset deal) net of any cash pay-

ments made and not recovered by the ARQUES Group prior to completion of the sale (e.g. purchase price, capital contributions).

The Executive Board contracts with Mr. Ulmke and Mr. Hütten contain individual bonus agreements based on the income from ordinary activities disclosed in the consolidated financial statements, but with a minimum bonus as a floor.

### Compensation paid to members of the Supervisory Board

The compensation paid to members of the Supervisory Board was established for the first time by the annual shareholders' meeting on May 30, 2006, at the proposal of the Executive Board and Supervisory Board. Every member of the Supervisory Board receives maximum annual compensation of EUR 16,000. They are entitled to fixed compensation of EUR 1,000 per month and variable compensation in the form of meeting fees. The total compensation paid to the Chairman of the Supervisory Board is 50% higher, making for a maximum annual compensation of EUR 24,000. This compensation arrangement similarly lost its validity when the period of office of the Supervisory Board member expired. Consequently, the annual shareholders' meeting of August 5, 2009 resolved a new compensation arrangement as follows: "Each member of the Supervisory Board is paid a fixed fee of EUR 1,000 per month as well as a meeting fee of EUR 1,000.00 per Supervisory Board meeting where he took part. The Chairman of the Supervisory Board is paid a fixed fee of EUR 1,500 per month as well as a meeting fee of EUR 1,500 per Supervisory Board meeting or committee meeting where he took part.

The fee shall become due on the end of the AGM resolving on the approval of actions for the preceding financial year."

## Significant events after the reporting date

In January 2010, shares in the SM Electronic Group were sold to the subsidiary manager for a symbolic price. Subject to the occurrence of further conditions precedent, the shares still held by ARQUES are expected to be transferred to the subsidiary manager in full in July 2010.

In April 2010, the interest held by the company in the Fritz Berger Group, which is allocated to the Retail segment, was sold. The Fritz Berger Group contributed EUR 45,685 thousand to consolidated revenues and EUR 1,488 thousand to consolidated EBITDA in fiscal 2009.

On April 27, 2010, Siemens AG filed a further request for arbitration against ARQUES Industries AG. The purpose of the request for arbitration is to obtain a ruling that a call right held by ARQUES Industries AG for a minority interest of 19.8% held by Siemens AG does not exist (any

more) and that ARQUES Industries AG consequently cannot demand the transfer of this minority interest from Siemens AG. ARQUES has obtained a legal opinion regarding this move which indicates that Siemens cannot prevent ARQUES from exercising the call right.

In July 2010, the interest held by the company in the Golf House Group, which is allocated to the Retail segment, was sold. The Golf House Group contributed EUR 26,400 thousand to consolidated revenues and minus EUR 297 to consolidated EBITDA in fiscal 2009.

Acting on a warrant issued by Munich District Court, staff of the public prosecutor's office searched the business premises of ARQUES Industries AG in Munich on July 7, 2010. The search forms part of preliminary proceedings against Michael Hütten, who is a member of the Executive Board of ARQUES Industries AG, on suspicion of breach of trust (Sections 266 I, II, 263 III No. 2 of the German Penal Code (StGB)) in connection with the withdrawal of a request for payment of EUR 19.6 million from ARQUES Industries AG in the fall of 2009 in his former capacity as managing director of Gigaset Communications GmbH. The Executive Board of ARQUES Industries AG considers the allegations against Mr. Hütten to be untenable and is cooperating with the authorities in order to help clarify the situation rapidly.

## Forecast Report / Outlook

### Future business policy: reducing risk and developing the portfolio to create value

Against the backdrop of a burgeoning economic recovery, ARQUES expects its subsidiaries to perform well. During 2009, the company reduced the risks in the corporate group, realigned the portfolio, made the best possible allocation of the restructuring and reorganization measures, and applied consistent cost management in the holding company and the subsidiaries. Building on this, ARQUES sees the opportunity to return to profitable growth in 2010 and 2011 and to better exploit the opportunities and potential afforded by the ARQUES business model in the future.

The corporate group was already able to generate a consolidated pre-tax profit for the first time in nine quarters in the first quarter of 2010.

The number of transactions envisaged by ARQUES for 2010 and 2011 and the targeted size and structure of the portfolio seem realistic, given the expected development of the economy as a whole. In contrast to the last few years, the restructuring of the portfolio is expected to benefit from moderate support from the economic development.

Furthermore, the recovery on the capital markets makes it more likely to again develop subsidiaries so as to create value and sell them at a profit. In the context of rising company valuations, this will similarly benefit

ARQUES. We also foresee favorable opportunities on the acquisitions side as well in 2010 and the following years. Our activities will clearly focus on risk minimization in this setting.

The strategic focus of ARQUES will be on the following in 2010 and 2011:

- Sustainable turnaround of the ARQUES Group
- Reinforcement of M&A activities
- Sustainable development of the subsidiaries to create value
- Resolution of the dispute with Siemens

Cash flows and the impact on results of company acquisitions and disposals represent key factors affecting valuations and profits. Not all subsidiaries are currently generating cash inflows, which means that one subsidiary or the other could be reliant upon the support of the holding company. With regard to the positive operating development of the companies, we are increasingly succeeding in securing loans. This was practically impossible in 2009 in particular. Some companies are now in a position to repay corporate loans as scheduled and hence improve the financial position of the holding company. Whereas it was necessary to sell some companies for nothing in 2009 notably with a view to reducing risk, we generated proceeds of around EUR 38 million on the sale of Actebis and a total of around EUR 20 million in cash on the sale of Auto Windscreens and the British School of Motoring. These funds were essentially used to pay back bank loans, to settle part of the antitrust fine, and to fund our subsidiaries. We aim to reinforce the financial stability of the holding company and generate resources for company acquisitions by completing further disposals. Over the last 12 months, we have demonstrated that ARQUES is capable of restructuring and developing companies, even in difficult circumstances. Even if these successes may take longer to materialize during an economic crisis in particular, our portfolio is in much better shape today than it was just one year ago. The holding company has also been massively restructured and its costs reduced in the process. We are working on the assumption that it is now almost impossible to realize the kind of short-term successes that seemed possible in 2006 and 2007. In the light of this, we will pay closer attention, when acquiring companies, to purchase prices, restructuring costs, and risks to be assumed. What appeared to be successes in those boom years have, in some cases, turned into the opposite with deferred purchase prices not being generated by the companies acquired and guarantees assumed by the holding company becoming payable. We are preparing ourselves for the necessity to hold newly acquired companies in the portfolio for longer in some cases and to spreading the restructuring measures over a longer period of time. Consequently, the number of transactions conducted each year will decline compared with 2006 and with 2007 in particular,

although it will no doubt exceed the total for 2009 again, as ARQUES had to focus on completing its own restructuring in 2009.

## Sales markets: easing follows stabilization on the capital markets

The success of our business model depends heavily on the possibility to sell restructured subsidiaries again at a profit. In this regard, we believe that the increasing revival on the capital market will improve the underlying conditions for our business model in 2010. Besides the market for IPOs, the major transactions in the field of mergers and acquisitions (M&A) also emphasize the opportunities to realize lucrative exits.

## General conditions: global economic recovery continues in 2010

The policy of very low interest rates pursued by central banks and the wide-ranging stimulus packages will increasingly take effect during the course of 2010. The International Monetary Fund (IMF) therefore predicts that global economic output will expand 4.2% in this year. Nevertheless, the financial experts expect growth to occur at differing speeds. The upward trend in the primarily western industrialized nations is predicted to remain moderate (+2.3%), whereas the emerging economies can again look forward to more dynamic growth of 6.3%. The global importance of the fast-growing Asian states, especially for major exporting nations like Germany, is likely to increase against the backdrop of economic expansion forecast to total a significant 8.7%. China will once more be the motor of growth, expanding 10.0%, with positive effects also in Europe. Optimism also predominates in the other BRIC states: Brazil (+5.5%), India (+8.8%), and Russia (+4.0%). On the other

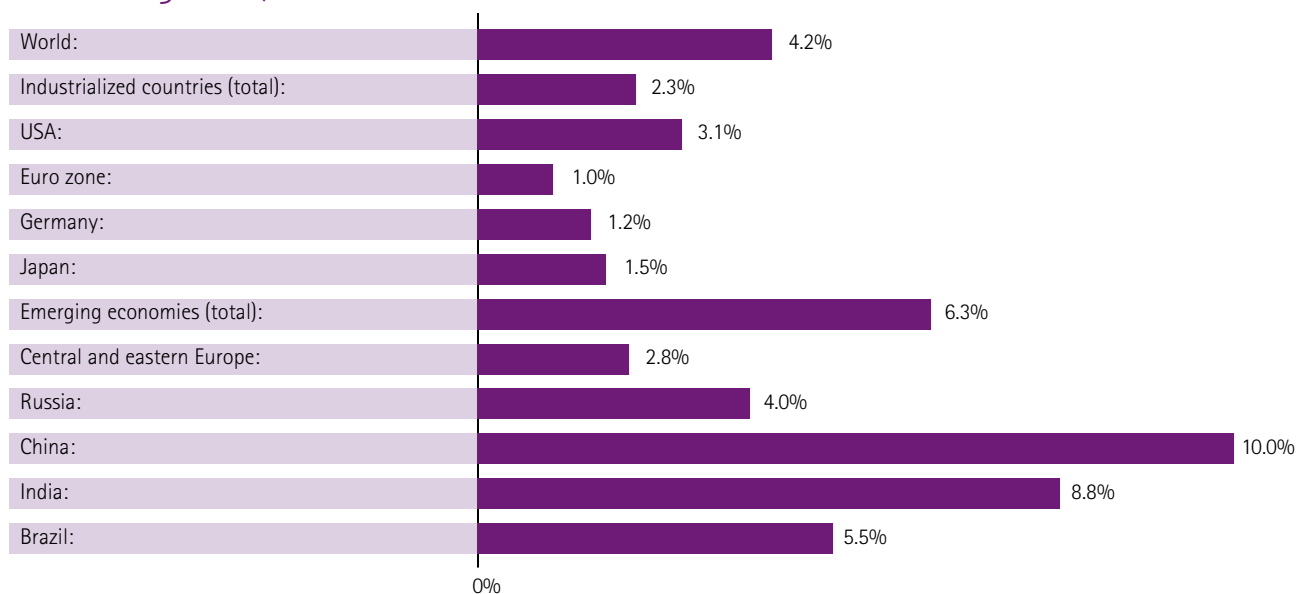
hand, modesty is the order of the day in the traditional world of the Triad. The IMF expects the U.S. economic output to expand 3.1%, and the organization is much more skeptical for the euro states, predicting meager growth of 1.0%. Germany's economic growth similarly gives no grounds for euphoria with forecast growth of 1.2%. Given rising export figures again, Japan can expect to enjoy economic growth of 1.9%.

As is normal in any economic recovery, the increasing demand for industrial products is accompanied by rising commodity prices. For example, the price of oil will likely be well above the figure for 2009. The experts also predict other commodity prices to evolve less markedly, but they will rise nonetheless. Nevertheless, the risk of inflation is limited - the IMF believes that consumer price inflation will average just 1.5% across the year.

The economic recovery is not set in stone, however, as major differences will prevail especially during the period after the stimulus packages expire. The need to take further large write-downs will continue to keep the banks busy again in 2010 and they will exercise restraint in extending new loans. This brake on the economy could be redoubled by the end of the policy of ultra-low interest rates that many experts predict for the final quarter of 2010. The current discussions surrounding the insolvency of a number of EU countries are increasingly giving financial experts cause for concern.

The IMF expects the economic recovery to continue in 2011. Global economic output is likely to rise a further 4.3% again, with the industrialized nations enjoying growth of 2.4% and the emerging economies 6.5%.

## Economic growth, 2010:



Source: International Monetary Fund (IMF), World Economic Outlook Update January 26, 2010

## Outlook for the M&A market and operating environment

In the light of the burgeoning economic recovery and the positive signals toward the end of 2009, the experts are expressing optimism for the M&A market and private equity firms in 2010. The year will not see a repeat of the boom years in 2007 and 2008, but will likely come to resemble the fairly good years for the industry in 2004 and 2005. In this context, strong impetus can be expected to come from the private equity sector. In its latest Private Equity Survey, the management consultancy and auditing firm Deloitte & Touche quotes a significant rise in its sentiment indicator. Despite persistently high risk premiums demanded by the banks, there is likely to be a sharp rise in the number of transactions conducted. Surveys indicate that one in every five companies in Europe is planning an acquisition. Against the backdrop of stronger stock markets, the primary market is also likely to revive further in 2010, with industry experts predicting 5-10 larger IPOs involving a total issue volume of more than EUR 100 million.

If the economy continues to improve in 2011 as forecast by the IMF, this will also have a positive impact on the private equity industry.

## Outlook for the ARQUES Group

### Expected revenues and earnings: operating breakeven targeted for 2010

As already mentioned above, given the development to date of the operating activities of our subsidiaries we expect to at least record an operating profit (positive EBITDA) in 2010. The fact that we recorded a post-tax profit in the first quarter of 2010 for the first time since the fourth quarter of 2007 gives us good ground to believe that we can achieve this goal.

Contrary to our forecast from last year, the consolidated net loss for 2009 worsened again. This result was caused primarily by impairment losses coupled with the decline of EUR 90 million in income from the reversal of negative goodwill (bargain purchase effects). In 2010 and 2011, we expect to record only small non-recurring charges, if any, in our continuing operations.

### Expected financial position, investments, and liquidity development

As a result of the positive economic development of our subsidiary, investments are increasingly being financed using internal cash flows and factoring. It remains difficult to obtain bank loans. Nevertheless, some of our subsidiaries have succeeded in gaining finance from banks and extending loan agreements. Consequently, we expect the liquidity situation of our subsidiaries to continue stabilizing.

## Outlook for ARQUES Industries AG

### Expected revenues and earnings: net profit targeted for 2010

After reducing the costs of the holding company as planned, we are now working on improving the efficiency and quality of our workflows. With income from cost allocations falling, we expect to generate a net profit for the year again for the first time since 2007 on the back of income from subsidiaries and disposals of subsidiaries. The same is applicable for 2011.

### Expected financial position and liquidity development

In 2010, management activities will again focus on securing the liquidity base. The funding requirement of the subsidiaries is falling quickly. In fiscal 2009, ARQUES provided the Group companies with appreciable funds and equity capital. Building on the improved earnings and liquidity situation, it will be possible to pare back some of this financial assistance in 2010 and 2011.

Against the backdrop of the massive reduction of our debt over the last two fiscal years, the holding company is almost free of debt as of July 2010. A lower level of debt coupled with a strong performance by our subsidiaries should put us in a position to further stabilize the financial base of the holding company.

## Overall view of the Executive Board regarding the likely development of the company

The Executive Board of ARQUES Industries AG shares the view of the economic experts that the global economy will recover gradually. We expect this - coupled with further restructuring measures - to have a markedly positive effect on our operations. This provides opportunities to significantly revive our earnings and additionally improve the quality of our balance sheet. Nevertheless, the current year will, given the risks and imponderables regarding the sustainability of the recovery together with persistently restrictive lending policies on the part of banks, remain a challenging period of transition. It remains difficult to make reliable forecasts for the private equity industry. On this basis, the Executive Board believes the Group will stabilize in 2010. In addition, the Executive Board expects the path of profitable growth starting in 2010 to continue in 2011 and beyond.

Starnberg, July 9, 2010

The Executive Board of ARQUES Industries AG

  
Hans Gisbert Ulmke

  
Michael Hütten

# potential lies just beneath the surface

While the global recession had a deep impact on the company's fiscal performance, ARQUES still has massive potential just waiting to be uncovered. Like a bulb which can stay buried in the soil for years until conditions are ideal for its growth and propagation, ARQUES has had to wait for its time to break new ground. The time for ARQUES to reveal its true potential is approaching and for this we could not be better prepared.





## CONSOLIDATED FINANCIAL STATEMENTS

### Consolidated Income Statement for the period from January 1 to December 31, 2009

EUR'000	NOTE
<b>Revenues</b>	<b>1</b>
Change in inventories of finished and unfinished goods	
Other internal production capitalized	2
Other operating income	3
Purchased goods and services	4
Personnel expenses	5
Other operating expenses	6
<b>EBITDA</b>	
Depreciation and amortization	
Impairment losses	7
<b>EBIT</b>	
Income/expenses from non-current financial assets accounted for by the equity method	8
Other interest and similar income	9
Interest and similar expenses	9
<b>Net financial expenses</b>	
<b>Income/expenses from ordinary activities</b>	
Income taxes	10
<b>Consolidated loss for the year</b>	
Share of consolidated loss attributable to minority interests	11
Share of consolidated loss attributable to shareholders of ARQUES Industries AG	
<b>Earnings per common share</b>	<b>12</b>
- Basic earnings per share, in EUR	
- Diluted earnings per share, in EUR	

### Statement of Comprehensive Income for the period from January 1 to December 31, 2009

EUR'000
<b>Consolidated loss for the year</b>
Currency translation differences
Change in market value of available-for-sale securities
Other income and expenses recognized directly in equity
<b>Total changes not recognized in the income statement</b>
<b>Total comprehensive income and expenses</b>
thereof attributable to minority interests
thereof attributable to shareholders of ARQUES Industries AG

01/01 - 12/31/2009			01/01 - 12/31/2008 <sup>1</sup>		
CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
1,057,927	2,434,045	3,491,972	1,286,208	4,218,818	5,505,026
-14,175	1,370	-12,805	-12,123	-77	-12,200
22,778	939	23,717	14,651	3,851	18,502
48,761	35,921	84,682	191,532	53,343	244,875
-620,856	-2,187,202	-2,808,058	-835,105	-3,882,377	-4,717,482
-262,574	-127,145	-389,719	-307,496	-174,356	-481,852
-243,541	-128,503	-372,044	-293,270	-152,140	-445,410
-11,680	29,425	17,745	44,397	67,062	111,459
-68,370	-11,397	-79,767	-65,551	-27,747	-93,298
-37,218	-40,535	-77,753	-123,972	-9,701	-133,673
-117,268	-22,507	-139,775	-145,126	29,614	-115,512
30	23	53	474	0	474
2,536	315	2,851	6,660	1,947	8,607
-18,173	-9,618	-27,791	-22,883	-23,076	-45,959
-15,607	-9,280	-24,887	-15,749	-21,129	-36,878
-132,875	-31,787	-164,662	-160,875	8,485	-152,390
11,658	4	11,662	11,943	-5,279	6,664
-121,217	-31,783	-153,000	-148,932	3,206	-145,726
-1,339	-6,300	-7,639	-8,123	-3,419	-11,542
-119,878	-25,483	-145,361	-140,809	6,625	-134,184
-4.54	-0.97	-5.51	-5.34	0.25	-5.09
-4.54	-0.97	-5.51	-5.34	0.25	-5.09

01/01 - 12/31/2009			01/01 - 12/31/2008 <sup>1</sup>		
CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
-121,217	-31,783	-153,000	-148,932	3,206	-145,726
-1,573	3,730	2,157	1,033	-3,216	-2,183
0	0	0	0	0	0
0	0	0	0	0	0
-1,573	3,730	2,157	1,033	-3,216	-2,183
-122,790	-28,053	-150,843	-147,899	-10	-147,909
-1,339	-6,300	-7,639	-8,123	-3,419	-11,542
-121,451	-21,753	-143,204	-139,776	3,409	-136,367

<sup>1</sup> See also section "Adjustment of comparison information in the consolidated financial statements at December 31, 2008" in the notes to the consolidated financial statements.

## Consolidated Balance Sheet at December 31, 2009

ASSETS IN EUR'000	NOTE	12/31/2009	12/31/2008 <sup>1</sup>	12/31/2007 <sup>1</sup>
<b>Non-current assets</b>				
Intangible assets	14	60,181	133,629	154,764
Property, plant and equipment	15	184,599	317,028	362,379
Investment property	16	226	238	250
Non-current financial assets accounted for by the equity method	17	4,828	5,000	4,564
Financial assets	18	2,905	3,190	3,784
Other non-current assets	19	18	85	219
Deferred tax assets	34	3,693	16,864	34,496
<b>Total non-current assets</b>		<b>256,450</b>	<b>476,034</b>	<b>560,456</b>
<b>Current assets</b>				
Inventories	20	93,669	378,862	439,029
Receivables from percentage of completion	21	0	3,030	15,040
Trade receivables	22	131,283	407,632	430,396
Available-for-sale financial assets	23	636	821	1,418
Other assets	24	78,216	192,109	228,923
Current tax assets	25	3,744	10,507	13,932
Cash and cash equivalents	26	74,915	142,409	84,540
		<b>382,463</b>	<b>1,135,370</b>	<b>1,213,278</b>
Available-for-sale assets	27	19,037	107,636	60,359
<b>Total current assets</b>		<b>401,500</b>	<b>1,243,006</b>	<b>1,273,637</b>
<b>Total assets</b>		<b>657,950</b>	<b>1,719,040</b>	<b>1,834,093</b>

<sup>1</sup> See also section "Adjustment of comparison information in the consolidated financial statements at December 31, 2008" in the notes to the consolidated financial statements.

## Consolidated Balance Sheet at December 31, 2009

EQUITY AND LIABILITIES IN EUR'000	NOTE	12/31/2009	12/31/2008 <sup>1</sup>	12/31/2007 <sup>1</sup>
<b>Equity</b>	<b>28</b>			
Subscribed capital		26,402	26,402	26,357
Additional paid-in capital		73,580	73,580	72,473
Retained earnings		20,290	20,290	20,290
Accumulated other comprehensive income		-1,920	136,662	270,947
		118,352	256,934	390,067
Minority interests		3,109	9,464	10,934
<b>Total equity</b>		<b>121,461</b>	<b>266,398</b>	<b>401,001</b>
<b>Non-current liabilities</b>				
Pension obligations	29	32,285	66,000	32,201
Provisions	30	32,231	31,317	31,466
Financial liabilities	31	37,989	75,217	81,906
Liabilities under finance leases	32	2,782	24,246	35,873
Other liabilities	33	16,870	65,269	53,192
Deferred tax liabilities	34	17,944	54,939	59,582
<b>Total non-current liabilities</b>		<b>140,101</b>	<b>316,988</b>	<b>294,220</b>
<b>Current liabilities</b>				
Provisions	30	37,302	67,849	36,046
Financial liabilities	35	49,704	136,754	257,597
Liabilities under finance leases	32	1,666	7,137	5,553
Trade payables	36	180,398	601,356	581,472
Current tax liabilities	37	7,864	15,047	28,564
Other liabilities	38	100,417	217,366	221,097
		377,351	1,045,509	1,130,329
Liabilities related to assets held for sale	27	19,037	90,145	8,543
<b>Total current liabilities</b>		<b>396,388</b>	<b>1,135,654</b>	<b>1,138,872</b>
<b>Total equity and liabilities</b>		<b>657,950</b>	<b>1,719,040</b>	<b>1,834,093</b>

<sup>1</sup> See also section "Adjustment of comparison information in the consolidated financial statements at December 31, 2008" in the notes to the consolidated financial statements.

## Consolidated Statement of Changes in Equity at December 31, 2009

EUR'000	SUBSCRIBED CAPITAL
December 31, 2007	26,357
IAS 8	0
December 31, 2007	26,357
1 Appropriation to retained earnings	0
2 Stock option program	0
3 Changes in minority interests	0
4 Other changes	0
5 Total transactions with shareholders	0
6 Consolidated loss 2008	0
7 Minority interests	0
8 Consolidated loss after minority interests	0
9 Currency translation differences	0
10 Total changes not recognized in the income statement	0
11 Total net income (8+10)	0
12 Treasury shares	45
December 31, 2008	26,402
IFRS 3.61ff.	0
December 31, 2008	26,402
1 Appropriation to retained earnings	0
2 Withdrawal from additional paid-in capital	0
3 Stock option program	0
4 Changes in minority interests	0
5 Other changes	0
6 Total transactions with shareholders	0
7 Consolidated loss 2009	0
8 Minority interests	0
9 Consolidated loss after minority interests	0
10 Currency translation differences	0
11 Total changes not recognized in the income statement	0
12 Total net income (9+11)	0
13 Treasury shares	0
December 31, 2009	26,402

ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	ADJUSTMENT ITEMS FOR MINORITY INTEREST	CONSOLIDATED EQUITY
72,473	20,290	275,169	6,712	401,001
0	0	-4,222	4,222	0
72,473	20,290	270,947	10,934	401,001
0	0	0	0	0
0	0	1,366	0	1,366
0	0	-2,968	10,389	7,421
0	0	278	-317	-39
0	0	-1,324	10,072	8,748
0	0	-134,184	0	-134,184
0	0	0	-11,542	-11,542
0	0	-134,184	-11,542	-145,726
0	0	-2,183	0	-2,183
0	0	-2,183	0	-2,183
0	0	-136,367	-11,542	-147,909
1,107	0	0	0	1,152
73,580	20,290	133,256	9,464	262,992
0	0	3,406	0	3,406
73,580	20,290	136,662	9,464	266,398
0	0	0	0	0
0	0	0	0	0
0	0	607	0	607
0	0	4,015	1,284	5,299
0	0	0	0	0
0	0	4,622	1,284	5,906
0	0	-145,361	0	-145,361
0	0	0	-7,639	-7,639
0	0	-145,361	-7,639	-153,000
0	0	2,157	0	2,157
0	0	2,157	0	2,157
0	0	-143,204	-7,639	-150,843
0	0	0	0	0
73,580	20,290	-1,920	3,109	121,461

## Consolidated Cash Flow Statement for the Period from January 1 to December 31, 2009

EUR'000
Earnings before taxes (EBT)
Reversal of negative goodwill
Depreciation and amortization of property, plant and equipment and intangible assets
Impairment losses
Increase (+)/ decrease (-) in pension provisions
Gain (-)/loss (+) on the sale of non-current assets
Gain (-)/loss (+) on deconsolidation
Gain (-)/loss (+) on currency translation
Issuance of stock options
At-equity valuation result
Other non-cash income and expenses
Net interest income/ expenses
Interest received
Interest paid
Income taxes paid
Non-recurring proceeds from the factoring of receivables in connection with the financing of acquisitions
Increase (-)/ decrease (+) in inventories
Increase (-)/ decrease (+) in trade receivables and other receivables
Increase (+)/ decrease (-) in trade payables, other liabilities and other provisions
Increase (+)/ decrease (-) in other balance sheet items
<b>Cash inflow (+)/ outflow (-) from operating activities (net cash flow)</b>
Payments for shares in companies
Cash acquired with the acquisition of shares in companies
Proceeds from the sale of shares in companies
Cash transferred with the sale of shares in companies
Proceeds from the sale of non-current assets
Payments for investments in non-current assets
<b>Cash inflow (+)/ outflow (-) from investing activities</b>
<b>Free cash flow</b>
Cash flows from the borrowing (+)/ repayment (-) of current financial liabilities
Cash flows from the borrowing of non-current financial liabilities
Repayment of non-current financial liabilities
Payments related to liabilities under finance leases
Purchase of treasury shares
Payments to minority interests
<b>Cash inflow (+)/ outflow (-) from financing activities</b>
Net funds at beginning of period
Changes due to exchange rate differences
Net funds at beginning of period, measured at prior-year exchange rate
Increase (-)/ decrease (+) in restricted cash
Change in net funds
<b>Net funds at end of period</b>
Restricted cash
<b>Cash and cash equivalents</b>
Cash presented within the balance sheet item of "assets held for sale"
<b>Cash and cash equivalents presented in the balance sheet</b>

	01/01 - 12/31/ 2009	01/01 - 12/31/ 2008
	-151,779	-148,286
	-11,336	-108,422
	79,767	93,298
	77,753	133,673
	1,067	1,820
	1,269	-4,179
	4,564	3,351
	-5,401	3,546
	607	1,366
	-53	-474
	-25,225	-31,136
	24,940	37,352
	1,663	5,274
	-15,125	-34,554
	-12,547	-16,753
	0	79,466
	-4,496	62,863
	58,562	8,885
	-85,076	24,854
	14,059	11,208
	-59,670	119,048
	-774	-50,562
	1,712	95,092
	59,741	27,552
	-54,654	-10,032
	1,927	68,943
	-17,190	-69,178
	-9,238	61,815
	-68,908	180,863
	-17,440	-78,584
	16,569	17,420
	-6,461	-28,851
	-3,563	-14,895
	0	-512
	0	-729
	-10,895	-106,151
	123,790	70,042
	-1,951	-177
	125,741	69,865
	19,382	-18,836
	-79,803	74,712
	63,369	125,741
	14,129	33,511
	77,498	159,252
	2,583	16,843
	74,915	142,409

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2009

## A. GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Business activities

ARQUES Industries AG (hereinafter „ARQUES" or the „company") is a joint stock corporation under German law, has its head office and principal place of business in Starnberg, as per its Articles of Incorporation, and is filed in the Commercial Register with Munich District Court under entry no. HRB 146911. The company's offices are located at Arnulfstraße 37-39, in 80636 Munich.

ARQUES acts as a partner to major corporations for their corporate divestments and is a turnaround specialist concentrating on the acquisition and active restructuring of companies in transitional situations. ARQUES deploys its own team to turn these firms into competitive, profitable enterprises. ARQUES revitalizes the value-creation potential of its subsidiaries for the benefit of all stakeholders while also respecting the related social responsibility. ARQUES now has a worldwide presence through its subsidiaries.

The company's shares are traded on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange.

### Presentation of the consolidated financial statements

The consolidated financial statements are denominated in euros, the functional currency of the parent company, ARQUES Industries AG. To enhance clarity, figures are shown in thousands of euros (EUR'000), unless stated otherwise.

The presentation of the consolidated financial statements complies with the regulations of IAS 1 (Presentation of Financial Statements). The consolidated income statement is prepared in accordance with the cost summary method.

The consolidated balance sheet is organized in accordance with the maturity structure of the constituent items. Assets and liabilities are considered current if they are payable within one year. Accordingly, assets and liabilities are considered non-current if they remain within the Group for more than one year. Trade payables, trade receivables, and inventories are presented as current items as they are all payable within one year. Deferred tax assets and liabilities are presented as non-current items. Minority interests held by shareholders outside the Group are presented as a separate item within shareholders' equity.

In accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), a distinction is made between continuing and discontinued operations, and non-current assets held for sale in the income statement and cash flow statement. Continuing and discontinued operations are shown separately in the income statement and cash flow statement for the year under review and the prior year. In addition, a combined total of both continuing and discontinued operations is presented in the income statement and cash flow statement.

The consolidated financial statements of ARQUES are prepared on the assumption of a going concern.

### Accounting principles

The consolidated financial statements of ARQUES for fiscal 2009 and the prior-year figures presented have been prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) and the interpretations of the Standard Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), as applicable in the European Union.

Furthermore, the German commercial regulations to be applied additionally in accordance with Section 315a (1) of the German Commercial Code were observed. All the standards in effect and applicable to fiscal 2009 have been observed. They help to provide a true and fair view of the assets, financial position, and results of operations of the ARQUES Group.

Application of the following standards and interpretations revised and newly issued by the IASB was obligatory starting from fiscal 2009:

- Amendments to IAS 1 (Presentation of Financial Statements)
- Amendments to IAS 23 (Borrowing Costs) regarding the withdrawal of the option to capitalize borrowing costs for qualifying assets
- Amendments to IAS 32 (Financial Instruments: Presentation) and consequential amendment to IAS 1 (Presentation of Financial Statements) regarding puttable financial instruments and obligations arising on liquidation
- Amendments to IAS 39 and IFRS 7 (Reclassification of Financial Assets: Effective Date and Transition)
- Annual Improvements
- Amendments to IFRS 2 (Share-based Payment) regarding the definition of vesting conditions and the treatment of cancellations
- Amendments to IFRS 7 Financial Instruments: Disclosures
- IFRS 8 (Operating Segments)
- IFRIC 13 (Customer Loyalty Programmes)
- IFRIC 14 (IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)

The amendments to IAS 1 relate to the presentation of the assets, financial position, and results of operations for financial statements prepared in accordance with IFRS. Accordingly, a consolidated statement of comprehensive income is now also presented, and the statement of changes in shareholders' equity is shown as a separate part of the financial statements. The statement of comprehensive income encompasses the consolidated income statement and other results that reflect the income and expenses recognized directly in equity. In addition to the existing presentation, the starting balances for the prior period are shown in a further column in the balance sheet in the event of retrospective adjustments.

The amendments to IAS 23 call for the obligatory capitalization of borrowing costs, thus terminating the existing option.

The amendments to IAS 32 incorporated into EU law on January 21, 2009 and the consequential amendments to IAS 1 deal with the classification of certain partner's contributions as equity or debt. Whereas the definition of equity under the old version of IAS 32 regularly resulted in disclosure as borrowings for German commercial partnerships, exceptions have been defined in the new version of these standards that regularly lead to classification as equity for German commercial partnerships.

The amendments to IAS 39 and IFRS 7 incorporated into EU law on September 9, 2009 are applicable retroactively from July 1, 2008. They serve exclusively to clarify the date of application of the amendment to the reclassification of financial instruments on account of the financial crisis, already incorporated into European law.

The Annual Improvements 2008 comprise a total of 35 minor amendments, most of which relate to changes in the presentation, recognition and measurement of items in the financial statements. The remaining amendments represent merely editorial improvements that have no impact on accounting treatment.

The amendments to the revised IFRS 2 are to be applied retroactively. They relate to a clarification of the definition of vesting conditions and to rules stating that cancellations of plans must be subject to the same accounting treatment, irrespective of whether they are carried out by the company or third parties.

The amendments to IFRS 7 pertain to the date of effect and the transition provisions for the amendments to IAS 39 and IFRS 7, which were published by the IASB in October 2008 in connection with the amendments entitled „Reclassification of financial assets.“

IFRS 8 replaces the existing rules regarding segment reporting defined in IAS 14. The main change relates to the definitions of the segments, which now align with the reporting structure used internally by the decision-makers. In addition, disclosures regarding geographical areas and key customers are required exclusively at the end of the fiscal year.

The obligatory application of amended standards and interpretations has not had any effect on the assets, financial position, and results of operations of the ARQUES Group.

