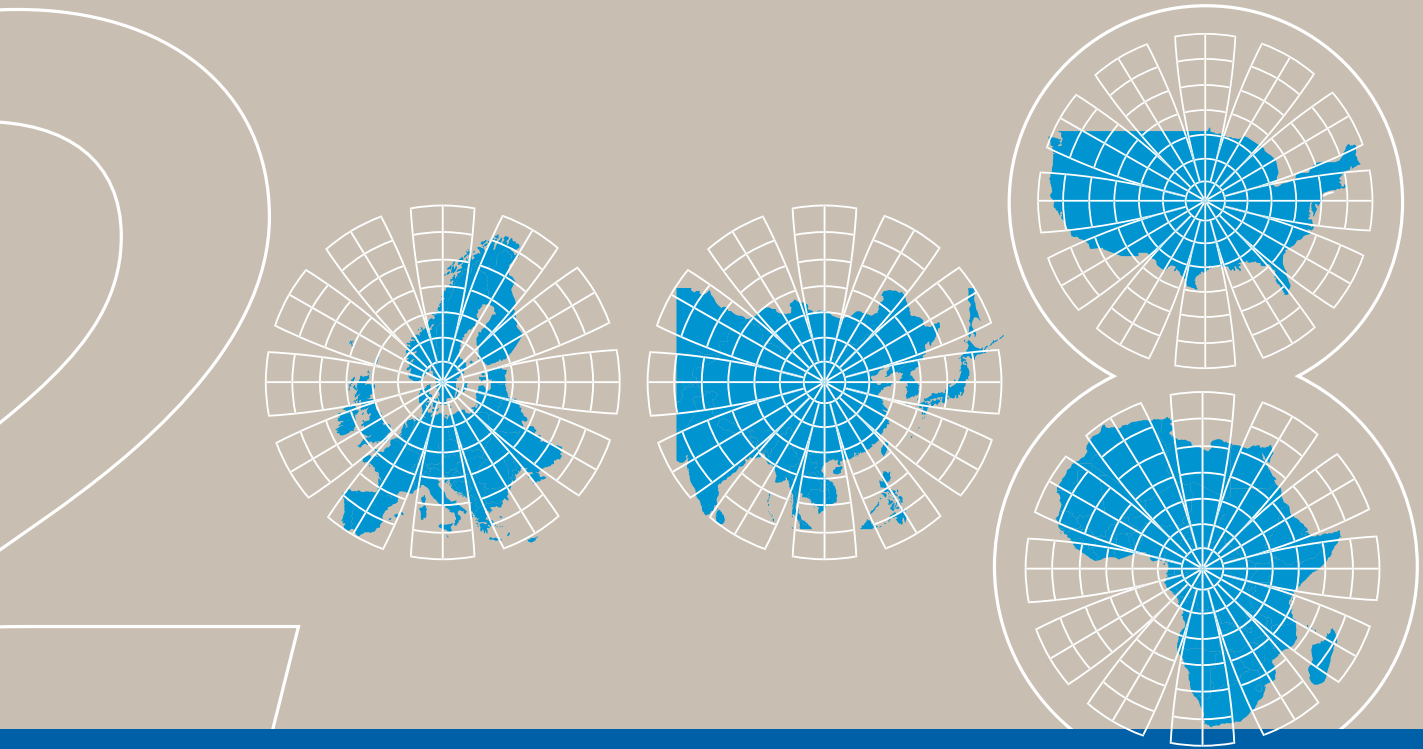


ERIKS

ANNUAL REPORT 2008



This annual report is also published in the Dutch language.

In case of textual contradictions between the English and the Dutch version, the latter shall prevail.

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Profile

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 1,131.5 million were achieved in 2008 with an average workforce of 5,138 people. The net result in 2008 was EUR 52.5 million.

ERIKS is an international industrial service provider offering a wide range of high-quality mechanical engineering components and associated technical and logistics services. Based on its passion for technology, its broad and deep knowledge of market developments, product properties, product applications, product processing, logistics and its state-of-the-art infrastructure which complements all these factors, ERIKS offers its products and services to industrial end-users. This enables us to contribute positively to our customers' and manufacturers' business operations.

ERIKS has become a leading, innovative supplier to certain defined segments of industry, fulfilling the twin roles of specialist and broad MRO supplier. Its customers are primarily in the OEM, project and maintenance markets.

The ERIKS group supplies approximately 100,000 industrial customers ('business to business'), markets a range of more than 600,000 articles, purchases worldwide from more than 1,000 qualified suppliers and manufacturers and sends out more than 3 million shipments every year.

The ERIKS group currently consists of more than 50 group companies with branches in 24 countries. The geographical focus of the group's activities is in Western Europe, where 92 percent of its sales are achieved. ERIKS also has branches in the Middle East, South-east Asia and the USA.

ERIKS is building up a leading market position in Western and Central Europe and Spain, and aims to do so in Northern Europe in due course. The ERIKS group also wants to further expand its presence in the Middle East and have a direct or indirect presence in the USA and South-east Asia where this is complementary to its position in Europe and the Middle East.

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

- Sealing technology
- Power transmission, including electromechanical services and condition monitoring
- Flow technology
- Industrial plastics
- Tools and maintenance products
- 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 know-how domains

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



1. Market know-how

We have in-depth knowledge of the demand side (customers) and the supply side (sourcing) of the market. This enables ERIKS to develop new products and services and enter new markets proactively and promptly.



2. 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 contact.



3. 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).



4. Product processing know-how (customising)

We are able to translate the customer's ideas into new product specifications, and where necessary we have the facilities (either in-house or through third parties) to adapt existing products to the customer's specifications. We also offer maintenance facilities and services for components and systems supplied by us or by third parties.



5. Know-how of logistics processes

We are able to analyse and streamline logistics processes so that they 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. With solutions ranging from the simple supply of components to offering complete integrated systems on site, we can optimise our customers' purchasing (transaction costs) and working capital.

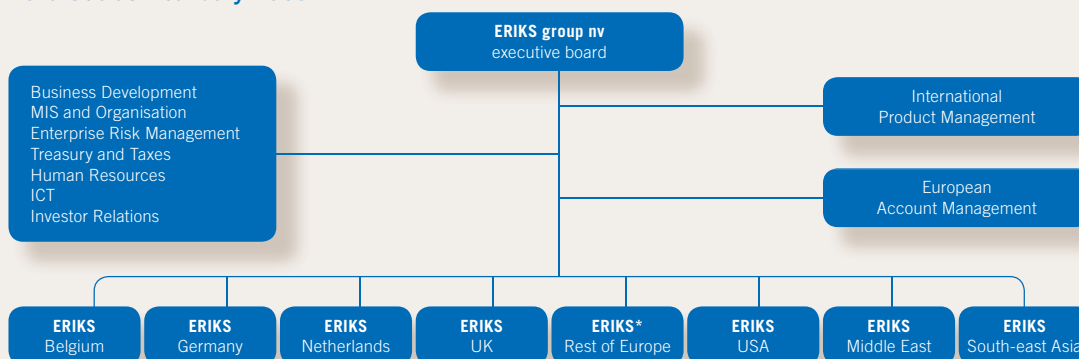


6. Know-how of infrastructure optimisation

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

ERIKS worldwide

Organisation chart as at 1 January 2009

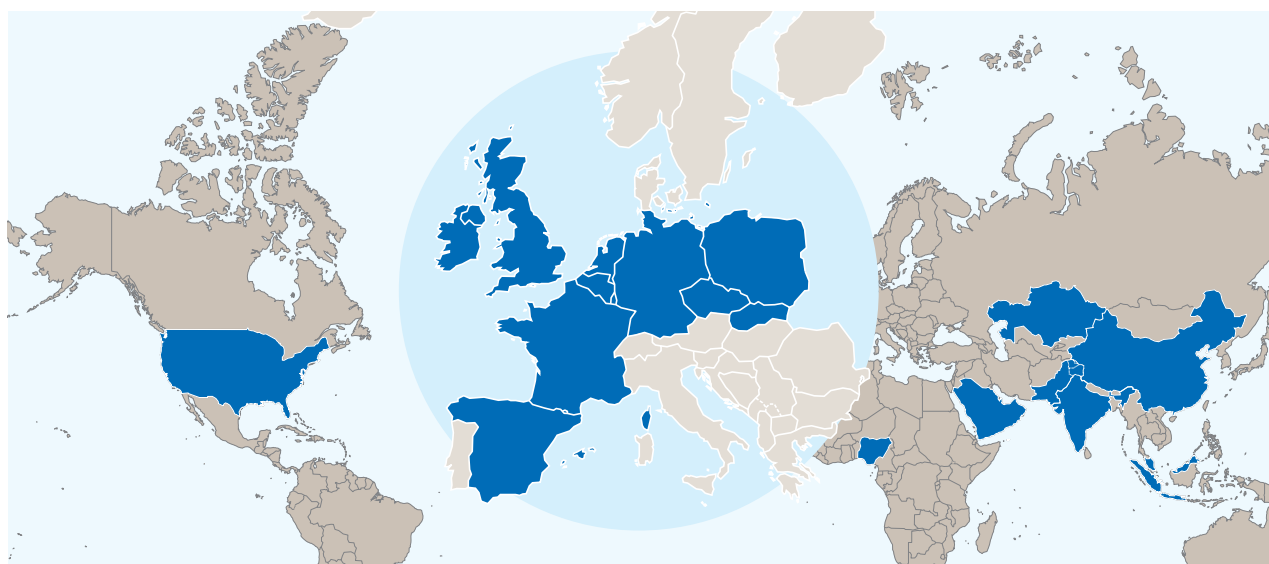


Sales in 2008 (EUR million)	170.2	172.8	324.1	342.4	28.9	37.4	42.7	13.0
As % of total sales	15.0	15.3	28.6	30.3	2.6	3.3	3.8	1.1
Average number of employees in 2008	712	536	1,178	2,211	163	131	100	86

ERIKS group nv employed an average of 21 people in 2008.

* ERIKS Rest of Europe covers our activities in Poland, France and Spain. Each country is managed separately.

Branches as at 1 January 2009



USA

- California
- Oklahoma
- Texas
- Washington
- Wisconsin

Europe

- Belgium
- Germany
- France
- UK
- Ireland
- Luxembourg
- The Netherlands
- Poland
- Russia
- Slovakia
- Spain
- Czech Republic

Middle East and surrounding countries

- United Arab Emirates
- Saudi Arabia
- Qatar
- India
- Pakistan

South-east Asia

- China
- Malaysia
- Singapore

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

Report by the chairman of the executive board

In many ways, 2008 was a good year for ERIKS. Not only did we achieve another record result, but we also made substantial headway in further rolling out the twin business model, which enables us to service two different market segments with the same products and know-how from centralised distribution centres: the maintenance market and the machine and equipment construction (OEM) and project markets. It was thanks to the enthusiasm and great commitment of our employees that we were able to achieve this excellent result, and we very much appreciate their efforts.

We invested heavily in creating a modern infrastructure during the year under review. We continued to roll out the business information systems in the ERIKS Netherlands and ERIKS Belgium clusters. In addition, we invested in new accommodations in Alkmaar in the Netherlands and Mol in Belgium. Meanwhile Revolve Ltd (bearings) in Dudley UK moved to new premises after doubling its capacity. In order to ensure that ERIKS has the necessary know-how at its fingertips going forward, we established the ERIKS University which brings together existing and new training courses and management development programmes in a practical way.

Targeted acquisitions of Schmitztechnik GmbH in Germany and Seals, Packings & Gaskets Ltd in the UK have strengthened ERIKS' position in the OEM market. The acquisitions of TIM Sp.j.w. and Hydro-met s.c. in Poland and Wielens Beheer bv in the Netherlands have given ERIKS twelve new sites in addition to a whole new range of know-how. The acquisition of Econosto nv has enabled ERIKS to fulfil its long-cherished desire to achieve a strong position in the processing industry. A detailed integration and cooperation programme was set up under the name 'ERIKS and Econosto, a great combination'. The initial results are very encouraging. The existing financing agreement was amended to finance this acquisition. The acquisition of Econosto has made ERIKS into a global industrial supplier with a strong position in the European market and a considerable presence in the Middle East.

Market conditions changed dramatically during the year under review. Despite the challenging situation, we still managed to achieve organic growth of more than 7 percent during the first half of the year. Industrial output continued to decline strongly in the third and fourth quarters due to uncertainty on the part of consumers and producers, and the fourth quarter of the year saw a dramatic drop in demand for ERIKS products and services in a number of segments in which ERIKS is active. On the other hand the uncertainty experienced by our customers and the need to achieve sub-

stantial savings also present opportunities for ERIKS. The credit crunch is forcing us to make the best possible use of the resources at our disposal. We can also identify growth opportunities where customers in the supply chain wish to streamline their activities. We will therefore focus even more intensely on the markets that are developing positively and that present opportunities.

2009 got off to a very uncertain start, and the end of the economic crisis is not yet in sight. But despite the current conditions, ERIKS is committed to further expanding its market position as an innovative industrial service provider.

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





People and energy

People make ERIKS what it is: an ambitious and dynamic industrial service provider.

Our society is powered by oil and gas, wind and solar energy and other fossil fuels. Energy is the source of life. At ERIKS we are consciously aware of the fact that we need to make efficient use of our energy reserves. With its product and application know-how, ERIKS contributes to sustainable energy use.

Key developments in 2008

Financial

- Sales increased by 19.2 percent to EUR 1,131.5 million in the year under review (2007: EUR 949.1 million). The increase in sales breaks down as follows:
 - organic growth of EUR 41.6 million, or 4.7 percent;
 - increase of EUR 206.9 million due to acquisitions made in 2007 and 2008;
 - decrease of EUR 13.5 million due to the sale of activities;
 - decrease of EUR 52.6 million due to lower Pound sterling and US dollar exchange rates in particular.
- The EBITA increased by 20.7 percent to EUR 92.1 million (2007: EUR 76.3 million).
- Amortisation of intangible fixed assets of EUR 6.5 million obtained through acquisitions (2007: EUR 5.2 million).
- The result after taxes increased by 19.4 percent to EUR 52.7 million (2007: EUR 44.2 million).
- Earnings per share were EUR 4.91 compared with EUR 4.23 in 2007, representing an increase of 16.1 percent.
- The profit per share before amortisation increased by 17 percent from EUR 4.59 in 2007 to EUR 5.37 in 2008.

- Cash flow per share of EUR 6.57 compared with EUR 5.74 in 2007, representing an increase of 14.5 percent.
- All clusters except for ERIKS France contributed to the improved financial results and expanded and strengthened their market position.
- All companies acquired in 2008 achieved sales and results that were in line with or exceeded expectations.

Expansion

In keeping with the company's strategy and the key objectives defined for 2008, ERIKS acquired five companies in 2008.

The companies we acquired achieve annual sales totalling EUR 288.5 million. The purchase price, including the debts taken over, was EUR 182.9 million. Integration of the acquired companies is proceeding well.

For detailed information on the companies we have acquired, please see 'Major expansion of the ERIKS group in 2008' starting on page 12.

	Consolidated on	Projected annual sales at time of acquisition
Schmitztechnik GmbH, Germany	1 January 2008	EUR 5.5 million
Wielens Beheer bv, Netherlands	1 February 2008	EUR 22.0 million
TIM Sp.j.w. and Hydro-met s.c., Poland	1 April 2008	EUR 1.8 million
Econosto nv, Netherlands with operations in various countries	1 June 2008	EUR 250.0 million
Seals, Packings & Gaskets Ltd, UK	1 August 2008	GBP 7.0 million

Disposal of participating interests/activities

The following participating interests/activities were disposed of:

	Deconsolidated on	Annual sales	Revenue	Result after taxes
Cilinderfabriek in Winschoten, Netherlands	1 January 2008	EUR 1.5 million	EUR 0.3 million	-
Rencol Tolerance Rings Ltd, UK	1 March 2008	GBP 11.3 million	GBP 12.5 million	GBP 0.9 million
Baudoux Industrie sas, France	1 January 2009	EUR 7.5 million	nihil	EUR -/1.3 million



Machine manufacturing

Around 25 percent of ERIKS' sales are realised through supplying to Original and Equipment Manufacturers (OEM). ERIKS is able to be involved from the design phase right through to fitting by ERIKS' staff at the customer installation.

Photo: ERIKS staff working in-house fitting sub-assemblies to an installation at a major builder in Germany.

ERIKS | PEOPLE, PRODUCTS AND APPLICATIONS

Commercial and organisational

- Important advances made in the implementation of the twin business model in the ERIKS Netherlands, ERIKS Belgium, ERIKS Germany and ERIKS UK clusters.
- Expansion of the range of products and services in all clusters.
- New markets entered in Spain, the Middle East and China.
- Range of own-brand products (private label) expanded in almost all clusters.

Operational management and infrastructure

- Expansion and modernisation of the accommodation and 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 and the ProAlpha system in Germany.

- Permanent improvements to the set-up of the business processes.
- Launch of the ERIKS University with training programmes for management development and maintenance and improvement of the six know-how domains.

Refinancing

To finance the acquisition of Econosto nv we agreed an increase in the credit facility with our current bankers. The existing facilities (in the form of a syndicated credit facility) were increased by EUR 150 million to EUR 400 million. The facility will run until June 2012.

Expansion of the executive board

Mr J.F.A.M. van Os was appointed to the executive board of ERIKS group nv with effect from 1 August 2008.

Key data 2008*

In EUR thousands	2008	2007	2006
Profit and loss account			
Net sales	1,131,496	949,139	543,313
Percentage change	19.2	74.7	21.1
Organic growth	4.7	11.1	10.5
EBITA	91,290	76,326	44,545
EBITA (excluding exceptional gains and losses)	92,111	76,326	44,019
Percentage change	20.7	73.4	29.8
Amortisation of intangible fixed assets (excluding software)	6,545	5,244	757
Operating profit	84,745	71,082	43,788
Percentage change	19.2	62.3	22.3
Result after taxes	52,757	44,186	27,911
Percentage change	19.4	58.3	26.1
Result at the disposal of shareholders	52,538	43,701	27,763
Cash flow			
Depreciation and amortisation	17,586	15,111	7,215
Cash flow from ordinary activities	70,343	59,297	35,126
Net cash flow from operating activities	60,915	41,945	22,525
Cash flow from investing activities	(188,204)	(15,756)	(209,556)
Cash flow from financing activities	100,865	(19,611)	198,799
Cash flow on balance	(26,424)	6,578	11,768
Balance sheet			
Working capital ¹⁾	271,075	187,993	170,705
Shareholders' equity	304,857	298,845	148,910
Net capital invested (including intangible fixed assets) ²⁾	553,008	405,381	405,018
Ratios			
EBITA (excluding exceptional gains and losses) as a percentage of sales	8.1	8.0	8.1
EBITA as a percentage of average net capital invested (including intangible fixed assets)	18.2	19.3	23.0
Net debt/EBITDA ³⁾	2.2	1.0	3.1
Interest coverage ratio	8.1	9.5	11.7
Net result as a percentage of shareholders' equity	17.2	14.6	18.6
Other key figures			
Salaries, social security and pension costs	234,000	207,883	117,265
Average number of employees	5,138	4,495	2,434
Average salary costs per employee	45.5	46.3	48.2

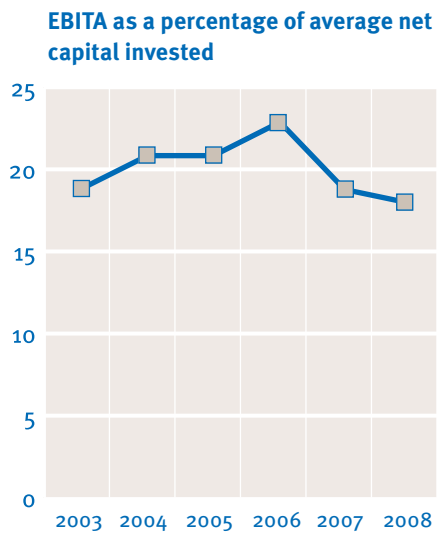
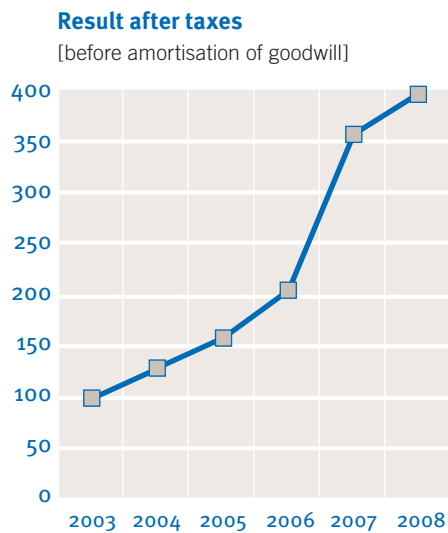
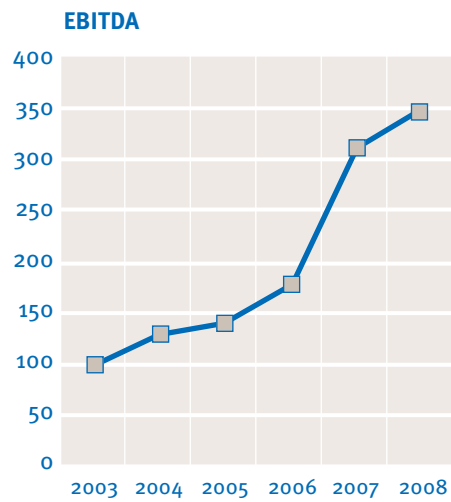
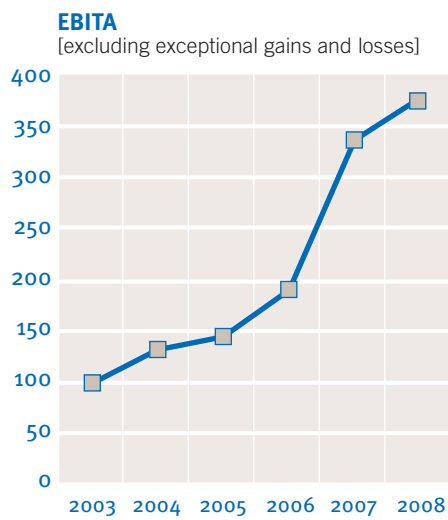
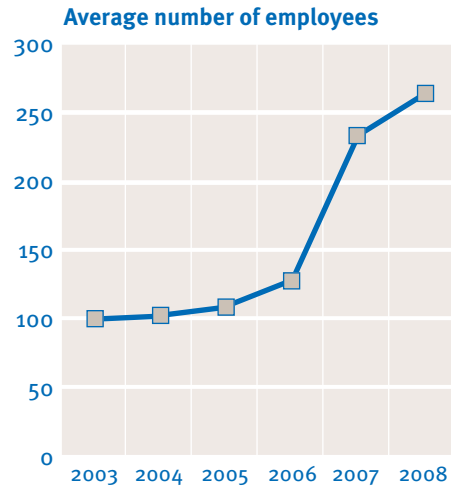
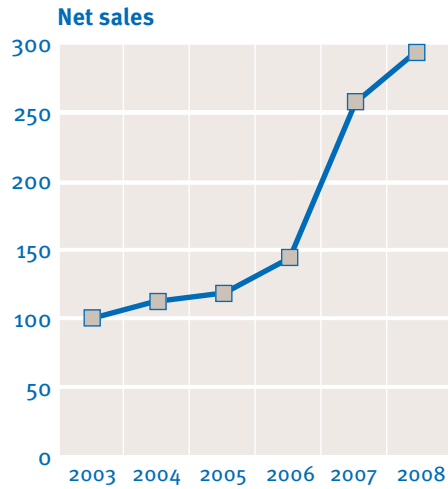
* See also 'Ten year record' on pages 140 and 141.

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 [2003 = 100]



Report by the executive board

Major expansion of the ERIKS group in 2008

General

In the year under review, ERIKS' sales saw a year-on-year increase of EUR 290 million, or more than 30 percent, as a result of five acquisitions, including Econosto nv. As the acquisition of the British company Wyko did in 2006, the acquisition of Econosto has changed ERIKS' profile significantly. Besides providing more detailed information on the companies we have acquired and the reasoning behind the acquisitions, this chapter describes the consequences of the acquisitions for:

- the financing of ERIKS;
- the structure of ERIKS;
- the composition of the executive board of ERIKS group nv.

Acquisitions in 2008

The five acquisitions in 2008, representing total annual sales of EUR 288.5 million, have enabled us to meet our commercial targets and the following objectives for 2008 more or less in full:

- expansion of ERIKS' activities and reinforcement of its position in the processing industry through acquisitions of companies in Germany, Central Europe, the UK and Scandinavia;
- further development of the twin business model with a view to achieving a top-3 market position;
- development of private brands.

■ Schmitztechnik GmbH, Mönchengladbach, Germany

This company markets, sells and processes high-performance plastic and rubber components. Its 15 employees achieve sales of EUR 5.5 million, mainly through machine and equipment construction (OEM).

Schmitztechnik is being integrated into the ERIKS Germany cluster, and will take on the role of Core Competence Centre for plastic and rubber components in the twin business model being developed for ERIKS Germany.

■ Wielens Beheer bv, Groningen, the Netherlands

This company sells and processes a wide range of high-performance machine-related components and services, specialising in electromechanical power transmission. It achieves sales of EUR 22 million with its 70-strong workforce in nine local operations based predominantly in the northeast of the Netherlands.

This acquisition has not only enabled ERIKS to strengthen its position in the Power transmission core activity, but it has also:

- provided ERIKS with nine new operations close to its customers in the maintenance market (strengthening the twin business model);
- created opportunities for ERIKS to penetrate the market further with its existing product groups through these operations;

- significantly strengthened ERIKS' position in the mechanical and electrical power transmission product group in the Netherlands.

■ TIM Sp.j.w. and Hydro-met s.c., Poznan and Gdynia, Poland

These two companies focus mainly on the sale and distribution of sealing technology and mechanical power transmission. All three operations within the two companies have been integrated fully into ERIKS' existing activities in Poland.

■ Seals, Packings & Gaskets Ltd (SPG), Barnsley, UK

SPG's activities consist of marketing, selling and processing products and services in the area of flat seals, rubber and moulded rubber parts. With more than 50 employees the company realises sales of GBP 7 million.

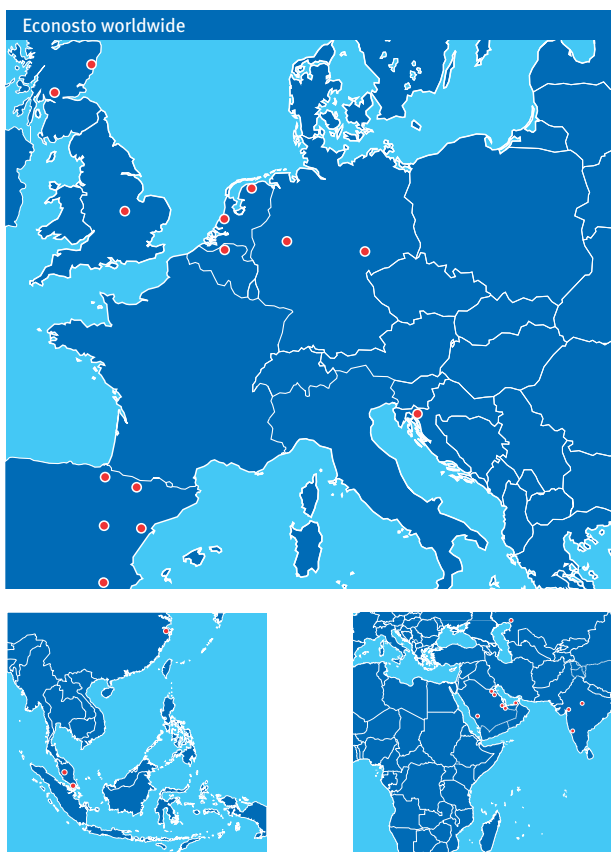
SPG has a particularly strong presence in the OEM domestic heating and boiler market, but also in the OEM pump market and the MRO processing industry.

With the acquisitions of Flexible Hose Supplies (FHS) in 2007 and now SPG and Econosto UK, the ERIKS UK cluster has succeeded in building itself a significant position in the Flow technology core activity. The three companies will develop as independent business units (Technical Centres) and, as know-how providers, will also improve their position in the processing industry through ERIKS UK's branches.

■ Econosto nv, Capelle aan den IJssel, the Netherlands

Econosto nv was a listed company on the Euronext Amsterdam Stock Exchange. In the spring of 2008, ERIKS issued a public bid for all the shares in Econosto nv. The bid was successfully completed on 1 June 2008, and Econosto became part of the ERIKS group. ERIKS currently holds 99.6 percent of all of the shares in circulation. The shares in Econosto nv were delisted from Euronext Amsterdam and a buy-out procedure was initiated to obtain the remaining shares in line with the Dutch statutory provisions. This buy-out procedure is expected to be completed by mid-2009.

At the time of the acquisition Econosto, with its 700-strong workforce, was expected to achieve annual sales of EUR 250 million and an EBITA of EUR 15 million. The total purchase price, including the debts taken over and the costs incurred, was EUR 144 million.



Profile of Econosto nv

Econosto nv is an international group of technical distribution companies with operations in Europe, the Middle East and South-east Asia. Its activities consist of developing, marketing and selling a wide and deep range of high-quality valves, flange gaskets and industrial hoses. Econosto's activities are

fully focused on the processing industry, which consists of five main market segments:

- the chemical and petrochemical industries
- the oil and gas industry
- the energy market
- shipbuilding
- the heating, ventilation and airconditioning market
- general industry.

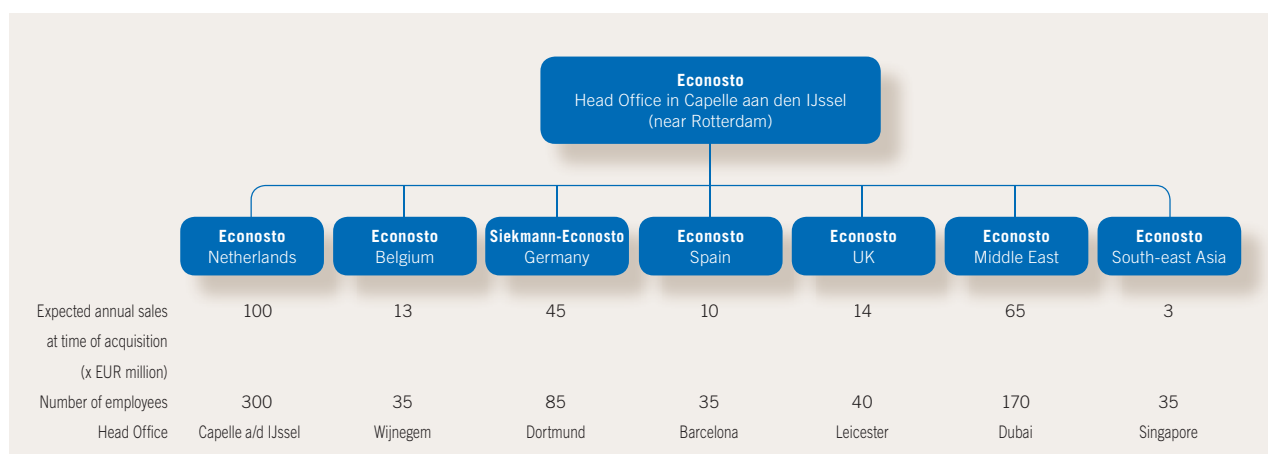
In addition to enabling it to develop the markets in which Econosto already operates, Econosto's strategy offers ERIKS the opportunity to expand its international presence. Priority areas are:

- shipbuilding, for which Econosto has developed a full range of products and services under its own private label ECON;
- sourcing, documentation, quality control and delivery of a full range of valves and related products for construction projects (chemical, oil and gas facilities, power stations and construction).

