

ERIKS

ANNUAL REPORT 2007



know-how makes the difference

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Profile

2 | ERIKS group nv is the Dutch holding company of a group of technical distribution companies. ERIKS group nv is listed on the Euronext Amsterdam stock exchange.

Sales of EUR 949.1 million were achieved in 2007 with an average workforce of 4,495 people. The net result in 2007 was EUR 43.7 million.

The ERIKS group procures, stocks, processes, sells and distributes a wide range of high-quality mechanical engineering components and provides a highly developed range of associated technical and logistics services.

Its operations are based on a broad and deep knowledge of market developments, product properties, product applications, product processing, logistics and a corresponding modern infrastructure. Our ability to offer these six know-how domains means that the ERIKS group is ideally placed to make a positive contribution to its customers' and manufacturers' business operations.

Based on its passion for technology and know-how, the ERIKS group has developed into a leading innovative supplier to defined branches of industry, fulfilling the twin roles of specialist and broad MRO supplier.

The ERIKS group supplies more than 90,000 industrial customers ('business to business'), markets a range of more than 600,000 articles, purchases worldwide from more than 1,000 qualified suppliers/manufacturers and sends out more than 2.5 million shipments every year.

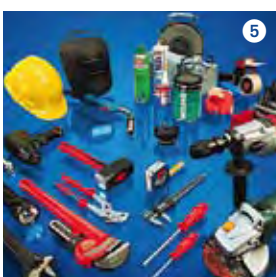
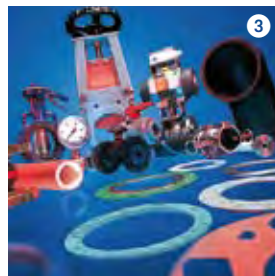
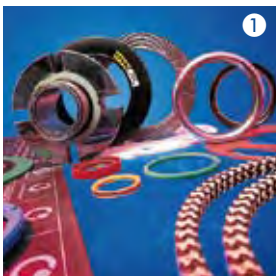
The ERIKS group currently consists of more than 50 group companies with branches in 15 countries. The geographical focus of the group's activities is in Western and Central Europe, where 95 percent of its sales are achieved. ERIKS also has branches in the USA and South-east Asia (Singapore and Malaysia).

The ERIKS group is pursuing a leading market position in Western, Central and Northern Europe. It also wants to have a direct or indirect presence in the USA and South-east Asia where this is conducive to its position in Europe.

The current range of products is divided into eight core activities:

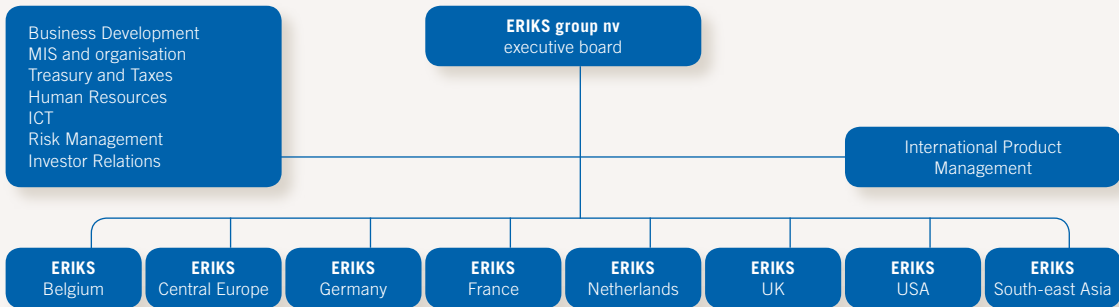
- ① **Sealing technology**
- ② **Power transmission**
- ③ **Flow technology**
- ④ **Industrial plastics**
- ⑤ **Tools and maintenance products**
- ⑥ **Electromechanical services and condition monitoring**
- ⑦ **Tolerance rings and Tire technology**
- ⑧ **Technical and logistics services**

We provide technical and logistics services as a core activity linked to the product groups contained in our core activities.



ERIKS worldwide

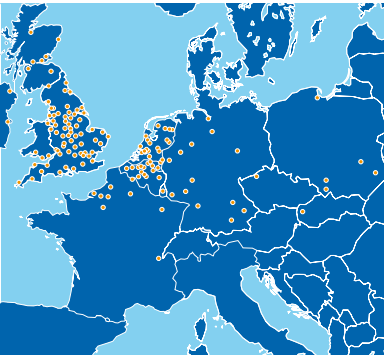
Organisation chart as per 1 January 2008



	ERIKS Belgium	ERIKS Central Europe	ERIKS Germany	ERIKS France	ERIKS Netherlands	ERIKS UK	ERIKS USA	ERIKS South-east Asia
Sales in 2007 (EUR million)	151.0	5.8	117.5	16.4	237.1	377.5	35.8	8.0
As % of total sales	15.9	0.6	12.4	1.7	25.0	39.8	3.8	0.8
Average number of employees in 2007	655	47	429	78	928	2,153	122	66

ERIKS group nv employed an average of 17 people in 2007

Branches as per 1 January 2008



- Europe**
- Belgium
 - Luxembourg
 - Germany
 - The Netherlands
 - France
 - Poland
 - UK
 - Slovakia
 - Ireland
 - Czech Republic



- USA**
- California
 - Oklahoma
 - Texas
 - Washington
 - Wisconsin



- South-east Asia**
- Malaysia
 - Singapore
 - China

The ERIKS group also has a branch in Nigeria, Africa.

Key data 2007*

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In EUR thousands	2007	2006	2005
Profit and loss account			
Net sales	949,139	543,313	448,549
Percentage change	74.7	21.1	5.9
EBITA	76,326	44,545	35,878
EBITA (excluding exceptional gains)	76,326	44,019	33,922
Percentage change	73.4	29.8	8.4
Amortisation of intangible fixed assets (excluding software)	5,244	757	82
Operating result	71,082	43,788	35,796
Percentage change	62.3	22.3	14.4
Result after taxes	44,186	27,911	22,139
Percentage change	58.3	26.1	19.3
Result at the disposal of shareholders	43,701	27,763	22,059
Cash flow			
Depreciation and amortisation	15,111	7,215	6,185
Cash flow from ordinary activities	59,297	35,126	28,324
Net cash flow from operating activities	34,083	22,525	23,327
Cash flow from investing activities	(15,756)	(209,556)	(6,888)
Cash flow from financing activities	(11,749)	198,799	(18,521)
Cash flow on balance	6,578	11,768	(2,082)
Balance sheet			
Working capital ¹⁾	187,993	170,705	107,763
Shareholders' equity	298,845	148,910	127,930
Net capital invested (including intangible fixed assets) ²⁾	405,381	405,018	172,089
Ratios			
EBITA (excluding exceptional gains) as a percentage of sales	8.0	8.1	7.5
EBITA as a percentage of average net capital invested (including intangible fixed assets)	19.3	23.0	20.8
Interest coverage ratio	9.5	11.7	12.4
Net result as a percentage of shareholders' equity	14.6	18.6	17.3
Net debt/EBITDA ³⁾	1.0	3.1	0.8
Other key figures			
Salaries, social security and pension costs	207,883	117,265	99,790
Average number of employees	4,495	2,434	2,081
Average salary costs per employee	46.3	48.2	48.0

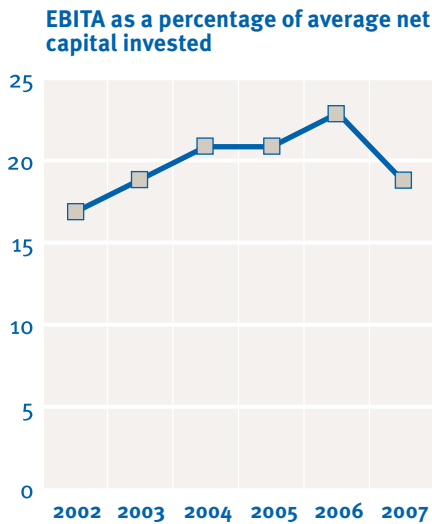
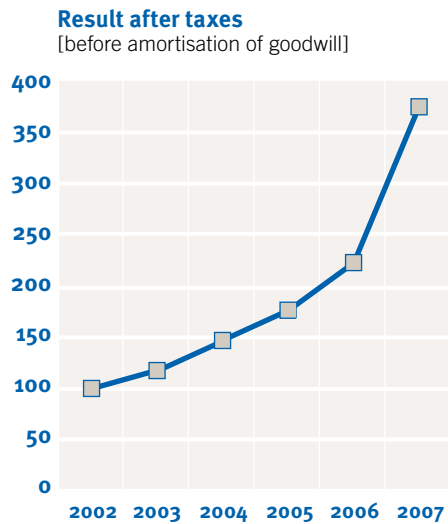
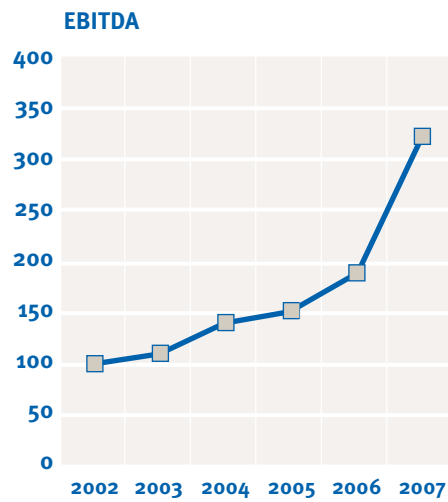
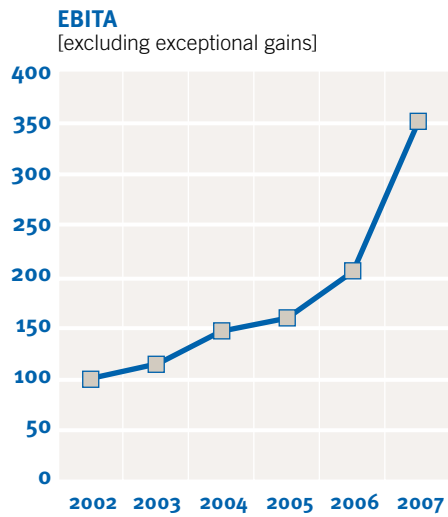
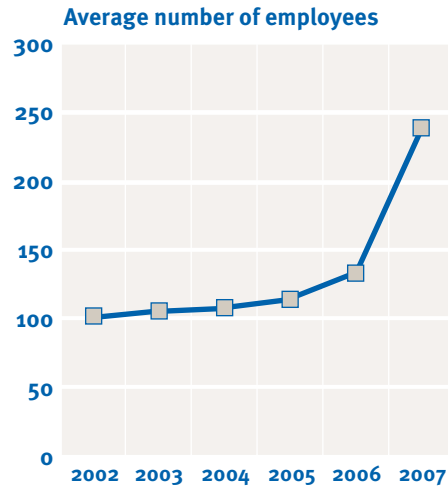
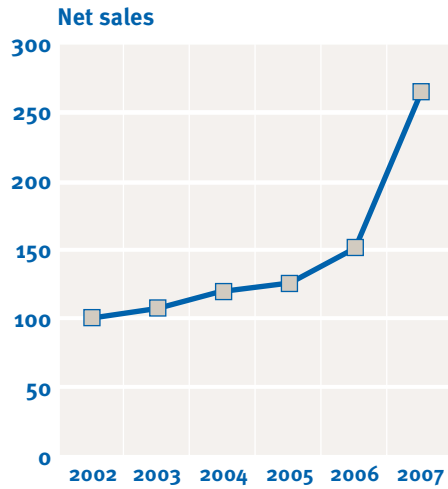
* See also 'Ten year record' on pages 122 and 123

1) Working capital = inventories + accounts receivable trade -/- suppliers.

2) Net capital invested = balance sheet total -/- liquid assets -/- participating interests -/- derivative financial instruments -/- deferred tax assets -/- non-interest-bearing liabilities.

3) Net debt / EBITDA in 2006 is estimated.

Index [2002 = 100]



ERIKS Know-how domains

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Market know-how

As a result of our close relationship with our customers we have built up outstanding market know-how. This know-how also benefits our own procurement activities, enabling us to offer new products and services proactively and promptly in response to the changing needs of the market.



Product know-how

We have an in-depth knowledge of our products and their properties. We share this knowledge with our customers through technical documentation, electronic media and personal contacts.



Application know-how

We can

- understand present applications and requirements for our customers' developing concepts and translate them into practical product choices;
- translate customers' reliability and cost issues into adapted designs and alternative product choices (product development);
- brainstorm with customers about the design and maintenance of new products and systems (research and development).



Product processing know-how (customising)

We can translate our customers' ideas into new product specifications and either supply the appropriate products ourselves or through third parties. We also offer maintenance facilities and services for components and systems supplied by us or by third parties.



Know-how of logistics processes

We are able to analyse logistics processes and tailor them to meet our customers' expectations. Our logistics concepts can be adapted quickly and easily for integration with those of our customers – from identifying customers' needs through to payment – both for the administrative side and the physical side of the process. By offering solutions ranging from supplying individual components to providing complete, integrated on-site systems, we are able to optimise our customers' procurement activities.



Know-how of infrastructure optimisation

We have efficiently-structured, state-of-the-art production facilities, an optimised logistics infrastructure and efficient, controllable ICT-systems.

Report by the chairman of the executive board

8 | The ERIKS group has been achieving fantastic results for several years now. The year 2007 was no exception. In 2007, ERIKS achieved its best results ever. Sales rose by 74.7 percent, EBITA rose by 73.4 percent and the R.O.I. amounted to 19.3 percent. On behalf of the executive board, I would like to express our sincere thanks and appreciation for the exceptional efforts of our employees. It would not have been possible to achieve this growth and the corresponding results without them.

Market conditions were very favourable in 2007. Nevertheless, it could not be taken for granted that ERIKS would derive larger than average benefits from this. The policy implemented over the past few years has clearly been fruitful. The ERIKS twin business model, in which two different sales organisations with a shared infrastructure serve both the market for machinery and equipment construction and the maintenance market, has proved to be extremely successful. In addition, ERIKS has made considerable investment in knowledge and infrastructure in the last few years and this has increased productivity. The ERIKS group is keen to be a modern present-day company in every respect.

In the past few years, much attention has been devoted to increasing organic growth. Our market share has increased in recent years in almost every region. In 2007, with an organic growth rate of 11.1 percent, our market position has once again been significantly strengthened. Apart from organic growth, much attention was paid to the integration of Wyko (UK), Turpen (USA) and Passerotti (Poland) last year. In order to speed up the formation of concrete integration plans, a development team was assembled immediately after the acquisition of Wyko. This team was responsible for bringing people together, exchanging contacts and sharing information. In this way, many results were achieved even in the first year after the acquisition and a great deal of positive energy was generated internally.

The acquisition of Wyko has been very important for ERIKS. At the end of 2006, we acquired over 2,000 new colleagues and became the undisputed European market leader in our field; sales rose by well over 70 percent and, with the United Kingdom, we added a fourth domestic market to the existing markets of Belgium, the Netherlands and Germany. However, the biggest change was the new size of the ERIKS group. With over 4,600 employees and sales worth almost one billion euros, ERIKS has become a different company. Employees, customers, suppliers and other stakeholders regard ERIKS differently now. We have always maintained that the combination of ERIKS and Wyko is a more attractive proposition for our customers than the two companies operating separately. This has proved to be completely correct. In the UK and in the other regions, it is clear that ERIKS is taken very seriously and that successes are being achieved everywhere.

Wyko, Turpen and Passerotti have found their place within ERIKS. Much work has been done in the past year, but there is still a lot to be done. ERIKS will continue to grow, both organically and by means of acquisitions. Our strategy is clear and within it our twin business model forms the basis for the future. We shall continue to invest in know-how, innovation and technology. For its industrial customers, ERIKS is a professional provider of industrial services with a passion for technology. Our geographical markets and our product groups offer a wealth of opportunities for further growth. In the existing clusters there are still many challenges in our market segments.

ERIKS will also make a positive contribution over the coming years to the business operations of its customers. Doing business with ERIKS has to be advantageous to our customers. Our know-how and our products help to cut maintenance costs and energy consumption, reduce environmental impact, increase productivity and make for a safer workplace.

It must be said that there is uncertainty regarding future economic growth and the development of industrial production. Basing ourselves on our observations of our markets, we look forward to 2008 with a great deal of confidence. ERIKS is in fine shape, but it is too early to forecast how the results will turn out for the whole of 2008.

Executive board of ERIKS group nv
J. van der Zouw, chairman

Report by the executive board

Information on the organisation, core activities, markets and market position

ERIKS group nv

The holding company acts as a strategic parent company. It performs the role of capital provider, initiator, motivator, implementer, monitor and coordinator of the strategy developed for the ERIKS group. The holding company ensures that added value is created for the group in relation to its individual companies. This means that the management of ERIKS group nv is intensively involved in defining and fulfilling the strategy of the various clusters and companies.

A decentralised organisational structure gives the companies the flexibility, inventiveness and quality they need to serve their customers adequately and act as partners to manufacturers. The ERIKS group has been divided into clusters in order to control the envisaged organic growth and growth through acquisitions.

Cluster

A cluster, a group of companies, serves a specific geographical market area. A cluster engages in one or more core activities and has at its disposal all the disciplines it needs to carry out complete operational management on its own.

The ERIKS group has 8 clusters. Taking the agreed strategy and the operational plan as a basis, the cluster managers are mandated to further develop market position within their sphere of influence.

Depending on each cluster's stage of development, it has business unit managers and account managers who are responsible for the further development of the individual core activities and the product groups they encompass. The product managers work from a central business unit (competence centre) in the relevant cluster and generally maintain direct contact with OEMs and specified maintenance customers. For the purpose of developing the product groups within a cluster and the associated services and expanding the number of product groups, the cluster and business unit managers are supported by International Product Managers who are specially appointed with that aim at group level.

Within each cluster, the regional managers are responsible for developing the market position in their defined region. This takes place via their own regional branches with the branches primarily maintaining direct contact with the maintenance market and offering the complete range of products and services. This commercial concept, which supports two business models (the twin business model), allows the ERIKS group to fulfil both the role of specialist and that of broad-based MRO supplier. Both models use the same suppliers, stocks, services and know-how available in the cluster. This twin business model forms the basis for the further development of the ERIKS group and will be developed in all clusters and their companies.



ERIKS: active in many sectors

ERIKS operates in numerous market sectors, including the chemical, petrochemical, food, pharmaceutical, oil & gas industry and machine and equipment building.

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Core activities

Our range of more than 600,000 mechanical engineering components and the associated services are divided into eight core activities and their associated product groups.

■ Sealing technology

- Flange gaskets
- Rubber technology
- O-rings
- Dynamic sealing elements

■ Power transmission

- Hydraulic hoses and accessories
- Hydraulic components and systems
- Mechanical and electric power transmission
- Gearboxes, motors and pumps
- Bearings
- Pneumatics

■ Flow technology

- Valves and instrumentation
- Plastic piping
- Hoses and accessories

■ Industrial plastics

■ Tools and maintenance products

■ Electromechanical services and condition monitoring

■ Tolerance rings and Tire technology

■ Technical and logistics services

The ERIKS group emphatically presents itself as an innovative supplier of goods and services to industry and makes a substantial contribution to the business operations of its customers and manufacturers. In addition to a high-quality product range, this also requires an organisation with a passion for technology and an advanced level of knowledge to achieve the innovative capacity that is essential for this. The ERIKS group makes this knowledge and passion available to its customers and manufacturers.

Each of the ERIKS group's activities is subdivided into six know-how domains:

1. Market know-how

Knowledge of the demand side (customers) and the supply side (sourcing know-how) of the market enables us to offer new products and services and enter new markets proactively and promptly.

2. Product know-how

We possess in-depth knowledge of products and their properties. We communicate this knowledge in different types of technical documentation.

3. Application know-how

We are able to

- understand current and future applications (of our customers) and translate them into the use of the right products;
- translate issues facing customers into new products (product development);
- brainstorm with customers on engineering for the design and maintenance of new products and systems (research and development).

4. Product processing know-how (customising)

We are able to translate the customer's wishes into new product specifications and to ensure the availability of facilities (either in-house or through third parties) to adapt existing products to the specifications.

We can offer maintenance facilities and services for performing maintenance on components and systems delivered or deliverable by ERIKS.

5. Logistics know-how

We are able to analyse and streamline logistics channels and develop and ensure the availability of logistics concepts tailored to suit our customers' requirements (from identification of the customer's needs through to payment), both for the administrative side and the physical side of the process.

We can make procurement more efficient for the customers.

6. Know-how required to optimise the ERIKS group infrastructure

We have

- efficiently structured, modern accommodation, logistics and production facilities
- efficiently structured, modern and controllable ICT.

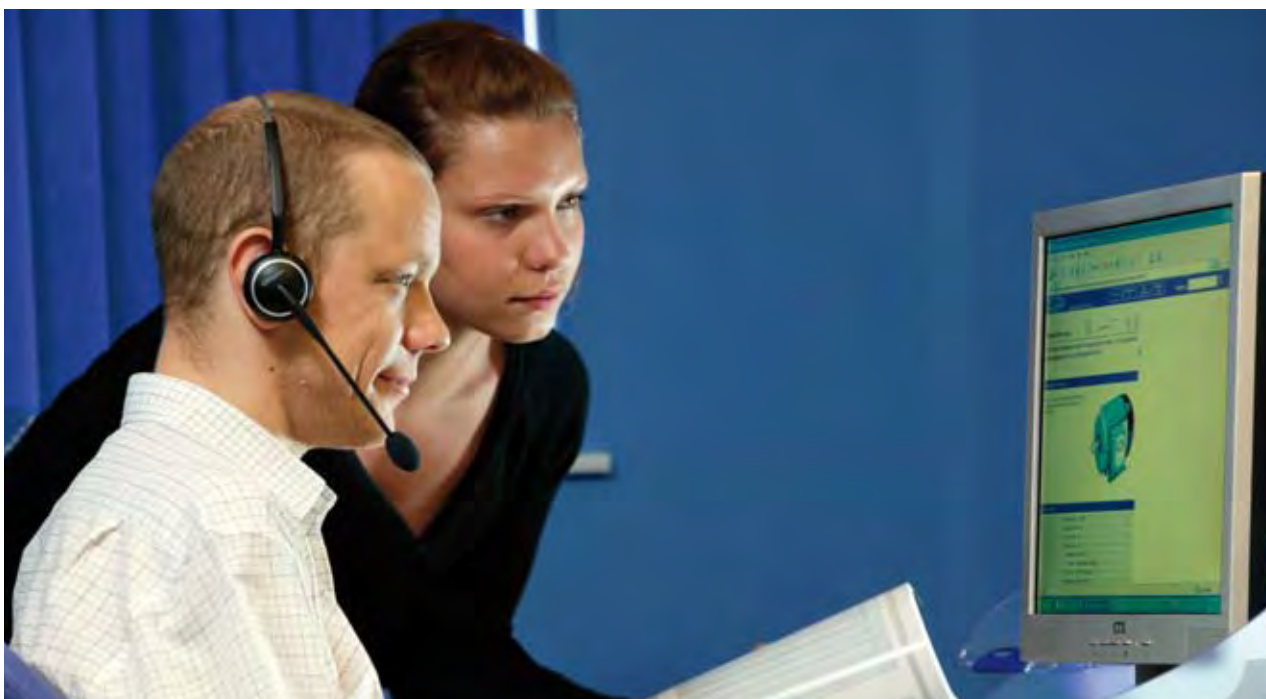
Customers

The ERIKS group serves more than 90,000 customers in all branches of industry, including chemical, pharmaceutical, food, biotechnology, mechanical engineering, semiconductor, refining, offshore and metal industries. ERIKS distinguishes between the following types of customers or purchasing profiles:

- Maintenance market (MRO – Maintenance Repair Overhaul)
ERIKS products and expertise are used directly in the servicing of systems and machines.
- OEM (Original Equipment Manufacturers)
ERIKS products and services are used in the manufacture of finished products by the customer (machine and equipment construction).

- Projects
ERIKS products and services are used for large-scale maintenance of existing processing plants and infrastructure works or for new construction project.
- Distribution
Export: ERIKS products are exported to market areas in which our group does not have its own branches, especially to obtain the required volume. In these areas we approach national distributors and OEMs.

Installation companies and engineering contractors are classified under 'maintenance market' or 'projects', depending on the type of purchases they make.



Technical services

If a standard product is unavailable, we can engineer and manufacture products according to our customer's wishes. For this purpose ERIKS has extensive design and production facilities to deliver every conceivable solution.

12 | Customers wanting an international presence are served by European Account Management at group level.

The ERIKS group is able to constantly adapt to its changing role in the supply chain and make a contribution to its customers' and manufacturers' business operations. Identifying, developing and maintaining the necessary know-how are some of the most challenging elements in this respect. This has enabled the ERIKS group to develop from a traditional distributor into an industrial service provider.

The twin business model gives the ERIKS group the following abilities

- for OEM and maintenance customers with specific requirements to
 - contribute to research and development
 - supply components, sub-assemblies and systems tailored to fit the application
 - fulfil its quality assurance role
 - ensure efficient procurement and logistics.
- for maintenance customers with general requirements to
 - supply product and application know-how
 - reduce the customer's total costs by offering products and services that help to
 - reduce the customer's purchasing budget
 - increase the customer's available time for production
 - reduce energy costs
 - reduce fluid and gas emissions (cleaner production)
 - offer maintenance services and repair facilities

- provide an efficient administrative and logistics concept for supplying a broad and deep product range (reduction in transaction costs).

Manufacturers

On the basis of partnerships, while maintaining its independent position, the ERIKS group prefers to enter into long-term relationships with manufacturers all over the world. The group's size offers many manufacturers the prospect of substantial sales and a large market share.

Market position

Customers and manufacturers alike are increasingly looking to internationalise and concentrate their activities. It is important for the ERIKS group to expand its geographical coverage for its various core activities and to be in a position to offer its suppliers adequate volume and market share.

The table below shows that the ERIKS group does not yet have a dominant position in any of its core activities, which means there are growth opportunities in all areas. The markets in some regions, particularly Germany, the UK, the USA and South-east Asia, are still very fragmented. This means that there is scope for acquiring an important position with just a small market share. For further information see 'Mission, objectives, SWOT analysis and strategy' starting on page 13 and 'Developments by cluster' starting on page 52.

Regional market shares by core activity:

Core activity	Sealing technology	Power transmission	Flow technology	Industrial plastics	Tools and maintenance products	Repair and monitoring of electro-mechanical components and systems	Tolerance rings and Tire technology* Rencol + Wyko Tyre Technology
Belgium	++	++	++	+	++	-	-
Central Europe	+	+	+	-	-	-	-
Germany	+	++	+	-	+	-	-
France	+	+	+	-	+	-	-
The Netherlands	+++	+++	++	++	++	-	-
UK	+	++	+	-	+	+++	+++
USA (region of the companies)	++	-	-	+	-	-	-
South-east Asia	+	-	+	-	-	-	-

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

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

* The activities of the specialist production units in the ERIKS UK cluster will not be rolled out to the other clusters.

Mission, objectives, SWOT analysis and strategy

Mission

The ERIKS group aims to be a leading, innovative, international supplier of a wide, high-quality range of mechanical engineering components in all of its market areas. On the basis of our passion for technology, our broad and in-depth knowledge of market developments, product properties, product applications, product processing and logistics we offer our products and services as well as our modern infrastructure which complements all these factors. This enables us to contribute positively to our customers' and manufacturers' business operations. In its market areas, the ERIKS group presents itself as a supplier of high-quality industrial services.

Know-how makes the difference

Objectives for 2008 – 2010

■ Commercial

To its customers, the ERIKS group wants to be the innovative, reliable and flexible supplier of choice in line with the defined mission. To its manufacturers, the ERIKS group wants to be a reliable, cooperative partner with sufficient market share and volume, serving the industrial market based on its extensive technical and logistics know-how. Driven by a highly developed group identity, the ERIKS group is striving to achieve the following objectives:

- to build up leading market positions in Western and Central Europe and also, in due course, in Northern Europe.
- to take a strong market share (in the top 3) in all core activities in its range in all regions where the group has its own branches.
- to offer an extensive range of high-quality mechanical engineering components.
- to possess and offer a high level of know-how so as to be an innovative supplier.
- to have a balanced spread of sales across the main customer types (purchasing profiles) of 'Maintenance' (MRO) and 'Original Equipment Manufacturers' (OEM) in order to control its risk profile.
- to expand our current activities in the USA ('buy-build' strategy).
- to maintain our activities in South-east Asia organically.

■ Organisational

The ERIKS group wants to be a modern, innovative and performance-oriented employer to its employees. In order to give our customers satisfactory service and act as a partner to manufacturers, responsibilities are laid far down in the decentralised organisational structure. This requires our employees to have a technology-driven and customer-oriented attitude, in which mutual cooperation, trust, respect and fellowship are expressly evident.

In its effort to be a modern company in every respect, the ERIKS group will continue to invest in the development of its employees, its product range and its infrastructure (ICT, machinery, storage methods and buildings).

■ Financial

On the basis of independent, organic development and average growth in industrial production, the financial objectives for the next three years are:

- Average sales growth of 10 to 15 percent (2007: 74.7 percent), of which 5 to 7 percent from organic growth (2007: 11.1 percent) and the remainder via acquisitions. This will result in sales of EUR 1.35 billion to EUR 1.5 billion in 2012.
- An operating result (EBITA) as a percentage of net capital invested, including goodwill, of at least 15 percent (2007: 19.3 percent).
- A net debt/EBITDA ratio of less than 2.5 (2007: 1.0).
- An interest coverage ratio of more than 6.
- An average rise in earnings per share of 5 to 10 percent (2007: 21.9 percent).
- A dividend payout, circumstances permitting, of approximately 50 percent of the result placed at the disposal of the shareholders plus amortisation (2007: 50.2 percent).

Achieving these objectives will foster a lasting relationship with our customers and manufacturers, increase development opportunities for our employees and create added shareholder value.

SWOT analysis

■ External analysis

Market size

There is no accurate information about the size of the market in which the ERIKS group operates. The total European market is estimated to be worth approximately EUR 40 billion. The markets in the countries in which the ERIKS group operates is worth approximately EUR 25 billion. The size of the market is related entirely to the development of industrial output.

There has been an upturn in industrial output in Western and Central Europe since the end of 2005, The increase in industrial production is especially strong in Germany, the



Eriks: a modern company

ERIKS is known for its application-specific products and added value. To continue fulfilling this role we invest continuously in knowledge and machines. The ultramodern welding robots we recently put into service are a good example. The robots are capable of welding metal hoses highly efficiently and guarantee the highest quality welding. ERIKS stands out from its competitors because of its unique products supplied at normal market prices.

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Netherlands, Belgium and the countries of Central Europe. In France, growth is weaker. In the UK, after years of stagnation, there has once again been a modest increase in industrial production since mid-2006.

In the world market, industries have been relocating for many decades now. To some extent this also applies to the more traditional industries of Western Europe. This trend is set to continue for the time being.

Against this backdrop, however, new industries and markets are developing. It is only by pursuing an innovative policy and entering these new market segments with an appropriate range of products and services that distributors and manufacturers will be able to retain and continue to increase

their sales in their existing geographical areas (see 'Strategy' starting on page 19).

Our positions in the USA and South-east Asia are still small.

Manufacturers

A clear trend towards concentration exists among manufacturers, partly because of the capital-intensive investments in operating assets and the high costs of product research and development. They are able to offer the market an increasingly wide and in-depth product range. Decisive factors in the future of the ERIKS group are developing partnerships with manufacturers, volume and market share, a large and wide customer base and a broad range of products and services in tandem with high-quality technical and logistics services.

Customers

Customers expect distributors of mechanical engineering components to deliver added value. Many customers operate a policy geared towards reducing the number of suppliers and having just one point of contact for their various national and international operations. Customers are increasingly concentrating on their core business and cutting spending on support services. Suppliers must fill the 'know-how gap' that this creates in their customers' organisations. For all customers, improving their products and/or optimising their production facilities is a priority. They also have to take care to respond adequately to each new social development and related new legislation. In addition to supplying products that are geared to the market, every customer strives internally to reduce its purchasing budget, production downtime, emissions and energy costs. Reducing transaction costs

and working capital is also a prime concern. Customers are demanding ever-increasing functionality for less outlay.

To respond to these developments, the distributor must have a broad and deep product range, good product and application know-how and processing facilities and must be able to offer logistics services. Distributors can then contribute to the development of new products and help to make the customers' business operations more efficient. Parties can then also do business with each other in an efficient way. By fulfilling these requirements, industrial distributors still have good opportunities to improve their market position. Their marketing and distribution concept must be geared towards the various types of customers.

Furthermore, a dominant pan-European presence, particularly in highly industrialised countries such as Germany, the UK, Benelux and France, is crucial for an organisation serving international customers.



Right choice means greater certainty

A seal may seem one of the simplest components of a system, but when a leak occurs somewhere in the system it quickly becomes clear just how important seals are. It can be complex to choose from an endless number of alternatives. In this process numerous different material and product properties play a role. Our specialists possess in-depth know-how of products and applications, so they always select the product that provides the best sealing solution in the application concerned.

Competitors

The European market for the distribution of mechanical engineering components remains fragmented. With sales worth EUR 949 million, the ERIKS group is the biggest European distributor in its field. There are a few other organisations with sales of between EUR 400 and EUR 500 million and some with sales around the EUR 200 to 300 million mark. Most of these organisations also have a presence in several different countries and are pursuing an international expansion strategy.

However, the combined market share of these international distributors is still small. Besides these distributors, there are many small and medium-sized family businesses that serve the market with one or more product groups nationally or regionally. The market offers the ERIKS group scope for further expansion. It has to be said, however, that the organisations (sellers and agents) involved in potential acquisitions sometimes have a highly inflated picture of the value of the activities that are for sale. In the OEM market, the ERIKS group also competes with manufacturers.

■ Internal analysis

Over the past few years, the ERIKS group has developed into a modern, innovative and know-how-driven supplier with a good, professional workforce and a modern infrastructure. The acquisitions in the UK and Poland at the end of 2006 have allowed the ERIKS group to considerably increase its market coverage in Western and Central Europe. The twin business model, which was developed in the Netherlands and Belgium, forms the basis for future growth and will be rolled out (organically and via acquisitions) to the other ERIKS clusters in Europe.

The requirements that an ERIKS company must fulfil are set out in the chapters 'Profile' (page 2) and 'Information on the organisation, core activities, markets and market position' (page 9). The degree of professionalism and maturity in each cluster and/or company obviously differs. The strengths and weaknesses therefore differ from cluster to cluster and the strategy and operational plan are established separately for each individual cluster and company (also see 'Developments by cluster' starting on page 52).

Each cluster is at a certain stage of development.