Application of the following revised and newly issued standards and interpretations already adopted by the IASB was not mandatory in fiscal 2009:

		APPLICATION MANDATORY FROM	ADOPTED BY EU-COMMISSION
Standards			
IFRS 1	Comments regarding IFRS 1	Jan. 1, 2009	No
IFRS 1	Additional Exemptions for First-time Adopters	Jan. 1, 2010	No
IFRS 2	Group Cash-settle Share-based Payment Transactions	Jan. 1, 2010	Yes
IFRS 3	Components of Acquisition Costs in Business Combinations	July 1, 2009	Yes
IFRS 9	Financial Instruments: Classification and Impairment of Financial Assets	Jan. 1, 2013	No
IAS 24	Related Party Disclosures	Jan. 1, 2011	No
IAS 27	Consolidated and Separate Financial Statements	July 1, 2009	Yes
IAS 32	Classification of Rights	Feb. 1, 2010	No
IAS 39	Financial Instruments: Recognition and Measurement: Amendments for Eligible Hedged Items	July 1, 2009	Yes
IFRIC 9 and IAS 39	Embedded Derivatives	June 30, 2009	No
Various	Annual Improvements (2009)	Mostly	
Jan. 1, 2010	Yes		
Interpretations			
IFRIC 12	Service Concession Arrangements	April 1, 2009	Yes
IFRIC 14	Prepayments of a Minimum Funding Requirement	Jan. 1, 2011	No
IFRIC 15	Agreements for the Construction of Real Estate	Jan. 1, 2010	Yes
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	July 1, 2009	Yes
IFRIC 17	Distributions of Non-cash Assets to Owners	July 1, 2009	No
IFRIC 18	Transfers of Assets from Customers	July 1, 2009	No
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	July 1, 2009	No

In January 2008, the IASB published the revised Standard IFRS 3 Business Combinations, which reformulated the rules applicable to the application of the acquisition method for business combinations. The principal changes related to the measurement of minority interests, the recognition of step acquisitions and the treatment of contingent purchase price components and incidental acquisition costs. Under the new rules, minority interests can be measured either at fair value (full goodwill method) or at the fair value of the reporting entity's proportional share of identifiable net assets. In the case of step acquisitions, the shares held by the reporting entity must be remeasured at fair value and the difference recognized in profit or loss at the date when control over the subsidiary is attained. In the future, contingent purchase price components that were presented as liabilities at the acquisition date must be recognized in profit or loss. Incidental acquisition costs must be recognized as expenses in the period in which they are incurred.

The revised Standard must be applied in fiscal years that begin on or after July 1, 2009. Earlier application is permitted. The amendment was incorporated into European law by resolution of the European Union of January 23, 2009.

The effects of the first-time application of these revised or newly issued Standards and Interpretations cannot be reliably estimated at the present time.

## Scope and method of consolidation

The present consolidated financial statements at December 31, 2009 include the separate financial statements of the parent company, ARQUES, and its subsidiaries, where appropriate together with special purpose entities.

Subsidiaries are all companies whose financial and business policies are controlled by the Group, usually accompanied by a share of voting rights in excess of 50%. The existence and effect of potential voting rights which can be exercised in the present or converted are also taken into account when determining whether such control exists.

Subsidiaries are included in the consolidated financial statements from the date on which control passes to the Group (full consolidation). They are deconsolidated from the date on which such control ends. Special purpose entities for which the Group does not hold a majority of the voting rights are nevertheless included in the group of subsidiaries, provided the Group obtains a majority of the benefits from the activities of the special purpose entity or bears a majority of the risk.

Capital consolidation of the subsidiaries is carried out in accordance with IAS 27 (Consolidated and Separate Financial Statements) in conjunction with IFRS 3 (Business Combinations). 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 (re-measurement 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 allocable transaction costs. For 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 costs 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 the net assets of the acquired subsidiary, the difference is recognized directly in the income statement after conducting an additional review.

The effects of all significant intra-group transactions are eliminated. This involves offsetting income, expenses, receivables, and liabilities between Group companies. Intercompany profits and losses arising from intra-group sales of assets that are not sold on to third parties are eliminated. The deferred taxes required by IAS 12 are recognized for temporary differences arising from consolidation.

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. Intragroup transactions, balances, and unrealized profits and losses on transactions between Group companies are eliminated. In the event of unrealized losses, the transferred assets are tested for impairment.

Minority interests in the consolidated equity and profits are presented separately from the parent's share of equity and profit. Changes in minority interests resulting from disposals give rise to profits and losses that are recognized in the consolidated income statement. In the case of acquisitions, any premium paid over the value of net assets at the time of acquisition would give rise to goodwill.

Besides the parent company, 103 subsidiaries – consisting of 51 domestic and 52 foreign companies – were included in the consolidated financial statements of ARQUES at December 31, 2009.

Compared with the previous year, 9 companies were added to the consolidation group or acquired, and 122 companies were deconsolidated or sold in fiscal 2009.

Two companies have been accounted for by the equity method.

Four companies whose effect on the net assets, financial position, and results of operations is not significant either individually or on aggregate have not been consolidated. These subsidiaries are carried at amortized cost.

Details of the subsidiaries that belong to the consolidation group are included in the list of shareholdings (Section 313 (4) German Commercial Code (HGB)), which is presented as an annex to the consolidated financial statements at the end of the notes.

The financial statements of the subsidiaries are prepared at December 31, which is the reporting date for consolidated financial statements of the parent company, ARQUES Industries AG.

## Currency translation

The annual financial statements of foreign Group companies are translated into the reporting currency of the ARQUES Group. For the most part, their functional currency is the respective local currency, although the functional currency differs from the local currency in a few cases. The euro is both the functional currency and the reporting currency of the parent company and hence of the consolidated financial statements.

ARQUES translates the assets and liabilities of foreign Group companies whose functional currency is not the euro at the exchange rate applicable on the balance sheet date. Income, expenses, profits, and losses are translated at the average exchange rate. All currency translation differences are recognized as a separate item within equity.

Should a foreign Group company be 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.

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 denominated 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 for which changes in fair value are recognized in equity are included in equity.

The following table shows the exchange rates used to translate the key currencies listed. Currencies for which no prior year exchange rates are given became relevant for the consolidated financial statements for the first time in fiscal 2009.

		EXCHANGE RATE AT <sup>1)</sup>		AVERAGE EXCHANGE RATE <sup>1)</sup>	
		12/31/2009	12/31/2008	2009	2008
United Arab Emirates	AED	5.2658	5.1820	5.1238	5.4054
Argentina	ARS	5.4761	4.8740	5.2209	4.6563
Azerbaijan	AZN	1.1511	1.1292	1.1209	1.2082
Bosnia	BAM	1.9560	1.9529	1.9568	1.9526
Bulgaria	BGN	1.9558	1.9558	1.9558	1.9558
Brazil	BRL	2.5113	3.2436	2.5566	2.6745
Belarus	BYR	4,103.6200	3,033.0600	3,893.6807	3,165.3528
Canada	CAD	1.5128	1.6998	1.5852	1.5593
Switzerland	CHF	1.4836	1.4850	1.5099	1.5871
China	CNY	9.8350	9.4956	9.5174	10.2252
Czech Republic	CZK	26.4730	26.8750	26.4548	24.9590
Denmark	DKK	7.4418	7.4506	7.4463	7.4560
Estonia	EEK	15.6466	15.6466	15.6466	15.6466
UK	GBP	0.8881	0.9525	0.8911	0.7965
Hong Kong	HKD	11.1709	10.7858	10.7997	11.4527
Croatia	HRK	7.3000	7.3555	7.3413	7.2242
Hungary	HUF	270.4200	266.7000	280.5442	251.7375
Japan	JPY	133.1600	126.1400	130.2333	152.3300
Korea	KRW	1,666.9700	1,839.1300	1,772.8008	1,605.9000
Lithuania	LTL	3.4528	3.4528	3.4528	3.4528
Latvia	LVL	0.7093	0.7083	0.7058	0.7026
Mexico	MXN	18.9223	19.2333	18.7841	16.2967
Norway	NOK	8.3000	9.7500	8.7288	8.2248
Poland	PLN	4.1045	4.1535	4.3298	3.5151
Romania	RON	4.2363	4.0225	4.2396	3.6840
Serbia	RSD	96.7741	90.1972	94.5408	82.0434
Russia	RUB	43.1540	41.2830	44.1391	36.3731
Sweden	SEK	10.2520	10.8700	10.6200	9.6169
Slovakia	SKK	30.1260	30.1260	30.1260	31.2723
Turkey	TRL	2.1547	2.1488	2.1623	1.9072
Ukraine	UAH	11.6374	11.1776	11.3604	7.8283
USA	USD	1.4406	1.3917	1.3933	1.4706
South Africa	ZAR	10.6660	13.0667	11.6863	12.0659

1) Equivalent for EUR 1

## Adjustment of comparison information from the consolidated financial statements at December 31, 2008

The values at December 31, 2008 and December 31, 2007 were adjusted in accordance with IAS 8. In the prior-year financial statements, negative minority interests in the amount of EUR 4,222 thousand, which derived from the equity investments of the Rohner Group and the van Netten Group, had been presented within the item of "minority interests". According to the applied Standard IAS 27, these negative minority interests should have been charged to the item of accumulated other comprehensive income. As a result of this adjustment, therefore, the amount presented under minority interests was increased by EUR 4,222 thousand and accumulated other comprehensive income was decreased by the same amount as of January 1, 2008.

In connection with the acquisition of Auto Windscreens Ltd., an adjustment according to IAS 8 was made at December 31, 2008 for the preferred shares issued in connection with the deal, which had not been recognized as minority interests at the acquisition date (December 31, 2008). As a result, the negative goodwill arising on initial consolidation was adjusted by EUR -4,104 thousand. The prior-year comparison values were adjusted accordingly.

Certain balance sheet items at January 1, 2009 were adjusted in accordance with IFRS 3.61 and following, because the purchase price allocations at December 31, 2008 of the company Auto Wind-screens Ltd. And the Gigaset Group, which were acquired in the fourth quarter of 2008, were only provisional according to IFRS 3.61 and following.

Provisional purchase price allocations according to IFRS 3.61 and following are inherent in the AR-QUES business model, due to the time-consuming and complex requirements for purchase price allocations and the time it takes for the independent auditor to review the calculations. Depending on the complexity of the transactions, this process may take several months. However, IFRS 3.61 and following requires that the transaction be accounted for when valid, provisional figures are available, without waiting until the purchase price allocation has been finally completed. Based on the qualitative requirements of the IFRS Framework concerning the information to be presented in financial statements, providing prompt information to the users of financial statements takes precedence over exact, yet delayed information.

The adjustments made with regard to Auto Windscreens Ltd. Affected the measurement of purchased shareholder loans extended by the old shareholders in connection with the company acquisition. The purchased shareholder loans attributable to ARQUES were increased by EUR 720 thousand and the corresponding liabilities due to third parties was reduced by the same amount. If the measurement at December 31, 2008 had been conducted

2008 EUR'000	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Revenues	1,286,208	4,218,818	5,505,026
Change in inventories of finished and unfinished goods	-12,123	-77	-12,200
Other internal production capitalized	14,651	3,851	18,502
Other operating income	191,532	57,447	248,979
Purchased goods and services	-835,105	-3,882,377	-4,717,482
Personnel expenses	-307,496	-174,356	-481,852
Other operating expenses	-293,270	-152,140	-445,410
EBITDA	44,397	71,166	115,563
Depreciation and amortization	-65,551	-27,747	-93,298
Impairment losses	-123,972	-9,701	-133,673
EBIT	-145,126	33,718	-111,408
Income/expenses from non-current financial assets accounted for by the equity method	474	0	474
Other interest and similar income	6,660	1,947	8,607
Interest and similar expenses	-22,883	-23,076	-45,959
Net financial expenses	-15,749	-21,129	-36,878
Income/expenses from ordinary activities	-160,875	12,589	-148,286
Income taxes	11,943	-5,279	6,664
Consolidated loss for the year	-148,932	7,310	-141,622
Share of consolidated loss attributable to minority interests	-8,123	-3,419	-11,542
Share of consolidated loss attributable to shareholders of ARQUES Industries AG	-140,809	10,729	-130,080
Earnings per share			
- Basic earnings per share, in EUR	-5.34	0.41	-4.93
- Diluted earnings per share, in EUR	-5.34	0.41	-4.93

on the basis of the information available today, the negative goodwill would have been increased by EUR 690 thousand, including the effects of deferred taxes. In accordance with IFRS 3.61 and following, a corresponding adjustment was made to the comparison figures.

The adjustment with regard to the Gigaset Group consisted of a purchase price adjustment, which was to be made and agreed with the seller by virtue of the terms prescribed in the contract concerning the measurement and composition of the working capital acquired in the transaction. The final determination of this purchase price component led to a decrease of EUR 2,716 thousand in the purchase price, which would have resulted in a decrease in other liabilities and a corresponding increase in negative goodwill in the financial statements at December 31, 2008. In accordance with IFRS 3.61 and following, a corresponding adjustment was made to the comparison figures.

The income-relevant adjustments for negative goodwill that were made for 2008 in accordance with IAS 8 amounted to EUR -4,104 thousand and the adjustments made for 2008 according to IFRS 3.61 ff. amounted to EUR 3,406 thousand.

The effects of the adjustments made on the individual items of the income statement and statement of financial position are presented in the tables below:

CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
<b>Adjustment per IAS 8</b>					
0	0	0	1,286,208	4,218,818	5,505,026
0	0	0	-12,123	-77	-12,200
0	0	0	14,651	3,851	18,502
0	-4,104	-4,104	191,532	53,343	244,875
0	0	0	-835,105	-3,882,377	-4,717,482
0	0	0	-307,496	-174,356	-481,852
0	0	0	-293,270	-152,140	-445,410
0	-4,104	-4,104	44,397	67,062	111,459
0	0	0	-65,551	-27,747	-93,298
0	0	0	-123,972	-9,701	-133,673
0	-4,104	-4,104	-145,126	29,614	-115,512
0	0	0	474	0	474
0	0	0	6,660	1,947	8,607
0	0	0	-22,883	-23,076	-45,959
0	0	0	-15,749	-21,129	-36,878
0	-4,104	-4,104	-160,875	8,485	-152,390
0	0	0	11,943	-5,279	6,664
0	-4,104	-4,104	-148,932	3,206	-145,726
0	0	0	-8,123	-3,419	-11,542
0	-4,104	-4,104	-140,809	6,625	-134,184
0.00	-0.16	-0.16	-5.34	0.25	-5.09
0.00	-0.16	-0.16	-5.34	0.25	-5.09

EUR'000	12/31/2008	ADJUSTMENT PER IAS 8	ADJUSTMENT PER IFRS 3.61	12/31/2008 ADJUSTED
<b>ASSETS</b>				
Non-current assets				
Intangible assets	133,629			133,629
Property, plant and equipment	317,028			317,028
Investment property	238			238
Non-current financial assets accounted for by the equity method	5,000			5,000
Financial assets	3,190			3,190
Other non-current assets	85			85
Deferred tax assets	16,864			16,864
Total non-current assets	476,034	0	0	476,034
Current assets				
Inventories	378,862			378,862
Receivables from percentage of completion	3,030			3,030
Trade receivables	407,632			407,632
Available-for-sale financial assets	821			821
Other assets	192,109			192,109
Current tax assets	10,507			10,507
Cash and cash equivalents	142,409			142,409
	1,135,370	0	0	1,135,370
Assets held for sale	107,636			107,636
Total current assets	1,243,006	0	0	1,243,006
Total assets	1,719,040	0	0	1,719,040
<b>EQUITY AND LIABILITIES</b>				
Equity				
Subscribed capital	26,402			26,402
Additional paid-in capital	73,580			73,580
Retained earnings	20,290			20,290
Accumulated other comprehensive income	137,360	-4,104	3,406	136,662
	257,632	-4,104	3,406	256,934
Minority interests	5,360	4,104		9,464
Total equity	262,992	0	3,406	266,398
Non-current liabilities				
Pension obligations	66,000			66,000
Provisions	31,317			31,317
Financial liabilities	75,217			75,217
Liabilities under finance leases	24,246			24,246
Other liabilities	65,269			65,269
Deferred tax liabilities	54,909		30	54,939
Total non-current liabilities	316,958	0	30	316,988
Current liabilities				
Provisions	67,849			67,849
Financial liabilities	136,754			136,754
Liabilities under finance leases	7,137			7,137
Trade payables	601,356			601,356
Tax liabilities	15,047			15,047
Other liabilities	220,802		-3,436	217,366
	1,048,945	0	-3,436	1,045,509
Liabilities related to assets held for sale	90,145			90,145
Total current liabilities	1,139,090	0	-3,436	1,135,654
Total equity and liabilities	1,719,040	0	0	1,719,040

EUR'000	12/31/2007	ADJUSTMENT PER IAS 8	12/31/2008 ADJUSTED
<b>ASSETS</b>			
Non-current assets			
Intangible assets	154,764		154,764
Property, plant and equipment	362,379		362,379
Investment property	250		250
Non-current financial assets accounted for by the equity method	4,564		4,564
Financial assets	3,784		3,784
Other non-current assets	219		219
Deferred tax assets	34,496		34,496
Total non-current assets	560,456	0	560,456
Current assets			
Inventories	439,029		439,029
Receivables under percentage of completion	15,040		15,040
Trade receivables	430,396		430,396
Available-for-sale financial assets	1,418		1,418
Other assets	228,923		228,923
Current tax assets	13,932		13,932
Cash and cash equivalents	84,540		84,540
	1,213,278	0	1,213,278
Assets held for sale	60,359		60,359
Total current assets	1,273,637	0	1,273,637
Total assets	1,834,093	0	1,834,093
<b>EQUITY AND LIABILITIES</b>			
Equity			
Subscribed capital	26,357		26,357
Additional paid-in capital	72,473		72,473
Retained earnings	20,290		20,290
Accumulated other comprehensive income	275,169	-4,222	270,947
	394,289	-4,222	390,067
Minority interests	6,712	4,222	10,934
Total equity	401,001	0	401,001
Non-current liabilities			
Pension obligations	32,201		32,201
Provisions	31,466		31,466
Financial liabilities	81,906		81,906
Liabilities under finance leases	35,873		35,873
Other liabilities	53,192		53,192
Deferred tax liabilities	59,582		59,582
Total non-current liabilities	294,220	0	294,220
Current liabilities			
Provisions	36,046		36,046
Financial liabilities	257,597		257,597
Liabilities under finance leases	5,553		5,553
Trade payables	581,472		581,472
Tax liabilities	28,564		28,564
Other liabilities	221,097		221,097
	1,130,329	0	1,130,329
Liabilities related to assets held for sale	8,543		8,543
Total current liabilities	1,138,872	0	1,138,872
Total equity and liabilities	1,834,093	0	1,834,093

## B. SUMMARY OF PRINCIPAL ACCOUNTING AND VALUATION METHODS

The annual financial statements of the companies included in the consolidated financial statements are based on uniform accounting and valuation principles, which were also applied when determining the prior-year comparison values. The consolidated financial statements are prepared in accordance with the principle of historical acquisition or production cost, except for available-for-sale financial assets, derivative financial instruments, and purchased shareholder loans, which are measured at fair value through profit and loss.

The principal accounting and valuation methods applied when preparing the present consolidated financial statements are described below.

### Recognition of income and expenses

Revenue is recognized as the fair value of the consideration received or to be received in the future. It represents the amounts that are 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 only deducted from revenue when ARQUES is not the economic tax debtor, in which case the taxes are merely a transitory item. ARQUES recognizes revenue on the sale of goods when substantially all the risks and rewards of 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. Revenue from services is recognized when the service is rendered, provided it is considered sufficiently probable that economic benefits will flow to the company as a result of the transaction and the amount of the revenue can be reliably measured. Operating expenses are recognized as costs when the service is rendered or when they occur. Expenditures for research activities are recognized as costs. An internally generated intangible asset produced as a result of the Group's development activities is only recognized as an asset 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.

The income from the reversal of negative goodwill is presented as other operating income and is therefore included in the earnings before interest, taxes, depreciation and amortization (EBITDA).

### Research and development expenditures

Expenditures for research, which is defined as original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in full as an expense. On the other hand, expenditures for development, which is defined as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products and processes, are capitalized. Recognition is permitted if the entity can demonstrate its ability to measure reliably the development expenditures and that the product or process is technically and economically feasible and will generate probable future economic benefits. In addition, ARQUES must have the intention and the resources available to complete the development and to use or sell the asset. The capitalized expenses cover the cost of materials, direct labor costs, and the directly allocable general overheads, provided these serve to make the asset available for use or sale. The capitalized costs are recognized under internally generated intangible assets. Other development expenditures are recognized immediately in profit or loss when they arise. Capitalized development expenditures are disclosed at production cost, less cumulative amortization and impairments.

### Income and expenses arising from construction contracts

In accordance with IAS 11 (Construction Contracts), income and expenses arising from construction contracts are recognized in accordance with the percentage-of-completion method, when the outcome of a construction contract can be reliably estimated. The revenues and costs are recognized as income and expenses by reference to the percentage of completion at the balance sheet date. The percentage of completion is generally determined as the ratio of order 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 percentage of completion. Payments for changes in the contract scope, subsequent requests, and bonuses are included in the contract revenues. A receivable is recognized for all ongoing construction contracts under which the sum of costs incurred plus recognized profits is greater than the sum of interim invoices. A liability is recognized for all ongoing construction contracts under which the sum of the interim invoices exceeds the costs incurred plus recognized profits. If the outcome of a construction contract cannot be reliably estimated, revenue is only recognized in the amount of the incurred contract costs (zero profit method). Contract 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.

## Government grants

Government grants are recognized when it can be assumed with a fair degree of certainty that the conditions attached to the grant will be fulfilled. Income subsidies are allocated to the periods in which the related costs occur and deducted from the corresponding expenses. In accordance with IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance), subsidies for capital investments are deducted from the acquisition cost of the corresponding assets, thereby reducing the basis for depreciation.

## Net financial income/expenses

Interest income and expenses are recognized as they accrue by applying the effective interest method, based on the 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.

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

Actuarial methods are used to divide the payments received under finance leases into interest and principal portions.

## Income taxes

The corporate tax rate totals 29.0% in the year under review (prior year 27.0%). The change in the rate from the prior year resulted from the increase in the weighted trade tax rate of the parent company due to the relocation of the company's offices to Munich.

A uniform rate of 15.0% for corporate income tax plus a solidarity surcharge of 5.5% is applied to distributed and retained profits when calculating current taxes in Germany. Local trade tax is levied on profits generated in Germany as well as corporate income tax. The local trade tax charge ranges from 9.6% and 14.5%.

The profit generated by international Group companies is determined on the basis of local tax law and is taxed at the rate relevant for the country of domicile. The applicable country-specific income tax rates vary between 4.2% and 33.0%.

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

Deferred tax assets and liabilities are recognized for all temporary differences between the values stated in the tax balance sheet and in the IFRS financial statements and for consolidation effects. The balance sheet-oriented liability method is applied. Deferred tax assets are recognized provided where it is considered probably that they will be utilized. When deferred tax assets and liabilities are calculated, tax rates are assumed that are applicable when the asset is realized or the liability settled. Domestic Group companies apply a uniform corporate income tax rate (composite rate) of 29%.

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.

Impairment losses are recognized for deferred tax assets that are no longer expected to be realized within a plannable period. Unrecognized deferred tax assets are reviewed and capitalized to the extent to which it has become probable for them to be utilized on account of taxable income generated in the future.

Deferred tax assets and liabilities relating to items recognized directly in equity are disclosed in equity. Deferred tax assets and liabilities are offset if there is an enforceable claim to offset the current tax refund claims against current tax liabilities. In addition, the deferred tax asset and liabilities must relate to income taxes regarding the same taxable entity that are payable to the same tax authority.

## Earnings per share

Earnings per share are calculated in accordance with IAS 33 (Earnings per Share) by dividing the consolidated net profit by the average weighted number of shares outstanding during the fiscal year. Diluted earnings per share exist when equity instruments were also issued from capital stock besides ordinary and preferred shares, which could lead to an increase in the number of shares in the future. This diluting effect is determined and disclosed accordingly.

## 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, liabilities, and contingent liabilities of a subsidiary or jointly managed company at the date of acquisition. According to IFRS 3 (Business Combinations), goodwill may not be subject to scheduled amortization. Instead, IAS 36 (Impairment of Assets) states that an impairment test should be carried out once a year, and also when there is any indication of impairment. If necessary, the goodwill is written down to its recoverable amount. 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.

## Other intangible assets

Purchased intangible assets are capitalized at their acquisition cost and, where they have defined useful lives, amortized over their expected useful lives.

The following estimated useful lives are assumed as standard in this context:

- 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

If an impairment is identified in addition to the amount of regular amortization, the intangible asset is written down to the recoverable amount.

Intangible assets with indefinite useful lives are not subject to scheduled amortization but are tested for impairment once a year in accordance with IAS 36. If the fair value or the value in use is less than the carrying amount, the impairment is recognized as an expense in the income statement.

If customer lists, customer relationships, and favorable contracts are capitalized in connection with the purchase price allocation process pursuant to IFRS 3, they are amortized over their estimated useful lives. When there are indications of impairment, these assets are tested for impairment and written down to the lower recoverable amount in accordance with IAS 36.

## Internally generated intangible assets

Internally generated intangible assets produced as a result of the Group's development activities are only recognized as an asset if the criteria of IAS 38 are met. If internally generated intangible assets 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. Expenditures for research activities are always recognized as costs.

Internally generated intangible assets are amortized over the period in 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 tested for impairment compliant with IAS 36; upon completion of the development phase, an impairment test is only conducted when there is any indication of impairment.

## Property, plant and equipment

All items of property, plant and equipment are measured at their historical acquisition or production cost, less accumulated depreciation. Acquisition cost includes the transaction cost directly allocable to the purchase; production cost includes all directly allocable costs plus appropriate portions of the production-related overheads. Significant components of an item of property, plant or equipment are recognized and depreciated separately. Subsequent acquisition or production costs are only added to the cost of the asset if it is probable that future economic benefits will flow to the Group and the costs can be reliably measured. All other repair and maintenance expenses are recognized as expenses in the income statement for the fiscal 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 useful lives of the assets, which are as follows:

- Buildings, including investment property: 10-50 years
- Technical plant and machinery: 5-15 years
- Operational and business equipment: 2-10 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 written down to the latter value. Profits or losses on the disposal of assets are calculated as the difference between 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, and is not used as part of normal business activities. Investment property is measured at acquisition or production cost minus accumulated depreciation and impairment losses (acquisition cost model). The fair value at the balance sheet date is disclosed in the notes to the consolidated balance sheet.

## Financial assets accounted for by the equity method

Interests in associated companies and joint ventures are accounted for by the equity method.

Associated companies are companies over which the Group exercises significant influence but which it does not control. Such a relationship is usually accompanied by 20% to 50% of the voting rights.

A joint venture is a jointly controlled company that exists when the Group concludes legal agreements with one or more contractual parties regarding economic activities generally performed by companies controlled jointly by the parties to the agreement.

The equity method defined under IAS 28 requires that differences arising on initial consolidation be treated in accordance with the same principles as full consolidation, which in turn causes investments accounted for using the equity method to be measured initially at cost. The Group's interest in associated companies and joint ventures includes the goodwill constituted upon acquisition, less cumulative impairments.

The Group's share of the profits or losses of associated companies is recognized in the net financial income or expenses shown in the consolidated income statement from the date of acquisition. Accumulated changes after acquisition resulting from dividend payouts or other changes in the investment's equity not recognized in profit or loss are set off against the carrying amount of the investment.

Unrealized profits and losses on transactions between Group companies and associated companies are eliminated in proportion to the Group's share of equity in the subsidiary. In the event of unrealized losses, the transferred assets are tested for impairment.

## Special purpose entities

Special purpose entities are created to fulfill a single, well-defined purpose. They are consolidated if the Group can exercise a controlling influence over the special purpose entity. This is determined by assessing the following criteria:

- Are the activities of the special purpose entity being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the special purpose entity's operations.
- Does the Group have the decision-making powers to obtain the majority of the benefits of the activities of the special purpose entity.
- Does the Group have right to obtain the majority of the benefits of the special purpose entity and therefore may be exposed to risks incident to the activities of the special purpose entity.
- Does the Group retain the majority of the residual or ownership risks or assets related to the special purpose entity or its assets in order to obtain benefits from its business activities.

The special purpose entity is included in the consolidated financial statements if a controlling influence is identified in this way.

## 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, less the costs to sell. Non-current assets and groups of assets, including the liabilities directly allocable to these groups, are classified as held for sale if they are earmarked for disposal. This condition is only considered to be met if the sale is highly likely and the asset (or group of assets held for sale) is available for immediate sale in its current condition.

## Impairment of non-financial assets

Assets with indefinite useful lives are not subject to scheduled depreciation but are tested for impairment annually and when there are indications of possible impairment. Assets qualifying for scheduled depreciation are tested for impairment 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 amount of the asset's value in use and its fair value, minus its costs to sell. 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 for the asset (or cash-generating unit). Reversals of impairment losses are recognized immediately in profit or loss for the period. Impairment losses in goodwill are not reversed.

There were intangible assets with indefinite useful lives in the year under review. These assets were tested for impairment compliant with IAS 36.

## Leases

Leases are classified as finance leases when, by virtue of the leasing conditions, all the risks and re-wards of 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 in accordance with IAS 17 and depreciated over its useful 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 useful life.

The corresponding liability to the lessor is recognized in the balance sheet as an obligation under finance leases within 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 item 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 in the income statement on a straight-line basis over the term of the respective lease.

## Inventories

Inventories are measured at the lower of acquisition/production cost or the net realizable value. Production cost includes direct material costs and, where applicable, direct production costs, as well as overhead costs allocable to production, based on normal levels of production capacity utilization. Acquisition or production cost is measured in accordance with the weighted average cost method. The net realizable value represents the estimated selling price less the estimated costs of completion and the cost of marketing, sale, and distribution. When necessary, valuation allowances are charged to account for overstocking, obsolescence, and reduced salability.

## Trade receivables

Trade receivables are measured at amortized cost less impairment losses. 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 recognized in profit or loss. If the reasons for the impairment losses recognized in prior periods no longer exist, the impairment losses are reversed accordingly.

## Factoring

Some companies of the ARQUES Group assign a portion of their trade receivables to financing companies (known as factors). In accordance with IAS 39, sold receivables are eliminated from the balance sheet only when significant portions of the risks associated with the receivables have been transferred to the buyer of the receivables. Under the existing contractual agreements, significant portions of the risk of customer insolvency (del credere risk) are transferred to the factor. ARQUES still bears a portion of the interest and del credere risk of these receivables and therefore recognizes the receivables in the amount of the remaining commitments ("continuing involvement"). These receivables are offset by a liability measured in such a way that the net balance of assets and liabilities reflects the remaining claims or obligations. In accordance with the requirements of IAS 39, the sold receivables have been partially eliminated from the balance sheet on the balance sheet date although the portion that remains as the continuing involvement is low compared with the total amount of sold receivables. The purchase price retentions withheld initially by the factor as security are recognized separately under the category of other assets. They are due as soon as the customer's payment is received.

Interest and del credere risk due to purchase price retentions are recognized as trade receivables, classified as „continuing involvement." This continuing involvement is offset by a provision covering the risk of a potential loss of the receivables.

Additional purchase price retentions are agreed with the factor to account for legal validity and revenue deduction risk, which have been recognized as other assets. Barring problems in the payment flows, these retentions will be due and payable after a period of limitation.

The purchase price is paid by the factor either when the factor receives payment of the receivables or at the request of the assigning company, against payment of interest; the unpaid portion of the purchase price is recognized as an other asset.

The interest expenses resulting from the sale of receivables are recognized in the net financial in-come/expenses. Administrative fees are recognized as other operating expenses.

## Receivables measured at fair value through profit and 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 and portfolio management strategy of these receivables and 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 a symbolic amount, any appreciation in the receivables resulting from restructuring of that company would not be adequately presented. This treatment serves to enhance the relevance of the information contained in the consolidated financial statements of ARQUES.

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 indicate a change in the value of such assets.

Non-consolidated receivables measured at fair value through profit or loss are recognized under other assets.

## Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits, and 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. Used overdraft facilities are recognized as liabilities due to banks under current liabilities.

## Financial assets

Financial assets are divided into the following categories: financial assets at fair value through profit or loss, loans and receivables, financial assets held to maturity, and financial assets available for sale. The classification depends on the purpose for which the respective financial assets were acquired. Management determines the classification of the financial assets at the time of initial recognition and reviews the classification at every balance sheet date.

### Financial assets 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 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 immediately or in the near term or if it was so designated by 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.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise if the Group provides money, goods, or services directly to the 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 and as non-current assets if their due date is more than 12 months after the balance sheet date. Loans and receivables are presented in the balance sheet under trade receivables and other receivables. Loans and receivables are measured at amortized cost calculated in accordance with the effective interest method.

### Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed terms, which Group management has the intention and ability to hold to maturity.

Lendings are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially measured at fair value and subsequently at amortized cost calculated in accordance with the effective interest method, less any impairments. If lendings 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. Financial assets held to maturity are recognized at amortized cost calculated in accordance with the effective interest method.

### Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that have either been assigned to this category or have not been assigned to any other category. They are presented as non-current assets if 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, which is the date on which the Group commits to purchase or sell the asset. Financial assets that are not carried at fair value through profit or loss are measured initially at their fair value plus transaction costs. They are derecognized when the rights to payment have expired or been transferred and the Group has transferred substantially all the risks and rewards of ownership. Financial assets held for sale and assets at fair value through profit and loss are measured at fair value.

Realized and unrealized profits and losses resulting from changes in the fair value of assets carried at fair value through profit or loss are recognized in the income statement for the period in which they occur. Unrealized profits and losses from changes in the fair value of non-monetary securities classified as financial assets available for sale are recognized in equity. If securities classified as financial assets available for sale are sold or impaired, the accumulated fair value adjustments previously 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 for financial assets or the assets are not listed on an organized exchange, the fair value is determined by means of appropriate methods, including reference to recent transactions between parties in an arm's length transaction, the current market prices of other assets that are essentially similar to the asset in question, discounted cash flow methods, or option price models that take the specific circumstances of the issuer into account.

If a contract contains one or more embedded derivatives that IAS 39.11 requires to be recognized separately, such derivatives are measured at fair value both at initial recognition and in subsequent periods. Profits or losses from changes in fair value are normally recognized immediately in the income statement.

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 such equity instruments is taken into account for the purpose of determining whether equity instruments are impaired. 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 previous impairment losses recognized in earlier periods – is eliminated 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.

### Derivative financial instruments

In accordance with IAS 39, derivative financial instruments are measured at fair value at balance sheet date, if the fair value can be reliably measured. Changes in the fair value of such financial instruments are recognized in profit or loss.

### 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 withdrawn, re-issued, or resold. When such shares are subsequently re-issued or sold, the consideration received – after deduction of directly allocable additional costs and the corresponding income taxes – is recognized in shareholders' equity.

## 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 it is possible to reliably determine the amount of the provisions. In the event of several similar obligations, the likelihood of an outflow of economic benefits is assessed with reference to the overall group of obligations.

Provisions for warranties are recognized when the goods concerned are sold or the service is performed. The required amount of the provision is determined on the basis of historic values and an appraisal of the probability of occurrence in the future. In accordance with IAS 37, in conjunction with IFRS 3 in the case of newly acquired companies, restructuring provisions are only established if a detailed restructuring plan exists.

