HAGEMEYER

ANNUAL REPORT 2006

Blueprint for the future


Europe


North America


Asia-Pacific

Local service worldwide

Hagemeyer is in the service business. This means our customers always come first. Excellent customer service is crucial for the success of our business. It forms the basis for revenue growth and gross margin improvement. It also helps to improve productivity. Excellent customer service is equally important in our core Professional Products and Services (PPS) activities and the Agencies / Consumer Electronics (ACE) business. Achieving world-class customer service is therefore one of our key focus areas. In the PPS business our main customers are contractors in the Construction and Installation (C&I) market and industrial users. Their service needs and expectations vary from country to country. That is why we strive for a high degree of decentralization. Our local operating companies adapt their product and service offering, systems, logistics and other processes to the specific needs of local customers. That is how we achieve local service worldwide.

BLUEPRINT FOR THE FUTURE

Hagemeyer's turnaround has been successfully completed. Now the challenge is to restore Hagemeyer's profitability to a level that can compare with its peers, as well as to further profitably grow the business. To guide the improvement of our operational performance and profitability, we persistently follow five key strategies for the medium-term that were launched in 2005:

1. to accelerate our growth in the industrial segment;
2. to increase the share of small- and medium-sized accounts in our business;
3. to increase value-added for customers and suppliers;
4. to focus on strategic suppliers;
5. to increase the penetration of our own brands.

Revealing examples

In this annual report, the value of these key strategies is revealed by five examples of our partnerships. They vary from our industrial services for car manufacturer Audi to the timely delivery of C&I products to one of our many small- and medium-sized clients. In terms of geography they range from our Safety Service Center in Shanghai – showing the added value of our services – to Heidelberg, Germany where our cooperation with Philips illustrates the power of our partnerships with strategic suppliers. A story on copper mining company Phelps Dodge highlights the excellent value for money our own brands offer our customers.

These examples serve as a promise for the future.
Our strategic blueprint sets the markers for Hagemeyer for the years to come.

Contents

Profile

Hagemeyer is active in more than 25 countries in Europe, North America and Asia-Pacific. In 2006, we achieved revenues of € 6.2 billion, of which 93% was generated through our core Professional Products and Services (PPS) business. PPS is the value-added, business-to-business distribution of electrical parts and supplies, safety and other Maintenance, Repair and Operations (MRO) products to contractors in the Construction and Installation (C&I) market and to industrial users around the globe. The remaining 7% of Hagemeyer's 2006 revenues was achieved by our Agencies / Consumer Electronics (ACE) business. ACE distributes consumer electronics and other branded products in the Netherlands and Australia, and luxury goods in a number of countries in Asia. At 31 December 2006, Hagemeyer employed 17,519 people around the world.

The Hagemeyer Group has its head office in Naarden, the Netherlands.

Mission

Our mission is to exceed our customers' and suppliers' expectations in the value-added, business-to-business distribution of electrical parts and supplies, and electrical and non-electrical Maintenance, Repair and Operations (MRO) products in the Construction and Installation (C&I) market and in Industry. Hagemeyer adds value for its end users and suppliers by providing a wide range of logistics and technical support services that enable them to improve their own customer service, while at the same time increasing their efficiency and competitiveness.

We aim to achieve this mission by:

- Delivering long-term satisfactory shareholder returns;
- Developing a team of motivated Hagemeyer employees who pursue our goals with corporate pride;
- Maintaining the highest standards of integrity and honesty;
- Respecting and applying our principles with regard to human rights, labour standards and the protection of the environment.

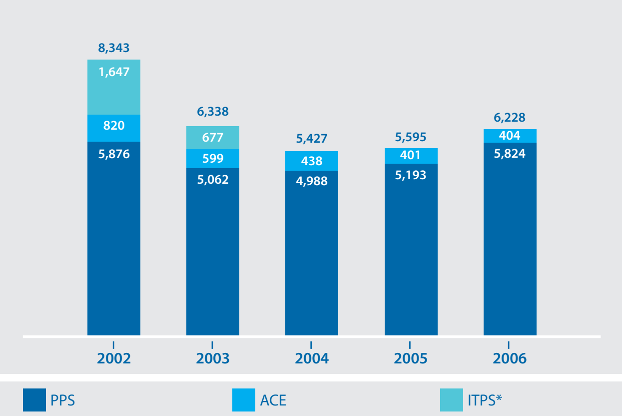
All organic revenue growth percentages in this Annual Report have been calculated on a same number of working days basis, unless explicitly stated otherwise.

Bars in charts may be presented non-proportionally to improve readability.

All figures prior to 2004 are in accordance with Dutch GAAP.

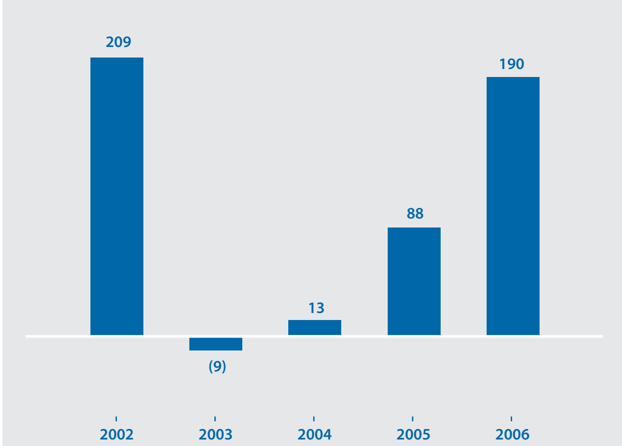
Hagemeyer at a glance

Net revenue *(in € millions)*

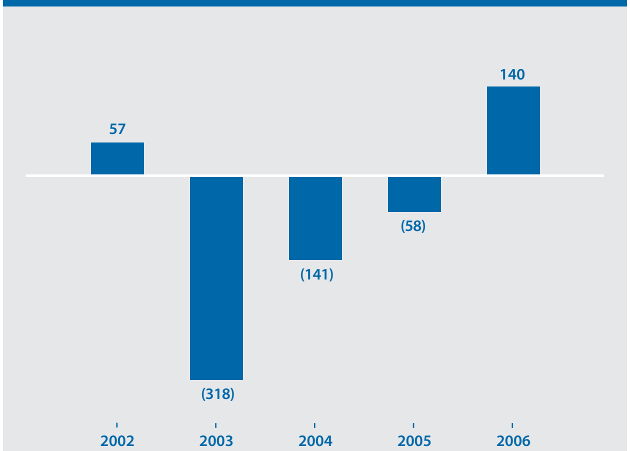


** Information Technology Products and Services, fully divested in 2003*

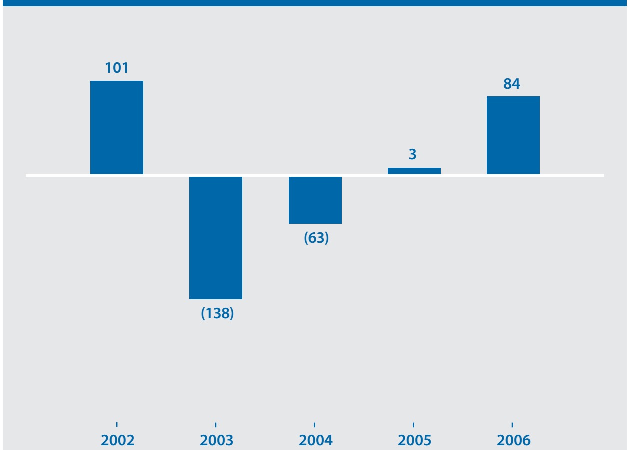
Operating result *(before exceptional items) (in € millions)*



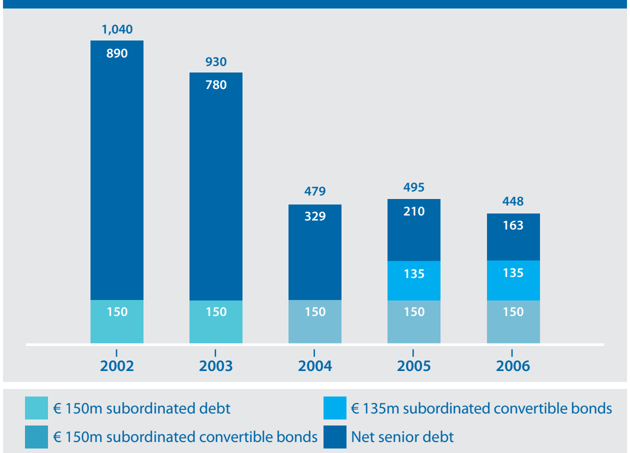
Net result *(in € millions)*



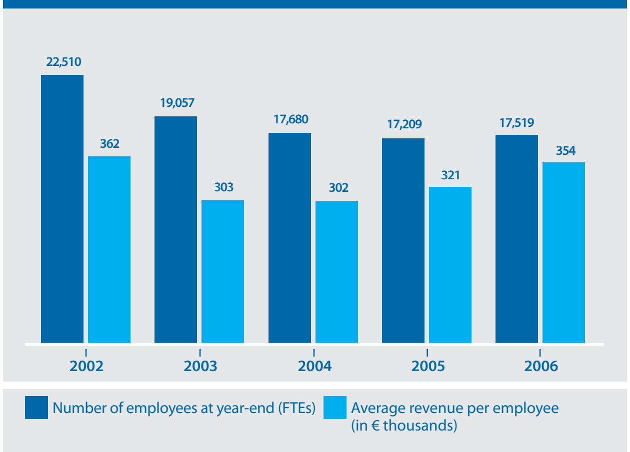
Free cash flow *(in € millions)*



Debt position *(nominal values at year-end) (in € millions)*



Employees



Key figures

(in € millions)	**2006**	2005	2004
Income			
Net revenue	6,228	5,595	5,427
Organic revenue growth	*11.5%*	*4.7%*	*3.5%* [10]
Gross profit [1]	1,440	1,303	1,257
Gross margin [1]	*23.1%*	*23.3%*	*23.2%*
Operating expenses [1]	(1,252)	(1,217)	(1,248)
Operating expenses [1] *as % of net revenue*	*(20.1%)*	*(21.8%)*	*(23.0%)*
EBITDA [2]	236	134	65
Operating result [3]	190	88	13
Operating margin [1]	*3.0%*	*1.6%*	*0.2%*
Net profit / (loss)	140	(58)	(141)
Balance sheet (at 31 December)			
Equity	821	731	649
Net interest bearing debt [4]	407	445	459
Total assets	2,632	2,541	2,437
Cash flow			
Free cash flow [5]	84	3	(63)
Ratios			
Gearing [6]	49.6%	60.8%	70.7%
Capital ratio [7]	31.2%	28.8%	26.6%
Average net working capital as % of 12 months revenue	12.4%	13.0%	14.0%
Return On Invested Capital (ROIC) PPS business [8]	8.2%	3.3%	(0.6)%
Data per share *(in €)*			
Net profit / (loss) [9]	0.27	(0.11)	(0.29)
Proposed dividend	0.06	-	-
Closing price	3.84	2.74	1.70
Employees			
Average number of employees	17,578	17,417	17,973
Number of employees at year-end	17,519	17,209	17,680
Average revenue per employee *(in € thousands)*	354	321	302

1 Before exceptional items

2 Earnings before interest, tax, depreciation, amortization and exceptional items

3 Earnings before interest, tax and exceptional items

4 Interest bearing long and short term debt and subordinated convertible bonds, less cash and deposits

5 Net cash flow from operating activities less net purchase of non-current operating assets

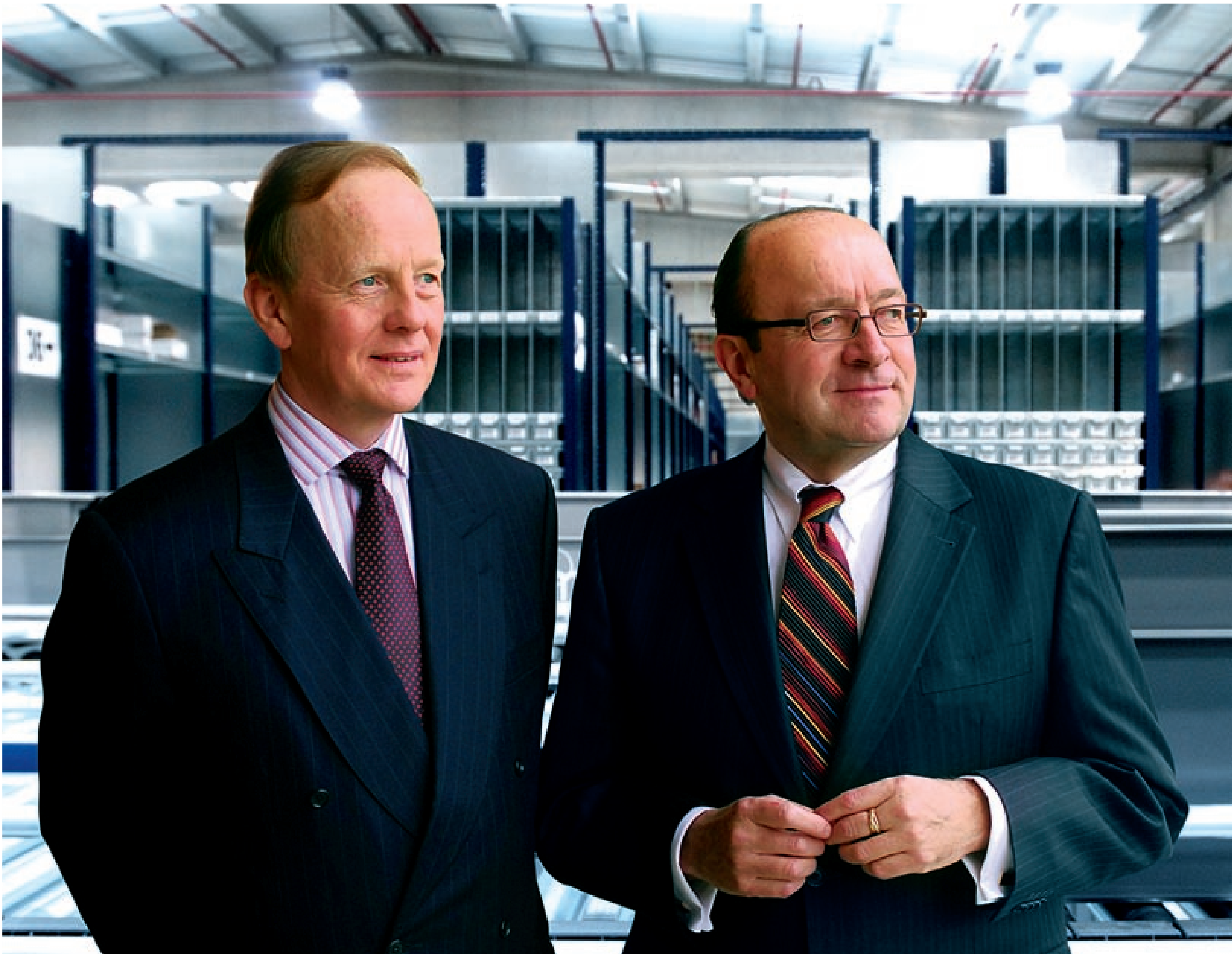
6 Net interest bearing debt / equity

7 Total equity / total assets

8 For full explanation, see page 43

9 Rounded to the nearest euro cent, based on the weighted average number of shares outstanding

10 Not adjusted for working days



Rudi de Becker, CEO (right)

Tjalling Tiemstra, CFO (left)

Letter of the Board of Management

Towards Hagemeyer's full potential

We delivered on our promises:

- € 140 million net profit, € 84 million free cash flow in 2006
- Turnaround successfully completed
- Payment of dividend proposed
- Great potential for further profitable growth

Dear shareholders and other stakeholders,

Early in 2004, at the start of Hagemeyer's turnaround and following a year in which Hagemeyer suffered a negative net result of € 318 million[1], we gave ourselves three years to restore Hagemeyer's profitability. We are delighted to report that Hagemeyer achieved a positive net result of € 140 million in 2006, including € 44 million deferred tax income. This is an improvement of € 198 million on 2005.

The Group operating result (before exceptional items) increased from € 88 million in 2005 to € 190 million in 2006. An improvement of € 102 million.
Free cash flow was € 84 million positive in 2006.
The underlying performance improvement of the Company is strong, but a strong global economic environment and high copper prices have also contributed to these positive results.

Another objective we set ourselves early in 2004 was for Hagemeyer UK, which had suffered severe operational disruption in 2002 and 2003, to turn the 2003 operating loss (before exceptional items) of € 109 million[1], into a positive operating result (before exceptional items) by 2006. Our UK operation realized an operating profit (before exceptional items) of € 6 million in 2006. Although still a fair way from meeting our medium-term profitability objectives for Hagemeyer UK, this performance nevertheless represents a vast improvement and a further major step towards full recovery.

1 Dutch GAAP

We have delivered on our promises. Hagemeyer's turnaround has been successfully completed. The first part of our mission has been accomplished. Now our new challenge is to restore Hagemeyer's profitability to a level that can compare with that of its peers as well as to further profitably grow the business. Hagemeyer is strong and healthy once again and full of immense potential for further profitable growth. And this has certainly not gone unnoticed by the investment community. In the three-year period from 1 January 2004 to 31 December 2006, our share price increased by 191%. By comparison, the AEX index rose by 46% in the same period.

Our medium-term 2009 goal for our core PPS (Professional Products and Services) business is a Return On Invested Capital (ROIC), including capitalized goodwill, in the range of 11% to 15%, versus a current Weighted Average Cost of Capital (WACC) of 9%. The outcome for 2009 will mainly depend on how close we get to achieving our assumed annual revenue growth of 4% to 6% and our gross margin targets. Our PPS ROIC for 2006 was 8.2%.

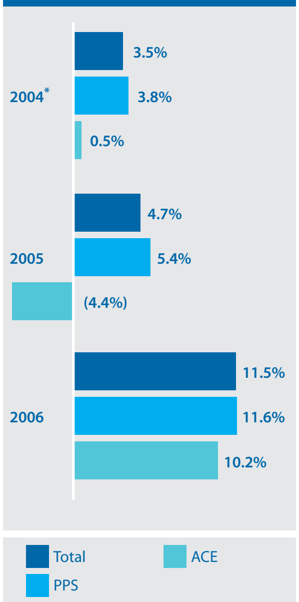
Payment of dividend proposed

As a result of our 2006 performance and our continuing strong momentum, we are pleased to confirm that Hagemeyer will resume its dividend payment. The Board of Management will therefore recommend that the Annual General Meeting of Shareholders approves a cash dividend of € 0.06 per share. Our medium-term objective is a dividend policy that aims at a payment ratio of between 30% and 40% of net income, corrected for certain material non-recurring items.

Double-digit organic revenue growth

Group net revenue for 2006 came to € 6.2 billion, representing an organic growth of 11.5%. Our core PPS business (93% of total revenue) grew by 11.6% and our ACE (Agencies/Consumer Electronics) business (7% of total revenue) grew by 10.2%.

Organic revenue growth



Not adjusted for working days

PPS growing share in several markets

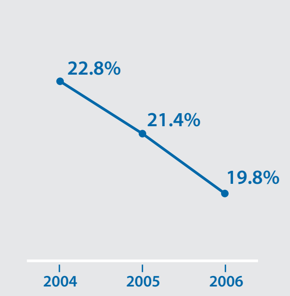
Approximately 60% of PPS's 11.6% revenue growth is due to price increases, mainly driven by the price of copper cable. All PPS regions showed a double-digit, or near double-digit, growth, with Central Europe (including Germany) (15.3%), Spain (15.9%) and the Nordics (13.3%) as the best performers. We estimate that market share gains were realized in Germany, the Nordics, Spain, the Netherlands, Switzerland, Austria and Australia.

Back to being a strong and healthy company, and eager to further enhance its future growth, Hagemeyer resumed its acquisition activities in 2006. We acquired the remaining 50% of the joint venture we had with General Electric in Poland, making us one of the major players in the promising Polish market. With a view to supporting our strategic objective of adding more value for customers and suppliers, and increasing the service content of our business, we acquired Cardi, a lighting specialist for the retail sector, in Sweden. And at the end of the year, we signalled our entry into Belgium with the acquisition of BREVA, a major distributor for the industrial market.

Copper price increases cause overall PPS gross margin percentage to stagnate

Gross margin improvement for total PPS has been slower than expected. At 22.7%, our gross margin in 2006 remained flat compared to 2005. As a result of extreme, copper-driven, price increases, our cable revenue increased spectacularly in 2006. Consequently, the share of the low gross margin cable product group in our total PPS business increased considerably, causing a negative margin mix effect on our overall PPS gross margin. When we exclude the cable product group from our total PPS business, our PPS gross margin improved by 50 basis points in 2006, a clear indication that the gross margin improvement measures we have been implementing in the past few years are continuing to have their effect. We consider the stagnation of our gross margin in 2006 as a temporary issue on our path to our medium-term gross margin objective, which lies between 23% and 24%.

PPS operating expenses as % of revenue



Productivity further improved

Compared to 2005, the underlying PPS cost base remained relatively flat. The cost savings in the UK – the remaining impact of the closure of our National Distribution Centre in Runcorn – and in Germany were predominantly offset by inflation- and FTE-related higher costs in other operations, to support increased activity levels. PPS operating expenses as a percentage of revenue improved by 160 basis points, from 21.4% in 2005 to 19.8% in 2006. We succeeded in reducing our cost to revenue ratio by 300 basis points in a period of two years.

The number of FTEs at 31 December 2006 was 17,519, compared to 17,209 on 31 December 2005, with 267 FTEs of the 310 FTE increase in 2006 being related to acquisitions.

The closure of our National Distribution Centre in Runcorn in 2005, resulting in an annual cost saving of more than € 30 million, was our last major restructuring project for the foreseeable future. Such projects always entail a high risk of operational disruption. Our cost to revenue ratio for total PPS is now back to the pre-crisis levels of 2000 and 2001 and is approaching that of our peers. We are therefore shifting our main focus from restructuring and cost cutting to further stimulating profitable growth, both organically and through judicious acquisitions. But this does not mean that further productivity improvement is no longer high on our agenda. Productivity improvements, however, will be more the result of further streamlining and gradual progress rather than of major, potentially disruptive and high-risk restructuring projects. This will give the Company the stability it needs to continue its robust improvement momentum. Our high operating leverage will also contribute to the further reduction of our cost to revenue ratio.

Strong increase in operating result

Operating result (before exceptional items) for our PPS business increased from € 67 million in 2005 (1.3% operating margin) to € 171 million in 2006 (2.9% operating margin). Approximately € 30 to € 35 million of the € 104 million improvement was caused by a one-off positive copper cable inventory effect, which leaves an underlying improvement of € 69 to € 74 million.

Hagemeyer UK, where revenue growth resumed in 2006 after the major restructuring operation in 2005, was the main contributor to this improvement. Strong operating profit increases were also delivered by North America and by the Nordics. All other regions also turned in a better operating result in 2006.

PPS working capital productivity improving further

Average net working capital as a percentage of net revenue fell by 60 basis points in 2006 to 12.0%. This means that during the last two years, we have succeeded in reducing our net working capital to revenue ratio by 140 basis points.

ACE (Agencies / Consumer Electronics) – mixed picture in 2006

After an organic revenue decrease of 4.4% in 2005, our ACE business (7% of total revenue) grew by 10.2% in 2006. This growth was mainly driven by our ACE operation in the Netherlands, where the market for consumer electronics was particularly strong. Our ACE business in Australia remained flat in 2006 and our luxury goods business in Asia showed a modest growth.

The ACE operating result for 2006 was € 19 million, compared to € 20 million in 2005. A higher operating result in the Netherlands was however offset by a lower operating result in our Australian and Asian businesses.

Strong financial position and reduced net financial expenses

The net result of 2006, combined with the debt reduction due to positive cash flow, has further strengthened our financial position as expressed in the improvement of our capital ratio (equity / total assets) from 28.8% at the end of 2005 to 31.2% at the end of 2006. Our gearing (net interest bearing debt / equity) improved from 60.8% in 2005 to 49.6% in 2006.
Net financial expenses were reduced by € 36 million from € 91 million in 2005 to € 55 million in 2006, mainly due to Hagemeyer waiving its "cash alternative election right" for the convertible bonds per 1 December 2005.

Great potential for further profit improvement and profitable growth

In the three years it has taken us to turn Hagemeyer around, restructuring, cost cutting and increasing productivity were not the only areas we focused on. At the same time, we were laying the foundations for Hagemeyer's future. Hagemeyer today is a far stronger and more professional organization than it was three years ago. We have dealt with the problems of the past and come up with a clear and pragmatic strategy designed to achieve the required level of profitability, as well as facilitating further sustainable and profitable growth.

Our potential for operational improvement, however, is still enormous. We are therefore set to improve our PPS ROIC in 2007 and to further increase our ROIC in the years thereafter. We will do this in the first place by continuing to improve the operational basics of our business: customer service, organic growth, gross margin, cost to revenue ratio and working capital productivity. Maintaining healthy organic growth and improving our gross margin will be our main priorities for the foreseeable future. In recent years, we have made tremendous progress in the other key result areas and are on a par or, in certain areas, even better than our peers.

Five key strategies for the medium term

To strengthen our efforts to improve these key result areas, we will continue to vigorously pursue the five key strategies we introduced in 2005:

1. Accelerating growth in the industry segment and expanding our product / service offering (single-source concept)
2. Increasing the share in our business of the small and medium-sized enterprises ("SMEs")
3. Increasing our value-added for customers and suppliers
4. Reducing the number of suppliers and concentrating purchasing volumes with our strategic suppliers
5. Further increasing the penetration of our own brands

Since their introduction in 2005, we have made solid progress in all five key strategies.

Five key strategies

KEY STRATEGIES	IMPACT ON KEY RESULT AREAS: Enhance profitable revenue growth	Improve gross margins	Reduce cost-to-revenue ratio	Reduce net working capital-to-revenue ratio
Accelerating growth in industry segment; expanding product and service offering	***	*	*	
Increasing share in our business of small and medium-sized enterprises ("SMEs")	**	***	**	*
Increasing value-added for customers and suppliers	**	***	*	*
Reducing number of suppliers; concentrating purchasing volumes with strategic suppliers	*	***	**	***
Increasing penetration of our own brands	**	***		

A more prominent role for acquisitions in Hagemeyer's strategy

With the continuing improvement of our operational performance, coupled with our strong financial position, more and more possibilities will emerge for us to grasp new growth opportunities. Small to medium-sized acquisitions are therefore expected to play an increasingly important role in the foreseeable future. Acquiring small and medium-sized distributors of electrical parts and supplies and non-electrical Maintenance, Repair and Operations (MRO) products will further enhance our profitable growth in the medium- and long term.

An acquisition will only be pursued if it supports at least one of the following strategic acquisition objectives:

- To increase regional relative market shares in countries where we are already active.
- To enter countries where we are not yet active, provided it makes clear strategic sense.
  Example: the acquisition of BREVA in Belgium, in January 2007.
- To enter promising emerging markets and / or accelerate our growth in these markets.
  Example: the acquisition end 2005 of the remaining 50% of the joint venture we had with General Electric in Poland.
- To acquire new product and service capabilities in support of our strategic objective to add more value for our customers and suppliers.
  Example: the acquisition in 2006 of Cardi, a lighting specialist for the retail sector, in Sweden.

In addition to these objectives, we have established a number of other criteria that acquisitions must meet:

- They should not distract senior management from their first priority of further improving operational performance;
- They should not stretch our financial resources;
- The companies we acquire should be healthy and easy to integrate into our current operations.

Financing the future

In 2007, we plan to refinance our current senior debt facility and initiate a receivables-based securitization programme. This will enable us to finance our growth strategy, and help us keep our net senior debt below two times our EBITDA (12 months rolling).

Our people – the foundation for our competitive advantage

Hagemeyer's business is all about service and human relationships. Our people form the foundation for our sustainable competitive advantage in the future. The continuous training and development of our people at all levels and in all businesses across the Group is therefore high on our priority list. In April 2006 we launched the "Summit" programme, a global senior management development initiative bringing together our top 45 senior managers from all parts of the global Hagemeyer PPS organization in a number of sessions spread over 2006 and 2007. The three sessions we organized in 2006 were a great success. The "Summit" programme is helping to create a global Hagemeyer team spirit with all senior players fully committed to further significantly grow the value of the Hagemeyer business. "Summit" is also facilitating global benchmarking and the exchange of best practices.
A global management development programme for high potentials is planned for 2007.

In 2006 we also introduced the pilot for a new incentive scheme, "ShareMap", for the most senior executives in the organization. The purpose of this new incentive plan is to align the interests of senior operational management more directly with those of our shareholders, and to create a feeling of ownership and financial commitment by investing in Hagemeyer. Forty senior managers have so far participated in the 2006 "ShareMap" programme. The success of the 2006 pilot means that we will be extending the number of participants to more than 200 in 2007.

Corporate governance and sustainability

Hagemeyer is one of the leading companies in terms of compliance with the relevant principles and best practices of the Netherlands Corporate Governance code.

We are also committed to respecting and applying principles related to human rights, labour standards and the environment. In 2006 we took the next steps on our way to a more balanced sustainability policy. We will implement a quantitative monitoring system on sustainability indicators relevant for Hagemeyer. We will proceed by setting targets and areas for improvement for the coming years. In anticipation of this, we have adopted the Sustainability Guidelines of the Global Reporting Initiative (G3) for reporting purposes.

Our Supervisory Board plays a key role in our governance so we would like to take this opportunity, also on behalf of the entire Hagemeyer team, to extend a special word of thanks to Dudley Eustace, who is standing down as Vice chairman and member of the Supervisory Board at the AGM of 24 April 2007. Dudley has been a member of Hagemeyer's Supervisory Board since 1999, and Vice chairman since 2001. He has fulfilled two four-year terms on the Supervisory Board. We all wish Dudley the very best in the future.

Positive outlook for 2007

Our objective is to further improve our profitability in 2007. In 2006, the spectacular, copper price-driven increase of our lower gross margin cable sales led to a negative margin mix effect for PPS, as a result of which the PPS gross margin came out lower than expected in 2006. As a result, and assuming no major impact from changes in copper prices, the gross margin percentage level needed for a 10% PPS ROIC could be difficult to achieve in 2007. We therefore decided to bring our 2007 PPS ROIC goal back to the original 9%, which we introduced in early 2004 (PPS ROIC 2006: 8.2%). Assuming copper prices stay around the mid-February 2007 level for the remainder of the year, the resulting negative copper cable price inflation impact could lead to pressure on revenue growth, particularly from the second quarter of 2007 onwards.

Our objective for 2009 remains an ROIC of 11% to 15% for the PPS business. We consider the interruption of our gross margin improvement in 2006 as a temporary issue, caused by an external factor. Therefore, we continue to aim for a gross margin of 23% to 24% in 2009. The level of our expected average operating expenses in 2009 has been restated to approximately 19% of revenue. As a consequence, the expected operating margin outcome then ranges between 4% and 5% in 2009.

Thanks to the global Hagemeyer team

Ultimately, the key to our success lies in the skills, enthusiasm and commitment of our people. As in previous years, the Hagemeyer team worldwide has made an invaluable contribution to our progress. We thank all our colleagues for the great job they have done in 2006 – they inspire us with confidence.

We would also like to acknowledge all Hagemeyer's other stakeholders. On behalf of the global team, we wish to express our gratitude to Hagemeyer's customers, suppliers and lenders – their support has been, and continues to be, critical for our success.

Finally, our special thanks to our shareholders, for the trust they have placed in us. The healthy rise in our share price since early 2004 is the best sign of the confidence they have in Hagemeyer. The entire Hagemeyer team is fully committed to further increasing the return on their investment in our Company.

Yours sincerely,

Rudi de Becker, CEO

Tjalling Tiemstra, CFO

Board of Management

Rudi de Becker | 1946, CEO

Joined Hagemeyer in the position of Chief Executive Officer in March 2004. Appointed a member of the Board of Management in the position of Chairman at the AGM of April 2004. Rudi de Becker is a Belgian national. Due to stand down in 2008. Prior to joining Hagemeyer, Rudi de Becker was a member of the Executive Board of Buhrmann, and prior to that he was a member of the Board of Samas and held a number of general management positions with, amongst others, Black & Decker and Xerox.
Hagemeyer shares at 31 December 2006: 200,000.

Tjalling Tiemstra | 1952, CFO

Joined Hagemeyer in the position of Chief Financial Officer in August 2002. Appointed a member of the Board of Management at the AGM of April 2003. Tjalling Tiemstra is a Dutch national. Prior to joining Hagemeyer, Tjalling Tiemstra held the position of CFO at Hollandsche Beton Groep and prior to that he held various senior financial and general management positions with Unilever. Tjalling Tiemstra is board member of Vereniging Effecten Uitgevende Ondernemingen (VEUO).
Hagemeyer shares at 31 December 2006: 61,490.

Corporate Secretary

Hein Bijl | 1968

Joined Hagemeyer's legal department in 1996 and has been Group Legal Counsel since 2003.
Appointed Corporate Secretary and Corporate Compliance Officer in 2004.

PPS Executive Committee

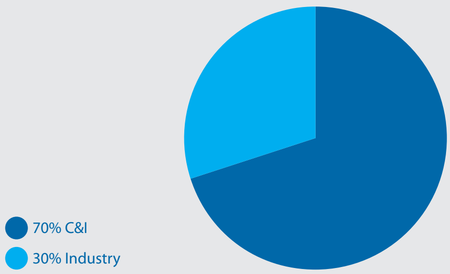
From left to right:

Alex Wouterse	1965, Vice President Operational Support
Ulf Gundemark	1951, CEO Nordics
Tjalling Tiemstra	1952, CFO
Paul Zekhuis	1965, CEO Central Europe
Dave Gabriel	1958, CEO North America
Rudi de Becker	1946, CEO
Robin Norris	1950, CEO Asia-Pacific
John Hogan	1961, CEO UK & Ireland
Fernando Cogollos	1959, CEO Southern Europe

Professional Products and Services (PPS)

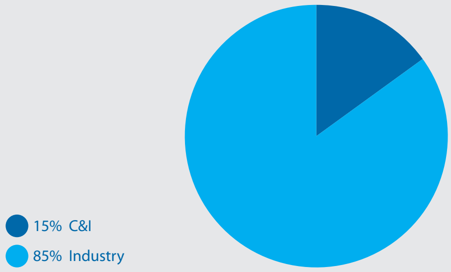
Our core business is Professional Products and Services (PPS) – the value-added, business-to-business distribution of electrical parts and supplies, safety and other Maintenance, Repair and Operations (MRO) products to contractors in the Construction and Installation (C&I) market and to industry users. Hagemeyer adds value to its PPS customers and suppliers by enabling them to improve their own customer service and by increasing their efficiency and competitiveness. This core PPS business represents 93% of Hagemeyer's total revenues. We operate PPS in 25 countries across Europe, North America and Asia-Pacific.

Europe & Asia-Pacific



In Europe and Australia, approximately 70% of our PPS business is in the C&I market, with the other 30% in Industry. Hagemeyer is market leader in Australia and number one or two in most of its European markets. The great majority of our product range consists of electrical parts and supplies. Safety and other non-electrical MRO products still represent only a small, though steadily growing share of our revenues in these parts of the world.

North America



It's a different story in North America, which represents approximately 25% of our total PPS revenues. Approximately 85% of our business in North America is in the industry market. The remaining 15% is in the C&I business, concentrated in the south-east and mid-Atlantic regions of the USA. Our Canadian and Mexican businesses sell exclusively to industrial customers, while part of our North American business also consists of integrated supply contracts where Hagemeyer provides industry users, often on site, with value-added, one-stop-shopping services. These include procurement, logistics and inventory management for a wide range of electrical and non-electrical MRO products. As a result of this industry focus and the importance of our integrated supply business in North America, the product range is much broader than electrical supplies alone, and includes a wide range of MRO essentials, such as safety products, cutting tools and abrasives, hand and power tools, electronics, lubricants and fasteners.

Agencies / Consumer Electronics (ACE)

The three companies that form our Agencies/Consumer Electronics (ACE) activities are Hagemeyer Brands in Australia (HBA), Hagemeyer Cosa Liebermann, headquartered in Hong Kong (HCL) and Haagtechno, representing the Panasonic brand in the Netherlands. In 2006 ACE represented 7% of the Group's total net revenue, 6% of the average invested capital (including goodwill) and 10% of operating result (before exceptional items).

This shows what an important contribution the ACE companies made to the profitability and ROIC of the Group as a whole. We will provide ACE our full support in exploiting their capabilities in the markets in which they operate and in further improving their operating result and return on invested capital, thereby maximizing their value creation for shareholders.

Strategy

Although Hagemeyer has achieved a strong improvement in net result and a positive cash flow in 2006, and has successfully completed its turnaround, we still have some way to go before we can call Hagemeyer a sufficiently profitable company. Our strategy to achieve this is:

- Further improve operational performance;
- Pursue five key strategies for the medium term; and
- Increase focus on profitable growth, both autonomous and through acquisitions.

In spite of the enormous progress we have made in recent years, Hagemeyer's profitability still ranks below that of several of its peers and below the profit levels that Hagemeyer achieved prior to the crisis years of 2002 and 2003. So there is ample opportunity for further improving profitability.

The short-term financial objective for our core PPS business is to increase our Return On Invested Capital (ROIC) from 8.2% in 2006 to 9% in 2007. This compares to a current Weighted Average Cost of Capital (WACC) of approximately 9%. The invested capital base includes capitalized goodwill.

For 2009, the objective for our PPS business is an operating margin in the range of 4% to 5% (2006: 2.9%) and an ROIC in the range of 11% to 15%. The final outcome for 2009 will mainly depend on how close we get to our assumed annual revenue growth of 4% to 6% and our gross margin targets of 23% to 24%.

PPS financial objective: 2009 ROIC 11%-15% [1]

12 months rolling	2005	2006	**2009 objective**
Net revenue	100%	100%	100%
Organic revenue growth	5.4%	11.6%	assumed 4%-6%
Gross profit	22.7%	22.7%	23%-24%
Operating expenses	(21.4%)	(19.7%)	appr. (19%)
Operating result	1.3%	2.9%	4%-5%
Pro forma tax charge 26%	(0.3%)	(0.8%)	appr. (1%)
Net operating profit after taxes	**1.0%**	**2.2%**	**3%-4%**
PPS ROIC [2]	**3.3%**	**8.2%**	**11%-15%**
13 months rolling			
Average invested capital	**29.0%**	**26.5%**	**25%-26%**
Average working capital	12.6%	12.0%	11%-12%
Average capitalized goodwill	11.7%	10.5%	appr. 9%
Average other assets	4.7%	4.0%	appr. 5%

1 As compared to a current Weighted Average Cost of Capital (WACC) of 9%

2 For full explanation, see page 43

For PPS in 2006, we made further considerable progress towards our 9% ROIC objective for 2007. Mainly as a result of copper-cable driven price increases, our organic revenue growth of 11.6% in 2006 far exceeded our original target growth range (4%-6%), and the stagnation of our gross margin at 22.7% was largely compensated by a further reduction of our cost to revenue ratio to a level of 19.8% (a 160 basis points improvement in 2006). This enabled us to increase our PPS operating margin from 1.3% in 2005 to 2.9% in 2006. With an average net working capital to revenue ratio of 12.0% at end 2006 (60 basis points better than at end 2005, and a 140 basis points improvement since 2004), we have already reached the upper limit of our target range for 2009 (11%-12%). We have increased our PPS ROIC from 3.3% in 2005 to 8.2% in 2006.

Our current, medium- and longer-term strategies for PPS are based on further improving operational performance and growing the business profitably, both autonomously and through judicious acquisitions.

A strong organization

During Hagemeyer's three-year turnaround period, we didn't simply concentrate on restructuring, cost cutting, and increasing productivity. We also very much focused on building a solid foundation for the future. The Hagemeyer of today is a far stronger and more professional organization than it was three years ago. The problems we encountered in the past have been resolved, and we have emerged with a clear and pragmatic strategy, designed not only to achieve the required level of profitability, but to also drive further sustainable and profitable growth.

In the past few years, Hagemeyer has worked hard at considerably improving many areas of its organization. For example, our management teams across the globe have been considerably strengthened, both by recruiting new talent and through management development initiatives. Hagemeyer is once again being perceived as a key player in its industry, making it an employer of choice for new talent. And whereas, a few years ago, Hagemeyer was a random collection of different operating companies, spread across the world, it is now a truly global team. We have found the right balance between the high degree of decentralization that is necessary for our type of business, and a global guidance and coordination system for our operating companies. This enables us to leverage our global purchasing strength more easily, to improve the development and management of our global accounts, and to enhance our international benchmarking and exchange of best practices. It has also contributed to a transformation from a defensive, inward-looking culture, focused on cost cutting and restructuring, very necessary during the turnaround years, into one of outward focus and growth geared towards winning and success. In addition, several tools and concepts have been introduced in the past few years that will contribute to improving our operational performance even further:

- Activity Based Costing (ABC) systems have now been implemented in most operating companies. These systems make it possible for us to determine and analyze the true profitability of an individual customer, customer segment, project, supplier or product group, and point the way towards specific profitability improvement initiatives. Based on this approach, we have eliminated a number of structurally unprofitable accounts in some of our operating companies and improved the profitability of several others. Reliable information about customer segment, supplier and product group profitability is also essential for determining our strategic direction.
- The category management concept is being introduced throughout the organization, on both global and operating company levels. Category management will replace traditional "buying", with category managers being responsible for the total profitability of their own product group ("category"). This will continue further the shift towards more profitable products and suppliers, enhance inventory management, and improve our pricing in the market.
- The Six Sigma business improvement approach is now fully operational in our North American organization and we are considering introducing it in Europe via our Nordics operation.
- We are continuing to invest in our logistics infrastructure by opening new Regional Distribution Centres in several countries.
- Upgrading our IT systems will continue.
- Our sales force and branch network is being expanded in several operating companies.

Hagemeyer's PPS strategy at a glance

Financial objectives 2009

Average annual revenue growth assumption	4% - 6%	(2006: 11.6%)
Gross margin	23% - 24%	(2006: 22.7%)
Cost to revenue ratio	approximately 19%	(2006: 19.7%)
Operating margin	4% - 5%	(2006: 2.9%)
Net working capital to revenue ratio	11% - 12%	(2006: 12.0%)
ROIC	11% - 15%	(2006: 8.2%)

Continue to improve operational performance

- Key Priorities
  - Continue healthy level of organic revenue growth
  - Improve gross margin
- Continue to:
  - Improve customer service to world class level
  - Reduce cost to revenue ratio
  - Improve working capital productivity
- Bring our operations in UK, US, Germany and Australia to satisfactory levels of profitability

Five key strategies for the medium term

- Accelerate growth of industry segment; expand product and service offering
- Increase share in our business of small and medium-sized enterprises (SMEs)
- Increase value-added for customers and suppliers
- Reduce number of suppliers; concentrate purchasing volumes with strategic suppliers
- Increase penetration of our own brands

Increasing role for acquisitions

- Acquisition of small and medium-sized distributors of electrical parts and supplies and industrial MRO distributors
- Objectives:
  - Increase regional relative market share in countries where we already have a presence
  - Enter countries where we are not yet active, provided it makes clear strategic sense
  - Enter and / or accelerate our growth in promising emerging markets
  - Acquire new product and service capabilities
- Additional acquisition criteria:
  - They should not distract senior management from their operational improvement priorities
  - They should not stretch our financial resources
  - The companies acquired should be healthy and easy to integrate

Further improvement and development of people and organisation

Further improving operational performance

Hagemeyer's potential for further increasing its profitability through operational improvement is still considerable. We are therefore set to achieve our 2007 PPS ROIC objective and further increase our ROIC thereafter, in the first place by continuing to improve the operational basics of our business: customer service, organic revenue growth, gross margin, cost to revenue ratio, and working capital productivity. Of these key results areas, our main priorities for the foreseeable future are maintaining healthy organic growth and improving our gross margin to a level between 23% and 24% (2006: 22.7%). In the past few years, we have made great strides in the other key result areas and are performing on a level with our peers, and in certain areas even better.

Excellent local service worldwide

Hagemeyer is in the service business and customer service is the essence of our company, which means that it is the key driver of our performance. At Hagemeyer, excellent customer service means:

- A near-perfect "DIFOT" (delivery in full, on time) performance;
- A wide product range on offer with prompt availability;
- Supporting our customers with a wide variety of services to improve their own customer service and their profitability. These services include: product sourcing, in-house storeroom management, designing installations, technical advice, training, streamlining the supply chain, IT and administrative processes, easy ordering and order administration through e-commerce solutions;
- A customer-focused, friendly and listening organization that is easy to do business with.

Our external customer satisfaction surveys show that we are among the top performers in most of our markets. Improving customer service, however, is a never ending journey so we will continue to invest in training and expertise and step up our efforts in the area of international benchmarking and exchange of best practices. Our excellent customer service will also be enhanced by further investing in our logistics and IT infrastructure, and streamlining our administrative processes even more. We will also improve our cooperation with our key suppliers and strengthen our customer service monitoring systems.

Driving organic revenue growth

We increased our organic revenue growth for PPS from 5.4% in 2005 to 11.6% in 2006 and estimate that approximately 60% of our 2006 revenue growth was due to price increases, mainly copper driven. In 2005 price increases represented approximately 3 percentage points of the full-year growth.
Ongoing growth in revenue is crucial for distribution companies like Hagemeyer. That's why we are setting our annual organic revenue growth objective for our PPS business for the coming years at between 4% and 6%. This includes 1% to 2% price increases.

Our main drivers of organic revenue growth are:

- Continuously improving customer service to world-class level;
- Accelerating growth of our industrial business; expanding product and service offering;
- Accelerating growth in the small and medium-sized enterprises market segment;
- Increasing the value-added for customers and suppliers; expanding our service offering;
- Sharpening competitiveness by increasing our own brand penetration;
- Further developing international and global accounts;
- Expanding our sales force and sales branch network in several operating companies and improving our sales management systems;
- Dynamic marketing and sales campaigns;
- Expanding our customer base.

Improving gross margin – a key priority

Gross margin improvement for total PPS has been slower than expected. At 22.7%, our gross margin in 2006 remained flat compared to 2005. Triggered by extreme price increases, mainly driven by copper prices, our cable revenue increased spectacularly in 2006. As a result, the share of the low gross margin cable product group in our total PPS business increased considerably, causing a significant negative mix effect on our overall PPS margin. When we exclude the cable product group from our total PPS business, our PPS gross margin improved by 50 basis points in 2006, a clear indication that the gross margin improvement measures we have been implementing in the past few years continue to have effect.

We consider the stagnation of our gross margin in 2006 as a one-off issue on our path to our medium-term gross margin objective, which lies between 23% and 24%. Gross margin improvement remains one of our key priorities for 2007 and beyond. The main drivers for the improvement of our gross margins will be:

- On the sell-side:
  - Increasing the share in our business of small and medium-sized enterprises;
  - Smarter pricing, adapted to specific product and customer segments; training front-office people in smart pricing;
  - Further improving IT pricing support tools and control systems;
  - Selling more value-added services;
  - Boosting the penetration of our higher margin own-brand products.
- On the buy-side:
  - Further developing "category management", with product category managers being responsible for the profitability of their own product group ("category"), resulting in a significant product and supplier rationalization and a gradual shift towards more profitable suppliers and products, including our own brands;
  - Reducing our number of suppliers and strengthening relationships with strategic suppliers; concentrating purchasing volumes with strategic suppliers;
  - Better leveraging our national and international purchase volumes;
  - Increasing low-cost sourcing;
  - Taking advantage of cost reductions through efficiency improvements in the in-bound supply chain (e.g. by implementing regional distribution centres).
- Sell-side and buy-side:
  - Further fine-tuning and intensifying the use of the Activity Based Costing (ABC) systems that are now in place in most of our operations.

Improving cost productivity

During the last two years, we reduced our PPS cost to revenue ratio by 300 basis points to a level of 19.8% in 2006. This ratio is now back to the pre-crisis levels of 2000 and 2001 and is getting closer to that of our peers. Although we have been shifting our main focus from restructuring and cost cutting to further stimulating profitable growth, further productivity improvement will remain high on our agenda. We aim to achieve a cost to revenue ratio of approximately 19% by 2009. Productivity improvements will, however, come more from further streamlining and gradual progress than from major, potentially disruptive and high-risk restructuring projects. This will give the Company the stability required to maintain its robust improvement momentum. Our high operational leverage will also contribute to the further reduction of our cost to revenue ratio.

In parallel with our initiatives to increase cost productivity, we will be further investing in the future of Hagemeyer. We will continue our efforts to further upgrade the quality of our associates, improve our IT systems and increase our e-commerce capabilities, streamline and modernize our logistics infrastructure, and expand our sales and branch network.

These are some of the main drivers that will help us further improve our cost productivity:

- Streamlining our logistics by further implementing our Regional Distribution Centres strategy (e.g. UK, Spain and Australia);
- Improving our transport efficiency (e.g. UK);
- IT projects to improve overall productivity (e.g. IT integration project in USA);
- Centralizing back-office functions on a regional basis within countries, creating competence centres;
- Closing structurally unprofitable branches;
- Streamlining administrative processes (e.g. UK).

