

HAL Trust



Annual Report 2006

The history of HAL dates back to April 18, 1873, when the Nederlandsch-Amerikaansche Stoomvaart-Maatschappij (N.A.S.M.) was founded in Rotterdam, the Netherlands. The Company continued its activities under various names and is now operating as HAL Holding N.V., a Netherlands Antilles company. All the shares of HAL Holding N.V. are held by HAL Trust and form the Trust's entire assets. HAL Trust was created on October 19, 1977, by a Trust Deed which was last amended on May 28, 2001. The shares of the Trust are admitted to the official listing of Euronext Amsterdam N.V.

HAL Holding N.V.'s annual report is included herein. A translation of this report is published in the Dutch language. Only the report in the English language is submitted to the General Meeting of Shareholders for approval.

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Corporate Administration

HAL Holding N.V.

Board of Supervisory Directors:

S.E. Eisma, *Chairman*

T. Hagen

P.J. Kalff

A.H. Land

M.P.M. de Raad

Executive Board:

M. van der Vorm, *Chairman*

M.F. Groot

Chief Financial Officer:

A.A. van 't Hof

Highlights

<i>In euros</i>	2006	2005
Income (in millions)		
Net sales	2,778.6	2,652.7
Earnings from marketable securities and deposits	67.8	15.0
Capital gains on sale of assets	3.2	84.0
Earnings from associates	250.4	115.2
Earnings from other financial assets	2.2	4.6
Earnings from real estate activities	23.5	66.1
Net income	496.8	311.6
Balance sheet		
Total assets (in millions)	3,795.5	3,675.0
Shareholders' Equity (in millions)	2,201.7	1,901.7
Shareholders' Equity as percentage of total assets	58.0	51.7
Number of Shares (in thousands)	63,488*	63,687
Average number of Shares outstanding (in thousands)	63,658	63,687
Per Share		
Net income	7.80	4.89
Shareholders' Equity	34.68	29.86
Net asset value at market value of quoted associates	56.56**	44,98**
Closing price Shares	67.85	50.00
Cash dividend declared	3.15***	3.00
Exchange rates - December 31		
U.S. dollar per Euro	1.32	1.18

* Net of treasury shares

** Based on the market value of the quoted associates and the liquid portfolio and on the book value of the non-quoted investments

*** Proposed

Report of the Trust Committee

HAL Trust

HAL Trust was formed in 1977.
The Trust holds all the outstanding shares of
HAL Holding N.V.

For further details of the organization see
page 57.

In accordance with the instructions issued on
May 24, 2006, the Trustee paid a dividend of
€ 3.00 per share on June 2, 2006.

On December 31, 2006 and 2005, 63,686,850
shares were outstanding.

On December 31, 2006, HAL Holding N.V.
owned 198,886 shares HAL Trust.

The Trust Committee
HAL Trust Committee Ltd.

Hamilton, Bermuda, March 28, 2007

Report of the Board of Supervisory Directors HAL Holding N.V.

The composition of the Board of Supervisory Directors changed in 2006. During the Shareholders' meeting of HAL Holding N.V. on June 1, 2006, Messrs. Langman and Schröder retired from the Board as they had reached the statutory age limit. Messrs. Kalff and De Raad were elected to fill the vacancies. Mr. Eisma resigned in accordance with the rotation schedule and was re-elected. He succeeded Mr. Langman as Chairman of the Board of Supervisory Directors. During the Shareholders' meeting HAL Trust on May 24, 2006, well deserved words of praise were addressed to the retiring members, who each served the Company for more than thirty years. In 2006 the Board consisted of five members. Their names, nationality and other relevant information are mentioned on page 61 of this report.

The Board of Supervisory Directors supervises the Executive Board and provides advice to the general meeting of shareholders. In discharging its role, the Board of Supervisory Directors is guided by the interest of HAL Holding N.V. and its business.

The Board exercised its supervisory task by having in-depth discussions with the Executive Board during five meetings which were attended by all supervisory board members. Based on written and verbal information provided by the Executive Board, the general state of affairs of the Company was discussed and evaluated. More specifically, the following subjects, among others, were addressed during these meetings: the strategy, the development of the results, the dividend policy, the remuneration policy, potential investments and divestitures, the tax strategy, the risks associated with the Company and the design and implementation of the systems of internal control. In this respect, the Board was provided with the results of the risk management review in relation to the financial reporting of the Company, which was conducted during 2006. The results of this review were discussed with the Executive Board. For further information relating to this subject, we refer to the relevant paragraph in the report of the Executive Board on page 15. The Board also had discussions with PricewaterhouseCoopers during three meetings. Subjects for discussion were the report on the first half year of 2006, the systems of administrative and internal controls, impairment testing and the financial statements.

The Board of Supervisory Directors also met in the absence of the Executive Board to discuss, among other matters, the functioning and composition of the Board. All members of the Board of Supervisory Directors were present during the Shareholders' meeting of HAL Trust on May 24, 2006 in Rotterdam.

The Board decided to grant Mr M. van der Vorm, Chairman of the Executive Board, upon his request, a sabbatical from early September 2006 to March 1, 2007. The Board also decided to award Mr M.F. Groot, member of the Executive Board, a one time allotment of 50,000 shares HAL Trust for free on the condition precedent that he will still be employed by the Company on April 1, 2011. The sale of the shares so acquired will be restricted for five years. After the completion of the 2006 financial year the Board also determined the bonuses for 2006 of the members of the Executive Board.

The Board did not form any committees. Between the meetings of the Board of Supervisory Directors the Chairman of the Board maintained more intensive contacts with the Chairman of the Executive Board, and during his sabbatical with the other member of the Executive Board. Individual members of the Board provided their views with respect to specific matters relevant to the Company.

The financial statements for 2006 were prepared by the Executive Board and discussed by the Board in presence of the external auditor. After the review of the unqualified opinion provided by PricewaterhouseCoopers Netherlands Antilles, Accountants, as well as their findings as summarized in a report to the Board of Supervisory Directors and the Executive Board, the financial statements were signed by all members of the Board of Supervisory Directors. The Board approved the reserves included in the financial statements.

The Board recommends that the Shareholders of HAL Trust instruct the Trustee to vote at the Annual Meeting of HAL Holding N.V., to be held on May 31, 2007, for the approval of the financial statements for 2006 as per the documents submitted and the proposed distribution of profits incorporated therein.

