HITT nv

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Annual report 2006

	YoY (%)	2006	2005	← IFRS 2004	NL GAAP → 2003	2002
Key figures (€ 1,000)						
Revenue	16	27,875	24,087	17,014	20,901	31,786
Operating profit	36	1,888	1,392	1,175	(102)	2,752
Net result (shareholders)	39	1,807	1,299	934	207	2,333
Depreciation		890	390	439	486	364
Amortization		2,411	2,076	1,189	84	69
Assets	20	27,788	23,220	20,840	21,465	19,607
Equity	-1	14,938	15,104	13,097	11,394	12,146
Cashflow (€ 1,000)						
Operating activities		3,265	1,330	2,773	121	7,748
Investing activities		(5,349)	(3,308)	(2,944)	(197)	(1,267)
Financing activities		(656)	(565)	(521)	(1,198)	121
Change exchange rates		102	141	12	-	-
Net		(2,638)	(2,402)	(680)	(1,274)	6,602
Per share data (€)						
N° of shares (000)		4,694	4,694	4,694	4,694	4,694
Revenue	16	5.94	5.13	3.62	4.45	6.77
Operating profit	36	0.40	0.30	0.25	(0.02)	0.59
Net result (shareholders)	39	0.39	0.28	0.20	0.04	0.50
Depreciation		0.19	0.08	0.09	0.10	0.08
Amortization		0.51	0.44	0.25	0.02	0.01
Cash flow		(0.56)	(0.51)	(0.14)	(0.27)	1.41
Equity	-1	3.18	3.22	2.79	2.43	2.59
Dividend	27	0.14	0.11	0.10	0.10	0.13
Highest price	8	8.15	7.55	5.35	5.34	7.15
Lowest price	36	5.80	4.25	4.13	2.40	4.40
Closing price	-11	6.14	6.90	4.80	4.95	4.45
Yield (%)						
Return on equity		12	9	7	2	19
Return on capital employed		10	8	7	-1	16
Return on sales		6	6	7	0	9
Solvency (%)						
Equity / total assets		54	65	63	53	62
Equity / liabilities		116	186	169	125	353
Liquidity						
Current ratio		2.1	2.3	2.9	2.2	6.8
Quick ratio		2.1	2.3	2.9	2.0	4.9

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1. Profile

HITT operates in the international market for safety, security and efficiency of nautical and air traffic. With 165 highly skilled staff, and with operating business units in Europe, North America and Asia, the company takes leadership positions in the specialized niche markets for traffic control, navigation and hydrographic systems. The company excels in knowledge intensive software solutions and systems integration in real time applications.

1.1. Vision

HITT's vision is based on the premise that safety, security and efficient capacity utilization are the drivers for the requirements in the market for software dominant system solutions in the marine and aviation industry.

Adherence to safety standards and to security standards, the latter derived from homeland security requirements, are prerequisites for authorities that take responsibility for airports, seaports, coastal and inland waterways. Whilst striving for efficiency, key players in the maritime and aviation industries will have to operate within these constraints when providing services for the movement of passengers and goods. Accurate, real time surveillance, survey and navigation information is essential in assisting authorities meet these new challenges. HITT serves this growing demand through the provision of innovative software solutions, systems integration, and where needed, with information.

1.2. Strategy

HITT's strategic business goal is to achieve and maintain a leadership position as a solutions provider that develops software dominant applications in the domains of Navigation, Traffic and Transport (including the area of logistic support). The company focuses on providing systems to support the management of marine and aviation traffic.

HITT's leadership in these niche markets is enhanced through the development of a unique combination of knowledge of traffic guidance, navigation, resource planning and related specializations such as hydrography, GIS (Geographic Information Systems), information and communication systems

It is the prime objective of HITT to achieve profitable growth in the market area of traffic technology. From the strong product-market position described below, HITT will further grow and expand. Key elements in supporting this growth strategy are:

- Strengthening HITT's recognized position as a leader in innovative cutting edge technology;
- Expanding HITT's capabilities in the global market by adapting the product range to local requirements;
- Continuously improving service and product upgrade support to the growing number of existing customers. HITT is optimizing the value proposition by long term commitment to its customers, providing them with high quality but low lifecycle cost;
- Establishing key relationships with strong partners who have complementary strengths and have our customers' preference.

It is the prime objective of HITT to achieve profitable growth in the market area of traffic technology

1.3. Product Market Combinations

In order to meet its objectives, HITT deploys a global niche market strategy. Within the wider context of traffic technology, niche markets in which HITT can achieve and maintain global market leadership are selected and pursued. The current focus is on those markets in which safety, security and efficiency are the main drivers. The markets of interest are the **Aviation** and **Maritime** markets in which aircraft, vehicle and vessel movements are the issue.

1.4. Organization

HITT N.V. (HITT) was incorporated under the laws of the Netherlands on May 20, 1998 as a public company with limited liability (naamloze vennootschap), having its statutory seat in Amsterdam. At this date it acquired all shares in HITT Holland Institute of Traffic Technology B.V. that was incorporated on January 28, 1994. HITT shares are listed at Euronext Amsterdam N.V.

HITT has a two-tier Board [III.8] consisting of a non-executive Supervisory Board and an executive Management Board.

2. Report of the Supervisory Board

To the shareholders

2.1. Supervision

The Supervisory Board is honoured to report on its activities in 2006 [III.1.2]. The role of the Supervisory Board is to supervise the policies of the Management Board and the general affairs of the company and its affiliates, as well as to assist the Management Board by providing advice. In discharging its role, the Supervisory Board is guided by the interests of the company and its affiliates, and takes into account the relevant interests of the company's stakeholders. The Supervisory Board is responsible for the quality of its own performance [III.1].

The Supervisory Board is of the opinion that given the size and the nature of the company, control mechanisms are adequate.

The Supervisory Board complies with the Dutch Corporate Governance Code ('The Code') with the exceptions as reported by the Management Board [III]. All members have taken due notice of The Code as well as the impact on the Board as a whole and on the Supervisory Director personally. The Supervisory Board has the task to independently supervise the policy of and the conduct of the business by the Management Board as well as the general flow of affairs. It supervises the achievement of the company's objectives, the corporate strategy and associated risks, the structure and operation of the internal risk management and control system, the financial reporting process and the compliance with legislation and regulations [III.1.6]. In addition the Supervisory Board provides advice on general management issues to the Management Board.

The profile and personal skills have been discussed in the meeting of the Supervisory Board in which its own functioning was evaluated; no changes were deemed necessary. The Profile and the Rules of Procedure describing the qualifications and responsibilities of the Supervisory Board and its individual members can be viewed on HITT's web-site [III.1.1] & [III.3.1].

	Damsté	van Amerongen	Prinsen
General management skills	X	X	X
Experience with Supervisory Boards of stock listed companies	X	X	
Knowledge of HITT markets and marketing, especially project oriented		X	X
In depth experience in project management and assessing project related risks	X	X	X
Financial management, project- and business financing	X	X	
Human resource management in a technical business	X	X	X

The Supervisory Board has conducted 10 formal meetings with the Management Board covering amongst others HITT's shareholders' issues, business development, company performance, planning and budget, external and internal auditing mechanisms, risk management, personnel and social affairs, corporate governance and profile of the Board as well as possible co-operation with partners. Information provided by the Management Board has been presented in due time giving the Supervisory Board ample time to perform its duties [III.4.1.b] & [III.4.1.c]. No Supervisory Director was frequently absent [III.1.5]. Informal meetings regularly took place between members of the Management Board and members of the Supervisory Board. Three meetings were held without the presence of the Management Board to evaluate the Supervisory Board's own functioning [III.4.1.e] and its independence [III.1.7]. Following that evaluation no Supervisory Director had to retire early [III.4]. Also the functioning of the Management Board as a corporate body of the company and the performance of its individual members were discussed [III.1.7]. As per the Annual General

Meeting on February 21, 2007 Mr. Van der Scheer will step down as a statutory director due to personal circumstances. We like to thank Mr. Van der Scheer for his dedication in the past six and half years.

The Works Council met with the chairman of the Supervisory Board to exchange views [III.4.1.g]. Management continues to adapt the profile of the company to reduce the risks associated with a project driven company by entering into other product market combinations, such as navigation-on-board and management of harbour operations. Synergies between companies in the group are being fostered. Measures to strengthen the market position and to attain a stronger competitive edge have been discussed between the Boards extensively. Every quarter, a full financial report including balance sheet, profit & loss account and cash flow statement as well as a running year-end forecast were provided by the Management and discussed to ensure that the Supervisory Board had a clear insight in the current status of the business The financial position remains strong. The policy of Management has focused on a balanced treatment of all stakeholders: employees, suppliers, customers, shareholders and society. Risk assessment and control mechanisms are in place, amongst others through the stringent business planning cycle within HITT (see page 23, Risk Management and Internal Control). This planning cycle has been in place throughout the existence of HITT, is refined annually and has proven to be adequate [III.1.8]. The Supervisory Board has assessed the control mechanisms and risks are discussed regularly with the Management Board and the external auditor. The Supervisory Board is of the opinion that given the size and the nature of the company, control mechanisms are adequate. These mechanisms, however still cannot prevent unforeseen circumstances in the market resulting in the necessary adaptation of earlier expectations and the subsequent publication thereof.

The Supervisory Board has established a schedule of rotation [III.3.6]. Supervisory Directors are nominated for a term 4 years in accordance with The Code [III.3.5]. We endorse the Dutch corporate governance code [III.2.1], [III.2.2]. A Profile and Rules of Procedures are posted on the company's website. The Regulations contain, amongst others, specific rules of procedure for the handling of (potential) conflicting interests [III.6]. During 2006 no such (potential) conflicting interests occurred. The composition of the Supervisory Board is such that members act independently of each other and of the Management Board [III.2]. To our opinion the Supervisory Board is composed such that members are able to act critically and independently of one another and of the Management Board and any particular interests [III.2.3].
All Supervisory Directors are familiar with HITT and its business and have been for some considerable time. Due to the specific qualifications of and present activities employed by the individual Supervisory Directors no specific education has been considered necessary during the year [III.3.3] & [III.4.1.a]. Due to the size of the company, a Company Secretary has not been appointed, however the Chief Financial Officer acts as such. The Supervisory Board sees to it that it adheres to its statutory obligations and obligations under the Articles of Association [III.4.3].
As the Board consists of three members no separate committees have been formed. However, the duties of committees have been described in Rules of Procedure and the Supervisory Board acts accordingly [III.5] & [III.4.1.d]. The Rules can be viewed on the company's website.

2.2. Audit Committee

An audit charter is established which describes the framework of the responsibilities of the Audit Committee and which has been extensively discussed with the External Auditor [V.1.1]. In the capacity of Audit Committee the performance of the External Auditor was reviewed [V.1.2]. As part of the 4-year scheme in 2005 the Audit Committee invited three audit firms to tender for the auditing of the 2006 up to and including the 2009 financial statements [V.2.2] & [V.2.3]. From that evaluation we have recommended BDO CampsObers Audit & Assurance B.V. to the Annual General Meeting, who appointed them accordingly. The former auditor, Deloitte Accountants B.V., issued a management letter on the Annual Report of 2005 and recommendations have been discussed in detail with both Boards. Progress on the recommendations was monitored during the semi-annual review. All recommendations were implemented in the year 2006. The Auditor has had free access to information they require to conduct their audit. The Auditor has been asked to provide comments on the semi-annual and

annual press releases and reports and was invited to attend the meetings during which the semi-annual and this annual report were approved [V.4.1]. The Audit Committee has received the Auditor's report in relation to the consolidated and company financial statements. Over the year 2006 the Auditor has issued a management letter and progress will be reviewed during the semi-annual review in July 2007 [V.4.3]. A meeting took place between the Supervisory Board and the Auditor without the presence of the Management Board to discuss the report, the framework of internal control and the auditing mechanisms [III.1.9], which were confirmed to be adequate. The former Auditor was present during this year's Annual General Meeting and the Audit Committee has also invited the current Auditor to be present in the Annual General Meeting of shareholders on February 21, 2007 [V.2.1]. When the need arises, the Auditor may request the Chairman of the Supervisory Board for leave to attend our meeting regarding audit committee subjects [V.4.2].

2.3. Remuneration Committee

The remuneration policy applied by the Supervisory Board with regard to the remuneration of the Chief Executive Officer is in principle one of market conformity, taking into account the specifics of the company [II.2]. To that extent external professional consultancy was obtained in 2003 to judge the adequacy of the remuneration package [II.2.9], [II.2.10]. The remuneration policy was presented to and adopted by the Annual General Meeting of 2004 to consist of a fixed annual salary range from € 150,000 to € 220,000 plus an annual cash bonus of 30% to 40% of the fixed salary depending on realized net profit as against budget plus 15% of the fixed salary of long-term incentives in cash. The other emoluments, like pension plans, were not to be changed. The Supervisory Board has discretionary authority to grant a cash bonus of up to 20% of the fixed salary in case targets set for the annual cash bonus are not met for reasons beyond the influence of the Management Board. The Supervisory Board was authorized to implement the remuneration policy in 2004. The actual remuneration scheme in effect is detailed in the financial statements, including the agreed severance payment of € 275,000 that has been accounted for under Employee Benefit Expense in 2006. The Supervisory Board feels that the current remuneration policy is adequate and sufficiently challenging.

2.4. Selection and Appointment Committee

According to schedule no Supervisory Director is to resign in the General Meeting of shareholders on February 21, 2007. Mr. H.R. Boswijk was appointed Chief Commercial Officer as of July 1, 2006. The Supervisory Board will propose to the General Meeting to appoint Mr. Boswijk ad interim statutory director until a suitable successor has been found as a successor to Mr. Van der Scheer.

2.5. Financial statements

The Supervisory Board presents the Annual Report drawn up by the Management Board dated January 25, 2007. BDO CampsObers Audit & Assurance B.V. has audited the financial statements. The auditor's report has been included on page 56 of this annual report.
We submit the financial report and the proposed distribution of profit for shareholders' approval at the Annual General Meeting of shareholders. At that meeting, shareholders are also invited to discharge the Management Board for conducting the business and to discharge the Supervisory Board for the supervision they have pursued [IV.1.6].
We wish to express our sincere appreciation to the Management Board and to the personnel for the dedication and enthusiasm with which they have fulfilled their challenging tasks in a competitive market. Based on the continuing strong financial position and the focused organizational structure, HITT is well positioned to take full advantage of opportunities in the future.

