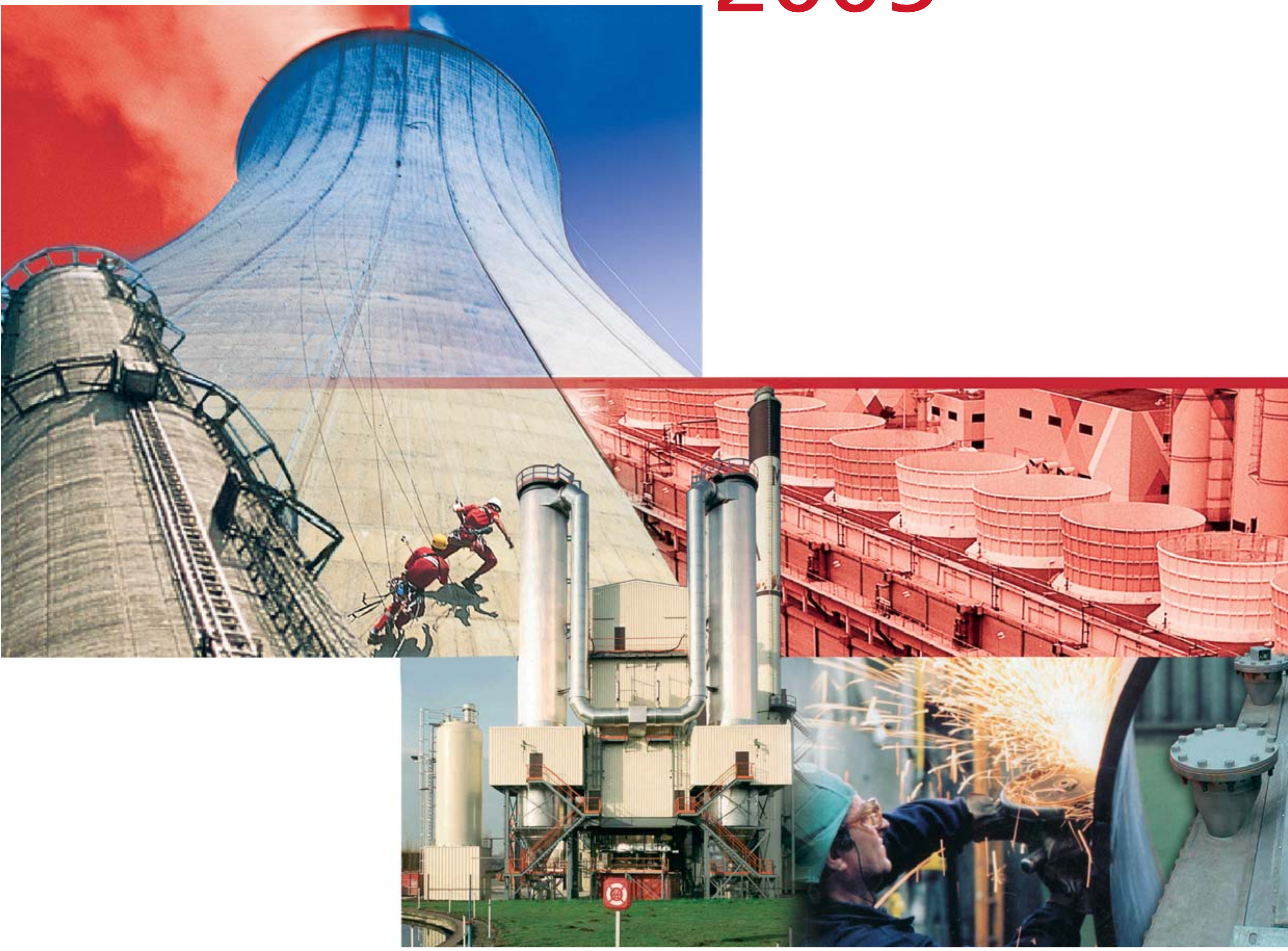
HAMON

ANNUAL REPORT 2005



ANNUAL REPORT 2005
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DISCUSSION WITH THE MANAGING DIRECTOR

In 2005, the Hamon Group showed a positive result, for the first time in several years, both at the level of the operating profit - EUR 22.2 million and of the net earnings - EUR 7 million. How would you explain this? Are you satisfied?

Hamon Group's activities are profitable again after several years of effort and many drastic measures, including a refocusing on niche markets where we had a leader position, the sale of superfluous or unprofitable operations and an important reduction of costs by some twenty million euro with constant perimeter, achieved in three years. In 2005, the sales volume increased by 46% versus 2004; the EBIT margin has strongly progressed to 7% of sales, the profitability is higher than forecasts and better than the market practices. The net result for the year reached EUR 7 million, whereas in 2004 we recorded a loss of EUR 19 million. This recovery is the result of immense work spread out over several years.
Difficult years during which Hamon has been truly able to count on the support of all its employees, and on that of its stakeholders in general.
I would add that this result has been transposed into the IFRS standard and takes account of the exit and depreciation of FBM.

Which are the most successful activities?

The sales growth has been generated by Air Pollution Control in the United States, followed by Cooling Systems for power plants.
In the United States, the power generation industry must conform to the new depollution standards – included in the "Clean Air Act" – and invest in the rehabilitation and retrofit of installations.
It concerns DeSOx installations mainly, which consist of eliminating the sulphur oxides contained in gases, and the rehabilitation of particle collection equipment (electrostatic precipitators…).
The Air Pollution Control activity in Europe is also growing, but less quickly than in the United States.

What was the level of the Group debt in 2005?

The net debt was EUR 67 million, reducing regularly for several years. With the free cash flow of 2006 and the years to come, the debt should continue to decrease. The net financial debt ratio on EBITDA has already returned to 2.5 in 2005.

What happened in the Group in 2005? What were the significant elements?

There were several. As mentioned, we have finalised the plan launched in 2003, which comprised two parts: 1. cost reduction and 2. activity refocusing. It was in this context that we sold FBM. This event will be commented on in the Management Report. We have started to introduce the Belgian Corporate Governance Code, or the Lippens Code. This is why we have created three Committees – Audit, Remuneration and Appointments. These Committees constitute bodies of decision-making aid for the Managing Director and the Board. Moreover, the Board of Directors has welcomed two new independent directors. And finally, we have adopted the IFRS accounting standards with retroactive effect to 1 January 2004. This transposition has represented an enormous amount of work for the financial department and consumed a great deal of time and energy. Lastly, we have consolidated our commercial positions thanks to the strong increase in sales.

DISCUSSION WITH THE MANAGING DIRECTOR *(cntn'd)*

What is the watchword for managers for 2006?

It is not a question of crying victory in view of the results, even if we can be delighted with them.
We must first consolidate the current situation and remain extremely vigilant. The many business opportunities must be selected prudently, the risks must be analysed and limited and cost control must continue.
In parallel, we must also prepare the ground for our future growth. It is a question on the one hand of benefiting from the growth of the countries of Eastern Europe, China, India and Brazil, countries where we are consolidating our presence, and on the other, of developing our range of technologies via our R & D programmes. Here again, I do not want chancy innovations but I am asking for major improvements that meet our customers' requirements. Like all organisations, we have to reconcile the present and the future. That is not easy but it is an indispensable condition of perenniality, which will also enable value to be created for our shareholders.

Hamon employees have gone through a difficult period: what can they expect of management? What is the Group's policy with regard to the staff?

In recent years, the Human Resources Department has primarily devoted itself to the various reorganisations and the human accompaniment of the restructuring measures dictated by the constraints of our organisation. We will now be endeavouring to set up a staff training and development policy, as well as a career management and succession policy. This will include a motivating pay policy, based on a variable component, and the development of medium-term profit-sharing plans. We must moreover ensure the relief of those who will be reaching retirement age. In this perspective, we will be relaunching the policy of hiring young talent. Hamon is an engineering group whose active ingredient is its personnel and which thus must be able to count on qualified personnel, which is why we have to invest in human resources management and envisage adequate budgets.

Can you give any estimates for 2006?

2006 is up and running under very good auspices, in a continuation of the improvement that the Group has been experiencing for some time, and marked by significant growth of the 2006 turnover. The order book at the end of December was at a most satisfactory level and the order takings of the first quarter are above budget; which overall, as at 31 March 2006, is giving an order book equivalent to approximately one year's activity.

How do you see the future?

I'm rather optimistic, but nothing is ever won in advance in our business. We benefit from several solid assets, which include the Hamon name, an integrated package of products and services, a streamlined organisation and a leader position at world level.
Hamon is a strong name, a hallmark of quality to some extent, with a worldwide reputation.
The technologies that we are currently marketing have been tried and tested for decades and have been completely mastered by the Group's engineers and technicians. As far as the market is concerned, it is without question extremely buoyant and will remain so for several years, in Europe, Asia and America alike.
Everywhere in the world, energy consumption is on the increase. The electricity industry has to invest in new power stations or rehabilitate the old ones in order to be able to satisfy this increasing demand.
For two years already, the increase in the oil price has been stimulating a wave of investments in petrochemicals, and indirectly in other manufacturing industries. Which consequently benefits our operations, as Hamon is involved in these various market segments.

KEY FIGURES

Reporting system used *in EUR million* [(1)]	**IFRS 2005**	**IFRS 2004**	**Belgian 2004**	**Belgian 2003**	**Belgian 2002**	**Belgian 2001**
INCOME STATEMENT						
Revenue	283.7	194.4	213.1	394.3	626.0	690.5
EBITDA	26.1	11.1	9.3	(6.2)	20.9	31.4
EBIT	20.5	1.1	1.5	(19.7)	6.2	18.6
Net result from continued operations	22.9	(3.5)				
Net result from discontinued operations	(15.7)	(15.3)				
Group's share in net result for the year	7.1	(18.8)	(20.5)	(12.0)	(26.4)	0.1
Net operating income after tax and before goodwill amortisation [(2)]			(9.1)	(32.9)	(9.3)	3.8
BALANCE SHEET						
Non-current assets	66.4	55.2	66.2	94.6	119.0	132.3
Net working capital [(3)]	(3.5)	(12.2)	8.7	39.7	80.2	105.3
Net assets held for sale or available-for-sale	1.8	4.0				
Capital employed	64.7	47.1	74.9	134.3	199.2	237.6
Financed by						
Equity [(4)]	(10.7)	(32.9)	(11.3)	8.9	22.6	50.8
Minority interests	0.2	(0.0)	0.1	0.6	1.0	0.9
Provisions	8.3	9.0	11.6	24.6	33.5	35.5
Subordinated loans		6.3	6.3	5.0	5.0	
Net financial debts [(5)]	66.9	64.7	68.2	95.2	137.2	150.5
Balance sheet total	199.5	228.2	212.9	362.9	614.3	626.8
Average staff number (yearly average)	720	783	783	1,760	2,133	2,252
RATIOS						
EBIT/revenues	7.2%	0.5%	0.7%	-5.0%	1.0%	2.7%
ROCE [(6)]	31.7%	2.3%	2.0%	-14.7%	3.1%	7.8%
Gearing [(7)]	(6.2)	(2.0)	(6.0)	10.7	6.1	3.0
DATA PER SHARE (in EUR)						
Group's share in net result for the year	1.6	(7.0)	(7.6)	(4.5)	(9.8)	
Net operating income after tax and before goodwill amortisation [(2)]			(3.4)	(12.2)	(3.4)	1.5
Net result from continued operations	5.1	(1.3)				
Equity	(2.4)	(12.2)	(4.2)	3.3	8.4	20.3
Gross dividend						
Return on gross dividend [(8)]						
P/E (share price on 31.12) [(9)]	1.1	(3.2)	(1.2)	(0.4)	(3.2)	9.8
Total weighted number of shares	4,458,340	2,703,579	2,703,579	2,703,579	2,703,579	2,498,879
Total number of shares on 31.12	5,874,310	2,703,579	2,703,579	2,703,579	2,703,579	2,703,579
Market capitalisation at share price on 31.12	34,364,714	11,084,674	11,084,674	13,517,895	29,739,369	40,553,685
Share price on 31.12	5.85	4.10	4.10	5.00	11.00	15.00
Mean share price	4.97	4.87	4.87	8.20	17.22	14.80

(1) Some changes to the consolidation perimeter make comparisons between different years sometimes meaningless (e.g. 2002 and 2003)
(2) Group's share in net result after tax – extraordinary result + goodwill amortisation
(3) Current assets (excluding cash & equivalents) – non-financial liabilities (continued operations only)
(4) After allocation of net result of the year
(5) Borrowings (excl. subordinated loans) – cash & equivalent
(6) EBIT / capital employed
(7) Net financial debts / equity
(8) Gross dividend / mean share price
(9) In Belgian GAAP: share price on 31.12 / net operating income after tax and before goodwill amortisation
In IFRS: share price on 31.12/ net result from continued operations

GROUP PROFILE

Four major lines of activity distributed across five business units

COOLING SYSTEMS

Businesses

Design, manufacturing, installation, start-up, maintenance, rehabilitation, spare parts, performance improvement

Products / Services

- Wet cooling systems (made-to-measure or standard)
- Plume-abated cooling systems

Customers

- Power stations
- Industries

Organisation

- One business unit of international dimension

Business unit of international dimension

2005 Landmarks

- Revenue of EUR 96 million: +26% compared to 2004
- 34% of the Group's activities
- Strong growth of order taking, sales, and operating results
- One of the world leaders for wet and plume-abated systems
- Continuous development in the new and rehabilitation markets; dynamic markets, mainly in Europe, the Middle East and Asia

2006 prospects and objectives

- Increase in sales thanks to the European and Asian markets
- Stabilisation of margins, after strong progression in 2005
- Start-up of a new components plant in China

HEAT EXCHANGERS

Businesses

Design, manufacturing, assistance with assembly, maintenance, rehabilitation, spare parts

Products / Services

- Air coolers
- Hair pin heat exchangers
- Associated components
- Finned tubes

Customers

- Petrochemical and chemical industries
- Oil and gas industries.

Organisation

- One business unit based in France

Business unit of international dimension

2005 Landmarks

- Revenue of EUR 18 million: -24% compared to 2004, following the closure of the Biraghi activity end 2004
- Reorganisation of Hamon D'Hondt started in November 2005, finished beginning 2006
- An important player in the air cooler market
- Principal geographical markets: Europe, the Middle East, North Africa, ex-USSR.
- Sustained markets, thanks to high oil and gas prices

2006 prospects and objectives

- Significant increase in sales thanks to a larger order book than as at the beginning of 2005, and sustained markets
- Progression of the results, thanks to the strong growth of the activity, and to lower overheads

GROUP PROFILE *(cntn'd)*

AIR POLLUTION CONTROL AND HEAT RECOVERY

Businesses
Design, installation, start-up, maintenance, rehabilitation

Products / Services
- Dust extractors: electrostatic precipitators, bag filters, cyclones
- Gas scrubbers
- Economisers, heat recovery, waste heat boilers

Customers
- Power stations
- Petrochemicals
- Industries in general
- Household waste incineration units

Organisation
- Two Business Units: Europe and North America

Business unit Europe

2005 Landmarks
- Revenue of EUR 36 million: +35% compared to 2004
- 13% of the Group's activities

2006 prospects and objectives
- Pursuit of growth in Europe, with development in other geographical markets

Business unit United States

2005 Landmarks
- Revenue of EUR 113 million: +129% compared to 2004
- 40% of the Group's activities
- Very strong growth in new orders, sales, and results
- Very buoyant markets with Research Cottrell leadership in de-dusting, and in gas scrubbing for the petrochemical industry

2006 prospects and objectives
- Growth in the United States and Canada
- Development in Central and South America

CHIMNEYS

Businesses
Design, site management, construction, emission control, maintenance, repair, demolition, provision of supervision and erecting teams

Products / Services
- Concrete chimneys
- Silos

Customers
- Power stations
- Industries

Organisation
- One business unit based in North America

Business unit North America

2005 landmarks
- Revenue of EUR 22 million, comparable to 2004
- 8% of the Group's activities
- One of the leaders of the North-American market
- Sustained activity, thanks to a large order for five chimneys at the end of 2004 and another two end 2005

2006 prospects and objectives
- Improved performances thanks to an important order book whose execution is distributed over several years, and to the sustained American market (mainly by gas effluent desulphurisation projects)

MANAGEMENT REPORT

Hamon is presenting consolidated operating results showing strong improvement, with the Group share of the net result amounting to EUR 7 million. This spectacular recovery, after several difficult years, is the result of multiple factors: (1) strong growth in sales (+46%) in highly profitable markets, (2) improvement of gross margins and (3) positive effects of the reorganisations carried out in 2003 and 2004.
This has led to considerable growth of EBITDA, (Earnings Before Interest, Taxation, Depreciation and Amortisation) to EUR 26.1 million in 2005 vs. EUR 11.1 million in 2004 and of the result before tax for continued operations of EUR 15.5 million vs. a loss of EUR 4.0 million in 2004.
Hamon completed its reorganisation with the sale of the Italian Heat Exchangers Business Unit (FBM), the reorganisation of its French Heat Exchangers Business Unit and the final payment for the Rothemühle liquidation on the conditions agreed upon in 2003. The effect of these transactions has been incorporated into the 2005 results.
New orders booked in 2005 amounted to EUR 340 million, an increase of 22% compared to the previous year.

1. Important Events of 2005

On 13 June, Hamon proceeded with a new issue of capital of EUR 13 million, by conversion of EUR 6.25 million of subordinated loans held by Sopal International (shareholder of reference), and EUR 6.75 million of receivables recently held by the Walloon Region (represented by Sogepa, in an amount of EUR 5 million), and the Spanish company, Esindus. In this transaction, Hamon has issued 3,170,731 new shares, at a price of EUR 4.10 per share, including an issue premium of EUR 0.10. This price corresponded to the average price as at the end of December 2004, the date at which the price was negotiated with the investors. This operation enabled Hamon to bolster its equity capital, and especially its cash. As at 31December 2005, the principal shareholders respectively held 65.9% (Sopal), 20.8% (Sogepa) and 4.2% (Esindus) of Hamon's capital. It was also planned to allow the other shareholders to subscribe to new shares on the same conditions for a maximum amount of EUR 3.3 million. This second new issue of capital has been deferred to 2006.

Following this June 2005 capital issue, Hamon appointed two new independent directors, Mr Pierre Meyers, and Mr Martin Gonzales del Valle while Sogepa appointed Mrs Sabine Colson to represent it on the Board of Directors. In accordance with the recommendations of the Corporate Governance Code (known as the "Lippens Code"), the company has also set up an Audit Committee, a Remuneration Committee and an Appointment Committee.

In the context of its financial reorganisation, Hamon signed an agreement with its main Belgian banks in June 2005, in order to re-schedule part of its banking debt. Hamon also negotiated more favourable credit terms, and obtained additional bank guarantees. Throughout 2005, Hamon has maintained the confidence of its banks and its partners in general, thanks to the recovery of its results.

In September 2005, Hamon chose a new location for its Belgian offices. The three Belgian companies, Hamon & Cie, Hamon Thermal Europe and Hamon Research-Cottrell, will be housed together in offices in Wallonia, in Mont-St-Guibert, close to Louvain-la-Neuve (one of the main scientific and technological centres in Belgium). Relocation will take place as at the end of May 2006.

MANAGEMENT REPORT *(cntn'd)*

In 2005, Hamon prepared and implemented its move to the new accounting standard that all listed European companies must adopt with effect from 2005: the International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS). Unless specified otherwise, all the financial data of this Annual Report complies with the IFRS, both for 2005 and for 2004.

Lastly, Hamon has completed its Reorganisation Plan, started in August 2003, with:

- The liquidation of the Italian subsidiary company, Hamon Research Cottrell Italia (HRCI), in April 2005. The liquidation process is ongoing. Hamon has recorded costs of EUR 2 million – mainly relating to a bank guarantee invoked by one of HRCI's customers – and has used the provision established at the end of 2004 for an amount of EUR 1 million. As far as Hamon is aware, the balance of the provision is sufficient to cover the possible costs relating to the completion of the liquidation process.
- Implementation of a reorganisation plan in November 2005 for Hamon D'Hondt (French subsidiary company specialising in air coolers and other heat exchangers). This plan, which involved a reduction in manpower of approximately 20% from the end of 2005 through the beginning of 2006, enables overhead to be reduced by EUR 1.2 million per year, which will enable this subsidiary to return to profitability as from 2006. This is confirmed by the encouraging results of the 1st quarter 2006.
- The signing of an agreement with the Malaysian group KNM Berhad at the end of December 2005 for the sale of 100% of the Italian Heat Exchangers Business Unit (FBM). This agreement was finalized on April 12, 2006 by the payment of the sale price to Hamon.

2. Comments on the Consolidated Accounts

2.1 Consolidated Income Statement

Consolidated income statement as at 31 December 2005 – *in EUR million* (IFRS / IAS)

	2005		2004		Change
	EUR M	%	EUR M	%	EUR M
Revenue	**283.7**	**100.0%**	**194.4**	**100.0%**	**+89**
EBITDA	26.1	9.2%	11.1	5.7%	
Operating profit before restructuring costs	22.2	7.8%	6.3	3.3%	
Restructuring costs	(1.8)	-0.6%	(5.3)	-2.7%	
Operating profit (EBIT)	20.5	7.2%	1.1	0.5%	+19
Finance costs, net	(5.3)	-1.9%	(5.3)	-2.7%	
Share of the profit (loss) of associates	0.3	0.1%	0.2	0.1%	
Result before tax	**15.5**	**5.5%**	**(4.0)**	**-2.1%**	
Income tax expenses	7.4	2.6%	0.5	0.3%	
Net result from continued operations	**22.9**	**8.1%**	**(3.5)**	**-1.8%**	**+26**
Net result of discontinued operations	**(15.7)**	**-5.5%**	**(15.3)**	**-7.9%**	
Net result for the year	**7.2**	**2.6%**	**(18.8)**	**-9.7%**	**+26**
Equity holders of the company	7.1	2.5%	(18.8)	-9.7%	

Results *in EUR per share*	2005	2004
Average number of issued shares	4,458,340	2,703,579
EBITDA per share	5.86	4.10
Share of equity holders of the company in the net result for the year	1.58	(6.96)

MANAGEMENT REPORT *(cntn'd)*

Revenue increased by 46%, going from EUR 194 million in 2004 to EUR 284 million in 2005. The most significant growth came from Air Pollution Control USA (+129%), Air Pollution Control Europe (+35%) and Cooling Systems (+27%). The fall at the level of Heat Exchangers was mainly due to the strong reduction resulting from the reorganisation of Biraghi at the end of 2004. The significant order-taking for Chimneys since the end of 2004 will be translated into revenue in 2006.

