Beter Bed Holding

Annual Report 2006

Beter Bed Holding NV Annual Report 2006

Profile

Beter Bed operates in the European bedroom furnishings market. Its activities include retail trade through a total of 839 stores that operate via the chains Beter Bed (active in the Netherlands), Matratzen Concord (active in the Netherlands, Germany, Austria and Switzerland), El Gigante del Colchón (active in Spain), BeddenReus, Dormaël and Slaapgenoten (all three active in the Netherlands) and MAV (active in Germany). Beter Bed Holding is also active in the field of developing and wholesaling branded products in the bedroom furnishings sector in the Netherlands, Belgium and Germany via its subsidiary DBC International. Beter Bed Holding achieved net revenue of € 320 million in 2006. The company has been listed on the Eurolist of Euronext Amsterdam since December 1996 and forms part of the NextPrime segment. The Beter Bed Holding share is included in the Amsterdam Small-cap Index.

For more information visit www.beterbedholding.com

Een Nederlandstalige versie van dit jaarverslag is ook beschikbaar.

Beter Bed Holding

Annual Report 2006

Contents

Key figures

at 31 December, in € thousand, unless otherwise stated

	2006		2005	
Revenue	320,017		287,136	
Gross profit	171,024	53.4%	152,619	53.2%
Total operating expenses	136,543	42.7%	127,934	44.6%
Operating profit (EBIT)	34,481	10.8%	24,685	8.6%
Net profit	23,830	7.4%	15,637	5.4%
Average number of outstanding shares (in 1,000 of shares)	21,643		21,642	
Earnings per share €*	1.10		0.72	
Diluted earnings per share €*	1.09		0.72	
Share price in € at year-end €*	19.30		12.64	
Solvency (%)	51.5		46.3	
Interest cover	54.2		31.4	
Number of staff at year-end (FTE)	1,810		1,721	
Number of retail stores at year-end	839		775	

* the data for 2005 have been recalculated following the share split in May 2006

Formulas

Matratzen Concord

This formula's core activity is selling mattresses, bed bases and bedroom textiles to consumers based on a cash & carry concept. The chain encompasses 696 stores with an average floor space of approximately 250 square metres. The stores are situated near consumers primarily at so-called C-locations in and around city centres. The collections feature an extremely favourable price-quality ratio and at each location customers can count on receiving professional and personalised advice. The product concepts developed within the company contribute considerably to the formula's success. The formula operates in Germany, Austria, Switzerland and the Netherlands. Matratzen Concord is the market leader in the German mattress market. The company's strategy is aimed at further expanding its European market leadership in the fragmented mattress specialist market.
Five stores were opened under the name MAV (Matratzen Abverkauf) in the final months of 2006. The stores and the collection are designed to communicate low prices. This concept is supported by the existing centralised organisation in Germany.

www.matratzen-concord.de
www.matrassenconcord.nl
www.mav-matratzen.de

Beter Bed

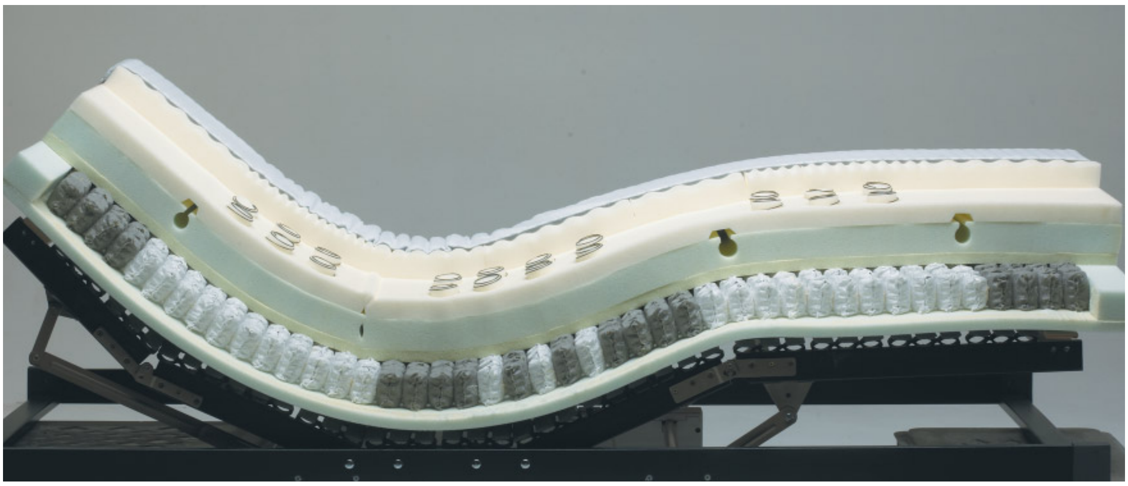
Beter Bed offers a chain of bedroom furniture showrooms in the middle of the market featuring an excellent price-quality ratio. Consumers order the items in the store which are then delivered and assembled at their homes. All the stores are located in the Netherlands, predominantly at "furniture boulevards" or in furniture store malls. In the stores, consumers can choose from a wide and up-to-date range of bedroom furnishings, mattresses, bed bases, bed textiles and other items at competitive prices. Beter Bed is market leader in the Netherlands and enjoys a high level of name recognition among consumers. Beter Bed's strategy is based on further strengthening its position in the Dutch market.

