

Semi annual report 2006

Apeldoorn, 12 September 2006

HITT maintains its expectations

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

First half year 2006 review

Aviation

In the first half year HITT has secured relatively small, though important, orders from KLM, Schiphol Group and Fraport (Frankfurt airport) revealing a new target group of customers. Safe handling of traffic is the first priority of air traffic control authorities. Airlines and airports are also interested in further enhancing logistic efficiency: the aircraft has to be turned around faster. For this market HITT developed new products that, to a high degree, contribute to the so-called "Collaborative Decision Making (CDM) of parties on the airport. This demand is relatively new and growing. Running projects in the Netherlands, Denmark, Sweden, Egypt, Taiwan and China are progressing well.

Marine

In June HITT received an order from the Oil and Natural Gas Company of India. Together with previous orders for offshore platform protection on the North Sea, this underlines HITT's position in this growth market segment. In the past half year, interest increased in AISLIVE.com, the internet platform developed with Lloyds Register Fairplay, with real time information for the international maritime community.

Good results were booked in Europe and Asia with the successful introduction of a new hydrographical product for 3-dimensional object detection. In North America, the market for nautical products for navigation and hydrography lagged to some extent. Postponement of expected tenders resulted in delayed order intake.

HITT found a new market for information systems for port- and fleet management in the Netherlands, the United States and Australia. The interest to realise the cohesion of these information systems is growing. Comparable with the CDM-products for aviation HITT is developing solutions that optimise this cohesion.

Progress on the project in the Gulf of Kachchh in India slowed down due to circumstances beyond HITT's control. Also in China some projects delayed due to the weather preventing equipment to be installed. Other projects in the Netherlands, Belgium, Australia, New Guinea, USA and Canada made good progress.

Technical assistance

The after sales and customer support on previously realised projects world wide develop as expected and are growing sharp, mainly due to some larger extension programmes on vessel traffic management systems.

Developments

Development efforts have been substantial again in the first half year. The development of new generation of tracking algorithms and display techniques was started in 2003 and is nearly completed. The development of hydrographical 3D object detection has been completed and has led to a successful product. New programmes are being implemented with mainly innovative products including Collaborative Decision Making and in the field of Electronic Navigation Charts (ENC).

Organisation

The remaining shares in Ican Ltd. and Klein Systems Group Ltd, both in Canada, were acquired 1 April 2006. Until that date HITT held 40 per cent in both subsidiaries. In the Annual General Shareholders Meeting on March 29 it was decided to appoint BDO CampsObers as an external auditor. As of 1 July Rob Boswijk joined the management as a Chief Commercial Officer of HITT NV and as a managing director of HITT Traffic.

Outlook

The outlook for the second half of this year remains good. With the additional contracts and award of orders in South-east Asia and Dublin, Ireland the position of HITT in the aviation market is confirmed. The management maintains its expectation of an improved turnover and net profit for the full year 2006 compared to 2005.

Notes to the results

For principles of valuation and determination of profit and loss we refer to the 2005 annual accounts.

In the first half year HITT's turnover remained almost equal at EUR 12.4 million (1H2005: EUR 12.7 million) and other operating income remained at EUR 0.3 million. Raw materials and consumables used, predominantly purchased goods for projects, dropped from EUR 4.2 million in the first half of 2005 to EUR 2.6 million as running projects last year required substantial purchases.

Employee benefits expenses increased to EUR 5.1 million (1H2005: EUR 4.5 million), mainly as a result of the growing number of staff and – converted into euros – a higher cost of staff abroad due to a decreasing Euro. Depreciation increased to EUR 0.5 million (1H2005: EUR 0.2 million) as a result of equipment purchases for lease to customers. The amortization of development costs amounted to EUR 1.2 million (1H2005: EUR 0.9 million). The other operating expenses increased to EUR 2.8 million (1H2005: EUR 2.4 million) mainly due to hired staff. As a result operating profit decreased to EUR 0.5 million (1H2005: EUR 0.9 million). After finance cost and income tax, a net profit remains of EUR 0.4 million (1H2005: EUR 0.8 million). The resulting earnings per share amount to EUR 0.08 (1H2005: EUR 0.10). The profit attributable to minority interests decreased substantially as a result of the acquisition of the remaining shares in Ican and Klein Systems Group per 1 April 2006.

On the balance sheet goodwill increased from EUR 1.3 million at the end of 2005 to EUR 3.2 million as a result of the acquisition of the remaining shares in Ican and Klein. This first half year EUR 0.5 million was added to the development costs up to EUR 5.8 million. The development costs are amortized according to the straight-line method over a period of three years. Trade and other receivables amount to EUR 12.3 million including EUR 7.3 million for work in progress (2005: EUR 3.3 million).