- The ERIKS Netherlands and ERIKS Belgium clusters have all the core activities in their ranges. In the Netherlands the ERIKS group has a top 3 position in all its activities, the cluster possesses all the necessary technical disciplines and it is working steadily on further developing the core activities and its local presence and expanding its logistics services by means of close cooperation between the various business units. At the end of 2008, all companies in the ERIKS Netherlands cluster will make use of the

same business information system with a single, central database. In Belgium we have not yet managed to achieve a top 3 position in all core activities, so in some cases our market shares remain vulnerable. Cooperation between the various units has now been organised and the market is increasingly being approached as a single entity. Professionalising the business units and strengthening product management are policy spearheads.

A start has been made on integrating the business information systems in the ERIKS Belgium cluster.

- The ERIKS Germany cluster has a broad range of products but is mainly active in the core activities of Power transmission and Sealing technology. The other core activities are still being developed. Extending the range will also create opportunities for entering new markets. Competence Centres have been set up for the existing product groups, and starting from 2008 all branches will approach the market under the trading name of ERIKS. The aim is to achieve a more uniform approach to the market and an improved level of know-how.
- The ERIKS UK cluster is mainly active in the core activities of Power transmission, Sealing technology and Electromechanical services and condition monitoring. Since mid-2007, it has also been active in the field of industrial hoses. A separate division, Integrated Solutions, looks after all procurement of maintenance products for specific customer 'on-sites'. Where possible, the repair activities and integrated solutions will gradually be rolled out to the other clusters. The ERIKS UK cluster currently focuses almost exclusively on the maintenance market. Expanding the number of product groups, creating competence centres, professionalising product management and approaching OEM customers will be policy spearheads for the next few years.
- Following the restructuring of activities in Northwest France, the ERIKS France cluster will mainly concentrate in the coming years on developing into a specialist distributor for the valves, seals and industrial hoses product groups. This cluster is striving to acquire a position in defined segments of the process industry, such as pharmaceuticals, fine chemistry and food.
- With the acquisition of Passerotti and Mowta in Poland at the end of 2006, a start has been made on developing the ERIKS Central Europe cluster. The status of the two companies and the quality of management and product management there offer opportunities for growth.
- The ERIKS USA cluster is active in the highly fragmented markets of dynamic sealing elements and industrial plastics. With sales worth almost USD 50 million, ERIKS USA is one of the bigger distributors of its kind. The cluster possesses the means and professionalism necessary to achieve further growth.

- The ERIKS South-east Asia cluster has a fragile market position. Ongoing innovation in the range of products and improvements in product and application know-how are resulting in a marketing mix that will set it apart from local competitors and fulfil the market's requirements.

■ Financing (2008 – 2010) and value creation

Assuming that industrial activity will continue to increase over the years, a long-range growth model is drawn up on the basis of realistic assumptions. The model shows that the ERIKS group is able to finance its targeted growth, the finan-

cial ratios will remain within the defined limits and the value of the company will increase. The financing plan drawn up based on the growth model states that the group will seek recourse to external financiers and shareholders to finance the growth (reserves and dividend policy).



Service during maintenance stops

Factories must be periodically inspected, cleaned and refurbished to operate safely and efficiently. This work is done during a maintenance stop in which step-by-step several parts of the factory are shut down. ERIKS supplies complete servicing packages containing the required components.

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The most important outcomes of the SWOT analysis are:

Strengths

- Tried and tested twin business model in the ERIKS Netherlands and ERIKS Belgium clusters, which is being generally applied in the entire ERIKS group.
- Large customer base and presence in important industrial markets.
- Good market coverage in Western Europe.
- Professionally organised European Account Management.
- Broad and deep range of products and services.
- Know-how-driven technical and logistical service provision, through which real added value can be offered to customers.
- Entrepreneurship and well educated technical and commercial employees (innovative strength).
- Offering volume and market share to manufacturers.
- Modern infrastructure (accommodation and ICT).
- Financially healthy company.

Opportunities

- Fragmented markets that offer opportunities for organic growth and growth through acquisitions.
- Big opportunities for growth (expansion of the product range and industrial market segments) in the ERIKS Germany, ERIKS UK and ERIKS Central Europe clusters (implementation of the twin business model).
- Customers who concentrate on their core business require their suppliers to make an intensive contribution to maintenance and product development.
- Offering a uniform range of products and services to international customers.
- Approach the market as an unified ERIKS group.

Weaknesses

- The ERIKS Germany, ERIKS UK and ERIKS Central Europe clusters are not active in all core activities.
- Although important steps forward are being made, the twin business model has not yet been fully developed in the aforesaid clusters.
- Individual clusters are not occupying one of the top 3 positions in all product groups.
- The six know-how domains are not universally at the required level.
- Not all the companies in the clusters are utilising an identical ICT platform.
- The infrastructure (accommodation and ICT) is still not at the desired level at all locations.

Threats

- Market contraction due to:
 - Departure of the manufacturing industry
 - A lack of innovative strength in the Western countries and insufficient development of new, high-quality industries.
- Shortage of commercially/technically skilled staff.
- High prices for potential acquisitions.

The conclusions to be drawn from the SWOT analysis for our business are as follows:

Based on our strengths

- Continue to develop and roll out the twin business model in all European clusters (see also 'Weaknesses').
- As European market leader, present the group emphatically as an unified ERIKS organisation (one corporate identity), (see also 'Opportunities').
- Continue to invest, via educational programmes and contacts with educational institutes, in commercial and, especially, technical effectiveness (see also 'Weaknesses' and 'Threats').
- Use our financial power to expand our presence in the clusters.

Based on our weaknesses

- Extension of core activities in the ERIKS Germany, ERIKS UK and ERIKS Central Europe clusters, and investment in education and product management.
- Rapid integration of the ICT systems among the various companies of a cluster.
- To enable optimum support for international customers, by ensuring uniform configuration of the product database at ERIKS group level.

Based on our opportunities and threats

- Concentrate on growth (organic and through acquisitions) in the existing clusters.
- Invest in new, upcoming industrial segments.
- Develop and supply knowledge and services that make a positive contribution to the business operations of customers.

- Continue to invest in employee education and in infrastructure.
- Expand private label products.

Strategy

The ERIKS group took various types of action and initiated and completed various projects in the year under review in line with the plans outlined under 'Key objectives for 2007' in the 2006 annual report. These are described in more detail in 'Review of 2007' and 'Developments per cluster'. The ERIKS group strengthened its position as European market leader in 2007 in conformity with its defined objectives and strategy. The market positions of our specialised companies in the ERIKS USA and ERIKS South-east Asia clusters have also improved.

In order to achieve the group's objectives, and taking into account the conclusions that can be drawn from external and internal analyses, we have categorised our strategy spearheads as follows:

■ Organic growth

We can only grow organically if the way we conduct business is focused on meeting our customers' wishes and if the ERIKS group has a distinct edge over its competitors. This will require the clusters and group companies to adopt an innovative and flexible stance in order to identify developments in the market, adapt their ranges of products and services accordingly and be willing to collaborate with each other. A precondition in this context is to increase and maintain the level of the six know-how domains described in this report. This will allow us to enter new market segments and make it possible to develop and maintain a marketing mix for each type of customer.

It is essential that the ERIKS group should have a modern infrastructure in order to guarantee adequate, efficient and modern services to its customers and also to remain attractive to its employees.



Customised products

Even with tens of thousands of articles in stock, customers approach ERIKS daily about products that need to be just that little bit different from the standard design. To meet these specific needs, ERIKS can deliver from various service-minded production sites almost every possible customised product, in any form or any material whatsoever. Know-how is what makes the difference.

Further development of the twin business model is of prime importance for the growth of the ERIKS group in Europe. This tried and tested model has been most fully developed in the ERIKS Netherlands and ERIKS Belgium clusters, but important advances have also been made and continue to be made in the ERIKS Germany, ERIKS UK and ERIKS Central Europe clusters. The ERIKS France, ERIKS USA and ERIKS South-east Asia clusters fulfil the role of specialised distributors in one or more product groups. These positions will also be extended in the coming years.

Important aspects in the development of the twin business model are:

Entrepreneurship and management development

In a highly decentralised organisational structure with a matching decision-making process, our achievement of growth hinges on our employees having a strong sense of entrepreneurship. This requirement is always addressed in the selection and supervision of employees in our organisation. To control our growth, it is essential for us to retain experienced and good management in the years ahead. The ERIKS group has a Management Development Programme in place.

KNOW-HOW – Well-trained employees

The six know-how domains must be present in all group companies and in their core activities. This enables ERIKS employees to work permanently on modernising the range of services and allows them to correctly interpret the changing needs of our customers and translate them into appropriate recommendations and services. In close consultation with our manufacturers, our employees also contribute to the development of new products.

Monitoring and where necessary improving the level of know-how (part of the operational plan in all group companies) occurs through internal and external training programmes, through contact with schools and training organisations and also by recruiting new employees.

Broad and deep range of products and services

The ERIKS Netherlands and ERIKS Belgium clusters possess a broad and deep range of products and services and serve both the OEM market and the maintenance market in defined segments. Professional product management ensures that the range is adapted to meet the market's demands.

The ERIKS Germany, ERIKS UK and ERIKS Central Europe clusters do not have all of the defined core activities and associated product groups in their ranges. As in previous years, the range will be extended in the coming years by means, where possible, of organic growth or otherwise by means of acquisitions.

ERIKS will invest in product management and the market strategy will also be organised in such a way that both the OEM market and the maintenance market can be served.

Where possible, products will be extended under our private label. These products now account for about 15 percent of sales and the objective is to increase this to 30 percent.

In the ERIKS France cluster, the activities of the Trappes branch (near Paris), which is a specialist distributor of a range of valves, industrial hoses and sealing technology, will be expanded.

The ERIKS USA cluster will continue to invest in the development of its range of sealing technology and industrial plastics, and will expand its market area via organic growth and acquisitions.

The activities of the ERIKS South-east Asia cluster in Singapore and Malaysia will concentrate primarily on further development of the valves, plastic piping and sealing technology product groups. Supported by an extensive and specialised knowledge of products and applications, plus – where necessary – our own processing activities, ERIKS will approach high-quality industrial customers.

Product management, engineering and processing

The ERIKS group wants to make a positive contribution to its customers' business operations. This is only possible if the ERIKS group has sales representatives and application engineers with knowledge of and a passion for



A lower energy bill

Using the most up-to-date and high-quality mechanical power transmission components means that doing business with ERIKS leads to considerable energy savings.

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technology who contribute proactively to the development of new products for their OEM customers and put forward suggestions for optimising their maintenance customers' production processes. In addition, the ERIKS group will continue to invest in in-house facilities in order to adapt all of its products to the wishes of customers.

Logistics services and ICT

All stakeholders in the industrial column (manufacturers, distributors and customers) need to control order flows, reduce transaction costs and control the costs of maintaining inventories (supply chain management). Supported by advanced ICT, the ERIKS group has a broad range of logistics services (Easy Order System®) in place to respond directly to this situation. We will be expanding these services and the integrated solutions developed by Wyko further in the coming years. The ERIKS group offers logistics services tailored to suit the needs of individual customers.



'Couleur locale'

A basic requirement is for us to approach customers in all regions with 'couleur locale'. We do this by having our own branches in major industrial centres.

European Account Management

A specially created platform is used to serve customers who are seeking international coverage to meet their procurement requirements.

One ERIKS

The development of a unified twin business model for all clusters makes a single group identity increasingly necessary. Where possible, the ERIKS name will be introduced in all clusters and the companies within them.

■ Growth through expansion

The ERIKS group will employ a roll-out strategy over the next few years to further expand its market area. This primarily concerns further expansion in Germany, the UK and Central Europe. In doing so we will create an uninterrupted market area of sufficient size in which the ERIKS group is able to offer its customers and manufacturers a standard package of products and services. We do not rule out related strategic acquisitions in Scandinavia. To reinforce the market positions we hold in our current activities, there will also be acquisitions within our existing market areas (with a view to obtaining a top 3 position). As stated in the chapter headed 'Risk and risk management' on page 25, candidates for acquisition are meticulously analysed and should contribute immediately to the group's profit.

■ Integration of acquired companies

All acquired companies satisfy the profile aimed at by the ERIKS group to a significant extent. However, each company also has its own specific products and services, customers and suppliers. The challenge for the existing clusters and companies is to be open to these new products and services. The same applies to the acquired companies in relation to the products, services and market concepts existing within



Breakdowns cost money

Productivity, process interruptions, downtime and production capacity are key subjects in non-stop processes. ERIKS contributes actively towards minimising process interruptions. Here again, know-how makes the difference.

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the ERIKS group. In this fashion, the range of existing and new companies is expanded in a natural manner.

An integration team is set up for the integration of each acquired company. In addition to the management of the acquired company, this team includes the cluster management and the International Product Managers.

For the purposes of organisation, supervision and control, the acquired company is immediately integrated into the ERIKS group's existing framework for Enterprise Risk Management (see also the chapter 'Risk and risk management' on page 25 of this report).

■ Employees

The decisive factor in a company's success is the quality of the organisation and the employees. The ingredients for a good relationship between the ERIKS group and its 4,650 or more employees are a clear strategy with achievable but challenging targets, open and honest labour relations and competitive employment terms and fringe benefits. This includes offering them good opportunities for self-development.

The Human Resources policy agreed at group level is translated into concrete plans of action at cluster level.

We expect our employees to contribute actively to achieving the necessary growth and to demonstrate a high degree of personal responsibility.

■ Efficient operational management

Management is devoting undivided attention to administrative and physical logistics. The group has invested in advanced systems and accommodation appropriate to its operations and will continue to do so.

Advanced business information system

The objective is that all the companies within a cluster should utilise one and the same business information system (one cluster – one system). The group's express preference is for the SAP business information system that has been implemented in the ERIKS Netherlands and ERIKS Belgium clusters. A template has now been developed to provide functional support for the twin business model. In principle, this template will be introduced in all Benelux branches in the next two years.

In accordance with policy, within each other cluster one identical business information system is used. The functionalities of the system are to be expanded. The business information systems in some clusters will have to be modernised in the coming years.

Taking into account all the above factors, plans will be developed to implement these modernisations. ERIKS will also invest in cross-cluster systems in the coming years.

Physical logistics

In physical logistics, a distinction is made between bulk (for all clusters), cluster and branch level warehousing. The ideal

split of these three areas will always depend on developments in the distribution channel. All companies in the group conduct an annual review to establish whether our operational management could be improved by making adjustments to our accommodation and logistics structures.

■ Synergy

Our group companies work together wherever there is potential synergy. International Product Managers, specially appointed for this purpose, are actively involved in and jointly responsible for:

- the coordination and composition of the range of products
- maintaining relationships with existing and potential manufacturers
- monitoring the level of know-how and transfer of knowledge
- the development of logistics services
- identifying new markets and the products and services on offer in these
- tracking market developments
- listing candidates for acquisition.

Our central Corporate Information Management (CIM) department defines ICT policy and ICT standards for the ERIKS group. The ERIKS group's financial, treasury and fiscal structures are organised centrally.

In the chapter 'Review of 2007' starting on page 30, progress of the implementation of the strategy is discussed in more detail.

The chapter 'Developments by cluster' starting on page 52 expands further upon the objectives, strategy and implementation for each cluster.



Every shape in rubber

Rubber and moulded rubber work are a part of ERIKS. Our 60 years' of experience means we are able to 'make whatever we see'.

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Corporate social responsibility

The board of ERIKS group nv maintains the basic premise that the company is a long-term partnership of the various parties involved in the company (see the 'Corporate governance' chapter starting on page 68). The board has a duty to consider the interests of all stakeholders in the company. However, our number one consideration will always be the continuity of the enterprise and the creation of shareholder value. In addition, increasing attention is devoted to the manner in which the company approaches the concept of 'Corporate social responsibility'. Corporate social responsibility means that the company considers the effects of its business operations on the environment and on people within and without the company. As a leading industrial service provider, ERIKS focuses in its business operations not only on achieving financial results but also and quite emphatically on the social and environmental aspects of its activities.

Corporate culture: norms and values

The ERIKS group has a corporate culture aimed at realising attainable goals announced clearly beforehand to those directly involved. Clarity in verbal and written communication characterises the ERIKS organisation. The informal organisation and short lines of communication between management and employees guarantee uniform norms and values that ERIKS stands for. The ERIKS group sets great store by honesty and integrity in its business dealings. A good reputation is something to be treasured.

Code of conduct and compliance

The code of conduct contains the main principles of the ERIKS group's norms and values. The code of conduct requires the ERIKS group to carry out its activities honestly and openly, with respect for human rights and the interests of the group's employees. All employees are required to comply with this code and they are encouraged to report any infringement (or suspected infringement) of the code of conduct or other rules applicable within the ERIKS group

to the management ('whistle blowers' regulations). Failure to observe the code of conduct is regarded as a violation of business integrity. Neither the supervisory board, the executive board nor local management received any reports of violations during the year under review.

Employees and social commitment

The ERIKS group attaches great importance to open communication and involves its employees at all levels in the formulation of objectives and strategy. Naturally, there is regular feedback concerning the current state of affairs and plans for the future.

Trust between employees is an important precondition. This is necessary to enable them to dare to ask questions, make mistakes (and learn from them) and hold each other to account regarding agreements that have been made. In this way, we create and maintain a positive working environment.

Our employees are the most important factor in the successful achievement of optimum performance. The ERIKS group's objective is to provide a modern infrastructure in which employees can achieve maximum performance in a pleasant working environment. Most of the companies in the ERIKS group are ISO certified and work to clear guidelines and procedures. Our health, safety and working conditions meet the standard requirements.

In addition to recruiting well-qualified new employees, ERIKS devotes much attention to the development of its existing employees. In the Benelux, Germany and the UK, a great deal of time and money is invested in Management Development programmes. Employees receive feedback on their performance in periodic performance interviews, in which further specialisation and professional training courses are also on the agenda.

As part of our human resources policy we maintain contact with schools and training institutions. The purpose of this contact is for ERIKS to contribute to the technical content of educational courses.

The management teams of the companies in the ERIKS group are encouraged to participate in technical and public interest organisations and to contribute to local, social and cultural events.

Environment

As a supplier of a high-quality range of technical components, the ERIKS group is obliged to conduct a sound environmental policy. It takes account of environmental aspects both in its own business operations and in product development and advice to customers. New social insights and tightening of environment-related laws and regulations are closely observed. This has led ERIKS and its customers to devote more attention to saving energy and reducing risks to the environment. In cooperation with its manufacturers and customers, ERIKS actively responds to the new environmental regulations in product development. In almost all the product groups, products and applications are developed under private label and in consultation with manufactur-

ers to reduce emissions and leaks in the process industry. ERIKS advises its customers about possibilities for reducing maintenance costs, preventing machine downtime, increasing productivity, reducing energy consumption and limiting leaks and emissions, thereby implicitly working to reduce environmental impact.

Our group companies collect and dispose of various waste streams such as paper, oil and residual materials in a responsible manner.



International project management

ERIKS is involved in major projects of international contractors. We work on the construction of new refineries, petrochemical complexes, power stations and gas and oil production installations. ERIKS handles project management for the delivery of valves, hoses and seals.

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Risk and risk management

Internal risk management and control systems

The executive board is responsible for putting effective internal risk management and control systems in place and for the functioning of these systems. The purpose of these systems is to enable us to manage the biggest risks to which the company is exposed as effectively as possible, achieve our operational and financial objectives and comply with legislation and regulations.

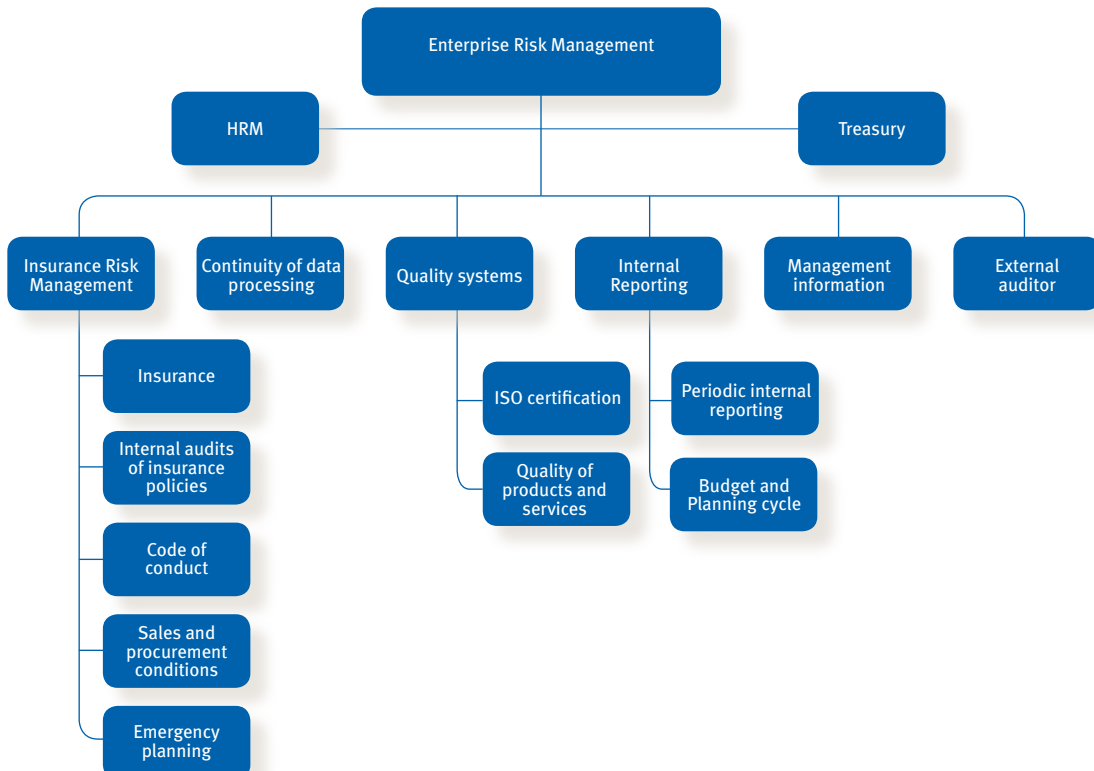
In response to the provisions of the Dutch corporate governance code, our many existing and informal measures for controlling market, operational and financial risks have been embedded in an 'Enterprise Risk Management' framework.

In recent years this framework has been introduced in the clusters and companies belonging to the ERIKS group. The framework's operation and set up are continuously evaluated and adjusted when necessary. In the year under review, those companies acquired in the fourth quarter of 2006 – especially Wyko – have made significant advances in implementing the Enterprise Risk Management framework.

This framework can be specified as follows:

We have structured the entire Enterprise Risk Management framework in such a way that

- every cluster and company has sufficient insight into our market position and is clear about the strategy and the financial and operational results to be achieved;
- reliable information on the state of affairs in the various clusters and companies and their respective core activities can be obtained promptly;
- the company's assets and resources are properly managed;
- sufficient information is obtained to assess whether the continuity of the day-to-day operational activities is assured;
- sufficient performance indicators are obtained to assess and improve the effectiveness and efficiency of our primary business processes;
- we obtain an adequate and timely insight into our present and future needs for financial resources;
- we obtain timely insight into the quality and availability of the management we need;
- the use of financial derivatives is in accordance with the defined guidelines.



We have produced manuals, guidelines and procedures for financial reporting, the budgeting and planning process, insurance risk management, treasury, human resources management and monitoring the continuity of data processing and security at group level. These documents are evaluated and revised every year.

Within the scope of the risk management and control system, the managers of our group companies are responsible for the structure and functioning of the system in their own companies. Each year they report on this matter directly to the executive board and issue a Letter of Representation which is appended to the financial statements. With each company we agree – on an annual basis if necessary – an action list for improving the risk management and control system for each part of the framework.

The executive board is aware that however professional the management systems may be, they cannot offer absolute certainty that the company's objectives will be achieved, nor can they entirely prevent material inaccuracies, losses, fraud or contraventions of laws and regulations.

Every year our external auditors audit the key aspects of the structure and functioning of the accounting organisation and the internal control measures it contains. They report back on this to the local management teams, the executive board and the supervisory board.

The executive board discusses the structure, functioning and findings of the complete risk management and control system with the supervisory board once a year.

To the extent that it is professionally able to judge this, the executive board of ERIKS group nv is of the opinion that the internal risk management and control systems of the ERIKS group deliver a reasonable level of certainty that

- we can form an accurate opinion on the extent to which our companies' objectives are being achieved;
- our financial reporting does not contain any material inaccuracies;
- the organisation complies with applicable laws and regulations;
- our internal risk management and control systems have worked well during the year under review;
- there are no indications that the internal risk management and control systems will not work well in the current year.



ERIKS in the energy, oil and gas sector

ERIKS operates across the energy, oil and gas sector where saving energy and mitigating environmental risks rightly receive considerable attention. Our products are developed in close consultation with our customers in order to limit emissions and leaks to the fullest possible extent. ERIKS advises its customers in the field of reducing maintenance costs, preventing machine downtime, increasing productivity and reducing energy consumption.

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The following comments can be made about the most important risks:

Market risks

■ Sensitivity to economic cycles

The size of the market in which the ERIKS group operates is related entirely to the development of industrial output. In our home markets in Western Europe, the trend is for labour-intensive industries to relocate to other parts of the world. Only the development of new industries and healthy economic growth can ensure growth of the whole market. Our sales are distributed widely between many customers because of our broad approach to the market, our presence in all industries and our contacts with different customer groups. A large proportion of our sales is generated in the maintenance market, which is not particularly sensitive to fluctuations in the economy. The OEM market for our products, on the other hand, is more sensitive to cyclical movements. With the acquisition of Wyko (ERIKS UK), we have significantly increased the share of our total sales made in the maintenance market. We are aiming for a balanced spread of sales throughout both markets. This has made the risk profile reasonably controllable in terms of sales. There is an adequate spread of manufacturers on the procurement side.

■ Competition

The market for mechanical engineering components is fragmented. The ERIKS group is the largest European distributor in this market. Our competition is made up of a number of distributors who operate internationally and many national and local distribution companies. Manufacturers are also competing with the ERIKS group for the large OEM customers.

■ Growth through acquisitions

The growth the ERIKS group wants to achieve is partly dependent on acquisitions. In general, acquisitions involve greater uncertainty and risk than organic growth. The ERIKS group is endeavouring to limit these risks as far as possible by selecting acquisition candidates carefully and through detailed analysis and evaluation during the acquisition process. Whether or not an acquisition goes ahead is also partly determined by the availability of adequate management manpower to guide the integration of the acquired company in a professional manner. Acquisition candidates that would require a 'turnaround' are not considered. Important matters examined in the analysis are the presence of skilled management, a solid, market-oriented corporate culture, sufficient size, a good spread of sales between customers, a range that complements the ERIKS group and reliable, high-quality suppliers.

Another important factor determining whether an acquisition goes ahead is that the management of the candidate

company and the management of the ERIKS group should share the same vision regarding the further development of the company and its role and position within the ERIKS group. For each acquisition, an integration team is set up; this team systematically takes care of commercial guidance, coordination and integration. In addition, the internal reporting systems of the ERIKS group are immediately introduced in the acquired company and the first steps are taken towards implementing the Enterprise Risk Management framework.

Operational risks

We have identified the following significant operational risks.

■ Availability of professional managers

The present and future availability of professional managers is examined periodically at group, cluster and group company levels. Special recruitment programmes have been developed to attract good commercial and technical staff in some areas in which the ERIKS group operates. Our internal training and recruitment programmes are tailored and adjusted to suit the findings.

■ Continuity of data processing and security

The technical management of the ERP system in use in the larger group companies in the Netherlands and Belgium and in the ERIKS Germany cluster has been placed entirely in the hands of professional service providers. Measures have been taken there to safeguard the continuity of data processing and transmission. In the ERIKS UK cluster, the remote operational technical configuration has been supplemented by the installation of a second, duplicate configuration. For the other companies, we have put internal measures in place and concluded agreements with hardware suppliers. In the event of an emergency we have contingency procedures in place to bridge a particular period. These procedures are reviewed periodically.

In the year under review we started mapping out the security measures in use in the ERIKS group and drafting corporate security guidelines.

■ Product liability

The risks of malfunctions in the products we supply and the ensuing claims for consequential loss are adequately covered by arrangements and agreements with the manufacturers and additionally through our own group product liability insurance. However, this does not relieve the ERIKS group of its duty to supply products that meet customers' requirements. Procedures for meeting the defined quality standards have been and are being put in place in all our companies.

■ Fire damage and loss of profits

The group is insured against fire damage and loss of profits. Our internal procedures, preventive measures and physi-

28 | cal status of the various companies are assessed annually. Corrective measures are taken where necessary.

Another important aspect in risk reduction is quality assurance. This aspect forms a permanent part of the working methodologies. The processes of most of our group companies are NEN ISO-9000 certified.

Financial risks

The financial risks can be broken down into credit risks, liquidity risks, interest rate risks and exchange rate risks. With regard to *credit risks*, credit policy provides for continuous monitoring of the positions at the financial institutions with which treasury transactions are entered into. These counterparties involved in the treasury activities are assessed on their creditworthiness. No breach of contract by any counterparty is anticipated. Due to the wide spread of customers to which and markets in which ERIKS products are sold, there where no significant

credit risks among the ERIKS group's trade accounts receivable as per 31 December 2007.

Liquidity risks are determined by cash flow and access to financial resources. By systematically basing the management of the company on cash flow and at the same time deliberately aiming for and maintaining a high credit rating (solvency, interest coverage and so on), the ERIKS group has managed to limit its liquidity risk.

The financing of the Wyko acquisition by means of a bridging loan at the end of 2006 led to solvency falling below the required norm. With the revenues from the new share issue (net worth EUR 122.6 million) in January 2007 and the new EUR 250 million five-year syndicated credit facility agreed with the banks (without security or guarantees), which came into effect in June 2007, the bridge loan and other existing facilities has been repaid, our shareholders' equity has been increased and the ERIKS group once again meets the required credit-rating standards.



ERIKS Clean room

Dirty technical components can cause systems and processes to fail. This is why increasingly tighter regulations are being applied and why especially the pharmaceutical, semiconductor and food industries require components to meet increasingly stringent cleanliness requirements. As a leading industrial service provider, ERIKS is able to prevent component and system contamination thanks to its own Clean room.

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From the anticipated development of sales and results, considerable cash flow is generated that enables the ERIKS group to finance some of its growth from its own funds. The ERIKS group also has sufficiently generous credit facilities to fully finance the planned 10 to 15 percent growth organically. Should the need to take significantly larger steps arise, the ERIKS group will raise alternative funding. Opportunities in this area are defined with the aid of scenario planning and are set out in the company's long-range financing plan.

Interest rate risks are important for the ERIKS group because the level of interest rates determines the cost of borrowed capital. The ERIKS group holds debt instruments and interest rate derivatives but does not trade in them, so its policy on interest rate risk is not based on changes in the value of these contracts. With interest rates as they are at present, the policy is geared to fixing interest rates for the medium to long term.

Exchange rate risks are important to the ERIKS group because it purchases its trade goods all over the world. As fluctuations in exchange rates are usually directly translated into changes in selling prices, albeit with some delay, our policy on exchange rate risk concentrates on hedging significant risks in the transaction sphere.

Translation exposure is not generally hedged.

■ Financial instruments

To manage liquidity, exchange rate and interest rate risks, the ERIKS group uses derivative financial instruments such as forward exchange contracts, interest and currency swaps. These contracts are concluded solely by the treasury department and are never used for speculative purposes. Counterparties for financial instruments are assessed on their credit rating.



A clear vision of super-clean products

In this professional Clean room our strict procedures and regulations ensure products are cleaned and packed under optimum conditions. More than ever before, ERIKS is able to fulfil its customers' wishes and specifications.

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Review of 2007

Highlights of 2007

■ Financial

- Sales increased by 74.7 percent, through
 - organic growth of EUR 59.7 million or 11.1 percent
 - a EUR 350.8 million increase in sales through acquisitions made in 2006 and 2007
 - a EUR 1.8 million decrease in sales through the sale of activities
 - a EUR 2.9 million decrease in sales through lower exchange rates of foreign currencies.
- EBITA increased by 71.3 percent to EUR 76.3 million (2006: EUR 44.5 million).
- Amortisation of intangible fixed assets from acquisitions of EUR 5.2 million (2006: EUR 0.7 million).
- Result after taxes increased by 58.3 percent to EUR 44.2 million (2006: EUR 27.9 million).
- Earnings per share of EUR 4.23 compared with EUR 3.47 in 2006, representing an increase of 21.9 percent.
- Increase in earnings per share before amortisation from EUR 3.55 in 2006 to EUR 4.59 in 2007, an increase of 29.2 percent.
- Cash flow per share of EUR 5.74 compared with EUR 4.40 in 2006, representing an increase of 30.5 percent.
- All clusters contributed to the higher financial results and expanded and strengthened their market position.

■ Organisational

- Successful integration of the companies acquired in 2006 and 2007.
- Important progress was made in the development and implementation of the twin business model.
- National and International Product Management was extended and strengthened.
- Successful recruitment of new employees to support the growth and expansion of operations.

■ Expansion and product and market development

- In the context of the roll-out strategy and the development of the commercial concept:
 - ERIKS UK purchased the shares of Flexible Hose Supplies (FHS) on 9 July 2007. FHS has 45 employees and annual sales of GBP 5.1 million.
 - ERIKS UK took over the trading activities of Forco Electrical Services in Exeter on 23 November 2007. Forco is involved in Electromechanical services and conditioning monitoring. It has 9 employees and annual sales of GBP 400,000.
 - Preparations have been made for the acquisition of
 - Schmitztechnik GmbH in Mönchengladbach, Germany as of 1 January 2008. This company has 15 employees and annual sales of EUR 5.5 million

- Wielens Beheer bv in Groningen, the Netherlands as of 31 January 2008. This company has 70 employees and annual sales of EUR 22 million.
- Expansion and deepening of products and services in all clusters and entering into new market segments.

■ Operational management and infrastructure

- Expansion and modernisation of the processing facilities at various companies.
- Significant progress has been made with the roll-out of the SAP business information system in the Netherlands and Belgium.
- Connecting the companies which were acquired in Germany and the USA in previous years to the business information system used by the clusters.
- Permanent improvements to the set up of business processes.

■ Refinancing of the ERIKS group

Refinancing of the ERIKS group by

- the issue of new shares with a net revenue of EUR 122.6 million realised in January 2007
- entering into a syndicated credit facility worth EUR 250 million in June 2007.

This replaced the existing facilities and paid off the bridge loan.

■ Market developments

For a distributor of mechanical engineering components like the ERIKS group, sales trends are primarily dependent on the development of industrial output in the countries in which it operates.

The world economy has seen enormous growth in the course of this reporting year. Industrial activity showed an above-average increase in all regions in which the ERIKS group operates.