www.beterbed.nl

DBC

DBC was established in September 2001. It develops mattresses under the name M Line made of slow foam (i.e. "NASA" rubber). These mattresses feature unique pressure-reducing qualities and are sold both by Beter Bed and via third parties. The company has also developed a version especially for healthcare purposes. In 2003, an M LINE box spring was added to the range; a top design with a seven-zone pocket spring base that is only 8 cm high, combined with any M LINE mattress. Two mattresses were added to the product range in 2004: the M Line Slow Motion Basic mattress as 'starter model' and the new top model named M Line Slow Motion IV. The Multi Motion bed base that was developed especially for the M Line mattress was introduced to the market in the autumn of 2005. The M Line IV Tender Touch mattress was added to the range in 2006.

www.mline.nl



El Gigante del Colchón

Beter Bed acquired this Spanish chain on 1 September 2005. The company had 20 stores with an average of 400 m² of floor space at the time of acquisition. There were 32 stores at the end of 2006. The location strategy and the store image are comparable to those employed by Matratzen Concord. It is not, however, a cash & carry concept because Spanish beds are difficult to transport by private car. The products are consequently delivered to and assembled at consumers' homes.

www.gigantedelcolchon.com

Slaapgenoten/Dormaël Slaapkamers

This chain of seven own and two franchise stores focuses on the high end of the Dutch bedroom furniture specialist market. The stores are located at the better locations in the Netherlands and allow consumers to shop in attractive surroundings where they can choose from exclusive collections featuring numerous top brands. This is an innovative concept developed under own management that is designed for customers who want top quality.

www.slaapgenoten.nl

www.dormaelslaapkamers.nl

BeddenREUS

BeddenREUS is a discount cash & carry formula in the Netherlands. The stores are predominantly located at B and C locations and have average floor space of 600 m^2. There were 24 stores at the end of 2006 (end 2005: 23).