It is noted that the Dutch Corporate Governance

Code as published by the Corporate Governance Committee chaired by Mr. M. Tabaksblat is not applicable to HAL Holding N.V. in view of the fact that HAL Holding N.V. is not a Dutch company. Page 58 of this report provides a description of HAL Holding N.V.'s Corporate Governance structure which includes elements of the recommendations of the Committee.

In accordance with the rotation schedule, Mr. A.H. Land will resign this year. We propose the Shareholders to instruct the Trustee to vote at the Annual Meeting of HAL Holding N.V., to be held on May 31, 2007, for re-election of Mr. A.H. Land.

On behalf of the Board of Supervisory Directors,

S.E. Eisma, *Chairman*

March 28, 2007

Report of the Executive Board HAL Holding N.V.

Introduction

Net income of HAL Holding N.V. for 2006 amounted to € 496.8 million (€ 7.80 per share) compared with € 311.6 million (€ 4.89 per share) for 2005.

In 2006 the Company's net asset value increased by € 929 million. After deducting the dividend over 2005 (€ 191 million) and treasury shares (€ 11.6 million), the net asset value increased from € 2,864 million (€ 44.98 per share) on December 31, 2005, to € 3,591 million on December 31, 2006 (€ 56.56 per share). The main reason for the change is the increase in value of the quoted associates. The net asset value is based on the market value of the quoted associates and the liquid portfolio and on the book value of the unquoted investments.

At the end of December 2006 the estimated value of the unquoted investments, based on the principles and assumptions set out on pages 46 and 47 of this report, exceeded their book value by € 888 million (€ 13.99 per share) compared to € 652 million (€ 10.24 per share) on December 31, 2005. In addition, at the end of 2006, the estimated market value of the real estate portfolio exceeded book value by € 59 million (€ 0.93 per share) compared to € 18 million (€ 0.28 per share) at the end of 2005, adjusted for the 2006 divestitures.

It will be proposed to distribute a cash dividend of € 3.15 per share for 2006 (2005: € 3.00). This distribution is in accordance with the dividend policy published on May 24, 2006, and represents 5% of the average December 2006 share price of HAL Trust. In the future, barring unforeseen circumstances and sufficient liquid assets, the dividend will be based on 4% of the average December share price in the year prior to the year of dividend payment.

Prospects

As of March 23, 2007 the value of the quoted associates and the liquid portfolio had increased by € 205 million (€ 3.23 per share) since the end of 2006.

In view of the fact that a significant part of the Company's net income is determined by the results of the quoted associates, developments

in the financial markets, and the timing of potential investments and divestitures, we do not express an expectation as to net income for 2007.

Strategy

The Company's strategy is focused on acquiring significant shareholdings in companies, with the long-term objective of increasing shareholders' value. When selecting investment candidates the Company emphasizes, in addition to investment and return criteria, the potential of playing an active role as a shareholder and/or board member. The Company does not confine itself to particular industries. Given the emphasis on the longer term, the Company does not have a pre-determined investment horizon.

HAL also invests in real estate. The real estate investment activities are concentrated in the greater Seattle metropolitan area with an emphasis on the development and rental of multi-family properties and office buildings.

Risks

There are a number of risks associated with the investment strategy and with its implementation. Besides risks which are specific to individual investee companies, major risk factors are :

Market risk

At the end of 2006 the Company had, as part of the liquid portfolio, investments in equities amounting to € 54 million. In addition, based on market values, € 2,086 million was invested in quoted associates. The value of these investments can be subject to significant fluctuations as a result of the volatility of the stock markets.

Interest rate risk

At the end of 2006 HAL had, as part of the liquid portfolio, investments in fixed income instruments of € 302 million. Fixed income investments are subject to interest rate risk. We believe that for HAL this risk is limited as the Company's portfolio has a very short duration (less than one year). In addition, interest rate exposure exists with respect to the Company's

debt position. Of the € 810 million bank debt outstanding at the end of 2006, € 546 million was at fixed interest rates for an average period of 3.5 years.

Currency risk

HAL's major currency risk is related to changes in value of the U.S. dollar.

At the end of 2006 the net assets denominated in U.S. dollars amounted to approximately \$ 650 million (€ 493 million). The currency exposure with respect to these investments was almost fully hedged by forward exchange contracts except for our investment in Univar N.V. HAL's interest in this company is considered a dollar investment in view of the fact that a significant portion of its activities is concentrated in North America and that the company uses the dollar as its functional currency. The currency exposure with respect to this investment is hedged for 50% of the market value of HAL's investment in this company. The use of forward currency exchange contracts has an impact on the size of the liquid portfolio when exchange rates change. Barring unforeseen circumstances, we intend to continue this hedging policy. In addition, various affiliates of HAL have their own policy to hedge currency risk.

Concentration risk

At the end of 2006 HAL had, based on book values, € 1,072 million invested in a portfolio of non-quoted long term investments. An estimate of value of this portfolio, based on the principles and assumptions set out on pages 46 and 47 of this annual report, amounts to approximately € 1,960 million. The optical retail activities make up 70% of this amount. Accordingly, there is concentration risk with respect to the optical retail industry. The above estimates of value can significantly fluctuate from year to year. In addition, values as realized upon sale may be materially different from these estimates. At the end of 2006 HAL had invested, based on market values, € 2,086 million in a portfolio of quoted associates. This portfolio consisted of Koninklijke Vopak N.V. (€ 1,067 million, 2005: € 772 million), Univar N.V. (€ 338 million, 2005: € 461 million) and Koninklijke Boskalis Westminster N.V. (€ 681 million, 2005: € 511 million). Accordingly, HAL is exposed to concentration risk, also with respect to this portfolio.

At the end of 2006 HAL had invested, based on book values, € 71 million in real estate assets. As these assets are exclusively located in and around Seattle, unfavorable economic developments in this geographical area can have a negative impact on the value of these properties. Moreover, the value of these properties can be affected by interest rate changes.

Other

In addition to the above risk factors, it should be noted that the profitability and the net asset value of the Company is susceptible to a downturn in the economy. Demand for the products and services of the investments and their profitability may decline as a direct result of economic recession, inflation, changes in the prices of raw materials, consumer confidence, interest rates or governmental (including fiscal) policies as well as geopolitical developments. We also refer to the paragraph administrative organization, risk management systems and financial reporting on page 15 of this report.