Further improving working capital productivity

In the last two years, we have reduced our net working capital to revenue ratio by 140 basis points to a level of 12.0% in 2006, and our objective is to achieve a net working capital to revenue ratio between 11% and 12% by 2009.

These are some of the main drivers that will help us further improve our working capital productivity:

- Continuing to improve inventory management:
  - Product range rationalization and reduction of number of suppliers;
  - Improved management of slow movers; improved transparency and monitoring of inventory;
  - Consignment stocks for certain products;
  - Vendor Managed Inventories.
- Further improve management of accounts receivable and accounts payable.

Streamlining IT

The IT systems in our companies are performing satisfactorily and we are working on improving their functionality and efficiency. With the exception of Hagemeyer in the United States, where three different IT systems are still in operation, all our operating companies have one integrated nationwide IT system. This is a significant competitive advantage, especially for serving large accounts nationwide. In many countries, our competitors are still operating with a multitude of different IT systems. A project is ongoing in the USA to migrate the two minor systems to the main one, creating a single, fully integrated IT system, thereby improving productivity in our US operations. This project does not involve a "big bang" type of implementation, but is being done in a measured way, avoiding disruptions to business.

Logistics based on Regional Distribution Centres (RDCs)

We will continue to further streamline our logistics. The logistics model we strive for in most of our operations is based on a number of medium-sized, low-cost and flexible regional distribution centres. These centres must be close to the customer, serve a limited number of sales branches, and be easy to implement and operate. This model is already successfully operational in Germany, and has also been implemented in the UK, where further streamlining is ongoing. Spain also started to implement the RDC model in 2006, with an RDC for the greater Madrid area becoming operational in the second quarter of 2006, and a new RDC for the greater Barcelona region starting operations in early 2007.

Similar plans are on the drawing board for Australia, a new logistics centre is being built in Belgium, and construction is due to start soon on a new logistics centre in Poland.
We will maintain our efforts to further improve the efficiency and effectiveness of our back-office activities (such as purchasing, logistics, and staff and administrative functions), by moving them away from front-office tasks (such as business development and sales) and consolidating them in competence centres. Other efficiency improvement initiatives will only be implemented if we are convinced that they represent better service to our customers.

Further profitability improvement in UK, USA, Germany and Australia; strong growth in emerging markets

Profit performance has considerably improved in the UK, USA, Germany and Australia, the operating companies where operations were severely disrupted in 2002 and 2003. Although they all achieved a positive operating result (before exceptional items) in 2006, they still have some way to go in order to achieve a satisfactory level of profitability. All need to continue organic revenue growth, with gross margin improvement being a priority for Germany and the USA, and reducing the cost to revenue ratio a priority for the UK and for Australia. Further improving working capital productivity is also a priority for Spain, the USA, UK and Australia.

For the strong performers in our PPS business (i.e. Nordics region, Spain, Switzerland, the Netherlands, Belgium, Canada and Mexico), our strategy will be to ensure that they continue their positive momentum and that they receive the necessary support to even accelerate their profitable growth.

The emerging markets are the growth engine for the future, so we are increasing our efforts to accelerate our profitable growth in the countries where we already have a presence (i.e. Poland, Russia, the Baltic States, the Czech Republic, China, Malaysia, Thailand, and Singapore). This will be achieved both autonomously and through acquisitions. It is also our intention to enter strategically important emerging markets in which we are not yet active. This will primarily be achieved through medium-sized acquisitions.

Five key strategies for the medium term

In order to boost our efforts to improve our operational performance and to further improve our profitability in the medium- and long term, we will continue to vigorously pursue the five key strategies we introduced in 2005:

1. Accelerating growth in industry; expanding product and service offering
2. Increasing the share in our business of small and medium-sized enterprises ("SMEs")
3. Increasing our value-added for customers and suppliers
4. Reducing the number of suppliers; concentrating purchasing volumes with strategic suppliers
5. Increasing the penetration of our own brands

Since their introduction in 2005, we have made solid progress in all five key strategies.

1. Accelerating growth in industry; expanding product and service offering

- The profit potential for our industrial business is potentially higher than for construction and installation, as it enables us to provide more value-added services. Hagemeyer is therefore further reinforcing its capabilities in the industry market across the world.
- In most of its markets, Hagemeyer already has a solid platform to enable it to further grow its industrial business.
- Significant synergies exist between our construction and installation businesses and our industrial businesses.
- Hagemeyer has the capability to follow large and medium-sized industrial customers to low-cost countries.
- Single-source, one-stop-shopping: our services to the industry range from the traditional wholesale delivery of electrical parts and supplies, to the integrated supply of a wide range of electrical and non-electrical Maintenance, Repair and Operations (MRO) products. These include safety products, cutting tools and abrasives, hand and power tools, lubricants, cleaning products and fasteners. In the most advanced case of integrated supply, Hagemeyer offers its industrial customers supply chain consulting and global product sourcing services and even runs their in-house storerooms.
- Considerable growth potential for our industrial business in Europe and Asia-Pacific. Whereas in North America 85% of our sales is to industrial customers, the share of industrial users in our businesses in Europe and Asia-Pacific is just 30%. Hagemeyer is one of the leading providers of integrated supply services in North America, and has acquired world-class expertise in this area. In Europe and Asia-Pacific too, Hagemeyer is in a strong position to take advantage of the trend for outsourcing these kinds of services. This growth potential is further stimulated by our global US customers as they export this outsourcing and integrated supply concept to their operations elsewhere.
- Large industry customers are increasingly demanding globalized services. As a global player, Hagemeyer has the capacity to provide customers with integrated supply services in most of the countries where they have industrial operations. Hagemeyer occupies a leading position in this area. This globalized business is being managed and further developed by our Global Accounts Department and will remain an important focus area for the future.

2. Increasing the share in our business of small and medium-sized enterprises ("SMEs")

- The small and medium-sized enterprises segment is inherently more profitable than the highly competitive segment of large customers.
- In those countries where Hagemeyer suffered operational disruptions in 2002 and 2003, we lost most market share and share of wallet with the small and medium-sized enterprises.
- Growing the share in our business of small and medium-sized enterprises has become a key priority.
- Excellent customer service, a wide product offering with immediate availability, a dense network of sales and service branches providing a personalized local service, and a specialized sales force maintaining close customer relationships: these are all critical success factors in the small and medium-sized enterprises segment.
- We occupy a strong position in the lower margin large accounts segment in most of our markets. Here our objective is to improve our profitability, while at the same time maintaining our high customer service levels. Our Activity Based Costing approach, which is implemented in most of our markets, gives us a much better insight into the cost drivers and profitability of each specific customer.

This allows us to work closely with our customers to better streamline the ordering, supply chain and administrative processes, resulting in significant cost reductions for both parties.

3. Increasing our value-added for customers and suppliers

- Hagemeyer is more than a traditional wholesaler passing on products from suppliers to end-users. We are also able to provide customers and suppliers with a multitude of value-added services.
- This potential to increase value-added offers a win-win opportunity for all concerned. Rather than limiting services to a standardized commodity, we will further strengthen our capabilities to provide customers and suppliers with unique, tailored solutions. The result is improved efficiency and effectiveness for customers and suppliers, and a stronger competitive position and improved profitability for Hagemeyer.
- Another of our priorities is to considerably strengthen our capabilities for providing value-added services to both suppliers and end-users in areas such as product and marketing support, end-user training, technical advice and support, design, sourcing products both from traditional suppliers and from low-cost countries, in-house storeroom management, managing logistics of large building sites, and inventory management and supply chain consulting services.
- The order, billing and payment process is also an important area where we can add considerable value, both for customers and suppliers. We all spend too much time looking for products and suppliers, placing orders and matching invoices. By further enhancing our e-commerce and EDI capabilities, we can reduce our own costs as well as the costs of customers and suppliers.

4. Reducing the number of suppliers; concentrating purchasing volumes with strategic suppliers

- Hagemeyer aims to create more value not only for its customers but also for its suppliers. An important element of our PPS strategy is strengthening our partnership with strategic suppliers and reducing the number of non-strategic suppliers. This concentration of purchasing volumes and a closer relationship with key suppliers will result in improved purchasing prices and conditions for Hagemeyer, a critical factor in our ability to compete, leading to a multitude of advantages that will benefit both Hagemeyer and our key suppliers.
  The areas where major mutual benefits can be gained include:
  - Better understanding of each other's role and strategy;
  - Closer cooperation to take cost out of the supply chain and to reduce unproductive inventories; this includes initiatives such as VMI (Vendor Managed Inventories), consignment stocks for certain products, electronic ordering, billing and invoicing, and reducing transport costs;
  - Better support for new product introductions;
  - Improved technical advice and product training for end-users;
  - Joint sales and marketing initiatives, with closer commercial cooperation between manufacturer / supplier and our local sales organizations;
  - Improved alignment of ordering cycles and manufacturing cycles;
  - Increasing value-added by upgrading our product and service offering;
  - Generating synergies through better coordination between local and international initiatives;
  - Open exchange of relevant detailed sales information to identify market and customer opportunities.

- Our considerably strengthened International Procurement Department plays a key role in achieving our objectives in this area. Our team of international category managers works closely together with their colleagues in the operating companies.

5. Increasing the penetration of our own brands

- Well-known traditional manufacturers' brands represent the vast majority of Hagemeyer's sales and we do not expect this situation to change fundamentally in the future. It is our firm intention to further strengthen our relationship with our strategic suppliers and increase our cooperation with them. However, there is also a growing need for own brands. As in many other industries, the popularity of own brands is growing in our markets. And this is a trend that will continue.
- If we are to maintain our ability to compete, we cannot afford to ignore this evolution. Worldwide, Hagemeyer already has a number of own brands on offer, of which Newlec (electrical materials in Europe), Lanson (electrical materials in Australia) and Vallen (safety equipment) are the most popular. In pursuing our own brand strategy, our aim is not to create aggressive price fighters, competing against the traditional manufacturers' brands. Our own brands are gross margin builders. They are top-quality products from first-class manufacturers and provide a win-win situation for all parties involved: excellent value for money for our customers, attractive volumes for our suppliers, and a better gross margin for Hagemeyer.
- In summary then, our own brand has the following objectives:
  - To strengthen our competitive position by offering our customers more value for money and greater choice;
  - To increase our gross margins, one of the most important priorities for us in the coming years.
- The ongoing roll-out of our own brands is a key driver for gross margin improvement during the coming years.

Judicious acquisitions to enhance Hagemeyer's profitable growth

With the continuing improvement of our operational performance and our strong financial position, there will be more and more possibilities for Hagemeyer to grasp new growth opportunities, including acquisitions. Most of our markets are still highly fragmented and continue to offer promising opportunities for further consolidation initiatives. Acquisitions will also enable us to enter attractive, developed, as well as emerging markets where we are not yet active. They can also contribute to our profitability and growth in countries where we have already established a significant position.

We are therefore confident that small to medium-sized acquisitions will play an increasingly important role in Hagemeyer's future. The acquisition of small and medium-sized distributors of electrical parts and supplies and industrial MRO (Maintenance, Repair and Operations) products will further enhance our profitable growth in the medium- and long term.
But an acquisition will be pursued only if it supports at least one of the following strategic acquisition objectives:

- To increase regional relative market shares in countries where we are already active. Through well-targeted small and medium-sized acquisitions of local players, we can improve our density and, as a result, our profitability on a regional level in certain countries.
- To enter developed countries where we are not yet active, provided it makes clear strategic sense. The acquisition in early 2007 of BREVA in Belgium is an illustration of this strategy. BREVA focuses on the industrial market segment and therefore supports our strategy to accelerate our growth in the industrial market. BREVA also allows us to serve the Belgian subsidiaries of several of our global accounts.
- To enter and / or accelerate growth in promising emerging markets. The acquisition end 2005 of the remaining 50% of the joint venture we had with General Electric in Poland is an example of this strategy. This makes us one of the leading players in the promising Polish market.
- To acquire new product and service capabilities in support of our strategic objectives to accelerate our growth in industry and to add more value for our customers and suppliers. An example of this strategy is the acquisition in 2006 of Cardi, a Swedish lighting specialist for the retail market.

In addition to these objectives, we have established a number of other criteria that acquisitions should meet:

- They should not distract senior management from their first priority of further improving operational performance;
- They should not stretch our financial resources;
- The companies we acquire should be healthy and easy to integrate into our existing organization.

Further increasing the value of our Agencies / Consumer Electronics (ACE) business

Hagemeyer's ACE business consists of three operations, all active in the import, marketing and distribution of consumer electronics and / or other branded products in certain countries:

- Distribution of Panasonic products in the Netherlands;
- Distribution of consumer electronics and other branded products such as white goods, in Australia;
- Distribution of luxury goods, such as watches, fashion products and cosmetics, in several Asian countries.

ACE is a profitable business with an ROIC well above our 9% WACC. We will further capitalize on our market knowledge and investment in infrastructure and continue to support our ACE business in order to further increase its value for both Hagemeyer and for our shareholders.

Sustainability supports profitability

Respecting and applying principles related to human rights, labour standards and the environment is an essential part of our strategy. In 2006, we made significant progress towards a more balanced sustainability policy. It is becoming increasingly important to have such a policy and to follow up on it. Until now, we have only made an inventory of various sustainability initiatives within the Company and monitored the qualitative results. Starting 2007, we will implement a more systematic approach, based on a quantitative monitoring system of sustainability indicators, relevant to Hagemeyer. We will proceed by setting targets and areas for improvement in the coming years. In the meantime, we have adopted the Sustainability Guidelines of the Global Reporting Initiative (G3) for reporting purposes. In this context our main areas of focus will be:

- Supplier sustainability policy (supply chain);
- Hagemeyer's direct impact on the environment;
- Labour conditions;
- Contributions to societal development.

Our people are key to our strategy

Hagemeyer's business is all about service and human relationships. Our people form the foundation for our sustainable competitive advantage in the future. The continuous training and development of our associates at all levels and in all businesses across the Group is therefore high on our priority list. In April 2006, we launched the "Summit" programme, a global senior management development initiative, which brings together the top 45 senior managers from all parts of the global PPS organisation. We plan to launch a global management development programme for high potentials in 2007.

We have also introduced "ShareMap", a new incentive scheme for our key managers throughout the organization. The purpose of this incentive plan is to align the interests of senior operational management more directly with those of our shareholders.

Driving force

This is the story of a partnership that began more than 20 years ago when Audi chose Hagemeyer to deliver Maintainance, Repair and Operations (MRO) products. Since then, we have developed from a traditional supplier to a value-adding logistics partner – creating an integrated service concept for delivering a growing range of products to all Audi's plants in Germany and Hungary. A concept based on pro-active product services, focused on raising profits for Audi and equally rewarding for Hagemeyer. That's the force driving this future-proof partnership.

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Sharing history, shaping the future

The initial sourcing conditions of Audi were simple: deliver everything on time, to the right place. That demand hasn't changed but the scope has expanded considerably. Hagemeyer started by delivering electrical engineering equipment. Then came personal safety products. And since last year we supply components for pneumatic and hydraulic systems as well. Not just to the German plants in Ingolstadt and Neckarsulm, but also to the Hungarian factory in Györ. Through our common history, spanning more than two decades, Hagemeyer has acquired company-wide insight into how Audi works. That insight has been translated into tailor-made services. Leading to substantial cost savings and quality improvements for Audi.

Advantage through ideas

It would be simple to say that Hagemeyer offers added value, but what exactly is that? Well, we cut operational costs for Audi by identifying alternative products with a better price-quality ratio. Our integrated service concept includes all business fields: we offer technical support, e-commerce assistance, ease of management, and knowledge transfer. Not just by improving existing services, but also by thinking out new ways of support.

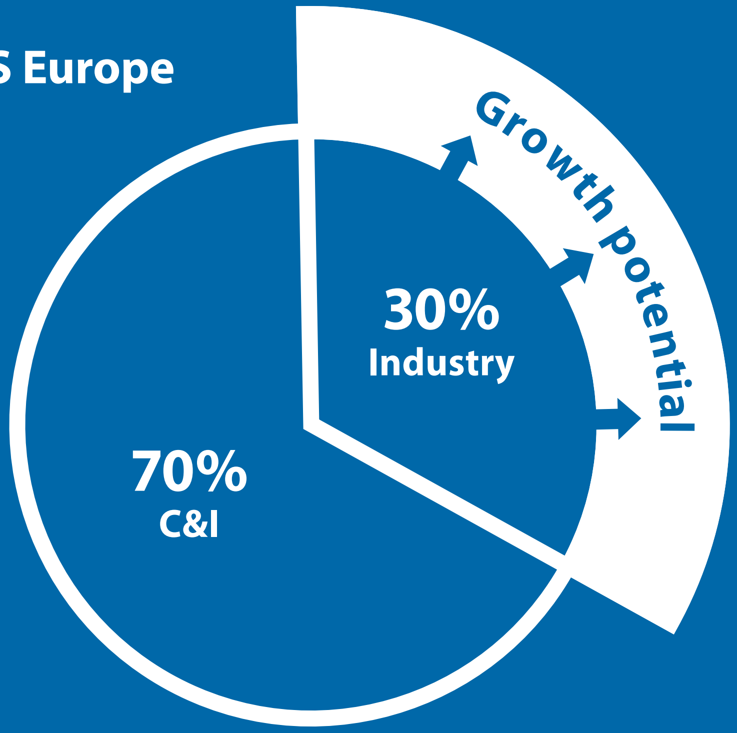
Audi's slogan "Vorsprung durch Technik" can be translated into "Advantage through technology". Hagemeyer complements this by providing "Advantage through ideas". That's what our customers at Audi associate us with. And that's how we have secured and maintained our position as preferred supplier.

BLUEPRINT 01

Our single-source concept allows industrial customers to drastically reduce the number of suppliers for Maintenance, Repair and Operations (MRO) products.

This one-stop-shopping service brings customers a substantial reduction in procurement costs. And our international presence enables us to follow them to low-cost countries.

Net revenue PPS Europe and Asia-Pacific



BLUEPRINT 01 Accelerate growth in industry

Hagemeyer is in a strong position to benefit from the increasing demand for industrial services

Driving force

This is the story of a partnership that began more than 20 years ago when Audi chose Hagemeyer to deliver Maintainance, Repair and Operations (MRO) products. Since then, we have developed from a traditional supplier to a value-adding logistics partner – creating an integrated service concept for delivering a growing range of products to all Audi's plants in Germany and Hungary. A concept based on pro-active product services, focused on raising profits for Audi and equally rewarding for Hagemeyer. That's the force driving this future-proof partnership.

© Audi AG

Sharing history, shaping the future

The initial sourcing conditions of Audi were simple: deliver everything on time, to the right place. That demand hasn't changed but the scope has expanded considerably. Hagemeyer started by delivering electrical engineering equipment. Then came personal safety products. And since last year we supply components for pneumatic and hydraulic systems as well. Not just to the German plants in Ingolstadt and Neckarsulm, but also to the Hungarian factory in Györ. Through our common history, spanning more than two decades, Hagemeyer has acquired company-wide insight into how Audi works. That insight has been translated into tailor-made services. Leading to substantial cost savings and quality improvements for Audi.

Advantage through ideas

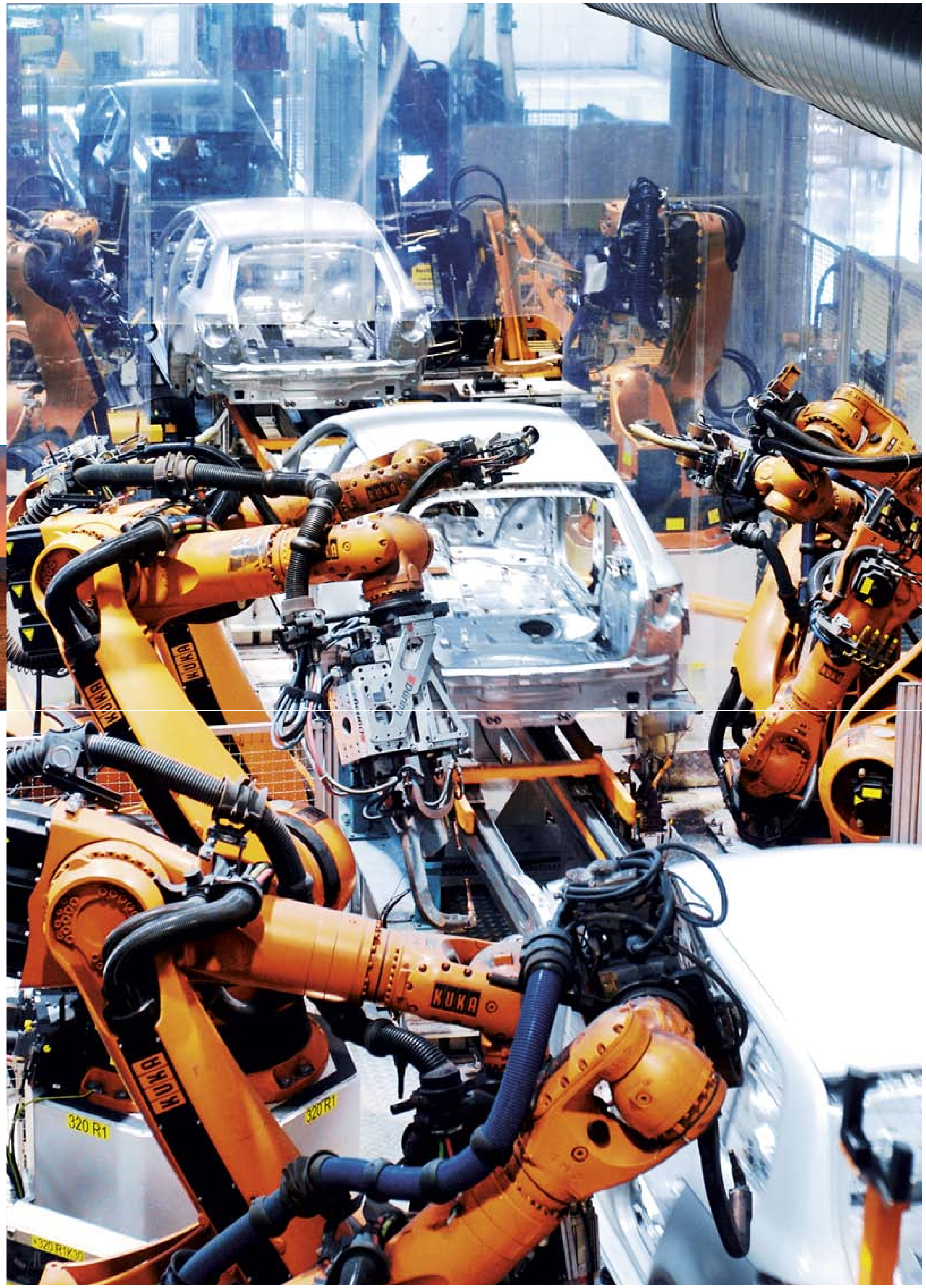
It would be simple to say that Hagemeyer offers added value, but what exactly is that? Well, we cut operational costs for Audi by identifying alternative products with a better price-quality ratio. Our integrated service concept includes all business fields: we offer technical support, e-commerce assistance, ease of management, and knowledge transfer. Not just by improving existing services, but also by thinking out new ways of support.

Audi's slogan "Vorsprung durch Technik" can be translated into "Advantage through technology". Hagemeyer complements this by providing "Advantage through ideas". That's what our customers at Audi associate us with. And that's how we have secured and maintained our position as preferred supplier.

BLUEPRINT 01

Our single-source concept allows industrial customers to drastically reduce the number of suppliers for Maintenance, Repair and Operations (MRO) products.

This one-stop-shopping service brings customers a substantial reduction in procurement costs. And our international presence enables us to follow them to low-cost countries.



High profile

Developments in the electrical engineering and security sectors occur rapidly. But Visser – a medium-sized firm in Holland – can follow these with the help of Hagemeyer. Our account manager regularly comes by to demonstrate the latest product possibilities and advise about their use. When new products are implemented, we provide user trainings. Another advantage is our fast and reliable delivery, mostly right to the project location. All these services profile Hagemeyer as a highly trusted partner.

Quality-driven approach

The electrical engineering world is dynamic. Borders between ICT and security technology are disappearing. Meanwhile, government and insurance companies increase their demands, leading to more inspections. This requires a quality-driven approach. Hagemeyer and Visser have this approach in common. The sourcing of products is completely under control. It starts with the daily orders via a secured internet connection. The next morning, Hagemeyer makes the deliveries to a series of project locations. In many cases the deliveries consist of preassembled modules, for instance in the case of switching equipment.

Client-centred partnership

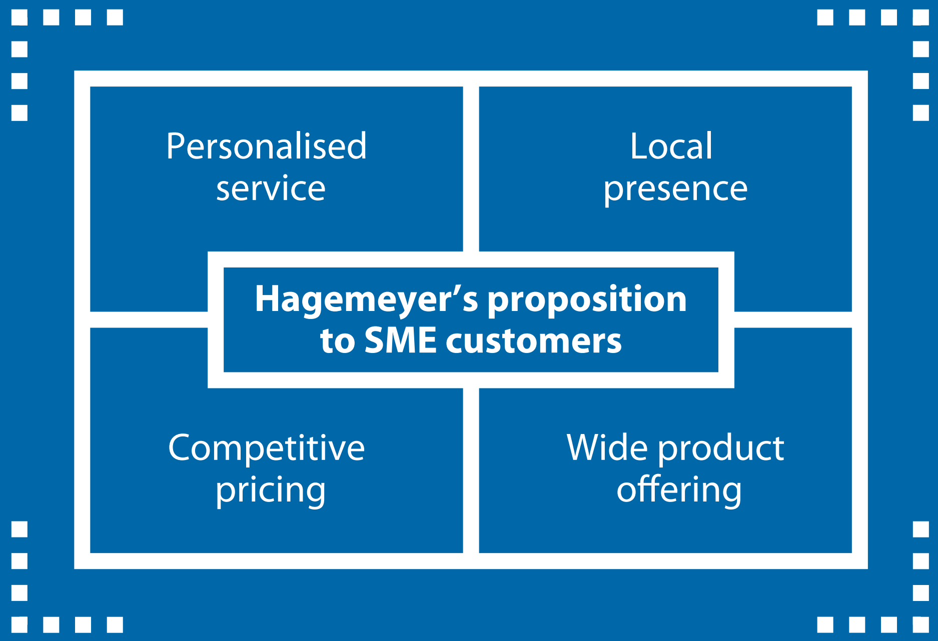
Technology may be important but it's just a means of solving day-to-day issues for customers. We are always on standby to advise about the best products and how they should be used. Potential problems are solved quickly because our staff speaks the same language as our customers. The Hagemeyer administration department produces daily overviews of the deliveries. And when products are delivered, we monitor whether stock levels are running low. That's what we mean by a client-centred partnership.

Visser is a family firm that was founded in 1919. They pride themselves on being "committed and qualified". We reflect that profile by our dedication to Visser's projects and ensuring our advanced technology is at their disposal.

BLUEPRINT 02

Success factors in the small and medium-sized enterprises segment are excellent customer service, wide product offerings and dense branch networks.

Our service branches provide personalized local service and our specialized sales force maintains close customer relationships.



BLUEPRINT 02 Accelerate growth in SME

Growing our share in the profitable market of small and medium-sized enterprises (SME) is one of Hagemeyer's key priorities

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BLUEPRINT 02

Success factors in the small and medium-sized enterprises segment are excellent customer service, wide product offerings and dense branch networks.

Our service branches provide personalized local service and our specialized sales force maintains close customer relationships.

Safety lasts

China is the global symbol of an emerging nation and Shanghai, as one of its major cities, represents its future. Continuous investments by multinationals and domestic players are boosting the growth of the manufacturing industry. This leads to a rising demand by, in particular, the huge petro-chemical and chemical industries for solutions that ensure the safety of employees, facilities and the community. Hagemeyer has identified that need and established the first one-stop Safety Service Center in China. The Center puts safety first and makes it last.

One-stop safety solutions provider

The Hagemeyer Safety Service Center is located in the Shanghai Caojing Chemical Industry Park – one of the largest integrated chemical sites in the world. The Center provides personal protection equipment, ranging from fire-fighting gear, breathing apparatus and toxic detection instrumentation, to chemical suits, goggles and gloves. Hagemeyer ensures that all safety equipment is regularly inspected and maintained to meet or exceed the operating standards. Additionally, we train workers in the proper use of the products and equipment. Our experts can also provide all essential knowledge about material safety data sheets, comprehensive safety instructions and communications in the event of an emergency. So customers profit from a broad spectrum of training packages.

Onsite assistance and training

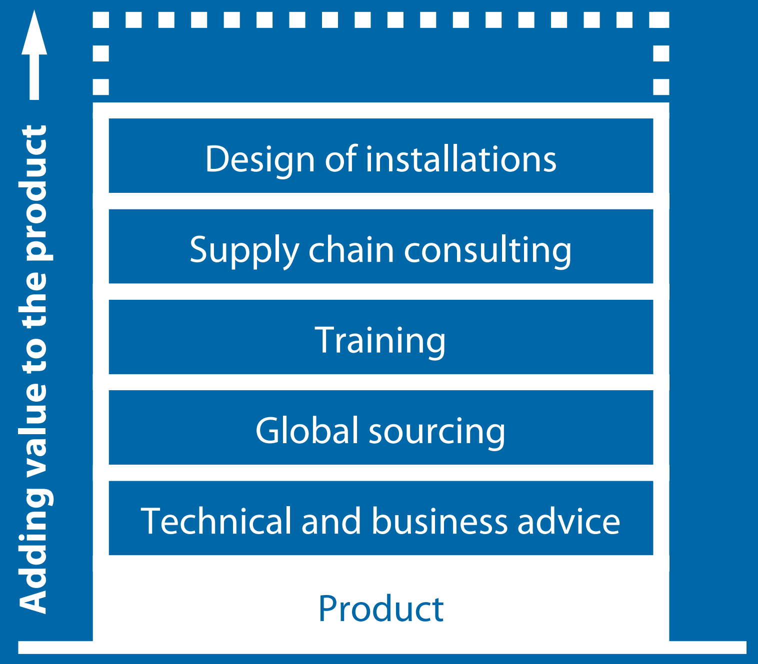
Every industrial plant has its own risk profile. That's why Hagemeyer offers on-site assistance. Our consultants evaluate and improve the procedures in case of an on-site incident. But we can also enhance the capabilities of the emergency response team. For this purpose Hagemeyer offers a fully mobile confined space simulator. With this simulator, customers can experience what happens when an onsite accident occurs and gain practical experience both in taking adequate measures and in using the equipment.

In short: Hagemeyer in China is adding value to the most critical part of our customer's operation – increasing the safety of their employees. With over 60 years of experience in the safety field, we are fully equipped to meet the demands of our customers – now and in the future.

BLUEPRINT 03

Hagemeyer doesn't just pass on products from suppliers to end users. We offer a multitude of value-added services. This strengthens our competitive position and improves profitability.

Our value-added services not only cover products and services but also include cost reduction opportunities in the order, billing and payment processes.



BLUEPRINT 03

Increase value-added

Hagemeyer can provide a multitude of value-added services to both suppliers and end-users

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Illuminating partnership

Deutsche Bahn in Germany is the biggest railroad transportation company in Europe. In 2006 Hagemeyer and Philips signed a frame contract for the illumination of their railway system, which covers a length of more than 33,000 kilometres and connects over 5,700 stations. Philips was chosen because of their innovative lighting solutions. Hagemeyer guarantees dependable delivery and maintenance of the lighting products. Together we illuminate new ways to ensure safety and reduce costs.

On track for innovation

Maintaining lighting on the railway system is a huge operation. Just one railway station can have up to 10,000 lighting outlets. Furthermore, relamping close to railways is dangerous, since the fittings are located at a considerable height. When trains pass by, ladders could be blown away. Even working with a riser poses risks. Therefore Deutsche Bahn was looking for lamps with a long life that would minimize the maintenance and running costs of relamping. Philips and Hagemeyer were consulted about this requirement. We advised the innovative Master TL-D Xtra and Xtreme lamps.

A row of unrivalled benefits

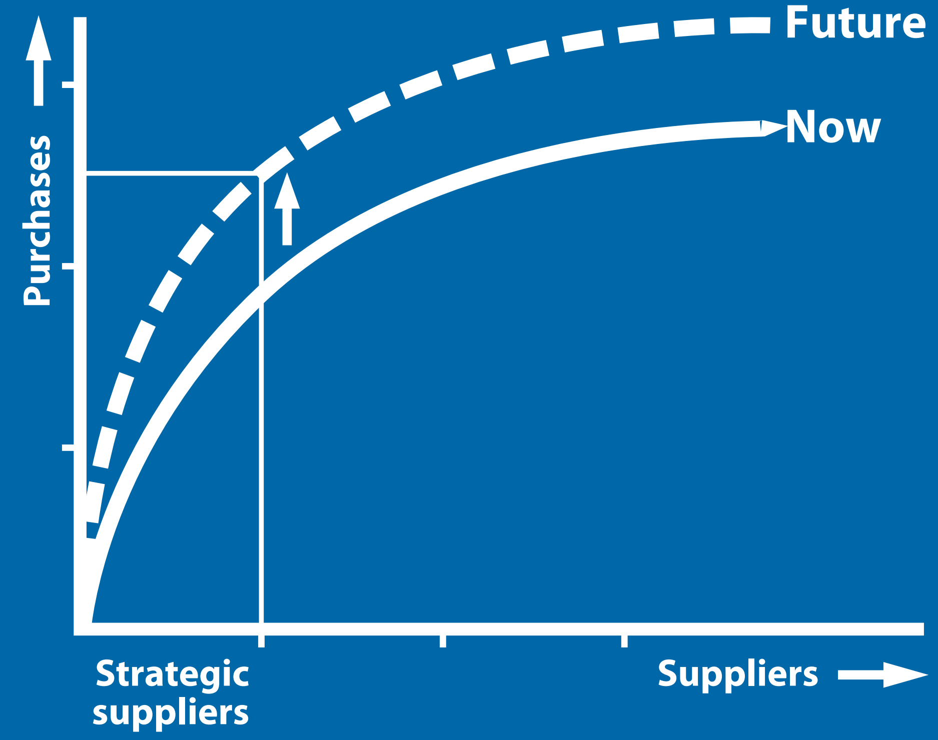
The triphosphor fluorescent Master TL-D Xtra and Xtreme lamps are based on a brand-new Philips technology that limits early failures significantly. For example, the Xtra lamp can last up to 41,000 hours. The durability of Xtreme Lamps is even higher. Compare this with the 9,000 hours of the old lamps and the advantages are clear. Fewer lamps need to be made, transported, stored and installed. Relamping intervals can be increased by more than three times. And the hidden costs of disrupting railway traffic during maintenance can be reduced significantly.

Hagemeyer and Philips are collaborating on several other innovative projects, for instance installing the special TL-D Xtreme Polar lamp outside stations. This type of lamp can withstand cold temperatures without losing lighting output. Developments do not stop and we are looking to grasp the opportunities as they arise. Our partnership is prepared for the future.

BLUEPRINT 04

Concentrating purchasing volumes and developing a closer relationship with strategic suppliers will lead to better prices and conditions.

This strengthens our ability to compete and creates mutual understanding of the value and possibilities of our strategic partnerships.



BLUEPRINT 04 Focus on strategic suppliers

Hagemeyer is creating value by strengthening partnerships with strategic suppliers and reducing the number of non-strategic suppliers

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Big deal

Phelps Dodge is a major player in the copper mining industry in the United States. Five years ago Hagemeyer was appointed as their Preferred National Supplier for safety/personal protection equipment (PPE) products. Deliveries are made to copper mines in Arizona, New Mexico and Colorado. Additionally, we supply copper rod factories in Illinois and Connecticut. Most of the products we deliver are of our own brand, Vallen, providing an excellent price/quality relationship. That's what Phelps Dodge calls a "big deal".

Equipment unlimited

Hagemeyer offers Phelps Dodge a broad range of personal protection equipment. Think of helmets, jackets, gloves, shoes, vests, safety glasses, noise isolators, and overalls. In fact, all products for the protection of the heads, hands, ears, eyes and bodies are supplied. We also provide equipment that limits the consequences of a calamity, for instance fire extinguishers and suppression equipment, breathing respirator masks, and oxygen cylinders. For this product group we provide trainings and technical support to keep the equipment in perfect condition. And all our own brand products offer excellent value for money.

Leaders in working safely

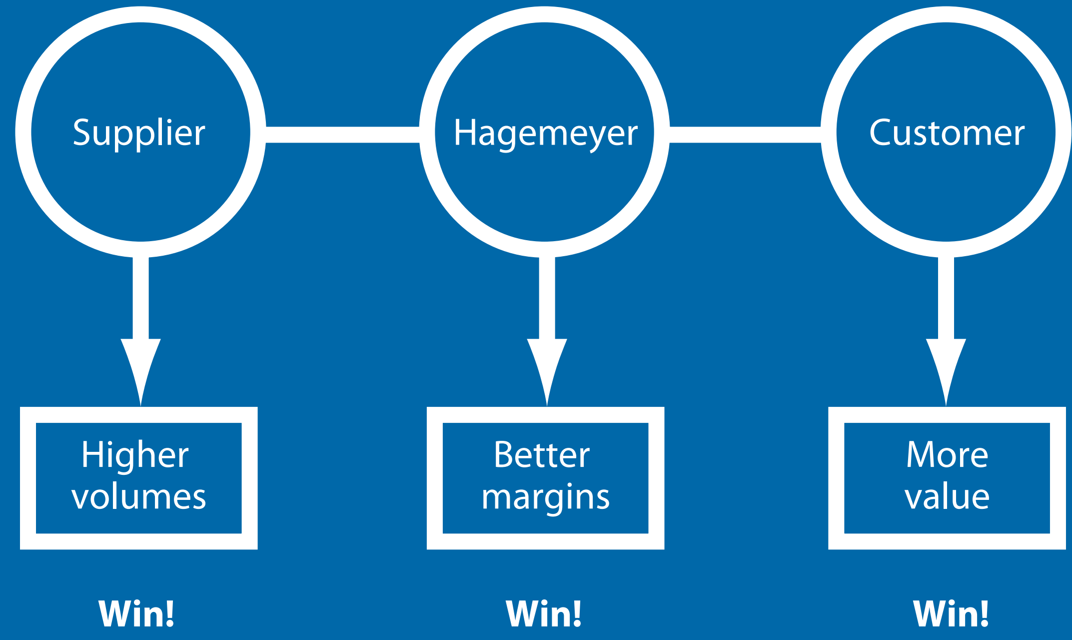
The regular trainings and surveys held at the locations of Phelps Dodge prove our commitment to total customer satisfaction. They are part of our integrated service concept that also includes onsite inventory management, e-commerce assistance, and sourcing optimization. With this concept we contribute to the Phelps Dodge programmes for cost-saving and raising operational income. And our team keeps focused on finding new ways to improve our business relationship.

Phelps Dodge proclaim their main corporate value to be "leaders in working safely". The private brand products of Hagemeyer form the basis for that statement. By providing products of high quality and good value-for-money, Phelps Dodge can offer maximum safety conditions for its staff on a minimum budget. So with our private brand – and the accompanying services – we safeguard the future of our partnership.

BLUEPRINT 05

If we are to maintain our ability to compete, we cannot afford to ignore the popularity of own brands that are growing in our markets.

Hagemeyer's own brands are not meant for aggressive price-fighting with traditional manufacturers, they are gross margin builders.



BLUEPRINT 05 Increase own brand penetration

The ongoing roll-out of our own brands is one of Hagemeyer's key drivers for gross margin improvement during the coming years

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Financing the future

Hagemeyer's financial structure improved significantly in 2006:

- Net senior debt/EBITDA improved from 1.6 to 0.7;
- The interest cover ratio improved from 3.2 to 6.4;
- Financial gearing reduced from 60.8% to 49.6%;
- The capital ratio increased from 28.8% to 31.2%;

Building on this, we have set the objectives for our financing strategy.

Positive cash flow and stronger balance sheet

In spite of additional funding requirements during the year to finance the strong revenue growth of 2006, our total cash flow for the full year was positive, allowing us to reduce debt. The pricing grid we negotiated with our senior lenders in 2005 rewarded the improvement in our key covenant ratio (net senior debt / EBITDA) with a reduction in our interest spread to 75 basis points per year-end.

Our balance sheet is likely to be further strengthened in the first quarter of 2007 as it is expected that the € 150 million 5.75% subordinated convertible bonds due 2009 will be converted into approximately 73.5 million shares.

New senior debt facility to be negotiated in 2007

Our current senior debt facility of € 606 million per ultimo 2006, including a letter of credit facility of € 113 million, expires in February 2008. We therefore plan to refinance this facility during 2007 through a combination of a committed senior revolving facility and a trade receivables-based securitization programme.

As a result of the seasonality that is inherent to our business, the committed senior revolving facility needs to be flexible and big enough to allow for financing seasonal and growth-related fluctuations in working capital. In addition, the maximum level of net senior debt and interest costs in relation to EBITDA should allow for possible adverse developments in revenue and gross margin, as these adverse movements can have a major impact on EBITDA due to the operational gearing of our business.

Policy on additions to reserves and dividend

Additions to reserves and declaration of dividend are primarily determined by our financing strategy. This strategy includes, inter alia, the following objectives:

(i) a capital ratio (total equity / total assets) of at least 25%;

(ii) a net senior debt not exceeding two times twelve months rolling EBITDA.

In addition, distributions of dividend may only be made up to an amount which does not exceed the freely distributable part of the shareholders' equity.

Within these constraints Hagemeyer intends to distribute a dividend of 30%-40% of its net profit, corrected for certain material non-recurring items. The dividend declared will in principle be distributed in cash; any part of the net profit that is not distributed will be added to retained earnings.

Cash dividend proposed

Considering the current level and expected development of the covenant ratios, the improved balance sheet structure following the positive net result in 2006, and the increase in equity due to the expected conversion in 2007 of the € 150 million 5.75% subordinated convertible bonds due 2009, the Board of Management proposes to pay a cash dividend of € 0.06 per share representing approximately 37% of net profit after correction for the non-recurring movement in deferred tax assets in 2006 of € 44 million.

Weighted Average Cost of Capital (WACC)

In order to create economic value-added, Hagemeyer is aiming for its PPS division to achieve a Return On Invested Capital (ROIC) that exceeds Hagemeyer's WACC. Mainly due to the increase of the previous 15 year average AEX index between year-end 2005 and year-end 2006, we now calculate the WACC for Hagemeyer at around 9%, versus 8% at the end of 2005.

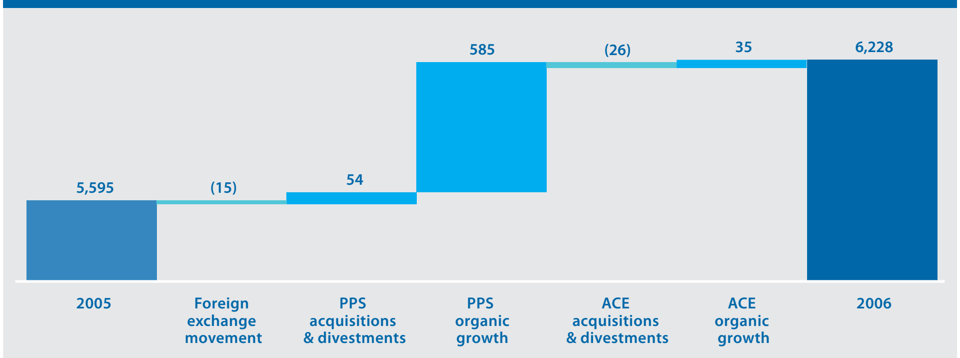
Financial review 2006

Key data *(before exceptional items) (in € millions)*	**2006**	2005
Net revenue	6,228	5,595
Organic revenue growth	*11.5%*	*4.7%*
Gross profit	1,440	1,303
Gross margin	*23.1%*	*23.3%*
Operating expenses	(1,252)	(1,217)
Operating expenses as % of net revenue	*(20.1%)*	*(21.8%)*
Other operating (expenses) / income	2	2
Operating result	190	88
Operating margin	*3.0%*	*1.6%*
Average net working capital	770	725
Average net working capital as % of 12 months revenue	*12.4%*	*13.0%*

Significant improvement of operating result, driven by double-digit revenue growth in PPS

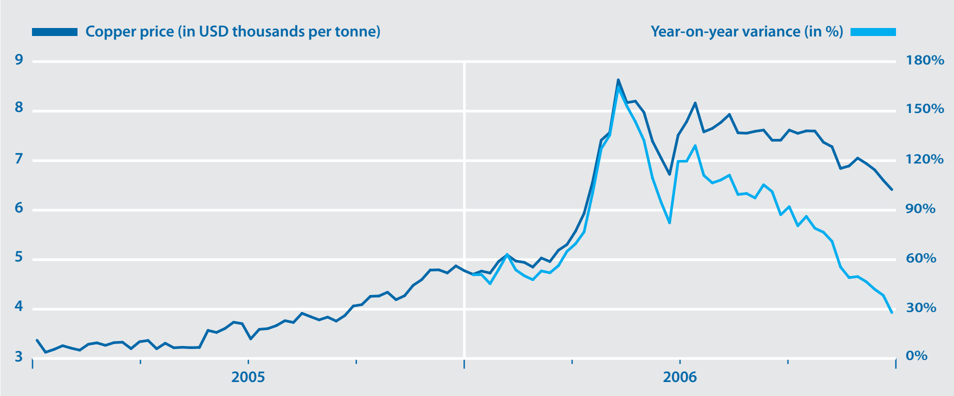
The 11.6% (€ 585 million) **organic revenue growth** in PPS in 2006 was primarily (approximately 60%) the result of higher selling prices, mainly in cables as a result of copper price increases.

Net revenue *(in € millions)*



As can be seen from the graph, in 2006 the price of copper increased between 25% and 175% versus comparable periods in 2005, particularly in the second quarter of 2006. Copper is an important component in most types of cables, a product category that accounted on average for around one sixth of our PPS sales in 2006.

Copper price 2005 - 2006



Source: www.nymex.com and www.lme.co.uk

In addition to this price-related revenue growth, in 2006 our **PPS** division also generated a real underlying revenue growth of approximately 40% of the 11.6% growth. In relative terms most markets outside the United Kingdom showed solid real underlying revenue growth. In absolute terms this growth came mainly from USA, from markets in our Nordics group (Sweden, Norway, China, Russia, Lithuania, Latvia, and Estonia), from Germany and Spain.

In the **ACE** (Agencies/Consumer Electronics) business it was particularly the Panasonic sales of Haagtechno in the Netherlands that contributed to the positive revenue development in 2006. This was driven by healthy sales of flat screens, in spite of declining selling prices, and digital compact cameras. Revenue growth in the ACE businesses was negligible in Australia and modest in Asia.

Gross profit

The € 137 million increase in 2006 **gross profit** (€ 1,440 million) versus 2005 (€ 1,303 million) can be allocated to the revenue growth in PPS for 96% or € 132 million. Included in the increase of gross profit is an estimated € 30 million to € 35 million positive one-off inventory impact that can be allocated to the copper-driven increase in the value of the cable products that we owned in our stocks or for which we otherwise had price exposure.

Gross profit *(in € millions)*

* *Including foreign exchange movements and the impact of acquisitions and divestments*

The € 6 million PPS margin / mix increase includes the impact of improved underlying **gross margin** and mix in the UK, Nordics and USA, which was however mainly offset by the negative impact of the mix deterioration that resulted from the increase in cable sales in PPS.

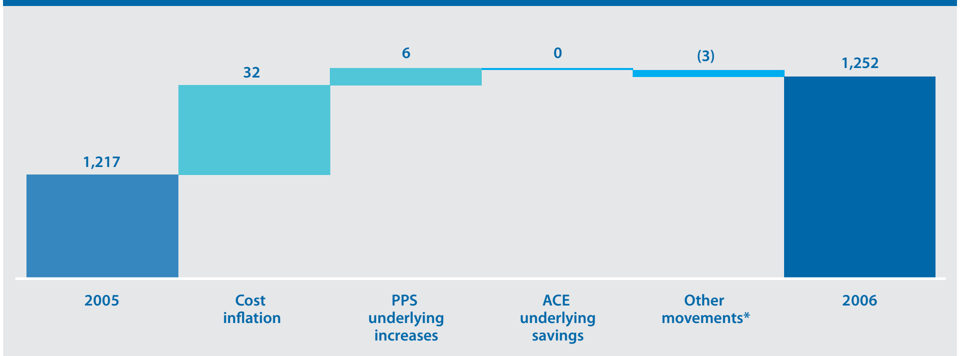
The copper-driven price increases of cable products resulted in an increased share of this category in total PPS revenue. As gross margins on cable products are lower than PPS average gross margins, this has partly offset the increase of gross margin in other product groups, leading to a stable PPS gross margin of 22.7%.