Revenue per business unit – ***in EUR million*** **(IFRS / IAS)**

	2005		2004		Change
	EUR M	%	EUR M	%	%
Cooling Systems	95.7	33.7%	75.6	38.9%	27%
Heat Exchangers	17.8	6.3%	23.3	12.0%	-24%
Air Pollution Control – Europe	36.2	12.8%	26.8	13.8%	35%
Air Pollution Control – USA	113.3	39.9%	49.6	25.5%	129%
Chimneys	21.8	7.7%	21.9	11.3%	0%
Others & elimination	(1.1)	-0.4%	(2.7)	-1.5%	-61%
Total	283.7	100.0%	194.4	100.0%	46%

EBITDA improved by EUR 15 million, going from EUR 11.1 million in 2004 to EUR 26.1 million in 2005. EBITDA as a percentage of sales rose from 5.7% to 9.2%. The improvement in operating profit before restructuring costs came mainly from increased volume and from the improvement of the operating margins, and also from exchange results (EUR + 0.9 million) and debt restructuring (EUR + 1.5 million).

The result before tax from continued operations increased from EUR - 4.0 million in 2004 to EUR + 15.5 million in 2005.

Hamon has deferred net tax assets of EUR 31 million (net of deferred tax liabilities), of which EUR 11.7 million net have been recorded in the Balance Sheet - EUR 9.5 million taken into the results in 2005, EUR 1.2 million in 2004 and EUR 1 million in 2003. This net asset of EUR 11.7 million has been confirmed by the Board of Directors after validation of the company's Business Plan for the next five years. The Board of Directors believes that there is a good probability of these tax losses being used, on the basis of the potential and the dynamism of the markets in which Hamon is involved, and of the Group's strong position. The balance of the tax deferrals (EUR 19.3 million) will be recorded during later financial years in line with the Group's improved profitability.

The net results of discontinued operations, EUR -15,7 million, mainly represents the result of the Italian Heat Exchangers Business Unit (FBM), sold at the end of 2005, as well as the result of Hamon Research Cottrell Italy that was put into liquidation in April 2005.

After inclusion of these two elements, the net result for the year was positive and amounted to EUR 7.2 million against a loss of EUR 18.8 million in 2004.

MANAGEMENT REPORT *(cntn'd)*

2.2. Summary Consolidated Balance Sheet presented according to IFRS Standards

in EUR million	31/12/05	31/12/04	Note
Non-current assets	**66.4**	**55.2**	
- Goodwill	18.2	17.4	
- Property, plant & equipment	21.0	21.3	
- Deferred tax asset	13.9	3.4	
- Other non-current assets	13.4	13.1	
Current assets	**133.1**	**173.0**	
- Trade & other receivables	74.3	50.5	(1)
- Amount due from customers for contract work	28.7	15.1	(1)
- Cash & cash equivalent	20.0	12.7	(2)
- Available-for-sale financial assets	1.8	0.0	
- Other current assets	8.3	8.0	(1)
- Non-current assets held for sale	0.0	86.7	
Total assets	**199.5**	**228.2**	
Equity (incl. minority interest)	**(10.5)**	**(33.0)**	
Non-current liabilities	**18.4**	**21.2**	
- Subordinated loan	0.0	6.3	
- Other long term borrowings	6.8	4.1	(2)
- Provisions for pensions	2.1	2.1	
- Provisions for other liabilities & charges	6.2	7.0	
- Other non-current liabilities	3.3	1.8	(1)
Current liabilities	**191.6**	**240.0**	
- Short term borrowings	80.1	73.3	(2)
- Trade and other payables	79.3	63.6	(1)
- Amount due to customers for contract work	19.2	9.3	(1)
- Other current liabilities	13.0	11.1	(1)
- Non-current liabilities held for sale	0.0	82.7	
Total equity & liabilities	**199.5**	**228.2**	
NWC continued operations	(3.5)	(12.2)	
Net financial debt	66.9	64.7	

(1) Items composing the net working capital (NWC)

(2) Items composing the net financial debt

The balance sheet total decreased from EUR 228 million to 200 million, mainly following the disposal of the assets and liabilities of the Italian Heat Exchangers Business Unit. These two elements were recorded as at 31 December 2004 as non-current assets and liabilities held for sale. The comments that follow relate to the balance sheet items relating to the continued operations.

Non-current assets increased by EUR 11 million, following the increase in the deferred tax asset by a comparable amount.

Working capital requirements for the continued operations increased by EUR 9 million, because of the increased volume of activity. The Group strictly controls this item, considering its impact on cash flow to be both direct and significant.

Equity increased by EUR 22 million, following the new issue of capital in June 2005, the financial year's positive result and the positive effect of the US Dollar's appreciation against the EUR.

Net financial debt grew by EUR 2.2 million, for the following three reasons: (1) increase in the Short term borrowings in an amount of EUR 6.8 million, mainly due to the indemnities to be paid to FBM's bankers; (2) increase in the Other long term borrowings (except subordinated loans), in an amount of EUR 2.7 million and (3) improvement in Cash and cash equivalents of EUR 7.3 million.

2.3. Review per Business Unit (BU)

> Cooling Systems

Order-taking, sales and operating earnings are all up in 2005 in the various countries where the BU operates.

> Heat Exchangers

This BU's sales declined in 2005, following the significant reduction of the activities of Biraghi since the end of 2004 and the low level of Hamon D'Hondt activity at the beginning of 2005. This latter subsidiary was restructured in November 2005, in accordance with the Group's General Repositioning Plan for its key businesses and in order to achieve a drastic reduction of the overhead. These reorganisation costs were taken into account in 2005. The remaining operation is currently profitable and is recording a satisfactory number of orders.

MANAGEMENT REPORT *(cntn'd)*

> Air Pollution Control Europe

New orders declined slightly in 2005, in contrast to to the years 2003 and 2004, which were exceptional. On the other hand, both sales and results improved compared to 2004.

> Air Pollution Control USA

New orders doubled in 2005. Sales and operating profit increased very strongly compared to 2004.

> Chimneys

This BU benefits from a large backlog following a large order received at the end of 2004 relating to the construction of several chimneys. The fulfilment of this contract will be spread over several years. We should note that the new order bookings in 2005 were on budget and reached a normal level.

2.4. Accounting treatment of Italian subsidiaries

In 2002, the Hamon Group decided to dispose of its Italian subsidiary, FBM. This process was completed on 31 December 2005 by the signing of an agreement to sell the FBM shares to the KNM Group Berhad at a price of EUR 1.8 million. The proceeds of the sale were received on 12 April 2006. In accordance with the provisions included in the sale agreement, the Group considers that it definitively gave up control of FBM on 31 December 2005, which is the reason why the accounting treatment adopted for the financial years ending 31 December 2004 and 2005 is as follows:

- FBM's assets and liabilities as at 31December 2004 are presented separately in the consolidated Balance Sheet under the "Non-Current Assets Held For Sale" and "Non-Current Liabilities Held For Sale" headings. However, insofar as the Group has been unable to determine the value of FBM's assets and liabilities pursuant to the IFRS accounting principles, these assets and liabilities have been measured at that date in accordance with the Italian accounting principles as applied by FBM in its statutory accounts. FBM's results for 2004, namely a loss of EUR 8.6 million, are presented separately in the 2004 Income Statement under the heading "Post-tax Result of Discontinued Operations". This amount includes FBM's statutory loss of EUR 4.2 million and a debt write-off of EUR 4.4 million
- As at 31 December 2005, the Balance Sheet includes, under the heading "Current Financial Assets Available For Sale", an amount of EUR 1.8 million corresponding to the disposal price. FBM's contribution to the consolidated result of the discontinued operations represents a loss of EUR 12.2 million.

The subsidiary company, Hamon Research Cottrell Italia Srl (HRCI), involved in Cooling Systems, Air Pollution Control and Chimneys, was put into liquidation during the first half of 2005. HRCI's results for 2004 and 2005 (including the impact of the guarantees previously given by the Group in favour of this subsidiary company) are presented under the "Discontinued Operations Result" heading.

2.5. Refinancing

In June 2005, the Group signed an agreement relating to the conditions and repayment of the debt with its principal bankers, joined together within a "pool". This agreement encompases, on the one hand, a reduction in the cost of credit and, on the other, a re-scheduling of the repayment of the principal with a ceiling of 25% of the Group's free cash flow.
In exchange, Hamon undertook to set up a package of securities for the benefit of those same bankers, consequently rendering their debt "senior".

During the second half of 2005, Hamon and its bankers continued their work of simplifying the structure of the debt, which resulted in:

- The early repayment of high cost debt by self generated funds
- A change in the composition of the banking pool
- The formalisation of an agreement for the repayment of the last major non-pool bankers by the means of new credits granted by the Pool to the Group
- An agreement on the level of compensation for the FBM bankers benefiting from comfort letters.

The Hamon Group signed an agreement at the beginning of April 2006 for Subordinated Mezzanine financing with one of the Pool's bankers for an amount of EUR 11 million. This borrowing is intended to compensate the FBM bankers that benefited from comfort letters from the Group and to repay bank overdrafts for a total amount of EUR 3 million.
The Group's cash flow will be used to repay this new borrowing, coming due at the end of 2006.

MANAGEMENT REPORT *(cntn'd)*

2.6. SPX

At the end of 2003, during the disposal of its world-wide dry cooling activities, and its wet cooling activities in North America, Hamon agreed that SPX retain as guarantees of the commitments entered into by Hamon:

- A "Closing Statement Holdback"
- A "Transaction Holdback" of EUR 5 million, recorded in Hamon's accounts as an amount receivable at more than one year .

The "Closing Statement Holdback" was paid during 2004.

Mid-December 2004, SPX lodged a complaint, just before the contractual due date of the payment of 50% of the "Transaction Holdback". This complaint has been reviewed with Hamon's lawyers, and the Group has contested both the substance of the arguments invoked and the amount of the so-called damage suffered by SPX. In addition, Hamon has lodged a complaint against SPX for unfair commercial practice, mainly for the use of the Hamon name beyond the restrictive five-year licence that had been granted to SPX.

Because of the non-payment of the Holdback, Hamon initiated arbitration in May 2005.

Mid-December 2005, SPX sent a letter by which it refused to pay the second contractual installment of the "Transaction Holdback", following the complaint that it had introduced in December 2004.

An arbitration is scheduled for mid-2006. On the basis of the opinions obtained from our legal advisers, the Hamon Group is confident that the "Transaction Holdback" will be recovered in full.

2. Research & Development

In 2005, Research & Development expenditure amounted to EUR 0.8 million, vs. EUR 0.5 million in 2004. The R&D programme included the development of new heat-transferring surfaces for cooling systems, and the development of bundles made of special alloys for air coolers.

3. Recent events and prospects for 2006

The Group has fulfilled the agreement concluded with Rothemühle's creditors and Receiver in 2003. Thus this file is definitively closed.

The sale of the Italian Heat Exchangers BU to the Malaysian company KNM was completed on 12 April 2006 by the payment to Hamon of the agreed price.

Order-taking has exceeded the budget of the first quarter 2006. The Group is projecting good results for 2006.

Lastly, the Group is finishing the construction of a new factory in China. This plant will manufacture components for wet cooling systems.

4. Risk Management Policy

The Group is confronted with a series of risks inherent in its activities, and by the extent and the kinds of markets in which it operates. The main risks are the following:

- Competitor and market risks
- Uncertainties relating to the new environmental regulations and their periods of entry into force
- Supplier risks; this can be products of insufficient quality, which do not meet the specifications, or delivery delays
- Political risks
- Monetary risks, such as fluctuations of the US dollar exchange rate
- Technical risks, relating to the design or implementation of certain projects
- Risks relating to guarantees given on executed projects
- Industrial (accidents) or human risks

Hamon has always taken the best possible steps to control these risks, for example by an active risk management policy at project and production level.

As far as the cover of monetary risks is concerned, Hamon does not use any particular financial instruments such as derivatives, swaps, futures or options. As for the cover of projects, Hamon mainly uses bank guarantees issued in the context of construction contracts.

MANAGEMENT REPORT *(cntn'd)*

At the end of 2005, the total amount of the bank guarantees issued on Hamon's behalf amounted to EUR 26.1 million, compared to EUR 27.8 million at the end of 2004.

5. Auditor Fees

For the whole of the Group's consolidation perimeter, the fees received by the Auditor and his network (Deloitte) for 2005 amounted to EUR 0.553 million, and were broken down as follows:

- Fees relating to the audit of the accounts: EUR 0.344 million
- Other audit services (assistance in the context of IFRS conversion) EUR 0.209 million

COOLING SYSTEMS

The Cooling Systems business unit offers associated equipment and services, intended to cool the water used in power stations and heavy industry processes (chemicals, petrochemicals, iron and steel, paper making, sugar refining, …) or used in cold generation applications (refrigerating plant).

Hamon offers technical solutions adapted to the needs and requirements of its customers – engineering companies of international renown, electricity generators or industries

The wet cooling systems are classified according to the type of operation, by natural draft or by mechanical draft process, and according to whether or not they provide a plume reduction system (system known as "plume-abated" or "wet/dry").

These wet cooling systems are made-to-measure, at the customer's request, or are marketed according to a standard model, designed for variable capacities.

The cooling systems market is subdivided into two sub-segments: new and after-sales service, which includes the sale of spare parts, repair, rehabilitation, and thermal performance improvement.

Hamon is responsible for the marketing, engineering, manufacturing of certain components, assembling, project management, and after-sales service of wet and plume-abated systems everywhere in the world, except those for which the end user is located in North America.

This business unit's centres of expertise are located in Brussels and Paris. In addition to a network of independent agents, it has subsidiary companies located, amongst other countries, in Germany, England, South Africa, South Korea, India, Thailand, Australia. Certain components are manufactured in two factories belonging to the Group, installed in France and India

Economic context of the geographical Markets.

Europe

In Western Europe, and mainly in the North, the installed base includes many old power stations that have to be rehabilitated. In addition, in Germany, a construction schedule of new power stations has been launched by German and foreign investors while the Italian and Spanish markets remain dynamic, both with regard to repairs and to new.

COOLING SYSTEMS *(cntn'd)*

Asia

China is one of Asia's most dynamic markets. Indeed, the demand for the construction of new power plants is increasing year by year. Other countries such as South Korea, Taiwan and Thailand are also developing rapidly, as is the Middle East.

Significant developments and operating performances in 2005

This business unit recorded several important orders in 2005. Among these are:

- > Reinforcement of the structures supporting the heat-transferring surface of the Bugey – EDF power station's cooling system (France)
- > Replacement of the support and exchange structures of the Tihange 3 power station, carried out in record time
- > Signing of two new orders for two cogeneration power stations, one located in Hamm, the other in Knapsack, in Germany
- > Construction of a natural draft cooling tower with injection of the exhaust gas for a 600 MW coal-fired power station in the east of Germany
- > Implementation of several cooling system construction and rehabilitation projects in the Middle East and South America.

In 2005, this business unit recorded a revenue of EUR 96 million, a 26% increase compared to 2004. This growth results from the market recovery in Europe and Asia. It also reflects the leadership position that Hamon has occupied for years. Hamon can count on its reputation, and on the technical expertise and marketing know-how of its team.

We have also developed new heat-transferring media – an internal component through which water streams and cools in contact with the air, thus enabling us to strengthen our competitive position.

As planned, the restructuring, implemented over previous years, is bearing fruit. This business unit's operating profit has doubled in 2005, compared to 2004.

2006/2007 prospects

The watchwords for the years ahead remain: strict control of overhead, successful project implementation and maintained profitability of all the projects in line with the objectives laid down by the Group.

Management is counting on continued market growth, taking account of the electricity demand forecasts and the current, favourable economic situation both in Europe and in Asia. The Asian market, including the Middle East, offers extremely interesting business opportunities that Hamon will not fail to exploit.

In this perspective, Hamon is building a new manufacturing plant of internal components in China. This factory will enable to optimise the sources of supply and the production capacities of cooling components, at Group level, and consequently to reduce the manufacturing costs.

And finally, the business unit is consolidating its leadership by optimising its sales network, and by developing products that meet its customers' needs, in keeping with the R&D programme.

HEAT EXCHANGERS

The Heat Exchangers business unit offers various systems intended to cool or heat, often at high pressure, more or less corrosive liquids or gases resulting mainly from petrochemical and chemical processes. It operates either directly with the industries or indirectly via engineering companies of international renown. These include Mitsubishi, Foster Wheeler, Jacobs, Technip, Saipem, Prosernat, TOTAL, Exxon, BASF, and many others.

Design and manufacturing of equipment associated with an after-sales service ....

This entity deals with the design, manufacturing and assistance with the assembly of thermal equipment – air coolers, hair-pin tubular heat exchangers, welded steel finned tubes, and other heat exchangers – complemented by an integrated after-sales service including maintenance, rehabilitation and the sale of spare parts.

The Heat Exchangers business unit consists of three companies established in France

- Hamon D'Hondt: design, marketing, manufacturing and after-sales service of air coolers and large hair-pin heat exchangers; manufacturing of welded steel finned tubes. This subsidiary company represents the lion's share of the Business Unit's operations on its own
- Brown Fintube France: design, marketing and manufacturing of hair-pin heat exchangers
- Biraghi: marketing of the welded steel finned tubes manufactured by Hamon D'Hondt.

The marketing of air coolers represents by far the largest part of the French Business Unit's activities and sales, in sharp expansion since the second half of 2005.

Let us here mention the European leadership position occupied by Brown Fintube France in its niche hair-pin tubular heat exchanger market.

Economic context of the Geographical markets ....

The world market is extremely buoyant, sustained by the very high oil and gas prices (natural gas and petroleum gas). Which is why the oil and gas companies have resumed their investments, especially in the Middle East, the ex-USSR and Europe. Asia is also offering interesting prospects, at the level of petro-chemical plants and refineries.

Among the new projects, we would mention the delivery of air coolers intended for new Liquefied

HEAT EXCHANGERS *(cntn'd)*

Natural Gas units (LNG) and for the production of fuel from gas (Gas To Liquid process or GTL).

As far as the various products are concerned, air coolers have enjoyed the greatest growth. These products perfectly meet the value-for-money criteria and requirements for the booming gas industry.

We should also note the growing sales of hair-pin heat exchangers for the petrochemical industry.

Significant developments and operating performances in 2005

The first half of 2005 was slow, characterised by a rather low level of orders. On the other hand, the second half was much more dynamic, compensating for the weakness of the first six months. This Business Unit has booked several orders with Foster Wheeler (South America), Bechtel USA (North Africa), Amec, Mitsubishi, Technip (Middle-East). The commercial team has been reinforced, and has concentrated its efforts on marketing and on the development of its activities.

In 2005, this business unit's revenue amounted to EUR 18 million, the result of an overly weak order book during the first half of 2005. The operating profit has improved slightly although it is still affected by an overly low level of activity and especially by an overly high overhead structure at the beginning of 2005. A restructuring plan was therefore launched as of the autumn of 2005, aiming to decrease Hamon D'Hondt's profitability threshold (break-even point) and to strengthen its competitiveness. This restructuring is now finished and has proceeded in a good social climate.

2006/2007 prospects

For all of the business unit's activities, the tendency noted at the second half of 2005 continues and the order taking is in line with the budgets.
The management foresees a return to profitability as of the first quarter of 2006.

The gas and oil markets are buoyant and will remain so for the next four years, with predominance of the Middle East.

AIR POLLUTION CONTROL EUROPE

The objectives of this business unit are to provide industries on the one hand with the means of controlling the environmental impact of their processes and to guide them in controlling their energy expenditure on the other. In addition to providing an integrated service, this Business Unit designs, implements and installs air and gas pollution control systems, for various kinds of pollutants, thus ensuring strict conformity with the air protection regulations in force.

The market is segmented between power stations and energy production in general, industries such as iron and steel, cement, glassmaking, petrochemicals, and the utilisation for energy purposes of household, industrial and hospital waste, of water purification station sludge.

Its product portfolio is composed of internationally renowned technologies. Air and gas treatment technologies are divided into two groups: one is of a physical kind – de-dusting – the other is of a chemical kind – neutralisation of acid gases, desulphurisation, denitrification, elimination of heavy metals, etc. The range of technologies has been adapted or gradually supplemented during earlier years, thanks to many technology acquisitions in order to meet the various market segment needs.

Each segment is subdivided into two parts. On the one hand, the design and installation of new equipment, and on the other, after-sales service including amongst other things maintenance, the supply of spare parts and bringing existing equipment up to standard.

Air Pollution Control is a complex business. Mitigating the technological risks requires know-how and solid experience, as well as an excellent knowledge of the customers' processes. This is the case of Hamon Research-Cottrell, which benefits from a solid reputation in its target markets, which are energy, the glass industry, the cement industry, the utilisation of waste for energy purposes, the iron and steel industry and the petrochemical industry.

Additionally, Hamon is one of the leaders in France and the Benelux countries in terms of bringing waste incinerators up to standard.