New investments

During the past year the optical retail activities were further expanded through acquisitions in China, Norway and Germany. In China, the previously announced acquisition of the optical retail chain Redstar was completed in March. The company, in which HAL currently has a 78% interest, has annual sales of approximately € 10 million and operates 102 stores. In Norway, Synoptik (63% Pearle Europe) acquired in September Optikk Norge A/S. This optical retail chain operates 76 stores on a franchise basis and has annual sales of approximately € 50 million. In November Pearle Europe (98% HAL) acquired the German optical retailer Krane-Optik which has annual sales of approximately € 40 million and operates 85 stores. HAL currently has approximately 2,800 optical retail stores (including franchise stores) in 30 countries with total pro forma system wide annual sales (defined as sales including sales of franchise stores) of approximately € 2.1 billion. The 2006 optical retail sales, as included in the 2006 financial statements, amounted to € 1,676 million (2005: € 1,474 million) and the operating income (for the purpose of this report defined as earnings before interest, exceptional

and non recurring items, taxes and amortization of intangible assets) to € 219 million (2005: € 180 million). The same store sales of the owned stores increased by 3.8% in 2006.

The hearing aid retail activities were expanded last year through the acquisition of several companies operating a total of 168 stores, primarily in Germany, Italy, Belgium and the Netherlands. The aggregate sales of these acquired companies on an annual basis is approximately € 42 million.

In addition, during 2006, a 10% interest in Vesting Finance B.V., a Hilversum (the Netherlands) based debt collection company, and a 60% interest in Flight Simulation Company B.V. were acquired. This company is based at Amsterdam Airport and provides training for pilots using flight simulators. The amount involved with these two acquisitions was approximately € 10 million.

In October HAL and Egeria announced the intention to acquire each a 50% interest in the insurance company Nationale Borg from the ING Group. Nationale Borg specializes in providing guarantee insurance. The company reported 2006 gross written premiums of € 61 million. The intended purchase is still subject to regulatory approvals. It is expected that the transaction will be completed in the first half of 2007.

Divestitures

In April, a 20% interest in Univar N.V. was sold resulting in a capital gain of € 103 million. HAL's remaining interest in Univar is 26.6%.

Early January 2007 the 19% interest in Kempen & Co. N.V. was sold. The transaction resulted in a gain of € 47 million. HAL's interest in Kempen is carried at the sales transaction value in the balance sheet as at December 31, 2006, and the unrealized gain in equity. The capital gain on the sale will be recognized in the 2007 income statement.

Consolidated subsidiaries

Pearle Europe B.V. (98,3%) operates optical retail chains in nineteen, primarily European,

countries with 2,084 stores at the end of 2006 (of which 608 operated under a franchise agreement). The total annual systemwide sales amounted to approximately € 1.1 billion. The company employs approximately 8,300 people and its headquarter is based at Amsterdam Airport. Sales for 2006 increased by 16% to € 884 million. All countries contributed to this increase of € 125 million. Pearle Europe's same store sales increased by 4.6% during 2006 (2005: decrease of 1.8%). In addition, sales increased as a result of store openings, the acquisition in December 2005 of the Hungarian optical retail chain F-O Optika-Fotó and the acquisition in 2006 of the Italian, Portuguese and Czech subsidiaries of GrandVision. Operating income of Pearle Europe increased from € 114 million in 2005 to € 138 million in 2006.

GrandVision S.A. (100%) operates optical retail chains in France, the United Kingdom and 11 other countries. At the end of 2006 the company had 580 stores of which 179 were operated under a franchise agreement. GrandVision is based in Paris and employs approximately 7,000 people. In addition, the company owns Visual S.A., a company which provides wholesale and marketing services to a retail chain of approximately 250 independent opticians. It is the intention to enter into new franchise contracts with the Visual stores in 2007. Part of the contract is that the stores will operate under the existing GrandOptical brand. At the end of 2006 GrandVision already operated 78 stores under the GrandOptical brand in France. The total system wide sales for 2006, including the sales of the franchisees and the Visual stores, amounted to approximately € 1 billion. Sales of GrandVision for 2006 increased by 10% to € 785 million. This increase is the result of autonomous growth, store openings and increased sales to independent opticians partially offset by a decrease due to the sale of the Italian, Portuguese and Czech subsidiaries to Pearle Europe. Same store sales for 2006 increased by 2.9% (2005: 0.9%). Operating income increased from € 66 million to € 80 million.

PontMeyer N.V. (57%) located in Zaandam, the Netherlands, is one of the leading suppliers of timber products and building materials in the Netherlands. The company operates 68 outlets in the Netherlands and has approximately 1,100

employees. Sales for 2006 increased by 7.8% to € 403 million as a result of higher volumes due to increasing activity in the construction industry in 2006, as well as higher timber prices. The operating income improved considerably and increased from € 0.7 million in 2005 to € 14.2 million in 2006. This increase is for € 4 million the result of realized profits on the inventory following increasing prices on the supply markets.

Koninklijke Ahrend N.V. (80%) is based in Amsterdam and has approximately 1,300 employees. The company's activities are concentrated in the office furnishing sector. The sales of Ahrend for 2006 decreased by € 139 million to € 225 million. This decrease is the result of the divestiture of the office products division in 2005. Office furniture sales increased by € 35 million to € 225 million. This increase is for € 22 million the result of the acquisition of Techo, a Czech corporation. The autonomous growth amounted to 7.6%. Operating income (excluding the contribution of the office products division in 2005) increased from € 6.5 million to € 11.7 million.

Trespa International B.V. (97%) is located in Weert (the Netherlands) and has approximately 670 employees. Trespa produces and sells High-Pressure-Laminate (HPL) compact panels for various applications such as façades and laboratory and office furniture. Sales for 2006 increased to € 189 million. This represents a 19% autonomous growth. The growth was realized in almost all countries and segments where Trespa sells products. Operating income increased by € 10 million to € 24.5 million.

Mercurius Groep B.V. (100%) is a Dutch publisher and communication specialist based in Wormerveer (the Netherlands) and employs approximately 740 people. The company has operations in the Netherlands, the United Kingdom, France, Spain, Belgium, Poland and Germany. Its products include plant labels, announcement cards, calendars, annual reports, financial prospectuses and special interest books. In 2006 the activities with respect to announcement cards were expanded through the acquisition of Intercard Groep B.V. Sales for 2006 decreased by € 2 million to € 105 million. This was primarily the result of divestitures in 2005. Operating income was almost unchanged compared to 2005.