The ARQUES Group recognizes provisions for onerous contracts identified as part of purchase price allocations, especially in the case of company acquisitions.

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 the risks of the obligation.

## Employee benefits

### Pension obligations

There are various pension plans in effect within the ARQUES Group – albeit exclusively in the subsidiaries and not at the parent company – 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 fiscal year or earlier periods. A defined benefit plan is any plan that is not a defined contribution plan.

The agreements underlying the defined benefit plans provide for different benefits in the ARQUES Group, depending on the subsidiary concerned. Essentially, these benefits comprise:

- retirement pensions when the respective pension age is reached,
- disability pensions in the event of disability or reduced working capacity,
- surviving dependant's pensions, and
- non-recurring payments upon termination of the employment contract.

The provision for defined benefit plans recognized in the consolidated balance sheet is based on the present value of the pension 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 time 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 each balance sheet date. Under this method, the pension provisions are calculated on the basis of the known pensions and the vested pension rights at the balance sheet date and the anticipated future increases in salaries and pensions. 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. The cumulative actuarial gains or losses resulting from the difference between the expected and the actual pension obligations and plan assets at year-end over the years are only recognized if they differ from the maximum pension obligation or plan assets by 10 percent. In such a case, the excess amount is divided by the average remaining employment period of the qualifying employees and recognized as additional income or expense. Past service costs for not yet vested pension rights are recognized over the period of time remaining until the pension rights are vested. The expense for already vested pension rights is recognized immediately. The interest portion of the additions to provisions recognized as pension expenses (interest costs for pension obligations and expected income from pension plan assets) is recognized as interest expenses within financial net income or expenses.

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

### Share-based payment

In fiscal 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 2009. In accordance with IFRS 2, 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 (likely to be) exercisable. The fair value of the options is measured once by means of a Monte Carlo simulation at the respective grant dates. 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 each balance sheet date. 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 by 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 ARQUES' acquisition of the company in question, but may also purchase shares at a later time. The fair value is determined at the grant date and compared with the purchase price paid by the subsidiary manager. If this gives rise to an expense, the difference is recognized directly in equity in the reporting period in accordance with IFRS 2. The fair value of the shares is determined with reference to the fair value of the subsidiary concerned at the transfer date. If the transfer occurs concurrently with the share purchase, the purchase price is applied as the fair value. With regard to company disposals, the subsidiary managers are generally obliged to sell their interests as well when certain contractually agreed ratios are met. Similarly, there are generally no contractually agreed preemptive rights regarding the minority interests held by the subsidiary managers. As part of the selling process, the subsidiary managers generally also contribute to the costs to sell on a proportional basis. The individual contractual arrangements are based on the local, country-specific conditions in each case.

### 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 with the personnel provisions. Also, the employee benefits payable under the German model of partial early retirement known as *Altersteilzeit* are stated within this item.

### 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

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 in accordance with the effective interest method. Liabilities under finance leases are measured at the present value of the future minimum lease payments.

In accordance with the definition given in 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.

## Segment reporting

In accordance with IFRS 8, operating segments are recognized on the basis of the company's internal organization and reporting structure. An operating segment is defined as a „component of an entity“ that engages in business activities from which it may earn income and incur expenses, whose operating results are reviewed regularly by the responsible corporate instance to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The responsible corporate instance is the Executive Board of the company.

In segment reporting, the Group's operating divisions are structured according to their principal activities (primary segmentation).

The primary segments of the ARQUES Group are:

- Steel
- Print
- Industrial Production
- Communications
- Specialty Chemistry
- Holding
- Automotive
- IT
- Retail
- Service

## Legal disputes and claims for damages

Companies of the ARQUES Group are involved in various litigation and administrative proceedings in connection with their ordinary business, or it is possible that such litigation or administrative proceedings could be commenced or asserted in the future. Even if the outcome of the individual proceedings cannot be predicted with certainty, considering the imponderability of legal disputes, it is the current estimation of management that the matters in question will not have a significant adverse effect on the earnings of the Group beyond the risks that have been recognized in the financial statements in the form of liabilities or provisions.

## Assumptions and estimates made for accounting and valuation purposes

When 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 expenses, and contingent liabilities accruing in 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 group-wide 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 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. The estimates and assumptions are continually reviewed. The true-and-fair-view principle is maintained without restriction, even when estimates are used. Management has not made any significant discretionary judgments in addition to estimates and assumptions when applying accounting and valuation policies.

#### Estimates made for the purposes of purchase price allocation

Estimates are usually made to determine the fair value of assets and liabilities acquired in the context of business combinations. Land, buildings, technical plant, and machinery are typically appraised by an independent expert, whereas 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 by measuring the fair value internally, using an appropriate evaluation method. Depending on the type of asset and availability of pertinent information, we apply different valuation techniques based on cost, market price, or income approaches. The capitalized income approach is preferred 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. When 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. Similarly, when determining the fair values of contingent liabilities, assumptions need to be made with regard to the probability of the corresponding liabilities having to be settled in the future. By their nature, such assumptions are subject to a certain degree of uncertainty as well. ARQUES considers the estimates made with respect to the useful lives of certain assets, the assumptions regarding general economic conditions and developments in the industries in which the ARQUES Group operates, and the estimated present values of future cash flows to be reasonable. Nonetheless, changes in the relevant assumptions or circumstances may necessitate correction 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 coming to light in subsequent periods.

#### Estimates made in connection with impairment tests

In accordance with IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), goodwill is tested for possible impairment once a year or more often if events or changed circumstances indicate the possibility of impairment. The systematic amortization of goodwill is prohibited. For purposes of the impairment tests, 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 smallest identifiable business units, which are the lowest level at ARQUES at which goodwill is monitored for internal management purposes and for which there are independent cash flows, are normally 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 calculated in this way is first deducted from the goodwill of the strategic business unit concerned. Any remaining amount is then deducted from the other assets of the strategic business unit concerned in proportion to their carrying amounts, provided this falls within the scope of IAS 36.

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 upon disposal at the end of the asset's useful life. The future cash flows are estimated on the basis of current business plans of ARQUES. The cost of capital at ARQUES is calculated as the weighted average cost of capital (WACC), based on each business unit's share of total capital. The cost of equity capital is determined as the expected return on capital for each business unit, based on an appropriate peer group. ARQUES uses the average cost of debt capital of each business unit, based on bonds with an average residual maturity of 20 years, to calculate the cost of debt capital.

## Estimates made with regard to receivables measured at fair value

The fair value of receivables is measured on the basis of contractually agreed repayment 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. These 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 tax 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 tax provisions and tax liabilities is based on estimates of whether and in what amount income taxes will be payable. Provisions of an adequate amount have been established to account for the risk of tax treatment that is different from that expected. ARQUES has not established a provision for profits on the sale of shares in subsidiaries or other associated companies because such profits should be regarded as the restructuring profits resulting from the Group's entrepreneurial activities and not as short-term trading gains. If the final taxation of these business transactions differs from the previously assumed tax exemption for gains on disposal, 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 of taxable profits (taxable income) being generated in the future.

Furthermore, 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 management's assumptions in this regard or future changes to these assumptions may lead to different tax results in future periods.

## Provisions

When determining the amount of provisions to be recognized, assumptions need to be made concerning the probability of a future outflow of economic resources. These 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. Assumptions also need to be made when determining the amount of provisions to be recognized regarding 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 very much depends on the choice of discount rate to be applied and the underlying actuarial assumptions, which are determined anew at the end of each fiscal year. The underlying discount rate used is the interest rate paid by the highest grade corporate bonds denominated in the currency in which the benefits are paid and the maturity of which matches the due date of the pension obligations. Changes in these interest rates can thus lead to significant changes in the amount of the pension obligations.

All identifiable risks were taken into account in the underlying assumptions and estimates when the consolidated financial statements were prepared.

## C. NOTES ON FINANCIAL INSTRUMENTS

### Significance

The purpose of the disclosures required by IFRS 7 is to provide decision-relevant information concerning the amount, timing and probability of future cash flows resulting from financial instruments and to assess the risks of such financial instruments.

The ARQUES Group is composed of companies from a wide range of different industries. In the ordinary course of business, these companies enter into numerous contractual agreements that give rise to financial assets or financial liabilities.

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Aside from cash and cash equivalents, financial assets also mainly include uncertificated receivables such as trade receivables, loans and advances and certificated receivables such as checks, bills of exchange and debentures. The definition of financial assets also encompasses financial instruments held to maturity and derivatives held for trading. Financial liabilities, on the other hand, usually constitute a contractual obligation to deliver cash or another financial asset. They include trade payables, liabilities due to banks, loans, liabilities under accepted bills of exchange and the issuance of the company's own bills of exchange, as well as options written and derivative financial instruments with negative fair values.

The amendments to IFRS 7, which must be applied in fiscal years that begin on or after January 1, 2009, impose the following requirements:

- The introduction of a three-level hierarchy for fair value measurement and the disclosure of the hierarchical level to which conducted measurements are assigned. Reclassifications between hierarchical levels and every change of method for measuring fair values must also be disclosed, along with the reasons for such reclassifications and changes.
- The maturity analysis of derivative financial liabilities must be presented on the basis of contractual terms to maturity. The maturity analysis also covers contracts for issued financial guaranties.

### Financial risk factors

The use of financial instruments exposes the Group to specific financial risks, the nature and extent of which are disclosed in the notes to the financial statements. Such risks typically include credit risk, liquidity risk and market price risk, as well as exchange rate risk, interest rate risk and other price risks.

The Group's comprehensive risk management program is focused on the unpredictability of developments in the financial markets and is aimed at minimizing the potentially negative consequences of those developments on the Group's cash flows. The Group employs derivative financial instruments to hedge certain risks. Risk management is performed by the central finance department (Corporate Finance) on the basis of the guidelines adopted by the Executive Board. Corporate Finance identifies, assesses and hedges financial risks in close cooperation with the operating units of the Group. The Executive Board issues written directives setting out both the principles for Groupwide risk management and guidelines for certain areas, such as the manner of dealing with foreign currency risk, interest rate and credit risk, the use of derivative and non-derivative financial instruments and the investment of surplus liquidity. Such hedging transactions are not subject to hedge accounting rules.

### Credit risk/ default risk

The subsidiaries of the ARQUES Group operate in a wide range of industries, supplying different kinds of products to customers in all parts of the world. Default risks can arise with respect to trade receivables, loans and other receivables when customers do not meet their payment obligations.

To counter default risks and the possibly associated credit rating and liquidity risks, many Group subsidiaries arrange to have a trade credit insurance company conduct credit checks of their customers, issue credit limits and cover a portion of the possible losses on receivables. As an alternative to the credit checks conducted by trade credit insurance companies, those customers that cannot be insured by such companies furnish security deposits (deposits, credit note retentions), which would be applied against unpaid receivables. Furthermore, the option of up-front payment or cash on delivery is given to those customers that cannot be insured or are not insured by reason of other circumstances.

As part of the credit check process, some ARQUES subsidiaries employ adequate credit management systems (including credit scoring systems to categorize the risks of customer receivables) to limit default risk. An internal rating and an internal credit limit are established for every customer on the basis of detailed, ongoing credit assessments.

Of the loans and receivables presented for the Group at the end of 2009 in the total amount of EUR 177,527 thousand (PY: EUR 545,566 thousand), an amount of EUR 60,538 thousand or 34.1% (PY: EUR 105,129 thousand or 19.3%) was insured. Trade credit insurance has been used as the security instrument for most of the receivables. Other forms of security exist in the form of letters of credit, customer deposits and bank guaranties.

The default risk equal to the carrying amounts of loans and receivables (EUR 177,527 thousand, PY: EUR 545,566 thousand) is limited by trade credit insurance, letters of credit and other credit improvements to a maximum default risk of EUR 116,989 thousand (PY: EUR 440,437 thousand).

EUR'000	CARRYING AMOUNT	MAXIMUM DEFAULT RISK	SECURED PORTION	2009 %
Total	177,527	116,989	60,538	34.1
Trade receivables	131,283	71,339	59,944	33.8
Loans	2,905	2,586	319	0.2
Receivables under percentage of completion	0	0	0	0.0
Other receivables	43,339	43,064	275	0.2

EUR'000	CARRYING AMOUNT	MAXIMUM DEFAULT RISK	SECURED PORTION	2008 %
Total	545,566	440,437	105,129	19.3
Trade receivables	407,632	338,294	69,338	12.7
Loans	3,190	3,190	0	0.0
Receivables under percentage of completion	3,030	3,030	0	0.0
Other receivables	131,714	95,923	35,791	6.6

As in the prior year, the ARQUES Group did not receive any collateral security in 2009.

The breakdown of loans and receivables by region yields the following risk concentrations:

	2009		2008	
	EUR'000	%	EUR'000	%
Total	177,527	100.0	545,566	100.0
Germany	64,240	36.2	218,094	40.0
Europe: EU	77,623	43.7	269,915	49.5
Europe: Other	7,733	4.4	24,666	4.5
Rest of world	27,931	15.7	32,891	6.0

As a rule, value adjustments are charged in adequate amounts to account for discernible default risks in the receivables portfolio. The changes in value adjustments on trade receivables are presented in tabular format in Note 22 Trade receivables.

### Liquidity risk

In the ARQUES Group, liquidity risk is defined as the risk of not being able to settle the payment obligations resulting from the categories of trade payables, financial liabilities and other liabilities when they are due.

Therefore, prudent liquidity management dictates that the Group keep an adequate reserve of cash and marketable securities, secure adequate financing options in the form of committed credit facilities and maintain the ability to issue securities in the market.

Due to the dynamic nature of the business environment in which the Group operates, the goal of Corporate Finance is to preserve the necessary financing flexibility by keeping unused credit facilities available. Credit facilities have been committed by various banks, either until further notice or for twelve months at a time.

In the table below, the financial liabilities are broken down by term to maturity, based on undiscounted cash flows:

EUR'000	2009 TOTAL	DUE < 1 YEAR	> 1 YEAR	2008 TOTAL	DUE < 1 YEAR	> 1 YEAR
Non-derivative financial liabilities	321,268	268,180	53,088	926,091	789,653	136,438
Trade payables	180,398	180,398	0	601,356	601,356	0
Liabilities to banks	70,150	40,730	29,420	176,803	130,819	45,984
Other financial liabilities	17,542	8,973	8,569	35,168	5,935	29,233
Other liabilities	53,178	38,079	15,099	112,764	51,543	61,221
Derivative financial liabilities	124	0	124	2,259	2,159	100
<b>Total</b>	<b>321,392</b>	<b>268,180</b>	<b>23,512</b>	<b>928,350</b>	<b>791,812</b>	<b>136,538</b>

A more detailed presentation of current liabilities to banks and current financial liabilities in the maturity range „< 1 year“ is provided in Note 35 Current financial liabilities; the same for trade payables is provided in Note 36 Trade payables, and the same for derivative financial liabilities is provided in Note 38 Current other liabilities.

Of the total financial liabilities presented for the Group at year-end 2009 in the amount of EUR 321,392 thousand (PY: EUR 928,350 thousand), an amount of EUR 72,288 thousand or 22.5% (PY: EUR 176,429 thousand or 19.0% ) is secured.

The security items are broken down in the table below:

EUR'000	INTANGIBLE ASSETS	LAND AND BUILDINGS	OTHER PLANT AND EQUIPMENT	INVENTORIES	TRADE RECEIVABLES	OTHER SECURITY	2009 %
Trade payables	0	0	18,457	6,935	5,189	6,257	11.5
Liabilities to banks	540	15,024	5,061	2,453	2,276	4,286	9.2
Other financial liabilities	2,596	220	2,006	0	0	710	1.7
Other liabilities	0	0	0	0	0	278	0.1
<b>Total</b>	<b>3,136</b>	<b>15,244</b>	<b>25,524</b>	<b>9,388</b>	<b>7,465</b>	<b>11,531</b>	<b>22.5</b>

EUR'000	INTANGIBLE ASSETS	LAND AND BUILDINGS	OTHER PLANT AND EQUIPMENT	INVENTORIES	TRADE RECEIVABLES	OTHER SECURITY	2008 %
Trade payables	154	0	5,064	11,274	15,857	60,579	10.0
Liabilities to banks	306	27,548	8,349	1,249	10,395	19,736	7.3
Other financial liabilities	8,959	1,979	3,414	90	0	1,243	1.7
Other liabilities	0	0	0	0	0	233	0.0
<b>Total</b>	<b>9,419</b>	<b>29,527</b>	<b>16,827</b>	<b>12,613</b>	<b>26,252</b>	<b>81,791</b>	<b>19.0</b>

The category of „other security“ is mainly composed of bank guaranties, deficiency guaranties and patents. Furthermore, most of the subsidiaries receive goods under country-specific retentions of title.

The breakdown of financial liabilities by region yields the following risk concentrations:

	2009		2008	
	EUR'000	%	EUR'000	%
Total	321,472	100.0	928,350	100.0
Germany	174,268	54.2	468,061	50.5
Europe: EU (excluding Germany)	95,270	29.6	294,424	31.7
Europe: Other	4,450	1.4	79,197	8.5
Rest of world	47,484	14.8	86,668	9.3

Some loan agreements of Group companies are subject to covenants, under which the companies are obligated to meet certain performance criteria. At the reporting date, the companies failed to meet the performance criteria for two credit facilities and one lease agreement. At December 31, 2009, the total amount of affected liabilities was EUR 15.4 million.

The breach of covenants entitles the lenders to demand the repayment of outstanding liabilities in the amount of EUR 15.4 million. The companies began to renegotiate the contract terms as soon as the non-fulfillment of covenants became apparent. In the time until the financial statements were approved by the Supervisory Board, the lender had not demanded repayment of the outstanding liabilities. The Executive Board anticipates that amended contractual agreements can be negotiated with the respective lenders in the second quarter of 2010.

### Market price risk

By reason of the business activities of the various subsidiaries and the international orientation of the Group, certain assets and liabilities are exposed to market risk in the form of exchange rate risks, interest rate risks and commodity price risks.

The exchange rate risks relate to the receivables and liabilities denominated in foreign currencies, as well as future cash flows in foreign currencies that are expected to result from transactions.

The loans presented under financial liabilities and the liabilities under finance leases are subject to a theoretical interest rate risk. Especially those subsidiaries that purchase commodities for their manufacturing operations are subject to price risks.

### Foreign currency risk

By reason of the Group's international operations, it is subject to foreign currency risk, based on changes in exchange rates of various foreign currencies. Foreign currency risks arise with respect to expected future transactions, the assets and liabilities recognized in the statement of financial position and the net investments in foreign business operations. To hedge such risks arising from expected future transactions and from the assets and liabilities recognized in the statement of financial position, the Group companies employ forward exchange deals, as needed, in coordination with Corporate Finance. At the reporting date, however, no such forward exchange deals or other exchange rate hedging derivatives were used in the ARQUES Group.

Of the financial instruments presented for the Group, an amount of EUR 49,270 thousand (PY: EUR 189,107 thousand) consisted of financial assets denominated in foreign currencies and an amount of EUR 67,175 thousand (PY: EUR 191,520 thousand) consisted of financial liabilities denominated in foreign currencies.

The risk concentrations based on foreign currencies are presented in the following table:

FINANCIAL ASSETS IN	2009		2008	
	EUR'000	%	EUR'000	%
BRL (Brazilian reales)	11,671	23.7	5,665	3.0
CNY (Chinese renminbi yuan)	10,024	20.3	9,513	5.0
USD (U.S. dollars)	5,153	10.5	52,675	28.0
ARS (Argentine pesos)	3,974	8.1	2,685	1.4
CHF (Swiss francs)	3,913	7.9	13,602	7.2
PLN (Polish zloty)	3,824	7.8	4,026	2.1
GBP (British pounds)	3,119	6.3	35,154	18.6
TRL (Turkish lira)	2,844	5.8	2,636	1.4
SEK (Swedish krona)	1,853	3.8	5,907	3.1
NOK (Norwegian krone)	1,084	2.2	6,402	3.4
RUB (Russian rubles)	519	1.1	0	0.0
DKK (Danish krone)	388	0.8	31,624	16.7
AED (United Arab Emirates dirham)	294	0.4	0	0.0
MXN (Mexican pesos)	233	0.5	0	0.0
ZAR (South African rand)	172	0.3	0	0.0
RON (Romanian lei)	134	0.3	5,664	3.0
CZK (Czech krone)	29	0.1	1,921	1.0
BGN (Bulgarian levs)	0	0.0	1,524	0.8
HUF (Hungarian forints)	0	0.0	2,098	1.1
RSD (Serbian dinars)	0	0.0	2,871	1.5
Other	42	0.1	5,140	2.7
<b>Total</b>	<b>49,270</b>	<b>100.0</b>	<b>189,107</b>	<b>100.0</b>

FINANCIAL LIABILITIES IN	2009		2008	
	EUR'000	%	EUR'000	%
USD (U.S. dollars)	53,457	79.6	98,348	51.5
CNY (Chinese renminbi yuan)	4,872	7.3	3,491	1.8
ARS (Argentine pesos)	1,930	2.9	2,527	1.3
JPY (Japanese yen)	1,513	2.3	1,772	0.9
BRL (Brazilian reales)	1,513	2.3	1,792	0.9
RON (Romanian lei)	1,029	1.5	3,235	1.7
TRL (Turkish lira)	567	0.5	1,552	0.8
RUB (Russian rubles)	380	0.6	4,046	2.1
MXN (Mexican pesos)	330	0.5	1,076	0.6
PLN (Polish zloty)	326	0.5	2,103	1.1
SEK (Swedish krona)	267	0.4	0	0.0
CHF (Swiss francs)	257	0.4	16,546	8.6
GBP (British pounds)	250	0.4	21,482	11.2
AED (United Arab Emirates dirham)	198	0.3	0	0.0
CZK (Czech krone)	194	0.3	0	0.0
ZAR (South African rand)	41	0.1	0	0.0
NOK (Norwegian krone)	39	0.1	1,656	0.9
CAD (Canadian dollars)	7	0.0	0	0.0
DKK (Danish krone)	5	0.0	26,137	13.6
RSD (Serbian dinars)	0	0.0	2,056	1.1
Other	0	0.0	3,701	1.9
<b>Total</b>	<b>67,175</b>	<b>100.0</b>	<b>191,520</b>	<b>100.0</b>

For the purpose of presenting market risks, IFRS 7 requires the use of sensitivity analyses to assess the effects of hypothetical changes in relevant risk variables on the entity's financial performance and equity. In addition to currency risks, the ARQUES Group is subject to interest rate risks and price risks in the subsidiaries. The periodic effects are determined by applying the hypothetical changes in risk variables to the portfolio of financial instruments at the reporting date. For that purpose, it is assumed that the portfolio at the reporting date is representative of the full year.

At the reporting date, both ARQUES Industries AG and its subsidiaries were subject to currency risks, which are reflected in the items of trade receivables, loan receivables, other receivables and trade payables, liabilities to banks and loan liabilities.

Result of the currency sensitivity analysis:

If the relative value of the euro against the foreign currencies in which the ARQUES Group operates had been 10% higher or 10% lower at December 31, 2009, the equity presented in the functional currency would have been EUR 1,631 thousand higher or EUR 1,993 thousand lower, respectively (December 31, 2008: EUR 392 thousand higher or EUR 481 thousand lower, respectively).

The hypothetical effect on profit or loss (after taxes) of EUR +1,631 thousand (PY: EUR +392 thousand) or EUR -1,993 thousand (PY: EUR -481 thousand), respectively, is broken down in the table below on the basis of the corresponding currency sensitivities:

IN EUR'000	2009		2008	
	+ 10 %	- 10 %	+ 10 %	- 10 %
EUR/USD:	4,391	-5,367	4,152	-5,075
EUR/JPY:	138	-168	126	-154
EUR/RON:	81	-99	-221	270
EUR/CZK:	15	-18	-173	211
EUR/MXN:	9	-11	0	0
EUR/CAD:	1	-1	0	0
EUR/BGN:	0	0	-93	113
EUR/HUF:	0	0	-154	189
EUR/AED:	-9	11	0	0
EUR/ZAR:	-12	15	0	0
EUR/RUB:	-13	15	305	-373
EUR/DKK:	-35	43	-499	610
EUR/NOK:	-95	116	-432	527
EUR/SEK:	-144	176	-471	576
EUR/ARS:	-186	227	0	0
EUR/TRL:	-207	253	-99	120
EUR/GBP:	-261	319	-1243	1519
EUR/PLN:	-318	389	-175	214
EUR/CHF:	-332	406	268	-327
EUR/CNY:	-468	572	-547	669
EUR/BRL:	-924	1,129	-352	430

### Interest rate risks

The sensitivity analysis conducted for interest rate risks yields the effect of a change in market interest rates on interest income and interest expenses, on trading profits and trading losses and on equity. Interest rate risk comprises both a fair value risk for fixed-income financial instruments and a cash flow risk for variable-yield financial instruments.

The interest rate sensitivity analyses have been based on the following assumptions:

Fixed interest rates have been stipulated for most interest-bearing receivables and liabilities. Market interest rate risks of non-derivative financial instruments with fixed interest rates can have an effect on profit or loss only when they are measured at fair value. Accordingly, all financial instruments with fixed interest rates that are measured at amortized cost are not subject to interest rate risks according to the definition of IFRS 7.

The sensitivity analyses conducted according to IFRS 7 for variable-yield financial liabilities and loan receivables, available-for-sale financial assets, variable-yield purchase price liabilities and derivative financial instruments yielded the following result: If the level of market interest rates had been higher (or lower) by 100 basis points at December 31, 2009, the profit or loss would have been higher by EUR 19 thousand or lower by EUR 13 thousand, respectively (PY: higher by EUR 1,352 thousand or lower by EUR 1,351 thousand, respectively).

#### Other price risks

For the purpose of presenting market risks, IFRS 7 also requires disclosures concerning the effects of hypothetical changes in risk variables on the prices of financial instruments. Stock market prices in particular represent a relevant risk variable. At the reporting date, however, the ARQUES Group did not hold significant shares in other exchange-listed companies that are not fully consolidated.

#### Classification

The reconciliation of the items presented in the statement of financial position with the classes and categories of IAS 39, along with the corresponding carrying amounts and fair values of financial instruments, are presented in the following table:

Carrying amounts, measurement methods and fair values by measurement category

EUR'000	NOTE	MEASUREMENT CATEGORY PER IAS 39	CARRYING AMOUNT 2009
<b>Assets</b>			
Non-current assets			
Financial assets	18	LaR	2,905
Other non-current assets	19	AFS <sup>1</sup>	18
Current assets			
Receivables under percentage of completion	21	LaR	0
Trade receivables	22	LaR	131,283
Available-for-sale financial assets	23	AFS <sup>1</sup>	636
Other assets	24	LaR, HfT	43,617
Cash and cash equivalents	26	LaR	74,915
Liabilities			
Non-current liabilities			
Financial liabilities	31	FL-AC	37,989
Liabilities under finance leases	32		2,782
Other liabilities	33	FL-AC	15,223
Current liabilities			
Current financial liabilities	35	FL-AC	49,704
Liabilities under finance leases	32		1,666
Trade payables	36	FL-AC	180,398
Other liabilities	38	FL-AC, HfT	38,078
thereof aggregated by measurement category according to IAS 39			Carrying amount 2009
Financial assets			
Loans and receivables (LaR)			252,442
Held-to-maturity financial investments (HtM)			0
Available-for-sale financial assets (AFS)			654
Financial assets held for trading (FA-HfT)			278
Financial assets designated at fair value (FA-FVO )			0
Financial liabilities			
Measured at amortized cost (FL-AC)			321,392
Financial liabilities held for trading (FL-HfT)			124

FAIR VALUE 2009	MEASUREMENT METHOD PER IAS 39			BALANCE SHEET MEASUREMENT METHOD IAS 17
	AMORTIZED COST	FAIR VALUE RECOGNIZED IN EQUITY	FAIR VALUE THROUGH PROFIT OR LOSS	
2,876	2,905	0	0	0
18	18	0	0	0
0	0	0	0	0
131,283	131,283	0	0	0
636	636	0	0	0
43,617	43,339	0	278	0
74,915	74,915	0	0	0
36,392	37,989	0	0	0
2,782	-	-	-	2,782
14,122	15,099	0	124	0
49,704	49,704			0
1,666	-	-	-	1,666
180,398	180,398	0	0	0
38,078	38,078	0	0	0
Fair value 2009				
252,413				
0				
654				
278				
0				
318,694				
124				

1) The available-for-sale financial assets (AfS) do not include non-exchange-listed equity instruments, the fair values of which could not be determined reliably and which therefore were recognized at amortized cost at December 31, 2009 in the amount of EUR 654 thousand (PY: EUR 906 thousand).

EUR'000	NOTE	MEASUREMENT CATEGORY PER IAS 39	CARRYING AMOUNT 2008
<b>Assets</b>			
Non-current assets			
Financial assets	18	LaR	3,190
Other non-current assets	19	AfS <sup>1</sup>	85
Current assets			
Receivables under percentage of completion	21	LaR	3,030
Trade receivables	22	LaR	407,632
Available-for-sale financial assets	23	AfS <sup>1</sup>	821
Other assets	24	LaR, HfT	133,244
Cash and cash equivalents	26	LaR	142,409
Liabilities			
Non-current liabilities			
Financial liabilities	31	FL-AC	75,217
Liabilities under finance leases	32		24,246
Other liabilities	33	FL-AC	61,321
Current liabilities			
Current financial liabilities	35	FL-AC	136,754
Liabilities under finance leases	32		7,137
Trade payables	36	FL-AC	601,356
Other liabilities	38	FL-AC, HfT	53,702
thereof aggregated by measurement category according to IAS 39			Carrying amount 2008
Financial assets			
Loans and receivables (LaR)			687,975
Held-to-maturity financial investments (HtM)			0
Available-for-sale financial assets (AfS)			906
Financial assets held for trading (FA-HfT)			1,530
Financial assets designated at fair value (FA-FVO )			0
Measured at amortized cost (FL-AC)			926,091
Financial liabilities			
Financial liabilities held for trading (FL-HfT)			2,259

The category of other assets included derivative financial assets in the amount of EUR 278 thousand in fiscal year 2009 (PY: EUR 1,530 thousand). The item of other liabilities included long-term derivative liabilities in the amount of EUR 124 thousand (PY: EUR 100 thousand) and derivative liabilities of a short-term nature in the amount of EUR 0 thousand (PY: EUR 2,159 thousand).

The fair values of derivative financial instruments are calculated by means of present value and option price models. To the extent possible, the relevant market prices and interest rates observed at the reporting date, which are taken from recognized external sources, are applied as the input parameters for these models. In accordance with IFRS 7, the calculation of these fair values is assigned to Level 2 of the measurement categories for the determination of fair values.

Liabilities under finance leases do not fall within the scope of IAS 39 and are therefore presented separately.

Cash and cash equivalents, trade receivables and current financial assets have short terms to maturity. Therefore, the carrying amounts of such items are approximately equal to their fair values at the reporting date.

FAIR VALUE 2008	MEASUREMENT METHOD PER IAS 39			BALANCE SHEET MEASUREMENT METHOD IAS 17
	AMORTIZED COST	FAIR VALUE RECOGNIZED IN EQUITY	FAIR VALUE THROUGH PROFIT OR LOSS	
3,227	3,190	0	0	0
85	85	0	0	0
3,030	3,030	0	0	0
407,632	407,632	0	0	0
821	821	0	0	0
133,244	131,714	0	1,530	0
142,409	142,409	0	0	0
83,437	75,217	0	0	0
24,246	-	-	-	24,246
63,728	61,221	0	100	0
136,754	136,754	0	0	0
7,137	-	-	-	7,137
601,356	601,356	0	0	0
53,702	51,543	0	2,159	0
Fair value 2008				
688,012				
0				
906				
1,530				
936,70				
18				
2,259				

1) The available-for-sale financial assets (AFS) do not include non-exchange-listed equity instruments, the fair values of which could not be determined reliably and which therefore were recognized at amortized cost at December 31, 2009 in the amount of EUR 654 thousand (PY: EUR 906 thousand).

Trade payables and current financial liabilities are all due within one year. Therefore, the nominal amount or repayment amount of such items are approximately equal to their fair values.

The fair values of other non-current financial assets and liabilities due in more than one year are equal to the present values of the future payments associated with the assets and liabilities, with due consideration given to the up-to-date interest rate parameters in every case, which reflect changes in terms related to currencies, interest rates and counterparties. In accordance with IFRS 7, the calculation of these fair values is assigned to Level 2 of the measurement categories for the determination of fair values.

With regard to the shares in unincorporated partnerships and non-exchange-listed corporations in the amount of EUR 654 thousand (PY: EUR 906 thousand), it was assumed that the carrying amount is equal to the market value because it would have been possible to reliably determine a market value only in connection with concrete sale negotiations.

## Net gains or losses under financial instruments

EUR'000	FROM INTEREST	FROM SUBSEQUENT MEASUREMENT			FROM DISPOSAL	NET GAIN OR LOSS	
		AT FAIR VALUE	CURRENCY TRANSLATION	IMPAIRMENT		2009	2008
Financial assts							
Loans and receivables	792	0	-12	6,817	4,377	11,998	-8,416
Held to maturity	0	0	0	0	0	0	0
Available for sale	0	0	0	0	0	0	-105
Designated at fair value	0	0	0	0	0	0	0
Financial liabilities							
Measured at amortized cost	5,017	0	5,389	0	3,323	3,695	-12,563
Derivative financial instruments							
Held for trading	0	2,869	0	0	0	2,869	2,289

The interest from financial instruments is presented as part of net interest income/expenses (see Note 9). In particular, this item includes interest income on loans extended, interest expenses for receivables from factoring and interest expenses for liabilities to banks and other financial liabilities. No interest income was generated on financial assets which had been written down in 2009 („unwinding”).

The other components of the net gain or loss are recognized as other operating income and expenses (see Notes 3 and 6).

Net gains or losses on loans and receivables include changes in impairments, gains or losses on cur-rency translation, gains on disposal and payments recovered and reversals of earlier impairments in loans and receivables.

Net gains or losses on financial liabilities at amortized cost are composed of interest expenses, income and expenses from currency translation and income from the waiver of amounts owed to suppliers.

Net gains or losses on financial instruments held for trading included income and expenses from changes in market values in the amount of EUR 2,869 thousand (PY: EUR 2,341 thousand).

## Capital management

As a turnaround specialist, ARQUES focuses on the acquisition and active restructuring of companies in crisis situations. Based on that focus, the primary goal of capital management is to secure the survival of all Group companies as going concerns and then to optimize the ratio of equity to debt for the benefit of all shareholders. The capital structures are managed mainly on a decentralized basis in the operating subsidiaries and business units. On the Group level, the capital management of the individual companies is monitored by means of a regular reporting process and is supported and optimized when necessary. Decisions on dividend payments or capital measures are made individually on the basis of the internal reporting system and in agreement with the subsidiaries.