Organisation centred on the Belgian and French offices

The organisation of this activity rests on its two principal companies, which have shared this unit's various functions:

- In Belgium, Hamon Research-Cottrell S.A.
- And its subsidiary company in France, Hamon Environmental Sarl.

This business unit is involved in the principal European markets.

AIR POLLUTION CONTROL EUROPE *(cntn'd)*

Economic context of the geographical markets

France remained a buoyant market in 2005 and should continue to be so in 2006. The market has been stimulated by bringing domestic waste incineration units into compliance with the European air emission standards. In addition, the imposition of European standards in the industry generates extremely keen demand in all the European markets.

Significant developments and operating performances in 2005

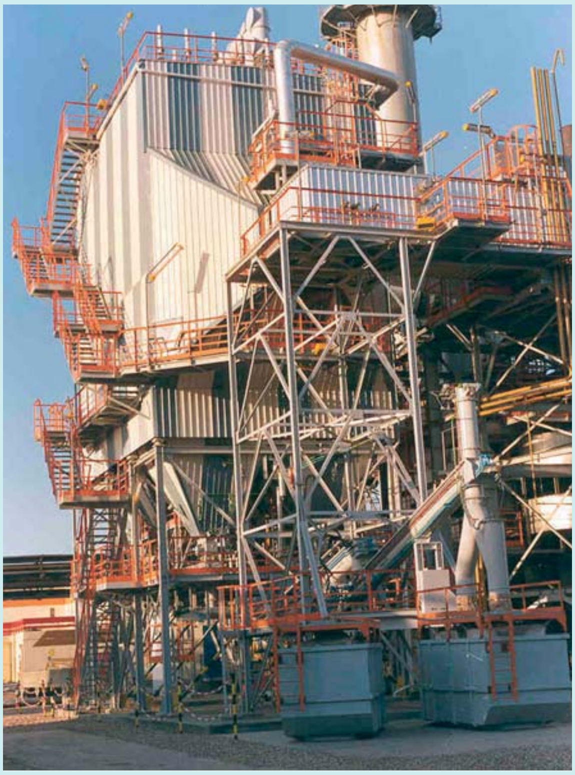
In 2005, this business unit's revenue amounted to EUR 36 million, up 35% compared to 2004, with an operating profit in progress.

In 2005, important contracts were signed in France, for bringing the household refuse incineration units of Briec and Nancy into conformity and for the industry in New Caledonia, Mauritius, Portugal, Oman and so on.

2006/2007 prospects

At the beginning of 2006, Hamon Research Cottrell S.A. created Hamon Environmental Deutschland in order to improve its presence in this important market, and in the longer term, in Eastern Europe.

For 2006, this entity envisages a progression of its results compared to the previous financial year.



AIR POLLUTION CONTROL UNITED STATES

This business unit's objectives are to provide industries with the means of controlling the environmental impact of their processes, and to help them to reduce their energy consumption. This entity designs, installs and ensures the after-sales service of Air Pollution Control systems, adapted to the various kinds of pollutants, in order to ensure a strict compliance with the environmental regulations in each country.
Another activity is Heat Recovery.

This business unit's main target markets consist of power stations, the petrochemical industry, and also of waste incineration, steel, cement, glass and paper industries.. ....

Its activity portfolio includes technologies tested and accepted by industrialists of international renown. Its two main product categories are air pollution control systems and heat recovery.

The air pollution control technologies are divided into two groups: one is of a physical kind – de-dusting – the other is of a chemical kind - neutralisation of acid gases, DeSOx, DeNOx, elimination of heavy metals, etc. The range of Air Pollution Control technologies has been adapted to meet the various market segment needs, thanks to many acquisitions and to the development of its own new technologies.

Each segment is subdivided into two parts. On the one hand, the design and installation of new equipment, and on the other, after-sales service including amongst other things maintenance, the supply of spare parts and bringing existing equipment up to standard.

Air Pollution Control is a complex business. Mitigating the technological risks requires know-how and solid experience, as well as an excellent knowledge of the customers' processes. This is the case of Hamon Research-Cottrell, which for one century has benefited from a solid reputation in its target markets, which are the energy, the petrochemical industry, the glass industry, the cement industry, the waste-to-energy valorisation and the iron and steel industry.

Organisation based on two subsidiaries ..

The Business Unit consists of two subsidiaries:

> Hamon Research-Cottrell U.S. (HRC US), specialising in the design and installation of new air pollution control units
> Thermal Transfer Corporation (TTC), specialising in the manufacturing of heat recovery systems and electrodes for electrostatic filters. TTC also serves as a logistics base for HRCUS.

At the air pollution control level, this business unit is focusing on a portfolio of five technologies enabling it to meet the various needs – current and future – of industries:

1. De-dusting by means of electrostatic filters
2. De-dusting by means of bag filters
3. Wet gas scrubbing (an "Exxon-Mobil" process), used in the petrochemical industry; it is a DeSOx and particulate removal system for gases emitted by the catalytic cracking plants
4. Dry gas scrubbing (a "Marsulex" process), used for desulphurising the gases emitted by coal- and biomass-fired power stations
5. A process of transformation urea into ammonia (a difficult-to-handle reagent used for the NOx removal from gas effluents (DeNOx). This process is called "U2A" ("*Urea To Ammonia*").

Economic context of the various geographical markets ....

The North American market is enjoying strong growth, after having passed through a slower period in 2002 and 2003. The age of the existing power stations in the United States (especially those that are coal-fired) and the new regulations relating to air emission standards have generated a large demand for this business unit's products.

AIR POLLUTION CONTROL UNITED STATES *(cntn'd)*

Significant developments and operating performances in 2005

This business unit's results in 2005 have exceeded expectations in terms of sales, order taking, margin and operating profit. Revenue has increased by 129% compared with 2004 and amounted to EUR 113 million. In 2005, the product lines that brought the most success were the de-dusting systems, followed by the wet gas scrubbers and DeSOx systems, whether in the petrochemicals industry or in coal-fired power stations.

This success is the result of the intensive restructuring carried out during these two last years, and of the subsequent reduction of the overheads.
This restructuring related to
1. The organisation of the work
2. The management of quality
3. The motivation of the personnel.

With regard to the organisation, the first part of this restructuring, management by department was done away with and replaced by a management by project. This change was the engine of the reorganisation process, and has enabled the execution of the projects to be optimised and the delivery times to be shortened.

The second part related to the establishment of the total quality principle of "getting it right first time". There too, the results have been quickly noted:
1. Less complaints
2. Improvement of the public image and consequently
3. Rise of order taking
4. Improved profitability.

The third part was devoted to the development of a staff involvement policy in order to encourage staff development and feedback. Motivating incentives have contributed to improving interpersonal relations, co-operation and the atmosphere at work.

Among the large orders recorded by Hamon Research-Cottrell in 2005 were the design and the delivery of electrostatic filters for power stations for Pennsylvania Power and Light, and New Brunswick Power; the design and delivery of bag filters for power stations for Dairyland, Dominion Chesterfield and Pacificcorp; the delivery of a wet scrubbing system for Pemex, as well as the design and delivery of several heat recovery systems to Midrex.

2006/2007 prospects

This business unit's prospects for 2006/2007 are excellent. The American market remains very buoyant in the long term, because the air pollution control systems of the old power stations will gradually have to be rehabilitated in order to comply with the new air emissions standards. Other opportunities are on the cards, relating to the new emission standards for SOx. The revival of investment in the oil industry will continue to stimulate the gas treatment market.

This business unit is now benefiting from solids assets, among which a motivated staff, a more efficient organisation of the work, focused on the quality of the service and the product, all elements that will contribute to the sustainable improvement of profitability.

CHIMNEYS

This business unit offers complete systems, designed to evacuate the flue gas emitted by power plant boilers and by various industries (incinerators, blast furnaces, cement factories, glass factories, etc). These systems include the chimney and its auxiliaries (pipes, silencers and intermediate elements), and are designed and adapted to the customer's various needs and constraints.

This business unit designs very high chimneys (often over 200 meters) made from various materials – mainly concrete, including a flue liner for the waste gases, made of steel, brick, reinforced polyester and special alloys in the event of corrosive gases. This activity mainly relates to conventional power stations using fossil fuels.

A limited number of players are involved in the tall, concrete chimney market. The customers are either package builders such as Bechtel, Shaw Stone & Webster, Fluor, etc. or end users.

A commercial organisation supported by regional centres of competence

In North America, Hamon is active in the chimney market through its subsidiary companies Hamon Custodis, based in the United States, and Hamon Custodis Cottrell Canada, based in Canada. Moreover, Hamon Custodis operates five regional offices, spread throughout North America which offer integrated after-sales services that include maintenance and repair. The market segments in which the business unit is involved consist of power stations, petrochemicals and the incineration of household waste, as well as other industrial applications.

Economic context of the geographical markets

The new chimneys market is driven by the construction of new power stations and by the adaptation of old power stations to the new air emission standards. Indeed, the installation of an air pollution control system frequently involves changing the nature of the gas thus requiring replacement of the chimney and/or its lining. As for the after-sales market, it is stimulated by the repairs, maintenance, inspections, and adaptations due to the changes in the industrial processes. Each one of these segments has been well oriented in North America in 2005, and is likely to remain so.

CHIMNEYS *(cntn'd)*

Significant developments and operating performances in 2005

This business unit recorded revenue of EUR 22 million in 2005, stable compared to 2004. The important orders booked in 2004 and 2005 will mainly be carried out in 2006, which will then benefit from the increased revenue. Hamon Custodis has won several orders, among which the construction of multi-flue reinforced concrete chimneys for power stations. The execution of this order will be spread over two years.

2006/2007 prospects

The performances of this business unit are positively influenced by the dynamism of the market, and by the signature of long-term framework agreements.

The Hamon Custodis management is envisaging high sales levels for the next few years. The growth of the new chimney market will continue, because the electricity generators must adapt their old chimneys or build new ones in order to comply with the new air emission standards. The after-sales service represents an important constant volume within the turnover.

In addition to enhanced profitability, this activity has other advantages, such as the recurrence of maintenance contracts, a longer-term view of the market, the possibility of planning the projects and the building sites, and greater stability.

In 2006, this BU will benefit from an important order book and a high level of orders already recorded during this first quarter of 2006.

HUMAN RESOURCES

2005 has been a year of stabilisation and consolidation in terms of human resources, after the major reorganisations of 2003 and 2004.

In 2005, the principal projects implemented by the HR Department related to the follow-up of the Biraghi restructuring and the Hamon D'Hondt restructuring, started in November 2005. The work of the HR Department consisted of support and guidance for the people concerned with these plans, to help them to reposition themselves on the employment market. With regard to 2006, Hamon will be concentrating in the coming months on staff training and skills development.

Slight reduction in the Group's average total manpower

The Group's average manpower decreased by 8% in 2005 and went from 783 people to 720 people. This reduction came mainly from the Heat Exchangers business unit (Biraghi and Hamon D'Hondt restructu-rings) and from the Air Pollution Control USA Business Unit.

Average total manpower breakdown by category

	2005	2004
> Management	37	43
> Employees	447	494
> Workers	236	246
Total	720	783

Average total manpower breakdown by geographical area

	2005	2004
> Europe	424	466
> USA	201	224
> Australia & Asia	65	63
> Africa	30	31
Total	720	783

Average total manpower breakdown by activity

	2005	2004
> Cooling systems	292	299
> Heat exchangers	160	196
> Air pollution control Europe	48	46
> Air pollution control USA	152	174
> Chimneys	48	44
> Corporate	20	24
Total	720	783

SHAREHOLDER RELATIONS

The Hamon Share

in EUR	2005	2004	2003
Mean list price	4.97	4.87	8.20
Max. list price	7.51	8.50	12.74
Min. list price	4.10	2.40	4.55
List price on 31 December	5.85	4.10	5.00
Average daily volume	116.9	114.0	337.1
Total number of shares on 31 December	5,874,310	2,703,579	2,703,579
Mean total number of shares	4,458,340	2,703,579	2,703,579
Market capitalisation on 31 Dec. (EUR million)	34.4	11.1	13.5

On 28 April 2006, the closing price of the Hamon share was EUR 13.40.

In 2005, the market capitalisation grew as a result of the capital increase.

Composition of the Hamon shareholding on 31 December 2005

Pursuant to the Act of 2 March 1989, Clauses 1 to 4, relating to publicising major stakes in stock market listed companies and regulating take-over bids, the first applicable threshold is laid down at 3% (Article 9 of the Articles of Association).

Pursuant to this Act, Hamon has received declarations of the following financial interests, which represent the composition of the shareholding as at 31 December 2005.

Shareholder	Shares	%
Sopal International S.A.	3,871,621	65.9%
Walloon region (through Sogepa)	1,219,512	20.8%
Esindus	244,902	4.2%
Free float	538,275	9.1%
Total	**5,874,310**	**100.0%**

Financial calendar

> 2006 Annual General Meeting of Shareholders:	30 May 2006
> Publication of the 2006 first half results:	End of September 2006
> Publication of the 2006 results:	End of March 2007
> 2007 Annual General Meeting of Shareholders:	29 May 2007

Investor Relations and Financial Communication

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CORPORATE GOVERNANCE

General considerations

The Company's Board of Directors has taken note of the recommendations of the Belgian Corporate Governance Code, known as the "Lippens Code". The Company intends to adopt the major part of its provisions and recommendations.

Board of Directors

Composition of the Board of Directors and duration of the mandates

In accordance with Clause 14 of the Articles of Association amended on 13 June 2005, the Board of Directors shall be composed of at least five members who do not necessarily have to be shareholders. At least half of the Board of Directors shall consist of non-executive directors and at least two of them shall be independent. They are appointed by the AGM for a period not exceeding six years. The departing directors are re-eligible. The directors' mandates can be revoked by the Annual General Meeting at any time. No age limit has been laid down.

The Board of Directors is currently composed of the seven members as listed in the table below.

Mr Pierre Meyers and Mr Martin Gonzales del Valle have the status of independent directors. They meet the independence criteria stipulated in Clause 524 of the Companies Code and those laid down in the Lippens Code.

Mrs Sabine Colson represents SOGEPA, the Walloon Region's investment company on the Company's Board of Directors.

The Board is proposing that the directorships of Jacques Lambilliotte and Jean Hamon be renewed for a two-year period.

Powers

The Board of Directors is the highest management body of the company. In accordance with the Article of Association[1], it is invested with the widest powers with a view to accomplishing all acts useful or necessary to the realisation of the company objective. It closes the semi-annual and annual accounts, as well as the consolidated accounts. It establishes the strategic objectives and approves the means to be implemented for them to be achieved. It examines the investment plans and approves the important projects. It is competent for any development, reorganisation and restructuring project.

Operation

The Board shall meet as often as the interest of the Company requires, and at least four times per annum. During 2005, it met fourteen times. The Board of Directors shall be kept informed of the evolution of the group, the subsidiary companies and the financial holdings. The Managing Director can invite the Group's Financial Manager to the board meetings, to comment in greater detail on the results, the budgets, the ratios and their trends, as well as the General Managers, and any other person whom he may consider useful.

Name	Function	Start	End
Mr Jacques Lambilliotte	Chairman	31.05.05	30.05.06
Mr Francis Lambilliotte	Managing director	25.05.04	26.05.09
Mr Jean Hamon	Director	25.05.04	30.05.06
Mr Bernard Lambilliotte	Director	25.05.04	26.05.09
Mrs Sabine Colson	Director	13.06.05	29.05.07
Mr Pierre Meyers	Independent director	13.06.05	29.05.07
Mr Martin Gonzales del Valle	Independent director	13.06.05	29.05.07

(1) Articles of Association, Article 20

CORPORATE GOVERNANCE *(cntn'd)*

Statutory rules concerning decision-making within the Board of Directors [2]

The Board Meetings are chaired by the Chairman. In the event of impediment, the senior director or, failing this, the director appointed to this end by his colleagues shall chair the meeting.

The Board of Directors can deliberate only on points mentioned on the agenda and only if half of the members are present or represented. For points not included on the agenda, the Board of Directors can only validly deliberate if all the members are in attendance at the meeting and unanimously decide to deliberate on those points.

Board Resolutions are taken by a majority of the votes cast. If one or more directors abstain under the terms of Clause 523 and 529 of the Companies Code, the resolutions must be adopted by a majority of the votes of the other members of the Board who are present or represented.

Principal subjects discussed by the Board of Directors in 2005

The main subjects discussed at the Board Meetings related to business monitoring, profit forecasts, annual budgets, approval of the results, the continuation of the reorganisation plan, the setting up of the capital increase of EUR 13 million as well as contents and the publication of the press releases. The Board has pursued negotiations with the banks, the cash situation, and has approved the credit limits granted by the Group's bankers, as well as their terms and conditions. It has examined the accounts of the subsidiary companies and decided the budgets and the strategic plans.

It has approved the FBM disposal plans and the terms and conditions of that operation. It has set up the Audit, Remuneration and Appointments Committees and ensured the proper application of new IFRS accounting standards.

Directors' remuneration[3]

The Board of Directors, following decision of the Annual General Meeting, can grant remunerations (fixed or variable) to be charged to the overheads. Except for a contrary decision of the Annual General Meeting, the offices shall be honorary. The AGM can allocate attendance fees to the directors to be charged to the overheads. However, the Board of Directors shall be authorised to grant specific remuneration, charged to overheads, to directors and managers responsible for special missions.

Specialist committees: audit, remuneration and appointments

In accordance with the recommendations of the Corporate Governance Code, Audit, Remuneration and Appointments Committees were constituted on 27 June 2005. The composition of these committees is given in the table below.

The Audit Committee has met seven times since its constitution. It has ensured the implementation of the IFRS standards and the analysis of the consolidated annual accounts, in collaboration with the Auditors.

Name	Audit committee	Remuneration committee	Appointments committee	End of the mandate
Mr Jacques Lambilliotte		Chairman	Chairman	30.05.06
Mr Bernard Lambilliotte	Member			26.05.09
Mrs Sabine Colson	Chairman	Member	Member	29.05.07
Mr Pierre Meyers	Member	Member	Member	29.05.07
Mr Martin Gonzales del Valle	Member		Member	29.05.07

(2) Articles of Association, Article 18

(3) Articles of Association, Article 23

CORPORATE GOVERNANCE *(cntn'd)*

Management Bodies

Day-to-day management is exercised by Mr Francis Lambilliotte in his capacity as Hamon Group Managing Director.

The company has not constituted a Management Committee.

An Executive Committee has the role of delivering opinions to the Managing Director. The members of the Executive Committee have no mandate. Its members are appointed for an open-ended period. This committee is composed of the following persons:

1. **Francis Lambilliotte**, *Managing Director, Chairman of the Executive Committee*
2. **Jean Gilbert**, *Vice Chairman of the Executive Committee*
3. **Thierry Tondreau**, *Group Executive Secretary*
4. **Bernard Van Diest**, *Group Financial Director*
5. **Aart Nobel**, *General Manager North America*

Board and Executive Committee remuneration and benefits

In 2005, the total amount of remunerations and benefits in kind allocated to the directors and the members of the Executive Committee on account of their duties therein, and in the Group's subsidiary and associated companies, amounted to EUR 2 754 thousand.

Auditors

The corporate and consolidated accounts of the financial year ending 31 December 2005 have been audited by the Auditors, Deloitte Reviseurs d'Entreprises SC in the form of an SCRL, whose registered offices are at 240, Avenue Louise, 1050 Brussels and whose offices are at 8B Berkenlaan, 1831 Diegem. Deloitte is represented by Mr Laurent Boxus.

The appointment of the Auditors for a three-year mandate was approved by the General Assembly of 31 May 2005.

Appropriation of the profit

Taking the losses recorded during earlier financial years and the need to refinance its equity capital into account, the company is not planning to distribute any dividends. In the long term, the profit appropriation policy will seek to allocate remuneration to the shareholders equivalent to 30% of the net profit while preserving the essential means for its growth within the Group.