Apeldoorn, January 25, 2007

Dick Sinninghe Damsté (Chairman)

Eric A. van Amerongen (Vice-Chairman)

Hans Prinsen

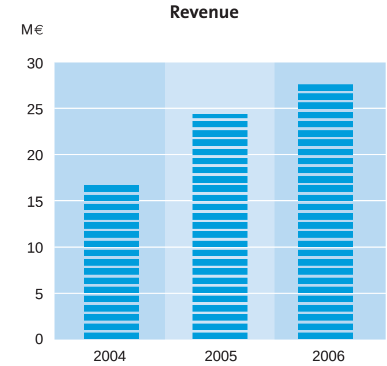
3. Report of the Management Board

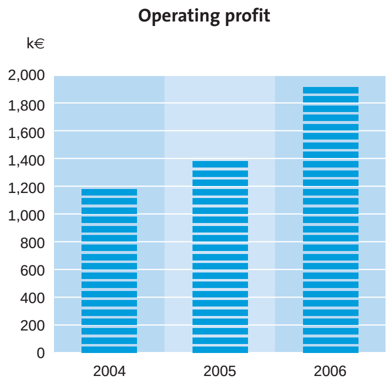
3.1. Outlook

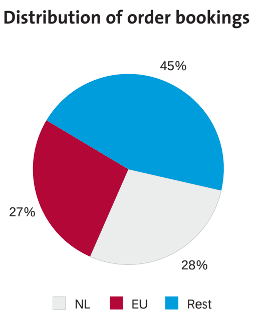
Following three years of increased investment in both market position and technology, the company continued to consolidate its competitive position. Based on an assessment of the company's current position in the market and the continued healthy growth in key sectors, it is expected that HITT shall see another year of growth in revenue and profitability.
The starting point of the company for 2007 is considered strong with a backlog at the beginning of 2007 of approximately € 28 million plus a substantial volume of outstanding proposals and qualified prospects.
In 2006 HITT expanded and reinforced its presence in the aviation and marine markets, both of which continue to exhibit healthy growth and expansion. The market drivers "traffic safety" and "transport efficiency" remain important and the relatively new driving force, "security", is starting to make an impact, expanding the market and creating new opportunities. With the acquisition of the remaining shares in Ican and Klein Systems Group during 2006 all commercial forces are combined to take advantage of market synergies.
The value of developed products –required to fulfil current and future orders – amounts to some € 6 million at the beginning of 2007. These investments in technology have strengthened HITT's ability to compete in traditional and new global niche markets. Recent market success with these new products underscores the value of ongoing investment in technology. Current technology programs are on track and in line with the market objectives. These development efforts undertaken in the past provide a springboard to the future, contributing significantly to the confidence that HITT will be able to realize projected intake and resulting revenue.
The competition is fierce in our global markets. In the past year we saw a tendency for consolidation in the industry, specifically on the marine side of our business. In our view the absorption of STN Atlas and Sofrelog by European Aeronautic Defence and Space company (and ThyssenKrupp) and NorcontrolIT by Kongsberg defence is specifically related to the growing market opportunites in homeland security type applications.

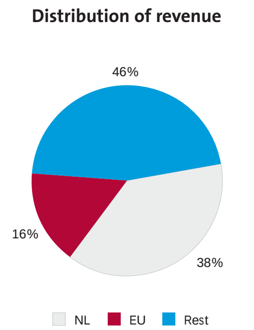
HITT is able to distinguish itself by offering integrated systems based on a growing set of subsystems and components that have been developed with specific attention to a cost effective lifecycle strategy. The advantage so obtained more than compensates the comparative cost disadvantage of our status as a fairly small stand alone, but global playing, company. We see continuing growth in both the aviation and the marine activities of the company. HITT offers a broad spectrum of solutions to the marine market covering a multitude of (integrated) applications, this makes the company a more attractive partner for our customers. HITT is able to differentiate itself from the competition by its ability to offer customers a complete solution.

In the aviation market, which is expected to represent an increasingly important part of HITT's business, major steps have been taken in the last year. HITT's dominant position in Scandinavia has been consolidated, new markets in Russia are opening, sophisticated customers in Germany are increasingly switching to HITT solutions and Singapore represents a major success in Asia. Coupled with this, HITT has made its first inroads into the airlines with a revolutionary product being acquired by Air France - KLM. In the coming year growth is set to continue with particular focus on new innovative products for the airlines and further consolidation of HITT's increasingly dominant position in the airport surface guidance market. In 2007 HITT will continue to focus on the increasing opportunities offered by further integration of airport systems to support Collaborative Decision Making (CDM) which aims to consolidate and address the needs of all stakeholders in the airport environment. The Aviation market is now growing rapidly after many years of stagnation and HITT is uniquely placed to address this opportunity.









3.2. Review 2006

The revenue increased by 18% to € 28 million (2005: € 24 million). The operating profit grew with 36% to € 1.9 million (2005: € 1.4 million).
In 2006 markets regained momentum against a background of stronger budgets, fuelled by an increasing awareness of the need for traffic safety in a climate of increasing security concerns. This was reflected in both maritime and aviation markets and lead to the emergence of more homeland security applications. Even the offshore industry becomes increasingly concerned about safety and security and this market is now manifest.
Unfortunately, the weakening US dollar had an adverse effect on prices in many of our markets, particularly in those with currencies tied to the US dollar, such as China. Price competition remained fierce; however we saw a slight change towards a renewed appreciation for quality. Our investments in competitive technology and quality started to pay of.

3.2.1. Order bookings

With a total of € 29 million new order bookings, the year ended with an order backlog of € 28 million. Orders were received from Singapore Changi Airport, Norwegian Bergen Airport, German Frankfurt Airport and Russian Moscow Airport amongst others. Marine orders were received from India amongst others. The order for Tiel, The Netherlands was signed early 2007. The resulting backlog at year end is satisfying, considering that a quarter of this order book covers long term assignments. Our markets typically require flexibility in capacity to take on new work for immediate execution.
The pipeline of outstanding proposals and prospects for 2007 and beyond is good in perspective of our growth ambitions.
Geographical distribution of the intake illustrates the international nature of HITT's markets: 28% in the Netherlands, 27% in Europe and 45% in the rest of the world.

3.2.2. Revenue

As the markets on which HITT concentrates its activities are truly global in nature, the revenues distribute accordingly. In 2006 the markets were divided over the Netherlands (38%), Europe (16%) and 46% of revenue came from the rest of the world.

The acquisition of the remaining shares of ICAN and KSG further improved the integrated commercial approach to markets over the borders of the business units. This adds to the strength of HITT to operate its various business units as one integrated company. Multi-disciplinary teams work together on a project basis. The use of video-conferencing technology compensates for the physical location of the various companies in the group. Although obviously product market combinations can be recognized, the company is a one segment company: the segment of software dominant traffic related technology for guided traffic.

x € 1,000		**2006**		**2005**
	%		%	
Aviation Traffic	11	3,012	15	3,720
Marine ashore	57	16,074	45	10,821
Marine onboard	18	4,975	25	6,031
Technical services	14	3,813	15	3,515
	100	**27,875**	**100**	**24,087**

HITT will continue to pursue and maintain leadership positions in selected market niches. The company distinguishes itself from the competitors through a consistent development policy which is exploited in combination with focused integration competence. This strategy has resulted in a further reinforcement of our market position.

As many of the aviation orders were received late in 2006, they did not yet contribute to revenue, which therefore slightly decreased from € 3.7 million in 2005 to € 3.0 million in 2006 by projects in Singapore, the People's Republic of China, Denmark, Ireland, Taiwan, Egypt and others. A substantial number of new projects have been started up and are in early stage of development.

Vessel Traffic Services and Information Systems, as well as Coastal Surveillance Systems, together with nautical surveillance systems, saw revenue increasing from € 10.8 million in 2005 to € 16.1 million in 2006. Projects progressed in India, Netherlands Antilles, Belgium, the People's Republic of China and others.

Revenue of technical services, comprising customer support to installed projects, small projects and the secondment of personnel, showed an increase from € 3.5 million over 2005 to € 3.8 million over the year 2006. We continue to see a gradually increasing interest in our support activities, trailing the growth of our installed project basis.

Revenue of the hydrography and navigation products decreased from the record of € 6.0 million in 2005 to € 5.0 million over the year 2006, mainly due to a difference in the mix of hardware vs. software. However software sales continued to grow. Main markets are Benelux, Canada and USA, with increasing sales to the Far East including China.

3.2.3. Press releases in 2006

The following are excerpts from issued press releases. Full versions can also be found on HITT's website.

On February 7, 2006 HITT published its 2005 financial results. This was accompanied by a press release, printed annual report followed by a meeting with analysts and a press conference:

In 2005 HITT booked a net result of EUR 1.3 million (2004: 1.2 million). The operating result increased to EUR 3.6 million (2004: EUR 2.8 million) on a turnover of EUR 24.6 million (2004: EUR 17.9 million). The substantially improved order intake in 2005 of approximately EUR 40 million provides a good basis for 2006. The figures in this release, including the comparative figures, are drawn up according to International Financial Reporting Standards (IFRS).

On June 12, 2006 HITT announced to have acquired remaining participating shares in Ican and Klein Systems Group:

HITT has exercised its call option rights and has acquired the remaining participating shares in Ican Ltd of St John's, New Foundland en Klein Systems Group Ltd of Vancouver, British Columbia, Canada. At the time of acquisition of the primary 40% of participating shares in 2001 respectively 2002, HITT agreed option rights to acquire the remainder of shares in both companies. Although HITT had controlling power from the beginning and consolidated the results of both companies, the management of HITT considered it the right moment to exercise its option rights now.

On June 19, 2006 HITT received an order from the Oil and Natural Gas Corporation Limited in India:

HITT received an order from Oil and Natural Gas Corporation Limited (ONGC) in India. HITT will deliver a system for the guidance and safeguarding of shipping in the immediate of platforms and drilling rigs off the west shore of India. The system, with a value of approximately EUR 4.7 million, will be the largest and most extended system for surveillance of platforms in the Arabic Sea and will be operational within one year.

On June 27, 2006 HITT appoints Rob Boswijk Chief Commercial Officer

HITT will strengthen its management board with Mr. H.R. Boswijk, who will be appointed Chief Commercial Officer (CCO). The management board is further composed of Mr. L.S. van der Scheer (CEO) and Mr. J.H.M. van Asperen (CFO). Besides general management, Luuth van der Scheer will dedicate himself to the further strategic development of the group. Rob Boswijk will also become general manager of the largest subsidiary, HITT Traffic, where he will be responsible for the operational management and further growth of the commercial activities.

On September 12, 2006 HITT published its semi-annual report.

In the first half year HITT booked a turnover of EUR 12.4 million (1H2005: EUR 12.7 million) and a net result of EUR 0.4 million (1H2005: EUR 0.5 million). The order book increased in the first half of this year with EUR 1 million to EUR 24 million.
The management maintains its expectation for the full year of an improvement compared to 2005.

On September 14, 2006 HITT received order from Civil Aviation Authority of Singapore

On the 25th anniversary of Singapore Changi Airport the Civil Aviation Authority of Singapore (CAAS) selected HITT to deliver a ground movement surveillance system. This system will provide the Singaporean air traffic controllers with a comprehensive picture of the ground traffic in the airport including the new Budget Terminal.
The system will be fully operational within 15 months.

On December 21, 2006 HITT was selected to supply a traffic control system Tiel / The Netherlands

The Netherlands Ministry of Transport intends to select HITT to supply a vessel traffic control system for the river Waal at Tiel. In accordance with the bid procedure, 15 days are given to raise objections against this intention. HITT supplied similar systems in Nijmegen and Dordrecht. HITT will subsequently service the system for 12 years to guarantee the operation of the system.
Earlier this month HITT received orders for delivering ground movement control systems for the airports of Stavanger and Bergen in Norway as well as for Vnukovo airport of Moscow, Russia. Vnukovo is the second of three Moscow airports that has selected a HITT system.
These four orders add up to approximately EUR 8.5 million.

3.3. Market

HITT's products are applied in the world wide **Aviation** and **Marine** markets. The trend of long term growth in air and marine transportation continued in the past year with a slight acceleration to around 9%. The total size of the market for traffic control and navigation infrastructure is worth multi billion Euros. This is the basis of our ongoing markets which remain in good health..
The company's focus is on highly technological niche markets within the Aviation and Marine industries that have to do with safety, security and efficiency of the traffic. Where these market niches have a total size of several hundred millions Euros per year, the market share of HITT varies from 10% to 40% in its main product market combination.
Safety, security and efficiency are becoming more and more urgent due to several widely recognized mega trends:

- The growth in traffic results in a critical density of traffic in strictly confined areas such as ports, waterways and airports. Risk of accidents is increasing exponentially and measures are required to prevent this as well as to reduce the consequences of mishaps, while accommodating this growth;
- Smuggling, illegal immigration and terrorism are a growing public concern that has led to the creation of homeland security organizations in many countries. Early warning, prevention and damage control are functions imposed on operators of ports, airports and waterways;
- Intensifying global competition puts more and more pressure on the cost of logistics. Larger and faster aircraft and ships, and shortening of turn-around times are a response.

During 2006 the global economic circumstances remained good, and both public and private organizations put more emphasis on addressing these issues. We noticed growing budgets for investments in innovative technological solutions. HITT served the market successfully with adequate solutions to address the issues stated above.

The aviation market issued tenders for a higher number of surface movement guidance and control systems than we have ever seen before. Not all tenders have turned to projects yet, but the intake has been more than satisfactory. In addition, HITT became successful in introducing a newly developed "collaborative decision making" tool that enhances the efficiency on airports.
The position of the company in the marine market gained strength as well, even though several project opportunities moved into the next year again. New developments that were launched in the field of Electronic Navigation Chart technologies have gone through successful market introduction. Navigation software and positioning equipment grow their market share in the high-end of the market. Coastal surveillance systems and homeland security related information systems appeared for the first time in the market.. The demand for port management systems enhanced with surveillance information also showed strong growth.