The chapter 'Mission, objectives, SWOT analysis and strategy' starting on page 13 of this report includes a detailed external analysis of the scale of the market, trends among manufacturers, customers and competitors, the opportunities and threats for the ERIKS group and how we can and should respond to them.

As mentioned above, the business community is continuing to internationalise. All industries and the corresponding industrial chains are seeking to increase efficiency throughout the supply chain. In the year under review, important partnerships, mergers and acquisitions again took place in the industrial chain (manufacturers, distributors and customers). Consolidation is also taking place at a number of larger European distributors. ERIKS would like to play a significant role in this. This has caused shifts and innovations in the roles of the companies concerned. This situation requires a continuous evaluation of the role of distributors



Reducing Total Cost of Ownership

Through its Easy Order System®, ERIKS offers a comprehensive range of technical and logistical services plus a wide array of e-business solutions. These concepts include a free online portal called www.tradcom.nl. This large catalogue and order system, with a complete range of technical components, enables electronic business in any ordering environment. By means of this system we are helping our customers to reduce Total Cost of Ownership and thus increase their competitive edge.

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of technical components. In order to remain competitive, distributors must be able to offer manufacturers substantial volumes and market share and must possess a sales structure which is sufficiently well-trained in both technical and commercial aspects. In addition to possessing sufficient scale in each product group, a technical supplier must also be the premier specialist in the marketplace. At the same time, the supplier must be capable of fulfilling the role of a total supplier, able to offer a broad range of products and services. This will take more than the availability of products and good logistics services alone. Customers emphatically require their technical suppliers to also play a role in the development of new products and the optimisation of their production capacity. Saving energy, minimising emissions and leakage and reducing down-time are spearheads in our customers' business operations. Leading customers, particularly in the maintenance sector, also increasingly want their suppliers to have an international presence.

It is imperative for a modern distributor to possess knowledge of the market, products, applications, processing and internal and external logistics. Only then they will have the ability to innovate in response to the highly demanding requirements of manufacturers and industrial customers.

The ERIKS group's total share of a European market worth more than EUR 40 billion is still very limited; however, this also holds true for the other leading distributors. We are convinced that we can fulfil the aforementioned twin role of specialist and total supplier in the market. We are devoting our attention primarily to the six know-how domains in all our companies and product groups. On the industrial market, the ERIKS group has developed from a traditional distributor into a professional industrial service provider.

The ERIKS group has developed a twin business model in the Netherlands and Belgium that fleshes out the aforementioned developments. In the next few years this model will

be gradually implemented in Germany, Central Europe and Great Britain via organic growth and acquisitions. Strategic acquisitions in Scandinavia should not be ruled out.

In France, ERIKS will be aiming at a more limited role as a specialist in a few well-defined product groups.

The markets in which the ERIKS group is active in the USA and South-east Asia also remain highly fragmented. Besides organic growth we will pursue growth through acquisitions in the USA.

■ Progress in strategy

In general terms, our policy is based on the following cornerstones (see also 'Mission, objectives, SWOT analysis and strategy' starting on page 13):

- organic growth
- expansion
- integration of acquired companies
- good relationships with employees
- efficient operational management
- realising synergies.

The main starting points for 2007 described in the 2006 annual report have almost entirely been realised. As announced previously, during the reporting year a great deal of time and attention was paid to the integration of the acquisitions which were realised at the end of 2006: Wyko in the UK, Passerotti and Mowta in Poland and Turpen & Associates in the USA. A number of smaller acquisitions were realised during the reporting year, together with preparations for acquisitions planned for realisation in 2008.

Great progress has been made in the Netherlands, Belgium, Germany and Great Britain in the development and implementation of the twin business model. This process is nearly complete in the Netherlands and will be completed in Belgium in the next two years. The ERIKS Germany and ERIKS UK clusters, as well as the ERIKS Central Europe cluster, have drawn up a long-term plan aimed entirely at developing the twin business model.

In the chapter 'Developments per cluster' starting on page 52 more information is given on how the various clusters are progressing.

Following on from the strategic cornerstones mentioned above, we can report the following developments for the ERIKS group as a whole.

Organic growth

Assuming that industrial activity continues to grow at a normal rate, the objective of the ERIKS group is to achieve organic growth of between 5 and 7 percent.

Industrial activity increased in all regions in which the ERIKS group operates. Some regions even saw an above-average increase.

We are delighted to be able to announce that our organic growth in 2007 amounted to 11.1 percent. Following the 10.5 percent growth in 2006, this is the second year in succession that above-average growth has been realised.

Almost all clusters in the ERIKS group have taken initiatives to approach new market segments and have broadened, deepened and modernised their ranges of products and services. Approaching the market through competence centres (as a specialist) and through account managers and local presence (as a total supplier) has struck the right note among our different customer groups.

The European Account Management concept was set up during this reporting year to provide support to our international customers. The first successes have already been achieved.

We have devoted and will continue to devote a lot of time and effort to developing and maintaining the level of know-how of the six know-how domains. The management and sales organisations of our companies recognise that possessing the necessary know-how is essential, if we are to enter into contacts with our manufacturers and customers and expand our market shares in a professional way. Innovation starts with know-how and cooperation. In the Netherlands, Belgium and Great Britain, where we have our largest market shares, we are pursuing growth by means which include ensuring good coverage and a good spread of local branches and offering a broad range of technical products.

Maintenance concepts which are tailored to the customers in the maintenance market, are being developed in all clusters. An important aspect of this is that pro-active advice can be given in order to optimise the customers' production process.

Expansion

One of our objectives is for the ERIKS Group to grow by 7 to 8 percent on an annual basis by means of acquisitions. As mentioned in the 2006 Annual Report, for the ERIKS group the year 2007 was dominated by the integration of the companies acquired at the end of 2006, and in particular Wyko.

Two acquisitions led to an increased annual sales of the ERIKS UK cluster by GBP 5.5 million (EUR 8.0 million) and a position in the product group hoses and accessories was secured.

Various contacts with attractive acquisition candidates were also made during this reporting year. Extensive talks and negotiations took place with a number of parties, large and small, whose product range, market position and regional location are in line with the desired expansion strategy. Ultimately these contacts did not lead to an acquisition.



Knowledge of product and application

Specific hoses for ship-to-shore transport in the shipping industry. As a leading hose supplier offering a high-quality range of hoses, couplings and compensators, ERIKS is able to advise the customer in detail and offer the best possible price/quality ratio. This underlines how doing business with ERIKS has benefits on many fronts.

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At the end of 2007 and at the beginning of 2008 the acquisitions of Schmitztechnik GmbH in Mönchengladbach, Germany and Wielens Beheer bv in Groningen, the Netherlands, were concluded.

Integration of acquired companies

A great deal of time and effort was expended during this reporting year on the integration of the companies Wyko, Turpen, Passerotti and Mowta which were acquired at the end of 2006. Integration plans were drawn up for each company and are being implemented by development teams set up for this purpose. Important elements in these integration plans are the exchange of know-how and products and services between the acquired companies and the existing clusters and companies in the ERIKS group. This will result in new market opportunities for all the companies concerned. Of course, the product range and the suppliers will be geared to each other and, where possible, purchasing will be coordinated. The international product managers and the product managers play a pioneering role in this. Where possible the acquired companies will be connected to the business information systems already in use within a cluster. All acquired companies have made enormous progress in this reporting year with the introduction of the Enterprise Risk Management framework.

Good relationship with employees

Based on policy developed at group level, almost all clusters and companies have put a great deal of effort into recruiting new employees in order to support the growth of the companies. We are very pleased to have succeeded in this despite the tight labour market. The career development programmes which were already in place in many companies have been adapted. These programmes pay a great deal of attention to raising the level of know-how (the six know-how domains) and supporting/coaching employees.

The executive board of ERIKS group nv and the management teams of the clusters and companies devote considerable attention to communicating the group's strategy and its implementation and progress. This ensures that employees have a clear picture of what is expected of them and enables them to make an active contribution to realising growth.

Efficient operational management

Restructuring

At the beginning of 2007 the activities of the three small, local distribution companies in France were restructured. The activities of one of these companies were successfully added to those of the Baudoin group in Belgium. The other activities have been allocated to Baudoux Industrie sas. Changes have been made to the product range and commercial and organisational control of Baudoux Industrie and the company has returned to profitability.

Infrastructure

Adequate control of the administrative and logistics processes is a precondition for successful entrepreneurship. The position of Administrative Logistics manager has now been embedded in the management teams of all clusters and leading companies. This manager and the employees trained for this position (process owners) work on optimising the primary business processes on an ongoing basis. As a result, all companies introduce process and productivity improvement projects every year.

Various projects have been launched in the ERIKS Germany, ERIKS Netherlands and ERIKS Belgium clusters in order to roll out the business information systems that have been defined for these clusters to the companies that are not yet connected to them. Two large-scale projects were finalised at the beginning of 2008. A template of the SAP business information system that is already in use has been developed

for the ERIKS Netherlands and ERIKS Belgium clusters to support the total commercial concept of the ERIKS group.

The logistics services developed by ERIKS, which are primarily focused on reducing transaction costs and working capital, are highly valued by many of our customers. In the year under review we intensified many of our partnerships with customers and integrated our systems with our customers' and suppliers' ICT systems.

The organisation of the warehouses and the workshops will be assessed regularly. The growth which was realised has necessitated the modernisation of storage methods and production facilities. Plans have been – and are still being – worked out for various companies regarding the expansion of existing accommodation, and relocation where necessary.

Productivity as measured by sales per employee has risen in all clusters. However, in the clusters ERIKS UK and ERIKS Central Europe, sales per employee are lower and have decreased at group level by almost 6 percent to EUR 206.

Synergy

To achieve synergy, the International Product Managers (IPMs) work together with the product managers of the companies. Each year they rationalise the ranges of various product groups and, where necessary, adapt them to the new markets which we will enter. The IPMs also play a crucial role in developing and maintaining the level of know-how. During the past year the majority of IPMs were also involved in the realisation of the integration plans for the acquired companies.

There is also cooperation in support activities, such as publicity, telematics, logistics and financing. Regarding publicity, the corporate identity of the ERIKS group will be given a thorough makeover in 2008.

Financial results

■ Results and profitability

In 2007 the ERIKS group achieved its best results ever and met all its financial targets. In all countries where ERIKS is established, the raised industrial activity was exploited and market positions were strengthened.

The results of the companies acquired at the end of 2006 have had a considerable impact on the consolidated results. Sales increased in 2007 by 74.7 percent, 11.1 percent of which was achieved organically. The increase by acquisitions amounted to EUR 351 million, representing approximately 65 percent.

EBITA was EUR 76.3 million or 8.0 percent of sales and an increase of EUR 31.8 million against 2006. Over the year 2007 the ERIKS UK cluster realised sales of EUR 377.5 million with an EBITA of EUR 20.3 million, or 5.4 percent of sales. This result is entirely in line with expectations. Compared to the calendar year 2006 the ERIKS UK cluster achieved organic growth of 12.3 percent. Investments in new activities were made in various parts of this cluster and new employees were recruited. The remaining clusters have realised combined sales totalling EUR 571.6 million. The associated EBITA is EUR 56 million, representing 9.8 percent of sales. This is a considerable improvement over previous years and is primarily a result of raised productivity and higher sales margins.

With organic growth of around 11 percent, the number of employees outside the ERIKS UK cluster has increased by around 4 percent. Within the ERIKS UK cluster and taking account of acquisitions and shifts within the ERIKS group, the number of employees rose by 8 percent.

As a consequence of below-average yield on investment in the ERIKS UK cluster, the return on net capital invested for the business operation including intangible fixed assets over

Analysis of the operating result (x EUR millions)

	2007		2006		Movement
		as % of sales		as % of sales	
Sales	949.1	100.0	543.3	100.0	+74.7%
EBITDA (excluding exceptional gains)	86.2	9.1	50.5	9.3	+70.7%
Depreciations, including software	(9.9)	(1.1)	(6.5)	(1.2)	
EBITA, excluding exceptional gains	76.3	8.0	44.0	8.1	+73.4%
Other operating income	-	-	0.5	0.1	
EBITA	76.3	8.0	44.5	8.2	+71.3%
Amortisation	(5.2)	(0.5)	(0.7)	(0.1)	
Operating result	71.1	7.5	43.8	8.1	+62.3%

the entire ERIKS group fell from 23 percent in 2006 to 19.3 percent in 2007.

In accordance with IFRS rules, annual impairment tests are conducted to determine whether it is necessary to amortise goodwill. This was not the case in 2007 or 2006. The amortisation of intangible fixed assets from acquisitions was EUR 5.2 million in 2007. This was almost entirely due to the acquisitions at the end of 2006.

We use derivative financial instruments as part of our programme to control liquidity, interest and exchange rate risks. These contracts are never used for speculative purposes. Our policy is focused on complete hedging of the interest and foreign currency positions we take up. We followed the IFRS hedge accounting rules for some of these contracts. The EUR 0.6 million changes in the values of these contracts are therefore included in the shareholder's equity. Of the remaining contracts, the negative changes in value of EUR 2.0 million on balance are included in the financial expenses. The greater part of these expenses were incurred in the fourth quarter.

Due to lower tax rates our tax burden decreased from 31.6 percent in 2006 to 27.7 percent in 2007.

■ Investments and depreciation

- *Intangible fixed assets obtained from acquisitions*

In accordance with IFRS rules, a value has been assigned to the intangible fixed assets obtained from acquisitions. In the year under review this amounted to EUR 1.1 million, which can be specified as follows:

- clients	818
- brand names	102
- distribution agreements	205
	<u>1,125</u>

- *Tangible fixed assets and software*

Tangible fixed assets and software obtained from acquisitions amounted to EUR 0.4 million and related mainly to Flexible Hose Supplies.

Investments in tangible fixed assets and software amounted to EUR 12.5 million.

The main investments related to

- accommodation (EUR 2.4 million): besides updating the inventory, structural alterations were made at various branches.
- logistics (EUR 5.4 million): we invested in various new machines and equipment and updated the transport systems and storage facilities in various places.
- ICT and software (EUR 4.3 million): relates to matters such as the modernisation and expansion of hardware and software, and the cost of the roll-out of the business information system.
- vehicle fleet (EUR 0.4 million).

Depreciation and amortisation of software during 2007 totalled EUR 9.9 million. Depreciation will amount to about EUR 11 million in 2008.

- *Disposals*

The book value of disposals is EUR 0.2 million.

■ Financing position

Our cash flow from ordinary activities amounted to EUR 59.3 million, 68.8 percent higher than in 2006. Parts of this were used to finance organic growth, particularly working capital and for an agreed reduction of pension provisions. As can be seen from the consolidated cash flow statement in the financial statements, the net cash flow from operational activities was EUR 34.1 million. EUR 15.8 million of this sum was used for financing the two smaller acquisitions and for investments in tangible fixed assets and software. The remaining sum, amounting to EUR 18.3 million, was used to reduce debts.

The cash flow from financing activities of minus EUR 11.8 shows the changes due to the refinancing of the ERIKS group. The issue of new shares in January 2007 has strengthened the equity by EUR 122.6 million. This has also considerably improved the net debt/EBITDA ratio and based on the results in 2007 this is now 1.0. The objective is to keep the net debt/EBITDA ratio permanently below 2.5 and the interest coverage ratio above 6 (2007: 9.5).

Achievement of the objectives defined for organic growth and growth through acquisitions (jointly totalling 10 to 15 percent) will result in a substantial increase of the capital invested and a decrease of the solvency ratio. We will be able to finance significant part from cash flows generated by our business operations. Additionally, we have taken the following measures:

- offering an option dividend
- raising extra financial resources.

Development of sales

The table below shows a breakdown of our sales.

■ By cluster

	in EUR millions		as % of total		Movement in %	Organic growth in %
	2007	2006	2007	2006		
ERIKS Belgium	151.0	126.7	15.9	23.3	19.2	12.9
ERIKS Central Europe (from 1/10/2006)	5.8	1.3	0.6	0.2	-	(14.9)
ERIKS Germany	117.5	109.7	12.4	20.2	7.1	7.1
ERIKS France	16.4	22.8	1.7	4.2	(28.2)	(3.6)
ERIKS Netherlands	237.1	211.9	25.0	39.0	11.9	10.9
ERIKS UK (from 17/11/06)	377.5	39.4	39.8	7.3	-	22.3
ERIKS Europe	905.3	511.8	95.4	94.2	76.9	10.8
ERIKS USA	35.8	23.8	3.8	4.4	50.6	19.4
ERIKS South-east Asia	8.0	7.7	0.8	1.4	4.0	7.3
	949.1	543.3	100.0	100.0	74.7	11.1

There was a worldwide upturn in primary industrial activity in 2007. Although it varied from region to region, there was evidence of an increase in industrial output in all of the market areas in which the ERIKS group operates.

Organic growth for the whole of 2007 was 11.1 percent (2006: 10.5 percent). Organic growth per quarter in the last three years was as follows:

	2007	2006	2005
1st quarter	12.2%	11.6%	1.7%
2nd quarter	10.9%	7.8%	4.9%
3rd quarter	9.7%	9.2%	1.9%
4th quarter	11.4%	13.5%	3.2%

The year 2007 had 252 working days (2006: 252 working days).



24-hour service

Using a special 3-D calculation program, ERIKS is able to produce, within 24 hours, specific seals, guide rings and oil seal rings according to a specific design and using a variety of materials. So know-how also makes the difference when a seal is unavailable from stock, or if a customised seal is needed urgently.

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ERIKS Belgium

According to official statistics, industrial output in 2007 increased by 3.4 percent last year. The increase in the ERIKS Belgium cluster's sales of 19.2 percent of which 12.9 percent organically is therefore an excellent result. The organic increases in sales at ERIKS nv (+16.0 percent) and the Vemoflex group (+17.5 percent) were above average. Sales in the Baudoin group increased organically by 10.3 percent. A reorganisation of some activities meant that sales growth at ERIKS Motion Control (IECO nv and Vermeulen nv) was limited to 1.5 percent.

Cooperation between the business units (competence centres) at ERIKS nv, the Vemoflex group and ERIKS Motion Control and the Baudoin branches that operate in the general maintenance market has been further defined. At cluster level, a complete management team with a single commercial organisation has been established. The twin business model has now been set up, enabling ERIKS Belgium to fulfil its role as a specialist and broad MRO supplier. Preparations are being made in order to have ERIKS nv and Baudoin nv approach the market as a single entity.

In all companies investment has been made in strengthening the management of the business units and product management. This means that ERIKS nv is increasingly able to fulfil its role as a specialist and it has strengthened its market position in almost every product group in both the OEM and the maintenance markets. Processing facilities have been expanded and modernised. All companies have continued to adapt the programmes for raising the level of the six know-how domains to changing market conditions.

Just as in the other companies, product management has been strengthened in the Baudoin group and the product range is being renewed. New concepts are being developed for the maintenance market, with particular emphasis on the added value of the company in realising savings and improving customers' production process.

The integration of the Belgian Wyko branches and the French Champion sas company has led to a sales increase of more than EUR 6 million for the Baudoin group and consequently for ERIKS Belgium.

The Vemoflex group is a specialist supplier of a comprehensive range of industrial and hydraulic hoses. Its extensive know-how of products and applications enables Vemoflex to continually offer innovations to its customers in this field. Customised products are for the most part manufactured and assembled using its own modern and extensive machinery. A considerable part of sales is realised through the Vemoflex branches in the Netherlands and France. A start has been made on expanding the range of the product group metal and rubber bellows.

At the end of 2006 / beginning of 2007 ERIKS Motion Control reduced some of its project activities. The product range was adapted to the industrial market and the company is developing into a specialised supplier of power transmission. New markets are being approached successfully.

ERIKS Central Europe

Total sales of this cluster are as yet modest. With its range of Sealing technology and mechanical power transmission, Passerotti has made successful inroads into all market segments, both in machine and equipment construction (OEM customers) and in the industrial maintenance market (MRO customers). In the past year the product range was expanded and preparations were made to expand the number of branches.

Sales of valves at Mowta did not reach the anticipated levels due to insufficient projects being acquired. The product range is currently being expanded and the market approach adapted with the aid of the International Product Managers.

ERIKS Germany

Industrial output in Germany increased by 7.3 percent in 2007. Sales at ERIKS Germany increased by 7.1 percent to EUR 117.5 million. Taking into account the deliberate parting of the ways with a number of larger customers at the beginning of 2007, organic growth is actually several percent higher.

With 13 branches, this cluster covers most of Germany. The major core activities are Sealing technology and Power transmission. In addition, ERIKS Germany carries a limited range of valves and industrial hoses.

A priority area in the management of ERIKS Germany is the expansion of the product range in all core activities. This will partly be achieved organically and partly through acquisitions. The development of the twin business model plays a central role in operations. A start has been made on organising product management more centrally. To achieve this, business units (competence centres) for Sealing technology and parts of Power transmission were established during this reporting year.

Until the end of 2007 the branches approached customers in their regions under their own original trading names. In the reporting year it was decided to use the name ERIKS at all branches and to introduce the implementation of the twin business model. The single ERIKS Germany is now a fact.

Development of sales at the Hamburg, Hannover and Dietzenbach (near Frankfurt) branches was above average. All branches have invested in strengthening their internal and external commercial performance. Customer service of a high quality and the results achieved are more than satisfactory.



Solid approach

For major maintenance stops, ERIKS forms an internal project team right from the start of cooperation with the customer. The team's primary task is to ensure that our customers' processes and those at ERIKS link seamlessly with each other. The project team is responsible both technically and commercially for implementing and performing the deliverable services. Time and again the market appreciates this solid approach and allows ERIKS to demonstrate how well it performs against the clock and for urgent jobs.

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ERIKS France

The restructuring of the activities in the regionally operating trading companies in North-western France, the sale of the activities of Adji sarl on 1 January 2007 and the transfer of the activities of Campion sas to the Baudoin group in Belgium led to a decrease in sales for the ERIKS France cluster of EUR 6.4 million compared to 2006. Now only sales by ERIKS sas and Baudoux Industrie sas are recognised under ERIKS France. In accordance with the growth plan drawn up for ERIKS sas, the company's sales organisation has been expanded. As a specialist distributor of valves and Sealing technology, specific industrial market segments are being approached throughout France. Sales in 2007 amounted to EUR 7.3 million and were below expectations because of the lower number of project orders. The commercial and operational management has been changed at Baudoux Industrie resulting in improved service to customers in the

second half of 2007 and to an increase in results. Sales in 2007 amounted to EUR 9.1 million.

ERIKS Netherlands

Industrial production in the Netherlands increased by 3.2 percent. The 11.9 percent increase in sales, of which 10.9 percent was achieved organically, is therefore an excellent result. All the companies in the cluster contributed almost equally to the growth in sales. From 1 January 2007 Wyko Netherlands (2007 sales: EUR 2.1 million) has been incorporated into the ERIKS Netherlands cluster.

The twin business model has been fully implemented in the ERIKS Netherlands cluster. ERIKS Netherlands is now fulfilling the role of a professional supplier and is capable of making a real contribution to operations in all product groups for its customers in both the OEM and the maintenance markets.

All business units (competence centres) have expanded their teams and are paying particular attention to the six know-how domains and the development of the range of products and services. The application engineers of these business units maintain direct contact with the OEM customers and support the local ERIKS service centres. In the past year new market segments were successfully approached. The product range was expanded and the processing facilities were expanded and modernised, particularly regarding the core activity of Sealing technology and the product groups industrial hoses and valves. The investment in the highly professional Clean room in Alkmaar is also worth mentioning. This has expanded services to the pharma and semiconductor sectors in particular.

The cluster now has 16 regional service centres. Staffing of these was considerably expanded during the reporting year and orders via these branches have shown an above-average increase.

There is particularly intensive collaboration between ERIKS bv in Alkmaar, Van Eyle & Ruygers-Schwartz bv in Rotterdam and Bruhamij Kunststoffen bv in Ede. Customers in the maintenance market are approached collectively and primarily through the local branches (service centres). In 2007 full preparations were made – following the connection of Van Eyle & Ruygers Schwartz bv to the SAP business information system in February 2008 – to approach the market as a single entity. The legal merger between ERIKS bv and Van Eyle & Ruygers-Schwartz bv was completed at the beginning of 2008.

All activities of Wyko Netherlands have been fully integrated into those of Flexion bv in Roermond. This has led to a considerable expansion of the range of electrical and mechanical power transmission. Flexion bv and Elmeq bv, both active in various product groups in the core activity Power transmission, have set up a single commercial organisation during the reporting year. They will approach the market under the name ERIKS Aandrijftechniek, with a comprehensive range of power transmission products. Preparations have been made for a merger between Flexion bv and Elmeq bv during 2008.

Noton bv – the ERIKS group project bureau – has performed extremely well. The company was able to fully profit from increased activity in the oil and gas sector.



Repair of electrical systems

Repairing electrical systems requires real skill, specialised tools and strict procedures to obtain the best performance, greatest reliability and highest efficiency. From small servos to large electronic systems, internally or at the customer's site, ERIKS repeatedly shows its repair renovation capabilities.

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ERIKS UK

Industrial production in Great Britain increased by 0.6 percent in 2007. Sales in the ERIKS UK cluster amounted to EUR 377.5 million (GBP 258.3 million) in 2007. Taking account of the transfer of the Wyko branches in Belgium and the Netherlands to the ERIKS clusters concerned, organic growth of 12.3 percent was achieved compared to the calendar year 2006.

ERIKS UK's activities can be categorised as follows:

	sales 2007
- Wyko Industrial Distribution (WID) including the technical centres (competence centres) set up in 2007	173.5
- Wyko Electrical and Mechanical Engineering Services (WEMS)	50.2
- Wyko Integrated Solutions (IS)	111.9
- Wyko International	10.3
- Specialist Technology (ST)	31.6
	377.5

In the 'Developments per cluster' section starting on page 52 the developments per division and the progress and results of the integration process are explained in detail.

The WID management supports the development of the twin business model wholeheartedly. Technical centres (competence centres) for various product groups were set up in 2007 both organically from existing activities and through the acquisition of Flexible Hose Supplies. Investment has been made to expand the product management and application engineers have been appointed for designated product groups.

At local branch level the responsibilities for the operational and commercial activities have been clearly separated and formulated. In the reporting year WID raised the level of service to its customers and is therefore now able to expand its customer database. The product range available to the local branches has been expanded by the establishment of the technical centres in the reporting year and will continue to increase in the coming years. On annual basis, organic growth in 2007 compared to the calendar year 2006 was 9.1 percent.

2007 was a successful year for WEMS. On annual basis, organic growth of 7.9 percent was achieved (compared to the calendar year 2006). Customer relations were strengthened by expanding the service package, particularly with regard to realising savings at the customers. A number of new market segments were approached successfully.

The IS division, which is primarily aimed at taking over the entire procurement procedure for maintenance products from the customer, has spent a great deal of time and energy in the reporting year, implementing a number of purchasing programmes at new customers. At the same time, the internal processes at IS were further evaluated and adapted where necessary. Compared to the calendar year 2006, organic growth was 15.8 percent.

For an explanation of Wyko International and the two ST companies sales, see the chapter 'Developments per cluster' starting on page 52.

For the implementation of the twin business model it is important that all competence centres and local branches approach the market as a single entity. Preparations were made in the reporting year for a project to be started in 2008 to change all the trading names used within the ERIKS UK cluster to ERIKS.

ERIKS USA

The ERIKS USA cluster's sales increased by EUR 12.0 million or 50.6 percent, to EUR 35.8 million. A major part of this increase was due to the acquisition of Turpen & Associates Inc. on 1 November 2006. Organic growth in USD amounted to 19.4 percent in 2007.

Customers are approached with a product range of high-quality seals, industrial plastics and ball bearings and with know-how of products, applications, processing and logistics concepts. The integration of Turpen & Associates and the exchange of products and know-how between the various branches has led to an expansion of the product range in all companies. New customers are being approached in all regions. Product management (at cluster level) and product and application know-how (at company level) were strengthened in the reporting year.

Utilising the know-how of the group's European companies, the USA cluster is taking advantage of worldwide sourcing opportunities.

ERIKS South-east Asia

Raising production and application know-how among employees and investing in processing facilities in Singapore and Malaysia enabled the cluster to approach new customers successfully. The cluster achieved organic growth of 7.3 percent.

With the help of the International Product Managers, the sales staff are receiving training to acquire product and application know-how and the know-how available within the ERIKS group is being utilised.

■ By core activity

	in EUR millions		as % of total		Movement in %	Organic growth in %
	2007	2006	2007	2006		
Sealing technology						
Flange gaskets	29.1	26.4	3.1	4.9	10.2	11.5
Rubber technology	20.2	17.3	2.1	3.2	16.8	13.3
O-rings	49.5	37.8	5.2	6.9	31.0	17.4
Dynamic sealing elements	49.4	33.3	5.2	6.1	48.3	7.1
	148.2	114.8	15.6	21.1	29.1	12.5
Power transmission						
Hydraulic hoses and accessories	78.6	67.7	8.3	12.5	16.1	7.8
Hydraulic components and systems	46.6	30.5	4.9	5.6	52.8	16.1
Mechanical and electrical power transmission	70.2	31.8	7.4	5.9	120.6	12.6
Gearboxes, motors and pumps	25.3	2.5	2.7	0.4	921.0	27.6
Bearings	81.3	35.1	8.6	6.5	131.6	9.4
Pneumatics	37.2	20.8	3.9	3.8	78.8	0.4
	339.2	188.4	35.7	34.7	80.0	9.6
Flow technology						
Valves and instrumentation	55.5	50.2	5.8	9.2	10.5	9.4
Plastic piping systems	13.4	10.7	1.4	2.0	25.2	19.2
Hoses and accessories	63.7	52.0	6.7	9.6	22.5	13.1
	132.6	112.9	14.0	20.8	17.4	12.0
Industrial plastics						
Tools and maintenance products	34.1	28.9	3.6	5.3	18.0	13.9
Electromechanical services and condition monitoring	202.2	86.9	21.3	16.0	132.7	11.1
Tolerance rings and Tire technology	66.0	8.4	7.0	1.5	685.7	0.4
	26.8	3.0	2.8	0.6	793.3	15.2
	949.1	543.3	100.0	100.0	74.7	11.1

Across all clusters we pay considerable attention at group level to product development and procurement. Our International Product Managers play a prominent role in this respect. Together with the national product managers, they bear responsibility for the product policy of the ERIKS group. In general, the ERIKS group endeavours to enter into long-term partnerships with high-calibre, innovative suppliers. Where necessary and possible, products are developed and purchased worldwide under our own brand name.

In all the product groups attention is continually paid to the composition of the product range and the related technical services. Our range is adapted to new technological developments. Actively approaching new market segments often creates a need to expand the range of products.

For each product group, the application engineers have direct contacts with the machinery and equipment manufacturer (OEM) customers and the maintenance customers for specific requirements. Their direct contacts with the

research & development and technical departments enable them to contribute to the development of new products. They can propose modifications that lead to more efficient use of the maintenance customers' production machinery and lower maintenance and emission costs.

Our ability to offer a broad range of products enables us to optimally meet our customers' desire to reduce the numbers of suppliers they deal with.

With the acquisition of Wyko, the percentage spread of sales by core activity has changed significantly (Wyko is primarily active in power transmission and maintenance products). Wyko's sales in 2006 have been included as from 17 November.

Processing facilities are an absolute must for the flange gaskets product group, enabling it to meet its customers'

urgent requirements rapidly, particularly in the oil, gas, chemical and petrochemical industries. After the processing facilities at ERIKS bv in the Netherlands were updated, the facilities at ERIKS nv in Belgium and at Turpen & Associates in the USA were also expanded. A technical centre (Competence Centre) was set up at ERIKS UK at the end of 2007. A private label product line was developed for a significant part of the flange gasket range in the year under review.

The product groups rubber technology, O-rings and dynamic sealing elements have been linked to ERIKS for many years. A large proportion of the sales in these product groups are realised from OEM customers. It is essential that we have extensive product and application know-how at our disposal. A great deal of attention is therefore paid to this in all the

clusters. Following on from the clusters ERIKS Netherlands, ERIKS Belgium and ERIKS USA, Competence Centres were organised for these product groups at the ERIKS UK and ERIKS Germany clusters in the year under review. There is cooperation with major manufacturers and new market segments are being approached for the product groups dynamic sealing elements and O-rings. Where commercially necessary, however, products are developed under our own brand name.

In some clusters, organic growth of the core activity Power transmission is lagging behind average growth. At all the clusters, the different product groups in this core activity have often been offered to the market in isolation. New concepts are now being developed at all the clusters to enable us to approach the market far more as a specialised power



From sketched design to endproduct

Many years of experience and advanced machinery enable ERIKS to produce in-house all conceivable end products. Starting from just a sketched design, ERIKS can manufacture plastic products precisely as per specification. Quantities can vary from a few items to large series depending on the customer's wishes.

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transmission house with a complete range of products and services. As a result of the acquisition of Wyko, the range of mechanical and electrical power transmission products, in particular, has expanded and all clusters have access to the product group Gearboxes, motors and pumps. Our own 'Fenner' product line is key in this regard and provides many opportunities for growth. The acquisition of Wyko has provided the ERIKS group with its own special ball bearings production facility (Revolvo). In the product group hydraulic hoses and accessories, cooperation between all the clusters is well organised and new products are being developed, also under our own brand name.

The core activity Flow technology is primarily focused on the process industry. New markets such as the pharmaceuticals and bio-industry are being approached intensively. Our range of valves, plastic piping and industrial hoses is being adapted accordingly. Supported by solid product and application know-how and well-equipped processing facilities, we achieved an above-average increase in sales in this core activity.

Several products in the product group plastic piping have been successfully introduced into market segments that are new to ERIKS.

As regards the product group hoses and accessories, ERIKS bv, ERIKS nv and the Vemoflex group provide the ERIKS group with high-quality product and application know-how. New products are being developed in cooperation with customers. Having quality processing facilities is essential to enable the company to deliver the finished products required by the customer. Both ERIKS bv and the Vemoflex group have invested in welding robots. Initiatives are also underway to develop a range of metal and rubber bellows.

Use of products based on industrial plastics is increasing steadily in high-quality industrial applications. Our specialists' knowledge of the demanding uses of these products and the processing facilities we have at our disposal are resulting in healthy growth of sales to OEM customers in particular.

The product management teams of the Baudoin group and Van Eyle & Ruygers-Schwartz bv are working closely together on defining and developing the range of Tools and maintenance products. The joint approach to the general maintenance market developed by the ERIKS Belgium and ERIKS Netherlands clusters is producing healthy growth. ERIKS UK will join in with these developments and offer the range of tools specifically to the maintenance market. Various products that are not customary in ERIKS' branches are also being purchased for and delivered to customers via ERIKS UK cluster's Integrated Solutions operations. The sale of these products has also been accounted for under the core activity Tools and maintenance products.