Econosto achieves about 40 percent of its total sales with its own private label products, predominantly in shipbuilding, general industry and its activities in the Middle East. The company also has strong ties with leading manufacturers throughout the world. Sales from projects account for almost 50 percent of its total sales and are achieved mainly through its companies in Germany and the Middle East.

The structure of Econosto

Econosto has sales offices in Russia (Moscow) and in almost all countries in and around the Middle East. In South-east Asia, besides its Singapore branch Econosto also has operations in Malaysia and China (Shanghai).



Strategic fit

The acquisition of Econosto has enabled ERIKS to take a significant step forwards in achieving its commercial objectives:

- Econosto will strengthen ERIKS' position in the Netherlands and Belgium. The product and market overlap in these regions is minimal.
- Through Econosto, ERIKS intends to create Core Competence Centres for valves and valve-related projects for the ERIKS UK and ERIKS Germany clusters. Development of the planned twin business model in these regions will be accelerated.
- Econosto's innovative and largely own-brand products can be introduced into the ERIKS France and ERIKS Central Europe clusters.
- Econosto and ERIKS will be joint market leaders for the Flow technology core activity.
- The acquisition of Econosto has given ERIKS an international Core Competence Centre for valves and instrumentation from which international product management will be organised.
- Econosto will strengthen ERIKS' position in South-east Asia.

ERIKS supports Econosto's international growth strategy and will help speed up the implementation of this strategy.

ERIKS expects the acquisition of Econosto to yield the following results:

- expansion of the range of products in all ERIKS clusters with the addition of Econosto's products and services;
- increase in the number of products and services that can be offered to Econosto customers;
- European market leadership in valves, industrial hoses and gaskets;
- access to highly promising sales regions and markets in Spain and the Middle East;
- a less vulnerable position in South-east Asia;
- a boost to ERIKS' international reputation in valves and gaskets;
- improved purchasing power;
- some cost savings;
- international reputation for valves, instrumentation, flange gaskets and industrial hoses in key industrial sectors;
- additional opportunities for growth with the combination of ERIKS' and Econosto's activities.

The financing of the ERIKS group

To finance the acquisition of Econosto nv, the existing syndicated credit facility was increased by EUR 150 million to EUR 400 million. This facility runs until June 2012 and consists of a EUR 70 million senior loan and a permanent credit facility of EUR 330 million. The EUR 70 million loan is being redeemed in equal instalments over a period of four years.

No guarantees or securities have been provided for the syndicated credit facility. A net debt/EBITDA ratio of less than 3 is the main condition ERIKS has to meet. As at the end of 2008, with a debt of EUR 244 million, this ratio was 2.2.

The ERIKS structure

In countries in which ERIKS and Econosto both have companies, there will in most cases be intensive collaboration as part of the development of the twin business model. Econosto's Capelle aan den IJssel branch will become ERIKS' Core Competence Centre for the further development of the range of valve products and for directing international expansion. Development teams have already been formed, both at national level and for the various product groups. These teams are working on plans to exploit the synergies that exist, particularly in purchasing and sales.

Activities in Spain and the Middle East will be the responsibility of the ERIKS Spain and ERIKS Middle East clusters.

The composition of the executive board of ERIKS group nv

The members of the executive board of ERIKS group nv are intensively engaged in defining, interpreting and following up the strategy of the various clusters and companies. In order to be able to continue to apply this management style, we have had to expand the executive board.

On the recommendation of the supervisory board, the shareholders at the extraordinary general meeting of shareholders on 31 July 2008 approved the appointment of J.F.A.M. van Os to the executive board. Mr Van Os is primarily responsible for Econosto's activities, its integration into and collaboration with the ERIKS companies, as well as the development of the Flow technology core activity with the valves and instrumentation, flange gaskets and industrial hoses and accessories product groups.



The maritime industry

Econosto has opened a number of new markets worldwide to ERIKS, such as projects in the oil and gas industry, the energy market and the maritime industry. With reference to the latter, Econosto supplied a large proportion of the valves to Damen Schelde Naval Shipbuilding for a series of three corvettes commissioned by the Indonesian navy.

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 properly 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 10 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 (Core Competence Centre) in the relevant cluster and generally maintain direct contact with OEM customers and maintenance customers with specific requirements and especially with the national and international project markets for the Flow technology core activity. 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 specially appointed at group level.

Within each cluster, the regional managers are responsible for developing the market position in their defined region. This takes place through 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 ERIKS 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 ERIKS and will be developed in all European clusters and their companies.

Core activities

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

■ Sealing technology

Rubber technology
O-rings
Dynamic sealing elements

■ Power transmission

Hydraulic hoses and accessories
Hydraulic components and systems
Mechanical and electrical power transmission
Reduction gearboxes, pumps and motors
Bearings
Pneumatics
Electromechanical services and condition monitoring

■ Flow technology

Valves and instrumentation
Plastic and metal piping
Hoses and accessories
Flange gaskets

■ Industrial plastics

■ Tools and maintenance products

■ Technical and logistics services

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

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 ensure the availability of facilities (either in-house or through third parties) to adapt existing products to the specifications.

We can offer 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 logistic concepts tailored to 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. Knowledge needed to optimise the ERIKS infrastructure

We have

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

Customers

The ERIKS group serves about 100,000 customers in all branches of industry, including the 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 for the production of finished products by the customer (machine and equipment construction).
- Projects
Many major national and international customers make use of ERIKS' knowledge of the applications and the international procurement market and its well-developed

project management to handle the supply, quality control and documentation of components for major projects.

■ Distribution

Export: ERIKS products are exported to market areas in which ERIKS does not have its own branches, especially to obtain the required volume. In these areas we approach both local distributors and OEMs.

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

Customers requiring an international presence are served by European Account Management at group level.

ERIKS 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 ERIKS to develop from a traditional distributor into an industrial service provider.

The twin business model gives ERIKS the following abilities:

- For OEM and maintenance customers in need of know-how and processing:
 - to contribute to research and development;
 - to supply components, sub-assemblies and systems tailored to fit the application;
 - to fulfil its quality assurance role;
 - to ensure efficient procurement and logistics.
- For maintenance customers with general requirements:
 - to supply knowledge of products and applications;
 - to reduce the customer's total costs by offering products and services that help:
 - to reduce the customer's purchasing budget and capital resources;
 - to increase the customer's available time for production;
 - to reduce energy costs;
 - to reduce liquid and gas emissions (cleaner production);
 - to offer maintenance services and repair facilities;
 - to supply an efficient administrative and logistical concept for the provision of a broad and deep range of products (reduction in transaction costs).

With the know-how and skills available in-house, ERIKS can also act as a purchaser and quality controller for the delivery of an extensive range of components and associated services for the national and international project markets.

Manufacturers

On the basis of cooperative relationships, while maintaining its independent position, ERIKS prefers to enter into long-term relationships with manufacturers around the globe. The ERIKS 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 ERIKS 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 ERIKS 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 in Germany, the UK, the USA and South-east Asia, are still very fragmented. This means that there is scope to acquire an important position with just a small market share. For further information see 'Mission, objectives, SWOT analysis and strategy' starting on page 20 and 'Developments by cluster' starting on page 60.

Regional market shares by core activity (based on the markets approached by ERIKS):

Core activity Country/ region	Sealing technology	Power transmission	Flow technology	Industrial plastics	Tools and maintenance products
Belgium	++	++	++	++	++
Central Europe	+	+	+	-	-
Germany	+	++	++	-	+
France	+	-	+	-	-
The Netherlands	+++	++	+++	++	++
Spain	-	-	+	-	-
UK	+	++	+	-	+
USA (region of the companies)	++	-	-	+	-
Middle East	-	-	++	-	-
South-east Asia	+	-	+	-	-

+++ = >25%

++ = 10-25%

+ = <10%

- = core activity not part of the cluster's range



Jewel Hotel

Large-scale projects, such as hotels, often contain many thousands of valves and kilometres of pipes in their construction. Econosto is regularly involved in the construction of the most prestigious buildings. The photo shows the Jewel Hotel at the harbour of Dubai. Econosto was also involved in the construction of the largest indoor ski run in the Middle East (Dubai).

Mission, objectives, SWOT analysis and strategy

Mission

ERIKS aims to be a leading, innovative, international supplier of a wide, high-quality range of mechanical engineering components in all of its market areas. ERIKS offers its products and services based on its passion for technology, its broad and deep knowledge of market developments, product properties, product applications, product processing, logistics and its state-of-the-art infrastructure which complements all these factors. This enables it to contribute positively to its customers' and manufacturers' business operations. In its market areas, ERIKS presents itself as a supplier of high-quality industrial services.

Objectives for 2009 – 2011

■ Commercial

To its customers, ERIKS strives to be the innovative, reliable and flexible supplier of choice in line with its defined mission. To its manufacturers, ERIKS strives 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, ERIKS is striving to achieve the following objectives:

- to build up leading market positions in Western and Central Europe and Spain and, 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 operations;
- to have a balanced spread of sales across the main customer types (purchasing profiles) of Maintenance (MRO) and Original Equipment Manufacturers (OEM) and Projects in order to control its risk profile;
- to expand our current activities in the USA (buy-build strategy);
- to maintain our activities in the Middle East organically by expanding our range of products in the Flow technology core activity and by reinforcing and expanding our presence in this region;
- to maintain and gradually expand our activities in South-east Asia organically;
- to expand our international presence by offering our own range of private label valves developed for shipbuilding;
- to be a port of call for coordination, quality control and supply of valves for infrastructural projects at an international level.

■ Organisational

ERIKS aims 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 down deep 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 endeavour to be a modern company in every respect, ERIKS will continue to invest in the development of its employees, its range of products and its infrastructure (ICT, machinery, storage methods and buildings).

■ Financial

As in previous years, on the basis of independent, organic development and average growth in industrial output, the financial objectives for the next three years are:

- Average growth in sales of 10 to 15 percent (2008: 19.2 percent), of which 5 to 7 percent from organic growth (2008: 4.7 percent) and the remainder via acquisitions. In 2009 attention will primarily be focused on integrating the companies acquired in the year under review, and the number of acquisitions will be limited. As a result of the current economic crisis, much attention will furthermore be focused on managing and controlling existing activities.
- An operating result (EBITA) as a percentage of net capital invested, including goodwill, of at least 15 percent (2008: 18.2 percent).
- A net debt/EBITDA ratio of less than 2.5 (year-end 2008: 2.2).
- An interest coverage ratio of more than 6.
- An average rise in earnings per share of 5 to 10 percent (2008: 16.1 percent).
- A dividend payout, circumstances permitting, of approximately 50 percent of the result placed at the disposal of the shareholders plus amortisation.

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 ERIKS operates. The total European market is estimated to be worth approximately EUR 40 billion. The markets in the countries in which ERIKS operates contribute more than EUR 25 billion. The size of the market is related entirely to the development of industrial output.

World industrial output increased considerably between 2005 and mid-2008, thus also in all the regions in which ERIKS has a presence. The third quarter of 2008 saw the onset of a rapid decline in industrial output. This decline set in even earlier in some regions including the UK and the USA, and spread rapidly through all regions in the fourth quarter of 2008. World production levels are expected to be significantly lower in 2009 than in 2008. Nobody can predict when things will start to pick up again.

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 in ERIKS' existing market areas. Only by pursuing an innovative policy and entering these new market segments with an appropriate range of products and services will distributors and manufacturers be able to retain and continue to grow their sales in their existing geographical areas (see 'Strategy' starting on page 26).

ERIKS' positions in the USA and South-east Asia are relatively small.

ERIKS Middle East has a relatively good position in this region. The company has grown strongly in recent years and has benefited especially from investments in the oil and gas industry and infrastructural construction projects. The level of activity is to a large extent dependent on these investments.

Manufacturers

A clear trend towards concentration is still very much in evidence 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 range of products. Decisive factors in the future of ERIKS are the development of partnerships with manufacturers, volume and market share, a large and wide customer base and a wide range of products and services in tandem with high-quality technical and logistic 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, distributors must have a wide and deep range of products, good product and application know-how and processing facilities and must be able to offer logistic 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 concepts 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, France and Spain, is an absolute must for an organisation serving international customers.

Competitors

The European market for the distribution of mechanical engineering components remains fragmented. With annual sales worth EUR 1.2 billion, the ERIKS group is the biggest European distributor in its field. Partly as a result of the acquisitions it has made in recent years, ERIKS is now the undisputed market leader in the Sealing technology, Flow technology and Power transmission core activities.

In mechanical engineering components distribution, there are still some European organisations with volumes of EUR 450 - 600 million and a few with volumes of EUR 200 - 400 million. 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 ERIKS scope for further expansion.



Engineering

Core Competence Centres around the Power transmission and Sealing technology core activities have been formed from the in-depth knowledge that was already present within ERIKS UK. The specific acquisitions of Flexible Hose Supplies (industrial hoses), Seals, Packings & Gaskets Ltd (flange gaskets and rubber technology) and Econosto UK has led to the creation of new know-how centres within the twin business model.

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In the OEM market, and in larger projects, ERIKS also competes with manufacturers.

■ Internal analysis

ERIKS 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 and the acquisition of Econosto nv in 2008 have enabled ERIKS to increase its market coverage in Western and Central Europe, Spain and the Middle East. 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 activities obtained as a result of the Econosto acquisition will be incorporated into the twin business model of the corresponding clusters as independent business units in due course.

The chapters entitled 'Profile' on page 2 and 'Information on the organisation, core activities, markets and market position' on pages 16 until and inclusive 18 contain details of the requirements an ERIKS company has to meet. 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 is established separately for each individual cluster and company (also see 'Developments by cluster' starting on page 60).

Each cluster is at a certain stage of development.

- The ERIKS Netherlands cluster has all the core activities in its range of products. The acquisition of Wielens Beheer bv and Econosto Nederland has significantly strengthened ERIKS' market positions in the Flow technology and Power transmission core activities. In the Netherlands, ERIKS 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 logistic services by means of close cooperation between the various business units. The development of the ECON private label for the valves product group is being coordinated by Econosto Nederland, and worldwide exports to the shipbuilding industry in particular are being developed from there. All companies in the ERIKS Netherlands cluster apart from Wielens and Econosto Netherlands use the same business information system with one central database (the ERIKS template).
- The acquisition of Econosto Belgium has significantly strengthened the market position of the Flow technology core activity in the ERIKS Belgium cluster. ERIKS also has a top-3 position in all its activities in Belgium. The cluster has all the necessary technical disciplines, and cooperation between the various units is effective and is

focused mainly on further professionalising the twin business model. The various companies in the cluster will be connected to the ERIKS template over the next two years. The first major step will be taken in mid-2009.

- The ERIKS Germany cluster has a wide range of products but is mainly active in the Power transmission and Sealing technology core activities. The other core activities are still under development. Expanding the range will also create opportunities for entering new markets. Core Competence Centres have been set up for the various products, and from 2008 onwards all operations will approach the market under the ERIKS trading name. The acquisition of Econosto Germany (Siekmann-Econosto) has given ERIKS a strong market position in the valves and flange gaskets product groups. Siekmann-Econosto focuses almost entirely on the international project market. Initiatives have also been launched to include Econosto's products and services in the twin business model being developed and to offer them to customers in the processing industry.
- The ERIKS UK cluster has always been predominantly active in the Power transmission including electromechanical services and condition monitoring and Sealing technology core activities, focusing almost exclusively on the maintenance market. Much effort is going into expanding the private labels Fenner and Revolve (Power transmission) and Pioneer Weston (Sealing technology) that have been included in the ERIKS range of products. These private labels are also being introduced in the other clusters. With the acquisitions of Flexible Hose Supplies (FHS) in 2007 and Seals, Packings & Gaskets Ltd (SPG) and Econosto UK in 2008, the ERIKS range of products has been enhanced with the entire range of the Flow technology core activity. A separate division, Integrated Solutions, looks after the purchasing of all maintenance products at 'on-sites' on customers' premises. The ERIKS UK cluster now has a complete range of products. The Core Competence Centres now also offer their products to OEM customers and are helping the Service Centres to increase the products and services they offer to the maintenance market. A policy priority for the coming years is to increase productivity and therefore profitability, among other things by modernising the infrastructure.
- Through its operation in Trappes, the ERIKS France cluster intends over the next few years to focus its efforts primarily on becoming a specialist distributor in the valves, sealing technology and industrial hoses product groups. Where possible, Econosto products will also be introduced. This cluster is striving to establish a position in defined segments of the processing industry, such as pharmaceuticals, fine chemicals and food, as well as in shipbuilding and the oil and gas industry, with Econosto products.

- ERIKS Central Europe has been active in Poland since 2006, initially with some product groups of the Power transmission, Sealing technology and Flow technology core activities. Core Competence Centres have been set up, and last year the number of regional operations was increased as a result of a modest acquisition. There are opportunities for growth in Poland, both organically and through acquisitions.
- The acquisition of Econosto has also gained ERIKS a position in Spain. Although still on a very modest scale, a package consisting predominantly valves and flange gaskets is being marketed through five operations. Contacts are also being maintained from Spain with countries in South and Central America, particularly in the shipbuilding industry. The policy is to expand the ERIKS range of products in Spain over the next few years.
- The ERIKS USA cluster is active in the highly fragmented market of dynamic sealing elements and industrial plastics. With sales worth more than USD 50 million, ERIKS USA is one of the major distributors of its kind. The cluster possesses the means and professionalism it needs to achieve further growth.
- The ERIKS Middle East cluster: Econosto has been active in the Middle East since the 1970s. The oil and gas industry, the ventilation and air-conditioning market, the petrochemical and chemical industries, the energy market and water supply companies are dealt with from the Head Office in Dubai and the sales offices in almost all of the surrounding countries. The range of products (all under the ECON private label) is mainly made up of the valves and metal piping product groups. With sales of more than EUR 70 million, this cluster is big enough to have all the professional positions in-house and to allow further growth.
- The market position of the ERIKS South-east Asia cluster, which has operations in Singapore, Malaysia and China, was strengthened by the acquisition of Econosto, but still remains fragile. Ongoing innovation of the range of products and improvements in product and application know-how have resulted in a marketing mix that sets it

apart from local competitors and meets the market's satisfactory.

■ Financing in 2009 – 2011 and value creation

At this point it is appropriate to take a brief look at the current economic crisis. Since the summer of 2008 industrial output has been falling, and there is evidence of an economic recession in many of the countries in which ERIKS has operations. For 2009 this means that demand for our products and services will fall in many market segments. In the short term ERIKS' strategy will focus on managing, controlling and where necessary modifying its current activities. ERIKS' financial position is healthy, and as far as external financing is concerned, facilities have been agreed with the banks up to medio 2012. It will be important to control the net debt position in 2009 and to meet the financing ratios agreed with the banks. ERIKS is in a position to meet these ratios even if activities decline.

Although nobody can predict the extent and duration of the economic crisis, it is currently thought to be likely that the economy and industrial output will begin to recover in the second half of 2009. Every year a long-range growth model is drawn up on the basis of realistic assumptions, which include modest annual economic growth. The model shows that ERIKS is able to finance its growth targets, the financial 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 dividends policy).

The most important outcomes of the SWOT analysis are:

Strengths

- A unique and strong commercial concept, the twin business model.
- Dedicated and well-educated employees.
- Large customer base and presence in important industrial markets.
- Good market coverage and market positions for all product groups in Western Europe (market leader in all major core activities).

Weaknesses

- Although important advances have been and are being made, the twin business model has not yet been fully developed in the various European clusters.
- Not all European clusters are active in all product groups.
- Not every cluster has a top-3 position in all product groups.

- Good market positions in the Middle East and the USA (Sealing technology).
- Strong market positions in international shipbuilding and major international valve contracts for infrastructural projects.
- Wide and deep range of products and services.
- Strong private label product ranges.
- Innovative strength. Ability to actually make a positive contribution to customers' business activities.
- Offering volume and market share.
- Modern infrastructure (accommodation and ICT).
- An independent and financially healthy company.

Opportunities

- Fragmented markets offer opportunities for organic growth and growth through acquisitions.
- Major customers want fewer suppliers, but suppliers that can actually deliver added value to their business operations.
- Develop and market own private label product ranges.
- Offer a uniform range of products and services to international customers (European Account Management and projects).
- Approach the market as a unified ERIKS group.
- Fast implementation and development of the twin business model in the UK, Germany, Central Europe and, in the future, Spain.

- Fragile market positions in Spain, France and South-east Asia.
- The six know-how domains are not universally at the required level.
- Productivity and profitability are still at too low a level in some activities.
- The infrastructure (accommodation and ICT) is still not at the desired level.

Threats

- Market contraction due to:
 - the current economic crisis
 - the departure of the manufacturing industry
 - the lack of innovative strength in Western countries and insufficient development of new, high-quality industries.
- Shortage of commercially/technically trained staff.
- Political instability in some countries in which ERIKS operates.

The conclusions of the SWOT analysis for our business operations 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 a unified ERIKS organisation (one corporate identity) (see also 'Opportunities').
- Approach and support shipbuilding at an international level.
- Expand own private label product ranges (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

- Expand core activities in the ERIKS Germany and ERIKS Central Europe clusters, and invest in training and product management.
- Strengthen market positions in France and Spain (size).
- Rapid integration of the ICT systems among the various companies of a cluster.
- To aid optimum support for international customers, ensure uniform configuration of the product database at ERIKS group level.
- Improve productivity and profitability of activities with lower than average scores.

Based on our opportunities and threats

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

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 2008', in the 2007 annual report. These are described in more detail in 'Review of 2008' and 'Developments by cluster'. ERIKS significantly strengthened its position as European market leader in 2008 in all clusters, in line with its defined objectives and strategy. Its international presence has increased as a result of the acquisition of Econosto, and the market positions of the specialist companies in the ERIKS USA, ERIKS Middle East and ERIKS South-east Asia clusters have also improved.

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

■ Organic growth

ERIKS can only grow organically if the way it conducts its business is focused on meeting its customers' wishes and if it 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 for ERIKS to have a modern infrastructure in order to guarantee adequate, efficient and modern services to its customers and also to remain attractive to its employees.

Further development of the twin business model is of prime importance for the growth of ERIKS in Europe. The ERIKS France, ERIKS USA, ERIKS South-east Asia, ERIKS Middle East and ERIKS Spain clusters fulfil the role of specialised distributors in one or more product groups. These positions will also be expanded 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



Logistics

Logistics services through the entire supply chain is also part of ERIKS' identity. Worldwide sourcing, smart purchasing and making good use of ERIKS' large volume is just the beginning. With its intelligent Easy Order System, ERIKS ensures that work in the supply chain is carried out optimally, so that double work and therefore double costs are avoided.

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entrepreneurship. At ERIKS this requirement is a key issue in the selection and supervision of employees in our organisation. In order to control our growth it is essential for us to retain experienced and good management in the years ahead. ERIKS offers an extensive range of Management Development programmes.

KNOW-HOW - Well-trained employees

The six know-how domains must be present in all group companies and in their core activities. This enables our employees to be innovative in their approach to customers and also to make an actual contribution to these customers' business operations, but also to be an expert partner to suppliers.

The level of know-how is monitored and, where necessary, improved through training programmes at the ERIKS University, through contact with schools and training organisations and also by recruiting new employees.

Wide and deep range of products and services

With the acquisition of Econosto, ERIKS is now the European market leader in the Flow technology core activity, a position ERIKS already occupied in the Power transmission and Sealing technology core activities.

As stated in the internal analysis, all clusters take initiatives to allow them to offer a total range of products in every product group. This strategy will be continued.

Product management, engineering and processing

ERIKS aims to make a positive contribution to its customers' business operations. This is only possible if ERIKS has sales representatives and application engineers with knowledge of and a passion for 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, ERIKS will continue to invest in in-house facilities for adapting all of its products to the wishes of customers.

Private label products

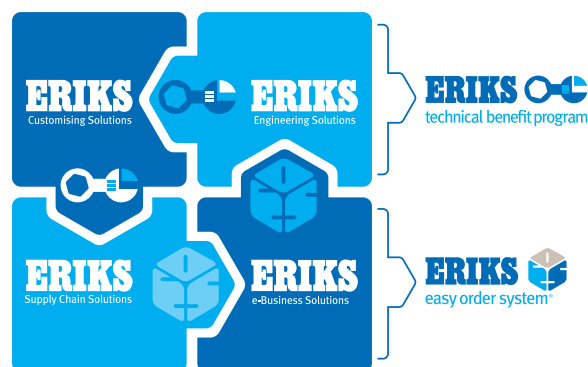
Where possible, ERIKS intends to focus more closely on the development and expansion of own-brand products (private label). These products already account for almost 20 percent of sales, and the intention is to increase this percentage to at least 30 percent.

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 and an e-portal (TradCom) developed in-house, ERIKS has a wide range of logistics services (Easy Order System®) that respond directly to this. Over the next few years it will be further expanding these

services and the integrated solutions model developed by ERIKS UK. The ERIKS group offers logistics services tailored to 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 solutions for their procurement requirements.

International projects

The Econosto companies in Germany (Siekmann-Econosto), the Middle East and the Netherlands and the ERIKS company Noton all have in-house specialists who support the coordination of certification, quality control and supply of large batches of valves and associated products for major infrastructural projects. The focus is mainly on construction of new power plants, refineries, chemical facilities and major construction projects.

■ Growth through expansion

ERIKS will employ a roll-out strategy over the next few years to further expand its market area, with the main focus on Germany and Central Europe. In doing so we will create a together joined market area of sufficient size in which ERIKS is able to offer its customers and manufacturers a standard package of products and services. ERIKS is also interested in increasing its presence in Spain. 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 32, 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 ERIKS 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 ERIKS. In this fashion, the range of existing and new companies is expanded in a natural manner.

An integration team is convened 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 32 of this report).

■ Employees

The decisive factor in a company's success is the quality of the organisation and its employees. The ingredients for a good relationship between ERIKS and its almost 6,000-strong workforce are a clear strategy with related targets that are achievable but challenging, open and honest labour relations and good employment terms and fringe benefits in line with market norms. 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 recently been developed to provide functional support for the twin business model. In principle, this template will be introduced in almost all Benelux branches over the next two years.

In accordance with policy, the other clusters are using the same business information system. 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. A cross-cluster system for synchronising product information will also be introduced in the next few 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:

- coordination and composition of the range;
- coordination of the development of private label products;
- maintaining relationships with existing and potential manufacturers;
- monitoring the level of know-how and the dissemination of knowledge;
- the development of logistical services;
- identifying new markets and the products and services on offer in these;
- tracking market developments;
- identifying 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 2008' on page 38 ff, the progress of the implementation of the strategy in the year under review is discussed in more detail.

The chapter 'Developments by cluster' on page 60 ff expands further upon the objectives, strategy and implementation for each cluster.

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 'Corporate governance' starting on page 82). The board has a duty to consider the interests of all stakeholders in the company. But 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 'socially responsible enterprise'. Socially responsible enterprise means that the company considers the effects of its business operations on the environment and on people within and outside 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

ERIKS 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. ERIKS makes knowledge and passion available to its customers and manufacturers with honesty, openness and integrity.

To summarise, the following values play a key role in the ERIKS culture:

- integrity
- know-how of and a passion for technology
- innovation
- customer-driven philosophy
- trust and respect
- performance orientation.

Within this culture we define achievable objectives that are communicated clearly to everyone directly involved. Clear verbal and written communication characterises the ERIKS

organisation. The informal organisation and short lines of communication between management and employees ensure that everyone is clear about the norms and values that ERIKS stands for.

Code of conduct and compliance

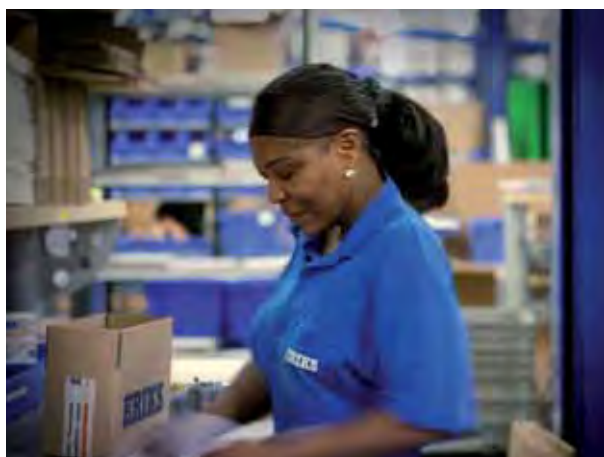
ERIKS' shared values are expressed in its code of conduct and apply to all group companies. The code of conduct requires ERIKS to carry out its activities honestly and openly, with respect for human rights and the interests of its employees. All employees are required to comply with this code, and they are encouraged to report any actual or suspected infringements of the code of conduct or other rules applicable within the ERIKS group to the management ('whistle blowers' regulation). Failure to observe the code of conduct is regarded as a violation of business integrity. The executive board received two reports of violations in the year under review.

Employees

Our employees are a key factor in the successful achievement of optimum performance for our customers. ERIKS' aim is to be an attractive employer. The increasing aging of the population and the high demands and expectations of potential and existing employees make it essential for an employer to offer more than just market-rate salaries. Our personnel policy is therefore based on four cornerstones:

1. Personal development
2. Career flexibility
3. Coaching and communication
4. Basic conditions (remuneration and a good working environment).

Our focus on development (know-how, skills) and career flexibility in particular can play a major role in ensuring that our employees have appropriate duties and remain motivated in every phase of their careers.



Personal attention

Personal attention for every order line and every shipment. Our employees are central within ERIKS. After all, people make ERIKS what it is. This counts for every step in the chain.

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The extent to which the above policy is embedded in the organisation differs in each cluster, although every company must at least meet the basic conditions. The policy is also gradually being introduced in the companies ERIKS has acquired. ERIKS' objective is to provide a modern infrastructure in which employees can perform to the very best of their abilities in a pleasant working environment.

ERIKS attaches great importance to open communication and involves its employees at all levels in the formulation of objectives and company strategy. Only in this way can we create a working environment in which our employees understand and support the strategy. Naturally, there is regular feedback concerning the current state of affairs and plans for the future.

Important criteria are trust and respect between the management and the employees and between the employees themselves. This is necessary to enable them to have the courage to ask questions, make mistakes (and learn from them) and hold each other to account regarding keeping the agreements that have been made. In this way, we create and maintain a positive working environment.

Most ERIKS companies are ISO certified and work according to clear guidelines and procedures. Our health, safety and working conditions must meet the relevant requirements.

In addition to recruiting well-qualified new employees, ERIKS devotes much attention to the development of its existing employees. In Benelux, Germany and the UK, a great deal of time and attention is invested in Management Development programmes. In addition, the ERIKS University was founded in the year under review, which provides online courses and training programmes for employees through a virtual platform. Employees naturally receive feedback on their performance in periodic performance interviews, in which possible career changes (promotion, specialisation, change of specialist field or demotion) and professional training courses are also discussed.