FINANCIAL STATEMENTS

I. FINANCIAL DATA
Consolidated income statement

in EUR '000'	Note	2005	2004
Revenue	1	283,681	194,400
Cost of sales		(232,376)	(154,631)
Gross profit	**2**	**51,305**	**39,769**
Sale & marketing costs		(9,477)	(9,294)
General & administrative costs		(25,544)	(27,210)
Research & development costs		(473)	(223)
Other operating income / (expenses)	3	6,422	3,295
Operating profit before restructuring costs	**4**	**22,233**	**6,337**
Restructuring costs	5	(1,747)	(5,278)
Operating profit (EBIT)		**20,486**	**1,059**
Finance costs, net	6	(5,295)	(5,292)
Share of the profit (loss) of associates	13	325	196
Result before tax		**15,516**	**(4,037)**
Income tax expenses	7	7,381	539
Net result from continued operations		**22,897**	**(3,498)**
Net result of discontinued operations	8	(15,662)	(15,319)
Net result for the year		**7,235**	**(18,817)**
Equity holders of the company		7,058	(18,807)
Minority interest		177	(10)
Earnings per share	**9**		
Continued and discontinued operations			
Basic earnings per share (EUR)		1.58	(6.96)
Diluted earnings per share (EUR)		1.58	(6.96)
Continued operations			
Basic earnings per share (EUR)		5.10	(1.29)
Diluted earnings per share (EUR)		5.10	(1.29)

FINANCIAL DATA *(cntn'd)*
Consolidated balance sheet

in EUR '000' **ASSETS**	**Note**	**31/12/05**	**31/12/04**
Non-current assets			
Intangible assets	10	3,087	3,567
Goodwill	11	18,166	17,365
Property, plant & equipment	12	20,963	21,317
Investment in associates	13	1,556	1,329
Deferred tax assets	15	13,882	3,364
Available-for-sale financial assets	14	575	155
Trade and other receivables	18	8,154	8,098
		66,383	55,195
Current assets			
Inventories	16	4,336	4,362
Amount due from customers for contract work	17	28,712	15,121
Trade and other receivables	18	74,255	50,494
Cash and cash equivalents	19	20,022	12,709
Other current assets		1,522	1,584
Current tax assets		2,458	2,034
Available-for-sale financial assets	14	1,794	
Non-current assets held for sale	8		86,717
		133,099	173,021
Total assets		**199,482**	**228,216**
EQUITY			
Equity attributable to the equity holders of the company			
Share capital	20	1,513	43,630
Reserves		2,099	(122)
Retained earnings		(14,321)	(76,456)
		(10,709)	(32,948)
Minority interest		237	(10)
Total equity		**(10,472)**	**(32,958)**
LIABILITIES			
Non-current liabilities			
Borrowings	23	6,837	10,364
Provisions for pensions	21	2,103	2,091
Provisions for other liabilities and charges	22	6,166	6,960
Deferred tax liabilities	15	2,188	1,435
Other non-current liabilities		1,080	320
		18,374	21,170
Current liabilities			
Borrowings	23	80,072	73,318
Amount due to customers for contract work	17	19,176	9,280
Trade and other payables	24	79,329	63,571
Current tax liabilities		9,324	7,033
Provisions for other liabilities and charges	22	3,679	4,113
Non-current liabilities held for sale	8		82,689
		191,580	240,004
Total liabilities		**209,954**	**261,174**
Total equity and liabilities		**199,482**	**228,216**

FINANCIAL DATA *(cntn'd)*
Consolidated cash flow statement

in EUR '000'	2005	2004
Cash flows from operating activities		
Cash receipts from customers	308,172	214,817
Cash paid to suppliers and employees	(297,278)	(208,656)
Cash generated from operations before interests and taxes	**10,894**	**6,161**
Interest paid	(3,942)	(2,321)
Other expenses and financial income (paid)/received	417	1,008
Income taxes paid	(2,525)	(3,471)
Cash receipts/(paid) for extraordinary items	(240)	123
Net cash from operating activities	**4,604**	**1,500**
Cash paid for restructuring costs	(2,092)	(7,602)
Cash generated from operations after restructuring	**2,512**	**(6,102)**
Cash flows from investing activities		
Interest received	317	187
Dividends received	119	100
Disposal of branch/subsidiary (net of cash)		793
Disposal of property, plant and equipment	142	589
Disposal/(purchase) of financial assets	(356)	315
Purchase of property, plant and equipment	(1,125)	(1,803)
Change in grants received		497
Disposal/(purchase) of intangible assets	(111)	(158)
Research & Development costs	(769)	(477)
Net cash used in investing activities	**(1,783)**	**43**
Cash flows from financing activities		
Dividends paid to minorities	(19)	
Capital increase	5,821	
Proceeds from convertible borrowings		1,250
New bank borowings	3,541	
Reimbursement of bank borrowings	(1,250)	(6,946)
Net cash from financing activities	**8,093**	**(5,696)**
Cash flows from other activities		
Other variations from discontinued activities	(2,854)	(5,102)
Net cash used in other activities	**(2,854)**	**(5,102)**
Net increase in cash and cash equivalents	**5,968**	**(16,857)**
Cash and cash equivalents at beginning of period	12,709	29,877
Impact of translation differences	1,345	(311)
Cash and cash equivalents at end of period	20,022	12,709
Net increase in cash and cash equivalents	5,968	(16,857)

FINANCIAL DATA *(cntn'd)*

Consolidated statement of changes in equity

in EUR '000'	Share capital	Legal reserve	Share premium	Retained earnings	Translation reserves	**Equity - Attributable to equity holders of the parent**	Minority Interest	**Total equity**
Balance as at 1 January 2004	43,630	671	191	(57,757)		**(13,265)**	566	**(12,699)**
Exchange differences					(984)	**(984)**	16	**(968)**
Profit or loss of the period				(18,807)		**(18,807)**	(10)	**(18,817)**
Other movements				108		**108**	(582)	**(474)**
Balance as at 31 December 2004	43,630	671	191	(76,456)	(984)	**(32,948)**	(10)	**(32,958)**
Balance as at 1 January 2005	43,630	671	191	(76,456)	(984)	**(32,948)**	(10)	**(32,958)**
Capital increases	12,969		(148)			**12,821**		**12,821**
Capital decrease	(55,086)			55,086				
Exchange differences					2,369	**2,369**	70	**2,439**
Profit or loss of the period				7,058		**7,058**	177	**7,235**
Other movements				(9)		**(9)**		**(9)**
Balance as at 31 December 2005	1,513	671	43	(14,321)	1,385	**(10,709)**	237	**(10,472)**

Transactions in corporate capital during 2005 are detailed in Section XI, Note 20. As at 31 December 2005, EUR 249 thousand relating to costs incurred for capital increases were deducted from the share capital.

The closing exchange rate of the dollar went from 1.3593 at the end of 2004 to 1.1796 at the end of 2005. The strengthening of the dollar is the main cause of the variation of the translation reserves, which went from EUR -984 thousand at the end of 2004 to EUR 1.385 thousand, i.e. a favorable impact of EUR 2.369 thousand in 2005.

Minority interest decreased by EUR 582 thousand in 2004 following the disposal of the "Italian Heat Exchangers" Business Unit.

II. GENERAL INFORMATION

Hamon & Cie (International) (hereinafter referred to as "Hamon" or "the Company") is a limited company incorporated under Belgian law whose registered offices are established in Belgium. The head office and main business address is mentioned at the end of the Annual Report. The principal activities of Hamon and of the Group's various subsidiary companies are described in the Activity Report.

III. DECLARATION OF COMPLIANCE
Basis for establishing the financial statements

The consolidated financial statements are presented for the first time in accordance with the International Financial Reporting Standards (IFRS) as approved in the European Union.

At the first application of the IFRS on 1 January 2004, the consolidated financial statements were established in accordance with IFRS 1 – *First Adoption of the IFRS*. The impact of the transition from the Belgian accounting standards to the IFRS standards is detailed in Section IX.

The consolidated accounts as of 31 December 2004, prepared according to Belgian accounting standards, were audited by an Auditor other than the current one. The former auditor issued, on 20 May 2005, a refusal to certify, justified by a disclaimer of opinion and an adverse opinion on the consolidated financial statements. Those statements were subject to restatements as described in Section IX, to make them comply with IFRS as adopted in the European Union. The audits by the current auditors, Deloitte, Reviseurs d'Entreprises SC s.f.d. SCRL, concerning the 2004 figures presented in these consolidated financial statements, have been restricted to an examination of the restatements posted by the Company as described in Section IX.

The financial statements were approved at the Board of Directors Meeting on 11 May 2006.

IV. ADOPTION OF THE NEW IFRS STANDARDS AND NEW INTERPRETATIONS

The Group did not anticipate the application of the following new standards and interpretations, which were issued before the date of approval of the financial statements but which had not yet come into force at the closing of the financial year:

- IFRS 6 – *Exploration for and Evaluation of Mineral Assets*
- IFRS 7 – *Financial instruments - disclosures*
- IFRIC 4 – *Determining whether an Arrangement contains a lease*
- IFRIC 5 – *Rights to interests arising from Decommissioning, Restoration and Rehabiliation Funds*
- IFRIC 6 – *Liabilities arising from participating in a specific market-waste electrical and electronic equipment*
- IFRIC 7 – *Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
- IFRIC 8 – *Scope of IFRS 2*

The Board of Directors is of the view that the adoption of these new standards and interpretations for subsequent financial years should not have any significant impact on the consolidated financial statements.

V. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are presented in thousands of euro, rounded to the nearest thousand. They have been prepared on the basis of historical cost, except for the financial assets available for sale, which are presented at fair value.

Foreign currencies

Transactions in a currency other than the entities' functional currency are posted at the exchange rate in force at the date of the transaction. At each closing date, the monetary assets and liabilities in foreign currencies are converted at the closing rate. The gains and losses resulting from this conversion are posted in the Income Statement, under the "Other Operating Income/Charges" heading.

The assets and liabilities of the Group activities' whose functional currency is not the euro are converted into euro at the financial year's closing rate. Income and charges are converted at the average rate of the period except if the exchange rates have been prey to major fluctuations. The resulting currency variations are posted as a distinct component from own funds. At the time of the disposal of an activity whose functional currency is not the euro, the accumulated amount of the deferred currency variations appearing under the "Translation reserve" heading is recorded in the Income Statement.

The goodwill and other adjustments of the fair value resulting from the acquisition of an activity whose functional currency is not the euro are treated as assets and liabilities of the activity and posted in accordance with the preceding paragraph.

Consolidation principles

The consolidated financial statements include the subsidiary companies; the financial holdings in joint ventures consolidated according to the proportional method and associated companies accounted for according to the equity method. The consolidated financial statements are prepared using uniform accounting methods for transactions and similar events occurring in similar circumstances. All intragroup balances, transactions, income and charges are eliminated in the consolidation.

Subsidiary companies

The subsidiary companies are entities that are directly or indirectly controlled. Control constitutes the power to direct an entity's financial and operating policies in order to obtain advantages from its activities.
The consolidation of the subsidiary companies starts as of the moment when Hamon controls the entity until the date on which that control ceases.

Jointly controlled entities

The entities for which the Group contractually shares the control with one or more co-contractor(s) constitute jointly controlled entities. Contractual agreements of this kind ensure that strategic financial and operating decisions require the unanimous consent of all of the co-contractors. The proportional consolidation of the jointly controlled entities starts as of the moment when the joint control is established until the date on which it ceases.

Associated companies

Associated companies are the entities over which Hamon exerts a notable influence by taking part in the entity's decisions, without holding control or joint control. The associated companies are accounted for according to the equity method until the date on which the notable influence ceases.

Acquisitions

When the Group acquires an entity or a company, the identifiable assets, liabilities and contingent liabilities of the acquired company are accounted for fair value. The surplus of the acquisition cost on the Group's share of interest in the net fair value of the identifiable assets, liabilities and possible contingent is posted as goodwill. When this difference is negative, it is immediately recorded in the income statement.
The interest of the minority shareholders reflects their share of interest in the fair value of the assets, liabilities and contingent liabilities posted.

PRINCIPAL ACCOUNTING METHODS *(cntn'd)*

A. BALANCE SHEET ELEMENTS

Intangible assets

Intangible assets are recorded if it is probable that the future economic benefits associated to the asset will flow to the Group and if their costs can be reliably estimated. After the initial accounting, all intangible assets are valued at cost less the accumulated amortisation and impairment losses.

Patents, trademarks and similar rights

Patents and trademarks are initially valued at cost and are depreciated on a straight-line basis over their expected useful life, which is limited by contract.

Internally generated intangible assets

Internally generated intangible assets resulting from Group development are posted only if all the following conditions are met:

- An identifiable asset has been created (such as software and new processes)
- It is probable that the created asset will generate future economic advantages; and
- The asset's development costs can be reliably estimated.

The development phase starts when the new products, processes or software programs ("Identifiable Asset") are defined. The objective consists of developing an Identifiable Asset, which fulfils a customer's technical and qualitative requirements or enables a customer's requirements to be met at a lower cost for the company. The development activities are based on the results obtained from industrial research or from some existing know-how and are generating profit. This condition is reviewed each year in order to determine the projects' profit potential.
The development costs are depreciated over a maximum period of 5 (five) years. When the accounting criteria are not met, the development expenditure is posted as charges as and when they are incurred.

Goodwill

Goodwill represents the surplus of the acquisition cost on the Group's share of interest in the net fair value, at the acquisition date, of the identifiable assets, liabilities and contigent liabilities of a subsidiary company, an associated company or a jointly controlled entity. The goodwill is recorded as an asset and is subjected to the impairment test at least once a year. For this test, the goodwill is assigned to each of the Group's cash flow generating units that benefits from the acquisition and each unit's recoverable value is estimated. The recoverable value is the highest value between the fair value less the costs of the sale and the utility value. In order to determine the utility value, the future cash flow estimates are brought up to date by using a pre-tax discount rate that reflects the current appreciation of the time value of money market and the specific risks for the asset for which the future cash flow estimates have not been adjusted. If the recoverable value of the cash flow generating unit is estimated to be lower than its carrying value, its carrying value is reduced to its recoverable value.
This write-down is registered in the Income Statement, in order to reduce the book value of any possible goodwill assigned to the cash flow generating unit first and then the book value of the other assets pro rata to the book value of each of the unit's assets.
A write-down posted on goodwill cannot be written back at a later date.

At the time of the sale of a subsidiary company or a jointly controlled entity, the relevant goodwill is included in the determination of the result of the sale. Goodwill on associated companies is presented under the "Holdings In Associated Companies" heading.

Tangible fixed assets

A tangible fixed asset is posted if it is probable that the future economic benefits associated to the asset will flow to the Group and if their costs can be reliably estimated.

After the initial accounting, all tangible fixed assets are recorded at cost less the accumulated depreciation and write-downs. The cost includes all the costs directly attributable to the transfer of the asset as far as its business premises and to its conditioning in order to enable it to be used as intended.
The borrowing costs are not capitalised.

Subsequent expenditure is included in the value of the asset or is posted as a separate asset, when it is probable that the future economic benefits associated

PRINCIPAL ACCOUNTING METHODS *(cntn'd)*

with it will flow to the Group and when their cost can be reliably estimated. All other repair and maintenance costs are registered in the Income Statement of the financial year during which they are incurred.

Depreciation is distributed systematically over the expected useful life of the various categories of tangible fixed assets by means of the straight-line method. The depreciation of an asset starts as soon as it is ready to be brought into service as intended. The estimated utility periods of the most significant elements of the tangible fixed assets are as follows:

- Land: No depreciation
- Administrative buildings: 33 years
- Industrial buildings: 33 years
- Machines: 10 years
- EDP equipment: 4 years
- Other equipment 10 years
- Fit-up: 10 years
- Tools: 4 years
- Furniture: 10 years
- Cars: 4 years

The profit or loss resulting from the sale or decommissioning of a tangible fixed asset corresponds to the difference between the income from the sale and the asset's book value. This difference is posted in the Income Statement under the "Other Operating Income (Charges) " heading.

Leasing

Finance lease

Leases are classified as finance leases if substantially all the risks and rewards inherent in ownership are transferred to the lessee. All the other rental agreements are classified as operating leases. Assets held via finance leases are posted as assets belonging to the Group at the fair value of the leased asset or, if this is lower, at the discounted value of the minimal rental payments, both of which are determined at the beginning of the leasing agreement. The corresponding debt in favour of the lessor is included in the Balance Sheet as a finance lease debt. The minimal rental payments are broken down between the financial charge and the depreciation of the balance of the debt. The financial charge is assigned to each period covered by the leasing agreement in such a way as to obtain a constant periodic interest rate on the balance remaining due in the liabilities on account of each period. Leased assets are depreciated over their estimated useful life in a way that is consistant with the method applicable to the similar depreciable assets that the entity possesses, unless it is not reasonably certain that the Group will become the owner of the asset at the end of the leasing agreement. In this case, the asset is completely depreciated over the period of the leasing agreement.

Operating lease

Rental agreements by virtue of which nearly all the risks and rewards inherent in ownership are kept by the lessor are classified as operating leases. The rents coming from operating leases are taken into the result on a straight-line basis over the period of the rental agreement.

Impairment of tangible fixed assets and intangible assets

Except for intangible assets in progress that are subjected to an annual impairment test, the tangible fixed assets and intangible assets are subjected to a impairment test only when there is an indication showing that their book value will not be recoverable by their use or their sale. If an asset does not generate cash flows independently of those of other assets, the Group makes an estimation of the recoverable amount of the cash flow generating unit to which the asset belongs. The recoverable value is the highest value between the fair value less the costs of the sale and the utility value. In order to determine the utility value, the future cash flow estimates are brought up to date by using a pre-tax discount rate that reflects the current appreciation of the time value of money market and the specific risks for the asset for which the future cash flow estimates have not been adjusted. If the recoverable value of an asset (cash flow generating unit) is estimated to be lower than its book value, its book value is reduced to its recoverable value. A write-down is immediately recorded into the income statement. When a write-down is written back at a later date, the book value of the asset (cash flow generating unit) is increased to reach the revised estimate of its recoverable value, without however being higher than the book value which would have been determined if no write-down had been recorded for this asset (cash flow generating unit) in the course of previous financial years.

Financial instruments

Financial assets

Financial assets are recorded at the date of the transaction, which corresponds to the date on which the entity undertakes to buy or sell an asset. Financial assets are initially valued at the fair value of the paid counterpart, including the transaction costs.

PRINCIPAL ACCOUNTING METHODS *(cntn'd)*

Financial assets that are available for sale are thereafter taken at their fair value. The gains and losses resulting from the variation of fair value of the assets available for sale are posted as shareholders equity, until the moment when, either the asset is sold, or it is noted that it has suffered a loss in value. At that moment, the accumulated gains or losses previously posted directly as shareholders equity are posted in the period's result.

Holdings in equity capital instruments that do not have a price quoted on an active market and whose fair value cannot be reliably priced by an alternative pricing method are valued at cost. Financial assets that are held to maturity are priced at cost depreciated by using the effective interest rate method, except for short-term investments, which are priced at cost.

Customers and other debtors

Receivables are posted at their depreciated cost, i.e. the discounted value of the amount to be received. Appropriate write-downs are recorded for the expected non-recoverable amounts.

Cash and cash equivalents

Cash includes cash on hand and the current accounts. Cash equivalents are short-term, entirely liquid investments, which are easily convertible into a known amount of cash, which have an expiration period of three months or less, and which do not present a significant risk of value change. These elements are taken into the Balance Sheet at their nominal value. Bank overdrafts are included in Current Financial Liabilities.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the relevant contracts. Any contract that reveals a residual interest in the Group's assets after deduction of all its liabilities is an equity instrument.

The equity instruments issued by the Company are posted at the value of the received counterpart, net of the issue costs.

Interest-bearing borrowings

Interest-bearing borrowings are initially recorded at the value of the received counterpart, less the transaction costs. The borrowings are thereafter priced at cost depreciated by using the effective interest rate method. Any difference between the received counterpart (net of the transaction costs) and the repayment value (including the redemption premium to be paid) is posted in the Income Statement over the period of the borrowing (effective interest rate method).

Hedging instruments

The Group does not use derivative products.

Inventory

Inventory is carried at the lowest cost and the lowest net realisation value. The cost of inventory includes the cost of direct materials and, if applicable, the costs of the labour and the overheads that were necessary for bringing the stocks to the place where they are and to their current condition. The cost is determined according to the weighted average cost method. The net realisation value is the estimated selling price less the estimated completion costs and the costs, still to be incurred, for marketing, sales and distribution.

Pensions and similar obligations

In accordance with the legislation and practices in force in each country, the Group's subsidiary companies subscribe to pension plans in the form of defined contribution or defined benefit plans.

Defined contribution plans

Contributions paid by way of defined contribution pension plans are recorded as charges when they are incurred.

Defined benefit plans

With regard to defined benefit plans, the amount entered into the Balance Sheet corresponds to the present value of the definite benefit obligation less the fair value of the plan assets and the not yet recognised past services costs. When the amount to be recorded into the Balance Sheet is negative, the asset does not exceed the total of the cost of the not yet recognised past services, nor of the present value of future refunds coming from the plan or from reductions of future contributions to the plan.

In the Income Statement, the cost of services rendered during the financial year, the cost of past services and actuarial variations are recorded as cost of sales, distribution and marketing, overhead and administrative charges, research and development expenses and other operating income/(charges), while the interest costs and the expected return on the plan's assets are registered under the "Financial Charges, Net" heading.

PRINCIPAL ACCOUNTING METHODS *(cntn'd)*

The current value of the obligations of the defined benefit pension plans, as well as the cost of the current year's and of past services, are calculated according to the so-called "projected credit unit" method. Each year, the discount rate is adjusted to the closing date market rate based on the obligations of first category companies whose expiration dates roughly coincide with that of the service obligation.

The actuarial variations resulting from the differences between the actuarial assumptions and reality of the past and from the effects of the changes of actuarial assumptions are calculated separately for each "definite service regime" and are posted according to the following principle: the actuarial variations are directly recorded in the Income Statement of the financial year during which they appear. The costs of past services are accounted for according to a straight-line method over the average remaining period to be run until the corresponding rights are acquired by the personnel.

Early retirement system charges

Early retirement plans are also treated as post-employment benefits of the defined benefit plan.

Provisions for liabilities and charges

Provisions are recorded into the Balance Sheet when the Group has a current obligation (legal or implicit) resulting from a past event, obligation for which it is probable that an outflow of resource will result that can be reliably estimated. Provisions for guarantee are posted at the date of the sale of the product concerned, on the basis of the best estimate of the expenditure necessary for the extinction of the Group's obligation. Restructuring provisions are posted when the Group has adopted a formalised, detailed reorganisation plan that has been publicly announced to the parties involved before the closing date.

B. REVENUE RECOGNITION

General

Revenue is posted if it is probable that the future economic benefits associated with the transaction will flow to the Group and that these benefits can be reliably measured.

The revenue is evaluated at the fair value of the counterpart received or to be received and represents the amounts to be received following the supply of goods or the provision of services in the context of normal business, net of discounts, VAT and other sale taxes. Revenue from the sale of goods is recorded once the delivery has been made and when the transfer of the risks and rewards has been accomplished.

Revenue coming from construction contracts is posted in accordance with the Group's accounting methods relating to construction contracts (see below).

Interest revenue is recorded according to the time passed on the basis of the amount of the principal remaining open and the effective interest rate, which is the rate that exactly updates the future collections over the intended lifespan of the financial asset in such a way as to obtain its net book value. Dividends are posted when the shareholder's right to receive the payment is established.

Construction contracts

When the result of a construction contract can be reliably estimated, the contract's income and charges are recorded respectively in income and charges according to the percentage of completion of the activity of the contract at the closing date. The contract's percentage of completion is determined by reference to the contract's components (design, engineering, purchases and assembly).