The reduction in the gross margin of ACE from 30.9% to 29.5% was mainly caused by the relative increase of Haagtechno sales, with a gross margin that is below that of the ACE operations in Australia and Asia.

Operating expenses

Approximately 60% of PPS **operating expenses** (before exceptional items) consist of labour-related costs, and approximately 20% are costs for freight and accommodation, which are mainly contracted with annual inflation-based indexation clauses. This implies that the operating expenses of PPS are very susceptible to the impact of cost inflation, as can be seen from the graph. Approximately 20% of total operating expenses are affected by volume growth in revenue, which explains part of the non-inflationary cost increases.

Operating expenses *(in € millions)*



* *Including foreign exchange movements and the impact of acquisitions and divestments*

In spite of cost increases resulting from improvements of our logistical structure in, for instance, Spain and the strengthening of our sales capacity in Nordics, our underlying cost increases are only around 0.6% of the PPS operating expenses of 2005, which is below our volume growth in revenue in 2006. This low increase is mainly the result of the impact of the closure of the central warehouse in Runcorn, UK, in the summer of 2005, as this still had a positive impact in the first half of 2006 versus the first half of 2005.
This improvement in the productivity of our operating expenses, combined with the significant price increases included in the revenue growth, resulted in a further decline of operating expenses (before exceptional items) as a percentage of revenue for PPS (including corporate costs) by 160 basis points, from 21.4% in 2005 to 19.8% in 2006.

FTE movement

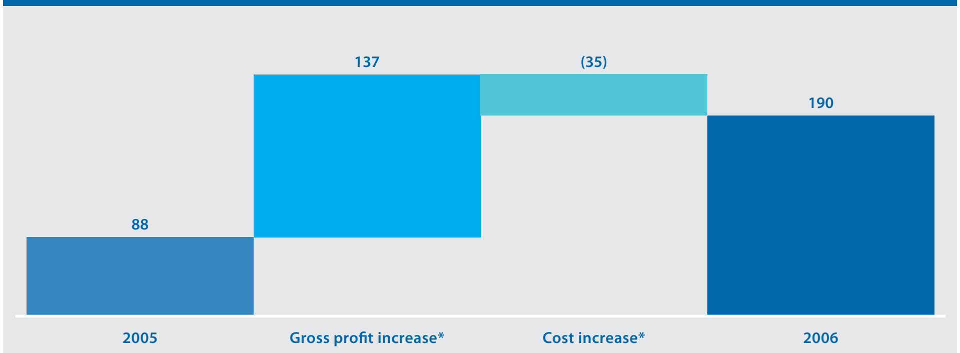
Number of FTEs at 31 December 2005	**17,209**
PPS Europe	107
PPS North America	(5)
PPS Asia-Pacific	37
ACE	7
Corporate	(10)
FTE movement in ongoing operations	**136**
FTE movement due to acquisitions	267
FTE movement due to divestments	(93)
	310
Number of FTEs at 31 December 2006	**17,519**

The number of FTEs increased by 310, of which 174 resulted from the net impact of acquisitions and divestments. The FTE increase of 136 in ongoing operations mainly relates to our PPS operations in China and Southeast Asia.

Operating result

Operating result (before exceptional items) increased from € 88 million in 2005 to € 190 million in 2006. Of this € 102 million increase, € 137 million was driven by higher gross profit, of which € 30 million to € 35 million is estimated as a one-off inventory gain due to the significant copper cable related price increases. This increase was partly offset by € 35 million higher operating expenses, which was mainly caused by cost inflation.

Operating result *(in € millions)*

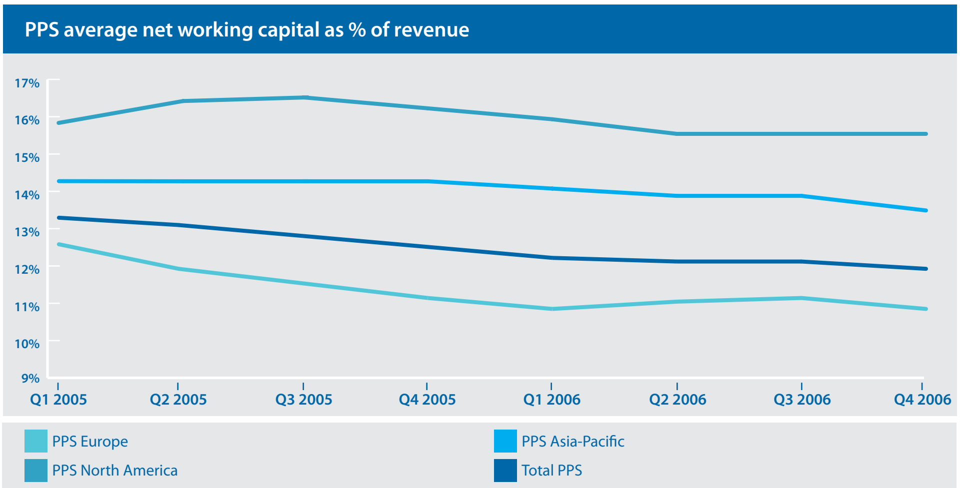


* *Including movements in foreign exchange, other operating income and expenses and the impact of acquisitions and divestments*

The **operating margin** (before exceptional items) of PPS improved by 160 basis points from 1.3% in 2005 to 2.9% in 2006. This margin improvement resulted mainly from the decline of PPS operating expenses as a percentage of revenue. Combined with ACE, this resulted in an operating margin for the Group of 3.0% in 2006, compared with 1.6% in 2005.

Working capital productivity in PPS improved from 12.6% in 2005 to 12.0% in 2006

Various **working capital** improvement initiatives continue to be implemented, particularly regarding the optimization of stocks in regional distribution centres, rationalization of slow-moving inventory, introduction of consignment stocks where feasible, and other initiatives in cooperation with our suppliers.



PPS financial objective: 2009 ROIC 11%-15%[1]

(in € millions) 12 months rolling	2005		2006		2009 objective [6,7]
Net revenue	5,193		5,824		100%
Organic revenue growth	5.4%		11.6%		assumed 4%-6% [6]
Gross profit	1,179	22.7%	1,321	22.7%	23%-24%
Operating expenses [2]	(1,112)	(21.4%)	(1,150)	(19.7%)	appr. (19%)
Operating result [3]	67	1.3%	171	2.9%	4%-5%
Pro forma tax charge 26%	(17)	(0.3%)	(44)	(0.8%)	appr. (1%)
Net operating profit after taxes	**50**	**1.0%**	**127**	**2.2%**	**3%-4%**
PPS ROIC [4]	**3.3%**		**8.2%**		**11%-15%**
13 months rolling					
Average invested capital	**1,505**	**29.0%**	**1,541**	**26.5%**	**25%-26%**
Average working capital	652	12.6%	696	12.0%	11%-12%
Average capitalized goodwill [5]	609	11.7%	614	10.5%	appr. 9%
Average other assets	224	4.7%	231	4.0%	appr. 5%

1 As compared to a current Weighted Average Cost of Capital (WACC) of 9%

2 Including corporate expenses and other operating income, assuming 2%-3% annual cost inflation

3 Before exceptional items in 2005 and 2006

4 Net operating profit after taxes, excluding exceptional items / average invested capital

5 At historic cost, excluding amortization

6 Assuming 4%-6% annual revenue growth, of which 1%-2% price increases

7 Excluding major acquisitions and / or divestments

PPS Return On Invested Capital (ROIC) improved from 3.3% to 8.2% in 2006

In 2006 significant progress was made in increasing the **ROIC** of our PPS activities, as defined in the ROIC model, from 3.3% in 2005 to 8.2%. The improvement was primarily driven by a better operating margin (before exceptional items), resulting from lower operating expenses as a percentage of revenue. Although our investment in average working capital increased due to revenue growth and price increases of inventory, the productivity of net working capital improved. Goodwill and other fixed assets reduced as a percentage of revenue as a result of revenue growth.

Exceptional items (non-IFRS measure)

In 2006 Hagemeyer still reports the non-IFRS measures of "**exceptional items**" and EBITDA to improve transparency, as some covenants under the current senior debt facility are still based upon "EBITDA before exceptional items". In this respect, exceptional items are defined according to Dutch GAAP. Following the expected refinancing of our current senior facilities in the course of 2007, it will no longer be necessary to use the non-IFRS measure "exceptional items" as from 2007.

In 2006 € 23 million was classified as exceptional items, which consisted mainly of impairment of pre-paid leases and assets in the UK.

Net financial expenses

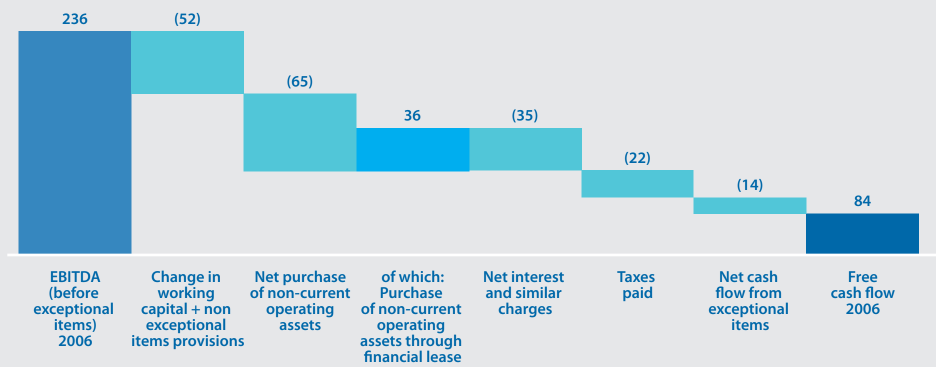
Net financial expenses in 2006 were € 55 million versus € 91 million in 2005. This decrease of € 36 million resulted for € 20.3 million from the fact that fair value adjustments in the option element of the subordinated convertible bonds were no longer made, as Hagemeyer waived its "cash alternative election right" per 1 December 2005. € 7.5 million of the decrease can be contributed to "make whole" payments to certain US note holders that were made as part of the refinancing in 2005 and

a further € 7.9 million of the decrease is due to accumulated foreign exchange rate movements of the participation value of inactive companies which were liquidated.
During 2006 we also benefited from the gradual reduction of the interest spread on our senior facility from 150 basis points at year-end 2005 to 75 basis points at year-end 2006. This reduction resulted from the improvement in the net senior debt / EBITDA ratio, which is the key determinant of the pricing grid of our interest spread.
It is expected that the € 150 million subordinated convertible bonds, with 5.75% coupon, will have converted into approximately 73.5 million shares by the end of February 2007, which will further reduce the financial expenses by the cash outflow of the annual coupon of € 8.6 million and the non-cash additional interest accrual.

Cash flow from operating and investment activities

Cash flow was primarily driven by EBITDA, partly offset by cash outflows as a result of higher investment in inventory, mainly due to price increases and higher investment in trade receivables related to the revenue growth, and partly offset by higher trade creditors related to higher purchasing values. More than half of the investments in non-current operating assets were financed through financial leases.

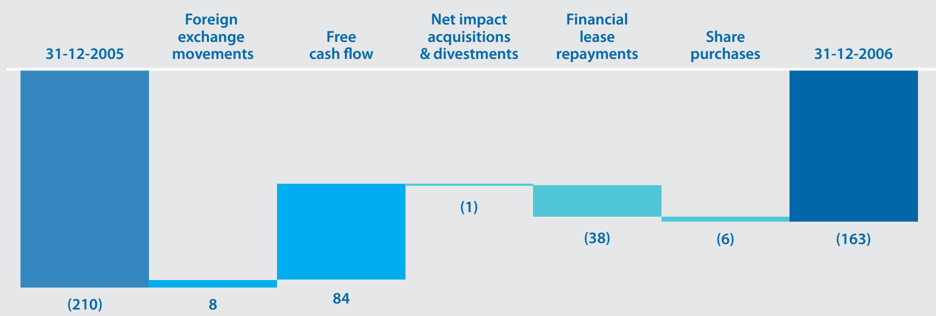
Cash flow *(in € millions)*



Net senior debt

Net senior debt was reduced significantly by the positive cash flow from operating and investment activities and increased by repayments of financial leases. Net senior debt at year-end was 0.7 times EBITDA (before exceptional items), well below the external covenant of 2.50 or our internal maximum of twice 12 months rolling EBITDA. This is also in line with our proposal to the Annual General Meeting of Shareholders to distribute a cash dividend of € 0.06 per share.

Net senior debt *(in € millions)*



Net movement in deferred taxes contributes € 44 million to net result in 2006

As of 31 December 2006, Hagemeyer had unused **tax** losses of € 1,050 million available to offset against future taxable income. The related reductions in expected future tax payments are in the range of € 250 million. These are, and will be, gradually recognized in the annual and semi-annual results of the Group as and when the operations in the countries involved report, or are expected to report, a positive taxable income for the current year and are expected to continue to do so in the foreseeable future.

The related deferred tax asset will then be booked for the expected reduction of tax payments in these future years and will be adjusted every half year. This net movement in deferred tax assets and liabilities is reported in the income statement under "deferred tax".

For 2006 a net deferred tax income of € 43.7 million was included in the net result, which is € 40.4 million more than the € 3.3 million reported in 2005.

Per 31 December 2006, no deferred tax asset has yet been recognized for approximately € 692 million of unused tax losses.

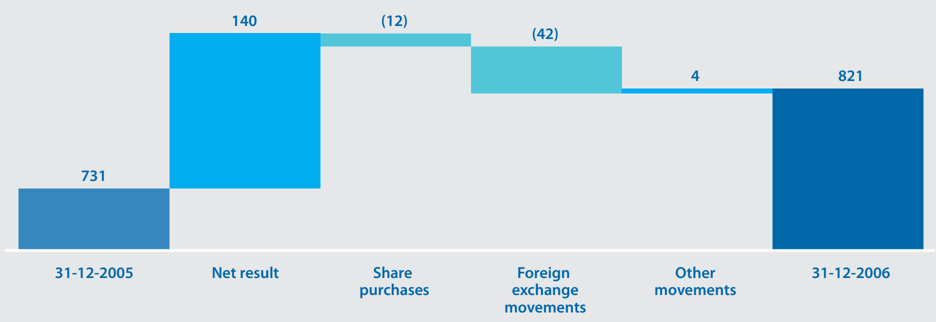
Restructuring and reorganization provisions

During the reporting year, € 9.4 million of the restructuring and reorganization **provisions** was utilized and € 0.4 million was released, of which € 0.3 million through exceptional items. The utilization related mainly to payment of existing vacant leases and headcount reduction programmes. Additions to the restructuring and reorganization provisions amounted to € 7.5 million, of which € 5.5 million through exceptional items. These additions related primarily to valuation adjustments and provisioning for vacant property.

Capital ratio (equity / total assets) improved from 28.8% to 31.2% at year-end 2006

The positive impact on **equity** of the allocation of € 140 million net result in 2006 was partly offset by the € 42 million negative currency translation effect in equity, resulting mainly from a weakening of the US dollar versus the euro at year-end 2006 compared at year-end 2005.

Group equity *(in € millions)*



On or around 1 March 2007, equity is expected to increase further by approximately € 140 million following the expected conversion of the € 150 million convertible bonds. The difference of € 10 million is already included in shareholders' equity and consists of the balance of accrued interest and revaluation of the conversion option of this bond, accumulated until 1 December 2005.

If the proposed dividend payment is approved in the Annual General Meeting of Shareholders of 24 April 2007, equity will reduce by approximately € 35 million.

Outlook

Our objective is to further improve our profitability in 2007. In 2006, the spectacular, copper price-driven increase of our lower gross margin cable sales led to a negative margin mix effect for PPS, as a result of which the PPS gross margin came out lower than expected in 2006. As a result, and assuming no major impact from changes in copper prices, the gross margin percentage level needed for a 10% PPS ROIC could be difficult to achieve in 2007. We therefore decided to bring our 2007 PPS ROIC goal back to the original 9%, which we introduced in early 2004 (PPS ROIC 2006: 8.2%). Assuming copper prices stay around the mid-February 2007 level for the remainder of the year, the resulting negative copper cable price inflation impact could lead to pressure on revenue growth, particularly from the second quarter of 2007 onwards.

Our objective for 2009 remains an ROIC of 11% to 15% for the PPS business. We consider the interruption of our gross margin improvement in 2006 as a temporary issue, caused by an external factor. Therefore, we continue to aim for a gross margin of 23% to 24% in 2009. The level of our expected average operating expenses in 2009 has been restated to approximately 19% of revenue. As a consequence, the expected operating margin outcome then ranges between 4% and 5% in 2009.

Professional Products and Services (PPS)*

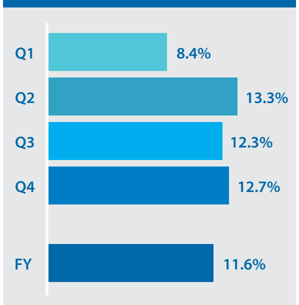
Key data *(before exceptional items) (in € millions)*	**2006**	2005
Net revenue	5,824	5,193
Organic revenue growth	*11.6%*	*5.4%*
Gross profit	1,321	1,179
Gross margin	*22.7%*	*22.7%*
Operating expenses	(1,151)	(1,113)
Operating expenses as % of net revenue	*(19.8%)*	*(21.4%)*
Other operating (expenses) / income	1	1
Operating result	171	67
Operating margin	*2.9%*	*1.3%*
Average net working capital	696	652
Average net working capital as % of 12 months revenue	*12.0%*	*12.6%*
Number of branches	*1,146*	*1,099*
Number of employees	*16,589*	*16,230*

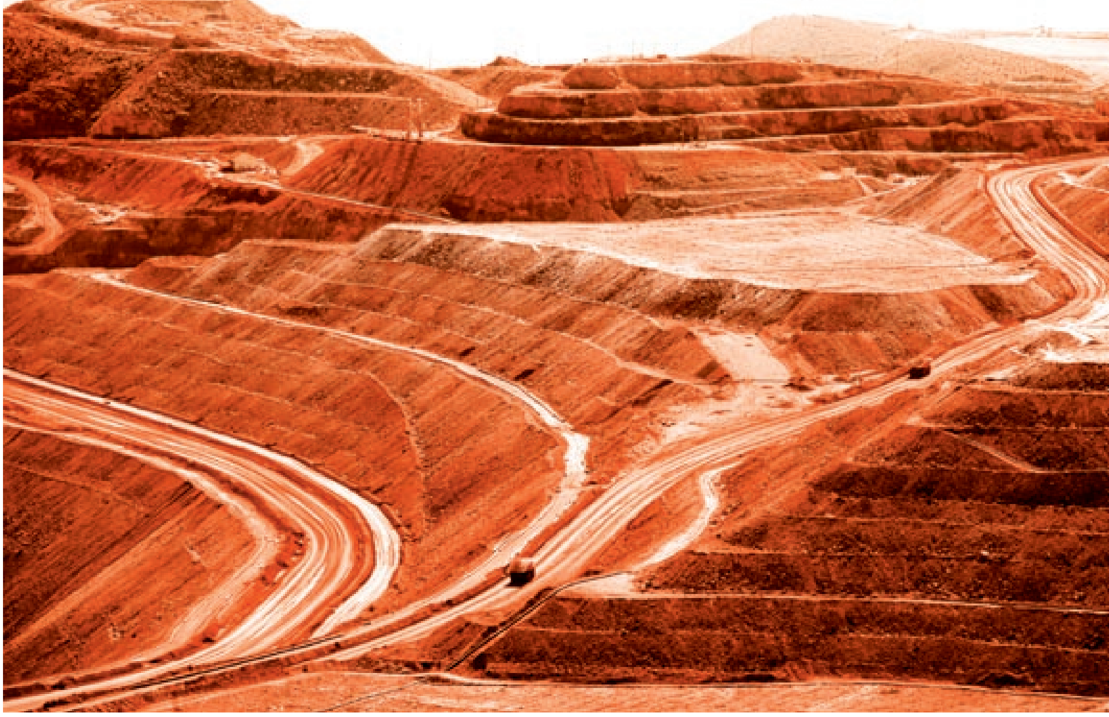
** including corporate expenses*

11.6% organic revenue growth

Organic revenue growth in our core PPS business accelerated from 5.4% in 2005 to 11.6% in 2006. We estimate that approximately 60% of this full-year growth came from price increases, which were mainly copper cable related. In 2005, price increases represented approximately 3 percentage points of the full-year growth. Revenue grew by 12.5% in the second half of the year, compared to 10.7% in the first half. All regions showed a double-digit or near double-digit organic growth in 2006, with Central Europe (including Germany) (+15.3%), Spain (+15.9%), Nordics (+13.3%) and Asia-Pacific (+10.4%) as the best performers. Following a year of major restructuring, our UK operation resumed growth in 2006, with a full-year organic revenue increase of 8.6%. Hagemeyer North America ended 2006 with a 9.0% organic growth, decreasing from 14.4% in the first half of the year to 3.6% in the second half. This was mainly caused by an increasingly difficult comparison basis during the second half of the year. The slowdown in residential construction and the softening in the industrial markets had a minor impact. The developments in our operating companies in the emerging markets were also very positive, with our operation in China as the overall organic growth champion.

Organic revenue growth PPS 2006





A copper mine of Hagemeyer's customer Phelps Dodge

Copper price increases cause gross margin percentage to stagnate

Gross margin percentage improvement for total PPS has been slower than expected. At 22.7% our gross margin in 2006 remained flat compared to 2005. During the year, as a result of the extreme copper cable price increases, our gross margin went down from 22.9% in the first half of the year to 22.5% in the second half. These price increases caused a spectacular increase in our copper cable sales, resulting in the share of the low gross margin cable product group in our total PPS business increasing considerably. This had a significant negative mix effect on our overall PPS gross margin. Moreover, since industry practice in Germany does not allow distributors to maintain their gross margin when hit by extreme copper price increases, this caused a severe deterioration of the cable gross margins at our German operation. In the other countries, we have in general been successful in passing on cable price increases to the market. These negative impacts were only partially offset by inventory value gains realized during the first half of the year. When we exclude the cable product group from our total PPS business, our PPS gross margin improved by 50 basis points in 2006, a clear indication that the gross margin improvement measures we have been implementing in the past few years are continuing to have their effect.

The strongest gross margin improvements were achieved in the UK and North America, with gross margin improvements also being significant in the Nordics and in Spain. Gross margins deteriorated in Central Europe, of which Germany is part, and in Asia-Pacific.

With a gross margin of 22.7%, there is considerable scope for further improvement towards our 2009 target range of 23%-24%. Gross margin improvement therefore remains a key priority throughout the organization.

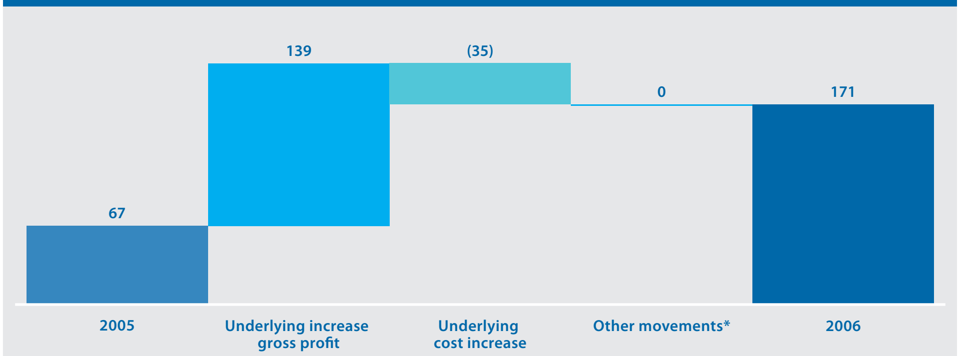
Productivity further improved

PPS **operating expenses** as a percentage of revenue improved by 160 basis points, from 21.4% in 2005 to 19.8% in 2006. Compared to 2005, the underlying PPS cost base increased by € 6 million in 2006. This is after excluding the effect of acquisitions and divestments, foreign exchange rate movements and general inflation and related salary increases. The cost savings in the UK and in Germany were more than offset by mostly sales growth-related cost increases in the other operating companies. Eliminating the effect of acquisitions and divestments, PPS headcount increased by 129 FTEs in 2006.

€ 104 million operating result improvement

Operating result (before exceptional items) for our PPS business increased from € 67 million (operating margin 1.3%) in 2005 to € 171 million (operating margin 2.9%) in 2006, an improvement of € 104 million. The effect of acquisitions and divestments was € 2 million positive, and foreign exchange rate movements reduced the operating result by € 3 million. We estimate that copper cable price increases in 2006 had a one-off positive inventory effect of between € 30 and € 35 million on our operating result.

Operating result PPS *(in € millions)*

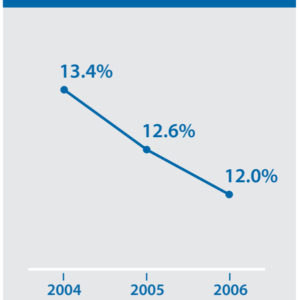


** Including movements in foreign exchange, other operating income and expenses and the impact of acquisitions and divestments*

Increased working capital productivity

The **net working capital** to revenue ratio for the PPS business improved by 60 basis points, from 12.6% in 2005 to 12.0% in 2006. The main drivers were better inventory management and an improved trade payables ratio as a result of better payment terms with suppliers. But there is still scope for further improvement here, especially in the area of inventory management. Improving our working capital productivity will continue to be a focus area for the foreseeable future.

PPS average net working capital as % of revenue



Positive outlook for 2007

With the achievement of a significant positive net result for the Group in 2006, and all operating companies back to normal and delivering positive operating results, we consider the turnaround of our PPS business as being successfully completed. Hagemeyer is now entering a new phase, one of increased focus on profitable growth. During 2006, the Company was further strengthened in all its key performance areas and our associates are highly motivated and enthusiastic about the new challenges ahead of us. Hagemeyer's underlying improvement momentum is positive and our objective is to further improve our profitability in 2007.

Professional Products and Services (PPS) Europe

Key data *(before exceptional items) (in € millions)*	**2006**	2005
Net revenue	3,948	3,449
Organic revenue growth	*12.8%*	*4.9%*
Gross profit	895	790
Gross margin	*22.7%*	*22.9%*
Operating expenses	(754)	(723)
Operating expenses as % of net revenue	*(19.1%)*	*(21.0%)*
Other operating (expenses) / income	0	1
Operating result	141	68
Operating margin	*3.6%*	*2.0%*
Average net working capital	432	387
Average net working capital as % of 12 months revenue	*10.9%*	*11.2%*
Number of branches	*619*	*576*
Number of employees	*10,139*	*9,766*

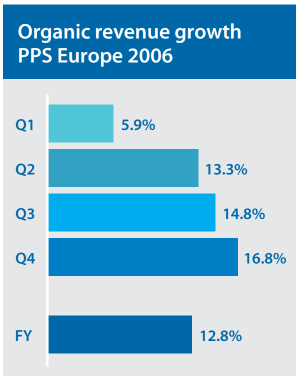
Four regions

In Europe, we have organized our PPS business into four regions:

- Central Europe, comprising Germany, the Netherlands, Belgium (as from 2007), Switzerland, Austria, and the Czech Republic;
- Nordics, comprising Sweden, Norway and Finland. Our operations in China, Russia, Poland and the Baltic States report into the Nordics region;
- UK and Ireland;
- Southern Europe, which comprises Spain.

Operating margin increases to 3.6%

Net revenue for 2006 was € 3,948 million, an increase of € 499 million compared to 2005. Acquisitions and divestments and foreign exchange rate movements led to a revenue increase of € 72 million and € 6 million respectively.



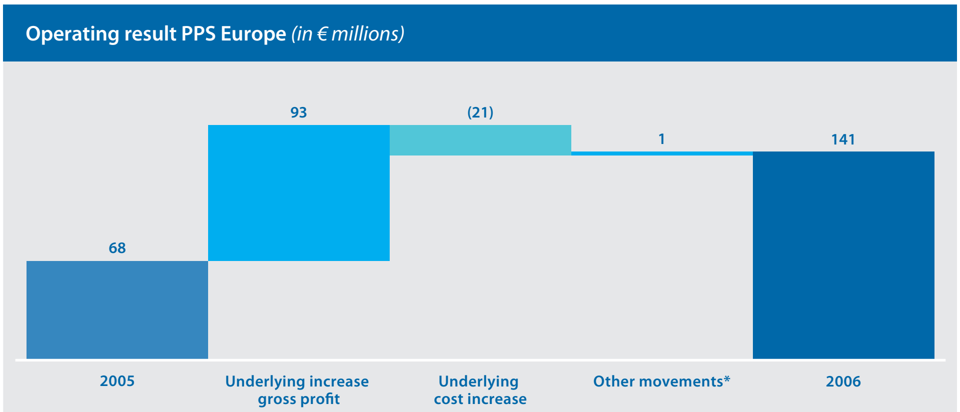
For the full year, **organic revenue growth** was 12.8% (€ 421 million), with more than 60% of this growth from price increases, most of which were copper cable-driven. Organic growth accelerated from 9.5% in the first half of the year to 15.8% in the second half.

Gross profit for the year was € 895 million, an increase of € 105 million. Gross margin decreased by 20 basis points, from 22.9% in 2005 to 22.7% in 2006. This gross margin deterioration was the result of a considerable negative mix effect caused by the increased share of the low gross margin copper cable product group in our total business as a result of the extreme copper price increases in 2006. This negative effect was further compounded by a significant deterioration of the gross margin of the copper cable product group in Germany. As explained earlier, in Germany industry practice does not allow distributors to maintain cable gross margins after a substantial copper price increase. Excluding the cable product group, the gross margin in Europe increased by 40 basis points.

Operating expenses increased by € 31 million, from € 723 million in 2005 to € 754 million in 2006. Acquisitions and divestments raised operating expenses by € 9 million. Foreign exchange rate movements and inflation resulted in cost increases of € 1 million and € 16 million respectively. The underlying cost rise was € 5 million. The cost savings in the UK – the remaining impact of the closure of our National Distribution Centre in Runcorn – and in Germany, were predominantly offset by inflation and FTE-related higher costs in other operations, to support increased activity levels. Our Spanish operation experienced cost increases as a result of the implementation of two new Regional Distribution Centres (Madrid and Barcelona).

In 2006 headcount in Europe increased by 373 FTEs. Of this number, 267 FTEs were related to acquisitions and divestments.

Operating result (before exceptional items) improved by € 73 million, from € 68 million in 2005 to € 141 million in 2006, with acquisitions and divestments having a positive effect of € 2 million. The impact of foreign exchange rate movements was not significant. Hagemeyer UK, where, after the major restructuring in 2005, revenue growth resumed in 2006, contributed most to this improvement. Strong operating profit increases were also delivered by the Nordics. All other European operating companies showed a better operating result in 2006.



** Including movements in foreign exchange, other operating income and expenses and the impact of acquisitions and divestments*

Through a better performance in inventory and trade payables, average **net working capital** as a percentage of revenue for PPS Europe improved from 11.2% in 2005 to 10.9% in 2006.

Positive operational result (before exceptional items) in the UK

Hagemeyer UK is our largest country operation in Europe and occupies a leadership position in the British market. Hagemeyer UK consists of four main operating units: Newey & Eyre, WF, Parker Merchanting, and Hagemeyer Ireland.

Revenue growth resumed

After the successful logistics restructuring in 2005, the focus for 2006 has been very much on stepping up the sales activity of the organization and re-establishing Hagemeyer as a major force in the market it serves. A profitable growth strategy has been established with all divisions focusing on balancing sensible sales growth with margin improvement, and achieving essential cost savings. The increased focus on profitable growth resulted in an organic revenue growth of 8.6% for 2006 (2005: 0.5%), mainly driven by price increases. Above-average growth has been achieved in the small and medium-sized enterprises segment. The expansion and further professionalization of our sales force and branch network have been important growth drivers. Training and development activities have also been significantly stepped up.

Improved gross margins and reduced costs

Gross margins improved in most UK operating entities, mainly as a result of intensified staff training, the introduction of gross margin improvement tools, and the application of strict profitability criteria for accepting large accounts and large projects.

Operating expenses have further decreased in 2006, primarily as a result of the remaining impact of the closure of our National Distribution Centre in Runcorn in 2005 and the related restructuring of our logistics network. Our logistics costs have been further reduced as a result of a new Regional Distribution Centre (RDC) in Park Royal, London, which enabled us to close down smaller RDCs. The closure of our RDC in Wolverhampton was announced in February 2007. We have now reduced our RDCs from ten to seven. Further streamlining is planned so that we can reduce logistic costs further and improve customer service. The successful restructuring of the industrial division, which has been integrated into Newey & Eyre, has also made significant cost reductions possible and has established a solid platform for future growth.

£ 4 million (€ 6 million) operating profit (before exceptional items)

The combination of resumed sales growth, gross margin improvement, and cost reduction enabled Hagemeyer UK to achieve a positive operating result (before exceptional items) for the full year 2006. The operating loss of £ 24 million (€ 35 million) in 2005 was turned into a positive operating result of £ 4 million (€ 6 million) in 2006, a £ 28 million (€ 41 million) improvement. Although still remote from our medium-term profitability objectives for Hagemeyer UK, this performance nevertheless represents a vast improvement, and is a further major step towards the full recovery of our UK operation.

A bright future

Before the operational breakdown of 2002/2003, Hagemeyer UK was traditionally one of the most successful and most profitable operating companies in the Group. We are convinced that we can restore our UK operation to its previous status. The following focus areas will be the main drivers for a continuous profitable improvement:

- A healthy organic revenue growth, mainly in the small and medium-sized enterprises and industrial segments, through investing further in our sales force and branch network;
- Improving gross margins further through staff training, implementing gross margin improvement tools, focusing on small and medium-sized enterprises, setting stricter profitability criteria for

large accounts and large projects, negotiating better buying conditions and increasing penetration of our own brands;

- Reducing our cost base through the further streamlining of our logistics network, branch organization and administrative processes;
- Streamlining our logistics further will also lead to a reduction of our inventory-to-revenue ratio. This will be a key driver for further improving our working capital productivity in the UK.

Continuing market share gain in Germany

Hagemeyer Germany occupies the number two position in the market. The strong growth momentum, which started early 2005, further accelerated throughout 2006. Organic revenue growth increased from 4.9% in 2005 to 14.6% in 2006 as the German market significantly strengthened in 2006. The construction industry stopped its decade-long decline, and the electrical wholesale market experienced a near double-digit growth. Hagemeyer Germany further gained market share in 2006 since its revenue grew significantly faster than the market. Predominantly copper cable-related price increases represented approximately 60% of our organic growth in Germany. Sales increased by 21.8% in the fourth quarter, mainly as a result of customers stepping up their ordering in anticipation of the VAT increase from 16% to 19% on 1 January 2007. Mild weather conditions also had a positive impact in the last quarter of the year. Successful marketing and sales campaigns enabled Hagemeyer Germany to achieve an above-average growth in the small and medium-sized enterprises segment and in the installation materials product group. Revenue growth was also healthy in the industrial market, where Hagemeyer is the leading supplier of electrical parts and supplies and Maintenance, Repair and Operations (MRO) products. Several new Regional Industrial Competence Centres have been rolled-out, providing small and medium-sized enterprises with the specialized support they need. In addition, the Industrial Key Account Team succeeded in winning an impressive number of new large industrial accounts in 2006.

Significant operating profit improvement

Strong sales growth and further reduction of the cost base more than compensated for the deterioration of the gross margin and resulted in a further significant operating profit improvement in 2006. The worsening of the gross margin was caused by the extreme increase of copper cable prices, which led to a spectacular growth of our copper cable sales. This resulted in a significant negative mix effect on our overall gross margin, since the gross margin on copper cable is relatively low. This issue was compounded in Germany by the fact that, because of industry practice, gross margins on cables can not be maintained after significant copper price increases. Hagemeyer Germany remained one of the top performers in working capital productivity, mainly driven by excellent inventory control and good accounts payables management.

Positive momentum expected to continue

Although we expect our markets in Germany to slow down somewhat, we remain confident that our German operation will continue its profitability improvement in 2007. Priority number one for Hagemeyer Germany is to restore its gross margin after the copper cable price driven deterioration in 2006.

Strong profitable growth in the other Central Europe countries

As in Germany, growth was very strong in the other countries belonging to the Central Europe region. The Netherlands, Switzerland and Austria all grew their revenue by more than 15% and gained share in their respective markets.

The acquisition of BREVA early 2007 signalled our entry into the Belgian market. BREVA occupies a leading position in the industrial segment and will allow us to serve the Belgian subsidiaries of several global industrial customers.

Continuing top performance for the Nordics

Hagemeyer occupies the leading market position in the Nordics region through its Elektroskandia subsidiaries. The Nordics region achieved 13.3% organic revenue growth in 2006. In addition, the gross margin improved and the cost to revenue ratio decreased. This resulted in a considerable operating profit improvement.

Non-residential construction activity and the telecom and utility markets were particularly strong, and above-average sales growth was also realized in the small and medium-sized enterprises segment, which was one of the major drivers for the gross margin improvement.

Growth in the Nordics was further enhanced with the acquisition of Cardi, a Swedish specialist in lighting for the retail sector. This acquisition also supports one of our strategic priorities, i.e. to add more value for customers and suppliers.

Strong growth in the emerging markets

The development of the Nordics region's emerging market subsidiaries in China, Russia, Poland and the Baltic States was also positive in 2006, with China as our organic growth champion. Originally concentrated on the telecom sector, our Chinese operation is now successfully expanding its activities to other industries. We recently opened a safety centre for the petrochemical industry near Shanghai. In Poland we acquired the remaining 50% of EL-Centrum, the joint venture we had with General Electric. This makes us one of the major players in the Polish market.

2007: further profitability improvement in the mature Nordic countries; strong profitable growth in the emerging markets

Although the economies of the mature markets – Sweden, Norway and Finland – are expected to weaken somewhat in 2007, the activity levels are expected to remain high. The main focus will be on further streamlining the processes and on accelerating growth in the small and medium-sized enterprises segment and in value-added services.

China, a promise for the future

In 2006 Hagemeyer opened a new head office in Madrid, Spain

In the majority of the emerging markets we serve, Hagemeyer is the leading global player. These markets represent a great opportunity. With our focus on China, Russia and Poland, we are now further increasing our geographical spread and density by investing in our sales organization and our IT and logistics infrastructure. All in all, we expect the Nordics region to continue its strong performance in 2007.

Further market share gain in Spain

Hagemeyer's subsidiary, ABM, is the leader in the Spanish market. With an organic revenue growth of 15.9% in 2006, ABM outperformed the ongoing high market-growth rate in Spain. Residential and non-residential construction and public infrastructure works remained buoyant. Growth was particularly strong in solar panels, mid-voltage installations and lighting projects through our lighting competence centre, "City of Lights", in Madrid. We also further penetrated the industry market with our Maintenance, Repair and Operations (MRO) products and services. The opening of new sales branches also contributed to our revenue growth. A new, state-of-the-art Regional Distribution Centre for the Madrid region started operations mid-2006 and a new Regional Distribution Centre for the Barcelona region came on-stream early 2007. Construction of a new Regional Distribution Centre for the Andalusian region will start in 2007. These projects will not only improve customer service levels and efficiency in these important regions, but will also reduce the inventory levels in our supply chain. New distribution centres are planned for the coming years for other important regions in Spain.

A continuing solid performance expected for 2007

We expect the market climate to remain positive and for ABM to continue its good performance in 2007.

Professional Products and Services (PPS) North America

Key data *(before exceptional items) (in € millions)*	**2006**	2005
Net revenue	1,407	1,307
Organic revenue growth	*9.0%*	*8.3%*
Gross profit	317	285
Gross margin	*22.5%*	*21.8%*
Operating expenses	(278)	(270)
Operating expenses as % of net revenue	*(19.8%)*	*(20.7%)*
Other operating (expenses) / income	0	0
Operating result	39	15
Operating margin	*2.7%*	*1.1%*
Average net working capital	220	215
Average net working capital as % of 12 months revenue	*15.7%*	*16.4%*
Number of branches	*345*	*337*
Number of employees	*4,986*	*5,027*

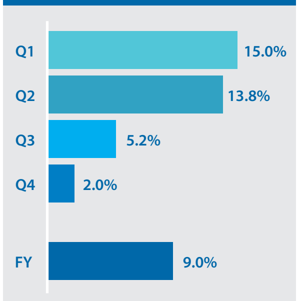
Strong position in the industrial market

Hagemeyer's North American region consists of the USA, Canada and Mexico. In contrast to our other regions, approximately 85% of our North American PPS business is in the industrial market, with the balance generated by sales to construction and installation ("C&I") contractors. In the USA, our C&I business is concentrated in the south-east and mid-Atlantic. Our Canadian and Mexican businesses sell exclusively to industrial users, many active in the oil industry. A significant part of our US business consists of integrated supply contracts, often managed on site. Our offer here is much broader than just electrical parts and supplies as it also includes a wide range of safety and other non-electrical Maintenance, Repair and Operations (MRO) products. Hagemeyer occupies an important position in the North American market for safety and industrial MRO products and is one of the leaders in the US integrated supply market.

Considerable operating profit improvement

Hagemeyer North America made significant progress in 2006 in all key performance areas: a significant organic growth, particularly in the first half of 2006, improved gross margin, reduced cost to revenue ratio, increased working capital productivity and considerable operating profit improvement.

Organic revenue growth PPS North America 2006



Net revenue for 2006 was € 1,407 million, an increase of € 100 million compared to the € 1,307 million net revenue in 2005. A small divestment decreased revenue by € 9 million. Foreign exchange rate movements had a negative effect of € 5 million. Overall, PPS North America achieved 9.0% **organic growth** in 2006 compared to 8.3% in 2005.

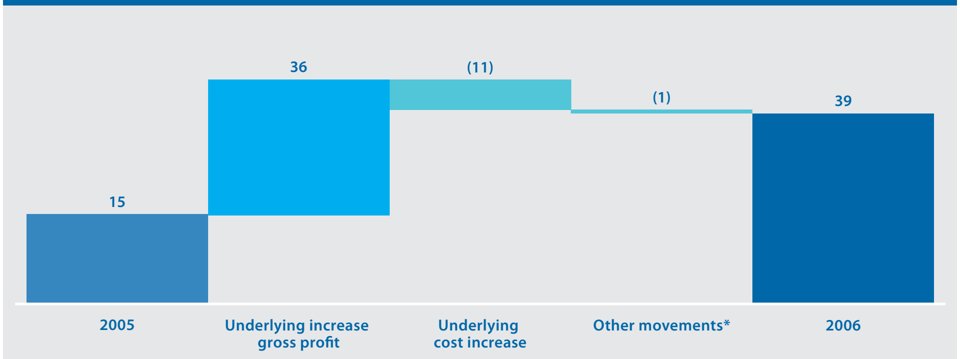
Gross margin improved by 70 basis points, from 21.8% in 2005 to 22.5% in 2006, mainly the result of better pricing management and control in the USA and Canada, the concentration of volumes with strategic suppliers leading to better terms, and the weeding out of several low gross margin, unprofitable accounts.

Operating expenses for PPS North America increased by € 8 million compared to 2005. Exchange rate movements reduced operating expenses by € 1 million. Inflation and related salary increases resulted in an increase of € 10 million and a small divestment caused operating expenses to go down by € 2 million. The underlying increase in expenses of € 1 million was primarily the result of several, mainly six sigma-driven, cost-saving initiatives offset by cost increases related to the opening of new integrated supply storerooms in the US, higher employee healthcare costs, an increase in employee bonuses as a result of sales growth and profitability improvement, and costs in connection with the project to integrate the three IT systems into one. Operating expenses as a percentage of revenue decreased by 90 basis points, from 20.7% in 2005 to 19.8% in 2006.

The actual number of FTEs in North America decreased by 41 FTEs, from 5,027 end 2005 to 4,986 end 2006. Of this reduction, 36 FTEs were related to a small divestment.

Operating result (before exceptional items) improved by € 24 million in 2006, from € 15 million in 2005 to € 39 million in 2006. Exchange rate movements reduced the operating result by € 1 million. The impact of acquisitions and divestments was not significant. The operating margin increased from 1.1% in 2005 to 2.7% in 2006.

Operating result PPS North America *(in € millions)*



** Including movements in foreign exchange, other operating income and expenses and the impact of acquisitions and divestments*

At year-end 2006, the average **net working capital** to revenue ratio, for PPS North America was 15.7%, 70 basis points better than 2005. This is mainly due to the inventory ratio, which improved following the implementation of stricter inventory management procedures.

USA: improvement in all key performance areas

Our US business achieved a 9.1% organic growth in 2006. This strong revenue growth was mainly the result of winning two large integrated supply customers in the second half of 2005 and an exceptionally large construction contract in the first half of 2006. Activity levels with existing integrated supply customers were also robust during the first half of the year.

Revenue growth decreased from 14.8% in the first half of the year to 3.6% in the second half, caused mainly by an increasingly difficult comparison basis during the second half of the year. Revenue growth during the first half was also inflated as a result of the above-mentioned large construction project in the south-east. The slowdown in residential construction, the softening of the industrial markets and the winding down of some unprofitable accounts also put pressure on the second half year growth rate.

The combination of revenue growth, a better gross margin, and a reduced cost to revenue ratio resulted in a significant profitability improvement in the USA.

Hagemeyer in the USA is the only operating company where we still have three different IT systems in operation. A project to migrate the two minor systems into the main one is ongoing. The original estimated completion time was end of 2007 but this has been postponed until 2008, since data cleansing is taking more time than expected and we want to implement this project in a measured way, avoiding any business disruption.

Further profitability improvement in Canada and Mexico

Similarly to the USA, Canada saw its growth rate go down in the second half of the year. This was mainly due to the timing of major construction projects in the oil and gas sector. Mexico had a strong growth rate in 2006 as a result of developing new customers in various market segments. Here too, revenue growth decreased in the second half of the year. The main drivers of operating profit improvement were a better gross margin and a reduced cost to revenue ratio in Canada, and revenue growth combined with an improved cost to revenue ratio in Mexico.

Positive 2007 outlook for Hagemeyer North America

In spite of the anticipated slowdown of our revenue growth, caused by a weakening US economy and the ongoing weeding out of unprofitable accounts, we expect the profitability of our US operation to continue to improve in 2007, mainly as a result of further gross margin improvement and reduction of the cost to revenue ratio. Our outlook is equally positive for Canada and Mexico.

Professional Products and Services (PPS) Asia-Pacific

Key data *(before exceptional items) (in € millions)*	**2006**	2005
Net revenue	469	437
Organic revenue growth	*10.4%*	*2.0%*
Gross profit	109	104
Gross margin	*23.2%*	*23.7%*
Operating expenses	(98)	(95)
Operating expenses as % of net revenue	*(20.8%)*	*(21.7%)*
Other operating (expenses) / income	0	0
Operating result	11	9
Operating margin	*2.4%*	*2.0%*
Average net working capital	64	63
Average net working capital as % of 12 months revenue	*13.6%*	*14.4%*
Number of branches	*182*	*186*
Number of employees	*1,407*	*1,371*

Number 1 in the Australian market and emerging in Southeast Asia

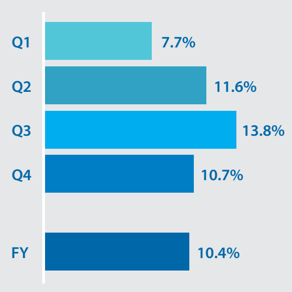
Hagemeyer Australia is our largest PPS operation in the Asia-Pacific region and the number one electrical products distributor in Australia. The year 2006 has seen the business strengthen this number one position as well as continuing to gain share in the Maintenance, Repair and Operations (MRO) and safety product areas.

In 2005, under the Australian business, Hagemeyer established start-up operations in Singapore, Malaysia and Thailand to service global customers in these countries. This has now expanded into Laos, where we have leveraged off existing relationships to supply into this market.

Further profitability improvement

Net revenue in Asia-Pacific increased by € 32 million, from € 437 million in 2005 to € 469 million in 2006. Divestments and foreign exchange rate movements had a negative effect on revenue of € 9 million each.

Organic revenue growth PPS Asia-Pacific 2006



Organic growth in 2006 was 10.4%, with mainly copper cable-related price increases representing approximately two-thirds of this growth rate.

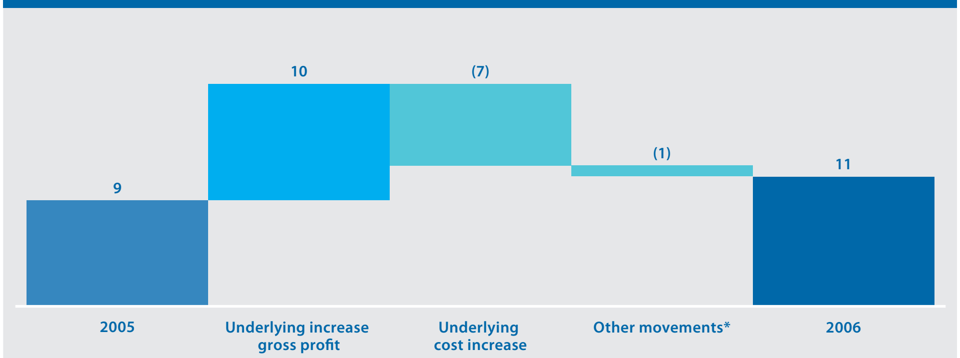
In spite of a subdued residential construction market, our revenue growth in Australia was particularly strong in the small and medium-sized contractors segment, where we gained market share. Product availability and customer service levels continue to improve as a consequence of improved logistics. Revenue growth was also strong in the industrial market.