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 ERIKS companies' management teams 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, ERIKS is obliged to pursue a sound environmental

policy. It takes account of environmental aspects both in its own business activities and in product development and advice to customers. New social insights and tightening of environment-related laws and regulations are closely monitored. 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 manufacturers to reduce emissions and leaks in the process industry. ERIKS advises its customers on reducing maintenance costs, preventing machine down-time, 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 products such as paper, oil and residual materials in a responsible manner.



Machine and equipment construction

ERIKS is keen to share its product and application know-how in the field of power transmissions and sealing technology with its customers. In this way, ERIKS contributes to R&D, innovation and raised productivity.

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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 laws and regulations.

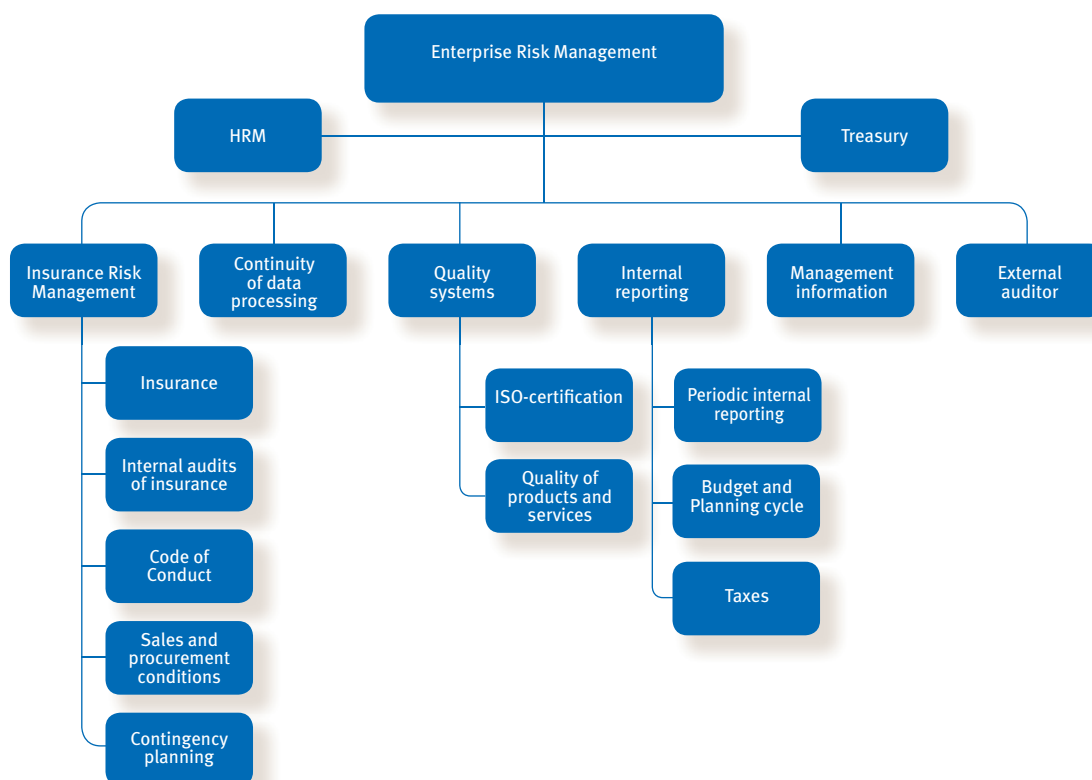
In response to the provisions of the Dutch corporate governance code, our many existing formal and informal measures for controlling market, operational and financial risks have been embedded in an 'Enterprise Risk Management' framework.

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 as necessary. In the year under review, the acquired companies, including Econosto, made significant advances in implementing the Enterprise Risk Management framework. The 'taxes' component was formalised in the framework for the first time in this financial year.

The 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 course of affairs in the various clusters and companies and their respective core activities can be obtained promptly;
- sufficient information is obtained to assess whether the continuity of the day-to-day operational activities is assured;
- sufficient management information (performance indicators) is obtained to assess and improve the effectiveness and efficiency of our primary business processes;
- the company's assets and resources are properly managed and protected;
- sufficient information is obtained on any ongoing product liability claims and the extent to which these risks are adequately insured;
- we obtain an early insight into the quality and availability of the management we need;
- we obtain adequate and timely information on our present and future needs for financial resources and ensure that the use of financial derivatives is in accordance with the defined guidelines.



Major factors that determine the quality of the management framework include integrity, business ethics and the skill of our employees, our management style and method, and the quality of our reporting.

These and other factors are formalised at group level in the following manuals, guidelines and procedures, which are evaluated and revised on an annual basis:

- the code of conduct and compliance of it (whistle-blower arrangement);
- internal insider trading rules;
- regulations for the executive board and the directors of group companies;
- manuals, guidelines and procedures for financial reporting (including taxes), the budgeting and planning process, insurance risk management, treasury and human resources management and for monitoring the continuity of data processing and security;
- a written report on the operational and financial situation and the status of ongoing projects and possible claims (including an appraisal of any financial consequences) produced at least once a quarter by local management. These quarterly reports are discussed by the executive board with the management of the cluster or group company.

The managers of the group companies are responsible for the structure and functioning of the risk management and control 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.

Each year the external auditor is required to audit the main aspects of the group companies' accounting organisation and internal control measures and report its findings to the supervisory board, the executive board and the local management teams.

The executive board of ERIKS group nv 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.

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 is of the opinion that the biggest risks and uncertainties facing ERIKS are described in this annual re-

port and that ERIKS' internal risk management and control systems deliver a reasonable level of certainty, so that:

- we can form an accurate opinion on the extent to which our companies' objectives are being achieved;
- the annual report and the financial statements give a reliable picture of the situation on the balance sheet date and the course of affairs during the financial year;
- 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.

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

Market risks

■ Sensitivity to economic cycles

The size of the market in which ERIKS 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 (57.2 percent) is generated in the maintenance market, which is less sensitive to fluctuations in the economy. The proportion of sales in the OEM market and in the international project market (which together represent 36.5 percent of sales) is more sensitive to economic fluctuations.

We are aiming for a balanced spread of sales throughout all three 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. ERIKS is the largest European distributor in this market. Our competition comprises of a number of distributors who operate internationally and many national and local distribution companies. Manufacturers are also competing with ERIKS for the large OEM customers and in the international project market.

■ Growth through acquisitions

The growth that ERIKS aims to achieve is partly dependent on acquisitions. In general, acquisitions involve greater uncertainty and risk than organic growth. ERIKS 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 ERIKS 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 ERIKS should share the same vision regarding the further development of the company and its role and position within ERIKS. With each acquisition, an integration team is convened; this team systematically takes care of commercial guidance, coordination and integration. In addition, ERIKS' internal reporting systems are immediately introduced in the acquired company and the first steps are taken towards implementing the Enterprise Risk Management framework.

Operational risks

The following significant operational risks have been identified:

■ Availability of professional managers

The present and future availability of professional managers is examined periodically at group, cluster and group company level. Special recruitment programmes have been developed to attract good commercial and technical staff in various areas in which the ERIKS group operates. The 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



Product development

Since 2002 'know-how makes the difference' has been the slogan under which ERIKS communicates its key message. As a know-how supplier, ERIKS has proven to many OEM customers that it can make a real contribution in the design phase.

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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, corporate guidelines have been formulated in the ERIKS group for the security of the currently used ICT systems and access to the networks.

■ **Product liability**

The risks of malfunctions in the supplied products and the ensuing claims for consequential loss are adequately covered by arrangements and agreements with the manufacturers and additionally through the group's own product liability insurance. However, this does not relieve ERIKS 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, the preventive measures and physical 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 the group companies are NEN ISO-9000 certified.

Financial risks

The financial risks can be divided into credit risks, liquidity risks, interest risks and foreign exchange risks.

With regard to *credit risks*, the credit policy provides for continuous monitoring of the positions of the financial institutions with which treasury transactions are entered into. 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 to which ERIKS products are sold and the broad spread of markets in which they are sold, there are no significant concentration of credit risks among the ERIKS group's trading customers as of 31 December 2008. As a result of the worsened economic situation, the group companies have tightened the measures for monitoring and facilitating the collection of claims on customers.

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, net debt/EBITDA and so on), ERIKS has managed to limit its liquidity risk.

In 2007, ERIKS concluded a syndicated credit facility worth EUR 250 million (without securities or guarantees) with five

banks. In order to finance the acquisition of Econosto and have resources available for further growth, the syndicated credit facility was increased by EUR 150 million to EUR 400 million in the year under review. The net debt position amounted to EUR 244 million at the end of 2008. The syndicated credit facility is due to run until June 2012. ERIKS now more than adequately meets the ratios agreed with the banks for net debt/EBITDA (<3) and interest coverage (>4). ERIKS also expects to be able to comply with these ratios over the coming years. With reference to the current economic crisis, however, ERIKS has taken measures in the fourth quarter of 2008 in order to keep the net debt position as low as possible.

Under normal economic circumstances, given the anticipated development of sales and results, cash flow is generated that enables ERIKS to finance some of its growth from its own funds.

ERIKS 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, ERIKS 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 continually assessed on their credit rating.



Process industry

ERIKS supplies a wide range of products to the process industry. We feel right at home wherever gases or liquids flow through pipelines or hoses. Whether it is the chemical or petrochemical industry, power stations, the food industry or the oil and gas industry, ERIKS always has a fitting solution in valves, seals, hoses and couplings.



Review of 2008

Highlights of 2008

See the chapter 'Key developments in 2008' starting on page 8.

■ Market developments

For a distributor of mechanical engineering components such as ERIKS, sales trends are dependent to a significant extent on the development of industrial output in the countries in which it operates.

The world economy experienced considerable growth from mid-2005 to mid-2008. From the end of 2007 (in the USA) and from mid-2008 (in all other market areas), industrial output declined. In the fourth quarter of 2008, the decline accelerated somewhat and many customers were forced to make considerable reductions in their output level at the end of 2008. The demand for products especially declined in the market segments involving the semicon, automotive and steel industries and industries supplying the building trade. The level of activity in the oil and gas, energy, food and maritime market segments remained high until the end of 2008. All in all, the economic outlook is not positive and nobody can predict how long the recession will last. Measures are now being taken throughout the world in the entire industrial column (manufacturers, distributors and customers) to adapt business operations to the lower level of output: production capacity is being cut back, factories are being closed, the workforce is being reduced and investments are postponed.

Due to the financial crisis, it is difficult to obtain additional credit facilities; businesses are doing their best to remain within the credit limits and comply with the financial ratios already agreed with the banks.

ERIKS, a vigorous and financially sound business, also took internal measures at the end of 2008 to match its business operations to the lower level of industrial activity. The policy and the strategy derived from it will continue to guide its actions in less favourable economic periods. Even though ERIKS is not immune, and will feel the impact of the economic crisis, the company is convinced that continued adherence to its policy can improve its market position.

The chapter entitled 'Mission, objectives, SWOT analysis and strategy' on pages 20 ff. of this report contains an extensive external analysis that provides detailed explanation of the scope of the market and trends among manufacturers, customers and competitors. It also reports on the threats and opportunities for ERIKS and how ERIKS can and must respond to these.

With the acquisitions made in recent years, ERIKS has built up a strong market position in Western and Central Europe. ERIKS is market leader in the Sealing technology, Power transmission and (thanks to the acquisition of Econosto) Flow technology core activities. The commercial concept is

based on the twin business model developed by ERIKS in the Netherlands and Belgium. This model is a proactive response to the market developments set out above and is also being implemented by phases in Germany, Central Europe and the United Kingdom.

In France, Spain and the Middle East, ERIKS will continue to focus in the next few years – via organic growth and acquisitions – on a more limited role of specialist in the Flow technology core activity. Strategic acquisitions in Scandinavia should not be ruled out.

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

Econosto and ERIKS have developed an extensive range under their own private labels for the Flow technology core activity. These products are marketed worldwide via the group's own sales outlets and agencies, primarily to the shipbuilding industry, heating, ventilation, airconditioning and processing industry.

■ 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 20):

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

The key objectives for 2008 described in the 2007 annual report have almost entirely been realised.

With the acquisition of Econosto, Wielens, Seals, Packings & Gaskets, Schmitztechnik and the two Polish companies, TIM and Hydro-met, ERIKS has reinforced its market position not only in Europe but also in the Middle East and South-east Asia. Econosto's activities, especially, give ERIKS a much more international image. The ERIKS trading name has been introduced with great success in the United Kingdom and Germany; as in the Netherlands and Belgium great advances have been made in the development of the twin business model.

In the 'Developments by cluster' chapter starting on page 60 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

The objective of ERIKS is to achieve organic growth of between 5 and 7 percent in times of normal economic growth. Although there was still some growth in Europe in the first six months of 2008, economic activity declined rapidly in the second half of the year. Over 2008 as a whole, ERIKS achieved organic growth of 4.7 percent and increased its market share in nearly every area of the market. Econosto's sales has been included in the consolidated figures as from 1 June 2008. Over these seven months, it realised total sales of EUR 173.3 million.

All the ERIKS clusters have undertaken initiatives to approach new market segments and have broadened, deepened and renovated their range of products and services. The range of the valves product group has expanded considerably due to the acquisition of Econosto. ERIKS now has much better access to the processing industry in the shipbuilding industry, oil and gas, petrochemical and construction market segments. In the second half year, large projects were won and delivered to big, international construction companies for the building of oil and gas installations, refineries and power stations.

In the year under review, the European Account Management was expanded and a number of important new orders were acquired. Coordinated by the International Product Managers, the private label element of the range was expanded for many product groups. These private label products are being introduced not only in all the European clusters but also in the Middle East and South-east Asia.

As in previous years, 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. Sales concepts are being developed for the various distinct markets in all clusters. It is vital for ERIKS to continue to respond proactively to the changing needs of its customers.

Expansion

As mentioned earlier in this report, the acquisitions made during the year under review earned ERIKS new sales worth approximately EUR 290 million on an annual basis. With the acquisition of Econosto nv (annual sales EUR 250 million), ERIKS has become the market leader in the Flow technology core activity. Furthermore, Econosto and ERIKS have together significantly strengthened their market positions in the European clusters. The new combination, with its extensive client portfolios, has excellent prospects for further growth. New markets are being entered in Spain, the Middle East and China and these will be further developed in the future. Via the acquisition of Wielens Beheer bv in the Netherlands (annual sales of EUR 22 million), the ERIKS Netherlands cluster has reinforced its market position in the Power transmission core activity.

With the acquisition of Schmitztechnik GmbH in Germany (annual sales EUR 5.5 million), the ERIKS Germany cluster has created a new leading edge for the industrial plastics and rubber forming. The twin business model, which is being developed for Germany, there are numerous possibilities for the growth of these activities.

The ERIKS Central Europe cluster has increased the number of its branches in Poland with the acquisition of TIM Sp.j.w. and Hydro-met s.c. (annual sales EUR 1.8 million).

For the ERIKS UK cluster, the acquisition of Seals Packings & Gaskets Ltd (annual sales GBP 7.0 million) is the final step towards a comprehensive range for the Flow technology core activity. Flexible Hose Supplies (acquired in 2007) and Econosto UK will be incorporated as Core Competence Centres for the flange gaskets, industrial hoses and valves product groups in the twin business model that is to be developed for ERIKS UK. The products and services will also be rolled out in a phased process to the 20,000 customers in the maintenance market in a number of stages.

Integration of acquired companies

A great deal of time and effort was expended during the year under review on the integration of the Wyko companies acquired in 2006 (ERIKS UK) and the companies acquired in 2007 and 2008. An integration plan was drawn up for each company and 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 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 also be geared to each other and, where possible, purchasing will be coordinated. The international product managers and the national product managers play a pioneering role in this.

For the integration of Econosto into ERIKS, development teams have been assembled for every country in which the group operates and for every product group of the Flow technology core activity.

In countries where both ERIKS and Econosto are active in Flow technology (the Netherlands and Belgium), the ranges, procurement sources and customers are being mutually coordinated. In order to jointly strengthen the market position the twin business model will be introduced in the Econosto branches in these countries and in the other ERIKS clusters (UK, Germany and Poland).

All acquired companies have made enormous progress in the year under review with the introduction of the Enterprise Risk Management framework.

Sale of activities

The ERIKS Netherlands cluster used to have a small facility for the manufacturing of hydraulic cylinders. This activity,



Project management

In the world of new construction projects, Siekmann-Econosto plays an important role in the design and commissioning of special valves. Furthermore, the utmost professional care is taken regarding complete valve project management. For example, in 2006 an order was received for supplying valves worth over EUR 40 million, for the construction of a new petrochemical complex near St Petersburg.

Photo: Testing a cryogenic gate valve.

which represented sales worth EUR 1.5 million, was sold in early 2008.

The acquisition of Wyko in 2006 included a manufacturing company, (Rencol), specialising in tolerance rings. Although this company was realising considerable growth (sales GBP 11.3 million) and made a greater than average-contribution to the result, it was decided to sell this non-core activity. As of 1 March 2008, Rencol is no longer part of the ERIKS group. A book profit of GBP 0.9 million was realised on the transaction.

In the course of the year under review, it was decided to alienate of the general distribution activities included in the ERIKS France cluster. The developments of Baudoux Industrie sas, with its five branches in northwest France, had already fallen short of expectations for some years. The company, with a annual sales of EUR 7.5 million, was acquired by a major French distributor on 1 January 2009 with a pre-tax book loss of EUR 1.9 million.

Relations with employees

Based on the policy established at group level, management courses and career development programmes have been developed and introduced in all clusters. These courses and programmes are included in the newly established ERIKS University, which also provides educational programmes for developing and maintaining the level of the six know-how domains.

As in previous years, 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 business operations

Accommodation

The accommodation of various companies has been modernised. To facilitate growth, construction activities have also commenced to expand the current accommodation at the ERIKS bv operations in Alkmaar, the Netherlands, and Baudoin nv in Mol, Belgium.

Infrastructure

Proper 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 larger 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.

The ERIKS Netherlands cluster has made great advances with the roll-out of the SAP business information system. The same applies to the roll-out of the ProAlpha business information system in the ERIKS Germany cluster.

The ERIKS Belgium cluster started a major project in 2008 to migrate the activities of the Baudoin group to the SAP business information system and to complete the organisational and commercial aspects of the partnership with ERIKS nv in Hoboken. The market is being approached under the trading name ERIKS+Baudoin.

In the ERIKS UK cluster, more emphasis is being placed on shaping the Administrative Logistics discipline. By means of in-depth analyses of the processes, proposals for improvement will be developed; these must in turn lead to improved productivity and profitability.

Improved productivity is also one of the cornerstones of policy within the Econosto companies. The Econosto companies in the Netherlands, Belgium, Germany and the UK use the same business information system. Measures are being taken to make this system more efficient. Solutions are also being sought for the exchange of data between the ERIKS and Econosto systems.

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 once again intensified many of our partnerships with customers and integrated our systems with our customers' and suppliers' ICT systems.

The organisation of the stores and the workshops will be assessed regularly. Partly due to the growth that was realised, it was necessary to modernise the storage methods and production facilities of various companies.

Productivity as measured by sales per employee has risen in all clusters.

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 that we will enter. IPMs also play a crucial role in developing and maintaining the level of know-how. In the past year, most IPMs were also involved in the realisation of the plans for integration of the acquired companies and contributed to the development of the private label product lines.

There is also cooperation on supporting activities, such as publicity, telematics, logistics and financing. Regarding publicity, the corporate identity of the ERIKS group was renewed in 2008.

Financial results

■ Results and profitability

In 2008 – a most unusual year for the economy – ERIKS achieved its highest results ever and realised all its financial objectives.

Although there was still some growth in industrial production in the first six months, industrial activity declined sharply in all countries where the group operates in the second half of the year and especially in the fourth quarter.

In the first half year, ERIKS still achieved growth of over 7 percent. In the third quarter, this figure was 3.7 percent and in the fourth quarter -/1.4 percent.

Sales increased in 2008 by 19.2 percent, 4.7 percent of which was achieved organically. The increase resulting from acquisitions amounts to EUR 206.9 million. Sales declined by EUR 13.5 million as a result of the sale of group companies, and by EUR 52.6 million as a result of lower exchange rates, particularly those of the British pound and the US dollar.

The EBITA, excluding exceptional gains and losses, was EUR 92.1 million or 8.2 percent of sales and has increased by EUR 15.8 million compared to 2007. The rapidly worsening market conditions in the fourth quarter and the lower and uncertain expectations for 2009 have led to extra provisions being made in the latest quarter for supplies and outstanding trade debts in particular.

Apart from Baudoux Industrie sas, which is part of the ERIKS France cluster, and the specialist technology companies of the ERIKS UK cluster, all clusters and companies achieved good results. The companies acquired in 2007 and 2008 contributed EUR 22.9 million to the EBITA. The EBITA before exceptional gains and losses fell by EUR 1.9 million due to the sale of a number of group companies.

The balance of EUR 0.8 million under exceptional gains and losses relates to the balance of the result achieved from the sale of Rencol Tolerance Rings (EUR 1.1 million profit) and Baudoux Industrie sas (EUR 1.9 million loss).

With organic growth of 4.7 percent, the average number of employees (excluding acquisitions and the sale of companies) rose by 4.2 percent. The number of employees fell slightly in the fourth quarter.

As a consequence of below-average return on the companies acquired in recent years, the return on the equity invested in the business operations, including intangible fixed assets of the entire ERIKS group, fell from 19.3 percent in 2007 to 18.2 percent in 2008.

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 2008 or 2007. The amortisation of intangible fixed assets obtained through acquisitions was EUR 6.6 million in 2008. This related almost entirely to the companies acquired in 2006, 2007 and 2008.

Analysis of the operating results (x EUR millions):

	2008		2007		Movement
		in % of sales		in % of sales	
Sales	1,131.5	100.0	949.1	100.0	+19.2%
EBITDA, excluding exceptional gains and losses	103.1	9.1	86.2	9.1	+19.6%
Depreciation, including software	(11.0)	(0.9)	(9.9)	(1.1)	
EBITA, excluding exceptional gains and losses	92.1	8.2	76.3	8.0	+20.7%
Exceptional gains and losses	(0.8)	(0.1)	-	-	
EBITA	91.3	8.1	76.3	8.0	+19.7%
Amortisation	(6.6)	(0.6)	(5.2)	(0.5)	
Operating result	84.7	7.5	71.1	7.5	+19.1%

The acquisitions in 2008 were financed from the available credit facilities. The resultant increased credit requirement led to higher interest costs.

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 10.4 million changes in the values of these contracts were therefore included in the shareholder's equity. Of the remaining contracts, the negative changes in value of EUR 0.7 million on balance are accounted in the financial expenses.

Due to non-recurring tax benefits, the tax burden decreased from 27.7 percent in 2007 to 26.6 percent in 2008.

■ 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 was EUR 57.5 million, which can be specified as follows:

- clients	42.8
- brand names	14.0
- distribution agreements	-
- other	0.7
	<u>57.5</u>

- *Tangible fixed assets and software*

Tangible fixed assets and software obtained from acquisitions of EUR 11.6 million related mainly to Econosto nv. Investments in tangible fixed assets and software amount to EUR 18.6 million.

The main investments relate to

- accommodation (EUR 7.6 million): one building has been expanded in the Netherlands and in Belgium, the Netherlands and the UK (including the move of Revolvo) stocks and the logistical organisation have been renewed.
- logistics (EUR 5.2 million): this relates to investment in machinery and equipment, plus the modernisation of transport systems and storage resources, mainly at ERIKS UK.
- ICT and software (EUR 5.5 million): mayor investment in the roll-out of the business information systems SAP and ProAlpha, the purchase of a product information system, plus the modernisation and expansion of hardware and software.
- vehicle fleet (EUR 0.3 million).

Depreciation and amortisation of software during 2008 totalled EUR 11 million. Depreciation will amount to about EUR 13.5 million in 2009.

- *Disposals*

The book value of the disposals was EUR 0.6 million.

■ Financial position

The cash flow from ordinary activities was EUR 70.3 million, 18.5 percent higher than in 2007. Parts of this were used to finance organic growth, particularly the working capital, and for an agreed reduction of pension provisions.

As the consolidated cash flow statement in the financial statements shows, the net cash flow from operational activities was EUR 60.9 million. This amount, together with the cash flow from financing activities of EUR 100.9 million, was used entirely to finance the acquisitions and tangible fixed assets.

In the year under review, the syndicated credit facility agreed with the banks in 2007 was increased from EUR 250 million to EUR 400 million. This agreement is due to expire medio 2012. The senior loan of EUR 70 million included in this facility has to be paid back by linear redemption in four years. In addition, ERIKS took out a mortgage in previous years to finance a number of buildings; the outstanding amount on this is currently EUR 18.3 million.

Net debt at the end of 2008 was EUR 244 million. Taking into account the exchange rate component the value of the cross currency swaps included in the balance sheet under financial derivatives, the economic net debt is EUR 213 million.

Based on the 2008 results, the net debt/EBITDA ratio at the end of the year was about 2.2. One of the conditions of the financing agreed with the banks is that this ratio remains below 3. Partly due to the measures already taken in the year under review to control working capital and investments in tangible fixed assets, ERIKS expects to remain in compliance with these financial conditions, even in unfavourable market circumstances.

Under normal economic circumstances, ERIKS aims for growth – in line with its objectives – of 10 to 15 percent, organically and by means of acquisitions. This will lead to an increase in invested capital. A significant part can be financed from cash flows generated by our business activities. Additionally, the following measures could be taken:

- adept the pay out ratio dividend and 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 %
	2008	2007	2008	2007		
ERIKS Belgium	170.2	151.0	15.0	15.9	12.7	6.7
ERIKS Germany	172.8	124.4	15.3	13.1	38.9	6.2
ERIKS Netherlands	324.1	237.1	28.6	25.0	36.7	1.5
ERIKS UK	342.4	370.6	30.3	39.1	(7.6)	5.5
Rest of Europe	28.9	22.2	2.6	2.3	30.2	(3.1)
ERIKS Europe	1,038.4	905.3	91.8	95.4	14.7	4.5
ERIKS USA	37.4	35.8	3.3	3.8	4.5	12.1
ERIKS Middle East	42.7	-	3.8	-	-	-
ERIKS South-east Asia	13.0	8.0	1.1	0.8	62.5	(0.6)
	1,131.5	949.1	100.0	100.0	19.2	4.7

Organic growth for the whole of 2008 was 4.7 percent (2007: 11.1 percent). Organic growth per quarter in the last three years:

	2008	2007	2006
1st quarter	7.0%	12.2%	11.6%
2nd quarter	7.4%	10.9%	7.8%
3rd quarter	3.7%	9.7%	9.2%
4th quarter	-1.4%	11.4%	13.5%

Order intake and invoicing remained strong in the first nine months. From October, demand for our products declined in nearly every region and product group due to the economic crisis.

There were 253 working days in 2008 (2007: 252 working days).

The level of sales was affected considerably by foreign exchange rate fluctuations (2008: EUR -/52.6 million). The following average exchange rates have been applied with respect to the most important foreign currencies:

	average exchange rates		movement in %
	2008	2007	
British pound	1.2558	1.4613	-14.1%
US dollar	0.6799	0.7297	-6.8%
U.A.E. dirham	0.1899	-	-
Singapore dollar	0.4864	0.4846	+0.4%

ERIKS Belgium

According to official statistics, industrial output in 2008 increased by 0.2 percent. The 6.7 percent organic growth in sales of the ERIKS Belgium cluster is therefore very satisfactory in every respect. Econosto Belgium's contribution to sales was EUR 9.1 million.

The commercial organisation of the twin business model has been completed in the ERIKS Belgium cluster. Cooperation between the business units (Core Competence Centres) at ERIKS nv, the Vemoflex group and ERIKS Motion Control and the Baudoin branches that operate in the general maintenance market is now running at full speed. ERIKS Belgium is able to fulfil its role as a specialist and as a general MRO supplier for all product groups. With Econosto Belgium, which will become the leading business unit for the valves product group in the twin business model, ERIKS Belgium now has a top-3 for all product groups.

All business units have devoted a great deal of attention to product management and have renewed and extended the range. Investments have also been made to expand the processing facilities.

ERIKS Germany

Industrial output in Germany increased by 0.6 percent in 2008. Of the increase in sales (almost 39 percent) of the ERIKS Germany cluster, EUR 41.6 million or over 33 percent was derived from the acquired companies, Siekmann-Econosto and Schmitztechnik GmbH. Organic growth was 6.2 percent.

With effect from 31 December 2007, the activities of ERIKS UK in Germany have been transferred to ERIKS Germany. The transferred business amounts to EUR 6.9 million in sales. The figures for 2007 have been adjusted accordingly.

At the start of 2008, all the companies in the group dropped their old family names and have since successfully used the ERIKS trading name. With the formation of Core Competence Centres for the Power transmission and Sealing technology core activities, important steps have been made in the implementation of the twin business model. The acquisition of Schmitztechnik GmbH and Siekmann-Econosto enabled the formation of Core Competence Centres for industrial plastics and rubber forming (Schmitztechnik) and valves and flange gaskets. Cooperation is developing between

these Core Competence Centres and the regional branches throughout Germany. Product management is now much better coordinated, making it easier to introduce extensions to and rationalisation of the range in the regional branches. Econosto Germany will continue its activities for international projects under the name of Siekmann-Econosto as an independent entity.

All Core Competence Centres and regional branches have invested in strengthening commercial effectiveness, Customer service is high quality and the results achieved are more than satisfactory.

ERIKS Netherlands

Industrial production in the Netherlands increased by 1.1 percent. ERIKS Netherlands' sales increased by 37 percent, of which 1.6 percent was organic growth. The strengthening of the market position can therefore be ascribed entirely to the new sales obtained via acquisitions. Wielens Beheer bv (from 1 February 2008) and Econosto Netherlands (from 1 June 2008) jointly contributed EUR 84.7 million to the increase in sales.



Assembly

Together with Econosto and Vemoflex, ERIKS supplies a wide range of valves, flange gaskets, and hoses to the process industry. Where necessary the valves are adapted in ERIKS' own workshop for every possible application.

ERIKS | PEOPLE, PRODUCTS AND APPLICATIONS

The twin business model has been fully implemented in the ERIKS Netherlands cluster. The market positions in the Power transmission and Flow technology core activities have been strengthened considerably by the acquisition of Wielens Beheer bv and Econosto Netherlands. Wielens Beheer bv, as a Core Competence Centre for elements of the Power transmission range, and Econosto, as a Core Competence Centre primarily for the valves product group, have been and are being incorporated into the twin business model. The acquisition of Wielens, ERIKS Netherlands has also strengthened its regional presence, particularly in the north of the Netherlands.

Econosto Netherlands generates part of its sales from exports, especially of products for the international shipping. In 2008, these included the final deliveries for a major project in Russia. The acquisition of Econosto Netherlands, ERIKS has improved its position in the process industry, especially in the oil and gas, petrochemicals, shipbuilding industry and construction market segments.

All the Core Competence Centres have expanded their workforce and are devoting much attention to the maintenance of the six know-how domains. The range was broadened and the processing activities were expanded and modernised. Manufacturing activity (hydraulic cylinders) in the Power transmission core activity were disposed of.