www.beddenreus.nl

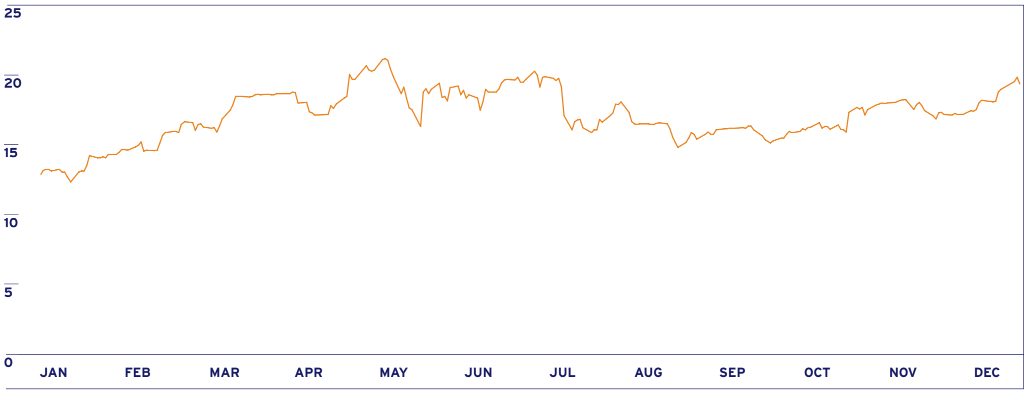
Number of stores

Formula		1 Jan 2006	Closed	Opened	31 Dec 2006
Matratzen Concord	Germany	571	32	81	620
	The Netherlands	24	2	5	27
	Austria	24	-	4	28
	Switzerland	20	-	1	21
Beter Bed	The Netherlands	79	4	3	78
El Gigante del Colchón	Spain	21	-	11	32
Slaapgenoten/Dormaël	The Netherlands	7	1	3	9
BeddenREUS	The Netherlands	23	1	2	24
WasserbettenDiscount	Germany	6	6	-	-
Total		**775**	**46**	**110**	**839**

Share information

The shares in Beter Bed Holding N.V. are quoted on the Official Market of Euronext N.V. in Amsterdam under security code 033970. The share was split on 8 May 2006 in a ratio of 2.5 new shares for one old share. The number of shares outstanding at the end of 2006 totalled 21,642,617. The number of shares outstanding was unchanged during 2006. The average number of shares outstanding totalled 21,642,617. The number of shares used to calculate the diluted earnings per share is equal to 21,952,777. Earnings per share for 2006 total € 1.10 compared to € 0.72 in 2005. The diluted earnings per share in 2006 were € 1.09 compared to € 0.72 in 2005.

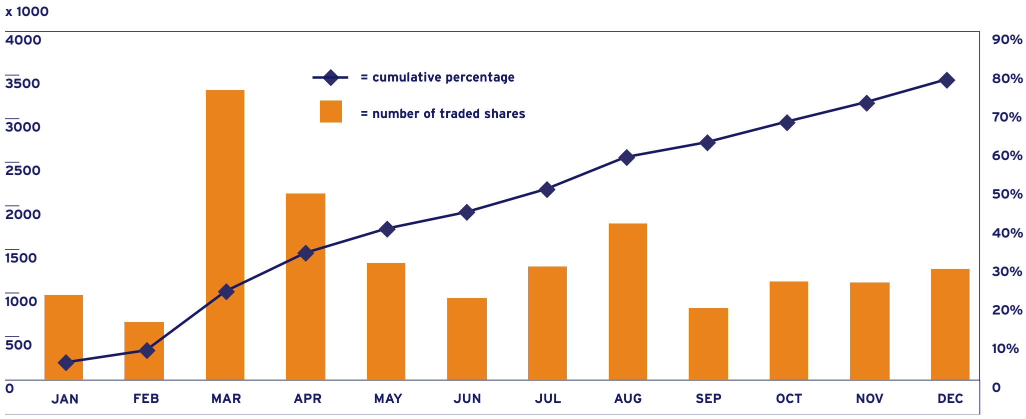
Share price development 2006 (€)



Trade volumes

Three liquidity providers operated on behalf of the Beter Bed share in 2006, namely SNS Securities N.V., ABN AMRO N.V. and Rabo Securities N.V.

The following table shows the number of shares traded per month (via the Euronext order system) and the cumulative percentage of the shares outstanding (as at 1 January) that were traded in 2006. On the basis of the trading volume in 2006, shares in Beter Bed Holding N.V. will be included in the Small Cap Index of Euronext, in Amsterdam (AScX), in 2007.



Major Holdings in Listed Companies Disclosure Act

The following holdings as of year-end 2006 have been made public in compliance with the Major Holdings in Listed Companies Disclosure Act:

Breedinvest B.V., Laren, NL	12.8%
Delta Deelnemingen Fonds, Gouda, NL	11.6%
Kempen Capital Management N.V., Amsterdam, NL	11.3%
Aviva Plc, London, UK	7.6%
Driessen Beleggingen B.V., Limmen, NL	5.7%
Todlin N.V., Maarsbergen, NL	5.2%

Options

Options for shares to be issued have been provided with a view to further enhancing the involvement and motivation of the Management Board and the management. In total 212,500 options were awarded to the Management Board and to the management in the year under review. The options can be exercised from the publication of the annual results for 2008 (expected in March 2009) and only if a net profit of € 27.5 million is achieved in at least one year of the validity period. The exercise period will end on 27 October 2012.