The managed capital encompasses all current and non-current liabilities, as well as equity components. Changes in the capital structure over the course of time and the associated change in the dependency on external lenders are measured with the aid of the gearing ratio. The gearing ratio is calculated at the reporting date, with due consideration given to book equity. By reason of its business model, the unusual capital demands caused by business growth and the substantial change in the consolidation group, ARQUES' gearing ratio should be viewed on a differentiated basis. A comparison with companies in other sectors is generally not informative.

## Change in the gearing ratio

EUR'000	2009	2008 <sup>1</sup>
Non-current liabilities	140,101	316,988
Current liabilities	396,388	1,135,654
Liabilities	536,489	1,452,642
Equity	121,461	266,398
Gearing ratio in %	4.4	5.5

1) Adjusted values: see the notes on the Adjustment of comparison information from the consolidated financial statements at December 31, 2008.

## D. NOTES TO THE INCOME STATEMENT

### 1. Revenues

The consolidated revenues of the Group break down as follows:

EUR'000	2009			2008		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Revenues from sales of goods	1,057,927	2,422,022	3,479,949	1,286,208	4,027,742	5,313,950
Revenues from percentage of completion	0	2,478	2,478	0	5,935	5,935
Revenues from sales of services	0	9,545	9,545	0	185,141	185,141
Total	1,057,927	2,434,045	3,491,972	1,286,208	4,218,818	5,505,026

The total revenues break down as follows:

EUR'000	2009	2008
Trading revenues	2,385,926	4,097,062
Production revenues	1,106,046	1,407,964
Total	3,491,972	5,505,026

For a breakdown of revenues by geographic regions and operating segments, please refer to the notes on the Segment Report.

### 2. Other internal production capitalized

The internal production capitalized consisted mainly of capitalized development costs and the recognition of internally generated intangible assets, as follows:

EUR'000	2009			2008		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Gigaset Group	15,207	0	15,207	3,631	0	3,631
Anvis Group	7,569	0	7,569	3,888	0	3,888
Actebis Group	0	712	712	0	1,196	1,196
ddp Group	0	217	217	0	2,600	2,600
Other	2	10	12	7,132	55	7,187
	22,778	939	23,717	14,651	3,851	18,502

### 3. Other operating income

The other operating income breaks down as follows:

EUR'000	2009			2008		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Exchange rate differences	15,196	616	15,812	14,699	2,326	17,025
Reversal of negative goodwill	0	11,336	11,336	88,932	19,490	108,422
Deconsolidations	1,859	6,814	8,673	10,643	0	10,643
Reversal of provisions	4,571	252	4,823	16,118	2,855	18,973
Costs charged to third parties and cost reimbursements	231	3,955	4,186	12,073	10,016	22,089
Charge-off of liabilities	2,321	1,002	3,323	19,208	679	19,887
Reversal of valuation allowances	925	1,119	2,044	962	1,570	2,532
Income from derivatives	2,170	0	2,170	4,702	0	4,702
Rental income	820	1,289	2,109	932	1,304	2,236
Payments in compensation of loss or damage	31	1,391	1,422	950	1,643	2,593
Disposal of property, plant and equipment	389	841	1,230	7,279	95	7,374
Miscellaneous operating income	20,249	7,306	27,554	15,034	13,365	28,399
<b>Total</b>	<b>48,761</b>	<b>35,921</b>	<b>84,682</b>	<b>191,532</b>	<b>53,343</b>	<b>244,875</b>

In accordance with IFRS 3.56, income from reversal of negative goodwill in the amount of EUR 11,336 thousand (PY: EUR 108,422 thousand) was recognized, in those cases in which the fair values of the identifiable assets, liabilities and contingent liabilities exceeded the acquisition cost of the business combination. After additional review, any remaining excess must be recognized immediately in income, in accordance with IFRS 3.56 (b). In fiscal year 2009, such income resulted from the acquisition of the BSM Group, which was resold already at the end of 2009 and attributed to the discontinued operations segment of „Service.“

In the prior year, this item was composed as follows:

EUR'000	2008		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Gigaset Group	81,698	0	81,698
Auto Windscreen Group	0	15,911	15,911
Carl Froh Group	7,234	0	7,234
ASM Group	0	3,579	3,579
<b>Total</b>	<b>88,932</b>	<b>19,490</b>	<b>108,422</b>

The income from deconsolidations related to the following companies that were sold:

EUR'000	2009		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
BSM-Gruppe	0	3.098	3.098
BEA-Gruppe	0	2.390	2.390
weberbenteli-Gruppe	1.291	0	1.291
Evotape-Gruppe	568	0	568
Auto Windcreens	0	506	506
Other	0	820	820
<b>Total</b>	<b>1.859</b>	<b>6.814</b>	<b>8.673</b>

#### 4. Purchased goods and services

EUR'000	2009			2008		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Raw materials and supplies	482,278	28,185	510,463	607,880	63,248	671,128
Purchased goods	108,150	2,094,190	2,202,340	148,549	3,685,748	3,834,297
Purchased services	19,192	64,619	83,811	40,444	131,804	172,248
Other	11,236	208	11,444	38,232	1,577	39,809
<b>Total</b>	<b>620,856</b>	<b>2,187,202</b>	<b>2,808,058</b>	<b>835,105</b>	<b>3,882,377</b>	<b>4,717,482</b>

The individual items of purchased goods derived from the following companies:

EUR'000	2009	2008
Actebis Group	2,025,562	3,436,931
Gigaset Group	296,276	92,038
Anvis Group	138,388	168,352
tiscon Group	105,476	304,786
Oxxynova Group	41,398	94,732
van Netten Group	35,517	40,843
Rohé Group	5,845	67,308
Sommer Group	2,636	46,446
Eurostyle Group	0	122,534
Evotape Group	0	52,737
Other	156,960	290,775
<b>Total</b>	<b>2,808,058</b>	<b>4,717,482</b>

The expenses for raw materials and supplies derived from the following corporate groups:

EUR'000	2009	2008
Gigaset Group	251,041	83,261
Anvis Group	108,124	125,928
Oxxynova Group	31,812	77,449
van Netten Group	32,633	38,017
weberbenteli Group	6,607	24,775
Rohé Group	2,190	25,253
Sommer Group	2,565	45,124
Eurostyle Group	0	64,666
Evotape Group	0	43,886
Capresa Group	0	21,412
Other	75,491	121,357
<b>Total</b>	<b>510,463</b>	<b>671,128</b>

The expenses for purchased goods derived from the following groups:

EUR'000	2009	2008
Actebis Group	1,988,153	3,362,615
tiscon Group	105,203	303,395
Other	108,984	168,287
Total	2,202,340	3,834,297

Purchased services were recognized in the following corporate groups:

EUR'000	2009	2008
Actebis Group	36,256	63,029
ASM Group	19,712	17,171
Anvis Group	11,046	13,314
BSM Group	4,912	0
Carl Froh Group	3,020	2,640
Rohé Group	2,886	31,543
ddp Group	258	3,380
Bea TDL	235	7,286
Austrian BEA companies	0	9,281
Eurostyle Group	0	6,451
Jahnel-Kestermann Group	0	3,020
Other	5,486	15,133
Total	83,811	172,248

As in the prior year, the other purchased goods and services consisted mainly of energy supply costs.

## 5. Personnel expenses

EUR'000	2009			2008		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Wages and salaries	225,178	110,555	335,733	248,551	144,782	393,333
Social security, pension and other benefit costs	37,396	16,590	53,986	58,945	29,574	88,519
Total	262,574	127,145	389,719	307,496	174,356	481,852

The largest single amounts in the item of personnel expenses derived from the following companies of the Group:

EUR'000	2009	2008
Gigaset Group	142,288	38,081
Actebis Group	61,033	89,013
Anvis Group	48,470	56,519
tiscon Group	4,983	11,948
weberbenteli Group	4,931	18,824
Rohé Group	3,467	33,694
Sommer Group	1,431	14,099
Rohner Group	1,374	15,250
BEA companies	1,124	13,677
Eurostyle Group	0	59,235
Other	120,618	131,512
Total	389,719	481,852

The wages and salaries contained expenses of EUR 437 thousand (PY: EUR 549 thousand) for share-based payments.

## 6. Other operating expenses

The other operating expenses break down as follows:

EUR'000	2009			2008		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Administrative expenses	64,662	36,089	100,751	55,015	48,142	103,157
Outgoing freight/ transport costs	29,037	21,934	50,971	36,221	35,914	72,135
Marketing and representation expenses	34,260	14,020	48,280	24,376	14,791	39,167
Rents and other expenses for land/ buildings	16,511	28,893	45,404	37,480	17,238	54,718
Consulting expenses	21,284	4,049	25,333	23,349	8,996	32,345
Addition to warranty provisions	16,805	33	16,838	4,834	925	5,759
Losses on deconsolidations	11,547	1,690	13,237	13,994	0	13,994
Exchange rate changes	9,528	883	10,411	19,536	1,035	20,571
Maintenance of technical equipment, machinery and operational and office equipment	8,642	1,561	10,203	22,171	1,251	23,422
Valuation allowances on receivables and losses on receivables	7,444	3,750	11,194	10,123	7,345	17,468
Addition to provisions for onerous contracts	7,394	0	7,394	4,881	13	4,894
Other taxes	4,038	1,090	5,128	7,519	2,097	9,616
Losses on disposal of non-current assets	2,336	163	2,499	3,047	148	3,195
Expenses for financial derivatives	699	0	699	2,361	0	2,361
Official proceedings and liabilities for additional contributions	1,650	0	1,650	5,000	1,000	6,000
Patent fees and royalties	3,431	2	3,433	3,670	0	3,670
Miscellaneous operating expenses	4,273	14,346	18,619	19,693	13,245	32,938
Total	243,541	128,503	372,044	293,270	152,140	445,410

The losses on deconsolidations derived from the following companies that were sold:

EUR'000 VERLUSTE AUS ENTKONSOLIDIERUNGEN	2009		TOTAL
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	
Sommer Group	4,914	0	4,914
Rohner Group	3,117	0	3,117
ARQUES Iberia	2,030	0	2,030
ASM Group	0	1,333	1,333
Other	1,486	357	1,843
<b>Total</b>	<b>11,547</b>	<b>1,690</b>	<b>13,237</b>

EUR'000 VERLUSTE AUS ENTKONSOLIDIERUNGEN	2008		TOTAL
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	
Hottinger Group	8,942	0	8,942
Schöps	4,698	0	4,698
Other	354	0	354
<b>Total</b>	<b>13,994</b>	<b>0</b>	<b>13,994</b>

## 7. Impairment losses

The impairment losses break down as follows:

EUR'000	2009			2008		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
SM Electronic Group	11,859	0	11,859	913	0	913
Gigaset Group	9,495	0	9,495	4,877	0	4,877
Anvis Group	6,488	0	6,488	6,749	0	6,749
Wanfried Group	4,968	0	4,968	0	0	0
Fritz Berger Group	3,066	0	3,066	0	0	0
Actebis Group	0	38,889	38,889	0	0	0
tiscon Group	0	1,646	1,646	0	0	0
Eurostyle Group	0	0	0	52,950	0	52,950
Schöps Group	0	0	0	17,568	0	17,568
weberbenteli Group	0	0	0	14,947	0	14,947
Rohner Group	0	0	0	12,334	0	12,334
Sommer Group	0	0	0	6,286	0	6,286
SAG-Gesellschaften	0	0	0	0	4,827	4,827
Capresa Group	0	0	0	6,046	0	6,046
ddp Group	0	0	0	0	2,869	2,869
Rohé Group	0	0	0	0	2,005	2,005
Evotape Group	0	0	0	450	0	450
Carl Froh Group	0	0	0	619	0	619
Other	1,342	0	1,342	233	0	233
<b>Total</b>	<b>37,218</b>	<b>40,535</b>	<b>77,753</b>	<b>123,972</b>	<b>9,701</b>	<b>133,673</b>

The SM Electronics Group was classified as a disposal group in the fourth quarter of 2009 and will be sold for a symbolic price with effect presumably in July, 2010. At the time of reclassification, it was necessary to subject the assets to an impairment test. Based on the fair value less costs to sell, impairment losses of EUR 11,859 thousand were recognized. For details on the items in question, please refer to Note 27 Non-current disposal groups held for sale and discontinued operations. The SM Electronics Group is assigned to the „Retail“ segment.

The impairment losses of the Gigaset Group were charged against assets of the (Gigaset) Broadband Division, which was classified as a disposal group and sold for EUR 1,500 thousand in the second quarter of 2009. Based on the fair value less costs to sell, impairment losses were recognized in intangible assets (EUR 1,409 thousand), in property, plant and equipment (EUR 2,616 thousand) and in inventories and other assets (EUR 4,854 thousand). The Gigaset Group is assigned to the „Communications“ segment.

In view of the economic situation of the automotive industry, impairment tests were conducted for the individual companies of the Anvis Group because the consequential effects of the crisis affecting the automotive industry were much greater for some companies than for others. Impairment losses of EUR 6,488 thousand were recognized on the basis of the recoverable amounts determined as part of the impairment test. The impairment losses were charged against intangible assets (EUR 1,689 thousand), land and buildings (EUR 1,927 thousand), technical equipment and machinery (EUR 5,511 thousand) and other property, plant and equipment (EUR 1,069 thousand) capitalized in connection with the purchase price allocation process. However, the recoverable amount calculated as part of the impairment test conducted on the basis of the positive development of the overall Anvis Group led to a reversal of impairment losses in the amount of EUR 3,708 thousand in the customer relationships capitalized on the sub-group level. The recoverable amount of the individual companies or the Group was determined on the basis of a DCF model. The calculation was conducted on the basis of a four-year cash flow plan. The applied discount factors after taxes ranged from 9.1% to 22.0%. Based on the detailed business plan, the growth discount was set at 1%. The Anvis Group is assigned to the „Automotive“ segment.

The impairment losses recognized in the Wanfried Group consisted of an impairment of goodwill in the amount of EUR 4,968 thousand. For details, please refer to our comments in Note 14.

The impairment losses recognized in the Fritz Berger Group were determined on the basis of the fair value calculated for that group. The fair value less costs to sell of the Fritz Berger Group was determined on the basis of the sale concluded in the second quarter of 2010. The sale price for the transaction was applied for the purpose of assessing the need to recognize impairment losses in the assets of the group. Based on the fair value less costs to sell, impairment losses were recognized in the total amount of EUR 3,066 thousand. Specifically, impairment losses were recognized in goodwill (EUR 172 thousand), other intangible assets (EUR 715 thousand) and property, plant and equipment (EUR 2,179 thousand). The Fritz Berger Group is assigned to the „Retail“ segment.

The Actebis Group was classified as a disposal group in the second quarter of 2009 and sold for a transaction volume of EUR 38.9 million in the third quarter. At the time of reclassification, it was necessary to subject the assets to an impairment test. Based on the fair values less costs to sell, impairment losses of EUR 38,889 thousand were recognized. The impairment losses were charged against goodwill (EUR 25,580 thousand), other intangible assets (EUR 6,242 thousand) and property, plant and equipment (EUR 7,067 thousand). The Actebis Group is assigned to the discontinued operations segment of „IT.“

The tiscon Group was classified as a disposal group in the second quarter of 2009 and sold for a symbolic price in the third quarter. At the time of reclassification, it was necessary to subject the assets to an impairment test. Based on the fair values less costs to sell, impairment losses of EUR 1,646 thousand were recognized. The impairment losses were charged against intangible assets (EUR 965 thousand) and property, plant and equipment (EUR 681 thousand). The tiscon Group is assigned to the discontinued operations segment of „IT.“

## 8. Income/ expenses of non-current financial assets accounted for by the equity method

The income from financial assets accounted for by the equity method amounted to EUR 53 thousand (PY: EUR 474 thousand), as follows:

EUR'000	2009			2008		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Joint ventures	30	0	30	474	0	474
Associated companies	0	23	23	0	0	0
<b>Total</b>	<b>30</b>	<b>23</b>	<b>53</b>	<b>474</b>	<b>0</b>	<b>474</b>

The income from financial assets accounted for by the equity method resulted from the joint ventures of the Anvis Group, in the amount of EUR 30 thousand (PY: EUR 474 thousand), and from an associated company of the Actebis Group, in the amount of EUR 23 thousand (PY: EUR 0 thousand).

## 9. Net interest expenses

EUR'000	2009			2008		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Other interest and similar income	2,536	315	2,851	6,660	1,947	8,607
Interest and similar expenses	-18,173	-9,618	-27,791	-22,883	-23,076	-45,959
<b>Net interest expenses</b>	<b>-15,637</b>	<b>-9,303</b>	<b>-24,940</b>	<b>-16,223</b>	<b>-21,129</b>	<b>-37,352</b>

Other interest and similar income in the amount of EUR 2,851 thousand (PY: EUR 8,607 thousand) consisted mainly of interest on loans extended, current account balances and term deposits, which are assigned to the category of loans and receivables, and of interest income on financial instruments classified as available for sale.

Interest and similar expenses in the amount of EUR 27,791 thousand (PY: EUR 45,959 thousand) were mainly composed of interest payments to banks on loans received, which are assigned to the category of financial liabilities at amortized cost. This item also included interest expenses under finance leases in the amount of EUR 510 thousand (PY: EUR 2,065 thousand) and interest expenses on receivables under factoring arrangements, which reduced the net result of the loans and receivables category by EUR 2,751 thousand (PY: EUR 11,592 thousand).

All interest income and expenses resulting from financial assets and financial liabilities were calculated by application of the effective interest method.

## 10. Income taxes

The income tax expenses break down as follows:

EUR'000	2009			2008		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Current tax expenses	-4,314	-6,146	-10,460	-4,431	-8,988	-13,419
Deferred tax income	15,972	6,150	22,122	16,374	3,709	20,083
<b>Total income tax expenses/ income</b>	<b>11,658</b>	<b>4</b>	<b>11,662</b>	<b>11,943</b>	<b>-5,279</b>	<b>6,664</b>

The following reconciliation statement shows the differences between actual income tax expenses and expected income tax expenses. The expected income tax expenses are calculated as the product of the profit before taxes multiplied by the expected income tax rate. The total expected income tax rate, which is composed of the German corporate income tax, the solidarity surtax and local trade tax, came to 29%.

EUR'000	2009	2008
Profit/loss before income taxes	-164,662	-152,390
expected income tax rate	29.0%	27.0%
expected income tax expenses	-47,752	-41,145
Effect of income from reversals of negative goodwill recognized in the income statement	-3,288	-29,283
Valuation at equity	-15	-128
Tax rate changes	-346	57
Tax rate differences	-489	468
Tax-exempt income	-1,254	-3,645
Non-deductible expenses	3,296	4,562
Change in value adjustment for deferred tax assets and unrecognized deferred tax assets in respect of tax loss carry-forwards	38,506	62,979
Non-period current taxes	565	-75
Tax credits	-290	-37
Other effects	-595	-418
Income tax expenses (+) / income (-) recognized in the income statement	-11,662	-6,664
Effective tax rate	7.08%	4.37%

The tax-exempt income related mainly to the proceeds on the disposal of shares in deconsolidated companies.

## 11. Minority interests in the profit/loss for the year

The consolidated loss of EUR -153,000 thousand (PY: EUR -145,726 thousand) comprised minority interests of EUR -7,639 thousand (PY: EUR -11,542 thousand).

## 12. Earnings per common share

The earnings per share (diluted/ basic) for fiscal year 2009 amounted to EUR -5.51, as per the following calculation:

EUR'000	2009			2008		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
<b>PROFIT/ LOSS</b>						
Basis for the basic earnings per share (share of period profit or loss attributable to shareholders of the parent company)	-119,878	-25,483	-145,361	-140,809	6,625	-134,184
Effect of potentially diluting common shares	0	0	0	0	0	0
Basis for the diluted earnings per share	-119,878	-25,483	-145,361	-140,809	6,625	-134,184
<b>NUMBER OF SHARES</b>						
Weighted average common shares for the basic earnings per share	26,401,882	26,401,882	26,401,882	26,401,099	26,401,099	26,401,099
Effect of potentially diluting common shares: stock options	0	0	0	0	0	0
Weighted average common shares for the diluted earnings per share	26,401,882	26,401,882	26,401,882	26,401,099	26,401,099	26,401,099
Basic earnings per share (in EUR)	-4.54	-0.97	-5.51	-5.34	0.25	-5.09
Diluted earnings per share (in EUR)	-4.54	-0.97	-5.51	-5.34	0.25	-5.09

No stock options that would dilute the earnings per share were outstanding, either at December 31, 2009 or at December 31, 2008. If the Conditional Capital of ARQUES Industries AG would be exercised in the future, dilutions will occur. For details on Conditional Capital, please refer to the comments in Note 28 Equity.

### 13. Dividend proposal

In accordance with the resolution of the annual shareholders' meeting of August 5, 2009, no dividend was distributed to shareholders for fiscal year 2008.

The Supervisory Board and Management Board of ARQUES Industries AG propose to the annual shareholders' meeting that the accumulated deficit of ARQUES Industries AG in accordance with the German Commercial Code of EUR 45,283 thousand shall be charged against the accumulated profit for the financial year 2007, for which the shareholder's meeting did not pass a resolution for appropriation as well as against the treasury share reserve. The remaining accumulated deficit of EUR 95,176 shall then be carried forward to new account.

## E. NOTES TO THE BALANCE SHEET

### 14. Intangible assets

EUR'000	FRANCHISES, INTELLECTUAL PROPERTY RIGHTS AND SIMILAR RIGHTS AND LICENCES	GOODWILL	OTHER INTANGIBLE ASSETS	ADVANCE PAYMENTS	TOTAL
Acquisition cost at 01/01/2009	123,003	35,582	36,132	2,339	197,056
Companies added to consolidation group	2,736	0	0	0	2,736
Companies removed from consolidation group	-17,937	-4,144	0	0	-22,081
Currency translation	56	0	0	0	56
Additions	1,869	0	14,045	2,390	18,304
Disposals	-765	0	-3,962	-13	-4,740
Transfers	-45,166	-25,722	-3,358	-2,046	-76,292
Balance at 12/31/2009	63,796	5,716	42,857	2,670	115,039
Amortization at 01/01/2009	-45,445	-4,277	-13,664	-41	-63,427
Companies removed from consolidation group	10,111	4,144	0	0	14,255
Currency translation	-39	0	0	0	-39
Additions	-14,375	0	-11,395	0	-25,770
Impairments (IAS 36)	-2,404	-5,149	0	0	-7,553
Reversal of impairments	3,708	0	0	0	3,708
Disposals	751	0	2,665	0	3,416
Transfers	19,928	0	583	41	20,552
Balance at 12/31/2009	-27,765	-5,282	-21,811	0	-54,858
Net carrying amounts at 12/31/2008	77,558	31,305	22,468	2,298	133,629
Net carrying amounts at 12/31/2009	36,031	434	21,046	2,670	60,181

EUR'000	FRANCHISES, INTELLECTUAL PROPERTY RIGHTS AND SIMILAR RIGHTS AND LICENCES	GOODWILL	OTHER INTANGIBLE ASSETS	ADVANCE PAYMENTS	TOTAL
Acquisition cost at 01/01/2008	100,374	40,993	31,249	2,334	174,950
Companies added to consolidation group	34,450	0	18,096	0	52,546
Companies removed from consolidation group	-5,516	-1,264	-15,750	-6	-22,536
Currency translation	-828	260	-170	0	-738
Additions	10,308	7,641	12,248	1,962	32,159
Disposals	-2,301	-401	-1,273	-330	-4,305
Transfers	-13,484	-11,647	-8,268	-1,621	-35,020
Balance at 12/31/2008	123,003	35,582	36,132	2,339	197,056
Amortization at 01/01/2008	-16,363	-582	-3,241	0	-20,186
Companies removed from consolidation group	4,878	305	13,807	0	18,990
Currency translation	76	-28	95	0	143
Additions	-24,583	0	-11,794	0	-36,377
Impairments (IAS 36)	-19,619	-15,619	-18,694	-41	-53,973
Disposals	1,289	0	63	0	1,352
Transfers	8,877	11,647	6,100	0	26,624
Balance at 12/31/2008	-45,445	-4,277	-13,664	-41	-63,427
Net carrying amount at 12/31/2007	84,011	40,411	28,008	2,334	154,764
Net carrying amount at 12/31/2008	77,558	31,305	22,468	2,298	133,629

The item of franchises, intellectual property rights and similar rights was composed as follows:

FRANCHISES, INTELLECTUAL PROPERTY RIGHTS AND SIMILAR RIGHTS IN EUR'000	12/31/2009	12/31/2008
Customer bases	10,816	31,895
Brand names	8,399	13,496
Advantageous contracts	1,957	4,225
Franchises	4,615	12,573
Patents	9,363	10,433
Similar rights	881	4,936
	36,031	77,558

The customer bases related to the following companies:

CUSTOMER BASES IN EUR'000	12/31/2009	12/31/2008
Anvis Group	3,708	0
Carl Froh GmbH	3,328	4,035
Wanfried Group	2,759	3,139
Gigaset Group	1,021	1,333
Actebis Group	0	20,843
Rohé Group	0	2,545
	10,816	31,895

The brand names acquired in connection with business combinations were capitalized on the books of the respective acquiring companies, provided that a future benefit for the company was ascribed to the brand. In making the determination of useful life, an indefinite useful life was assumed for this brand on the basis of past experience data and the estimations of the management regarding the future development of this brand. The factors considered in making this determination included the anticipated usage of the brand, typical product life cycles, possible commercial obsolescence, competition, the industry environment, the level of brand maintenance expenditures, legal or similar usage restrictions and the influence of the company's other assets on the useful life of the brand in question.

At the balance sheet date, the brand name Gigaset was presented in the amount of EUR 8,399 thousand (PY: EUR 8,399 thousand). The brand name was subjected to an impairment test at December 31, 2009 on the basis of the fair value less costs to sell. The calculation was conducted on the basis of a four-year cash flow plan. Appropriate growth rates were applied for the period thereafter. The applied discount factor after taxes was 9.15%. Based on the detailed business plan, the growth discount was set at 1%. Based on this calculation, there was no need to recognize an impairment loss.

The franchises mainly consisted of software licenses for the following companies:

FRANCHISES IN EUR'000	12/31/2009	12/31/2008
Gigaset	2,276	3,387
Anvis	1,059	1,502
Actebis	0	4,194
tiscon	0	1,412
Other	1,280	2,078
	4,6105	12,573

The patents presented in the balance sheet are meant to protect certain production processes of the Gigaset Group and the Anvis Group.

Capitalized development expenses are presented within the item of other intangible assets. They were divided among the following companies:

CAPITALIZED DEVELOPMENT EXPENSES IN EUR'000	12/31/2009	12/31/2008
Gigaset Group	14,274	13,976
Anvis Group	6,772	5,400
Actebis Group	0	2,775
ASM Group	0	317
	21,046	22,468

The development activities of the Gigaset Group and the Anvis Group represented capitalized product developments. Research and development expenses of EUR 46,669 thousand (PY: EUR 23,279 thousand) were recognized as expenses in fiscal year 2009.

The capitalized goodwill at the balance sheet date was divided among the following sub-groups:

GOODWILL IN EUR'000	12/31/2009	12/31/2008
Golf House	388	388
Wanfried	0	4,968
Fritz Berger	0	172
Actebis	0	25,581
Other	46	196
	434	31,305

In order to meet the requirements of IFRS 3 in conjunction with IAS 36 and to ascertain the need for any impairment losses in goodwill, ARQUES assigned the goodwill to cash-generating units, based on the company's internal reporting system, and conducted an impairment test. The recoverable amount of every cash-generating unit was calculated as the fair value less estimated costs to sell. If no directly observable market prices were available for the assets in question in the past fiscal year, the fair value was calculated (as in the prior year) by discounting the future cash flows to present value.

The goodwill of the Golf House Group, which originated from the acquisition of that company and from a capital increase conducted during the course of the past fiscal year, amounted to EUR 388 thousand at the balance sheet date (unchanged from the prior year). The Golf House Group represents the cash-generating unit according to IAS 36, to which the goodwill was assigned. The recoverable amount of this corporate group was calculated on the basis of a DCF model. The calculation was conducted on the basis of a four-year cash flow plan. The applied discount factor after taxes was 7.65%. Based on the detailed business plan, the growth discount was set at 1%. As a result of this calculation, it was found that there was no need to recognize an impairment loss in the stated goodwill because the fair value less the costs to sell was higher than the net carrying amounts. The calculations conducted as part of the impairment test showed that plausible changes in the underlying assumptions would not lead to an impairment loss.

The goodwill of the Wanfried Group amounted to EUR 0 thousand (PY: EUR 4,968 thousand) at the balance sheet date. The Wanfried Group represents the cash-generating unit according to IAS 36, to which the goodwill was assigned. The recoverable amount of this corporate group was calculated on the basis of a DCF model. The calculation was conducted on the basis of a four-year cash flow plan. The applied discount factor after taxes was 7.58%. Based on the detailed business plan, the growth discount was set at 1%. Based on these calculations, the goodwill of EUR 4,968 thousand was completely written off.

The goodwill of the Fritz Berger Group, which originated from the acquisition of that company, amounted to EUR 0 thousand at the balance sheet date (PY: EUR 172 thousand). The Fritz Berger Group represents the cash-generating unit according to IAS 36, to which the goodwill was assigned. The fair value less costs to sell of the Fritz Berger Group was determined on the basis of a purchase offer received during the time when the consolidated financial statements were being prepared. The intention to sell was concretized by the ARQUES Management after the reporting date, during the time when the consolidated financial statements were being prepared. The purchase offers received from investors were applied for the purpose of assessing the need to recognize an impairment loss in goodwill. Based on the purchase offers received, it was determined that the goodwill no longer had any value for the ARQUES Group. Therefore, the ARQUES Executive Board decided to write off the goodwill completely.

In the past fiscal year, the item of „companies removed from the consolidation group“ was mainly composed of accumulated acquisition and production costs and accumulated amortization. This item also contained smaller disposals that have not been presented individually due to their subordinate importance for the ARQUES Group.

Intangible assets in the amount of EUR 3,136 thousand (PY: EUR 9,419 thousand) have been pledged as security for financial liabilities. Additional information on assets pledged as security can be found in the notes on financial instruments in the section entitled „Liquidity risk.“

## 15. Property, plant and equipment

EUR'000	LAND, LEASEHOLD RIGHTS	BUILDINGS INCLUDING BUILDINGS ON NON-OWNED LAND (EXCLUDING FINANCE LEASE)	BUILDINGS INCLUDING BUILDINGS ON NON-OWNED LAND (FINANCE LEASE)	TECHNICAL EQUIPMENT, PLANT AND MACHINERY (EXCLUDING FINANCE LEASE)
Acquisition cost at 01/01/2009	30,334	100,899	156	155,218
Companies added to consolidation group	0	1,756	0	0
Companies removed from consolidation group	-6,145	-30,104	-156	-14,635
Currency translation differences	-110	-293	0	-164
Additions	76	668	0	5,796
Disposals	0	-1,374	0	-7,095
Transfers	-1,201	-4,354	0	-3,523
Balance at 12/31/2009	22,954	67,198	0	135,597
Depreciation at 01/01/2009	-1,155	-13,725	-18	-64,380
Companies removed from consolidation group	1,333	2,365	18	12,414
Currency translation differences	73	111	0	390
Additions	-712	-4,661	0	-18,115
Impairments (IAS 36)	-1,988	-1,719	0	-7,490
Disposals	0	974	0	6,414
Transfers	0	2,524	0	3,523
Balance at 12/31/2009	-2,449	-14,131	0	-67,244
Net carrying amount at 12/31/2008	29,179	87,174	138	90,838
Net carrying amount at 12/31/2009	20,505	53,067	0	68,353
Acquisition costs 01/01/2008	38,748	108,137	4,602	140,390
Companies added to consolidation group	7,008	34,033	0	27,385
Companies removed from consolidation group	-5,396	-18,320	-4,446	-46,602
Currency translation differences	0	804	0	-3,004
Additions	2,172	3,559	0	16,811
Disposals	-8,135	-9,034	0	-11,173
Transfers	-4,063	-18,280	0	31,411
Balance at 12/31/2008	30,334	100,899	156	155,218
Depreciation at 01/01/2008	-4,275	-13,445	-3	-6,994
Companies removed from consolidation group	2,755	7,553	2,419	20,546
Currency translation differences	167	-182	0	-2,279
Additions	-87	-5,236	-526	-26,348
Impairments (IAS 36)	-1,803	-9,641	-1,908	-21,087
Disposals	0	6,048	0	3,091
Transfers	2,088	1,178	0	-31,309
Balance at 12/31/2008	-1,155	-13,725	-18	-64,380
Net carrying amount at 12/31/2007	34,473	94,692	4,599	133,396
Net carrying amount at 12/31/2008	29,179	87,174	138	90,838

TECHNICAL EQUIPMENT, PLANT AND MACHINERY (FINANCE LEASE)	OTHER EQUIPMENT, OPERATIONAL AND OFFICE EQUIPMENT (EXCLUDING FINANCE LEASE)	OTHER EQUIPMENT, OPERATIONAL AND OFFICE EQUIPMENT (FINANCE LEASE)	ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS	TOTAL
37,102	105,873	8,837	9,665	448,084
0	2,112	0	0	3,868
-30,091	-8,725	-2,562	-3,423	-95,841
-532	-140	-60	-48	-1,347
758	13,930	4	2,761	23,993
-431	-17,704	-30	-619	-27,253
-525	-33,507	-5,846	-5,530	-54,486
6,281	61,839	343	2,806	297,018
-20,112	-29,251	-2,369	-46	-131,056
19,637	4,268	560	74	40,669
317	50	9	1	951
-1,499	-28,395	-603	0	-53,985
0	-1,423	-24	0	-12,644
0	17,567	0	30	24,985
318	10,053	2,243	0	18,661
-1,339	-27,131	-184	59	-112,419
16,990	76,622	6,468	9,619	317,028
4,942	34,708	159	2,865	184,599
39,276	51,000	6,120	10,313	398,586
220	53,200	1,033	321	123,200
-8,875	-4,750	-77	-13,199	-101,665
2,783	-317	-145	-83	38
12,051	12,276	2,118	23,013	72,000
-7,165	-5,619	-213	-3,027	-44,366
-1,188	83	1	-7,673	291
37,102	105,873	8,837	9,665	448,084
-4,210	-6,902	-378	0	-36,207
4,704	2,930	0	5,464	46,371
-1,304	-32	26	-4	-3,608
-4,425	-18,073	-2,151	-63	-56,909
-16,410	-3,751	0	-5,549	-60,149
1,374	1,217	16	7	11,753
159	-4,640	118	99	-32,307
-20,112	-29,251	-2,369	-46	-131,056
35,066	44,098	5,742	10,313	362,379
16,990	76,622	6,468	9,619	317,028

The property, plant and equipment also included leased assets in the amount of EUR 5,101 thousand (PY: EUR 23,596 thousand), for which the Group is considered to be the beneficial owner by virtue of the underlying lease agreements:

FINANCE LEASE IN EUR'000	12/31/2009	12/31/2008
Technical equipment, plant and machinery	4,942	16,990
Other equipment, operational and office equipment	159	6,468
Buildings	0	138
	5,101	23,596

Impairment losses of EUR 12,644 thousand were recognized in property, plant and equipment in fiscal year 2009 (PY: EUR 60,149 thousand). For details on impairment losses, please refer to the section entitled „Impairment losses.“

Property, plant and equipment in the amount of EUR 40,768 thousand (PY: EUR 46,354 thousand) have been pledged as security for financial liabilities. For additional information on security, please refer to the notes on financial instruments in the section entitled „Liquidity risk.“

## 16. Investment property

EUR'000	2009	2008
Acquisition cost at 01/01	2,330	2,330
Change	0	0
Balance at 12/31	2,330	2,330
Depreciation at 01/01	-2,092	-2,080
Additions	-12	-12
Balance at 12/31	-2,104	-2,092
Net carrying amount at 12/31	226	238

The item of investment property consisted of a developed piece of land owned by ARQUES Industries AG in Burnhaupt le Haupt, France. The building is depreciated on a straight-line basis over a useful life of 25 years. The rental income generated in the current period amounted to EUR 32 thousand (PY: EUR 32 thousand). The fair value was last measured in 2007, at which time it was necessary to recognize an impairment loss of EUR 1,789 thousand. Because no significant changes had occurred in the meantime, the fair value was not remeasured at December 31, 2009.