Hearing Comfort Europe B.V. (91%), located in Dordrecht (the Netherlands), is a hearing aid retail company. At the end of 2006 the company employed approximately 850 people. The activities were significantly expanded during the past year through the acquisition of several companies operating a total of 168 stores, primarily in Germany, Italy, Belgium and the Netherlands. The aggregate sales of these acquired companies on an annual basis are approximately € 42 million. The company currently operates 283 stores in five European countries. The annual sales of these stores amount to approximately € 110 million. Sales for 2006 increased by € 17.2 million (31%) to € 72.7 million. This increase is primarily due to the above acquisitions. Same store sales for 2006 increased by 4.3%. Despite an increase in operating income in the Netherlands, the operating income of the group decreased due to start-up losses of the 2006 acquisitions.

Intersafe Trust B.V. (91%) is located in Dordrecht (the Netherlands) and employs approximately 260 people. Intersafe is a distributor of personal protection equipment such as safety clothing for factory employees. Sales for 2006 increased by 16% to € 66 million. Operating income also increased.

Anthony Veder Group N.V. (64.2%) is a Rotterdam based shipping company which employs approximately 200 people. At the end of 2006 Anthony Veder operated 17 gas tankers of which 10 were fully or partially owned. Net sales for 2006 increased by \$ 3.4 million (€ 2.6 million) to \$ 48.5 million (€ 36.8 million). The increase in freight rates caused operating income, excluding capital gains on the sale of gas tankers, to increase by \$ 5 million (€ 3.8 million) to \$ 16.5 million (€ 12.5 million). In addition, a capital gain on the sale of a gas tanker of \$ 4.2 million (€ 3.2 million) was realized in 2006.

Publicly traded associates

In addition to the consolidated subsidiaries described above, HAL has minority interests in the following public companies which are listed on the Euronext Amsterdam Stock Exchange:

Koninklijke Vopak N.V. (47.74%) is the world's largest independent tank terminal operator

specialized in the storage and handling of liquid and gaseous chemical and oil products. Vopak also provides logistic services. The company operates a network of 75 tank terminals with a combined storage capacity of more than 21 million cbm in 30 countries and had approximately 3,400 employees at the end of 2006. The market value of Vopak at the end of 2006 amounted to approximately € 2.2 billion. On December 31, 2006, HAL owned 47.74% of the common shares and 13% of the preferred shares. Sales for 2006 increased by 14% to € 778.1 million. Net income for holders of ordinary shares increased by 43% to € 129.4 million.

For additional information on Vopak please refer to the company's annual report and its website www.vopak.com.

Koninklijke Boskalis Westminster N.V. (31.75%) is an international group with a leading position in the world market for dredging services. The core activities of Boskalis are the construction and maintenance of ports and waterways, land reclamation, coastal defense and riverbank protection. Boskalis has a fleet of over 300 units and operates in over 50 countries across five continents and has approximately 8,000 employees (including its share in partnerships). On December 31, 2006 the market value of Boskalis was approximately € 2.1 billion. Revenues for 2006 increased by 17% to € 1,354 million. Net income for 2006 amounted to € 116.6 million (2005: € 62.7 million). The order book of the company at the end of 2006 amounted to € 2,543 million compared with € 2,427 million at the end of 2005.

For additional information on Boskalis please refer to the company's annual report and its website www.boskalis.com.

Univar N.V. (26.6%) is one of the world's leading independent distributors of industrial chemicals and providers of related specialty services with a network of 160 distribution centers located throughout the United States, Canada and Europe. Univar has approximately 6,900 employees. Its market value at the end of 2006 amounted to approximately € 1.3 billion. Sales for 2006 increased by 10.6% to \$ 6.6 billion (€ 5.0 billion). Net income increased by 8.7% to \$ 134.2 million (€ 101.8 million).

For additional information on Univar please refer to the company's annual report and its website www.univarcorp.com.

Other minority interests

At the end of 2006 HAL had minority interests in the following non-quoted companies:

AMB i.t. Holding B.V. (30%) located in Haarlem (the Netherlands), has been for more than twenty years, the world's market leader for identification and timing systems, especially for motor sports. The company has approximately 50 employees. Revenues for 2006 increased by € 1 million to € 13 million. Operating income also increased.

FD Mediagroep B.V. (39.9%) is located in Amsterdam and publishes the only Dutch financial newspaper, "Het Financieele Dagblad". The company employs approximately 250 people. FD Mediagroep also operates the radio station "BNR Nieuwsradio". Newspaper revenues increased by 14% to € 44 million due to higher subscription revenue and higher advertisement sales. Sales of BNR Nieuwsradio increased by 22% to € 10 million. Operating income of the company also increased.

Lensmaster (32.19%) is a Moscow based optical retail company. The company operated 40 stores at the end of 2006, primarily in the Moscow and St. Petersburg area and employs approximately 600 people. Sales for 2006 increased from \$ 15 million (€ 13 million) in 2005 to \$ 31 million (€ 24 million). This increase is the result of 16 store openings, an increase in same stores sales as well as growth of the 12 stores opened in 2005. Operating income also increased. HAL's interest will be increased to 100% over the period 2008-2011. The price will be based on the results of these years.

Private equity partnerships

By the end of 2006, HAL had invested in four private equity partnerships. The total book value of the investments amounted to € 28 million. The major part of this portfolio consists of three partnerships managed by Navis Capital Partners Ltd. (Navis). The assets managed by Navis are primarily invested in a portfolio of

companies located in South-East Asia, India and Australia.

Real Estate

At year end 2006, taking into account the sale of the Valley Office Park office building on January 5, 2007, the Company's investment in real estate consisted of three office properties with a total of 763,000 square feet of rentable space and 14,400 square feet of land which could be used for a 60 unit condominium development project. All of these assets are located in the Seattle area. At the end of 2006, 91% of the rentable office space was leased, compared with 76% at the end of 2005. The average rent per square foot increased by 3.3%.

During the second half year, two office buildings in Seattle were sold for a total of \$ 50 million (€ 38 million) resulting in a capital gain (after tax) of \$ 7.5 million (€ 6 million). In January 2007, a third office building was sold for \$ 29 million (€ 22 million) resulting in a capital gain (after tax) of \$ 3.3 million (€ 2.5 million). This capital gain will be recognized in 2007. In the balance sheet as at December 31, 2006, the building is carried at book value, which is in accordance with IFRS.