When the result of a construction contract cannot be reliably estimated, the income is recorded only within the limit of the incurred costs of the contract that will probably be recoverable. The contract's costs are recorded as charges in the financial year during which they are incurred. When it is probable that the contract's total costs will be higher than the contract's total income, the expected loss is immediately recorded as a charge.

The contract's income includes the initial amount of the contract as agreed between the parties, the

PRINCIPAL ACCOUNTING METHODS *(cntn'd)*

changes to the work of the contract as approved by the parties as well as the performance bonuses and the claims insofar as it is probable that the latter will give rise to income and when they can be reliably estimated.

The contract's costs include, in addition to the charges relating directly to the contract, the charges relating to contractual activity generally when they can reasonably be assigned to the contract. The costs incurred for entering into the contract are included in the contract charges if they can be identified separately and reliably measured, and if it is probable that the contract will be entered into.

The amounts included under the "Amounts due from customers for contract work" heading correspond to the costs incurred plus the recorded profits, less the sum of the recorded losses and the intermediate invoicing of all the contracts in progress for which the costs incurred plus the posted profits (less the recorded losses) exceed the intermediate invoicing.

Furthermore, the amounts included under the "Amounts due to customers for contract work" heading correspond to the costs incurred plus the posted profits, less the sum of the posted losses and the intermediate invoicing for all the contracts in progress for which the intermediate invoicing is higher than the costs incurred plus the posted profits (less the posted losses).

Government grants

Government grants relating to staff training costs are posted as income of the period in such a way as to attach the income to the corresponding costs. The grants are presented as deductions of the corresponding costs. Government grants relating to tangible fixed assets are recorded by deducting the grants received from the book value of the corresponding assets. These grants are recorded as income over the useful life of the depreciable assets. Repayable government grants are posted as financial liabilities.

Income taxes

Income taxes include both current and deferred taxes. They are recorded in the Income Statement except if they relate to elements registered directly as shareholders equity, in which case they too are posted as shareholders equity.

The current tax is based on the taxable result of the financial year and is calculated by using the tax rates that were adopted or quasi adopted at the closing date as well as any adjustments relating to earlier financial years.

The deferred tax is calculated according to the variable carryforward method applied to the timing differences between the book value of the assets and liabilities recorded in the Balance Sheet and their tax basis. The deferred tax is calculated according to the method in which it is projected that the elements of the assets and the liabilities will be realized or paid, on the basis of the tax rate in force or quasi adopted at the closing date of the balance sheet. Furthermore, the deferred tax liabilities relating to the holdings in subsidiary companies are not posted insofar as the Group is able to control the date on which the timing difference will be reversed and where it does not expect that the timing difference will be reversed in the foreseeable future.

A deferred tax asset is posted for the carryforward of unused tax losses and tax credits insofar as it is probable that the Group will have future taxable profits against which these unused tax losses and tax credits could be charged.

The book value of the deferred tax assets is reviewed at each closing date. It is reduced insofar as it is no longer probable that sufficient taxable profit will be available to enable all or part of this deferred tax assets to be used.

VI. KEY ACCOUNTING ASSUMPTIONS AND ESTIMATES

In the context of the preparation of its consolidated financial statements, the Group must, on certain occasions, formulate assumptions and/or come up with estimates affecting the items of the Balance Sheet and/or the Income Statement.

Management bases its estimates on its past experience and formulates certain assumptions that seem reasonable in the light of the circumstances. The actual results may differ from those estimates.

The estimates are used in the pricing of the write-offs /write-downs on current and non-current assets, in the estimate of the result and the degree of completion of the construction contracts in progress, in the assessment of the residual lifespan of the tangible fixed assets and intangible assets except for goodwill, in the provisions for pensions, reorganisations and potential litigation as well as in the assessment of the recoverable nature of deferred tax assets.

The accounting estimates and their key assumptions are regularly reviewed and the effects of their revisions are reflected in the financial statements in the corresponding period.

When such assumptions and estimates have been drawn up, they are explained in the notes relating to the elements to which they refer.

VII. SUBSIDIARY COMPANIES

As at 31 December 2005, the Group had the following subsidiary companies:

Affiliates consolidated by full consolidation method	Country	% Group interest
Hamon & Cie (International) S.A.	Belgium	Parent company
Hamon Thermal Europe S.A.	Belgium	100 %
Hamon Research-Cottrell S.A.	Belgium	99.95 %
Compagnie Financière Hamon S.A.	France	99.10 %
Hamon Thermal Europe (France) S.A.	France	99.10 %
Comelec S.A.R.L.	France	99.10 %
Hamon D'Hondt S.A.	France	99.10 %
Biraghi S.A.	France	99.10 %
Brown Fintube France S.A.	France	99.10 %
Hamon Environmental S.A.R.L.	France	99.95 %
Hacom Energiesparsysteme GmbH	Germany	100 %
Hamon Thermal Germany GmbH	Germany	100 %
Hamon Polska Sp.Zo.O	Poland	99.10 %
Hamon UK Ltd.	Great-Britain	100 %
Hamon Dry Cooling Ltd	Great-Britain	100 %
Hamon (Nederland) B.V.	Netherlands	100 %
Heat Transfer Ré Services S.A.	Luxembourg	100 %
Hamon Corporation Inc.	United States	100 %
Hamon Cooling Towers Inc.	United States	100 %
American Tower Plastics Inc.	United States	100 %
Hamon Custodis Inc.	United States	100 %
Hamon Research-Cottrell Inc.	United States	100 %
Thermal Transfer Corporation	United States	100 %
Hamon Power Services Inc.	United States	100 %
Hamon Australia Pty Ltd.	Australia	100 %
Hamon (South Africa) Pty Ltd.	South Africa	100 %
Hamon Korea Co Ltd.	South Korea	89.73 %
Hamon Korea Youngnam Ltd.	South Korea	45.76 %
Hamon - B.Grimm Ltd.	Thailand	49.20 %
Hamon India PVT Ltd.	India	100 %
Hamon Thermopack Engineers PVT Ltd	India	74 %
Hamon Malaysia SDN. BHD.	Malaysia	100 %
Hamon Do Brazil Ltda.	Brazil	100 %

VIII. EXCHANGE RATES USED BY THE GROUP

		Year-end exchange rate		Average exchange rate	
		2004	2005	2004	2005
Polish Zloty	PLZ	4.0716	3.8423	4.5380	4.0293
Pound Sterling	GBP	0.7080	0.6871	0.6793	0.6843
Brazilian Real	BRL	3.6102	2.7549	3.6293	3.0302
U.S. Dollar	USD	1.3593	1.1796	1.2433	1.2470
Australian Dollar	AUD	1.7340	1.6080	1.6869	1.6328
Indian Rupee	INR	59.0866	53.0916	56.2500	54.8851
Malaysian Ringgit	MYR	5.1652	4.4582	4.7264	4.7221
Philippines Peso	PHP	76.2880	62.5575	69.7843	68.7357
South African Rand	ZAR	7.6577	7.4813	7.9911	7.8811
South Korean Won (100)	KRW	14.0710	11.9235	14.2301	12.7724
Thai Baht	THB	52.8069	48.3616	50.3322	50.1722

IX. IMPACT OF THE TRANSITION TO IFRS STANDARDS

IFRS 1 allows first-time adopting companies to use certain exemptions in relation to other IFRS standards (mainly in order to avoid retrospective application of the other standards).

The Group has examined the various treatments suggested by the IFRS 1 Standard and has chosen to use the following exemptions:

- Staff Advantages: the Group has used the exemption permitted by IFRS 1 to include all the actuarial gains and losses not recognised as at 31 December 2003 in the equity capital on 1 January 2004
- Recognition at the fair value of certain tangible fixed assets in the opening Balance Sheet as at 1 January 2004: the Group has decided to price the tangible fixed assets of a French subsidiary company at their fair value at the date of transition to the IFRS (see below)
- Cancellation of the accumulated translation differences: the amount of the accumulated translation differences appearing in the consolidated Balance Sheet as at 31 December 2003 under the Belgian accounting standards was cancelled against the consolidated reserves as at 1 January 2004 under the IFRS referential.

The Group has chosen not to use the other available exemptions.

The impact of the adoption of the IFRS standards in relation to the figures published earlier under the Belgian accounting referential is detailed as follows:

in EUR '000'	Equity as at 01/01/2004	2004 net result	Others (11)	Equity as at 31/12/2004
Equity under Belgian GAAP, including capital grants and minority interest	**9,543**	**(20,505)**	**(241)**	**(11,203)**
(1) Reversal of formation expenses	(13,286)	1,757	0	(11,529)
(2) Construction contracts	(7,445)	3,958	0	(3,487)
(3) Adjustments on provisions	3,131	(3,483)	0	(352)
(4) Reversal of Research costs	(660)	288	0	(372)
(5) Reversal of Goodwill depreciation	0	1,241	0	1,241
(6) Valuation of the investment held in FBM Hudson Italiana Spa	(1,345)	(4,172)	0	(5,517)
(7) Adjustments on tangible assets	1,340	19	(1,388)	(29)
(8) Deferred taxes	(2,139)	790	0	(1,349)
(9) Impact of the renegotiation of Group borrowings	(1,951)	1,951	0	0
(10) Other minor adjustments	113	(661)	187	(361)
Equity under IFRS	**(12,699)**	**(18,817)**	**(1,442)**	**(32,958)**

IMPACT OF THE TRANSITION TO IFRS STANDARDS *(cntn'd)*

(1) Correcting entry of formation expenses: the IFRS standards do not allow the capitalisation of formation expenses. Consequently, the expenses capitalised under the Belgian standards are reversed in the opening equity capital in an amount of EUR -13,286 thousand. The impact on the result includes the net impact of the cancellation of the financial year's depreciation as well as cancellation of the capitalisation of the new expenses incurred in 2004.

(2) Construction Contracts: the taking into result of the margin on the construction contracts according to the degree of completion in accordance with prescribed IAS 11 standard – *Construction Contracts* – and the strict criteria imposed by the IAS 11 standard regards admission of the contractual income resulting from claims have generated respectively impacts of EUR -1,310 thousand and EUR -6,135 thousand as at 01 January 2004 and EUR +766 thousand and EUR -4,253 thousand as at 31 December 2004.

(3) Adjustment to provisions: the adjustments result mainly from:

> The reversal of restructuring provisions of which the admission conditions imposed by the IAS 37 standard – *Provisions, Possible Liabilities And Assets* – were not met as at 1 January 2004 and 31 December 2004 (EUR 4,123 thousand and EUR 896 thousand respectively)

> The admission of a provision in accordance with the IAS 19 standard – Staff Advantages – for respectively EUR -1,269 thousand as at 1 January 2004 and EUR -923 thousand as at 31 December 2004.

(4) Reversal of research expenses: the IAS 38 standard – *Intangible Fixed Assets* – does not allow the capitalization of research expenses. Consequently, the expenses previously capitalised under Belgian standards are reversed against equity capital as at 1 January 2004 in an amount of EUR 660 thousand. The impact on the result includes the net effect resulting from the cancellation of the financial year's depreciation as well as cancellation of the capitalisation of the new expenses incurred in 2004.

(5) Cancellation of the depreciation of goodwill: the IFRS 3 standards – *Amalgamation* – provides that goodwill should no longer be the subject of depreciation but of an annual impairment test.

(6) Pricing of the financial holding in FBM Hudson Italiana Spa ("FBM"): This subsidiary company had been consolidated under Belgian accounting standards until 31 December 2003 and had then been presented at the historical cost in the Group's consolidated accounts as at 31 December 2004 established according to Belgian standards.
Under the IFRS referential, this holding has been regarded as "an asset held for sale" pursuant to IFRS 5 standard – *Non-Current Assets Held For Sale And Discontinued Operations* – and presented as such in the Balance Sheet as at 1 January 2004. However, following the sale of its holding in FBM during the year 2005, it was impossible for the Group to determine the net book value of FBM by applying the IFRS referential and has determined therefore it on the basis of the FBM's Annual Report as at 31 December 2003 under the Italian accounting standards. A similar approach was adopted as at 31 December 2004. On this basis, the book value of FBM such as appearing in the IFRS Balance Sheet as at 1 January 2004 and 31 December 2004 is lower than the one appearing in the consolidated Balance Sheet prepared according to the Belgian accounting standards by respective amounts of EUR 1,345 thousand and EUR 5,517 thousand.

(7) The adjustment on tangible fixed assets results mainly from:

> The accounting at the fair value, such as authorised by the IFRS 1 standard – *First Adoption of the IFRS* – of the tangible fixed assets (buildings and equipment) of a French subsidiary company. This revaluation has had a positive impact of respectively EUR 2,722 thousand and EUR 1,818 thousand as at 1 January 2004 and 31 December 2004. The difference between these two amounts is explained by the fact that these buildings and equipment had been the subject of a partial repricing in an amount of EUR 904 thousand in the consolidated 2004 accounts prepared according to Belgian standards.

> The fair value of these tangible fixed assets has, for a part of the equipment, been determined on the basis of internal pricing and for the balance of the equipment and the buildings by an independent expert mandated by the Group. This pricing assignment was carried out on the basis of the profitability generated by the installations and the equipment with regard to

IMPACT OF THE TRANSITION TO IFRS STANDARDS *(cntn'd)*

their technical quality, their lifespan and their position on the curve of that lifespan. Depending on their category, their technicality and their specificity, the fair value of the various kinds of fixed assets was priced in comparison with their market value, their technical utility value, their second-hand value and finally their replacement value

> Harmonisation of the depreciation period of the equipment of an American subsidiary company. This harmonisation has resulted in a reduction of the equity capital in an amount of EUR 550 thousand as at 1 January 2004 and EUR 739 thousand as at 31 December 2004

> The deduction of the capital subsidies from the book value of the tangible fixed assets (EUR 832 thousand as at 1 January 2004 and EUR 1,324 thousand as at 31 December 2004).

(8) Deferred taxes: the application of the IAS 12 standard – *Taxes On The Result* – has resulted in the admission of additional deferred tax liabilities of EUR 2,139 thousand and EUR 1,349 thousand as at 1 January 2004 and 31 December 2004 in relation to the amounts previously admitted under the Belgian accounting standards.

(9) Impact of the renegotiation of a part of the Group's debt: the income of EUR 1,951 thousand released following the renegotiation of a part of the Group's debt in 2003-2004 has been admitted in 2004 under the IFRS standards although it had already been admitted in 2003 under the Belgian referential.

(10) The other minor adjustments result from individually insignificant adjustments.

(11) Others: this column mainly includes the impact of the translation differences on the IFRS adjustments as well as the variation between 1 January and 31 December 2004 of the subsidies and the repricing gains posted under the Belgian accounting standards.

X. BRANCHES OF ACTIVITY

The Group presents information relating to its branches of activity and its geographical sectors. The first level of segment information reflects the organisation of the Group's activities. The selected segments correspond to Business Units, as defined below.

The Group is organised into five Business Units: Cooling Systems, Heat Exchangers, Air Pollution Control Europe, Air Pollution Control USA, and Chimneys. Additional Business Unit information is presented in the Management Report.

The second level of segment information is based on the geographical location of the customers, i.e. Europe, the NAFTA Area, Middle East & Africa, and the Asia-Pacific Area; whereas the assets and the investments are included according to their own localities.

The results of a segment, and its assets and liabilities, include all the elements that are directly ascribable to it as well as the headings that can reasonably be allocated to a sector.

INFORMATION BY SEGMENT
First level – branches of activity

in EUR '000'	Cooling Systems	Heat Exchangers	Air Pollution Control Europe	Air Pollution Control USA	Chimneys	Non allocated	Elimination	Total
For the year ended 31 December 2004								
External sales	75,059	23,281	26,801	49,565	19,694			194,400
Inter-segment sales	491	14	10		2,186	230	(2,931)	
Total revenue	75,550	23,295	26,811	49,565	21,880	230	(2,931)	194,400
Operating profit before restructuring costs	5,933	(3,562)	2,547	1,180	920	(681)		6,337
Restructuring costs	(2,058)	(1,296)	(30)	(59)	(70)	(1,765)		(5,278)
Operating profit	3,875	(4,858)	2,517	1,121	850	(2,446)		1,059
Finance costs, net						(5,293)		(5,293)
Share of the profit/(loss) of associates		81		115				196
Result before tax								(4,037)
Income tax expenses						539		539
Net result from continued operations								(3,498)

BRANCHES OF ACTIVITY *(cntn'd)*

in EUR '000'	Cooling Systems	Heat Exchangers	Air Pollution Control Europe	Air Pollution Control USA	Chimneys	Non allocated	Elimination	Total
For the year ended 31 December 2005								
External sales	95,456	17,749	36,185	113,277	20,781	233		283,681
Inter-segment sales	224	17		16	1,033		(1,290)	
Total revenue	95,680	17,766	36,185	113,293	21,814	233	(1,290)	283,681
Operating profit before restructuring costs	7,542	(2,278)	1,051	13,455	(418)	2,881		22,233
Restructuring costs	(206)	(1,404)		(87)		(50)		(1,747)
Operating profit	7,336	(3,682)	1,051	13,368	(418)	2,831		20,486
Finance costs, net						(5,295)		(5,295)
Share of the profit/(loss) of associates		386		(61)				325
Result before tax								**15,516**
Income tax expenses						7,381		7,381
Net result from continued operations								**22,897**

The pricing of intersegment sales is based on a system of transfer price between independent companies.

OTHER ELEMENTS OF THE INCOME STATEMENT

in EUR '000'	Cooling Systems	Heat Exchangers	Air Pollution Control Europe	Air Pollution Control USA	Chimneys	Non allocated	Total
For the year ended 31 December 2004							
Depreciation and amortisation	(1,248)	(942)	(39)	(1,002)	(198)	(1,454)	(4,883)
Impairment of goodwill						(639)	(639)
Impairment of inventory and WIP							
Impairment of trade receivables				(415)			(415)
(Increase) / decrease in provisions	4,105	(601)	848	10	81	53	4,496
For the year ended 31 December 2005							
Depreciation and amortisation	(999)	(700)	(52)	(1,138)	(171)	(817)	(3,877)
Impairment of goodwill							
Impairment of inventory and WIP	38	(62)		(27)		(240)	(291)
Impairment of trade receivables	(486)	62	144	7		(646)	(919)
(Increase) / decrease in provisions	939	(348)	40	(131)	435	(29)	906

BRANCHES OF ACTIVITY *(cntn'd)*

BALANCE SHEET INFORMATION

in EUR '000'	Cooling Systems	Heat Exchangers	Air Pollution Control Europe	Air Pollution Control USA	Chimneys	Non allocated	Total
As at 31 December 2004							
Assets	51,312	22,410	15,066	25,711	5,482	106,906	226,887
Investments in associates		886	1,004	(653)		92	1,329
Total assets	**51,312**	**23,296**	**16,070**	**25,058**	**5,482**	**106,998**	**228,216**
Total liabilities	**54,135**	**16,720**	**12,670**	**17,416**	**3,230**	**157,003**	**261,174**
Capital expenditures	1,811	147	83	181	47	115	2,384
As at 31 December 2005							
Assets	70,316	19,762	21,804	56,887	3,651	25,506	197,926
Investments in associates		1,376	1,004	(914)		90	1 556
Total assets	**70,316**	**21,138**	**22,808**	**55,973**	**3,651**	**25,596**	**199,482**
Total liabilities	**61,610**	**16,760**	**17,848**	**31,330**	**3,889**	**78,517**	**209,954**
Capital expenditures	439	406	83	291	194	135	1,548

The level of the segment's assets and liabilities not allocated in 2004 is due to the non-current assets and liabilities held for sale and discontinued operations.

Second level – geographical segments

in EUR '000'	2005	2004
Revenue		
Europe	125,324	105,013
NAFTA	135,442	71,293
Middle-East and Africa	4,898	4,530
Asia - Pacific	18,017	13,564
	283,681	194,400
Total assets		
Europe	115,964	175,697
NAFTA	69,590	41,052
Middle-East and Africa	865	1,917
Asia - Pacific	13,063	9,550
	199,482	228,216
Capital expenditures		
Europe	808	1,281
NAFTA	499	329
Middle-East and Africa	32	84
Asia - Pacific	209	690
	1,548	2,384

XI. NOTES TO THE FINANCIAL STATEMENTS
Consolidated income statement

1. Revenue

An analysis of the revenue from ordinary activities for the years 2005 and 2004 (except discontinued operations) includes the following:

in EUR '000'	2005	2004
Construction contracts	267,503	180,872
Manufacturing	10,263	8,752
Services	5,566	4,242
Royalties	349	534
	283,681	194,400

Except for the "Heat Exchangers" business unit (undergoing reorganisation in 2005), income from all of the other activities of the Group improved during the year (+62% in relation to FY 2004). It should be noted that the strongest improvement was at the "Air Pollution Control (USA)" business unit, which more than doubled its business volume versus 2004.

2. Gross profit

Gross Profit reached an amount of EUR 51,305 thousand in 2005 (EUR 39,769 thousand in 2004), or 18.1% (20.4%) of the revenue.

3. Other operating income (expenses)

The 2004 Other Operating Expenses mainly included legal expenses and expenses resulting from the resolution of various suits for an amount of EUR 1,283 thousand.

in EUR '000'	2005	2004
Dividends and financial income	470	332
Profit/(loss) on disposals of assets	(38)	129
Profit on bank debt renegotiating	3,511	1,951
Exchange differences, net	871	(632)
Other operating income	2,125	3,412
Various operations on related parties	315	702
Impairment of current assets	(17)	(441)
Other operating expenses	(815)	(2,158)
	6,422	3,295

4. Operating profit before restructuring rosts

Operating Profit before restructuring costs showed strong improvement in 2005 (+250% in relation to FY 2004) and amounted to EUR 22,233 thousand.