Following the acquisition of Wyko, the ERIKS group is now also actively involved in Electromechanical services and condition monitoring. The relationship with customers has been reinforced, partly as a result of the expansion of its range of services, which focuses primarily on carrying out preventative maintenance. Several markets that are also new to Wyko have been successfully entered. This activity is closely related to the role of distributor. We are examining whether this core activity can be successfully rolled out to the other European clusters.

Rencol's and Wyko Tyre Technology's sales are included in the core activity of Tolerance rings and Tire technology. Rencol realised organic growth of 31.3 percent in the year under review.

■ By market segment

In %	2007	2006
Machine construction	19	26
Chemicals	8	9
Construction industry	4	4
Transport industry	4	4
Agriculture and fisheries, food, drinks and tobacco	8	5
Rubber and metal	10	11
Other industry	38	29
Retailers and distributors	9	12
	100	100

The ERIKS group's customers can be found in all the market segments of industry. Certain defined segments are approached more structurally. However, our suppliers expect the entire industry to have access to the range that we offer the maintenance market. Because of this, the ERIKS group is less dependent on the state of affairs in any one of the market segments.

The acquisition of Wyko has caused a shift in the percentage spread of sales over the different segments. Organic growth has been achieved in all market segments.

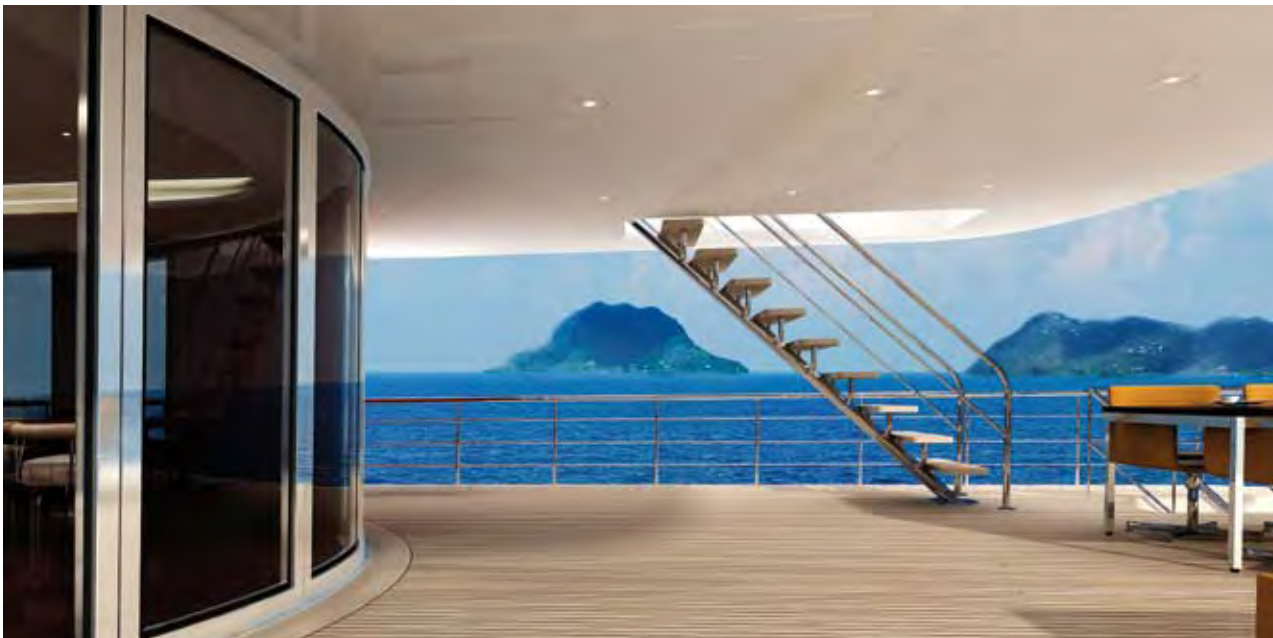
■ By type of customer/purchasing profile

	in EUR millions		as % of total		Movement in %	Organic growth in %
	2007	2006	2007	2006		
Maintenance (direct)	605.8	277.6	63.8	51.1	118.2	12.6
OEM	238.7	179.6	25.2	33.1	32.9	10.8
Contractors and projects	37.9	33.7	4.0	6.2	12.5	6.7
Distributors and exports	66.7	52.4	7.0	9.6	27.3	4.7
	949.1	543.3	100.0	100.0	74.7	11.1

The spread of customers by purchasing profile has changed significantly following the acquisition of Wyko, which achieves about 90 percent of its sales in the maintenance market.

Within the companies, marketing is segmented according to the customer groups described above. The companies continuously strive for an optimum mix of a broadly-based account and product approach.

The 'Maintenance' customer group is characterised by purchases of articles in a large number of different product groups and by the placing of smaller orders. These customers expect the ERIKS group to be able to adapt products to applications (processing), offer maintenance services and repair facilities and provide an extensive array of technical and logistics services. All our customers appreciate the fact that as distributors we have product and application know-



Electrical power transmission systems

Elmeq, ERIKS' own manufacturer of electrical power transmission systems, designs, produces and supplies standard and special hinged and sliding door transmissions. Among other things they are used aboard luxury yachts and cruise ships.

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how at our disposal which we can use to support and advise them on optimising their production processes.

Our specialists are able to advise customers pro-actively on the pros and cons of the various products. The optimisation of the available production capacity (less down-time), saving energy costs and reducing leakages and emissions of liquids and gases take priority here. As a result and by simplifying the ordering processes and lowering the transaction costs, the ERIKS group can make a substantial contribution to our customers' operations. By providing concepts, ERIKS presents itself as an industrial service provider. We approach our maintenance customers through a network of our own branches close to the customers in Belgium, Germany, the UK, the Netherlands and Central Europe. Rencol realised an organic growth of 12.6 percent (10 percent in 2006) in the year under review, showing that this method is effective.

The organic growth in the OEM market of 10.8 percent (2006: 14.0 percent) is more than satisfactory. Besides the general upturn in industrial activity, the fact that we are targeting this market through our Competence Centres has contributed to this organic growth. The Competence Centres for the product groups in all areas of the ERIKS Netherlands, ERIKS Belgium and ERIKS USA clusters were reinforced in the year under review. Approaching new customers and jointly developing new product applications with them has contributed to this growth. Major steps forward were also made in the realisation of these Competence Centres in

the ERIKS UK, ERIKS Germany, ERIKS Central Europe and ERIKS South-east Asia clusters.

For the OEM customer group it is particularly important to offer a deep range of products and services and to possess product and application know-how. We employ specialists who have the requisite know-how for the different market segments and customer groups. In this context it is also important to offer logistics services that simplify ordering procedures and enable control of working capital and to provide detailed ERIKS documentation. Furthermore, the ERIKS group contributes to research & development and fulfils a role in quality assurance.



Services for system monitoring and control technology

As the complexity of process, transmission and control systems increases, the greater becomes the reliance on the experience of support services. Potential breakdowns can be identified on time, thus significantly increasing productivity. Yet another example where know-how makes the difference.

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Operations

■ Administrative logistics

The strength of the economy and the resulting growth of demand from our customers, as well as the specific purchasing concepts we have been offering, increased in the average order value to almost EUR 400.=. This means that with annual sales of EUR 950 million, the ERIKS group has processed roughly 2.5 million shipments to 90,000 different customers. Our range now comprises about 600,000 articles which we procure worldwide from 1,000 major manufacturers. This kind of volume requires optimum control of our administrative and logistics processes, along with the capacity and flexibility to be ready for changes in the market. Within the ERIKS group, policy focuses on representing the field of administrative logistics in the management teams of the clusters and companies. If this policy is not already followed at any companies acquired, it is introduced as quickly as possible.

This specialisation also allows us to work on optimising our processes and working procedures on an ongoing basis. The goal of all our activities is to increase productivity and to provide our customers with better service. The administrative logistics department works closely with the clusters' and companies' ICT departments. Only change processes initiated by the organisation can result in success, with the ICT specialists' support.

In the year under review, within the ERIKS Netherlands and the ERIKS Belgium clusters respectively, the specific wishes and requirements of the maintenance market-oriented companies Van Eyle & Ruygers-Schwartz bv in the Netherlands and the Baudoin group in Belgium were analysed and included in the SAP business information system used in these countries. The implementation of this system at Van Eyle & Ruygers-Schwartz bv continued throughout the whole of 2007. The system went into successful operation at these companies in early 2008. Similar projects were started up at the end of 2007 for the Baudoin group in the Belgian and the Dutch companies Elmeq bv and Bruhamij Kunststoffen bv.

The management and organisation of the business processes at the Vemoflex group branches were optimised. The production processes at the main branch in Asse, Belgium were also evaluated and adapted.

Besides the optimisation of the existing business processes, in the ERIKS Germany cluster a great deal of work was carried out on the implementation of the business information system Pro Alpha at the Stuttgart and Saarbrücken branches.

Our ERIKS USA colleagues reorganised a significant part of the business processes at Turpen & Associates, Inc. in Tulsa, the company that was acquired at the end of 2006

and implemented the business information system used at the ERIKS USA cluster.

Applications are being created at all group companies to allow our business information systems to connect seamlessly to those of our customers and manufacturers. We have defined performance indicators for each individual process and are carefully monitoring the development of these indicators.

In the ERIKS UK cluster, the administrative logistics department focused on the improvement and control of the business processes in the Integrated Solutions division. The logistics processes and organisation of the central warehouse in Halesowen (near Birmingham) were also adapted. Furthermore, considerable attention was paid to the optimisation of the administrative processes.

One of the points for attention in the operations is the availability of the product and application know-how present in the ERIKS group and the ability to share it. The availability of this know-how is also crucial to our communications with customers. The extent to which the existing product information systems can contribute to this has been examined. Early 2008, decisions will be taken in this respect. The corporate systems that support internal reporting and treasury activities were updated and expanded in the year under review.

■ ICT

At group level we are working together with the clusters' ICT departments to define our ICT policy and establish guidelines for our future ICT infrastructure. Although the business models at the various clusters are still different, our aim is to develop and introduce the twin business model at all clusters on the basis of the defined strategy. However, we consider it too risky to implement an all-embracing business information system for the entire ERIKS group.

It has been decided that ultimately all the companies that are a part of the twin business model within a cluster will be connected to one and the same system. The basis for this is the SAP business information system used at the ERIKS Netherlands and ERIKS Belgium clusters. Once the operations of Van Eyle & Ruygers-Schwartz bv and the Baudoin group have been connected to this system, the ERIKS group will have a template that supports the whole twin business model.

As mentioned above under 'Administrative logistics', a large number of new applications and expansions were realised in the systems in use in the year under review. The ERIKS groups still see the organisation, adaptation and optimisation of processes as an activity that enables it to stand out from its competitors. All large clusters have their own development departments for this reason; these departments have been expanded, in terms of quantity and quality, in recent years.

Although the current processes are still sufficiently supported, the existing system at the ERIKS UK cluster will have to be updated within a few years. A project group has been set up to supervise this process.

All our companies' contingency plans are tested periodically to ensure continuity of data processing. The criteria for office automation, networks and protection of data are defined at group level.

■ Quality systems

In the ERIKS group we attach great importance to adhering to a quality system, partly with a view to controlling risks. An ISO-9001 based system has been implemented in almost all group companies. This standard calls for focus on line management's responsibility for controlling processes by monitoring performance indicators and customer satisfaction.

■ Technical services (processing)

Offering added value by processing products is an indispensable factor in the marketing mix of the ERIKS group. All group companies possess machines, tools and skilled employees to meet this demand from our customers. Since the acquisition of Wyko, approximately 1,000 employees have been engaged in the engineering and customising of products and carrying out maintenance services. In the year under review, the processing facilities at ERIKS bv, Bruhamij Kunststoffen bv, the Baudoin group, the Vemoflex group and ERIKS nv, in particular, were updated and expanded.

As a result of the acquisition of Flexible Hose Supplies and the start of a Sealing technology Technical Centre, the processing activities at the cluster ERIKS UK have also been expanded in addition to the existing services at WID and WEMS.



Modernisation and efficiency

Our well-educated employees are constantly modernising the ERIKS range of services. They correctly interpret the individual needs of customers and help create more efficient solutions and product innovations.

The ERIKS USA and ERIKS South-east Asia clusters, in particular, possess equipment for manufacturing flange gaskets and processing plastics.

■ Accommodation and logistical organisation

Our objective in this area is to have modern logistics centres. The core activities and related technical services at all our clusters are controlled from various branches (Competence Centres). Local branches also offer the total range of products to the market. We have examined to what extent developing one central logistics centre for each cluster would be beneficial for our operations compared with the existing, more decentralised structure. In view of the flexibility we need and the tight interweaving of sales, procurement, processing and distribution, we have decided to keep the existing structure in place where possible.

The ERIKS UK cluster has its own modern central distribution centre in Halesowen (near Birmingham). However, a large proportion of its procurement, storage and distribution activities are undertaken through the local branches and the on-sites on customers' premises.

The implementation of the twin business model at the ERIKS UK and ERIKS Germany clusters has consequences for the logistics processes. The extent to which this affects the existing accommodation and the logistics organisation in particular, will be examined in the coming year.

The accommodation in Roermond, the Netherlands has been expanded and various branches have moved to new, larger premises at Forth Worth, Texas, USA and Dietzenbach (near Frankfurt), Germany, primarily to support growth. The decision has also been made to extend and to modernise the warehouse at Alkmaar, the Netherlands (own premises) and the Baudoin group's premises in Mol, Belgium (rented). The ERIKS UK cluster's many branches in the UK will be modified where necessary in the near future, particularly as a result of the introduction of the new corporate identity. A number of branches in and around Newcastle merged to form a single larger branch at the end of 2007.

■ Personnel

The ERIKS group has a decentralised organisational structure. As far as possible we have delegated responsibilities to the various sales groups in each business unit or local branch. In the twin business model it is essential that all commercial/technical employees have a passion for technology and that the cooperation between employees of the business units and local branches is optimal at all levels. This is the only way to ensure we have the flexibility, inventiveness and quality we need to serve our customers properly and to act as a partner to manufacturers. To perform these roles, the ERIKS group wants to be a know-how-driven company on all levels. The information and remuneration systems are designed to support the various roles. We have also developed training programmes to enhance the quality of the six know-how domains.

Number of employees

The table below shows the workforce in FTEs at year-end 2007 and 2006, broken down by cluster:

	2007	2006	Movement total	Movement resulting from acquisitions and disposals	Movement resulting from shifts between clusters
ERIKS group nv	19	19	-	-	-
ERIKS Belgium	668	600	68	-	33
ERIKS Central Europe	48	46	2	-	-
ERIKS Germany	439	428	11	-	-
ERIKS France	77	127	(50)	(15)	(20)
ERIKS Netherlands	944	888	56	-	13
ERIKS UK	2,267	2,071	196	54	(26)
ERIKS Europe	4,462	4,179	283	39	-
ERIKS USA	128	117	11	-	-
ERIKS South-east Asia	65	62	3	-	-
	4,655	4,358	297	39	-

Year after year the ERIKS group has proved that it is capable of adapting to the changes in the marketplace. The ERIKS group's performance has been due to our employees' dedication towards their work, their flexibility and their respect for, and trust in, one another. All our employees deserve a big compliment for their work and we would like to express our thanks to each and every one of them for their efforts over the past year.

■ Number of employees

As a result of the acquisition of Flexible Hose Supplies (FHS) and Forco Electrical Services (Forco), ERIKS UK's workforce has increased by 54.

Fifteen employees were employed at Adjil sarl, the French company that was disposed of.

ERIKS' employees have increased in number by 297 in support of the organic growth realised as well as to reinforce the various units. Productivity measured in sales per employee has increased in all clusters. The average number of employees during the reporting year was 4,495 (2006: 2,434). The sickness absence in 2007 was 3.0 percent (2006: 3.3 percent).

In a labour market that was actually rather tight, extra activities had to be developed to recruit new employees. Intensive recruitment campaigns were organised in all regions and we succeeded in filling all the existing vacancies. Staff turnover was limited.

■ Remuneration

The overall remuneration package in all group companies is related to the customary remuneration structures (primary and secondary employee benefits) prevailing in the countries and regions concerned. Primary employee benefits consist of fixed and variable components. The variable component depends on an employee's personal accomplishments and on the company's results. Pension plans have been put in place for employees in some countries and regions. Our objective is to base these plans on (collective) defined contribution schemes. The employer's annual contribution is fixed under such schemes.

Average local salary costs in local currencies increased by an average of 3 to 4 percent in all clusters. Due to the lower average salary costs, at the companies acquired at the end of 2006 in the UK and Poland, the average annual salary costs per employee at group level dropped from EUR 48.2 thousand in 2006 to EUR 46.3 thousand in 2007.

In 2006 a standard package of employment conditions was developed and implemented for employees at the ERIKS Netherlands cluster. This was necessary in order to be able to act as a single organisation within a cluster.

■ Management Development

The ERIKS group has a clear strategy for growth. Key success factors for fulfilling our strategy are the availability and quality of management. Within the ERIKS group we have developed procedures to monitor present and future availability of management, both from a qualitative and quantitative point of view. Our objective is to meet our requirements for managerial positions from within our own organisation as far as possible.

In addition to the Management Development programme that has existed in the Netherlands and Belgium for some years, programmes have also been developed at the ERIKS UK and ERIKS Germany cluster. Every year, thirty employees are selected for participation in these programmes.

Besides the theoretical part of the plan, we define a hands-on supervision track for each participant. Over the past year, various participants in this programme took the next step in their careers by filling managerial vacancies that arose.

■ Social policy

ERIKS wants to be a modern, innovative and performance-oriented employer to its employees – one in which teamwork, trust and respect are very much in evidence.

Our social policy is designed to allow the company to achieve its objectives and to offer employees opportunities for career development. With this in mind all our group companies operate coaching and appraisal systems, variable remuneration systems and career counselling programmes. Through internal and external training courses, our employees have an opportunity to increase their knowledge and skills. These systems and programmes must ensure that employees of the ERIKS group are able to respond alertly and independently to questions from customers and to developments in the market.

■ Employee participation

Once again there were productive and constructive consultations with the representatives of the works councils at company, cluster and European level in the year under review. An open dialogue between management and employees creates a clear understanding of the strategy to be followed and its consequences for our operations on both sides. We wish to thank the members of the various works councils for their positive contributions.

Key objectives for 2008

The policy pursued in recent years will be continued in 2008. The twin business model forms the basis for the further development of the ERIKS group. In the Netherlands this model will be reinforced, in Belgium it will be rolled out dynamically and in Germany and the UK steps will be taken to arrive at structures that will enable the introduction of the twin business model. To this end, acquisitions will be made in existing and new regions.

ERIKS' role as a provider of industrial services will be emphatically underlined. Doing business with ERIKS must have a positive effect on our customers' operations. The message ERIKS propagates towards the OEM market will be based on contributing to research & development. For the maintenance market (MRO) the emphasis will be on less down-time and fewer interruptions, lower energy costs, less impact on the environment, lower maintenance costs and increased safety in and around systems.



Control engineering

Numerous process variables are continuously measured, monitored and adjusted in industrial production processes to control the production process, quality guarantee, safety and the environmental aspects. ERIKS possesses an extensive range of products that comply with CE standards and are delivered in conformity with international standards and norms.

Our key objectives for the ERIKS group as a whole for 2008 will be:

- Good communications with our employees and continuous development and maintenance of training, career development and Management Development programmes.
- Realising profitable organic growth in all regions by
 - expanding the twin business model
 - deploying International Product Managers
 - expanding a pan-European position at multinational OEM and MRO customers.
- Expansion of operations and reinforcement of ERIKS' position in the process industry by
 - realising synergy with the product groups flange gaskets, valves, instrumentation and industrial hoses in Germany, Central Europe and the UK
 - acquiring companies in Germany, Central Europe, the UK and Scandinavia, preferably companies with a strong position in the process industry
 - expanding the network in the USA.
- Approach the market with a clear range as one single ERIKS.
 - The various companies in the Netherlands and Belgium will be grouped in a single commercial organisation.
 - The rebranding of ERIKS' name as the ERIKS Germany and ERIKS UK clusters commenced as per 1 January 2008.
 - Development of private brands.
- Increase productivity.
 - Roll-out of the SAP business information system to all the companies in the ERIKS Netherlands and ERIKS Belgium clusters.
 - Preparation of the expansion of the offices and logistics centres in several clusters.
 - Investment in information technology and infrastructure.

Business prospects

There was an upturn in industrial activity in all regions in which the ERIKS group operates in 2007. The order intake at the end of 2007 was on a high level and this situation continued in the first weeks of 2008. There are, however, signals that the growth of the world economy will stagnate in 2008. This will definitely have consequences for the level of the industrial production in the regions in which the ERIKS group operates. In recent years a great deal has been invested in increasing the numbers of employees and in the infrastructure. It is now essential for operations that these investments are optimally utilised and that restraint is exercised with regard to further expansion of the workforce.

Considering the above, it is not possible to forecast the sales and result for the entire year of 2008 at this point. The acquisitions of Wielens Beheer bv in the Netherlands and Schmitztechnik GmbH in Germany realised in January 2008 will lead to an increase in sales and, in turn of the result. However, the lower exchange rates for the British pound and the US dollar also have to be taken into account. Every cent difference in the exchange rate of the British pound results in a drop in sales of almost EUR 3 million at group level. However, as a supplier to industry driven by a passion for technology, know-how and added value, the ERIKS group will be able to expand its market position.

The expectation is that in 2008 investments will increase to around EUR 20 million. Investments will primarily be made in accommodation (Alkmaar, the Netherlands) and ICT. Depreciation of tangible fixed assets is expected to increase from EUR 9.9 million in 2007 to EUR 11 to 12 million in 2008. As a result of the capitalisation of the intangible fixed assets obtained from acquisitions, for the year 2008 an amortisation burden of more than EUR 6 million has been provided for.

Alkmaar, 28 February 2008

Executive board

J. van der Zouw, chairman
 J.G. de Boer
 M.T.A. Beckers
 M. Dixon
 H.J. Maier
 B. Wilson

Developments by cluster

52 This chapter provides details of key developments in the year under review in each cluster, in conformity with our organisational structure, and the objectives and strategy defined for the coming years.

ERIKS Belgium

	2007	2006
Sales	151,031	126,661
Operating result (EBITA)	15,190	11,116
Average number of employees	655	590
Movement in industrial output (excluding construction)	+3.4%	+4.7%

Achievements in 2007

■ Organisational

- The defined and refined twin business model was implemented.
 - One management team was formed for ERIKS nv and the Baudoin group.
 - One commercial organisation was formed to approach both OEM and MRO customers.
 - The project to implement the SAP business information system in the Baudoin group was launched.
- The two Belgian Wyko branches and the French company Campion sas were integrated into the Baudoin group.
- The marketing approach in the Vemoflex branches in France was successfully modified.
- The activities of Vermeulen nv were successfully restructured.

■ Commercial

- 19.2 percent growth in sales (organic: 12.9 percent).
- Growth of market share in almost all product groups.
- Know-how of the market, products, applications, processing and logistical concepts maintained and improved through various training programs.
- Range of products expanded.
- Range of private label products expanded.
- Development commenced of the bellows sub-product group as part of the product group hoses and accessories.
- Processing activities (welding robots, machines for manufacturing flange gaskets, lathes and test equipment) expanded and modernised.
- Technical documentation updated and expanded (on paper and on the internet).

■ Operational

- Logistical organisation and processes in all companies in the cluster optimised.
- Operational integration of the two Belgian Wyko branches and Campion sas into the Baudoin group completed.
- Quality assurance systems in some companies in the cluster improved.
- Relocation to a central branch operation established for all core activities in Walloon provinces.
- Business information systems integrated with customers' and suppliers' own systems (optimisation of transaction costs).



Continuity and productivity

ERIKS is strongly rooted in the process industry. With valves, instrumentation, hoses, couplings and seals, we make an important contribution to continuity and productivity at the process installations of our customers.

ERIKS | PASSION FOR TECHNOLOGY

Objectives for 2008 and beyond

Organisational

- Implementation of the twin business model.

Commercial and operational

- Obtain and maintain a top 3 position in all core activities and related product groups.

- Approach the defined industrial markets.

- Increase productivity.

Financial

(Assuming normal growth of the economy/industrial activity.)

- Organic growth of 5 - 7 percent per annum.
- Operating result equal to 8 percent of sales.

Strategy

- Build on a clear, cluster-wide sales concept (one single ERIKS Belgium).
- Optimise cooperation between the business units (Competence Centres) and the Service Centres.
- One single management team to manage the ERIKS Belgium cluster.
- Organisational and commercial integration of ERIKS nv and the Baudoin group.
- Organisational and commercial integration of IECO nv and Vermeulen nv (ERIKS Motion Control).

- Strengthen positions in the core activity Power transmission and the valves and instrumentation product groups.
- Improve market, product, application and logistics know-how. These know-how domains will drive the modernisation (innovation) of the range of products and services (product management).
- Develop the metal and rubber bellows product group.
- Expand processing facilities and logistics services (including Integrated Solutions).
- Obtain quality procedures geared to individual customers.
- Explore opportunities for the core activity Electromechanical services and condition monitoring.

- Maintain a marketing mix tailored to fit the type of customer and industrial market segment and focus on defined growth markets.
- Develop products and services, always supported by the 6 know-how domains with which we can offer customers real added value.
- Develop and market a range of metal and rubber bellows.

- Optimise the structure and use of the business information systems.
- Gradually migrate to one business information system (SAP) with a shared database (in 2008: Baudoin group).
- Modernise and expand the functionalities of the TradCom e-portal.
- Aim to integrate customers and suppliers systems with TradCom and own business information systems.

ERIKS Central Europe

	2007	2006
Sales (from 1 October 2006)	5,830	1,357
Operating result (EBITA)	967	141
Average number of employees	47	11
Movement in industrial output	16.4%	12.5%

Achievements in 2007

The ERIKS group's strategy is to become a top-calibre European player and to also have a presence in Central European countries so that we can service international customers from the branches in these countries.

The ERIKS group made an initial foray into this market area with the acquisition of Mowta Sp z.o.o. in Gdansk and Passerotti Sp z.o.o. in Bielsko-Biala (North and South-east Poland) at the end of 2006. Both companies are specialist distributors, Mowta in valves and Passerotti in seals.

The integration of Passerotti is proceeding well. Cooperation with the local management team is excellent. The range of products is being expanded with the support of the International Product Managers, and the company will be able to approach new market segments through its three branches. Preparations are under way for expanding the number of branches. Other product groups (starting with power transmission) will also be added to the range.

Sales in the valves product group (Mowta) have remained below expectations.

The range has recently been extended and the marketing mix adjusted in close cooperation between the company's management and the International Product Manager. Expectations for the coming year are positive.

ERIKS UK opened a branch in Slovakia and the Czech Republic at the end of 2006. These branches are still being managed by the ERIKS UK cluster for the time being.

Objectives and strategy for 2008 and beyond

- At Passerotti the seal range is being expanded and a start has been made on the bearings product group. Passerotti remains a specialist distributor that offers its products and services to industrial customers on the basis of the six know-how domains. Two additional branches will be added at the beginning of 2008 by way of an acquisition.
- The range of products in the valves product group (Mowta) is to be expanded.
- Strengthening our presence in Poland, as well as in the Czech Republic and Slovakia, by acquiring specialist distributors in the flange gaskets, industrial hoses, power transmissions and plastics product groups.
- Average organic growth of 10 percent per annum.



Mechanical Seal Repair Shop

The regular replacement of mechanical seals is very expensive. ERIKS recognises this fact and offers its customers a cheaper but high-quality alternative: our own Mechanical Seal Repair Shop. The repair shop, equipped with all modern production, control and test equipment, enables us to repair, refurbish and modify mechanical seals according to factory specifications. The seal, again as new, gets its original tool life for a new lease of life.

ERIKS | PASSION FOR TECHNOLOGY

ERIKS Germany

	2007	2006
Sales	117,515	109,737
Operating result (EBITA)	11,488	8,860
Average number of employees	429	426
Movement in industrial output (excluding construction)	+7.3%	+6.0%

Achievements in 2007

■ Organisational

- Implementation of the twin business model announced.
 - Business units (Competence Centres) for sealing technology, industrial hoses and electromechanical power transmission set up.
 - All companies rebranded under the ERIKS name with effect from 1 January 2008.
 - Preparations under way for the integration of the German Wyko company in the ERIKS Germany cluster (with effect from 1 January 2008).
- Legal, commercial and organisational integration of the branches in South-west Germany.
- A large number of potential acquisition candidates in the core activities of Flow technology, Industrial plastics and Sealing technology approached.

- Preparations under way for the acquisition of Schmitztechnik GmbH in Mönchengladbach with effect from 1 January 2008 (sales of EUR 5.5 million).

■ Commercial and operational

- 7.1 percent growth of sales (fully organic). Growth of sales was limited by a conscious decision to drop a number of larger customers.
- ERIKS Hessen branch relocated.
- Pro Alpha business information system implemented (completed 1 February 2008). All existing branches and business units now use the same business information system with one central database.
- Business information systems integrated with customers' and suppliers' own systems (optimisation of transaction costs).
- Organisation of primary business processes optimised.
- Management Development programme and career development programs developed and implemented.

Objectives for 2008 and beyond

Organisational

- Implementation of the twin business model (i.e. including expansion of activities and market segments).
- Approach the market as one organisational unit.

Strategy

- Further development of existing business units by expanding the range.
- Business units will approach independent customers and support the local branches.
- Increase the number of core activities (Flow technology and Industrial plastics) through acquisitions.
- Increase the number of branches in the regions in which ERIKS does not yet have a presence.
- Increase the number of industrial segments to be approached, especially in the process industry.
- Name change: all branches and business units using the ERIKS name.
- Uniform promotion and publicity.
- Approach major (international) customers in a coordinated way.
- Integrate the German Wyko branch.

Commercial and operational

- Expand the package of products and services.
- Achieve organic growth.
- Increase productivity.
- Pro-active product management from the business units with effective anchor points in the branches.
- Expand processing facilities.
- Improve market, product, application and processing know-how.
- Expand the logistics services and introduce the TradCom e-portal.
- Examine and optimise logistics structures and storage methods.
- Optimise the structure and use of the new ProAlpha business information system.
- Integrate the business information system with customers' and manufacturers' own systems.

Financial

(Assuming normal growth of the economy/industrial activity.)

- Organic growth of 5 - 7 percent per annum.
- Operating result equal to 7 - 8 percent of sales.

ERIKS France

	2007	2006
Sales	16,366	22,779
Operating result (EBITA)*	698	(384)
Average number of employees	78	130
Movement in industrial output (excluding construction)	+7.3%	+1.2%

* EBITA 2007 includes a book profit of EUR 0.7 million from the sale of a building.

Achievements in 2007

■ General

Operations in North-west France were restructured at the end of 2006. Operations in Rouen ceased. The shares in Adji sarl in Roncq (near Lille) were transferred to the manager of the company on 1 January 2007.

The company was achieving sales of EUR 1.8 million with 16 employees. There was a small book profit. The activities of Campion sas in Roncq with sales of EUR 3.5 million were incorporated into the Baudoin group in the ERIKS Belgium cluster with effect from 1 January 2007.

The following were incorporated into the ERIKS France cluster in 2007:

- Baudoux Industrie sas with branches in Noyon, Amiens, Beauvais and Le Havre. Sales in 2007 amounted to EUR 9.1 million.
- ERIKS sas in Trappes (near Paris) with sales of EUR 7.3 million.

■ Baudoux Industrie sas

Baudoux serves the general industrial market with a range of power transmissions, industrial hoses and tools. Its results have not been positive and the company was restructured in 2007. The sales organisation and support services were adapted to the changed market approach. The company returned to profitability in the last quarter of the year.

■ ERIKS sas, Trappes

This company has been part of the ERIKS group for 30 years. It successfully services a number of niche markets in the process industry with a high-quality range of valves, seals and industrial hoses. ERIKS sas achieved sales of EUR 7.3 million with 30 employees in 2007.

Objectives and strategy for 2008 and beyond

General

Based on ERIKS sas's current activities, the primary objective of the ERIKS group in France is to develop into a supplier that fulfils the role of a specialist. The top priority is to offer a deep range of products (valves, seals and industrial hoses and accessories), know-how, processing and logistics services. The strategy is to extend the range of products in these product groups both organically and through targeted acquisitions. This is the only way we will be able to obtain sufficient volume and market share and build up a solid position as a know-how-driven distributor in the process industry. In developing the marketing concept we will be focusing intensively on improving the level of know-how and expanding our technical and logistics services.

Financial

(Assuming normal growth of the economy/industrial activity.)

- Organic growth of 5 - 7 percent per annum.
- Operating result equal to 7 percent of sales.

ERIKS Netherlands

	2007	2006
Sales	237,087	211,879
Operating result (EBITA)*	27,893	24,131
Average number of employees	928	864
Movement in industrial output (excluding construction)	+3.2%	+1.7%

* EBITA 2006 includes a book profit of EUR 0.5 million from the sale of a building.

Achievements in 2007

■ Organisational

- The twin business model has been almost entirely implemented and has been very well accepted both inside and outside the company.
- The number of employees in all business units and support services has been strengthened and increased.
- Organisational and commercial integration of Flexion bv and Elmeq bv into ERIKS Power transmission.
- Local branches strengthened (ERIKS Service Centres).
- Management Development programme maintained.
- Know-how development programmes developed (the six know-how domains).
- Dutch Wyko branches integrated into the ERIKS Netherlands cluster.
- Preparations under way for the acquisition of Wielens Beheer bv in Groningen, a company specialising mainly in electromechanical power transmission.

■ Commercial

- 11.9 percent growth in sales (organic: 10.9 percent).
- Growth in market share in almost all product groups.
- Commercial concept deepened and tightened.
- Range of products expanded in all product groups.
- Range of own private label products expanded.
- Attention paid to maintaining and/or improving the know-how (the six know-how domains) on an ongoing basis in all parts of the cluster.
- A Clean room was installed, enabling us to expand our service provision to the pharmaceutical and semiconductor industries in particular.
- International project bureau Noton bv won some orders.

■ Operational

- Logistical organisation and processes in all companies in the cluster optimised.
- Processing facilities expanded and modernised (new CNC machines, automatic welding robots, flange gasket manufacturing machines).
- Many innovative recruitment activities carried out with a view to expanding the workforce.
- Business information systems integrated with customers' own systems (optimisation of transaction costs).
- SAP business information system implemented at Van Eyle & Ruygers-Schwartz bv in Rotterdam (operational as of 1 February 2008).
- Preparations under way to implement the SAP business information system at Elmeq bv and Bruhamij Kunststoffen bv.