## 17. Non-current financial assets accounted for by the equity method

Financial assets accounted for by the equity method showed the following development in the past fiscal year:

EUR'000	2009	2008
Balance at 1/1	5,000	4,564
Company removed from consolidation group	-225	0
Proportional share of profit/loss for the year	53	474
Disposal	0	-38
Balance at 12/31	4,828	5,000

The companies accounted for by the equity method generated a profit of EUR 53 thousand in fiscal year 2009 (PY: EUR 474 thousand), as follows:

EUR'000	2009	2008
Anvis South Africa / Brazil	30	474
Fulfilment Plus GmbH	23	0
	53	474

The assets of the joint venture Anvis South Africa (BEL-Anvis ANTIVIBRATIONSSYSTEMS (Pty.) Ltd.) amounted to EUR 3,756 thousand at December 31, 2009 (PY: EUR 3,113 thousand) and the liabilities amounted to EUR 1,462 thousand (PY: EUR 1,595 thousand). The revenues amounted to EUR 7,512 thousand (PY: EUR 6,450 thousand) and the profit amounted to EUR 401 thousand (PY: EUR 402 thousand).

The assets of the joint venture Anvis Brazil (Vibracoustic do Brasil Industria e Comercio de Artefatos de Borracha Ltda.) amounted to EUR 12,332 thousand at December 31, 2009 (PY: EUR 8,627 thousand) and the liabilities amounted to EUR 3,639 thousand (PY: EUR 1,715 thousand). The revenues amounted to EUR 24,673 thousand (PY: EUR 22,463 thousand) and the loss for the year amounted to EUR -342 thousand (PY: profit of EUR 546 thousand).

As part of the Actebis Group, the company Fulfilment Plus GmbH, the carrying amount of which was EUR 225 thousand (PY: EUR 202 thousand), was sold in connection with the deconsolidation of the Actebis Group in 2009.

## 18. Financial assets

The financial assets included loans extended with a term of more than one year. All loans were measured at amortized cost. These loans showed the following development in fiscal year 2009:

EUR'000	2009	2008
Balance at 01/01	3,190	3,784
Changes in consolidation group	-409	424
Additions	461	1
Disposals	-140	-1,196
Transfers	-197	-85
Reversal of impairment loss	0	261
Balance at 12/31	2,905	3,190

By reason of the contractual maturity of more than one year, the fair values differ from the carrying amounts. The fair values were calculated by application of the „discounted cash flow“ method, as a result of which the fair value assigned to the loans amounted to EUR 2,876 thousand (PY: EUR 3,227 thousand).

As a general rule, valuation allowances are charged to account for discernible default risks in the loan portfolio. In 2009, there was no need to charge valuation allowances against loan receivables.

The individual items of financial assets were divided among the following companies of the ARQUES Group:

EUR'000	12/31/2009	12/31/2008
Anvis Group	2,603	2,273
Wanfried Group	283	256
ASM Group	0	605
Other	19	57
	2,905	3,190

The extended loans are to be repaid almost exclusively in euros (EUR 2,905 thousand, PY: EUR 3,181 thousand).

Based on the contractually stipulated interest and principal payments, there were no indications at the balance sheet date that the payments would not be made on the respective due dates.

The ARQUES Group received no security or other credit improvements for its extended loans in fiscal year 2009.

## 19. Other non-current assets

The other non-current assets included shares in non-consolidated companies.

## 20. Inventories

The inventories break down as follows:

EUR'000	12/31/2009	12/31/2008
Finished goods and services, merchandise for resale	55,080	310,229
Semi-finished goods and services	7,913	13,498
Raw materials and supplies	19,206	52,372
Advance payments rendered	11,470	2,763
<b>Total</b>	<b>93,669</b>	<b>378,862</b>

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 allowances comprised within purchased goods and services amounted to EUR 8,318 thousand at the balance sheet date (PY: EUR 14,360 thousand). The valuation allowances were mainly charged to account for slow-moving inventories and insufficient salability.

The amounts of finished goods and services and merchandise for resale were divided among the subsidiaries of ARQUES Industries AG as follows:

MERCHANDISE FOR RESALE IN EUR'000	12/31/2009	12/31/2008
Fritz Berger Group	9,511	7,468
Golf House Group	4,536	4,974
SM Electronic Group	0	4,372
Actebis Group	0	213,912
tiscon Group	0	13,709
<b>Total</b>	<b>14,047</b>	<b>244,435</b>

FINISHED GOODS AND SERVICES IN EUR'000	12/31/2009	12/31/2008
Gigaset Group	26,941	35,112
Anvis Group	7,097	8,112
van Netten Group	2,151	2,772
Wanfried Group	1,693	2,103
Carl Froh Group	1,585	3,130
Oxxynova Group	1,566	1,574
AWS Group	0	5,275
Sommer Group	0	3,879
Rohé Group	0	2,421
Capresa Group	0	1,256
ASM Group	0	160
<b>Total</b>	<b>41,033</b>	<b>65,794</b>

The companies of the Actebis Group, the tiskon Group, the AWS Group, the Sommer Group, the Rohé Group, the Capresa Group and the ASM Group, which had been presented in the prior-year financial statements, were deconsolidated at the balance sheet date.

In accordance with the provisions of IFRS 5, the merchandise for resale of the SM Electronic Group was presented within the disposal group under the item of „assets held for sale“ at the balance sheet date.

The semi-finished goods and services were divided among the various sub-groups as follows:

SEMI-FINISHED GOODS AND SERVICES IN EUR'000	12/31/2009	12/31/2008
Gigaset Group	2,011	1,748
Anvis Group	4,431	5,150
Carl Froh Group	845	2,123
van Netten Group	447	342
Wanfried Group	179	450
Sommer Group	0	1,965
weberbenteli Group	0	1,113
Rohé Group	0	320
Capresa Group	0	236
AWS Group	0	51
<b>Total</b>	<b>7,913</b>	<b>13,498</b>

The companies of the Sommer Group, the weberbenteli Group, the Rohé Group, the Capresa Group and the AWS Group, which had been presented in the prior-year financial statements, were deconsolidated at the balance sheet date.

The breakdown of the most important constituents of raw materials and supplies among the subsidiaries of the ARQUES Group is presented in the table below:

RAW MATERIALS AND SUPPLIES IN EUR'000	12/31/2009	12/31/2008
Anvis Group	5,417	7,652
Oxxynova Group	3,356	4,135
Gigaset Group	6,768	13,655
Carl Froh Group	1,983	2,515
van Netten Group	954	1,214
Wanfried Group	718	737
Golf House Group	10	10
Rohé Group	0	9,840
Sommer Group	0	8,180
weberbenteli Group	0	1,953
Capresa Group	0	1,750
AWS Group	0	681
Fritz Berger Group	0	48
tiscon Group	0	2
<b>Total</b>	<b>19,206</b>	<b>52,372</b>

The companies of the Rohé Group, the Sommer Group, the weberbenteli Group, the Capresa Group, the AWS Group, the Fritz Berger Group and the tiscon Group, which had been presented in the prior-year financial statements, were deconsolidated at the balance sheet date.

The advance payments rendered were divided among the various companies as follows:

ADVANCE PAYMENTS RENDERED IN EUR'000	12/31/2009	12/31/2008
Gigaset Group	10,567	720
Anvis Group	901	429
SM Electronic Group	0	29
Wanfried Group	2	0
Rohé Group	0	693
tiscon Group		
Sommer Group	0	524
<b>Total</b>	<b>11,470</b>	<b>2,763</b>

The companies of the Rohé Group and the tiscon Group, which had been presented in the prior-year financial statements, were deconsolidated at the balance sheet date.

Inventories in the amount of EUR 9,388 thousand have been pledged as security for financial liabilities (PY: EUR 12,613 thousand). A detailed presentation of security can be found in the notes on financial instruments in the section entitled „Liquidity risk.“

## 21. Receivables under percentage of completion

The receivables under percentage of completion were calculated as follows:

EUR'000	12/31/2009	12/31/2008
Costs incurred plus accrued profit	0	4,576
less invoices issued for advance payments	0	1,622
Total	0	2,954
thereof: receivables under percentage of completion	0	3,030
thereof: liabilities under percentage of completion	0	76

The prior-year figure also contained receivables under percentage of completion for the Rohé Group. The Rohé Group was deconsolidated in February 2009.

## 22. Trade receivables

The valuation allowances charged against trade payables showed the following development:

EUR'000	12/31/2009	12/31/2008
Receivables before valuation allowances	140,319	423,927
Valuation allowances	-9,036	-16,295
Carrying amount of receivables	131,283	407,632

No interest income was collected in the reporting period on trade payables against which valuation allowances had been charged.

EUR'000	12/31/2009	12/31/2008
01/01	16,295	13,603
Addition	6,817	8,589
Utilization	-6,725	-3,365
Reversal	-2,044	-2,532
Changes in consolidation group	-5,307	0
12/31	9,036	16,295

Some companies of the ARQUES Group assigned a portion of their trade receivables to a financing company. The maximum volume of factoring agreements concluded at the balance sheet date was EUR 84,375 thousand (PY: EUR 458,721 thousand). However, the maximum volume was not utilized at the balance sheet date. Receivables in the amount of EUR 39,126 thousand (PY: EUR 322,622 thousand) were sold. Based on the contractual formulation of some factoring agreements, it can neither be assumed that the corresponding receivables were completely transferred, nor that the risks and rewards of the receivables remained completely with the company. In accordance with IAS 39, therefore, the companies recognized a so-called „continuing involvement“ of EUR 636 thousand (PY: EUR 9,586 thousand), which was composed of the remaining interest rate risk in the amount of EUR 326 thousand (PY: EUR 9,435 thousand) and the del credere risk remaining with the company by virtue of the purchase price retention, in the amount of EUR 310 thousand (PY: EUR 151 thousand). In addition, the trade payables also comprised receivables due from the respective factor in connection with the purchase price retentions in the amount of EUR 8,240 thousand (PY: EUR 15,481 thousand).

The age structure of trade receivables at December 31, 2009 is presented in the table below:

EUR'000	12/31/2009	12/31/2008
Carrying amount	131,283	407,632
thereof: neither written down nor past due at the balance sheet date	96,014	302,130
thereof: written down at the balance sheet date	15,929	36,123
thereof: not written down, but past due by the following time intervals at the balance sheet date	19,341	69,379
Past-due up to 90 days	13,844	47,428
Past-due 90 days to 180 days	3,721	8,292
Past-due 180 days to one year	976	4,934
Past-due by more than one year	800	8,725

Of the total trade receivables presented in the balance sheet, an amount of EUR 7,465 thousand (PY: EUR 26,252 thousand) has been pledged as security for financial liabilities. A detailed presentation of security can be found in the notes on financial instruments in the section entitled „Liquidity risk.“

With regard to the receivables that were neither written down nor past due, there were no indications that payments will not be made when due.

The ARQUES Group neither received security and other credit improvements as security for trade re-ceiveables, nor accepted still outstanding invoices as security in fiscal year 2009.

The largest constituent items within trade receivables were divided among the sub-groups as follows:

EUR'000	12/31/2009	12/31/2008
Gigaset Group	90,526	92,537
ANVIS Group	33,682	37,641
Oxxynova Group	2,916	4,878
Wanfried Group	525	3,562
SM Electronics Group	0	16,115
Rohé Group	0	22,179
Actebis Group	0	180,039
tiscon Group	0	12,713
Auto Windscreen Group	0	12,707
ASM Group	0	8,767
weberbenteli Group	0	7,727
Capresa Group	0	3,988
Sommer Group	0	3,880
Other	3,634	898
Total	131,283	407,632

The companies of the Rohé Group, the Actebis Group, the tiscon Group, the Auto Windscreen Group, the ASM Group, the weberbenteli Group and the Sommer Group, which had been presented in the prior-year financial statements, were deconsolidated at the balance sheet date.

In accordance with the provisions of IFRS 5, the SM Electronic Group was presented within the disposal group under the item of „non-current assets and liabilities held for sale“ at the balance sheet date.

FOREIGN CURRENCY		12/31/2009		12/31/2008	
		EUR'000	%	EUR'000	%
USD	U.S. dollars	9,238	28.0	23,846	23.3
BRL	Brazilian reales	7,825	23.7	3,615	3.5
CNY	Chinese renminbi yuan	4,781	14.5	3,797	3.7
ARS	Argentine pesos	2,513	7.6	2,471	2.4
TRL	Turkish lira	1,876	5.7	1,692	1.6
CHF	Swiss francs	1,546	4.7	9,474	9.2
PLN	Polish zloty	1,461	4.4	3,068	3.0
GBP	British pounds	1,244	3.8	15,394	15.0
SEK	Swedish krona	837	2.5	5,242	5.1
NOK	Norwegian krone	807	2.4	6,072	5.9
DKK	Danish krone	388	1.2	15,662	15.3
RON	Romanian lei	121	0.4	3,013	2.9
RSD	Serbian dinars	0	0.0	2,745	2.7
HUF	Hungarian forints	0	0.0	2,011	2.0
BGN	Bulgarian levs	0	0.0	1,111	1.1
Other		412	1.2	3,333	3.3
<b>Total</b>		<b>33,049</b>	<b>100.0</b>	<b>102,545</b>	<b>100.0</b>

By reason of the international activity of many subsidiaries of the ARQUES Group, the following receivables denominated in foreign currencies were converted to the Group currency (euro) at December 31, 2009:

### 23. Available-for-sale financial assets

Available-for-sale financial assets in the amount of EUR 636 thousand (PY: EUR 821 thousand) represented the balance of financial assets that were not assigned to any other valuation category according to IAS 39. In the ARQUES Group, this category consists only of interest-bearing and non-interest-bearing securities, as well as equity instruments.

The items comprised within this position are measured at fair value upon initial recognition. Because the securities in question are shares in companies that are not listed on a stock exchange, the fair value cannot be reliably determined in subsequent periods and is therefore assumed to be the same as the carrying amount. Therefore, no comprehensive income from the otherwise customary fair value measurement is recognized in the revaluation reserve.

Premiums and discounts are recognized as net interest income or expenses in the income statement over the term of the underlying securities. In fiscal year 2009, interest income and interest expenses totaling EUR 0 thousand (PY: EUR 63 thousand) were recognized in the income statement.

When a financial asset is sold, the accumulated valuation result presented in the revaluation reserve is reversed and the corresponding gain or loss is recognized in the income statement. In 2009, however, no revaluation reserve was recognized, and therefore the procedure to be followed when securities are sold was not applied.

In the event of an impairment, the revaluation reserve is reduced by the amount of the corresponding impairment loss and the same amount is recognized in the income statement.

## 24. Other assets

The following amounts were comprised within the item of other assets:

EUR'000	12/31/2009	12/31/2008
Receivables due from former shareholders	20,003	39,417
Tax receivables	18,533	21,087
Receivables from factoring	10,691	70,578
Purchase price receivables	8,393	0
Receivables from pension liability insurance	3,688	3,809
Prepaid expenses	2,012	11,529
Security deposits	1,373	1,778
Receivables from asset sales	971	3,507
Current loans	957	5,896
Other personnel receivables	451	1,541
Refunds due from suppliers	332	3,855
Derivatives	278	1,530
Debit balances in vendor accounts	150	5,145
Receivable from negative purchase prices	0	7
Miscellaneous assets	10,384	22,430
<b>Total</b>	<b>78,216</b>	<b>192,109</b>

Receivables due from former shareholders in the amount of EUR 20,003 thousand (PY: EUR 39,417 thousand) included receivables owed to the Gigaset Group and the Anvis Group, which consisted mainly of pass-through charges for special services and receivables for environmental measures.

The tax receivables do not include income tax receivables because those are presented separately. The tax receivables presented in this item were mainly composed of sales tax refund claims in the amount of EUR 15,044 thousand (PY: EUR 17,014 thousand), most of which attributable, in turn, to the Gigaset Group, in the amount of EUR 9,907 thousand (PY: EUR 6,993 thousand), the Anvis Group in the amount of EUR 4,078 thousand (PY: EUR 3,701 thousand) and the Oxxynova Group in the amount of EUR 377 thousand (PY: EUR 314 thousand).

The receivables from factoring consisted mainly of the outstanding portion of the purchase price receivable still owed to Gigaset Group, in the amount of EUR 8,475 thousand (PY: EUR 14,772 thousand).

The purchase price receivables were composed of the receivable due for the management buy-out of the BSM Group (EUR 6,143 thousand) and a subsequent claim under the sale of the SKS Group (EUR 2,250 thousand).

The receivables from pension liability insurance of EUR 3,688 thousand (PY: EUR 3,809 thousand) derived mainly from the Carl Froh Group, in the amount of EUR 3,506 thousand.

The prepaid expenses derived mainly from the Anvis Group, in the amount of EUR 517 thousand, the Gigaset Group in the amount of EUR 504 thousand (PY: EUR 1,074 thousand), the Wanfried Group in the amount of EUR 450 thousand and the Carl Froh Group in the amount of EUR 95 thousand.

## 25. Current tax assets

This item was composed exclusively of current income tax assets, which were divided up as follows:

EUR'000	12/31/2009	12/31/2008
Gigaset Group	3,249	3,797
Anvis Group	373	657
Actebis Group	0	4,732
Other	122	1,321
<b>Total</b>	<b>3,744</b>	<b>10,507</b>

## 26. Cash and cash equivalents

This item comprises cash on hand, cash in banks for deposits that are due in less than three months, and financial instruments with an original term to maturity of less than three months. Of the total amount presented herein, an amount of EUR 14,129 thousand (PY: EUR 33,511 thousand) has been pledged as security for credit facilities and for currency hedging transactions (restricted cash).

EUR'000	12/31/2009	12/31/2008
Short-term assets	0	1,262
Cash on hand and cash in banks	60,786	107,636
Restricted cash	14,129	33,511
<b>Total</b>	<b>74,915</b>	<b>142,409</b>

## 27. Non-current disposal groups held for sale and discontinued operations

In accordance with IFRS 5, non-current assets and disposal groups are presented separately in the balance sheet as „held for sale“ if they can be sold in their current condition and the sale is highly probable. Assets classified as „held for sale“ are measured at fair value less costs to sell, if that amount is less than the carrying amount. Based on this classification, liabilities that are directly related to such assets are presented separately in the balance sheet as liabilities „held for sale.“

Shares in the SM Electronic Group were sold for a symbolic price to the subsidiary manager in January 2010. Subject to the fulfillment of other conditions precedent, the shares still held by ARQUES will be transferred in full to the subsidiary manager, tentatively in July 2010. Because the criteria of IFRS 5 were met by the SM Electronic Group at the balance sheet date, the corresponding assets and liabilities were classified as „held for sale.“

The assets and liabilities of the disposal group at December 31, 2009 are presented in the table below:

EUR'000 SM ELECTRONICS GMBH (RETAIL SEGMENT)	AMOUNT BEFORE IMPAIRMENT	IMPAIRMENT PER IFRS 5	AMOUNT AFTER IMPAIRMENT
<b>Assets</b>			
Intangible assets	113	-113	0
Property, plant and equipment	12	-12	0
Deferred tax assets	72	-72	0
Inventories	3,927	-1,629	2,298
Current receivables and other assets	24,189	-10,033	14,156
Cash and cash equivalents	2,583	0	2,583
<b>Total</b>	<b>30,896</b>	<b>-11,859</b>	<b>19,037</b>
<b>Liabilities</b>			
Interest-bearing liabilities	2,749	0	2,749
Provisions	580	0	580
Other liabilities	15,033	0	15,033
Deferred tax liabilities	675	0	675
<b>Total</b>	<b>19,037</b>	<b>0</b>	<b>19,037</b>

Because IFRS 5 requires that impairments be recognized on the basis of the fair value less costs to sell, an impairment loss of EUR 11,859 thousand was recognized for the disposal group.

The following additional disclosures are made with regard to discontinued operations. During the course of fiscal year 2009, ARQUES completely divested itself of its „IT“ and „Service“ segments. Therefore, the assets and liabilities of these former operating segments were no longer presented in the balance sheet at December 31, 2009 because they were deconsolidated. The profits or losses of the former operating segments „IT“ and „Service“ have been presented as discontinued operations in the consolidated income statements for all reporting periods presented herein.

The cash and cash equivalents attributable to discontinued operations are presented in the table below:

EUR'000	01/01 - 12/31/2009	01/01 - 12/31/2008
Cash inflow (+)/ outflow (-) from operating activities	-27,391	88,831
Cash inflow (+)/ outflow (-) from investing activities	704	9,963
Cash inflow (+)/outflow (-) from financing activities	-19,890	-86,097
Change in cash and cash equivalents	-46,577	12,697

## 28. Equity

### Subscribed capital

The company's share capital remained unchanged at EUR 26,450,000 and was divided into 26,450,000 no-par bearer shares. The shares are bearer shares. Thus, every no-par share represents EUR 1.00 of the company's share capital.

At the annual shareholders' meeting of July 3, 2008, the shareholders adopted a resolution approving a conditional capital increase of EUR 1,300,000, divided into 1,300,000 new bearer shares (Conditional Capital 2008/I). The increase will be used solely to grant subscription rights under the stock option program.

The creation of the Conditional Capital 2008/I took effect when it was entered in the Commercial Register on October 27, 2008.

At the annual shareholders' meeting of August 5, 2009, the shareholders resolved to create the Conditional Capital 2009. Thus, the share capital was conditionally increased by up to EUR 11,925,000 through the issuance of up to 11,925,000 new bearer shares qualifying for dividends from the beginning

of the fiscal year in which they are issued. The conditional capital increase serves the purpose of issuing shares to the holders or creditors of bonds with warrants and/or convertible bonds, which will be issued by the company or a subordinated Group company in exchange for cash capital contributions, by virtue of the authorization of the annual shareholders' meeting of August 5, 2009. The new shares will be issued at the warrant or conversion price specified in every case by the above-mentioned authorization. The conditional capital increase will be carried out only to the extent that the warrant and/or conversion rights attached to the bonds or that the conversion obligations under the bonds are fulfilled and no cash settlement is granted or treasury shares used to settle the corresponding obligations. The Executive Board is authorized, with the consent of the Supervisory Board, to set the other conditions for the conditional capital increase.

The creation of the Conditional Capital 2009 took effect when it was entered in the Commercial Register on September 21, 2009.

In accordance with IAS 32, the nominal amount of the 48,118 treasury shares at the balance sheet date of December 31, 2009 (PY: 48,118 shares) was deducted from subscribed capital. No treasury shares were purchased or sold or issued in 2009.

### Additional paid-in capital

Because, in accordance with IAS 32, the cost in excess of the nominal value of treasury shares purchased or issued was deducted from additional paid-in capital, the additional paid-in capital at the balance sheet date of December 31, 2009 amounted to EUR 73,580 thousand (PY: EUR 73,580 thousand).

### Retained earnings

The retained earnings in the total amount of EUR 20,290 thousand were unchanged from the prior year.

### Minority interests

The adjustment entry for minority interests related mainly to the segments of „Automotive,“ „Specialty Chemistry“ and „Retail.“ The changes related to the newly acquired companies, as well as changes in existing subsidiaries and the disposed-of minority interests of deconsolidated companies. For information on the changes from the adjustment of comparison figures from prior periods, please refer to our comments in Section A under the heading „Adjustment of comparison information from the consolidated financial statements at December 31, 2008.“

### Authorized Capital

The shareholders resolved to annul the Authorized Capital 2005/I at the annual shareholders' meeting of May 30, 2006. By virtue of the same resolution, the Executive Board was authorized, with the consent of the Supervisory Board, to increase the share capital by up to EUR 12,000,000, all at once or in partial amounts, through the issuance of new bearer shares against cash or in-kind capital contributions, in the time until May 30, 2011 (Authorized Capital 2006/I). The subscription rights of existing shareholders can be excluded.

The issuance of 2,183,330 shares in utilization of the Authorized Capital 2006/I resolved at the annual shareholders' meeting of May 30, 2006 took effect when it was entered in the Commercial Register on May 30, 2007.

At the annual shareholders' meeting of August 5, 2009, the shareholders authorized the Executive Board to increase the share capital, with the consent of the Supervisory Board, by a total of up to EUR 3,400,000, all at once or in partial amounts, through the issuance of new bearer shares against cash or in-kind capital contributions in the time until August 4, 2014 (Authorized Capital 2009). The subscription rights of existing shareholders can be excluded.

Thus, the Authorized Capital amounted to EUR 13,216,670 at the balance sheet date, as compared to EUR 9,816,670 at the prior-year balance sheet date.

## Stock options

ARQUES introduced a stock option program in fiscal year 2005. Under this program, stock options were granted in 2009 for a total of 750,000 shares (PY: 1,195,000 shares) of ARQUES Industries AG in six different tranches, which were recognized as cash-settled. Unlike standard stock options, these stock options do not feature fixed exercise prices. Instead, the stock option beneficiary can request delivery of a certain number of common shares in ARQUES Industries AG on any one of up to three delivery 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 start date (calculation for the first tranche) or on the final valuation date (= final exercise date). If the share price has decreased during that time, no shares are delivered. As a rule, the stock options expire if the employee would leave the Group before the stock options become vested.

The valuation results of the various cash-settled tranches are presented in the table below:

TRANCHE	GRANT DATE	STARTING PRICE	DELIVERY DATE	CLOSING PRICE 12/31/2008	INTEREST RATE	VOLATILITY	FAIR VALUE OF GRANT	FAIR VALUE AT THE BALANCE SHEET DATE
1 I / 2009	02/25/2009	EUR 1.80	01/31/2010	EUR 1.45	0.31%	53.65%	EUR 131,250	EUR 0.00
1 II / 2009	02/25/2009	-	01/31/2011	EUR 1.45	0.82%	86.65%	-	EUR 0.48
1 III / 2009	02/25/2009	-	01/31/2012	EUR 1.45	1.38%	97.56%	-	EUR 0.54
2 I / 2009	08/03/2009	EUR 1.68	06/30/2010	EUR 1.45	0.48%	61.00%	EUR 138,750	EUR 0.15
2 II / 2009	08/03/2009	-	06/30/2011	EUR 1.45	1.05%	104.55%	-	EUR 0.25
2 III / 2009	08/03/2009	-	06/30/2012	EUR 1.45	1.58%	92.71%	-	EUR 0.19

A total of 835,000 (85,000 equity-settled and 750,000 cash-settled) stock options were outstanding at the balance sheet date (PY: 1,230,000 (equity-settled and cash-settled)), of which 835,000 were not yet exercisable. At the balance sheet date, the average weighted exercise price of the outstanding stock options was EUR 2.06 (PY: EUR 19.65). The stock options were measured by means of a Monte-Carlo simulation. For this purpose, a simulation of the lognormal-distributed process was conducted for the price of the ARQUES share in order to measure the performance of the share between two valuation dates. The stock options granted are composed of up to three sub-options. Each sub-option is measured separately in the simulation model. The fair value of each stock option is calculated as the sum of the sub-options.

The cash-settled tranches were measured at the balance sheet date on the basis of the following interest rates, which served as the basis for calculating the interest rate used to measure the value of each stock option:

PERIOD	INTEREST RATE
3 months	0.32%
6 months	0.49%
1 year	0.79%
2 years	1.35%
3 years	1.82%
4 years	2.22%
5 years	2.55%

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 calculating the cash-settled tranches at the balance sheet date. (For the equity-settled tranches, the dividends expected at each grant date were applied during the course of the year).

YEAR (PAYMENT)	2010	2011	2012
Dividend	0.00	0.00	0.00

The decision regarding the dividend proposal for 2009 will be made at the balance sheet meeting of the Supervisory Board on July 13, 2010 and then published along with the annual financial statements approved by the Supervisory Board and the final annual report for fiscal year 2009. A dividend less than the amounts presented above would lead to an increase in the value of the stock options, while a dividend higher than the amount presented above would lead to a decrease in the value of the stock options. However, the information available on the grant date represents the determining basis for calculating the value of the stock options. Consequently, the calculation has not been adjusted, but will be considered for the purpose of future calculations.

Traded options or similar products of ARQUES Industries AG did not exist at the time when the expert appraisal was conducted, for which reason the implied volatility could not be determined. The historical volatility applied was based on daily closing prices. The life span of the stock options was applied as the relevant 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 reason of ARQUES' business model, the company's share price can be expected to undergo considerable fluctuations in the future as well, for which reason the volatilities applied for the calculation are considered to be good estimates.

ARQUES has the option of settling the claims of stock option beneficiaries either in cash or in shares of the company. With the exception of the tranches reserved for the Executive Board, ARQUES settles those claims in shares, as a general rule.

A total of 250,000 stock options (PY: 350,000 stock options) were exercised in fiscal year 2009. The amount required to settle the claims arising from equity-settled options was EUR 0 thousand (PY: EUR 566 thousand) because the exercise price was higher than the relevant share price and the options were therefore without value. The claims under equity-settled tranches are settled in shares, as a general rule. The equity-settled tranches were exercised in the following periods at the average share prices indicated below, compared to the individual exercise prices: January EUR 23.53, March EUR 18.16, June EUR 14.65 and December EUR 2.11. A total of 0 shares were issued in 2009 (PY: 32,438 shares) to settle the claims. The stock option programs classified as cash-settled are settled in cash, as a general rule. The amount expended for that purpose in 2009 was EUR 0 thousand (PY: EUR 1,306 thousand). The fair value of the cash-settled stock options at the balance sheet date was EUR 100 thousand (PY: EUR 234 thousand) and is presented as „other liabilities.“

In 2009, there were a total of 895,000 (PY: 517,500) expired or forfeited stock options, with an average exercise price of EUR 13.11 (PY: EUR 20.77).

In 2009, the Group recognized expenses of EUR 607 thousand (PY: EUR 1,366 thousand) in connection with share-based payments to be settled with equity instruments and recognized income of EUR 170 thousand (PY: EUR 817 thousand) for cash-settled stock options. The average remaining life of the stock options, based on the first possible exercise date, is four months (PY: 10 months) for the equity-settled stock options and 15.5 months (PY: 13 months) for the cash-settled stock options.

The stock options were included in the calculation of the diluted earnings per share.

### Other changes

Minority shareholders within the Group (EUR 317 thousand), the exceptional cash settlement of stock options that would normally be settled with equity instruments (EUR 412 thousand), and the proportion of shares granted to subsidiaries for services rendered that were recognized directly in equity (EUR 690 thousand). No expenses were incurred for investments in subsidiaries in 2009 because they were sold to the subsidiary managers at market values or on the basis of fair values derived from valuation models.

In line with the ARQUES subsidiary manager model, shares representing 5% to 10% were granted to selected managers of five subsidiaries in the time until the reporting date (including to the manager of one subsidiary in fiscal year 2009).

## 29. Pension obligations

Provisions for pensions and similar obligations have been recognized for a total of seven (PY: 16) Group companies. The total amount of pension provisions was divided up among the following companies:

EUR'000	2009	2008
Carl Froh	11,628	11,660
Anvis	7,850	8,231
Gigaset	6,553	35,057
Oxxynova	3,870	3,609
Wanfried Druck	2,036	2,053
van Netten	95	100
Other	253	5,290
<b>Total</b>	<b>32,285</b>	<b>66,000</b>

The projected unit credit value of vested pension benefits under the defined benefit plans of the companies of the ARQUES Group showed the following development:

PROJECTED UNIT CREDIT VALUE IN EUR'000	2009	2008
Balance at 01/01	169,899	104,279
Companies added to consolidation group	0	52,188
Companies removed from consolidation group	-101,948	-8,601
Reclassifications	0	1,586
Current service cost	1,834	4,338
Subsequent service cost	0	22
Employee contributions	31	1,446
Interest expenses	4,011	4,983
Pension benefits paid	-2,559	-8,283
Plan adjustments	-277	-153
Plan compensation	0	0
Actuarial gains/ losses	1,199	9,265
Foreign currency effects	2	8,829
<b>Balance at 12/31</b>	<b>72,192</b>	<b>169,899</b>

The provision for pension obligations was measured as follows:

PROVISION IN EUR'000	2009	2008
Projected unit credit value	72,176	169,899
- internally financed	26,064	74,244
- externally financed	47,112	95,655
Unrecognized actuarial gains/ losses	-4,844	-15,455
Unrecognized subsequent service cost	0	-24
Fair value of plan assets	-35,213	-83,452
Unrecognized assets as per IAS 19.58 (b)	0	270
<b>Pension provisions</b>	<b>32,119</b>	<b>71,238</b>
Pension provisions related to assets held for sale	0	-5,238
<b>Total pension provisions</b>	<b>32,285</b>	<b>66,000</b>

The pension expenses recognized in fiscal year 2009 were composed of the following elements:

PENSION EXPENSES IN EUR'000	2009	2008
Current service cost	1,834	4,338
Expected income from plan assets	-180	-3,196
Compounding of expected pension obligation	4,010	4,983
Amortization of actuarial gains/ losses	85	5,048
Amortization of subsequent service cost	0	0
Effects of plan adjustments (pension plan reduction or settlement)	-277	-153
Effects of unrecognized assets as per IAS 19.58 (b)	0	-33
<b>Total pension expenses</b>	<b>5,472</b>	<b>10,987</b>

Pension expenses are presented as personnel expenses in the item of social security, pension and other benefits. The actual return on plan assets has been presented as EUR 491 thousand.