5. Restructuring costs

The lion's share of the various segments' restructuring costs was borne during FY 2003 and FY 2004. Restructuring Costs consequently decreased significantly in 2005 (EUR 1,747 thousand against EUR 5,278 thousand in 2004).

6. Finance costs, net

The detail of the Finance costs, net is as follows:

in EUR '000'	2005	2004
Borrowing costs	(5,273)	(5,292)
Other financial income/(expenses), net	(22)	
	(5,295)	(5,292)

The finance costs (net) came mainly from borrowing costs and were similar in 2005 and 2004.

7. Income tax expenses

The effective tax rate was not representative in 2005 as it was influenced by the use of tax losses on which no deferred tax asset had been previously admitted, mainly in the United States, as well as by admission of deferred tax assets not previously admitted on the available tax losses. This accounting resulted from the improvement of the future profitability prospects. These credits were admitted after attentive review of the Business Plans for the next five years by the Board of Directors, which thought it probable that these amounts could be used, because of the good behaviour of the markets in which the Group is involved, the Group's strong performance in those markets and the growth of the operating profit.

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

in EUR '000'	2005		2004	
Components of tax (expense)/income	**7,381**		**539**	
Current tax	(2,082)		(689)	
Related to current year	(1,999)		(146)	
Related to past years	(83)		(543)	
Deferred tax	9,463		1,228	
Related to current year	9,463		1,228	
Related to past years				
Reconciliation of Group income tax charge				
Result before tax	15,516		(4,037)	
Share of the profit (loss) of associates	(325)		(196)	
Result before tax and before share of the profit (loss) of associates	15,191		(4,233)	
Domestic income tax	33.99%		33.99%	
Group Theoretical income tax charge	(5,163)	-33.99%	1,439	-33.99%
Utilization of tax losses not previously recognised	2,259	14.87%	1,249	-29.50%
Effect of different tax rates of subsidiaries operating in other juridictions	(166)	-1.09%	(22)	0.52%
Recognition of deferred tax assets not previously accounted for	10,783	70.98%	1,297	-30.65%
Impact of deferred tax assets not recognised	(459)	-3.02%	(3,077)	72.70%
Other movements	210	1.38%	196	-4.63%
Income tax expense related to current year	7,464	49.13%	1,082	-25.56%

The effective 2004 tax rate was itself also influenced by the non-accounting of deferred tax assets on account of the absence, at the time, of sufficient certainty as to future profitability prospects.

With the exception of the restatements relating to the first application of the IFRS – see Section IX – no deferred tax asset or liability was directly posted in equity capital during FY 2004 and FY 2005.

8. Discontinued operations

In 2002, the Hamon Group made the decision to dispose of the activities of its Italian Heat Exchangers BU, consisting mainly of its Italian subsidiary, FBM. This process was finalised on 31 December 2005 by the signing of a sale agreement with KNM Group Berhad in relation to the shares of FBM for a price of EUR 1,750 thousand. The payment of the saleprice was received on 12 April 2006. On the basis of the provisions of the sale agreement, the Group considers that it turned over control of FBM on 31 December 2005. On this basis, the following accounting treatment was adopted for the periods ending 31 December 2004 and 2005

> FBM's assets and liabilities as at 31 December 2004 are presented separately in the consolidated Balance Sheet under the "Non-current Assets Held For Sale" and "Non-current Liabilities Held For Sale" headings. However, insofar as the Group has not been able to determine the value of FBM's assets and liabilities in application of the IFRS accounting policies, these assets and liabilities have been measured at that date in accordance

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

with the Italian accounting policies such as applied by FBM in its statutory accounts. FBM's results for 2004, namely a loss of EUR 8,556 thousand, are presented separately in the 2004 Income Statement under the "Net Result of Discontinued Operations" heading. This amount includes FBM's statutory loss of EUR 4,172 thousand and a debt write-off of EUR 4,384 thousand

> As at 31 December 2005, the Balance Sheet includes, under the heading "Available-For-Sale Current Financial Assets", an amount of EUR 1,750 thousand corresponding to the disposal price. The result achieved at the time of the disposal as well as the result of the FBM exercise, namely a loss totalling EUR 12,232 thousand, is presented under the "Net Result of Discontinued Operations" heading.

The balance of the Group's Italian activities was exercised within a subsidiary company – Hamon Research Cottrell Italia Srl ("HRCI") – which was involved in Cooling Systems, Air Pollution Control and Chimneys. This independent Italian activity, significant before the sale of the Dry operations at the end of 2003 and the discontinuation of the chimney operations in Europe, no longer belonged in the Hamon organisation and was put into liquidation at the beginning of 2005. HRCI's results for 2004 and 2005 (including the impact of the guarantees previously given by the Group in favour of this subsidiary company) are presented under the "Net Result of Discontinued Operations" heading. As at 31 December 2005, the estimated amount of the Group's residual commitments in respect of this subsidiary company, i.e. an amount of EUR 4,832 thousand, is presented under the "Non-Current Provisions for Other Liabilities and Charges" heading in an amount of EUR 3,399 thousand and "Current Provisions for Other Liabilities and Charges" in an amount of EUR 1,433 thousand.

The Net Results of the Discontinued Operations are summarised as follows:

in EUR '000'	**2005**	**2004**
FBM net result for the year	(14,062)	(8,556)
Result of FBM disposal	1,830	
HRCI net result for the year (incl. Group commitments)	(848)	(5,715)
Others	(2,582)	(1,048)
Total	**(15,662)**	**(15,319)**

The "Others" item relates essentially to the costs incurred after the bankruptcy of Hamon Rothemuhle Cottrell (EUR 977 thousand in 2005 and EUR 460 thousand in 2004), to the charges incurred subsequent to the sale of Air Industrie Thermique-Loreatt (EUR 210 thousand in 2005 and EUR 42 thousand in 2004), to expenses relating to the discontinued operations and products in our "Air Pollution Control USA" Business Unit (EUR 254 thousand in 2005), and to expenses subsequent to the sale of the Cooling Systems operations to SPX Corporation.

The Net Results of the Discontinued Operations for FY 2005 and FY 2004 are summarised as follows:

in EUR '000'	**FBM**	**HRCI**	**Others**	**Total**
For the year ended 31 December 2004				
Revenue	54,151	20,969	894	76,014
Result before tax	(11,336)	(5,675)	(1,048)	(18,059)
Income tax expenses	2,780	(40)		2,740
Net result	**(8,556)**	**(5,715)**	**(1,048)**	**(15,319)**
For the year ended 31 December 2005				
Revenue	21,499		813	22,312
Result before tax	(14,062)	(848)	(2,582)	(17,492)
Income tax expenses				
Net result	**(14,062)**	**(848)**	**(2,582)**	**(17,492)**

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

The impact of the discontinued operations on the Group's cash flow amounted for 2005 to EUR - 2,854 thousand (EUR -5,102 thousand for 2004).

The assets and liabilities of the Discontinued Operations are detailed as follows:

in EUR '000'	FBM	Others	Total
For the year ended 31 December 2004			
Intangible and tangible assets	24,489		24,489
Financial assets	9,612		9,612
Inventories	26,300		26,300
Trade and other receivables	24,681	1,192	25,873
Cash and cash equivalents	443		443
Non-current assets held for sale	**85,525**	**1,192**	**86,717**
Non-current liabilities	10,992		10,992
Current liabilities	70,688	1,009	71,697
Non-current liabilities held for sale	**81,680**	**1,009**	**82,689**

As at 31 December 2005, the non-current assets and liabilities held for sale were zero.

9. Earnings per share

Continued and discontinued operations

The basic earnings per share coming from continued and discontinued operations is calculated by dividing the net result for the year ascribable to the ordinary shareholders by the weighted average number of ordinary shares in circulation during the financial year:

	2005	2004
Net result for the year (equity holders of the company), (in EUR '000')	7,058	(18,807)
Weighted average number of ordinary shares during the year	4,458,340	2,703,579
Basic earnings per share (EUR)	1.58	(6.96)

The weighted average number of shares is calculated on the basis of the following figures:

	2005	2004
Number of shares as at 1 January	2,703,579	2,703,579
Number of shares as at 31 December	5,874,310	2,703,579
Capital increase date	13/6/05	
Weighting factor	0.553	1

The basic earnings per share are identical to the diluted earnings per share given the absence of any potentially diluting ordinary shares in circulation.

Continued operations

The basic earnings per share coming from continued operations is calculated by dividing the net result from the continued operations by the weighted average number of ordinary shares in circulation during the financial year.

	2005	2004
Net result for the year (equity holders of the company) (in EUR '000')	7,058	(18,807)
Net result of discontinued operations	15,662	15,319
Net result from continued operations (equity holders of the company) (in EUR '000')	22,720	(3,488)
Weighted average number of ordinary shares during the year	4,458,340	2,703,579
Basic earnings per share (EUR)	5.10	(1.29)

Discontinued operations

The basic, diluted earnings per share from discontinued operations amounted to EUR -3.52 per share as at 31 December 2005 and EUR -5.67 per share as at 31 December 2004, calculated on the basis of the net income of the discontinued activities of EUR -15,662 thousand in 2005 (EUR -15,319 thousand in 2004) and of the denominators detailed above.

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

Consolidated cash flow statement as at 31 December 2005

The net cash flow for FY 2005 improved considerably versus the previous financial year. It amounted to EUR 5,968 thousand compared to a negative flow of EUR -16,857 thousand last year, namely an improvement of EUR 22,825 thousand.

The cash generated from operations after restructuring improved by EUR 8,614 thousand compared to the preceding financial year. This improvement came essentially from the increased revenue (46% increase) and a better operating margin. The better cash flow management made it possible to reduce the average number of days to pay the non-financial debt by 11 days. As the restructuring expenses were mainly incurred in previous years, they went down significantly in 2005 (EUR 2,092 thousand in 2005 against EUR 7,602 thousand in 2004).

The cash flow from investing activities amounted to EUR -1,783 thousand this year compared to EUR + 43 thousand for the year 2004. The difference essentially came from the receipts acquired in 2004 following the disposal of a branch of activity, from tangible fixed assets and financial fixed assets and from the receipt of a subsidy by a French subsidiary company partially offset by a reduction of the investment in tangible fixed assets.

The cash flow from financing activities was very different from the previous year (difference of + EUR 13,789 thousand) mainly because of the cash flow of EUR 5,821 thousand relating to the new issue of capital (part received in cash) – see Note 20 – and on the slight increase in the bank debts in 2005 whereas these could have been partially repaid to the tune of EUR 5,696 thousand in 2004 following the disposal end of 2003 of certain assets and liabilities of the "Cooling Systems" activities.

The expenditure incurred for discontinued operations decreased by EUR 2,249 thousand compared to the previous financial year. This reduction is mainly explained by a reduction in the expenses brought about by Hamon Research Cottrell Italia (EUR 2,000 thousand).

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*
Consolidated balance sheet

10. Intangible assets

All the intangible assets have a finite utility period, against which the asset is depreciated. The depreciation charge is included under the "General and Administrative Expenses" heading.

Patents and Trademarks mainly include software licences for a book value of EUR 1,026 thousand as at 31 December 2005 (EUR 1,545 thousand as at 31 December 2004).

The loss in value of EUR 131 thousand reflected in 2004 relates to additional depreciation of software that the Group no longer uses.

in EUR '000'	Patents and trademarks	Development costs	Total
As at 01 January 2004			
Cost	11,433	3,770	15,203
Accumulated amortisation	(7,506)	(2,527)	(10,033)
Net carrying amount	**3,927**	**1,243**	**5,170**
For the year ended 31 December 2004			
Exchange difference	(116)	(10)	(126)
Additions	336	254	590
Disposals	(178)		(178)
Amortisation charge for the year	(1,133)	(571)	(1,704)
Impairment charge	(131)		(131)
Reclassification to discontinued business assets	(54)		(54)
Net carrying amount at closing date	**2,651**	**916**	**3 567**
As at 01 January 2005			
Cost	9,791	3,108	12,899
Accumulated amortisation and impairment	(7,140)	(2,192)	(9,332)
Net carrying amount	**2,651**	**916**	**3,567**
For the year ended 31 December 2005			
Exchange difference	186	389	575
Additions	111	296	407
Amortisation charge for the year	(1,093)	(369)	(1,462)
Transfered from an account to another	134	(134)	
Net carrying amount at closing date	**1,989**	**1,098**	**3,087**
As at 31 December 2005			
Cost	10,188	3,550	13,738
Accumulated amortisation and impairment	(8,199)	(2,452)	(10,651)
Net carrying amount	**1,989**	**1,098**	**3,087**

NOTES TO THE FINANCIAL STATEMENTS
(cntn'd)

11. Goodwill

in EUR '000'

As at 01 January 2004	
Cost	20,498
Accumulated amortisation	
Net carrying amount	**20,498**
For the year ended 31 December 2004	
Exchange difference	(313)
Impairment charge	(639)
Reclassification to discontinued business assets	(246)
Reclassification to investment in associates	(580)
Eliminated on disposal of a subsidiary	(1,355)
Net carrying amount at closing date	**17,365**
As at 01 January 2005	
Cost	18,004
Accumulated amortisation and impairment	(639)
Net carrying amount	**17,365**
For the year ended 31 December 2005	
Exchange difference	801
Net carrying amount at closing date	**18,166**
As at 31 December 2005	
Cost	18,805
Accumulated amortisation and impairment	(639)
Net carrying amount	**18,166**

The FY 2004 movements relate primarily to the disposal of 70% of AIT and the discontinuation of the Chimney activities of Hamon Research Cottrell Italia (HRCI):

> Following the disposal of 70% of the shares held in the AIT Company, 30% of the goodwill relating to this activity was reclassified under the "Investment in Associates" heading, while the balance was cancelled as "Outside the Consolidation Perimeter"
> The goodwill relating to the Chimney activities of Hamon Research Cottrell Italia was the subject of a total loss in value following the discontinuation of those activities.

The Group carries out an annual goodwill impairment test in accordance with the accounting policies presented under Section V. The recoverable value of the cash-flow generating units has been determined on the basis of the decreased fair value of the sale expenses of the relevant cash-flow generating units.

The fair value of the cash-flow generating units is estimated on the basis of:

- The current and future EBITDA as derived from the Group's budgets, approved by the Board of Directors
- The usual market multiples for similar activities
- Corrections for taking account of non-operating assets or liabilities of which the value is not reflected by the EBITDA.

The market multiples were initially sought in the price indications that the company received at the end of 2003 during discussions with third parties interested in certain parts of its activities. These multiples have since then been compared with recent transactions, mainly on the American markets. This analysis has confirmed the prudent nature of the adopted multiples.

The fair value obtained was then compared with the evaluated activity's net book value (including goodwill). On the basis of the tests carried out, except for the loss in value due to the discontinuation of the HRCI's Chimneys operations in 2004, no abatement of the value of the Group's goodwill was considered to be necessary.

As at 31 December 2005, the distribution of the net book value of the goodwill between the cash-flow generating units was detailed as follows:

	2005
Cooling Systems	5,093
Heat Exchangers	851
Air Pollution Control Europe	7,168
Air Pollution Control United States	4,650
Chimneys	404
	18,166

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

12. Property, plant & equipment

in EUR '000'	Land and buildings	Plant, machinery and equipment	Furniture and vehicles	Other tangible assets	Assets under construction and advance payments	Total
As at 1 January 2004						
Cost	18,403	7,626	29,809	488	504	56,830
Accumulated depreciation	(5,947)	(5,018)	(19,107)	(171)	(59)	(30,302)
Net carrying amount	**12,456**	**2,608**	**10,702**	**317**	**445**	**26,528**
For the year ended 31 December 2004						
Exchange difference	(234)	(25)	(189)	(1)	(1)	(450)
Additions	773	401	521	6	102	1,803
Disposals	(802)	(20)	(223)		(171)	(1,216)
Depreciation charge for the year	(733)	(532)	(1,721)	(24)	57	(2,953)
Reclassification to discontinued business assets	(184)	(177)	(1,957)	(84)		(2,402)
Other movements				7		7
Transfered from an account to another	(83)		(51)	73	61	
Net carrying amount at closing date	**11,193**	**2,255**	**7,082**	**294**	**493**	**21,317**
As at 31 December 2004						
Cost	17,345	6,271	21,317	511	1,453	46,897
Accumulated depreciation	(6,152)	(4,016)	(14,235)	(217)	(960)	(25,580)
Net carrying amount	**11,193**	**2,255**	**7,082**	**294**	**493**	**21,317**
For the year ended 31 December 2005						
Exchange difference	598	77	379	4	12	1,070
Additions	218	317	340	10	240	1,125
Disposals		(53)	(69)		(30)	(152)
Depreciation charge for the year	(601)	(451)	(1,338)	(24)	(1)	(2,415)
Transfered from an account to another		25	358		(365)	18
Net carrying amount at closing date	**11,408**	**2,170**	**6,752**	**284**	**349**	**20,963**
As at 31 December 2005						
Cost	18,103	6,005	21,660	466	1,312	47,546
Accumulated depreciation	(6,695)	(3,835)	(14,908)	(182)	(963)	(26,583)
Net carrying amount	**11,408**	**2,170**	**6,752**	**284**	**349**	**20,963**

The amounts reclassified as "non-current assets held for sale" include the assets of Hamon Research Cottrell Italia Srl as mentioned in Note 8.

The amount included under the "land and buildings" heading includes a net amount of EUR 6,259 thousand for assets acquired by means of finance lease as at 31 December 2005 (EUR 6,158 thousand as at 31 December 2004).

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

13. Investment in associates

in EUR '000'	**31/12/05**	**31/12/04**
Balance as at beginning date	1,329	165
Additions		1,004
Share of the profit (loss) of associates	325	196
Other variations	(9)	
Exchange difference	(89)	(36)
Balance as at closing date	**1,556**	**1,329**
Cost of investment in associates	2,992	2,898
Share of post-acquisition profit, net of dividend received	(1,436)	(1,569)
Balance as at closing date	**1,556**	**1,329**

"Investment in associates" include GEI Hamon Industries Ltd (India) at 25%, AIT (France) at 30% and Hamon Research Cottrell Do Brasil (Brazil) at 45%.
The financial information of these three associated companies is summarised as follows (at 100%):

in EUR '000'	**31/12/05**	**31/12/04**
Total assets	16,678	14,030
Total liabilities	13,196	12,674
Net assets	3,482	1,356
Group's share of associates' net asset	552	325

	2005	**2004**
Revenue	16,977	13,908
Net result for the year	1,163	576
Group's share of associates' net result for the year	325	196

There are no restrictions that prevent these companies from transferring funds (such as dividends, etc.) to the Group.

The amount of the Group's commitments with respect to associated companies was EUR 936 thousand as at 31 December 2005.

14. Available-for-sale financial assets

in EUR '000'	**Non-current**	**Current**
For the year ended as at 31 December 2004		
Balance as at opening date	1,785	
Additions	280	
Disposals	(1,283)	
Reclassification to non-current assets held for sale	(353)	
Impairment charge	(306)	
Reversals of impairment charge	145	
Other variations	(162)	
Exchange difference	49	
Balance as at closing date	**155**	
For the year ended as at 31 December 2005		
Balance as at opening date	155	
Additions	428	1,794
Disposals	(61)	
Exchange difference	53	
Balance as at closing date	**575**	**1,794**

The "available-for-sale financial assets" include investments in companies in which the Group does not have a notable influence. The available-for-sale financial assets as at 31 December 2005 correspond mainly to the disposal price of EUR 1,750 thousand following the disposal of FBM to KNM (see Note 8).

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

15. Deferred tax assets

in EUR '000'

Deferred taxes split by categories	Assets		Liabilities	
	31/12/05	31/12/04	31/12/05	31/12/04
Temporary differences				
Intangible assets and goodwill	88		(185)	
Property, plant & equipment			(2,301)	(2,350)
Construction contracts	46	74	(1,079)	(712)
Provisions	69	64	(709)	(709)
Obligations under finance leases	756	816		
Others	247	131	(544)	(332)
Total temporary differences	1,206	1,085	(4,818)	(4,103)
Tax losses and other tax credits	15,306	4,947		
Total deferred tax assets/liabilities	**16,512**	**6,032**	**(4,818)**	**(4,103)**
Compensation of assets and liabilities per tax entity	(2,630)	(2,668)	2,630	2,668
Total, net	**13,882**	**3,364**	**(2,188)**	**(1,435)**

Table of variation of deferred taxes

	2005	2004
Net deferred taxes as at 1 January	1,929	739
Income tax (expense)/income	9,463	1,228
Exchange difference	240	(173)
Others	62	135
Net deferred taxes as at 31 December	**11,694**	**1,929**

	31/12/05	31/12/04
Amount of temporary deductible differences, tax losses and unused tax credits on which no deferred tax asset has been accounted for	19,329	29,652

Deferred tax assets are admitted only if their use is probable, i.e. if sufficient taxable profit is envisaged in future financial years.

As indicated in Note 7, the Board of Directors has admitted at the time of FY 2005 additional deferred tax assets on the tax losses in an amount of EUR 10,783 thousand. This accounting resulted from the improvement of the future profitability prospects of certain subsidiaries. These credits were admitted after attentive review of the Business Plans for the next five years by the Board of Directors, which thought that these amounts could be used with a high probability, because of the good behaviour of the markets in which the Group is involved, the Group's strong performance in those markets and the growing profitability of its operations.

The Group has not admitted deferred tax assets in an amount of EUR 19,329 thousand as at 31 December 2005 but will review this situation during later financial years according to the profitability trends of the various tax entities.

No deferred tax has been posted on the timing differences emanating from the financial holdings in the subsidiary and associated companies insofar as, either the date on which the difference will be reversed can be controlled, or it is probable that the temporal difference will not be reversed in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

16. Stocks

in EUR '000'	**31/12/05**	**31/12/04**
Raw materials & consumables	2,049	2,010
Inventories and work-in-progress - not related to construction contracts	1,091	922
Finished goods	1,196	1,430
Total Inventories	**4,336**	**4,362**

As at 31 December 2005, the amount of inventory write-downs amounted to EUR 416 thousand (EUR 545 thousand as at 31 December 2004). A write-down amounting to EUR 291 thousand was posted in 2005 (zero in 2004).