Objectives for 2008 and beyond

Organisational

- Strengthen the twin business model.

Strategy

- Build a uniform, efficient commercial organisation:
 - ERIKS bv (merger of the present ERIKS bv, Van Eyle & Ruymers-Schwartz bv and Bruhamij Kunststoffen bv)
 - ERIKS Aandrijftechniek bv (merger of Flexion bv and Elmeq bv)
 - expansion of ERIKS Service Centres
 - transfer of know-how from the business units to the Service Centres
 - integration of Wielens Beheer bv.

Commercial and operational

- Retain and build on our top 3 market position in all core activities.
- Increase productivity.
- Approach the market actively with a passion for technology.
- Market the ERIKS benefits:
 - less down-time and fewer faults
 - lower maintenance costs
 - technological contribution to product development
 - lower energy consumption
 - less impact on the environment
 - increased safety.
- Strengthen performance at Flexion bv and Van Eyle & Ruymers-Schwartz bv.
- Focus on expanding the range of electromechanical power transmission products.
- Strengthen the position of private brands.
- Achieve synergy with Wielens Aandrijftechniek bv.
- Optimise the organisation and use of business information systems.
- Integrate the ERIKS business information systems with those of our customers and suppliers.
- Roll out the SAP business information system.

Financial

(Assuming normal growth of the economy/industrial activity.)

- Organic growth of 4 - 6 percent per annum.
- Operating result equal to at least 8 percent of sales.

ERIKS UK

	2007	2006
Sales	377,483	39,410
Operating result (EBITA)	20,347	1,309
Average number of employees	2,153	250
Movement in industrial output (excluding construction)	+0.6%	+1.1%
Average exchange rate GBP	1.46127	1.48449

Achievements in 2007

The ERIKS group acquired the shares of Wyko Holdings Limited on 17 November 2006. With this acquisition the ERIKS group gained additional annual sales worth approximately GBP 240 million and more than 2,000 employees. The sales for 2007, excluding the branches in the Netherlands and Belgium, amounted to GBP 258.3 million. Ninety percent of ERIKS UK (formerly Wyko)'s turnover is achieved in the UK. At the end of 2007 ERIKS UK also had branches in Ireland, Germany (to be added to the ERIKS Germany cluster in 2008), the Czech Republic, Slovakia and Nigeria. Additionally, the Specialist Technology division has facilities in the UK, USA, Japan and Malaysia, and an office was opened in China for a number of activities at the end of 2007.

■ Profile of Wyko

Wyko was established in the UK more than 40 years ago. Between 1980 and 2000 it grew substantially by acquiring many local distributors. In 1999 a subsidiary of the Royal Bank of Scotland delisted Wyko. Over the next few years several more acquisitions were made and the range of products was expanded.

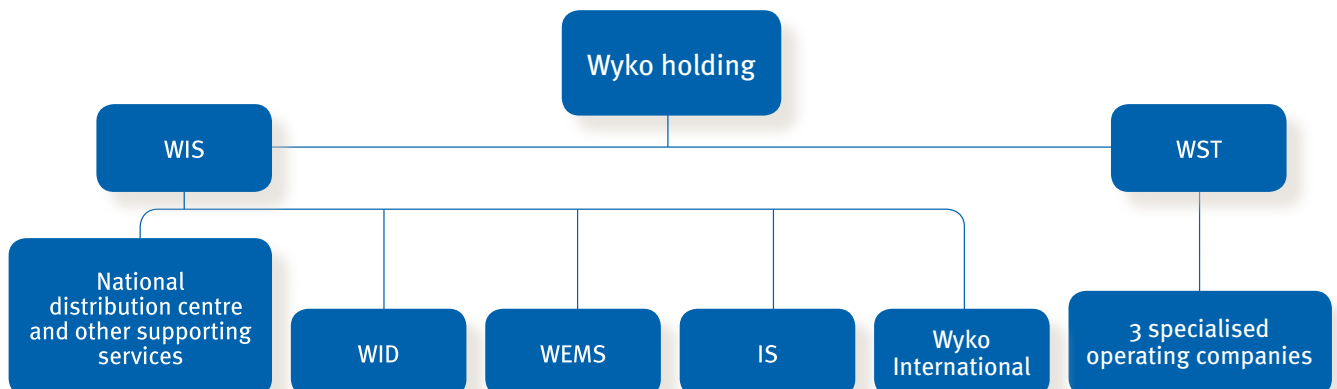
Wyko now consists of a number of specialist know-how-driven business units, each serving its own markets. The core of Wyko is Wyko Industrial Services (WIS), an engineering and distribution organisation with 117 branches and workshops and 108 'on-sites' on customers' premises. WIS' sales for 2007 amounted to GBP 229.7 million (EUR 335.6 million).

The branches outside of Great Britain (Wyko International) realised sales of GBP 7.0 million (EUR 10.3 million).

Besides WIS there are three more specialist companies under the Wyko banner. These companies develop, manufacture and sell a number of specialised technical components under their own brand names. The external sales of these three companies for 2007 amounted to GBP 21.6 million (EUR 31.6 million).

■ Organisation

The Wyko organisation is structured as follows:



Wyko Industrial Services (WIS) is made up of

- Wyko Industrial Distribution (WID), which has approximately 90 branches, 16 'on-sites' on customers' premises, a national distribution centre in Birmingham and a number of Technical Centres (business units).
- Wyko Electrical and Mechanical Engineering Services (WEMS), which has 30 branches.
- Wyko Integrated Solutions (IS), which has 92 'on-sites' on customers' premises.
- Wyko International
- Wyko Sealing and Flow technology

Wyko Industrial Distribution (WID) and Technical Centres

With 90 branches, 16 customer 'on-sites' and 704 employees, this unit offers the entire range of products and services to the MRO market. Including the Technical Centres, sales of GBP 118.7 million were realised in 2007. Depending on the type of customer, the market is serviced by national account managers, regional representatives, specialist sales engineers and a national call centre. The national distribution centre and other support services employ 267 people. Additionally WID has Technical Centres for motors and gears, couplings, pumps and fluid power.

Wyko Electro Mechanical Engineering Services (WEMS)

This unit has 30 branches, some of which are shared with WID and 557 employees. WEMS realised sales of GBP 34.4 million in 2007. Its repair activities mainly encompass repairs of electric motors, pumps, reduction gearboxes and electronic control systems and providing advice on increasing and optimising the capacity of existing production systems (condition monitoring services).

Wyko Integrated Solutions (IS)

This activity is growing rapidly. With a workforce of 309 employees, external sales of GBP 76.6 were realised in 2007. Services are provided on-site, usually by a small team of three to five people. In addition to its own products, it also buys and supplies many other consumables.

The mutual relationship between the traditional role of a stockist distributor, the opportunity to offer logistics concepts and the repair and monitoring activities of the WEMS shops strengthen the three separate activities of WID, WEMS and IS.

Product management is coordinated in the Technical Centres. Our own specialised sales staff will approach the machine and equipment manufacturing sector and provide local branches with support, as is the case in the Netherlands and Belgium.

Wyko International

Wyko's products and services are offered to international customers from its branches in Germany, Slovakia, the Czech Republic, Ireland and Nigeria which employ a total of 53 people. External sales in 2007 amounted to GBP 7.0

million (EUR 10.3 million). The Dutch and Belgian branches have now been transferred and integrated in the ERIKS Netherlands and ERIKS Belgium clusters respectively.

Wyko Sealing and Flow Technology

This division was created in 2007 and comprises the existing Wyko sealing activities and FHS. In 2008 these will fully develop into Technical Centres for sealing technology and industrial hoses. The division will also look to expand into gaskets and valves through acquisitions.

Wyko Specialist Technology

- *Rencol*: sales in 2007: GBP 11.3 million.

This company, which has branches in the UK, Japan and Malaysia, develops and manufactures a range of tolerance rings for applications in the automotive, computer and electrical motor industries.

- *Revolvo*: sales in 2007: GBP 3.3 million.

This company develops and produces a range of special ball bearings for industrial end-users and distributors.

- *Wyko Tyre Technology*: sales in 2007: GBP 7.0 million.

This company, which has branches in the UK and the USA, develops and produces tools for manufacturers of tyres.

In 2007 a branch was opened in China for the expansion of Rencol and Wyko Tyre Technology's activities.

■ Integration of Wyko into the ERIKS group

From the time when the acquisition took place, the respective managements of Wyko and the ERIKS group shared a clear view of the strategy to be followed.

- Development and implementation of the twin business model that is used in the Netherlands and Belgium. This means:
 - expanding the number of product groups (organically and through acquisitions)
 - setting up Technical Centres with centralised product management and their own sales organisations
 - approaching new industrial market segments and the OEM market.
- Increasing productivity and profitability. Increasing EBITA from 5 percent in 2006 to 7 percent within 3 to 4 years.

Immediately after the acquisition, a Central Development Team was set up, composed of employees from Wyko and the original ERIKS companies. Important points for consideration for this team were the following items:

- Communication of the chosen strategy to the Wyko organisation.
- Coordination of product ranges and suppliers.
- Transfer product and service know-how from ERIKS to Wyko and vice-versa (dozens of sub-projects).
- Integration of Wyko's branches in the Netherlands and Belgium into the ERIKS Netherlands and ERIKS Belgium clusters respectively.

- Organising a European Account Management for international customers in cooperation with the other ERIKS clusters.
- Setting up a Technical Centre for Sealing technology.
- Acquisition of a distributor of industrial hoses and accessories (Flexible Hose Supplies) and setting up a Technical Centre for industrial hoses.
- Expansion of product management and product range.
- Incorporation of Wyko into the ERIKS group's reporting structures.
- Incorporation of Wyko into the ERIKS group's Enterprise Risk Management structure.
- Refinancing of ERIKS UK.

All these activities resulted in a smooth and successful integration. Employees of the companies in the ERIKS UK cluster and those of the other ERIKS clusters all cooperated enthusiastically on the dozens of projects.

The following was also achieved in the ERIKS UK cluster in the year under review:

- Compared to the calendar year 2006, organic growth of 12.3 percent.
- Wyko Industrial Distribution:
 - changing of the local sales organisations
 - increase of productivity
 - increase of market share
 - strengthening of product management.
- Wyko Electro Mechanical Engineering Services:
 - expansion of the range of services
 - access to market segments that are new to Wyko
 - acquisition of a local workshop (Forco Electrical Services in Exeter). With 9 employees, it achieves annual sales to the value of approximately GBP 0.4 million.
- Wyko Integrated Solutions:
 - increase of number of customers
 - optimisation of the organisation and the processes.
- Wyko International:
 - expansion of activities in Nigeria, Slovakia and Ireland
 - starting a branch in the Czech Republic.
- Specialist Technology:
 - establishment of a branch in China for the activities of Rencol and Wyko Tyre Technology
 - expansion and modernisation of the production facilities at Revolve and preparation for relocation.
- General:
 - preparation for the change of corporate identity and name transition to ERIKS
 - training programmes for branch managers and for increasing know-how (the six know-how domains)
 - expansion and strengthening of the sales organisations
 - optimisation of the logistical setup and the operational processes.

Objectives for 2008 and beyond

Organisational

WIS:

- Development of the twin business model.
- Approach the market as a single organisational unit.

Strategy

- Complete Technical Centre structure for the existing activities in the core activities Power transmission and Sealing technology.
- Special training programmes for developing the six know-how domains.
- Train application engineers at the Technical Centres to service the OEM market and support the branches.
- Expand the number of core activities by acquiring specialised distributors of valves, seals, industrial hoses and industrial plastics.
- Transfer of Wyko's activities in Germany to the ERIKS Germany cluster.
- Change of name: all branches and business units to trade under the name of ERIKS.
- Intensify collaboration between WID, WEMS and IS.

- Expand the activities of WEMS and IS.

Specialist Technology:

- Expand market area.

Commercial and operational

WIS:

- Expand the range of products.

- Achieve organic growth.

- Professionalise the organisation.

- Increase productivity.

Specialist Technology:

- Expand the range of products.

- Increase productivity.

Financial

(Assuming normal growth of the economy/industrial activity.)

- Organic growth of 5 - 7 percent per annum.
- Increase EBITA from the current 5.5 percent to 7 percent in 2009/2010.

- Investigate the possibilities for extending the WEMS and IS activities into the other ERIKS clusters.

- Enter new markets in South-east Asia, both for manufacturing and sales.
- Set up partnerships for Revolve with the other ERIKS group clusters.

- See 'Organisational'.

- Intensify collaboration between WID, WEMS and IS.
- Improve market, product, application and logistics know-how.
- These know-how domains will drive the modernisation (innovation) and expansion of the range of products and services.
- Extend the product range with (among other things) private label products.
- Approach new market segments such as the process industry.
- Introduce the TradCom e-portal.
- Expand European Account Management jointly with the other clusters.
- Expand activities in the Czech Republic, Slovakia, Ireland and Nigeria.

- Develop training programmes, particularly for the six know-how domains.
- Optimise the organisation of the article database in order to control procurement and sales more effectively.

- More products available through the local branches.
- Pay constant attention to and, where necessary, modify the working methods and the organisation of the business information systems.
- Research and decide on the future logistical setup.
- Decide on future ICT setup.

- Develop new products via R&D and in collaboration with customers.

- Make use of modern technology.
- Relocation of Revolve to new, modern accommodation.

ERIKS USA

	2007	2006
Sales	35,786	23,755
Operating result (EBITA)	4,364	2,664
Average number of employees	122	82
Movement in industrial output (excluding construction)	+2.0%	+4.7%
Average USD rate	0.72967	0.79643
Sales in USD	49,044	29,826

Achievements in 2007

■ Organisational

- Successful integration of Turpen & Associates, Inc. in Tulsa, Oklahoma, acquired on 1 November 2006. At the time of the acquisition Turpen was achieving annual sales of USD 11 million with about 45 employees, and supplies OEM customers mainly in the oil and gas industry in Oklahoma and neighbouring states.
- Approached the market as 'ERIKS USA':
 - product range management, supplier management and procurement centralised
 - product management strengthened
 - market, product and application know-how exchanged between the various branches
 - joint technical and promotional documentation developed.

■ Commercial and operational

- Organic growth of just over 19.4 percent in local currency.
- Range of products expanded in all branches.
- Approached new manufacturers (using the sourcing know-how available in the ERIKS group).
- Approached and attracted new customers.
- Strengthened product management at cluster level and in branches (improved market, product, application and processing know-how) by attracting new employees and introducing training programmes.
- Expanded the logistics services.
- Connected Turpen to ERIKS USA's business information system.
- Improved the organisation of the procurement and sales process.
- Storage methods in warehouses optimised.
- Relocated ERIKS Southwest, Inc. to new, modern premises.
- Modernised processing facilities.

Objectives for 2008 and beyond

Organisational

- Approach the market as 'ERIKS USA'.
- Expand our presence in the USA.

Commercial and operational

- Achieve organic growth.
- Expand our market area.

Strategy

- Intensify commercial and operational cooperation between the various branches.
- Undertake joint development of products and services.
- Acquire specialised suppliers of sealing elements, rubber products and industrial plastics.
- Expand range of products and services.
- Invest in top-flight market, product, application and processing know-how.
- Expand testing and processing facilities.
- Approach new market segments.
- Use the sourcing know-how available within the ERIKS group.
- Roll out via acquisitions.

- Retain level of productivity.

- Optimise the use of the business information system.
- Optimise physical and administrative logistics with customers and manufacturers.

Financial

(Assuming normal growth of the economy/industrial activity.)

- Organic growth of 4 - 6 percent per annum.
- Operating result equal to 8 percent of sales.

ERIKS South-east Asia

	2007	2006
Sales	8,041	7,735
Operating result (EBITA)	660	421
Average number of employees	66	65
Average SGD rate	0.48460	0.50148
Sales in SGD	16,593	15,424

Achievements in 2007

- Organic growth of 7.3 percent in local currency.
- Major steps forward in the development from traditional distributor to a know-how-driven supplier offering added value by:
 - improving product and application know-how
 - changing the range to higher quality products
 - directly approaching industrial end-users, often in new market segments.
- Organisation of primary processes improved.

Objectives and strategy for 2008 and beyond

- Obtain a product mix tailored to fit the principal markets.
- Develop an image as an industrial distributor/supplier with added value. This necessitates essential and permanent improvement of the marketing mix by
 - implementing professional and pro-active product management
 - increasing our level of know-how (the six know-how domains)
 - profiling the company as a specialist. Further developing the technical added value to be offered (know-how and processing), focused mainly on sealing elements, rubber products and valves
 - directly approaching industrial end-users in the defined market segments
 - systematic management of office and field sales.
- Obtain volume and sufficient market share.
- Increase productivity.

Financial

Achieve organic growth of between 5 and 10 percent and an operating result of between 5 and 6 percent.

ERIKS group nv

	2007	2006
Operating result (EBITA)*	(5,280)	(3,742)
Average number of employees	17	16

* EBITA 2007 includes EUR 0.7 million non-recurring project costs.

The ERIKS share

Stock market quotation

As at 31 December 2007 the issued and paid-up share capital of ERIKS group nv consisted of 10,582,614 ordinary shares with a par value of EUR 0.50 each. All shares are listed on the Euronext Amsterdam stock exchange. A total of 10,533,255 ordinary bearer shares are included in the giro system as referred to in the Dutch Securities Giro Act (Wet giraal effectenverkeer) and are registered in the register of shareholders in the name of Euroclear Nederland. The remaining 49,359 issued ordinary shares are registered in the register of shareholders in the names of the respective shareholders.

Movements in the number of ordinary issued and paid-up shares

To refinance the ERIKS group (strengthening of our solvency), a public offering of new ordinary shares to a value of EUR 126.5 million was successfully held in January 2007. A total of 2,432,693 new ordinary shares were issued and paid up at a price of EUR 52.

When the dividend for 2006 was paid in June 2007, 51.2 percent of shareholders elected to receive a stock dividend, as a result of which the number of shares increased by 119,145, or 1.1 percent.

The results and cash flow per share are calculated on the basis of the average number of shares issued. The average rose from 7,991,945 in 2006 to 10,330,246 in 2007, or an increase of 2,338,301 (29.3 percent).

Share options

The company has not paid out or issued any share options. At the end of 2007 the executive board jointly held 10,979 ordinary ERIKS shares. The supervisory board does not hold any ERIKS shares.

Share movements (x 1,000 units)

	2007	2006	2005	2004	2003
Issued at start of year	8,031	7,938	7,774	7,504	7,258
New shares issued	2,433	-	-	-	-
Stock dividend	119	93	164	270	246
Issued at year-end	10,583	8,031	7,938	7,774	7,504
Average issued	10,330	7,992	7,869	7,661	7,402

General meeting of shareholders

At the general meeting of shareholders on 15 May 2007, 22.0 percent of the total number of ordinary shares issued were represented and the following resolutions were adopted:

- Adopt the minutes of the extraordinary general meeting of shareholders of 13 November 2006.
- Adopt the financial statements for 2006.
- Grant discharge to the executive board and the supervisory board for the policy conducted and supervision exercised in 2006.
- Resignation of Mr J.L. Bouma as a member of the supervisory board of ERIKS group nv.
- Appoint Mr A.A. Olijslager as a member of the supervisory board of ERIKS group nv.
- Approve the proposals of the executive board and the supervisory board regarding:
 - introduction and application of the Dutch corporate governance code
 - reserves and dividends policy
 - proposed dividend for 2006
 - remuneration of the supervisory board.
- Designate the executive board as the body authorised to take decisions concerning the issue of ordinary shares, the granting of rights to obtain ordinary shares and the restriction or exclusion of shareholders' preferential rights for a period ending on 15 May 2009. The authority shall apply to no more than 20 percent of the number of ordinary shares issued.

Reserves and dividends policy

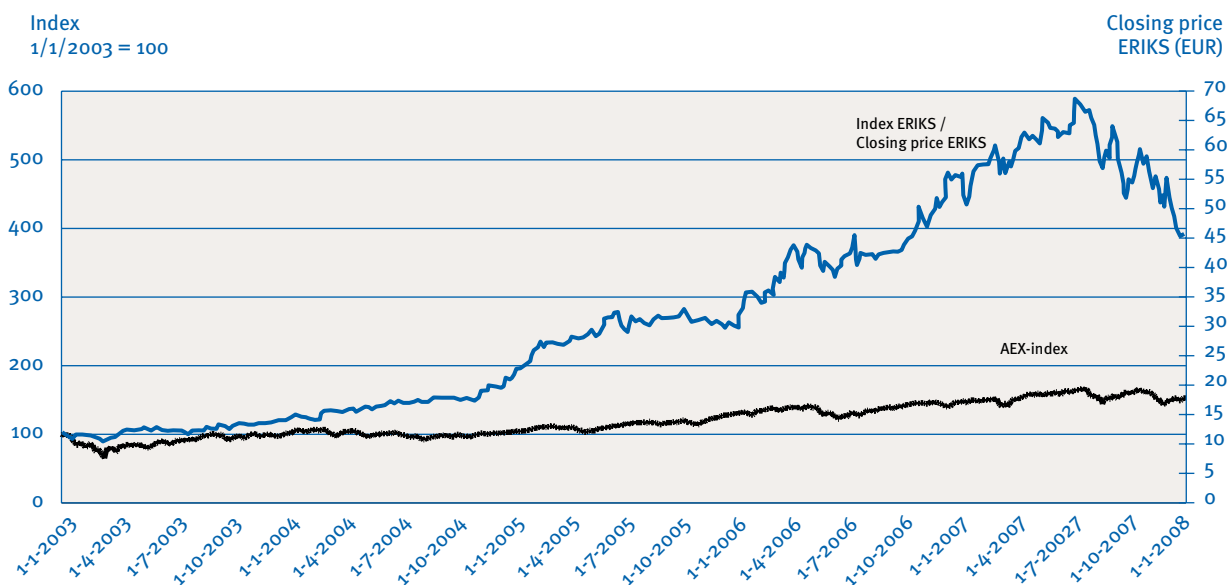
Taking account of the growth targets of the ERIKS group and the financial resources needed to achieve them, the company's policy on reserves is essentially to consistently allocate to the reserves about 50 percent of the after-tax result placed at the disposal of shareholders minus amortisation.

The policy on dividends is essentially to consistently pay out as a dividend about 50 percent of the result available to shareholders plus amortisation. Shareholders may elect to receive the dividend in cash or in shares, charged to the reserves.

Key data per share (of EUR 0.50 par value)

x EUR 1.00	2007	2006	2005	2004	2003
Net result	4.23	IFRS 3.47	IFRS 2.80	IFRS 2.41	Dutch GAAP 1.62
Result before amortisation of goodwill and from intangible fixed assets obtained from acquisitions (excluding software)	4.59	3.55	2.80	2.41	1.94
Cash flow from ordinary activities	5.74	4.40	3.60	3.25	2.66
Dividend	2.25	1.35	1.40	1.00	0.80
Pay-out ratio	50.2	49.8	50.4	49.4	50.1
Shareholders' equity	28.24	18.46	16.07	14.05	12.23
Share price at year-end	45.50	54.85	29.90	21.25	14.30
Highest	68.14	57.00	33.00	21.65	14.44
Lowest	44.80	29.75	21.75	14.20	10.25
Market value at year-end (x EUR millions)	481.5	440.5	237.3	165.2	107.3

ERIKS share versus AEX-index



Dividend 2007

The profit appropriation and dividend proposal for 2007 can be found on page 120 of this report.

We propose to declare a dividend of EUR 2.25 per share of EUR 0.50 for 2007, providing for a pay-out percentage of 50.2 percent of the result placed at the disposal of shareholders plus amortisation.

Shareholders may elect to receive the dividend in cash or in shares, charged to the reserves. The value of the proposed stock dividend will be 2 to 4 percent higher than that of the cash dividend. The stock dividend will be declared one day after the option period ends, based on the average price of the share during the last five trading days of the option

period. During the year under review, 48.8 percent of the dividend for 2006 was paid out in cash and 51.2 percent as stock dividend. The value of the stock dividend was 4.07 percent higher than the cash dividend.

Investor relations

The ERIKS group attaches great importance to good communication with financial stakeholders and other interested parties such as investors, equity providers and analysts so as to provide good insight into the group's position in the ever-changing market. Price-sensitive information is always disclosed in public announcements.

The group explains its strategy, financial results and the latest developments in national and international meetings with investors, analysts and financial journalists. Each quarter the group publishes its financial results and explains them in greater detail in a conference call with financial analysts and journalists. Transparency and disclosure are designed to optimise the share price and create a wider spread of share ownership.

Detailed information about press releases, financial presentations, strategy and corporate governance can be found on www.eriks.com.

Liquidity provider

The number of transactions in shares of ERIKS group nv has increased. To retain a continuous listing and optimise relationships with shareholders, particularly private individuals, SNS Securities N.V. of Amsterdam has been appointed as liquidity provider. Liquidity providers ensure there is always steady supply and demand in the trading system. They also help to maintain relationships with existing and potential investors and are tasked with publishing analysts' reports. Activities and results are evaluated on an annual basis. In the year under review, there were 255 trading days in which 27,604 transactions in ERIKS shares were executed. Almost 6.4 million shares were traded in these transactions (2006:

2.2 million), representing a total trading value of EUR 370.0 million (2006: EUR 92.5 million).

Internal rules concerning insider trading

ERIKS complies with the requirement to draw up regulations governing the possession of and transactions in its shares by, among others, employees, members of the executive board and members of the supervisory board of ERIKS group nv. A large group of employees and advisors is formally obliged to sign a statement of compliance with the regulations set forth in section 5:65 of the Dutch Act on Financial Supervision (*Wet op het financieel toezicht, Wft*). The internal rules for members of the executive board and supervisory board of ERIKS group nv were expanded to also comply with the provisions of Chapter 5.3 of the Wft (rules on the disclosure of votes, capital, participation and capital interests in issuing institutions). The Authority for the Financial Markets (AFM) supervises compliance with these rules. The internal code is evaluated annually and amended where necessary.

Holdings exceeding 5 percent

The following holdings were registered in the public register of the Authority for the Financial Markets (AFM) as at 28 February 2008:

	Percentage	Date of notification
ING Groep N.V.	19.52	24 January 2007
Kempen Capital Management N.V.	10.18	1 November 2006
TG Holding AG	8.22	12 February 2007
Delta Deelnemingen Fonds N.V.	7.35	1 November 2006
Darlin N.V.	5.78	1 November 2006
Aviva plc	5.28	1 November 2006
Navitas B.V.	5.06	28 November 2007

Financial agenda

15 May 2008	General meeting of shareholders in Alkmaar. Publication of first quarter 2008 results.*
19 May 2008	1st ex-dividend listing.
22 May - 30 May 2008	Option period.
2 June 2008	Determination of number of dividend rights providing an entitlement to 1 new share.
6 June 2008	Dividend payable and delivery of share.
21 August 2008	Publication of first half year 2008 results.**
13 November 2008	Publication of nine months 2008 results.*
26 February 2009	Publication of annual 2008 results.**
14 May 2009	General meeting of shareholders in Alkmaar. Publication of first quarter 2009 results.*

* Publication during trading hours, followed by a conference call.

** Publication during trading hours, followed by an analysts' meeting.

Corporate governance

68 | Corporate governance structure at ERIKS group nv

The executive board and supervisory board of ERIKS group nv attach great importance to good corporate governance. For many years the group has formally and informally maintained a clear dividing line between the responsibilities of the executive board and those of the supervisory board. Reporting to shareholders and other stakeholders is as open as possible. Recommendations put forward by shareholders are always examined and acted upon constructively, insofar as they promote the group's continuity and take into account the interests of all stakeholders.

As regards the control exercisable by shareholders, the board has followed developments in society and changes made to corporate law.

Shareholders currently holding ordinary shares have full voting rights and are directly involved in

- approving policy and strategy
- appointing the members of the executive board and the supervisory board
- adopting the financial statements
- approving the policy on dividends
- approving the policy on the executive board's remuneration.

Foundation ERIKS Group (protective construction)

The Foundation ERIKS Group has been granted the right to acquire preferred shares in ERIKS group nv up to 100 percent of the total par value of the ordinary and financial preferred shares in the capital of ERIKS group nv in circulation at the time when the right is exercised.

This protective construction exists solely as a measure for allowing time in the event of hostile action by third parties. It enables the company to determine whether such actions are in the interests of all stakeholders of the ERIKS group and whether the intentions of the third parties are in line with the strategy of the ERIKS group.

The aim of the Foundation ERIKS Group is to protect and defend the interests of ERIKS group nv and its affiliated companies and all stakeholders. The Foundation is an independent legal entity and is not controlled by any other legal entity.

Compliance with the Dutch corporate governance code

The executive board and supervisory board of ERIKS group nv subscribe to the underlying principle of the Dutch corporate governance code: the company is a long-term partnership of the various parties involved in it. The stakeholders are the groups and individuals who directly or indirectly influence the achievement of the company's objectives or are influenced by them: employees, shareholders and other capital providers, manufacturers and customers, and also the public sector and community groupings. The executive board and supervisory board have an integral responsibility to weigh up these interests, generally with a view to ensuring the company's continuity. The company strives to create long-term shareholder value. The executive board and supervisory board take the interests of the various stakeholders into account.

The company has implemented the code with due allowance for the status of ERIKS group nv as a relatively small listed company (small cap), the need for efficient working procedures and the existing contracts, arrangements, legislation and regulations.

The following documents are available at www.eriks.com:

- articles of association of ERIKS group nv
- corporate governance/compliance manual
- regulations for the executive board
- regulations for the supervisory board
- outline of the size and composition of the supervisory board
- code of conduct, including whistle blowers' regulations
- ERIKS rules on insider trading
- minutes of the meetings of shareholders.

Not all best-practice provisions apply to ERIKS group nv. We comply with the vast majority of those that are applicable to our company. The small number of best-practices we have not adopted are:

Chapter II: The executive board

II.1.1.

A director shall be appointed for a maximum period of 4 years.

Explanation

- The current contracts with the members of the executive board have an indefinite term and will be honoured.
- The company follows developments in the labour market.

II.2.6.

The executive board shall draw up a scheme laying down rules on the ownership of and transactions in securities by directors other than those issued by their 'own' company. A director shall periodically report changes with respect

	to securities he owns to the compliance officer.		process for a company secretary has now commenced.
III.7.3.	The same applies to the supervisory board.	III.5.1.	The supervisory board shall appoint an audit committee, a remuneration and a selection and appointment committee.
<i>Explanation</i>	The role of directors of ERIKS (small cap) does not involve maintaining close relationships with large financial networks. Any knowledge they acquire from other listed companies is subject to insider trading laws. From this perspective it is not considered expedient for directors to report trade in non-ERIKS securities.	<i>Explanation</i>	Given the small size of the board, the company does not consider it meaningful to establish committees. All matters are discussed by the full board.
II.2.7.	The maximum severance payment in the event of involuntary dismissal shall be one year's salary.	Chapter IV:	The general meeting of shareholders
<i>Explanation</i>	The current contracts with the members of the executive board have an indefinite term and will be honoured. Any severance payments will be determined on a case to case basis, depending on the person's contract, employment history (internal and external), statutory provisions and market conditions.	IV.1.7.	The company shall determine a registration date for the exercise of attendance and voting rights.
II. 2.10.d.	Statement by the supervisory board that a statement will be included in the remuneration report on the extent to which the company subscribes to the provision contained in II.2.7.	<i>Explanation</i>	Although this option is included in the articles of association, the executive board has not yet made use of its authority. The current period of 7 days will be extended by means of a future amendment of the articles of association.
<i>Explanation</i>	See explanation to II.2.7.	IV.3.1.	All shareholders shall be able to follow meetings with investors and analysts, presentations and press conferences simultaneously via webcasting, telephone lines or other means.
Chapter III:	The supervisory board	<i>Explanation</i>	For practical and cost reasons, the proposed provision is not a rational one for a small company. However, all relevant information is of course disclosed on the website without delay.
III.3.5.	A member of the supervisory board may serve on the board for not more than three four-year terms.		It should furthermore be noted that the provisions of chapter IV.4 of the code, 'Responsibilities of institutional investors', are not among the responsibilities of the executive board or supervisory board.
<i>Explanation</i>	We subscribe to the main rule, but the executive board and the supervisory board wish to be able to make an exception if the need arises. In the interest of quality and continuity on the supervisory board it may be necessary for members to serve on the board for a longer period.		
III.7.3.	See also II.2.6.		
III.4.3.	The supervisory board shall be supported by the company secretary.		
<i>Explanation</i>	Up to now the chairman of the supervisory board has been supported in the exercise of his duties by the employees of the company who have fulfilled the role of secretary jointly. A recruitment		

Notifications and explanatory report on the resolution on Article 10, acquisition guidelines

Shares. Transferability of shares

The authorised share capital of ERIKS group nv is made up of ordinary shares, preferred shares and two sets of financial preferred shares. The par value of each share in the authorised share capital is EUR 0.50. The shares are bearer shares.

As at 31 December 2007, 10,582,614 ordinary shares had been issued. No preferred shares or financial preferred shares have been issued.

The articles of association of ERIKS group nv do not contain any restrictions relating to the transferability of ordinary shares. However, they do contain a blocking clause relating to preferred and financial preferred shares. Every transfer of preferred and financial preferred shares must be approved by the executive board; the executive board may only grant such approval subject to the approval of the supervisory board.



The right product for every application

ERIKS valves are widely used in the production industry. With its knowledge of technology and processes, ERIKS is able to deliver the right product for every application.

ERIKS | PASSION FOR TECHNOLOGY

Rules on the appointment/discharge of the executive board and the supervisory board of ERIKS group nv

Executive board

The members of the executive board are appointed by the general meeting. If a vacancy occurs on the executive board, or if it becomes known that a vacancy will be occurring, the executive board will invite the supervisory board to submit a non-binding recommendation within 60 days.

Shareholders and/or other persons entitled to attend the general meeting who wish to recommend a person for appointment to the executive board must do so in accordance with the articles of association of ERIKS.

A decision to appoint a person recommended by the supervisory board to the executive board is taken by an absolute majority of the votes cast. A decision to appoint a person not recommended by the supervisory board to the executive board is taken by an absolute majority of the votes cast, provided the majority represents at least one-third of the issued capital. If at least one-third of the issued capital is not represented at the meeting but an absolute majority of the votes cast is in favour of the proposal to appoint that person to the executive board, the resolution concerned may be adopted by absolute majority of the votes cast at a new general meeting that is convened, regardless of the proportion of the issued capital represented by that majority.