The ERIKS Netherlands cluster now has 23 regional Service Centres. Staffing of these was expanded during the year under review and order intake through these branches showed an above-average increase.

The establishments in Alkmaar (ERIKS bv) en Rotterdam (Van Eyle & Ruygers-Schwartz bv) have been merged in organisational, commercial and legal terms, and now approach the OEM and maintenance market under the name ERIKS bv.

In the year under review, Flexion bv in Roermond and Elmeq bv in Schoonhoven – both active in different product groups of the Power transmission core activity – were also fully merged and now approach the market under the name ERIKS Aandrijftechniek bv.

Noton bv (the ERIKS project agency) and the Econosto Netherlands project agency have performed well. Both companies benefited from the boom in the oil and gas industry and the construction market.

ERIKS UK

UK's activities can be categorised as follows:

sales in EUR millions		
	2008	2007
- ERIKS Industrial Distribution, including the Technical Centres (Core Competence Centres) set up and acquired in 2007 and 2008	167.1	167.9
- ERIKS Electro-Mechanical Services	47.5	50.2
- ERIKS Integrated Solutions	99.8	111.9
- ERIKS International	10.5	9.0
- Specialist Technology	17.5	31.6
	342.4	370.6

Sales declined by EUR 28.2 million, or 7.6 percent. The fall in sales due to the lower exchange rate of the British pound amounted to EUR 50.6 million. Organic growth was EUR 20.6 million (5.5 percent) and the on balance increase in sales resulting from the acquisitions and disposals in 2007 and 2008 was EUR 1.8 million. Industrial production in Great Britain fell by 1.7 percent in 2008.

In the year under review, significant advances were made in the development of the twin business model. The acquisition of Econosto UK and Seals, Packings & Gaskets Ltd in 2008 and Flexible Hose Supplies in 2007 added Core Competence Centres for all product groups of the Flow technology core activity. Product management was also extended for the product groups originating from Wyko, and Core Competence Centres have been formed for the seals product group and various product groups of the Power transmission core activity. This, together with the expansion of the processing facility, led to a considerable expansion and renewal of the range. The Core Competence Centres approach the OEM market with their own application engineers and transmit their know-how to the local branches. The local branches now offer a much wider range to the thousands of customers in the MRO market.

In organisational and commercial terms, the three big divisions (ERIKS Industrial Distribution, ERIKS Electro-Mechanical Services and ERIKS Integrated Solutions) now cooperate much more. This helps to reinforce the relationship with many customers and has led to increased sales.

The figures for ERIKS International include the sales of its own branches in Slovakia, the Czech Republic and Nigeria, plus the export of the Fenner and Pioneer Weston products developed under their own private label.

The activities of a number of specialised production companies are accounted for under the specialist technology division:

- Revolvo (sales EUR 4.8 million): development and production of a range of special bearings.
- Wyko Tire Technology (sales EUR 9.3 million): development and production of tools for car tyre manufacturers.
- Rencol Tolerance Rings until 1 March 2008 (sales EUR 3.5 million).

Rest of Europe

This cluster includes:

	sales in EUR millions	
	2008	2007
- ERIKS Central Europe	7.0	5.8
- ERIKS France	16.2	16.4
- ERIKS Spain (from 1 June 2008)	5.7	-

Sales by ERIKS Central Europe are still modest. With a range in the fields of sealing technology and mechanical power transmission, Passerotti Sp.z.o.o. successfully operates in the Polish OEM and MRO markets. Exports of products to neighbouring countries fell. Expansion of the number of application engineers and the number of branches (by means of the acquisition of TIM Sp.j.w. en Hydro-met s.c, among other things) has strengthened the selling strength of Passerotti, and the industrial end-users are being approached more than they were in the past.

Sales of valves by Mowta Sp.z.o.o. fell short of anticipated levels as too few projects were acquired. As from the end of 2008, Mowta forms part of the Siekmann-Econosto project division (ERIKS Germany cluster). This is intended to result in an extension of the total range available.

The figures for ERIKS France include the sales of ERIKS sas and Baudoux Industrie sas. As a specialised distributor of valves and sealing technology, ERIKS sas caters for defined industrial market segments throughout France. Due in part to the strengthening of the sales organisation and product management, organic growth of 18.6 percent was achieved in 2008. Sales in 2008 amounted to EUR 8.7 million.

The development of sales at Baudoux Industrie has fallen short of expectations for some years now (sales 2008: EUR 7.5 million). These activities were disposed of at the end of 2008.

The acquisition of Econosto, also gained ERIKS a presence in Spain. With five branches, Econosto is a specialised distribu-

tor of valves and flange gaskets in Spain, supplying (among others) the shipbuilding and petrochemical industries.

ERIKS USA

Sales from the ERIKS USA cluster increased by 12.1 percent to US dollar 55 million.

ERIKS USA approaches customers with a product range of high-quality seals, industrial plastics and ball bearings and with know-how concerning products, applications, processing and logistic concepts. In the year under review, there was further investment in product management and the product range was expanded. In addition to expanding the customer portfolio, a number of companies in this cluster benefited from the boom in the oil and gas industry.

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

ERIKS Middle East

The acquisition of Econosto, gained ERIKS a strong market position in the Middle East. From the Head Office in Dubai and sales outlets in all the neighbouring countries, it approaches customers in the oil and gas industry and in the chemical, petrochemical, ventilation and airconditioning markets. In the Middle East, Econosto has a virtually comprehensive range of valves developed under its own ECON private label. The company also supplies a full range of metal piping. Product management is organised in Dubai and it is from there that the many regional sales representatives are supported. Thanks mainly to its professional approach, the company has been able to derive optimum benefit from the increased demand in this region.

ERIKS South-east Asia

The acquisition of Econosto, with its activities in Singapore, Malaysia and China (Shanghai) has reinforced the position of ERIKS in this region, although it remains still fragile. The product ranges of ERIKS and Econosto complement each other well.

As in previous years, a great deal of time and attention has been devoted to improving employee know-how of products and applications. It is only by this means that the industrial end-users can be approached much more directly than in the past. The negative organic growth of -/-.0.6 percent was entirely due to lower sales to distributors.

Via Econosto, the group's own branch for sourcing in China was successfully opened. This branch mainly approaches customers in the shipbuilding industry.

■ By core activity

	in EUR millions		as % of total		movement in %	organic growth in %
	2008	2007	2008	2007		
Sealing technology						
Rubber technology	25.8	20.2	2.3	2.1	27.9	6.4
O-rings	49.2	49.5	4.3	5.2	(0.7)	1.0
Dynamic sealing elements	50.4	49.4	4.5	5.2	2.1	4.9
	125.4	119.1	11.1	12.5	5.3	3.5
Power transmission						
Hydraulic hoses and accessories	81.9	78.6	7.2	8.3	4.3	5.7
Hydraulic components and systems	45.5	46.6	4.0	4.9	(2.3)	3.8
Mechanical and electrical power transmission	68.4	70.2	6.1	7.4	(2.6)	(3.1)
Reduction gearboxes, pumps and motors	25.7	25.3	2.3	2.7	1.5	1.7
Bearings	91.8	81.3	8.1	8.6	12.9	10.4
Pneumatics	36.7	37.2	3.2	3.9	(1.3)	0.2
Electromechanical services and condition monitoring	62.5	66.0	5.5	7.0	(5.4)	10.1
	412.5	405.2	36.4	42.8	1.8	4.8
Flow technology						
Valves and instrumentation	189.1	55.5	16.7	5.8	240.9	4.8
Plastic and metal piping	39.4	13.4	3.5	1.4	193.8	9.0
Industrial hoses and accessories	68.5	63.7	6.1	6.7	7.5	1.0
Flange gaskets	37.8	29.1	3.3	3.1	29.9	6.8
	334.8	161.7	29.6	17.0	107.1	4.1
Industrial plastics						
	37.9	34.1	3.4	3.6	11.2	9.0
Tools and maintenance products						
	207.9	202.2	18.4	21.3	2.8	4.7
Tolerance rings and Tire technology						
	13.0	26.8	1.1	2.8	(51.6)	10.2
	1,131.5	949.1	100.0	100.0	19.2	4.7

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 principle, ERIKS seeks to establish long-term partnerships with reputable and innovative suppliers. Where necessary and possible, products are developed and sourced worldwide under our own brand name (private label).

All 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 the necessity to expand the range of products.

In each product group, the application engineers are indirect contact with the machine and equipment manufacture (OEM) customers and the maintenance customers with specific requirements. Their direct contacts with 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.

The ability to offer a wide range of products enables ERIKS to optimally meet its customers' desire to reduce the numbers of suppliers they deal with. In addition to this, ERIKS is able to reduce costs in the supply chain using logistical concepts that it has developed.

With the acquisition of Econosto, the percentage spread of sales by core activity has changed significantly (Econosto is primarily active in the Flow technology core activity).

ERIKS is now the market leader in Western Europe in the Sealing technology, Power transmission and Flow technology core activities.

The product groups rubber technology, O-rings and dynamic sealing elements have been linked to ERIKS from way back. A large proportion of the sales in these product groups are realised with OEM customers. Core Competence Centres for these product groups have been set up the ERIKS Netherlands, ERIKS Belgium, ERIKS Germany, ERIKS UK and ERIKS USA clusters.

There is cooperation with top manufacturers and new market segments are being approached for the dynamic sealing elements and O-rings product groups. Nevertheless, the commercial necessity of developing products under private label is becoming increasingly clear (including in the year under review). This means that ERIKS must have its own development and testing facilities. Initiatives in this direction have been taken by the ERIKS USA and ERIKS UK clusters.

All clusters still frequently offer the various product groups of the Power transmission core activity to the market in isolation. In the Netherlands and Belgium, various units

that were independent until last year have been brought under the auspices of one commercial organisation (ERIKS Aandrijftechniek bv and ERIKS Motion Control). The OEM customers are now being approached with a wider range of products and the maintenance market is served by the Service Centres.

Partly due to market pressure, the hydraulic hoses and accessories product group has developed a complete private label range under the coordination of the International Product Manager. The processing facilities in the ERIKS Netherlands, ERIKS Belgium and ERIKS Germany clusters have been expanded and modernised. Most of the sales were achieved in the OEM market.

In the hydraulic components and systems product group, it has been decided that ERIKS is to partly suspend its design and production activities of large hydraulic units. As from the start of 2008, in-house development and pro-



Custom-made production of seals

From the very beginning flange gaskets have been a part of ERIKS' core product range. In Alkmaar, Rotterdam-Botlek, the UK and the USA, ERIKS has modern production units where specials can be produced quickly and 24x7. Econosto has a similar unit in Capelle aan den IJssel. Worldwide, the ERIKS group has over 1500 employees working on production and processing.

ERIKS Aandrijftechniek is known for the engineering and the assembly of high-quality hydraulic systems, hydraulic sub-assemblies and a wide package of electromechanical power transmission systems. Econosto Netherlands has a modern workshop for the assembly and testing of valves, actuators and safety valves. ERIKS Alkmaar and Vemoflex (Belgium) have a modern welding shop for stainless steel hoses and compensators.

duction of hydraulic cylinders will be outsourced where possible.

In addition to representation of a number of important manufacturers, the Fenner products developed under their own private label are important to the future growth of the mechanical and electrical power transmission and reduction gearboxes, pumps and motors product groups. These products are made available to the other ERIKS clusters by ERIKS UK.

In Europe, the bearings product group sells almost exclusively to the maintenance market. Although still small in scope, ERIKS USA is also approaching the OEM market. In Revolve, ERIKS has its own production company for special bearings that are sold throughout the world under its own SRB brand name.

Most of the sales in the pneumatics product group are realised in the ERIKS UK and ERIKS Germany clusters. From the product management perspective, the group's own product lines have been developed for parts of the product range under the coordination of the International Product Manager. ERIKS UK is also active in the repair and monitoring of electromechanical components and installations. The range of services has been expanded and focuses increasingly on carrying out preventive maintenance. This allows customers to make considerable savings. In the year under review, a number of new markets were successfully entered.

As stated in this report, ERIKS has considerably strengthened its position in the Flow technology core activity through the acquisition of Econosto. In all European clusters, ERIKS now has a broad range at its disposal and is able to expand its service provision to all segments of the process industry. Sales in the Flow technology core activity are now over EUR 400 million annually, making it almost as important as the Power transmission core activity.

The range of the valves and instrumentation product group has been expanded by the acquisition of Econosto and allowed ERIKS to serve every market segment in the process industry. With the private label ECON, ERIKS has a full product range for the shipbuilding industry and the general industry, and for the most important market segments in the Middle East. Cooperation within the ERIKS group as a whole must lead to an expansion in market share in the coming years.

In the Netherlands and Belgium, ERIKS has successfully launched some new products in the piping system product group.

ERIKS Middle East achieves a significant part of its sales in the metal piping product group.

The ERIKS Netherlands and ERIKS Belgium clusters have high-quality product and application know-how of the industrial hoses and accessories product group at their disposal. New applications are developed every year in partnership with customers. Having good processing facilities is important if the company is to be able to deliver the finished products required by the customer. A product range for couplings and metal and rubber compensators has been and is being developed under a private label. The acquisition of Flexible Hose Supplies in 2007, ERIKS UK has made a start with this product group and ERIKS Germany also took initiatives in the year under review to expand the activities of this product group.

Processing facilities are vital for the flange gaskets product group. These are essential for rapid response to the pressing requirements of the process industry. ERIKS has always had good market positions in the Netherlands and Belgium. With the acquisition of Seals, Packings & Gaskets Ltd and Econosto nv, market positions in the UK, Germany and Singapore have also been gained.

Products based on industrial plastics are being used with increasing frequency in high-quality industrial applications. Our specialists' knowledge of the demanding applications of these products and the processing facilities we have at our disposal are resulting in healthy growth in sales, in particular to OEM customers in the Netherlands and Belgium.

The larger European clusters are cooperating intensively to define and develop the range of tools and maintenance products. Concepts such as private label, scale and buying power are important factors in product management.

Various products that are not customary in ERIKS' branch are also being purchased for and delivered to customers via the activities of ERIKS UK cluster's Integrated Solutions. The sale of these products has also been accounted for under the Tools and maintenance products core activity.

■ By market segment

ERIKS' customers can be found in all market segments of industry. Certain defined segments are approached more structurally. However, our suppliers expect the entire industry to have access to our range from the maintenance market. Because of this, ERIKS is less dependent on the activity in any one of the market segments.

The acquisition of Econosto has caused a shift in the percentage spread of sales over the different segments.

In %	2008	2007
Machine construction	17	19
Chemicals	12	8
Construction industry	6	4
Transport industry	4	4
Maritime	3	-
Agriculture and fisheries, food, drinks and tobacco	7	8
Rubber and metal	9	10
Other industry	33	38
Retailers and distributors	9	9
	100	100

■ By type of customer/purchasing profile

	in EUR millions		as % of total		movement in %	organic growth in %
	2008	2007	2008	2007		
Maintenance (direct)	647.5	605.8	57.2	63.8	6.9	4.2
OEM	278.7	238.7	24.6	25.2	16.8	9.9
Contractors and projects	134.5	37.9	11.9	4.0	254.8	0.3
Distributors and exports	70.8	66.7	6.3	7.0	6.1	(5.6)
	1,131.5	949.1	100.0	100.0	19.2	4.7

The spread of customers by purchasing profile has changed significantly following the acquisition of Econosto, especially, which achieves about 50 percent of its sales in the project 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 articles in a large number of different product groups and the placing of smaller orders. These customers expect ERIKS to be able to adapt products to applications (processing), offer maintenance services and repair facilities and to provide an extensive array of technical and logistics services. All our customers appreciate the fact that as distributors we have the right product and application know-how at our disposal which we can use to support and advise them on optimising their production processes.

ERIKS specialists are able to advise customers pro-actively on the pros and cons of the various products. Benefits

include 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 of this and by simplifying the ordering processes and lowering the transaction costs, ERIKS 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. The organic growth attained in recent years shows that this method is bearing fruit. As stated previously in this report, order intake and invoicing remained at a high level in the first nine months of the year under review. As a result of the economic crisis, the demand from maintenance customers – particularly in the steel industry and among companies supplying the construction, automotive and semiconductor industries – declined rapidly from October. Taking everything into account, we are satisfied with the organic growth of 4.2 percent achieved in 2008 (2007: 12.6 percent).

Organic growth in the OEM market also declined in the course of the year. Here, too, many customers had to cut back their production levels in the second half of the year. Mainly due to the favourable conditions in the first nine months of the year, an organic growth of 9.9 percent was still achieved in 2008 (2007: 10.8 percent). In all regions, the targeted approach to the OEM market via the Core Competence Centres resulted in a strengthening of the market position. In the ERIKS UK, ERIKS Germany and ERIKS South-east Asia clusters, product management was centralised for various product groups in the year under review. The clusters invested in new employees with a great deal of knowledge of products and applications, and they expanded the processing facilities organically or by means of acquisitions.

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 make it possible to control working capital and to provide detailed ERIKS documentation. Moreover, ERIKS contributes to Research & Development and fulfils a role in the quality assurance.

The share of sales from projects increased with the acquisition of Econosto. Almost 50 percent of Econosto's sales is derived from projects. In the project market, it is important to have specialists who, in addition to knowledge of the products (especially valves and instrumentation), have a lot of knowledge and experience of the worldwide sourcing opportunities. At Econosto, this knowledge is mainly available in its companies in the Netherlands, Germany and the Middle East. In addition to sourcing, the organisation must be able to provide, by means of professional project management, the coordination of quality control, documentation and timely delivery. The projects are realised throughout the world, mainly in the new construction or overhauling of oil and gas installations, petrochemical installations, power stations, shipbuilding and major construction works.

Operations

■ Administrative Logistics

The high level of industrial activity in the first nine months of 2008, together with the targeted offering of procurement concepts and the higher order values at Econosto, resulted in an increase in the average order amount to EUR 488. This means that ERIKS has to handle between 2.5 and 3 million consignments to almost 100,000 different customers for annual sales of EUR 1.2 billion.

Our range now comprises over 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 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 specialist ICT support.

In the ERIKS Netherland and ERIKS Belgium clusters, the roll-out of the SAP business information system used in these countries played a dominant role. After intensive preparation, the system was implemented in the Netherlands in 2008 at Van Eyle & Ruygers-Schwartz bv (now part of ERIKS bv), a company oriented towards the maintenance market. The SAP business information system is now also fully operational in the various departments of ERIKS Aandrijftechniek bv.

In the ERIKS Belgium cluster, the project to extend the SAP business information system to the Baudoin group, as an important part of the twin business model, was begun. In the year under review, the staff of the Administrative Logistics department worked together with the company's own SAP analysts to list the specific functional wishes. This involves an expansion of the system and the project is scheduled for completion in mid-2009. In the coming years, the SAP business information system will be rolled out to all the other companies of the ERIKS Belgium cluster.

As far as the Econosto companies are concerned, it is assumed they will continue to use the current information systems for the next few years. At its Dutch centre at Capelle aan den IJssel, Econosto has a team of employees that is responsible for the development of the system implemented in the Netherlands, Belgium, Germany and the UK.

In addition to optimising existing business processes, ERIKS Germany has successfully implemented its ProAlpha business information system at the Stuttgart and Saarbrücken branches. Preparations have been made to roll out this system to the companies acquired in 2008.

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 various company departments. An important point in this respect is to increase efficiency and thereby productivity and profitability.

It is important to business operations to have the product and application know-how that is available in the ERIKS group and to be able to share it with each other. The availability of this know-how is also crucial to our communications with customers. Significant investment has been made in a product information system that is to be implemented at all the ERIKS companies in the coming years. A start has also been made on the modernisation of the TradCom e-portal.

■ 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 in line with 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. After the roll-out of this system to all important components of the ERIKS Netherlands and ERIKS Belgium clusters, ERIKS will have a template to support the entire twin business model. The ProAlpha business information system, which is already in use, forms the basis for the ERIKS Germany and ERIKS Central Europe clusters. As previously stated, the Econosto branches will continue to use their current systems for the time being. However, links will be created at group level between the various systems; among other things by utilising software for the coordination of product information.

ERIKS still sees the organisation, adaptation and optimisation of processes as an activity that will enable 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.

For the ERIKS UK cluster, it was decided that the currently used systems must be replaced. A project team has been assembled to investigate how to approach a change of this scale and which business information systems are eligible. Final decisions on this will be made at the end of 2009. All our companies' contingency plans are tested periodically to ensure continuity of data processing. The criteria for the

office automation, the networks and protection of data are defined at group level.

■ Quality systems

From the perspective of risk management, ERIKS attaches great value to maintaining a quality system. An ISO-9001 based system has been implemented in almost all group companies. This standard calls for attention towards line management's responsibility for controlling processes by monitoring performance indicators and customer satisfaction.

■ Technical services (processing and production)

Offering added value by processing products is an indispensable factor in the marketing mix of ERIKS. All group companies possess machines, tools and skilled employees to meet this demand from our customers. Within the ERIKS group, over 1,500 employees are active in engineering and customising products and in performing maintenance services. Processing facilities have been expanded and modernised in almost all the clusters in the year under review.

The acquisition of Econosto has expanded the facilities for converting, testing and certifying valves, together with the associated instrumentation, for all the European clusters. With the acquisition of Seals, Packings & Gaskets Ltd, ERIKS UK now has a modern facility for developing and producing flange gaskets.

■ 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 (Core Competence Centres). Local branches also offer the full range of products to the market. We have examined to what extent developing one central logistics centre for each cluster would benefit our operations compared with the existing, more decentralised structure. In view of the flexibility we need, and the tight interwovenness 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 still takes place through the local branches and the on-sites on customers' premises. In the year under review Revolve, the production company for special bearings, moved to new, modern premises. The introduction of the new corporate identity and the introduction of the ERIKS trading name, have led to many of the buildings of branches of the ERIKS UK cluster have been given a facelift.

In particular with a view to supporting growth, the decision was made at the beginning of 2008 to expand the premises at the branches in Alkmaar in the Netherlands and Mol in

Belgium. Work on this will be completed at the beginning of 2009.

At the end of 2008, Siekmann-Econosto in Germany started on the expansion of its premises in Zwenkau.

■ Personnel

The ERIKS group has a decentralised organisational structure. As far as possible the responsibilities are delegated to the various sales groups working from a Core Competence Centre 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 Core Competence Centres and local branches is optimal at all levels. In order 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, ERIKS wants to be a know-how-driven company on all levels.

ERIKS also aims to be an attractive employer. During the year under review, as stated in the chapter 'Corporate Social Responsibility', the Human Resources policy has been reformulated. This policy is built on the following four pillars:

- Personal development
- Career flexibility
- Coaching and communication
- Reward.

The pillar of personal development is primarily shaped by the establishment of the ERIKS University which offers technical training programmes (including the six know-how domains) and personal development programmes.

Year after year ERIKS proves that it is capable of adapting to the changes in the marketplace. ERIKS is able to show good performance thanks to our employees' positive attitude 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

The number of employees increased as a result of the completed acquisitions (see also the chapter 'Major expansion of the ERIKS group in 2008' on page 12 ff) by 909. The disposal of Rencol Tolerance Rings and Baudoux Industrie sas has led to a reduction of 174 employees.

In particular at the start of the year under review, new employees were taken on to support the organic growth and to strengthen various units. From October 2008 a recruitment freeze has been in force for almost all companies. At some companies the number of employees has shrunk in recent months. From the fourth quarter a start was also made on reducing the number of temporary external staff.

Number of employees

The table below shows the workforce in FTEs at year-ends 2008 and 2007, broken down by cluster.

	2008	2007	Movement total	Movement resulting from acquisitions and disposals
ERIKS group nv	22	19	3	-
ERIKS Belgium	739	668	71	36
ERIKS Germany	581	464	117	99
ERIKS Netherlands	1,321	944	377	379
ERIKS UK	2,206	2,242	(36)	(35)
Rest of Europe	186	125	61	12
ERIKS Europe	5,055	4,462	593	491
ERIKS USA	131	128	3	-
ERIKS Middle East	182	-	182	182
ERIKS South-east Asia	111	65	46	50
	5,479	4,655	824	723

■ 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 size of 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 a few countries and regions. Our objective is to base these plans on collective defined contribution plans. The employer's annual contribution is fixed under such schemes.

Average local salary costs in local currencies increased by an average of 2 to 3 percent in all clusters.

The intended mergers of companies within the ERIKS Belgium cluster has led to the development of standard employment conditions during the year under review.

■ Management Development

ERIKS has a clear strategy for growth. Key success factors for fulfilling our strategy are the availability and quality of management. Within ERIKS 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.

The clusters ERIKS Netherlands, ERIKS Belgium, ERIKS Germany and ERIKS UK are currently running Management Development programmes for which thirty employees are selected for participation each year. Besides the theoretical part of the programme, 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

ERIKS are able to respond alertly and independently to questions from customers and to developments in the market.

■ Employee participation

Once again there was productive and constructive consultation 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 2009

The current economic crisis has led to a reduction in industrial production since the summer of 2008. As from the fourth quarter 2008 to date the level of industrial activity in many market segments has fallen sharply. This has also led to reduced demand for ERIKS products and services. It is impossible to predict the extent to which the production by ERIKS' customers will decrease further.

ERIKS is a vigorous and financially healthy company. Besides the growth realised by acquisitions over the last three years, a great deal has been invested in the employees and infrastructure of the existing companies. ERIKS' strategy and policy have proved to be clear and successful and this policy will be continued in the coming years.

However it is clear that in the short term ERIKS will have to adapt its business operations to the reduced industrial activity. Without wanting to compromise on intrinsic strength, staffing levels will be adapted to this reduced level of activity where necessary. Just as in previous years, in 2009 ERIKS

will be able to strengthen its market position and so increase its market share.

To safeguard the financial position and fulfil the covenant agreed with the banks, since the final quarter of 2008 ERIKS has been paying a lot of attention to managing the working capital, and restricting investments in property, plant and equipment, as well as in new companies.

The executive board is convinced that ERIKS' strong and well-organised companies and unique commercial concept (twin business model) will enable it to survive this economic crisis well.

Parallel to this, ERIKS will be continuing its policy of recent years into 2009. The twin business model forms the basis for the further development of ERIKS.

The acquisition of Econosto, as well as the other companies acquired in 2008, means that ERIKS has strengthened this model in the four major European clusters (the Netherlands, Belgium, Germany and Great Britain). A primary factor for this,



Cost reductions

As European market leader in the field of MRO power transmission, ERIKS has a strong focus on the steel industry. In recent years much experience has been gained in Poland, the UK, Belgium, the Netherlands and Germany regarding offering products and concepts that lead to substantial cost reductions in business operations. Here Total Cost of Ownership, productivity, lower energy costs and improved safety in the workplace are central. ERIKS offers more functionality and more safety for less money.

and this applies to 2009 as well, is that the integration of the Econosto companies within these clusters should run successfully and that the ERIKS/Econosto combination should lead to added sales and results. The range of products and services will be expanded from the already existing activities in the clusters ERIKS Central Europe, ERIKS Spain, ERIKS France, ERIKS Middle East, ERIKS South-east Asia and ERIKS USA, and where necessary the regional presence will be strengthened. To complement this, the Econosto activities from its Core Competence Centres in Capelle aan den IJssel (the Netherlands), Dortmund (Germany) and Dubai (United Arab Emirates) will be expanded internationally.

ERIKS' role as a provider of industrial services will be emphatically underlined. Doing business with ERIKS must have a positive effect on its 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 more safety in and around systems.

Our key objectives for the ERIKS group as a whole for 2009 will be:

- Adjusting the organisations to the reduced industrial activity.
- Continuing to comply with the bankers' covenant for the duration of the economic crisis. This requires good management of the working capital and a cautious investment policy.
- Realising growth of the market share in all regions by:
 - expanding the twin business model;
 - the efforts of the International Product Managers and strengthening product management in the clusters;
 - offering savings to customers;
 - developing a clear product range and expanding the private label products;
 - expanding a pan-European position at multinational OEM and MRO customers.
- Successful integration of the companies acquired in 2008. This will lead to:
 - strengthening the market position in the process industry in the four major clusters in the Netherlands, Belgium, Germany and Great Britain;
 - achieving additional sales by offering a wider product range to existing customers in the process industry;
 - expanding the product range of the clusters ERIKS Middle East, ERIKS Central Europe, ERIKS Spain and ERIKS France;
 - increasing our international presence.

- Improving infrastructure and thereby raising productivity by:
 - the rolling out of the SAP business information system to all the companies in the ERIKS Netherlands and ERIKS Belgium clusters (the Econosto companies will continue to use their own system for the time being);
 - improving the business processes within the ERIKS UK cluster;
 - implementing the new Product Information Management system (PIM).
- Good communications with our employees and the development and maintenance of training, career development and Management Development programmes.

Business prospects

Considering the above, it is not possible to predict the sales and result for the full year 2009 at this point. The acquisitions realised during 2008, particularly Econosto nv (on 1 June) and Seals, Packings and Gaskets Ltd (on 1 August) will increase sales in 2009. However, the lower industrial activity and the current lower exchange rates of the British pound in particular also have to be taken into account. However, as a supplier to industry that is driven by a passion for technology, know-how and added value, ERIKS will be able to expand its market position.

Given the current economic circumstances, total investments in fixed assets will be limited in 2009. The depreciation on the tangible fixed assets is expected to increase from EUR 11 million in 2008 to EUR 13.5 million in 2009. As a result of the capitalisation of the intangible fixed assets obtained from acquisitions, for the year 2009 an amortisation burden of more than EUR 7 million has been provided for.