As at 31 December 2005, the book value of the pledged inventories amounted to EUR 2,597 thousand (zero as at 31 December 2004

17. Amount due for contract work

in EUR '000'	**31/12/05**	**31/12/04**
Contract costs incurred plus recognised profits (less recognised losses to date)	170,874	115,774
Less: progress billings	(161,338)	(109,933)
	9,536	**5,841**
Amount due from customers for contract work	28,712	15,121
Amount due to customers for contract work	(19,176)	(9,280)
	9,536	**5,841**

The amount of the reserves applied by our customers on invoiced advances and which, in accordance with the contractual conditions, will be paid to Hamon at the time of the final acceptance of the projects in question, amounted to EUR 688 thousand as at 31 December 2005 (EUR 21 thousand as at 31 December 2004).

As at 31 December 2005, an amount of EUR 2,187 thousand (31 December 2004: EUR 3,028 thousand) included under the heading Amount due from customers for contract work" relates to contracts that will only be completed after 31 December 2006.

18. Trade and other receivables

in EUR '000'	**31/12/05**	**31/12/04**
Trade receivables	66,212	39,851
less : impairment of receivables	(3,498)	(2,487)
Trade receivables - net	**62,714**	**37,364**
Retentions	688	21
Prepayments	156	870
Cash deposits and guarantees paid	1,696	954
Receivables on related parties	5,239	3,189
Other receivables	11,916	16,194
	82,409	**58,592**
Trade and other receivables - non-current:		
- Receivables on related parties	38	33
- Cash deposits and guarantees paid	1,696	954
- Other non current receivables	6,420	7,111
less non-current portion:	**(8,154)**	**(8,098)**
Trade and other receivables - current	**74,255**	**50,494**

The "Other Non-current Receivables" item mainly includes a credit of EUR 5,000 thousand on the SPX Corporation relating to the sale of a part of our activities in 2003, as well as various credits not directly related to construction contracts.

As at 31 December 2005, receivables of an approximate amount of EUR 5,300 thousand were transferred without recourse to financial organisations and have been deducted from Customers.

The Hamon Group's overall credit risk is slight in the light of the nature of the Group's products and customers. The terms of payment are usually 30 to 60 days. Very strict procedures making it possible to limit the credit risk are pursued by the Group in the

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

event of late payment and for customers in countries where the credit risk is significant.

Local practice sometimes require that customers withhold a percentage of the payments until the final acceptance of the contract (called retention). This percentage is usually limited to 10%.

19. Cash and cash equivalents

en EUR '000'	31/12/05	31/12/04
Credit Institutions	14,123	7,051
Post Office Accounts	4	
Cash in hand	17	
Short term cash deposits	5,878	5,658
Cash and cash equivalent	20,022	12,709

As at 31 December 2005, the amount of Cash and cash equivalents which is not at the Group's free disposal amounted to EUR 4,920 thousand (EUR 2,930 thousand as at 31 December 2004).

20. Share capital

As at 31 December 2005, the share capital amounted to EUR 1,762,293, represented by 5,874,310 shares without designation of face value. The Group holds none of its own shares.

The evolution of the number of shares over FY 2005 can be seen as follows:

Number of shares as at 1 January 2004	2,703,579
Number of shares as at 31 December 2004	2,703,579
Capital increase as at 13 June 2005	3,170,731
Capital increase as at 22 December 2005	0
Number of shares as at 31 December 2005	5,874,310

On 13 June 2005, the Group proceeded with:

> A capital decrease in the amount of EUR 32,886 thousand by absorption as due of part of the deferred losses

> A capital increase of EUR 13,000 thousand (of which EUR 12,683 thousand was assigned to the share capital and EUR 317 thousand to share issue premium) by contributions in kind of receivables and exchanged for 3,170,731 shares without designation of face value. These contributions in kind were made by Sopal International SA in an amount of EUR 6,250 thousand (contribution of a subordinated loan, recorded in the financial liabilities as at 31 December 2004), by the Walloon Region represented by the Société Wallonne de Gestion et Participation SA in an amount of EUR 5,000 thousand and by the Spanish company Esindus SA in an amount of EUR 1,750 thousand. These last two contributions correspond to contributions of receivables with respect to Hamon & Co (International) SA, previously bought from the Belgian subsidiary company, Hamon Thermal Europe SA, of which the balance of EUR 750 thousand still has to be paid.

On 22 December 2005, the Group proceeded with:

> A capital increase of EUR 465 thousand by incorporation as duly agreed of the share premiums without new contribution and creation of certificates and

> A capital decrease in the amount of EUR 22,200 thousand by absorption as duly agreed of part of the deferred losses.

The capital and the number of shares are presented as follows:

	2005	2004
Number of shares as at 31 December	5,874,310	2,703,579
Value of the subscribed capital (in EUR)	1,762,293	43,700,000
Value per share (in EUR per share)	0.30	16.16

The general shareholders meeting of 13 June 2005 authorized the Board of Directors to proceed, during a five-year period, with capital increases, in an amount of EUR 12,500 thousand on one or more occasions under the conditions required by the legal provisions, in accordance with the conditions to be established by the Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

21. Provisions for pensions

The provisions for pensions represented EUR 2,103 thousand as at 31 December 2005 (EUR 2,091 thousands as at 31 December 2004). They consist mainly of post-employment benefits in line with local practices.

in EUR '000'	**Provision for pension plan**	**Provision for retirement lumpsum**	**Other long term benefits**	**Total**
As at 1 January 2005	1,957	62	72	2,091
Additions	53			53
Reversals	(43)	(12)	(5)	(60)
Utilisation	(81)			(81)
Disposals				
Others	73		27	100
As at 31 December 2005	1,959	50	94	2,103
of which short term provisions				
of which defined benefit plan net obligation	1,959			1,959

The post-employment benefit plans are categorised as defined contribution plans and defined benefit plans.

- Defined contribution pension plans are plans for which the company pays determined contributions to a separate entity in accordance with the plan's provisions. Other than the payment of the contributions, there is no additional obligation for the Group. The contributions paid for these plans in 2005 amounted to EUR 560 thousand (EUR 572 thousand in 2004). These plans are mainly offered by the Hamon Group's Belgian, German, British and South African companies
- The defined benefit pension plans involve the inclusion in the accounts of the company's obligations to its staff. These plans are granted by the French and Korean companies. The net obligations rising from these plans and their variations are the subject of an actuarial calculation that is annually reviewed. The amounts entered in the result for these plans amounted to:

in EUR '000'	**31/12/05**	**31/12/04**
Service cost: employer	104	112
Interest cost	81	83
Amortisation of actuarial net losses/(gains)	(10)	(16)
Losses/(gains) on curtailments/ settlements	(236)	
Net expense recognised - defined benefit plans	(61)	179

The charge is posted in sale and marketing costs, general and administrative costs, research and development costs and other operating income (expenses).

Overall, the net charge has strongly decreased because the restructuring of certain subsidiary companies has involved staff reductions. Indeed, 364 members of staff were covered by these restructuring plans in 2004 as compared to 311 in 2005.

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

The amounts in the balance sheet for the defined benefit plans are presented as follows:

in EUR '000'	**31/12/05**	**31/12/04**
Funded plans - defined benefit obligations		
Fair value of plan assets (-)		
Deficit of funded plans		
Unfunded plans - defined benefit obligations	1,959	1,957
Deficit	**1,959**	**1 957**
Unrecognised actuarial gain/(losses)		
Unrecognised past service cost		
Amount not recognised as asset due to asset ceiling		
Net liability/(asset) in the balance sheet	**1,959**	**1,957**
Liability recognised in the balance sheet	1,959	1,957
Asset recognised in the balance sheet (-)		

The obligations are not financed by assets in the Group's accounts.

The net obligations have not significantly varied in comparison with last year. The actuarial gains and losses (not very significant) are directly carried into the Income Statement.

The movements of the net obligations for FY 2005 and FY 2004 are presented as follows:

in EUR '000'	**31/12/05**	**31/12/04**
Net amount as at beginning of period	1,957	1,793
Net expense - defined benefit plan	(61)	179
Company contributions and direct benefit payments	(10)	(37)
Others	73	22
Net amount as at end of period	**1,959**	**1,957**

in EUR '000'	**31/12/05**	**31/12/04**
Defined benefit obligation as at beginning of period	1,957	1,793
Service cost: employer	104	112
Interest cost	81	83
Curtailments/settlements	(236)	
Actuarial loss (gain)	(10)	(16)
Actual benefits paid	(10)	(37)
Others	73	22
Defined benefit obligation as at end of period	**1,959**	**1,957**

The other charges/income come primarily from the exchange difference on the net obligations.

The actuarial assumptions used for the evaluation of the obligations and their movements are included in the following values:

	31/12/05	**31/12/04**
Discount rate	3.6%-5%	3.6%-5%
Expected future salary increase rate	2%-5%	2%-5%

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

22. Provisions

in EUR '000'	Restructuring	Warranty provision	Tax litigation	Losses on contracts	Other provisions	Total
For the year ended as at 31 December 2004	**2,209**	**1,101**	**641**	**564**	**6,558**	**11,073**
Additions	836	355	125	334	878	2,528
Reversals		(349)	(82)	(19)	(64)	(514)
Utilisation of provision	(1,181)	(540)	(380)	(234)	(1,011)	(3,346)
Exchange difference		64	30	3	7	104
Other movements		(94)		94		
Balance as at 31 December 2005	**1,864**	**537**	**334**	**742**	**6,368**	**9 845**
Non-current liabilities	1,784			227	4,155	6,166
Current liabilitiess	80	537	334	515	2,213	3,679
	1,864	**537**	**334**	**742**	**6,368**	**9,845**

The provisions for restructuring, warranty, tax litigation, losses on contracts and others are posted and priced on the basis of an estimate of the probability of the future liquidity payouts as well as on historical data founded on facts and circumstances known at the closing date. The actual charge may differ from the posted amounts.

The "provisions for restructuring" relate to entities located in Belgium and France where the restructuring plans of these entities are still in progress.

The "other provisions" essentially concern provisions relating to the disposal and closure of our Italian activities (EUR 4,832 thousand as at 31 December 2005 as against EUR 5,831 thousand as at 31 December 2004). The Board of Directors is of the view that this amount constitutes the best possible current estimate and that the Group will not have to record any additional charge in consideration of the results of the liquidation completion.

23. Borrowings

in EUR '000'	31/12/2005	31/12/2004
Subordinated loans		6,250
Bank borrowings	65,809	67,200
Commitments to FBM banks	7,155	
Bank overdrafts	6,454	4,105
Sub-total bank borrowings	79,418	71,305
Other financial commitments	2,371	1,335
Obligations under finance lease	5,120	4,792
Sub-total other borrowings	7,491	6,127
	86,909	**83,682**
Of which:		
- Amount due for settlement within the year	80,072	73,318
- Amount due for settlement in the 2nd year	3,522	6,838
- Amount due for settlement in the 3rd year	664	596
- Amount due for settlement in the 4th year	596	455
- Amount due for settlement in the 5th year and after	2,055	2,475
Sub-total non-current:	6,837	10,364
	86,909	**83,682**

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

Borrowings "in EUR 000" due for settlement within the year in:		
- EUR	72,936	65,861
- USD	5,951	6,045
- Others	1,185	1,412
Non-current borrowings in:		
- EUR	2,806	8,463
- USD	4,031	1,901
- Others		

In the context of the agreement signed in June 2005 with the Group's principal bankers forming a pool, Hamon had obtained a reduction of the credit charges on the one hand and an agreement for re-scheduling the repayment of the principal on the other, with each year a ceiling of 25% of the free cash flow generated by the Group during the previous financial year. In exchange, Hamon undertook to set up a package of securities in favour of those same bankers, thereby making their debt "senior". The securities concerned related on the one hand to the shares held by Hamon & Cie in its significant subsidiary companies and, on the other, to the business assets of the subsidiary companies that were calling upon the pool's credit lines. All of these securities were put in place between June 2005 and April 2006.

During the second half of 2005, Hamon and its bankers continued to work to simplify the structure of the debt, which resulted in:

> The early repayment of high cost debts by self generated funds
> The reworking of the respective portions of the pool's bankers of the pool, without any impact on Hamon
> The formalisation of an agreement for the repayment of the last major non-pool bankers by the means of new credits granted by the Pool to the Group
> An agreement on the level of compensation for FBM's bankers benefiting from comfort letters.

The Hamon Group signed at the beginning of April 2006 a subordinated mezzanine financing agreement with one of the pool's bankers for an amount of EUR 11 million. This borrowing has been used to compensate the bankers for FBM which benefited from the Group's comfort letters in an amount of EUR 7 million and to refund bank overdrafts in an amount of EUR 3 million. This mezzanine debt falls due in the fourth quarter of 2006.

The repayment of the bank overdrafts noted above and the issuance of the securities based on its credits have enabled the Group to meet all of the conditions attached to its debt. Consequently, 60.6 of the EUR 80.1 million included as falling due within the year will actually only fall due during future financial years within the limit of 25% of the free cash flows achieved by the Group.

Lastly, Hamon is working with its bankers to redefine the structure of its financing in order to optimise its cost for the Group.

Description of the conditions attached to the debts:

Hamon's debt is accompanied by usual conditions relating to:

> The setting-up of securities on the Group's assets
> The absence of asset pledges in favour of third parties
> The absence of major investments or divestments
> The supply of regular financial information
> The non-occurrence of "MAC" – Material Adverse Changes – or elements with a significant negative influence

The average interest rate of the debt was 5.69% in 2005 against 5.1% in 2004. Hamon's debt – with the exception of the leasing debts – is subject to variable interest.

As at 31 December 2005, Hamon's credit lines were fully drawn. On the other hand, the available cash amounted to EUR 20 million.

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

24. Trade and other payables

in EUR '000'	31/12/05	31/12/04
Trade payables	58,345	44,429
Amounts due to related parties	2,209	2,910
Advances received for contract works	242	1,364
Social security and other payables	11,012	10,037
Other current liabilities	3,927	2,964
Accruals and deferred income	3,594	1,867
	79,329	**63,571**

The Hamon Group companies receive on average between 30 and 60 days of credit from their suppliers. The Board of Directors considers that the nominal value of the commercial debts is close to their fair value.

25. Finance lease and simple rental commitments

A. Finance lease agreements

The main finance lease agreements relate to lands and buildings in France and North America, denominated respectively in euro and dollar. Other less important agreements exist for vehicles and office equipment.

The Group's commitments as regards finance leases for future years can be summarised as follows:

As at 31 December 2005, the average weighted remaining term of the finance lease obligations was 7.6 years. The average weighted interest rate of these obligations was 5.52%. The fair value of these finance lease debts is close to their nominal value.

B. Simple rental agreements

The Group's commitments as regards simple rental agreements for future years can be presented as follows:

in EUR '000'	31/12/05	31/12/04
Minimum lease payments under operating leases recognised as an expense in the year	3,886	4,691
Minimum lease payments due for operating		
- within one year	2,494	2,787
- in the second to fifth years inclusive	6,050	7,267
- after five years	2,600	3,488
	11,144	**13,542**

The simple rental agreements relate mainly to the offices but also to a lesser extent materials and tools for building sites, vehicles, machines and office equipment (photocopiers).

in EUR '000'	Minimum lease payments		Present value of minimum lease payments	
	31/12/05	31/12/04	31/12/05	31/12/04
Amounts due for finance leases				
- within one year	792	820	561	601
- in the second to fifth years inclusive	2,770	2,505	2,176	1,948
- after 5 years	1,829	2,104	1,562	1,779
	5,391	**5,429**	**4,299**	**4,328**
Less: future finance charges	(1,092)	(1,101)	N/A	N/A
Present value of lease obligations	**4,299**	**4,328**	**4,299**	**4,328**
Less: Amounts due for settlement within 12 months			(561)	(601)
Amount due for settlement after 12 months			**3,738**	**3,727**

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

26. Commitments

In the context of its activities, the Group is required to issue guarantees in favour of certain of its customers relating to the repayment of advance payments, the proper execution of the contracts and technical warranty obligations.

Some of these commitments are the subject of bank guarantees or insurance policies issued on the Group's credit lines:

in EUR '000'	31/12/2005	21/12/2004
Bank guarantees	35,990	37,920
Insurance guarantees	57,481	61,782
	93,471	99,702

In addition, the Group has guaranteed commitments with respect to companies sold in 2005 (FBM), insolvent (HRCI) or associated companies as follows:

in EUR '000'	31/12/2005	21/12/2004
Commitment of good project execution	31,003	33,264
Comfort letters to banks	9,036	41,893
Comfort letters to suppliers	4,080	8,994
	44,119	84,151

Commitments where the Group estimates that it is probable that they will give rise to payouts on their part were registered as such as liabilities as at 31 December 2005 and 2004. The admission of these liabilities (particularly with respect to FBM's bankers) explains the reduction of these off-balance sheet commitments.

27. Possible liabilities

SPX

At the end of 2003, at the time of the disposal of its worldwide dry cooling and North American wet cooling activities, Hamon agreed that SPX should retain by way of guarantee of the commitments entered into by Hamon:

- A Closing Statement Holdback
- A Transaction Holdback of EUR 5 million, introduced under the "Trade And Other Receivables – Non- Current" heading – in the consolidated Balance Sheet as at 31 December 2004 and 2005

The Closing Statement Holdback was paid during 2004.

Mid-December 2004, SPX filed a complaint, just before the contractual instalment of the payment of 50% of the Transaction Holdback. This complaint has been reviewed with our lawyers, and we have disputed both the substance of the arguments and the amount of the prejudice supposedly suffered by SPX. In addition, Hamon has filed a complaint with SPX for unfair commercial practice, mainly for use of the Hamon name beyond the compass of the restrictive licence that had been granted to SPX for 5 years.

In view of the non-payment of the holdback, Hamon initiated arbitration proceedings in May 2005. Mid-December 2005, SPX sent a letter by which it refused to pay the second contractual instalment of the payment of the Transaction Holdback, following the complaint that it had filed in December 2004.

The arbitration proceedings should take place mid 2006. On the basis of opinion obtained from its advisors, the Hamon Group is confident that the Transaction Holdback will be recovered entirely.

Other litigation

The nature of the Group's activities leads us to file/receive complaints about/from our customers and our suppliers.

The complaints are covered by specific provisions as from the moment when it is probable that they will give rise to payouts and where their amount can be reliably estimated.

The Group believes that it has covered all of its potential litigation risks.

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

28. Related parties

The Group's ultimate parent company is Sopal International SA which as at 31 December 2005 owned 65.9% the Group (80.06% as at 31 December 2004). The structure of the shareholding as at 31 December 2005 was as follows:

Sopal International SA	65.9%
Eco Services Capital (French company)	2.8%
Walloon Region, represented by the Société Wallone de Gestion et de Participation SA	20.8%
Esindus S.A. (Spanish company)	4.2%
Public	6.3%

Transactions between the Company and its subsidiaries, which are parties connected to the Company, have been eliminated in consolidation and are not included in this note.

Details of the transactions between the Company and the other connected parties are mentioned below:

INCOME STATEMENT as at 31 Decembre 2005 *in EUR '000'*

	Purchases				Revenue			Financial		
	of goods	of services	lease of assets	management fees	Goods	Services	Royalties	Expenses	Income	Dividends
Controlling shareholder and other entities directly and indirectly controlled by the controlling shareholder			704	33	655			427		
Other shareholders with significant influence	2,327			37	811		213			
Société Wallonne de Gestion et de Participation SA										
Esindus S.A.										
Associates	278				892	102		67	11	119
Other related parties										

BALANCE SHEET as at 31 December 2005 *in EUR '000'*

	Non-current assets	Current assets	Current liabilities
Controlling shareholder and other entities directly and indirectly controlled by the controlling shareholder		393	1 178
Other shareholders with significant influence		1,252	105
Société Wallonne de Gestion et de Participation SA			
Esindus S.A.			
Associates	38	3,556	1,078
Other related parties			

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

INCOME STATEMENT as at 31 Decembre 2004 *in EUR '000'*

	Purchase			Revenue			Financial		
	of goods	of services	lease of assets	Goods	Services	Royalties	Expenses	Income	Dividends
Controlling shareholder and other entities directly and indirectly controlled by the controlling shareholder	23		696	743			575		
Other shareholders with significant influence		10		704		337			
Société Wallonne de Gestion et et de Participation SA									
Esindus S.A.									
Associates	533	129		1,614	365		318	3	100
Other related parties								2	

BALANCE SHEET as at 31 December 2004 *in EUR '000'*

	Non-current assets	Current assets	Non current liabilities	Current liabilities
Controlling shareholder and other entities directly and indirectly controlled by the controlling shareholder		122	6,250	514
Other shareholders with significant influence		143		10
Société Wallonne de Gestion et de Participation SA				
Esindus S.A.				
Associates	33	2,833		2,358
Other related parties		58		

In 2005, no write-down has been enacted on receivables with respect to connected parties (zero in 2004).

The other entities directly or indirectly controlled by the controlling shareholder of control include the following companies:

- Gefimco SA
- Cogim NV
- Promo Services (Belgium) SA

Relations with the related parties include:

- Commercial relations (provisions of remunerated services, payment of "management fees" to the shareholders, renting of buildings)
- Financial relations (mainly payments of commission on pledges and the granting of interest-bearing loans).

The Group has not issued any off-balance sheet guarantees or commitments relating to the connected parties apart from commitments to associated companies, included under Note 13.