Market developments in 2006 underpin the growth perspective for traffic safety and security and efficiency enhancing software solutions in the aviation and marine markets. Though price pressure remained an issue we must conclude that the market in 2006 has been fairly good. Project implementation in the field of vessel traffic services and air traffic control systems were performed in line with the contractual obligations. Several projects have been successfully concluded in the course of the year. Customer support activities increased slightly in all of HITT's markets.

Market developments in 2006 underpin the growth perspective for traffic safety and security and efficiency enhancing software solutions in the aviation and marine markets.

Photograph courtesy Royal Haskoning and Port of Felixstowe

3.3.1. Geographical coverage

Our market presence has grown over the years and in general terms our markets are global, however it was also a deliberate choice to refrain from expending too much effort on markets in South America, Africa and the Caucasian CIS. We feel strong in following markets.

The first call of the largest container vessel in the world, the Emma Maersk, in Rotterdam was facilitated by the highly sophisticated Navigation System that is produced by HITT. The Emma Maersk is the first of a new generation of mega-vessels that require the highest standard of navigation and docking equipment.

North Western and Central Europe

HITT's aviation products are applied and serviced especially in the Netherlands, Germany, Scandinavia and UK. The recent award of two new contracts in Norway (Bergen and Stavanger, next to our high quality reference Oslo) signal our strength over our main competitor Park Air Systems, a subsidiary of Northrop Grumman, who is based in Norway.

Marine activities cover a wide range of applications. Vessel Traffic Services Systems and Coastal Surveillance Systems found major application in Belgium, Netherlands, Poland and the Baltic. Nautical products (Navigation and Hydrography) were successfully sold all over coastal Europe. New inroads were made with our Port Management systems that are applied in the prestigious ports of Ireland and Netherlands. For maritime information services we find customers all over the world.

North America

Our focus in North America is almost entirely on the Marine market. We are increasingly successful with the sales and services of nautical products in Canada and the USA. The HITT Port Management Systems, Maritime Pilot Management Systems and Tugboat Management systems grow to become the standard of the industry.

Caribbean

The Caribbean is a good market for HITT's Marine products because the solutions that the company provides make a significant contribution to the security challenges of the area. Comprehensive Port Management Systems serve the needs of many multipurpose ports that are so typical in that region. The integrated Coastal Surveillance System project that is in progress on the Netherlands Antilles increases security to protect against unwanted people and drug trafficking. Several new opportunities are in sight.

Asia & Australia

HITT's aviation systems are found in the most prestigious airports of China, Taiwan, Singapore, and Korea.
In the Marine market in this part of the world HITT realized and maintains large and highly sophisticated traffic control projects in China, Hong Kong and India.

Coastal Surveillance and Off Shore surveillance systems are being supplied to India. The company's Nautical products are well present in Australia, China and to lesser extent in several other countries. Port management systems are widely applied in Australia and New Guinea.

CIS and Middle East

The Aviation products of HITT are installed in Russia and Egypt. A recently awarded contract in Moscow builds on the customer satisfaction already created.

Marine applications have been sold and are maintained in the Ukraine Saudi Arabia, Egypt and to a limited extent, in Russia.

3.3.2. Market channels

The channels that HITT uses to address the different market opportunities developed in-line with the strategy to further optimize contacts with and service to, customers. There are several networks of distributors; value added resellers (some OEM), agents and partners in place. Also direct lines to the market are maintained. The geographical market areas, as mentioned above, are well covered. These networks are managed per business unit, taking into account the specific needs of each product / market combination. In a growing number of cases, joint efforts are made together with other suppliers. Per country there is a good cross-division awareness of the different channels to market.

With regard to nautical products, the network of distributors and resellers continued to expand, maintaining emphasis on Europe, Asia and North America. In order to optimize support to customers it is the policy to select value added resellers that keep a first line support competence. In North America wholly owned marketing & support offices are present in the USA, in addition to the business units in Canada.

With regard to projects for traffic control systems there is a continuous review of the performance of agents and partners, both of which are assistedby the support facilities in Hong Kong and Beijing.

3.3.3. Market performance

The market position of all product market combinations has improved over the years. Some of the products have reached unchallenged leadership positions (e.g. Qastor has become the de-facto standard for maritime pilots) others have moved into shared top positions (e.g. A3000 for air traffic control on airports). Our customer base has grown to a level such that more than 60% of the projected revenue can be obtained within this group; one third thereof through direct negotiations or long term contracts.

Some of the products have reached unchallenged leadership positions

The strategy to strive for leadership positions results in having better control over the market. However this only comes by investing heavily in marketing and sales and by maintaining a significant development effort.

The company is highly innovative, both in technology as well as in the service it provides to the market. In the past year the company has once more been nominated for the China Trader Award, and won the prestigious Defence Technology Exchange Innovation Award in the UK.

The competition for new projects remains fierce. However, as noted earlier, our competitors in the marine market, STN Atlas, Sofrelog and NorcontrolIT have been absorbed by the defense contractors EADS and Kongsberg respectively. There is good reason to believe that these companies will be re-focussed to concentrate on homeland security to support the growth strategy of their new mothers. In that case the competitive position of HITT will likely improve in the medium term.

3.3.4. Market presence

The customer base has grown continuously. Our customers are of high quality, in the sense that they are very demanding because of challenging operational conditions they are required to meet.

Where we aim to be leader in our strategic product market combinations, we have a matching reference list of customers which are recognized to be highly demanding.

The customer base generates a flow of support (maintenance, repeat etc.) business that is currently close to 15% of total sales. Most of this is in the form of long term contracts which optimizes the lifecycle cost for our customers whilst adding continuity to our operations.
In addition, as a rough estimate, 40% of new business that is to be won in open competition comes from existing customers.

3.3.5. *Product market combinations*

Aviation traffic

Within the Aviation market, HITT has built up a strong position in the market niche of Advanced Surface Movement Guidance and Control Systems (A-SMGCS) as part of the Air Traffic Control chain. In 2006 we successfully launched a new product for airlines and airports that enables these parties to use accurate real time traffic information in their operational decision making. This represents the first step of a strategy to enter into the growing market for Collaborative Decision Making tools.

HITT differentiates itself from its competitors by focusing on the safe, secure and efficient turnaround of aircraft on the airport, where most competition concentrates on the gate-to-gate, or flight phase. This can mean that competitors are in some cases potential allies as well. Our traditional competitors are Northrop Grumman's wholly owned subsidiary Park Air Systems, Thales and Selex. In addition, new competitors are emerging in the form of companies such as Sensis and Indra, both of whom are also able to offer complete, albeit less sophisticated, systems.

A-SMGCS assists air traffic controllers in guiding and controlling aircraft and vehicles on the airport.

On many occasions, the lack of airport capacity causes a bottleneck in air traffic capacity. However, expansion of airport infrastructure is increasingly constrained by environmental regulations, amongst others. Furthermore, airport capacity is significantly reduced in bad weather conditions such as fog or rain. Strict safety regulations require greater aircraft separation, thus decreasing the capacity of the airport. A-SMGCS technology is the most powerful tool available to air traffic control to assist in increasing airport capacity, whilst maintaining the required safety level. Typical sensors used are radar, multilateration and ADS-B (Automatic Dependent Surveillance-Broadcast), a satellite positioning transponder. HITT systems, branded A3000, have an open architecture and are suitable for all three sensor types. The market has substantial growth potential.

Air Navigation Service Providers (ANSPs) are typical customers for A-SMGCS. In general they are responsible for the safe and orderly flow of civil traffic and for maintaining the supporting traffic management systems. HITT has many ANSPs as customers, both for new projects and for maintenance support.

Airport companies show an increasing interest in similar surveillance systems, especially aimed at integration with airport management and information systems. This will facilitate faster turn-around of aircraft which is of paramount interest for airlines.

During 2006 HITT started new A-SMGCS projects in Ireland, Russia, Singapore and Norway. Other projects and expansions are being carried out in Germany, Egypt, Sweden, Taiwan and Denmark.

Marine traffic, hydrography and navigation

HITT maintains a complete set of solutions for the marine market with regard to traffic safety, security and efficiency.

HITT differentiates itself from the competition with its broad portfolio of niche market, high quality, products. Large competitors like EADS, Kongsberg, Thales, Raytheon, and Selex are nonetheless occasionally partners. In some niches we have head on competition from smaller, more focused, companies like Transas and Hypack.

Vessel Traffic Services (VTS) represent the services that a competent authority utilizes in achieving a safe and expeditious traffic flow in designated VTS areas, such as harbours, estuaries, rivers and coastal areas. Such authorities control the traffic and the situations within their area of responsibility from a traffic centre.

Today VTS authorities are increasingly busy organizing and equipping their services in compliance with the recommendations as set forth by the International Maritime Organization (IMO) and concepts further developed by the International Association of Lighthouse Authorities (IALA). Security functions are becoming increasingly important in VTMIS systems. In addition inland waterway authorities will make use of River Information Services (RIS) which contribute to voyage planning. VTMIS systems are part of RIS.

Major customers for HITT's VTMIS, branded V3000, are the harbour authorities, water management authorities and marine departments of (regional) governments.

Work has been done on projects in India, Poland, Italy, Belgium, Netherlands, the People's Republic of China, mainland and Hong Kong, on project extensions and new projects. Again a large number of small AIS based VTS solutions have been sold in China.

In general, **Coastal Surveillance Systems (CSS)** are not primarily meant for navigational assistance, but for safeguarding national territorial interests, as well as providing assistance in search and rescue operations. The requirement for coastal surveillance is increasing due to Homeland Security concerns. Within the European Union there is increasing urgency for CSS due to the Schengen Agreement and as a result of the Erica III-guideline as issued by the European Union. The latter calls for a full coastal coverage of AIS base stations and associated control centres (SafeSeaNet).

Private enterprises involved in off shore exploration take responsibility to protect and safeguard such operations against intrusion and traffic mishaps.

Work has progressed satisfactorily on CSS projects in the Caribbean (Antilles) and the Netherlands. A new project is contracted in Turkey. Off shore safety systems have been successfully sold to oil and gas companies operating in the North Sea and in India. We take pride in reports that have reached us of successful functioning systems actually having preventing disasters.

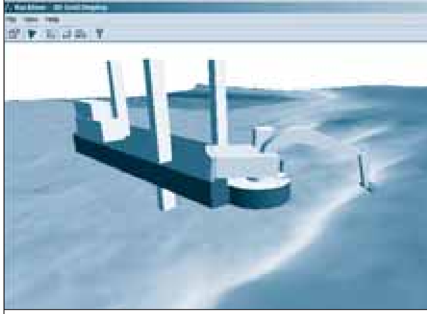
Information & information systems become increasingly important for the maritime industry as the industry becoms more and more competitive. With relatively low margins in the maritime logistics market, there is increasing interest in ports that can offer smooth servicing of the ships and the cargo. Short turnaround times and competitive port and service rates are part of the consideration to "call" at a port.

Information is important to all organizations playing a role in the broad spectrum of port operations.

Port management and the management of pilot organizations, tugboat operations and other service organizations call upon HITT for dedicated software solutions for their resource planning and invoicing. Such systems integrate with the broader financially oriented Management Information Systems that are generally in place, as well as with the real time traffic monitoring systems that are also provided by HITT.

With the objective to serve the maritime industry with more transparency HITT has taken the initiative to set-up a real-time information web portal that is to cover traffic positions in the main ports of the world. This internet based initiative, www.aislive.com, is shared 50/50 with key maritime information publisher Lloyds Register – Fairplay. The interest of the market in this service is rapidly expanding.

In 2006, management systems have been contracted by Cambodia's port of Phnom Pen, Canaveral Port, USA, Free Port Bahamas, US Coast Guard, Port of Pascagoula USA, Ras Laffan Qatar, and various others. Work on projects, including on the Port of Amsterdam, Galveston Pilots, Great Lakes Pilots and various others progressed well.



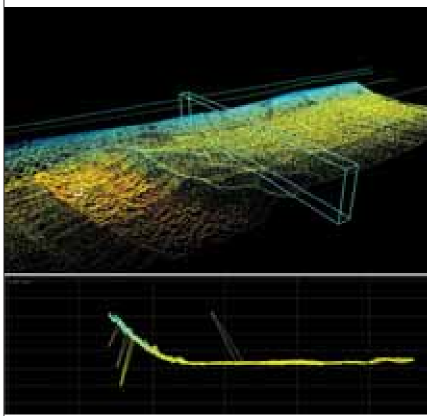
Hydrographic survey software is needed as all construction and operational activities associated with harbour and coastal installations, marine telecommunications cables, marine power cables, sewage outlet systems, seabed mining, offshore oil and gas exploration and development, oceanographic and environmental studies, etc. require precise navigation and positioning of the marine equipment employed. These activities often require production of detailed maps, digital charts and other documentation of the site of interest and the work to be carried out.

In recent years, accurate satellite positioning systems, underwater acoustic positioning systems, multi-beam echo sounders and digital side scan sonar imaging have been introduced. These new systems, combined with the incredible increase in computing power, and new PC operating and development systems have opened up a market for totally new integrated navigation systems to improve the efficiency and production of hydrographic surveys.

Typically customers are national and regional Hydrographic Offices, surveyors, the offshore industry, dredging industry, pilots etc. The variety of the market segments provides for a fairly stable market cycle. There is a general growth trend for these applications. In 2006 HITT strengthened its position in the market for dynamic hydrographic and nautical database systems. In addition a new product for data cleaning (branded Qloud) has been launched. This product that is open for integration in competitor chart making software, received an immediate high interest from its launch.

QINSy, the market leading software package for supporting hydrographic activities, strengthened its market position by selling licenses throughout Europe, South Africa, USA and several Asian countries including India and the People's Republic of China. In addition to direct sales, licenses are sold through OEM agreements with manufacturers of echo sounders.