Alkmaar, 26 February 2009

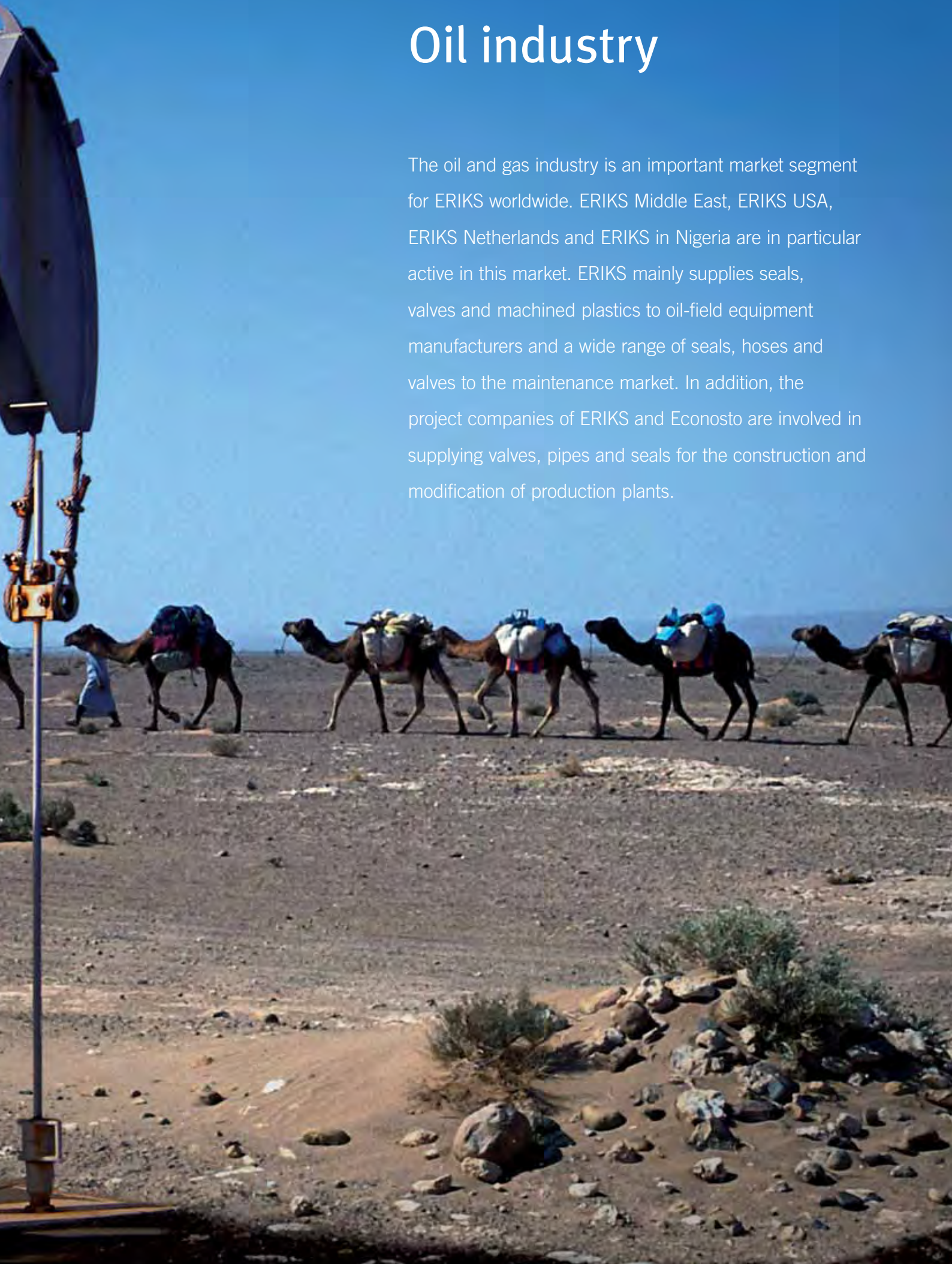
Executive board

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



Oil industry

The oil and gas industry is an important market segment for ERIKS worldwide. ERIKS Middle East, ERIKS USA, ERIKS Netherlands and ERIKS in Nigeria are in particular active in this market. ERIKS mainly supplies seals, valves and machined plastics to oil-field equipment manufacturers and a wide range of seals, hoses and valves to the maintenance market. In addition, the project companies of ERIKS and Econosto are involved in supplying valves, pipes and seals for the construction and modification of production plants.



Developments by cluster

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

ERIKS Belgium

	2008	2007
Sales	170,237	151,031
Operating result (EBITA)	15,420	15,190
Average number of employees	712	655
Movement in industrial output (excluding construction)	+0.2%	+3.4%

Achievements in 2008

■ Organisational

- Acquisition of Econosto Belgium and strengthening of the market position in the process industry and expansion of the assortment valves and instrumentation.
- The twin business model was further refined.
 - Recruitment and training of anchor points for the ERIKS product portfolio in all Service Centres.
 - Development of the custom-built SAP business information system and preparation for its roll-out to Baudoin and ERIKS nv in 2009.
 - One IT support organisation was formed in preparation of the project for the office automation upgrade.
 - One commercial organisation was formed for IECO nv and Vermeulen nv under the name EMC (ERIKS Motion Control).
- Harmonisation of the secondary employment conditions for all employees in the cluster.

■ Commercial

- Total growth in sales of 12.7 percent of which 6.7 percent organically.
- Growth of market share in almost all product groups.
- Development of the commercial organisation and the production facilities for metal and rubber bellows (private label BM Europe).
- Expansion of the private label range.
- Expansion and modernisation of the production facilities (industrial and hydraulic hoses, industrial plastics, mechanical seals).
- Improvement of the infrastructure at Vemoflex France Nord, ERIKS nv and IECO nv, expansion of the production capacity at Vemoflex and relocation of Hydromeka to a new building.
- Technical documentation updated and expanded (graphically illustrated quotations, websites).

■ Operational

- Logistics processes improved in all operations.
- Quality assurance systems improved in all operations.
- Optimisation of transaction costs through electronic couplings with suppliers' and customers' own business information systems.



ERIKS+BAUDOIN

From 2009, ERIKS nv in Hoboken and Baudoin in Mol will continue under the name ERIKS+Baudoin. The combination forms a strong enterprise with more than 450 employees, with knowledge centres in Mol and Hoboken, and nine branches in Belgium, Luxembourg and the north of France. Together with Vemoflex (industrial and hydraulic hoses), Econosto and ERIKS Motion control, the ERIKS twin business model is realised in Belgium.

ERIKS | PEOPLE, PRODUCTS AND APPLICATIONS

Objectives for 2009 and beyond

Organisational

- Implementation of the twin business model.

Strategy

- Build on a clear, cluster-wide sales concept (one single ERIKS Belgium).
- Develop a matrix organisation (optimum cooperation between Core Competence Centres and Service Centres).
- One single management team to manage the ERIKS Belgium cluster.
- Merge between ERIKS nv and the Baudoin group (ERIKS+ Baudoin) and IECO nv and Vermeulen nv (EMC).
- Cooperation between the valves and instrumentation activities of Econosto and ERIKS nv and form one Core Competence Centre.

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.
- Strengthen the position in the Power transmission core activity and explore opportunities for mechatronics.
- Improve market, product, application and logistics know-how.
- Develop the metal and rubber bellows product group.
- Expand processing facilities and logistics services for the OEM and MRO markets.
- Develop private labels in all product groups where appropriate.
- Develop products and services, always supported by the six know-how domains, with which we can offer customers real added value.
- Maintain a marketing mix tailored to fit the type of customer and industrial market segment and focus on defined growth markets.
- Expand product portfolio and know-how in all Service Centres.
- Optimise the structure and use of the business information systems.
- Gradually migrate to one business information system (SAP) with a shared data base.
- Rationalise the production and repair of hydraulic and pneumatic cylinders at EMC.
- Modernise and expand the functionalities of the TradCom e-portal.
- Aim to integrate customers' and suppliers' systems with TradCom and own business information 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 Germany

	2008	2007
Sales	172,788	124,431
Operating result (EBITA)	17,712	12,462
Average number of employees	536	454
Movement in industrial output (excluding construction)	+0.6%	+7.3%

Achievements in 2008

■ Organisational

- Operational implementation of the twin business model successfully started.
- Integration of the former German Wyko company in the ERIKS Germany cluster as business unit (Core Competence Centre) for Fenner mechanical power transmission (with effect from 31 December 2007).

- Acquisition of Schmitztechnik GmbH in Mönchengladbach with effect from 1 January 2008 and integration into the ERIKS Germany twin business model.
- Successful entry of the sealing technology Core Competence Centre in new market segments.
- Acquisition of Econosto Germany (Siekmann-Econosto) and strengthening of the market position in the process industry.
- Preparations under way to create synergy between the twin business model of ERIKS Germany and the German branches of the Econosto sales and project management network (with effect from medio 2008).
- Extension of the cluster management structure.
- Approach of potential acquisition candidates in the Flow technology and Sealing technology core activities.



Together under the name ERIKS

Since the end of 2007 ERIKS has approached the German market under the single name: ERIKS. This was the final step in a process of integration in which a number of specialist regional companies were absorbed into a new unit. By now ERIKS has also obtained a leading market position in a number of product groups in Germany. With Siekmann-Econosto, Econosto provides a great deal of in-depth know-how of valves and seals. Siekmann-Econosto has built up an excellent reputation as project supplier of valves and flange gaskets, particularly for the energy market and petrochemical sector. ERIKS Germany has its own assembly facilities for hydraulic hoses at a number of branches. In Zwenkau, Siekmann-Econosto has a modern die-cutting facility for flange gaskets.

■ Commercial

- 38.9 percent growth (of which 6.2 percent organically).
- Growth in market share in all relevant product groups.
- Growth in sales with defined range of own private label products.
- Range of own private label product portfolio expanded.
- Major international projects in the oil and gas sector completed (Siekmann-Econosto).
- New international contracts for major projects in the energy sector (Siekmann-Econosto).

■ Operational

- ERIKS Nord branch (Hamburg) relocated.
- Project preparations under way to extend the premises and to implement modern physical logistics in the ERIKS Germany cluster, including Siekmann-Econosto.
- Re-branding of companies to the ERIKS name completed (with effect from 1 January 2008).
- Successful implementation of the ProAlpha business information system at the ERIKS Südwest branch (Stuttgart) and preparations under way to rollout the system to Schmitztechnik and to the business unit for Fenner mechanical power transmission.
- Business information systems integrated with customers' and suppliers' systems (optimisation of procurement costs).

Objectives for 2009 and beyond

Organisational

- Implementation of the twin business model (including expansion of activities and market segments).

- Expand the position of Siekmann-Econosto in project market.

Commercial and operational

- Expand the portfolio of products and services.

Strategy

- Introduction of Core Competence Centres for flow technology product lines with Econosto products and services.
- Integration of Schmitztechnik GmbH into the twin business model as Core Competence Centre for custom made rubber and plastic parts.
- Further development of existing Core Competence Centres by expanding the range of products and customer segments directly addressed by the Core Competence Centres (especially in the process industry).
- Increase the market position in flow technology, industrial plastics and gaskets through acquisitions.
- Increase the number of branches in the regions where ERIKS Germany does not yet have a presence.

- Restructuring of the sales organisation.
- Strengthen the position in Eastern Europe and Russia.
- Concentrate on growing international markets.

- Proactive product management out of the Core Competence Centres with professional anchor points in the branches.
- Extend share of own private brands in the product portfolio.
- Persistent marketing of the ERIKS benefits especially to MRO customers.
- Improve project management capabilities.
- Expand product processing facilities and customer on-site testing and repair facilities.
- Expand product portfolio for the international project market.

- Achieve organic growth and growth in market share.
- Increase productivity.
- Further improve market, product, application and processing know-how.
- Expand logistics services and introduce the TradCom e-portal.
- Intensify collaboration between the newly introduced Core Competence Centres and the branch network.
- Approach new market segments and major (international) customers as one ERIKS Germany.
- Modernise and consolidate logistics structures including Siekmann-Econosto.
- Optimise the use of ProAlpha business information system.
- Roll-out ProAlpha business information system to Schmitz-technik and to the business unit for Fenner mechanical power transmission.
- Optimise the use of business information systems and administrative logistics with customers and suppliers.

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 Netherlands

	2008	2007
Sales	324,139	237,087
Operating result (EBITA)	38,659	27,893
Average number of employees	1,178	928
Movements in industrial output (excluding construction)	+1.1%	+3.2%

Achievements in 2008

■ Organisational

- By the acquisition of Econosto Netherlands, strengthening ERIKS' market position in the processing industry and expanding the range of valves and instrumentation.
- The twin business model was strengthened.
- Legal and organisational merger of Van Eyle & Ruygers-Schwartz bv in Rotterdam and ERIKS bv Alkmaar into ERIKS bv.



Working at ERIKS

You can work everywhere. This is why ERIKS offers its employees clear career perspectives. A great deal of attention is paid to training and education, both locally and at group level.

ERIKS | PEOPLE, PRODUCTS AND APPLICATIONS

- Legal and organisational merger of Flexion bv and Elmeq bv into ERIKS Aandrijftechniek bv.
- Wielens Beheer bv was acquired and integrated into the ERIKS Netherlands cluster.
- Start of collaboration between the ERIKS Netherlands cluster and Econosto Netherlands.

■ Commercial

- 36.7 percent growth in sales, of which 1.5 percent organic.
- Focus on cutting Total Cost of Ownership for MRO customers by
 - reducing downtime and faults
 - cutting energy consumption
 - cutting maintenance costs
 - reducing CO₂ emissions
 - improving installation safety
 - cutting procurement costs.
- Promotion of our skills as co-developers and co-engineers to OEM customers.
- National and international market position of Econosto Netherlands strengthened.
- Expansion of our range of electromechanical power transmission products.
- Successful launch of the ERIKS University with the aim of maintaining and improving employees' knowledge of the market, products and applications and for management development.

- Range of private label products expanded.
- Range of products in all product groups expanded.
- Four ERIKS Service Centres opened in four existing Wielens operations.
- Intensive collaboration between Wielens and the ERIKS Core Competence Centres in bearings and pneumatics product management.

■ Operational

- SAP business information system implemented at ERIKS bv, Rotterdam (formerly Van Eyle & Ruygers-Schwartz bv) on 1 February 2008 and at ERIKS Aandrijftechniek bv, Schoonhoven on 1 June 2008.
- Optimisation of logistical organisation and processes in all companies in the cluster.
- Preparation and start of the expansion of the Alkmaar branch and refurbishment of the Roermond branch.
- Business information systems integrated with customers' and suppliers' own systems (optimisation of transaction costs).
- Preparations commenced to implement the SAP business information system at Bruhamij Kunststoffen bv.
- Implementation project for a Product Information Management system (PIM) in collaboration with other ERIKS clusters launched.

Objectives for 2009 and beyond

Organisational

- Strengthen the twin business model.
- Expand Econosto's international presence.

Strategy

- Commercial, organisational and legal merger of ERIKS bv, Bruhamij Kunststoffen bv and Wielens Beheer bv.
- Deepen and further exploit know-how on the Power transmission core activity.
- Increase the number of ERIKS Service Centres.
- Transfer know-how from the Core Competence Centres to the Service Centres.
- Commercial and organisational cooperation and exploitation of synergies between Econosto Netherlands, the Core Competence Centres for the Flow technology core activity and the Service Centres.
- Expand the range of ECON private label products for defined market segments.
- Appoint agents and/or start up own sales operations abroad.

Commercial and operational

- Retain and build on our top-3 market position in all core activities.
- Increase productivity.
- Emphasise ERIKS' passion for technology and know-how in the market.
- Strengthen commercial strength and market approach of ERIKS bv, Rotterdam.
- Expand the range of power transmission products in the Service Centres.
- Offer the Econosto range of products through the Service Centres.
- Strengthen the position of private labels.
- Optimise the organisation and use of business information systems.
- Integrate the ERIKS business information systems with those of our customers and manufacturers.
- Implement the SAP business information system at Bruhamij Kunststoffen bv.

Financial

(Assuming normal growth of economic activity and industrial output.)

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

ERIKS UK

	2008	2007
Sales	342,365	370,567
Operating result (EBITA)	12,902	19,372
Average number of employees	2,211	2,127
Movement in industrial output (excluding construction)	-/1.7%	+0.6%
Average exchange rate GBP	1.25583	1.46127
Sales in GBP	264,064	253,592

Achievements in 2008

■ Organisational

During 2008 significant steps have been made towards establishing the ERIKS twin business model in the UK cluster:

- The main Wyko business was fully re-branded in the market as ERIKS UK with effect from 1 April 2008. The three main divisions trade as ERIKS Industrial Distribution, ERIKS Electro-Mechanical Services and ERIKS Integrated Solutions.
- ERIKS UK acquired a 100 percent shareholding in Seals Packings and Gaskets Ltd (SPG) on 1 August 2008. With a total of 52 employees based in Barnsley, SPG achieve annual sales of GBP 7 million. SPG is the platform from

which ERIKS UK can develop a Core Competence Centre for gaskets and moulded parts, providing know-how directly to OEM customers and serving the branches of ERIKS UK as a know-how driven distributor.

- As part of the acquisition of Econosto, ERIKS acquired Econosto UK which is one of the UK's leading suppliers of valves and related products to a wide range of industries. With locations in Leicester, Aberdeen and Glasgow; Econosto UK is now the valves Core Competence Centre for the UK and development of significant growth is expected by cross-fertilising customer bases and product ranges.
- The establishment of the materials test laboratory for ERIKS Sealing in Warrington has been completed and has been the basis of winning several new OEM customers.
- Continuous development of the capabilities of Flexible Hose Supplies which was acquired in July 2007. Whilst the integration process has been slower than first envisaged good progress has been made on introducing the RX hygienic hose range and developing the metallic hose cell.
- The existing Core Competence Centres for seals and power transmission have been boosted and re-branded.
- The management structure of ERIKS UK has been streamlined with the appointment of David Batty and Paul Jenno who are responsible for the operations of ERIKS UK on a day to day basis. The sales forces of Industrial Distribution and Electro-Mechanical Services have been

combined to increase cross-selling between these two divisions.

- Wyko Antriebstechnik GmbH was transferred to the ERIKS Germany cluster with effect from 31 December 2007.
- Rencol was sold for GBP 12.5 million on 4 March 2008.

■ Commercial

- A 7.6 percent decrease in sales in EUR (in GBP organic growth: 5.5 percent).
- Significant new contracts won in Integrated Solutions, Industrial Distribution and Electro-Mechanical services.
- Margin and growth under pressure during second half year, particularly in automotive and construction-related sectors.
- Range of products has been expanded (industrial hoses, gaskets, valves and tools).
- Private label ranges expanded in RX Pneumatics, Fenner Power Transmission and Centro Electrical.
- Above-average growth in pumps (new and repair).
- Supplier active marketing programme successfully launched.
- Successful development of know-how days on customer premises.
- Strong growth of greenfield operations (outside the UK) and export.

■ Operational

- Revolve, the manufacturer of special bearings, has moved into new custom-built premises in Dudley. Additionally, further significant investments in infrastructure have been made to enhance capacity.
- Following the opening of the first ERIKS 'superbranch' in Gateshead in October 2007, preparations have been made to open a second such facility in Grimsby. Opening is scheduled for end of March 2009.
- A detailed review has commenced into the future business information systems requirements of ERIKS UK. A final proposal is expected in December 2009.
- Further development has continued on the ERIKS UK article database.
- Training and leadership programmes have been further enhanced.
- Detailed analysis into ERIKS UK Administrative Logistics to determine focus of improvement plans in 2009.



ERIKS in Nigeria

In the past, ERIKS UK initiated new operations in countries such as Ireland, the Czech Republic, Slovakia and Nigeria. ERIKS in Nigeria is part of the ERIKS UK cluster and is seeing rising sales, particularly in the base industry, the food industry and the oil and gas industry. The original range of own brands Fenner and Revolve (bearings) has now been expanded to include valves and seals.

ERIKS | PEOPLE, PRODUCTS AND APPLICATIONS

Objectives for 2009 and beyond

Organisational

■ Industrial Services

- Development of the twin business model.
- Approach the market as a single organisation unit.
- Expand the activities of IS and EMS.

■ Specialist Technology

- Expand market area.

Commercial and operational

■ Industrial Services

- Expand the range of products.
- Achieve organic growth.
- Professionalise the organisation.

Strategy

- Develop SPG, FHS and Econosto UK fully into the Technical Centres to support ERIKS UK in gaskets, industrial hoses and valves respectively.
- Complete Seals Technical Centre infrastructure with move to new premises in early 2009.
- 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.
- Consider further acquisitions to consolidate position in Flow technology core activity. Also establish Industrial plastics core activity.
- Intensify collaboration between Industrial Distribution, Integrated Solutions (IS) and Electro-Mechanical Services (EMS)
- Investigate the possibilities for extending the EMS and IS activities to other clusters.
- Enter new markets in Asia both for manufacturing and sales.
- Continue to develop partnerships for Revolve with other ERIKS clusters.
- Continue to develop USA sales for Revolve.
- See 'Organisational'.
- Intensify collaboration between Industrial Distribution, Integrated Solutions and Electro-Mechanical Services.
- Improve market, product, application and logistics know-how.
- Extend the product range by collaboration with the Technology Centres.
- Continue to develop private label product ranges.
- Target growth in the process industry.
- Introduce the TradCom e-portal.
- Further expand activities in the Czech Republic, Slovakia, Ireland and West Africa. Also give consideration to development in the Middle East using Econosto's infrastructure as a base.
- Develop training programs, particularly for the six know-how domains.
- Optimise the organisation of the article database to control procurement and sales more effectively.

- Increase productivity.
 - Increase sales through local Service Centres (particularly new flow technology products).
 - Pay constant attention to and where necessary modify the working methods and the organisation of the business information systems.
 - Decide on future ICT set up.
 - Optimise logistics set up.
- **Specialist Technology**
- Expand the range of products.
 - Develop new products via Research & Development and collaboration with customers.
 - Increase productivity.
 - Make use of modern manufacturing technology and organisation.

Financial

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

- Organic growth of 5 – 7 percent per annum.
- Increase EBITA to 7 percent of sales.

Rest of Europe

	2008	2007
Sales:		
- ERIKS Central Europe	7,001	5,830
- ERIKS France	16,243	16,366
- ERIKS Spain	5,702	-
	28,946	22,196
Operating result (EBITA)	-/-207	1,664
Average number of employees	163	125

- Extension of the management structure.
- Approached a number of potential acquisition candidates in the Flow technology and Sealing technology core activities.

■ Commercial and operational

- 20.1 percent growth.
- Growth in sales with defined range of own private label products.
- Projects in the process industry and in the oil and gas sector completed.
- Number of sales engineers increased.
- Project preparations under way to modernise and optimise the use of advanced business information systems for all companies in Poland.

ERIKS Central Europe

Achievements in 2008

■ Organisational

- Expansion of the customer base by increasing direct sales volume to OEM customers.
- Extension of the Passerotti sales network by acquisition of additional sales branches in Poznan and Gdynia with effect from 1 April 2008. Integration of new branches in Passerotti's infrastructure and sales organisation is proceeding very well.
- Preparations under way to create synergy between the Mowta specialist valve and project business in Poland and Siekmann-Econosto's project activities in Poland.

Objectives for 2009 and beyond

Organisational and commercial

- Strengthening the presence in Poland (including expansion of activities and market segments).
- Increase productivity.

Financial

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

- Organic growth of 10 percent per annum.
- Operating result equal to at least 10 percent of sales.

Strategy

- Expand the range of products and customer segments directly addressed by the Passerotti branches (especially OEM customers).
- Increase the number of core activities (Flow technology, Industrial plastics, Sealing technology) through opportunities with Econosto and through acquisitions of specialist distributors.
- Integrate the business of Mowta in the Siekmann-Econosto project activities in Poland.
- Proactive product management.
- Renew the business information system.
- Modernise the infrastructure of the branches.
- Modernisation of branches.



ERIKS in Poland

ERIKS Central Europe serves the Polish market from 10 branches with focus on sealing technology and power transmission. The acquisition of TIM and Hydro-met in 2008 gave ERIKS three branches in the Poznan region and one in Gdynia. At the end of 2008, Mowta – the ERIKS valve company in Poland – was brought under the Siekmann Econosto umbrella.

Photo: employees of service centre Gdynia

ERIKS | PEOPLE, PRODUCTS AND APPLICATIONS

ERIKS France

Achievements in 2008

■ Baudoux Industrie sas

In spite of a management change and a repositioning of the company, its results have not been positive in 2008. The company has been sold to the Martin-Belaysoud Expansion group (MABEO) with effect from 1 January 2009.

■ ERIKS sas, Trappes

The company continues to successfully grow its business in niche markets in the process industry with a high-quality range of valves, seals and industrial hoses. In 2008, ERIKS sas achieved sales of EUR 8.7 million with 35 employees.

Objectives for 2009 and beyond

General

Based on the current activities of ERIKS, the primary objective of the ERIKS group in France is to develop as a specialist supplier. The top priority is to offer a wide 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 (through Econosto) and through targeted acquisitions. In developing the marketing concept, there will be an intensive focus 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 Spain

Achievements in 2008

From 1 June 2008 onwards Econosto Ibérica achieved sales of EUR 5.7 million, predominantly in construction and ship-building, through its operations in Spain and some agents in Central and South American countries.

Objectives for 2009 and beyond

General

Based on Econosto Ibérica's current activities, ERIKS' primary objective in Spain is to develop into a supplier that fulfils the role of a specialist. The top priority is to offer a wide range of products (valves, flange gaskets 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 knowledge-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. We also plan to improve our international presence in Central and South America through Econosto Ibérica.

Financial

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

- Organic growth of 10 percent per annum.
- Operating result equal to 7 percent of sales.

ERIKS USA

	2008	2007
Sales	37,366	35,786
Operating result (EBITA)	4,952	4,364
Average number of employees	131	122
Movement in industrial output (excluding construction)	-/-4.0%	+2.0%
Average USD rate	0.67992	0.72967
Sales in USD	54,956	49,044

Achievements in 2008

■ Organisational, commercial and operational

- Approaching potential acquisition candidates.
- Strengthening of the management team and sales organisation.
- Improvement of the six know-how domains.
- Organic sales growth of 12.1 percent in USD during a slowing economy.
- Increased sales of specialty products.
- Attracted new customers.
- Further penetration of existing customers.
- Continued improvements in operational discipline and controls.
- Improved utilisation of working capital.
- Improved internal quality control/inspection capabilities on products (new equipment and additional processes in place).
- Roll-out of new product lines and capabilities.



ERIKS on the American market

ERIKS has been present on the American market for more than 20 years with a wide range of seals, rubber technology, and high-quality machined plastics.

ERIKS USA is primarily active in the oil and gas market, the semicon and the process industry.

Objectives for 2009 and beyond

Organisational

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

Commercial and operational

- Significant growth of market share position in key industry segments.
- Expansion of presence both geographically and into new industry markets.
- Improve product development capabilities.
- Retain and attract professional employees to facilitate growth.

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.

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.
- Improve and define the image as one company: ERIKS USA in ERIKS marketing materials.
- Add technical products that match the customer's needs.
- Develop technical solutions to satisfy customers increasing application requirements.
- Continue to pursue acquisitions that meet the ERIKS criteria.
- Develop additional product lines and application possibilities.
- Improve internal technical capabilities.
- Utilise the strength of the ERIKS group product and supplier base.
- Create a USA Technology Centre to facilitate customer testing and product developments/improvements.
- Invest in professional and technical development skills of current staff.
- Recruit new employees with growth potential.

ERIKS Middle East

Achievements in 2008

The acquisition of Econosto on 1 June 2008 has given ERIKS a presence in the Middle East through Econosto Mideast. ERIKS Mideast has its Head Office in Dubai and has 10 operations in five neighbouring countries. From 1 June 2008 onwards, the 180-strong workforce achieved sales of EUR 42.7 million and an EBITA of EUR 5.9 million.

Econosto Mideast is a specialist distributor of a wide range of valves, flange gaskets and metal piping. The company has all the necessary professional skills in-house and has independently developed a wide range of valves under the ECON private label since its inception 25 years ago. Econosto Mideast focuses primarily on larger projects in the oil and gas industry, the ventilation and air-conditioning market, the petrochemical industry, the energy market and water supply companies. Econosto Mideast improves its position in this region every year.

Objectives for 2009 and beyond

Organisational

- Strengthen the regional presence.
- Strengthen our image as a producer.

Commercial and operational

- Achieve organic growth.
- Professionalise the organisation.

Financial

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

- Organic growth of 6 - 10 percent per annum.
- Operating result equal to 8 percent of sales.

Strategy

- Increase the number of sales offices particularly in North Africa and surrounding countries and attract specialist people.
- Enter into intensive collaboration with or acquire a smaller, specialist producer in Europe.
- See 'Organisational'.
- Expand product management for the market segments to be approached.
- Expand Human Resources Management and develop training programmes.
- Expand product and quality control.
- Expand and update current business information systems.
- Improve management of working capital.



ERIKS in Dubai

Employees of Econosto Mideast have more than 10 different nationalities between them. For a number of reasons Econosto Mideast is a true international company.

ERIKS | PEOPLE, PRODUCTS AND APPLICATIONS

ERIKS South-east Asia

	2008	2007
Sales	12,980	8,041
Operating result (EBITA)	1,425	660
Average number of employees	86	66
Average SGD rate	0.48644	0.48460
Sales in SGD	26,684	16,593

Achievements in 2008

- Presence expanded as a result of the acquisition of Econosto South-east Asia on 1 June 2008, with operations in Singapore, Malaysia and China (Shanghai).
- 60.8 percent growth in sales in local currency, of which -/0.6 percent organic.
- Position in the OEM market strengthened. Decision taken to drop some distributors.
- Collaboration between ERIKS and Econosto operations got off to a cautious start. Limited overlap of the product range.



ERIKS in Malaysia

ERIKS and Econosto have both been active in Malaysia for more than 20 years. ERIKS has a Head Office in Kuala Lumpur and branches in Johor Bahru and on the East coast. Econosto is located in Shah Alam. ERIKS and Econosto have each had a presence in Singapore for over 25 years. In Singapore, Econosto has a production unit for flange gaskets, in particular to supply the petrochemical industry. In addition to this, Econosto has a range of valves for the oil and gas industry. ERIKS Singapore is primarily a specialised supplier of valves for base industry, the semicon and the food industry. ERIKS also built up a strong reputation as a supplier of rubber seals.

ERIKS | PEOPLE, PRODUCTS AND APPLICATIONS



ERIKS in Singapore

The combination of ERIKS and Econosto has reduced the relative vulnerability in South-east Asia. The product ranges of ERIKS and Econosto in Singapore and Malaysia complement each other well. Besides this, Econosto has a fast-growing enterprise in China (Shanghai) and ERIKS has a sales office in Djakarta, Indonesia.

ERIKS | PEOPLE, PRODUCTS AND APPLICATIONS

Objectives and strategy for 2009 and beyond

- Intensive collaboration between ERIKS and Econosto operations:
 - expansion of the product range offered to existing and potential customers
 - collaboration in logistics and ICT
 - expansion of Econosto China's range of products.
- Strengthen our image as a specialist distributor for the Flow technology and Sealing technology core activities. This will require essential and permanent improvement of the marketing mix by
 - implementing professional and proactive product management
 - increasing our level of know-how (the six know-how domains)
 - approaching customers in the OEM and maintenance market directly
 - approaching the project market with Econosto's range of products and know-how.
- Increase productivity by
 - modernising and extending our current business information systems
 - optimising our working methods.
- Expand sourcing activities in China.

Financial

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

- Organic growth of 5 - 10 percent per annum.
- Operating result equal to 5 - 6 percent of sales.

ERIKS group nv

	2008	2007
Operating result (EBITA)	-/-4,744	-/-5,280
Average number of employees	21	17

The ERIKS share

Stock market quotation

As at 31 December 2008 the issued and paid-up share capital of ERIKS group nv consisted of 10,787,416 ordinary shares with a par value of EUR 0.50 each. All shares are listed on the Euronext Amsterdam stock exchange. A total of 10,737,722 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 49,694 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

When the dividend for 2007 was paid in June 2008, 38.7 percent of shareholders elected to receive a share dividend, as a result of which the number of shares increased by 204,802, or 1.9 percent.

The results and cash flow per share are calculated on the basis of the average number of shares issued. This average rose from 10,330,246 in 2007 to 10,702,082 in 2008, representing an increase of 371,836 (3.6 percent).

Share options

The company has not paid out or issued any share options. At the end of 2008 the executive board together held 24,538 ordinary ERIKS shares. As a result of the participation in the Bonus Investment Share Matching Plan started in the year under review, the executive board will be entitled to 7,563 matching shares in future years.

The supervisory board does not hold any ERIKS shares.