The following option series were outstanding at the end of the year (the details have been adjusted in line with the share split of 8 May):

Year of issue	Management Board	Management	Exercise price in €	Duration up to and inclusive
2003	75,000	87,500	3.40	31-10-2010
2004	75,000	100,000	5.90	29-10-2011
2005	75,000	102,500	10.71	28-10-2011
2006	75,000	137,500	17.08	27-10-2012

Insider regulations

The company has ratified insider trading regulations. These regulations were changed in accordance with the amended legislation in 2005. The new regulations went into force on 1 September 2005. The persons subject to these regulations have provided written confirmation that they shall fully adhere to the regulations. The regulations are available on the Beter Bed Holding website.

Financial calendar 2007

The calendar for 2007 is as follows:

19 January 2007	Publication of 4th quarter 2006 trading statement
9 March 2007	Publication of annual results 2006
9 March 2007	Analysts' meeting annual results 2006
25 April 2007	Publication of 1st quarter 2007 results
25 April 2007	Annual General Meeting of Shareholders
13 July 2007	Publication of 2nd quarter 2007 trading statement
24 August 2007	Publication of half-year results 2007
24 August 2007	Analysts' meeting half-year results 2007
26 October 2007	Publication of 3rd quarter 2007 results
18 January 2008	Publication of 4th quarter 2007 trading statement

The current financial calendar is available on the Beter Bed Holding website **www.beterbedholding.com**

Supervisory Board

Supervisory Directors are appointed for a period that expires on the day of the first Annual General Meeting of Shareholders that is held four years after their appointment. Board members step down periodically according to a schedule drawn up by the Supervisory Board. The following curricula vitae provide an overview of the other supervisory directorships that are held by the members of the Supervisory Board.

The Supervisory Board has the following members: M.J.N.M. van Seggelen (Chairman), E.F. van Veen (Vice Chairman), C.A.S.M. Renders and J. Blokker.
All the Supervisory Directors have the Dutch nationality.

The retirement by rotation schedule is as follows:

Supervisory Director	Appointed/Reappointed	Retirement/Reappointment
M.J.N.M. van Seggelen	26 April 2006	AGM 2010
E.F. van Veen	24 April 2003	AGM 2007
C.A.S.M. Renders	27 April 2005	AGM 2009
J. Blokker	26 April 2006	AGM 2010

Mr J. Blokker was appointed for the first time in June 2002. The other members of the Supervisory Board have held their positions since the stock market flotation at the end of 1996.

Curriculum Vitae

M.J.N.M. van Seggelen (1939)
Mr Van Seggelen studied economics at Basel University, Switzerland and began his professional career at an international institution for applied economic studies.
He subsequently held management positions at consumer goods production and trading companies.

For the past 20 years, he has worked as a director for retail businesses in the non-food sector. He was Chairman of the Board of Directors of RetailNet, Gouda, and a member of the Board of Directors of N.V. Koninklijke Bijenkorf Beheer and ACF Holding N.V.

Mr Van Seggelen also holds supervisory directorships at Deen Supermarkt B.V. (until 1 January 2007), Pearle Europe B.V., Valenbrecht Beheer B.V., Todlin N.V. and Fleurop Interflora Nederland B.V. He is furthermore a member of the Board of the "Stichting Retail Jaarprijs" (Annual Retail Award Foundation).

Curriculum Vitae

E.F. van Veen (1939)

Mr Van Veen graduated with a degree in business economics from Erasmus University in Rotterdam in 1967. He began his career at Thomassen & Drijver Verblifa N.V. in Deventer, where he held various financial and commercial management positions.
From 1973 to 1998 he was successively Corporate Controller, Group Director, Corporate Director Financing & Controlling (CFO) and Vice President of Royal Numico N.V.

He also holds supervisory directorships at Docdata N.V. (Chairman), Blokker Holding B.V. and Nabuurs Groep Haps B.V. He is a member of the Board of Directors of the Stichting Administratiekantoor CSM and a member of the Supervisory Board of Leiden University Medical Centre (LUMC).