During 2006 all remaining apartments of the Site 17 condominium development project and all the residential units of the Braeburn development project were sold. The 2006 capital gain on these projects amounted to \$ 8 million (€ 6 million) in total.

At the close of 2006, the estimated market value of the real estate portfolio, including the office building sold in January 2007, exceeded book value by \$ 78 million (€ 59 million) compared to \$ 22 million (€ 18 million) at the end of 2005, adjusted for the 2006 divestitures.

Liquid Portfolio

The corporate liquid portfolio increased in 2006 by € 24 million to € 338 million. The portfolio increased as a result of the sale of a 20% interest in Univar N.V., sale of real estate and dividends received. In addition, as a result of the decrease in value of the U.S. dollar, funds were received following the extension of the

forward exchange contracts. The liquid portfolio also benefited from the increase in value of the equity portfolio. The payment of the dividend over 2005 (€ 191 million) and the repayment of bank debt had a negative effect on the size of the liquid portfolio.

On December 31, 2006, the liquid portfolio consisted for 84% (2005: 53%) of fixed income instruments amounting to € 284 million (2005: € 168 million), and for 16% (2005: 47%) of equities for an amount of € 54 million (2005: € 146 million). The fixed income portfolio provided a return of 3.7% (2005: 2.3%). The duration of this portfolio at the end of 2006 was less than one month. The equity part of the liquid portfolio on December 31, 2006, consisted mainly of shares of Western European and U.S companies. The total equity portfolio provided a return of 21.9% (2005: 24%).

Results

Net income for 2006 was € 496.8 million (€ 7.80 per share) compared with € 311.6 million (€ 4.89 per share) for 2005.

The increase in *net sales* by € 126 million to € 2,779 million was primarily due to the increase in optical retail sales by € 202 million to € 1,676 million. Net sales also increased due to higher sales of Trespa International (€ 35 million), PontMeyer (€ 29 million) and Hearing Comfort Europe (€ 17 million). The sale of the office products division of Ahrend in December 2005 had a negative effect of € 174 million. Office furniture sales of Ahrend increased by € 35 million.

Earnings from marketable securities and deposits increased by € 53 million to € 68 million as a result of higher realized capital gains on equities.

Capital gains on the sale of assets amounted to € 3 million (2005: € 84 million). This item includes the capital gain on the sale of a vessel by Anthony Veder. In 2005 this item included the capital gain on the sale of the office products division of Ahrend, the gain on the sale of the interest in the Poipu partnership and the gains on the sale of vessels by Anthony Veder.

Earnings from associates increased by € 135 million to € 250 million. This increase is

primarily the result of higher earnings from Boskalis and Vopak and a capital gain of € 103 million on the sale of the 20% interest in Univar N.V.

Earnings from real estate activities decreased by € 43 million to € 23 million primarily as a result of lower capital gains. In 2005 a capital gain (pre-tax) of approximately € 52 million was realized on the sale of the Shorewood apartments complex. In 2006 the capital gains on the sale of real estate totaled € 15 million.

Interest expense decreased by € 19 million to € 50 million as a result of lower bank debt. Bank debt decreased as a result of the sale of the office products division of Ahrend in December 2005, the sale of real estate and operational cash-flows.

Administrative organization, risk management systems and financial reporting

The administrative procedures, the risk management and internal control systems with respect to the strategy, its implementation, financial reporting and compliance are designed to provide reasonable assurance that the various risk factors are identified, their development is monitored and where appropriate, action is taken on a timely basis. Reference is made to the risks paragraph on page 9 and 10. The Board of Supervisory Directors is regularly informed about these matters.

The investments of HAL differ in industry, size, culture, geographical diversity and stage of development. HAL has chosen not to institute a centralized management approach. Each investment has its own financial structure and is responsible for managing its own risks. The investments generally have a Supervisory Board of which the majority of the members are not affiliated with HAL. This corporate governance structure allows the operating companies to fully concentrate on developments which are relevant to them and to assess which risks to accept and which risks to avoid. Accordingly, in addition to the risks associated with the investment strategy and its implementation as described above, there are specific risk factors associated with each individual investee company. It is the responsibility of each

investee company to manage these specific risks. HAL has a management reporting system to monitor its performance as well as that of its non-quoted investee companies on a monthly basis. This system comprises a set of instruments including portfolio analysis, budgeting and reporting of actual results as well as projected results, balance sheet and cash flow information and operational performance indices.

HAL's objective is, within the context of the inherent limitations of an investment company and the decentralized management approach described above, that its internal and external financial reporting is complete, accurate, valid and timely. Financial reporting risk can be defined as any event that impedes HAL to achieve its financial reporting objectives. Although HAL is aware that no risk management and internal control system can provide absolute assurance to the achievement of its objectives and to prevent errors, losses, fraud or the violation of laws and regulations, the Company aims for the continuous evaluation and improvement of its risk management and internal control systems.

During 2006 HAL performed a risk management review in relation to its financial reporting, concentrating on the key financial processes (including internal and external reporting, information technology, treasury and taxation). The risk management review did not cover the key financial processes of HAL's investee companies for the reasons described above. HAL's key financial reporting processes were analyzed and risks were identified with respect to the various steps in the processes. Key risks have been assessed in terms of relative significance and the degree to which these risks are currently controlled. In addition, the controls which are designed to manage these risks have been tested in order to conclude on their operating effectiveness. No material weaknesses have been detected as a result of the financial reporting risk management review. This review as well as plans for further optimization and improvement were discussed with the Board of Supervisory Directors.

Accordingly, based on the above and taking into account the inherent limitations referred to above, we are of the opinion that the risk management and internal control systems with

respect to financial reporting provide reasonable assurance that the financial reporting does not contain material inaccuracies and that these systems operated properly during 2006.

Executive Board HAL Holding N.V.