General meeting of shareholders

At the general meeting of shareholders on 15 May 2008, 34.4 percent of the total number of ordinary shares issued were represented and the following resolutions were adopted:

- Adopt the minutes of the general meeting of shareholders of 15 May 2007.
- Adopt the financial statements for 2007.
- Grant discharge to the executive board and the supervisory board for the policy conducted and supervision exercised in 2007.
- 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 2007
 - remuneration policy for the executive board and introduction of the Bonus Investment Share Matching Plan.
- Designate the executive board as the body authorised to take decisions concerning the issue of ordinary shares, the granting of rights to take ordinary shares and the restriction or exclusion of shareholders' preferential rights for a period ending on 15 May 2010. The authority shall apply to no more than 20 percent of the number of ordinary shares issued.
- Authorise the executive board, for a period ending on 15 November 2009, to arrange for the company to acquire ordinary shares in its own capital on the stock exchange or elsewhere subject to no more than the equivalent of 10% of its issued capital for a price varying from a sum equal to the par value to an amount equal to 110 percent of the listed price.
- Appoint the auditor.

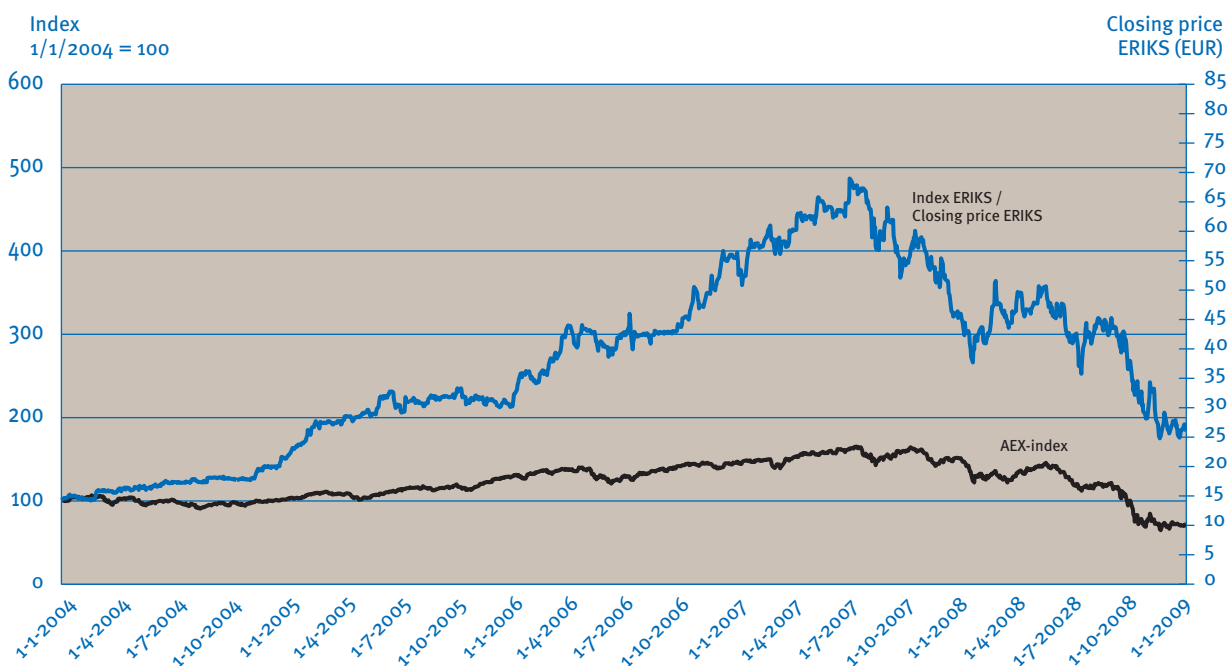
Share movements (x 1,000 units)

	2008	2007	2006	2005	2004
Issued at start of year	10,583	8,031	7,938	7,774	7,504
New shares issued	-	2,433	-	-	-
Stock dividend	205	119	93	164	270
Issued at year-end	10,788	10,583	8,031	7,938	7,774
Average issued	10,702	10,330	7,992	7,869	7,661

Key data per share (of EUR 0.50 par value)

x EUR 1.00	2008	2007	2006	2005	2004
Net result	4.91	4.23	3.47	2.80	2.41
Result before amortisation of goodwill and from intangible fixed assets obtained from acquisitions (excluding software)	5.37	4.59	3.55	2.80	2.41
Cash flow from ordinary activities	6.57	5.74	4.40	3.60	3.25
Dividend	April '09	2.25	1.35	1.40	1.00
Pay-out ratio	April '09	50.2	49.8	50.4	49.4
Shareholders' equity	28.26	28.24	18.46	16.07	14.05
Share price at year-end	26.00	45.50	54.85	29.90	21.25
Highest	51.87	68.14	57.00	33.00	21.65
Lowest	23.80	44.80	29.75	21.75	14.20
Market value at year end (x EUR millions)	280.5	481.5	440.5	237.3	165.2

ERIKS share versus AEX index



Extraordinary general meeting of shareholders

At the extraordinary meeting of shareholders held on 31 July 2008, 22.3 percent of the total number of ordinary shares issued was represented and the decision was taken to appoint Mr J.F.A.M. van Os to the executive board of ERIKS group nv.

Reserves and dividends policy

Taking account of the growth targets of ERIKS 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 insofar as circumstances allow, 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.

Dividend 2008

Under the current economic conditions it is the responsibility of the supervisory board and the executive board to carry out a prudent financial policy. The ERIKS board intends to follow the developments over the short term and will publish a proposal for the amount and structure of the dividend over 2008 in April next.

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 published in public announcements.

The group explains its strategy, financial results and the latest developments at 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 stock price and create a wider spread of share ownership.

Detailed information about press releases, financial presentations, strategy and corporate governance is available at 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 nv of Amsterdam has been appointed as Liquidity Provider. They 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 256 trading days in which 23,823 transactions in ERIKS shares were executed. A total of 3.4 million shares were traded in these transactions (2007: 6.4 million), representing a total trading value of EUR 136.1 million (2007: EUR 370 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 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 26 February 2009:

	Percentage	Date of notification
ING Groep nv	19.52	24 January 2007
Kempen Capital Management nv	10.18	1 November 2006
Delta Deelnemingen Fonds nv	7.35	1 November 2006
Darlin nv	5.78	1 November 2006
Aviva plc	5.28	1 November 2006
Navitas bv	5.06	28 November 2007

Financial agenda

27 March 2009	Publication of 2008 annual report (Dutch).
9 April 2009	Publication of 2008 annual report (English).
13 May 2009	Publication of first quarter 2009 results.*
14 May 2009	General meeting of shareholders in Alkmaar.
18 May 2009	1st ex-dividend listing.
21 May – 1 June 2009	Option period.
2 June 2009	Determination of number of dividend rights providing an entitlement to 1 new share.
5 June 2009	Dividend payable and delivery of share.
20 August 2009	Publication of first half year 2009 results.**
12 November 2009	Publication of nine months of 2009 results.***
26 February 2010	Publication of annual 2009 results.**
20 May 2010	General meeting of shareholders in Alkmaar. Publication of first quarter 2010 results.***

* Publication after trading hours, followed by a conference call on 14 May 2009.

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

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



ERIKS and ultra clean applications

ERIKS operates its own material testing and development centres in the UK and USA. This means ERIKS is able to carry out in-house development and testing of the right materials for every application. In the Netherlands ERIKS has an extremely modern clean room that meets the highest industrial standards.

ERIKS | PEOPLE, PRODUCTS AND APPLICATIONS

Corporate governance

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.

The corporate governance structure and the corporate governance policy are placed on the agenda of the annual general meeting of shareholders every year.

Foundation ERIKS Group (protective construction)

The 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 when the right is exercised.

This protection 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 represent 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' regulation
- ERIKS rules on insider trading
- minutes of the general 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.

II.2.6.

The executive board shall adopt 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.

III.7.3. The same applies to the supervisory board.

Explanation 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.

II.2.7. The maximum severance payment in the event of involuntary severance shall be one year's salary.

Explanation 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-by-case basis, depending on the person's contract, employment history (internal and external), statutory provisions and market conditions.

II.2.10.d. Statement by the supervisory board that a statement will be included in the remuneration report on how far the company subscribes to the provision contained in II.2.7.

Explanation See explanation to II.2.7.

Chapter III: The supervisory board

III.5.1. The supervisory board shall appoint an audit committee, a remuneration and a selection and appointment committee.

Explanation Given the small size of the board, the company does not consider it meaningful to establish committees. All matters are discussed by the full supervisory board.

III.7.3 See also II.2.6.

Chapter IV: The general meeting of shareholders

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.

Explanation 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.

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.

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

Transferability of shares

The authorised share capital of ERIKS group nv is made up of ordinary shares, preference shares and two series of financial preference shares. The face value of each share in the authorised share capital is EUR 0.50. The shares are registered shares.

As at 31 December 2008, 10,787,416 ordinary shares had been issued. No preference shares or financial preference 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 rule relating to preference and financial preference shares. Every transfer of preference and financial preference shares must be approved by the executive board; the executive board may only grant such approval with the approval of the supervisory board.

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

The 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 an 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 an 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 an 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 an 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 in doing so by a legal advisor.

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 decide, as the competent body, to issue shares, grant rights to take 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 decide, as the competent body, to issue shares and to grant rights to take 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 decide, as the competent body, to issue ordinary shares and grant rights to take ordinary shares was extended up to 15 May 2010 by the annual general meeting of shareholders of ERIKS group nv of 15 May 2008. 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. The general meeting of shareholders also resolved on 15 May 2008 to designate the executive board as the corporate body that, for a period ending on 15 May 2010, would have the power subject to the supervisory board's prior approval to limit or preclude shareholders' pre-emptive rights when ordinary shares or the rights to acquire such shares are issued.

On 15 May 2008 the general meeting of shareholders authorised the executive board, for a period ending on 15 November 2009, to arrange for the company, acting with the approval of the supervisory board, to acquire paid-up shares in its own capital for valuable consideration subject to no more than the equivalent of 10% of its issued capital for a price varying from a sum equal to the face value of ordinary shares to an amount equal to 110% of the listed price.

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 with 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 bank 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

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
- Business development in the Netherlands
- Human Resources Management
- Investor Relations.



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 information provision and legal affairs
- Taxes
- Pensions
- Enterprise Risk Management
- ERIKS group ICT policy (jointly with H.J. Maier)
- Investor Relations.



M. 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/Ireland
- ERIKS Industrial Services
- ERIKS International
- International Product Management
- Business development in the UK and Ireland.



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 Europe
- ERIKS group ICT policy (jointly with J.G. de Boer).



J.F.A.M. van Os (1954)

Dutch national.

Employed by the ERIKS group since 2008.

Appointed as a member of the executive board in August 2008.

Primary responsibilities:

- Econosto group
- International Product Management.



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 Scandinavia
- European Account Management.

The executive board jointly holds a total of 24,538 shares in ERIKS by way of long-term investment. No options on ERIKS shares have been awarded to the members of the executive board.

As a result of the participation in the Bonus Investment Share Matching Plan started in the year under review, the executive board will be entitled to 7,563 matching shares in future years.

Supervisory board

A.A. Olijslager (1944), chairman

Dutch national.

Appointed in 2007; due to resign in 2011.

Most important other duties:

- Vice-chairman of the supervisory board of ABN-AMRO Holding nv
- Vice-chairman of the supervisory board of AVEBE ua
- Member of the supervisory board of Center Parcs nv
- Chairman of the supervisory board of Heijmans nv
- 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 bv
- 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 nv

Dutch national.

Appointed in 2005; due to resign in 2009.

Most important other duties:

- Member of the advisory council of Cisco Systems
- Member of the advisory board of Issuing Institutions of NYSE Euronext
- Member of the supervisory board of Gelderse Vallei Hospital
- Member of the supervisory board of Gamma Holding nv
- Member of the board of Trustees for the construction of TSM Business School.

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

Dutch national.

Appointed in 1997; due to resign in 2010.

Most important other duty:

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

A. Wateler (1946)

Dutch national.

Appointed in 2006; due to resign in 2010.

Most important other duties:

- Member of the supervisory board of BN International bv
- Member of the supervisory board of Fashion Fund bv
- Member of the supervisory board of Ergon Capital Partners
- Member of the supervisory board of Gamma Holding nv
- Senior advisor to Parcom Capital bv
- Various additional social positions.

Members of the supervisory board do not hold any shares in ERIKS group nv. No options on ERIKS group nv shares were granted 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 Capital bv and is now a senior advisor to this company. Parcom Capital bv is part of ING Groep nv and has a 19.52 percent holding in ERIKS group nv.

Report by the supervisory board

Annual report

We are pleased to present the annual report and financial statements for 2008 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 136 and 137 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 five 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. They visited a number of companies in the year under review.

During the formal meetings, attention was focused in particular on the objectives and strategy of ERIKS, 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 in the value of the share.

In our routine discussions of the quarterly results we took an intensive look at the situation in the different clusters,

market developments, acquisition opportunities, possible cooperation with third parties and the ERIKS Management Development programme. Last year we focused specifically on the strategic reasons for the acquisitions made in the year under review, including Econosto nv, and their financing, the progress being made in integrating the companies acquired over the last few years, and the current and future implementation of the top management structure. The acquisition of Econosto nv has strengthened ERIKS' market position. The new combination provides good opportunities for growth, and the two companies are stronger together.

On the agenda in the discussion of the achievement of the proposed plans were the progress achieved in implementing the envisaged twin business model in the various clusters and the modernisation of the infrastructure. The economic crisis and its possible consequences for ERIKS were also discussed in-depth in the second half of the year under review. We are convinced that ERIKS has the flexibility to adapt its business operations where necessary and that its finances are more than sufficiently robust.

Corporate governance

The board's position regarding the structuring of corporate governance is presented starting on page 82 of this report. This subject is on the agenda of every annual general meeting of shareholders.

The views of the executive board and supervisory board concerning corporate governance remained largely unchanged in the past year, apart from being formulated slightly more specifically.

Internal risk management and control systems

Page 32 ff of this report mentions the way in which internal risk management and control systems are included in ERIKS's Enterprise Risk Management (ERM) model. This ERM model is being implemented in all companies. The set up and operation of this model and the internal risk management and control systems contained in it were 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

As in previous years, ERIKS strengthened its market position in almost all clusters, and most of the clusters enjoyed above-average results and profitability. The results of the companies acquired in the year under review also lived up to our expectations or even exceeded them.

We wish to take this opportunity to express to all employees our sincere appreciation of 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

Mr R.J.A. van der Bruggen will be stepping down in May 2009 in accordance with the roster, which will create a vacancy on our Board. Mr Van der Bruggen has made it known that he is available for re-appointment. In view of Mr Van der Bruggen's performance over the past few years, and as his re-appointment fits in with the profile of the supervisory board, it will be proposed at the general meeting of shareholders that Mr Van der Bruggen be re-appointed to the supervisory board for a period of four years.

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 2008.

An induction programme has been set up for newly appointed members of the supervisory board.

To function optimally as a supervisory board in an organisation like ERIKS, we believe it necessary 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 European 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.

By signing these financial statements we have complied with the statutory obligation laid down in Article 2:101 (2) of the Netherlands Civil 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. We conduct an appraisal interview with each member of the executive board.

The acquisition of Econosto nv has considerably increased the size of the ERIKS group, and in the light of the functions, tasks and responsibilities we have deemed it necessary to expand the executive board. At the extraordinary general meeting of 31 July 2008, the shareholders appointed Mr J.F.A.M. van Os to the executive board of ERIKS group nv. Mr Van Os was with Econosto nv since 1977 and was chairman of the executive board of Econosto nv since 2002. As a member of the executive board of ERIKS group nv, he is responsible for the growth of the Econosto companies, their integration into ERIKS and the development of the Flow technology core activity at ERIKS.

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.

The current remuneration policy was approved at the general meeting of shareholders of 18 May 2008 and consists of the following components:

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 predefined targets; at-target remuneration is 50 percent of the basic salary, up to a maximum of 60 percent if the agreed targets are exceeded. 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 per-

cent (if the targets are exceeded). Payment is made in cash. The targets relate to increases in the growth in sales and return on invested capital.

- A Bonus Investment Share Matching 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 may be sold two years after the matching.

- Almost all targets were met in the year under review.

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 provide loans, advances or guarantees to members of the executive board.

The remuneration policy and the corresponding remuneration components and their levels are periodically compared with the remuneration of members of the executive boards of other listed companies of approximately the same size and complexity as ERIKS, the last comparison having taken place in the spring of 2008. The peer group consists of the ten biggest AScX companies and other local funds (small caps), the ten smallest AMX companies (mid caps) and a sector-specific reference group.

Alkmaar, 26 February 2009

Supervisory board

A.A. Olijslager, chairman
R.J.A. van der Bruggen
R.A.A. Oliemans
A. Wateler



ERIKS Service Centres

ERIKS supplies an extensive range of quality products to the maintenance market, supported by a wide logistics service. This avoids double work in the supply chain and brings considerable cost savings.

The photo shows an in-house ERIKS Service Centre at an ERIKS UK customer. ERIKS has around 100 in-house sites operational worldwide.



2008 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 were drawn up using the accounting policies set out below. ERIKS group nv has its registered office in Alkmaar, the Netherlands.

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 26 February 2009. It was decided to present these financial statements to the general meeting of shareholders on 14 May 2009 for adoption.

These 2008 financial statements have been drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU-IFRS).

A difference with regard to last year is that IFRIC 14 came into effect in 2008. This standard gives an interpretation of IAS 19 and establishes the conditions under which a surplus in a pension plan can be recognised as an asset in the balance sheet. It also gives an interpretation of how a pension plan surplus or pension commitments are affected by statutory or contractual minimum funding requirements.

The changes to IFRS rules in the course of 2008 have been incorporated in the accounting policies applied by ERIKS. The accounting policies used have been applied in a consistent fashion to all the periods shown in these consolidated financial statements.

A number of standards due to come into effect in 2009 and could have impact for the ERIKS group have not yet been applied in these financial statements. An example is IFRS 3, which includes significant changes to how the costs of acquisitions are dealt with; they are charged to the profit and loss account rather than included in the goodwill. IFRS 8 also comes into effect in 2009. This introduces the management approach to reporting on individual segments, whereby reported segment information should be based on internal reports used to assess how each segment is developing and to allocate resources.

As permitted under Section 402 of Part 9, 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 concerns the net amount of the ERIKS group nv income and expenses.

Accounting policies

The accounting 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 for 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 estimates and assumptions being revised 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 liabilities and in the profit or loss for the period under review is reported separately.

Group companies are defined as being those participating interests 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 on page 142 ff 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 fair value of identifiable assets, liabilities and contingent liabilities (net asset value) at the time of acquisition. The purchase price consists of the purchase sum paid for the acquisition, plus any costs directly attributable to the acquisition.

The positive difference between the purchase price and the net asset value, the goodwill, is allocated to cash-generating units and is not amortised. Instead, it is subjected to an annual impairment test.

If the purchase price 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.

When a group company is sold, 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. The functional currency of group companies is the currency of the economic area in which the individual group company primarily operates.

Transactions in foreign currency are initially stated at the rate of exchange on the trade date. All non-euro monetary assets and liabilities as at the balance sheet date are converted at the rate of exchange on the balance sheet date. Exchange differences arising from the conversion and settlement of monetary assets and liabilities are taken to the profit and loss account, except in the case of cash flow hedges.

In the consolidation, the profit and loss accounts of participating interests denominated in a functional currency other than the euro are converted at the 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 the exchange differences on fixed financing of foreign participating interests stated in a foreign currency, are taken directly 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 exchange rate risks arising from operating and financing activities. In accordance with the group's treasury policy, derivative financial instruments are not held or issued for trading purposes. Derivative financial instruments are carried at their 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 interest rate swaps, including cross currency swaps, is the estimated amount that would have to be received or paid in order to terminate this swap on the balance sheet date taking into account the current interest rate. The fair value of currency forward contracts and currency options is the market price (forward rate) on the balance sheet date.

Cash flow hedging

The effective part of changes in the fair value of derivative financial instruments intended to hedge cash flows and also classed as such is taken to shareholders' equity. The profit or loss on the ineffective part 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 of the position takes place).

If a hedging instrument expires or is sold or if an instrument can no longer be regarded as a hedging instrument, the cumulative profits and losses remain in shareholders' equity until the anticipated future transaction is finally recognised in the profit and loss account. If the anticipated future transaction is no longer likely, the cumulative 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 cumulative amortisation and impairment.

Amortisation of intangible fixed assets from acquisitions is calculated over their expected useful lives using the straight-line method.

(c) Other

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

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 derive economic benefits 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 estimated expected useful lives, and impairment losses. Land is not depreciated.

Expenditure on property, plant and equipment incurred after the initial investment was made, such as maintenance costs, is in principle charged to the profit and loss account and is only taken to the balance sheet if it results in an upward value adjustment of the asset.

Book profits and losses on the sale of property, plant and equipment are incorporated in the operating profit. 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 the ERIKS group. Property, plant and equipment acquired through finance leases are recognised at the lower of the fair value and the present value of the minimum number of compulsory lease payments at the lease's inception, net of straight-line depreciation in accordance with the estimated expected 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.

Assets held for sale

Any assets held for sale are carried at book value or fair value less sales expenses, whichever is the lower.

Impairment

Each year, an assessment is made as to 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 assessed. The recoverable value of an asset is the higher of its fair 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 with an indefinite useful life, including goodwill, are subject to annual impairment testing. For the purposes of the test, these assets are allocated to the cash-generating units that are expected to benefit from the acquisition giving rise to goodwill.

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 cases where the book value of the asset does not exceed the book value, less depreciation or amortisation, which would have been calculated had no impairment occurred.

Participating interests

Associated companies on which significant influence can be exercised but where the ERIKS group does not have control are initially carried at cost. This initial valuation at cost is subsequently adjusted by (the proportionate share in) the results of

the associated companies. A participating interest is defined as being an associated company if the interest held is between 20 and 50 percent.

Other participating interests in which an interest of less than 20 percent is held are, in principle, carried at fair value, or at purchase price if 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. The net realisable value is the estimated selling price in the ordinary course of business less the estimated sales expenses.

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 able to be collected 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. The 'liquid resources and bank overdrafts' item in the cash flow statement includes current account overdrafts with banks that are payable on demand.

Shareholders' equity

Dividend payable to shareholders is recognised as a liability once the general meeting of shareholders has approved 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 falling due 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 (a 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 with local authorities.

The majority of the current plans can be characterised as defined contribution plans. A small number of plans is a defined benefit plan.

(a) Defined contribution plan

Defined contribution plans are plans for which the ERIKS group pays fixed contributions for the employees without these employees having any rights to benefits or the ERIKS group having 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

Defined benefit plans are all plans that are not taken up as a defined contribution plan. Under defined benefit plans employees receive pension rights; 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 the interest rates 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 that 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.

A pension surplus is recognised as an asset if it is probable that the premiums to be paid by the company in the future will be lower than the pension fund service costs.

(c) Jubilee benefits

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

(d) Matching share plan

The costs of transactions settled in shareholders' equity instruments with the participants in the matching share plan are carried at their fair value on the allocation date. These costs, together with an equal increase in shareholders' equity (matching share plan reserve), are carried in the period in which the plan conditions are met, ending on the date on which the participants acquire the full rights to their entitlements (the date on which they become unconditional).

More information is to be found in the notes on the remuneration of the board.

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 (recoverable) 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 off-settable losses available are recognised, insofar as it is reasonable to expect that these losses will be set off.

Revenue recognition

Net sales are defined as being the revenues from supplying goods and services to third parties, 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. Revenues from the rendering of services are recognised in proportion 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 nominal standard tax rate in force in the financial year concerned, allowing for tax relief facilities and changes in deferred tax.

Taxes relating to items that are taken directly to shareholders' equity are also taken to shareholders' equity.

Financial income and expenses

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

Consolidated cash flow statement

The cash flow statement has been prepared according to the indirect method, based on the 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 balances 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, current account overdrafts, cash balances and derivatives for the purpose of financing the ERIKS group. Other financial assets and liabilities, such as accounts receivable trade and accounts payable trade, are a direct result of operational business operations.

The financial risks arising from the 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 currency forward 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

Credit risk concerns accounts receivable trade, other receivables and exposure to financial institutions.

Under the credit policy, exposure to financial institutions with which treasury transactions are concluded is continually monitored. The 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, there was no significant concentration of credit risk in the ERIKS group's accounts receivable trade on 31 December 2008.

The worsening economic climate has led the group companies to tighten up the measures for monitoring receivables from customers and ensuring they are collected.

(b) Liquidity risk

Liquidity risks are determined by cash flows, access to funds and the requirements demanded by the syndicate of banks regarding solvency and interest coverage. The ERIKS group has managed to limit its liquidity risk by systematically running company operations to manage cash flows and at the same time deliberately aiming for and maintaining a high credit rating (solvency, interest coverage, net debt/EBITDA and so on).

In 2007 ERIKS arranged a syndicated credit facility of EUR 250 million (without collateral or guarantees) with five banks. The syndicated credit facility was raised by EUR 150 million to EUR 400 million in the year under review in order to finance the acquisition of Econosto and to make resources available for further growth. At the end of 2008 the net debt was EUR 244 million. The syndicated credit facility runs until June 2012. ERIKS currently meets the requirements agreed with the banks with ease regarding the ratios for net debt/EBITDA (<3) and interest coverage (>4). ERIKS also expects to continue to meet these ratio requirements in the year ahead. ERIKS did take measures in the final quarter of 2008 in view of the current economic crisis to keep net debt as low as possible.

In normal economic conditions, the cash flow generated by the anticipated development of sales and results would enable the ERIKS group to finance some of its growth from its own resources.

The ERIKS group also has sufficiently generous credit facilities to fully finance the planned 10 percent to 15 percent growth organically. Should the need to take significantly larger steps arise, ERIKS will look for alternative funding. The options for doing so have been reviewed with the aid of scenario planning and are set out in the company's long-range financing plan.

The ERIKS group financing and the net capital invested can be summarised as follows:

	2008	2007
Total loans, including repayment obligations	261,976	120,201
Bank overdrafts	42,058	43,060
Less: liquid resources	(60,025)	(73,887)
Net debt	244,009	89,374
Total shareholders' equity	304,857	298,845
Total financed capital	548,866	388,219
Add: provisions, deferred taxes (tax assets and liabilities), participating interests and derivative financial instruments	4,142	17,162
Net capital invested	553,008	405,381

(c) Interest rate risks

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 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, subject to the effect of the resulting movements in the market value of the derivative financial instruments used.

(d) Exchange rate risks

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

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

	2008		2007		2006	
	close	average	close	average	close	average
AED / EUR	0.19325	0.18993	-	-	-	-
GBP / EUR	1.04987	1.25583	1.36361	1.46127	1.48920	1.48449
SGD / EUR	0.49900	0.48644	0.47252	0.48460	0.49500	0.50148
USD / EUR	0.71855	0.67992	0.67930	0.72967	0.75930	0.79643

The relative impact of the different foreign currencies on net sales and EBITA was as follows:

	2008 (in %)		2007 (in %)		2006 (in %)	
	Net sales	EBITA	Net sales	EBITA	Net sales	EBITA
EUR	61.0	70.0	55.9	66.9	86.7	89.8
USD	3.9	4.8	4.8	7.8	4.4	6.0
GBP	29.3	15.2	37.5	23.4	7.2	2.9
Other	5.8	10.0	1.8	1.9	1.7	1.3
	100.0	100.0	100.0	100.0	100.0	100.0

Compared with 2007, the average GBP and USD exchange rates fell by 14.1 percent and 6.8 percent respectively against the euro in 2008.

If the average exchange rate had been 1 percent higher than that which applied in 2008, net sales for 2008 would have come to EUR 1,135.9 million (0.39 percent higher), EBITA to EUR 92.4 million (0.30 percent higher) and the net profit

to EUR 52.7 million (0.28 percent higher). If the closing exchange rate had been 1 percent higher than that applying on 31 December 2008, shareholders' equity would have been about EUR 1.3 million higher (0.43 percent).

Significant estimates and formation of opinion by the executive board

When preparing the annual report, 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 such divergences.

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

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

Consolidated profit and loss account

In EUR thousands	Ref.	2008	2007
Net sales	1.	1,131,496	949,139
Cost of sales		843,010	704,471
Gross profit on sales		288,486	244,668
Sales expenses		171,565	146,628
General administrative expenses		31,355	26,958
Total expenses		202,920	173,586
		85,566	71,082
Other operating income and expenses	3.	(821)	-
Operating profit	3.	84,745	71,082
Financial income and expenses	5.	(12,175)	(8,032)
Movement in fair value of derivative financial instruments	5.	(731)	(1,992)
Financial income and expenses	5.	(12,906)	(10,024)
Result from participating interests		(4)	25
Result before taxes		71,835	61,083
Taxes	6.	19,078	16,897
Result after taxes		52,757	44,186
At the disposal of shareholders		52,538	43,701
Minority interest	18.	219	485
Result after taxes		52,757	44,186
Average number of shares issued		10,702,082	10,330,246
Earnings per share (in euros) at the disposal of shareholders (ordinary and diluted)		4.91	4.23

Consolidated balance sheet

In EUR thousands	Ref.	31 December 2008	31 December 2007
ASSETS			
<i>Fixed assets</i>			
Intangible fixed assets	7.	278,289	191,117
Property, plant and equipment	8.	76,633	67,000
Participating interests	9.	-	13
Deferred tax assets	22.	22,027	8,795
Derivative financial instruments	25.	19,098	6,923
Total fixed assets		396,047	273,848
<i>Current assets</i>			
Inventories	10.	175,687	116,950
Accounts receivable trade	11.	211,118	161,996
Assets held for sale	12.	3,668	-
Other receivables	11.	9,849	8,094
Liquid resources	13.	60,025	73,887
Total current assets		460,347	360,927
Total ASSETS		856,394	634,775
SHAREHOLDERS' EQUITY AND LIABILITIES			
<i>Shareholders' equity</i>			
Share capital	14.	5,394	5,291
Share premium	14.	121,902	121,906
Other reserves	15.	(40,997)	(9,139)
Retained earnings	16.	217,547	179,770
Share capital and reserves at the disposal of shareholders		303,846	297,828
Minority interest	18.	1,011	1,017
Total shareholders' equity		304,857	298,845
<i>Long-term liabilities</i>			
Loans	19.	245,270	109,748
Employee benefits	20.	7,963	9,067
Other provisions	21.	4,996	4,122
Deferred tax liabilities	22.	32,308	19,704
Total long-term liabilities		290,537	142,641
<i>Short-term liabilities</i>			
Bank overdrafts	23.	42,058	43,060
Repayment obligations on loans	19.	16,706	10,453
Suppliers		115,730	90,953
Profit taxes		1,159	1,184
Other short-term liabilities	24.	85,347	47,639
Total short-term liabilities		261,000	193,289
Total liabilities		551,537	335,930
Total SHAREHOLDERS' EQUITY AND LIABILITIES		856,394	634,775

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 2007		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 / (expenses) 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	14	1,216	121,430	-	-	122,646	-	122,646
Profit appropriation 2006		60	-	-	(6,998)	(6,938)	(120)	(7,058)
Balance at 31 December 2007 / 1 January 2008	14 - 18	5,291	121,906	(9,139)	179,770	297,828	1,017	298,845
Hedging reserve		-	-	(10,373)	-	(10,373)	-	(10,373)
Less: deferred taxes		-	-	2,645	-	2,645	-	2,645
Currency translation differences		-	-	(24,231)	-	(24,231)	35	(24,196)
Income / (expenses) recognised in shareholders' equity		-	-	(31,959)	-	(31,959)	35	(31,924)
Result after taxes		-	-	-	52,538	52,538	219	52,757
Total result		-	-	(31,959)	52,538	20,579	254	20,833
Matching share plan reserve		-	(4)	101	-	97	-	97
Movement due to acquisitions/disposal		-	-	-	-	-	92	92
Profit appropriation 2007		103	-	-	(14,761)	(14,658)	(352)	(15,010)
Balance at 31 December 2008	14 - 18	5,394	121,902	(40,997)	217,547	303,846	1,011	304,857

With regard to the profit appropriation for 2006 and 2007, please refer to the notes on the shareholders' equity.