Curriculum Vitae

C.A.S.M. Renders (1962)

Mr Renders has been the director-owner of Renders Management B.V. since 1988. After earning a degree in commercial law in Leiden and successfully completing the Simon School-Erasmus MBA programme in Rotterdam/Rochester, Mr Renders began his career as a consultant in 1986.

Mr Renders holds various supervisory directorships, at a few closely-held companies.

Curriculum Vitae

J. Blokker (1942)

Mr Blokker is Chairman of the Board of Directors of Blokker Holding B.V.
He is also a Supervisory Director at Van Haren Schoenen B.V.

Management Board

The Management Board of Beter Bed Holding is formed by Mr F.J.H. Geelen, Chief Executive Officer, and Mr E.J. van der Woude, Chief Financial Officer.

Curriculum Vitae

F.J.H. Geelen (1955)
Frans Geelen holds a masters degree in business economics from Erasmus University in Rotterdam and a masters degree in law from Leiden University.

He began his career in 1979 at Koninklijke Bijenkorf Beheer.

He joined Intercena in 1982 where he held various positions at companies belonging to the Brenninkmeijer family. He was appointed managing director of Intercena in 1992.

In 1996 he joined the Executive Board of C&A Europe.

Frans Geelen joined Beter Bed Holding N.V. on 1 September 2000 in the position of Chief Operating Officer and on 1 January 2001 he was appointed to the position of Chairman of the Management Board/Chief Executive Officer.

Curriculum Vitae

E.J. van der Woude (1959)
Ric van der Woude studied business economics at the Vrije Universiteit in Amsterdam.

He began his career in 1984 at Esso Benelux.

In 1990 he joined C&A Nederland where he held various financial and administrative positions. In 1998 he was appointed CFO of European Specialty Stores, a holding that comprises smaller retail companies owned by the Brenninkmeijer family in Europe.

He joined Beter Bed Holding N.V. on 1 January 2002 and, as the company's Chief Financial Officer, was appointed to the position of statutory director of Beter Bed Holding effective 1 May 2004.

Corporate Governance

The Management Board and the Supervisory Board subscribe to the principles for good corporate governance as laid down in the Dutch Corporate Governance Code. The company's website www.beterbedholding.com gives a full overview of all the best practice provisions and whether or not the company complies with these individual provisions. This section provides an explanation of the best practice provisions that the company does not comply with (entirely) and the reasons for deciding not to comply. These departures from the code were approved by the Annual General Meeting of Shareholders on 26 April 2006. The code also includes a number of provisions that do not apply to Beter Bed. These provisions relate to a one-tier management structure, certification of shares and the responsibility of institutional investors.

Best practice II.1.1.

The contracts that had already been entered into with the Management Board members (at the time of the publication of the code) have not been revised with a view to possible labour law issues related to the four-year appointment period. All new Management Board members will, however, be subject to this provision.

Best practice II.1.3.

The company has an internal risk management and control system in place that is suitable for the company. A separate code of conduct has not, however, been developed due to the size of the company.

Best practice II.2.6.

Trading in shares other than those issued by the own company is considered to be a private matter of the related Management Board member. There are consequently no regulations within the company regarding trading in shares other than those issued by the own company.

Best practice II.2.7.

No contractual agreements regarding remuneration in the event of dismissal of Management Board members have been entered into. Existing contracts (at the time of publication of the code) will not be revised with respect to this point.

Best practice III.6.7.

Possibly combining a management task with a position on the Supervisory Board on a temporary basis is not considered to be problematic, if such a combination is required by the circumstances.

Best practice III.7.3.

Trading in shares other than those issued by the own company is considered to be a private matter of the related Supervisory Director. There are consequently no regulations within the company regarding trading in shares other than those issued by the own company.

Best practice IV.3.1.

Webcasting will not be used to broadcast analysts' meetings and other meetings for the time being due to cost considerations. The dates of the meetings with analysts will be published on the website in advance and the information will be made available on the website following the meeting.

Best practice IV.3.7.

A shareholders circular will only be used in exceptional cases because the notes enclosed with the agenda for the Annual General Meeting generally provide sufficient information.

Best practice V.3.1.

Beter Bed Holding does not have an internal auditor due to its size.

Report of the Supervisory Board

We are pleased to present the financial statements of Beter Bed Holding N.V. for the financial year 2006 and the report of the Management Board.