The product has become increasingly successful in the dredging industry.



Navigation software is required for professional shipping fleets such as coastguards, marine police, customs, pilots, tugboats, lines-men, buoy tenders and others that are confronted with a difficult environment that is typical in harbours, inland waterways and at the coastline. In addition these ships interact intensively with the traffic that frequents the ports and waterways in their operations.

Specific navigation software, working with accurate ENC, but also integrating the AIS world standard to provide dedicated communication between these professionals and their customers / targets is of obvious benefit.

Major customers for HITT currently are the Coastguards, pilot and tugboat organizations and Navy's of several countries in Europe, Asia and North America.

Aldebaran, Regulus and Sentinel are brand names for HITT's navigation software for the Coastguard, Navy and for the professional workboat fleets, such as tugboats, marine police, customs etc. In 2006 this market development has been slightly disappointing due to time-shifting demand in the market. A new long term contract with the Canadian Coastguard is under negotiation.

Specialized navigation support software for use in confined environments like ports, estuaries and inland waterways sells under the brand name Qastor, with complimentary high quality hardware under the name ADX. Qastor has become the de-facto standard for maritime pilots.

Technical Services

HITT provides a full package of customer support services in all product market combinations that it serves. These services include preventive, corrective and adaptive maintenance, a 24/7 help desk and the supply of spare parts. This level of service enables HITT to achieve low lifecycle costs combined with a high availability of the safety critical systems that it delivers to its customers. The market for customer support services is expanding due to the growth of HITT's installed base. In 2006 close to 15% of the turnover of the company came from Technical Services and related support contracts.

3.4. Investments

In line with HITT's long-term profitable growth objective, the company deploys a comprehensive niche market strategy concentrating in particular on the market for traffic technology, including central traffic control and individual navigation. The starting point for every investment decision is the current core activity. Growth can be obtained by internal investments, such as in new software products; expansion by merger or acquisition is considered when an acquisition or partnership leads to a better Return on Investment (ROI) and Economic Value Added (EVA).

Investments for growth of the company are evaluated against the following (financial) criteria:

- Activities aim at global niche markets
- New activities are in familiar markets to the existing portfolio
- New and existing activities have realistic potential for market leadership
- Investments aim to reinforce competencies in core activities
- Value creation

3.5. Research and Development

HITT continues to make significant investments in Research and Development. Under the IFRS it is obligatory to capitalize and amortize development costs, thus showing the value of the efforts more prominently. In order to qualify for capitalization stringent prerequisites are to be fulfilled in before the development is undertaken as well as during the development efforts and the useful life of the developments. The same rigid way of organising customer projects is applied to every development effort; in fact from an organizational point of view there is no distinction. Formal budgets are approved and there is regular reporting against that baseline. Every reporting period a formal assessment is carried out to judge whether remaining value of capitalized development costs is to be impaired.

As a result of ongoing R&D efforts HITT can offer front running technical solutions to the market

As a result of ongoing R&D efforts HITT can offer front running technical solutions to the market. Front running in terms of technology, functionality and life cycle cost. Good examples are our new tracking algorithms for Aviation and Marine applications, data fusion, automated data cleaning, manipulation of immense databases, satellite positioning, Human Machine Interface techniques, port logistical ERP solutions etc.

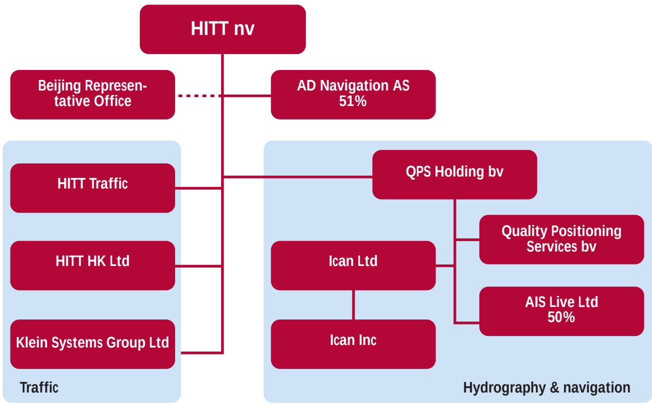
Whereas development efforts are made by HITT itself, for research HITT co-operates with institutions and universities. Long term research relations exist with National Aerospace Laboratory NLR and the Aeronautical faculty of Delft University. On a project by project basis programs are run with the Dutch Royal Navy and Thales, amongst other parties.

In 2006 HITT has reduced its participation in related European Marine research programs compared to the previous years. Partly because the relevant programs in this stage tend to focus more on regulations rather than on new technology. In fact we are of the opinion that technological part of the program re-invents current technology. In the air traffic environment HITT is participating in European projects such as the 6th Framework program SPADE in co-operation with NLR, and research programs for application of wide area multilateration with NLR and Eurocontrol.

3.6. Personnel and organization

The corporate structure of HITT comprises a holding company and five subsidiaries.

The figure below shows the corporate structure at December 31, 2006. HITT Holland Institute of Traffic Technology B.V. (HITT Traffic) is active in the Air Traffic Control and Vessel Traffic Services markets and Klein Systems Group Ltd specializes in management systems for harbours. Ad Navigation is a specialist in satellite supported positioning systems and QPS Holding B.V. with its subsidiaries specializes in the market for Hydrographic Surveying and Navigation Support.



Three participating interests and the 50% joint venture AISLive are managed in conjunction with QPS, and are therefore subsidiaries to QPS Holding.

The role of the Management Board is to manage the company, which means amongst other things, that it is responsible for achieving the company's aims, strategy and policy, and results. The Board is responsible for the consolidated results, financing of the company, financial risk assessment and coverage, and communications with the Supervisory Board, shareholders, analysts and press. The Management Board is accountable for this to the Supervisory Board and to the General Meeting of Shareholders. In discharging its role, the Management Board is guided by the interests of the company's stakeholders. The Management Board provides the Supervisory Board in a timely manner and with all information necessary for the exercise of the duties of the Supervisory Board.

The Management Board is responsible for complying with all relevant legislation and regulations, for managing the risks associated with the company activities and for financing the company. The Management Board reports related developments to and discusses the internal risk management and control systems with the Supervisory Board [II.1].

Regulations are posted on the company's website. The regulations contain amongst others specific rules of procedure for the handling of (potential) conflicting interests [II.3]. During 2006 no such (potential) conflicting interests occurred.

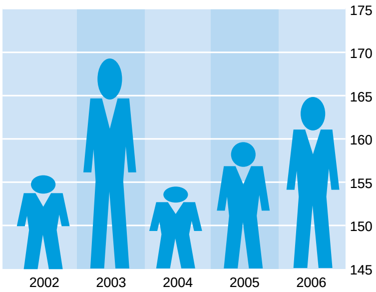
The managing directors of the subsidiary companies are fully responsible for all operational, commercial and financial issues regarding the respective company and they report directly to the Management Board.

Rob Boswijk (male, 1940, Dutch) is Managing Director of HITT Holland Institute of Traffic Technology B.V. (HITT Traffic) as of July 1, 2006, succeeding Luuth van der Scheer, who had had a double appointment until then. Rob Boswijk is also the Chief Commercial Officer of the company.

Rene Harder (male, 1953, Dutch) is Managing Director of HITT (HK) Ltd as of October 17, 2003. He is employed by HITT as of March 1, 1994. He held several management positions at Civil Systems Department of Hollandse Signaalapparaten B.V. before he participated in the management buy-out of this department transforming it into HITT. Mr. Harder is also member of the HITT Traffic management team. Mr. Harder was educated electrical engineer (B.Sc.) at the College of Advanced Technology Arnhem.

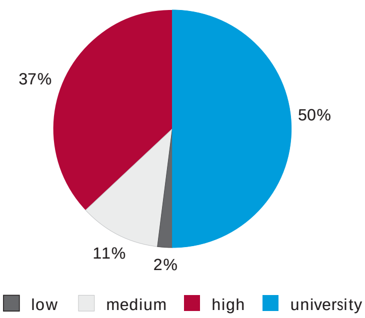
Peter Klein (male, 1948, Canadian) is the founder and Managing Director of Klein Systems Group Ltd since 1984. He took a Bachelor of Computer science degree of the University of Manitoba, Canada. Mr. Klein designed many modules for harbour management systems, ranging from scheduling of pilots, towboats and harbourmaster vessels to services recording, automated dockage, wharfage and storage billing, Accounts Receivable and property management systems for many customers throughout Canada and the United States.

Average full-time equivalent staff



HITT is a knowledge intensive company: it relies heavily on the up-to-date know-how of its staff and adequate knowledge management. Training and education are an important factor contributing to the human resources capital. Many hours and a considerable amount of money were spent on training and education in 2006. Also the R&D effort adds to the knowledge base of the company. Human resources and competencies are seen as a vital asset by the management of the company even though financial accounting standards still fail to provide indisputable means to recognize this asset on the balance sheet.

The average education of HITT staff is high:



Peter Das (male, 1958, Dutch) and ***Bert Jeeninga (male, 1955, Dutch)*** are Managing Directors of QPS Holding B.V. and Quality Positioning Systems B.V. Mr. Das was educated land surveying at the Institute of Technology in Utrecht and took the degree of Bachelor of Science. He founded QPS in 1987. Mr. Jeeninga was educated land surveying at PBNA and founded Geo Services Holland in 1986. This company merged in 1987 with QPS of Peter Das.

Neil Chaulk (male, 1961, Canadian) is the founder and Managing Director of Ican Ltd since 1996. He took a Bachelor of Engineering degree, Professional Engineering Certification (P. Eng.). In his previous employment at the Canadian Coast Guard, Mr. Chaulk held the position of Supervisor of Engineering and was responsible for the design and implementation of the Newfoundland Region DGPS Service. Mr. Chaulk was also a key member of the team that designed the Canadian national DGPS Service.

Richard Silk (male, 1961, British) is the Managing Director of AIS Live Limited. Mr. Silk has over 27 years experience in the maritime industry both at sea where he trained and served as a deck officer and for the past 20 years in marketing and management roles. Mr. Silk is also Joint Managing Director of Lloyd's Register - Fairplay, a specialist maritime information and magazine publishing company, employing 150 staff based in the United Kingdom with offices in the USA, Singapore and Sweden.

Lorentz Ryan (male, 1967, Norwegian) is the founder and Managing Director of ad Navigation AS since 2003. He was originally educated from the Norwegian Army, working as an officer in an operative Signal Corps department for four years. Mr. Ryan holds an M.Sc degree in land surveying, writing the degree on "Contributions of Differential GPS and GLONASS measurements to Point Accuracy under Forest Canopies". Previously, he has been working among others as the OEM sales manager at Ashtech Europe.

On a monthly basis all subsidiaries provide the profit and loss statement, the current balance sheet and the cash flow statement to the Management Board [V.1.3]. The consolidated figures are reported quarterly to the Supervisory Board.

During the year the workforce increased to 165 at year-end (2005: 161). The average number of staff increased from 159 to 165.

The high level of education combined with the required high level of expertise implies a relatively high average age of staff:

year	**2006**	**2005**
Average age	41.7	41.1
Average employment	7.1	6.9
Average expertise	17.8	17.3

Weighted average illness decreased to 1.9% (2005: 2.7%), but is still well below peer group average.

During 2006, the management had fruitful consultations with the Works Council. The works council was involved in a range of topics and discussions about the company's strategy, safety and risk issues, personnel policies and the competitive position of the company.

The culture of HITT is of a very open nature in which all staff can speak freely. The hierarchy within the company does not prevent people from bringing in ideas for improvements. Alleged

irregularities of a general, operational or financial nature can be brought to the attention of the management without jeopardizing one's legal position. Alleged irregularities concerning the functioning of the Management Board can be reported to the chairman of the Supervisory Board directly or through the Works Council. Undesirable intimacies between employees can be brought to the attention of the 'vertrouwenspersoon / confidant'. Regulations describing the above are partly vested in procedures and manuals. A 'whistleblower' procedure has been posted on the website [II.1.6].

The Board wishes to express its gratitude to all staff for its dedication and professionalism without which HITT could not have achieved the progress as described in this report.

3.7 Risk Management and Internal Control

Excelling in business is managing risks better than competition. Risks are minimized by the sheer attention for it and an appropriate framework of internal controls is in place. As HITT's staff is active in the field of air traffic and vessel traffic management and information systems for decades, thinking of risks is second nature.

Over 60% of revenue is generated by new orders from existing customers and/or revolving contracts, such as maintenance on the installed base of systems. The growing installed base and growing customer group is thereby reducing the business risk. We know our market intimately. However it should be noted that in total still close to 70% of the work is won in some kind of open tender process.

As of January 1, 2007 Dutch tax authorities have lowered the income tax rate as of January 1, 2007 from 29.1% to 25.5%, however income taxes now will have to be paid according to the percentage of completion of projects. Whilst commercial result and fiscal result now will be synchronized and thus less administrative efforts are necessary, it means that accrued tax liabilities have to be paid at once. This creates a significant one-time cash outflow. At the time of writing of this annual report the authorities had not yet decided on measures to smooth this burden, e.g. by paying instalments.

3.7.1. Company risk profile

HITT's activities can be divided into two categories, i.e. projects versus products and services, each having a different risk profile [II.1.5].

Projects

HITT's projects are software dominant system integration projects in the fields of Air Traffic Control Systems, Vessel Traffic Management and Information Systems and Coastal Surveillance. Following the strategy defined in 2001 aiming at diminishing the project-content over the product-content in 2006 this category represented 64% of the company's annual revenues (2002: 69%). Typical projects are worth between 5% and 15% of the company's total turnover. Related risks that can be recognized:

- Project risk: project control measures are in place from acquisition to project acceptance. HITT works in close harmony with its customers to mitigate any remaining risks. The project record of HITT is outstanding.
- Price risk: the market for projects is based on public tenders. As such there is a risk of severe price competition especially in a weak market situation. Since the main competition is also based in Europe, there is no specific market price risk related to the exchange rate of major currencies as long as they stay within a bandwidth of 10%. The volatility of the Euro against the US dollar exchange rate of the past year was substantially out of this bandwidth and created additional risk.
- Under-utilization risks: project-orientated organizations inevitably run the risk of continuity problems if the flow of projects is not in accordance with the available capacity. The size of the projects as stated above indicates the risk factor. As a policy, HITT employs 10 – 15% of its staff on a flexible contract basis. After the stagnation in 2004, and the workforce reduction in 2003, the flexible workforce in 2006 is gradually increasing again.