Gross margin went down by 50 basis points from 23.7% in 2005 to 23.2% in 2006. This was the result of the increasing share of our lower gross margin Southeast Asian operations in the overall Asia-Pacific business. During the year, gross margin improved from 22.4% in the first half to 24.0% in the second. This upward trend is mainly the result of the increasing share of small and medium-sized customers in our business and a multitude of gross margin improvement initiatives both on the buy-side and on the sell-side.

Operating expenses for PPS Asia-Pacific increased by € 3 million to € 98 million in 2006. Divestments and foreign exchange rate movements caused a decrease of € 2 million each. Adjusted for inflation and related salary increases, the underlying cost increase was € 4 million. This was mainly caused by increased efforts to accelerate our growth in the industrial market. Operating expenses as a percentage of revenue decreased by 90 basis points, from 21.7% in 2005 to 20.8% in 2006.

Operating result (before exceptional items) for 2006 was € 11 million, an improvement of € 2 million compared to 2005. Divestments and foreign exchange rate movements had a total negative impact of € 1 million. The operating margin in Australia increased further in 2006.

Operating result PPS Asia-Pacific *(in € millions)*



** Including movements in foreign exchange, other operating income and expenses and the impact of acquisitions and divestments*

Average **net working capital** as percentage of revenue improved by 80 basis points, from 14.4% in 2005 to 13.6% in 2006. The main contributors to this improvement were better inventory management and better control of accounts receivable.

A mixed picture for 2007

Whereas in Australia, the resource and mining industry is expected to continue its robust growth, a pick-up in residential construction is not foreseen for 2007. Hagemeyer Australia expects to continue its profitable growth in 2007 through further increasing its share of the small and medium-sized enterprises segment and the industrial market.

Our operations in Southeast Asia are expected to further accelerate growth by expanding our product and service offering to global companies that are continuing to relocate their manufacturing operations to the region.

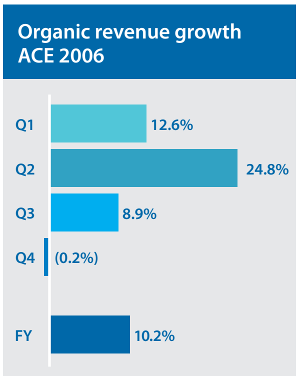
Agencies / Consumer Electronics (ACE)

Key data *(before exceptional items) (in € millions)*	**2006**	2005
Net revenue	404	401
Organic revenue growth	*10.2%*	*(4.4%)*
Gross profit	119	124
Gross margin	*29.5%*	*30.9%*
Operating expenses	(101)	(105)
Operating expenses as % of net revenue	*(24.9%)*	*(26.1%)*
Other operating (expenses) / income	1	1
Operating result	19	20
Operating margin	*4.8%*	*5.0%*
Average net working capital	74	73
Average net working capital as % of 12 months revenue	*18.4%*	*18.2%*
Number of branches	85	*92*
Number of employees	930	*980*

Consumer electronics and luxury goods

Hagemeyer's ACE business consists of three operations, all active in the areas of importing, marketing and distribution of consumer electronics and / or other branded products in certain countries.

- Distribution of Panasonic products in the Netherlands. Consumer electronics form the largest part of this business;
- The distribution of consumer electronics and other branded products in Australia. Examples here are JVC consumer electronics and the top Italian white goods brand SMEG;
- The distribution of luxury goods, such as watches, fashion products and cosmetics in Hong Kong, China, Taiwan, Korea and Micronesia. Examples of brands marketed are: Bally, Rolex, Bruno Magli, Porsche Design and La Prairie cosmetics. Our luxury goods business operates more than 50 retail stores in these countries.



10.2% organic growth

Net revenue of the ACE activities in 2006 was € 404 million, an increase of € 3 million compared to 2005. **Organic growth** came to € 35 million. Divestments and foreign exchange rate movements had a negative impact on revenue of € 26 million and € 6 million respectively. The combination of a more than 15% volume growth and a price decrease of approximately 5% resulted in an organic revenue growth of 10.2% in 2006.

This growth was mainly driven by our ACE operation in the Netherlands, where the market for consumer electronics was particularly strong in 2006. Our ACE business in Australia remained flat in 2006 and our luxury goods business in Asia showed a modest growth.

Strong revenue growth in the Netherlands

Our Panasonic business in the Netherlands realized a spectacular sales growth, driven by flat TV screens, digital still cameras, and DVD recorders. We achieved significant market share gains in all three product categories, with flat screen TV sales receiving an important boost from the football World Cup championships in Germany.

Australian ACE business suffering from weak market

Sales remained flat for our Australian ACE operation in 2006, with our white goods business in particular suffering from a severe decline in housing projects activity.

Modest growth for our Asian luxury goods business

Weak consumer markets in some of our countries (Taiwan, South Korea and Micronesia) and several agencies which were terminated slowed down sales growth for 2006.

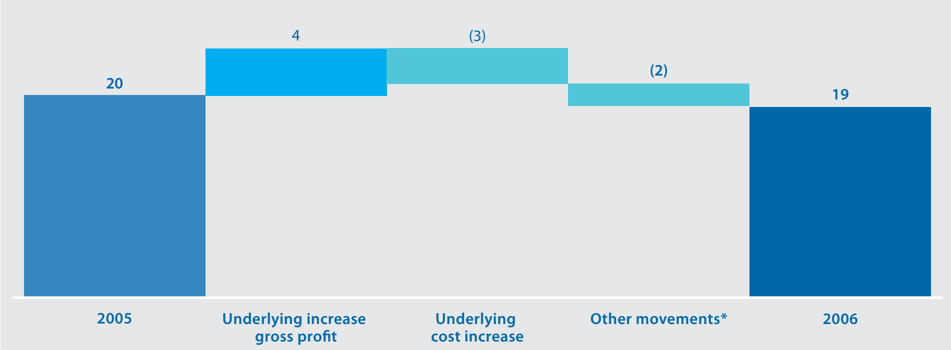
€ 19 million operating profit

Gross margin decreased by 140 basis points, from 30.9% to 29.5%, caused primarily by a further deterioration of consumer electronics prices and a negative mix effect of lower gross margin products in the Netherlands, accompanied by strong pricing pressure from mass retailers in the Australian market.

Operating expenses went down from € 105 million in 2005 to € 101 million in 2006. Divestments have decreased operating expenses by € 5 million, while inflation- and salary-related cost increases came to € 3 million. Operating expenses decreased by € 2 million due to foreign exchange rate movements. The underlying operating expenses remained flat. The cost to revenue ratio came down from 26.1% in 2005 to 24.9% in 2006, exclusively driven by our ACE business in the Netherlands.

The ACE **operating result** for 2006 was € 19 million (4.8% of revenue), which is € 1 million below 2005. A higher operating result in the Netherlands was more than offset by a lower operating result in our Australian and Asian businesses.

Operating result ACE *(in € millions)*



** Including movements in foreign exchange, other operating income and expenses and the impact of acquisitions and divestments*

Average **net working capital** as percentage of net revenue was 18.4% in 2006 (2005: 18.2%). An improved inventory productivity in the Netherlands was offset by increased trade receivables in Australia.

Mixed outlook 2007

In 2007, we expect a robust consumer electronics market in the Netherlands, albeit at a lower level of growth than in 2006. An absence of major sports events, such as the football World Cup championships in 2006, will mean that our flat TV-screen sales will be back to normal levels in 2007.

No significant recovery is expected before 2008 for the housing market and, more particularly, the project housing market in Australia. This will put sales of our important white goods division further under pressure in 2007. Our number one priority will be to maintain and even increase the share of our top brands in a temporarily declining market. With that objective in mind, in 2007 we will step up our efforts to increase our share in the white goods market, with a sharpened focus on the retail channel. This will enable us to build a strong basis for further profitable growth when the housing market picks up, as expected, in 2008.

Throughout 2006, we have been winding down several agencies in our Asian luxury goods business. Our priority now is to develop new ones to continue to capitalize on our market knowledge and infrastructure. There is a great potential for our ACE business to serve smaller western luxury goods manufacturers as their go-between and guide for the promising Asian markets. Several new agencies are expected to come on-stream in 2007.

Corporate governance

At Hagemeyer good corporate governance is seen as essential to the interests of its shareholders and other stakeholders. Hagemeyer is therefore committed to integrity and transparency in every aspect of its business, to proper supervision of its business conduct, and accountability to its stakeholders.

The Netherlands Corporate Governance Code (the Code) forms the basis for our governance structure. Hagemeyer is in compliance with the Code, with currently only four exceptions (see below). The Code requires us to report on our governance structures and any developments on an annual basis. Any material changes to our current governance structure will be submitted to shareholders as a separate agenda item in the shareholders' meeting. At this time, Hagemeyer does not anticipate any substantial changes to its corporate governance structure in the near future.

Capital structure

Hagemeyer's authorized capital amounts to eight hundred and ten million euros (€ 810,000,000). It is divided into six hundred and seventy-five million (675,000,000) shares with a nominal value of one euro twenty euro cents (€ 1.20) each. Each share confers the right to cast one vote. At 31 December 2006, the number of outstanding shares amounted to 513,315,359. Shares are freely transferable. At year-end, one shareholder had reported holdings greater than 5% of the total issued Hagemeyer share capital on 31 December 2006.

General Meeting of Shareholders

In line with the Code's provisions and best practices, the Supervisory Board and Board of Management report to shareholders at least once a year at the Annual General Meeting of Shareholders. Annually, not later than in the month of June, the annual meeting shall be held. The General Meetings of Shareholders shall be convened by notice given by the Supervisory Board or the Board of Management. The notice convening the meeting shall be given no later than on the fifteenth day prior to the date of the meeting and shall specify the subjects to be discussed.

The Board of Management is authorized for an indefinite period of time to determine a registration date as referred to in section 119 of Book 2 of the Dutch Civil Code.

Shareholders representing, individually or in aggregate, at least 1% of the issued capital of Hagemeyer or representing, individually or in aggregate, at least a value of € 50 million according to the Official Price List of Euronext Amsterdam N.V., have the right to request the Board of Management or the Supervisory Board to place items on the agenda of the General Meeting of Shareholders.

Resolutions of the General Meeting of Shareholders shall be passed on the basis of an absolute majority of votes cast, unless a greater majority is required by law or by the articles of association. The General Meeting of Shareholders has important powers, such as decisions on statutory changes and legal (de)mergers. It adopts the financial statements and profit appropriation. Furthermore, it has the power to appoint, suspend or dismiss members of both the Supervisory Board and the Board of Management. A majority of at least two-thirds of the votes cast, representing more than half of the issued capital, is required to negate a binding nomination of the Supervisory Board to appoint members of the Board of Management and Supervisory Board. Similarly, any appointment, suspension or removal of members of the Board of Management and Supervisory Board, other than proposed by the Supervisory Board, requires a shareholders' resolution based on a majority of at least two-thirds of the votes cast, representing more than half of the issued capital. Proposals of the Supervisory Board to appoint, suspend or remove members of the Board of Management and Supervisory Board require a shareholders' resolution based on an absolute majority of the votes cast. In addition, the General Meeting of Shareholders adopts Hagemeyer's remuneration policy and the remuneration of the Supervisory Board and resolves to an amendment of the articles of association. A resolution by the General Meeting of Shareholders to amend the Articles of Association other than on proposal of the Board of Management requires a majority of two-thirds of the votes cast representing more than half of the issued capital.

Supervisory Board

Hagemeyer's Supervisory Board is charged with the supervision of the Board of Management, the Group's general progress and that of its operating companies. It supervises the proper execution of risk management and internal control structures and financial reporting, and legal and regulatory compliance. It further decides on the individual remuneration of Board of Management members according to policies approved by the General Meeting of Shareholders. Responsibility for the proper execution of its tasks is vested collectively. However, there are two Supervisory Board committees – the Audit Committee and Remuneration Committee that report directly to the full Supervisory Board. The Chairman of the Supervisory Board is responsible for the proper functioning of both the Board and its committees. The Supervisory Board's profile, size and composition reflect the expertise required to supervise the Hagemeyer Group's activities. The profile and composition are reviewed regularly. Biographies of Supervisory Board members can be reviewed on page 86.

Board of Management

Responsibility for managing the Group is vested collectively with the Board of Management, which currently comprises a Chief Executive Officer and a Chief Financial Officer. Accountabilities include, but are not limited to, setting and achieving business objectives through strategy and policy, risk management, control, financing and regulatory compliance, and the day-to-day management of the Group. The Board of Management is also charged with the management of Hagemeyer's operating companies around the world. For this purpose, the CEOs of the six PPS regions and the three ACE operations report directly to the CEO in the Board of Management, whereas the CFOs of the six PPS regions and the three ACE operations have a direct functional reporting line to the

CFO in the Board of Management. Each of the operations in the countries we operate in has been allocated to one of the PPS regions or ACE operations.

The approval of the Supervisory Board shall be required for resolutions of the Board of Management regarding inter alia (a) a participation in or merger with another company and the termination of such participation or merger and (b) the entering into loan agreements through an issuance of debentures. The approval of the general meeting shall be required for resolutions of the Board of Management regarding an important change of the identity or the character of the company or the enterprise, including (a) the transfer of the enterprise or almost all of the enterprise to a third party, (b) the entering into or termination of long-lasting cooperation between Hagemeyer and another legal person or company, or as fully liable partner of a general or limited partnership, if this cooperation or termination is of far-reaching importance to Hagemeyer and (c) the acquisition or divestment by Hagemeyer of an interest in the capital of a company with a value of at least one-third of the amount of the assets reflected in Hagemeyer's consolidated balance sheet and explanatory notes.

Issuance of shares

Shares shall be issued (including any grant of share subscription rights) pursuant to a resolution of the Board of Management, subject to approval of the Supervisory Board. The duration of this authority shall be established by the General Meeting of Shareholders and shall be for a period of a maximum of five years. The number of shares which may be issued shall also be established by the General Meeting of Shareholders. The current authority of the Board of Management expires on October 28, 2007 and is limited to ten percent (10%) of the issued capital.

Pre-emptive rights

Each holder of shares shall have a pre-emptive right on any issuance of shares (including any grant of share subscription rights) pro rata to the aggregate amount of his shares. He shall, however, have no pre-emptive rights with respect to shares issued for non-cash contribution or shares issued to Hagemeyer employees. The pre-emptive right may be restricted or excluded by the Board of Management, subject to approval of the Supervisory Board. This authority shall terminate on the date of termination of the authority of the Board of Management to issue shares.

Own shares

Subject to approval of the Supervisory Board, Hagemeyer may acquire fully paid-up shares in its own capital, either for no value or if (a) the distributable part of the shareholders' equity is at least equal to the purchase price and (b) the nominal amount of the shares to be acquired or already held by Hagemeyer does not exceed one-tenth of the issued capital. Acquisitions of own shares not by gratuitous title may only take place if the General Meeting of Shareholders has authorized the Board of Management thereto. This authorization shall remain valid for a maximum period of eighteen months. The current authority of the Board of Management expires on 28 October 2007 and is limited to the acquisition of shares for a consideration of at least one euro cent (€ 0.01) and not exceeding the stock exchange price increased by ten percent (10%). No authorization shall be required for the acquisition of shares in Hagemeyer's own capital in order to transfer such shares to Hagemeyer employees in accordance with an employee participation scheme.

The Board of Management is, subject to approval of the Supervisory Board, authorized to grant (conditional) shares under employee share plans. In principle, such grants are subject to achieved performance criteria. As from 2007, Hagemeyer has abolished its employee stock option schemes.

Financial statements, annual report, profits

The Board of Management shall prepare the financial statements and annual report, both of which shall be in the English language. The financial statements shall be audited by the auditor appointed by the General Meeting of Shareholders. The financial statements shall be adopted by the general meeting. The Board of Management shall annually determine what part of the profit is to be appropriated to the reserves. Any part of the profits remaining shall be at the disposal of the General Meeting of Shareholders. Dividend distributions shall be made after the adoption of the financial statements. The Board of Management may decide to pay an interim dividend.

Change of control

In the event of a change of control, our senior debt facility and subordinated convertible bonds become immediately due and payable. Holders of subordinated convertible bonds may in such a case also opt for conversion of their bonds. Also, in the case of a change of control, certain distribution and agency agreements in our ACE business may be terminated or amended, members of the Board of Management (see page 92-93 for more details) and certain Executive Committee members are entitled to a severance payment, and the number of shares acquired by "ShareMap" participants will be matched proportionately with time and as if the maximum target had been achieved; in such a case, matched shares will be paid in cash. There are no other agreements which come into existence or may be amended or terminated in the case of a change of control and whose effect could reasonably be expected to have a material adverse effect on our business, operations, property and condition (financial or otherwise).

Compliance with the Netherlands Corporate Governance Code

This Code for Dutch listed companies became effective on January 1, 2004 and is generally considered to be one of the most comprehensive codes worldwide. The point of departure is the "comply or explain" principle, which means Dutch listed companies must either apply the Code or explain any non-compliance. At the Annual General Meeting of Shareholders in 2005, Hagemeyer's corporate governance policies were discussed and the subsequent necessary amendments to its Articles of Association and charters were approved. All relevant documents can be reviewed on our website, www.hagemeyer.com, under Corporate Governance.

The Supervisory Board continues to monitor Hagemeyer's corporate governance practices on the basis of the principles and best practices laid down in the Code.

Hagemeyer complies with all the Code's principles and best practice provisions, with the current exception of only four best practice provisions:

■ Best practice provision II.1.1

Maximum term of appointment of members of the Board of Management is four years

Hagemeyer complies with one exception. CFO Mr Tiemstra was appointed for an indefinite period before the Code came into effect. His existing contract will be honoured.

■ Best practice provision II.2.7

Severance payments to members of the Board of Management

Currently, in certain circumstances, severance payments to members of the Board of Management are not limited to the annual gross base salary. For full details of Hagemeyer's policy on severance arrangements please refer to the Remuneration Policy on page 88-95.

■ Best practice provision III.5

Establishment of a Supervisory Board Selection and Nomination Committee

No such committee has been established as the Supervisory Board considers the selection and nomination of members of the Board of Management as a collective responsibility.

■ Best practice provision IV.1.1

Required majority to negate a binding nomination for the appointment of members of the Board of Management and Supervisory Board or a resolution to dismiss members of the Board of Management and Supervisory Board

As described above on page 69, any resolution of the general meeting to appoint, suspend or remove a member of the Board of Management or Supervisory Board, other than as proposed by the Supervisory Board, requires a majority of two-thirds of the votes cast representing more than half of the Company's issued capital. The Supervisory Board and Board of Management believe that it is not advisable to lower these thresholds. It is deemed to be in the interest of Hagemeyer's stakeholders that at least half of the issued capital and a sufficiently qualified majority of the votes cast support such resolution.

Our people: the key success factor to achieve Hagemeyer's full potential

The success of Hagemeyer, today and in the future, depends on the efforts of motivated and qualified associates. Hagemeyer therefore strives to build and maintain enduring relationships with its associates, based upon mutual trust and professionalism.

Development of number of employees

In 2006 the number of full-time equivalent (FTE) employees at Hagemeyer increased from 17,209 to 17,519 at year-end. This net increase of 310 FTEs consisted of:

- 267 employees who joined Hagemeyer as a result of acquisitions, mainly in Poland;
- 146 newly-created jobs, mainly in our PPS activities in China and Southeast Asia;
- a reduction of 93 FTEs due to disposals and termination of several agency contracts in our Agencies / Consumer Electronic (ACE) businesses;
- a reduction of 10 positions, mainly in corporate activities.

59% of our employees work in the PPS operations in Europe and China, 28% in the PPS operations in USA, Mexico and Canada, 8% in the PPS operations in Australia and Southeast Asia, and 5% are employed in our ACE activities.

Training and management development

To ensure the achievement of Hagemeyer's full potential, it will be essential to further improve the level of professionalism in all our key processes, such as those in customer services, category management (including marketing and procurement), logistics, sales, administration and IT. This will require us to continuously improve the level of professionalism of our organization and to continue to develop the competencies and skills of our employees. Recruitment and selection as well as training and development are therefore crucial elements in achieving our strategic objectives.

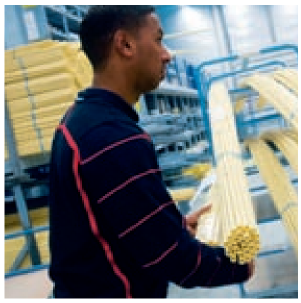
For that reason Hagemeyer and its operating companies have developed comprehensive training and development programmes. The operating companies' training and development programmes are mainly focused on promoting the development of functional expertise and leadership. These programmes will enable our employees to grow on-the-job and create an opportunity to develop their career within the Hagemeyer organization. Most operating companies increased their investment in training and development per employee in 2006 and the number of hours of training per employee increased.

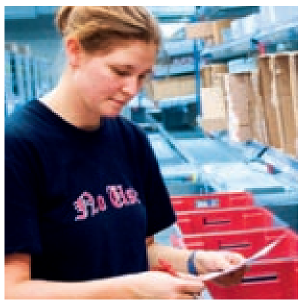
At an international level, in 2006 the management development "Summit" programme was initiated in co-operation with Tias Nimbas Business School in the Netherlands. In the "Summit" programme approximately 45 senior managers of the Group focus on acquiring new knowledge, knowledge-sharing and practical project work. The total programme consists of four modules, with each module lasting three to four days. Three modules took place in, respectively, the Netherlands, Sweden and USA in 2006. The last module will be organized in April 2007 in the Netherlands.
During the programme, benchmarking and exchange of best practices have been a great benefit, but even more importantly, the "Summit" programme contributed significantly to the creation of an international sense of unity and team spirit towards achieving Hagemeyer's full potential.

We are in the process of developing an international development programme for our high potentials, which will mainly be focusing on developing the leadership capabilities of our potential future senior management, and on further developing their knowledge and expertise on how to "obtain results through people". This programme will help to further develop and strengthen leadership and other professional capabilities of the participants, to live the Hagemeyer values and to enhance their ability to work across cultures. As we expect to involve approximately 150 high potentials, we intend to run the programme several times a year for the next few years, since the maximum number of participants per programme will be restricted. The programme is likely to consist of two modules, each lasting one week.

Recruiting new talent

As described in the Hagemeyer Business Principles, we are an equal opportunities employer and will comply with human rights regulations. We are therefore focused on recruiting and retaining the right person in the right position, based on the right qualifications, competencies and skills, regardless of age, sex, race, religion, disability or any other possible source of discrimination. We are not aware of any violation of this policy in our organization.
At several levels and locations, a number of highly-qualified professionals and managers in key positions were hired. In addition to recruiting to fill vacancies, new jobs were created in several regions. We will be launching a global internet-based recruitment tool that will enable internal and external candidates to view current vacancies and to apply for the positions on offer in the course of 2007.





Competitive and motivating remuneration

As we aim to attract and retain professional and talented people in our business, our remuneration must be competitive. Salary levels are based on qualities and experience of the employees as well as their responsibilities and level of the function within the organization. We also offer secondary employee benefits.

For certain management functions Hagemeyer has a Short-Term Incentive (STI) programme in place that provides for an annual cash bonus. In addition, for certain senior managers there is a Long-Term Incentive (LTI) programme with a deferred cash bonus, payable in the second and third year following the bonus year subject to continued employment. The latter scheme is primarily designed as a retention tool. As from 2007, part of the deferred LTI bonus will be paid in cash and part as Investment Shares in "ShareMap" (see below). Both the STI and LTI schemes are based upon the achievement of pre-defined and measurable financial and discretionary targets.

In 2006 approximately 40 senior managers from both PPS and ACE voluntarily participated in the newly-introduced share-based incentive scheme "ShareMap". In addition to providing our senior managers with an incentive to boost company performance, the purpose of "ShareMap" is to more directly align the interests of the operational management team of Hagemeyer with those of our shareholders, and to create a feeling of ownership and financial commitment by investing in Hagemeyer shares. For 2007, the number of employees eligible to participate in "ShareMap" has been increased to approximately 220 employees. In addition, the amount of the maximum voluntary investment has been increased to between 25% and 100% of the gross annual base salary, depending upon seniority, and part of the LTI bonus will have to be compulsorily invested in "ShareMap".

Measuring and evaluating performance

The majority of our employees work towards pre-defined goals or objectives, and / or receive feedback on their performance and development on a regular basis. In 2006 the succession and career planning of our senior management was mapped out and reviewed, which will be done every year. Qualified potential successors have been identified for several management team positions in our regions and countries. We are confident that our focus on performance and management development will ensure the availability of a sufficient number of internal candidates for these positions. The majority of the management teams of our operating companies consist of local employees, but we intend to increase our efforts for the exchange of management between operations in different countries for longer or shorter assignments and positions.

In several operations we have conducted, or intend to conduct, employee satisfaction surveys. We have also been successful in reducing staff turnover rates in several operating companies.

Health and safety

Our health and safety policies are all geared towards achieving zero-levels of incidents and improving the health and safety of our employees and other stakeholders. The policies have a number of objectives that vary from adhering to rules and regulations laid down by the local government to developing and enforcing rules to ensure best health and safety practices.

Risk management

Within our risk management and internal control framework, we have identified the following main risks that could have a material impact on Hagemeyer's ability to achieve its corporate objectives. These are strategic and operational risks, various kinds of financial risks and litigation risks.

Strategic and operational risks

Competitors may take actions to establish and sustain competitive advantage over the Group. Competition from small local competitors, with a non-comparable cost structure, may increase, while aggressive price-cutting by competition to gain market share may impact both our volumes and gross margin. Suppliers may take actions to change their channel to the market by reducing the role of wholesalers, which may impact our volumes and related gross profit. Furthermore, the industry may lose its attractiveness as a result of an economic downturn in the markets in which Hagemeyer operates. Hagemeyer's PPS business is affected by several cycles, including construction and seasonal cycles.

In this respect, Hagemeyer is particularly affected by possible changes in the European and US economies, which account for 65% and 19% of net revenue respectively. The Agencies/Consumer Electronics division is impacted by levels of consumer confidence and seasonality in the consumer electronics market and other markets in which our ACE business operates, but also by the possibility that brand owners might terminate one or more of their distribution and marketing relationships with Hagemeyer at short notice.

By the nature of its business, Hagemeyer is subject to the impact of operational gearing, whereby a relatively limited change in its revenue or gross margin levels can materially impact its results, due to the relatively fixed nature of its operational and other costs.

Hagemeyer is highly dependent upon the proper functioning of its information and communication systems, notably its enterprise resource planning systems and their related functionality. These systems are continuously being improved and upgraded, whereby great care is taken to assure business continuity and avoid any disruption of ongoing business processes. Nevertheless, it cannot be ruled out that disruptions may occur as a result of malfunctioning of ongoing systems and/or in systems that are being, or have been, improved or replaced.

As part of its strategy, Hagemeyer intends to acquire small and medium-sized distributors of electrical parts and supplies and industrial MRO (Maintenance, Repair & Operations) products. Although these companies will be carefully screened before acquisition, difficulties might occur in the integration of operations, technologies, products and personnel of the acquired entity. In addition, there might be undisclosed and/or unknown liabilities of the acquired entity that might lead to expenses or diversion of management attention.

These strategic risks may have a damaging effect on our operational business in several ways. If they occur, it may also be difficult for us to retain qualified personnel or to fully staff all of our employee positions. The inability to sustain operations, provide essential products and services or recover operations following a major disaster (due to either internal or external causes) could damage the Group's financial strength and performance, as well as its ability to obtain funding. Similarly, insufficient customer service and/or understanding of customer expectations, as well as ineffective and inefficient logistic processes, could have a material adverse effect on our business, financial condition and results of operation.

Financial risks

Risks related to the value and expected gross profit from articles in economic inventories

The financial performance of Hagemeyer can also be affected by movements in the value and expected gross profit from those articles for which it has price exposure. This concerns all economic inventories, i.e. physical inventories owned by Hagemeyer, as well as goods that have been ordered at agreed prices from suppliers, but have not yet been received by Hagemeyer or invoiced to customers. These movements in value can for instance be caused by obsolescence, as well as by fluctuations in the prices of raw materials such as copper, aluminium and steel, in the case that these raw materials form an important part of the cost price of products in our economic inventories. An example of the latter situation is the possible impact that fluctuations in the price of copper might have on the value of our economic inventories in copper cable and/or the achievable gross profit. The impact of these fluctuations on our results will depend upon their phasing and magnitude, as well as on commercial conditions in the various countries and markets we operate in. Hagemeyer does not consider it to be cost-efficient to hedge these risks.

Risks related to debt financing

In certain circumstances the impact of Hagemeyer's operational gearing could possibly lead to a default situation in its financial facilities, as a declining EBITDA might lead to a situation where the related covenant ratios could no longer be met. This could lead to a situation that would require Hagemeyer to repay debt before its originally scheduled maturity.
Hagemeyer tries to manage this risk by targeting its key covenant ratios, such as net senior debt divided by EBITDA, as well as the interest cover ratio, to remain at levels that allow for reasonable levels of adverse fluctuations in the components of these covenant ratios.
If a default situation were, however, to occur to the extent that we would have to seek to replace or refinance our current indebtedness, that replacement or refinancing may not be available on terms that are favourable to us, including the possibility of new and restrictive covenants.

Currency and interest risks

In 2006 Hagemeyer's non-euro operations constituted approximately 70% of consolidated net revenue. Currencies that may have the largest impact on our consolidated income statement and balance sheet include the US dollar, the Swedish crown, the British pound and the Australian dollar.
As the reporting currency is the euro, movements versus the euro in the currencies of non-euro countries in which we operate can have an impact on revenue, operating results and other items in the Group's income statement. We do not hedge the currency exposure of expected non-euro results or operating cash flow. However, a negative impact of exchange rate movements on the euro value of net revenue and gross profit in a certain currency is often accompanied by a favourable impact on the euro value of related costs and expenses, and vice versa.
Currency risk exposure on trading transactions is limited as most of our products are purchased and sold in the same currencies. Currency forward contracts with terms of up to one year are used for most of the trading transactions that are exposed to currency risks.
As market prices of some raw materials, such as copper, are quoted in US dollars, currency movements versus the US dollar might influence purchase prices in non-US dollar currencies of certain products. We do not hedge against these currency movements.
Currency movements can also impact the value of our assets, liabilities, equity and related balance sheet ratios. Translation differences in equity are not hedged, but the impact of possible currency movements on assets is mitigated by financing through debt in corresponding non-euro currencies.

Hagemeyer currently aims to have between 25%-75% of the non-current portion of external borrowings at fixed interest rates. At the year-end 2006, around 71% of our external debt was structured as debt at fixed interest rates, mainly by using interest rate swaps to hedge against floating rates. On top of the interbank offered rates, we pay an interest spread that is determined by a pricing grid that is primarily set by the level of net senior debt divided by EBITDA.

Risks related to pension plans

Hagemeyer is involved in a number of defined benefit pension plans, the largest of which cover the majority of our employees in the Netherlands and the United Kingdom. Defined benefit pension accruals in respect of our UK plan ended on 5 April 2002, and the plan thereafter continued as a defined contribution pension plan. The defined benefit accrual before 5 April 2002 still shows a funding deficit. Our pension plan assets principally consist of long-term interest-earning investments and listed equity securities, with approximately 40% of the Dutch plan assets and approximately 70% of the UK plan assets consisting of equity securities. Future market developments may affect assets of our defined benefit pension plans and the plans' compliance with mandatory coverage ratios, causing higher pension charges, pension premiums and contributions payable. In addition, defined benefit pension plans are also sensitive to interest rates, price inflation and other actuarial risks. Future adverse developments in these areas may require us to make significant contributions to our existing pension plans.

Litigation risks

Hagemeyer is involved in a number of legal proceedings, some of which, if adversely concluded, could require the payment of substantial amounts, which could have a material adverse effect on our financial condition and operating results. Although we believe that we have sound legal grounds to defeat all of these claims, we have established provisions for a limited number of these claims, which, as litigation is inherently unpredictable, might prove insufficient to cover them. Regardless of the outcome of a particular claim or claims, litigation may also result in substantial costs and expenses and significantly divert the attention of management.

Risk management

Managing these and other risks forms an integral part of Hagemeyer's business operations. The Board of Management is responsible for the design, implementation and operation of the Group's risk management and internal control framework. The Board of Management actively manages, to the extent possible, the strategic, financial and operational risks facing the Group. Our risk management and internal control framework includes setting of objectives, event identification, risk assessment and risk response, such as the implementation of business continuity plans and adjustments of financial structures.

The main components of our risk management and internal control framework include:

- Periodical risk identification reviews;
- Regular strategic evaluations of our business (including analyses of operational, legal and regulatory risks);
- Annual budgets;
- Frequent and periodic cash flow forecasting;
- Monthly and quarterly financial reporting;
- Quarterly rolling forecasting;
- Regular financial review meetings with operational management;
- Regular performance meetings with operational management;
- Regular meetings with senior corporate staff;
- Quarterly letters of representation which are issued by all our operating companies and signed by their CEOs and CFOs;
- Reports of our Internal Audit department;
- Management letters and audit reports provided by the external auditor;
- Follow-up actions on fraud reports;
- Regular health and safety surveys of our distribution centres and branches;
- The Hagemeyer Business Principles;
- A Whistleblower Policy;
- Business Continuity Plans, focusing on ICT (Information and Communication Technology) processes and logistical processes, notably warehouses.

In 2006 the roll-out of the Hagemeyer Internal Control Standards (HICS) programme was initiated. When fully implemented, HICS will provide our operating companies with a self-assessment programme for the minimally required internal controls of the 6 key processes in our business:

- Revenue to collection;
- Procurement to payment;
- Inventory management;
- Human resources and payroll;
- Financial reporting;
- Information and Communication Technology.

The HICS programme will enable operational improvement, further improve the quality of management information, assist in the prevention of fraud, reduce costs of internal and external audits, improve transparency in the organization and support compliance with laws and regulations. In 2007 and beyond, the HICS programme will be further implemented and internal controls for the above key processes will be further improved if and where necessary.

In 2006 our Business Continuity Plans have been further improved to secure maximum prevention of possible disruption of our key business enablers ICT and logistics. These plans focus on optimal preparation to limit the negative operational and financial impact such disruption could have. In 2007 and beyond we will continue to test our Business Continuity Plans.

Further improvements have been made in 2006 for these two key business enablers to secure maximum prevention of possible disruption and optimal preparation to limit the negative operational and financial impact such disruption could have.

All material findings of our risk management and internal control systems are shared with the Audit Committee and, where relevant, with the Supervisory Board.

It should be noted though that no risk management framework can ever provide absolute assurance regarding achievement of corporate objectives, nor can it provide an absolute and total guarantee that material errors, losses, fraud or violation of laws or regulations will not occur.

In control statement

The Board of Management is responsible for the design, implementation and operation of the Group's risk management and internal control systems. These comprise policies, processes, tasks, behaviours and other aspects of the Group that, taken together, facilitate the achievement of objectives and prevent or ensure early identification of potential material errors and losses and misrepresentation of circumstances.

Our risk management and internal control systems can, however, never provide absolute assurance regarding the achievement of corporate objectives, or entirely prevent material errors, losses, fraud or violation of laws or regulations from occurring.

As part of our risk management and internal control systems, we have initiated the Hagemeyer Internal Control Standards (HICS) programme and further improved Business Continuity Plans during the reporting year. We continue to focus on further improving our risk management and internal control systems. Over the next few years, we will therefore continue to implement and monitor the compulsory minimum control standards for all relevant business processes, as well as procedures for recurrent risk and control assessments, and a reporting structure on the assessment of results.

Taking into account the above-mentioned constraints, our risk management and internal control systems give a reasonable degree of certainty during the year that the financial reporting does not contain material inaccuracies. These systems have functioned properly during 2006 and at this moment there are no indications that the systems will not function properly in 2007. The above-mentioned risk management and internal control systems also provide insight into the extent to which strategic and operational objectives are realized and laws and regulations are complied with.

We discuss our risk management and internal control activities and main findings with the Audit Committee and, where relevant, the Supervisory Board on a regular basis.

Naarden, 19 February 2007

Board of Management
R.W.A. de Becker, *CEO*
J.S.T. Tiemstra, *CFO*

Report of the Supervisory Board

To the shareholders of Hagemeyer N.V.

The Supervisory Board of Hagemeyer N.V. herewith submits the 2006 financial statements prepared by the Board of Management. These statements comprise the following:

- The consolidated income statement for the year ended 31 December;
- The consolidated balance sheet as at 31 December;
- The consolidated statement of changes in equity for the year ended 31 December;
- The consolidated statement of cash flows for the year ended 31 December;
- The Company income statement for the year ended 31 December;
- The Company balance sheet as at 31 December;
- The Company statement of changes in equity for the year ended 31 December;
- The notes to the financial statements.

These statements have been audited by Deloitte Accountants B.V., whose Auditors' Report can be found on page 154 and page 170. We concur with these documents and recommend the Annual General Meeting of Shareholders to adopt the 2006 financial statements accordingly.

Policy on additions to reserves and dividend payment

Additions to reserves and declaration of dividends are primarily determined by Hagemeyer's financing strategy. This strategy includes, inter alia, the following objectives:

(i) a capital ratio (total equity / total assets) of at least 25%. For reference, this ratio was 31.2% at the end of 2006, not taking into account the proposed dividend, and 28.8% at the end of 2005;

(ii) a net senior debt not exceeding two times the twelve months rolling EBITDA.

In addition, distributions of dividends may only be made up to an amount which does not exceed the freely distributable part of the shareholders' equity.

Dividend

Within these constraints Hagemeyer intends to distribute a dividend of 30%-40% of its net profit, corrected for certain material non-recurring items. The dividend declared will in principle be distributed in cash, whereas the remainder of the net profit will be added to retained earnings.

In line with the policy on additions to reserves and dividends, we propose the Annual General Meeting of Shareholders to determine the dividend over 2006 at € 0.06 per share, representing 37% of net profit after correction of the non-recurring movement in deferred tax assets of € 43.7 million.

The dividend will be fully distributed in cash. The part of the net profit that is not distributed will be added to retained earnings.

Report on the 2006 Annual General Meeting of Shareholders

At the Annual General Meeting of Shareholders ("the Meeting") held on 28 April 2006, the 2005 financial statements were adopted, and the members of the Supervisory Board and the Board of Management were discharged from liability. The Meeting appointed Messrs R.M.J. van der Meer and P.H.J.M. Visée as members of the Supervisory Board and said farewell to Messrs P.J. Kalff and B.A.J. Bourigeaud. The Meeting appointed Deloitte Accountants B.V. as external auditor charged with the audit of the 2006 financial statements. The revised Remuneration Policy and the revised share option plan for members of the Board of Management were discussed and adopted.

Supervisory Board working structure

The Supervisory Board is charged with the supervision of the Board of Management, the general course of Hagemeyer's affairs and related business. It further provides advice and expertise. The Supervisory Board's tasks include, but are not limited to:

- Monitoring progress with regard to the achievement of Hagemeyer's strategic and business objectives;
- The strategy and risks inherent to the Group's business activities;
- The structure and operation of risk management and internal control systems.

Responsibility for the proper performance of the Supervisory Board's duties is vested collectively. In performing its duties, the Supervisory Board acts in accordance with the interests of the Group and its businesses, taking into consideration the interests of all stakeholders. Its working method is fully in compliance with the Dutch Corporate Governance Code (the "Code"). Hagemeyer's Supervisory Board has two dedicated committees: the Audit Committee and the Remuneration Committee. Both report to the full Supervisory Board. A Selection and Nomination Committee has not been established, as the Supervisory Board considers the selection and appointment of Board of Management members to be a collective responsibility.

Report on working method

In 2006 the Supervisory Board and the Board of Management met six times. There was regular consultation between the Chairman of the Supervisory Board and the Board of Management.

At the meetings of the Supervisory Board with the Board of Management, the Group's business operations were reviewed, including Hagemeyer's key strategies, the Group's activities in relation to general and financial risks, and the operation of the risk management and internal control systems. In addition, the redemption of the subordinated convertible bonds 2009, the "ShareMap" programme for 2006 and 2007, and the succession planning for senior management were discussed, as were the 2005 financial statements to be presented to shareholders, the PPS financial objective for 2007 and 2009, monthly reports, the trading update for the first quarter of 2006, the interim report for 2006, the trading update for the third quarter of 2006, and the annual budget for 2007. Considerable attention was given to the progress with regard to Hagemeyer's turnaround. Developments in all regions were monitored closely. Two sites in Atlanta (USA) were visited and the Supervisory Board met with Hagemeyer North America's management team and the members of the PPS Executive Committee.

The Supervisory Board met three times in the absence of the Board of Management to, inter alia, discuss its own functioning, that of its individual members and that of the Audit Committee and the Remuneration Committee. The Supervisory Board concluded that it is functioning satisfactorily and that it continues to meet the composition criteria of the Supervisory Board Profile. The functioning of the Board of Management and its individual members was also evaluated. The Supervisory Board concluded performance to be satisfactory. In 2006, the Supervisory Board also started a more formalized process of self-assessment.

Attendance Supervisory Board meetings

	Meeting dates for 2006					
	27 February	28 April	8 June	7 August	24 October	12 December
P.J. Kalff [1]	*	*	N.A.	N.A.	N.A.	N.A.
D.G. Eustace	*	*	*	*	*	*
A. Baan	*	*	*	*	*	*
B.A.J. Bourigeaud [1]	–	–	N.A.	N.A.	N.A.	N.A.
R. van Gelder	*	*	*	*	*	*
M.P.M. de Raad	–	*	*	*	*	*
R.M.J. van der Meer [2]	N.A.	N.A.	*	*	*	*
P.H.J.M. Visée [2]	N.A.	N.A.	*	*	*	*

1 Retired in the AGM of 28 April 2006

2 Appointed at the AGM of 28 April 2006

Audit Committee in 2006

On behalf of the Supervisory Board to which it reports, this Committee's responsibilities include the supervision of the Board of Management on the operation of the risk management and internal control systems, the provision of financial information by Hagemeyer, the Group's policy on tax planning, its financing and the use of information and communications technology. It also proposes external auditors to the Annual General Meeting of Shareholders and evaluates their activities and performance. The Audit Committee met twice in 2006 with the CFO, the Group Controller, the head of Internal Audit and the external auditor. Topics that were discussed included the 2005 financial statements, the 2006 interim report, Hagemeyer's financial situation, the management letters and the risk management and internal control systems. The Committee met twice with the external auditor in the absence of the Board of Management.

Remuneration Committee in 2006

This Committee's responsibilities include making proposals to the Supervisory Board on the Remuneration Policy for members of the Board of Management and the remuneration of the individual members of the Board of Management. The Remuneration Committee met five times in 2006 and discussed, inter alia, the "ShareMap" programme for 2006 and 2007.

Remuneration Policy

The objective of Hagemeyer's Remuneration Policy is to provide terms of employment which attract, retain and motivate top-class executives for the Board of Management, who can drive the business forward, thereby continuously improving the results and increasing the value for the shareholders and whose terms of employment reward their performance in accordance with Hagemeyer's (long-term) strategy. The Supervisory Board, through the Remuneration Committee, implements the Remuneration Policy and determines, based on this policy, the remuneration of the individual members of the Board of Management. The Supervisory Board is of the opinion that the Remuneration Policy and the remuneration of the Board of Management are competitive and effective. For more details on the Remuneration Policy and the remuneration of the Board of Management, please refer to the Remuneration Policy and the Remuneration Report 2006 on page 88-95 and note 34 to the consolidated financial statements.

Composition

In 2006 Messrs Van der Meer and Visée were appointed as members of Hagemeyer's Supervisory Board. Their induction included a general introduction programme to the electrical wholesale business, as well as a site visit to an operating company in the Netherlands and an operating company in the UK.

During the Annual General Meeting of Shareholders of 24 April 2007, Mr Eustace will stand down as Vice chairman and member of the Supervisory Board, after having fulfilled two four-year terms. Mr Eustace has been a member of Hagemeyer's Supervisory Board since 1999 and has been its Vice chairman since 2001. In addition, Mr Eustace has been Chairman of the Audit Committee since 2000. With his extensive financial expertise and international business experience, he provided the Board of Management with valuable advice and support, especially in 2003 and the beginning of 2004, during which period the Group faced major issues and went through a re-financing process. The Supervisory Board commends Mr Eustace for the contribution he has made during his tenure. Mr M.P.M. de Raad, who joined the Supervisory Board in 2004, will succeed Mr Eustace as Vice chairman of the Supervisory Board. As the Supervisory Board is of the opinion that the size of five members is sufficient to perform its regulatory duties, the vacancy resulting from Mr Eustace standing down will not be filled.

Other developments

The Supervisory Board declares, in line with the Code's best practice II.3.4 and III.6.3 principles, that, to the best of its knowledge, there were no conflicts of interest during the reporting year. Each Supervisory Board member is independent within the meaning of best practice provision III.2.2 of the Code. No member represents any group or organization.

The Supervisory Board fully supports Hagemeyer's long-term strategy and its implementation by the Board of Management, and is confident that the Group is well positioned for achieving its full potential in the years to come. For further information on the Company's performance during the reporting year 2006, please see the report of the Board of Management.

The Supervisory Board acknowledges the commitment and dedication of the whole Hagemeyer team around the world in driving the Group's strategic aims and objectives. Their efforts have been exemplary.

Naarden, 19 February 2007

Supervisory Board
A. Baan, *Chairman*
D.G. Eustace, *Vice chairman*
R. van Gelder
R.M.J. van der Meer
M.P.M. de Raad
P.H.J.M. Visée

Supervisory Board of Hagemeyer

	Year of initial appointment	Year of reappointment	Committee membership
A. Baan *(Chairman)*	2005	2009	Remuneration Committee
D.G. Eustace *(Vice chairman)*	1999	N.A.	Audit Committee *(chair)*
R. van Gelder	2005	2009	Audit Committee
R.M.J. van der Meer	2006	2010	Remuneration Committee *(chair)*
M.P.M. de Raad	2004	2008	Audit Committee
P.H.J.M. Visée	2006	2010	Audit Committee

1 A. Baan | 1942, *Chairman*

Appointed in 2005; due to stand down in 2009

Former member of the Board of Management of Royal Philips Electronics N.V.

Dutch national

Hagemeyer shares at 31 December 2006: none

Other notable positions

- Chairman of the Supervisory Board of Wolters Kluwer N.V.
- Vice chairman of the Supervisory Board of Koninklijke Volker Wessels Stevin N.V.
- Chairman of the Trustoffice of Kasbank N.V.
- Member of the Supervisory Board of Océ N.V.
- Non Executive Director of Imperial Chemical Industries PLC
- Non Executive Director of International Power PLC
- Chairman of the Supervisory Board of Authority Financial Markets

2 D.G. Eustace | 1936, *Vice chairman*

Appointed in 1999; due to stand down in 2007

Former Vice chairman of the Board of Management and Group Management Committee and CFO of Royal Philips Electronics N.V.

British and Canadian national

Hagemeyer shares at 31 December 2006: none

Other notable positions

- Chairman of the Supervisory Board of AEGON N.V.
- Chairman of the Supervisory Board of The Nielsen Company (formerly VNU N.V.)
- Vice chairman of the Supervisory Board of Koninklijke KPN N.V.
- Member of the Supervisory Board of Stork N.V.
- Member of the Advisory Board of Rothschild

3 R. van Gelder | 1945

Appointed in 2005; due to stand down in 2009

Former Chairman of the Executive Board of Royal Boskalis Westminster N.V.

Dutch national

Hagemeyer shares at 31 December 2006: none

Other notable positions

- Member of the Advisory Board of ABN AMRO Holding N.V.
- Member of the Supervisory Board of SBM Offshore N.V.
- Member of the Supervisory Board of HES Beheer N.V.
- Member of the Supervisory Board of Altera Vastgoed N.V.
- Chairman of the International Association of Dredging Contractors
- Board member of Vereniging Effecten Uitgevende Ondernemingen (VEUO)
- Board member of Stichting Nederland Maritiem Land

4 R.M.J. van der Meer | 1945

Appointed in 2006; due to stand down in 2010

Former member of the Board of Management of Akzo Nobel N.V.

Dutch national

Hagemeyer shares at 31 December 2006: none

Other notable positions

- Chairman of the Supervisory Board of Imtech N.V.
- Member of the Supervisory Board of ING Bank Nederland N.V. / ING Verzekeringen Nederland N.V.
- Chairman of the Supervisory Board of Norit International B.V.
- Chairman of the Supervisory Board of Energie Beheer Nederland B.V.