The financial statements have been compiled by the Management Board and have been audited and approved by our auditor Ernst & Young Accountants. The report provided by Ernst & Young Accountants is included on page 52 of this annual report. We have discussed the financial statements extensively in the presence of the Management Board and Ernst & Young auditors. The Supervisory Board has approved the financial statements and recommends that the Annual General Meeting of Shareholders approves these financial statements accordingly. Approval will discharge the Management Board of responsibility in respect of their management during 2006 and the Supervisory Board of responsibility in respect of their supervision.

The Supervisory Board has been pleased with the company's performance in 2006. The company was once again able to achieve a sharp improvement in profit, primarily through the realisation of an increase in sales, an increase in gross margin and a further improvement in productivity and efficiency.

Following the announcement of the third quarter figures in October 2006, it was decided to pay out an interim dividend of € 0.25 per share. In accordance with the proposal of the Management Board, we recommend payment of a final dividend of € 0.65 per share. This means that 82% of the profits earned in 2006 will be paid to shareholders in keeping with the dividend policy that was approved by the Annual General Meeting of Shareholders on 27 April 2005 (see page 24 of this report).
The Supervisory Board was intensely involved in the developments of Beter Bed Holding and its subsidiaries in 2006. We met with the Management Board five times, including one meeting in Barcelona and one in Cologne. We also consulted with the Management Board via four conference calls. The Supervisory Board furthermore met on two occasions without the Management Board present.
The Management Board provided us with good information on a frequent basis, both verbally and in writing. The five meetings with the Management Board were properly prepared and allowed us to form a considered judgement regarding the company's commercial, operational, strategic and organisational developments. We, of course, furthermore devoted a great deal of attention to the development of the operational profit, the positioning of the retail formulas in the European markets and the company's strategy for the medium term.

The budget for 2007 was adopted at the meeting held on 14 December 2006. This budget includes both the company's operational and financial objectives and the strategy that it will follow in order to realise these objectives. Within this context we also gave our approval for the proposed investments. During our closed meetings we discussed topics including the performance and composition of our Supervisory Board, the performance of the Management Board and the terms of employment policy.

After receiving an explanation from its Audit Committee, the Supervisory Board discussed the updated risk inventory with the Management Board. We are convinced that the procedure regarding risk analysis, risk management and risk control and the audit conducted by the external auditor regarding the AO/IC provide sufficient security for the management statement concerning the operation of the system of risk control and risk management.

Audit Committee

The Audit Committee is comprised of Mr Van Veen (Chairman) and Mr Renders and meets at least twice a year. Mr Van Veen serves as the financial expert as defined in the code.
The committee dealt with a number of topics during the year under review including:

- Updating and managing the risk inventory conducted by the Management Board.
- The annual financial statements, the half-year figures and the external auditor's report.
- The Supervisory Board's nomination of Ernst & Young for the position of external auditor.

Remuneration Committee

The Remuneration Committee is comprised of Mr Renders (Chairman), Mr Van Veen and Mr Van Seggelen and meets at least twice a year. It advises the Supervisory Board regarding the drafting of the remuneration policy and the remuneration of the individual members of the Management Board.
The key points of the remuneration policy include:

- Fixed salaries at market level.
- A variable bonus of no more than 100% of the fixed salary.
- The bonus is largely dependent upon the operating profit (EBIT).
- The bonus award is left partially to the discretion of the Supervisory Board.
- Options for new shares to be issued are provided in order to promote the loyalty, commitment and motivation of the Management Board and the management teams in the long term.

The list of the directors' remuneration elements and the details of the awarded options can be found in the notes to the financial statements on page 44.
The company has not established a separate Selection and Appointment Committee due to its size.

Mr Van Seggelen and Mr Blokker were, upon nomination by the Supervisory Board, reappointed for a period of four years at the Annual General Meeting of Shareholders on 26 April 2006. The composition of the Supervisory Board fulfils the requirements stipulated by the Dutch Corporate Governance Code. Only Mr Blokker, due to his position as member of the Management Board of major shareholder Breedinvest B.V., is not independent.
Mr Van Veen will resign by rotation. He has made himself available for reappointment. This would be the third term for Mr Van Veen. The Supervisory Board recommends that the Annual General Meeting of Shareholders reappoint Mr Van Veen on grounds of his financial expertise, his experience as a Supervisory Director in the retail industry and the quality of his performance on our Board over the past years.
The Supervisory Board is convinced that the Supervisory Board will be balanced and properly composed with the reappointment of Mr Van Veen.