March 28, 2007

Financial Statements
HAL Trust

Consolidated Balance Sheet

as at December 31

<i>In thousands of euros, before proposed distribution of income</i>	<i>Notes</i>	2006	2005
Assets			
Non-current assets:			
Property, plant and equipment	1	456,446	451,430
Investment properties	2	70,840	168,325
Intangible assets	3	1,192,211	1,079,614
Investments in associates	4	743,561	819,992
Other financial assets	5	752	24,726
Deferred tax assets	15	46,313	21,109
Other non-current assets	6	68,718	65,981
<i>Total non-current assets</i>		2,578,841	2,631,177
Current assets:			
Marketable securities and deposits	7	356,110	346,217
Receivables	8	241,432	206,977
Inventories	9	285,212	259,718
Assets held for sale	10	24,337	-
Other financial assets	5	66,125	-
Other current assets	11	110,503	100,922
Cash and cash equivalents		132,917	129,943
<i>Total current assets</i>		1,216,636	1,043,777
Total assets		3,795,477	3,674,954
Equity			
Share capital		1,274	1,274
Other reserves		110,678	104,433
Retained earnings		2,089,789	1,796,027
Capital and reserves attributable to equity holders		2,201,741	1,901,734
Minority interests		51,500	(9,963)
Total equity		2,253,241	1,891,771
Non-current liabilities:			
Provisions	12/13	72,853	48,735
Long-term debt	14	424,900	751,096
Deferred tax liabilities	15	98,636	88,805
<i>Total non-current liabilities</i>		596,389	888,636
Current liabilities:			
Short-term debt	16	384,886	327,071
Income tax payable		36,201	44,281
Accounts payable		236,276	254,339
Accrued expenses		288,484	268,856
<i>Total current liabilities</i>		945,847	894,547
Total equity and liabilities		3,795,477	3,674,954

Consolidated Statement of Income

For the year ended December 31

<i>In thousands of euros</i>	<i>Notes</i>	2006	2005
Net sales		2,778,563	2,652,727
Earnings from marketable securities and deposits	17	67,774	14,996
Capital gains on sale of assets	21	3,209	84,021
Earnings from associates	18	250,369	115,212
Earnings from other financial assets	19	2,159	4,565
Earnings from real estate activities	20	23,489	66,050
<i>Total income</i>		3,125,563	2,937,571
Raw materials, consumables used and changes in inventories		1,050,721	1,031,851
Employee expenses	22	761,397	736,732
Depreciation property, plant, equipment and investment properties	1/2	104,263	106,272
Amortization intangibles	3	20,072	16,412
Other operating expenses	23	596,050	581,218
<i>Total expenses</i>		2,532,503	2,472,485
Operating result		593,060	465,086
Interest expense		(50,371)	(68,962)
Profit before taxes		542,689	396,124
Income taxes	24	(32,597)	(64,531)
Profit for the year		510,092	331,593
Attributable to:			
Equity holders		496,847	311,612
Minority interest		13,245	19,981
		510,092	331,593
Average number of outstanding Shares		63,657,971	63,686,850
Earnings per share for profit attributable to the equity holders during the year <i>(expressed in euros per share)</i>			
- basic and diluted		7.80	4.89
Dividends per Share (in euro)		3.15 *	3.00

* Proposed

Consolidated Statement of Changes in Equity

<i>In thousands of euros</i>	Attributable to equity holders of the Company				Total Equity
	Share capital	Retained earnings	Other Reserves	Minority Interest	
Balance on January 1, 2005	1,274	1,641,362	52,454	74,918	1,770,008
Movement cum. valuation reserve:					
- marketable securities	-	-	21,287	-	21,287
- interest rate derivatives	-	-	5,469	-	5,469
Equity adjustment quoted associates (*)	-	(42,211)	-	-	(42,211)
Translation of foreign subsidiaries and financial fixed assets	-	-	94,281	3,226	97,507
Effect of hedging instruments	-	-	(69,058)	-	(69,058)
Net profit 2005	-	311,612	-	19,981	331,593
Total recognized for the year	-	269,401	51,979	23,207	344,587
Acquisitions and disposals	-	-	-	(108,088)	(108,088)
Dividend paid	-	(114,736)	-	-	(114,736)
Balance on December 31, 2005	<u>1,274</u>	<u>1,796,027</u>	<u>104,433</u>	<u>(9,963)</u>	<u>1,891,771</u>
Balance on January 1, 2006	1,274	1,796,027	104,433	(9,963)	1,891,771
Movement cum. valuation reserve:					
- marketable securities	-	-	(33,966)	-	(33,966)
- other financial assets and associates	-	-	55,782	-	55,782
- interest rate derivatives	-	-	8,252	-	8,252
Translation of foreign subsidiaries and financial fixed assets	-	-	(64,646)	(701)	(65,347)
Realized currency translation of foreign subsidiaries	-	-	9,994	-	9,994
Effect of hedging instruments	-	-	30,829	-	30,829
Net profit 2006	-	496,847	-	13,245	510,092
Total recognized for the year	-	496,847	6,245	12,544	515,636
Conversion (**)	-	-	-	41,000	41,000
Acquisitions and disposals	-	-	-	7,919	7,919
Treasury shares	-	(11,635)	-	-	(11,635)
Dividend paid	-	(191,450)	-	-	(191,450)
Balance on December 31, 2006	<u>1,274</u>	<u>2,089,789</u>	<u>110,678</u>	<u>51,500</u>	<u>2,253,241</u>

(*) Equity adjustment of quoted associates relates to the conversion of the quoted associates to IFRS, effective January 1, 2005.

(**) Conversion relates to the conversion from shareholder's debts to equity of subsidiaries.

As of December 31, 2006, the Company has issued 63,686,850 shares with a par value of € 0.02 per share. During 2006, 198,886 HAL Trust shares were acquired for € 11,635. All issued shares are fully paid.

The "other reserves" relate to unrealized appreciations and diminutions of other financial assets, certain associates and marketable securities and deposits, interest rate swaps, currency differences from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such instruments.

There are no restrictions on the distribution of the retained earnings and other reserves to shareholders.