The Board wishes to express its gratitude to all staff for its dedication and professionalism without which HITT could not have achieved the progress as described in this report.

Products and services

Products and services form 36% of the annual turnover this year. According to the long term strategy this ratio is to grow. Related risks that can be recognized are:

- Market stagnation: in view of the utility nature of the market this risk is regarded to be limited.
- Price risk: competing products could cause a price risk, though the high degree of specialization reduces this risk for the short and medium term. There is also a price risk related to currency exchange rates. About 15% of the revenues of this category of activities are in US- or Canadian dollars. However, the same ratio of costs is in Canadian dollars thereby reducing the risk.
- Risks of liability of products, services, employees and officers are evaluated annually with the external insurance advisor and are insured via reputable insurance firms for that part of possible damages that can not be born by HITT's financial resources.

Mitigating risks is supported by implementing (international) standards and (external) auditing of adherence to those standards. HITT has several certificates proving adherence to those standards.

3.7.2. Technical quality and control

HITT works according to strict quality procedures. The company is ISO-9001:2000 certificated with the Tick-IT connotation. Regular internal and external audits by Lloyd's have proved HITT's level of quality control to be in line with its quality manual. With all its products HITT aims on the high end of the market. The customers appreciate the consistently high quality they received.

3.7.3. Business planning and control

Besides the certification on the subject of products and production HITT Traffic was awarded the 'Business Star' by the European Foundation of Business Qualification (EFBQ). European businesses associated with the EFBQ are a network of learning organizations recognized by the European Commission. Associates periodically examine themselves to see whether their entrepreneurship is sound and healthy. The enterprises involved draw up a strategic policy that helps them carefully formulate their objectives and make their action plans concrete. These plans are co-coordinated to developments taking place in the market and take into account the potential of the company in terms of both personnel and finance. They are then periodically assessed using the European Classification Standard®. The results of this objective check are the basis for benchmarking 33 aspects of entrepreneurship. The businesses in the network also work together on improvements to learn from each other. Companies classified with more than 700 of 1000 points awarded on the 33 aspects may call themselves 'European Business Star': HITT scored 836 points in the latest re-assessment.

Due to its specific project-oriented character HITT Traffic has implemented a vast set of procedures to cater for the management of specific risks, which are implicit in our project related business. All projects follow a strict 6-weekly reporting cycle direct to the management. Project managers are required to report actual costs and man-hours spent and to present an up-to-date assessment of costs and man-hours to be spent until the end of the project. In this forecast one important item is the explicit estimate of uncertainties, likely cost and the chance of occurring. An action plan per line item is presented to minimize or circumvent the uncertainty.

Before HITT Traffic decides to tender for a possible project, a bid/no bid meeting is held in which all specific risks associated with the possible proposal and subsequent order are evaluated against a fixed set of subjects plus specific subjects depending on the potential customer and his environment. A decision to bid is documented and signed off by the managing director. All proposals with an estimated value over € 250,000 are discussed in the regular meetings with the Supervisory Board [II.1.2].

3.7.4. Financial planning and control

Since the start of HITT in 1994 strict internal guidelines are followed to organize and control the financial reporting internally and externally. They are refined regularly. The external auditor reviews these procedures and adherence to it semi-annually and issues opinions for further improvement.

HITT's business planning cycle is a strong tool for systematically and regularly reviewing all aspects of the business including risks associated with it. It translates all plans into financial figures. HITT follows a strict annual planning cycle comprising 'target-setting', '3-year-business-planning' in September and 'Budget' in December. The target setting consists of a high level strategic view on the years to come. The business plan further sharpens that with the inclusion of financial targets and in-depths descriptions how to reach the goals and manage the associated risks [II.1.3.a]. The budget is the fixing of the first plan year and forms the basis for the monthly reporting. The plans are communicated and discussed extensively with the Supervisory Board as is the budget which is to be approved by the Supervisory Board [II.1.2].

The monthly reporting comprises the profit and loss, balance sheet and cash flow per company and on a consolidated basis [II.1.3.d]. The reports are communicated with the Supervisory Board. The quarterly reports form the basis for the year-end-forecasts. The reports are communicated and discussed in detail with the Supervisory Board. They also form the basis for the semi-annual and annual press releases. The external auditor reviews the (semi-)annual report.

The financial streams of information and the reporting thereon follow a set of written procedures to which all subsidiaries must comply [II.1.3.c].

Foreign currency risks on translation differences are not hedged. Significant currency differences on transactions are hedged without exception. The currency risk that exists during the validity period of proposals are either hedged by currency options with banks or limited by contractual or bid bond conditions. Due to the widening acceptance of the Euro throughout the world the transaction currency risk might decrease in the future.

HITT has been listed on Euronext Amsterdam as of June 4, 1998. At first on the NMAX market and as of November 12, 2001 HITT shares are traded on the Official Market. As of February 15, 2002 HITT forms part of the Next Economy segment of Euronext. Herewith HITT proves to adhere to very stringent financial reporting standards [IV.3.6].

3.7.5. Social quality and control

Employees of HITT act according to a stringent code of conduct, thus minimizing the risk of reputation damage due to misbehaviour of its employees and officers. The code of conduct is an explicit internal guideline to be adhered to. In essence the code of conduct defines the freedom of acting of HITT employees within the local national and international legal and regulatory framework, but in addition strives to act within generally accepted values in the Netherlands. Fairness and respect in each and every cultural environment are cornerstones of the code of conduct [II.1.3.b]. Compliance is monitored in the regular management structure of the company. The code is made available on HITT's web-site.

3.7.6. Conclusion

With due observance of the previous, we believe that the internal risk management and control systems provide reasonable assurance that the financial statements are free of material misstatement and that these systems have performed satisfactorily in the year under review. Neither are there any indications that the respective internal risk management and control systems will not perform satisfactorily in the current financial year. Steps that were advised to take for further improvement of these systems, amongst others by the external auditor in his management letter, will be followed up and completed during the current financial year [II.1.4].

3.8. Investor relations

The Management Board appreciates the need to provide up to date, accurate and actual information to investors concerning the present and future business of HITT, the strategy and thoughts of the management and the financial health of the company. The Board communicates with investors via several channels. Relevant best practices of The Code [IV.3] are followed, with the exception of the real time attendance of meetings via telecommunication means.

The financial figures are made public by means of a press release and presentation by both the Chief Executive Officer and the Chief Financial Officer in a press conference and a meeting for analysts. Due to the size of the company and the associated costs HITT does not provide on-line attendance of these meetings [IV.3.1]. Between these events, HITT publishes press releases concerning important business issues. Requests for interviews, publications and presentations for groups of investors are usually accepted. Analysts meetings, presentation to institutional or other investors and direct discussions with the investors never take place shortly before the publication of the regular financial information (semi-annual or annual reports) [IV.3.4].

Analysts' reports and valuations are not assessed, commented upon or corrected, other than factual, by the Company in advance [IV.3.2].

The Company has not paid any fee(s) to parties for the carrying out of research for analysts' reports of for the production or publication of analysts' reports, nor to credit agencies [IV.3.3].

The Annual General Meeting of shareholders will be held on February 21, 2006 at 14:00 in Apeldoorn at the premises of the company. Shareholders wanting to be present in the annual general meeting are invited to deposit their shares 4 bank days before the meeting [IV.1.7]. The Management Board and the Supervisory Board will provide the meeting with all requested information, unless this would be contrary to an overriding interest of the Company, in which case reasons will be given [IV.3.5]. One attending shareholder will be asked to review and approve the minutes of the meeting together with the Chairman. The minutes of the meeting are available within two months and can be applied for via HITT's web-site [IV.3.8].

All information regarding Investor relations may be obtained by e-mail: investor.relations@hitt.nl or by telephone +31 (55) 543 25 24. Information on HITT can be obtained via HITT's web site www.hitt.nl

3.9. Shareholder information

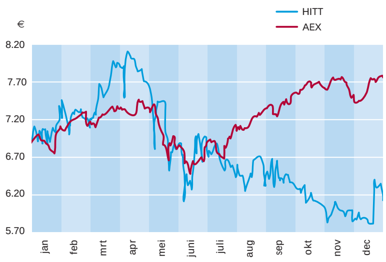
3.9.1. Trading

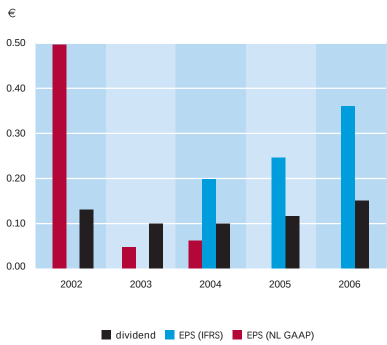
According to information provided by Euronext 1.2 million (or 25% of all) HITT shares were traded (2005: 686,398; 14.6%) thus generating turnover of € 8.4 million (2005: € 4.2 million).

3.9.2. Yield

Related to the closing stock price of ultimo 2005 the yield was 1.6%. If the dividend proposal of € 0.14 is adopted a dividend yield related to the stock price of ultimo 2006 of 2.23% is realized.

HITT shares versus AEX





Total yield (stock price appreciation/ depreciation plus dividend) related to the closing price of ultimo 2005 was -9% (2005: 46.0%)

3.9.3. Share Option Plan

Under the Employee Share Option Plan employees are able to acquire options on shares of HITT N.V. Granting of options is to the discretion of the management of the company under approval of the Supervisory Board. Options are exercisable between 3 and 5 years after issuance. Issued employee share options, the respective issue dates and exercise prices are shown in the financial statements.

At December 31, 2006 the total number of outstanding shares was 4,694,158 and the total number of outstanding options was 32,817, therefore the maximum possible dilution by granted employee share options is 0.7% of the 5% maximum allowed under the share option plan. After February 19, 2004 no options have been granted.

3.9.4. Disclosure of Major Holdings in Listed Companies Act

Based on the notices received pursuant to the Dutch Disclosure of Major Holdings in Listed Companies Act (Wet melding zeggenschap), the following shareholders with an interest in excess of 5% are known to HITT:

	Date of initial disclosure	N° of shares December 31, 2006[1]	Interest %
Holding Aarts Heerkens B.V.	November 11, 2004	237,000	5.05
Janivo Beleggingen B.V.	February 15, 2006	263,465	5.61
Todlin N.V.	October 10, 2002	249,055	5.31
HITT Holding B.V. [2]	June 4, 1998	2,400,000	51.13
Free float		1,544,638	32.90
Total outstanding		4,694,158	100.00

3.9.5. Financial calendar

2007	
February, 6	Publication of Annual Report 2006
February, 21	Annual General Meeting of shareholders
February, 23	Ex-dividend listing
February, 28	Dividend payable
July, 25	Publication of semi-annual figures
2008	
February, 5	Publication of annual figures 2007

Apeldoorn, January 25, 2007

Luuth S. van der Scheer (CEO)

John H.M. van Asperen (CFO)

H. Rob Boswijk (CCO)

1 Number at date of initial disclosure
2 HITT Holding B.V. is the holding company of the founders of the company and has not changed its participation since June 4, 1998.

4. Governance

4.1. Supervisory Board

The Supervisory Board consists of 3 members [III.1.3]. None of the members is a member of more than 5 supervisory boards [III.3.4]:

Dick Sinninghe Damsté (male, 1939, Dutch) is Chairman of the Board as of May 20, 1998 with a 3rd term of appointment until 2008. Mr. Damsté was re-appointed for a 3rd term in the Annual General Meeting of shareholders on February 18, 2004. Mr. Damsté was a former member and vice-chairman of the Management Board of Hollandse Beton Groep N.V.; he is a Supervisory Director of BE Semiconductor Industries N.V., Vedior N.V. and the Nederlands Kanker Instituut Antoni van Leeuwenhoek ziekenhuis NKI-AvL and Chairman of their respective audit committees. Having been responsible for the finance function of several (operating) companies throughout his career, Mr. Damsté is considered to be the financial expert within the Supervisory Board [III.3.2]. Mr. Damsté has not been employed by HITT before he became a Supervisory Director [III.4.2].

Eric A. van Amerongen (male, 1953, Dutch) is Vice-Chairman [III.4.1.f] and joined the Board as a member as of March 29, 2002 with a 2nd term of appointment until 2009. He is the former CEO of Royal Swets & Zeitlinger Holding N.V. and is currently chairman of the Supervisory Boards of Twente University and Lucent Technologies Nederland B.V., Vice-Chairman of the Supervisory Board of ASM International N.V., member of the Supervisory Boards of Imtech N.V. and ANWB respectively and Chairman of Centraal Bureau Rijvaardigheidsbewijzen and Non-executive Director of Corus Plc.

Hans Prinsen (male, 1937, Dutch) joined the board as a member as of July 1, 2000 with a 3rd and last term of appointment until 2010. Mr. Prinsen was the former Chairman and Chief Executive Officer of HITT and as such had in-depth knowledge of the market and the organization. Mr. Prinsen is the only non-independent Supervisory Director as he indirectly holds the majority of shares [III.2.1].

4.2. Management Board

The Management Board consists of:

Luuth S. van der Scheer (male, 1955, Dutch) is Chairman, Chief Executive Officer and statutory director as of July 1, 2000 as appointed by the Annual General Meeting of shareholders on April 19, 2000 without defining the maximum term of 4 years as required under The Code [II.1.1]. Between December 1, 1999 and July 1, 2000, he held the position of Chief Executive Officer of HITT Holland Institute of Traffic Technology B.V. and Chief Operating Officer of HITT. Mr. Van der Scheer held several management positions at Corus Ltd before being employed by HITT. Mr. Van der Scheer is not a member of a supervisory board of another company [II.1.7]. Mr. Van der Scheer has a degree in business economics at the Erasmus University of Rotterdam. As per the Annual General Meeting on February 21, 2007 Mr. Van der Scheer will step down as a statutory director due to personal circumstances.