The general meeting is authorised to dismiss a member of the executive board at any time. A decision to dismiss a member of the executive board may only be taken by the general meeting with an absolute majority of the votes cast, provided the majority represents at least one-third of the issued capital, unless the dismissal is proposed by the supervisory board, in which case the decision will be taken with an absolute majority of the votes cast, regardless of the proportion of the issued capital represented by that majority. If at least one-third of the issued capital is not represented at the meeting but an absolute majority of the votes cast is in favour of a proposal to dismiss a member of the executive board that was not made by the supervisory board, a new general meeting may be convened at which the resolution concerned may be adopted by absolute majority of the votes cast, regardless of the proportion of the issued capital represented by that majority.

Supervisory board

Supervisory board members are appointed by the general meeting. If a vacancy occurs on the supervisory board or if it becomes known that a vacancy will be occurring, the executive board will invite the supervisory board to submit a non-binding recommendation within 60 days.

Shareholders and/or other persons entitled to attend the general meeting who wish to recommend a person for

appointment to the supervisory board must do so in accordance with the articles of association of ERIKS.

A decision to appoint a person recommended by the supervisory board to the supervisory board is taken by an absolute majority of the votes cast.

A decision to appoint a person not recommended by the supervisory board to the supervisory board is taken by an absolute majority of the votes cast, provided the majority represents at least one-third of the issued capital. If at least one-third of the issued capital is not represented at the meeting but an absolute majority of the votes cast is in favour of the proposal to appoint that person to the supervisory board, the resolution concerned may be adopted by absolute majority of the votes cast at a new general meeting that is convened, regardless of the proportion of the issued capital represented by that majority.

Supervisory board members are appointed for a period of no more than four years, on the understanding that – unless a supervisory board member resigns earlier – his or her period of office will end after the first general meeting held in the fourth year of his or her appointment. A supervisory board member can be reappointed subject to the provisions in the previous sentence. Subject to the above, a supervisory board member may serve on the supervisory board for no more than 12 years, either consecutively or otherwise, unless the general meeting specifies otherwise on the recommendation of the supervisory board.

Supervisory board members stand down in accordance with a roster compiled by the supervisory board.

The general meeting is authorised to dismiss a member of the supervisory board at any time.

The general meeting may only decide to dismiss a member of the supervisory board, except on the recommendation of the supervisory board, by an absolute majority of the votes cast provided the majority represents at least one-third of the issued capital.

A decision to dismiss a member of the supervisory board may only be taken by the general meeting with an absolute majority of the votes cast, provided the majority represents at least one-third of the issued capital, unless the dismissal is proposed by the supervisory board, in which case the decision will be taken with an absolute majority of the votes cast, regardless of the proportion of the issued capital represented by that majority. If at least one-third of the issued capital is not represented at the meeting but an absolute majority of the votes cast is in favour of a proposal to dismiss a member of the supervisory board that was not made by the supervisory board, a new general meeting may be convened at which the resolution concerned may be adopted by absolute majority of the votes cast, regardless of the proportion of the issued capital represented by that majority.

If a proposal is made to dismiss a member of the supervisory board, that person must be given the opportunity to respond at the meeting at which the proposal is put forward and to be assisted by a legal counsel.

Rules on amendment of the articles of association

A resolution to amend the company's articles of association that is not proposed by the executive board but has the approval of the supervisory board must be adopted at a general meeting at which at least three-quarters of the issued capital is represented and must be approved by a majority of at least two-thirds of the votes cast in order to be valid. If the required capital is not represented at this meeting, a new meeting may not be convened under the provisions of Article 2:120 (3) of the Netherlands Civil Code. A resolution to amend the company's articles of association proposed by the executive board and approved by the supervisory board may be adopted with an absolute majority of the votes cast, regardless of the amount of capital present or represented at the meeting.

A selection of the powers of the ERIKS executive board

The articles of association of ERIKS stipulate that the general meeting may instruct the executive board to resolve, as the competent body, to issue shares, grant rights to subscribe to shares and restrict or exclude the preferential right. This resolution of the general meeting will only be valid if approved by the supervisory board. The executive board may furthermore only be instructed to resolve, as the competent body, to issue shares and to grant rights to subscribe to shares with the prior or simultaneous approval of each group of holders of the same sort of shares whose rights are affected by the share issue.

The period for which the executive board is instructed to resolve, as the competent body, to issue ordinary shares, grant rights to subscribe to ordinary shares and limit or exclude the preferential right was extended up to 15 May 2009 by the annual general meeting of shareholders of ERIKS group nv of 15 May 2007. This authority applies to no more than 20 percent of all ordinary shares in the issued capital of ERIKS group nv at the time of the annual meeting.

If authorised to do so by the general meeting and with the approval of the supervisory board, and without prejudice to the provisions of Article 2:98d of the Netherlands Civil Code, the executive board may cause the company to acquire paid-up shares in its own capital for valuable consideration. Such an authority had not been granted by the general meeting as at 31 December 2007. The decision to dispose of shares acquired by ERIKS group nv in its own capital is taken by the

executive board with the approval of the supervisory board. There is no preferential right to such a disposal.

The executive board is authorised to perform the legal transactions referred to in Article 2:94 (1) of the Netherlands Civil Code (in particular payment of non-cash contributions for shares) without the approval of the general meeting; the executive board must always obtain the approval of the supervisory board for such legal transactions.

The executive board may pay out an interim dividend subject to the prior approval of the supervisory board, provided the provisions of Article 2:105 of the Netherlands Civil Code are taken into account.

Important agreements at ERIKS with 'change of control' clause

ERIKS group nv's credit agreement with the banking syndicate contains a standard change of control clause. On the basis of this clause, the syndicate has the right to call in the total facility and all outstanding amounts early in the event of a change in the control over ERIKS group nv.

Severance payment following a public bid

The current employment contracts of the members of the executive board have an indefinite term and will be honoured. Any severance payments due on termination of their employment as a result of a public bid will be determined from case to case, depending on the person's contract, employment history (internal and external), statutory provisions and market conditions.

Boards

Supervisory board

A.A. Olijslager (1944), chairman

Dutch national.

Appointed in 2007; due to resign in 2011.

Significant external positions:

- Vice-chairman of the supervisory board of ABN-AMRO Holding NV
- Member of the supervisory board of Samas-groep NV
- Vice-chairman of the supervisory board of AVEBE UA
- Member of the supervisory board of Center Parcs NV
- Member of the supervisory board of Heijmans N.V.
- Member of the Investment Committee of NPM Capital NV
- Non-executive director of TREP Holding SE
- Member of the board of Stichting Administratiekantoor Unilever NV
- Chairman of Nederlandse Vereniging van Participatiemaatschappijen (Netherlands Association of Venture Capitalists)
- Member of the supervisory board of the Nyenrode Foundation
- Chairman of the board of Stichting Maatschappij en Onderneming (Society and Enterprise Foundation) / Member of the supervisory board of SMO B.V.
- Member of the supervisory board of the Fries Museum
- Chairman of the board of Stichting Zeesleepboot Holland.

R.J.A. van der Bruggen, (1947)

Chairman of the executive board of Imtech N.V.

Dutch national.

Appointed in 2005; due to resign in 2009.

Significant external positions:

- Member of the advisory council of Cisco Systems
- Member of the supervisory board of Gelderse Vallei Ziekenhuis
- Member of the board of Trustees for the construction of TSM Business School.

R.A.A. Oliemans (1944), vice-chairman

Dutch national.

Appointed in 1997; due to resign in 2010.

Significant external position:

- Member of the Advisory Council of VM&M bv.

A. Wateler (1946)

Dutch national.

Appointed in 2006; due to resign in 2010.

Significant external positions:

- Member of the supervisory board of BN International B.V.
- Member of the supervisory board of Fashion Fund B.V.
- Member of the advisory board of Duke Street Capital
- Member of the supervisory board of Ergon Capital Partners
- Member of the supervisory board of Gamma Holding N.V.
- Member of the executive board of Stichting Preferente Aandelen Grolsch
- Senior advisor to Parcom Ventures B.V.
- Various additional social positions.

The Members of the supervisory board do not hold any shares in ERIKS group nv. No options on ERIKS group nv shares have been awarded to the members of the supervisory board. All members of the supervisory board receive fixed annual remuneration unrelated to the results of ERIKS group nv. None of the members of the supervisory board has any other business relationships with the ERIKS group from which they might be able to obtain personal benefit.

In accordance with provision III. 2.2. of the Dutch corporate governance code, all supervisory board members with the exception of Mr Wateler are independent. Mr Wateler was a director of Parcom Ventures B.V. and is now one of their senior advisors. Parcom Ventures B.V. is part of ING Groep nv and has a 19.52 percent holding in ERIKS group nv.

Executive board

J. van der Zouw (1954), chairman and CEO

Dutch national.

Employed by the ERIKS group since 1999.

Appointed as a member of the executive board in January 2002.

Appointed chairman of the executive board in May 2005.

Primary responsibilities:

- General and external affairs
- Clusters: ERIKS Netherlands
ERIKS South-east Asia
ERIKS USA
- International Product Management
- Business development in the Netherlands
- Human resource management
- Investor relations (jointly with the CFO).

J.G. de Boer (1953), CFO

Dutch national.

Employed by the ERIKS group since 1985.

Appointed as a member of the executive board in January 1996.

Primary responsibilities:

- Administrative logistics
- Financial and legal affairs
- Information provision
- Organisation
- Pensions
- Internal risk management and control systems
- Investor relations (jointly with the CEO)
- ERIKS group ICT policy (jointly with H.J. Maier).

Significant external position:

- Member of the supervisory board of the Gemini Ziekenhuis.

M.T.A. Beckers (1951)

Belgian national.

Employed by the ERIKS group since 2004.

Appointed as a member of the executive board in May 2005.

Primary responsibilities:

- Clusters: ERIKS Belgium
ERIKS France
- International Product Management
- Business development in Belgium and France.

M. Dixon (1964)

British national.

Employed by the ERIKS group since 2006.

Appointed as a member of the executive board in November 2006.

Primary responsibilities:

- ERIKS UK cluster: Wyko Industrial Services
Wyko International
- International Product Management
- Business development UK/Ireland (jointly with B. Wilson).

H.J. Maier (1960)

German national.

Employed by the ERIKS group since 1997.

Appointed as a member of the executive board in January 2002.

Primary responsibilities:

- Clusters: ERIKS Germany
ERIKS Central Europe
- International Product Management
- Business development in Germany and Central and Eastern Europe
- ERIKS group ICT policy (jointly with the CFO).

B. Wilson (1955)

British national.

Employed by the ERIKS group since 2006.

Appointed as a member of the executive board in November 2006.

Primary responsibilities:

- Wyko Specialist Technology
- Business development in the UK (jointly with M. Dixon) and Scandinavia
- International Product Management
- European Account Management.

The executive board together holds a total of 10,979 shares in ERIKS group nv by way of long-term investment. No options to ERIKS group nv shares have been awarded to the members of the executive board.



Executive board

From left to right: B. Wilson, J.G. de Boer, M. Dixon, J. van der Zouw, H.J. Maier and M.T.A. Beckers.

Report by the supervisory board

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Annual report

We are pleased to present the annual report and financial statements for 2007 as prepared by the executive board. The financial statements have been audited by PricewaterhouseCoopers Accountants N.V. The auditor's report endorsing the financial statements can be found on page 117 of this report.

We discussed the annual report with the executive board in the presence of the auditor. The discussion and input by the parties present at the meeting allow us to state with confidence that the annual report satisfies the transparency requirements and provides a good basis for the supervisory board's accountability for the supervision it conducted.

We recommend that you adopt the annual report, including the proposed dividend, and discharge the executive board and supervisory board for the policy they have pursued and their supervision in the past financial year.

Supervision and advice

Policy, strategy, realisation

During the year under review, the supervisory board held four formal meetings according to a set timetable for consultation with the executive board.

Various conference calls were also held, during which specific subjects were explained and discussed. The chairman of the supervisory board was regularly in touch with the chairman of the executive board and consulted with him on the operational course of affairs. A number of company visits were made during the year under review.

During the formal meetings, attention was focused in particular on the objectives and strategy of the ERIKS group, the financial budgets and operational plan, corporate governance, the internal risk management and control systems, the quarterly reports, progress towards fulfilling the proposed plans and the staffing and continuity of the executive board.

We discussed policy and strategy at length with the executive board in terms of the developments occurring at manufacturers and customers of mechanical engineering components and the way in which they influence the role and function of the distributor. In this same context, we also discussed the long-range plan that ties in with the mission, objectives, SWOT analysis and strategy. Each year special attention is devoted to the realism of the assumptions made, maintaining a manageable risk profile, the company's financing plan and the Management Development programme. Based on these assumptions, the proposed strategy will continue to allow for an attractive growth of the value of the share.

During regular discussions of the quarterly results, we talked intensively about the situation in the different clusters,

market developments, acquisition opportunities, possible cooperation with third parties and the personnel development plan of the ERIKS group. In the past year particular attention was devoted to the progress achieved in integrating the companies acquired at the end of 2006, the financing of the ERIKS group, the progress achieved in restructuring the activities in the ERIKS France cluster and the recruitment programmes to attract new employees.

On the agenda in the discussion on the achievement of the proposed plans were the progress achieved in implementing the envisaged twin business model in the various clusters, the modernisation of the infrastructure (ICT and logistics) and the availability of sufficient high-calibre managers.

Corporate governance

The board's position regarding the structuring of corporate governance is presented starting on page 68 of this report. This subject is on the agenda of every annual general meeting of shareholders.

The views of the executive board and the supervisory board concerning the system of corporate governance remained unchanged in the past year, with the exception of the recruitment and appointment of a company secretary.

Internal risk management and control systems

The method by which the internal risk management and control systems have been incorporated in the ERIKS group's Enterprise Risk Management (ERM) model is discussed on page 25 of this report. This ERM model is being implemented in all companies. The setup and operation of this model and the internal risk management and control systems contained in it was discussed with the executive board and the auditor. The matters addressed included the company's internal reporting on these systems and the auditor's report. As far as we, as a supervisory body, are able to ascertain, we are of the opinion that the systems are operating properly and the financial reporting process satisfies the applicable requirements.

Results

We are pleased to note that considerable organic growth in sales was achieved in almost all clusters and that the results and profitability of most of the clusters were above average. All the results of the companies acquired in 2006 also lived up to our expectations (some were even exceeded). During the year under review, all clusters once again invested in the organisation and infrastructure. Thus the ERIKS group is continuing to build its future.

We wish to take this opportunity to express to all employees our sincere appreciation for their efforts and commitment, which contributed to the further development and growth of the ERIKS group in the past year.

Composition of the supervisory board

At the general meeting of shareholders of 15 May 2007, Mr J.L. Bouma stepped down in accordance with the roster. In accordance with best-practice provision III.3.5 of the Dutch corporate governance code, Mr Bouma is not eligible for reappointment. Mr Bouma was involved in the company as a member of the supervisory board for 21 years, 20 of which he spent as its chairman. In all those years he made use of his extensive knowledge and experience of business, society and people for the benefit of the ERIKS group. Mr Bouma always chaired the supervisory board and shareholders' meetings in his characteristically humorous and intrinsically strong and thorough manner. He has played a key role in

developing the ERIKS organisation into the modern, healthy company it is in today. We are indebted to him for this.

At the same meeting the shareholders approved the recommendation to appoint Mr A.A. Olijslager and appointed him to the supervisory board for a period of four years.

Mr Olijslager was appointed as chairman of the supervisory board at the supervisory board meeting of 23 August 2007. None of the members of the supervisory board will be stepping down in accordance with the roster in May 2008, so there will be no vacancies.



Streamlining procurement processes

There is growing interest in the industrial market in electronic ordering systems and other solutions for automating the transfer of information. One such company is Organon, the largest innovative biopharmaceutical company in the Netherlands. Together with ERIKS, the company created an effective and customised ordering system, enabling further streamlining of procurement processes.

(Source: N.V. Organon, part of the Schering-Plough Corporation).



Split roller bearings

Revolvo is ERIKS' own leading manufacturer of special high-quality bearings. The company has been highly successful with a series of 'split roller bearings'. They are used in heavy industry (steel, paper, cement) where short maintenance times are important. It enables significant savings.

ERIKS | PASSION FOR TECHNOLOGY

Functioning of the supervisory board

Almost all of the formal meetings and conference calls took place in the presence of the full supervisory board. At a meeting without the executive board, we discussed the composition and functioning of our supervisory board in accordance with the profile and rules defined for it. The profile sets out the kinds of expertise the supervisory board must possess. In our view the supervisory board satisfies the defined requirements, and we consider the board's composition to be adequate. Given the background, broad experience and expertise of the present members of the supervisory board, we did not consider it expedient to undergo additional training in 2007.

An induction programme for newly appointed members of the supervisory board has been set up. Mr A.A. Olijslager, who was appointed in May 2007, has completed the whole programme.

To function optimally as a supervisory board in an organisation like the ERIKS group, we believe it appropriate for the supervisory board to be small, with three to four members. A board of this size can act quickly and purposefully, and we meet this requirement. In view of the small size of the supervisory board, we do not consider it meaningful to establish committees with special tasks. All matters are discussed by the full supervisory board. In the past year we attended one consultative meeting of the Euro Works Council of ERIKS group nv, consisting of representatives of the works councils of the Dutch and Belgian group companies and the chairman of the executive board of ERIKS group nv.

All members of the supervisory board, with the exception of Mr A. Wateler, are independent within the meaning of best-practice provision III.2.2. of the Dutch corporate governance code.

Composition, functioning, remuneration structure and remuneration of the executive board

Each year we discuss the composition of the executive board and the functioning and remuneration of its members. An appraisal interview is conducted with the members of the executive board.

No changes in the composition of the executive board were made in the year under review.

The remuneration policy for members of the executive board is aimed at attracting, motivating and retaining qualified directors with experience in this sector. The remuneration structure should focus on achieving an optimal balance between the short-term results of the company and its long-term objectives.

During the year under review, the functions and tasks of the members of the executive board were evaluated and re-assessed in accordance with the scope of the functions. Given the growth and development of the company, the scope of the functions has been taken to a higher level. To evaluate the appropriate remuneration components and their levels, a comparative analysis of the remuneration of members of the executive boards of other listed companies of approximately the same size and complexity as the ERIKS group was performed. The conclusion was that the remuneration policy on variable remuneration needs to be modified slightly. The peer group consists of the 10 biggest companies in the AScX and other local funds (small caps), the 10 smallest companies in the AMX (mid caps) and a sector-specific reference group.

The main themes of the remuneration policy, which has yet to be approved by the shareholders, are:

- A fixed basic salary.

This is set at the median level of the reference market for each of the members of the executive board.

- Variable remuneration.

- Short-term variable remuneration: the amount depends on targets set beforehand; at-target remuneration is 50 percent of the basic salary up to a maximum of 60 percent (when exceeding the agreed upon targets set beforehand). The short-term variable remuneration is paid in cash.

The targets are set annually and lie in the area of growth (25 percent), return on invested capital (25 percent) and personal targets (50 percent).

- Long-term variable remuneration, subdivided as follows:

- Each year targets are set for a period of three years. At-target remuneration after three years is 50 percent of the fixed basic salary, up to a maximum of 60 percent

(when exceeding the agreed upon targets). Payment is made in cash.

The targets relate to increases in the earnings per share, growth in sales and return on invested capital.

- A Bonus Investment Matching Share Plan.

If the short-term bonus is invested in ERIKS shares (up to a maximum of 50 percent of the gross short-term bonus), ERIKS conditionally matches this amount with an equal number of shares after three years. These 'match' shares can be sold two years after the 'matching'.

- Pensions.

Contributions to pension schemes and disability benefit schemes up to a maximum of 35 percent of the fixed basic salary.

Mr Van der Zouw and Mr De Boer receive an additional annual remuneration of 6 percent and 9.75 percent of their fixed salaries respectively to compensate for downwards adjustments in their pension plans.

The company does not grant any loans, advances and guarantees to the members of the executive board.

With the approval of the general meeting of shareholders, we plan to introduce the variable remuneration schemes backdated to 2007.

Alkmaar, 28 February 2008

Supervisory board

A.A. Olijslager, Chairman

R.J.A. van der Bruggen

R.A.A. Oliemans

A. Wateler

2007 Financial statements

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Accounting policies

General

The consolidated financial statements of the holding company ERIKS group nv and all its group companies are drawn up using the accounting policies set out below.

The financial statements have been drawn up by the executive board and were discussed as part of the annual report at the supervisory board meeting of 28 February 2008. It has been decided to present these financial statements to the general meeting of shareholders on 15 May 2008 for adoption.

These 2007 financial statements have been drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Unlike last year, standard IFRS 7 (Financial Instruments Disclosures), which applies as of 1 January 2007, has been implemented and applied in these financial statements. This standard provides for a number of additional notes on financial instruments and has no impact on the valuation of these financial instruments. Other changes to IFRS rules are without effect on the accounting policies applied by ERIKS.

As permitted under Section 402 of Part 9 of Book 2 of the Netherlands Civil Code, only the “net result of group companies”, and the “other income and expenses after taxes” have been disclosed in the company profit and loss account. The latter item represents the income and expenses of ERIKS group nv.

Accounting policies

The policies used to value assets and liabilities are based on historical cost, unless otherwise stated.

The preparation of financial statements under IFRS requires management to make judgements, estimates and assumptions (and continually review these) about the application of guidelines and the reported amounts of assets, liabilities, income and expenses. The estimates and assumptions made when accounting for these items are based on historical experience and various other factors considered reasonable given the circumstances. Actual results may, however, differ from these estimates.

Changes as a result of revision of estimates and assumptions are recognised in the period in which the estimates are revised and in future periods, if applicable.

Basis of consolidation

The assets and liabilities as well as income and expenses of the group companies are consolidated in full. The minority interest in total shareholders' equity and in the profit or loss for the period under review is reported separately.

Group companies are those companies whose policies are or can be controlled by ERIKS group nv. Group companies are included in the consolidated figures from the date on which ERIKS group nv obtains control. The results of group companies sold during the year under review are consolidated until the date on which control ceases.

Unrealised gains or losses on intra-group transactions and balance sheet items have been eliminated.

A list of clusters and group companies is set out starting on page 124 of this report.

Acquisition and disposal of group companies

Newly acquired group companies are accounted for using the purchase accounting method and are recognised at the net fair value of identifiable assets, liabilities and contingent liabilities (net asset value) at the time of acquisition. The acquisition cost consists of the purchase price paid for the acquisition, plus any costs directly attributable to the acquisition.

The positive difference between the acquisition cost and net asset value, the goodwill, is allocated to cash-generating units and is not amortised. Instead, it is tested for impairment annually.

If the acquisition cost is lower than the net asset value of the acquired assets, liabilities and contingent liabilities, the difference is taken to the profit and loss account.

Upon disposal of group companies, the difference between the selling price and the book value of the group company (including goodwill) is taken to the profit and loss account.

Foreign currency

The euro is the functional and reporting currency of the ERIKS group.

Transactions in foreign currency are initially stated at the rate of exchange on the trade date. On the balance sheet date, all non-euro monetary assets and liabilities are converted at the closing rate of exchange. Exchange differences arising from the conversion and settlement of monetary assets and liabilities are taken to the profit and loss account.

In the consolidation, the statements of income of participating interests reported in a functional currency other than the euro are converted at average exchange rates for the period under review. The balance sheets of participating interests are converted at the exchange rates prevailing on the balance sheet date. Currency translation differences arising from this, as well as exchange differences on fixed financing of foreign participating interests stated in foreign currency, are taken direct to shareholders' equity.

Upon disposal of these participating interests, the exchange differences included in shareholders' equity via the profit and loss account are recognised as part of the book profit or loss on the disposal.

Derivative financial instruments

ERIKS group nv uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange rate risks arising from operational and financing activities. In accordance with the group's treasury policy, derivative financial instruments will not be held or issued for trading purposes. Derivative financial instruments are carried at fair value. Value adjustments to derivative financial instruments are recognised directly in the result, unless they are eligible for hedge accounting under the IFRS provisions.

The fair value of (cross currency) interest rate swaps is the estimated amount that would have to be received or paid in order to discontinue this swap as per the balance sheet date, having due regard for the current interest rate. The fair value of currency futures and currency options is the published market price (forward exchange rate) at the balance sheet date.

Cash flow hedging

The effective portion of changes in the fair value of derivative financial instruments intended to hedge cash flow and which are also classed as such is taken to shareholders' equity. The profit or loss on the non-effective portion is taken directly to the profit and loss account as financial income and expenses.

Amounts recognised in shareholders' equity are recognised in the result (as financial income or expenses) as soon as the hedged position affects the profit and loss account (for instance, when the hedged, anticipated sale takes place).

If a hedging instrument expires or is sold or if an instrument can no longer be regarded as a hedging instrument, the accumulated profits and losses remain in shareholders' equity until the expected future transaction is finally recognised in the profit and loss account. If the expected future transaction is no longer likely, the accumulated result is transferred directly from shareholders' equity to the profit and loss account and recognised as other financial income and expenses.

Intangible fixed assets

(a) Goodwill

How goodwill is determined is explained in "Acquisition and disposal of group companies".

(b) Intangible fixed assets from acquisitions

Intangible fixed assets from acquisitions are stated at the fair values of the acquired identified (intangible) fixed assets on the acquisition date, less accumulated amortisation and impairment losses.

Amortisation of intangible fixed assets from acquisitions is calculated on a straight-line basis over their useful lives.

(c) Other

Other intangible fixed assets acquired by the ERIKS group, such as software, are carried at cost less accumulated straight-line amortisation over their useful lives and impairment losses.

Internally generated intangible fixed assets are recognised in the balance sheet, if their costs can be reliably determined and if it is likely that ERIKS will benefit economically from the asset.

Property, plant and equipment

Items of property, plant and equipment owned by the ERIKS group are carried at cost net of straight-line depreciation based on their useful lives and impairment losses. Insofar as held for sale, property, plant and equipment are carried at book value or fair value less selling costs, which is the lower.

Expenses relating to property, plant and equipment incurred after the initial investment was made, such as maintenance costs, are in principle charged to the profit and loss account and are only taken to the balance sheet, if they result in an increase value adjustment of the asset.

Gains and losses on the sale of property, plant and equipment are recognised in the operating result. The residual values and useful lives of property, plant and equipment are reviewed each year and adjusted, if appropriate.

Leasing

Lease contracts are classified as finance leases if, in reality, almost all the risks and rewards incidental to ownership are transferred to ERIKS group. Property, plant and equipment acquired through finance leases are recognised at the lower of fair value and present value of the minimum number of compulsory lease payments at the lease's inception, net of straight-line depreciation in accordance with estimated useful life and impairment losses.

A lease is classified as an operating lease, if the risks and rewards incidental to ownership remain with the lessor. Operating lease costs are recognised in the profit and loss account on a straight-line basis over the lease term.

Impairment

Each year, an assessment is made of whether there is evidence that an asset may be impaired. If there is evidence that the book value of an asset is no longer recoverable, the recoverable value is measured. The recoverable value of an asset is the higher of its realisable value and its value in use. The value in use is calculated on the basis of the present value of future cash flows derived from the long-range budget.

Assets, including goodwill, with an indefinite useful life are subject to annual impairment testing. For the purpose of the test, these assets are allocated to the cash-generating units that are expected to benefit from the acquisition from which the goodwill arises.

If the recoverable value is lower than the book value, the difference is charged to the result as an impairment loss.

No impairments are reversed with regard to goodwill. For other assets, impairments are only reversed, if the estimates taken as a basis when calculating the recoverable value have changed. Impairments are only reversed, in case the book value of the asset does not exceed the book value, less depreciation or amortisation, that would have been calculated had no impairment occurred.

Participating interests

Participating interests on which significant influence can be exercised are initially carried at cost. This initial valuation at cost is subsequently adjusted to (the proportionate share in) the results of the participating interests. Significant influence is presumed in the case of an interest of more than 20 percent.

Other participating interests in which an interest of less than 20 percent is held are, in principle, carried at fair value, unless the fair value cannot be reliably determined. Participating interests' results are recognised in the profit and loss account separately.

Receivables from participating interests are carried at face value, net of provisions for bad debts and impairment losses where necessary.

Inventories

Inventories of trade goods and raw materials are carried at the lower of cost, being the average purchase price plus transport and other additional expenses, and net realisable value.

Work in progress is carried at production cost, consisting of the costs of wages and materials and a margin for indirect production costs and overheads.

Accounts receivable trade and other receivables

Accounts receivable trade and other receivables are initially carried at fair value and then at amortised cost. If it is anticipated that receivables may not be collectable in full, a provision will be made for bad debts.

Liquid resources and bank overdrafts

Liquid resources and bank overdrafts consist of cash and bank balances and are carried at face value. Loans on current accounts which are immediately due and payable and form part of the ERIKS group's cash management activities are included under "liquid resources and bank overdrafts" in the cash flow statement.

Shareholders' equity

Dividend payable to shareholders is recognised as a liability at the time the general meeting of shareholders approves the profit appropriation.

Loans and repayment obligations

Loans payable are initially recognised at fair value, taking attributable transaction costs into account. After initial recognition, loans payable are subsequently measured at amortised cost using the effective interest method.

Repayment obligations on loans within 1 year of the balance sheet date are presented as short-term liabilities.

Employee benefits

The group operates a number of pension and pre-pension plans, all of which comply with local laws and regulations. The pension obligations of nearly all the Dutch business units are administered by the ERIKS company pension fund (collective defined contribution plan). Most of the other pension obligations, including those of the foreign business units, are administered by external insurers/reinsurers or are insured by local authorities.

The majority of the current schemes can be characterised as defined contribution plans. A small number of plans are defined benefit plans.

(a) Defined contribution plan

Defined contribution plans are plans for which the ERIKS group pays fixed contributions in favour of the employee, without there being any entitlement on the part of or any obligation towards these employees. Obligations with respect to contributions for pension and related plans based on defined contributions are charged to the profit and loss account in the period to which they relate.

(b) Defined benefit plan

Under defined benefit plans employees receive a defined pension; the amount depends on age, salary level and years of service. The obligation included in the balance sheet is the present value of the projected pension payments at the balance sheet date net of the fair value of plan assets.

Unrecognised actuarial gains and losses and unrecognised past service pension costs are netted.

Each year independent actuaries calculate the obligations arising from defined benefit plans using the projected unit credit method based on interest rates applied for high-quality company bonds.

Actuarial gains and losses that exceed 10 percent of the higher of plan assets or obligations resulting from changes in actuarial assumptions are taken to the profit and loss account during the expected, average future years of service of the employees involved.

Past service pension costs which have not yet been recognised are taken directly to the profit and loss account, unless remaining in service for a number of years (vesting period) is a condition for the changes in the pension plan. If so, the past service costs are processed on a straight-line basis during the vesting period.

(c) Jubilee benefits

The provision for jubilee benefits is based on actuarial calculations with a discount rate approaching the yield on high-quality company bonds at the balance sheet date.

Other provisions

Provisions are actual or legally enforceable obligations arising from an event in the past, making it likely that an outflow of resources will be required and where a reliable estimate can be made of the extent of the obligation. Provisions are determined by discounting the expected future cash flows using a current interest rate.

A reorganisation provision is formed when there is a detailed, formalised plan for the reorganisation and the reorganisation has commenced or been announced to the parties involved on or before the balance sheet date.

Accounts payable trade and other liabilities

Accounts payable trade and other liabilities are initially carried at fair value and then at amortised cost.

Deferred taxes

A deferred tax liability or deferred tax asset is recognised in accordance with the liability method for temporary differences between the commercial value of assets and liabilities and their value for tax purposes at the expected rate in the year of settlement, insofar as laid down by law.

Deferred tax assets on account of available, off-settable losses are recognised, insofar as it is reasonable to expect that these losses will be set off.

Revenue recognition

Net sales are the revenues from third parties for goods and services supplied, net of discounts and sales tax.

The sale of goods is recognised as revenue when all the significant risks and rewards of ownership of the goods are transferred to the buyer. Revenue from the rendering of services is recognised by reference to the stage of completion.

Cost of sales

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

Taxes

Tax on the profit or loss is calculated using the standard tax rate in force in the financial year concerned, allowing for tax relief facilities and deferred tax movements.

Taxation relating to items that are taken directly to equity is also taken to equity.

Financial income and expenses

Financial income and expenses relates to time-weighted interest received and interest paid, taking account of the effective interest rate for the receivable or debt concerned. Changes in the fair value of derivative financial instruments are also included under financial income and expenses.

Consolidated cash flow statement

The cash flow statement has been prepared according to the indirect method, based on the profit and loss account and the other movements between the opening and closing balances. Cash and cash equivalents consist of liquid resources and current account overdrafts.

Movements between the opening and closing balance resulting from the acquisition and disposal of consolidated participating interests are shown as part of the investing activities. Interest paid and received and profit taxes are accounted for as part of cash flow from operating activities.

Financial risk management

The main financial instruments include bank loans, loans on current account, cash balances and derivatives for the purpose of financing the ERIKS group. Other financial assets and liabilities, such as trade accounts receivable and payable, are a direct result of activities.

The financial risks arising from ERIKS group financial instruments can be broken down into credit risks, liquidity risks, interest rate risks and exchange rate risks.

To manage liquidity, exchange rate and interest rate risks, the ERIKS group uses derivative financial instruments such as forward exchange contracts, interest and currency swaps. These contracts are concluded solely by the treasury department and are never used for speculative purposes. Translation exposure is not generally hedged.

(a) Credit risk

The credit risk affects trade accounts receivable, other receivables and exposure at financial institutions.

Under the credit policy, exposure at financial institutions with which treasury transactions are concluded are continually monitored. These counterparties involved in treasury activities are assessed on their credit rating. No counterparties are expected to default.

Due to the broad spread of customers and markets for ERIKS products, the ERIKS group's accounts receivable trade on 31 December 2007 do not carry any significant credit risks.

(b) Liquidity risk

Liquidity risks are determined by cash flow and access to financial resources. By systematically basing the management of the company on cash flow and at the same time deliberately aiming for and maintaining a high credit rating (for example solvency and interest coverage), the ERIKS group has managed to limit its liquidity risk.

The acquisition of Wyko in November 2006 was financed with a bridge loan. As a result, our solvency temporarily dropped below the standard set in 2006. With the revenues from the equity offering in January 2007 and the new 5-year credit facility agreed with a syndicate of banks, the bridge loan and other existing facilities were repaid and our shareholders' equity increased, and returning the group to the required credit-rating standards.

From the anticipated development of sales and results, considerable cash flow will be generated enabling the ERIKS group to finance some of its growth from its own funds. The ERIKS group also has sufficiently generous credit facilities to fully finance the planned 10 to 15 percent organic growth. Should the need to take significantly larger steps arise, the ERIKS group will raise alternative funding. Opportunities in this area are defined with the aid of scenario planning and are set out in the company's long-range financing plan.