Other reserves

<i>In thousands of euros</i>	Cumulative valuation reserve	Hedging reserve interest rate swaps	Cumulative currency translation reserve	Total other reserves
Balance on January 1, 2005	21,627	(6,528)	37,355	52,454
Movement cum. valuation reserve:				
- marketable securities	21,287	-	-	21,287
- interest rate derivatives	-	5,469	-	5,469
Translation of foreign subsidiaries and financial fixed assets	-	-	94,281	94,281
Effect of hedging instruments	-	-	(69,058)	(69,058)
Balance on December 31, 2005	<u>42,914</u>	<u>(1,059)</u>	<u>62,578</u>	<u>104,433</u>
Balance on January 1, 2006	42,914	(1,059)	62,578	104,433
Movement cum. valuation reserve:				
- marketable securities	(33,966)	-	-	(33,966)
- other financial assets and associates	55,782	-	-	55,782
- interest rate derivatives	-	8,252	-	8,252
Translation of foreign subsidiaries and financial fixed assets	-	-	(64,646)	(64,646)
Realized currency translation of foreign subsidiaries	-	-	9,994	9,994
Effect of hedging instruments	-	-	30,829	30,829
Balance on December 31, 2006	<u>64,730</u>	<u>7,193</u>	<u>38,755</u>	<u>110,678</u>

Consolidated Statement of Cash Flows

<i>In thousands of euros</i>	2006	2005
Cash flows from operating activities:		
Profit before taxes	542,689	396,124
Depreciation	104,263	106,272
Amortization	20,072	16,412
Profit on sale of property, plant and equipment and investment properties	(18,662)	(59,725)
Profit on sale of financial assets	(109,473)	(4,565)
Profit on sale of marketable securities	(54,258)	(4,974)
Share in result associates	(142,208)	(114,695)
Interest expense	50,371	68,962
	392,794	403,811
Dividend from associates	35,501	13,162
Changes in working capital (see note 25)	(27,148)	46,600
Other movements in provisions and deferred taxes	(273)	6,441
Cash generated from operations	400,874	470,014
Interest paid	(54,313)	(67,824)
Income taxes paid	(60,240)	(56,287)
<i>Net cash from operating activities</i>	286,321	345,903
Cash flows from investing activities:		
Acquisition of associates and subsidiaries, net of cash acquired	(142,060)	(327,500)
Acquisition of other non-current assets	(13,498)	(13,202)
Purchase of property, plant and equipment and investment properties	(130,409)	(174,228)
Divestment of associates	274,195	13,301
Divestment of other financial assets	6,833	5,565
Proceeds from sale of property, plant and equipment and investment properties	110,019	192,602
Change in marketable securities and deposits, net	(4,011)	264,208
Change in other non-current assets	(5,493)	29,472
Change in minority interests	6,485	(7,821)
Effect of hedging instruments	29,498	(48,801)
<i>Net cash from/(used in) investing activities</i>	131,559	(66,404)
Cash flows from financing activities:		
Change in short-term debt	60,249	83,484
Change in long-term debt	(270,559)	(236,018)
Purchase of shares HAL Trust	(11,635)	-
Dividends paid	(191,450)	(114,736)
<i>Net cash used in financing activities</i>	(413,395)	(267,270)
Increase in cash and cash equivalents	4,485	12,229
Cash and cash equivalents at beginning of year	129,943	115,679
Effects of exchange rate changes on opening balance	(1,511)	2,035
Cash and cash equivalents retranslated at beginning of year	128,432	117,714
Net increase in cash and cash equivalents	4,485	12,229
Cash and cash equivalents at end of year	132,917	129,943

Prior year figures were restated to conform prior year's financial information to the current presentation

Accounting Policies

The consolidated financial statements presented are those of HAL Trust (“the Trust”), a Bermuda trust formed in 1977. The Trust is listed at the Euronext Amsterdam Stock Exchange.

For the years presented, the Trust’s only asset was all outstanding shares of HAL Holding N.V. (“the Company”), a Netherlands Antilles corporation. The financial statements of the Company are part of the consolidated financial statements.

The principal accounting policies adopted by the Company in the preparation of its consolidated financial statements, which are unchanged compared to last year, are set out below:

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of marketable securities and deposits, certain associates and other financial assets and the fair value recognition of derivatives financial instruments. The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affects the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge, actual results ultimately may differ from those estimates. Accordingly, it is reasonably possible that outcomes within the next financial year that are different from assumptions, could have an impact on the carrying amount of the asset or liability affected.

This applies more specifically to pensions, purchase price allocations, deferred taxation, held for sale investments valuation and goodwill impairment. The Company tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on

value-in-use calculations. These calculations require the use of estimates.

Certain new standards, amendments and interpretations to existing standards have been published, effective in future years : IAS 19, 21 and 39, IFRS 1, 4, 6, 7 and IFRIC 4-10. Management considered these amendments and concluded that, if implemented, they would currently not have a significant impact on these financial statements.

Consolidation

Subsidiaries, which are those companies in which the Company, directly or indirectly, has an interest of more than 50% of the (potential) voting rights and/or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Company and are no longer consolidated as from the date the effective control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company’s share of the identifiable net assets is recorded as goodwill.

Intercompany transactions, balances and unrealized results on transactions between group companies have been eliminated. Where necessary, the financial statements of subsidiaries have been changed to ensure consistency with the policies adopted by the Company. Minority interests are disclosed separately.

The Company’s interest in jointly controlled entities are accounted for by proportionate consolidation.

A list of the Company's principal subsidiaries is set out on page 45.

Risk factors

A number of risk factors are associated with the Company's strategy and its implementation. The factors are currency risks, interest rate risks, market risks, concentration risks and other risks. Reference is made to pages 9 and 10 of the Report of the Executive Board.

In addition to these risk factors, it should be noted that the profitability of the Company's businesses is susceptible to downturns in the economy. Demand for the Company's products and services and its profitability may decline as a direct result of economic recession, inflation, changes in the prices of raw materials, consumer confidence, interest rates or governmental (fiscal) policies, as well as geopolitical developments.

Foreign currencies

(a) Functional and presentation currency: items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

(b) Transactions and balances: foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities classified as other financial assets or marketable securities, are included in the cumulative valuation

reserve in equity.

(c) Company's subsidiaries: the results and financial position of all the Company's subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transaction); and
- (iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholder's equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Derivative financial instruments

Derivatives are initially recognized at fair value (external valuation performed by financial institutions or other valuation techniques) on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as

either: (1) hedges of the fair value of recognized assets and liabilities or a firm commitment (fair value hedges); (2) hedges of highly probable forecast transactions (cash flow hedges); or (3) hedge of net investment in foreign operations (net investment hedge).

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

- (a) Fair value hedge: changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at each balance sheet date.