The purchasing and selling of goods from and to these connected parties are carried out under the Group's usual terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS *(cntn'd)*

29. Manager compensation

Detailed in the table below is the compensation (accumulated and including charges) of the Managing Director and the Management Team, who must be regarded as the "Main Leaders" within the meaning of the IAS 24 definition. (These amounts include the social security charges borne by the employer).

in EUR '000'	2005	2004
Short term benefits		
- Fixed remuneration	1,769	1,672
- Variable remuneration	953	641
	2,722	2,313
Long term benefits	32	32
	2,754	2,345

This compensation is calculated on the basis of a complete year for the current members of the Management Committee.

Furthermore, the total of the gross emoluments that have been granted to the non-executive directors during the financial year amounted to EUR 32,500 (zero at the end of the previous financial year). These emoluments have been granted in accordance with the provisions (as for the total amount to be paid annually) adopted by the Annual General Meeting of the shareholders. There was no profit sharing allocation and the company has not granted any loans to the directors. The directors moreover have not carried out any unusual transactions with the Company.

The directors who are members of the expert committees receive attendance fees of EUR 1 000 per meeting.

30. Staff

The breakdown of the Group's average manpower by category is as follows (monthly average):

	2005	2004
Management	37	43
Employees	447	494
Workers	236	246
Total	**720**	**783**

The breakdown of the Group's average manpower by geographical area is as follows:

	2005	2004
Europe	424	466
USA	201	223
Australia & Asia	65	63
Africa	30	31
Total	**720**	**783**

The breakdown of the Group's average manpower by business unit is as follows:

	2005	2004
Cooling Systems	292	299
Heat Exchangers	160	196
Air Pollution Control Europe	48	46
Air Pollution Control USA	152	174
Chimneys	48	44
Corporate	20	24
Total	**720**	**783**

The staff charges/costs are distributed as follows:

in EUR '000'	2005	2004
Remuneration and direct social benefits	37,800	34,030
Employer's contribution for social security	8,534	9,655
Other personnel costs	4,413	3,841
	50,747	**47,526**

31. Events subsequent to the closing date

The Group has fulfilled the agreement, which had been made with the creditors and the curator of Rothemühle in 2003, fulfilment that definitively releases Hamon from this file.

The sale of the Italian Heat Exchangers BU to the Malaysian company KNM was finalised on 12 April 2006 by the payment to Hamon of the agreed price.
It was the last important part of the Hamon Group restructuring, started in August 2003.

XII. AUDITOR'S REPORT

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HAMON & CIE (INTERNATIONAL) SA

STATUTORY AUDITOR'S REPORT TO THE SHAREHOLDERS' MEETING ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(free translation of the original text in French)

To the Shareholders

As required by law and the company's articles of association, we are pleased to report to you on the audit assignment which you have entrusted to us.

We have audited the accompanying consolidated financial statements of HAMON & CIE (INTERNATIONAL) SA (the "company") and its subsidiaries (jointly the "group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium. Those consolidated financial statements comprise the consolidated balance sheet as at 31 December 2005, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet shows total assets of EUR 199,482 (000) and a consolidated profit (group share) for the year then ended of EUR 7,058 (000). We have also performed those specific additional audit procedures required by the Companies Code.

The Board of Directors of the company is responsible for the preparation of the consolidated financial statements and the directors' report on the consolidated financial statements, for the assessment of the information that should be included in the directors' report on the consolidated financial statements, and for the company's compliance with the requirements of the Companies Code and the articles of association.

Our audit of the consolidated financial statements was conducted in accordance with legal requirements and auditing standards applicable in Belgium, as issued by the "Institut des Reviseurs d'Entreprises/Instituut der Bedrijfsrevisoren".

The financial statements of several significant entities included in the scope of consolidation which represent total assets of EUR 37,431 (000) and a total loss of EUR 1,001 (000) have been audited by other auditors. Our opinion on the accompanying consolidated financial statements, insofar as it relates to the amounts contributed by those entities, is based solely upon the reports of those other auditors.

The consolidated financial statements for the year ended 31 December 2004, prepared in accordance with accounting principles, generally accepted in Belgium, have been audited by another Statutory Auditor who has issued on 20 May 2005 a "refusal to certify, justified by a disclaimer of opinion and an adverse opinion on the consolidated financial statements". Those financial statements have been restated as described in Note IX "Impact of the transition to IFRS" in order to make them compliant with International Financial Reporting Standards as adopted by the European Union. Our audit procedures on the 2004 figures presented in the accompanying consolidated financial statements were limited to the examination of the restatements recorded by the company.

AUDITOR'S REPORT *(cntn'd)*

Qualified audit opinion on the consolidated financial statements with explanatory paragraphs

The forementioned auditing standards require that we plan and perform our audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

In accordance with these standards, we considered the group's administrative and accounting organisation as well as its internal control processes. We have obtained the explanations and information required for our audit. We have examined, on a test basis, the evidence supporting the amounts in the consolidated financial statements. We have assessed the basis of the accounting methods used, the consolidation policies and significant estimates made by management as well as evaluating the presentation of the consolidated financial statements taken as a whole. We believe that our audit, together with the reports of other auditors on which we have relied, provides a reasonable basis for our opinion.

As mentioned in Note XI.8, the company has considered that the investment in its subsidiary FBM Hudson Italiana Spa ("FBM") qualified as a non-current asset held for sale since 2002. On this basis, the assets and liabilities of this subsidiary have been presented in the comparative balance sheet as at 31 December 2004 under the caption "non-current assets/liabilities held for sale" for EUR 85,525 (000) and EUR 81,680 (000), respectively. We are of the opinion that the criteria for an asset to qualify as a non-current asset per IFRS 5 "Non-current assets held for sale and discontinued operations" were not met as at 31 December 2004. Consequently, the assets and liabilities of this subsidiary should have been consolidated according to the global method in the comparative balance sheet as at 31 December 2004. Furthermore, the carrying value of the assets and liabilities of this subsidiary as well as its contribution to the consolidated results in the accounting years 2005 and 2004 (including the result on the disposal of this investment), presented under the caption "Net result of discontinued operations" for 12,232 (000) and EUR 8,556 (000), respectively, have been determined based on the statutory financial statements of FBM prepared in accordance with accounting principles generally accepted in Italy. If these values and contributions would have been determined based on International Financial Reporting Standards, the split of the losses incurred by this subsidiary between the accounting years 2005, 2004 and prior would have been different. However, there is no effect on the balance sheet, nor on the consolidated equity as at 31 December 2005.

In our opinion, and based, to the extent necessary upon the reports of other auditors, and except for the impact of the abovementioned remark on the presentation of the 2005 consolidated income statement, the consolidated financial statements give a true and fair view of the group's financial position as of 31 December 2005, and of its results and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Without further qualifying the opinion expressed in the preceding paragraph, we draw the attention to the following uncertainties:

- As mentioned in the directors' report on the consolidated financial statements and in Note XI.23, the consolidated financial statements have been prepared assuming that the group will be able to meet the commitments included in the agreements signed with its principal bankers or, if not, will be able to negotiate a rescheduling of the reimbursement of some of its liabilities, or, alternatively, to have access to alternative financing sources. Adjustments to the consolidated financial statements might be necessary if these assumptions were not realized.

- As mentioned in the directors' report on the consolidated financial statements and in Note XI.15, the consolidated balance sheet as at 31 December 2005 includes deferred tax assets recorded on accumulated tax losses for a total amount of EUR 15,306 (000). The realization of these assets will depend on the capacity of the group to realize taxable profit in accordance with its forecasts.

- As mentioned in the directors' report on the consolidated financial statements and in Note XI.27, the consolidated balance sheet as at 31 December 2005 still includes under the caption "Trade and other receivables – non-current"

AUDITOR'S REPORT *(cntn'd)*

Deloitte

a receivable of EUR 5,000 (000) resulting from the disposal in December 2003 of the dry cooling division of the group to SPX Corp. The recoverability of this receivable depends on the outcome of the legal procedures currently in progress, which cannot be determined as of the date of this report.

- As mentioned in directors' report on the consolidated financial statements and in Note XI.22, the consolidated balance sheet at 31 December 2005 includes a provision for liabilities and charges amounting to EUR 4,832 (000) in order to cover the exposures related to the subsidiary Hamon Research-Cottrell Italia Srl which has been put in liquidation in April 2005. The Board of Directors is of the opinion that the group will not have to record any additional charge in the frame of the closing of this liquidation.

Additional attestations

We supplement our report with the following attestations which do not modify our audit opinion on the consolidated financial statements:

- The directors' report on the consolidated financial statements includes the information required by law and is in agreement with the consolidated financial statements. However, we are unable to express an opinion on the description of the principle risks and uncertainties confronting the group, or on the status, future evolution, or significant influence of certain factors on its future development. We can, nevertheless, confirm that the information given is not in obvious contradiction with any information obtained in the context of our appointment.

15 May 2006

Le Commissaire

DELOITTE Reviseurs d'Entreprises
SC s.f.d. SCRL
The Statutory Auditor

XIII. STATUTORY ACCOUNTS OF HAMON & CIE (INTERNATIONAL) S.A.

Summarised balance sheet as at 31 December, after appropriation

The statutory accounts of the parent company, Hamon & Cie (International) S.A., are presented below in summary form. The Management Report and statutory accounts of Hamon & Cie (International) S.A., as well as the Audit Report, will, in accordance with Clauses 98, 100, 101 and 102 of the Companies Code published on 6 August 1999, be filed at the National Bank of Belgium once approved by the Annual General Meeting of shareholders of 30 May 2006.

These reports are available, on request, at the company's address: 2, Rue Emile Francqui, 1435 Mont-St-Guibert, Belgium.

The Auditor has certified, without qualification, the 2005 Annual Accounts of Hamon & Cie (International) S.A., with explanatory paragraphs.

in EUR '000'	**31/12/2005**	**31/12/2004**	**31/12/2003**
Fixed assets	**73,450**	**64,714**	**72,419**
I. Formation expenses	758	1,419	2,236
II. Intangible assets	795	1,846	3,008
III. Tangible assets	166	215	267
IV. Financial assets	71,731	61,234	66,909
Current assets	**13,425**	**28,634**	**27,515**
VII. Amounts receivable after one year	12,994	28,366	26,261
VIII. Short term deposits	15	15	15
IX. Cash at bank and in hands	386	97	1,112
X. Deferred charges and accrued income	30	156	127
Total assets	**86,875**	**93,348**	**99,935**
Equity	**1,018**	**374**	**14,796**
I. Capital	1,762	43,700	43,700
II. Share premium account	43	191	191
IV. Reserves	11,570	11,569	11,569
V. Profit carried forward	(12,357)	(55,086)	(40,664)
Provisions and deferred taxes	**4,270**	**44**	
Amounts payable	**81,587**	**92,930**	**85,139**
VIII. Amounts payable after one year	1,409	7,643	5,000
IX. Amounts payable within one year	79,812	85,154	80,072
X. Accrued charges and deferred income	366	133	67
Total liabilities and equity	**86,875**	**93,348**	**99,935**

STATUTORY ACCOUNTS OF HAMON & CIE (INTERNATIONAL) S.A. *(cntn'd)*

Summarised income statement as at 31 December

in EUR '000'	2005	2004	2003
I. Operating revenues	**5,658**	**4,765**	**6,411**
A. Turnover	5,658	4,765	6,160
C. Own work capitalised			
D. Other operating revenues			251
II. Operating expenses (-)	**6,055**	**6,737**	**8,964**
A. Cost of materials	64		
B. Services and other goods	2,158	2,932	4,411
C. Remuneration	2,006	1,984	2,663
D. Depreciation and amortisation	1,702	1,856	1,882
E. Decrease in amounts written off on stocks, contracts in progress and trade receivables	3	(92)	
F. Provisions for other liabilities and charges	42	44	
G. Other operating expenses	80	13	8
H. Operating expenses capitalised as restructuring costs			
III. Operating income	**(397)**	**(1,972)**	**(2,553)**
IV. Financial income	3,707	3,991	2,866
V. Financial expenses	(4,332)	(4,201)	(5,064)
VI. Net operating income before taxes	**(1,022)**	**(2,182)**	**(4,751)**
VII. Extraordinary income	6,494	1,818	5,428
VIII. Extraordinary expenses	(17,829)	(14,057)	(16,263)
IX. Net income before taxes	**(12,357)**	**(14,421)**	**(15,587)**
X. Income taxes			
XI. Net income	**(12,357)**	**(14,421)**	**(15,587)**

STATUTORY ACCOUNTS OF HAMON & CIE (INTERNATIONAL) S.A. *(cntn'd)*

The mission of Hamon & Cie (International) S.A. consists primarily of setting the Group strategy. The Company also appoints the management of the various Group companies, and assists them in the fields of human resources, financial management, treasury, obtaining financings, establishing budgets, data processing and marketing.

Comments

1. Main Events

Hamon & Cie (International) continued its activity of providing service and support for all the Group's subsidiary companies.

2005 proved to be a further year of transition.
The company recorded an important net loss of EUR 12,357 thousand, and completed its restructuring program started in 2003:

- Finished selling assets not forming part of the Group's key activities:
  - Put the Italian subsidiary company, Hamon Research Cottrell Italia Srl, into liquidation in April 2005;
  - Disposed of 100% of the Italian subsidiary company, FBM Hudson Italiana, in December 2005
- Completed the restructuring of the various subsidiary companies by the refocusing of the operations, the restructuring of the organisations and the reduction of the overheads
- Obtained additional means of financing through the capital increase of 13 June, 2005 in an amount of EUR 12,682 thousand
- Cemented an agreement with our Bankers enabling the Group to benefit from additional capacity for bank guarantees and to maintain credit lines already granted
- Added to the bottom line certain asset write-downs and write-offs for the benefit of certain of our subsidiary companies in order to support those entities
- Capital decrease and incorporation of reserves into capital at the end of December 2005.

Following these events, equity has risen from EUR 374 thousand at the end of 2004 to EUR 1,018 thousand as at 31 December 2005.

Please refer the Management Report of the consolidated accounts for a review of the results and events per key activity.

2. Results

Operating revenues amounted to EUR 5,658 thousand against EUR 4,765 thousand in 2004. This rise is explained by the growth of services rendered to our subsidiary companies.

The Company closed FY 2005 with an operating loss of EUR 397 thousand against EUR 1,972 thousand in 2004. This reduced loss is mainly explained by the reduced overheads (services and other goods).
Depreciation and amortisation, amounting to EUR 1,702 thousand, is decreasing but remains high.
It results from the annual depreciation charge of the restructuring projects within the Cooling Systems Business Unit.

The Company's net operating income before tax is a loss of EUR 1,022 thousand, a distinct improvement compared to 2004.

In terms of extraordinary result, the company has established a provision in its annual accounts intended to cover the risks relating to the liquidation of Hamon Research Cottrell Italia Srl (EUR 2 million). It has in addition recorded a loss relating to the sale of FBM Hudson Italiana Spa and for the compensation of its bankers who were beneficiaries of comfort letters (EUR 14.7 million), partially offset by a gain on the sale of the stake in our subsidiary company, Hamon Australia Pty Ltd, to another Group company (EUR 2.8 million) and by the income resulting from the bank debt renegotiations (EUR 3.5 million).

Following these extraordinary elements, the net loss for the financial year amounted to EUR 12,357 thousand against a loss of EUR 14,421 thousand in 2004.

STATUTORY ACCOUNTS OF HAMON & CIE (INTERNATIONAL) S.A. *(cntn'd)*

3. Balance Sheet

The balance sheet total as at 31 December 2005 was EUR 86,875 thousand.

Formation Expenses mainly represent the expenses incurred in the completion of a study performed by outside consultants. This study related to the reorganisation of the activities of the Cooling Systems Business Unit and of the Group's administrative and financial services. These expenses had already been recorded before 2002. Depreciation of these capitalised expenses is invoiced to the companies belonging to the Cooling Systems Business Unit, which has distinctly improved its profitability thanks to the measures taken during this reorganisation. *Formation Expenses* decreased from EUR 1,419 thousand to EUR 758 thousand following the depreciation recorded in 2005 and the capitalisation of the capital increase expenses.

Intangible Assets essentially represent the IT investments carried out for the purpose of remodelling the Group's IT landscape, particularly in the context of establishing integrated software. They went from EUR 1,846 thousand to EUR 758 thousand after depreciation.

Financial Assets went from EUR 61,234 thousand to EUR 71,731 thousand, following the sale of the stake held in FBM Hudson Italiana and from the reclassification of credits on associated companies seeking to provide sustainable support for the activity of our subsidiary companies in an amount of EUR 17,4 million.

Current Assets decreased from EUR 28,363 thousand to EUR 13,425 thousand as a result of lower loan levels with our subsidiary companies, due to cash pooling contracts in particular.

In *Liabilities and equity*, the capital has undergone some change (see Capital Statement) and amounts to EUR 1,762 thousand.

A provision for other liabilities and charges has been made to cover the consequences of the exit from the Italian subsidiary companies. As far as the company is aware, the balance of the provision is sufficient to cover the possible costs relating to the closure of the liquidation process.

Amounts payable after one year are decreasing, from EUR 7,643 thousand to EUR 1,409 thousand following the transfer into capital of the subordinate loan granted by the shareholder of reference SOPAL International SA in an amount of EUR 6,250 thousand. These debts consist of a loan granted by one of our subsidiary companies in an amount of EUR 1.4 million.

Amounts payable within one year year went down from EUR 85,154 thousand to EUR 79,812 thousand, mainly following a centralisation of the financial relations between our company and its subsidiaries.

The balance sheet includes a debt of EUR 1.2 million relating to the agreement made with the Official Receiver of the liquidation of the German subsidiary company, Hamon Rothemühle Cottrell Deutschland GMBH; this debt was paid at the beginning of 2006 in full settlement of all accounts between Hamon and the receivership, definitively closing this chapter for Hamon.

4. Post balance sheet events

Since the closing date of the accounts as at 31 December 2005, let us mention:

- The finalisation of the agreement reached with the Official Receiver of Hamon Rothemühle Cottrell GMBH which was implemented and paid in March 2006, without any additional charge for the company on the year 2006
- The collection of the disposal price of the shares held by our company in the Italian company FBM Hudson Italiana Spa to the Malayan company KNM which was carried out in April 2006, without any additional charge for the company on the year 2006
- The conclusion of a Mezzanine Finance of EUR 11 million for the purpose of refinancing the obligations taken with respect to the bankers of FBM and of paying off certain bank overdrafts.

5. Capital Statement

On 13 June 2005, the Company carried out a capital decrease in an amount of EUR 32,859 thousand and a capital increase of EUR 12,682 thousand (plus an issue premium of EUR 317 thousand), by conversion of EUR 6,250 thousand of subordinate loans held by Sopal International SA (shareholder of reference) and EUR 6.75 million of credits lately held by two new

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shareholders, the Walloon Region and the Spanish company, Esindus S.A.; within this framework, the company has issued 3,170,731 new shares.

On 22 December 2005, the Company proceeded with a reorganisation of its own capital and reserves by increasing its capital by EUR 465 thousand and by then reducing it by EUR 22,200 thousand.

As at 31 December 2005, the Company's capital amounted to EUR 1,762 thousand.

Details of the operations:

> Capital as at 1 January 2005	43,700,000
> Capital decrease of 13 June 2005	(32,885,684)
> Capital increase of 13 June 2005	12,682,924
> Capital increase of 22 December 2005	465 196
> Capital decrease of 22 December 2005	(22,200,143)
> Capital as at 31 December 2005	1,762,293

6. Result appropriation

The loss to be allocated, taking into account the loss carried-forward from the previous financial year and the capital operations implemented, amounts to EUR 12,357 thousand.

We are proposing not to distribute dividends to the shareholders and to carry the loss forward once again.

7. Maintaining the evaluation rules

Despite being in deficit from 2001 to 2005, which has led to a sizeable loss carried forward in the balance sheet, the Board of Directors has justified the application of the continuity accounting rules by the pursuit of the reorganisation plan put in place in 2002, centered on significant disposal of assets and by the announcement of the company's recapitalisation. Furthermore, excluding the extraordinary results, the company is developing positive operating cash flows and has refinanced its short-term obligations.

8. Future prospects

Positive results of the implemented reorganisations have been observed in 2005, with full effect in the results of many subsidiary companies involved in the Group's key activities. The overheads have been reduced and the operating results have distinctly improved.

2006 has started well: the order books are nicely full and new orders in the first quarter of 2006 are ahead of budget forecasts.

The Group should now benefit from the effects of the successful refocus on its activities with strong potential, enabling a better allocation of human and financial resources and the re-establishment of adequate balance sheet ratios in such a way as to lower the financial charges and to increase the financial profits in a sustainable manner.

9. Principal risks and uncertainties

The principal risks and uncertainties facing the company are those with which its subsidiaries are confronted. They can be summarised as follows:

- Competitive and market risks
- Risks relating the new environmental rules or to delays in their implementation
- Suppliers risks (incomplete or late products)
- Political risks (instability in the Middle East,…)
- Monetary risks, (fluctuations of the US dollar exchange rate, for example)
- Risk of error in the design or implementation of certain projects
- Risks relating to guarantees given on executed projects
- Other industrial risks (accidents) or human risks.

The Company and its subsidiaries have always taken steps to control these risks as effectively as possible, for example by a policy of active risk management at the project and production level.

10. Use of financial instruments

Hamon & Cie (International) SA does not use any particular financial instruments such as derivatives, swaps, futures or options for covering its risks.

11. Miscellaneous

Hamon & Cie (International) SA has no branch.

It incurred no Research & Development expenditure in 2005.

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During the financial year under review, additional fees amounting to a total of EUR 87,195 were received by the Auditor and its network, and break down as follows:

> Assistance in the context of IFRS conversion: EUR 81,420
> Report on the contribution in kind: EUR 5,775.

The Board of Directors of Hamon & Cie (International) S.A is proposing to the Annual General Meeting of Shareholders that it approves the accounts as at 31 December 2005 and agrees to the allocation of the result.

HOW TO CONTACT US ?

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