The plan assets showed the following development:

PLAN ASSETS IN EUR'000	2009	2008
Fair value at 01/01	83,452	75,026
Acquisitions	0	6,407
Divestitures	-80,332	-879
Expected income from plan assets	80	3,196
Actuarial gains/ losses	312	-9,506
Employer contributions	31,582	2,262
Employee contributions	31	2,837
Benefits paid	-13	-4,759
Foreign currency effects	2	8,868
<b>Fair value at 12/31</b>	<b>35,213</b>	<b>83,452</b>

The breakdown of plan assets in fiscal year 2009 is presented in the table below:

PLAN ASSETS IN EUR'000	2009	2008
Spezialfonds investment funds	34,646	6,329
Fixed-income securities	197	30,232
Equities	121	22,494
Real estate and real estate funds	98	14,580
Financial instruments of the company	0	0
Assets used or held by the company	0	0
Other	151	9,817
<b>Total</b>	<b>35,213</b>	<b>83,452</b>

Additional information at December 31, 2009:

EUR'000	2009	2008
Projected unit credit value	72,192	169,899
Market value of plan assets	35,213	83,452
Surplus (+) / deficit (-)	-36,963	-86,447
Experience-based adjustment of plan liabilities	-790	525
Experience-based adjustment of plan assets	-312	-9,506

The expected contributions to plan assets and the benefit payments in the following year totalled EUR 1,577 thousand.

The current employer's contributions to the statutory pension insurance system are recognized as operating expenses in the respective year. In fiscal year 2009, they amounted to EUR 10,022 thousand (PY: EUR 31,623 thousand) for the Group.

The payments for defined contribution plans amounted to EUR 74 thousand.

The calculation was based on the following actuarial assumptions:

IN %	2009	2008
Discount factor	3.0 – 11.3	3.00 – 10.80
Salary trend	2.0 – 8.0	1.50 – 7.00
Pension trend	2.0 – 4.5	0.75 – 4.00
Employee turnover	*	*
Return on plan assets	5.0 – 11.5	3.3 – 11.0

\*depending on age

Various interest rates that are within the given range arise in line with the individual durations of the holdings and taking into account the individual currency zones .

The expected return on plan assets of the companies corresponds to the expected income from plan assets, after taking the expected contributions and disbursements into account. It is composed of interest, dividends and other income earned on the investment of plan assets, including realized and unrealized gains in assets, less expenses for administering the plan and any taxes to be paid by the plan.

### 30. Provisions

EUR'000	BALANCE AT 01/01/2009	CHANGES IN CONSOLIDATION GROUP	UTILIZATION	REVERSAL	ADDITION	RECLASSIFI- CATION	CURRENCY/ INTEREST EFFECTS	BALANCE AT 12/31/2009
Restructuring	6,593	-2,480	-22,381	-615	20,658	-1,406	364	733
Environmental risks	8,241	0	-9	-245	0	0	0	7,987
Warranties	21,053	-1,110	-15,938	-438	16,838	-2,347	160	18,218
Onerous contracts	20,069	-1,436	-10,006	-916	7,394	-830	79	14,354
Personnel	7,810	-119	-398	-721	656	-736	-12	6,480
Other	35,400	3,721	-16,616	-1,888	23,311	-22,860	693	21,761
	99,166	-1,424	-65,348	-4,823	68,857	-28,179	1,284	69,533

The individual categories of provisions are presented in the table below:

RESTRUCTURING IN EUR'000	12/31/2009	12/31/2008
Layoff mitigation plans and severance awards	702	2,098
Termination of rental/ lease agreements	30	3,797
Other	1	698
	733	6,593

The provisions for environmental risks resulted mainly from the clean-up of residual pollution on the operating premises of the Anvis Group.

ENVIRONMENTAL RISKS IN EUR'000	12/31/2009	12/31/2008
Clean-up of residual pollution	7,987	7,874
Other	0	367
	7,987	8,241

As in the prior year, the warranty provisions derived mainly from the Gigaset Group:

WARRANTIES IN EUR'000	12/31/2009	12/31/2008
Gigaset Group	17,365	16,214
Anvis Group	654	426
Actebis Group	0	1,908
Rohé Group	0	1,367
tiscon Group	0	326
Other	199	812
	18,218	21,053

The provisions for onerous contracts related mainly to disadvantageous rental, usage and service agreements.

ONEROUS CONTRACTS IN EUR'000	12/31/2009	12/31/2008
Gigaset Group	10,796	11,087
Fritz Berger Group	2,892	3,258
Anvis Group	295	793
Oxxynova Group	0	2,330
Auto Windscreens	0	579
SM Electronics	0	486
Other	371	1,536
	14,354	20,069

PERSONNEL IN EUR'000	12/31/2009	12/31/2008
Early partial retirement (Altersteilzeit)	2,629	2,986
Service anniversary bonuses	3,851	4,824
	6,480	7,810

The other provisions related mainly to litigation (EUR 4,612 thousand) and commissions (EUR 495 thousand; PY: EUR 2,949 thousand), aside from a considerable number of smaller transactions.

The maturity structure of provisions is presented below:

EUR'000	12/31/2009	12/31/2008
Non-current provisions	32.231	31.317
Current provisions	37.302	67.849
	69.533	99.166

The non-current provisions, which have a maturity of more than one year, were divided among the various categories as follows:

EUR'000	12/31/2009	12/31/2008
Environmental risks	7,967	7,187
Warranties	7,603	5,662
Personnel	6,430	6,612
Onerous contracts	3,699	7,916
Restructuring	175	794
Other	6,357	3,146
	32,231	31,317

### 31. Non-current financial liabilities

EUR'000	12/31/2009	12/31/2008
Liabilities to banks	29,420	45,984
Other non-current financial liabilities	8,569	29,233
	37,989	75,217

The liabilities to banks in the amount of EUR 29,420 thousand (PY: EUR 45,984 thousand), which have a term of more than 12 months, resulted from loans to the following Group companies:

2009	EUR'000	ZINS
Gigaset Communication GmbH	16,170	6%
Wanfried Druck Kalden GmbH	5,715	6%
van Netten GmbH	3,928	3-month Euribor + 1.5% - max. 7%
Anvis S.A.S	3,607	5%
	29,420	

The liabilities to banks of the Rohe Group and the Actebis Group, which had been presented in the 2008 financial statements, were disposed of in connection with the sales of those companies. The liabilities of AT Operations 2 GmbH (formerly Arques Objekt 1 GmbH) were presented as current liabilities to banks in the financial statements at the balance sheet date.

The other financial liabilities in the amount of EUR 8,569 thousand (PY: EUR 29,233 thousand) resulted mainly from a fixed-interest loan extended to Anvis Deutschland GmbH by AML Leasing GmbH in the amount of EUR 3,288 thousand (PY: EUR 3,554 thousand), and loans owed by van Netten GmbH to the respective minority shareholders, in the amount of EUR 3,280 thousand (PY: EUR 2,980 thousand).

Following the addition of new subsidiaries, an attempt is made in some cases to negotiate the immediate repayment of the financial liabilities to banks that were acquired as part of the corresponding transactions. If the negotiations are successful, any penalties incurred for premature repayment are immediately recognized as expenses in the income statement.

Transaction costs incurred in connection with the borrowing of new non-current financial liabilities are distributed over the term of the liability by application of the effective interest method and are included in the amount presented in the balance sheet.

Within the item of liabilities to banks, liabilities representing EUR 29,640 thousand (PY: EUR 67,583 thousand), and within the item of other financial liabilities, liabilities representing EUR 5,532 thousand (PY: EUR 15,685 thousand) are secured by land and buildings, other property, plant and equipment such as machinery, as well as inventories and trade receivables. A detailed description of security can be found in the notes on financial instruments, in the section entitled „Liquidity risk.“

### 32. Liabilities under finance leases

By reason of the construction of the underlying leases, the Group is deemed to be the beneficial owner of some items of property, plant and equipment presented within the sub-items of buildings, technical equipment, plant and machinery and other equipment, operational and office equipment. The Group's liabilities under the corresponding finance leases are presented in the table below:

EUR'000	2009			2008		
	NOMINAL VALUE	DISCOUNT	PRESENT VALUE	NOMINAL VALUE	DISCOUNT	PRESENT VALUE
Due in up to 1 year	2,801	1,135	1,666	8,959	1,822	7,137
Due in 1 to 5 years	3,981	1,199	2,782	23,050	2,386	20,664
Due in more than 5 years	0	0	0	3,692	110	3,582
<b>Total</b>	<b>6,782</b>	<b>2,334</b>	<b>4,448</b>	<b>35,701</b>	<b>4,318</b>	<b>31,383</b>

The liabilities under finance leases were mainly divided among the following corporate groups:

PRESENT VALUE IN EUR'000	12/31/2009	12/31/2008
Carl Froh Group	2,685	3,288
Anvis Group	935	1,395
van Netten Group	443	571
Wanfried Group	385	182
Weberbenteli Group	0	19,199
Rohé Group	0	3,317
Actebis Group	0	1,365
tiscon Group	0	866
ASM Group	0	770
Sommer Group	0	360
AWS Group	0	70
<b>Total</b>	<b>4,448</b>	<b>31,383</b>

Significant leases include the following:

Carl Froh GmbH has leased two tube-welding machines with remaining lease terms of 40 and 36 months. The remaining lease terms are counted from the balance sheet date.

The companies of the weberbenteli Group, the Rohé Group, the Actebis Group, the tiscon Group, the ASM Group, the Sommer Group and the AWS Group, which had been presented in the prior-year financial statements, were deconsolidated at the balance sheet date.

### 33. Other non-current liabilities

EUR'000	13.12.2009	12/31/2008
Purchase price liabilities	15,000	60,716
Deferred income	252	1,167
Personnel-related liabilities	508	905
Miscellaneous other liabilities	1,110	2,481
<b>Total</b>	<b>16,870</b>	<b>65,269</b>

The purchase price liabilities in the amount of EUR 15,000 thousand resulted from the acquisition of the Gigaset Group (PY: EUR 30,005 thousand). In the prior-year financial statements, this item also included non-current liabilities from the acquisition of Carl Froh GmbH (EUR 2,750 thousand) and the Actebis Group (EUR 27,811 thousand).

### 34. Deferred tax assets and deferred tax liabilities

Deferred taxes result from the different values contained in the IFRS financial statements as compared to the financial statements prepared for tax purposes, and from consolidation measures.

Deferred tax liabilities and assets were recognized in respect of the following items:

EUR'000	12/31/2009	12/31/2008
<b>Deferred tax assets</b>		
Intangible assets	263	761
Property, plant and equipment	46	18
Financial assets	5	2,737
Inventories	149	2,804
Receivables and other current assets	204	2,319
Provisions	2,864	4,794
Liabilities	4,446	13,639
Tax loss carry-forwards	9,494	6,855
<b>Total deferred tax assets</b>	<b>17,471</b>	<b>33,927</b>
thereof current	4,744	10,501
thereof non-current	12,727	23,426
<b>Deferred tax liabilities</b>		
Intangible assets	13,567	22,104
Property, plant and equipment	13,813	27,477
Financial assets	146	268
Inventories	367	679
Receivables and other current assets	1,093	3,915
Non-current assets held for sale	0	0
Provisions	924	4,980
Liabilities	1,812	12,579
<b>Total deferred tax liabilities</b>	<b>31,722</b>	<b>72,002</b>
thereof current	1,841	17,766
thereof non-current	29,881	54,236
Netting of deferred tax assets and liabilities	13,778	17,063
Deferred tax assets recognized in the balance sheet	3,693	16,864
<b>Deferred tax liabilities recognized in the balance sheet</b>	<b>17,944</b>	<b>54,939</b>

No deferred tax assets were recognized in respect of certain amounts of corporate income tax loss carry-forwards totaling EUR 251,102 thousand (PY: EUR 343,277 thousand) and certain amounts of trade tax loss carry-forwards totaling EUR 153,787 thousand (PY: EUR 164,456 thousand). Of the above-mentioned corporate income tax loss carry-forwards, EUR 87,305 thousand related to foreign companies (PY: EUR 209,023 thousand), EUR 24,838 thousand of which will expire in 5 to 20 years. With regard to German companies, it should be noted that share transfers of 25% to 50% result in a proportional reduction of existing tax loss carry-forwards, while share transfers of more than 50% lead to the complete loss of existing tax loss carry-forwards.

No deferred tax liabilities were recognized in respect of temporary differences related to shares in subsidiaries and associated companies in the amount of EUR 63,372 thousand (PY: EUR 34,590 thousand).

For more information on this subject, please refer to the presentation of accounting and valuation methods and the explanations provided in Section 10.

### 35. Current financial liabilities

Based on the usual payment terms agreed with banks and other business partners, the due dates and the corresponding cash outflows of current financial liabilities are as follows:

EUR'000	12/31/2009	12/31/2008
Liabilities to banks	40,730	130,819
Other current financial liabilities	8,974	5,935
<b>Total</b>	<b>49,704</b>	<b>136,754</b>

The current liabilities to banks consisted mainly of current account overdrafts, most of which were owed by the following corporate groups:

EUR'000	12/31/2009	12/31/2008
Carrying amount	49,704	136,754
thereof due in the following time periods:		
< 30 days	25,072	49,545
30 - 90 days	520	40,507
90 - 180 days	4,577	27,906
180 days - 1 year	19,535	18,796

EUR'000	12/31/2009	12/31/2008
Anvis Group	20,640	28,582
AT Operations 2 GmbH	7,673	1,390
Arques Industries AG	5,718	43,154
Hortensienweg	3,207	3,460
Wanfried Group	3,032	4,292
Actebis Group	0	13,985
Weber Group	0	9,342
Tiscon Group	0	8,678
Capresa Group	0	5,096
ASM Group	0	4,345
Rohé Group	0	3,631
Gigaset Group	0	2,520
Other	460	2,344
<b>Total</b>	<b>40,730</b>	<b>130,819</b>

The following companies that had been presented in the prior-year financial statements were deconsolidated in 2009: Actebis Group, Weber Group, Tiscon Group, Capresa Group, ASM Group, Rohé Group.

Variable interest rates were based primarily on one-month Euribor plus an interest premium of between 1.75% and 1.96%, three-month Euribor plus an interest premium of 2% and EONIA plus an interest premium of 2.5%, while fixed interest rates ranged from 2.38% to 15% p.a.

The current liabilities to banks included liabilities denominated in Czech krone, in the amount of EUR 1,372 thousand (PY: EUR 1,446 thousand), liabilities denominated in Russian rubles in the amount of EUR 104 thousand (PY: EUR 1,034 thousand) and liabilities denominated in U.S. dollars in the amount of EUR 143 thousand (PY: EUR 3,089 thousand).

The other current financial liabilities consisted of loan liabilities payable to third parties. The breakdown of most liabilities comprised in this item among the individual companies is presented in the table below:

EUR'000	12/31/2009	12/31/2008
Oxxynova Group	7,472	1,098
Arques Industries AG	500	0
Anvis Group	441	718
Carl Froh Group	265	314
Wanfried Group	220	1,111
ASM Group	0	932
Rohe Group	0	793
Gigaset Group	0	745
Other	76	224
<b>Total</b>	<b>8,974</b>	<b>5,935</b>

The following companies that had been presented in the prior-year financial statement were deconsolidated in 2009: ASM Group and Rohe Group.

The other current financial liabilities contained liabilities denominated in Russian rubles equal to EUR 30 thousand (PY: EUR 0 thousand), after conversion to the Group currency, and liabilities denominated in Swiss francs in the amount of EUR 67 thousand (PY: EUR 125 thousand), after conversion to the Group currency.

### 36. Trade payables

Based on the usual payment terms agreed with suppliers and other business partners, the due dates and the corresponding cash outflows of current trade payables are presented in the table below:

EUR'000	12/31/2009	12/31/2008
Carrying amount	180,398	601,356
thereof due in the following time periods:		
< 30 days	120,837	441,263
30 - 90 days	53,666	143,381
90 - 180 days	1,864	7,325
180 days - 1 year	4,031	9,387

The largest amounts of trade payables were owed by the following corporate groups:

EUR'000	12/31/2009	12/31/2008
Gigaset Group	126,907	140,594
ANVIS Group	27,492	28,563
Actebis Group	0	310,101
tiscon Group	0	31,759
Rohe Group	0	14,684
Auto Windscreen Group	0	12,251
weberbenteli Group	0	11,966
Eurostyle Group	0	377
Jahnel-Kestermann Group	0	21
Other	25,999	51,040
<b>Total</b>	<b>180,398</b>	<b>601,356</b>

The companies of the Actebis Group, the tiscon Group, the Rohé Group, the Weberbenteli Group, the Eurostyle Group and the Jahnel-Kestermann Group, which had been presented in the prior-year financial statements, were deconsolidated at the balance sheet date.

By reason of the international activities of many subsidiaries and associates of the ARQUES Group, the trade payables at December 31, 2009 included the following amounts denominated in foreign currencies, which have been translated to the euro as the Group currency:

		12/31/2009		12/31/2008	
		EUR'000	%	EUR'000	%
USD	U.S. dollars	44,982	74.4	92,939	56.8
CNY	Chinese renminbi yuan	4,872	8.1	3,491	2.1
ARS	Argentine pesos	1,930	3.2	2,527	1.5
JPY	Japanese yen	1,513	2.5	1,690	1.0
BRL	Brazilian reales	1,513	2.5	1,785	1.1
RON	Romanian lev	1,029	1.7	3,235	2.0
MXN	Mexican pesos	330	0.5	1,076	0.7
PLN	Polish zloty	326	0.5	1,915	1.2
GBP	British pounds	250	0.4	13,492	8.2
RUR	Russian rubles	246	0.4	2,133	1.3
CHF	Swiss francs	208	0.3	8,063	4.9
NOK	Norwegian krone	39	0.1	1,655	1.0
DKK	Danish krone	5	0.0	23,871	14.6
RSD	Serbian dinars	0	0.0	1,541	0.9
Other		3,185	5.3	4,283	2.7
<b>Total</b>		<b>60,428</b>	<b>100.0</b>	<b>163,697</b>	<b>100.0</b>

Of the trade payables presented in the balance sheet, an amount of EUR 18,457 thousand (PY: EUR 5,064 thousand) is secured by machinery and other operational equipment, EUR 6,935 thousand (PY: EUR 11,274 thousand) by inventories, EUR 5,189 thousand (PY: EUR 15,857 thousand) by trade receivables and EUR 6,257 thousand (PY: EUR 60,579 thousand) by other forms of security.

### 37. Tax liabilities

This item consisted exclusively of liabilities under income taxes and was divided among the sub-groups as follows:

EUR'000	12/31/2009	12/31/2008
Anvis Group	5,685	2,074
Gigaset Group	1,891	1,545
Actebis Group	0	10,999
Other	288	429
<b>Total</b>	<b>7,864</b>	<b>15,047</b>

### 38. Current other liabilities

EUR'000	12/31/2009	12/31/2008
Purchase price liabilities	34,405	38,113
Other personnel-related liabilities	23,098	42,391
Other taxes	8,007	64,720
Social security contributions	3,648	6,558
Deferred income	3,530	3,544
Liabilities under bills of exchange	1,995	4,042
Wages and salaries	1,732	7,213
Advance payments received	1,610	11,238
Derivatives	0	2,159
Miscellaneous other liabilities	22,392	37,388
<b>Total</b>	<b>100,417</b>	<b>217,366</b>

The current purchase price liabilities derived from the acquisition of the Gigaset Group in the amount of EUR 31,655 thousand (PY: EUR 15,039 thousand) and from the acquisition of Carl Froh GmbH in the amount of EUR 2,750 thousand (PY: EUR 2,832 thousand).

Of the items presented here, only the purchase price liabilities bear interest. Because the remaining term to maturity is less than one year, the difference between the carrying amounts and the fair values of the liabilities are considered to be immaterial. Therefore, the repayment amounts presented in the balance sheet are equivalent to the market values of the liabilities.

The other personnel-related liabilities were mainly composed of the following items:

EUR'000	12/31/2009	12/31/2008
Vacation leave not yet taken	5,226	17,559
Profit-based bonuses and other bonuses	8,028	15,840
Work time accounts	2,341	3,249
Miscellaneous personnel-related liabilities	7,503	5,743
<b>Total</b>	<b>23,098</b>	<b>42,391</b>

## F. OTHER INFORMATION

### 39. Segment report

By virtue of its business model, ARQUES acquires companies in transitional situations in a wide range of industry sectors.

The operating segments are as follows:

- a) The Steel segment comprises companies that operate as primary or intermediate processors or suppliers in the steel industry and related industries. Following the deconsolidation of the Capresa Group in January 2009, Carl Froh GmbH was the only company still presented in this segment in fiscal year 2009.
- b) The Print segment comprises the printing companies of the Wanfried Group, as well as the revenues and profits or losses of the Weber Group, until the deconsolidation of that group in March 2009.
- c) The Industrial Production segment comprises all activities in the area of industrial production, which are characterized by relatively simply structured production processes. This segment includes the van Netten Group and the revenues and profits or losses of the Evotape Group, until the deconsolidation date for that group in March 2009.
- d) The IT segment comprises companies involved in the trading and distribution of products and services related to information technology and entertainment electronics. This segment includes the revenues and profits or losses of the Actebis Group until the deconsolidation of that group in August 2009, as well as the revenues and profits or losses of the ticon Group, until the deconsolidation of that group in June 2009.
- e) The Automotive segment comprises companies that operate in the sector of automotive engineering and the automotive supplier industry. This segment includes the Anvis Group, as well as the revenues and profits or losses of the Sommer Group, until the deconsolidation of that group in March 2009.
- f) The Retail segment comprises companies that distribute products and services directly to end customers. The companies included in this segment are SM Electronic GmbH, the Golf House Group and the Fritz Berger Group.
- g) The Holding segment comprises the activities related to the management and administration of the ARQUES Group.
- h) The Specialty Chemistry segment comprises subsidiaries that develop, manufacture and distribute or trade in chemical or pharmaceutical products (specialty chemistry). In fiscal year 2009, this segment comprised the Oxxynova Group and the revenues and profits or losses of the Rohner Group, until the deconsolidation of that group in January 2009.
- i) The Communications segment comprises the companies whose principal activities are conducted in the sector of communications technology. As in the prior year, this segment included the Gigaset Group in fiscal year 2009.
- j) The Service segment comprises all other Group activities that are not directly attributable to one of the segments described above. The Service segment includes the until the respective deconsolidations of the ddp Group (January 2009), the BEA Group (until January 2009), the Rohé Group (until February 2009), the Auto Windscreens Group (until November 2009), the ASM Group (until October 2009), the Agencia Servicios Mensajería Group and the BSM Group (until October 2009).

The transfer prices applied between the operating segments correspond to the prices charged to third parties. Administrative services are charged in the form of cost allocations.

EUR'000 2009	STEEL	PRINT	INDUSTRIAL PRODUCTION	IT
Revenues				
External revenues	34,179	45,657	56,317	2,287,530
thereof discontinued operations	0	0	0	2,287,530
Internal revenues	0	0	0	17
thereof discontinued operations	0	0	0	17
Total revenues	34,179	45,657	56,317	2,287,547
thereof discontinued operations	0	0	0	2,287,547
Segment profit or loss/ EBITDA	-2,160	2,969	2,454	31,108
thereof discontinued operations	0	0	0	31,108
Depreciation and amortization	-3,120	-3,702	-3,576	-9,728
Impairments	-32	-4,968	0	-40,535
Segment profit or loss/ EBIT	-5,312	-5,701	-1,122	-19,155
thereof discontinued operations	0	0	0	-19,155
Income from financial investments accounted for by the equity method				
Net interest income/ expenses				
Profit/loss before taxes				
Income tax expenses				
Profit/loss for the year				
Minority interests in the loss for the year				
Consolidated loss for the year				
Balance sheet assets				
Segment assets	29,874	18,643	36,868	0
Non-current financial assets accounted for by the equity method	0	0	0	0
Unassigned assets				
Group assets				
Balance sheet liabilities				
Segment liabilities	18,598	10,540	786	0
Unassigned liabilities				
Group liabilities				

AUTOMOTIVE	RETAIL	SPECIALTY CHEMISTRY	COMMUNICATIONS	HOLDING	SERVICE	ELIMINATION	CONSOLIDATED
213,314	98,396	58,978	551,081	4	146,516	0	3,491,972
0	0	0	0	0	146,515		2,434,045
0	0	0	11,555	6,263	0	-17,835	0
0	0	0	0	0	0	-17	0
213,314	98,396	58,978	562,636	6,267	146,516	-17,835	3,491,972
0	0	0	0	0	146,515	-17	2,434,045
1,741	-2,489	-3,462	12,350	-23,083	-1,683	0	17,745
0	0	0	0	0	-1,683	0	29,425
-13,394	-1,549	-1,661	-41,187	-180	-1,669	0	-79,767
-6,488	-14,925	0	-9,495	-1,311	0	0	-77,753
-18,141	-18,962	-5,123	-38,331	-24,576	-3,352	0	-139,775
0	0	0	0	0	-3,352	0	-22,507
				53			
							-24,940
							-164,662
							11,662
							-153,000
						-3,792	
							-145,361
142,813	42,228	19,695	322,539	24,065	7,962	-1,906	642,780
4,828	0	0	0	0	0	0	4,828
							10,342
							657,950
79,623	11,268	20,096	262,885	49,451	-41	5,188	458,394
							78,095
							536,489

EUR'000 2008	STEEL	PRINT	INDUSTRIAL PRODUCTION	IT
<b>Revenues</b>				
External revenues	86,233	81,330	129,901	3,974,288
thereof discontinued operations	0	0	0	3,974,288
Internal revenues	0	0	0	136
thereof discontinued operations	0	0	0	136
Total revenues	86,233	81,330	129,901	3,974,424
thereof discontinued operations	0	0	0	3,974,424
Segment profit or loss/ EBITDA	17,404	8,903	-9,901	44,609
thereof discontinued operations	0	0	0	44,609
Depreciation and amortization	-4,295	-10,429	-3,966	-19,024
Impairments	-6,666	-14,947	-683	0
Segment profit or loss/ EBIT	6,444	-16,473	-14,550	25,585
thereof discontinued operations	0	0	0	25,585
Income from financial investments accounted for by the equity method				
Net financial income/ expenses				
Profit/loss before taxes				
Income tax expenses				
Loss for the year				
Minority interests in the loss for the year				
Consolidated loss for the year				
<b>Balance sheet assets</b>				
Segment assets	50,491	72,913	82,315	591,537
Non-current financial assets accounted for by the equity method	0	0	0	135
Unassigned assets				
Group assets				
<b>Balance sheet liabilities</b>				
Segment liabilities	35,217	39,677	44,042	496,137
Unassigned liabilities				
Group liabilities				

AUTOMOTIVE	RETAIL	SPECIALTY CHEMISTRY	COMMUNICATIONS	HOLDING	SERVICE	ELIMINATION	CONSOLIDATED
537,263	122,637	172,686	156,126	32	244,530	0	5,505,026
0	0	0	0	0	244,530		4,218,818
0	1	0	9,300	2,264	0	-11,701	0
0	0	0	0	0	0		-136
537,263	122,638	172,686	165,426	2,296	244,530	-11,701	5,505,026
0	0	0	0	0	244,530	0	4,218,818
7,002	-13,576	-7,355	69,086	-27,165	22,453	0	111,459
0	0	0	0	0	22,453	0	67,062
-29,361	-2,308	-3,343	-11,584	-265	-8,723	0	-93,298
-65,984	-18,481	-12,334	-4,877	0	-9,701		-133,673
-88,343	-34,365	-23,032	52,625	-27,431	4,029	0	-115,512
0	0	0	0	0	4,029	0	29,614
				474			
							-37,352
							-152,390
							6,664
							-145,726
						-11,542	
							-134,184
183,350	49,456	46,199	395,319	35,930	180,327	-4,352	1,683,485
4,865	0	0	0	0	0	0	5,000
							30,555
							1,719,040
113,895	5,558	40,755	304,380	70,926	122,681	-4,040	1,269,228
							183,414
							1,452,642

The profit or loss effects of deconsolidations and the income from reversal of negative goodwill have been assigned to the respective segments.

In the table below, the revenues generated in fiscal year 2009 and in the comparison year 2008 are broken down by the region of the receiving entities:

EUR'000	2009			2008		
	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL	CONTINUING OPERATIONS	DISCONTINUED OPERATIONS	TOTAL
Germany	448,489	1,600,425	2,048,914	483,094	2,943,514	3,426,608
Europe: EU (excluding Germany)	421,018	749,912	1,170,930	512,851	1,142,887	1,655,739
Europe: Other	53,721	75,066	128,787	143,285	116,256	259,541
Rest of world	134,699	8,642	143,341	146,978	16,160	163,138
<b>Total</b>	<b>1,057,927</b>	<b>2,434,045</b>	<b>3,491,972</b>	<b>1,286,208</b>	<b>4,218,818</b>	<b>5,505,026</b>

In accordance with IFRS 8.33, non-current assets were divided among the following regions in fiscal years 2009 and 2008:

EUR'000	12/31/2009	12/31/2008
Non-current assets		
Germany	180,688	297,430
Europe:EU (excluding Germany)	61,286	106,845
Europe: Other	2	33,870
Rest of World	7,876	17,835
<b>Total</b>	<b>249,852</b>	<b>455,980</b>

## 40. Cash flow statement

The cash flow statement presents the changes in net funds of the ARQUES Group in fiscal year 2009 and in the prior year. Net funds are defined as cash and cash equivalents, less restricted cash. As a general rule, items denominated in foreign currencies are translated at average exchange rates for the year. By way of exception, cash and cash equivalents are translated at the exchange rate on the balance sheet date. The effect of exchange rate changes on net funds is presented separately.

In accordance with IAS 7, cash flows are classified as cash flow from operating activities, investing activities and financing activities.

EUR'000	2009	2008
Cash inflow (+)/ outflow (-) from operating activities	-59,670	119,048
Cash inflow (+)/outflow (-) from investing activities	-9,238	61,815
Free cash flow	-68,908	180,863
Cash inflow (+)/outflow (-) from financing activities	-10,895	-106,151
<b>Change in cash and cash equivalents</b>	<b>-79,803</b>	<b>74,712</b>

The cash flow statement has been prepared in accordance with the indirect method. The changes in balance sheet items considered for this purpose have been adjusted for the effects of changes in the consolidation group, so that only those cash flows attributable to the group are presented in the cash flow statement. Cash flows resulting from changes in non-current assets held for sale and liabilities related to non-current assets held for sale have been assigned to those areas of the cash flow statement in which they gave rise to cash outflows or inflows. For these reasons, the changes in balance items presented in the cash flow statement cannot be reconciled with the balance sheet.

Impairments are presented in a separate line item of cash flow from operating activities.

The first-time sale of receivables in connection with the financing of acquisitions has been presented as cash inflows from operating activities.

The item of other non-cash income and expenses was mainly composed of internal production capitalized and waivers of receivables.

Cash outflows of EUR 774 thousand pertained to the acquisition of investments in companies in fiscal year 2009 (PY: EUR 50,562 thousand). This amount is offset by acquired cash and cash equivalents in the amount of EUR 1,712 thousand (PY: EUR 95,092 thousand).

The net funds at December 31, 2009 amounted to EUR 63,369 thousand (PY: EUR 125,741 thousand). This item comprises immediately available cash in banks, checks and cash on hand. Restricted cash, which has been pledged as security for liabilities and currency hedging transactions, amounted to EUR 14,129 thousand at December 31, 2009 (PY: EUR 33,511 thousand). Thus, the total amount of cash and cash equivalents amounted to EUR 77,498 thousand (PY: EUR 159,252 thousand). Of this total, an amount of EUR 2,583 thousand (PY: EUR 16,843 thousand) was presented as assets held for sale and an amount of EUR 74,915 thousand (PY: EUR 142,409 thousand) was presented as cash and cash equivalents.

#### 4.1. Notes on company acquisitions

In February 2009, ARQUES acquired the leading British driving school, The British School of Motoring Ltd. (BSM), Bristol, and its wholly-owned subsidiaries BSM Ltd. and Scorpio Property Investments Ltd. (BSM Group) for a symbolic purchase price. In accordance with the ARQUES subsidiary manager model, the remaining 5% of BSM Holding GmbH was acquired by the subsidiary manager. The seller was the British company RAC plc, a subsidiary of the insurance concern AVIVA plc. The closing date, at which time control over the company passed to ARQUES, was February 10, 2009. Therefore, the BSM Group has been included in the consolidated financial statements of ARQUES Industries AG since February 10, 2009.

For purposes of the purchase price allocation, assets were measured by application of one of the following three methods, based on the provisions of IDW RS HFA 16: the market price method, the net present value method or the cost method.

Under the market price method, the fair value of an asset is determined with reference to recent transactions involving comparable assets. This value is adjusted to reflect specific characteristics of the asset in question, such as age, selling features or the transaction environment. Market price methods are applied mainly for measuring the value of property, plant and equipment, such as buildings and machinery, because an active market exists for such assets.

Intangible assets are usually acquired in connection with business combinations. Publicly accessible market prices rarely exist for such transactions. In most cases, it is not possible to identify knowledge-able, willing partners at any given time, because the intangible assets are not homogeneous, but usually exhibit very specialized, company-specific attributes.

Under the net present value method, the fair value of an asset is determined by discounting to present value the future cash flows from the corresponding asset, using a risk-adjusted interest rate as the discount factor. Thus, the fair value is equal to the net present value of the expected future cash flows. Such valuations are based on estimates and projections of the management, which are based, in turn, on present expectations and assumptions regarding the future development of the asset in question, as well as an appropriately risk-adjusted interest rate to apply as the discount factor.

The cost method is used only for deriving the fair value in connection with the purchase price allocation process. The costs considered for that purpose can be those that would be required to produce an exact duplicate of the asset in question (reproduction cost method). Alternatively, the costs required to produce an equivalent asset for the use in question (replacement cost method) can be applied. It must be determined whether discounts should be applied to account for technical, physical and/or economic obsolescence. Depreciation is charged on the basis of the useful life according to economic criteria. If the determination of the useful life cannot be adequately substantiated, it may be appropriate to consider so-called cut-off values, especially in the case of assets that have already been fully depreciated, in order to account for the still existing usage potential.