- (b) Cash flow hedge: the highly effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss. However, when the projected transaction that is hedged results in the recognition of a non-financial asset (for example inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for

hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the projected transaction is ultimately recognized in the income statement. When a projected transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

- (c) Net investment hedge: hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity; the gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

- (d) Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

Property, plant and equipment and investment properties

Land and buildings comprise mainly factories, warehouses, retail and wholesale outlets, office and apartment buildings. All Property, Plant and Equipment are shown at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Market valuations are performed internally for the Company's real estate operation and are subject as well to a valuation every three years by independent external valuers.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to write off the cost of each asset to their residual values over their estimated useful life as follows:

Buildings	25-50 years
Vessels	25 years
Equipment	3-10 years

Useful lives and residual values are reviewed and, if required, changed annually.

Land is not depreciated as it is deemed to have an indefinite life.

Whenever the carrying amount of an asset is greater than its estimated recoverable amount, it is subject to an impairment charge immediately so that the value of the asset does not exceed its recoverable amount.

Gains and losses on disposal of property, plant and equipment and investment properties are determined by reference to their carrying amount and are taken into account in determining net income.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets and liabilities of the acquired investment in an associate or consolidated subsidiary at the date of obtaining control.

Goodwill is subject to an annual impairment test. It is carried at cost less accumulated impairment losses and accumulated amortization. If an impairment is recognized, it is not reversed in subsequent periods. Goodwill is allocated to groups of cash-generating units (CGU's) for the purpose of impairment testing.

Negative goodwill (badwill) arisen as a result of fair-valuing non-monetary assets is included in the income statement.

Rights of use and key money

Right of use in France should be considered an identified intangible asset as it is separable and arises from a contractual and legal right. This intangible asset is assumed to have an indefinite

life as right of use can be renewed and resold. Therefore it is subject to an annual impairment test. Rights of use and key money in other countries are considered prepaid rent and recognized over the period of rental as operational leases.

Trademarks

The valuation of trademarks acquired in a business combination is based on the relief from royalty approach and is being amortized over its useful life on a straight line basis with no residual value.

Franchise contracts

The valuation of franchise contracts acquired in a business combination is based on the present value of estimated future cash flows and is being amortized on a straight line basis over its useful life.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and to bring to use the specific software. These costs are amortized over their estimated useful lives (3 to 5 years).

Costs associated with developing and maintaining computer software are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the software development employee expenses and an appropriate portion of relevant overheads.

Computer software development expenses recognized as assets are amortized over their estimated useful lives (not exceeding 3 years).

Waived rentals

Waived rental payments are capitalized on the basis of a present value cash flow analysis and amortized over the related contract period on a straight line basis with no residual value.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Investments in associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. For quoted associates, HAL has made use of publicly available information. The Company's investment in associates includes goodwill (net of any accumulated impairment loss and accumulated amortization) identified on acquisition.

The Company's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Significant results on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates, and to the extent that the associate recognized a profit or loss on the transaction. Significant losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

When an associate is disposed of, the gain/loss on disposal also includes any unrealized foreign exchange difference deferred in equity

(translation reserve) which becomes realized. When a cash dividend is received from an associate, the carrying value of the investment is decreased by the same amount.

A list of the Company's principal associates is set out on page 45.

Other financial assets and marketable securities

Other financial assets are non-derivatives. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. They include equity interests up to 20% and equity interests in excess of 20% over which the Company has no significant influence.

Purchases and sales of investments are recognized on trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs. They are derecognized when the rights to receive cash flows from them have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Other financial assets and marketable securities are subsequently carried at fair value.

Quoted interests are accounted for at market value based upon stock exchange quoted selling prices at the close of business on the balance sheet date. Unrealized appreciation and diminution in value are recorded in Other reserves in Shareholders' Equity.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are accounted for at cost.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is

removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. Impairment losses, if any, are charged to the income statement account. On disposal of an investment, the difference between the net disposal proceeds and its cost (less any impairment losses) is charged or credited to net income.

Receivables

Trade receivables are recognized initially at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method or the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads, but excludes interest expense. Net realizable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses. A provision is established when the net realizable value of any inventory is lower than the value calculated above.

Assets held for sale

Assets are classified as held for sale if they are to be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the assets must be available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. Assets that meet

the criteria to be classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Financial assets held for sale are classified separately in current assets.

Other current assets

Other current assets include prepayments relating to the following year, and income relating to the current year which will not be received until after the balance sheet date. These receivables are expected to be collected within twelve months from the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances which are available on demand. In the balance sheet, bank overdrafts are included in short-term debt. Short-term time deposits are classified as marketable securities and deposits.

Minority interests in consolidated subsidiaries

Third Party interests in consolidated subsidiaries are recorded at their share in the net asset value of the respective subsidiary, calculated in accordance with the accounting policies as specified in these financial statements. They are determined based on the fair values upon acquisition of the acquirees.

Provisions

Provisions are recognized if the Company and its subsidiaries have a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Pension obligations

The Company and its subsidiaries operate a number of defined benefit and defined

contribution plans, the assets of which are generally held in separately administered funds. The pension plans are generally funded by payments from employers and employees. For defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plans every year. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of government and corporate securities which have terms to maturity approximating the terms of the related liability. Actuarial gains and losses are spread forward over the average remaining service lives of employees, only to the extent that their net cumulative amount exceeds 10% of the greater of the present value of the obligation or of the fair value of the plan assets. The Company's and its subsidiaries' contributions to the defined contribution pension plans are charged to the income statement in the year to which they relate.

Long-term and short-term debt

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. Short-term debt is due within a maximum period of one year, unless the Company has an unconditional right to defer settlement until at least twelve months after balance sheet date. Interest expense related to this debt is reported as Interest expense in the income statement.

Revenue

Sales are recognized at fair value upon delivery of products or performance of services, net of sales taxes and discounts, in the accounting period in which they occurred. If sold with a right of return, accumulated experience is used to estimate and provide for such returns at the time of sale. Intercompany sales are eliminated.

- (a) Sales of goods – wholesale: sales of goods are recognized when a Company's entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.
- (b) Sales of goods – retail: sales of goods are recognized when a Company's entity delivers a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of sale, including credit card fees payable for the transaction.
- (c) Sales of services: sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.
- (d) Earnings from marketable securities and deposits: this includes realized capital gains (losses), interest, dividends and management fees. Realized capital gains (losses) are calculated on an average cost basis.

Interest is recorded using the effective interest rate method and on an accrual basis. Dividends are recorded when the right to receive payment is established.

Earnings from real estate activities

Earnings from real estate activities include rental income less related operating costs (excluding depreciation). The earnings also include realized results on the sale of real estate assets. Rental income is recorded on a straight line basis over the lease term.

Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income