The total financed capital and the net capital invested of the ERIKS group can be summarised as follows:

	2007	2006
Total loans, including repayment obligations	120,201	244,538
Bank overdrafts	43,060	27,744
Less: liquid resources	(73,887)	(44,754)
Net liabilities	89,374	227,528
Total shareholders' equity	298,845	148,910
Total financed capital	388,219	376,438
Add: provisions, deferred taxes (tax assets and liabilities) participating interests and derivative financial instruments	17,162	28,580
Net capital invested	405,381	405,018

(c) Interest rate risk

Interest rate risks are important for the ERIKS group because the level of interest rates determines the cost of borrowed capital. The ERIKS group holds debt instruments and interest rate derivatives, but does not trade in them, so its policy on interest rate risk is not based on changes in the value of these contracts. With interest rates as they are at present, the policy is geared to fixing interest rates for the medium to long term.

ERIKS group uses (cross currency) interest rate swaps to achieve the appropriate risk profile regarding fixed and variable interest rate exposure. Any change in the current level of interest rates will have little impact on the result for the coming year, other than the effect of the resulting movements in the market value of the derivative financial instruments used.

(d) Exchange rate risk

Exchange rate risks are important to the ERIKS group, because it purchases its trade goods all over the world. As fluctuations in exchange rates are usually directly translated into changes in selling prices, albeit with some delay, our policy on exchange rate risk concentrates on hedging significant risks in the transaction sphere. Currency futures and currency options are entered into for the purpose of hedging major risks arising from purchasing and sales transactions.

The major exchange rates used over the past few years were:

	2007		2006		2005	
	close	average	close	average	close	average
USD / EUR	0.67930	0.72967	0.75930	0.79643	0.84538	0.80379
GBP / EUR	1.36361	1.46127	1.48920	1.48449	-	-
SGD / EUR	0.47252	0.48460	0.49500	0.50148	0.51020	0.48305

The various foreign currencies comparatively affected net sales and EBITA as follows:

	2007 (in %)		2006		2005	
	Net sales	EBITA	Net sales	EBITA	Net sales	EBITA
EUR	55.9	66.9	86.7	89.8	94.2	94.4
USD	4.8	7.8	4.4	6.0	4.4	5.5
GBP	37.5	23.4	7.2	2.9	-	-
Other	1.8	1.9	1.7	1.3	1.4	0.1
	100.0	100.0	100.0	100.0	100.0	100.0

Compared with 2006, the average GBP and USD exchanges fell by 1.6 percent and 8.4 percent against the euro in 2007. If the average exchange rate had been 1 percent higher than that which was applied in 2007, net sales for 2007 would have come to EUR 953.3 million (0.44 percent higher), EBITA to EUR 76.6 million (0.33 percent higher) and the net profit to EUR 43.8 million (0.16 percent higher). If the closing rate had been 1 percent higher than that which was applied at 31 December 2007, the figure for shareholders' equity would have been approximately EUR 1.1 million higher (0.38 percent).

Significant estimates and formation of opinion by the executive board

When preparing the annual figures, the executive board of ERIKS group nv makes basic assumptions and estimates for the future which, in practice, can deviate from reality.

In this context, the annual goodwill impairment test is regarded as being susceptible to changes.

Furthermore, when determining the value of deferred tax assets on account of off-settable losses, estimates were made as to whether these assets are realisable.

Valuation methods of external parties are used to assess the value of the defined benefit plan and the derivative financial instruments. The basic assumptions and estimates made for that purpose were reasonably determined.

Consolidated profit and loss account

In EUR thousands	Ref.	2007	2006
Net sales	1.	949,139	543,313
Cost of sales		704,471	402,340
Gross profit on sales		244,668	140,973
Sales expenses		146,628	84,468
General administrative expenses		26,958	13,243
Total expenses		173,586	97,711
		71,082	43,262
Other operating income	3.	-	526
Operating profit	3.	71,082	43,788
Financial expenses	5.	(8,032)	(3,808)
Movement in the fair value of derivative financial instruments	5.	(1,992)	844
Financial income and expenses	5.	(10,024)	(2,964)
Result from participating interests	5.	25	(15)
Result before taxes		61,083	40,809
Taxes	6.	16,897	12,898
Result after taxes		44,186	27,911
At the disposal of shareholders		43,701	27,763
Minority interest	17.	485	148
Result after taxes		44,186	27,911
Average number of shares issued		10,330,246	7,991,945
Earnings per share (in euros) at the disposal of shareholders (ordinary and diluted)		4.23	3.47

Consolidated balance sheet

In EUR thousands	Ref.	31 December 2007	31 December 2006
ASSETS			
Fixed assets			
Intangible fixed assets	7.	191,117	202,913
Property, plant and equipment	8.	67,000	68,469
Participating interests	9.	13	37
Deferred tax assets	21.	8,795	14,222
Derivative financial instruments	24.	6,923	316
Total fixed assets		273,848	285,957
Current assets			
Inventories	10.	116,950	105,857
Accounts receivable trade	11.	161,996	152,023
Other receivables	11.	8,094	7,651
Liquid resources	12.	73,887	44,754
Total current assets		360,927	310,285
Total ASSETS		634,775	596,242
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	13.	5,291	4,015
Share premium	13.	121,906	476
Other reserves	14.	(9,139)	654
Retained earnings	15.	179,770	143,067
Share capital and reserves at the disposal of shareholders		297,828	148,212
Minority interest	17.	1,017	698
Total shareholders' equity		298,845	148,910
Long-term liabilities			
Loans	18.	109,748	22,877
Employee benefits	19.	9,067	16,783
Other provisions	20.	4,122	4,688
Deferred tax liabilities	21.	19,704	21,684
Total long-term liabilities		142,641	66,032
Short-term liabilities			
Bank overdrafts	22.	43,060	27,744
Repayment obligations on loans	18.	10,453	221,661
Suppliers		90,953	87,175
Profit taxes		1,184	3,056
Other short-term liabilities	23.	47,639	41,664
Total short-term liabilities		193,289	381,300
Total liabilities		335,930	447,332
Total SHAREHOLDERS' EQUITY AND LIABILITIES		634,775	596,242

Consolidated statement of movements in total shareholders' equity

In EUR thousands	Ref.	Share capital	Share premium	Other reserves	Retained earnings		Minority interest	Total shareholders' equity
Balance at 1 January 2006		3,969	476	261	122,845	127,551	379	127,930
Hedging reserve		-	-	1,425	-	1,425	-	1,425
Less: deferred taxes		-	-	(422)	-	(422)	-	(422)
Currency translation differences		-	-	(610)	-	(610)	-	(610)
Income / (expenses) recognised in shareholders' equity		-	-	393	-	393	-	393
Contribution from acquisition		-	-	-	-	-	457	457
Result after taxes		-	-	-	27,763	27,763	148	27,911
Total result		-	-	393	27,763	28,156	605	28,761
Profit appropriation 2005		46	-	-	(7,541)	(7,495)	(286)	(7,781)
Balance at 31 December 2006 / 1 January 2007	13 - 17	4,015	476	654	143,067	148,212	698	148,910
Hedging reserve		-	-	606	-	606	-	606
Less: deferred taxes		-	-	(155)	-	(155)	-	(155)
Currency translation differences		-	-	(10,244)	-	(10,244)	(46)	(10,290)
Income / (expense) recognised in shareholders' equity		-	-	(9,793)	-	(9,793)	(46)	(9,839)
Result after taxes		-	-	-	43,701	43,701	485	44,186
Total result		-	-	(9,793)	43,701	33,908	439	34,347
Issue of ordinary shares	13	1,216	121,430	-	-	122,646	-	122,646
Profit appropriation 2006		60	-	-	(6,998)	(6,938)	(120)	(7,058)
Balance at 31 December 2007	13 - 17	5,291	121,906	(9,139)	179,770	297,828	1,017	298,845

With regard to the profit appropriation for 2005 and 2006, see the notes on the shareholders' equity.

Consolidated cash flow statement

In EUR thousands	Ref.	2007	2006
Operating activities			
Result after taxes		44,186	27,911
Adjustments for:			
Depreciation, including amortisation of software	7-8.	9,867	6,458
Amortisation of other intangible assets	3.	5,244	757
Cash flow from ordinary activities		59,297	35,126
Gain on the sale of assets		(467)	(526)
Financial income and expenses	5.	8,032	3,808
Profit taxes	6.	16,897	12,898
Movement in working capital		(16,615)	(11,089)
Other accounts receivable and short-term liabilities, excluding repayment obligations on loans		3,150	430
Movement in provisions		(10,826)	(2,635)
Movement in participating interests		(46)	15
Movement in fair value of derivative financial instruments		1,992	(844)
Cash flow generated from operating activities		61,414	37,183
Interest paid		(8,562)	(2,946)
Profit taxes paid		(18,769)	(11,712)
		(27,331)	(14,658)
Net cash flow from operating activities		34,083	22,525
Investing activities			
Investments in property, plant and equipment and software	7-8.	(12,465)	(5,681)
Disposals of property, plant and equipment and software, including proceeds from sale of buildings	7-8.	897	5,231
Acquisition of group companies	2.	(4,899)	(209,106)
Disposal of group companies	2.	711	-
Cash flow from investing activities		(15,756)	(209,556)
Financing activities			
Withdrawals on loans	18.	101,333	218,749
Repayments on loans	18.	(225,670)	(11,669)
Repayments on bank overdrafts – cash loans	22.	(3,000)	(500)
Proceeds from share issue		122,646	-
Cash dividend and costs paid	15.	(6,938)	(7,495)
Dividend payment minority interest	17.	(120)	(286)
Cash flow from financing activities		(11,749)	198,799
Cash flow on balance		6,578	11,768
Liquid resources and bank overdrafts at 1 January		22,510	11,352
Exchange differences		4,239	(610)
Liquid resources and bank overdrafts at 31 December	12.	33,327	22,510
Presentation in balance sheet			
Liquid resources		73,887	44,754
Banks – current account overdraft		(40,560)	(22,244)
		33,327	22,510

Notes to the consolidated accounts

In EUR thousands

1. Segmented information

The information is broken down geographically by cluster. This primary segmentation ties in with the organisational structure, risk profile and management of the ERIKS group. The nature of the business operations is so similar across the clusters that secondary segmentation is not considered necessary. Sales are further itemised in the report by the executive board.

Net sales

Net sales to third parties increased from EUR 543.3 million in 2006 to EUR 949.1 million in 2007 or by 74.7 percent.

By cluster	2007	2006
ERIKS Belgium	151,031	126,661
ERIKS Central Europe	5,830	1,357
ERIKS Germany	117,515	109,737
ERIKS France	16,366	22,779
ERIKS Netherlands	237,087	211,879
ERIKS UK	377,483	39,410
ERIKS USA	35,786	23,755
ERIKS South-east Asia	8,041	7,735
	949,139	543,313

Intra-group sales between the clusters is not material.

By region (in %)	2007	2006
Belgium	13.2	20.4
Germany	13.6	21.1
France	3.0	5.3
The Netherlands	23.4	35.9
Poland	0.6	0.3
United Kingdom	34.9	6.4
Rest of Europe	3.0	3.2
United States	4.5	4.5
South-east Asia	2.9	2.1
Rest of the World	0.9	0.8
	100.0	100.0

Personnel

The average number of people employed by the group during the year, expressed in terms of full-time equivalents and allocated by cluster, was as follows:

	2007	2006
ERIKS Belgium	655	590
ERIKS Central Europe	47	11
ERIKS Germany	429	426
ERIKS France	78	130
ERIKS Netherlands	928	864
ERIKS UK	2,153	250
ERIKS USA	122	82
ERIKS South-east Asia	66	65
ERIKS group nv	17	16
	4,495	2,434

Operating profit

By cluster	2007	2006
ERIKS Belgium	15,182	11,115
ERIKS Central Europe	770	93
ERIKS Germany	11,463	8,835
ERIKS France	(2)	(384)
ERIKS Netherlands	27,837	23,574
ERIKS UK	15,476	702
ERIKS USA	4,276	2,648
ERIKS South-east Asia	660	421
ERIKS group nv	(4,580)	(3,742)
	71,082	43,262
Other operating income	-	526
Operating result (see 3.)	71,082	43,788
Financial income and expenses	(10,024)	(2,964)
Result from participating interests	25	(15)
Taxes	(16,897)	(12,898)
Result after taxes	44,186	27,911

Other information by cluster

Year-end 2007									
				Participating interests		Investments		Depreciation	
	Goodwill and intangible fixed assets from acquisition	Other assets	Liabilities	Participating interests	Result from participating interests	Property, plant and equipment and software	Goodwill and intangible fixed assets from acquisition	Property, plant and equipment and software	Goodwill and intangible fixed assets from acquisition
ERIKS Belgium	10,443	63,188	46,685	13	(24)	2,286	-	1,718	8
ERIKS Central Europe	6,577	3,065	6,693	-	-	59	30	45	198
ERIKS Germany	13,788	46,812	33,689	-	-	865	-	879	25
ERIKS France	-	10,530	7,089	-	-	99	-	160	-
ERIKS Netherlands	6,810	105,561	71,770	-	-	4,942	-	2,723	56
ERIKS UK	133,878	174,733	201,777	-	-	3,872	3,791	4,117	4,869
ERIKS USA	3,280	11,997	8,460	-	-	277	84	83	88
ERIKS South-east Asia	-	4,464	2,477	-	-	20	-	64	-
ERIKS group nv	11,670	27,979	(42,710)	-	-	45	-	78	-
	186,446	448,329	335,930	13	(24)	12,465	3,905	9,867	5,244

Year-end 2006									
				Participating interests		Investments		Depreciation	
	Goodwill and intangible fixed assets from acquisition	Other assets	Liabilities	Participating interests	Result from participating interests	Property, plant and equipment and software	Goodwill and intangible fixed assets from acquisition	Property, plant and equipment and software	Goodwill and intangible fixed assets from acquisition
ERIKS Belgium	10,451	57,441	44,460	37	(15)	1,857	370	1,756	4
ERIKS Central Europe	6,336	2,714	6,455	-	-	28	6,384	9	48
ERIKS Germany	7,325	40,261	22,133	-	-	722	128	912	25
ERIKS France	-	11,202	8,250	-	-	409	-	258	-
ERIKS Netherlands	6,867	95,751	62,319	-	-	1,812	-	2,776	57
ERIKS UK	154,116	170,597	213,568	-	-	591	154,619	502	607
ERIKS USA	3,664	10,370	7,792	-	-	56	3,677	75	16
ERIKS South-east Asia	-	4,276	2,473	-	-	98	-	68	-
ERIKS group nv	11,670	3,201	79,882	-	-	109	-	102	-
	200,429	395,813	447,332	37	(15)	5,682	165,178	6,458	757

2. Acquisition and disposal of group companies

On 1 July 2007, the entire share capital of Flexible Hose Supplies (FHS) was acquired in the United Kingdom for a sum of GBP 3.3 million, of which GBP 1.6 million related to identified assets and liabilities. Of that amount, GBP 0.8 million related to intangible fixed assets from acquisitions. The remaining goodwill totalled GBP 1.7 million.

The annual contribution to sales is GBP 5.1 million with 45 employees.

Also in 2007, through the ERIKS United Kingdom cluster, the trading activities of Forco Electrical Services were acquired for the sum of GBP 0.1 million, all of which was qualified as goodwill. The annual contribution to sales is GBP 0.4 million with 9 employees.

In 2006, all the shares of Wyko Holdings Limited (hereafter 'Wyko') were acquired as of 17 November 2006. Wyko has its registered office in Halesowen (near Birmingham), Great Britain and, with more than 2,000 employees, generates sales of around EUR 360 million on an annual basis. The acquisition price including acquisition costs and the acquired bank balances totalled EUR 194.8 million (GBP 130.8 million), of which EUR 85.1 million related to identified assets and liabilities. Of this amount, EUR 44.9 million related to intangible fixed assets from acquisitions. The remaining goodwill totalled EUR 109.7 million.

In the United States, as of 1 November 2006 all the shares of Turpen & Associates Inc., Tulsa, Oklahoma, were acquired for the sum of EUR 6.0 million (including final settlement). Of this amount, EUR 3.1 million related to identified assets and liabilities, EUR 0.7 million thereof to intangible fixed assets from acquisitions. The remaining goodwill totalled EUR 2.9 million. The annual contribution to sales is USD 11 million.

In Poland, as of 1 October 2006 all the shares of Passerotti sp.z.o.o. in Bielsko-Biala were acquired (annual sales EUR 5.0 million and purchase price of EUR 6.0 million, goodwill EUR 3.5 million and identified intangible fixed assets from acquisitions EUR 1.3 million), as well as the activities of Mowta Bogdan Porzych sp.z.o.o. in Gdansk (annual sales EUR 1.5 million and purchase price EUR 1.6 million, goodwill EUR 1.1 million and identified intangible fixed assets from acquisitions EUR 0.5 million).

As of 1 July 2006, through Baudoin nv in Belgium, all the shares of RIV Charleroi sa were acquired at a purchase price of EUR 0.8 million (goodwill EUR 0.3 million and identified intangible fixed assets from acquisitions EUR 0.1 million). This business generates EUR 2.5 million in sales annually.

As of 1 January 2006, through the ERIKS Germany cluster, the activities of Acona Hydrauliek Systeme, Germany were acquired for a sum of EUR 0.1 million, which represented goodwill. The annual contribution to sales is EUR 3.5 million.

Overview of all acquisitions in 2007:

	2007	2006
Paid to third parties	5,652	222,817
Fair value of acquired assets and liabilities (see breakdown)	3,108	105,202
Goodwill paid	2,544	117,615

Goodwill paid represents the value allocated to the acquired existing internal organisation, infrastructure, profit-earning capacity and synergy.

The following assets and liabilities at fair value were involved in the acquisition of the aforementioned activities:

	2007	2006
Liquid resources	989	13,711
Property, plant and equipment and software	357	25,882
Intangible fixed assets from acquisitions:		
- clients	818	42,065
- brand name	102	4,601
- suppliers	205	1,006
Sub-total intangible fixed assets from acquisitions	1,125	47,672
Working capital	1,267	51,853
Other receivables and liabilities	(630)	(33,916)
Net assets acquired	3,108	105,202
Purchase prices paid, including costs	5,652	222,817
Goodwill paid	2,544	117,615
Purchase prices paid, including costs	5,652	222,817
Less: contribution of liquid resources from acquisition(s)	989	13,711
Cash flow on account of acquisitions in financial year	4,663	209,106
Cash flow on account of acquisitions previous financial year	236	-
Cash flow on account of disposal	(711)	-
Net cash flow on account of acquisitions and disposal	4,188	209,106

The original book value of the acquired assets and liabilities is almost the same as the fair value.

The cash flow on account of disposal of EUR 711 is the result of the sale in 2007 of all shares in Adji sarl in France.

3. Operating profit

The operating result includes the following personnel costs:

	2007	2006
Wages and salaries	176,419	94,063
Social security costs	27,814	18,657
Defined contribution plan costs	2,803	4,295
Defined benefit plan costs	847	250
	207,883	117,265
Average number of own employees	4,495	2,434
Average salary costs per employee	46.3	48.2

The operating result also includes the following items:

	2007	2006
Depreciation	8,973	5,706
Amortisation of software	894	752
Amortisation of intangible fixed assets from acquisitions	5,244	757
Gain on the sale of other property, plant and equipment	64	65
Amounts on account of rents paid and operating lease	25,453	12,039
Audit fees	836	801

The amortisation of intangible fixed assets from acquisitions has been recognised under general administrative expenses.

	2007	2006
Other operating income		
Gain on the sale of buildings	700	526
Non-recurring project costs	(700)	-
	-	526

4. Remuneration of the board

Remuneration of the supervisory board

Members	Remuneration	
	2007	2006
J.L. Bouma (chairman, retired May 2007)	19.0	35.0
R.J.A. van der Bruggen	40.0	28.0
R.A.A. Oliemans	40.0	28.0
A.A. Olijslager (chairman, appointed May 2007)	25.0	-
A. Wateler (appointed May 2006)	40.0	17.5

All members of the supervisory board receive a fixed annual remuneration that is not dependent on the results in any single year. The current members of the supervisory board are not holding any shares of ERIKS group nv. No options on ERIKS group nv shares were granted to the members of the supervisory board.

Remuneration of the executive board

The current members of the executive board held a total of 10,979 ERIKS group nv shares at year-end 2007. No options on ERIKS group nv shares were granted to the members of the executive board. In 2007 the members of the executive board received the following salaries, bonuses and benefits:

Number of shares	Members	Gross salary	Variable remuneration short + long	Pension contribution	Total 2007	Total 2006
4,373	J. van der Zouw, chairman and CEO	371	445	140	956	793
5,538	J.G. de Boer, CFO	309	371	129	809	587
-	M.T.A. Beckers	247	255	71	573	428
-	M. Dixon (appointed November 2006)	300	180	60	540	43
1,068	H.J. Maier	247	272	61	580	548
-	B. Wilson (appointed November 2006)	380	228	76	684	55

Total remuneration and the composition of the remuneration package is determined based on the market rate for similar positions. Salaries are reviewed annually.

The variable incentive payment bonus consists of two components: one of which is awarded annually and one of which is determined over a three-year period (long-term incentive).

The level of short-term incentive payments depends on the following criteria:

- quantitative: achievement of the annual objectives for growth and profitability
- qualitative: realisation of the main points of the policy plan.

The level of the long-term incentive depends entirely on achieving quantitative criteria, such as growth and profitability. In the year under review, all qualitative and quantitative objectives used to determine the two incentive payments were realised.

The remuneration package also contains contributions to pension schemes and disability benefit schemes of 20 to 35 percent of fixed salary.

5. Financial income and expenses

This item can be broken down as follows:

	2007	2006
Financial income and expenses		
Bank interest	480	558
Interest expense on loans	6,430	2,512
Interest expense on finance lease	-	148
Other financial (income) and expenses	1,122	590
	8,032	3,808
Movement in the fair value of derivative financial instruments	1,992	(844)
Balance of financial income and expenses	10,024	2,964

For a number of derivative financial instruments, the formal requirements of IFRS have been satisfied for the application of hedge accounting. Consequently, the effective portion of movements in the fair value of these derivative financial instruments has been recognised in shareholders' equity. The other movements in the fair values of derivative financial instruments have been recognised in the result. The changes in the fair values of derivative financial instruments are not cash flow-related and, ultimately, will all come to zero.

6. Taxes

Taxes on the result before taxes in 2007 and 2006 total EUR 16,897 and EUR 12,898 respectively. The tax burden in 2007 and 2006 comes to 27.7 percent and 31.6 percent respectively.

	2007	2006
Weighted average of statutory rates for profit tax	30.7	32.5
Tax effect of offsettable losses not carried over	0.3	0.6
Tax effect of carry-over losses claimed	(1.4)	(0.4)
Effect of group financing	(3.0)	(1.2)
Expenses (not) deductible for tax purposes (permanent differences)	1.3	0.5
Effect on deferred taxes, including tax rate change	(0.4)	(0.5)
Taxes settled for previous years	0.2	0.1
Effective tax rate	27.7	31.6

The average statutory tax rate is the average of the statutory taxation rates applicable in the countries in which the ERIKS group operates, weighted on the basis of the profits or losses on ordinary operations before tax in each of these countries.

7. Intangible fixed assets

Intangible fixed assets comprise goodwill, intangible fixed assets from acquisitions (brand name, clients and suppliers) and software.

Movements in intangible fixed assets in 2006 and 2007 were as follows:

	Goodwill	From acquisition	Software	Total
At 1 January 2006				
Cost	34,867	1,225	10,013	46,105
Accumulated amortisation and impairment	59	132	8,114	8,305
Balance sheet value	34,808	1,093	1,899	37,800
Movements in 2006:				
Book value of contribution from acquisition and disposals of group companies	-	109	586	695
Investments	117,615	47,563	767	165,945
Disposals	-	-	(13)	(13)
Amortisation	-	(757)	(752)	(1,509)
Exchange differences	-	(2)	(3)	(5)
At 31 December 2006 / 1 January 2007				
Cost	152,482	48,895	11,730	213,107
Accumulated amortisation and impairment	59	889	9,246	10,194
Balance sheet value	152,423	48,006	2,484	202,913
Movements in 2007:				
Book value of contribution from acquisition and disposals of group companies	-	-	11	11
Investments, including adjustments to goodwill	2,780	1,125	3,099	7,004
Amortisation	-	(5,244)	(894)	(6,138)
Exchange differences	(9,256)	(3,388)	(29)	(12,673)
At 31 December 2007				
Cost	146,006	46,632	14,201	206,839
Accumulated amortisation and impairment	59	6,133	9,530	15,722
Balance sheet value	145,947	40,499	4,671	191,117
Amortisation percentages in 2006 and 2007	0	7-33%	20-33%	

Goodwill relates to the acquisition of the activities stated under 'Acquisition and disposal of group companies'. We refer to the notes to 'Acquisition and disposal of group companies' (see 2.) for a breakdown of intangible fixed assets from acquisition.

The book value of intangible fixed assets from acquisitions was as follows:

	2007	2006
Clients	36,052	41,920
Brand name	3,070	4,722
Suppliers	1,377	1,364
Balance sheet value at 31 December	40,499	48,006

The annual impairment test was conducted based on discounted cash flow projections. The balance sheet value of goodwill has been allocated to the cash-generating units as follows:

	2007	2006
ERIKS UK Holdings Ltd	97,977	109,679
ERIKS bv	5,447	5,447
Van Eyle & Ruygers-Schwartz bv	6,142	6,142
Elmeq (group)	3,531	3,531
Vemoflex nv	3,486	3,486
Baudoin nv	9,564	9,564
ERIKS Germany cluster	12,133	7,016
ERIKS Central Europe cluster	4,944	4,609
ERIKS USA cluster	2,723	2,949
Balance sheet value of goodwill at 31 December	145,947	152,423

The recoverable amount of the cash-generating units in which goodwill has been recognised in the balance sheet is the higher of the cash-generating unit's fair value less costs to sell and its value in use. The value in use is determined on the basis of future cash flows from a three-year projection. Cash flows after three years are extrapolated, allowing for an annual growth rate of 0-2%. A discount rate before taxes of 9.8 percent (2006: 9.2 percent) was used to calculate future cash flows. Tests did not lead to any impairment.

8. Property, plant and equipment

The book values of property, plant and equipment can be broken down as follows:

	Land and buildings	Machinery and equipment	Other operating assets	Total
At 1 January 2006				
Cost	43,398	19,607	31,076	94,081
Accumulated depreciation and impairment	8,295	16,119	21,016	45,430
Balance sheet value	35,103	3,488	10,060	48,651
Movements in 2006:				
Book value of contribution from acquisition and disposals of group companies	14,307	6,437	4,552	25,296
Investments	778	1,289	2,848	4,915
Book value disposals	(3,875)	(115)	(464)	(4,454)
Reclassifications	66	(78)	12	-
Exchange differences	(103)	(96)	(34)	(233)
Depreciation	(1,358)	(1,139)	(3,209)	(5,706)
At 31 December 2006 / 1 January 2007				
Cost	54,681	42,815	58,176	155,672
Accumulated depreciation and impairment	9,763	33,029	44,411	87,203
Balance sheet value	44,918	9,786	13,765	68,469
Movements in 2007:				
Book value of contribution from acquisition and disposals of group companies	142	(57)	106	191
Investments	1,168	4,047	4,151	9,366
Book value disposals	(93)	86	(190)	(197)
Reclassifications	1	(54)	53	-
Exchange differences	(1,201)	(440)	(215)	(1,856)
Depreciation	(1,669)	(2,580)	(4,724)	(8,973)
At 31 December 2007				
Cost	53,956	42,936	57,318	154,210
Accumulated depreciation and impairment	10,690	32,148	44,372	87,210
Balance sheet value	43,266	10,788	12,946	67,000
Depreciation percentages in 2006 and 2007	0-4%	7-20%	5-25%	

Property, plant and equipment acquired through a finance lease are negligible.

The other operating assets are made up of means of transport, IT-equipment, and office and warehouse fixtures and fittings.

The buildings in Alkmaar and Roermond owned by the group have been used as mortgage collateral for a total amount of EUR 20 million.

No events or changes in circumstance have taken place that would lead to impairment.

9. Participating interests

This item concerns the following associate:

		2007	2006
TradCom nv	(33.3 resp. 25.0%)	13	37
Balance sheet value per 31 December		13	37

TradCom nv is a company that manages an internet portal.

10. Inventories

Inventories were made up of the following:

	2007	2006
Trade inventories	106,259	97,437
Raw materials	1,786	1,462
Work in progress	8,905	6,958
	116,950	105,857

11. Accounts receivable trade and other receivables

This item can be broken down as follows:

	2007	2006
Accounts receivable trade	167,067	156,876
Less: provision	(5,071)	(4,853)
Accounts receivable trade	161,996	152,023
Other receivables and prepayments	8,094	7,651
Other receivables	8,094	7,651

The fair values of the receivables is the same as the reported balance sheet values.

Movements in the provision for bad trade debts were as follows:

	2007	2006
At 1 January	4,853	3,504
Contribution from acquisition or disposal of group companies	6	1,165
Add: addition to provision	846	869
Less: write-off of accounts receivable trade	(525)	(663)
Exchange differences	(109)	(22)
At 31 December	5,071	4,853

The ages of the overdue accounts receivable are as follows:

	2007		2006	
		Amount of provision		Amount of provision
Non-overdue accounts receivable trade	116,465	-	110,663	-
Overdue accounts receivable trade				
- Less than 30 days overdue	33,485	897	31,023	588
- Between 31 and 60 days overdue	9,575	1,136	8,599	1,012
- More than 60 days overdue	7,542	3,038	6,591	3,253
	167,067	5,071	156,876	4,853

12. Liquid resources

This item represents for the greater part an account considered to be a shareholders' equity account for tax purposes and positive bank balances administered in cash pools. All liquid resources are freely available.

The following items are of relevance for the purposes of the cash flow statement:

	2007	2006
Liquid resources	73,887	44,754
Banks – current account overdraft (see 22.)	(40,560)	(22,244)
At 31 December	33,327	22,510

13. Share capital

Issued and paid-up share capital

At the start of the 2007 financial year, an issue of ordinary shares took place in connection with the refinancing of ERIKS group nv and 2,432,693 new ordinary shares were issued of par value EUR 0.50. The total issue proceeds of approximately EUR 122.6 million (after deduction of the costs associated with the issue) have been accounted for as nominal issued and paid-up share capital (EUR 1.2 million) and share premium (EUR 121.4 million).

At year-end 2007, the issued and paid-up share capital comprised 10,582,614 ordinary shares of par value EUR 0.50, i.e. EUR 5,291,307.

Authorised share capital

The authorised share capital amounts to EUR 19 million and consists of:

- 15 million ordinary shares of EUR 0.50 each
- 4 million cumulative financial preference shares of EUR 0.50 each
- 19 million preferred shares of EUR 0.50 each.

Development of (average) number of shares issued

	2007	2006
Number of ordinary shares issued at 1 January	8,030,776	7,937,581
Issue of new ordinary shares	2,432,693	-
Stock dividend	119,145	93,195
Number of ordinary shares issued at 31 December	10,582,614	8,030,776
Average number of ordinary shares issued	10,330,246	7,991,945

Share premium reserve

The share premium reserve can be qualified as paid-up capital.

Movements in the share premium reserve were as follows:

	2007	2006
At 1 January	476	476
Proceeds from share issue	125,284	-
Less: issue costs, less taxes	(3,854)	-
At 31 December	121,906	476

14. Other reserves

The other reserves comprise the hedging reserve and the foreign exchange difference reserve on account of exchange gains and losses on the net asset value of foreign participating interests and the share in the permanent financing of foreign participating interests. Movements were as follows:

	Hedging reserve	Exchange difference reserve	Total
At 1 January 2006	-	261	261
Movements:			
Hedging reserve	1,425	-	1,425
Less: deferred taxes	(422)	-	(422)
Exchange differences	-	(610)	(610)
At 31 December 2006 / 1 January 2007	1,003	(349)	654
Movements:			
Hedging reserve	606	-	606
Less: deferred taxes	(155)	-	(155)
Exchange differences	-	(10,244)	(10,244)
At 31 December 2007	1,454	(10,593)	(9,139)

The above other reserves are not at the free disposal of the shareholders for distribution. The hedging reserve comprises the effective portion of the cumulative net movement in the fair value of cash flow hedging instruments with regard to hedged transactions which have not yet taken place.

15. Retained earnings

Movements were as follows:

	2007	2006
At 1 January	143,067	122,845
Profit appropriation:		
- cash dividend	(6,888)	(7,459)
- stock dividend	(60)	(46)
- costs associated with the issue of stock dividend	(50)	(36)
Sub-total after profit appropriation	136,069	115,304
Result for the financial year	43,701	27,763
At 31 December	179,770	143,067

16. Earnings per share

Earnings per share at the disposal of shareholders are as follows:

	2007	2006
Average number of shares issued	10,330,246	7,991,945
Net earnings (in euro) per share (ordinary and diluted)	4.23	3.47

17. Minority interest

Movements in the minority interest were as follows:

	2007	2006
Position at 1 January	698	379
Contribution from acquisition	-	457
Dividend	(120)	(286)
Exchange differences	(46)	-
Share in result	485	148
Position as of 31 December	1,017	698

18. Loans

Loans comprise:

	2007			2006		
	Total	Long-term	Short-term	Total	Long-term	Short-term
- term loan credit facility	43,860	33,956	9,904	-	-	-
- revolving credit facility	57,440	57,440	-	-	-	-
- ancillary credit facility	-	-	-	-	-	-
	101,300	91,396	9,904	-	-	-
- bridging credit facility	-	-	-	218,749	-	218,749
- mortgage credit facility	18,750	18,250	500	19,250	18,750	500
- loans from credit institutions	-	-	-	6,000	4,000	2,000
- other loans	151	102	49	539	127	412
	120,201	109,748	10,453	244,538	22,877	221,661
Thereof with a term > 5 years	16,250			16,750		

All credit facilities are in euro.

The fair values of the loans are almost the same as the nominal value.

With regards to interest rates, the policy is to fix the interest on the existing (strategic) financing requirements for the longer term. See note 24. 'Derivative financial instruments'.

Bridging credit facility and refinancing

On 17 November 2006, a bridging credit facility of EUR 220 million (Euribor interest + 0.50 percent) was agreed to finance the acquisition price for the shares in Wyko (GBP 130.8 million). The bridging facility was recognised at the end of 2006 as short-term, because its purpose was to bridge the period until the refinancing of ERIKS group nv, which was undertaken at the start of 2007.

The refinancing in 2007 involved issuing new ordinary shares (see 13. 'Share capital') and agreeing a new credit facility with a syndicate of banks. The revenues from the share issue (EUR 122.6 million) were used in January 2007 to repay part of the bridging credit facility. The remainder of the bridging credit facility was repaid in June 2007 from the newly-agreed syndicated credit facility.