5 M.P.M. de Raad | 1945

Appointed in 2004; due to stand down in 2008

Former member of the Board of Management of Koninklijke Ahold N.V., Metro A.G. (Germany), SHV Holdings N.V. and CEO of SHV Makro N.V.

Dutch national

Hagemeyer shares at 31 December 2006: 2,620

Other notable positions

- Vice chairman of the Supervisory Board of CSM N.V.
- Member of the Supervisory Board of HAL Holding N.V.
- Member of the Supervisory Board of Vion N.V.
- Member of the Supervisory Board of Vollenhoven Olie Groep B.V.
- Chairman of the Supervisory Board of the Jeroen Bosch Hospital ('s-Hertogenbosch, the Netherlands)

6 P.H.J.M. Visée | 1961

Appointed in 2006: due to stand down in 2010

Group Treasurer Unilever PLC / N.V.

Dutch National

Hagemeyer shares at 31 December 2006: none

Other notable positions

- Member of the Advisory Committee of Unilever Pension Fund "Progress"
- Member of the Supervisory Board of Unilever Insurances N.V.

Remuneration report

Remuneration Committee and Policy

Remuneration Committee

The Remuneration Committee is responsible for making proposals to the Supervisory Board on the remuneration policy and the remuneration of the individual members of the Board of Management.

The Remuneration Committee consists of Mr R.M.J. van der Meer (Chairman) and Mr A. Baan. Mr R.M.J. van der Meer was appointed on 24 April, 2006. The delegated Secretary of the Remuneration Committee is the Group HR Director.

The Chairman of the Board of Management is invited to attend the Remuneration Committee meetings. The Chairman of the Board of Management does not attend the meetings when his personal remuneration is being discussed.

The Remuneration Committee seeks professional advice from external advisors if and when required. In 2006 the Remuneration Committee sought advice from Hay Group on market data and remuneration trends. Towers Perrin provided pension advice and provided market information with regard to change of control agreements.

The Committee met five times during 2006 and both members of the Remuneration Committee were present at each meeting. Subjects discussed during the meetings were, inter alia, remuneration market practices, gross annual base salary review, bonus determination, change of control policy and pension arrangements.

Remuneration Policy

The Supervisory Board, through the Remuneration Committee, implements the Remuneration Policy and determines, based on this policy, the remuneration of the individual members of the Board of Management.

The objective of the Remuneration Policy is to provide terms of employment that attract, retain and motivate top-class executives for the Board of Management who can drive the business forward, thereby continuously improving the results and increasing the value for the shareholders. The Policy is designed in such a manner that the terms of employment reward their performance in accordance with Hagemeyer's (long-term) strategy.

The individual remuneration will be composed so as to let the terms of employment be competitive compared to similar arrangements of companies that operate internationally, are based in the Netherlands and are of a comparable magnitude and complexity to Hagemeyer.

In determining the individual remuneration of a member of the Board of Management, the Supervisory Board will, apart from the responsibilities of the role, also take into account elements such as required competencies, skills and performance of the individual.

As the Full Potential strategy of Hagemeyer focuses on further improving its profitability in the medium and long term, the Remuneration Policy links a considerable part of the remuneration to Hagemeyer's (long-term) results. This strengthens the Board member's commitment to Hagemeyer and its financial and operational objectives, and strongly aligns the Board member's interest with that of the shareholders.

The Supervisory Board may, if necessary, deviate from the policy. This may be due to market circumstances or if the application of the policy were to be unreasonable.

Every year, the Remuneration Committee assesses whether an adjustment of the terms of employment would be appropriate in order to guarantee alignment with the strategy of Hagemeyer and of market conformity of the terms of employment.

Any changes to the Remuneration Policy, which was approved by the General Meeting of Shareholders on 24 April, 2006, will be submitted for approval to the General Meeting of Shareholders.

Remuneration structure

The remuneration of the members of the Board of Management consists of four main items:

- Gross annual base salary;
- Incentive schemes;
- Share plans;
- Pension.

Gross annual base salary

The level of the gross annual base salary is determined taking into account position-related criteria such as responsibility, scope and complexity, and is based on market developments with regard to gross annual base salaries. The annual review date for the gross annual base salary is 1 January, of each calendar year.

Incentive schemes

Short-Term Incentive scheme

On the basis of the Short-Term Incentive (STI) scheme, each year a variable cash incentive can be earned by members of the Board of Management, based on the achievement of pre-agreed and measurable targets. An annual bonus may amount to up to 80% of gross annual base salary and is partly linked to the achievement of planned financial results (50% of gross annual base salary) of Hagemeyer and partly to the personal performance (30% of gross annual base salary) of the individual Board member.

At the beginning of each calendar year, the Supervisory Board determines the bonus targets. The Supervisory Board ensures that the bonus targets complement the strategy of Hagemeyer. The targets will support the objective to not only achieve considerable improvements in profitability, but above all to fulfil the full potential of Hagemeyer. The bonus targets may differ year by year and vary per individual member of the Board of Management.

The Supervisory Board determines, based on advice from the Remuneration Committee, if bonus targets have been achieved. Achievement of the financial targets is determined on the basis of Hagemeyer's audited accounts. The Supervisory Board determines the achievement of personal performance targets on the basis of fact-finding with regard to each specific personal target. The Supervisory Board may take special circumstances into account in determining the achievement of these qualitative targets.

Long-Term Incentive scheme

The Long-Term Incentive (LTI) scheme is a bonus scheme for each rolling three-year period in which a bonus amount is determined 1 year after the start of the bonus period. 50% of this bonus is awarded after two years and 50% of this bonus is awarded three years after the start of the bonus period, subject to the member of the Board of Management still being employed by Hagemeyer. The net LTI bonus shall be invested in the Performance Share Plan as described below. The LTI bonus of Board of Management members may amount to up to 40% of their gross annual base salary. The LTI bonus is determined on the basis of the achievement of the same predetermined performance criteria as the Short-Term Incentive scheme. Currently the LTI scheme does not apply to Mr De Becker.

Share plans

Share Matching Plan ("ShareMap")

Starting 2006, members of the Board of Management may participate in a share matching plan, which replaced the stock options plan. The purpose of this plan is to reinforce sustainable performance in line with the Hagemeyer strategy, to more directly align the interests of the members of the Board of Management with those of our shareholders and to create a feeling of ownership and financial commitment by investing in Hagemeyer shares.

Under the terms of this plan, members of the Board of Management may annually invest up to 100% of their net STI amount in Hagemeyer shares at market value. As from 2007, participation in the Share Matching Plan will be mandatory, with a minimum investment of 50% of the net LTI. Subject to continued employment, after three years Hagemeyer will grant an additional number of shares at a multiple ranging between 50% and 200% of the number of shares acquired by the member of the Board of Management ("share matching") depending on the achievement of certain targets in the three-year period, to be set by the Supervisory Board for each plan period. For "ShareMap 2006", three-year average ROIC for 2006, 2007 and 2008 is the selected target. In the case of redundancy, death, retirement, sickness or disability, performance matching shares will vest at the discretion of the Supervisory Board, acting reasonably. In the case of a change of control of Hagemeyer, matching takes place proportionately with time and as if the maximum target award would have been achieved. Matched shares will then be paid in cash.

The initially invested shares will be deposited on a blocked share holding account for a period of three years; the matched shares will be subject to a holding period of two years.

The blocked period of investment shares of three years and the holding period of two years of the matched shares are in line with share matching plans of other internationally operating companies based in the Netherlands.

Subject to the approval of the General Meeting of shareholders to be held on 24 April, 2007 the level of maximum voluntary investment (including the amount of the mandatory investment) will be increased to 100% of the gross annual base salary.

Of the members of the Board of Management, only Mr Tiemstra participates in "ShareMap 2006".

Performance Share Plan

Under the Performance Share Plan, the members of the Board of Management build up an ownership of Hagemeyer shares in a structured and transparent way. As such, this plan also supports the alignment of interests of the participating Board of Management members with shareholders' interests.

The net after tax amount of any LTI bonus, at least 50% of the conditional shares received once vested, and at least 50% of the theoretical net after tax profit resulting from the exercise of stock options shall be invested in the Performance Share Plan by the members of the Board of Management. A premium of 50% of the number of shares invested in this Plan is awarded for each period of two years that the shares are retained, subject to the member of the Board of Management still being employed by Hagemeyer. The premium is also to be invested in the Performance Share Plan, which investment does not qualify for any premium. The entitlement to any premium will be cancelled in the case of voluntary resignation or termination for "cause".

The shares under the Performance Share Plan may not be sold during employment. Selling is only permitted upon termination of employment.

Up to and including 2006, mandatory and actual participation in the Performance Share Plan applies to Mr Tiemstra.

Stock options

Up to and including 2005, members of the Board of Management participated in a stock option programme. Conditional stock options that were granted by the Supervisory Board on the basis of company and personal performance vest three years after grant date if, on average, 50% or more of the maximum Short-Term Incentive had been achieved during that period. In principle, stock options are cancelled upon termination of employment, except in the case of retirement. A minimum of 50% of the theoretical net after tax profit resulting from the exercise of stock options shall be invested in Hagemeyer shares under the Performance Share Plan, as described above.

The Supervisory Board has confirmed its intention to decide that, upon a change of control, outstanding options become immediately exercisable, prorated for the vesting period expiration on the last day of employment.

As the stock option programme has been replaced by the Share Matching Plan, no new stock options will be granted to the members of the Board of Management.

Conditional shares

The members of the Board of Management may participate in a share programme. The shares will be awarded by the Supervisory Board on the basis of company and personal performance, and vest three years after grant date only if, on average, 50% or more of the maximum Short-Term Incentive has been achieved during that period. Upon vesting, up to half of the shares may be sold to cover income tax exposure. The net remainder of the shares awarded shall be invested in the Performance Share Plan as described above. Conditional not vested shares are cancelled upon termination of employment, except in the event of retirement.

The Supervisory Board has confirmed its intention to decide that, upon a change of control, outstanding conditional shares granted will become immediately unconditional.

The annual number of conditional shares offered to the individual members of the Board of Management may amount to up to 100,000 per person per annum.

For Mr De Becker the shares will be unconditionally awarded after one year (instead of three years) if 50% or more of his maximum STI bonus has been achieved in the previous year. These shares do not have to be invested in the Performance Share Plan.

Pension

The pension scheme for the members of the Board of Management is governed by the "Hagemeyer Bestuursregeling 1999" and is an average-pay defined benefit pension scheme. The applicable pension age is 65 years. Variable remuneration elements are not subject to pension accrual.

In individual cases, the Supervisory Board may decide to grant a back-service buy-in to attract and retain the appropriate candidate, should market circumstances demand this.

Additional arrangements

In addition to the elements of the remuneration, a number of benefits apply to the members of the Board of Management, in line with market practice in the Netherlands.

These benefits are:

- A fixed expense allowance for business expenses of net € 570 per month for business expenses not otherwise reimbursed;
- Medical insurance premium contribution;
- Company car;
- Telephone costs;
- Participation in Hagemeyer's disability insurance scheme.

Hagemeyer does not provide personal loans to or guarantee obligations of the members of the Board of Management.

Notice period

In the case that members of the Board of Management would like to terminate their employment contract, a notice period of three months is applicable.

In the case that Hagemeyer terminates the employment agreement of Mr De Becker, a notice period of six months needs to be observed during 2007. Should Hagemeyer terminate the employment agreement of Mr Tiemstra, a notice period of six months is applicable.

Severance payment

Members of the Board of Management are entitled to a severance payment in the event of a change of control.

Severance payments to members of the Board of Management will be triggered if:

(i) Hagemeyer discontinues their employment following a takeover, merger or any other event in which there is a change of control of Hagemeyer;

(ii) Within one year after a takeover, merger or any other event in which there is a change of control of Hagemeyer, either Hagemeyer or the member of the Board of Management terminates the employment due to a material difference of opinion or due to a material alteration in the powers or responsibilities of the member of the Board of Management.

If Hagemeyer discontinues the employment agreement of a member of the Board of Management in the case of a change of control of Hagemeyer N.V., that member is entitled, apart from his base salary during the notice period and the amount of the built-up but not paid LTI, to a severance payment equal to two times his gross annual base salary on the date on which notice is given of the termination of the employment agreement or, if less, the amount of the base salary for the remainder of the contract period after expiration of the notice period. If the member of the Board of Management terminates his employment agreement in the case of a change of control of Hagemeyer N.V., that member is entitled, apart from the base salary during the notice period and the amount of the built-up but not paid LTI, to a severance payment equal to one time his gross annual base salary on the date on which notice is given of the termination of the employment agreement or, if less, the amount of the base salary for the remainder of the contract period after expiry of the notice period.

The change of control severance payment is fully payable on the date of termination of the employment agreement.

In any of the above cases, Mr De Becker is entitled to a change of control severance payment, apart from the base salary during the notice period, equal to two-and-a-half times his total yearly remuneration, or the total remuneration for the remainder of the contract period, if less. For purposes of calculating his change of control severance payment, the total yearly remuneration is defined to include (i) the gross annual base salary at the moment of termination, (ii) the yearly pension accrual, (iii) 25% of the maximum STI bonus, and (iv) 25% of the maximum LTI bonus. Mr De Becker's change of control severance payment is payable in three equal instalments. The first instalment is paid immediately upon termination. The second and third instalment will be paid six and nine months respectively after termination, subject to not having secured a new position with a gross annual base salary equal to or exceeding 75% of his gross annual base salary at Hagemeyer at the time of termination. The Change of Control arrangement for Mr De Becker expires on 28 February 2008.

In the event of involuntary termination for any other reason than a change of control, the members of the Board of Management are not entitled to claim any previously agreed severance package. This means that, in the case that a member's employment contract is terminated involuntarily, severance compensation will be determined on the basis of the applicable legal regulations, the cause or reasons for the termination, and the salary level and legal position of the party concerned.

Remuneration report

In view of the realization of most of the short-tem business targets and also based on the progress made towards full potential of Hagemeyer, the Supervisory Board is satisfied with the effectiveness of the remuneration policy.

In 2006 the Remuneration Policy was implemented as described below:

Gross annual base salary

Effective January 2006, the gross annual base salary level of the members of the Board of Management was increased by 1.5%. This increase was based on a correction for the cost of living and was not a position-related adjustment. No other additional gross annual base salary adjustment was implemented.

Board of Management	Gross annual base salary 2006
R.W.A. de Becker	€ 664,179
J.S.T. Tiemstra	€ 494,729

Short-Term Incentive

Based on the Remuneration Committee's view on the achievement of the targets for the annual bonus, the 2005 results led to an STI bonus pay-out in March 2006 as indicated below.

Board of Management	STI Amount	Percentage of 2005 gross annual base salary
R.W.A. de Becker	€ 510,397	78%
J.S.T. Tiemstra	€ 380,186	78%

The targets applicable in 2006 for the bonus of the members of the Board of Management were based on financial criteria (three targets) and on personal performance criteria (five targets).
The financial targets (maximum 50% of gross annual base salary) were operating result before exceptional items, net result before movement in deferred taxes, and net working capital as a percentage of revenue for both Mr De Becker and Mr Tiemstra.

The qualitative targets (maximum 30% of gross annual base salary) included, inter alia, the implementation of a management development programme, improvement of inventory management, preparation for refinancing, acceleration of external reporting.

Long-Term Incentive

The 2005 performance led the Remuneration Committee to decide to award an LTI bonus of 39% of gross annual base salary. This award will be made available in two equal parts in March 2007 and in March 2008, as per the stipulation in the Remuneration Policy.

Board of Management	LTI Amount	Percentage of 2005 gross annual base salary
R.W.A. de Becker	€ 255,198	39%
J.S.T. Tiemstra	€ 190,093	39%

The net amount of the LTI bonus to be paid to Mr Tiemstra will be invested in the Performance Share Plan. Investment takes place five working days after publication of the annual results.

Share Matching Plan ("ShareMap")

Mr Tiemstra participates in "ShareMap 2006". He invested 100% of his net STI amount received in March 2006, which resulted in an investment of 50,691 shares.

Performance Share Plan

In March 2006, the net after tax amount of 50% of the LTI bonus awarded to Mr Tiemstra in 2004 was invested in the Performance Share Plan. The total number of shares invested in the Performance Share Plan is 10,799.

Stock options and conditional shares

At the start of his employment, Mr De Becker was awarded 400,000 conditional shares. After each full year of employment, 100,000 shares will be issued to him, subject to his employment and upon achievement of at least 50% of his annual maximum Short-Term Incentive bonus in the previous year. During 2006, 100,000 Hagemeyer shares were granted to Mr De Becker.

In March 2006, 135,000 stock options and 45,000 conditional shares were granted to Mr Tiemstra. As the stock option programme has been replaced by the "ShareMap" programme, in May 2006 the stock options granted to Mr Tiemstra were cancelled retrospectively to the date of grant. The conditional shares granted in March 2006 and stock options granted in previous years will remain valid.

Pension

As a consequence of the abolition of fiscal deductibility of early retirement pension expenses (VPL legislation effective as of 1 January 2006), the retirement age in the "Hagemeyer Bestuursregeling 1999" has been adjusted from 60 to 65. For Mr De Becker the pension entitlement accrual will be continued as applicable until the end of his employment.
For Mr Tiemstra his pension entitlement accrual will effectively increase from 2.25% up to 3.18% per annum. With this increase, the same pension entitlement will be reached at the age of 60, compared with his pension entitlement achievable at the age of 65 when accruing at a rate of 2.25% per annum. Accrued pension benefits until 1 January 2006 remain unchanged.

The Supervisory Board granted a back-service buy-in for Mr Tiemstra. An additional pension contribution will be paid for Mr Tiemstra for a period of 4 years of € 100,000 per year starting in 2006. This amount is in addition to the costs of Mr Tiemstra's defined benefits scheme as described above.

Sustainability

Hagemeyer and sustainability

Sustainability is very important for Hagemeyer. In recent years we have focused and reported on various sustainability initiatives in our Group and monitored qualitative results, and in 2006 we started preparations for applying a more systematic approach, covering environmental, economic and social business aspects.
It has been decided to set up a corporate framework, which is based upon Hagemeyer's Business Principles of integrity, professionalism, service and sustainability, and which contains priorities, targets, management responsibilities, monitoring and evaluation of the results.

This framework has been discussed with, and is supported by, our Group and regional management. Corporate departments such as operational support, human resources and investor relations & group communications will support local management in implementing and monitoring our sustainability framework. Investor relations are owners of the sustainability programme as well as being the point of entry for any questions or remarks.

In 2006 Hagemeyer initiated a dialogue on sustainability issues with interested parties including our own staff, suppliers and the Association of Investors for Sustainable Development (Vereniging van Beleggers voor Duurzame Ontwikkeling) in the Netherlands. External advisors have performed a sustainability analysis of Hagemeyer and its main peers, and the outcome of these evaluations will be reflected in our sustainability policy and reporting system.

In this section of the annual report we set out our policy on environmental aspects and the supply chain. Social business aspects are mainly presented in the context of human resources. Economic indicators, which are also relevant in the context of sustainability, are included throughout the annual report.

Our impact on the environment; involving the supply chain

Our business activities focus on the distribution of materials rather than on production and as such are not perpetrators of serious environmental pollution. Hagemeyer is willing to address its own direct impact on the environment, but our sustainability policy will also focus on suppliers and customers, since sustainability is an issue that affects the whole supply chain.

The expected future growth of Hagemeyer's activities could increase pressure on the environment if we do not manage this carefully and so it is our ambition to continue to actively seek a further reduction of any negative impact on the environment.

Hagemeyer manages its operations in more than 25 countries around the world from some 1,200 locations. Such a vast number of locations requires a serious approach and huge efforts to implement a viable sustainability policy, performance indicators and a reporting system, as well as to track and demonstrate actual achievements. On top of this we realise that an important part of our sustainability policy and efforts lies with our suppliers. This implies that a successful sustainability policy depends partly on close cooperation with suppliers.

One of our key strategic priorities is to reduce the number of suppliers and strengthen the partnership with strategic suppliers. The relationship with these strategic suppliers will also be intensified in the area of sustainability. In 2007 we will develop a sustainability supplier code. This code will contain clauses on reduction of environmental pollution caused by products delivered to Hagemeyer. We also expect to include provisions related to the conditions under which these products are manufactured. In close cooperation with our strategic suppliers, we will develop a system that enables us to monitor adherence to this code.

In the short term, Hagemeyer will focus on acquiring more insight into the use of packaging materials and waste reduction, including paper usage and separation and recycling opportunities. Due to the complexity of uniform reporting requirements, we expect that more time will be needed to implement our indicators on energy usage and savings.

Since one of Hagemeyer's key business priority is excellent and profitable customer service, we periodically measure customer satisfaction. We also advise customers on the appropriate and economic use of products. In the coming year we expect to take the first steps in including options to reduce environmental waste into our product support advice.

Hagemeyer places great importance on compliance with all laws and regulations that affect our operations. The Reduction of Hazardous Substances in Electric and Electronic equipment (RoHs) and Waste Electrical and Electronical Equipment (WEEE) legislation are considered part of sustainability.

Community involvement

Over the past few years, Hagemeyer has developed various corporate and local initiatives in the field of corporate social responsibility relating to community care. We call this corporate citizenship. To achieve more focus and results in our efforts, Hagemeyer plans to establish company guidelines for corporate citizenship, whereby initiatives should relate to our core competencies and focus on well-defined social issues.

Our current initiatives

As mentioned, most of our businesses have already developed various initiatives on sustainability, some with encouraging results. The examples mentioned in this section serve as an illustration. For those interested, our corporate website will frequently be updated with many other local initiatives. We will continue these efforts, and, where necessary, apply a more systematic approach in the future.

Sustainability reporting going forward

At the end of 2006, we adopted the guidelines of the Global Reporting Initiative (GRI-G3) for reporting purposes. To be able to work with the requirements of G3, we have conducted an internal survey on sustainability, based on the GRI methodology. It is clear that a lot of efforts are already being undertaken on various sustainability aspects.

The next step for us is to determine our longer-term targets, actions and performance indicators and to start monitoring all of the selected indicators. We also need to further involve our staff in the different business units in sustainability. A compact, realistic sustainability policy and clear governance, as well as a thorough insight in results and concrete actions are crucial for success in this respect.

In the course of 2007, we will evaluate the selected G3 indicators on relevance, materiality and feasibility of implementation. The outcome may be that some indicators will be disposed of and/or replaced by others. Nevertheless, it is our firm intention and commitment to pursue our goals in the area of sustainability, and to ensure a concerted effort together with our suppliers and customers as much as possible.

Examples of our sustainability initiatives

Supplier and customer relations

Optimizing the relationship with both customers and suppliers is crucial at Hagemeyer. We measure customer satisfaction in many countries on an annual basis and results show that customers are generally satisfied with our service. Business ethics and sustainability policies are discussed with suppliers in various settings.

In 2006 customer satisfaction surveys were held in Norway, Sweden and Finland by means of a telephone interview with randomly selected customers. The results in these three countries were very similar and show a high satisfaction index of 3.9 on a scale from 1-5.

Hagemeyer strongly believes in openly discussing its position and expectations regarding ethical practices and sustainability issues with suppliers. In the Nordics region, discussions on these topics cover 75 % of the supplier base and are included in the standard purchase conditions. ABM Spain addressed these issues in discussions with suppliers individually, but also during their annual manufacturer meeting.

Quality and certification

Quality is a prerequisite for all of Hagemeyer's business operations. In many countries there are systems, procedures and programmes in place to guarantee the quality of the products and services it provides.
Various Hagemeyer companies have been certified with ISO 9000/9001. In Central Europe 26 branches and the head office are ISO 9001-compliant (which covers 40% of the total regional sales). All operations of Hagemeyer Australia are BVQI ISO 9000-certified (100% of the total regional sales). In the USA, 100% of the Hagemeyer sites are governed by ISO standard operating procedures and Hagemeyer Nordics has ISO 9000 coverage in all main countries (covering 90% of sales). Many of our companies are also ISO 14001-certified, including our ACE business in the Netherlands.

Compliance with legislation

In 2006 we addressed compliance based on the Reduction of Hazardous Substances in Electric and Electronic equipment (RoHs) in the UK. Hagemeyer UK is directly responsible for its own branded products meeting the requirements of the regulations in terms of material restrictions. It is also their duty to ensure that suppliers are aware of the requirements. Two years prior to the launch of RoHs, an extensive programme of communication and cooperation with suppliers was initiated to encourage removal of hazardous substances from products supplied to Hagemeyer. A customer guide to RoHs was written to explain RoHs regulations. The own brand catalogues give a clear indication of RoHs-compliant products, which enables customers to make an informed decision when purchasing the products.

Energy savings

Hagemeyer Central Europe reports energy savings as a result of the optimization of customer delivery drops. In 2006 fewer trucks were used, fewer stops implemented and fuel savings were realized.
In the area of reducing waste, the focus has very much been on the re-use of high-quality packing materials and the use of shipping material like euro pallets and special cable reels for customer delivery.

Renewable/alternative energy is one of the latest and most successful categories that, inter alia, ABM Spain is running at present. In Spain, we promote and sell solar panels, as well as organizing training programmes and campaigns, not only for customers, but also for the media and universities.

In addition to introducing energy-saving products to its range, Hagemeyer Australia is, for example, helping interested customers to convert to energy-saving products. The specialist lighting business is very active with its large retail customers replacing the lamps in their stores with energy-saving lamps.

In our ACE business, energy saving is also a high-priority topic. Usage ratings with regard to water and electricity can influence the choice of products by our customers. With the tightening of water restrictions, the efficiency of some of our products has become a vital selling point and major marketing advantage. The legislation in Australia makes energy efficiency labelling mandatory and so consumers can really see the efficiencies of comparable products. The Water Efficiency Labelling Scheme (WELS) was enacted in June 2006. Hagemeyer Brands Australia has ensured that all products comply with this standard.

Employee satisfaction

Hagemeyer is well aware of the fact that employee satisfaction is one of Hagemeyer's growth drivers. Human capital is taken seriously and in a number of operating companies formal employee satisfaction surveys are carried out every two years, and even once a year in some.

Training and development

Hagemeyer considers the training and development of its employees a vital investment. Internal and external training and education programmes are offered in all countries. These programmes are designed to improve specific skills for employees in various positions. In 2006 Hagemeyer North America conducted a leadership / culture training programme for 3,000 associates focusing on company values and how they apply within the organization to enable people to develop their full potential. This was followed up by a reinforcement programme to ensure that the principles that were communicated then would be retained.

In October 2006 Hagemeyer Australia was accredited as a Registered Training Organisation (RTO), which is a provider of high quality, nationally recognized training. Hagemeyer Australia can now issue nationally recognized qualifications to its employees.

Health and safety

Responsible and sustainable company performance demands systematic attention to employee health and safety. Hagemeyer Central Europe appointed a manager for labour protection in order to secure fair labour practice in accordance with the labour protection law.

Community involvement

Hagemeyer's operating companies and employees are part of our society. Initiatives are being taken to support charities and others in need of help. These initiatives vary in size and nature, with financial support being given, or employees providing assistance through their personal efforts.

As a responsible business leader, Hagemeyer North America believes in supporting the local communities in which it operates. United Ways, a national network of more than 1,300 locally governed organizations that are working to create lasting positive changes in communities and people's lives, is their preferred recipient of charitable support. As a result, members of senior management of Hagemeyer North America donated time and expertise to participate on various United Ways' boards and committees, and associates are encouraged to participate in United Ways' annual day of caring volunteer opportunity.

Consolidated financial statements

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1 *For the year ended 31 December 2006*

2 *At 31 December 2006*

Consolidated income statement

for the year ended 31 December 2006

(in € thousands)	Notes	**2006**	2005
Net revenue	26	**6,228,203**	**5,594,616**
Cost of sales		(4,788,366)	(4,293,890)
Gross profit		**1,439,837**	**1,300,726**
Operating expenses	27	(1,273,915)	(1,267,316)
Other operating income / (expense)	28	710	9,751
Operating profit / (loss)		**166,632**	**43,161**
Share in results of associated companies and joint ventures	6	2,550	2,596
Financial income	29	13,917	12,456
Financial expense	29	(68,508)	(103,773)
Profit / (loss) before taxes		**114,591**	**(45,560)**
Tax income / (expense)	30	24,964	(12,432)
Net profit / (loss) for the period		**139,555**	**(57,992)**
Attributable to:			
Equity holders of the parent		139,553	(57,992)
Minority interest		2	-
		139,555	**(57,992)**
Earnings per ordinary share (rounded to the nearest Euro cent)	31		
Basic for profit / (loss) for the year		0.27	(0.11)
Diluted for profit / (loss) for the year		0.25	(0.11)
Weighted average number of ordinary shares outstanding		516,231,499	516,174,375

See accompanying notes on pages 110 to 153

Consolidated balance sheet

at 31 December 2006

(in € thousands)	Notes	2006	2005
Assets			
Non-current assets			
Goodwill	3	510,569	526,454
Other intangible assets	4	23,139	19,456
Property, plant and equipment	5	207,763	210,046
Investments in associates and joint ventures	6	4,796	13,939
Finance lease receivables	7	2,593	3,162
Other non-current financial assets	8	7,443	13,997
Deferred tax assets	19	68,184	24,056
Retirement benefit assets	18	450	1,365
		824,937	**812,475**
Current assets			
Inventories	9	670,478	643,432
Trade receivables	10	1,012,745	935,373
Other receivables and prepayments	11	35,600	62,280
Cash and cash equivalents	12	80,444	85,542
		1,799,267	**1,726,627**
Non-current assets classified as held for sale	13	7,561	1,751
		1,806,828	**1,728,378**
Total assets		**2,631,765**	**2,540,853**

See accompanying notes on pages 110 to 153

(in € thousands)	Notes	2006	2005
Equity and liabilities			
Equity attributable to equity holders	14	**820,996**	**730,951**
Minority interest	15	**101**	-
Total equity		**821,097**	**730,951**
Non-current liabilities			
Subordinated convertible bonds	16	105,086	235,250
Provisions	17	51,069	70,544
Retirement benefit obligations	18	131,173	131,421
Bank debt	20	239,558	289,220
Finance lease obligations	21	85,786	100,645
Deferred tax liabilities	19	5,598	4,076
Other long-term liabilities		2,113	1,155
		620,383	**832,311**
Current liabilities			
Trade payables and other liabilities	22	997,903	920,020
Subordinated convertible bonds	16	139,687	-
Income tax liabilities		22,067	27,467
Provisions	17	27,115	24,254
Short-term debt and current portion of long-term debt		3,513	5,850
		1,190,285	**977,591**
Total equity and liabilities		**2,631,765**	**2,540,853**

See accompanying notes on pages 110 to 153

Consolidated statement of changes in equity

for the year ended 31 December 2006

	Notes	Attributable to equity holders							
(in € thousands)		Share Capital	Share premium	Other reserves	Retained earnings	Profit / (loss) for the period	Total	Minority interest	**Total equity**
Balance at 1 January 2005		**619,309**	**38,849**	**(35,217)**	**167,099**	**(140,671)**	**649,369**	**1**	**649,370**
Changes in equity for the period 1 January 2005 – 31 December 2005									
Appropriation of 2004 loss		-	-	-	(140,671)	140,671	-	-	-
Unrealised exchange differences on translation foreign operations	14	-	-	48,227	-	-	48,227	-	48,227
Net gains / (losses) on cash flow hedges	14	-	-	52	-	-	52	-	52
Net income / (loss) recognised directly in equity		**-**	**-**	**48,279**	**(140,671)**	**140,671**	**48,279**	**-**	**48,279**
Profit / (loss) for the period		-	-	-	-	(57,992)	(57,992)	-	(57,992)
Total recognised income and expense for the period		**-**	**-**	**48,279**	**(140,671)**	**82,679**	**(9,713)**	**-**	**(9,713)**
Share-based compensation plans	33	-	-	1,130	-	-	1,130	-	1,130
Award of conditional shares to employees	14	120	71	(191)	-	-	-	-	-
Dividends		-	-	-	-	-	-	(1)	(1)
Equity component of convertible bonds	16	-	-	61,740	28,425	-	90,165	-	90,165
Balance at 31 December 2005		**619,429**	**38,920**	**75,741**	**54,853**	**(57,992)**	**730,951**	**-**	**730,951**

See accompanying notes on pages 110 to 153

Continued >

(in € thousands)	Notes	Attributable to equity holders: Share Capital	Share premium	Other reserves	Retained earnings	Profit / (loss) for the period	Total	Minority interest	**Total equity**
Balance at 1 January 2006		**619,429**	**38,920**	**75,741**	**54,853**	**(57,992)**	**730,951**	**-**	**730,951**
Changes in equity for the period 1 January 2006 – 31 December 2006									
Appropriation of 2005 loss		-	-	-	(57,992)	57,992	-	-	-
Unrealised exchange differences on translation foreign operations	14	-	-	(33,724)	-	-	(33,724)	-	(33,724)
Realised exchange differences recognised in the income statement	14	-	-	(7,893)	-	-	(7,893)	-	(7,893)
Net gains / (losses) on cash flow hedges	14	-	-	117	-	-	117	-	117
Revaluation gain taken to equity	14	-	-	1,815	-	-	1,815	-	1,815
Portion of revaluation gain released to income statement	14	-	-	(308)	-	-	(308)	-	(308)
Net income / (loss) recognised directly in equity		**-**	**-**	**(39,993)**	**(57,992)**	**57,992**	**(39,993)**	**-**	**(39,993)**
Profit / (loss) for the period		-	-	-	-	139,553	139,553	2	139,555
Total recognised income and expense for the period		**-**	**-**	**(39,993)**	**(57,992)**	**197,545**	**99,560**	**2**	**99,562**
Share-based compensation plans	33	-	-	2,058	-	-	2,058	-	2,058
Net purchase of shares for share-based compensation plans	14	-	-	-	(11,638)	-	(11,638)	-	(11,638)
Award of conditional shares to employees	14	120	92	(212)	-	-	-	-	-
Issue of share capital to employees	14	13	26	-	-	-	39	-	39
Issue of share capital for bond conversion	14	16	19	(9)	-	-	26	-	26
Shares issued to minority interest	15	-	-	-	-	-	-	100	100
Dividends	15	-	-	-	-	-	-	(1)	(1)
Balance at 31 December 2006		**619,578**	**39,057**	**37,585**	**(14,777)**	**139,553**	**820,996**	**101**	**821,097**

See accompanying notes on pages 110 to 153

Consolidated cash flow statement

for the year ended 31 December 2006

(in € thousands)	Notes	2006	2005
Operating activities			
Operating profit / (loss)		166,632	43,161
Adjusted for:			
Depreciation and amortisation	27	45,537	46,002
Impairment losses		22,534	32,021
(Gain) / loss on disposal of property, plant and equipment		(2,255)	73
(Gain) / loss on disposal of subsidiaries	28	1,578	(8,204)
Increase / (decrease) in provisions		(17,572)	(10,662)
Other non-cash movements		10,017	10,177
Changes in working capital:			
Inventories		(38,392)	(27,771)
Receivables		(76,159)	(60,274)
Trade payables and other liabilities		57,527	86,148
Operating cash flow		**169,447**	**110,671**
Interest received		3,673	4,080
Dividends received from associates		1,759	66
Interest paid and similar charges		(40,108)	(74,128)
Income taxes paid		(21,848)	(7,628)
Net cash from operating activities		**112,923**	**33,061**
Investing activities			
Purchases of property, plant and equipment		(38,659)	(28,033)
Proceeds from sale of property, plant and equipment		17,787	3,511
(Purchases of) / proceeds from intangible assets		(8,096)	(5,225)
Acquisitions of subsidiaries, net of cash acquired	36	(8,546)	413
Divestments of / (investments in) subsidiaries, participations and other investments		7,627	15,094
Other investments and changes in receivables – net		630	(683)
Net cash from / (used in) investing activities		**(29,257)**	**(14,923)**

See accompanying notes on pages 110 to 153

Continued >

(in € thousands)	Notes	**2006**	2005
Financing activities			
Proceeds from long-term loans and similar instruments		-	135,000
Repayments of long-term loans and similar instruments		(39,391)	(169,936)
Payments of obligations under finance leases		(38,372)	(16,305)
Proceeds from issue of shares to shareholders		39	-
Purchase of own shares		(7,119)	-
Proceeds from sale of shares to employees		1,487	-
Proceeds from issue of shares to minority interests		100	-
Dividend to minority interests		(1)	(1)
Increase / (decrease) in other non current liabilities		(292)	(247)
Increase / (decrease) in short-term debt		(4,293)	3,218
Net cash from / (used in) financing activities		**(87,842)**	**(48,271)**
Net increase / (decrease) in cash and cash equivalents		**(4,176)**	**(30,133)**
Change in cash and cash equivalents			
At 1 January		85,542	113,915
Net increase / (decrease) in cash and cash equivalents		(4,176)	(30,133)
Currency translation effects		(922)	1,760
At 31 December	12	**80,444**	**85,542**

See accompanying notes on pages 110 to 153

Notes to the consolidated financial statements

1 General

Hagemeyer N.V. ("the Company or the Group") is a public limited liability company incorporated and domiciled at Rijksweg 69, 1411 GE Naarden, the Netherlands. The consolidated financial statements, as prepared by the Board of Management, were authorised for issue by the Supervisory Board on 19 February 2007. The consolidated financial statements will be submitted for adoption to the General Meeting of Shareholders, which will be held on 24 April 2007.

The principal activities of the Group are described in the Report of the Board of Management.

2 Principal accounting policies

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the EU and with Part 9 of Book 2 of the Netherlands Civil Code, effective as at 31 December 2006.

b. Adoption of new and revised Standards

The Group has adopted all new and revised IFRSs and IFRIC interpretations as adopted for use in the EU that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. Adoption of these new and revised Standards and Interpretations did not have any effect on the financial statements of the Group. They did however give rise to additional disclosures.

IAS 19 Employee Benefits

As of 1 January 2006, the Group adopted the amendments to IAS 19. As a result, additional disclosures are made providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. There is no recognition or measurement impact as the Group chose not to apply the new option offered to recognise actuarial gains and losses outside of the income statement. The Group continues to recognise such gains and losses using the "corridor" approach.

IAS 21 The Effects of Changes in Foreign Exchange Rates

As of 1 January 2006, the Group adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms part of the Groups' net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. This change has had no significant impact as at 31 December 2006 or 31 December 2005.

IAS 39 Financial Instruments: Recognition and Measurement

Amendment for financial guarantee contracts – amended the scope of IAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be subsequently measured at the higher of the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*. This amendment did not have an effect on the consolidated financial statements.

Amendment for hedges of forecast intragroup transactions – amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment did not have an effect on the financial statements.

Amendment for the fair value option – amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, hence the amendment did not have an effect on the financial statements.

IFRIC 4 Determining Whether an Arrangement Contains a Lease

The Group adopted IFRIC Interpretation 4 as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy did not have a material impact on the financial statements of the Group as at 31 December 2006 or 31 December 2005.

IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The Group adopted IFRIC Interpretation 6 as of 1 January 2006, which established the recognition date for liabilities arising from the EU Directive relating to the disposal of Waste Electrical and Electronic Equipment. This change did not have a material impact on the financial statements of the Group as at 31 December 2006 or 31 December 2005.

The Group has not early adopted any of the IFRSs and IFRIC interpretations that are not yet effective for 2006. We anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group.

c. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments, classified as held for trading or available for sale, which are stated at fair value.

Unless otherwise indicated, assets and liabilities are carried at their nominal value. Income and expenses are accounted for on an accrual basis.

d. Presentation currency

The consolidated financial statements are presented in Euros, rounded to the nearest thousand.

e. Basis of consolidation

The consolidated financial statements include the financial statements of Hagemeyer N.V. and its subsidiaries as at 31 December of each year. Subsidiaries are those companies over which the Company has control, defined as the power to govern the financial and operating policies so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, until the date of disposal when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All balances, transactions, income and expenses between Group companies are eliminated.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet.

f. Business combinations

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

g. Investments in associates and joint ventures

Associates are those in which the Group holds an interest and is able to exercise significant influence but does not have management control over the operations. Investments in associates are accounted for by the equity method of accounting except when classified as held for sale. Under this method, investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. The income statement reflects the share of the results on operations of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a Group company transacts with an associate, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses of the associates in excess of the Group's interest in those associates are not recognised unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Participations in joint ventures are also accounted for by the equity method of accounting.

h. Foreign currencies

The presentation and functional currency of the Group is the Euro. Each entity in the Group determines its own functional currency. Transactions during the year denominated in foreign currencies are translated into respective local functional currencies at exchange rates approximating those prevailing at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into respective local currencies at the exchange rates prevailing at the balance sheet date. Exchange differences arising are charged or credited to the income statement. Non-monetary assets and liabilities (measured in terms of historical cost) remain translated at the exchange rate at the dates of the initial transactions.

In order to hedge its exposure on most of its trading transactions that are exposed to foreign exchange risks, the Group enters into forward contracts (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

On consolidation, the income statements of foreign entities are translated into Euros at exchange rates approximating those prevailing at the time of the transactions. The balance sheets of foreign entities and the net investments in foreign entities in the Company accounts are translated into Euros at the exchange rates prevailing at the balance sheet date. Exchange differences arising on translation are credited or charged to a foreign currency translation reserve in equity. Such translation differences are recognised as income or expense upon disposal or liquidation of a foreign entity.

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

i. Intangible assets

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill is recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Testing for impairment takes place at least every half year, or more often if there is a triggering event. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal. When the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities exceeds the cost of acquisition (so-called "negative goodwill"), the excess is recognised directly in the income statement.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous generally accepted accounting principles in the Netherlands ("Dutch GAAP") amounts subject to being tested for impairment at that date. Goodwill arising on acquisitions prior to 1 January 2000 was charged in full to retained earnings.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units or groups of cash-generating units. An impairment loss results when the recoverable amount of the cash-generating unit (group) to which the goodwill relates is less than the carrying amount of the cash-generating unit (group). Such an impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets pro-rata on the basis of the carrying amount of each asset in the unit.

Software

Software is carried at cost less accumulated amortisation and accumulated impairment losses if any. Expenditures concerning procured software licenses and the development of software are capitalised as intangible assets and amortised on a straight-line basis over their estimated useful lives, not exceeding 7 years. As far as internally generated software is concerned, only staff expenditures directly related to programming and testing of in-house developed software qualify for capitalisation. Indirect expenditures, as well as expenditures for research, implementation, training and data migration are expensed when incurred.

Trade names and customer relationships

Trade names and customer relationships are carried at cost less accumulated amortisation and accumulated impairment losses if any. Intangible assets acquired in a business combination are identified and recognised separately from goodwill when they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value on the date of acquisition. Subsequently, the assets are amortised on a straight-line basis over their estimated useful lives, currently not exceeding 7 years.

The amortisation periods of intangible assets besides goodwill are reviewed at least at each financial year-end. Changes in the expected useful life are accounted for by changing the amortisation period and treated as accounting estimates.

j. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses if any. Property, plant and equipment not for operational use are carried at the lower of net book value or estimated net recoverable amount (see also note (k) on impairment).

Depreciation is calculated using the straight-line method to write off the cost of individual assets to their residual values over their estimated useful lives as follows:

Buildings	20 - 30 years
Machinery and equipment	5 - 10 years
Motor vehicles	3 - 5 years
IT hardware	3 - 7 years
Leasehold improvements	expected useful life or, where shorter, the term of related lease.

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each financial year-end. When a major repair or maintenance is performed, its cost is recognised in the carrying amount of property, plant and equipment as a replacement, if the recognition criteria are satisfied.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is immediately recognised in the income statement.

k. Impairment of tangible and intangible assets, excluding goodwill

At each balance sheet date, the Company assesses whether there are indications that tangible or intangible assets (excluding goodwill) may be impaired. If such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately.

l. Non-current assets classified as held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are not depreciated.

m. Other non-current financial assets

Other non-current financial assets consist mostly of receivables, deposits and loans with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method, less any impairment losses if any. The effective interest method is a method of calculating the amortised cost of a financial asset (or liability) and of allocating interest income (or expense) over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (or payments) through the expected life of the financial asset (or liability) or, where appropriate, a shorter period.

Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

The Company assesses at each balance sheet date whether receivables and loans are impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the impairment loss is immediately recognised in the income statement.

n. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in first-out method or the weighted average purchase price method. Cost comprises direct materials and all costs incurred to bring the inventories to their present location and condition net of discounts, rebates and bonuses. Net realisable value represents the estimated selling price in the ordinary course of business, less estimated costs of completion and costs to be incurred in marketing, selling and distribution.

o. Trade and other receivables

Trade receivables are stated at nominal value less an allowance for uncollectible amounts, if there is objective evidence that the Group will not be able to collect the receivables. Trade receivables do not carry any interest.

p. Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand, as well as short-term deposits with an original maturity of three months or less.

Incoming cheques in transit are included in trade receivables until deposited at banks, at which point they are transferred to cash. Outgoing cheques in transit are included in trade (or other) payables until cleared by the banks. This accounting policy is chosen because it synchronises the moment of recording cash on the incoming and outgoing side at concrete points in time, not subject to judgement as would be the case if estimates were made as to when other parties receive or issue the cheques. It also reflects operational reality in that creditor / customer financing is recognised as such until the moment that the transaction amounts are added to or deducted from the bank balances.

q. Subordinated convertible bonds

Convertible bonds are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. This amount is recognised as a liability on an amortised cost basis until extinguished upon conversion or at the instruments' maturity date. The difference between the proceeds of issue of the convertible bond and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Company, is denominated as the equity component. The "equity component" was included in non-current liabilities because of Hagemeyer's "cash alternative election" right in the bond agreement, until 1 December 2005 when the right to this "cash alternative election" was waived. As a liability, the "equity component" was adjusted to market value, with movements recorded in the income statement. On 1 December 2005, the full balance was transferred to equity – as a result, no further revaluations will occur.

Issue costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component was charged directly to the income statement. The portion relating to the liability component was capitalised and is amortised over the lifetime of the liability.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt at the date of issuance of the convertible bond to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible bond.

r. Bank debt

Interest-bearing bank debt and overdrafts are initially recorded at the fair value of the consideration received, net of transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised, as well as through the amortisation process. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

s. Provisions

Provisions are recognised for actual (legal or constructive) obligations, existing at the balance sheet date and arising from past events, for which it is probable that an outflow of resources embodying economic benefits will be required, which can be reasonably estimated. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost. Where management expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as an asset only if the reimbursement is virtually certain and the amount of the reimbursement can be measured reliably.

Certain of the Company's subsidiaries provide warranties on products sold. Provision is made for the estimated costs arising under these warranties upon the date of sale of the relevant products.

Provisions for restructuring are recognised when the Company has a detailed formal plan for the restructuring that has been communicated to affected parties.

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

t. Retirement benefit assets and obligations

The Company and its subsidiaries maintain pension plans covering the majority of their employees. Pension plans include defined benefit plans and defined contribution plans. Funding policies vary according to local practice and regulations, from fully funded arrangements to unfunded plans. Payments to defined contribution plans are charged as an expense as they fall due. Payments made to state-managed plans are dealt with as payments to defined contribution plans.

For defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations carried out at each year-end for the material plans. Actuarial gains and losses are recognised as income and expense when the net cumulative unrecognised actuarial gains and losses exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at the previous balance sheet date. These gains and losses are recognised over the expected average remaining working lives of the employees participating in the plans. Past service cost is recognised immediately to the extent that the benefits are already vested; otherwise they are amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and past service cost, and as reduced by the fair value of plan assets out of which the obligations are to be settled directly. Any asset resulting from this calculation is limited to past service cost and unrecognised actuarial losses, plus the present value of available refunds and reductions in future contributions to the plan ("balance sheet limit").

u. Taxes

Taxes on income are accrued in the same period as the revenues and expenses to which they relate. Current tax receivables and payables for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used are those that are enacted or substantively enacted by the balance sheet date. Provision for taxes, which could arise on the remittance of retained earnings by subsidiaries, is only made when there is a current intention to remit such earnings.

Deferred taxes are recorded, using the liability method, for all temporary differences arising between the carrying values of assets and liabilities for financial purposes and the corresponding tax bases, except for those differences related to investments in subsidiaries where their reversal will not take place in the foreseeable future. Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also included in equity.