John H.M. van Asperen (male, 1958, Dutch) is Chief Financial Officer and non-statutory director. He is employed by HITT as of March 1, 1994. He held several management positions at Civil Systems Department of Hollandse Signaalapparaten B.V. before he participated in the management buy-out of this department transforming it into HITT. Mr. Van Asperen is not a member of a supervisory board of another company [II.1.7]. Mr. Van Asperen has a degree in electronic instrumentation engineering at the Technical University of Delft.

H. Rob Boswijk (male, 1940, Dutch) is Chief Commercial Officer and non-statutory director. He is employed by HITT as of July 1, 2006. He held several commercial and management positions at Thales Nederland B.V.; lately as a Managing Director. Mr. Boswijk is not a member of a supervisory board of another company [II.1.7]. At the Annual General Meeting he will be recommended to temporarily assume Mr. Van der Scheer's responsibilities as a Statutory Director. Mr. Boswijk has a degree in business economics at the Erasmus University of Rotterdam

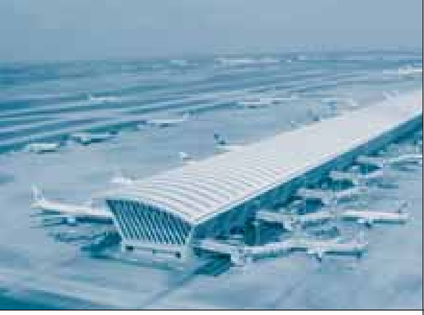
4.3. Comply or explain

The Dutch Corporate Governance code is vested in Dutch law and regulations. During 2004 all relevant Articles of Association, Regulations and Rules of Procedure were examined in great detail and refined where necessary. The Articles of Association were approved by the Annual General Meeting. The way HITT adheres to The Code can be checked by the references written between brackets throughout this Annual Report [I] thus providing a clear cross reference to it. On the company's website the original code is published with the compliance per article clearly indicated. Internally all articles of The Code have been linked to articles in either the Articles of Association or Rules of Procedure for the Supervisory Board or Management Board or Audit Committee or Remuneration Committee or Selection and Appointment Committee or Code of Conduct or the Rules of Procedure as meant in article 46d of the Act on the Supervision of the Securities Trade 1995 (Wet toezicht effectenverkeer 1995).

The structure of this Annual Report clearly follows the headlines of The Code: compliance, responsibility and accountability of the Management Board, responsibility and accountability of the Supervisory Board, the shareholders and the general meeting of shareholders and financial reporting and auditing. Although they feel that the practical implementation and proof of adherence to The Code is cumbersome for a company of HITT's size, the Boards underwrite the basic thoughts behind The Code. Some articles of The Code are not applicable to HITT. Both Boards state that HITT complies with all articles of the Dutch corporate governance code except for the following articles [I.1]:

- [II.1.1] A management board member is appointed for a maximum term of four years only if he is appointed after January 1, 2004.
- [II.2.1] Granted options to acquire shares are non conditional under the share option plan in force until January 1, 2004. As of January 1, 2004 no option plan is in force. Future option plans –if any- will comply with The Code.
- Due to the size of the company and with reference to the Act on Protection of Privacy the Supervisory Board has not drawn up regulations concerning ownership of and transactions by the Management Board [II.2.6] and the Supervisory Board [III.7.3] of securities other than those issued by HITT.
- [III.4.3] Considering the size of the company there is no formally appointed Secretary of the company. The Chief Financial Officer performs the duties under this article qualitate qua.
- [IV.3.1] Considering the size of the company, it is not possible to follow meetings with analysts and (institutional) investors on-line. Presentations held are posted on the company's website afterwards.

Both Boards state that if important changes in the governance structure or in the compliance to The Code occur, they will be put onto the agenda of the Annual General Meeting of Shareholders [I.2]. In 2006 no important changes in the governance structure nor in the compliance to The Code occurred.



4.4. Protective measures

The objective of the Stichting Preferente Aandelen HITT (Foundation Preference Shares HITT) is to assure the continuity of the management and the identity of HITT, its subsidiaries as well as other related companies. The Board of Stichting Preferente Aandelen HITT is composed of five directors. Four of these directors are independent according to the meaning of Annex X to the Listing and Issuing Rules of Euronext Amsterdam and one director is a member of the Supervisory Board. The independent directors are Mr. P.P. Kohnstamm (chairman), Mr. J.W.L. Kruyt, Mr. J.P. Aalders and Mr. J.W. Termijtelen. The fifth director is Mr. D. Sinninghe Damsté, in his capacity as a member of the Supervisory Board.

The purpose of the preference shares is to protect HITT against hostile take-overs [IV.3.9]. Stichting Preferente Aandelen HITT has concluded an option agreement with HITT. According to this agreement, HITT has the right to issue preference shares to Stichting Preferente Aandelen HITT to a maximum of one hundred percent of the total nominal value of the ordinary shares outstanding at that time. Based on this option agreement, Stichting Preferente Aandelen HITT also has the right to require HITT to issue preference shares to the same maximum. Issuance of preference shares under the option agreement may only take place to serve the aforementioned objective of Stichting Preferente Aandelen HITT.

HITT has not issued depository receipts for shares HITT [IV.2].

4.5. Authorization to acquire and issue shares

In the Annual General Meeting of shareholders on March 29, 2006 shareholders have authorized the Management Board for a period of 18 months to enable HITT to acquire own shares up to a maximum of 10% under the conditions laid down in the Articles of Association. Shareholders also authorized the Management Board for a period of 18 months to issue shares [IV.3.7].

Financial Statements

1. Consolidated income statement

For the year ended December 31 x € 1,000; except per share data	Note	2006	2005
Continuing operations			
Revenue	4	27,875	24,087
Other operating income	6	629	497
Changes in work in progress		595	(34)
Raw materials and consumables used		(7,770)	(6,512)
Employee benefits expense	7	(10,561)	(9,221)
Depreciation and amortization expense		(3,301)	(2,466)
Other operating expenses	8	(5,579)	(4,959)
Operating profit (loss)		1,888	1,392
Finance cost	9	(63)	33
Profit before tax		1,825	1,425
Income tax (expense) benefit	10	25	43
Profit for the year		**1,850**	**1,468**
Attributable to:			
Equity holders of the parent		1,807	1,299
Minority interests		43	169
		1,850	**1,468**
Earnings per share	12		
From continuing operations:			
Basic		0.39	0.28
Diluted		0.38	0.27

2. Consolidated balance sheet

At December 31

x € 1,000	Note	2006	2005
ASSETS			
Non-current assets			
Equipment	13	844	1,013
Goodwill	14	2,499	1,315
Development costs	15	6,075	5,355
Deferred tax assets	16	298	1,007
		9,716	8,690
Current assets			
Inventories	17	237	246
Trade and other receivables	18	14,186	8,927
Tax assets		916	-
Derivative financial instruments		14	-
Cash and cash equivalents		2,719	5,357
		18,072	14,530
		27,788	**23,220**
EQUITY AND LIABILITIES			
Capital and reserve			
Share capital	19	1,173	1,173
Share premium reserve	20	4,848	4,848
Legal reserve	21	6,048	4,256
Hedging & translation reserve	22	(386)	(270)
Retained earnings		3,150	3,539
Equity attributable to equity holders of the parent		14,833	13,546
Minority interests		105	1,558
		14,938	15,104
Non-current liabilities			
Deferred tax liabilities	23	2,797	1,620
Obligation under finance leases	24	-	201
Other liabilities	25	1,318	-
Liability for share-based payments	26	47	39
		4,162	1,860
Current liabilities			
Trade and other payables	27	7,791	5,024
Current tax liabilities	28	-	717
Obligation under finance leases	24	201	163
Other liabilities	29	105	101
Provisions	30	591	251
		8,688	6,256
Total liabilities		12,850	8,116
		27,788	**23,220**

3. Consolidated statement of changes in equity

For the year ended December 31

x € 1,000	Share capital	Share premium reserve	Legal reserve	Hedging & translation reserve	Retained earnings	Attributable to equity holders of the parent	Minority interest	Total
Balance at January 1, 2005	1,173	4,848	4,345	(406)	1,767	11,727	1,074	12,801
Change in accounting for pensions plan					853	853		853
Exchange differences arising on translation of foreign operations	-	-	-	136	-	136	315	451
Net income recognized directly in equity	-	-	-	136	-	136	315	451
Profit for the year	-	-	-	-	1,299	1,299	169	1,468
Total recognized income and expense for the year	1,173	4,848	4,345	(270)	3,519	14,015	1,558	15,573
Dividends	-	-	-	-	(469)	(469)	-	(469)
Legal reserve for capitalized developments	-	-	(89)	-	89	-	-	-
Balance at December 31, 2005	1,173	4,848	4,256	(270)	3,539	13,546	1,558	15,104
Exchange differences arising on translation of foreign operations	-	-	-	(116)	112	(4)		(4)
Net income recognized directly in equity	-	-	-	(116)	112	(4)	-	(4)
Profit for the year	-	-	-	-	1,807	1,807	43	1,850
Total recognized income and expense for the year	-	-	-	(116)	1,919	1,803	43	1,846
Dividends	-	-	-	-	(516)	(516)	-	(516)
Legal reserve for capitalized developments	-	-	1,792	-	(1,792)	-	(1,496)	(1,496)
Balance at December 31, 2006	**1,173**	**4,848**	**6,048**	**(386)**	**3,150**	**14,833**	**105**	**14,938**

4. Consolidated cash flow statement

For the year ended December 31

x € 1,000		2006	2005
Operating activities			
Profit for the year		1,850	1,468
Adjustments for:			
Finance costs		48	(77)
Income tax expense		209	(43)
Depreciation of equipment		890	390
Amortization of developments		2,411	2,076
Share-based payment expense		8	12
In(de)crease in provisions		340	39
Retirement benefits			217
Operating cashflow before movement in working capital		5,756	3,865
(In)decrease in inventories		9	14
(In)decrease in receivables		(5,260)	(3,055)
In(de)crease in payables		2,767	907
			-
Cash generated from operations		3,273	1,731
Income taxes paid		69	(346)
Interest paid		(77)	(55)
Net cash from operating activities		3,265	1,330
Investing activities			
Purchase of equipment		(721)	(410)
Expenditure on product development		(3,304)	(2,776)
Acquisition of subsidiary		(1,324)	(122)
Net cash (used in) from investing activities		(5,349)	(3,308)
Financing activities			
Dividends paid	11	(516)	(469)
Repayments of borrowings		(6)	(143)
Repayment of obligations under finance leases		(163)	(153)
New loan issued		-	(100)
Repayment of issued loans		-	203
Interest received		29	97
Net cash (used in) from financing activities		(656)	(565)
Net in(de)crease in cash		(2,740)	(2,543)
Cash at January 1		5,357	7,759
Effect of foreign exchange rate changes		102	141
Cash at December 31	33	**2,719**	**5,357**

5. Notes to the consolidated financial statements

For the year ended December 31, 2006.

5.1. General information

HITT N.V. (the Company) is a listed company incorporated in the Netherlands. The address of its registered office, the principal place of business, the principal activities of the Company and its subsidiaries (the Group) are disclosed in the annual report.

5.2. Adoption of new and revised International Financial Reporting Standards

During 2006 the IASB has not issued new or revised standards that are applicable to HITT.

5.3. Significant accounting policies

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union on December 31, 2005. The financial statements are presented in € 1,000 unless mentioned otherwise.

Subsidiaries	Place of establishment	Percentage of ownership
Operating		
HITT Holland Institute of Traffic Technology B.V.	Apeldoorn, The Netherlands	100.0
HITT (HK) Ltd	Hong Kong, People's Republic of China	100.0
QPS Holding B.V.	Zeist, The Netherlands	100.0
Quality Positioning Services B.V.	Zeist, The Netherlands	100.0
AIS Live Ltd	Redhill, United Kingdom	50.0
Ican Ltd; up to March 31, 2006	St. John's, Newfoundland, Canada	39.3
as of April 1, 2006		100.0
Ican Inc; up to March 31, 2006	Dallas, Texas, U.S.A.	39.3
as of April 1, 2006		100.0
Klein Systems Group Ltd; up to March 31, 2006	Vancouver, British Columbia, Canada	40.1
as of April 1, 2006		100.0
ad Navigation AS	Sarpsborg, Norway	51.0
Non-operating		
HITT Special Products B.V.	Hillegom, The Netherlands	100.0

5.3.1. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and of the entities controlled by the Company. Control is achieved where the company has the power to govern the financial and operating policies of the subsidiary so as to obtain the benefits from its activities.
The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in consolidation.

Minority interests in net assets of consolidated subsidiaries are identified separately from the Group's equity. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against interests of the Group except to the extent that the minority has a binding obligation and is able to make additional investment to cover the losses.

5.3.2. Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous NL GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under NL GAAP prior to the date of transition to IFRS has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Up to March 31, 2006 the Company held minority shares in Klein Systems Group Ltd, Ican Ltd and Ican Inc, respectively. Due to the existence of options to acquire all shares in these companies and the right to veto important management decisions and other operational influence the Company was in control of those subsidiaries. For that reason the Company already consolidated the accounts of these companies for 100% before April 1, 2006. In the Group’s consolidated accounts a minority interest was included to reflect the result and equity for these companies related to the percentage of the shares that was not owned by the Company up to March 31, 2006.

Ad Navigation AS is consolidated in full, reflecting a minority share in the profit and loss account and the equity.

5.3.3. Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Where a group entity undertakes its activities under joint venture arrangement directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other ventures are recognized in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interest in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary (see below).

Where the Group transacts with its jointly controlled entities, unrealized profits and losses are eliminated to the extend of the Group's interest in the joint venture.

AIS Live is a 50% joint venture with Lloyd’s Register Fairplay and consequently consolidated on a proportional basis. Assets and liabilities are very limited.

5.3.4. Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

In accordance with the transitional rules of IFRS 1, the Group has applied the revised accounting policy for goodwill prospectively from the date of transition to IFRS. Therefore from 1 January 2004, the Group has discontinued amortising such goodwill and has tested the goodwill for impairment in accordance with IAS 36.