The minority interests in the share capital decreased to EUR 0.1 million (2005: EUR 1.6 million) and concerns only the 51 per cent participating share in Ad Navigation of Norway. The legal reserve covering the capitalized development costs in foreign subsidiaries, increased as a result of the acquisition of the remaining interests in Ican and Klein. Long-term liabilities consist of the deferred payments to selling minority shareholders over the coming years up to and including 2010. This deferred variable payment is profit dependent. Trade and other payables total EUR 5.1 million including an amount of EUR 1.6 million of prepayments from customers of work in progress (2005: EUR 1.2 million).

The cash flow from operating activities amounted to EUR 0.5 million negative, mainly due to increased work in progress. Investments in (in)tangible fixed assets, like developments and the acquisition of interests in mentioned subsidiaries, amounted to EUR 2.9 million. The cash-flow from financing activities, among which the payment of dividend EUR 0.5 million amounted to EUR 0.6 million negative. As a result cash dropped with EUR 4.0 million to EUR 1.4 million from EUR 5.4 million at the end of 2005.

Bijlagen: Condensed consolidated profit and loss statement
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Condensed consolidated profit & loss statement
for the period ending 30 June 2006

	x € 1,000	Note	Six months ending	
			30/6/06	30/6/05
Revenue		3	12,350	12,749
Other operating income			292	277
Raw materials and consumables used			(2,596)	(4,229)
Employee benefits expense			(5,077)	(4,486)
Depreciation and amortization expense			(1,630)	(1,084)
Other operating expenses			(2,818)	(2,369)
Operational profit (loss)			521	858
Finance benefits (cost)			(35)	65
Profit before tax			486	923
Income tax (expense) benefit		4	(131)	(80)
Profit for the year			355	843
Attributable to:				
Equity holders of the parent			369	491
Minority interests			(14)	352
			355	843
Earnings per share		5		
From continuing operations:				
Basic (based upon 4.,694,158 shares)			8 cents	10 cents
Diluted (based upon 4,729,019 aandelen)			8 cents	10 cents

Condensed consolidated balance sheet
at 30 June 2006

x € 1,000	Note	30/6/06	31/12/05
ASSETS			
Fixed assets			
Equipment		1,022	1,013
Goodwill	14	3,187	1,315
Development costs	7	5,821	5,355
Deferred tax assets	8	470	1,007
		<u>10,500</u>	<u>8,690</u>
Current assets			
Inventories		245	246
Trade and other receivables		12,269	8,927
Deferred tax assets		91	-
Cash and cash equivalents		1,450	5,357
		<u>14,055</u>	<u>14,530</u>
		<u>24,555</u>	<u>23,220</u>
EQUITY AND LIABILITIES			
Capital and reserve			
Share capital	9	1,173	1,173
Share premium reserve		4,848	4,848
Legal reserve	10	5,821	4,256
Hedging and translation reserve		(266)	(270)
Retained earnings		788	2,538
		<u>12,364</u>	<u>12,545</u>
Equity attributable to equity holders of the parent		12,364	12,545
Minority interests		71	1,558
		<u>12,435</u>	<u>14,103</u>
Non-current liabilities			
Retirement benefit obligations		1,559	1,462
Deferred tax liabilities		1,720	1,620
Obligation under finance leases		116	201
Other liabilities	14	2,094	-
Liability for share-based payments		42	39
		<u>5,531</u>	<u>3,322</u>
Current liabilities			
Trade and other payables		5,131	5,024
Current tax liabilities		304	256
Obligation under finance leases		168	163
Other liabilities	14	615	101
Provisions		371	251
		<u>6,589</u>	<u>5,795</u>
		<u>12,120</u>	<u>9,117</u>
Total liabilities		<u>24,555</u>	<u>23,220</u>

Condensed consolidated statement of equity
for the period ending 30 June 2006

x € 1,000	Share capital	Share premium reserve	Legal reserve	Hedging and translation reserve	Retained earnings	Attributable to equity holders of parent	Minority interests	Total
Balance at 1 January 2005	1,173	4,848	4,345	(406)	1,767	11,727	1,074	12,801
Exchange differences arising on the translation of foreign operations				(329)		(329)		(329)
Profit for the year					491	491	387	878
Dividends					(469)	(469)		(469)
Legal reserve for capitlized developments			(515)		515	-		-
Balance at 30 June 2005	1,173	4,848	3,830	(735)	2,304	11,420	1,461	12,881
Balance at 1 January 2006	1,173	4,848	4,256	(270)	2,538	12,545	1,558	14,103
Exchange differences arising on the translation of foreign operations				4		4	(56)	(52)
Profit for the year					331	331	24	455
Dividends					(516)	(516)		(516)
Legal reserve for capitlized developments			1,565		(1,565)	-		-
Change in minority interest						-	(1,492)	(1,455)
Balance at 30 June 2006	1,173	4,848	5,821	(265)	788	12,364	71	12,435

Condensed consolidated cash flow statement
for the period ending 30 June 2006

	x € 1,000	Note	Six months ended	
			30/6/06	30/6/05
Net cash from operations			(454)	9
Purchase of equipment			(460)	(187)
Expenditure on product development			(1,677)	(1,720)
Acquisition of subsidiary		14	(741)	-
Net cash(used in) from investing activities			(2,878)	(1,907)
Dividends		6	(516)	(469)
Repayment of borrowings			(50)	(74)
Repayment of obligation under finance leases			(80)	(58)
New loan issued			-	(100)
Interest received			25	63
Net cash (used in) from financing activities			(621)	(638)
Net in(de)crease in cash			(3,953)	(2,536)
Cash at 1 January			5,357	7,759
Effect of foreign exchange rate changes			46	(227)
Cash at 30 June			1,450	4,996

Notes to the condensed consolidated financial statements for the period ended 30 June 2006

1. Basis of preparation

The condensed financial statements have been prepared in accordance with International Financial Reporting Standard (IAS) 34, Interim Financial Reporting.