Deferred tax assets, including those relating to the carry-forward of unused tax losses, are recognised to the extent it is probable that future taxable profits will be available against which the unused tax losses or deductible temporary differences can be utilised. The carrying amount is reviewed at each balance sheet date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the assets are realised or the liabilities settled, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to off-set current tax assets and current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The principal temporary differences arise from the obligation to recapture Australian branch losses, convertible bonds, goodwill, depreciation on property, plant and equipment, provisions for doubtful debts, provisions for obsolete stock, provisions for restructuring and other, (provision expenses are only deductible for tax purposes when the actual expenses are incurred) and from tax losses carried forward.

v. Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. 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, rebates, VAT and other sales-related taxes. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods. Revenues from the sale of goods are recognised when the significant risks and rewards of ownership have passed to the buyer and when the Group retains neither managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenue from services rendered is recognised in proportion to the stage of completion of the transaction at the balance sheet date.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

w. Borrowing costs

All borrowing costs are recognised as an expense when incurred.

x. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Operating lease payments are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also allocated over a straight-line basis over the lease term.

y. Share-based payments

The Company issues equity-settled share-based payments to certain employees and management. Equity-settled share-based payments are measured at fair value at the date on which they are granted. The fair value is expensed on a straight-line basis with a corresponding increase in equity over the vesting period (being the period in which the conditions are fulfilled and ending when the employees become fully entitled to the award), based on the Company's estimate of the number of shares that will eventually vest. The fair value of options is measured by use of the Black-Scholes option pricing model. The dilutive effect of outstanding share-based programmes is reflected as additional share dilution in the computation of earnings per share.

z. Derivative financial instruments and hedge accounting

The Group's activities expose it amongst others to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures for most of its trading transactions that are exposed to currency risks and for a significant part of its borrowings to protect against floating interest rates. The Group does not use derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Group's policies approved by the Board of Management, which provide written principles on the use of financial instruments.

Derivative financial instruments are recorded at fair value on the balance sheet. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments. Changes in the fair value of derivative financial instruments are recognised in the income statement as they arise unless the instruments qualify for hedge accounting.

Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to particular risks associated with a recognised asset or liability or a highly probable forecast transaction and which could affect profit or loss. Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged interest expenses occur. Where the hedged item is a forecast transaction that results in the recognition of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability, e.g. inventories.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

The Group's financial risk management policies are set out in note 23.

aa. Consolidated statement of cash flows

The consolidated statement of cash flows is prepared using the indirect method. Balance sheet and income statement items are adjusted for changes that have no influence upon receipts and payments during the year. Cash and cash equivalents in the consolidated statement of cash flows comprise cash at banks and in hand, as well as short-term deposits with an original maturity of three months or less.

ab. Other

In accordance with Article 2:402 of the Netherlands Civil Code, an abbreviated version of the income statement of the Company is presented.

Certain reclassifications have been made in the 2005 figures to align with the 2006 presentation.

An amount of € 7,458,000 has been reclassified from long-term finance lease obligations to short-term finance lease obligations.

Non-current assets

3 Goodwill

(in € thousands)	
Cost	
Balance at 1 January 2005	**584,479**
Disposals	(2,120)
Effect of movement in foreign exchange rates	48,047
Balance at 31 December 2005	**630,406**
Balance at 1 January 2006	**630,406**
Additions	7,976
Effect of movement in foreign exchange rates	(28,498)
Balance at 31 December 2006	**609,884**
Amortisation and impairment losses	
Balance at 1 January 2005	**(98,022)**
Disposals	2,120
Effect of movement in foreign exchange rates	(8,050)
Balance at 31 December 2005	**(103,952)**
Balance at 1 January 2006	**(103,952)**
Effect of movement in foreign exchange rates	4,637
Balance at 31 December 2006	**(99,315)**
Carrying amounts	
At 1 January 2005	**486,457**
At 31 December 2005	**526,454**
At 1 January 2006	**526,454**
At 31 December 2006	**510,569**

Acquisitions during the year

Acquisitions of Cardi Belysningsspecialisten AB ("Cardi") and the remaining 50% of shares in EL-Centrum S.A. ("EL-Centrum") resulted in additional goodwill of € 8.0 million in 2006. This includes € 4.5 million that was previously included in associates. See note 36 for more details.

Impairment testing of goodwill

With the introduction of IFRS, goodwill is no longer amortised since 1 January 2004. Instead, it was tested for impairment at each half year-end in 2005 and 2006 and determined that goodwill was not impaired. No indications or triggering events occurred to require more frequent testing.

The carrying amount of goodwill is allocated to the following cash-generating units (groups):

(in € thousands)	**2006**	2005
PPS North America	189,189	209,764
Hagemeyer Australia	114,411	118,169
A.B.M.	79,963	79,963
Hagemeyer UK	80,241	78,490
Hagemeyer Deutschland	33,677	33,677
Other	13,088	6,391
	510,569	**526,454**

The recoverable amount of the units is based on value in use calculations. Those calculations use cash flow projections based on the budget, approved by management, for the coming year, the forecasts for the next three years and extrapolations beyond that using a 0% annual growth rate. A pre-tax Weighted Average Cost of Capital (WACC) of 9% (2005: 8%) has been used to discount the projected cash flows.

The key assumptions on which the cash flow projections are based are as follows:
Per cash-generating unit, local market conditions and actual revenue growth, gross margins and operating expenses achieved in the pre-budget year have been taken into account in the determination of expected revenue growth, gross margins and operating expenses.

4 Other intangible assets

(in € thousands)	Software	Other intangible assets	**Total**
Cost			
Balance at 1 January 2005	**56,774**	**11,564**	**68,338**
Additions	6,241	-	6,241
Disposals	(1,456)	(11,351)	(12,807)
Divestment	(319)	-	(319)
Transfer from property, plant and equipment	7,356	-	7,356
Effect of movement in foreign exchange rates	2,197	33	2,230
Balance at 31 December 2005	**70,793**	**246**	**71,039**
Balance at 1 January 2006	**70,793**	**246**	**71,039**
Additions	8,741	-	8,741
Additions through acquisitions	733	4,693	5,426
Disposals	(33,060)	-	(33,060)
Transfer from property, plant and equipment	919	-	919
Effect of movement in foreign exchange rates	(700)	(26)	(726)
Balance at 31 December 2006	**47,426**	**4,913**	**52,339**
Amortisation and impairment losses			
Balance at 1 January 2005	**(27,942)**	**(5,658)**	**(33,600)**
Disposals	1,317	11,351	12,668
Divestment	297	-	297
Amortisation	(9,645)	-	(9,645)
Impairment	(11,671)	(5,906)	(17,577)
Transfer from property, plant and equipment	(2,665)	-	(2,665)
Effect of movement in foreign exchange rates	(1,028)	(33)	(1,061)
Balance at 31 December 2005	**(51,337)**	**(246)**	**(51,583)**
Balance at 1 January 2006	**(51,337)**	**(246)**	**(51,583)**
Disposals	32,881	-	32,881
Additions through acquisitions	(487)	-	(487)
Amortisation	(7,601)	(642)	(8,243)
Impairment	(2,053)	-	(2,053)
Transfer from property, plant and equipment	(19)	-	(19)
Effect of movement in foreign exchange rates	298	6	304
Balance at 31 December 2006	**(28,318)**	**(882)**	**(29,200)**
Carrying amounts			
At 1 January 2005	**28,832**	**5,906**	**34,738**
At 31 December 2005	**19,456**	**-**	**19,456**
At 1 January 2006	**19,456**	**-**	**19,456**
At 31 December 2006	**19,108**	**4,031**	**23,139**

In 2006, € 2.1 million was recorded as an impairment loss on software. This relates to the full write-off of parts of ERP software in the UK based on value-in-use calculations of the recoverable amount. In 2005, € 11.7 million of capitalised expenses of IT infrastructure was written off in full upon renewal of the service provider contract in the UK. These impairment losses are included in operating expenses.

The carrying amount of internally generated software is insignificant.

Other intangible assets consist mostly of customer relationships and trade names acquired in business combinations. See note 36 for more details on 2006 acquisitions. In 2005, an impairment loss of € 5.9 million was taken in operating expenses. The use of the trade name concerned had become limited; it no longer generated sufficient cash flows to justify the carrying value versus the recoverable amount based on value-in-use.

5 Property, plant and equipment

(in € thousands)	Land and buildings	Plant and machinery	Office and computer equipment	Other operating fixed assets	**Total**
At 1 January 2005					
Cost	186,650	127,289	152,163	30,571	496,673
Accumulated depreciation and impairments	(49,985)	(82,834)	(114,481)	(20,334)	(267,634)
Net book value at 1 January 2005	**136,665**	**44,455**	**37,682**	**10,237**	**229,039**
2005					
Net book value at 1 January	**136,665**	**44,455**	**37,682**	**10,237**	**229,039**
Assets included in divested subsidiaries	-	(195)	(424)	-	(619)
Effect of movement in foreign exchange rates	4,069	1,748	1,800	440	8,057
Additions	4,137	9,020	9,367	11,935	34,459
Disposals	(1,170)	(1,185)	(1,361)	(676)	(4,392)
Depreciation charge for the year	(10,220)	(10,383)	(11,474)	(4,280)	(36,357)
Impairment loss	(5,675)	(3,645)	(5,123)	(1)	(14,444)
Reclassification to non-current assets held for sale	(1,751)	-	-	-	(1,751)
Reclassifications and transfers to other balance sheet items	(1,184)	875	(2,733)	(904)	(3,946)
Net book value at 31 December	**124,871**	**40,690**	**27,734**	**16,751**	**210,046**
Cost	187,671	126,875	140,688	33,689	488,923
Accumulated depreciation and impairments	(62,800)	(86,185)	(112,954)	(16,938)	(278,877)
Net book value at 31 December	**124,871**	**40,690**	**27,734**	**16,751**	**210,046**
2006					
Net book value at 1 January	**124,871**	**40,690**	**27,734**	**16,751**	**210,046**
Additions through acquisitions	1,534	74	134	206	1,948
Effect of movement in foreign exchange rates	(1,641)	(513)	(429)	(273)	(2,856)
Additions	6,213	11,020	19,475	41,074	77,782
Disposals	(1,966)	(1,204)	(1,244)	(1,465)	(5,879)
Depreciation charge for the year	(9,397)	(10,410)	(10,314)	(7,173)	(37,294)
Impairment loss	(12,164)	(52)	(2,052)	-	(14,268)
Reversal of previous impairment loss	544	-	-	-	544
Reclassification to non-current assets held for sale	(1,950)	(24)	(16)	(20,169)	(22,159)
Reclassifications and transfers to other balance sheet items	3,799	1,085	(1,082)	(3,903)	(101)
Net book value at 31 December	**109,843**	**40,666**	**32,206**	**25,048**	**207,763**
Cost	189,530	121,692	134,136	41,005	486,363
Accumulated depreciation and impairments	(79,687)	(81,026)	(101,930)	(15,957)	(278,600)
Net book value at 31 December	**109,843**	**40,666**	**32,206**	**25,048**	**207,763**

The impairment losses in 2006 mainly relate to the UK and concern the Runcorn distribution centre where delays in finding a sublessee have resulted in a lower recoverable amount based on value-in-use. They also relate to various office and computer equipment that is no longer used. The value-in-use calculations are performed with a discount rate of 9% (pre-tax weighted average cost of capital in 2006). The 2005 impairment losses also related to the Runcorn distribution centre and arose in connection with the restructuring in the UK. These impairment losses are included in operating expenses.

There were no other indications of impairment to require impairment tests to be carried out. Based on the semi-annual review, no significant changes were necessary to the estimated useful lives of property, plant and equipment.

The carrying amount of the Group's property, plant and equipment held under finance leases can be split as follows:

(in € thousands)	**2006**	2005
Land and buildings	43,721	57,599
Plant and machinery	3,065	7,310
Office and computer equipment	2,287	6,294
Other operating fixed assets	17,673	6,135
	66,746	**77,338**

The fair value of land and buildings has been estimated at € 132 million (2005: € 147 million), or € 22 million above book value. Additions to property, plant and equipment during the year, amounting to € 36.4 million (2005: € 5.7 million), were financed by finance leases.

Property, plant and equipment in the USA with a carrying amount of € 24 million (2005: € 25 million) have been pledged as security for certain of the Company's long-term debt. See note 20 for further details.

6 Investments in associates and joint ventures

Summarized financial information in respect of the Group's principal associates and joint ventures is set out below:

(in € thousands)	**2006**	2005
Total assets	26,914	55,729
Total liabilities	(9,635)	(28,697)
Net assets	**17,279**	**27,032**
Group's share of associates' net assets	4,796	9,452
Goodwill on associates	-	4,487
Carrying value investment in associates	**4,796**	**13,939**
Revenues	79,570	142,034
Net profit for the period	9,655	10,038
Group's share of associates' profit for the period	**2,550**	**2,596**

Certain reclassifications have been made in the 2005 figures to align with the 2006 presentation.

The Group holds the following significant investments in associates and joint ventures:

EL-Centrum S.A. (currently Elektroskandia Poland)	50% in 2005 (100% in 2006 and therefore consolidated)
Bally Hong Kong Ltd. (China)	25% (in 2005 and 2006)
Lion-Vallen Ltd. (USA)	10% (in 2005 and 2006)

Although the Group owns less than 20% of the equity shares of Lion-Vallen, it is included as an associate because it is contractually agreed that Hagemeyer has significant influence on business and financial policy-making processes. None of the associates are listed on public exchanges.

Interests in associates in the USA with a carrying amount of € 1.3 million (2005: € 2 million) have been pledged as security for certain of the Company's long-term debt. See note 20 for further details.

7 Finance lease receivables

	Minimum lease receivables		Present value of minimum lease receivables	
(in € thousands)	**2006**	2005	**2006**	2005
Amounts receivable under finance leases:				
Due within one year	916	1,005	876	960
Due between one and five years	3,226	3,495	2,520	2,712
Due after five years	115	723	73	450
	4,257	**5,223**	**3,469**	**4,122**
Less: unearned finance income	(788)	(1,101)		
Present value of minimum finance lease receivables	**3,469**	**4,122**		
Analysed as:				
Non-current finance lease receivables (recoverable after 12 months)			2,593	3,162
Current finance lease receivables (recoverable within 12 months)			876	960
			3,469	**4,122**

One of the Group companies has sold most of its finance lease agreements to a third party in 2005. Some finance leasing arrangements for electronic office equipment remain. The maximum term of the remaining finance lease agreements is six years and the average term is approximately three years. Unguaranteed residual values of assets leased under these finance leases at the balance sheet date are estimated at € 138,000 (2005: € 285,000). The interest rate inherent in the leases is fixed at the contract date for all of the lease term. The average effective interest rate contracted approximates 9.4% (2005: 10.0%) per annum. The fair value of the Group's finance lease receivables at 31 December 2006 does not significantly differ from the carrying value based on discounting the estimated cash flows at market rate.

An allowance has been made for estimated uncollectible amounts of € 197,000 (2005: € 259,000). This allowance has been determined by reference to past default experience. A loss of € 55,000 was recognised during the year. This is included in operating expenses. Contingent rent consisted of a price indexation of 1.8% (2005: 1.9%) of the lease payments on retained contracts from March 2006 onwards and is included in revenues.

8 Other non-current financial assets

Other non-current financial assets consist for the most part of receivables, deposits and loans. Most are not interest-bearing.

€ 1.4 million (2005: € 3.0 million) is included with respect to the anticipated insurance coverage for silicosis and asbestos claims in the USA (see also note 17).

A review of the recoverable amounts based on value-in-use calculations led to the recognition of an impairment loss of in total € 6.8 million in 2006 on the full write-off of some receivables and prepaid leases mostly in the UK (2005: € 2.1 million). The impairment loss is included in operating expenses.

Long-term receivables in the USA with a carrying amount of € 3 million (2005: € 4 million) have been pledged as security for certain of the Company's long-term debt. See note 20 for further details.

Current Assets

9 Inventories

(in € thousands)	2006	2005
Finished goods	670,478	643,432
Inventories have been stated net of a provision, to reduce cost to estimated net realisable value, of	54,102	56,039

The amount of inventories recognised as an expense during the period amounts to € 4.8 billion (2005: € 4.3 billion). We refer to cost of sales in the income statement.

The amount of write-down of inventories to net realisable value recognised as an expense is € 11.8 million (2005: € 20.3 million). € 2.7 million (2005: € 4.0 million) of previous write-downs was reversed as the inventories concerned were sold at higher prices than prior estimates of the net realisable value. There were no individually material write-downs of inventory in 2006 or 2005. These inventory value adjustments are charged or credited to cost of sales.

Inventories in the USA with a carrying amount of € 131 million (2005: € 152 million) have been pledged as security for certain of the Company's long-term debt. See note 20 for further details.

10 Trade receivables

(in € thousands)	2006	2005
Trade receivables	1,012,745	935,373
Trade receivables have been stated net of an allowance for doubtful debts, of	27,368	28,377

Trade receivables are non-interest bearing and generally on 30-90 days' terms. Included in trade receivables are € 0.6 million (2005: € 9.2 million) of cheques in transit and uncleared deposits.
The provision for doubtful debts has been determined by reference to past default experience. A loss of € 11.3 million (2005:
€ 13.8 million) was recognised during the year on expected irrecoverable trade receivables. € 0.4 million (2005: € 1.7 million) of previous write-downs were reversed as the receivables concerned were recovered. These adjustments are included in operating selling expenses.

Trade receivables in the USA with a carrying amount of € 139 million (2005: € 162 million) have been pledged as security for certain of the Company's long-term debt. See note 20 for further details.

The carrying amount of trade receivables approximates their fair value.

11 Other receivables and prepayments

(in € thousands)	2006	2005
Other receivables	13,491	23,243
Income tax receivables	1,263	10,581
Current finance lease receivables	876	960
Currency derivatives receivable	1	3,252
Prepayments	19,969	24,244
	35,600	**62,280**

Other receivables and prepayments are non-interest bearing and due within one year.

Other receivables in the USA with a carrying amount of € 4 million (2005: € 4 million) have been pledged as security for certain of the Company's long-term debt. See note 20 for further details.

12 Cash and cash equivalents

(in € thousands)	2006	2005
Cash at bank and in hand	77,250	74,416
Short-term deposits	3,194	11,126
	80,444	**85,542**

Short-term deposits are made for varying periods not exceeding three months. The carrying amount approximates the fair value.

A maximum of € 25 million (2005: € 25 million) can be retained on bank accounts that are not pledged to secure the Company's long-term debt. See note 20 for further details.

13 Non-current assets classified as held for sale

(in € thousands)	Segment	2006	2005
Building	Corporate	1,751	1,751
Vehicles under finance lease	PPS Europe	5,495	-
Warehouse	PPS Europe	125	-
Usufruct rights	PPS Europe	190	-
		7,561	**1,751**

As a consequence of restructuring, a vacated building in Lelystad, the Netherlands, is classified as non-current assets held for sale since 31 December 2005. Market circumstances have delayed the sale; at 31 December 2006, the sale is still expected to eventuate within one year. The proceeds are expected to exceed the net carrying amount of € 1.8 million; accordingly no impairment loss has been recognised.

In the UK, certain vehicles held under finance lease are classified as non-current assets held for sale. Contractually, the Group shares in the gain or loss on disposal. € 20.0 million of net carrying value has been reclassified to assets held for sale in 2006 and vehicles with a carrying amount of € 14.5 million have been sold before 31 December 2006. No impairment loss has been recognised and the vehicles are expected to be sold within one year.

In the first half-year of 2006, a warehouse in Madrid, Spain with a carrying amount of € 1.9 million was classified as non-current assets held for sale. The sale eventuated in December 2006. A warehouse with a carrying amount of € 125,000 remains for sale at 31 December 2006 and is expected to be sold in 2007.

After restructuring, € 190,000 has been classified as non-current assets held for sale in 2006 relating to usufruct rights in Warsaw, Poland. Sale is expected within one year. The proceeds are expected to exceed the net carrying amount; accordingly no impairment loss has been recognised.

Equity and liabilities

14 Equity attributable to equity holders

The Company's share capital is denominated in Euros. The authorised share capital amounts to € 810 million, divided into 675 million ordinary shares with a nominal value of € 1.20 each.

In 2006, 124,317 ordinary shares were issued. As a result, the paid-up and called-up ordinary share capital increased by € 149,180 and share premium reserve increased by € 137,229. The share premium reserve of € 39.1 million is, under existing tax legislation, distributable in ordinary shares free of Dutch income taxes.

3,000,000 ordinary shares with a nominal value of € 3.6 million are held by the Company as at 31 December 2006 with a value of € 11.4 million. The net purchase price is deducted from retained earnings. These ordinary shares are intended to be used for employee share-based programmes. The purchase of 1,425,000 of these ordinary shares was also settled in 2006. For 1,575,000 ordinary shares, the cash outflow occurred in January 2007; a liability has been recorded accordingly.
An additional 411,316 ordinary shares with a nominal value of € 0.5 million were purchased in 2006 for € 1.7 million and sold to employees as part of the ShareMap plan for € 1.5 million. The difference is deducted from retained earnings.

Changes in the number of ordinary shares issued

(in thousands)	2006	2005
Issued 1 January	516,191	516,091
Shares issued during the year	124	100
	516,315	**516,191**

The Board of Management proposes to pay a dividend of € 0.06 per share. The proposed dividend of € 35.4 million is based on the assumption that all 2005 subordinated convertible bonds bearing interest of 5.75% will be converted into shares.

The actual dividend amount will be based on the number of shares outstanding at the moment of dividend payment (16 May 2007); it has been assumed that the entire ordinary dividend will be paid in cash.

Other reserves

Reserve share-based compensation

(in € thousands)	**2006**	2005
At 1 January	1,719	780
Recognition of share-based payments	2,058	1,130
Shares issued at premium	(212)	(191)
At 31 December	**3,565**	**1,719**

Further details can be found in note 33.

Equity component convertible bond

(in € thousands)	**2006**	2005
At 1 January	61,740	-
Reclassification of equity component of convertible bond	-	61,740
Shares issued on conversion	(9)	-
At 31 December	**61,731**	**61,740**

This reserve represents the option component of the subordinated convertible bonds reclassified to equity after the right to "cash-alternative" election was waived in 2005. See note 16 for further details. Upon conversion of the bonds, the related reserve amount is reclassified to share capital and share premium.

Foreign currency translation reserve

(in € thousands)	**2006**	2005
At 1 January	12,230	(35,997)
Recognition of cumulative realised translation differences	(7,893)	-
Effect of movements in foreign exchange rates	(33,724)	48,227
At 31 December	**(29,387)**	**12,230**

Hedging reserve

(in € thousands)	**2006**	2005
At 1 January	52	-
Increase in fair value of cash flow hedging derivatives	117	52
At 31 December	**169**	**52**

See note 23 for details of cash flow hedges.

Revaluation reserve

(in € thousands)	**2006**	2005
At 1 January	-	-
Revaluation gain taken to equity	1,815	-
Portion of revaluation gain released to income statement	(308)	-
At 31 December	**1,507**	**-**

This reserve has arisen on the revaluation of various assets of EL-Centrum in Poland. When the remaining 50% of shares in EL-Centrum, Poland was acquired in January 2006, differences between the fair value and the original carrying amount of identifiable assets and liabilities were recorded for 100% under IFRS 3 *Business Combinations*. For the 50% that was already owned by the Group, a reserve is formed to account for the one-time revaluation gain. Upon depreciation of the underlying items, the related amount is released from this reserve to the income statement.

Total of other reserves

(in € thousands)	**2006**	2005
	37,585	75,741

15 Minority interest

In 2006, Hagemeyer EFS B.V. was set up by a Hagemeyer subsidiary as 95% shareholder and a third party as 5% minority shareholder. The minority interest share of the result of Hagemeyer EFS B.V. amounts to € 1,762 over 2006, of which € 1,229 was paid out in dividend.

(in € thousands)	**2006**	2005
At 1 January	-	1
Shares issued to minority interest	100	-
Minority interest's share in result	2	-
Dividends paid	(1)	(1)
At 31 December	**101**	-

16 Subordinated convertible bonds

In February 2004, the Company issued subordinated convertible bonds amounting to € 150 million with a maturity of 5 years. The bonds bear interest at 5.75%. The bonds rank pari passu among themselves and constitute our direct, unconditional, subordinated, unsecured obligation. The bonds rank junior to any of our present or future unsecured and unsubordinated creditors, including the lenders under our facilities. The bonds are convertible into ordinary Hagemeyer shares against a conversion price of € 2.04 per bond at any time between the date of issue of the bonds and their settlement date. The final maturity date of the bonds is 5 February 2009. Bonds with a nominal value of € 11,000 and a carrying value of € 10,009 have been converted into ordinary shares during 2006. On 31 January 2007, Hagemeyer formally notified the bondholders that the remaining € 149,989,000 of bonds outstanding (nominal value) will be redeemed on 2 March 2007. As the share price is currently well above the conversion price of € 2.04, bondholders are expected to opt for conversion.

In March 2005, the Company issued subordinated convertible bonds amounting to € 135 million with a maturity of 7 years. The bonds bear interest at 3.5%. The bonds rank pari passu among themselves and constitute our direct, unconditional, subordinated, unsecured obligation. The bonds rank junior to any of our present or future unsecured and unsubordinated creditors, including the lenders under our facilities. The bonds are convertible into ordinary Hagemeyer shares against a conversion price of € 2.83 per bond at any time between the date of issue of the bonds and their settlement date. The final maturity date of the bonds is 30 March 2012. Bonds with a nominal value of € 23,000 and a carrying value of € 17,275 have been converted into ordinary shares during 2006.

The net proceeds received from the issue of the convertible bonds have been split up between a liability component and an option component, representing the fair value of the embedded option to convert the liability into equity of the Company as follows:

(in € thousands)	**2006**	2005
Balance at 1 January	**235,250**	**130,540**
Nominal value of convertible bonds issued	-	135,000
Equity component at issuance	-	(38,340)
Liability component at issuance	-	**96,660**
Conversion	(27)	-
Interest accrued	9,550	8,050
At 31 December	**244,773**	**235,250**
Current	139,687	-
Non-current	105,086	235,250

The option component was originally included in non-current liabilities because of Hagemeyer's "cash alternative election" option as worded in the applicable trust deeds, until 1 December 2005 when the right to this "cash alternative election" was waived. This "cash alternative election" implied the right to pay out cash instead of issuing shares when the bondholders request conversion. As a consequence of the classification as a liability, the option component was valued at fair value with movements going through the income statement. The increase in fair value since issuance amounted to € 28.4 million per 1 December 2005. The fair value of the liability component at the issuance date was calculated using a market interest rate for an equivalent non-convertible bond. Until 1 December 2005, the value of the option component was determined as the difference between the total market value of the convertible bonds minus the market value of the liability component at reporting date. The market value of the liability component was calculated by discounting the cash flows (interest and principal) of the subordinated convertibles using an equivalent market interest rate of that reporting date.

On 1 December 2005, the revalued option component of € 90.1 million was reclassified from liabilities to shareholders' equity (€ 28.4 million, being the revaluation impact from 2004 and 2005, to retained earnings and € 61.7 million to a separate component of equity). As such, the option component will no longer be revalued and there will be no further impact to the income statement. The option component was reduced by € 9,000 in 2006 as a consequence of the conversion of € 11,000 of the € 150 million bonds and € 23,000 of the € 135 million bonds.

Based on market rates, the fair value of the convertible bond at 31 December 2006 is approximately € 275 million for the € 150 million bond (issued in 2004) and € 204 million for the € 135 million bond (issued in 2005) (2005: € 210 million for the € 150 million bond and € 151 million for the € 135 million bond). The effective interest rate of the bonds is 9.5% in 2006 and 9.7% in 2005, based on the interest expenses in the income statement, as related to the debt components of the convertible bonds.

17 Provisions

(in € thousands)	Reorganisation and restructuring	Warranties	Product liability	Taxes	Other	**Total 2006**	Total 2005
At 1 January	**24,530**	**6,096**	**18,737**	**33,816**	**11,619**	**94,798**	**114,199**
Provisions of divested subsidiaries	-	-	-	-	-	-	(429)
Acquisitions of subsidiaries	-	-	-	-	212	212	-
Transfers	(88)	-	-	-	(526)	(614)	333
Effect of movements in foreign exchange rates	(598)	(117)	(1,928)	-	(250)	(2,893)	7,375
Amounts charged to the income statement	7,508	11,689	-	619	8,076	27,892	33,198
Amounts utilised	(9,381)	(9,561)	(615)	-	(6,726)	(26,283)	(34,351)
Impact change in discount rate	(376)	-	-	-	-	(376)	-
Accrued interest	446	-	760	-	-	1,206	2,225
Amounts released to the income statement	(441)	-	(6,208)	(9,087)	(22)	(15,758)	(27,752)
At 31 December	**21,600**	**8,107**	**10,746**	**25,348**	**12,383**	**78,184**	**94,798**
Current	7,683	7,185	2,053	8,900	1,294	27,115	24,254
Non-current	13,917	922	8,693	16,448	11,089	51,069	70,544

Reorganisation and restructuring

This provision will cover costs relating to the reorganisation of the PPS division and includes amounts for exiting surplus properties, rationalisation of the branch network, as well as amounts for severance payments to redundant employees.

The amount utilised from the restructuring and reorganisation provision during 2006 includes € 6.6 million relating to further restructuring of the PPS division. Amounts utilised during 2006 also include € 2.8 million for costs related to restructuring or discontinuation of non-core activities.

The non-current portion of the provision consists mostly of provisions for the net obligations of non-cancellable leases of facilities that are no longer in use. The book value of these provisions (current and non-current) is € 16 million (2005: € 17 million). Due to the nature of these obligations, it is expected that the majority of these provisions will be utilised within ten years of the balance sheet date. The actual or reasonably to be expected sublease income on these facilities is taken into account when calculating the obligations.

Warranties

The warranty provision represents management's best estimate of the Group's liability under warranties granted on its products, based on past experience and industry averages for defective products. All is expected to be utilised within two years of the balance sheet date.

Product liability claims – silicosis and asbestos

Two of our subsidiaries in the United States are defendants in approximately 9,409 (2005 – 19,221) silicosis-related claims in various states, the large majority of which are filed in Mississippi and Texas. The plaintiffs in these cases mostly have been or are working in the energy (notably petrochemical), construction, foundry, and manufacturing industries, where sand is either used or is a by-product of sandblasting, drilling, and grinding and for the making of moulds and cores in foundry operations. These plaintiffs allege that they developed silica-related diseases or suffer from diseases such as silicosis, and that a subsidiary of ours distributed respiratory protective products (such as dust masks, respirators and air-fed hoods) that were not adequate to prevent plaintiffs from developing such silica-related diseases or silicosis, and/or that Hagemeyer's subsidiary failed to give adequate warnings with respect to these products. Some claims also allege that another of Hagemeyer's subsidiaries manufactured a government-approved sandblasting hood that has been alleged to be defective, and that our subsidiary failed to give adequate warnings.

The defendants in these lawsuits are often numerous and include manufacturers and distributors of sand, sandblasting equipment and products, as well as manufacturers and distributors of respiratory protective products.

These subsidiaries are also defendants in approximately 174 asbestos claims filed in Texas, down from approximately 691 in 2005. Plaintiffs in these cases are, for the most part, workers in the automotive, construction, and manufacturing industries that allegedly developed an asbestos-related disease, which they claim is due, in part, to exposure to products containing asbestos allegedly manufactured or sold by one of our subsidiaries.

Our costs in connection with these claims are difficult to estimate because the outcome of, or trends in this type of litigation (and therefore our range of potential liabilities) is subject to a number of assumptions and uncertainties, such as the number or size of claims or settlements, the number of financially viable responsible parties, and the potential impact of any pending or future silicosis/asbestos-related litigation or the impact of any toxic tort reform legislation regarding asbestos claims and/or silicosis claims.
A significant number of claims has been dismissed by the courts in 2006. The average cost of these silicosis and asbestos claims for claims resolved, including litigation and settlement costs decreased substantially in 2006.

As at 31 December 2006, Hagemeyer's USA subsidiaries have established a provision for these claims of € 10.7 million (2005: € 18.7 million) to cover what we recognise as potential silicosis- and asbestos-related liabilities. The provision takes into consideration incurred but not recorded claims, and is calculated on a discounted basis. The anticipated insurance coverage of € 1.4 million (2005: € 3.0 million) is recorded separately as other long-term receivable within other non-current financial assets (see also note 8).

Taxes
This represents a provision for a variety of Group tax risks. An amount of € 9.1 million has been released in 2006 as a result of the expiration of the statute of limitations with regard to certain matters and following favourable jurisprudence from the European Court of Justice.

Other
The category "other" consists of provisions for a variety of legal risks and a provision for long service leave. An additional provision of € 5 million has been recorded for the exposure related to the legal proceedings as described in note 24 "Commitments and Contingencies".
Most is expected to be utilised within five years.

18 Retirement benefit assets and obligations

Defined contribution plans
The Group maintains defined contribution plans for qualifying employees of its subsidiaries in Australia, Canada, Sweden, the United Kingdom and the United States. The assets of the plans are held separately from those of the Group in funds under the control of trustees or by insurance companies. In Finland and the Netherlands employees participate in a statutory plan. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit plans to fund the benefits. The only obligation of the Group with respect to the retirement benefit plans is to make the specified contributions.

The total expense recognised in the income statement of € 16,150,000 (2005: € 13,254,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

Defined benefit plans
The Group maintains defined benefit plans for qualifying employees of its subsidiaries in Australia (closed average earnings retirement plan, held separately under the control of trustees), Germany (closed average earnings retirement plan, book reserved), the Netherlands (average earnings retirement plans, held separately under the control of trustees), Norway (statutory final salary retirement plan, insured), Sweden (statutory final salary retirement plan, partly book reserved and partly insured) and Switzerland (average earnings retirement plans, held separately under the control of trustees) and previously for qualifying employees of its subsidiaries in the United Kingdom (final salary retirement plans, closed as per 5 April 2002, held separately under the control of trustees) and the United States (retirement medical plan, book reserved).

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligations were carried out at 31 December 2006 by qualified actuaries. The present value of the defined benefit obligations, and the related current service costs and past service costs, were measured using the projected unit credit method.

The following tables summarise the components of the net benefit expense recognised in the consolidated income statement and the funded status and amounts recognised in the consolidated balance sheet, as well as the principal assumptions applied.

The principal assumptions used for the purpose of the actuarial valuation are as follows:

	Eurozone		UK		Other countries	
(in %)	**2006**	2005	**2006**	2005	**2006**	2005
Discount rate	4.5	3.9	5.1	4.8	2.75 - 5.9	2.5 - 5.5
Expected return (bonds)	4.1	3.5	4.5	4.2	-	-
Expected return (equities)	7.1	6.5	7.5	7.2	-	-
Expected return (other)	4.5	3.9	-	-	2.0 - 7.1	3.0 - 7.1
Expected (real) salary increases	0.0 - 3.0	0.0 - 3.0	-	-	2.0 - 4.0	0.0 - 4.0
Expected pension increases	1.9 - 2.0	1.9 - 2.0	2.6 - 3.4	2.1 - 3.8	1.0 - 10.5	1.0 - 11.0
Inflation assumption	2.0	2.0	3.0	2.8	0.0 - 2.5	0.0 - 2.5

The expected return on bonds assumes investment in low-risk insurance contracts or government bonds, with a yield to maturity depending on the maturity of the bonds invested in. This yield can generally be derived directly from the financial markets. The expected return on equities is determined by adding an allowance for equity out-performance (the equity risk premium) to the market yield on low-risk government bonds of 3%. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plans' portfolios.

The assumed medical cost trend rates used in measuring the defined benefit obligations relating to medical care plans is 10.5% in 2006 (11.0% in 2005), decreasing with 0.5% per annum to 5.0% as ultimate trend rate in 2018.

A 1.0% increase in the assumed medical cost trend rate would result in a decrease of the projected benefit obligation of € 130,000, with an immaterial effect on the service cost. A 1.0% decrease in the assumed medical cost trend rate would result in an increase of the projected benefit obligation of € 130,000, with an immaterial effect on the service cost.

The amount recognised in the balance sheet in respect of the Group's defined benefit retirement plans is as follows:

(in € thousands)	**2006**	2005
Fair value of plan assets	580,092	558,231
Present value of funded liabilities	(671,764)	(690,753)
Present value of unfunded liabilities	(3,701)	(3,072)
Funded status	**(95,373)**	**(135,594)**
Unrecognised actuarial (gains) / losses	(29,983)	13,035
Balance sheet limit	(5,367)	(7,497)
At 31 December	**(130,723)**	**(130,056)**
Net liability recognised	(131,173)	(131,421)
Net asset recognised	450	1,365

In accordance with IAS 19, paragraph 58(b) the capitalisation of a defined benefit asset is restricted to the amount of the balance sheet limit. The difference between the amount in excess of the balance sheet limit at the end of the year and the amount in excess of the balance sheet limit at the beginning of the year is recognised as an income or expense in the income statement.

Amounts recognised in the income statement in respect of the defined benefit plans are as follows:

(in € thousands)	**2006**	2005
Current service cost	8,824	6,941
Interest on obligation	29,067	30,075
Expected return on plan assets	(28,903)	(28,159)
Amortisation of net (gains) / losses	310	-
Actuarial (gains) / losses resulting from balance sheet limit	(2,130)	4,009
Transfer in / out	792	-
Past service cost	-	250
Total expense	**7,960**	**13,116**

The total expense for the year is included as retirement benefit expenses in staff expenses in the income statement.
The actual return on plan assets was € 37,761,000 (2005: € 67,092,000).

Changes in the present value of the defined benefit obligations are as follows:

(in € thousands)	**2006**	2005
Opening defined benefit obligation	693,825	630,942
Current service cost	8,824	6,941
Expected employee contributions	1,187	1,202
Interest on obligation	29,067	30,075
Curtailment / settlement	-	1,420
Benefits paid	(30,134)	(23,539)
Actuarial (gains) / losses	(34,149)	43,264
Transfer in / out	1,197	-
Exchange rate (gains) / losses	5,648	3,520
Closing defined benefit obligation	**675,465**	**693,825**

Changes in the fair value of plan assets are as follows:

(in € thousands)	**2006**	2005
Opening fair value of plan assets	558,231	498,402
Expected return on plan assets	28,903	28,159
Employer contributions	9,865	11,578
Member contributions	1,187	1,198
Benefits paid	(30,134)	(23,539)
Settlement	-	(1,671)
Actuarial gains / (losses)	8,858	38,933
Exchange rate gains / (losses)	3,182	5,171
Closing fair value of plan assets	**580,092**	**558,231**
Of which:		
Bonds	244,680	229,824
Equities	277,567	261,993
Other	57,845	66,414

The plan assets do not include any of the Group's own financial instruments nor any property occupied by or other assets used by the Group.
The Group expects to contribute approximately € 5.5 million to its defined benefit plans in 2007.

The history of the retirement benefit plans is as follows:

(in € thousands)	**2006**	2005	2004
Fair value of plan assets	580,092	558,231	498,402
Present value of defined benefit obligations	(675,465)	(693,825)	(630,942)
Funded status	**(95,373)**	**(135,594)**	**(132,540)**
Experience (gains) and losses on plan liabilities	8,192	(1,548)	(437)
Experience adjustments on plan assets	10,615	43,269	14,382

Experience adjustments on defined benefit obligations and plan assets are the difference between assumptions made and actual experience. In accordance with IFRS 1, disclosures with respect to the history of the plans are made as from the 2004 reporting period.

19 Deferred tax assets and liabilities

The movement in deferred tax assets and liabilities during the year was as follows:

2005 Deferred tax assets

(in € thousands)	At 1 January 2005	Exchange differences	(Charge) / release to income statement	Transfer to deferred tax liabilities	Transfer to current tax liabilities	Charge to equity	Change in tax rate (to income statement)	**At 31 December 2005**
Reorganisation and restructuring provisions	1,748	1	(296)	-	-	-	260	1,713
Other provisions	2,912	10	3,066	5	-	-	422	6,415
Tax loss carry forwards	48,279	915	20,815	(1)	-	16,653	(2,489)	84,172
Deductible temporary differences on accounts receivable and inventory provisions	7,156	172	(430)	(61)	-	-	781	7,618
Capitalised refinancing costs	6,528	-	-	-	-	(1,927)	-	4,601
Goodwill	3,663	101	(753)	-	-	-	-	3,011
Interest accruals	116	18	1,485	-	-	-	-	1,619
Other deductible temporary differences	28,772	(124)	(4,803)	(3,304)	-	-	983	21,524
Total	**99,174**	**1,093**	**19,084**	**(3,361)**	**-**	**14,726**	**(43)**	**130,673**

2005 Deferred tax liabilities

(in € thousands)	At 1 January 2005	Exchange differences	Charge / (release) to income statement	Transfer to deferred tax assets	Transfer from current tax liabilities	Charge to equity	Change in tax rate (to income statement)	**At 31 December 2005**
Taxable temporary differences on accounts receivable and inventory valuation	5,114	972	(2,771)	-	-	-	(156)	3,159
Accelerated depreciation property, plant and equipment	1,855	(134)	(897)	-	-	-	(83)	741
Goodwill	18,195	162	10,855	-	-	-	2,680	31,892
Convertible bonds	-	-	-	-	-	14,726	-	14,726
Recapture obligation losses Australian branch	49,851	-	7,917	-	-	-	(3,006)	54,762
Other taxable temporary differences	7,873	(336)	838	(3,361)	-	-	399	5,413
Total	**82,888**	**664**	**15,942**	**(3,361)**	**-**	**14,726**	**(166)**	**110,693**

2006 Deferred tax assets

(in € thousands)	At 1 January 2006	Exchange differences	(Charge) / release to income statement	Transfer to deferred tax liabilities	Transfer to current tax liabilities	Acquisition	Charge to equity	Change in tax rate (to income statement)	**At 31 December 2006**
Reorganisation and restructuring provisions	1,713	(174)	(508)	-	-	-	-	(38)	993
Other provisions	6,415	(653)	(1,375)	(24)	-	-	-	(140)	4,223
Tax loss carry forwards	84,172	(1,207)	33,946	-	-	-	(2,509)	(7,185)	107,217
Deductible temporary differences on accounts receivable and inventory provisions	7,618	(617)	(766)	26	104	244	-	(121)	6,488
Capitalised refinancing costs	4,601	-	-	-	-	-	(1,959)	-	2,642
Goodwill	3,011	(84)	12,805	-	-	-	-	-	15,732
Interest accruals	1,619	(167)	12,142	-	-	-	-	(36)	13,558
Other deductible temporary differences	21,524	(1,412)	9,879	7,549	-	130	-	(1,478)	36,192
Total	**130,673**	**(4,314)**	**66,123**	**7,551**	**104**	**374**	**(4,468)**	**(8,998)**	**187,045**

2006 Deferred tax liabilities

(in € thousands)	At 1 January 2006	Exchange differences	Charge / (release) to income statement	Transfer to deferred tax assets	Transfer from current tax liabilities	Acquisition	Charge to equity	Change in tax rate (to income statement)	**At 31 December 2006**
Taxable temporary differences on accounts receivable and inventory valuation	3,159	(371)	43	27	-	-	-	(44)	2,814
Accelerated depreciation property, plant and equipment	741	211	5,818	2,010	40	16	-	(149)	8,687
Goodwill	31,892	(3,277)	7,706	1,507	-	-	-	(718)	37,110
Convertible bonds	14,726	-	-	-	-	-	(4,468)	-	10,258
Recapture obligation losses Australian branch	54,762	-	675	-	-	-	-	(7,586)	47,851
Other taxable temporary differences	5,413	(410)	7,833	4,007	-	1,076	-	(180)	17,739
Total	**110,693**	**(3,847)**	**22,075**	**7,551**	**40**	**1,092**	**(4,468)**	**(8,677)**	**124,459**

Certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances (after offsetting) for financial reporting purposes:

(in € thousands)	**2006**	2005
Deferred tax assets	68,184	24,056
Deferred tax liabilities	5,598	4,076

Deferred tax assets and liabilities were shown net in the 2005 consolidated financial statements and are now separately disclosed in the comparative figures above.

At the balance sheet date, the Group has unused tax losses of € 1,050 million (2005: € 1,060 million) available for offset against future taxable income. A deferred tax asset of € 107.2 million (2005: € 84.2 million) is recognised in respect of € 358 million (2005: € 272 million) of such losses as, based on the forecasts for the entities concerned, future profits are expected to be available to offset the losses within the foreseeable future. No deferred tax asset is recognised in respect of the remaining € 692 million (2005: € 788 million). Of the total tax losses available of € 1,050 million, € 643 million may be carried forward indefinitely and € 407 million will expire between 2007 and 2025. Realisation of carryforward losses is subject to future taxable income, expiration of losses and legislative changes. There are no significant amounts of unrecognised deductible temporary differences.

€ 11 million of deferred tax asset is recognised on deductible temporary differences and carryforward losses in excess of profits arising out of taxable temporary differences in jurisdictions that suffered a loss in the current and/or prior year. Realisation is considered probable based on the budget for the coming year and forecasts for the years thereafter.

Approximately € 15 million of the net deferred tax assets of € 68.2 million are expected to be utilised within one year.

20 Bank debt

(in € thousands)	**2006**	2005
Amounts due under long-term credit facilities	236,775	285,661
Bank loans	3,551	3,935
	240,326	**289,596**
Less: amounts repayable within one year	(768)	(376)
	239,558	**289,220**

As per 31 December 2006 the following financing facilities are available to the Company:

- A € 492.5 million Multi-Currency Revolving Credit Facility, with a maturity date of 5 February 2008; and
- A € 113.2 million Letter of Credit Facility, with a maturity date of 5 February 2008.

In 2006 € 217 million of the € 492.5 million Multi-Currency Revolving Credit Facility consists of a hybrid loan.

The interest spread is dependent on the ratio Net Senior Debt/ EBITDA before exceptional items.

The average interest rate in 2006 for the Group was 6.9% on a cash basis (2005: 6.9%).

The carrying amount of the Group's long-term debt approximates its fair value as almost all of the debt bears interest based on a quoted index.

In connection with these facilities, security has been granted over shares of virtually all of Hagemeyer's material group companies, all of Hagemeyer's material intercompany loans and virtually all bank accounts as well as pledges over inventory, trade receivables and certain other assets of the Group in the United States.

Each of the facilities is subject to cross-guarantees by certain members of the Group and is guaranteed by Hagemeyer N.V.

The facilities contain customary events of default, including, without limitation, payment defaults, breach of representations and warranties, covenant defaults and cross-defaults. If an event of default occurs, the lenders are entitled to accelerate repayment of the amounts owed under the facilities, cancel all commitments and to take all other actions allowed to be taken by a secured creditor.

The facilities contain covenants that place restrictions on, among other things, the incurrence of debt, the creation of security, the payment of dividends and other distributions, the redemption of share capital, the sale of assets, mergers, sale and leaseback transactions, capital expenditure, acquisitions and investments.

In 2006, Hagemeyer was in compliance with the covenants under the financing facilities.

In February 2006, Hagemeyer agreed with its lenders to change the Net Senior Debt/EBITDA before exceptional items covenant from a declining to a fixed ratio of 2.50 : 1.00 during the remaining term of the facilities.

Hagemeyer has to meet an Interest Cover Ratio based on EBITDA before exceptional items to total net interest expense, which should not be less than 3.60 : 1.00 as of 31 December 2006, and increasing on a sliding scale to 4.40 : 1.00 from 31 March 2007 onwards.

Hagemeyer is not permitted to pay dividends unless the Interest Cover Ratio before exceptional items is at least 5.00:1.00 and the Net Senior Debt/EBITDA before exceptional items ratio is not greater than 2.50:1.00. Both requirements have been met as at 31 December 2006.

Hagemeyer is required to meet a Guarantee Cover Ratio as follows:
The aggregate tangible assets of subsidiaries that are guarantors under the facilities must not fall below 80% of the Group-wide consolidated tangible assets, and the aggregate EBITDA before exceptional items of such guarantors must not fall below 75% of the Group-wide consolidated EBITDA before exceptional items. This ratio is tested on a quarterly basis.
The borrowers under the facilities are subject to limits on the amounts that may be borrowed and outstanding under the facilities at any time, based on net working capital thresholds.
Subject to certain exceptions, all proceeds that Hagemeyer receives from disposals, insurance, and debt or equity capital markets transactions are allocated to mandatory pre-payment of the facilities.
For the purpose of determining compliance with the above financial covenants, the following definitions are used:

EBITDA:
Earnings before interest, tax, depreciation and amortisation of intangible assets.

Net senior debt:
Cash amounts drawn under Group and/or local senior facilities, minus freely available cash investments and cash balances.

Exceptional items:
Exceptional items as used in the Company's audited consolidated annual financial statements (including any notes thereto) for its financial year ended 31 December 2004 to the extent that any such exceptional items are included in operating profit.
Our 2004 Dutch GAAP financial statements defined exceptional items as: "income or expenses related to normal operating activities, which because of their nature, magnitude or frequency of occurrence, are required to be reported separately in order to provide a fair view on the result from normal operating activities, and in particular the development thereof."