In accordance with IFRS 3.56, negative goodwill amounts are recognized immediately in income after a reassessment of the measured values according to IFRS 3.56 (b). Negative goodwill results from, among other things, the specific sales situation of the companies, which are generally turnaround cases, and from the very detailed rules governing the recognition of provisions for restructuring expenses for the acquired companies at the acquisition date.

The purchase price for the BSM Group was EUR 2. Furthermore, incidental acquisition costs of EUR 264 thousand were incurred; these were fully paid in cash as of the balance sheet date. A shareholder loan in the amount of EUR 4,820 thousand was acquired in connection with this business combination. After consideration of minority interests, the acquisition of BSM gave rise to negative goodwill in the amount of EUR 11,336 thousand.

In the time from the acquisition date to December 31, 2009, the BSM Group generated a net loss of EUR -1,738 thousand. That amount includes start-up and acquisition losses from restructuring. It does not include other operating income from the reversal of negative goodwill. In the time from January 1, 2009 to the acquisition date, the BSM Group generated revenues of EUR 4,472 thousand; during the time of affiliation with the ARQUES Group, the BSM Group generated total revenues of EUR 22,001 thousand in 2009. The profit or loss contribution for the period from January 1, 2009 to the acquisition date was not calculated because it would be irrelevant for consolidation purposes. The amounts were not converted retroactively to January 1, 2009 because the figures calculated for the preceding months would not be comparable with those after the restructuring, due to the turnaround measures initiated in the meantime; thus, they would lead to distorted results.

The acquired assets and liabilities are presented in the table below:

EUR'000	CARRYING AMOUNT	FAIR VALUE
Non-current assets		
Intangible assets	0	2,736
Buildings	1,756	1,756
Other assets	2,081	2,081
Deferred tax assets	1,502	1,616
Current assets		
Inventories	148	148
Trade receivables	377	377
Other assets	31,514	31,514
Cash and cash equivalents	1,512	1,512
Liabilities		
Provisions	-4,379	-4,379
Trade payables	-5,673	-5,673
Other liabilities	-14,342	-14,750
Deferred tax liabilities	-9,613	-9,814
<b>Net assets</b>	<b>4,883</b>	<b>7,123</b>

The cash acquired as part of the business combination amounted to EUR 1,512 thousand, due to which the transaction gave rise to a total cash inflow of EUR 1,248 thousand.

No business units were discontinued or sold in connection with the acquisition.

The disclosures prescribed by IFRS 3.70 are impracticable. By reason of the turnaround measures initiated in the meantime, the figures so calculated would lead to distorted results, in the opinion of the company.

In March 2009, moreover, the Actebis Group signed a purchase agreement for the broad-line distribution business of Ingram Micro in Denmark. The closing date for this transaction was July 3, 2009, after the Danish regulatory authorities cleared the acquisition. Some of the employees and the inventories of the Danish Ingram Micro branch were acquired under the terms of an asset deal; at the acquisition date, they were classified as held for sale by reason of the ongoing negotiations for the sale of the Actebis Group. When the Actebis Group was sold, the corresponding assets and liabilities under this transaction were deconsolidated.

The acquisition of new shelf companies is not presented separately because they are of insubordinate importance for the consolidated financial statements.

There were no further acquisitions after December 31, 2009.

## 42. Notes on significant company sales

In view of the stressed economic situation in Spain, as well as the crisis affecting the automotive industry and the restrictive lending policies of Spanish banks, ARQUES decided to provide no further cash to the Capresa Group (part of the Steel segment) in the future. Therefore, the automotive supplier was forced to file for bankruptcy on January 19, 2009. The assets deconsolidated in connection with the necessary removal of this company from the consolidation group amounted to EUR 12.0 million, including EUR 0.3 million in cash and cash equivalents, and the corresponding liabilities amounted to EUR 11.7 million. Including consolidation effects, the deconsolidation loss amounted to EUR -0.1 million and was presented as other operating expenses.

On January 22, 2009, ARQUES sold four subsidiaries – the BEA Group (part of the „Service“ segment), the news agency ddp (part of the Service segment), the Italian adhesive tape manufacturer Evotape (part of the Service segment) and the Swiss chemicals company Rohner (part of the Specialty Chemistry segment) – to a financial investor as part of a portfolio transaction for EUR 20.0 million:

- The sold assets of the BEA Group amounted to EUR 30.6 million, including cash and cash equivalents of EUR 9.9 million, and the liabilities amounted to EUR 28.4 million. The deconsolidation profit, including consolidation effects and other expenses related to the transaction, amounted to EUR 2.4 million and was presented as other operating income.
- The sold assets of the Austrian BEA companies amounted to EUR 18.5 million, including cash and cash equivalents of EUR 2.0 million, and the liabilities amounted to EUR 17.2 million. The deconsolidation profit, including consolidation effects and other expenses related to the transaction, amounted to EUR 0.2 million and was presented as other operating income.
- The sold assets of Evotape amounted to EUR 35.4 million, including cash and cash equivalents of EUR 0.3 million, and the liabilities amounted to EUR 35.1 million. The deconsolidation profit, including consolidation effects and other expenses related to the transaction, amounted to EUR 0.6 million and was presented as other operating income.
- The sold assets of the ddp Group amounted to EUR 4.5 million, including cash and cash equivalents of EUR 0.4 million, and the liabilities amounted to EUR 2.5 million. The deconsolidation loss, including consolidation effects and other expenses related to the transaction, amounted to EUR -0.2 million and was presented as other operating expenses.
- The sold assets of Rohner AG amounted to EUR 21.3 million, including cash and cash equivalents of EUR 4.7 million, and the liabilities amounted to EUR 12.0 million. The deconsolidation loss, including consolidation effects and other expenses related to the transaction, amounted to EUR -3.1 million and was presented as other operating expenses.

Effective March 2, 2009, ARQUES sold Rohé Group, Vienna (part of the Service segment), to a financial investor for a symbolic price. The company's equity base was strengthened immediately prior to the transaction. The sold assets amounted to EUR 49.7 million, including cash and cash equivalents of EUR 4.7 million, and the liabilities amounted to EUR 57.1 million. The deconsolidation profit, including consolidation effects and other expenses related to the transaction, amounted to EUR 0.2 million and was presented as other operating income.

Effective March 12, 2009, the Sommer Group (part of the Automotive segment) was sold to a Swiss financial investor for a symbolic price. At the same time, the company's outstanding liabilities were repaid. The sold assets amounted to EUR 22.5 million, including cash and cash equivalents of EUR 1.0 million, and the liabilities amounted to EUR 18.1 million. The deconsolidation loss, including consolidation effects and other expenses related to the transaction, amounted to EUR -4.9 million and was presented as other operating expenses.

Effective March 19, 2009, the Swiss printer weberbenteli (part of the Print segment) was sold to a financial investor for a symbolic price. At the same time, the company's outstanding liabilities were repaid. The sold assets amounted to EUR 48.0 million, including cash and cash equivalents of EUR 2.7 million, and the liabilities amounted to EUR 60.4 million. The deconsolidation profit, including consolidation effects and other expenses related to the transaction, amounted to EUR 1.3 million and was presented as other operating income.

In July 2009, the ARQUES Iberia , including the companies Arques Iberia S.A., Iversia Invest S.L, Vastec Corporate S.L, Sodelica Markets S.L, Desarrollos Enterprise Line S.L, Oxiris Intellectual Property LTD, Oxiris LTD and Oxiris Property LTD, was sold to the local management for a symbolic price. The sold assets amounted to EUR 1.6 million, including cash and cash equivalents of EUR 1.3 million, and the liabilities amounted to EUR 2.5 million. The deconsolidation loss, including consolidation effects and other expenses related to the transaction, amounted to EUR -2.0 million and was presented as other operating expenses.

Effective July 1, 2009, the tison Group (part of the IT segment), which is active in the IT distribution business, was sold to a Russian investor for a symbolic price. The sold assets amounted to EUR 34.4 million, including cash and cash equivalents of EUR 7.1 million, and the liabilities amounted to EUR 37.2 million. The deconsolidation profit, including consolidation effects and other expenses related to the transaction, amounted to EUR 0.0 million.

Effective September 15, 2009, the IT distributor Actebis (part of the IT segment) was sold to a strategical financial investor for a transaction volume of EUR 38.9 million. The sold assets amounted to EUR 480.0 million, including cash and cash equivalents of EUR 4.8 million, and the liabilities amounted to EUR 441.9 million. The deconsolidation loss, including consolidation effects and other expenses related to the transaction, amounted to EUR -0.1 million and was presented as other operating expenses.

Effective October 30, 2009, the Spanish parcel delivery service Agencia Servicios Mensajeria (ASM), Madrid, (part of the Service segment) was sold to an investor for a symbolic price. At the same time, the company's outstanding liabilities were repaid. The sold assets amounted to EUR 19.7 million, including cash and cash equivalents of EUR 0.3 million, and the liabilities amounted to EUR 22.7 million. The deconsolidation loss, including consolidation effects and other expenses related to the transaction, amounted to EUR -1.3 million and was presented as other operating expenses.

Effective October 30, 2009, the British driving school British School of Motoring (BSM), Bristol (part of the Service segment) was sold for a transaction volume of EUR 13.1 million under the terms of a management buy-out (sale of shares EUR 8.9 million, redemption of intercompany loans EUR 4.2 million.). The sold assets amounted to EUR 44.5 million, including cash and cash equivalents of EUR 3.1 million, and the liabilities amounted to EUR 34.4 million. The deconsolidation profit, including consolidation effects and other expenses related to the transaction, amounted to EUR 3.1 million and was presented as other operating income.

Effective November 30, 2009, the British auto glass specialist Auto Windscreens (part of the Service segment) was sold to a German-English Family Office for mit einem Transaktionsvolumen von EUR 10.7 million as part of a secondary transaction (sale of shares EUR 2.3 million, redemption of intercompany loans EUR 8.4 million). The sold assets amounted to EUR 47.5 million, including cash and cash equivalents of EUR 8.9 million, and the liabilities amounted to EUR 35.8 million. The deconsolidation profit, including consolidation effects and other expenses related to the transaction, amounted to EUR 0.5 million and was presented as other operating income.

The sold assets and transferred liabilities are summarized in the table below:

EUR'000	
Assets	
Intangible assets	34,119
Property, plant and equipment	94,860
Other assets	741,484
Total	870,463
Liabilities	
Provisions and accrued liabilities	58,419
Liabilities	759,621
Total	818,040

### 43. Other financial commitments

The other financial commitments at the balance sheet date of December 31, 2009 resulted from non- ordinary course of business. In the table below, the total future payments to be made under these agreements are broken down by due dates, as follows:

2009	UP TO 1 YEAR	1-5 YEAR	MORE THAN 5 YEAR	TOTAL
Rental and lease commitments	12,539	27,830	25,648	66,017
Other commitments	7,553	11,815	--	19,368
Total	20,092	39,645	25,648	85,385

2008	UP TO 1 YEAR	1-5 YEAR	MORE THAN 5 YEAR	TOTAL
Rental and lease commitments	29,143	97,137	83,298	209,578
Other commitments	2,375	1,966	0	4,341
Total	31,518	99,103	83,298	213,919

Of the total rental and lease commitments in the amount of EUR 66,017 thousand (PY: EUR 209,578 thousand), rental and lease agreements for land and buildings accounted for EUR 57,121 thousand (PY: EUR 185,510 thousand), operating leases for machinery and equipment accounted for EUR 3,481 thousand (PY: EUR 8,094 thousand) and rental and lease agreements for other equipment, operational and office equipment accounted for EUR 5,415 thousand (PY: EUR 15,974 thousand).

The other financial commitments in the amount of EUR 19,368 thousand (PY: EUR 4,341 thousand) resulted from maintenance and service agreements for machinery and equipment, software and other operational and office equipment.

The Group was not subject to firm capital expenditure orders at the balance sheet date of December 31, 2009 (PY: EUR 3,481 thousand).

### 44. Contingent liabilities

The contingent liabilities at the balance sheet date of December 31, 2009 were related to the following companies and matters:

In connection with the acquisition of all the equity of Oxynova GmbH, OXY Holding GmbH (before being renamed: Mainsee 410. W GmbH) undertook to maintain both operating locations for the next five years. This commitment was protected by a contract penalty of initially EUR 15 million.

As of October 2009, the potential contract penalty amounted to EUR 7 million; it will be further reduced incrementally to zero in the remaining two-year term. Evonik has agreed in writing to convert and retool the facility in Lülsdorf. According to current plans, therefore, the locations will continue being used, minimizing the economic risk associated with the guarantee.

Also in connection with the acquisition of all the equity in Oxynova GmbH, ARQUES Industries AG issued a guarantee of up to EUR 10 million in favor of the seller to cover the anticipated liability for environmental damage. The guarantee is limited to a period of five years after the purchase agreement takes effect. In the meantime, this risk has been covered by an insurance policy with a deductible of EUR 100 thousand.

As is customary in the industry, the seller of the Eurostyle Group has issued contract performance guarantees in the total amount of EUR 19.4 million to major customers (automobile manufacturers) and suppliers, in the form of surety bonds, guarantees and letters of comfort. The guarantees assumed by ARQUES Industries AG in connection with the acquisition of the Eurostyle Group were issued in favor of customers in the amount of EUR 2.8 million, and in favor of suppliers in the amount of EUR 0.08 million. The execution of these guarantees depends primarily on the operating development of Eurostyle France S.A.S., which is subject to creditor protection in accordance with French law. There are currently no indications that the guarantees will be utilized, meaning that the probability of occurrence is considered to be low.

The sale of the Teutonia Group has given rise to a vendor liability in the amount of EUR 3.0 million as part of a guarantee of the customary scope provided in the purchase agreement. The probability of occurrence is considered to be very low.

The buyer of Rohner AG has been indemnified against any costs arising from legal proceedings in connection with the assertion of a real right of pre-emption over a property as part of the acquisition of Wolfsheckmühle complete with properties. All the legal proceedings commenced to date have been rejected with costs borne by the plaintiff. There is currently one appeals procedure pending at law in which compensation of EUR 1.0 million have been claimed. At December 31, 2009, there were guarantees amounting to EUR 1.35 million arising from sales completed in 2009. EUR 0.8 million of the total expires on March 31, 2010 and EUR 0.55 million on March 31, 2011. The probability of occurrence is considered to be very low.

The sale of Oxiris Chemicals S.A., Spain, to chemicals company Raschig has given rise to a guarantee in the amount of EUR 6 million for the liability of the seller Iversia Invest S.L as part of a guarantee of the customary scope provided in the purchase agreement. The guarantee expires on April 14, 2010 with the exception of an environmental guarantee which expires on December 31, 2010. There are no indications of the guarantees possibly taking effect.

The sale of the Jahnel-Kestermann Group has given rise to a vendor liability in the amount of EUR 18.5 million expiring on April 14, 2018. The probability of the liability taking effect is considered to be low.

The Capresa Group was forced to file for bankruptcy in January 2009. At the reporting date, a contingent liability of EUR 1.0 million existed under the guarantees issued upon acquisition of the company. The probability of occurrence is considered to be low.

The sale of the Actebis Group has given rise to a vendor liability in the amount of EUR 10.0 million as part of a liability of the customary scope provided in the purchase agreement expiring on September 30, 2010. The probability of occurrence is considered to be very low.

In addition, guarantees were issued for the situations under company law for all sales completed in 2009. The probability of these guarantees taking effect is considered to be very low.

The Group also held contingent liabilities under guarantees issued in connection with the operating business of its subsidiaries, in the amount of EUR 0.7 million (PY: EUR 23.9 million), and under the guarantees, land charge assumptions and letters of comfort that are also attributable to the subsidiaries, in the amount of EUR 10.0 million (PY: EUR 12.8 million). The decrease in guarantees resulted mainly from the portfolio adjustment measures of the past fiscal year.

## 45. Disclosures pursuant to Section 264b HGB

The following domestic subsidiaries organized as unincorporated partnerships within the meaning of Section 264a of the German Commercial Code (HGB) have in some cases exercised the exemption options permitted by Section 264b HGB:

- ARQUES Immobilien Equity GmbH & Co KG
- ACT Immobilien GmbH & Co. KG  
(formerly Arques Immobilien Wert GmbH & Co. KG)
- Gigaset Communications and Licensing GmbH & Co. KG
- Hortensienweg Grundstücksverwaltung GmbH & Co. KG  
(formerly Missel GmbH & Co. KG)

## 46. Executive Board and Supervisory Board of ARQUES Industries AG

The following persons served on the Executive Board in fiscal year 2009 and in the time until the preparation of the annual financial statements:

- Dr. Michael Schumann, Dipl.-Kaufmann, Feldafing (in charge of Acquisitions until February 2, 2009, in charge of Finance from February 1, 2008 to February 2, 2009, Chairman of the Executive Board from February 1, 2008 to February 28, 2009)
- Felix Frohn-Bernau, lawyer, Munich (in charge of Exits until February 2, 2009; in charge of Exits and Acquisitions from February 3, 2009 to December 18, 2009)
- Bernd Schell, Dipl.-Betriebswirt, Munich (in charge of Operations from January 1, 2008 to September 29, 2009)
- Hans Gisbert Ulmke, businessman, Gauting (in charge of Finance since February 3, 2009, Chairman of the Executive Board since August 5, 2009)
- Michael Hütten, Dipl.-Kaufmann, Berlin (in charge of Operations since July 21, 2009, in charge of Operations, Exits and Acquisitions since December 18, 2009)

The other executive activities of the Executive Board members consisted mainly of serving on the supervisory boards and executive boards and chief executive positions of affiliated companies and subsidiaries of ARQUES Industries AG.

Specifically, the Executive Board members who served on the board in 2009 and in the time until the preparation of the annual financial statements held the following seats on supervisory bodies (starting date and ending date indicated when those dates fall within the reporting period):

Dr. Michael Schumann (Executive Board member until February 28, 2009)

COMPANY	BOARD	STARTING DATE	ENDING DTAE
Inside the Group			
Arques Industrie Asset AG	Supervisory Board Chairman	-	02/23/2009
ddp media holding AG	Supervisory Board Chairman	-	01/23/2009
MDI Mediterranean Direct Invest AG	Supervisory Board Chairman	-	02/09/2009
Sommer Holding AG	Supervisory Board Chairman	-	07/31/2008
tiscon AG, Linden, Germany	Supervisory Board Vice Chairman	-	02/18/2009
Zugspitze 66. VV AG	Supervisory Board Chairman	-	01/23/2009

Felix Frohn-Bernau (Executive Board member until December 18, 2009)

COMPANY	BOARD	STARTING DATE	ENDING DTAE
Inside the Group			
Arques Austria Invest AG, Vienna, Austria	Supervisory Board Chairman	-	06/17/2009
Arques Industries AG , Vienna, Austria	Supervisory Board Vice Chairman	-	06/23/2009
Arques Industrie Asset AG	Supervisory Board Vice Chairman	-	11/11/2009
ddp media holding AG	Supervisory Board	-	01/23/2009
Sommer Holding AG	Supervisory Board	-	04/06/2009
Gigaset Communications GmbH	Advisory Board Chairman	-	01/14/2010
GIG Holding GmbH	Advisory Board	-	12/31/2009
Concilium AG	Supervisory Board Vice Chairman	06/08/2009	-
Xerius AG	Supervisory Board	-	01/07/2009
Zugspitze 66. VV AG	Supervisory Board Vice Chairman	-	01/23/2009

#### Bernd Schell (Executive Board member until September 29, 2009)

COMPANY	ORGAN	STARTING DATE	ENDING DTAE
Inside the Group			
Arques Corporate Revitalization AG, Baar, Switzerland	Chairman of the Board of Directors	-	04/30/2009
Rohner AG Pratteln, Pratteln, Switzerland	Board of Directors	-	02/24/2009
Arques Austria Invest AG, Vienna, Austria	Supervisory Board	-	06/17/2009
Arques Industrie Asset AG	Supervisory Board	-	11/11/2009
Arques Industries AG, Vienna, Austria	Supervisory Board Chairman	-	23.06.2009
ddp media holding AG	Supervisory Board Vice Chairman	-	01/23/2009
Gigaset Communications GmbH	Supervisory Board	-	10/26/2009
Golfhouse Direktversand GmbH, Hamburg, Germany	Advisory Board	-	-
MDI Mediterranean Direct Invest AG	Supervisory Board Vice Chairman	-	07/02/2009
Sommer Holding AG	Supervisory Board Vice Chairman	-	04/06/2009
tiscon AG, Linden, Germany	Supervisory Board Chairman	-	08/03/2009
Xerius AG	Supervisory Board Chairman	-	01/07/2009
Zugspitze 66. VV AG	Supervisory Board	-	01/23/2009

#### Hans Gisbert Ulmke (Executive Board member since February 3, 2009)

COMPANY	BOARD	STARTING DATE	ENDING DTAE
Inside the Group			
Arques Industrie Asset AG	Supervisory Board	02/23/2009	11/11/2009
Gigaset Communications GmbH	Supervisory Board	10/26/2009	-
Concilium AG	Supervisory Board	06/08/2009	-
GIG Holding GmbH	Advisory Board	10/15/2009	12/31/2009
tiscon AG, Linden, Germany	Supervisory Board	03/04/2009	08/03/2009
Outside the Group			
Advisory Board South of Deutsche Bank AG, Munich, Germany	Advisory Board		
ProLean AG, Düsseldorf, Germany	Advisory Board		
Verband Deutscher Treasurer e.V.	Administrative Board		

#### Michael Hütten (Executive Board member since July 21, 2009)

COMPANY	BOARD	STARTING DATE	ENDING DTAE
Inside the Group			
GIG Holding GmbH	Advisory Board	01/01/2010	-
Gigaset Communications GmbH	Supervisory Board Chairman	02/16/2010	-

At the annual shareholders' meeting of ARQUES Industries AG held on August 5, 2009, only Dr. Rudolf Falter received the requisite two-thirds majority for the election of Supervisory Board members prescribed in the company's articles of incorporation; therefore, the Supervisory Board was constituted as follows, based on the appointments made by the Munich Local Court on September 16, 2009:

**Dipl.-Kfm. Dr. rer. pol. Georg Obermeier**, Chairman of the Supervisory Board, Managing Director of Obermeier Consult GmbH, Munich.

Seats on other Supervisory Boards and similar boards:

- Member of the Board of Directors of Kühne & Nagel International AG, Schindellegi, Switzerland
- Supervisory Board member of Billfinger Berger Industrial Services AG, Munich
- Supervisory Board member of Energie-Control GmbH Österreichische Regulierungsbehörde für Strom & Gas, Vienna, Austria
- Member of Advisory Board South of Deutsche Bank AG, Munich
- Chairman of the Supervisory Board of Concilium AG, Munich

**Jean-Francois Borde**, Vice Chairman of the Supervisory Board, Partner Mantra Gestion SAS, Paris (France).

Seats on other Supervisory Boards and similar boards:

- Supervisory Board member of Entrepouse Echafaudage S.A., Colombes, France
- Supervisory Board of Groupe Sigma, Paris, France

**Dipl.-Kfm. Dr. jur. Rudolf Falter**, lawyer, tax advisor, Munich.

No seats were held on other Supervisory Boards and similar boards within the meaning of Section 125 (1) AktG.

**Bernhard Riedel**, until August 5, 2009 Vice Chairman of the Supervisory Board, attorney, Munich.

No seats were held on other Supervisory Boards and similar boards within the meaning of Section 125 (1) AktG.

**David Hersh**, Managing Partner Mantra Holdings SARL, Paris (France).

No seats were held on other Supervisory Boards and similar boards within the meaning of Section 125 (1) AktG.

**Antoine Dréan**, Partner Mantra Gestion SAS, Paris (France).

No seats were held on other Supervisory Boards and similar boards within the meaning of Section 125 (1) AktG.

The following person was a member of the Supervisory Board of ARQUES Industries AG until August 4, 2009:

**Prof. Dr. jur. Michael Judis**, member of the Executive Board of Open Pictures AG and lawyer, Munich.

No seats were held on other Supervisory Boards and similar boards within the meaning of Section 125 (1) AktG.

The following persons were members of the Supervisory Board of ARQUES Industries AG until August 5, 2009:

**Dr. jur. Gerhard Fischer**, lawyer, Munich.

Seats on other Supervisory Boards and similar boards:

- Chairman of the Supervisory Board of Demos Wohnbau Beteiligungsgesellschaft AG, Seeshaupt

**Franz Graf von Meran**, businessman and banker, retired, Bad Aussee.

Seats on other Supervisory Boards and similar boards:

- Supervisory Board member of Continentale Krankenversicherung a.G., Dortmund
- Supervisory Board member of Continentale Lebensversicherung a.G., Munich
- Supervisory Board member of Continentale Sach-Versicherung AG, Dortmund
- Supervisory Board member of Deutsche Malteser GmbH, Cologne
- Chairman of the Advisory Board of Langenscheidt KG, Munich
- Advisory Board member of Graf v. Schaesberg BeteiligungsKG, Wegberg
- Advisory Board member of Graf v. Schaesberg Vermögensverwaltungs-KG, Wegberg
- Advisory Board member of Graf v. Schaesberg Forstwirtschaft KG, Wegberg

The following person was an alternate member in the event of resignation of one of the above-mentioned Supervisory Board members in the time until August 4, 2009, and then a member of the Supervisory Board as of August 5, 2009:

**Dipl.-Kfm. Othmar Freiherr von Diemar**, Managing Partner of Othmar von Diemar Vermögensverwaltung & Beratung, Cologne.

Seats on other Supervisory Boards and similar boards:

- Chairman of the Supervisory Board of Informium AG, Leverkusen
- Chairman of the Supervisory Board of Borussia Dortmund GmbH & Co KGaA, Dortmund

## 47. Compensation of Executive Board and Supervisory Board members

The Compensation Report (pursuant to Section 4.2.5. of the German Corporate Governance Code) explains the principles applied in setting the compensation of Executive Board members and indicates the amount and structure of Executive Board compensation. It also describes the principles applied in setting the compensation of the Supervisory Board members and the amount of that compensation, and discloses the shareholdings of Executive Board and Supervisory Board members.

### Compensation of Executive Board members

The responsibilities and contributions of each Executive Board member are taken into account for purposes of setting the compensation. The compensation granted in fiscal year 2009 consisted of a fixed annual salary, plus various success-dependent components. The variable components consist of bonus arrangements for all members who served on the Executive Board in the past fiscal year, which are dependent on the performance of a virtual share portfolio (reflecting the company's success) and on the achievement of certain targets adopted in the respective board member's area of responsibility (reflecting the success of his division).

Specifically, the Executive Board compensation is composed of the following elements:

- The fixed compensation is paid in the form of a monthly salary.
- The variable compensation consists in part of a special bonus, the amount of which is determined on the basis of the performance of a „virtual share portfolio,” and in part of an individual bonus agreement for each member who served on the Executive Board in the past fiscal year.

The basis for calculating the variable compensation based on the „virtual share portfolio” of every member who served on the Executive Board in the past fiscal year is a specific number of shares of ARQUES Industries AG („virtual share portfolio”), measured at a certain share price („initial value”). The amount of variable compensation is calculated in every case from the possible appreciation of the virtual share portfolio over a certain period of time, that is, relative to a pre-determined future date („valuation date”). The difference between the value of the virtual share portfolio measured at the share price at the valuation date and the initial value („capital appreciation”) yields the amount of variable compensation. As a general policy, the capital appreciation amount (converted at the share price at the valuation date) is settled in cash.

The virtual share portfolio of **Dr. Michael Schumann** comprises 125,000 shares at each delivery date. The valuation date of all shares are or were January 31, 2009, January 31, 2010 and January 31, 2011. The grant date was February 28, 2008.

Dr. Schumann agreed with the Supervisory Board to waive all claims against ARQUES Industries AG as part of his termination agreement.

The virtual share portfolio of **Mr. Felix Frohn-Bernau** comprises 125,000 shares at each delivery date. The valuation date of all shares are or were March 31, 2009 and March 31, 2010.

Mr. Frohn-Bernau cancelled his Executive Board employment contract, under which the stock options were granted, without notice by letter of December 11, 2009 and resigned from his Executive Board position. The letter was received by the Supervisory Board Chairman on December 15. The Supervisory Board approved the cancellation and resignation at its meeting of December 18, 2009. Consequently, Mr. Frohn-Bernau forfeited all claims that would have fallen due after December 15, 2009.

The virtual share portfolio of **Mr. Bernd Schell** comprises 125,000 shares at each delivery date. The valuation date of all shares are or were December 31, 2009 and December 31, 2010.

The company, represented by the Supervisory Board, which was represented, in turn, by its Chairman Dr. Georg Obermeier, cancelled the Executive Board employment contract with Mr. Schell without notice for important cause as of September 29, 2009 and revoked his appointment to the Executive Board on the same day. Consequently, Mr. Schell forfeited all claims that would have fallen due after September 29, 2009.

The virtual share portfolio of **Mr. Hans-Gisbert Ulmke** comprises 125,000 shares at each delivery date. The valuation date of all shares are or were January 31, 2010, January 31, 2011 and January 31, 2012. The grant date was February 25, 2009.

At the balance sheet date, the fair value of the virtual share portfolio for Mr. Ulmke amounted to EUR 0.00 for the first tranche of 125,000 shares, payable on January 31, 2010 (with a vested proportion of 90.91% according to IFRS), EUR 26,086.96 for the second tranche of 125,000 shares, payable on January 31, 2011 (with a vested proportion of 43.48% according to IFRS) and EUR 19,285.71 for the third tranche of 125,000 shares, payable on January 31, 2012 (with a vested proportion of 28.57% according to IFRS). At the grant date, the fair value of stock options granted amounted to EUR 37,500 for the first tranche, EUR 50,000 for the second tranche and EUR 43,750 for the third tranche.

The virtual share portfolio of **Mr. Michael Hütten** comprises 125,000 shares at each delivery date. The valuation date of all shares are or were June 30, 2010, June 30, 2011 and June 30, 2012. The grant date was August 3, 2009.

At the balance sheet date, the fair value of the virtual share portfolio for Mr. Hütten amounted to EUR 8,522.73 for the first tranche of 125,000 shares, payable on June 30, 2010 (with a vested proportion of 45.45% according to IFRS), EUR 6,793.48 for the second tranche of 125,000 shares, payable on June 30, 2011 (with a vested proportion of 21.74% according to IFRS) and EUR 3,392.86 for the third tranche of 125,000 shares, payable on June 30,

2012 (with a vested proportion of 14.29% according to IFRS). At the grant date, the fair value of stock options granted amounted to EUR 68,750 for the first tranche, EUR 37,500 for the second tranche and EUR 32,500 for the third tranche.

STOCK OPTIONS	DR. MICHAEL SCHUMANN	FELIX FROHN-BERNAU	BERND SCHELL	HANS GISBERT ULMKE	MICHAEL HÜTTEN
Outstanding at 01/01/2009	375,000	250,000	250,000	0	0
Granted in 2009	0	0	0	375,000	375,000
Forfeited in 2009	0	0	0	0	0
Exercised in 2009	0	125,000	0	0	0
Average share price on exercise date, in EUR	-	Less than exercise price	-	-	-
Expired in 2009	375,000	125,000	250,000	0	0
Outstanding at 12/31/2009	0	0	0	375,000	375,000
thereof exercisable	0	0	0	0	0
Range of exercise prices	n/a	n/a	n/a	1.80	1.68
Income (+)/ expenses (-) recognized in the reporting period as per IFRS, in EUR	86,692.55	50,461.54	96,958.56	-45,372.67	-18,709.06

In addition, individual bonus agreements were concluded with all members who served on the Executive Board in the reporting period.

The employment contract with Dr. Schumann contained a bonus clause, under which the bonus is measured on the basis of the consolidated profit presented in the consolidated financial statements.

Messrs. Frohn-Bernau and Schell each receive a bonus for projects involving the sale of operating subsidiaries of the ARQUES Group or their significant assets (asset deals), the amount of which is determined on the basis of the „net return“ of the equity interest sold. The net return corresponds to the cash price actually received for the equity interest sold by ARQUES, regardless of whether the payment was made as consideration for equity shares, loan receivables or other significant assets (asset deals), less the cash payments made and not recovered by the ARQUES Group (e.g., purchase price, capital contributions).

The Executive Board employment contracts of Messrs. Ulmke and Hütten contain a bonus clause, under which the bonus is determined on the basis of the income or expenses from ordinary activities, as presented in the consolidated financial statements, but is limited to a minimum bonus on the down side. The following compensation was granted to the individual members of the Executive Board for fiscal year 2009:

FIGURES IN EUR	COMPENSATION (CASH)		MONETARY VALUE OF COMPANY CAR		SUCCESS BONUS		TOTAL	
	2009	2008	2009	2008	2009	2008	2009	2008
Dr. Martin Vorderwülbecke (until January 31, 2008)	0	20,100	0	671	0	0	0	20,771
Dr. Michael Schumann (until February 28, 2009)	240,000	343,200	2,755	5,494	0	0	242,755	348,694
Felix Frohn-Bernau	233,333	233,200	13,907	10,807	195,764	159,608	443,004	403,615
Bernd Schell	200,000	158,400	9,320	7,646	73,289	94,868	282,609	260,914
Hans Gisbert Ulmke (since February 3, 2009)	268,571	0	13,761	0	100,000	0	382,332	0
Michael Hütten (since July 21, 2009)	107,097	0	9,934	0	147,000	0	264,031	0
TOTAL	1,049,001	754,900	49,677	24,618	516,053	254,476	1,614,731	1,033,994

No further compensation was paid to members of the Executive Board for their service on the executive boards of subsidiaries or affiliated companies, with the exception of Mr. Hütten.

The compensation of Mr. Hütten included charged-through compensation in the amount of EUR 47,000 for his managing director activity at Gigaset Communications GmbH.

### Compensation of the Supervisory Board

At the proposal of the Executive Board and Supervisory Board, the compensation granted to members of the Supervisory Board was set for the first time by the annual shareholders' meeting of May 30, 2006. Every member of the Supervisory Board receives a maximum annual compensation of EUR 16,000.00. Each member is entitled to a fixed compensation of EUR 1,000.00 per month and a variable compensation in the form of meeting fees. The total compensation granted to the Supervisory Board Chairman is 50% higher, making for a maximum annual compensation of EUR 24,000.00. The validity of this compensation arrangement expired when the term of office of the Supervisory Board lapsed. Therefore, the annual shareholders' meeting held on August 5, 2009 adopted a new compensation arrangement, as follows: „Every member of the Supervisory Board shall receive a fixed compensation of EUR 1,000.00 per month and a meeting fee of EUR 1,000.00 for every meeting of the Supervisory Board or one of its committees in which the member will have participated. The Chairman of the Supervisory Board shall receive a fixed compensation of EUR 1,500.00 per month and a meeting fee of EUR 1,500.00 for every meeting of the Supervisory Board or one of its committees in which the Chairman will have participated. The compensation shall be due and payable at the close of the annual shareholders' meeting that resolves to ratify the actions of the Supervisory Board in the preceding fiscal year.“

The compensation granted to members of the Supervisory Board of ARQUES Industries Aktiengesellschaft in fiscal year 2009 is presented in the table below:

EUR	SETTLED	SET ASIDE IN PROVISIONS	TOTAL EXPENSES
Dr. Georg Obermeier (Chairman)	14,000	17,000	31,000
Bernhard Riedel	13,000	7,000	20,000
Dr. Rudolf Falter	9,333	10,333	19,666
Dr. Gerd Fischer	9,333	0	9,333
Prof. Dr. Michael Judis	9,578	0	9,578
Franz Graf von Meran	7,813	0	7,813
Antoine Dréan	0	8,333	8,333
Jean-Francois Borde	0	10,333	10,333
David Hersh	0	10,333	10,333
<b>TOTAL</b>	<b>63,057</b>	<b>63,332</b>	<b>126,389</b>

Furthermore, travel expenses and other costs were reimbursed in the amount of EUR 2,861. Accordingly, the total compensation granted to the Supervisory Board amounted to EUR 129,250.