2. Significant accounting policies

The condensed financial statements have been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

3. Segment information

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

	x € 1,000	30/6/06	30/6/05
		%	%
Air Traffic Control		1,015 8	2,877 22
VTMIS and CS		5,206 41	5,640 43
Technical Services		3,710 29	1,624 12
Hydrography and navigation		2,712 22	2,885 22
Revenue plus other operating income		12,642 100	13,026 100

4. Income tax (charge) credit

Interim period income tax is accrued based on the estimated average annual effective income tax rate of 29.1 per cent (6 months ended 30 June 2005: 31.5 per cent).

5. Earnings (loss) per share

From continuing and discontinued operations

During the period no operations have been discontinued.

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings per share	x € 1,000	30/6/06	30/6/05
Earnings for the purpose of basic earnings per share (profit for the period attributable to equity holders of the parent)		369	491
Number of shares	x 1,000	30/6/06	30/6/05
Number of ordinary shares for the purpose of basic earnings per share		4,694	4,694
Effect of diluted potential ordinary shares:			
Share options		35	44
Number of potential shares for the purpose of diluted earnings per share		4,729	4,738

6. Dividends

During the interim period, a dividend of 11 cents (2005: 10 cents) per share was paid to the shareholders.

7. Development costs

x € 1,000	2006	2005
Balance at 1 January	5,355	4,345
Additional investments	1,677	1,720
Amortization	(1,177)	(909)
Foreign exchange	(34)	(364)
Balance at 30 June	5,821	4,792

8. Deferred tax assets

The deferred tax assets were reduced due to received payments on carry back losses.

9. Share capital

Share capital as at 30 June 2006 amounts to € 1,173,540. There were no movements in the share capital of the Company in the current period.

10. Legal reserve

The legal reserve has been increased to reflect ordinary capitalization of developments costs as well as the changes in participating shares in the Canadian subsidiaries and their associated capitalized developments.

11. Contingencies and commitments

No significant changes have occurred in the current period.

12. Post balance sheet events

No significant events have occurred post balance sheet date.

13. Related party transactions

No changes have occurred in the current period.

14. Acquisition and disposal of subsidiaries*Discontinued operation*

No operations were discontinued during the current period.

Acquisition

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

The net asset acquired in the transactions, and the goodwill arising, are as follows:

x €1,000	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
Net assets acquired			
Development costs	1,212	-	1,212
Inventories	50	-	50
Trade and other receivables	783	-	783
Cash	312	-	312
Trade and other payables	(608)	-	(608)
Deferred tax liabilities	(233)	-	(233)
	<u>1,516</u>	<u>-</u>	<u>1,516</u>
Goodwill arising on acquisition			1,834
Total consideration, satisfied by cash			<u>3,350</u>
Cash consideration paid			(3,350)
Cash acquired			312
Net cash outflow arising on acquisition			<u>(3,038)</u>

The goodwill arising on the acquisition of Ican and Klein is attributable to the anticipated profitability of the subsidiaries; trailing results in the future may result in impairment of goodwill. Following IFRS 3 the acquiree's carrying amount before combination must be adjusted to fair value before combination if possible. This adjustment must be made within one year after combination. This may result in a reclassification from net assets acquired to goodwill at year end.

The results contributed by Ican and Klein were already fully consolidated as of date of the initial acquisition of participating shares in 2001 respectively 2002, due to the existence of management control. As of 1 April minority interests in the consolidated net profit changed following the changed participating interests.

Apeldoorn, 11 September 2006
The Management

Review report

Introduction

In accordance with your instructions, we have reviewed the half-year figures, consisting of the (consolidated) balance sheet, the (consolidated) profit and loss account as well as the notes thereto, of HITT N.V., Apeldoorn, for the period January 1, 2006 up to and including June 30, 2006. These half-year figures are the responsibility of the company's management. Our responsibility is to issue a report on these half-year figures based on our review.

Scope

We conducted our review in accordance with standards for review engagements generally accepted in the Netherlands. These standards require that we plan and perform the review to obtain moderate assurance about whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the half-year figures for the period January 1, 2006 up to and including June 30, 2006 do not comply with accounting principles for interim financial reporting according to International Financial Reporting Standards accepted in the European Union.

Apeldoorn, September 11, 2006
BDO CampsObers Accountants