21 Finance lease obligations

The Group leases various office and warehousing facilities. The remaining average lease term approximates 9 years. These leases have terms of renewal and escalation clauses. For the year ended 31 December 2006, the average effective borrowing rate was 7.8% (2005: 7.2%), based on actual interest expense in the income statement. The majority of leases are on a fixed repayment basis. Interest rates are fixed at the contract dates and thus expose the Group to interest rate risk.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	Minimum lease payments		Present value of minimum lease payments	
(in € thousands)	**2006**	2005	**2006**	2005
Amounts payable under finance leases:				
Due within one year	36,434	24,427	35,206	23,678
Due between one and five years	55,616	65,388	44,601	54,149
Due after five years	94,998	103,426	41,185	46,496
	187,048	**193,241**	**120,992**	**124,323**
Less: future finance charges	(66,056)	(68,918)		
Present value of lease obligations	**120,992**	**124,323**		
Analysed as:				
Non-current finance lease obligation (payable after 12 months)			85,786	100,645
Current finance lease obligation (payable within 12 months)			35,206	23,678
			120,992	**124,323**

The lease obligations are denominated in the following currencies:

(in € thousands)	2006	2005
Euro	43,331	51,924
SEK	21,227	21,989
GBP	53,402	47,213
USD	2,385	1,955
Various	647	1,242
	120,992	**124,323**

The Group's obligations under finance leases are secured by the leased assets. The fair value of the Group's finance lease obligations at 31 December 2006 is estimated at approximately € 133 million (2005: € 140 million) based on discounting the estimated future cash flows at 6.5%, the company's estimated average borrowing rate for 2007.

22 Trade payables and other liabilities

(in € thousands)	2006	2005
Trade payables	742,100	680,910
Current finance lease obligations	35,206	23,678
Other taxes and social security premiums	39,521	40,984
Pension premiums	823	780
Other creditors	44,611	50,187
Currency derivative liabilities	1,899	1,949
Accrued liabilities	133,743	121,532
	997,903	**920,020**

Trade payables and other creditors, as well as accrued liabilities, principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is approximately 2 months. Trade payables include € 40.7 million (2005: € 67.5 million) of cheques in transit. The accrued liabilities mainly concern staff-related accruals and interest accruals. Fair value approximates carrying value.

23 Financial risk management

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, convertible subordinated bonds, finance leases, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's trading activities and its sources of finance. It is, and has been through the year under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, commodity price risk, credit risk and liquidity risk. The Group's accounting policies in relation to derivatives are set out in note 2z.

Interest rate risk management

Hagemeyer uses interest rate swaps and other instruments to manage its net exposure to interest rate changes. As at 31 December 2006, Hagemeyer had one outstanding interest rate swap denominated in GBP with a notional amount totaling the equivalent of € 59.6 million. Hagemeyer generally enters into interest rate swaps with a long-term view to achieve a certain mix between its fixed and floating interest rate debt. Hagemeyer's policy is to maintain a minimum portion of fixed interest rate debt of 25%. At the end of December 2006, approximately 71% of its net debt had a fixed interest rate profile.

Hagemeyer pays a fixed interest rate and receives a floating interest rate under its outstanding interest rate swap. The fair value of the interest rate swap as at 31 December 2006 is € 522,000 positive based on market values of equivalent instruments at the balance sheet date. The interest rate swap will mature in 2008. The full amount is deferred in equity as it is a designated and effective cash flow hedge.

As at 31 December 2006, Hagemeyer does not have other interest rate derivatives outstanding.

€ 12,000 of changes in the fair value of interest derivatives has been charged to income in the year 2006 (2005: nil).

Foreign exchange and other market risk

Operating in international markets involves exposures to movements in currency exchange rates. As Hagemeyer's reporting currency is the Euro, any movements in foreign currency exchange rates against the Euro can have an impact on its results. In 2006, revenues were mainly generated in the following countries: 30% in EMU countries, 22% in North America, 17% in the United Kingdom, 11% in Australia, and 10% in Sweden.

Hagemeyer seeks to reduce earnings volatility due to foreign currency exchange rate movements principally through the use of forward exchange contracts to cover most of the exchange rate fluctuations related to imported merchandise and, in certain instances, the dividend flow from subsidiaries (transaction exposures). Hagemeyer uses currency swaps to effectively modify the currency of debt. The currency swaps are used with the objective to hedge certain currency risks. All of Hagemeyer's currency swaps have a rollover term that is shorter than 3 months. The total notional amount of outstanding foreign currency contracts amounts to € 264 million (2005: € 355 million). At 31 December 2006 the net fair value of the Group's currency derivatives is estimated to be € 1,899,000 negative (2005: € 105,000 positive). These amounts are based on market values of equivalent instruments at the balance sheet date.

Changes in the fair value of currency derivatives that are designated and effective as cash flow hedges amounting to € 456,000 negative (2005: € 112,000 positive) are deferred in equity. Unrealised changes in the fair value of currency derivatives not hedge-accounted amounting to approximately € 1,860,000 negative (2005: € 162,000 negative) have been charged to financial income in the year.

Hagemeyer does not enter into hedges to minimise the volatility of reported earnings. Changes in currency exchange rates that would have the largest impact on translating international operating profit into the Euro include the US dollar, British pound, Australian dollar and Swedish crown.

In addition, balance sheet hedging is achieved through borrowings in foreign currencies to finance certain of the foreign operations. As at 31 December 2006, Hagemeyer's net debt was mainly denominated in the US dollar (45%), British pound (26%), Euro (10%) and Australian dollar (21%).

As per 31 December 2006, Hagemeyer has no embedded derivative outstanding (2005: € 1,198,000).

Commodity price risk

The Group is exposed to fluctuations in the copper prices primarily through its economic inventory of copper cables. Many cable products include a significant amount of copper. Hagemeyer is generally able to transfer commodity price changes to our customers but our margins are influenced by fluctuations in the price of copper. Hagemeyer does not enter into financial contracts to hedge the copper price exposures. The Group's exposure to other commodity price risks is limited.

Credit concentrations

The Group continually monitors its positions with, and the credit quality of, the financial institutions that are counterparties to its treasury transactions and does not anticipate non-performance by these counterparties. The Group enters into treasury transactions only with financial institutions that are major providers of bank credit to the Group. Treasury transactions consist of interest rate swaps, foreign exchange deals and currency swaps. The Group's trade receivables do not represent significant concentrations of credit risk at 31 December 2006, due to the wide variety of customers and markets into which the Group's products are sold.

Liquidity risk

The Group's objective is to maintain continuity of funding and flexibility through the use of bank overdrafts, bank loans, subordinated convertible bonds, and finance leases. The Group's policy is that committed funding facilities are available to finance 100% of Hagemeyer's currently foreseen funding requirements.

24 Commitments and contingencies

Operating leases

The total commitments for future minimum lease payments under non-cancellable operating leases at 31 December amount to:

(in € millions)	**2006**	2005
Due within one year	101	91
Between one and five years	218	231
Due after five years	110	71
	429	**393**

Approximately € 91 million relating to rent and lease arrangements is included in the 2006 income statement.

Operating lease payments represent rentals payable by the Group for the use of certain of its branches, offices, warehouses, computer hardware and vehicles. These leases have terms of renewal and escalation clauses.

Certain of the Group's properties are subleased. The total of future minimum payments expected to be received under non-cancellable subleases at the balance sheet date amount to € 9 million (2005: € 6 million).

Litigation

As would be expected of a large company with operations in numerous jurisdictions, Hagemeyer is regularly involved in lawsuits, claims, investigations, and proceedings, either as claimant, defendant or target, in the ordinary course of its business.

After taking appropriate legal advice, Hagemeyer has established provisions in respect of these claims (see note 17). The most significant claims are discussed below.

Product liability claims – silicosis and asbestos

Please refer to note 17.

Litigation regarding bankruptcy of Ceteco

Since 1995, Hagemeyer has held, directly and indirectly, approximately 65% of the shares in Ceteco N.V., which was declared bankrupt in May 2000. In October 2003, Ceteco's bankruptcy receivers filed a lawsuit against Hagemeyer and the managing and supervisory board members of Ceteco in a Dutch court for the entire deficit in bankruptcy, currently estimated by the receivers at € 160 million.

This claim is based on the allegation that the non-executive directors improperly supervised the executive directors while they mismanaged Ceteco, leading to its demise. The basis of the alleged liability is that three of these non-executive directors were members of Hagemeyer's Board of Management during the period of the alleged mismanagement.

In addition, and alternatively, the receivers allege that Hagemeyer, as a majority shareholder of Ceteco, breached a duty of care it owed to Ceteco and its creditors by, among other things, failing to intervene in time to prevent mismanagement at Ceteco. The receivers also claim that Hagemeyer has unjustly discharged Ceteco's Supervisory Board and Board of Management.

The damages in this tort claim are based on the loss suffered by Ceteco in certain countries. Any damages so recoverable in the tort claim will reduce the deficit in bankruptcy and therefore will reduce the amount of the first claim. It is currently expected that the aggregate claim of the receivers will not exceed € 160 million.

One of Ceteco's creditors, Dresdner Bank Lateinamerika AG, claims damages from Hagemeyer in the amount of € 14.5 million based on tort and alleging that Hagemeyer breached a duty of care to Dresdner Bank by failing to intervene in time to prevent mismanagement at Ceteco. The amount claimed forms part of the deficit in Ceteco's bankruptcy. Dresdner Bank has not yet commenced any formal court proceedings.

Hagemeyer believes that it has sound legal grounds to defeat all of these claims, but cannot give assurances that its defence will ultimately prevail.

CEF vs. Elektrotechnische Groothandel Bernard and others

One of Hagemeyer's competitors, CEF Holdings Ltd, started a new wholesale business in electrical materials in 1989 in the Netherlands. Subsequently, CEF Holdings claimed it suffered injury from a cartel maintained by, among others, the Dutch trade association of wholesale traders in electrical materials (the FEG) and all members of the FEG including (at that time) Elektrotechnische Groothandel Bernard B.V., one of Hagemeyer's Dutch subsidiaries. In March 1991, CEF Holdings lodged a complaint with the European Commission against, among others, FEG and all of its members. Subsequently, CEF City Electrical Factors B.V. instituted legal proceedings in February 1999 before the district court in Rotterdam against FEG, Technische Unie (the largest FEG member) and Bernard (the second largest FEG member) for damages in the amount of approximately € 98 million exclusive of interest and costs, on the same factual basis.

In October 1999, the European Commission imposed a fine against FEG and Technische Unie because of cartel activities, which decision was confirmed by the European Court of Justice in September 2006. The European Commission did not fine Bernard and later explicitly closed the file on Bernard.

The proceedings before the Rotterdam district court initiated by CEF against FEG, Technische Unie and Bernard that were suspended pending the procedure before the European Court of Justice have been resumed.

In 2006, CEF filed also claims against Hagemeyer N.V., Hagemeyer Nederland B.V., HTG Nederland B.V. and their directors claiming that these parties have restricted CEF's possibilities for recovery of its alleged damages and holding them liable for the resulting loss, if any.

In part based on the fact that the Commission did not rule against Bernard, Hagemeyer believes it has sound legal grounds to defeat this claim but cannot give assurances that its defence will ultimately prevail.

Belgian Tax Authorities vs. Manudax Belgium

Manudax Belgium N.V., one of Hagemeyer's Belgian subsidiaries, entered into voluntary liquidation on 27 November 2000. During 1999 and 2000, Manudax Belgium received assessments for VAT in connection with fraudulent transactions allegedly entered into by former employees during the period beginning late 1996 until early 1998. The amount of these assessments, including penalties and excluding interest, is € 78 million. The interest accrued until December 31, 2006 amounts to € 45.7 million. All assessments are being contested by Manudax Belgium.

Arbitration regarding ABM

In 2001, Hagemeyer acquired ABM, a subsidiary in Spain. In connection with the transaction, it was agreed to make certain earn-out payments to the seller of ABM, contingent upon our achievement of certain agreed adjusted and audited 2002 EBITDA levels. Hagemeyer determined that such agreed EBITDA levels were not achieved, and consequently no earn-out payment was made to the seller of ABM. Hagemeyer's auditor at the time gave an unqualified opinion on the 2002 Spanish statutory accounts, which contractually formed the basis of the adjusted and audited 2002 EBITDA. The seller is however of the opinion that certain agreed EBITDA levels were achieved and accordingly claims an earn-out payment of € 18 million, excluding contractual interest and expenses, currently estimated at € 5.0 million, which claim was upheld in an "expert determination" proceeding. The expert's decision has been submitted to arbitration. An arbitration award is expected mid-2007.

Hagemeyer believes it has sound legal grounds to defeat this claim but cannot give assurance that its defence will ultimately prevail.

Other

As at 31 December 2006, the Group had letters of credit outstanding, representing a value of € 84.6 million (2005: € 97.8 million).

25 Segment information

Geographical segments

For management purposes, the Group's core business is currently organised into three operating divisions – Professional Products and Services (PPS) in Europe, in North America and in Asia-Pacific. The remaining non-core activities are organised in the division Agencies / Consumer Electronics (ACE). These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- PPS Europe – the areas of operation are mainly distribution of electrical parts and supplies, safety and other MRO products, and the provision of Integrated Supply services.
- PPS North America – the main areas of operations are the distribution of MRO products including electrical parts and supplies, safety products and related services, and the provision of Integrated Supply services.
- PPS Asia-Pacific (including Australia) – the main areas of operation are the distribution of electrical supplies and parts, safety and other MRO products.
- ACE – the operation of various agency businesses of consumer electronics and other branded products in the Netherlands and Australia and of wholesale and retail businesses in luxury goods in several countries in Asia.

Segment information about the Group's operations is presented below.

There are no sales or other operating transactions between the segments. Segment assets consist primarily of property, plant and equipment, intangible assets including goodwill, inventories and receivables. Segment liabilities comprise operating liabilities and exclude items such as taxation and borrowings. Capital additions comprise buildings, machinery, office and computer equipment, software, and goodwill arising on acquisitions.

Segment results

(in € millions)	PPS Europe 2006	PPS Europe 2005	PPS North America 2006	PPS North America 2005	PPS Asia-Pacific 2006	PPS Asia-Pacific 2005	ACE 2006	ACE 2005	Corporate 2006	Corporate 2005	Group 2006	Group 2005
Revenue												
External sales	3,947.8	3,448.9	1,407.0	1,307.0	468.8	437.2	404.6	401.5	-	-	6,228.2	5,594.6
Results												
Segment operating result	121.4	21.5	43.3	24.1	11.6	10.6	18.1	12.5	(27.8)	(25.6)	166.6	43.1
Share in results of associated companies	-	0.7	0.1	0.2	-	-	2.1	1.7	0.4	-	2.6	2.6
Financial expense – net											(54.6)	(91.3)
Profit / (loss) before taxes											**114.6**	**(45.6)**
Tax income / (expense)											25.0	(12.4)
Net profit / (loss)											**139.6**	**(58.0)**
Segment assets and liabilities												
Segment assets	1,479.1	1,302.9	575.0	651.2	270.2	273.1	135.7	140.9	10.2	24.6	2,470.2	2,392.7
Investments in associates	0.1	8.8	1.3	1.7	-	-	3.4	3.4	-	-	4.8	13.9
Unallocated assets											156.8	134.3
Consolidated total assets											**2,631.8**	**2,540.9**
Segment liabilities	793.2	691.6	144.4	192.6	78.5	73.9	58.5	58.6	38.3	29.4	1,112.9	1,046.1
Unallocated liabilities											697.8	763.8
Consolidated total liabilities											**1,810.7**	**1,809.9**
Other segment information												
Capital additions	65.7	22.2	13.3	10.6	4.8	3.6	2.7	4.3	-	-	86.5	40.7
Depreciation and amortisation	27.7	28.4	10.1	9.4	4.8	4.9	2.9	3.3	-	-	45.5	46.0
Impairment losses recognised in income	20.9	30.8	0.2	0.3	-	-	-	0.9	1.9	-	23.0	32.0
Reversal of impairment losses recognised in income	0.5	-	-	-	-	-	-	-	-	-	0.5	-

Business segments

The Group's core PPS business concentrates on three business segments: Construction & Installation, Industrial customers and Other. The remaining non-core activities are organised in the division Agencies / Consumer Electronics (ACE).

The following is an analysis of the revenue per business segment, the carrying amount of the assets and capital additions per business segment, and the average number of employees.

	C&I		Industrial		Other PPS		ACE		Corporate		Total	
(in € millions)	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	2006	2005
Revenue	3,354.9	2,953.3	2,318.6	2,122.3	150.1	117.5	404.6	401.5	-	-	6,228.2	5,594.6
Segment assets	1,434.2	1,402.2	845.9	798.3	44.2	26.7	135.7	140.9	10.2	24.6	2,470.2	2,392.7
Capital additions	65.4	21.4	16.8	14.2	1.7	0.8	2.6	4.3	-	-	86.5	40.7
Average number of employees	9,311	9,304	6,826	6,601	431	414	954	1,032	56	66	17,578	17,417

26 Net revenue

The Group's revenue is composed of the folowing main categories:

(in € thousands)	**2006**	2005
Sale of goods	6,125,407	5,506,472
Rendering of services (MRO, integrated supply)	102,796	88,144
	6,228,203	**5,594,616**

27 Operating expenses

(in € thousands)	**2006**	2005
Selling expenses	502,591	461,324
Branch, shipping and warehousing expenses	467,936	481,816
Administrative expenses	303,388	324,176
	1,273,915	**1,267,316**

Included in the operating expenses for 2006 is € 23.0 million for impairment losses, mainly related to pre-paid leases and assets in the UK.
Included in 2005 is an amount of € 38.5 million relating to the restructuring of the UK, which relates mainly to the vacating of the Runcorn distribution centre.

Staff expenses included in operating expenses:

(in € thousands)	**2006**	2005
Salaries and wages	624,963	603,572
Retirement benefit expenses	24,110	27,570
Social security costs	74,229	70,748
Expense of share-based payments	2,058	1,130
	725,360	**703,020**

Certain reclassifications have been made in the 2005 figures to align with the 2006 presentation.

The average number of employees during 2006 was 17,578 (2005: 17,417). The number of permanent employees at 31 December 2006 was 16,410 (2005: 16,141).

Depreciation / amortisation included in operating expenses:

(in € thousands)	**2006**	2005
Other intangible assets	8,243	9,645
Property, plant and equipment	37,294	36,357
	45,537	**46,002**

Also included in operating expenses are the following amounts invoiced by Deloitte worldwide:

(in € thousands)	**2006**	%	2005	%
Type of service				
Statutory audit services	3,104	87.5%	3,052	76.5%
Audit related - IFRS	65	1.8%	632	15.8%
Audit related - Other	189	5.3%	138	3.5%
Tax services	66	1.9%	150	3.8%
Other non-audit services	123	3.5%	16	0.4%
	3,547	**100.0%**	**3,988**	**100.0%**

28 Other operating income / (expense)

Other operating income and expenses consist of result on sale of subsidiaries and participations, rent received from subleases and similar income. Result on sale of subsidiaries and investments in 2005 is the result of various smaller divestments as well as an additional gain realised on the sale of Tech Pacific.

(in € thousands)	**2006**	2005
Result on sale of subsidiaries and investments	(1,578)	8,204
Other items	2,288	1,547
	710	**9,751**

29 Financial income and expense

(in € thousands)	**2006**	2005
Financial income:		
Interest income	3,700	4,047
Income from other investments	63	42
Other financial income	749	5,421
Foreign exchange differences – net	1,512	2,946
Realised exchange differences on liquidated companies	7,893	-
	13,917	**12,456**
Financial expenses:		
Interest on bank loans and overdrafts	(26,789)	(33,311)
Interest expense on subordinated convertible bonds	(13,349)	(12,018)
Interest on obligations under finance leases	(9,601)	(9,339)
Interest on provisions	(673)	(2,235)
Fair value adjustment equity component of convertible bond	-	(20,295)
Unrealised losses on financial instruments and derivatives	(1,848)	(161)
Interest accrued on subordinated convertible bonds	(9,550)	(8,050)
Bank and similar charges	(6,698)	(18,364)
	(68,508)	**(103,773)**

See note 16 for further details on the subordinated convertible bond, including the fair value adjustment of the equity component and interest accrued.

Realised foreign exchange differences on liquidated companies are transferred from the foreign currency translation reserve in equity to the income statement.

30 Tax income / (expense)

The Group's tax income / (expense) consists of the following:

(in € thousands)	**2006**	2005
Current income tax charge	(19,488)	(16,228)
Adjustments to current tax related to prior years	725	531
Deferred taxes (see note 19)	43,727	3,265
	24,964	**(12,432)**

The difference between the Group's overall expected tax rate (the weighted average statutory tax rate based on the result before tax of each subsidiary) and the effective tax rate arises due to the following:

(in € thousands)	**2006**	%	2005	%
Expected tax income / (expense)	(35,439)	(31.0)	22,429	49.2
Tax losses not recognised during the year	(13,895)	(12.1)	(46,536)	(102.1)
Utilisation of tax losses	67,733	59.1	8,273	18.2
Items not deductible for tax purposes	(1,718)	(1.5)	(3,222)	(7.1)
Effect of change in enacted tax rates on deferred position	(321)	(0.3)	123	0.3
Adjustments to current tax related to prior years	725	0.7	531	1.2
Net release Group's tax provision	8,468	7.4	5,984	13.1
Withholding taxes	(1,616)	(1.4)	(1,591)	(3.5)
Other	1,027	0.9	1,577	3.4
Effective tax income / (expense)	**24,964**	**21.8**	**(12,432)**	**(27.3)**

Hagemeyer's operating activities are subject to income taxes in various countries with statutory tax rates between 0% and 40%. The expected tax rate for the Group has changed compared to last year due to changes in some of these tax rates and due to changes in the relative weighting of results of operating companies as a consequence of different company results as compared to prior year.

One of the Group's subsidiaries pays income taxes at a higher rate if net profit or retained earnings are paid out as dividends. If the full amount of unrestricted equity reserves were to be paid out as dividend, € 1.1 million of income tax would be payable.

31 Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit or loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.
Potential shares are only considered for diluted earnings per share if they have a dilutive effect (i.e. their exercise or conversion would increase the loss or decrease the profit per share).
In 2006, potential ordinary shares resulting from convertible bonds and from some of the outstanding conditional shares and options for employees would have a dilutive effect and are included in diluted earnings per share. Outstanding conditional shares under ShareMap are not included as the plan's 3-year cumulative target has not yet been achieved as of 31 December 2006 (refer to note 33 for details).

In 2005, potential shares resulting from the convertible bonds, the outstanding conditional shares and options for employees had an anti-dilutive effect on the loss per share. Therefore, the diluted earnings per share amounts in 2005 are calculated by dividing the net loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2006	2005
Net profit / (loss) *(in € thousands)*	139,555	(57,992)
Minority interest *(in € thousands)*	(2)	-
Net profit / (loss) attributable to ordinary equity holders of the parent for basic earnings per share *(in € thousands)*	139,553	(57,992)
Interest on convertible bonds (net of tax) *(in € thousands)*	16,121	-
Amortisation pre-paid expenses on issuance of convertible bonds (net of tax) *(in € thousands)*	1,079	-
Net profit / (loss) attributable to ordinary equity holders of the parent for diluted earnings per share *(in € thousands)*	**156,753**	**(57,992)**
Weighted average number of ordinary shares for basic earnings per share (excluding shares repurchased)	516,231,499	516,174,375
Effect of dilutive conditional share options	890,014	-
Effect of dilutive conditional shares	808,325	-
Effect of convertible bonds	121,223,122	-
Weighted average number of ordinary shares for diluted earnings per share (excluding shares repurchased)	**639,152,960**	**516,174,375**
Basic earnings per share *(in €)*	**0.27**	**(0.11)**
Diluted earnings per share *(in €)*	**0.25**	**(0.11)**

Between the reporting date and 19 February 2007 € 118.3 million of the € 150 million subordinated convertible bonds (issued in 2004, bearing interest at 5.75%) have been converted into 58 million ordinary shares.

The total number of shares that would result if all conversion options and share options as of 31 December 2006 were exercised amounts to 640,212,467 (2005: 640,995,492) shares. The weighted average number of potential shares during the year amounts to 642,323,730 (2005: 630,077,139). This is derived as follows:

	2006	2005
Number of ordinary shares outstanding at 31 December (excluding shares repurchased)	513,315,359	516,191,042
Effect of share-based payments	5,678,035	3,571,859
Effect of convertible bonds	121,219,073	121,232,591
Total number of ordinary shares if all conversion options and share options were exercised at 31 December	**640,212,467**	**640,995,492**
Weighted average number of ordinary shares (excluding shares repurchased)	516,231,499	516,174,375
Effect of share-based payments	4,869,109	3,441,859
Effect of convertible bonds	121,223,122	110,460,905
Weighted average number of ordinary shares if all conversion options and share options were exercised	**642,323,730**	**630,077,139**

32 Related party transactions

There are no significant transactions between the Group and its associates. Transactions between the Company and its subsidiaries are included in the Company's separate financial statements.

Key management personnel consists of the Board of Management. We refer to note 34 for compensation of the key management personnel.

€ 6 million of pension premiums was paid to post-employment benefit plans for the benefit of employees in the UK and the Netherlands.

33 Share-based payments

Share-based payments are made to certain executives as a means to attract and retain professional and talented people in our business.

Stock options

Stock options granted in 2006 are exercisable at a price equal to the closing value of the Company's shares on the date of grant. The vesting period is 3 years. If the options remain unexercised after a period of 5 years from vesting date, the options expire. Options are in principle forfeited if the employee leaves the Group. Furthermore, the stock option offer is conditional upon the average bonus received during the vesting period.

In 2006 the option grant has been partly replaced up to the level of participation of a selected group of senior managers in the ShareMap plan.

The position of the option programme at the beginning and end of 2006 respectively was as follows:

Year of grant	Number of shares based on outstanding options		Exercise price *(in €)*	Share price at date of grant *(in €)*	Expiration date
	31 December 2006	1 January 2006			
1999	2,332	2,638	26.85	26.85	5 March 2007
	9,000	9,000	22.10	22.10	1 September 2007
2000	28,000	28,000	20.00	17.47	11 March 2008
	13,640	14,725	17.47	17.47	11 March 2008
2001	-	22,000	20.00	23.90	6 March 2006
	-	8,429	23.90	23.90	6 March 2006
	20,000	20,000	20.00	23.90	6 March 2009
2002	32,000	32,000	20.00	23.23	5 March 2010
	2,014	2,261	23.23	23.23	5 March 2007
	24,162	37,932	23.23	23.23	5 March 2010
2003	71,465	81,965	3.42	3.42	11 March 2008
	264,370	274,520	3.42	3.42	11 March 2011
2004	955,126	1,025,883	1.91	1.91	27 April 2012
2005	1,116,549	1,190,006	2.12	2.12	1 March 2013
2006	1,054,564	-	3.60	3.60	6 March 2014
	3,593,222	**2,749,359**			

During 2006 no stock options were exercised. As a result of stock option holders leaving the employment of the Group 218,467 stock options were withdrawn in 2006 (of which 37,620 stock options were offered in 2006). In addition to this 29,954 stock options expired in 2006, without exercise being possible.

At 31 December 2006, all outstanding options from 2003 and earlier are exercisable.

In 2006 options were granted on 7 March. The estimated fair value of the options granted on this date is € 1.20. In 2005, options were granted on 2 March. The estimated fair value of the options granted on this date is € 0.71.

The fair value of the stock options was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	2006	2005
Share price *(in €)*	3.60	2.12
Exercise price *(in €)*	3.60	2.12
Expected volatility	28.5%	16.7%
Expected life *(in years)*	8	8
Risk-free rate	4.0%	4.0%
Statistical dividend yield	1.0%	1.0%

Expected volatility was determined by multiplying the 6-months implied volatility of the AEX index with the adjusted beta of the Company.

Conditional shares

Conditional shares offered in 2006 generally have a vesting period of 3 years. For Mr R.W.A. de Becker, a term of 1 year applies. The offer of conditional shares is forfeited if the employee leaves the Group. Furthermore, the conditional share offer is conditional upon the average bonus received during the vesting period.

The position of the conditional shares programme at the beginning and end of 2006 respectively was as follows:

Year of offer	Number of shares conditionally offered		Share price at date of offering *(in €)*	Transfer date
	31 December 2006	1 January 2006		
2004	310,550	333,750	1.91	March 2007
2005	-	100,000	2.12	March 2006
	364,550	388,650	2.12	March 2008
2006	100,000	-	3.60	March 2007
	491,149	-	3.60	March 2009
	1,266,249	**822,400**		

As a result of conditional share holders leaving the employment of the Group, 59,600 conditional shares were withdrawn in 2006 (of which 12,300 conditional shares were offered in 2006).

ShareMap

In 2006, a new incentive scheme for approximately 40 members of senior management, ShareMap (Share Matching Plan), was introduced. Under the terms of this programme, eligible employees can invest in Hagemeyer shares. Three years after such investment, subject to the achievement of (financial) targets to be determined by the Supervisory Board, Hagemeyer will grant a number of shares ranging between 50%-200% of the number of shares acquired. In principle, no matching will apply when the employee leaves the Group before the date of matching.

The position of the ShareMap programme at the beginning and end of 2006 respectively was as follows:

Year of investment	Number of investment shares purchased by participants		Share price of shares invested *(in €)*	Date of matching
	31 December 2006	1 January 2006		
2006	409,282	-	3.60	9 May 2009
	409,282	-		

2,034 shares of the shares purchased in 2006 by the participants are no longer eligible for matching as at 31 December 2006.

General

It is the Group's principal policy to settle share-based payments by means of share repurchases on the stock market. Alternatively, Hagemeyer can issue new shares subject to the approval of the shareholders. In 2006 Hagemeyer has bought 3,000,000 shares in the market to cover short-term obligations arising from share-based programmes.

The Group recognised total expenses of € 2,058,000 (2005: € 1,130,000) related to share-based programme transactions during the year. All share-based programmes are equity-settled.

For further information on stock options, conditional shares and investment shares held by the members of the Board of Management, we refer to note 34 "Remuneration of members of the Board of Management and Supervisory Board 2006".

34 Remuneration of members of the Board of Management and Supervisory Board 2006

Supervisory Board

In 2006, the members of the Supervisory Board received the following remuneration:

Gross remuneration during the year 2006

(in €)	Fixed remuneration	Committee fee [1]	**Total 2006**
P.J. Kalff *Chairman* (until 28 April 2006) [3]	14,167	2,333	16,500
A.Baan *Chairman* (from 28 April 2006)	39,167	7,000	46,167
D.G. Eustace *Vice Chairman*	37,500	7,000	44,500
R. van Gelder	32,500	7,000	39,500
R.M.J. van der Meer [2]	21,667	4,667	26,333
M.P.M. de Raad	32,500	7,000	39,500
P.H.J.M. Visée [4]	21,667	2,917	24,583
B.A.J. Bourigeaud [3]	10,833	-	10,833

1 A committee fee of € 7,000 per annum for the members of the Supervisory Board who serve on the Remuneration or Audit Committees

2 8 months as from 1 May 2006

3 4 months until 28 April 2006

4 8 months as from 1 May 2006 on Supervisory Board (and 5 months as from 1 August 2006 on Committee)

In addition to the remuneration described above, the members of the Supervisory Board received a fixed allowance for business expenses not otherwise reimbursed of € 250 per person per month. The members of the Supervisory Board do not receive variable remuneration.

Board of Management

In 2006, the remuneration of the members of the Board of Management consisted of the following elements in accordance with the Remuneration Policy and the Remuneration Report 2006 as described on pages 88 to 95 of this Annual Report and is summarised on the following page:

(in €)	Total cost reported in 2006	Adjustments previous years	Cost attributable to 2006 [1]	Cost attributable to 2005 [1]	Not included in cost reported 2005	Total cost reported in 2005
Gross annual base salary						
R.W.A. de Becker	664,179	-	664,179	654,355	-	654,355
J.S.T. Tiemstra	494,729	-	494,729	487,418	-	487,418
Pension cost						
R.W.A. de Becker	316,756	-	316,756	294,829	-	294,829
J.S.T. Tiemstra	261,855	-	261,855	240,679	-	240,679
Sub-total cost of unconditional remuneration						
R.W.A. de Becker	980,935	-	980,935	949,184	-	949,184
J.S.T. Tiemstra	756,584	-	756,584	728,097	-	728,097
Short term incentive [2]						
R.W.A. de Becker	518,256	-	518,256	475,530	(112,614)	362,916
J.S.T. Tiemstra	386,035	-	386,035	327,074	(3,094)	323,980
Long term incentive [3]						
R.W.A. de Becker	504,820	257,548	247,272	181,940	(181,940)	-
J.S.T. Tiemstra	402,856	214,197	188,659	146,701	(146,701)	-
Stock options						
R.W.A. de Becker	-	-	-	-	-	-
J.S.T. Tiemstra	65,500	-	65,500	52,134	-	52,134
Conditional shares						
R.W.A. de Becker	323,000	-	323,000	205,175	-	205,175
J.S.T. Tiemstra	100,950	-	100,950	36,750	-	36,750
ShareMap						
R.W.A. de Becker	-	-	-	-	-	-
J.S.T. Tiemstra	63,736	-	63,736	-	-	-
Performance Share Plan [3]						
R.W.A. de Becker	-	-	-	-	-	-
J.S.T. Tiemstra	100,878	51,714	49,164	34,520	(34,520)	-
Sub-total conditional remuneration accrued						
R.W.A. de Becker	1,346,076	257,548	1,088,528	862,645	(294,554)	568,091
J.S.T. Tiemstra	1,119,955	265,911	854,044	597,179	(184,315)	412,864
Total cost	**4,203,550**	**523,459**	**3,680,091**	**3,137,105**	**(478,869)**	**2,658,236**
R.W.A. de Becker *Chairman*	**2,327,011**	**257,548**	**2,069,463**	**1,811,829**	**(294,554)**	**1,517,275**
J.S.T. Tiemstra *Member*	**1,876,539**	**265,911**	**1,610,628**	**1,325,276**	**(184,315)**	**1,140,961**
Sub-total short-term employee benefits	2,063,199	-	2,063,199	1,944,377	(115,708)	1,828,669
Sub-total post-employment benefits	578,611	-	578,611	535,508	-	535,508
Sub-total other long-term benefits	907,676	471,745	435,931	328,641	(328,641)	-
Sub-total share based payments	654,064	51,714	602,350	328,579	(34,520)	294,059

1. *All cost of conditional remuneration are amounts net accrued during the year relating to grants in current year and previous years.*
2. *The adjustment in 2005 relates to amounts booked but omitted from reporting in the notes to the financial statements 2005.*
3. *The difference between "adjustments previous years" and the amount not included in cost reported 2005" relates to amounts not included in cost reported in 2004.*

Total cost of remuneration

The total costs of the remuneration of the Board of Management amount to € 4,203,550 in 2006 (2005: € 2,658,236). The total costs in 2006 include additional accruals for previous years of € 523,459.

Periodically paid remuneration

Gross annual base salary

The gross annual base salary for Mr R.W.A. de Becker and Mr J.S.T. Tiemstra was increased by 1.5% as of 1 January 2006 as a correction for cost of living. The members of the Board of Management are entitled to a company car. Furthermore, the members of the Board of Management received a contribution to the premium for the medical insurance and other customary plans such as disability insurance, as well as telephone costs.
The members of the Board of Management received a fixed expense allowance of € 570 per person per month for business expenses not otherwise reimbursed.

Remuneration payable in the long term

The members of the Board of Management participated in a pension scheme in 2006.

Bonus schemes

Annual bonus ("Short-Term Incentive")

The STI bonuses are accrued in the balance sheet and will be disbursed in the year after. The actual STI bonuses awarded for 2005 and paid in 2006 are mentioned in the Remuneration Report 2006 as described on page 88 to 95.

Long-term Incentive

The LTI bonuses are accrued in the balance sheet in accordance with the LTI term. The actual LTI bonuses awarded for 2005 and payable in two equal tranches of 50% in 2007 and 2008 are mentioned in the Remuneration Report 2006 as described on page 88 to 95.

Equity incentive schemes

Conditional stock options

Mr J.S.T. Tiemstra participated in a stock option programme for senior management at Hagemeyer. For Board of Management members, the stock option programme has been replaced in 2006 by the ShareMap plan. As a result, the conditional stock options granted to Mr Tiemstra in March 2006 were cancelled retrospectively to the date of grant.

Conditional stock options offered to members of the Board of Management

	Year	Options offered	Exercise price (in €)	Exercisable from (if conditions met)	Expiry date	Options with-drawn	Options expired / exercised	**Total outstanding (as at 31 December 2006)**
J.S.T. Tiemstra	2006	135,000	3.60	Feb / March 2009	6 March 2014	135,000	-	-
J.S.T. Tiemstra	2005	135,000	2.12	Feb / March 2008	1 March 2013	-	-	135,000
J.S.T. Tiemstra	2004	135,000	1.91	28 Feb 2007	27 April 2012	-	-	135,000
J.S.T. Tiemstra	2003	50,000	3.42	7 March 2006	11 March 2008	-	-	50,000
								320,000

Conditional shares

The members of the Board of Management participate in a conditional share programme.

Conditional shares offered to members of the Board of Management

	Year	Shares offered	Award date	Shares awarded	Shares withdrawn	Total outstanding (as at 31 December 2006)
R.W.A. de Becker	2006	100,000	28 Feb 2007	-	-	100,000
R.W.A. de Becker	2005	100,000	7 March 2006	100,000	-	-
J.S.T. Tiemstra	2006	45,000	Feb / March 2009	-	-	45,000
J.S.T. Tiemstra	2005	45,000	Feb / March 2008	-	-	45,000
J.S.T. Tiemstra	2004	45,000	28 Feb 2007	-	-	45,000
						235,000

Share Matching Plan ("ShareMap")

Mr Tiemstra participates in ShareMap'06. He invested 100% of his net STI bonus over 2005 which resulted in an investment of 50,691 shares.

	Year	Shares invested	Matching date	Total outstanding (as at 31 December 2006)
J.S.T. Tiemstra	2006	50,691	9 May 2009	50,691

Performance Share Plan

In March 2006, the net after tax amount of 50% of the LTI bonus awarded to Mr. Tiemstra in 2004 was invested in the Performance Share Plan.

	Year	Shares invested	Premium date	Total outstanding (as at 31 December 2006)
J.S.T. Tiemstra	2006	10,799	Feb / March 2009	10,799

35 Non-IFRS benchmark figures

The Company uses adjusted operating result figures as key performance measures. Adjusted figures, such as operating result, are stated before exceptional items of income and expense. Because of their nature, magnitude or frequency of occurrence, these exceptional items of income and expense are reported separately in order to provide a fair view of the performance resulting from normal operating activities or developments.
In 2006 the operating result before exceptional items is € 189.8 million (2005: € 87.6 million).

The following exceptional items are excluded from the operating profit for this purpose:

(in € thousands)	**2006**	2005
Result on sale of subsidiaries, participations and investments	(1,578)	8,204
Restructuring charge - headcount reduction	-	(4,297)
Restructuring charge - PPS	(19,509)	(45,903)
Regulatory and risk management	26	7,587
Other items	(2,128)	(10,072)
	(23,189)	**(44,481)**

The reconciliation between the operating result, as reported in the income statement and the adjusted operating result is as follows:

(in € thousands)	**2006**	2005
Operating result in income statement (under IFRSs)	166,632	43,161
Items as listed above	23,189	44,481
Adjusted operating result as used for internal performance measures	**189,821**	**87,642**

Result on sale of subsidiaries, participations and investments

The total result in 2006 from disposal of subsidiaries, participations and investments was a loss of € 1.6 million. This charge consists of some minor divestments that took place during 2006 and settlements of divestments from previous years.

Restructuring charge - PPS

The total amount charged to the income statement as items relating to the restructuring of the core PPS-division in 2006 is € 19.5 million. This charge consists of:

(€ 20.8 million)	Impairment of pre-paid leases and assets in UK.
(€ 1.7 million)	Exceptional items related to restructuring of logistics in Spain.
€ 3.0 million	Various other exceptional charges and benefits, mainly related to impairment, vacant leases and book gains on property plant and equipment.

Regulatory and risk management

During 2006 Hagemeyer realized a net gain of € 5.0 million (2005: € 9.3 million) on the silicosis and asbestos provision in North America, following a release of the provision for such claims; for further explanation see note 17.
Almost offsetting this release, an additional provision has been recorded for the exposure related to the legal proceedings as described in note 24 “Commitments and Contingencies”.

Other items

During 2006, various other items were recorded, resulting in a loss of € 2.1 million. This relates mainly to provisions established for vacant leases in the ACE division and on corporate level.

36 Acquisition of subsidiaries

The Group acquired the remaining 50% of the shares in EL-Centrum on 16 January 2006 and 100% of the shares in Cardi on 13 June 2006. EL-Centrum is a wholesale distributor of electrical parts and supplies in Poland and Cardi is active as a retail lighting specialist in Sweden.

The cost of acquisition of both companies was paid in cash and includes costs of acquisition amounting to € 173,000.

The fair value of the identifiable assets and liabilities of EL-Centrum and Cardi as at the dates of acquisition and the corresponding book values immediately before the acquisitions were as follows:

(in € thousands)	Fair value on acquisition	Book value
Property, plant and equipment	1,752	1,752
Assets held for sale and other non-current assets	200	132
Software	246	246
Customer list and trade name	4,692	-
Inventories	8,113	7,599
Trade and other receivables	18,399	18,399
Cash and cash equivalents	2,424	2,424
Provisions and retirement benefit obligation	(238)	(238)
Deferred income tax liabilities	(717)	354
Trade and other payables	(21,028)	(21,028)
Total net assets acquired	**13,843**	**9,640**
Less: 50% of EL-Centrum owned as associate (at fair value)	(6,251)	
Total net assets acquired	**7,592**	
Goodwill on acquisition	**3,489**	
Total consideration	**11,081**	

Net cash outflow on acquisitions:

(in € thousands)	**2006**
Total purchase consideration in cash	11,081
Less: purchase consideration still to be paid	(111)
Less: cash and cash equivalents acquired	(2,424)
	8,546

Goodwill arose in the business combinations because the cost effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits cannot be recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

Included in the net profit for the year is € 1,709,000 attributable to the acquired companies.

37 Significant accounting judgments and estimates

In the process of applying the Group's accounting policies, management has made the following accounting judgments and estimates, which have the most significant effect on the amounts recognised in the financial statements:

- Information about the assumptions and their risk factors as relating to goodwill impairment are detailed in note 3.
- Estimates and judgements made with respect to impairment losses on intangible assets and property, plant and equipment are detailed in notes 4, 5 and 27.
- Note 18 explains estimates and judgments made as related to the accounting for retirement benefit plans.
- In note 23, detailed analysis is given of the financial risks of the Group in relation to interest rates, foreign exchange and other market risks.
- Hagemeyer is involved as defendant, claimant or target in a number of lawsuits, claims, investigations and proceedings. After taking appropriate legal advice, management has established provisions in respect of these claims (see note 17). Final verdicts, settlements or resolution may result in a variance to the liability as accounted for. This applies in particular to the litigation matters Ceteco, CEF, Manudax and ABM as described in note 24 and silicosis, as described in note 17.
- Management has applied judgments in providing for the costs of vacated property and/or assets put out of use. In particular, assumptions were made as to realisable disposal and sublease income. To the extent that these assumptions will appear to be incorrect, provisions and/or asset impairments will need adjustment through the income statement.
- Estimates on future realisation of tax carryforward losses are explained in note 19.

38 Post balance sheet date events

On 31 January 2007 Hagemeyer formally notified the holders of the € 150 million – 5.75% subordinated convertible bonds due in 2009 that these will be redeemed on 2 March 2007. As the share price is well above the conversion price of € 2.04 on 31 January 2007, bondholders are expected to opt for conversion. Conversion of all remaining bonds would lead to the issuance of 73,524,019 shares.

Between the reporting date and 19 February 2007 € 118.3 million of the bonds have been converted into 58 million ordinary shares.

The Group acquired 100% of the share capital of Breva Groep N.V. ("Breva") on 8 January 2007. Breva is an electrical wholesaler and distributor of Maintenance, Repair and Operations (MRO) products.

The fair value of the identifiable assets and liabilities of Breva at the date of acquisition, provisionally determined, and the corresponding book values immediately before the acquisition are as follows:

(in € thousands)	Unaudited fair value on acquisition	Unaudited book value
Property, plant and equipment	299	318
Software and licenses	131	283
Customer list	3,250	-
Trade name	204	-
Other non-current assets	1	126
Non-current assets held for sale	2,077	2,077
Inventories	4,222	4,242
Trade and other receivables	12,432	12,630
Cash and cash equivalents	1,710	1,710
Provisions	(480)	-
Deferred income tax liabilities	(1,507)	(671)
Trade payables	(7,391)	(7,391)
Other payables	(1,048)	(1,048)
Total net assets acquired	**13,900**	**12,276**
Goodwill on acquisition	**8,364**	
Total consideration	**22,264**	

Net cash outflow on acquisition:

(in € thousands)	**2007**
Total purchase consideration in cash	22,264
Less: cash and cash equivalents acquired	(1,710)
	20,554

The cost of acquisition was paid in cash and includes costs of acquisition amounting to € 0.5 million.

Goodwill arose in the business combination because the cost effectively includes amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits cannot be recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

Immediately following the combination, Hagemeyer sold the non-current assets held for sale for € 2.1 million.

Auditors' Report

To the Shareholders and Supervisory Board of Hagemeyer N.V.

Report on the consolidated financial statements

We have audited the consolidated financial statements 2006, set out on pages 101 to 153, which are part of the financial statements of Hagemeyer N.V., Naarden, which comprise the consolidated balance sheet as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the consolidated 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 Board of Management 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 consolidated 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.

Auditors' responsibility

Our responsibility is to express an opinion on the consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Hagemeyer N.V. as at 31 December 2006 and of its result and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union and 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 Board of Management is consistent with the consolidated financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Deloitte Accountants B.V.
Rotterdam, 19 February 2007
R.J.M. Dassen

Company financial statements

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1 For the year ended 31 December 2006

2 At 31 December 2006

Company income statement

for the year ended 31 December 2006

(in € thousands)	Notes	2006	2005
Result from participations after taxes		159,656	(20,026)
Other results	12	(20,103)	(37,966)
Net profit / (loss) for the period		**139,553**	**(57,992)**

Proposed appropriation of net result to equity holders of the Company

(not incorporated in the balance sheet)

(in € thousands)	2006	2005
Proposed dividend of € 0.06 per ordinary share	35,400	-
Add / (charge) to retained earnings	104,153	(57,992)
	139,553	**(57,992)**

The proposed dividend is based on the assumption that all 2005 subordinated convertible bonds bearing interest of 5.75% will be converted into shares.

The actual dividend amount will be based on the number of shares outstanding at the moment of dividend payment (16 May 2007); it has been assumed that the entire ordinary dividend will be paid in cash.

See accompanying notes on pages 162 to 169.