5.3.5. Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and the financial position of each entity are expressed in Euro, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are nominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the profit or loss for the period. Exchange differences arising on the retranslations of non-monetary items carried at fair value are included in the profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains or losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).
For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Euro using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rate for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation.

5.3.6. Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's development activities is recognized only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits by its technical and commercial feasibility; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortized on a straight-line basis over their estimated useful lives. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

5.3.7. Derivative financial instruments and hedge accounting

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Recognition of any resultant gain or loss depends on the nature of the item being hedged.

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates. The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The use of financial derivatives is governed by the Group's policies approved by the Management Board, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes. Derivative financial instruments are initially measured at fair value on the contract date, and are measured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognized directly in equity and the ineffective portion is recognized immediately in profit or loss. The Company's policy with respect to hedging the foreign currency risk of a firm commitment is to designate it as a cash flow hedge. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or the liability is recognized, the associated gains or losses on the derivative that had previously been recognized in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or liability, amounts deferred in equity are recognized in profit or loss in the same period in which the hedged item affects the profit or loss. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss as they arise. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transactions occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to profit or loss for the period. Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risk and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealized gains or losses reported in profit or loss.

5.3.8. Impairment of assets

At each balance sheet date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

If such indication exists, the recoverable amount will be estimated in order to determine the extent of the impairment loss. The recoverable amount is the greater of the net selling price and the value in use. The value in use reflects the net present value of the future cash flow generated by the asset, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount is lower than the carrying amount, a reduction to the carrying amount is made. Such an impairment loss is recognized as an expense immediately.

5.3.9. Change of accounting principles

During the year the retirement benefit plan based on average pay was investigated. As liabilities are fully insured and indexation of future liabilities is limited up to and including the funds available in escrow, whereas the escrow is not at disposal of the company, the plan qualifies as a defined contribution plan rather than as a defined benefit plan. The escrow is built up from surplus yield on investments by the pension insurance company.

Comparative figures over 2005 have been adjusted to reflect this change resulting in a higher net profit of € 148 and an increase of equity of € 853.

5.4. Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and related sales taxes.

Sales of goods are recognized when goods are delivered and title has passed.

Where the outcome of a project contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a project contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Interest income is accrued on a time basis, by reference to the principle outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through expected life of the financial asset to that asset's net carrying amount.

The part of revenue relating to long-term contracts, accounted for by the percentage of completion method, is approximately 66% (2005: 59%).

5.5. Segmentation

The company delivers to public corporations a group of related products and services mostly on a project basis. Based on the nature of the projects, the Company distinguished revenue segmentation on a manual basis. The Company reports financial information on a one-segment basis due to the limited number of projects compared to total revenue and the nature of the market in which it operates.

x € 1,000		**2006**		**2005**
	%		%	
Aviation Traffic	11	3,012	15	3,720
Marine ashore	57	16,074	45	10,821
Marine onboard	18	4,975	25	6,031
Technical services	14	3,813	15	3,515
	100	**27,875**	**100**	**24,087**

5.6. Other operating income

Other operating income comprise government grants and subsidies amounting to € 510 (2005: € 284) and concern European and Canadian research programs.

5.7. Employee benefits expense

x € 1,000	2006	2005
Wages and salaries	9,304	8,089
Compulsory social security charges	890	714
Costs employee share option plan	8	12
Contributions to defined contribution plans	359	406
	10,561	**9,221**
Per employee	64	58

The average number of employees during the financial year was 165 (2005: 159).

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

As of 2006 all pension plans are categorized as defined contribution plans (for detailed description see Change of accounting principles). Comparative figures over 2005 have been adjusted by € 217 from € 623 to € 406 to reflect this change.

5.8. Other operating expenses

x € 1,000	2006	2005
Staff expenses	1,236	801
Housing expenses	869	811
Selling expenses	1,057	1,020
Research & development	74	110
Repair and maintenance expenses	337	298
Business travel expenses	287	242
Office expenses	369	370
General expenses	1,071	1,015
Guarantee expenses	279	292
	5,579	**4,959**

5.9. Finance cost

x € 1,000	2006	2005
Interest income	29	97
Interest expenses	(77)	(55)
Net foreign exchange losses	(24)	(22)
Exchange gains	34	57
Bankcharges	(25)	(44)
	(63)	**33**

Net financial income comprises interest payable on borrowings calculated using the effective interest rate method, foreign exchange gains and losses and gains and losses on hedging instruments that are recognized in the income statement. Interest income is recognized in the income statement as it accrues, taking into account the effective yield on the asset. The interest expenses component of finance lease payments is recognized in the income statement using the effective interest rate method.

5.10. Income tax (expense) benefit

x € 1,000	2006	2005
Payable income taxes	(547)	(444)
Decrease of tax percentage	468	306
Benefit of tax losses recognized	105	181
Deferred income taxes	572	487
	25	**43**

The income tax charge is based on profit for the year and considers deferred taxation. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Reconciliation of effective tax rate:

x € 1,000	2006 %	2006	2005 %	2005
Profit before tax		1,825		1,425
Income tax applying nominal rate	29.1	(532)	31.5	(449)
Effect of foreign tax rates	0.8	15	(0.4)	5
Effect of tax losses utilized & decrease of rate	(31.3)	572	(34.2)	487
	(1.4)	**25**	**(3.0)**	**43**

5.11. Dividends

5.11.1. Dividend policy

The Management Board, supported by the Supervisory Board, established the dividend policy to range from 30% to 40% of net results [IV.1.4].

5.11.2. Dividend proposal

On April 5, 2006 a dividend of € 0.11 per share (total dividend € 516) was paid to shareholders.

In respect of the current year the Management Board proposes that a cash dividend amounting to € 0.14 per ordinary share of € 0.25 nominal value will be paid to shareholders on February 28, 2007. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements [IV.1.5]. This would result in a 36% pay-out ratio, amounting to a total dividend of € 657.

5.12. Earnings per share

During the year no operations have been discontinued. The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following data:

x € 1,000	2006	2005
Earnings for the purpose of basic earnings per share (profit for the year attributable to equity holders of the parent)	**1,807**	**1,299**

Number of shares

x 1,000	2006	2005
Number of ordinary shares for the purpose of basic earnings per share	4,694	4,694
Effect of dilutive potential ordinary shares: Share options	33	44
	4,727	**4,738**

5.13. Equipment

x € 1,000	2006	2005
Balance at January 1	1,013	993
Purchases	721	410
	1,734	1,403
Book value of disposals	-	-
Depreciation	(890)	(390)
	(890)	(390)
Balance at December 31	**844**	**1,013**
Accumulated depreciation	2,978	2,088
Depreciation percentages	20- 50	20 - 50

Fixtures, furniture and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives and calculated using the straight-line method. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, when shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

In 2002 fixtures, furniture and equipment up to an amount of € 800 have been sold and leased back under a finance lease contract with ING Bank. The book value at year end amounts to € 305.

5.14. Goodwill

x € 1,000	2006	2005
Balance at January 1	1,315	1,193
Additional investments	1,324	122
Foreign exchange	(140)	-
Balance at December 31	**2,499**	**1,315**
Accumulated amortization	153	153

The addition of goodwill in 2006 relates to the acquisition of the remainder of shares in Ican Ltd and Klein Systems Group Ltd. On April 1, 2006 HITT acquired the remaining 60 per cent participating shares in respectively Ican Ltd. of St. John's, Newfoundland and Klein Systems Group Ltd. of Vancouver, British Columbia both in Canada for cash consideration of EUR 3.35 million, divided over an amount at transaction date plus a profit sharing until 2010. The profit sharing has been recorded under long-term and short-term liabilities based upon the present expectations. Deviations from those expectations will result in changes of the outstanding liabilities. These transactions have been accounted for using the acquisition method of accounting.

The goodwill arising on the acquisition of those remaining shares is attributable to the anticipated profitability of the subsidiaries. Following IFRS 3 the carrying amount before combination was adjusted to fair value.

The following cash generating units have significant carrying amounts of goodwill (other subsidiaries were acquired prior to 2001 applying the equity method):

x € 1,000	2006	2005
Ican Ltd	1,255	619
Klein Systems Group Ltd	1,028	574
ad Navigation AS	122	122
Balance at December 31	**2,405**	**1,315**

Annually the Company carries out impairment test on these balances per relevant cash-generating unit. The system and calculation method applied is the discounted cash flow method. In principle the period for the discounted cash flow calculations is indefinite. The recoverable amounts of the various cash generating units that carry goodwill are determined on calculations of value in use. Those calculations use cash flow projections based on actual operating results and a three year forecast. Cash flows for further future periods are extrapolated using growth rate percentages varying from 7% to 14%, which are deemed appropriate because of the long term nature of the business. These growth rates are also consistent with the long term averages in the industry. Pre-tax discounts of 7.26% (Ican) and 6.84% (Klein) has been used to discount the projected cash flows. The carrying amounts of the units remain below the recoverable amounts and as such no impairment losses are accounted for. However, future adverse changes in the assumptions could reduce the recoverable amounts below the carrying amount.

5.15. Development costs

x € 1,000	2006	2005
Balance at January 1	5,355	4,345
Additional investments	3,715	2,776
Amortization	(2,411)	(2,076)
Impairment	(411)	-
Foreign exchange	(173)	310
Balance at December 31	**6,075**	**5,355**
Accumulated amortization	5,249	2,838
Amortization percentage	33.3	33.3

Amounts recognized as development costs are capitalized and amortized over the estimated useful economic life. These development costs are divided into software technology related costs and product related costs. The amortization of the technology related costs is based on the estimated useful life of 3 years and is amortized using the straight-line method. Product related costs are expensed as incurred based upon an estimated useful life of less than one year. The amortization charge of these intangibles is included under depreciation and amortization expense. Impairment tests carried out regularly showed some developments with a shorter useful life and were impaired accordingly.

The additional investment in 2006 relate to product developments for traffic and Hydrographic applications. The amount is included in costs under raw materials and consumables used.

5.16. Deferred tax assets

x € 1,000	2006	2005
Balance at January 1	1,007	58
Movements	(709)	949
Balance at December 31	**298**	**1,007**

Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Company reassesses unrecognized deferred tax assets and the carrying amount of deferred tax assets.

Of the balance of € 507 an amount of € 51 is expected to be received after more than one year.

5.17. Inventories

Inventories consist of finished goods for resale and service.

Inventories of finished goods are valued at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

5.18. Trade and other receivables

x € 1,000	2006	2005
Trade receivables	5,005	2,424
Amounts due from contract customers	8,331	5,778
Other receivables	831	637
Prepayments	19	88
	14,186	**8,927**

Trade receivables are recorded net of allowances for doubtful accounts. Amounts due from customers consist of € 3,389 recognized profits, € 9,653 contract costs incurred and € 4,711 invoiced.

5.19. Share capital

The company's authorized share capital amounts to € 4,000 (2005: € 4,000) and consists of 8,000,000 ordinary shares (2005: 8,000,000) and 8,000,000 preference shares (2005: 8,000,000) each with a nominal value of € 0.25. The preference shares concern preference protective shares. Of the ordinary shares, 4,694,158 shares (2005: 4,694,158) have been issued and fully paid up as per December 31, therefore the issued share capital amounts to € 1,173 (2005: € 1,173). No preference shares have been issued. No certificates of shares exist [IV.2].

5.20. Share premium reserve

The share premium reserve of € 4,848 (2005: € 4,848) is considered to be paid in capital and is free from income taxes.

5.21. Legal reserve

The legal reserve relates to capitalized development costs.

5.22. Hedging and translation reserve

The amount of the cash-flow hedge included in this reserve amounts to € 265. Translation reserves comprise exchange differences on minority interests.

5.23. Deferred tax liabilities

The movements in deferred tax liabilities can be summarized as follows:

x € 1,000	2006	2005
Balance at January 1	1,620	1,227
Additions	1,642	739
Changes	(465)	(346)
Balance at December 31	**2,797**	**1,620**

Deferred tax liabilities include the effect of temporary differences between the book carrying amounts and the tax basis of assets and liabilities using the applicable statutory tax rates.

Deferred tax liabilities on work in progress, development costs, etc. are valued against a tax rate of 25.5% (2005: 29.6%) resulting in a release of € 355.

5.24. Obligations under finance leases

x € 1,000	2006		2005	
		Present value		Present value
Finance leases payments				
< 1 year	217	201	174	163
1-5 years	-	-	219	201
	217	**201**	**393**	**364**

Finance leases payments

x € 1,000	2006	2005
Repayment	163	153
Interest recognized in income statement	15	21
	178	**174**

Finance leases carry an average interest rate of 5.7% (2005: 5.7%).

5.25. Other liabilities

x € 1,000	2006	2005
Balance at January 1	-	-
Acquisition of subsidiaries	1,318	-
Balance at December 31	**1,318**	**-**

Other liabilities relate to agreed future earn-out payments to selling shareholders of Ican and Klein respectively. Those payments will be based on future results of the subsidiaries up to and including the year 2010.

5.26. Liability for share-based payments

Share options were granted with an exercise price equal to the closing share price at the day of grant. After 2004 no employee stock options have been granted. Share options have an exercise term between 3 and 5 years after granting.

Granted	Number at January 1	Exercise prices	Exercised in 2006	Forfeited in 2006	Number at December 31	Accrued liability December 31, 2006	Accrued liability December 31, 2005
		€				x € 1,000	x € 1,000
2001	11,608	6.85 - 7.20	(9,564)	(2,044)	-	-	-
2002	13,021	6.05 - 6.70	-	-	13,021	3	11
2003	18,419	3.80	-	-	18,419	42	27
2004	1,377	4.50	-	-	1,377	2	1
	44,425		**(9,564)**	**(2,044)**	**32,817**	**47**	**39**

The movements in the liability for share-based payments can be summarized as follows:

x € 1,000	2006	2005
Balance at January 1	39	27
Recognized in personnel expenses	8	12
Balance at December 31	**47**	**39**

IFRS 2, Share based payment, requires the recognition of equity-settled share-based payments at fair value at the date of grant and the recognition of liabilities for cash-settled share-based payments at the current fair value at each balance sheet date. Prior to the adoption of IFRS 2, the Group did not recognize the financial effect of share-based payments until such payments were settled.