Consolidated cash flow statement

In EUR thousands	Ref.	2008	2007
Operating activities			
Result after taxes		52,757	44,186
Adjustments for:			
Depreciation, incl. amortisation of software	7-8.	11,041	9,867
Amortisation of other intangible assets	3.	6,545	5,244
Cash flow from ordinary activities		70,343	59,297
Exceptional results		171	(467)
Financial income and expenses	5.	12,175	8,032
Profit taxes	6.	19,078	16,897
Movement in working capital		(15,189)	(16,615)
Movement other accounts receivable and short-term liabilities, excluding repayment obligations on loans		8,560	5,585
Movement in deferred tax assets and liabilities		(31)	3,110
Movement in provisions		(4,561)	(8,509)
Movement in fair value of derivative financial instruments		731	1,992
Other movements		101	(46)
Cash flow generated from operating activities		91,378	69,276
Interest paid		(11,360)	(8,562)
Profit taxes paid		(19,103)	(18,769)
		(30,463)	(27,331)
Net cash flow from operating activities		60,915	41,945
Investing activities			
Investments in property, plant and equipment and software	7-8.	(18,565)	(12,465)
Investments in other intangible fixed assets		(346)	-
Disposals of property, plant and equipment and software	7-8.	592	897
Acquisition of group companies	2.	(182,895)	(4,899)
Disposal of group companies	2.	13,010	711
Cash flow from investing activities		(188,204)	(15,756)
Financing activities			
Withdrawals on loans	19.	148,439	101,333
Repayments on loans	19.	(6,534)	(225,670)
Repayments on bank overdrafts – cash loans	23.	(2,500)	(3,000)
Proceeds from share issue		-	122,646
Movement in exchange rate part of financial instruments		(23,530)	(7,862)
Cash dividend and costs paid	16.	(14,658)	(6,938)
Dividend payment minority interest	18.	(352)	(120)
Cash flow from financing activities		100,865	(19,611)
Net cash flow		(26,424)	6,578
Liquid resources and bank overdrafts at 1 January		33,327	22,510
Exchange differences		11,064	4,239
Liquid resources and bank overdrafts at 31 December	13.	17,967	33,327
Presentation in balance sheet			
Liquid resources		60,025	73,887
Banks – current account overdraft		(42,058)	(40,560)
		17,967	33,327

Notes to the consolidated accounts

In EUR thousands

1. Reporting by segment

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 subdivided further in the report by the executive board.

Net sales

Net sales to external customers increased from EUR 949.1 million in 2007 to EUR 1,131.5 million in 2008, an increase of 19.2 percent.

By cluster	2008	2007
ERIKS Belgium	170,237	151,031
ERIKS Germany	172,788	124,431
ERIKS Netherlands	324,139	237,087
ERIKS UK	342,365	370,567
Rest of Europe	28,946	22,196
Subtotal for Europe	1,038,475	905,312
ERIKS Middle East	42,675	-
ERIKS USA	37,366	35,786
ERIKS South-east Asia	12,980	8,041
	1,131,496	949,139

Intra-group sales between the clusters are small-scale.

By region (in percent)	2008	2007
Belgium	12.5	13.2
Germany	15.6	13.6
The Netherlands	26.2	23.4
United Kingdom	27.3	34.9
Rest of Europe	7.7	6.6
Middle East	3.8	-
United States	3.8	4.5
South-east Asia	1.7	2.9
Rest of the World	1.4	0.9
	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 broken down by cluster, was as follows:

	2008	2007
ERIKS Belgium	712	655
ERIKS Germany	536	454
ERIKS Netherlands	1,178	928
ERIKS UK	2,211	2,128
Rest of Europe	163	125
Subtotal for Europe	4,800	4,290
ERIKS Middle East	100	-
ERIKS USA	131	122
ERIKS South-east Asia	86	66
ERIKS group nv	21	17
	5,138	4,495

Operating profit

By cluster	2008	2007
ERIKS Belgium	15,412	15,182
ERIKS Germany	17,312	12,438
ERIKS Netherlands	38,602	27,837
ERIKS UK	8,997	14,501
Rest of Europe	(449)	768
Subtotal for Europe	79,874	70,726
ERIKS Middle East	5,897	-
ERIKS USA	4,870	4,276
ERIKS South-east Asia	1,425	660
ERIKS group nv	(6,500)	(4,580)
	85,566	71,082
Other operating income and expenses	(821)	-
Operating profit	84,745	71,082
Financial income and expenses	(12,906)	(10,024)
Result from participating interests	(4)	25
Taxes	(19,078)	(16,897)
Result after taxes	52,757	44,186

Other information by cluster

Year-end 2008									
	Participating interests			Investments			Depreciation		
	Goodwill and intangible fixes assets from acquisition	Other assets	Liabilities	Participating interests	Result from participating interests	Property, plant and equipment and software	Goodwill and intangible fixes assets from acquisition	Property, plant and equipment and software	Goodwill and intangible fixed assets from acquisition
ERIKS Belgium	12,755	82,879	(61,836)	-	(4)	2,456	2,376	1,856	64
ERIKS Germany	26,975	84,220	62,550	-	-	1,366	13,858	1,232	705
ERIKS Netherlands	40,294	159,687	125,620	-	-	7,025	34,668	3,639	1,184
ERIKS UK	95,587	165,935	173,303	-	-	6,051	5,565	3,565	3,940
Rest of Europe	7,056	21,674	23,947	-	-	474	1,576	236	248
Subtotal for Europe	182,667	514,395	323,584	-	-	17,372	58,043	10,528	6,141
ERIKS Middle East	8,964	54,608	36,342	-	-	180	9,286	213	322
ERIKS USA	3,383	13,711	8,101	-	-	77	-	111	82
ERIKS South-east Asia	-	8,947	8,675	-	-	368	-	111	-
ERIKS group nv	75,088	(5,369)	174,835	-	-	568	63,418	78	-
	270,102	586,292	551,537	-	(4)	18,565	130,747	11,041	6,545

Year-end 2007									
	Participating interests			Investments			Depreciation		
	Goodwill and intangible fixes assets from acquisition	Other assets	Liabilities	Participating interests	Result from participating interests	Property, plant and equipment and software	Goodwill and intangible fixes 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 Germany	13,788	46,812	33,689	-	-	865	-	879	25
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
Rest of Europe	6,577	13,595	13,782	-	-	158	30	205	198
Subtotal for Europe	171,496	403,889	367,703	13	(24)	12,123	3,821	9,642	5,156
ERIKS Middle East	-	-	-	-	-	-	-	-	-
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

2. Acquisition and disposal of group companies

On 1 January 2008, all the shares in Schmitztechnik GmbH were acquired via ERIKS Germany for the amount of EUR 7.1 million in cash. Of that amount, EUR 2.0 million related to identified assets and liabilities, including intangible fixed assets from acquisitions to the value of EUR 2.3 million (before taxes). The remaining goodwill totalled EUR 5.1 million. The annual contribution to sales is EUR 5.5 million with 15 employees.

On 31 January 2008, all the shares in Wielens Beheer bv in Groningen in the Netherlands were acquired for the amount of EUR 23.5 million in cash. Of that amount, EUR 9.0 million related to identified assets and liabilities, including intangible fixed assets from acquisitions to the value of EUR 6.2 million. The remaining goodwill totalled EUR 14.5 million. The annual contribution to sales is EUR 22 million with 70 employees.

ERIKS sold its Rencol Tolerance Rings (RTR) activities on 4 March 2008. RTR was purchased in November 2006 as part of Wyko in the UK. ERIKS received an amount of GBP 12.5 million (enterprise value). When set against the amount of the operational assets and the amount paid in November 2006 for the intangible fixed assets and goodwill, this gave a positive

transaction result of GBP 0.9 million. This profit on the transaction was incorporated in the 2008 result as part of the other operating profit.

On 26 May 2008, ERIKS group nv honoured its public bid for all subscribed and issued ordinary shares in Econosto nv at a bid price of EUR 8.21 per share in cash. Econosto is located in Capelle aan den IJssel in the Netherlands and has annual sales of around EUR 250 million (projection at the time of the acquisition), with 700 employees.

The acquisition price including acquisition costs and the acquired bank balances totalled EUR 144.4 million (EUR 0.4 million of which still has to be paid to the remaining shareholders). Of that amount, EUR 95.1 million related to identified assets and liabilities, including EUR 47.8 million for intangible fixed assets from acquisitions. The remaining goodwill totalled EUR 48.9 million.

In the Central Europe cluster the activities of TIM Sp.j.w and Hydro-met s.c. were acquired on 1 April 2008 for a purchase price of PLN 7.2 million in cash (PLN 4.3 million in goodwill and PLN 1.4 million in identified intangible fixed assets from acquisitions). Annual sales are PLN 7 million with 18 employees.

On 1 August 2008, a building and all the shares in Seals, Packings and Gaskets (SPG) Limited were acquired via ERIKS UK for the amount of GBP 5.9 million. Of that amount, GBP 3.0 million related to identified assets and liabilities, including intangible fixed assets from acquisitions to the value of GBP 0.9 million. The remaining goodwill totalled GBP 2.9 million. The annual contribution to sales is GBP 7 million with 52 employees.

On 1 July 2007, the entire share capital of Flexible Hose Supplies (FHS) was acquired in Great Britain for an amount 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, the trading activities of Forco Electrical Services were acquired through the ERIKS UK cluster for the amount of GBP 0.1 million, all of which can be qualified as goodwill. The annual contribution to sales is GBP 0.4 million with 9 employees.

Complete overview of the acquisitions in 2008:

	2008	2007
Paid to counterparties	193,285	5,652
Fair value of acquired assets and liabilities (see breakdown)	120,328	3,108
Goodwill paid	72,957	2,544

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 acquisitions:

	2008	2007
Liquid resources	10,390	989
Land, buildings and equipment and software	11,815	357
Intangible fixed assets from acquisitions:		
- clients	42,783	818
- brand name	13,952	102
- suppliers	-	205
- other	735	-
Subtotal for intangible fixed assets from acquisitions	57,470	1,125
Working capital	73,039	1,267
Other accounts receivable and liabilities	(32,386)	(630)
Net assets acquired	120,328	3,108
Purchase prices paid, including costs	193,285	5,652
Goodwill paid	72,957	2,544
Purchase prices paid, including costs	193,285	5,652
Less: contribution of liquid resources from acquisition(s)	(10,390)	(989)
Cash flow due to acquisitions in financial year	182,895	4,663
Cash flow due to acquisitions in previous financial year	-	236
Cash flow due to disposals	(13,010)	(711)
Net cash flow on account of acquisitions and disposals	169,885	4,188

The original book value of the acquired assets and liabilities is virtually the same as the fair value, with the exception of the identified intangible fixed assets from acquisitions of the value of EUR 57.5 million and other relative limited adjustments in various book values.

The cash flow of EUR 13,010 due to disposals is the result of the sale in 2008 of all the Rencol Tolerance Rings activities in Great Britain.

The cash flow in 2007 is the result of the sale of the Adji sarl shares in France.

3. Operating profit

The operating profit includes the following staff costs:

	2008	2007
Wages and salaries	197,131	176,419
Social security costs	29,700	27,814
Defined contribution plan costs	5,302	2,803
Defined benefit plan costs	1,867	847
	234,000	207,883
Average number of group employees	5,138	4,495
Average salary costs per employee	45.5	46.3

The operating profit also includes the following items:

	2008	2007
Depreciation and impairment of property, plant and equipment	9,612	8,973
Amortisation of software	1,429	894
Amortisation and impairment losses on other intangible fixed assets	6,545	5,244
Gain on the sale of property, plant and equipment	187	64
Amounts on account of rents paid and operating lease	27,348	25,453
Costs for the audit of the financial statements	1,193	836

The group auditor costs can be broken down into fees for:

	2008
- the audit of the financial statements	884
- other audit assignments	-
- tax advice	634
- other non-audit services	315

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

	2008	2007
Other operating income and expenses		
Net book profit on sale of participating interest in Great Britain	1,130	-
Net book loss on sale of participating interest in France	(1,951)	-
Book profits on the sale of an office building	-	700
Non-recurring project costs	-	(700)
	(821)	-

4. Remuneration of the board

Remuneration of the supervisory board

		Remuneration	
Number of shares	Members	2008	2007
-	J.L. Bouma (chairman, retired May 2007)	-	19,0
-	R.J.A. van der Bruggen	40,0	40,0
-	R.A.A. Oliemans	40,0	40,0
-	A.A. Olijslager (chairman, appointed May 2007)	50,0	25,0
-	A. Wateler	40,0	40,0

All members of the supervisory board receive a fixed annual remuneration that is not dependent on the results in any single year. The current supervisory board members do not own any shares in ERIKS group nv. They have not been granted any options on ERIKS group nv shares.

Remuneration of the executive board

The current members of the executive board held a total of 24,538 ERIKS group nv shares at year-end 2008. No options on ERIKS group nv shares were granted to the members of the executive board. The members of the executive board were granted the following salaries, bonuses and allowances for 2008:

Number of shares	Members	Gross salary	Variable remuneration short+long	Pension premium	Total 2008	Total 2007
8,913	J. van der Zouw, chairman and CEO	450	540	172	1,162	956
8,087	J.G. de Boer, CFO	360	432	152	944	809
1,032	M.T.A. Beckers	300	360	96	756	573
808	M. Dixon	301	181	55	537	540
2,903	H.J. Maier	300	360	59	719	580
1,975	J.F.A.M. van Os (appointed August 2008)	125	75	41	241	-
820	B. Wilson	337	202	65	604	684

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

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

Following approval by the general meeting of shareholders, a matching share plan was introduced in May 2008 for the members of the executive board and senior management, supplementing their existing remuneration package.

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

- quantitative: realisation of the annual objectives for growth and profitability
- qualitative: realisation of the key objectives in the policy plan.

The size 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 components were fully realised. The remuneration package also contains contributions to pension schemes and occupational disability benefit schemes amounting to 20 percent to 35 percent of the basic salary.

Matching share plan

The aim of the new matching share plan is to ensure the retention in the group of potential participants for a longer period of time and reinforce their loyalty to the company by encouraging them to buy ordinary shares in the company and hold them for a relatively long time.

Individuals eligible for participation can choose to invest part of their short-term incentive bonus (after tax) in shares in the company. Participation in the scheme is voluntary. Should an individual decide to invest, that investment is limited to 50 percent of the gross short-term incentive bonus with the minimum investment being 10 percent. The shares purchased by a participant are subjected to an obligatory vesting period of three years.

Each participant receives one share granted conditionally (the matching share) for every share purchased; the matching share only becomes unconditional after three years, provided the participant is then still employed by the ERIKS group. The matching shares are then subjected to an obligatory vesting period of two years. The right to the matching shares lapses if the participant's employment contract is terminated at any moment during the three-year period (except in the case of retirement or death).

The maximum number of matching shares allocated conditionally to all the eligible individuals (the executive board members and senior management) in any one year on the basis of the matching share plan may not exceed 0.75 percent of the company's subscribed and issued share capital in the form of ordinary shares as at 1 January of that year.

The following amounts have been recognised in the profit and loss account for the matching share plan:

	2008	2007
Expenses on account of payments based on shares	101	-
Matching share plan reserve	101	-

5. Financial income and expenses

This item can be broken down as follows:

	2008	2007
Financial income and expenses		
Bank interest	(3)	567
Interest expense on loans	11,335	6,430
Other financial expenses, including exchange rate results	843	1,035
	12,175	8,032
Movements in fair value of derivative financial instruments	731	1,992
Balance of financial income and expenses	12,906	10,024

The formal requirements of IFRS for the application of hedge accounting have been satisfied with regard to a number of derivative financial instruments. Consequently, the effective part 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.

6. Taxes

The taxes on the 2008 and 2007 result before tax are EUR 19,078 and EUR 16,897 respectively. The tax burden was 26.6 percent in 2008 and 27.7 percent in 2007.

	2008	2007
Weighted average of legal profit tax rates	28.3	30.7
Tax effect of off-settable losses not recognised	1.8	0.3
Tax effect of off-settable losses claimed	(1.6)	(1.4)
Effect of group financing	(1.0)	(3.0)
Expenses deductible or not deductible for tax purposes (permanent differences)	1.8	1.3
Effect on deferred taxes, including tax rate change	(2.7)	(0.4)
Charges paid for previous years	-	0.2
Effective tax rate	26.6	27.7

The average statutory tax rate is the average of the statutory tax rates applicable in the countries in which the ERIKS group operates, weighted according to the result from ordinary activities before tax in each of these countries.

7. Intangible fixed assets

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

Movements in intangible fixed assets in 2007 and 2008 were as follows:

	Goodwill	From acquisition	Software	Total
Balance at 1 January 2007				
Cost	152,482	48,895	11,730	213,107
Cumulative amortisation and impairments	59	889	9,246	10,194
Balance sheet value	152,423	48,006	2,484	202,913
Movements in 2007:				
Movement in book value due to acquisitions and disposals of group companies	-	-	11	11
Investments	2,780	1,125	3,099	7,004
Disposals	-	-	-	-
Amortisation	-	(5,244)	(894)	(6,138)
Exchange differences	(9,256)	(3,388)	(29)	(12,673)
Balance at 31 December 2007 / 1 January 2008				
Cost	146,006	46,632	14,201	206,839
Cumulative amortisation and impairments	59	6,133	9,530	15,722
Balance sheet value	145,947	40,499	4,671	191,117
Movements in 2008:				
Movement in book value due to acquisitions and disposals of group companies	-	35	386	421
Investments	72,957	57,790	4,482	135,229
Disposals and reclassifications	(6,953)	(2,711)	177	(9,487)
Amortisation and impairment losses	(45)	(6,500)	(1,429)	(7,974)
Exchange differences	(23,141)	(7,775)	(101)	(31,017)
Balance at 31 December 2008				
Cost	188,869	91,322	20,116	300,307
Cumulative amortisation and impairments	104	9,984	11,930	22,018
Balance sheet value	188,765	81,338	8,186	278,289
Amortisation percentages in 2007 and 2008	0	7-33%	20-33%	

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

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

	2008	2007
Clients	64,458	36,052
Brand name	15,488	3,070
Suppliers	1,059	1,377
Other	333	-
Balance sheet value at 31 December	81,338	40,499

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:

	2008	2007
Cluster ERIKS UK	71,450	97,977
Econosto (group)	48,926	-
Wielens (group)	14,492	-
ERIKS bv	11,589	11,589
ERIKS Aandrijftechniek bv (group)	3,531	3,531
Vemoflex (group)	3,486	3,486
Baudoin (group)	9,887	9,564
Cluster ERIKS Germany	17,214	12,133
Cluster ERIKS Central Europe	5,310	4,944
Cluster ERIKS USA	2,880	2,723
Balance sheet value of goodwill at 31 December	188,765	145,947

The recoverable amount of a cash-generating unit in which goodwill has been recognised in the balance sheet is the higher of the cash-generating unit's fair value less the costs of selling it and its value in use. The value in use is determined on the basis of future cash flows in a three-year projection. Cash flows after three years are extrapolated, allowing for an annual growth rate of 0 percent to 2 percent. A pre-tax discount rate of 9.9 percent (9.8 percent in 2007) was used in the calculations of future cash flows. The impairment tests did not lead to any impairments.

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
Balance at 1 January 2007				
Cost	54,681	42,815	58,176	155,672
Cumulative depreciation and impairments	9,763	33,029	44,411	87,203
Balance sheet value	44,918	9,786	13,765	68,469
Movements in 2007:				
Movement in book value due to acquisitions and disposals of group companies	142	(57)	106	191
Investments	1,168	4,047	4,151	9,366
Book value of 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)
Balance at 31 December 2007 / 1 January 2008				
Cost	53,956	42,936	57,318	154,210
Cumulative depreciation and impairments	10,690	32,148	44,372	87,210
Balance sheet value	43,266	10,788	12,946	67,000
Movements in 2008:				
Movement in book value due to acquisitions of group companies	7,095	1,327	2,795	11,217
Movement in book value due to disposals of group companies	(140)	(1,150)	(363)	(1,653)
Investments	6,460	3,908	3,715	14,083
Book value of disposals	-	(43)	(626)	(669)
Reclassifications	14	136	149	299
Exchange differences	(2,474)	(1,193)	(365)	(4,032)
Depreciation	(1,887)	(2,638)	(4,773)	(9,298)
Impairments	(314)	-	-	(314)
Balance at 31 December 2008				
Cost	67,847	44,777	64,453	177,077
Cumulative depreciation and impairments	15,827	33,642	50,975	100,444
Balance sheet value	52,020	11,135	13,478	76,633
Depreciation percentages in 2007 and 2008	0-4%	7-20%	5-25%	

The value of property, plant and equipment acquired through finance leases is negligible.

The other operating assets are made up of transport and 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 impairments took place except for one impairment of a property.

9. Participating interests

This item concerns the following participating interest:

	2008	2007
TradCom nv (as at 31 December 2007: 33.3 percent)	-	13
Balance sheet value at 31 December	-	13

TradCom nv is a company in which an internet portal is managed.

In June 2008 all of the shares in TradCom nv were acquired and this company has been fully included in the consolidated figures from that point onwards.

10. Inventories

Inventories were made up of the following:

	2008	2007
Trade inventories	166,469	106,259
Raw materials	3,214	1,786
Work in progress	6,004	8,905
	175,687	116,950

11. Accounts receivable trade and other receivables

This item can be broken down as follows:

	2008	2007
Accounts receivable trade	219,182	167,067
Less: provision	(8,064)	(5,071)
Accounts receivable trade	211,118	161,996
Other receivables and prepayments	9,849	8,094
Other receivables	9,849	8,094

The fair values of the receivables are equal to the reported balance sheet values.

Movements in the provision for bad trade debts were as follows:

	2008	2007
Balance at 1 January	5,071	4,853
Movement due to acquisitions or disposals of group companies	2,340	6
Add: allocation to provision	2,634	846
Less: write-off of accounts receivable trade	(1,773)	(525)
Exchange differences	(208)	(109)
Balance at 31 December	8,064	5,071

The ages of the overdue accounts receivable are as follows:

	2008		2007	
		Amount of provision		Amount of provision
Accounts receivable trade not overdue	141,307	65	116,465	-
Overdue accounts receivable trade				
- Less than 30 days overdue	47,791	350	33,485	897
- Between 31 and 60 days overdue	12,004	1,299	9,575	1,136
- More than 60 days overdue	18,080	6,350	7,542	3,038
	219,182	8,064	167,067	5,071

12. Assets held for sale

This refers to all the assets of the participating interest in Baudoux Industrie sas, France, held for sale. The assets consist primarily of inventories and accounts receivable trade.

13. Liquid resources

These consist primarily of positive bank balances in cash pools. All liquid resources are freely available. The following items are of relevance for the purposes of the cash flow statement:

	2008	2007
Liquid resources	60,025	73,887
Bank overdrafts – current account (see 23.)	(42,058)	(40,560)
	17,967	33,327

14. Share capital

Issued and paid-up share capital

At year-end 2008, the issued and paid-up share capital comprised 10,787,416 ordinary shares with a par value of EUR 0.50, i.e. EUR 5,393,708.

Authorised share capital

The authorised share capital amounts to EUR 19 million and consists of:

- 15 million ordinary shares with a par value of EUR 0.50 each
- 4 million cumulative preference shares with a par value of EUR 0.50 each
- 19 million preference shares with a par value of EUR 0.50 each.

Movements in the number of shares and average number of shares issued

	2008	2007
Number of ordinary shares issued at 1 January	10,582,614	8,030,776
Issue of new ordinary shares	-	2,432,693
Stock dividend	204,802	119,145
Number of ordinary shares issued at 31 December	10,787,416	10,582,614
Average number of ordinary shares issued	10,702,082	10,330,246

In 2007, an issue of ordinary shares took place in connection with a refinancing and 2,432,693 new ordinary shares with a par value of EUR 0.50 were issued. The total issue revenues of approximately EUR 122.6 million (after deduction of the costs associated with the issue) have been accounted for as authorised subscribed and paid-up share capital (EUR 1.2 million) and share premium (EUR 121.4 million).

Share premium reserve

The share premium reserve can be qualified as paid-up capital. Movements in the share premium reserve were as follows:

	2008	2007
Balance at 1 January	121,906	476
Revenues from share issue	-	125,284
Less: issue costs, less taxes	-	(3,854)
Less: costs of matching share plan	(4)	-
Balance at 31 December	121,902	121,906

15. Other reserves

The other reserves comprise the hedging reserve and the exchange differences reserve on account of exchange gains and losses on the net asset value of foreign participating interests and the share in the fixed financing of foreign participating interests. Movements were as follows:

	Matching share plan reserve	Hedging reserve	Exchange differences reserve	Total
Balance at 1 January 2007	-	1,003	(349)	654
Movements:				
Hedging reserve	-	606	-	606
Less: deferred taxes	-	(155)	-	(155)
Exchange differences	-	-	(10,244)	(10,244)
Balance at 31 December 2007 / 1 January 2008	-	1,454	(10,593)	(9,139)
Movements:				
Share matching plan reserve	101	-	-	101
Hedging reserve	-	(10,373)	-	(10,373)
Less: deferred taxes	-	2,645	-	2,645
Exchange differences	-	-	(24,231)	(24,231)
Balance at 31 December 2008	101	(6,274)	(34,824)	(40,997)

The above other reserves are not at the free disposal of the shareholders for distribution. The hedging reserve comprises the effective part of the cumulative net movement in the fair value of cash flow hedging instruments with regard to hedged transactions that have not yet taken place.

16. Retained earnings

Movements were as follows:

	2008	2007
Balance at 1 January	179,770	143,067
Profit appropriation:		
- cash dividend	(14,595)	(6,888)
- stock dividend	(103)	(60)
- costs associated with the issue of the stock dividend	(63)	(50)
Sub-total after profit appropriation	165,009	136,069
Result for financial year	52,538	43,701
Balance at 31 December	217,547	179,770

17. Earnings per share

Earnings per share at the disposal of shareholders are as follows:

	2008	2007
Average number of shares issued	10,702,082	10,330,246
Net earnings per share (ordinary and diluted) in euros	4.91	4.23
Dividend per share (in euros)	April '09	2.25

18. Minority interest

Movements in the minority interest were as follows:

	2008	2007
Balance at 1 January	1,017	698
Movement due to acquisitions and disposals	92	-
Dividend	(352)	(120)
Exchange differences	35	(46)
Share in result	219	485
Balance at 31 December	1,011	1,017

19. Loans

Loans comprise:

	2008			2007		
	Total	Long-term	Short-term	Total	Long-term	Short-term
- term loan credit facility	55,376	39,379	15,997	43,860	33,956	9,904
- revolving credit facility	186,973	186,973	-	57,440	57,440	-
- ancillary credit facility	-	-	-	-	-	-
	242,349	226,352	15,997	101,300	91,396	9,904
- mortgage credit facility	18,250	17,750	500	18,750	18,250	500
- other loans	1,377	1,168	209	151	102	49
	261,976	245,270	16,706	120,201	109,748	10,453
Of which with a term > 5 years	15,750			16,250		

All loans are denominated in euros. Costs of financing recognised in the balance sheet have been included in the loan amounts.

The fair values of the loans are almost the same as the face values.

With regards to interest rates, the policy is to fix the interest on the existing (strategic) financing requirements for the longer term. Refer to note 25 'Derivative financial instruments'.

Syndicated credit facility

In 2007 a credit facility of EUR 250 million was arranged with a syndicate of credit institutions. This credit facility was extended in May 2008 to EUR 400 million under almost the same conditions on account of the acquisition of Econosto nv. The syndicated credit facility has a term of five years until June 2012 and consists of three components:

	Principal	Year-end 2008
- term loan credit facility	70,000	56,875
- revolving credit facility	250,000	250,000
- ancillary credit facility	80,000	80,000
Total syndicated credit facility	400,000	386,875

The most important conditions as at 31 December 2008 are:

	Term loan	Revolving	Ancillary
Term	5 years until June 2012	5 years until June 2012	5 years until June 2012
Interest period	variable	variable	variable
Interest	Euribor + surcharge percent	Euribor + surcharge percent	Euribor + surcharge percent
Repayment	Straight-line, half-yearly	-	-

This loan involved an agreement on some financial ratios for net debt/EBITDA (cannot exceed 3) and interest coverage (cannot be less than 4). At year-end 2008 these ratios were 2.2 and 8.1 respectively.

The surcharge on 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	0.55%	0.70%	0.85%	1.00%	1.20%

The interest rates are largely fixed for the longer term by means of interest rate swaps (see note 25).

A commitment fee of 35 percent of the relevant surcharge (EUR 425 in 2008) is payable on the undrawn portion of the credit facility.

Mortgage credit facility

At year-end 2008, two loans were drawn under mortgage credit facilities originally totalling EUR 20 million. The most important conditions applying to these facilities are:

Principal per facility	EUR 10,000	EUR 10,000
Balance at year-end	EUR 8,250	EUR 10,000
Term	20 years to 2025	20 years to 2024
Interest period	3 months	3 months
Interest	EURIBOR + 0.85 percent	EURIBOR + 0.85 percent
Repayment	Straight-line, quarterly	Interest only

Business premises in Alkmaar and Roermond have been used as mortgage collateral. Financial ratios relating to interest coverage and solvency have been agreed, which are easily being met. An amount of EUR 15,750 has a remaining term of more than 5 years.