Company balance sheet

(before appropriation of net result)
at 31 December 2006

(in € thousands)	Notes	2006	2005
Assets			
Non-current assets			
Goodwill and other intangible assets	3	3,279	3,755
Property, plant and equipment	4	384	579
Investments in subsidiaries	5	759,349	600,281
Loans to subsidiaries	6	669,091	876,283
Other non-current financial assets		-	2,095
Retirement benefit assets	7	159	1,098
		1,432,262	**1,484,091**
Current assets			
Receivables from subsidiaries		7,805	6,362
Prepayments and other receivables		27,318	23,587
Cash and cash equivalents		483	21
		35,606	**29,970**
Total assets		**1,467,868**	**1,514,061**

See accompanying notes on pages 162 to 169

(in € thousands)	Notes	2006	2005
Equity and liabilities			
Equity	8		
Share capital		619,578	619,429
Share premium		39,057	38,920
Revaluation reserve		1,507	-
Legal reserves			
Reserve profits subsidiaries		11,812	10,719
Cumulative translation reserve		(29,387)	12,230
Other reserves			
Reserve share-based compensation		3,565	1,719
Equity component convertible bond		61,731	61,740
Hedging reserve		169	52
Retained earnings		(26,589)	44,134
Net profit / (loss)		139,553	(57,992)
Equity attributable to equity holders		**820,996**	**730,951**
Provisions	9	**5,000**	**8,730**
Non-current liabilities			
Subordinated convertible bonds	10	105,086	235,250
		105,086	**235,250**
Current liabilities			
Subordinated convertible bonds	10	139,687	-
Payables to subsidiaries		360,443	515,434
Other payables	11	364	4,949
Accrued liabilities		36,292	18,747
		536,786	**539,130**
Total equity and liabilities		**1,467,868**	**1,514,061**

See accompanying notes on pages 162 to 169

Company statement of changes in equity

for the year ended 31 December 2006

	Attributable to equity holders					
(in € thousands)	Share Capital	Share premium	Legal and other reserves	Retained earnings	Profit / (loss) for the period	**Total equity**
Balance at 1 January 2005	**619,309**	**38,849**	**(35,217)**	**167,099**	**(140,671)**	**649,369**
Reclassification legal reserve	-	-	9,432	(9,432)	-	-
Reclassified balance at 1 January 2005	**619,309**	**38,849**	**(25,785)**	**157,667**	**(140,671)**	**649,369**
Changes in equity for the period 1 January 2005 – 31 December 2005						
Appropriation of 2004 loss	-	-	-	(140,671)	140,671	-
Unrealised exchange differences on translation foreign operations	-	-	48,227	-	-	48,227
Net gains / (losses) on cash flow hedges	-	-	52	-	-	52
Addition to legal reserve	-	-	1,287	(1,287)	-	-
Net income / (loss) recognised directly in equity	**-**	**-**	**49,566**	**(141,958)**	**140,671**	**48,279**
Profit / (loss) for the period	-	-	-	-	(57,992)	(57,992)
Total recognised income and expense for the period	**-**	**-**	**49,566**	**(141,958)**	**82,679**	**(9,713)**
Share-based compensation plans	-	-	1,130	-	-	1,130
Award of conditional shares to employees	120	71	(191)	-	-	-
Equity component of convertible bonds	-	-	61,740	28,425	-	90,165
Balance at 31 December 2005	**619,429**	**38,920**	**86,460**	**44,134**	**(57,992)**	**730,951**

Continued >

(in € thousands)	Share Capital	Share premium	Legal and other reserves	Retained earnings	Profit/ (loss) for the period	Total equity
	Attributable to equity holders					
Balance at 1 January 2006	**619,429**	**38,920**	**86,460**	**44,134**	**(57,992)**	**730,951**
Changes in equity for the period1 January 2006 –31 December 2006						
Appropriation of 2005 loss	-	-	-	(57,992)	57,992	-
Unrealised exchange differences on translation foreign operations	-	-	(33,724)	-	-	(33,724)
Realised exchange differences recognised in the income statement	-	-	(7,893)	-	-	(7,893)
Addition to legal reserve	-	-	1,093	(1,093)	-	-
Net gains / (losses) on cash flow hedges	-	-	117	-	-	117
Revaluation gain taken to equity	-	-	1,815	-	-	1,815
Portion of revaluation gain released to income statement	-	-	(308)	-	-	(308)
Net income / (loss) recognised directly in equity	-	-	**(38,900)**	**(59,085)**	**57,992**	**(39,993)**
Profit / (loss) for the period	-	-	-	-	139,553	139,553
Total recognised income and expense for the period	-	-	**(38,900)**	**(59,085)**	**197,545**	**99,560**
Share-based compensation plans	-	-	2,058	-	-	2,058
Net purchase of shares for share-based compensation plans	-	-	-	(11,638)	-	(11,638)
Award of conditional shares to employees	120	92	(212)	-	-	-
Issue of share capital to employees	13	26	-	-	-	39
Issue of share capital for bond conversion	16	19	(9)	-	-	26
Balance at 31 December 2006	**619,578**	**39,057**	**49,397**	**(26,589)**	**139,553**	**820,996**

Notes to the Company financial statements

1 General

Hagemeyer N.V. ("the Company") is a public limited liability company incorporated and domiciled at Rijksweg 69, 1411 GE Naarden, the Netherlands. The Company financial statements, as prepared by the Board of Management, were authorised for issue by the Supervisory Board on 19 February 2007. The Company financial statements will be submitted for adoption to the General Meeting of Shareholders, which will be held on 24 April 2007.
For the purpose of complying with articles 379 and 414, Book 2 of the Netherlands Civil Code, a complete list of companies associated with the Group is available at the Chamber of Commerce in Hilversum and at the Company's offices. The principal operating companies included in the consolidation of the Hagemeyer Group are listed on pages 172 to 175 of this report.

2 Principal accounting policies

a. Statement of compliance

The Company financial statements have been prepared in accordance with Title 9 of Book 2 of the Netherlands Civil Code. As permitted by Article 2:362 paragraph 8 of this code, the Company financial statements have been prepared applying the same IFRS accounting policies as used in the consolidated financial statements in order to maintain consistency between the figures in the consolidated and Company financial statements. In accordance with Article 2:402 of the Netherlands Civil Code, an abbreviated version of the income statement is presented.

b. Adoption of new and revised Standards

The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except that investments in subsidiaries are stated at net asset value as the Company effectively exercises influence of significance over the operational and financial activities of these investments. The Company's share in the undistributed earnings of subsidiaries, associated companies and joint ventures is taken to retained earnings, except when the Company is unable to secure payment of dividend. In such cases, the share in undistributed earnings is recorded in a legal reserve.

In addition to these accounting principles, the following applies:

IAS 39 Financial Instruments: Recognition and Measurement Amendment for financial guarantee contracts – amended the scope of IAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be subsequently measured at the higher of the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*. This amendment has no effect on the consolidated financial statements. Although the Company has a number of financial guarantees outstanding on behalf of its subsidiaries, this amendment does not have an effect on the Company financial statements of Hagemeyer N.V. because these are prepared in accordance with Title 9 of Book 2. Only IFRS accounting policies applied in the consolidated financial statements are followed in order to maintain consistency.

Non-current assets

3 Goodwill and other intangible assets

(in € thousands)	**2006**	2005
Goodwill		
Net book value at 1 January	**2,955**	**2,583**
Effect of movements in foreign exchange rates	(304)	372
Net book value at 31 December	**2,651**	**2,955**
Cost	2,973	3,314
Accumulated amortisation and impairment	(322)	(359)
Net book value at 31 December	**2,651**	**2,955**
Software		
Net book value at 1 January	**800**	**925**
Additions	7	12
Amortisation	(179)	(137)
Net book value at 31 December	**628**	**800**
Cost	1,812	1,805
Accumulated amortisation	(1,184)	(1,005)
Net book value at 31 December	**628**	**800**
Total intangible assets at 31 December	**3,279**	**3,755**

4 Property, plant and equipment

(in € thousands)	**2006**	2005
Net book value at 1 January	**579**	**833**
Additions	142	192
Depreciation	(337)	(446)
Net book value at 31 December	**384**	**579**
Net cost	1,508	2,131
Accumulated depreciation	(1,124)	(1,552)
Net book value at 31 December	**384**	**579**

The carrying amount of the Company’s property, plant and equipment concerns office equipment and computers of € 304,000 (2005: € 398,000) and other operating assets of € 80,000 (2005: € 181,000).

5 Investments in subsidiaries

(in € thousands)	2006	2005
At 1 January	600,281	580,023
Effect of movements in foreign exchange rates	(21,819)	9,398
Investments, including conversion of loans	9,373	52,530
Share in results for the year	159,656	(20,026)
Dividends received	(2,445)	(12,549)
Disposals and repayments	12,371	(9,147)
Revaluation Poland	1,815	-
Unrealised hedging result	117	52
At 31 December	**759,349**	**600,281**

6 Loans to subsidiaries

(in € thousands)	2006	2005
At 1 January	876,283	727,530
Effect of movements in foreign exchange rates	(17,909)	37,228
Additional loans	16,622	116,763
Divestments	-	(5,238)
Settlements	(205,905)	-
At 31 December	**669,091**	**876,283**

7 Retirement benefit asset

Defined contribution plans

Some subsidiaries of the Company are required to pay specified pension premiums. These premiums of € 1,232,000 (2005: € 2,874,000) are paid directly to the Company. For the Company, this constitutes a negative defined contribution expense. For the subsidiaries involved, the payment of these pension premiums covers all the related pension risks.

Defined benefit plans

The Company maintains defined benefit plans for qualifying employees of the Company and its subsidiaries based in the Netherlands (average earnings retirement plans, held separately under the control of trustees). The most recent actuarial valuations of plan assets and the present value of the defined benefit obligations were carried out at 31 December 2006 by qualified actuaries. The present value of the defined benefit obligations, and the related current service costs and past service costs, were measured using the projected unit credit method.

The following tables summarise the components of the net benefit expense recognised in the Company income statement and the funded status and amounts recognised in the Company balance sheet for the respective plans, as well as the principal assumptions applied.

The principal assumptions used for the purpose of the actuarial valuation are as follows:

(in %)	2006	2005
Discount rate	4.5	3.9
Expected return (bonds)	4.1	3.5
Expected return (equities)	7.1	6.5
Expected return (other)	4.5	3.9
Expected (real) salary increases	0.0 - 3.0	0.0 - 3.0
Expected pension increases	1.9 - 2.0	1.9 - 2.0
Inflation assumption	2.0	2.0

The expected return on bonds assumes investment in low-risk insurance contracts or government bonds, with a yield to maturity depending on the maturity of the bonds invested in. This yield can generally be derived directly from the financial markets. The expected return on equities is determined by adding an allowance for equity out-performance (the equity risk premium) to the market yield on low-risk government bonds of 3%. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plans' portfolios.

The amount recognised in the balance sheet in respect of the Company's defined benefit retirement plans is as follows:

(in € thousands)	2006	2005
Fair value of plan assets	335,398	320,972
Present value of funded liabilities	(308,097)	(316,388)
Funded status	**27,301**	**4,584**
Unrecognised actuarial (gains) / losses	(21,775)	4,011
Balance sheet limit	(5,367)	(7,497)
Net asset recognised at 31 December	**159**	**1,098**

In accordance with IAS 19, paragraph 58(b) the capitalisation of a defined benefit asset is restricted to the amount of the balance sheet limit.

The difference between the amount in excess of the balance sheet limit at the end of the year and the amount in excess of the balance sheet limit at the beginning of the year is recognised as an income or expense in the income statement.

Amounts recognised in the income statement in respect of the defined benefit plans are as follows:

(in € thousands)	**2006**	2005
Current service cost	4,873	3,114
Interest on obligation	12,614	12,932
Expected return on plan assets	(15,154)	(15,129)
Amortisation of net (gains) / losses	100	-
Balance sheet limit	(2,130)	4,009
Total expense	**303**	**4,926**

The total expense for the year is included as retirement benefit expenses in the staff expenses in the income statement. The actual return on plan assets was € 18,990,000 (2005: € 34,709,000).

Changes in the present value of the defined benefit obligations are as follows:

(in € thousands)	**2006**	2005
Opening defined benefit obligation	316,388	300,583
Current service cost	4,873	3,114
Expected employee contributions	300	-
Interest on obligation	12,614	12,932
Benefits paid	(15,700)	(13,800)
Transfer in / out	14,409	-
Actuarial (gains) / losses	(24,787)	13,559
Closing defined benefit obligation	**308,097**	**316,388**

Changes in the fair value of plan assets are as follows:

(in € thousands)	**2006**	**2005**
Opening fair value of plan assets	320,972	296,113
Expected return on plan assets	15,153	15,129
Employer's contributions	600	3,950
Member's contributions	300	-
Benefits paid	(15,700)	(13,800)
Transfer in / out	10,236	-
Actuarial gains / (losses)	3,837	19,580
Closing fair value of plan assets	**335,398**	**320,972**
Of which:		
Bonds	181,115	177,583
Equities	120,743	118,389
Other	33,540	25,000

The plan assets do not include any of the Company's own financial instruments nor any property occupied by or other assets used by the Group.

The history of the retirement benefit plans is as follows:

(in € thousands)	**2006**	2005	2004
Fair value of plan assets	335,398	320,972	296,113
Present value of defined benefit obligations	(308,097)	(316,388)	(300,583)
Funded status	**27,301**	**4,584**	**(4,470)**
Experience (gains) and losses on plan liabilities	14,920	-	-
Experience adjustments on plan assets	3,837	19,580	6,656

Experience adjustments on defined benefit obligations and plan assets are the difference between assumptions made and actual experience. In accordance with IFRS 1, disclosures with respect to the history of the plans are made as from the 2004 reporting period.

Equity and liabilities

8 Equity

The Company's share capital is denominated in Euros. The authorised share capital amounts to € 810 million, divided into 675 million ordinary shares with a nominal value of € 1.20 each.

In 2006, 124,317 ordinary shares were issued. As a result, the paid-up and called-up ordinary share capital increased by € 149,180 and the share premium reserve increased by € 137,229. The share premium reserve of € 39.1 million is, under existing tax legislation, distributable in shares free of Dutch income taxes.

3,000,000 ordinary shares with a nominal value of € 3.6 million are held by the Company as at 31 December 2006 with a value of € 11.4 million. The net purchase price is deducted from retained earnings. These ordinary shares are intended to be used for employee share-based programmes. The purchase of 1,425,000 ordinary shares of these shares was settled in 2006. For 1,575,000 ordinary shares, the cash outflow occurred in January 2007; a liability has been recorded accordingly.
An additional 411,316 ordinary shares with a nominal value of € 0.5 million were purchased in 2006 for € 1.7 million and sold to employees as part of the ShareMap programme for € 1.5 million. The difference is deducted from retained earnings.

(in thousands)	**2006**	2005
Changes in the number of ordinary shares issued		
Issued 1 January	516,191	516,091
Shares issued in the year	124	100
Shares issued at year-end	**516,315**	**516,191**

(in € thousands)	**2006**	2005
Paid up and called up ordinary share capital		
At 1 January	619,429	619,309
Award of conditional shares to employees	120	120
Issue of share capital to employees	13	-
Issue of share capital for bond conversion	16	-
At 31 December	**619,578**	**619,429**
Share premium		
At 1 January	38,920	38,849
Premium on award of conditional shares to employees	92	71
Premium on issue of share capital to employees	26	-
Premium on bond conversion and transfer from equity component convertible due to conversion	19	-
At 31 December	**39,057**	**38,920**

Legal and other reserves

(in € thousands)	**2006**	2005
Revaluation reserve		
At 1 January	-	-
Addition	1,815	-
Portion of revaluation gain released to income	(308)	-
At 31 December	**1,507**	**-**

The revaluation reserve has arisen on the revaluation of various assets of EL-Centrum in Poland. When the remaining 50% of shares in EL-Centrum, Poland was acquired in January 2006, differences between the fair value and the original carrying amount of identifiable assets and liabilities were recorded for 100% under IFRS 3 *Business Combinations*. For the 50% that was already owned by the Group, a reserve is formed to account for the one-time revaluation gain. Upon depreciation of the underlying items, the related amount is released from this reserve to the income statement.

(in € thousands)	2006	2005
Reserve profits subsidiaries		
At 1 January	10,719	-
Reclassified from retained earnings	-	9,432
Restated balance at 1 January	10,719	9,432
Transfer from retained earnings	1,093	1,287
At 31 December	**11,812**	**10,719**

A legal reserve is formed to the extent that profits from Group companies are not freely available for distribution to the Company.

(in € thousands)	2006	2005
Foreign currency translation reserve		
At 1 January	12,230	(35,997)
Realised cumulative translation differences on liquidated companies	(7,893)	-
Effect of movements in foreign exchange rates	(33,724)	48,227
At 31 December	**(29,387)**	**12,230**

To the extent of the negative balance of the cumulative foreign currency translation reserve of € 29,387,000 no distributions can be made from the other reserves.

(in € thousands)	2006	2005
Reserve share-based compensation		
At 1 January	1,719	780
Recognition of share-based payments	2,058	1,130
Shares issued at premium	(212)	(191)
At 31 December	**3,565**	**1,719**
Equity component convertible bond		
At 1 January	61,740	-
Transfer to share premium due to conversion of bonds	(9)	-
Reclassification of equity component of convertible bond	-	61,740
At 31 December	**61,731**	**61,740**

This reserve represents the option component of the subordinated convertible bonds reclassified from equity after the right to “cash alternative election” was waived in 2005. Upon conversion of the bonds, the related reserve amount will be reclassified to share capital and share premium. See note 10 for further details.

(in € thousands)	2006	2005
Hedging reserve		
At 1 January	52	-
Increase in fair value of cash flow hedging derivatives	117	52
At 31 December	**169**	**52**

(in € thousands)	**2006**	2005
Retained earnings		
At 1 January	(13,858)	26,428
Reclassified to legal reserve	-	(9,432)
Restated balance at 1 January	(13,858)	16,996
Reclassification of equity component of convertible bond	-	28,425
Net purchase of shares for share-based compensation programmes	(11,638)	-
Transfer to legal reserve	(1,093)	(1,287)
At 31 December	**(26,589)**	**44,134**
Net profit / (loss) for the period	**139,553**	**(57,992)**
Equity attributable to equity holders	**820,996**	**730,951**

9 Provisions

(in € thousands)	**2006**	2005
Taxes	-	8,730
Other	5,000	-
	5,000	**8,730**

The provision for taxes has been released as a result of the expiration of the statute of limitations with regard to certain matters and following favourable jurisprudence from the European Court of Justice. An additional provision has been recorded for the exposure related to the legal proceedings as described in note 24 "Commitments and Contingencies" of the consolidated financial statements. This provision has a non-current nature.

10 Subordinated convertible bonds

In February 2004, the Company issued subordinated convertible bonds amounting to € 150 million with a maturity of 5 years. The bonds bear interest at 5.75%. The bonds rank pari passu among themselves and constitute our direct, unconditional, subordinated, unsecured obligation. The bonds rank junior to any of our present or future unsecured and unsubordinated creditors, including the lenders under our facilities. The bonds are convertible into ordinary Hagemeyer shares against a conversion price of € 2.04 per bond at any time between the date of issue of the bonds and their settlement date. The final maturity date of the bonds is 5 February 2009. Bonds with a nominal value of € 11,000 and a carrying value of € 10,009 have been converted into ordinary shares during 2006. On 31 January 2007, Hagemeyer formally notified the bondholders that the remaining € 149,989,000 of bonds outstanding (nominal value) will be redeemed on 2 March 2007. As the share price was well above the conversion price of € 2.04 on 31 January 2007, bondholders are expected to opt for conversion.

In March 2005, the Company issued subordinated convertible bonds amounting to € 135 million with a maturity date of 7 years. The bonds bear interest at 3.5%. The bonds rank pari passu among themselves and constitute our direct, unconditional, subordinated, unsecured obligation. The bonds rank junior to any of our present or future unsecured and unsubordinated creditors, including the lenders under our facilities. The bonds are convertible into ordinary Hagemeyer shares against a conversion price of € 2.83 per bond at any time between the date of issue of the bonds and their settlement date. The final maturity date of the bonds is 30 March 2012. Bonds with a nominal value of € 23,000 and a carrying value of € 17,275 have been converted into ordinary shares during 2006.

For additional information, see note 16 of the consolidated financial statements.

11 Other payables

(in € thousands)	**2006**	2005
Taxes and social security	359	2,655
Other creditors	5	2,294
	364	**4,949**

12 Other results

Other results mainly consist of the balance of the unrecovered stewardship expenses, interest income and costs related to the (re)financing of the Group in 2006 and 2005.

13 Commitments and contingencies

Pursuant to article 403, Book 2 of the Netherlands Civil Code, the Company has guaranteed the liabilities of the majority of its Dutch subsidiaries. A complete listing of these subsidiaries has been filed at the Chamber of Commerce in Hilversum.

The Company is part of the fiscal unity "Hagemeyer N.V. c.s." for corporate income tax and VAT purposes and for that reason it is jointly and severally liable for the tax liabilities of the whole fiscal unity.

Other commitments and contingent liabilities such as corporate and bank guarantees, taxes including fiscal unity and other claims, were consistent with normal business practice and the Company's financial position.

The Company guarantees a minimum solvency ratio of 110% for the employee pension fund in the Netherlands. In case the solvency ratio drops below 110%, the Company has to pay additional premium to restore this level.

We further refer to note 24 of the consolidated financial statements.

14 Related party transactions

There are no significant transactions between the Group and its associates. Transactions between the Company and its subsidiaries are included in the Company financial statements. These transactions include the charge-out of management fees and interest on intercompany financing.

We refer to note 34 of the consolidated financial statements for key management personnel compensation.

€ 0.6 million of pension premiums was paid to post-employment benefit plans for the benefit of employees of the Group. Further details can be found in note 7.

15 Remuneration of members of the Board of Management and Supervisory Board 2006

We refer to note 34 of the consolidated financial statements.

16 Share-based payments

We refer to note 33 of the consolidated financial statements.

17 Employees

The average number of persons employed by the Company during 2006 was 2 (2005: 2).

18 Post balance sheet date events

We refer to note 38 of the consolidated financial statements.

Naarden, 19 February 2007

Supervisory Board

A. Baan, *Chairman*

D.G. Eustace, *Vice Chairman*

R. van Gelder

R.M.J. van der Meer

M.P.M. de Raad

P.H.J.M. Visée

Board of Management

R.W.A. de Becker, *CEO*

J.S.T. Tiemstra, *CFO*

Auditors' Report

To the Shareholders and Supervisory Board of Hagemeyer N.V.

Report on the Company financial statements

We have audited the Company financial statements 2006, set out on pages 155 to 169, which are part of the financial statements of Hagemeyer N.V., Naarden, which comprise the balance sheet as at 31 December 2006, the income statement, the statement of changes in equity and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the Company financial statements and for the preparation of the Report of the Board of Management, both 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 Company 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.

Auditors' responsibility

Our responsibility is to express an opinion on the Company 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 Company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Company financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Company 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 Company 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 Company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Company financial statements give a true and fair view of the financial position of Hagemeyer N.V. as at 31 December 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 Board of Management is consistent with the Company financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Deloitte Accountants B.V.
Rotterdam, 19 February 2007
R.J.M. Dassen

Other data

Articles of Association concerning profit appropriation

Article 33 of the Articles of Association states the following:

The Board of Management shall prepare the financial statements and annual report, both of which shall be in the English language. The financial statements shall be audited by the auditor appointed by the general meeting. The financial statements shall be adopted by the general meeting. The Board of Management shall annually determine what part of the profit is to be appropriated to the reserves. Any part of the profits remaining shall be at the disposal of the general meeting. Dividend distributions shall be made after the adoption of the financial statements. The Board of Management may decide to pay an interim dividend.

Proposed appropriation of net result to equity holders of the Company

(not incorporated in the balance sheet)

(in € thousands)	**2006**	2005
Proposed dividend of € 0.06 per share	35,400	-
Add / (Charge) to retained earnings	104,153	(57,992)
	139,553	**(57,992)**

The proposed dividend is based on the assumption that all 2004 subordinated convertible bonds bearing interest of 5.75% will be converted into shares.

The actual dividend amount will be based on the number of shares outstanding at the moment of dividend payment (16 May 2007); it has been assumed that the entire ordinary dividend will be paid in cash.

Post balance sheet date events

Please refer to note 38 of the consolidated financial statements.

Principal operating companies

Professional Products and Services (PPS)

Europe

Central Europe	Net revenue [1]	Number of branches
Germany [2]	919.3	73
Netherlands	190.0	18
Switzerland Austria	125.3	7

UK & Ireland	Net revenue [1]	Number of branches
United Kingdom Ireland	1,103.8	291

Nordics	Net revenue [1]	Number of branches
Sweden	602.5	46
Norway	256.6	21
Finland	195.8	32
China Russia Estonia Latvia Lithuania Poland	203.2	58

Southern Europe	Net revenue [1]	Number of branches
Spain	351.2	72

North America

North America	Net revenue [1]	Number of branches
United States	1,157.8	266
Canada Mexico	249.2	79

Asia-Pacific

Asia-Pacific	Net revenue [1]	Number of branches
Australia	448.9	178
Singapore / Malaysia / Thailand	19.9	4

1 Net revenue for the year ended 31 December 2006 (in € millions)

2 Including Czech Republic and Slovakia

Central Europe

Hagemeyer Deutschland	**CEO P.H. (Paul) Zekhuis**	**www.hagemeyerce.com**
Germany	Hagemeyer Deutschland GmbH & Co. KG, Munich [1]	
Czech Republic	Hagemeyer Czech Republic s.r.o., Prague	
Slovakia	Hagemeyer Slovak Republic s.r.o., Bratislava	
Hagemeyer Nederland	**Managing Director P. (Paul) de Bruijn**	**www.hagemeyer.nl**
The Netherlands	Hagemeyer Nederland B.V., Capelle a / d IJssel	
Winterhalter + Fenner	**CEO J. (Johannes) Kuhn**	**www.w-f.ch** **www.electrolan.ch**
Switzerland	Winterhalter + Fenner AG, St. Gallen ElectroLAN SA, Neuchâtel	
Hagemeyer Austria	**CEO D. (David) von Ow**	**www.hagemeyer.at**
Austria	Hagemeyer Austria GmbH, Vienna	

1 Exemption in accordance with art 264 b German Commercial Code (HGB) from the requirement of preparing financial statements and a management report and having these audited and disclosed

United Kingdom & Ireland

Hagemeyer UK	**CEO J. (John) Hogan**	**www.hagemeyer.co.uk**
United Kingdom	Hagemeyer (UK) Ltd., Birmingham	
Ireland	Eastern Electrical, Dundalk	

Nordics

Elektroskandia Sweden	**CEO U.A. (Ulf) Gundemark**	**www.elektroskandia.se** **www.elektroskandia.com.cn**
Sweden	Elektroskandia AB, Stockholm Cardi Belysningsspecialisten AB, Stockholm	
China	Elektroskandia Logistics (Shanghai) Co. Ltd., Shanghai	
Elektroskandia Norway	**CEO J.E.W. (Espen) Asheim**	**www.elektroskandia.no**
Norway	Elektroskandia AS, Oslo	
Elektroskandia Finland	**CEO M. (Markku) Säkö**	**www.elektroskandia.fi** **www.elektroskandia.ru** **www.elektroskandia.ee** **www.elektroskandia.lv** **www.elektroskandia.lt**
Finland	Elektroskandia Oy, Hyvinkää	
Russia	ZAO Elektroskandia, St. Petersburg	
Estonia	Elektroskandia AS, Tallinn	
Latvia	Elektroskandia SIA, Riga	
Lithuania	UAB Elektroskandia, Vilnius	
Elektroskandia Poland	**CEO P. (Pawel) Wedrychowski**	**www.elektroskandia.pl**
Poland	Elektroskandia S.A., Poznan	

Southern Europe

ABM	**CEO F. (Fernando) Cogollos**	**www.ABM.es**
Spain	Mercantil Intercontinental S.L. Unipersonal, Madrid	

North America

Hagemeyer North America	**CEO D.G. (Dave) Gabriel**	**www.hagemeyerna.com** **www.vallen.com** **www.evallen.com** **www.lionvallen.com** **www.fittest.com** **www.worldsafety.com** **www.proveedora.com** **www.enconsafety.com** **www.centuryvallen.com** **www.ehagemeyer.com**

United States	Hagemeyer North America, Inc., North Charleston, South Carolina
	Encon Safety Products, Inc., Houston, Texas
Canada	Hagemeyer Canada Inc., Edmonton, Alberta
Mexico	Proveedora de Seguridad Industrial del Golfo, S.A. de C.V., Tampico

Asia-Pacific

Hagemeyer Australia | **CEO R. (Robin) Norris** | **www.hagemeyeraustralia.com**

Australia	Hagemeyer Australia LLP, Melbourne, Victoria
Singapore / Malaysia	Hagemeyer Singapore PPS Pte. Limited, Singapore
Thailand	Hagemeyer-PPS (Thailand) Ltd., Bangkok, Thailand

Agencies / Consumer Electronics (ACE)

Hagemeyer Brands Australia | **CEO M.P. (Michael) Touma** | **www.hagemeyer.com.au**

Australia	Hagemeyer Brands Australia Pty. Ltd., Sydney, NSW

Hagemeyer - Cosa Liebermann Group - Asia | **CEO P.J. (Patrice) Brendle**

China	HCL Limited, Hong Kong
	HCL Group (Hong Kong) Limited, Hong Kong
	Cosa Liebermann Limited, Hong Kong
South Korea	Cosa Liebermann Korea Co. Ltd., Seoul
Micronesia	Caronel Inc., Guam
	Caronel Saipan Inc., Saipan
Taiwan	Cosa Liebermann Limited (HK), Taiwan Branch, Taipei

Haagtechno / Kompro | **CEO F.A.W. (Frans) Hoogervorst** | **www.panasonic.nl**

The Netherlands	Haagtechno B.V., 's-Hertogenbosch
	Kompro B.V., 's-Hertogenbosch

A complete list of companies associated with the Hagemeyer Group is available at the Chamber of Commerce in Hilversum and at the Company's offices

Hagemeyer five-year history

(in € millions)	IFRS 2006	IFRS 2005	IFRS 2004	Dutch GAAP [1] 2003	Dutch GAAP [1] 2002
Income statement					
Net revenue	6,228	5,595	5,427	6,338	8,343
EBITDA before exceptional items [2]	236	134	65	41	270
Operating result before exceptional items and goodwill amortization [2]	190	88	13	(9)	209
Exceptional items [2]	(23)	(45)	(31)	(126)	(39)
Operating result before goodwill amortization	167	43	(18)	(135)	170
Net profit / (loss) before amortization of goodwill	140	(58)	(141)	(284)	92
Total net profit / (loss)	140	(58)	(141)	(318)	57
Balance sheet (at 31 December)					
Goodwill and intangible assets	534	546	521	585	652
Other non-current assets	291	267	302	295	399
Inventories	670	643	590	616	817
Trade receivables	1,013	935	839	836	1,258
Cash and other receivables / prepayments	116	148	185	271	182
Non-current assets classified as held for sale	8	2	-	-	-
Total current assets	1,807	1,728	1,614	1,723	2,257
Total assets	2,632	2,541	2,437	2,603	3,308
Equity	821	731	649	543	929
(Convertible) subordinated debt:					
Loan component	245	235	131	150	150
Option component	-	-	32	-	-
Provisions	51	71	87	195	211
Deferred tax liabilities	6	4	10	-	-
Retirement benefit obligation	131	131	130	-	-
Senior debt	243	295	442	975	935
Other long-term debt	2	1	1	-	-
Finance lease obligations	86	101	120	-	-
Trade payables	742	681	577	529	775
Other current liabilities	305	291	258	212	304

(in € millions)	IFRS 2006	IFRS 2005	IFRS 2004	Dutch GAAP [1] 2003	Dutch GAAP [1] 2002
Cash flow statement					
Net cash from / (used in):					
Operational activities	113	33	(44)	(125)	134
Investing activities	(29)	(15)	72	223	(12)
Financing activities	(88)	(48)	(97)	(17)	41
Net increase / (decrease) in cash	(4)	(30)	(69)	81	163
General					
Average number of employees (in FTE)	17,578	17,417	17,973	20,918	23,029
Average sales per employee (in € thousands)	354	321	302	303	362
Staff expenses	725	703	692	765	882
Average net working capital	771	725	757	957	1,236
Average net working capital as % of 12 months net revenue (in %)	12.4	13.0	14.0	15.1	14.8
Share data					
Highest price (in €)	4.80	2.79	2.36	7.51	26.80
Lowest price (in €)	2.70	1.67	1.33	1.76	6.08
Closing price at year-end (in €)	3.84	2.74	1.70	1.79[8]	6.90
Number of shares outstanding at year-end	513,315,359	516,191,042	516,091,042	109,459,256	109,459,256
Market capitalization at year-end	1,971	1,414	877	196	755
Data per share (in €)					
Net profit / (loss) before amortization of goodwill [3,4]					
Primary [5]	0.27	(0.11)	(0.29)	(2.60)	0.82
Fully diluted [6]	0.22	(0.11)	(0.29)	(2.55)	0.82
Net profit / (loss) [4]	0.27	(0.11)	(0.29)	(2.91)	0.50
Dividend [7]	0.06	-	-	-	0.33
Equity attributable to equity holders at year-end [4]	1.59	1.42	1.26	4.67	8.20

(in € millions)	IFRS			Dutch GAAP [1]	
	2006	2005	2004	2003	2002
Ratios					
Closing price at year-end / cash flow [3]	9.5	70.6	(16.7)	(0.8)	4.9
Closing price at year-end / cash earnings [3]	14.2	(24.4)	(5.8)	(0.7)	8.4
Activity					
Gross profit / net revenue (in %)	23.1	23.3	23.2	21.2	20.6
Operating profit / (loss) / net revenue [3] (in %)	2.68	0.77	(0.32)	(2.70)	1.62
Net profit / (loss) / net revenue (in %)	2.24	(1.04)	(2.59)	(5.02)	0.68
Net revenue / balance sheet total	2.37	2.20	2.23	2.43	2.52
Net revenue / inventories	9.29	8.69	9.19	10.30	10.21
Financing					
Net debt at year-end	407	445	459	927	1,040
Net senior debt at year-end	163	210	329	777	890
Current ratio (current assets / current liabilities)	1.7	1.8	1.9	1.0	1.7
Quick ratio (receivables and liquid funds / current liabilities)	1.1	1.1	1.2	0.6	1.1
Net senior debt / EBITDA before exceptional items [2]	0.7	1.6	5.1	19.1	3.3
Gearing					
Net senior debt / equity	0.20	0.29	0.51	1.43	0.96
Net debt / equity	0.50	0.61	0.71	1.71	1.12
Capital ratio [9] (in %)	31.2	28.8	26.6	20.8	28.1
Return on equity					
(net profit / equity attributable to equity holders) (in %)	17.0	(7.9)	(21.7)	(58.6)	6.1
ROIC (return on invested capital) PPS (in %)	8.2	3.3	(0.6)	(3.1)	4.1

1 2002 - 2003 comparative figures are in accordance with Dutch GAAP, and are not restated for IFRS. We refer to the 2005 Annual Report for the major differences between Dutch GAAP and IFRS

2 Non-IFRS measure

3 2002 comparative figures adjusted to reflect reclassification extraordinary items to exceptional items

4 Rounded to the nearest euro cent

5 Based on weighted average number of shares outstanding

6 Based on weighted average fully diluted number of shares

7 Based on shares with full dividend entitlement

8 Adjusted for rights issue in February 2004, this is € 1.32

9 Total equity / total assets

Exchange rates

The principal exchange rates vis-à-vis the euro, as used in the preparation of the financial statements:

	As at 31 December 2006	As at 31 December 2005	Average during 2006	Average during 2005
Australian dollar	1.666	1.612	1.665	1.632
Canadian dollar	1.526	1.377	1.423	1.510
Chinese renminbi	10.252	9.574	9.989	10.215
Hong Kong dollar	10.240	9.180	9.748	9.679
Mexican peso	14.200	12.600	13.611	13.514
Norwegian crown	8.240	8.010	8.042	8.020
Swedish crown	9.035	9.410	9.249	9.281
UK pound	0.671	0.686	0.681	0.684
US dollar	1.319	1.183	1.255	1.245

Shareholder information

Communication

Hagemeyer values good communication with its shareholders and other stakeholders. Regular meetings with shareholders and investors, analysts and the media form a key component of Hagemeyer's commitment to present the Group's activities in a clear and transparent manner. In so-called one-on-one meetings with financial market participants, such as analysts and investors, Hagemeyer provides background to, and clarification of, earlier communicated information and is usually represented by more than one person from management and investor relations. Price-sensitive information is communicated in such a way that it will reach all market participants at the same time. In these meetings no new information will be disclosed.

Results and other news

Hagemeyer reports its results twice a year through press releases. Our revenue development is reported on a quarterly basis, via a trading update, after the close of the first and third quarter. News on important aspects to our Group is also communicated regularly via press releases.
On the day of announcement of our full-year and half-year results, we usually host a press conference and analyst meeting, broadcasted real-time via a webcast. At these meetings, results are presented and explained. The question and answer session with senior management during these meetings contributes to our transparency goals.
All press releases, analyst and press presentation, and webcasts as well as our planned calendar of announcement dates are available on our website.

Investor relations in 2006

In 2006 a substantial number of presentations were given to the financial community, both in the Netherlands and abroad. On 9 and 10 October 2006, we held an Analyst and Investor Day in Madrid, Spain. Global and local senior operational executives participated. The main objectives of our Analyst and Investor Day were to provide insight into the drivers of our key PPS strategies, and to further introduce our management teams to analysts and institutional investors. A broad range of presentations highlighted different strategic and operational aspects of Hagemeyer's business. Site visits offered the opportunity to take a closer look at our new head office and regional distribution centre in Madrid and our so-called "City of Lights" showroom, which was also featured in the Hagemeyer 2005 annual report.

2007
Important dates

21 February
Publication of
annual results 2006

2 April
Publication
Annual Report 2006

20 April
Trading update
on first quarter 2007

24 April
Annual General Meeting
of Shareholders

17 August
Publication
of interim results 2007

23 October
Trading update
on third quarter 2007

Hagemeyer's corporate website

On Hagemeyer's corporate website (www.hagemeyer.com) visitors may find additional information on the Group's strategy and activities. Press releases and presentations as well as (archived) webcasts from our communications to the market are easily accessible here. The formal launch of our renewed website on 1 February 2006 was received positively. The restyled and updated Hagemeyer corporate website scored a top 10 position in the Netherlands with international and national web ranking agencies in 2006.

Financing

Our current senior debt facility of € 606 million per ultimo 2006 expires in February 2008. We plan to refinance this facility in 2007 through a combination of a committed senior revolving facility and a trade receivables-based securitization programme.

In December 2006 Hagemeyer announced the intention to redeem € 150 million 5.75% subordinated convertible bonds in 2007. In 2004 Hagemeyer issued these subordinated convertible bonds (conversion price of € 2.04, due in 2009) in connection with Hagemeyer's financial restructuring. On 31 January 2007 Hagemeyer notified holders of these subordinated convertible bonds that these would be redeemed on 2 March 2007. Holders of these subordinated convertible bonds most likely will opt for conversion of their subordinated convertible bonds into shares instead of redemption. This expected conversion will result in a potential maximum dilution of Hagemeyer's share capital by approximately 73.5 million shares and a further strengthening of our balance sheet in the first quarter of 2007.

Listing and trading

Shares in Hagemeyer N.V. have been listed on the Euronext stock exchange in Amsterdam, the Netherlands (trading symbol: HGM), since 1937. From 1996, the Hagemeyer share has been included in the AEX index.

2008
Important dates

22 February
Publication
of annual results 2007
1 April
Publication
Annual Report 2007
22 April
Trading update
on first quarter 2008
28 April
Annual General Meeting
of Shareholders
13 August
Publication
of interim results 2008
23 October
Trading update
on third quarter 2008

Development of share capital

Shares

At 31 December 2006 the number of shares outstanding amounted to 513,315,359 (2005: 516,191,042). The weighted average number of shares outstanding in 2006 was 516,231,499 (2005: 516,174,375). During the year 110,799 shares were issued in connection with share grants to Mr de Becker and Mr Tiemstra in 2006 as part of their performance-related remuneration package. In 2006 Hagemeyer purchased 3 million shares in the market to cover future obligations from share-based payments to employees.

Changes in the number of shares issued

(in thousands)	**2006**	2005
Issued January 1	516,191	516,091
Shares issued in the year	124	100
Number of shares issued at year-end	**516,315**	**516,191**
Number of own shares purchased at year-end	(3,000)	-
Number of shares outstanding at year-end	**513,315**	**516,191**
Average number of shares outstanding	516,231	516,174
Nominal value at year-end (in € thousands)	619,578	619,429
Market capitalisation at year-end (in € millions)	1,971.1	1,414.4
Outstanding number of option rights	3,593	2,749

Ratios per share

(in €)	IFRS 2006	2005	2004	Dutch GAAP 2003	2002
Net result after taxes, before amortization of goodwill, rounded to the nearest euro cent					
Primary [1]	0.27	(0.11)	(0.29)	(2.60)	0.82
Fully diluted [2]	0.22	(0.11)	(0.29)	(2.55)	0.82
Dividend (when fully cash) [3]	0.06	-	-	-	0.33
Dividend pay-out (in %) [3]	37%[6]	0%	0%	0%	22%[7]
Shareholders' equity at year-end	1.59	1.42	1.26	4.67	8.20
Highest price	4.80	2.79	2.36	7.51	26.80
Lowest price	2.70	1.67	1.33	1.76	6.08
Closing price at year-end	3.84	2.74	1.70	1.79[4]	6.90
Closing price at year-end / cash flow [5]	9.5	70.6	(16.7)	(0.8)	4.9
Closing price at year-end / cash earnings [5]	14.2	(24.4)	(5.8)	(0.7)	8.4

1 Based on the weighted average number of shares outstanding

2 Based on the weighted average fully diluted number of shares

3 Based on shares with full dividend entitlement

4 Adjusted closing price: € 1.32, taking into account the 2004 rights issue

5 2002 comparative figures adjusted to reflect reclassification of extraordinary items to exceptional items

6 Based on net profit excluding the deferred tax gain

7 Based on ordinary profit after taxes before goodwill amortization

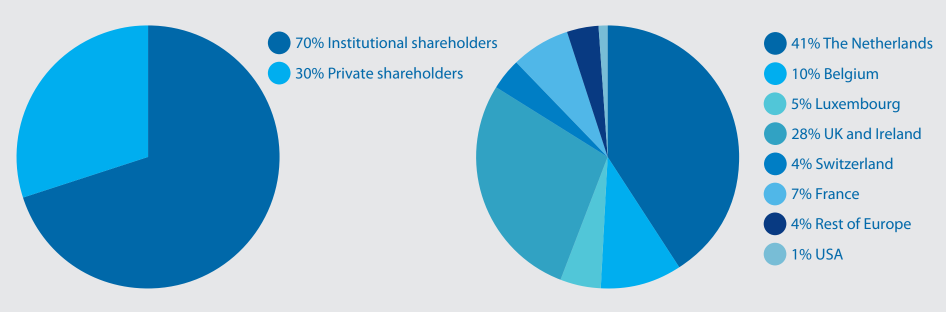
Regulations concerning inside information and the holding of and transactions in Hagemeyer-securities

At Hagemeyer, the regulations concerning inside information and the holding of and transactions in Hagemeyer securities affect the members of the Supervisory Board and of the Board of Management, head office employees and senior management of group companies and a number of senior advisors. Mr H. Bijl has been appointed Central Officer and is responsible for supervising compliance with the regulations, as well as for the external notification to the securities transaction supervisory authority in the Netherlands (Authority Financial Markets).

Shareholder distribution

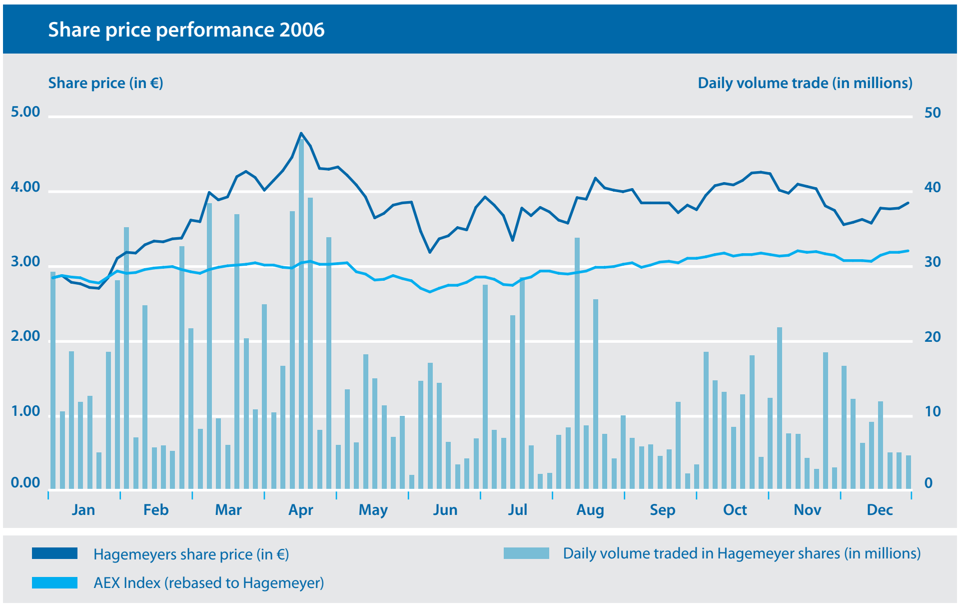
At 31 December 2006 institutional investors held approximately 70% of the total number of Hagemeyer shares outstanding. International (non-Dutch) investors owned about 60%.
At year-end 2006, one shareholder had reported holdings greater than 5% of Hagemeyer's issued share capital, being BriTel Fund Trustees Limited, which held 5.37% of the issued share capital as per 1 November 2006, which is the date its shareholding was notified (to the Authority Financial Markets).

Shareholder distribution



Share price performance 2006

Hagemeyer closed 2006 at € 3.84, 40% or € 1.10 higher compared to the year-end 2005 price of € 2.74. The average daily trading volume of shares for 2006 was 10,600,942 (2005: 7,267,118).



Dividend

Hagemeyer has not paid out any dividend since 2003. In the past years, Hagemeyer indicated that the amount and form of future dividends would depend on the Group's financial gearing, cash flow and results. In line with our policy on additions to reserves and dividends (see page 82), we will propose to determine a dividend over 2006 at € 0.06 per share. This dividend will be fully distributed in cash and the 2006 net profit that will not be distributed will be added to retained earnings. Subject to approval of our Annual General Meeting of Shareholders our shares will be quoted ex dividend from 26 April 2007. Payment of the dividend will be made on 16 May 2007.

Dividend history

(in €)	**2006**	2005	2004	2003	2002
Interim dividend	-	-	-	-	0.15
Final dividend	0.06	-	-	-	0.18
Total	**0.06**	**-**	**-**	**-**	**0.33**

Contact

For further information concerning investor relations, please contact Emilie de Wolf at the investor relations department of Hagemeyer N.V.

Telephone: +31 35 695 76 52
Fax: +31 35 694 43 96

Internet: www.hagemeyer.com
E-mail: investor.relations@hagemeyer.com

Glossary of terms

Average net working capital
The average of the net working capital based on the closing balance of each month in the period December to December (13 months)

Basic earnings per share
Net result per share based on the weighted average number of shares outstanding during the year, rounded to the nearest euro cent

Diluted earnings per share
Net result per share based on the weighted average number of shares outstanding, plus the effect of conversion rights of the convertible bonds, dilutive options and share rights

Diluted options and share rights
Those options and share rights of which the exercise price is below the average market price over the period and of which the conditions for exercise have been satisfied. The option and share rights are only included to the extent that they would, if exercised, decrease earnings per share

EBITDA
Earnings before interest, tax, depreciation and amortization of intangible assets

Exceptional items
Income or expenses related to normal operating activities, which because of their nature, magnitude or frequency of occurrence, are reported separately in order to provide a fair view on the result from normal operating activities, and in particular the development thereof

Free cash flow before divestments / acquisitions
Net cash flow from operating activities less net capital expenditures, before divestments and acquisitions of subsidiaries

Gross margin
Gross profit as a percentage of net revenue

Gross profit
Net revenue less cost of sales

Net interest expense
Interest expense from cash amounts drawn under Group and / or local senior facilities plus annual coupon payments on subordinated convertible bonds minus interest earned on cash investments and cash balances

Net result per share
Net result per share based on the actual number of shares outstanding at the end of the period, rounded to the nearest euro cent

Net revenue
Revenue net of sales taxes, discounts, bonuses and rebates

Net senior debt
Cash amounts drawn under Group and / or local senior facilities, minus freely available cash investments and cash balances

Net working capital
Trading working capital, other current receivables and pre-payments, less other current liabilities, less cash and deposits

Number of FTEs
Number of employees expressed as Full Time Equivalent

Operating margin
Operating result before exceptional items as a percentage of net revenue

Operating result
Gross profit less operating expenses plus other operating income

Organic (revenue) growth
Net revenue in the current period at current exchange rates less net revenue in the base period at current exchange rates, adjusted for net revenue from acquired and divested companies

Organic revenue growth percentage
Organic revenue growth as a percentage of net revenue in the base period at current exchange rates, adjusted for net revenue from companies divested since the base period, calculated on a same number of working days basis

Trading working capital
Inventories and trade receivables, less trade payables

Disclaimer

Hagemeyer N.V.

Rijksweg 69
1411 GE Naarden
P.O. Box 5111
1410 AC Naarden
The Netherlands

Telephone
+31 35 695 76 11

Fax
+31 35 694 43 96

Internet
www.hagemeyer.com

E-mail
info@hagemeyer.com

Concept and realization
Dart Design, Amsterdam

Photography
Arno Massee, Rijnsaterwoude
Jacqueline Dubbink, Oostzaan

Printing
Hollandia Printing, Heerhugowaard

This Annual Report has been printed on environmentally friendly paper

This Annual Report includes forward-looking statements. Other than statements of historical fact, all statements included in this Annual Report, including, without limitation, those regarding our financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events, including numerous assumptions regarding our present and future business strategies, operations and the environment in which we will operate in the future. These forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors relating to the company, including: our ability to enhance operational performance, increase our revenue and improve our margins; our ability to reduce spending and losses; our ability to continue to reduce our indebtedness; our liquidity needs exceeding expected levels; our ability to maintain our relationships with suppliers, insurers and customers; our ability to maintain our market share in the markets in which we operate; the state of the global economy, particularly as it relates to the demand for Construction and Installation products, and electrical materials and safety, Maintenance, Repair and Operations products; and our anticipated future results. Many of our assumptions are beyond the control of Hagemeyer and are inherently subject to substantial uncertainty. Our assumptions involve significant elements of subjective judgment that may or may not prove to be accurate, and consequently no assurances can be made regarding the analyses or conclusions derived from analyses based upon such assumptions. These forward-looking statements exclude the impact of currently unforeseen future fair value adjustments and / or impairments. Actual results may differ materially from those expressed in these forward-looking statements, and one should not place undue reliance on them. The forward-looking statements contained herein speak only as of the date on which they are made and are subject to change without notice and other than as required by applicable law or the applicable rules of any exchange on which our securities may be traded, we have no intention or obligation to update forward-looking statements.

HAGEMEYER

ANNUAL REPORT 2006