In accordance with the transitional provisions of IFRS 1, the Standard has been applied retrospectively to all grants of equity instruments after November 7, 2002 that were unvested as of January 1, 2005, and to liabilities for share-based transactions existing at January 1, 2005. The Standard therefore applies to share options granted in 2004 and later.

For 2006, the impact of share-based payments is a net charge to income of € 6 (share-based payments expense of € 8 net of deferred tax impact of € 2). At December 31, 2006, the share options reserve amounted to € 47.

The share-based payments expense has been included in the income statement under employee benefit expense, costs employee share option plan € 8 (2005: € 12).

5.27. Trade and other payables

x € 1,000	2006	2005
Accounts payable	1,362	1,461
Amounts due to contract customers	4,424	1,943
Advance payments	534	511
Accrued liabilities and prepayments	1,471	1,109
	7,791	**5,024**

Amounts due to contract customers consist of € 13,451 invoiced and € 9,027 contract costs incurred.

5.28. Current tax liabilitie

Current tax liabilities comprise social security charges and wage taxes relating to salaries paid in December; the liabilities are payable in January.

5.29. Other liabilities

x € 1,000	2006	2005
Current portion of long-term liabilities	95	89
Other loans	10	12
	105	**101**

Other loans refer to loans granted for technical developments at the Canadian subsidiaries.

5.30. Provisions

The movements in the provision for guarantee liabilities can be summarized as follows:

x € 1,000	2006		2005	
Balance at January 1	-	251	-	212
Additions for guarantee liability		279		297
Severance pay	275		-	
Changes in guarantee liability		(214)		(258)
Balance at December 31	**275**	**316**	**-**	**251**

The Group provides for guarantee claims to cover expected costs for after sales services. Actual guarantee costs are charged to this provision. Guarantee liabilities are expected to be short term.

5.31. Contingent assets & liabilities

The Group has sold operational lease contracts to customers amounting to € 343 of which € 120 is repayable within 1 year and € 223 within 3 years.

The Group has entered into long-term unconditional commitments for the rental of offices and leasing of company cars. On December 31, 2006, the present value of future commitments, discounted at 5% (2005: 5%) was € 1,849 (2005: € 2,473) including within one year € 517 (2005: € 656), between one and five years € 1,332 (2005: € 1,538) and after five years € 0 (2005: € 279). Payments under these commitments will be included within other operating expenses.

The Group has credit facilities available up to a maximum of € 4,000; at balance sheet date these have not been used. As at December 31, 2006 the Group has facilities available up to a maximum of € 10,000 available for granting bank guarantees; an amount of € 4,900 related to running contracts has been used.

The Group has pledged its work in progress and trade receivables against these facilities. All Dutch subsidiaries of the Group are joint and several liable.
At December 31, 2006 the group contracted future currency exchange contracts for an amount of € 5,066 related to running contracts and outstanding tender offers to customers.

A contingent repayment liability exists for grants received for funding specific research and development programs. The repayment up to a maximum amount of € 437 (2005: € 293) is due only when future gross revenues on these developments occur.

The Company and all of its Dutch subsidiaries form part of a fiscal group for value added and income taxes, meaning that losses and profits of the individual Dutch entities of the Group can be offset within the Group, and returns for value added tax are applied for on a group level.
The Company has issued parent company guarantees on behalf of Klein Systems Group amounting to € 600 in relation to projects on hand. In case Klein fails to fulfil its obligations under the outstanding tender offers, the Company may be called to take the place of Klein. The Company acquired all necessary rights and software tools from Klein to be able to fulfil this obligation if necessary.

5.32. Related parties

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the company's separate financial statements.

In 2006 there were no transactions between the Group and related parties other than remuneration of the Supervisory Board and the Management Board [III.6.4].

5.32.1. Remuneration of the Supervisory Board

x € 1,000	2006	2005
Dick Sinninghe Damsté	22	18
Eric A. van Amerongen	19	14
Hans Prinsen	19	14
	60	**46**

The remuneration of the supervisory directors is independent of profit or loss of the group [III.7]. No loans or guarantees have been granted to the Supervisory Board [III.7.4].

5.32.2. Remuneration of the Management Board

x € 1,000	2006	2005
Fixed basic salary	199	175
Bonus in cash related to last year's result	-	6
Pension (old age, disability, relatives)	19	28
Other emoluments	35	33
Severance pay	275	-
Luuth S. van der Scheer (CEO)	**528**	**242**
John H.M. van Asperen (CFO)	**175**	**152**
H. Rob Boswijk (CCO as of July 1, 2006)	**84**	**-**

In 2003 the Supervisory Board has investigated the market conformity of the total remuneration package of the CEO. Findings of this investigation have been discussed and changes have been agreed in the Annual General Meeting of shareholders on February 18, 2004. During 2004 the remuneration policy has been reviewed and made public following [II.2.9], [II.2.10] & [II.2.13]. Best practice provisions [II.2.3] and [II.2.12] of The Code are not applicable. As of 2006 early retirement is no longer facilitated from a fiscal point of view. The associated premium is included in the fixed basic salary.

[II.2.11] The remuneration of the statutory director comprises:

(i) a fixed basic salary plus
(ii) a bonus in cash depending on last year's net profit of the group; this bonus amounts to 30% of the fixed basic salary in case the net profit of the group is less than 10% higher than the agreed budget. This cash bonus will be 40% in case the net profit of the group surpasses the budget with more than 10% plus
(iii) a long term incentive based on exceeding the three year's business plan such that after adoption of the annual accounts of any third year after January 1, 2005, a cash bonus of 15% of the annual salary inclusive of any paid out bonus will be paid if the aggregate earnings per share were higher than agreed in the Business Plan proceeding the period concerned plus
(iv) a defined contribution retirement plan for which the premium is paid equally by the company and the statutory director. The premium for disability insurance is borne by the company plus
(v) the costs for a lease car are borne by the company
(vi) the Supervisory Board may also grant additional incentives based on solid performance that do not relate directly to net results
(vii) in the labor contract no severance payment had been agreed in the event of dismissal [II.2.7]. A severance pay of € 275 has been agreed.

The bonus in cash related to last year's result of the Group over 2005 was paid after the Annual General Meeting of shareholders adopted the annual accounts.

Both the Chief Financial Officer and the Chief Commercial Officer are charging an all inclusive management fee to the Company.

No loans or guarantees have been granted to the Management Board [II.2.8].

5.32.3. Shares and options of the Boards

Supervisory directors are not granted any shares and/or rights to shares by way of remuneration [III.7.1].
Any shares held by a supervisory board member in the company are long-term investments [III.7.2]. At December 31, 2005 the Supervisory Board and the Management Board held shares (direct or indirect) and share options as follows [II.2.3]:

	Nº of shares[3]	Nº of options
Dick Sinninghe Damsté	-	-
Hans Prinsen	1,248,000	-
Eric A. van Amerongen	-	-
Luuth S. van der Scheer	-	28,685
John H.M. van Asperen	288,000	-
H. Rob Boswijk	-	-

[3] Mr. Prinsen and Mr. Van Asperen hold 52% and 12% respectively of HITT Holding B.V. which holds 2,400,000 shares of HITT N.V.

Employee share options of the Management Board:

Granted	Number at January 1	Exercise prices	Exercised in 2006	Forfeited in 2006	Number at December 31	Accrued liability December 31, 2006	Accrued liability December 31, 2005
		€				x € 1,000	x € 1,000
Luuth S. van der Scheer							
April 26, 2001	7,082	7.20	(7,082)	-	-	-	-
March 28, 2002	8,889	6.70	-	-	8,889	-	-
March 27, 2003	18,419	3.80	-	-	18,419	42	27
February 19, 2004	1,377	4.50	-	-	1,377	2	1
	35,767		**(7,082)**	**-**	**28,685**	**44**	**28**

In order to create a long-term binding to the company the statutory director received a number of share options up to and including the results over the year 2003. This option plan has ended. The terms and conditions of the options followed the rules of the employee share option scheme. The number of options granted was related to the net profit of the group in the preceding year as follows: number of options equals 3% of net earnings divided by the closing share price on the day after the Annual General Meeting of shareholders in which the annual report is adopted and approved. The granting of options was not dependent on targets to be reached after 3 years after the granting [II.2.1]. The exercise of the options is unconditional [II.2.2]. The exercise price is equal to the actual share price at the moment of granting [II.2.4]. The terms of exercise are fixed for the total period of validity of the options [II.2.5]. The valuation of the outstanding options is described in paragraph 5.26 Liability for share-based payments [II.2.14].

5.33. Cash flow statement

The cash flow statement has been prepared using the indirect method. Cash flows in foreign currencies have been translated at closing rate. Receipts and payments relating to interest, dividends and taxation on profits are included in the cash flow from financing activities.

6. Company income statement

For the year ended December 31

x € 1,000	2006	2005
Profit on participating interests after tax	1,638	1,161
Other results	169	138
Net result	**1,807**	**1,299**

7. Company balance sheet

At December 31

x € 1,000		2006	2005
ASSETS			
Non-current assets			
Intangible fixed assets		1,150	696
Tangible fixed assets		15	24
Financial fixed assets	8.2	9,818	8,425
		10,983	9,145
Current assets			
Receivables		5,742	2,719
Cash		1,230	2,978
		6,972	5,697
		17,955	**14,842**
EQUITY AND LIABILITIES	8.3		
Capital and reserves			
Share capital		1,173	1,173
Share premium reserve		4,848	4,848
Legal reserve		6,048	4,256
Hedging and translation reserve		(386)	(270)
Retained earnings		3,150	3,539
		14,833	13,546
Liabilities			
Provisions		2,626	1,296
Current liabilities		496	-
		3,122	1,296
		17,955	**14,842**

8. Notes to the company financial statements

8.1. General

The company financial statements are in accordance with Part 9, Book 2 of the Netherlands Civil Code. In accordance with article 362.8, Part 9, Book 2, the Company applies for the same accounting standards as those applied in the consolidated financial statements. The company financial statements are presented in € 1,000, except per share data.

8.2. Financial fixed assets

x € 1,000	Partici-pations in group companies	Receivables from group companies	Total
Balance at January 1	8,425	228	8,653
Dividend	(504)	-	(504)
Exchange differences	(303)	-	(303)
Movement in loans	-	(228)	(228)
Share in result of group companies	1,638	-	1,638
Investment in participations	259	-	259
Balance at December 31	**9,818**	**-**	**9,818**

8.3. Equity and liabilities

Reference is made to the Consolidated statements.

8.4. Contingent assets & liabilities

The Company assumed liability according to article 2:403 of the Dutch Civil Code for the subsidiaries HITT Holland Institute of Traffic Technology B.V., HITT Special Products B.V., Quality Positioning Services B.V. and QPS Holding B.V.

8.5. Related parties

In 2006 there were no transactions between the Company and related parties other than remuneration of the Supervisory Board and the Management Board [III.6.4].

Signing of the financial statements

Apeldoorn, January 25, 2007

Management Board

Luuth S. van der Scheer (CEO)

John H.M. van Asperen (CFO)

H. Rob Boswijk (CCO)

Supervisory Board

Dick Sinninghe Damsté (Chairman)

Eric A. van Amerongen (Vice-Chairman)

Hans Prinsen

9. Additional information

To the General Meeting of Shareholders and the Supervisory Board of HITT N.V.

Report on the financial statements

We have audited the accompanying financial statements 2006 of HITT N.V., Amsterdam, as set out on pages 31 to 55. 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 December 31, 2006, the profit and loss account, statement of changes in 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 December 31, 2006, the company profit and loss account for the year then ended and the notes.

Management's responsibility

Management 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 of the management 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 HITT N.V. as at December 31, 2006, 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 HITT N.V. as at December 31, 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the report of the management board is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Apeldoorn, January 25, 2007
BDO CampsObers Audit & Assurance B.V.

G. van Roekel RA

9.2. Statutory regulations concerning profit allocation

The profit for the financial year is at the disposal of the general meeting of shareholders.

9.3. Language

According to the decision of the Annual General Meeting of shareholders the annual reports of HITT are in English. A translated Dutch version is also available. In case of differences the English version prevails.

Glossary

ADS-B:
Automatic Dependent Surveillance-Broadcast, a term for radio transponders fitted on board aircraft, to provide identification and additional data (similar to AIS). The ADS-B concept relies on the aircraft using satellite navigation to provide accurate positioning data. This information is transmitted by the aircraft to other systems, both airborne and ground based, in the surrounding area

AIS:
Automatic Identification System, a term for radio transponders fitted on board vessels to provide identification and additional data (similar to ADS-B)

A-SMGCS:
Advanced Surface Movement Guidance and Control. Installed in the control towers of airports to support the monitoring and guidance of traffic on the airport

ATC:
Air Traffic Control, performed by Air Navigation Services (ANS) providers and regulated by Civil Aviation Authorities and ICAO

ENC:
Electronic Navigation Charts. There are produced to an international standard designated S-57

IMO:
International Maritime Organization. The United Nations agency responsible for improving maritime safety and preventing pollution from ships

Multilateration:
Multilateration is the fixing of a position by reference to the time difference of arrival of a signal at a collection of sensors. A transponder multilateration system interacts with aircraft transponders and those fitted in airport vehicles to determine aircraft and vehicle positions and identification. It is dependent on the co-operation of the aircraft (as opposed to radar). The transponder sends identification

Radar:
Radio Detection And Ranging. A sensor used to establish an object's exact position by sending signals and receiving the echo. It does not require the co-operation by the object (as opposed to multilateration). Identification has to be provided by the airport systems or the aircraft's radio transponder

Single and Multi beam Echo sounders:
Sonar systems (transmitting sound signals and receiving the echo) for measuring the depth of water

VTMIS:
Vessel traffic management and information Systems

VTS:
Vessel Traffic Services. A service implemented by a competent authority (according to IMO resolution A 857)

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