Syndicated credit facility

In 2007, a credit facility totalling EUR 250.0 million was agreed with a syndicate of credit institutions. This syndicated credit facility has a term of 5 years and comprises three facilities:

	Originally	At year-end 2007
- term loan credit facility	50,000	45,000
- revolving credit facility	160,000	160,000
- ancillary credit facility	40,000	40,000
Total syndicated credit facility	250,000	245,000

The most important conditions are:

	Term loan	Revolving	Ancillary
Principal	EUR 50,000	EUR 160,000	EUR 40,000
Balance at year-end	EUR 43,860	EUR 57,440	-
Term	5 years to May 2012	5 years to May 2012	5 years to May 2012
Interest period	variable	variable	variable
Interest rate	Euribor + surcharge%	Euribor + surcharge%	Euribor + surcharge%
Repayment	Straight-line, half-yearly	-	-

In respect of this loan, a number of financial ratios were agreed with regard to net debt/EBITDA (maximum 3.5) and interest coverage (minimum 4). At year-end 2007, these ratios were 1.0 and 9.5 respectively.

The surcharge applicable to the interest payable is also based on the financial ratios. The surcharges are as follows:

net debt / EBITDA	<1.5	1.5 – 2.0	2.0 – 2.5	2.5 – 3.0	>3.0
Surcharge	0.50%	0.65%	0.80%	0.95%	1.15%

A commitment fee of 35 percent of the relevant surcharge (in 2007: EUR 159) is payable on the undrawn portion of the syndicate credit facility.

Mortgage credit facility

At year-end 2007, two loans are withdrawn under mortgage credit facilities originally totalling EUR 20.0 million. The most important conditions that apply to these facilities are:

Principal per facility	EUR 10,000	EUR 10,000
Balance at year-end	EUR 8,750	EUR 10,000
Term	20 years to 2025	20 years to 2024
Interest period	3 months	3 months
Interest rate	EURIBOR + 0.85%	EURIBOR + 0.85%
Repayment	Straight-line, quarterly	Interest only

Business premises in Alkmaar and Roermond have been used as mortgage collateral. Financial ratios relating to interest cover and solvency have been agreed, which are easily being met. An amount of EUR 16,250 has a remaining term of more than 5 years.

Loans from credit institutions

The loan for an original sum of EUR 10.0 million, which was included under loans from credit institutions, was repaid in full in June 2007. The original conditions of this loan were:

Principal	EUR 10,000
Balance at year-end	-
Term	5 years to 2009
Interest period	3 or 6 months
Interest rate	EURIBOR + 0.80%
Repayment	Straight-line, half-yearly

Certain financial ratios relating to interest cover and solvency had been agreed for this loan, which were easily met.

19. Employee benefits

Employee benefits can be broken down as follows:

	2007	2006
Present value of expected and projected pension payments	100,773	109,039
Fair value of plan assets	102,163	94,149
Net assets / obligations	(1,390)	14,890
Unrecognised actuarial differences	7,806	(475)
Defined benefit plan obligations	6,416	14,415
Other (early) retirement obligations	1,798	1,837
Jubilee obligations	853	531
	9,067	16,783
- Short-term	474	6,838
- Long-term	8,593	9,945

Movements in the valuation of expected and projected pension payments are as follows:

	2007	2006
Balance at 1 January	109,039	5,196
Costs recognised in result	1,783	375
Interest	5,274	1,027
Contribution from acquisitions	-	102,293
Actuarial gains and losses	(6,209)	155
Exchange differences	(9,114)	(7)
Balance at 31 December	100,773	109,039

Movements in the valuation of the fair value of plan assets are as follows:

	2007	2006
Balance at 1 January	94,149	2,803
Expected return on plan assets	6,361	1,152
Contribution from acquisitions	-	88,101
Contributions paid by employer	8,323	2,415
Difference between actual and expected return	1,871	(322)
Exchange differences	(8,541)	-
Balance at 31 December	102,163	94,149

The costs recognised in the profit and loss account can be broken down as follows:

	2007	2006
Current service pension costs, less distributions made to participants	1,783	375
Interest on obligations	5,274	1,027
Expected return on plan assets	(6,361)	(1,152)
Amortisation of pension costs for past years	151	-
	847	250

The expected contributions to plans for payments after the retirement date for the year ending on 31 December 2008 are EUR 4.1 million. The expected contributions in 2008 and 2007 include a payment of EUR 2.0 million and EUR 6.3 million respectively agreed when Wyko was taken over.

The following actuarial assumptions were made when calculating the defined benefit plan obligations:

	2007	2006
Discount rate at 31 December	4.5 – 5.7%	4.5 – 5.0%
Expected return on plan assets	4.0 – 6.3%	4.0 – 6.5%
Future salary increases	0 – 3.0%	0 – 3.0%
Inflation adjustment	2.0 – 3.2%	2.0 – 2.7%

20. Other provisions

Other provisions can be broken down as follows:

	2007			2006		
	Reorgani- sation	Miscella- neous	Total	Reorgani- sation	Miscella- neous	Total
Balance at 1 January	987	3,701	4,688	575	1,030	1,605
Movement due to acquisition / disposal	-	147	147	-	2,529	2,529
Addition	150	434	584	545	636	1,181
Withdrawal	(346)	(763)	(1,109)	(133)	(494)	(627)
Exchange differences	-	(188)	(188)	-	-	-
Balance at 31 December	791	3,331	4,122	987	3,701	4,688
- Short-term	297	2,410	2,707	493	3,090	3,583
- Long-term	494	921	1,415	494	611	1,105

The other provisions relate mainly to guarantees, product liability and future repair commitments with respect to buildings in use.

21. Deferred taxes

Based on the expected realisation term, deferred taxes can be broken down as follows:

	2007	2006
Deferred tax assets		
Short-term < 1 year	3,550	7,335
Long-term > 1 year	5,245	6,887
	8,795	14,222
Deferred tax liabilities		
Short-term < 1 year	975	1,168
Long-term > 1 year	18,729	20,516
	19,704	21,684

Off-settable losses

At year-end the losses off-settable against tax and their valuation can be broken down as follows:

	2007	2006
Carry-over period within 1 year	4,297	8,166
Carry-over period between 1 and 5 years	8,187	2,865
Carry-over period after 5 years	4,332	11,289
Total off-settable losses	16,816	22,320
Of which valued as deferred tax asset	1,227	2,035

In addition to the above mentioned off-settable losses, the acquisitions made in 2006 also contributed significant off-settable losses (EUR 90.3 million). It is doubtful whether most of these off-settable losses can be realised within a reasonable period. Where they have already been set off, the income must be shared with the previous owners of Wyko.

22. Bank overdrafts

This item represents short-term cash loans with banks and bank overdrafts.

	2007	2006
Banks – short term cash loans	2,500	5,500
Banks – current account overdraft (see 12.)	40,560	22,244
	43,060	27,744

The interest on the current account overdrafts has been set for an extended period by means of interest rate swaps. The bridging facility available at year-end 2006 of EUR 220 million and the unsecured credit facilities made available by five banks for a total amount of EUR 91.5 million were repaid or withdrawn during 2007.

23. Other short-term liabilities

The other short-term liabilities all have a term of less than 1 year and comprise:

	2007	2006
Other taxes and social security costs	12,912	12,633
Other short-term liabilities and accruals	34,727	29,031
	47,639	41,664

24. Derivative financial instruments

The fair values of derivative financial instruments at the balance sheet date are as follows:

	2007	2006
Cross currency interest rate swaps	5,474	-
Interest rate swaps	1,301	314
Other derivative financial instruments	148	2
Total recognised as financial fixed assets	6,923	316
Of which short-term (< 1 year)	77	24
Between 1 and 5 years	5,745	292
More than 5 years	1,101	-

Interest rate swaps

ERIKS group uses interest rate swaps to control interest rate risks; the interest on the existing (strategic) financing requirements is fixed for the longer term.

During the first quarter of 2007, when the refinancing was complete, the financing requirement for the longer term and the interest rate risk exposure was reassessed. The principal amounts included in the interest rate swap contracts running at year-end totalled EUR 97.8 million (2006: EUR 45.3 million), at a fixed interest payable ranging from 2.7 to 4.5 percent (2006: 2.7 to 4.5 percent). Interest received is variable.

Cross currency interest rate swaps

ERIKS group also uses cross-currency interest rate swaps to manage interest rate and exchange rate risks. In March 2007, cross currency interest rate swaps totalling GBP 75 million were concluded, with terms of 2 to 6 years. The swap involves swapping principal amounts in EUR and GBP at a fixed exchange rate and swapping interest payable at fixed EUR and GBP interest rates.

The total market value of the cross currency interest rate swap at 31 December 2007 is EUR 5,474. The market value of the exchange rate portion (EUR 7,862) of this derivative financial instrument is naturally hedged by the exchange gains on the loan to ERIKS UK. The movement in the market value of the interest rate portion is not naturally hedged, and has been recognised as an expense in the profit and loss account. The interest results over the entire term of this financial instrument total zero.

Other derivative financial instruments

The group uses currency futures and currency options to hedge exchange rate risks. The fair value of the other outstanding derivative financial instruments is EUR 148 (2006: EUR 2).

25. Rights and liabilities not included in the balance sheet

The following rights and liabilities were not included in the balance sheet:

	2007	2006
Contingent liabilities		
Guarantees and security deposits for banks and rental of business premises	724	754
Rental and operating lease obligations		
These mainly relate to office buildings and vehicles		
Terms falling due within 1 year	20,512	11,460
Terms falling due between 1 and 5 years	49,131	25,069
Terms falling due after 5 years	14,126	8,810

The increase in rental and operating lease obligations was due to the inclusion in 2007 of details of the companies acquired at year-end 2006.

26. Related-party transactions

The ERIKS pension fund and the members of the executive board are related parties of the ERIKS group. Explanatory notes on the remuneration of the board can be found under point 4.

The 2007 profit and loss account includes a sum of EUR 2.6 million (2006: EUR 2.4 million) representing pension contributions paid by the affiliated (Dutch) companies to the ERIKS pension fund.

27. Events after the balance sheet date

At 1 January 2008, the shares of Germany-based company Schmitztechnik GmbH were acquired. With 15 employees, the company generates annual sales of EUR 5.5 million. The purchase price of the shares was EUR 6.8 million, of which approximately EUR 6.2 million related to goodwill and intangible fixed assets from acquisitions which have yet to be definitively calculated.

At 1 February 2008, all shares of the Netherlands-based company Wielens Beheer bv were acquired. The company has 70 employees and makes an annual contribution to sales of EUR 22 million. The purchase price of the shares was EUR 22.0 million, of which approximately EUR 18.2 million related to goodwill and intangible fixed assets from acquisitions which have yet to be definitively calculated.

Both acquisitions were self-financed and will contribute directly to the result.

Company profit and loss account

In EUR thousands	2007	2006
Net result of group companies	44,034	28,794
Other income and expenses after taxes	(333)	(1,031)
Net result	43,701	27,763

Company balance sheet

Before proposed appropriation of profit			
In EUR thousands	Ref.	31 December 2007	31 December 2006
ASSETS			
Fixed assets			
Intangible fixed assets	3.	11,782	11,798
Property, plant and equipment		80	97
Financial fixed assets			
Group companies	4.	215,697	213,453
Loans to group companies	4.	168,883	171,912
Deferred tax assets		1,016	284
Derivative financial instruments		6,923	308
		<u>392,519</u>	<u>385,957</u>
Current assets			
Receivables	5.	1,719	2,937
Corporation taxes		2,317	-
Liquid resources		41,147	1,381
		<u>45,183</u>	<u>4,318</u>
Total ASSETS		449,564	402,170
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	6.	5,291	4,015
Share premium		121,906	476
Hedging reserve		1,454	1,003
Exchange difference reserve		(10,593)	(349)
Other reserves		136,069	115,304
Result for the financial year		43,701	27,763
		<u>297,828</u>	<u>148,212</u>
Provisions			
Deferred tax liabilities	7.	2,721	677
Other provisions		1,410	1,395
		<u>4,131</u>	<u>2,072</u>
Long-term liabilities			
Loans		91,734	4,000
Short-term liabilities			
Bank overdrafts		41,869	20,377
Repayment obligations on loans		9,904	221,410
Corporation tax		-	1,281
Other short-term liabilities	8.	4,098	4,818
		<u>55,871</u>	<u>247,886</u>
Total SHAREHOLDERS' EQUITY AND LIABILITIES		449,564	402,170

Notes to the company accounts

In EUR thousands

1. General

ERIKS group nv prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2. Accounting policies

The ERIKS group nv company financial statements are prepared in accordance with the statutory provisions in Part 9 of Book 2 of the Netherlands Civil Code. The option granted in Section 362 (8) of Book 2 of the Netherlands Civil Code to apply the same accounting policies to the company accounts as those of the consolidated accounts is invoked.

Consequently, shareholders' equity and result after taxes in the company accounts are, in principle, equal to shareholders' equity in the consolidated accounts. This principle is generally accepted in the Netherlands. Another benefit is the simplified reporting basis, since ERIKS group nv now only needs to apply one set of accounting policies for its (consolidated) participating interests.

We refer to accounting policies stated in the consolidated financial statements, if no further accounting policies are provided.

Financial fixed assets

Investments in group companies and other companies in which ERIKS group nv has control are recognised at net asset value. Net asset value is determined by valuing assets, provisions and liabilities and calculating the result in accordance with the accounting policies applied for the consolidated financial statements.

3. Intangible fixed assets

Movements in intangible fixed assets in 2006 and 2007 were as follows:

	Goodwill	Software	Total
Cost at 1 January 2006	11,670	82	11,752
Accumulated amortisation	-	-	-
Balance sheet value at 1 January 2006	11,670	82	11,752
Movements in balance sheet value for 2006:			
Investments	-	86	86
Amortisation and impairment	-	(40)	(40)
	-	46	46
Cost at 31 December 2006 and 1 January 2007	11,670	168	11,838
Accumulated amortisation	-	(40)	(40)
Balance sheet value at 31 December 2006 and 1 January 2007	11,670	128	11,798
Movements in balance sheet value for 2007:			
Investments	-	29	29
Amortisation and impairment	-	(45)	(45)
	-	(16)	(16)
Cost at 31 December 2007	11,670	197	11,867
Accumulated amortisation	-	(85)	(85)
Balance sheet value at December 31, 2007	11,670	112	11,782

No events or changes in circumstance have taken place that would lead to impairment. See the notes to the consolidated financial statements.

4. Financial fixed assets

Movements in the value of group companies were as follows:

	2007	2006
Balance at 1 January	213,453	79,950
Movements:		
- capital contributions to group companies	140	128,144
- disposals / deconsolidation of group companies	(144)	-
- profit from participating interests	44,034	28,794
- foreign exchange difference	(10,244)	(610)
- declared dividends	(31,542)	(22,825)
Balance at 31 December	215,697	213,453

Movements in loans to group companies were as follows:

	2007	2006
Balance at 1 January	171,912	66,320
Movements:		
- issued in the period under review	269,234	303,637
- repaid in the period under review	(262,092)	(198,180)
- foreign exchange difference	(10,171)	135
Balance at 31 December	168,883	171,912

The loans to group companies have varying terms. Loans with a term of more than 1 year total EUR 126,047 (2006: EUR 135,104). The interest rates for loans to group companies range from 5.45 to 7.9 percent (2006: 4.1 and 7.9 percent).

5. Receivables

The receivables comprised:

	2007	2006
Other taxes and social security costs	74	483
Amounts due from group companies	1,549	1,410
Other receivables and prepayments	96	1,044
Balance at 31 December	1,719	2,937

6. Shareholders' equity

For notes on shareholders' equity and the share premium, see the notes to the consolidated balance sheet. Movements in the hedging reserve, exchange difference reserve, other reserves and result for the financial year were as follows:

	Hedging reserve	Exchange difference reserve	Other reserves	Result for the financial year
At 1 January 2006	-	261	100,786	22,059
Movements in 2006:				
Profit appropriation for 2005:				
- Cash dividend paid	-	-	-	(7,459)
- Stock dividend	-	-	-	(46)
- Costs associated with the issue of stock dividend	-	-	-	(36)
- Addition to other reserves	-	-	14,518	(14,518)
Addition to hedging reserve	1,425	-	-	-
Less: deferred taxes	(422)	-	-	-
Foreign exchange difference on net asset value of foreign participating interests	-	(610)	-	-
Result for the financial year	-	-	-	27,763
At 31 December 2006 / 1 January 2007	1,003	(349)	115,304	27,763
Movements in 2007:				
Profit appropriation for 2006:				
- Cash dividend paid	-	-	-	(6,888)
- Stock dividend	-	-	-	(60)
- Costs associated with the issue of stock dividend	-	-	-	(50)
- Addition to other reserves	-	-	20,765	(20,765)
Addition to hedging reserve	606	-	-	-
Less: deferred taxes	(155)	-	-	-
Foreign exchange difference on net asset value of foreign participating interests	-	(10,244)	-	-
Result for the financial year	-	-	-	43,701
At 31 December 2007	1,454	(10,593)	136,069	43,701

7. Provisions

The following provisions were recognised:

	Balance at 1 January 2007	Addition	Withdrawal	Balance at 31 December 2007
Employee benefits	190	15	-	205
Reorganisation	594	-	-	594
Miscellaneous	611	-	-	611
	1,395	15	-	1,410
Provision for deferred taxes	677	2,185	141	2,721
	2,072	2,200	141	4,131

Expected settlement time by category of provision:

	Less than 1 year	More than 1 year
Employee benefits	180	25
Reorganisation	100	494
Other	-	611
	280	1,130
Provision for deferred taxes	203	2,518
At 31 December 2007	483	3,648
At 31 December 2006	100	1,972

8. Other short-term liabilities

This item can be broken down as follows:

	2007	2006
Other taxes and social security costs	172	135
Other liabilities and accruals	3,926	4,683
Position as of 31 December	4,098	4,818

9. Related-party transactions

For a list of related parties, including remuneration of the board, reference is made to the notes to the consolidated financial statements.

10. Rights and liabilities not included in the balance sheet

ERIKS group nv has assumed liability to the banks for any debts owed to the bank by certain group companies amounting to EUR 5.2 million at the balance sheet date (2006: 5.3 million).

ERIKS group nv and the Dutch wholly-owned group companies form a tax entity. For taxation purposes, the company is the head of the ERIKS group nv tax entity, and as such has joint and several liability for the liabilities of the tax entity as a whole.

Alkmaar, 28 February 2008

Executive board

J. van der Zouw
J.G. de Boer
M.T.A. Beckers
M. Dixon
H.J. Maier
B. Wilson

Supervisory board

A.A. Olijslager
R.J.A. van der Bruggen
R.A.A. Oliemans
A. Wateler

Other information

Auditor's report

To the general meeting of shareholders of ERIKS group nv

Report on the financial statements

We have audited the accompanying financial statements 2007 of ERIKS group nv, Alkmaar as set out on pages 81 to 116. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2007, the profit and loss account, statement of movements in total shareholders' equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2007, the profit and loss account for the year then ended and the notes.

The executive board's responsibility

The executive board of the company is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the report by the executive board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the executive board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of ERIKS group nv as at 31 December 2007, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of ERIKS group nv as at 31 December 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the report by the executive board is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 28 February 2008

PricewaterhouseCoopers Accountants N.V.

P. Jongerius RA

Foundation ERIKS Group

Foundation ERIKS Group has been granted the right to acquire preference shares in ERIKS group nv up to 100 percent of the total par value of the ordinary and financial preference shares in the capital of ERIKS group nv in circulation at the time the right is exercised.

The board of the foundation comprises Mr A. Buitendam, Mr P.A.M. Hemels and Mr F.M. Tempelaar.

Declaration of independence

The executive board of ERIKS group nv and the board of Foundation ERIKS Group hereby state that in their joint opinion, the independence requirements applicable to the members of the board of Foundation ERIKS Group, as referred to in Annex X to the Euronext Rule Book, Book 2, General Rules of Euronext Amsterdam Stock Market, have been complied with.

Alkmaar, 28 February 2008

ERIKS group nv
Executive board

Foundation ERIKS Group
Board

Articles of association provisions concerning profit appropriation

(articles 33, 34 and 35)

The following is a summary of the stipulations of articles 33, 34 and 35 of the articles of association provisions concerning profit appropriation. From the profit disclosed in the financial statements adopted by the shareholders in general meeting shall be appropriated

1. firstly, a distribution payable to the holders of preference shares;
2. secondly, if profit permits, a distribution payable to the holders of financial preference shares;
3. if the profit for any financial year were to be insufficient to meet the above distributions on the preference or financial preference shares, the deficit is to be paid, insofar as possible, from the company's freely distributable reserves. If the distributions on those two classes of share can likewise not be made in full, the deficit is to be paid from the profit earned in subsequent years;
4. no distribution may be made on financial preference shares for as long as any dividend, whether current or in arrears, is owing on preference shares. No distribution may be made on ordinary shares for as long as any dividend is owing on the preference or financial preference shares;
5. the profit remaining after 1. and 2. is at the disposal of shareholders in general meeting;
6. provided the motion concerned is tabled by the executive board and approved by the supervisory board, shareholders in general meeting may resolve that dividends be paid in whole or in part in a form other than cash;
7. subject to the approval of the supervisory board, the executive board may pay an interim dividend.

Profit appropriation proposal for 2007

The number of ordinary shares issued is 10,582,614 and all shares are entitled to the dividend for 2007.

It is proposed that the dividend be set at EUR 2.25 per ordinary share of EUR 0.50 (2006: EUR 1.35). Shareholders may elect to receive the dividend in cash or in shares charged to the reserves. The proposed dividend amounts to an appropriation percentage of 50.2 percent of profit available to shareholders plus amortisation.

The value of the proposed share dividend will be 2 to 4 percent higher than that of the cash dividend. The share dividend will be declared one day after the option period ends, based on the average price of the share during the last 5 trading days of this option period, which ends on 30 May 2008.

Ten year record

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In EUR thousands	2007 IFRS	2006 IFRS	2005 IFRS
Profit and loss account			
Net sales	949,139	543,313	448,549
Percentage change	74.7	21.1	5.9
EBITA (excl. exceptional gains)	76,326	44,019	33,922
Percentage change	73.4	29.8	8.4
Result after taxes (before amortisation of goodwill)	49,430	28,668	22,221
Percentage change	72.4	29.0	19.8
Result after taxes	44,186	27,911	22,139
Percentage change	58.3	26.1	19.3
Extraordinary result after taxes	-	-	-
Result at the disposal of shareholders	43,701	27,763	22,059
Cash flow			
Cash flow from ordinary activities	59,297	35,126	28,324
Depreciation and amortisation	15,111	7,215	6,185
Cash flow on balance	6,578	11,768	(2,082)
Balance			
Working capital	187,993	170,705	107,763
Net capital invested	218,935	204,589	136,188
Idem, including goodwill and intangible assets from acquisitions	405,381	405,018	172,089
Shareholders' equity	298,845	148,910	127,930
Total capital	358,711	336,484	189,902
Ratios			
EBITA (excluding exceptional gains) as a percentage of sales	8.0	8.1	7.5
EBITA as a percentage of average net capital invested (since 2001 including goodwill and intangible fixed assets from acquisitions)	19.3	23.0	20.8
Interest coverage ratio	9.5	11.7	12.4
Net result as a percentage of shareholders' equity (since 2000 before profit appropriation)	14.6	18.6	17.3
Total shareholders' equity -/- intangible fixed assets (excluding software) / total capital (solvency ratio)	31%	p.m.	48%
Other key figures			
Salaries, social security and pension costs	207,883	117,265	99,790
Average number of employees	4,495	2,434	2,081
Average salary costs per employee	46.3	48.2	48.0
Dividend			
Dividend for the year	23,811	14,126	11,113
Payout as a percentage of the result	50.2	49.8	50.4

2004 IFRS	2003 Dutch GAAP	2002 Dutch GAAP	2001 Dutch GAAP	2000 Dutch GAAP	1999 Dutch GAAP	1998 Dutch GAAP
423,393	381,863	358,144	339,583	302,329	281,741	274,511
10.9	6.6	5.5	12.3	7.3	2.6	10.0
31,281	24,501	21,345	22,631	19,792	11,951	17,267
27.7	14.8	(5.7)	14.3	65.6	(30.9)	7.6
18,552	14,577	12,832	14,672	13,014	7,821	11,541
27.3	13.6	(12.5)	12.7	66.4	(32.2)	8.0
18,552	12,060	10,742	13,362	12,737	7,821	11,541
53.8	12.3	(19.6)	4.9	62.9	(32.2)	8.0
-	-	-	4,402	2,479	(7,250)	-
18,490	11,984	10,706	17,750	15,227	458	11,388
24,906	19,692	18,269	19,753	17,917	12,694	15,470
6,245	5,191	5,473	5,095	4,892	4,986	4,082
(5,697)	9,018	(5,262)	(1,134)	2,254	(7,674)	(8,605)
107,174	89,836	90,697	85,065	82,088	71,006	70,645
130,978	107,748	101,574	95,635	87,201	83,146	78,338
166,906	-	-	-	-	-	-
109,508	91,760	83,249	76,949	65,009	49,135	57,368
182,852	153,673	146,270	134,492	136,871	128,725	117,228
7.4	6.4	6.0	6.7	6.6	4.2	6.3
20.5	18.6	17.2	20.0	22.7	13.7	22.0
10.5	8.9	9.8	11.0	12.0	8.7	17.2
16.9	13.1	12.9	23.1	23.4	0.9	19.9
39%	39%	38%	43%	42%	38%	50%
94,394	88,407	82,751	72,792	61,149	62,348	58,195
2,011	1,942	1,879	1,694	1,488	1,554	1,500
46.9	45.5	44.0	43.0	41.1	40.1	38.8
7,774	6,003	5,444	6,501	6,150	5,271	5,621
49.4	50.1	50.8	48.7	48.2	68.4	49.4

Clusters and group companies

as at 28 February 2008

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ERIKS has a 100% direct or indirect shareholding in the group companies unless otherwise specified.

■ ERIKS Belgium

ERIKS nv, Hoboken

www.eriks.be

IECO nv, Brussels

www.ieco.be

Vermeulen nv, Roeselare

www.vermeulen-eriks.be

Vemoflex-group:

Vemoflex nv, Asse

www.vemoflex.be

Hydromeka nv, Wijnegem

www.hydromeka.com

LMC nv, Asse (80%)

www.lmc-couplings.com

Vemoflex France Sud eurl, Chassieu, France

www.vemoflex.be

Vemoflex France Nord sarl, Cheminot, France

www.vemoflex.be

Betaflex bv, Hoogezand, Netherlands

www.betaflex.nl

Baudoin-group:

Baudoin nv, Mol

www.baudoin.be

Baudoin Liège sa, Alleur

www.baudoin.be

Baudoin Luxembourg sa, Howald

www.baudoin.be

Mekanische Konstruktie Baudoin nv, Mol

www.baudoin.be

Baudoin Wyko nv, Mol

www.baudoin.be

Baudoin Charleroi nv, Mol

www.baudoin.be

Campion sas, Roncq, France

www.campion.fr

Sealing technology

Power transmission

Flow technology

Industrial plastics

Tools and maintenance products

Electromechanical services and condition monitoring

■ ERIKS Central Europe

Mowta Sp z.o.o., Gdansk, Poland

www.mowta.com.pl

Passerotti Sp z.o.o., Bielsko-Biala, Poland

www.passerotti.com.pl

Sealing technology

Flow technology (valves and instrumentation)

Mechanical power transmission

■ ERIKS Germany

ERIKS holding Deutschland GmbH, Bielefeld	www.eriks.de
ERIKS NordWest GmbH, Bielefeld	www.eriks.de
ERIKS GmbH Divisie Afdichtingstechniek, Bielefeld	www.eriks.de
ERIKS NordOst GmbH, Garbsen/Hannover + Blankenburg	www.eriks.de
ERIKS Nord GmbH, Glinde/Hamburg	www.eriks.de
ERIKS West GmbH, Neuss + Aachen	www.eriks.de
ERIKS Hessen GmbH, Dietzenbach	www.eriks.de
ERIKS SüdWest GmbH, Mannheim	www.eriks.de
ERIKS SüdWest GmbH, Stuttgart + Saarbrücken	www.eriks.de
ERIKS Bayern GmbH, Maisach	www.eriks.de
Schmitztechnik GmbH, Mönchengladbach	www.schmitztechnik.de
Wyko Antriebstechnik GmbH, Nettetal	www.wyko-europe.de

Sealing technology
 Power transmission
 Flow technology
 Tools and maintenance products

■ ERIKS France

ERIKS France holding sarl, Trappes	www.eriks.fr
ERIKS sas, Trappes	www.baudoux-industrie.fr
Baudoux Industrie sas, Noyon	

Sealing technology
 Power transmission
 Flow technology
 Tools and maintenance products

■ ERIKS Netherlands

ERIKS bv, Alkmaar	www.eriks.nl
Bruhamij Kunststoffen bv, Ede	www.eriks.nl
Noton bv, Huizen	www.eriks.nl
Flexion bv, Roermond	www.flexion.nl
Elmeq Nederland bv, Schoonhoven	www.elmeq.nl
Elmeq bvba, Oudenaarde, Belgium	www.elmeq.be
Doorcon bv, Schoonhoven	www.doorcon.nl
Van Eyle & Ruygers-Schwartz bv, Rotterdam	www.erxs.nl
Wielens Beheer bv, Groningen	www.wielens.nl

Sealing technology
 Power transmission
 Flow technology
 Industrial plastics
 Tools and maintenance products

ERIKS onroerend goed bv, Alkmaar

Real estate company for buildings in the Netherlands

■ ERIKS UK

ERIKS UK Holdings Ltd, Halesowen

Wyko Holdings Ltd, Halesowen

Wyko Industrial Services Ltd, Halesowen:

Wyko Industrial Distribution, Halesowen

Wyko Electrical Mechanical Engineering Services, Halesowen

Wyko Integrated Solutions, Bitteswell

ERIKS Sealing Technology, Halesowen

ERIKS International Export Services, Dudley

ERIKS Industrial Services (Ireland) Ltd, Dublin, Ireland

Flexible Hose Supplies, Slough

Pioneer Weston International Ltd, Warrington

Wyko International Ltd, Halesowen:

B&P Wild Ltd, Wallsall

ERIKS s.r.o., Bratislava, Slovakia

Wyko s.r.o. Litvinov, Czech Republic

Wyko Nigeria Ltd, Lagos, Nigeria

Wyko Specialist Technology:

Rencol MMI Technology Pte Ltd, Singapore (joint venture)

Rencol Tolerance Rings Ltd, Bristol

Rencol Tolerance Rings Japan Ltd, Kyoto, Japan

Wyko Inc., South Greenback, TN, USA

Wyko Tire Technology Ltd, Dudley

Revolv Ltd, Dudley

Wyko Shanghai Trading Co. Ltd, Shanghai, China

www.eriks.co.uk

www.eriks.co.uk

www.eriks.co.uk

www.eriks.co.uk

www.eriks.co.uk

www.eriks.co.uk

www.eriks.co.uk

www.eriks.co.uk

www.eriks.ie

www.flexiblehose.co.uk

www.pioneerweston-intl.com

www.ace-bearings.co.uk

www.wyko-europe.sk

www.wyko-europe.cz

www.wyko.co.uk/nigeria

www.rmt.com.sg

www.rencol.co.uk

www.rencol.co.jp

www.wykotiretechnology.com

www.wykotiretechnology.com

www.revolv.com

www.wykotiretechnology.com

Power transmission

Flow technology

Tools and maintenance products

Electromechanical services and

condition monitoring

Tolerance rings and Tire technology

■ ERIKS USA

ERIKS Corporation, Ft. Worth, TX

ERIKS Southwest, Inc., Ft. Worth, TX

ERIKS Midwest, Inc., New Berlin, WI

ERIKS West, Inc., Seattle, WA

Turpen & Associates, Inc., Tulsa, OK

www.eriksusa.com

www.eriksusa.com

www.eriksusa.com

www.turpen.com

Sealing technology

Industrial plastics

■ ERIKS South-east Asia

ERIKS pte Ltd, Singapore

ERIKS sdn bhd, Kuala Lumpur, Malaysia

www.eriks.com.sg

www.eriks.com.my

Sealing technology

Flow technology

Managing Directors Committee (MDC)

The MDC is the ERIKS group's policy initiating and coordinating platform.

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■ ERIKS group nv

Executive board

J. van der Zouw, chairman of the MDC

M.T.A. Beckers

J.G. de Boer

M. Dixon

H.J. Maier

B. Wilson

L. De Hertogh

F.A.M. Vollerling

Manager business development

Senior Financial manager

■ ERIKS Belgium

Baudoin nv

ERIKS nv

IECO nv / Vermeulen nv

Vemoflex nv

J. Sleenbus

M.T.A. Beckers

J.F. Desmet

J. Mouton

■ ERIKS Germany

ERIKS holding Deutschland GmbH

U. Mertner

O. Hoppe

S. Winkler

■ ERIKS Netherlands

ERIKS bv / Bruhamij Kunststoffen bv

Elmeq bv

Flexion bv

Van Eyle & Ruygers-Schwartz bv

I. Duin / R. Groot / P. Vos

E. Stremmelaar

F. Stasse

J. Quant

■ ERIKS UK

Wyko Electro Mechanical Services

Wyko Industrial Distribution

Wyko Integrated Solutions

Wyko International

Wyko Specialist Technology

Business Development Director

Commercial Director

European Accounts Director

Finance Director

Management Services Director

Marketing Director

S. Askins

D. Batty

P. Jenno

H. Finnigan

J. Penn

J. Weston

A. Whetstone

D. Arbuthnott

D. White

B. O'Leary

S. Bodsworth

■ ERIKS USA

S. Courtney

■ ERIKS South-east Asia

C. Lim

International Product Managers (IPMs)

Sealing technology

Dynamic sealing elements, O-rings and rubber technology
Flange gaskets

M. Van Oost / E. Uiterwijk
R. Hessels

Power transmission

Hydraulic hoses and accessories
Hydraulic components and systems
Bearings
Pneumatics
Gears and motors
Open drives

P. Bregman
Vacancy
P. Mylemans
J.C. Tytgat
G. Price
B. Burton

Flow technology

Valves and instrumentation
Plastic piping
Hoses and accessories

K. Karhof
K. Karhof
K. Vervloet

Industrial plastics
Tools and maintenance products
Technical and logistics services

M. Van Oost
J. Sleenbus
E. Salemink

Group staff

Group controller
Treasury
Manager Human Resources
Manager Information Policy
Senior Financial manager

J.C.T.H. Blom
A.F. Legras
H. Oort
K.A.W. Verster
F.A.M. Vollerling



ERIKS know-how makes the difference

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