Furthermore, no commitments have been made in the event of termination of Supervisory Board mandates. No loans or advances were extended to members of the Executive Boards or Supervisory Boards of ARQUES. No contingent liabilities have been assumed in favor of these persons. No payments were made to former members of the Executive Board or Supervisory Board, with the exception of Dr. Schumann and Mr. Frohn-Bernau. Dr. Schumann received monthly special payments in the total amount of EUR 180,000, which are included in the disclosures regarding Executive Board compensation.

## 48. Shareholdings of Executive Board and Supervisory Board members

At the balance sheet date, the members of the Executive Board held no shares of ARQUES Industries AG.

At the balance sheet date, the members of the Supervisory Board together held 900 shares of ARQUES Industries AG, representing 0.004% of the total shares outstanding.

The shareholdings of Executive Board and Supervisory Board members were divided among the individual members as follows:

	NUMBER OF SHARES AT 12/31/2009 OR AT THE RESIGNATION DATE	NUMBER OF SHARES AT THE DATE OF PREPARATION OF THE FINANCIAL STATEMENTS	NUMBER OF STOCK OPTIONS 12/31/2009	NUMBER OF STOCK OPTIONS AT THE DATE OF PREPARATION OF THE FINANCIAL STATEMENTS
Executive Board				
Hans Gisbert Ulmke, Chairman of the Executive Board	0	0	0	0
Michael Hütten, member of the Executive Board	0	0	0	0
Felix Frohn-Bernau, member of the Executive Board until 12/18/2009	3,000	n/a	n/a	n/a
Bernd Schell, member of the Executive Board until 09/29/2009	550	n/a	n/a	n/a
Supervisory Board				
Dr. Georg Obermeier (Chairman until August 5 and from September 16, 2009)	0	0	-	-
Jean-François Borde (Vice Chairman since September 16, 2009)	0	0	-	-
Antoine Dréan	0	0	-	-
Dr. Rudolf Falter	500	500	-	-
David Hersh	0	0	-	-
Bernhard Riedel (Vice Chairman until August 5, 2009)	400	400	-	-

### Disclosures concerning stock option rights and similar incentives

At the present time, no members of the Executive Board or Supervisory Board hold stock options for ARQUES shares. For additional information on the virtual share portfolio of the Executive Board members, please refer to the Compensation Report.

## 49. Disclosures concerning dealings with related parties

In accordance with IAS 24, related parties are defined as persons or companies who can influence or be influenced by the reporting entity.

The following significant transaction was conducted between the Group and related parties in the re-orting period:

In fiscal year 2009, the Executive Board member Bernd Schell (until September 29, 2009) received in-terest credits under loan receivables due from an associated company of ARQUES, in the amount of EUR 52,352.86.

## 50. Professional fees for the independent auditor

Professional fees in the total amount of EUR 1,216 thousand (PY: EUR 3,027 thousand) were incurred for the services of the independent auditor within the meaning of Section 318 HGB in fiscal year 2009.

EUR'000	2009	2008
Audit services for the annual financial statements	1,148	2,513
Other certification services	13	198
Tax advisory services	49	269
Other services	6	47
<b>Total</b>	<b>1,216</b>	<b>3,027</b>

## 51. Employees

The ARQUES Group had an average of 9,417 employees in fiscal year 2009 (PY: 12,300 employees). The total number of employees at the balance sheet date of December 31, 2009 was 5,049 (PY: 13,455). The employees of the companies acquired or sold in 2009 were included pro rata temporis in the average number of employees for the year.

	BALANCE SHEET DATE		AVERAGE	
	12/31/2009	12/31/2008	2009	2008
Wage-earning employees	1,804	5,827	3,169	5,746
Salaried employees	3,140	7,334	6,079	6,286
Apprentice-trainees	105	294	169	268
<b>Total</b>	<b>5,049</b>	<b>13,455</b>	<b>9,417</b>	<b>12,300</b>

## 52. Declaration of Conformity with the German Governance Code

The Executive Board and Supervisory Board of ARQUES Industries Aktiengesellschaft issued the Declaration of Conformity with the German Corporate Governance Code in its version of June 18, 2009, as required by Section 161 of the Stock Corporations Act (AktG), and made it permanently available to shareholders at the company's website ([www.arques.de](http://www.arques.de), menu item „Investor Relations“, submenu item „Corporate Governance“). Exceptions from the German Corporate Governance Code were duly noted.

## 53. Shareholder structure

The following notifications regarding the voting rights thresholds set forth in Sections 21 and 26 of the German Securities Trading Act (WpHG) were received in fiscal year 2009 and in the time until the preparation of the annual financial statements:

Oppenheimer International Small Companies Funds, Centennial (CO), USA, notified us in accordance with Sections 21 and 24 WpHG that its share of voting rights reached 5.15% (corresponding to 125,000 voting rights) on December 9, 2005. The share of voting rights held by Oppenheimer International Small Companies Funds, Centennial (CO), USA, at March 10, 2009 amounted to 8.51% (= 2,250,000 voting rights).

OppenheimerFunds Inc., Centennial (CO), USA, notified us in accordance with Sections 21 and 24 WpHG that its share of voting rights reached 5.15% (corresponding to 125,000 voting rights) on December 9, 2005. The share of voting rights held by OppenheimerFunds Inc., Centennial (CO), USA, at March 10, 2009 amounted to 8.51% (= 2,250,000 voting rights). In accordance with Section 22 (1) (1) (6) WpHG, the voting rights are attributable to OppenheimerFunds Inc. by Oppenheimer International Small Companies Funds.

Oppenheimer Acquisition Corp., Centennial (CO), USA, notified us in accordance with Sections 21 and 24 WpHG that its share of voting rights reached 5.15% (corresponding to 125,000 voting rights) on December 9, 2005. The share of voting rights held by Oppenheimer Acquisition Corp., Centennial (CO), USA, at March 10, 2009 amounted to 8.51% (= 2,250,000 voting rights). In accordance with Section 22 (1) (1) (6) (2) WpHG, the voting rights are attributable to Oppenheimer Acquisition Corp. by Oppenheimer International Small Companies Funds.

MassMutual Holding LLC, Springfield (MA), USA, notified us in accordance with Sections 21 and 24 WpHG that its share of voting rights reached 5.15% (corresponding to 125,000 voting rights) on December 9, 2005. The share of voting rights held by MassMutual Holding LLC, Springfield (MA), USA, at March 10, 2009 amounted to 8.51% (= 2,250,000 voting rights). In accordance with Section 22 (1) (1) (6) (2) WpHG, the voting rights are attributable to MassMutual Holding LLC by Oppenheimer International Small Companies Funds.

Massachusetts Mutual Life Insurance Company, Springfield (MA), USA, notified us in accordance with Section 21 (1) WpHG that its share of voting rights reached 5.15% (corresponding to 125,000 voting rights) on December 9, 2005. The share of voting rights held by Massachusetts Mutual Life Insurance Company, Springfield (MA), USA, at March 10, 2009 amounted to 8.51% (= 2,250,000 voting rights). In accordance with Section 22 (1) (1) (6) (2) WpHG, the voting rights are attributable to Massachusetts Mutual Life Insurance Company by Oppenheimer International Small Companies Funds.

Lotus AG, Munich, Germany, notified us in accordance with Section 21 WpHG that it held a total voting rights share of 3.01% (corresponding to 796,150 voting rights) on September 12, 2008. The voting rights are attributable to Lotus AG, Munich, Germany, in accordance with Section 22 (1) (1) (1) WpHG. The voting rights are also attributable to Lotus AG, Munich, Germany, in accordance with Section 22 (2) WpHG.

According to a separate notification of September 16, 2008, the voting rights share of Lotus AG, Munich, Germany, changed to 5.29% (= 1,398,067 voting rights). A voting rights share of 3.30% (= 872,000 voting rights) is attributable to Lotus AG, Munich, Germany, in accordance with Section 22 (1) (1) (1) WpHG. A voting rights share of 5.29% (= 1,398,067 voting rights) is attributable to Lotus AG, Munich, Germany, in accordance with Section 22 (2) WpHG.

According to a separate notification of February 4, 2009, the voting rights share of Lotus AG, Munich, Germany, changed to 2.47% (= 654,000 voting rights). A voting rights share of 2.47% (= 654,000 voting rights) is attributable to Lotus AG, Munich, Germany, in accordance with Section 22 (1) (1) (1) WpHG. A voting rights share of 2.47% (= 654,000 voting rights) is attributable to Lotus AG, Munich, Germany, in accordance with Section 22 (2) WpHG.

Stephan Schubert, Germany, notified us in accordance with Section 21 WpHG that he held a total voting rights share of 5.29% (corresponding to 1,398,067 voting rights) on September 16, 2008. Of that amount, Stephan Schubert, Germany, directly held 0.34% (= 90,067 voting rights). A voting rights share of 4.95% (= 1,308,000 voting rights) is attributable to Stephan Schubert, Germany, in accordance with Section 22 (2) WpHG.

According to a separate notification of February 4, 2009, the voting rights share of Stephan Schubert changed to 0.34% (= 90,067 voting rights). Of that amount, Stephan Schubert, Germany, directly held 0.34% (= 90,067 voting rights).

Lincoln Vale European Partners GP LLC's, George Town, Cayman Islands, notified us in accordance with Section 21 WpHG that it held a total voting rights share of 5.29% (corresponding to 1,398,067 voting rights) on September 16, 2008. A voting rights share of 1.65% is attributable to Lincoln Vale European Partners GP LLC's, George Town, Cayman Islands, in accordance with Section 22 (1) (1) (1) WpHG. A voting rights share of 3.64% is attributable to Lincoln Vale European Partners GP LLC's, George Town, Cayman Islands, in accordance with Section 22 (2) WpHG.

According to a separate notification of February 4, 2009, the voting rights share of Lincoln Vale European Partners GP LLC changed to 1.65% (= 435,546 voting rights). The voting rights share of 1.65% is attributable to Lincoln Vale European Partners GP LLC, George Town, Cayman Islands, from Lincoln Vale European Partners Master Fund, L.P., in accordance with Section 22 (1) (1) (1) WpHG.

The following notifications pursuant to Section 21 WpHG and Section 26 WpHG are still valid:

Mantra Investissement SCA, Paris, France, notified us in accordance with Section 21 WpHG that it held a total voting rights share of 3.02% (corresponding to 800,000 voting rights) on September 19, 2008.

Antoine Dréan notified us in accordance with Section 21 WpHG that he held a total voting rights share of 3.02% (corresponding to 800,000 voting rights) on September 19, 2008. In accordance with Section 22 (1) (1) (1) WpHG, the voting rights are attributable to Antoine Dréan from Mantra Investissement SCA via Mantra Gestion SAS and Mantra Holding SARL.

Mantra Holdings SARL, Paris, France, notified us in accordance with Section 21 WpHG that it held a total voting rights share of 3.02% (corresponding to 800,000 voting rights) on September 19, 2008.

In accordance with Section 22 (1) (1) (1) WpHG, the voting rights are attributable to Mantra Holdings SARL from Mantra Investissement SCA via Mantra Gestion SAS.

Mantra Gestion SAS, Paris, France, notified us in accordance with Section 21 WpHG that it held a total voting rights share of 3.02% (corresponding to 800,000 voting rights) on September 19, 2008. In accordance with Section 22 (1) (1) (1) WpHG, the voting rights are attributable to Mantra Gestion SAS from Mantra Investissement SCA.

Beyond the foregoing, the company received no further notifications pursuant to Section 15a WpHG in fiscal year 2009 and in the time until the preparation of the annual financial statements in fiscal year 2010.

## 54. Legal disputes and claims for damages

Companies of the ARQUES Group are involved in various court and administrative proceedings in connection with their ordinary business activities, or it is possible that such proceedings may be filed or brought in the future. Although the outcome of the individual proceedings cannot be predicted with certainty, due to the imponderability of legal disputes in general, it is currently believed that such proceedings will not have a significant adverse effect on the financial performance of the Group, beyond the risks that have been recognized in the balance sheet in the form of liabilities or provisions.

Siemens AG filed an arbitration claim against Gigaset Communications GmbH („Gigaset“) and ARQUES Industries AG („ARQUES“) with the German arbitration tribunal Deutsches Institut für Schiedsgerichtsbarkeit e.V. (DIS). In its claim, Siemens AG made the following motions in particular: ARQUES should pay to Siemens AG a purchase price installment of EUR 15 million, the due date of which had originally been set for September 30, 2009, but which was later disputed by reason of an agreement, and the arbitration tribunal should rule that ARQUES will be obligated also to pay the other deferred purchase price installments of EUR 15 million each, which will fall due in the years 2010 and 2011, to Siemens AG, without removing funds from Gigaset for that purpose. In addition, the arbitration tribunal was asked to rule that the deferred portion of the purchase price should be accounted for on the books of ARQUES and not Gigaset. Furthermore, the arbitration tribunal was asked to rule that ARQUES will pay to Gigaset an amount of EUR 19.6 million, which is disputed with respect to both the grounds and the amount.

In July 2009, the European Commission imposed total fines of EUR 61.1 million in connection with its anti-trust investigations of various European companies operating in the calcium carbide sector. In this connection, a total fine of EUR 13.3 million was levied against SKW Stahl-Metallurgie Holding AG, ARQUES Industries AG, and SKW Stahl-Metallurgie GmbH, with each of them bearing joint and several liability. ARQUES has filed an appeal against this ruling. Notwithstanding the appeal that has been filed, ARQUES reached agreement with the European Commission in October 2009 on the payment procedures for the 50% of the total fine of EUR 6.65 million provisionally apportioned to ARQUES and subsequently finalized these procedures by mutual consent.

## 55. Significant events after the balance sheet date

In January 2010, shares in the SM Electronic Group were sold to the subsidiary manager for a symbolic price. Subject to the occurrence of further conditions precedent, the shares still held by ARQUES are expected to be transferred to the subsidiary manager in full in July 2010.

In April 2010, the interest held by the company in the Fritz Berger Group, which is allocated to the Retail segment, was sold. The Fritz Berger Group contributed EUR 45,685 thousand to consolidated revenues and EUR 1,488 thousand to consolidated EBITDA in fiscal 2009.

On April 27, 2010, Siemens AG filed a further request for arbitration against ARQUES Industries AG. The purpose of the request for arbitration is to obtain a ruling that a "call right" held by ARQUES Industries AG for a minority interest of 19.8% held by Siemens AG does not exist (any more) and that ARQUES Industries AG consequently cannot demand the transfer of this minority interest from Siemens AG. ARQUES has obtained a legal opinion regarding this move which indicates that Siemens cannot prevent ARQUES from exercising the call right.

In July 2010, the interest held by the company in the Golf House Group, which is allocated to the Retail segment, was sold. The Golf House Group contributed EUR 26,400 thousand to consolidated revenues and minus EUR 297 to consolidated EBITDA in fiscal 2009.

Acting on a warrant issued by Munich District Court, staff of the public prosecutor's office searched the business premises of ARQUES Industries AG in Munich on July 7, 2010. The search forms part of preliminary proceedings against Michael Hütten, who is a member of the Executive Board of ARQUES Industries AG, on suspicion of breach of trust (Sections 266 I, II, 263 III No. 2 of the German Penal Code (StGB)) in connection with the withdrawal of a request for payment of EUR 19.6 million from ARQUES Industries AG in the fall of 2009 in his former capacity as managing director of Gigaset Communications GmbH. The Executive Board of ARQUES Industries AG considers the allegations against Mr. Hütten to be untenable and is cooperating with the authorities in order to help clarify the situation rapidly.

## 56. Release for publication of the consolidated financial statements

The Executive Board released the present consolidated financial statements of ARQUES Industries AG for publication on July 9, 2010. The company's shareholders will have the right and the opportunity to amend the consolidated financial statements at the annual shareholders' meeting.

Starnberg, July 9, 2010

The Executive Board of ARQUES Industries AG

Hans-Gisbert Ulmke

Michael Hütten

## REPORT OF THE EXECUTIVE BOARD

The Executive Board of ARQUES Industries AG is responsible for the information contained in the consolidated financial statements and the combined management report. This information has been reported in accordance with the accounting regulations of the International Accounting Standards Committee. The combined management report was drafted in accordance with the provisions of the German Commercial Code.

By means of implementing uniform Groupwide guidelines, using reliable software, selecting and training qualified personnel and continually optimizing the processes of the acquired companies, we are able to present a true and fair view of the company's business performance, its current situation and the opportunities and risks of the Group. To the necessary extent, appropriate and objective estimates were applied.

In accordance with the resolution of the annual shareholders' meeting, the Supervisory Board has engaged PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Munich, to audit the consolidated financial statements of the Group in the capacity of independent auditors. The Supervisory Board discussed the consolidated financial statements and the consolidated management report with the auditors in the financial statements review meeting. The results of their review are presented in the Report of the Supervisory Board.

## RESPONSIBILITY STATEMENT

"To the best of our knowledge, and in accordance with the required accounting principles, the consolidated financial statements provide a true and fair view of the assets, liabilities, financial position and earnings of the Group, and the combined management report provides a true and fair view of the Group's performance and the situation, along with a fair description of the principal opportunities and risks of the Group's future development."

Starnberg, July 9, 2010

The Executive Board of ARQUES Industries AG

## AUDITOR'S REPORT\*

We have audited the consolidated financial statements prepared by ARQUES Industries Aktiengesellschaft, Starnberg, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group management report of ARQUES Industries Aktiengesellschaft, Starnberg, which is combined with the management report of the parent company, for the business year from January 1 to December 31, 2009. 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 Section 315a (1) HGB ("Handelsgesetzbuch": German Commercial Code) and supplementary provisions of the articles of incorporation is the responsibility of the parent company's Executive Board. 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 Section 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 the 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 those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company's Executive Board, 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 Section 315a (1) HGB and the 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 requirements. 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.

In accordance with our professional obligations, we refer to the fact that the company's and the group's ability to continue as a going concern is threatened by risks which are described in the sections entitled "Financial risk" and "Risks arising from contingent liabilities" in the "Report on opportunities and risks," which is contained in the combined management report. This report includes comments to the effect that potential liquidity shortages and the possible claiming of contingent liabilities represent a threat to the continued existence of the parent company and the Group.

Furthermore, we refer to the fact that the ability of two subsidiaries to continue as a going concern is threatened by risks which are described in the "Report on opportunities and risks," which is contained in the combined management report.

München, July 9, 2010

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

(Andreas Fell)  
Wirtschaftsprüfer (German Public Auditor)

(ppa. Dorothee Mayr)  
Wirtschaftsprüferin (German Public Auditor)

\* Translation of the auditor's report issued in German on the annual/consolidated financial statements prepared in German by the management of ARQUES Industries AG.

## FINANCIAL CALENDER

July 16, 2010

Audited Financial Statements for the fiscal year 2009

Press Conference on Financial Statements

July 16, 2010

1st quarterly report for the 2010 fiscal year

August 19, 2010

2nd quarterly report for the 2010 fiscal year

August 26, 2010

Annual General Meeting in München (Germany)

November 18, 2010

3rd quarterly report for the 2010 fiscal year

## IMPRINT

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Editorial

ARQUES Industries AG

Investor Relations and Corporate Communications

Concept, Layout, Production

The Growth Group AG

www.growth-group.com

LIST OF SHAREHOLDINGS AT DECEMBER 31, 2009	LOCATION	
ARQUES Industries AG	Starnberg	Germany
AVS Holding 1 GmbH (formerly ARQUES Aktiva Verwaltung GmbH)	Munich	Germany
AVS Holding 2 GmbH (formerly Arques Wert Industrie GmbH)	Munich	Germany
ANVIS Netherlands B.V.	Amsterdam	Netherlands
ANVIS Deutschland GmbH	Steinau a.d. Straße	Germany
Anvis Russland ooo	Togilatti	Russia
ANVIS Automotive Spain S.A.	Soria	Spain
Woco Automotive Inc.	Toronto	Canada
Anvisgroup Mexico S.A. de C.V.	El Marques	Mexico
ANVIS France Epinal S.A.S.	Epinal	France
ANVIS France Decize S.A.S.	Decize	France
Société Immobilière Decize (SID) S.N.C.	St.-Léger-des-Vignes (Nièvre)	France
Anvis SD France S.A.S.	Decize	France
ANVIS ROM S.R.L.	Satu Mare	Romania
Anvis AVT s.r.o.	Vsetin	Czech Republic
Anvis (Wuxi) Rubber Anti-Vibration Co., Ltd	Jiangsu	China
PSM Holding GMBH (formerly Arques Asset Invest GmbH)	Munich	Germany
CFR Holding GmbH (formerly ARQUES Beteiligungsverwaltung GmbH)	Munich	Germany
Carl Froh GmbH	Sundern	Germany
BSM Holding GmbH (formerly ARQUES Consulting GmbH)	Munich	Germany
ARQUES Corporate Value GmbH	Munich	Germany
ARQUES Management Potenzial GmbH	Munich	Germany
Giga Home Media S.L.	Perreiro de Aguiar	Spain
ARQUES Equity GmbH	Munich	Germany
ARQUES Immobilien Equity GmbH & Co KG	Starnberg	Germany
SME Holding GmbH (formerly ARQUES Equity Management GmbH)	Munich	Germany
SM Electronic GmbH	Stapelfeld/ Braak	Germany
Skymaster Electronic HK Ltd.	Hongkong	China
Emanon OCSM GmbH	Stapelfeld/ Braak	Germany
GOH Holding GmbH (formerly Arques Sport Handelsgesellschaft mbH)	Munich	Germany
GOLF HOUSE Direktversand GmbH	Hamburg	Germany
Golf Extreme GmbH	Neumünster	Germany
ACT Immobilien Beteiligungs GmbH (formerly Arques Immobilien Wert Beteiligungs GmbH)	Munich	Germany
ACT Immobilien GmbH & Co. KG (vormals Arques Immobilien Wert GmbH & Co. KG)	Munich	Germany
ARQUES Industries GmbH (formerly ARQUES Industries AG)	Vienna	Austria
ARQUES Asset Invest GmbH	Vienna	Austria
ARQUES Commercial GmbH	Vienna	Austria
IVMP-AG	Baar	Switzerland
ARQUES European Asset Management GmbH	Vienna	Austria
ARQUES Austria Invest GmbH (formerly ARQUES Austria Invest AG) in Liquidation	Vienna	Austria
MASTROC MANAGEMENT S.L.	Amurrio	Spain
Hottinger Holding GmbH (in liquidation)	Vienna	Austria
ARQUES Capital GmbH	Vienna	Austria

<sup>1</sup> The exchange rates are presented in the „Currency translation“ section in the general part of the notes.

EQUITY SHARE DIRECT	EQUITY SHARE INDIRECT	CURRENCY '000'	EQUITY AT 12/31/09	PROFIT/LOSS 2009	AVE. NO. OF EMPLOYEES
		EUR	25,521	-45,283	41
100.00%		EUR	9,879	-10	0
	90.00%	EUR	10,569	-188	0
	100.00%	EUR	75,146	-10,326	1
	100.00%	EUR	4,278	1,103	148
	99.00%	RUR	-33,033	-34,909	16
	100.00%	EUR	17,080	-519	136
	100.00%	CAD	2,194	-3,140	0
	99.99%	USD	-23,493	-3,825	158
	100.00%	EUR	11,238	-912	159
	100.00%	EUR	35,317	-4,955	447
	99.99%	EUR	58	32	0
	100.00%	EUR	5,923	1,232	62
	100.00%	ROL	-4,521	-5,340	217
	100.00%	CZK	179,679	49,062	212
	100.00%	CNY	127,153	30,078	239
100.00%		EUR	14	-2	0
100.00%		EUR	5,201	-1	0
	100.00%	EUR	-5,783	-16,560	173
95.00%		EUR	6,291	8,568	0
100.00%		EUR	21	-4	0
	100.00%	EUR	22	-1	0
	100.00%	EUR	249	246	0
100.00%		EUR	21	-1	0
100.00%		EUR	2	0	0
90.00%		EUR	-249	-257	0
	100.00%	EUR	1,848	6	154
	100.00%	HKD	793	276	13
	100.00%	EUR	22	-3	0
100.00%		EUR	2,069	-480	0
	74.90%	EUR	3,894	-559	152
	100.00%	EUR	7	-4	0
100.00%		EUR	19	-2	0
100.00%		EUR	4	-1	0
100.00%		EUR	-529	-4,743	0
	100.00%	EUR	3,765	2,877	0
	100.00%	EUR	-117	-210	0
	90.00%	CHF	14,128	14,179	0
	100.00%	EUR	76	-174	0
8.00%	92.00%	EUR	28	-13	0
	100.00%	EUR	-3	0	0
	90.00%	EUR	-2	2,018	0
	100.00%	EUR	-263	-281	0

LIST OF SHAREHOLDINGS AT DECEMBER 31, 2009		LOCATION	
ARQUES Wert Invest GmbH	Vienna	Austria	
ARQUES Süd Beteiligungs GmbH	Vienna	Austria	
OXY Holding GmbH (formerly Mainsee 410. VV GmbH)	Marl	Germany	
Oxxynova Holding GmbH	Marl	Germany	
Oxxynova Verwaltungs GmbH	Marl	Germany	
WDK Holding GmbH (formerly Arques Industrie Asset AG)	Munich	Germany	
Wanfried Druck Kalden GmbH	Wanfried	Germany	
Wanfried Packaging s.a.r.l	Paris	France	
SKS Holding GmbH (formerly Arques Industrie Finanz GmbH)	Munich	Germany	
OXR Garantie GmbH (formerly Arques Invest GmbH)	Munich	Germany	
AWS Holding GmbH (formerly ARQUES Management GmbH)	Munich	Germany	
Arques Mediterranean Investments Ltd.	Slieme	Malta	
Arques Value Investment Ltd.	Slieme	Malta	
Arques Global Purchase Company Ltd.	Slieme	Malta	
AT Operations 1 GmbH (formerly Arques Süd Beteiligungs GmbH)	Munich	Germany	
AT Operations 2 GmbH (formerly Arques Objekt 1 GmbH)	Munich	Germany	
ARQUES Beta Beteiligungs GmbH	Vienna	Austria	
ARQUES Epsilon Industriekapital GmbH	Vienna	Austria	
Arques UK Limited (formerly WS 5002 Limited)	London	Great Britain	
ARQUES Unternehmensstrukturierung GmbH	Starnberg	Germany	
ARQUES Finanz Potenzial GmbH	Munich	Germany	
GIG Holding GmbH (formerly ARQUES Value Development GmbH)	Munich	Germany	
Gigaset Communications GmbH (formerly ARQUES Invest Potenzial)	Munich	Germany	
Gigaset Management GmbH	Munich	Germany	
Gigaset Communications Schweiz GmbH	Solothurn	Switzerland	
Gigaset Communications FZ-LLC	Dubai	UAE	
Gigaset Communications Polska Sp. z o.o.	Warsaw	Poland	
Gigaset Communications UK Ltd.	Frimley, Camberley	Great Britain	
Gigaset Communications LET M Hizmetleri LTD. T .	Istanbul	Turkey	
Gigaset Communications Argentina S.R.L.	Buenos Aires	Argentina	
OOO Gigaset Communications Russia	Moskow	Russia	
Gigaset Communications Austria GmbH	Vienna	Austria	
Gigaset Equipamentos de Comunicação Ltda.	Manaus	Brasil	
Gigaset Communications Canada Inc.	Oakville	Canada	
Gigaset Communications Shanghai Ltd.	Shanghai	China	
Gigaset Communications France SAS	Saint Denis	France	
Gigaset Communications Italia S.R.L.	Milan	Italy	
Gigaset Communications Nederland B.V.	s-Gravenhage	Netherlands	
Gigaset Communications Iberia S.L.	Madrid	Spain	
Gigaset Communications Sweden AB	Solna	Sweden	
Gigaset Communications Inc.	Wilmington	USA	
Gigaset Communications USA LLC	Wilmington	USA	
Gigaset Communications Dallas LLC	Dallas	USA	

<sup>1</sup> The exchange rates are presented in the „Currency translation“ section in the general part of the notes.

EQUITY SHARE DIRECT	EQUITY SHARE INDIRECT	CURRENCY '000'	EQUITY AT 12/31/09	PROFIT/LOSS 2009	AVE. NO. OF EMPLOYEES
	100.00%	EUR	40	0	0
	90.00%	EUR	26	-2	0
	100.00%	EUR	5,068	102	0
	100.00%	EUR	3,995	1,904	180
	100.00%	EUR	17	0	0
100.00%		EUR	985	-13	0
	100.00%	EUR	145	-1,078	194
	100.00%	EUR	162	5	2
100.00%		EUR	1,495	-2,549	0
100.00%		EUR	20	-1	0
100.00%		EUR	2,188	2,166	0
100.00%		EUR	26,070	722	0
	100.00%	EUR	15,000	12,628	2
	99.95%	EUR	2	23	0
100.00%		EUR	0	-3	0
8.00%	92.00%	EUR	-6,810	497	0
	100.00%	EUR	-8,752	-3,282	0
	100.00%	EUR	24	-2	0
100.00%		GBP	-11	0	0
100.00%		EUR	24	-1	0
	100.00%	EUR	22	-1	0
80.20%		EUR	23	-1	0
	100.00%	EUR	-12,337	-13,740	1,526
	100.00%	EUR	-2	-203	0
	100.00%	CHF	1,939	1,757	6
	100.00%	AED	4,471	501	12
	100.00%	PLN	4,021	1,425	130
	100.00%	GBP	231	-315	5
	100.00%	TRL	2,192	1,072	6
	100.00%	ARS	5,712	-3,763	6
	100.00%	RUR	19,673	1,366	10
	100.00%	EUR	1,753	-178	14
	100.00%	BRL	-11,522	107	33
	100.00%	CAD	1,796	-157	1
	100.00%	CNY	-32,291	-14,040	73
	100.00%	EUR	1,207	1,167	19
	100.00%	EUR	515	79	15
	100.00%	EUR	30	262	13
	100.00%	EUR	725	235	20
	100.00%	SEK	8,417	5,417	12
	100.00%	USD	4,996	0	0
	100.00%	USD	5,736	-4,426	21
	100.00%	USD	5,683	225	31

LIST OF SHAREHOLDINGS AT DECEMBER 31, 2009		LOCATION	
Newdial GmbH	Bocholt	Germany	
Gigaset Communications and Licensing GmbH & Co. KG	Munich	Germany	
VAN Holding GmbH (formerly Arques Wert Central GmbH)	Munich	Germany	
Van Netten GmbH	Dortmund	Germany	
Sonnina Süßwaren GmbH	Dortmund	Germany	
Sweets Project Verkaufsgesellschaft GmbH	Dortmund	Germany	
ARQUES Wert Entwicklung GmbH	Munich	Germany	
ARQUES Kapital Potenzial GmbH	Munich	Germany	
Fritz Berger GmbH	Neumarkt	Germany	
Sport Berger Ausrüstung für Draußen und Unterwegs GmbH	Neumarkt	Germany	
MDI Mediterranean Direct Invest AG	Munich	Germany	
Hortensienweg Verwaltungs GmbH (formerly Missel Verwaltungs GmbH)	Munich	Germany	
Hortensienweg Management GmbH (formerly Missel Management GmbH)	Munich	Germany	
Hortensienweg Grundstücksverwaltung GmbH & Co. KG (formerly Missel GmbH & Co. KG)	Munich	Germany	
Schierholz Translift Global Manufacturing & Finance AG i.L.	Baar	Switzerland	
Troncone GmbH	Munich	Germany	
Concilium AG	Munich	Germany	
At equity			
Vibracoustic do Brasil Industria e Comercio de Artefatos de Borracha Ltda.	Tabaté, Sao Paulo	Brasil	
BEL-Anvis ANTIVIBRATIONSSYSTEMS (Pty.) Ltd.	Port Elizabeth	South Africa	
Investments			
Arques Immobilien Verwaltungs GmbH	Munich	Germany	
Arques Immobilien GmbH & Co. KG	Munich	Germany	
WS 3021 Vermögensverwaltung AG	Starnberg	Germany	
Non-consolidated companies			
Woco-Maxtech Inc.	Warren	USA	
ANVIS Maxtech S.A. de C.V.	El Marques	Mexico	
Golf House Schweden A.B.	Stockholm	Sweden	

<sup>1</sup> The exchange rates are presented in the „Currency translation“ section in the general part of the notes.

<sup>2</sup> There are no financial statements available for these companies.

EQUITY SHARE DIRECT	EQUITY SHARE INDIRECT	CURRENCY '000'	EQUITY AT 12/31/09	PROFIT/LOSS 2009	AVE. NO. OF EMPLOYEES
	100.00%	EUR	25	2	0
	100.00%	EUR	0	0	0
90.00%		EUR	4,112	128	0
	100.00%	EUR	-21,640	108	215
	100.00%	EUR	26	0	28
	100.00%	EUR	51	0	0
100.00%		EUR	23	-1	0
	100.00%	EUR	22	-1	0
90.00%		EUR	3,034	57	221
	100.00%	EUR	407	40	50
70.00%	30.00%	EUR	7	-211	0
100.00%		EUR	-4	-4	0
100.00%		EUR	544	-246	0
	90.00%	EUR	8,846	715	0
73,33%	26.67%	CHF	1,636	0	0
100.00%		EUR	-109	-68	0
96.50%		EUR	196	-4	0
	50.00%	BRL	21,831	-873	125
	50.00%	ZAR	24,465	4,685	99
6.00%		EUR	20	0	0
6.00%		EUR	1,707	52	0
6.00%		EUR	--	--	-- <sup>2</sup>
	47.00%	USD	--	--	-- <sup>2</sup>
	99.98%	USD	--	--	-- <sup>2</sup>
	100.00%	EUR	--	--	-- <sup>2</sup>



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