20. Employee benefits

Employee benefits can be broken down as follows:

	2008	2007
Present value of expected and projected pension payments	123,357	100,773
Fair value of plan assets	130,267	102,163
Net assets	(6,911)	(1,390)
Unrecognised actuarial differences	11,650	7,806
Defined benefit plan obligations	4,739	6,416
Other retirement and early retirement obligations	1,793	1,798
Jubilee obligations	1,431	853
	7,963	9,067
- Short-term	603	474
- Long-term	7,360	8,593

Movements in the valuation of expected and projected pension payments are as follows:

	2008	2007
Balance at 1 January	100,773	109,039
Costs recognised in result	1,939	1,783
Interest	6,964	5,274
Contribution due to acquisitions	56,570	-
Actuarial gains and losses	(17,497)	(4,456)
Payments to participants	(4,494)	(2,849)
Contributions by participants	1,210	1,096
Exchange differences	(22,109)	(9,114)
Balance at 31 December	123,356	100,773

Movements in the valuation of the fair value of plan assets are as follows:

	2008	2007
Balance at 1 January	102,163	94,149
Expected return on plan assets	7,625	6,361
Contribution due to acquisitions	64,240	-
Contributions paid by employer	4,346	8,323
Difference between actual and expected return	(21,353)	3,624
Payments to participants	(4,494)	(2,849)
Contributions by participants	1,210	1,096
Exchange differences	(23,470)	(8,541)
Balance at 31 December	130,267	102,163

The costs recognised in the profit and loss account can be broken down as follows:

	2008	2007
Net current service pension costs, less payments made to participants	1,939	1,783
Interest on obligations	6,964	5,274
Expected return on plan assets	(7,625)	(6,361)
Amortisation of pension costs for past years	5	151
Not valued net pension assets	584	-
	1,867	847

The expected employer contributions to plans for payments after the retirement date for the year ending on 31 December 2009 are EUR 3.6 million. The employer contributions in 2008 and 2007 include payments of EUR 1.7 million and EUR 6.3 million respectively, agreed when Wyko Holdings Ltd was acquired.

The following actuarial assumptions were made when calculating the defined benefit plan obligations:

	2008	2007
Discount rate at 31 December	5.9 – 6.7 percent	4.5 – 5.7 percent
Expected return on plan assets	4.0 – 6.0 percent	4.0 – 6.3 percent
Future salary increases	0 – 3.0 percent	0 – 3.0 percent
Inflation adjustment	1.9 – 2.7 percent	2.0 – 3.2 percent

21. Other provisions

Other provisions can be broken down as follows:

	2008			2007		
	Reorga- nisation	Other	Total	Reorga- nisation	Other	Total
Balance at 1 January	791	3,331	4,122	987	3,701	4,688
Movement due to acquisitions/disposals	443	1,365	1,808	-	147	147
Additions	-	462	462	150	434	584
Withdrawals	(137)	(733)	(870)	(346)	(763)	(1,109)
Exchange differences	-	(526)	(526)	-	(188)	(188)
Balance at 31 December	1,097	3,899	4,996	791	3,331	4,122
- Short-term	160	3,283	3,443	297	2,410	2,707
- Long-term	937	616	1,553	494	921	1,415

The other provisions relate mainly to warranties, product liability and future repair commitments with respect to buildings in use.

22. Deferred taxes

Based on the expected realisation term, deferred taxes can be broken down as follows:

Deferred tax assets	Goodwill and intangible fixed assets from acquisition	Employee benefits	Financial instruments	Off-settable losses	Other	Total
Balance at 1 January 2008	682	1,855	-	1,227	5,031	8,795
Movement due to acquisition	-	18	-	8,463	198	8,679
Movement due to disposals	(16)	(30)	-	-	(190)	(236)
Movement via profit and loss account	(140)	(729)	8,194	(513)	292	7,104
Movement due to tax rate changes	-	(115)	-	(506)	-	(621)
Exchange differences	-	(156)	-	(496)	(1,042)	(1,694)
Balance at 31 December 2008	526	843	8,194	8,175	4,289	22,027

Deferred tax liabilities	Goodwill and intangible fixed assets from acquisition	Employee benefits	Financial instruments	Other	Total
Balance at 1 January 2008	12,893	373	1,765	4,673	19,704
Movement due to acquisition	11,232	606	-	80	11,918
Movement due to disposals	(759)	-	-	(667)	(1,426)
Movement via profit and loss account	(1,567)	(973)	5,783	4,580	7,823
Movement via shareholders' equity	-	-	(2,645)	-	-
Movement due to tax rate changes	(663)	-	-	(20)	(683)
Exchange differences	(1,891)	-	-	(492)	(2,383)
Balance at 31 December 2008	19,245	6	4,903	8,154	32,308

	2008	2007
Deferred tax assets		
Short-term < 1 year	4,230	3,550
Long-term > 1 year	17,797	5,245
	22,027	8,795
Deferred tax liabilities		
Short-term < 1 year	2,748	975
Long-term > 1 year	29,560	18,729
	32,308	19,704

Off-settable losses

The off-settable losses at year-end and their valuation can be broken down as follows:

	2008	2007
Carry-over period within 1 year	16,882	4,297
Carry-over period between 1 and 5 years	8,277	8,187
Carry-over period after 5 years	10,878	4,332
Total off-settable losses	36,037	16,816
Of which recognised as deferred tax asset	6,304	1,227

In addition to the before mentioned off-settable losses, the acquired companies in 2006 contributed significant off-settable losses (GBP 52.5 million). It is doubtful whether most of these off-settable losses can be used within a reasonable period. Where they have already been set off, the income must be shared with the previous owners of WYKO Holdings Ltd. Further are the so called capital allowances available in Great Britain (GBP 6.4 million) off-settable with fiscal profits. These are valued as deferred tax assets amounting to EUR 1.9 million (recorded as off-settable losses).

23. Bank overdrafts

This item relates to current account overdrafts with financial institutions amounting to EUR 42,058 (EUR 40,560 in 2007) and cash loans (EUR 2,500 in 2007).

	2008	2007
Bank overdrafts – cash loans	-	2,500
Bank overdrafts – current account (see note 13)	42,058	40,560
	42,058	43,060

The interest on the cash loans has been fixed for the longer term by means of interest rate swaps.

24. Other short-term liabilities

The other short-term liabilities all have a term of less than one year and comprise:

	2008	2007
Other taxes and social security costs	15,944	12,912
Other short-term liabilities and accrued expenses	69,403	34,727
	85,347	47,639

25. Derivative financial instruments

The fair values of derivative financial instruments at the balance sheet date are as follows:

	2008	2007
Cross currency interest rate swaps	30,226	5,474
Interest rate swaps	(11,080)	1,301
Other derivative financial instruments	(48)	148
Total recognised as financial fixed assets	19,098	6,923
Of which short-term (< 1 year)	5,237	77
Between 1 and 5 years	20,627	5,745
Longer than 5 years	(6,766)	1,101

Interest rate swaps

ERIKS group uses interest rate swaps to control interest rate risks; its policy is to fix the interest on the existing (strategic) financing requirements for the longer term.

The financing requirement for the longer term and the interest rate risk exposure was reassessed during the second quarter of 2008 after the refinancing was complete. The principal sums involved in the interest rate swap contracts current at year-end totalled EUR 237.1 million (EUR 97.8 million in 2007), with the interest payable fixed at rates ranging from 2.7 percent to 5.1 percent (2.7 percent to 4.5 percent in 2007). Interest received is variable. The bulk of the drop down of the market value of the interest rate swap of EUR 12.381 is qualified for hedge accounting and accounted for via the shareholders' equity (EUR 10.373).

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 swaps totalling GBP 75 million were concluded, with terms of 2 to 6 years. The swaps involve 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 swaps was EUR 30,226 on 31 December 2008 (EUR 5,474 in 2007). The market value of EUR 31,392 (EUR 7,862 in 2007) for the exchange rate part of this derivative financial

instrument is naturally hedged via the profit and loss account by the exchange rate results for the loan to ERIKS UK. The movement in the market value of the interest rate part 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 forward contracts and currency options to hedge exchange rate risks. The fair value of the other outstanding derivative financial instruments is EUR 48 (EUR 148 in 2007).

26. Rights and liabilities not included in the balance sheet

The following rights and liabilities were not included in the balance sheet:

	2008	2007
Contingent liabilities		
Guarantees and deposits for banks and rental of business premises	1,053	724
Rental and operating lease obligations		
These mainly relate to office buildings and vehicles		
Terms expiring within 1 year	23,442	20,512
Terms expiring between 1 and 5 years	56,217	49,131
Terms expiring after 5 years	30,562	14,126

ERIKS group nv has assumed liability with respect to the banks for the sub credit facilities of some group companies for the sum of EUR 39.9 million on the balance sheet date (EUR 5.2 million in 2007), to be charged to the ancillary credit facility.

27. Related-party transactions

The ERIKS group has the following related parties: the ERIKS pension fund and the members of the executive board. The remuneration of the board is explained under note 4.

The profit and loss account for 2008 includes EUR 3.2 million (EUR 2.6 million in 2007) for pension premiums paid by the affiliated Dutch companies to the ERIKS pension fund.

28. Events after the balance sheet date

All the shares in Baudoux Industrie sas have been sold as at 1 January 2009. The associated assets and liabilities were recognised in the 2008 financial statements and carried in the balance sheet as short-term assets/liabilities held for sale. The book loss on the transaction of EUR 1.9 million (before tax) is recognised in the result for 2008 as 'other income and expenses'.

Company profit and loss account

In EUR thousands	2008	2007
Net result of group companies	58,314	44,034
Other income and expenses after taxes	(5,776)	(333)
Net result	52,538	43,701

Company balance sheet

Before proposed profit appropriation				
In EUR thousands		Ref.	31 December 2008	31 December 2007
ASSETS				
Fixed assets				
Intangible fixed assets	3.		75,713	11,782
Property, plant and equipment			58	80
Financial fixed assets				
Group companies	4.	442,084		215,697
Loans to group companies	4.	73,628		168,883
Deferred tax assets		934		1,016
Derivative financial instruments		19,228		6,923
			<u>535,874</u>	<u>392,519</u>
Current assets				
Receivables	5.	9,730		1,719
Corporation tax		1,334		2,317
Liquid resources		671		41,147
			<u>11,735</u>	<u>45,183</u>
Total ASSETS			<u>623,380</u>	<u>449,564</u>
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	6.	5,394		5,291
Share premium		121,902		121,906
Hedging reserve		(6,274)		1,454
Exchange differences reserve		(34,824)		(10,593)
Matching share plan reserve		101		-
Other reserves		165,009		136,069
Result for the financial year		52,538		43,701
			<u>303,846</u>	<u>297,828</u>
Provisions				
Deferred tax liabilities	7.	6,141		2,721
Other provisions		1,410		1,410
			<u>7,551</u>	<u>4,131</u>
Long-term liabilities				
Loans			226,550	91,734
Short-term liabilities				
Bank overdrafts		32,249		41,869
Repayment obligations on loans		15,996		9,904
Other short-term liabilities	8.	37,188		4,098
			<u>85,433</u>	<u>55,871</u>
Total SHAREHOLDERS' EQUITY AND LIABILITIES			<u>623,380</u>	<u>449,564</u>

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, Book 2 of the Netherlands Civil Code. The option granted in Section 362 (8) of Book 2 of the Netherlands Civil Code of applying the same accounting policies to the company financial statements as are applied in the consolidated financial statements, is invoked.

Consequently, shareholders' equity and the result after taxes in the company financial statements are, in principle, equal to shareholders' equity in the consolidated financial statements. 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.

If no further details on accounting policies are provided, the accounting policies stated in the consolidated financial statements apply.

Financial fixed assets

Participating interests in group companies and other companies in which ERIKS group nv has control are carried 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 in the consolidated financial statements.

3. Intangible fixed assets

Movements in intangible fixed assets in 2007 and 2008 were as follows:

	Goodwill	Software	Total
Cost at 1 January 2007	11,670	168	11,838
Cumulative amortisation	-	(40)	(40)
Balance sheet value as at 1 January 2007	11,670	128	11,798
Movements in balance sheet value for 2007:			
Investments	-	29	29
Amortisation and impairments	-	(45)	(45)
Cost at 31 December 2007 and 1 January 2008	11,670	197	11,867
Cumulative amortisation	-	(85)	(85)
Balance sheet value at 31 December 2007 and 1 January 2008	11,670	112	11,782
Movements in balance sheet value for 2008:			
Investments	63,418	560	63,978
Amortisation and impairments	-	(47)	(47)
Cost at 31 December 2008	75,088	757	75,845
Cumulative amortisation	-	(132)	(132)
Balance sheet value as at 31 December 2008	75,088	625	75,713

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:

	2008	2007
Balance at 1 January	215,697	213,453
Movements:		
- capital contributions to group companies	128,504	140
- investments in / (disposals of) group companies	93,030	(144)
- result from participating interests	58,314	44,034
- exchange rate result	(24,231)	(10,244)
- declared dividends	(29,230)	(31,542)
Balance at 31 December	442,084	215,697

Movements in loans to group companies were as follows:

	2008	2007
Balance at 1 January	168,883	171,912
Movements:		
- granted in the period under review	221,355	269,234
- repaid in the period under review	(307,340)	(262,092)
- exchange rate result	(9,270)	(10,171)
Balance at 31 December	73,628	168,883

The loans to group companies have varying terms. Loans with a term of more than 1 year total EUR 28,670 (EUR 126,047 in 2007).

The interest rates on loans to group companies range from 4.0 percent to 8.5 percent (from 5.45 percent to 7.9 percent in 2007).

5. Receivables

The receivables comprised:

	2008	2007
Other taxes and social security costs	101	74
Receivables from group companies	9,494	1,549
Other receivables and accrued expenses	135	96
Balance at 31 December	9,730	1,719

6. Shareholders' equity

For notes on the share capital and the share premium, see the notes to the consolidated balance sheet. Movements in the hedging reserve, exchange differences reserve, matching share plan reserve, other reserves and result for the financial year were as follows:

	Hedging reserve	Exchange differences reserve	Matching share plan reserve	Other reserves	Results for the financial year
Balance at 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 payment of the stock dividend	-	-	-	-	(50)
- Addition to other reserves	-	-	-	20,765	(20,765)
Addition to hedging reserve	606	-	-	-	-
Less: deferred taxes	(155)	-	-	-	-
Exchange rate result on the net asset value of foreign participating interests	-	(10,244)	-	-	-
Result for financial year	-	-	-	-	43,701
Balance at 31 December 2007 / 1 January 2008	1,454	(10,593)	-	136,069	43,701
Movements in 2008:					
Profit appropriation for 2007:					
- Cash dividend paid	-	-	-	-	(14,595)
- Stock dividend	-	-	-	-	(103)
- Costs associated with the payment of the stock dividend	-	-	-	-	(63)
- Addition to other reserves	-	-	-	28,940	(28,940)
Addition to reserve	(10,373)	-	101	-	-
Less: deferred taxes	2,645	-	-	-	-
Exchange rate result on the net asset value of foreign participating interests	-	(24,231)	-	-	-
Result for financial year	-	-	-	-	52,538
Balance at 31 December 2008	(6,274)	(34,824)	101	165,009	52,538

7. Provisions

The following provisions were recognised:

	Balance at 1 January 2008	Additions	Withdrawals	Balance at 31 December 2008
Employee benefits	205	-	-	205
Reorganisation	594	-	-	594
Other	611	-	-	611
	1,410	-	-	1,410
Provision for deferred taxes	2,721	3,555	(135)	6,141
	4,131	3,555	(135)	7,551

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	1,543	4,598
Balance at 31 December 2008	1,823	5,728
Balance at 31 December 2007	483	3,648

8. Other short-term liabilities

This item can be broken down as follows:

	2008	2007
Other taxes and social security costs	219	172
Group companies	31,560	168
Other liabilities and accrued expenses	5,409	3,758
Balance at 31 December	37,188	4,098

9. Related-party transactions

See the notes to the consolidated financial statements for a list of related parties, including remuneration of the board.

10. Rights and liabilities not included in the balance sheet

With respect to the securities, required by the syndicate of banks, we refer to the notes to the consolidated balance sheet. ERIKS group nv and the Dutch wholly-owned group companies form a fiscal unity. For corporation tax purposes, the company is the head of the ERIKS group nv fiscal unity and as such has joint and several liability for the liabilities of the fiscal unity as a whole.

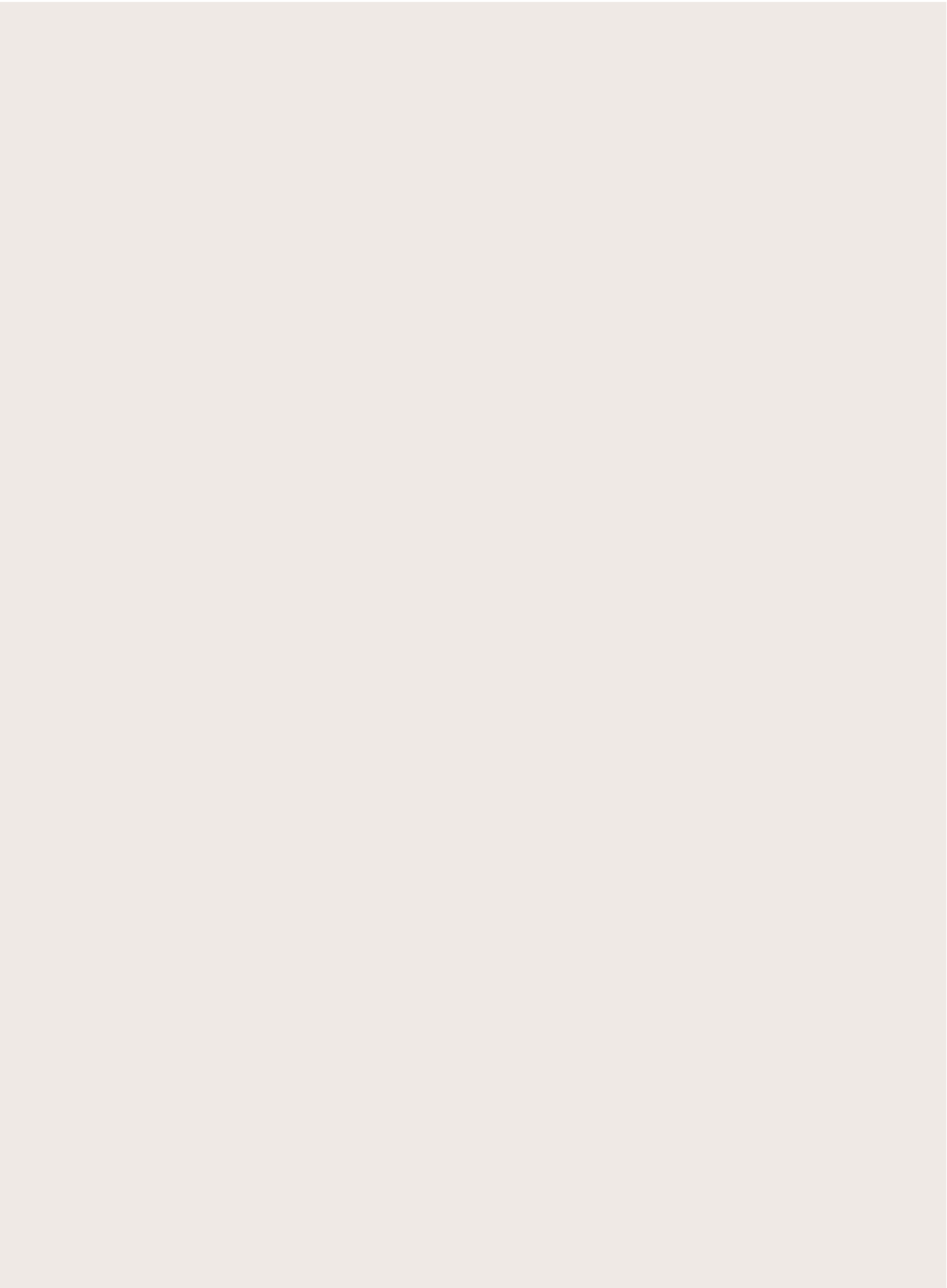
Alkmaar, 26 February, 2009

Executive board

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

Supervisory board

A.A. Olijslager
R.J.A. van der Bruggen
R.A.A. Oliemans
A. Wateler



A close-up photograph of a fire fighting valve with a chain, set against a background of a boat and yellow hoses. The valve is a complex metal component with a chain attached to it. The background shows a boat with a yellow cabin and blue hull, and a large coil of yellow hoses. The foreground is a blue textured surface.

Private label

In the past 50 years, ERIKS has developed an extremely high-quality range of private labels, including Fenner® power transmission, Flexitube® hydraulic hoses, RX® seals, valves, flange gaskets, hoses, pneumatics and plastics. Econosto is strengthening the range with the ECON® brand.

Photo: ECON® fire fighting valve



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 2008 of ERIKS group nv, Alkmaar as set out on pages 95 to 132. 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 2008, 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 2008, the company 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 2008, 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 2008, 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 5f 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, 26 February 2009

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 cumulative 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.

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 article 5:71 lid 1, sub c Wft.

Alkmaar, 26 February, 2009

ERIKS group nv
Executive board

Foundation ERIKS Group
Board

Articles of association provisions concerning profit appropriation

(artikel 33, 34 en 35)

The following is a summary of the stipulations of articles 33, 34 and 35 of the articles of association on the appropriation of profit. The profit disclosed in the financial statements adopted by the general meeting of shareholders shall be appropriated as follows:

1. firstly, a dividend is paid to the holders of preference shares;
2. secondly, if the profit permits, a dividend is paid to the holders of cumulative preference shares;
3. if the profit for any financial year should be insufficient to cover the above distributions on the preference or cumulative preference shares, the shortfall is to be made up from the company's freely distributable reserves, insofar as possible. If the distributions on those two classes of shares cannot be made in full in that way either, the shortfall is to be made up from the profit earned in subsequent financial years;
4. no dividend may be paid on cumulative preference shares for as long as any dividend, whether current or in arrears, is owing on preferred shares. No dividend may be paid on ordinary shares for as long as any dividend is owing on the preference or cumulative preference shares;
5. the profit remaining after 1. and 2. is at the disposal of the general meeting of shareholders;
6. the general meeting of shareholders may resolve that dividends be paid in whole or in part in a form other than cash provided the motion in question is tabled by the executive board and approved by the supervisory board;
7. subject to the approval of the supervisory board, the executive board may pay an interim dividend.

Profit appropriation proposal for 2008

Insofar as circumstances allow, ERIKS pays out as a dividend about 50 percent of the result available to shareholders plus amortisation. Under the current economic conditions it is the responsibility of the supervisory board and the executive board to carry out a prudent financial policy. The ERIKS board intends to follow the developments over the short term and will publish a proposal for the amount and structure of the dividend over 2008 in April next.

Ten year record

In EUR thousands	2008 IFRS	2007 IFRS	2006 IFRS
Profit and loss account			
Net sales	1,131,496	949,139	543,313
Percentage change	19.2	74.7	21.1
Percentage organic change, excluding exchange rate changes	4.7	11.1	10.5
EBITA (excl. exceptional revenues)	92,111	76,326	44,019
Percentage change	20.7	73.4	29.8
Result after taxes (before amortisation of goodwill)	59,302	49,430	28,668
Percentage change	20.0	72.4	29.0
Result after taxes	52,757	44,186	27,911
Percentage change	19.4	58.3	26.1
Extraordinary result after taxes	-	-	-
Result at the disposal of shareholders	52,538	43,701	27,763
Cash flow			
Cash flow from ordinary activities	70,343	59,297	35,126
Depreciation and amortisation	17,586	15,111	7,215
Cash flow on balance	(26,424)	6,578	11,768
Balance sheet			
Working capital	271,075	187,993	170,705
Net capital invested	282,905	218,935	204,589
Idem, including goodwill and intangible assets from acquisitions (since 2004)	553,008	405,381	405,018
Shareholders' equity	304,857	298,845	148,910
Total capital	485,141	358,711	336,484
Ratios			
EBITA (excluding exceptional revenues) as a percentage of sales	8.1	8.0	8.1
EBITA as a percentage of average net capital invested (since 2001 including goodwill and intangible fixed assets from acquisitions)	18.2	19.3	23.0
Interest coverage ratio (with respect to EBITDA)	8.1	10.7	13.4
Net result as a percentage of shareholders' equity (since 2000 before profit appropriation)	17.2	14.6	18.6
Total shareholders' equity and liabilities -/- intangible fixed assets (excluding software) / total capital (solvency ratio)	7%	31%	p.m.
Other key figures			
Salaries, social security and pension costs	234,000	207,883	117,265
Average number of employees	5,138	4,495	2,434
Average salary costs per employee	45.5	46.3	48.2
Dividend			
Dividend for the year	Proposal	23,811	14,126
Payout as a percentage of the result	April 2009	50.2	49.8

2005 IFRS	2004 IFRS	2003 Dutch GAAP	2002 Dutch GAAP	2001 Dutch GAAP	2000 Dutch GAAP	1999 Dutch GAAP
448,549	423,393	381,863	358,144	339,583	302,329	281,741
5.9	10.9	6.6	5.5	12.3	7.3	2.6
2.9	6.0	1.2	(2.3)	(1.4)	6.3	(3.0)
33,922	31,281	24,501	21,345	22,631	19,792	11,951
8.4	27.7	14.8	(5.7)	14.3	65.6	(30.9)
22,221	18,552	14,577	12,832	14,672	13,014	7,821
19.8	27.3	13.6	(12.5)	12.7	66.4	(32.2)
22,139	18,552	12,060	10,742	13,362	12,737	7,821
19.3	53.8	12.3	(19.6)	4.9	62.9	(32.2)
-	-	-	-	4,402	2,479	(7,250)
22,059	18,490	11,984	10,706	17,750	15,227	458
28,324	24,906	19,692	18,269	19,753	17,917	12,694
6,185	6,245	5,191	5,473	5,095	4,892	4,986
(2,082)	(5,697)	9,018	(5,262)	(1,134)	2,254	(7,674)
107,763	107,174	89,836	90,697	85,065	82,088	71,006
136,188	130,978	107,748	101,574	95,635	87,201	83,146
172,089	166,906	-	-	-	-	-
127,930	109,508	91,760	83,249	76,949	65,009	49,135
189,902	182,852	153,673	146,270	134,492	136,871	128,725
7.5	7.4	6.4	6.0	6.7	6.6	4.2
20.8	20.5	18.6	17.2	20.0	22.7	13.7
14.5	12.6	10.8	12.3	13.5	15.0	12.3
17.3	16.9	13.1	12.9	23.1	23.4	0.9
48%	39%	39%	38%	43%	42%	38%
99,790	94,394	88,407	82,751	72,792	61,149	62,348
2,081	2,011	1,942	1,879	1,694	1,488	1,554
48.0	46.9	45.5	44.0	43.0	41.1	40.1
11,113	7,774	6,003	5,444	6,501	6,150	5,271
50.4	49.4	50.1	50.8	48.7	48.2	68.4

Clusters and group companies

as at 26 February 2009

ERIKS has a 100% direct or indirect shareholding in the group companies unless otherwise specified.

■ ERIKS Belgium

ERIKS nv, Hoboken

www.eriks.be

ERIKS Motion Control nv, Brussels

www.ieco.be

Econosto nv, Wijnegem

www.econosto.be

Baudoin-groep:

Baudoin nv, Mol

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 Champion sas, Roncq, France

www.champion.fr

TradCom nv, Mol

www.tradcom.be

Vemoflex-groep:

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, The Netherlands

www.betaflex.nl

Vermeulen nv, Roeselare

www.vermeulen-eriks.be

Sealing technology

Power transmission

Flow technology

Industrial plastics

Tools and maintenance products

■ ERIKS Germany

ERIKS Holding Deutschland GmbH, Bielefeld

www.eriks.de

ERIKS NordWest GmbH, Bielefeld

www.eriks.de

ERIKS GmbH Division Dichtungstechnik, Bielefeld

www.eriks.de

ERIKS NordOst GmbH, Garbsen/Hanover + Blankenburg

www.eriks.de

ERIKS Nord GmbH, Glinde/Hamburg

www.eriks.de

ERIKS West GmbH, Neuss + Würselen

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

ERIKS Antriebstechnik GmbH, Nettetal

www.eriks.de

Schmitztechnik GmbH, Mönchengladbach

www.schmitztechnik.de

Siekmann-Econosto GmbH & Co. KG, Dortmund

www.econosto.de

Sealing technology

Power transmission

Flow technology

Tools and maintenance products

■ ERIKS Netherlands

ERIKS bv, Alkmaar + Rotterdam
 ERIKS Aandrijftechniek bv, Roermond + Schoonhoven
 Econosto Nederland bv, Capelle aan den IJssel
 Bruhamij Kunststoffen bv, Ede
 Noton bv, Huizen
 Wielens Beheer bv, Groningen

www.eriks.nl + www.erxs.nl
www.flexion.nl + www.elmeq.nl
www.econosto.nl
www.eriks.nl
www.eriks.nl
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
ERIKS Industrial Services Ltd, Halesowen:
 ERIKS Industrial Distribution, Halesowen
 ERIKS Automotive
 ERIKS Electrical Mechanical Engineering Services, Halesowen
 ERIKS Integrated Solutions, Bitteswell
 ERIKS Sealing Technology, Halesowen
 ERIKS Ireland Ltd, Dublin, Ireland
 Flexible Hose Supplies Ltd, Slough
 Seals, Packings & Gaskets Ltd, Barnsley
ERIKS International Ltd, Halesowen:
 ERIKS s.r.o., Bratislava, Slovakia
 ERIKS s.r.o. Litvinov, Czech Republic
 ERIKS Nigeria Ltd, Lagos, Nigeria
 ERIKS International Export Services, Dudley
 B&P Wild Ltd, Wallsall
ERIKS Specialist Technology:
 Revolve Ltd, Dudley
 Wyko Inc., South Greenback, TN, USA
 Wyko Tire Technology Ltd, Dudley
 Wyko Shanghai Trading Co. Ltd, Shanghai, China
 Econosto UK Ltd, Leicester

www.eriks.co.uk
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www.eriks.co.uk
www.flexiblehose.co.uk
www.spg-gaskets.co.uk

www.wyko-europe.sk
www.wyko-europe.cz
www.wyko.co.uk/nigeria
www.eriks.co.uk
www.ace-bearings.co.uk

www.revolvo.com
www.wykotiretechnology.com
www.wykotiretechnology.com
www.wykotiretechnology.com
www.econosto.uk.com

Sealing technology
 Power transmission
 Flow technology
 Tools and maintenance products
 Tire Technology
 Integrated Solutions

■ ERIKS Poland

Mowta Sp z.o.o., Gdansk, Poland
Passerotti Sp z.o.o., Bielsko-Biala, Poland

www.mowta.com.pl
www.passerotti.com.pl

Sealing technology
Mechanical power transmission
Flow technology (valves and instrumentation)

■ ERIKS France

ERIKS France holding sarl, Trappes
ERIKS sas, Trappes

www.eriks.fr

Sealing technology
Flow technology

■ ERIKS Spain

Econosto Ibérica S.A. with branches in Barcelona, Madrid
San Sebastian, Leioa, Tarragona

www.econostoiberica.com

Flow 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
Power transmission
Industrial plastics

■ ERIKS Middle East

Econosto Mideast bv with branches in Dubai, Abu Dhabi
Sharjah, Qatar, Saudi Arabia, Kazakhstan,
Pakistan en India

www.econosto-mideast.com

Flow technology

■ ERIKS South-east Asia

ERIKS pte ltd, Singapore
ERIKS sdn bhd, Kuala Lumpur, Malaysia
Econosto Singapore pte ltd, Singapore
Econosto Maleisië sdn bhd, Kuala Lumpur, Malaysia
Econosto Shanghai ltd, Shanghai, China

www.eriks.com.sg
www.eriks.com.my
www.econosto.com.sg
www.econosto.com.my

Sealing technology
Flow technology

ERIKS

know-how makes the difference

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