An amendment to the articles of association was approved at the Annual General Meeting of Shareholders on 27 April 2005. This amendment primarily concerns the elimination of the 'structure regime' in order to increase the influence of the shareholders.
The Supervisory Board is aware of the broad interests that the company represents and acknowledges its responsibility to all the company's stakeholders: shareholders, employees, customers, suppliers and financiers. Within this context we wish to refer you to the www.beterbedholding.com website that contains all the company's current information.

We would like to take this opportunity to express our commendations and thanks to the Management Board and all the company's employees for the good results that were achieved in the year under review.

Uden, The Netherlands, 6 March 2007

M.J.N.M. van Seggelen, Chairman
E.F. van Veen, Vice Chairman
C.A.S.M. Renders
J. Blokker

Report of the Management Board

General

A retrospective of 2006 reveals that the different Beter Bed formulas showed varying developments. While the first six months of the year progressed satisfactorily in the Netherlands, the demand for bedroom products lagged in Germany during the same period. Demand did, however, begin to pick up in Germany from August onwards. The improvement in demand had already begun in September 2005 in the Netherlands in connection with the release of funds saved within the Dutch employee savings scheme.

The objectives of Beter Bed remain unchanged:

- To increase net profit regardless of the market conditions.
- To ensure that the company is positioned to optimally tap into growth opportunities.
- To realise an EBIT margin of at least 10% of the revenue. This is not, however, an end objective. This objective was realised in 2006 despite.

The company's growth objectives will be realised by:

- Growth in revenue in comparable stores (like-for-like growth). This method enables growth in revenue while the expenses remain virtually the same. This results in a rapid increase in operational profit.
- Expansion of the existing store concepts, particularly Matratzen Concord and El Gigante del Colchón. New stores opened on the basis of these concepts generally have a pay-back period of less than one year.
- The further development of own product concepts (branding). Own product concepts that consumers view as brands generate a higher gross margin than "third-party brands".
- Conducting acquisitions. Beter Bed continually explores opportunities for acquisitions that will contribute to the growth in profits.

The company achieved consolidated revenue of € 320.0 million in 2006, which represents an 11.5% increase in comparison to 2005 (€ 287.1 million). Operating profit (EBIT) totalled € 34.5 million and consequently amounted to 10.8% of the revenue. Net profit rose by 52.4% from € 15.6 million in 2005 to € 23.8 million in 2006.

Risk

The Management Board of Beter Bed Holding takes its responsibility for risk control and the risk management and control systems that have been implemented within the organisation for this purpose very seriously. Taking calculated risks does, however, remain an inherent part of doing business. The most important risks for the Beter Bed companies are non-realisation of the budgeted sales and the continuity of IT systems and distribution centres.

Regardless of how well the internal risk management and control system is structured, it can never offer absolute safeguards that the targets relating to strategy, operations, reporting and compliance with regulations and legislation will be met at all times. Reality has shown that errors of judgement can be made when making decisions, that cost/benefit considerations are made, that simple errors or mistakes can have major consequences and that conspiracy of employees can lead to circumvention of internal control measures.

The principle measures that have been implemented in order to control the risks within the company are outlined below:

- As part of the annual budget cycle, an analysis was made of the specific opportunities and threats related to each activity. This analysis charts the opportunities and risks at the strategic and commercial levels. The budget was subsequently approved by the Supervisory Board.
- The detailed risk analysis of the core activities that was conducted in 2004 has been updated in collaboration with the management teams of the main formulas. This analysis makes a distinction between a number of categories of risk. This involves the categories financial, operational, administration and management, legal, social, information and fiscal.
- This risk analysis has been included as a permanent item on the agenda of the Audit Committee's meetings; the key points are then discussed during the plenary Supervisory Board meeting.
- The revenue of Matratzen Concord, the order intake of Beter Bed Nederland and the order intake of El Gigante del Colchón was reported daily to the Management Board of the Holding. The other activities reported their revenue weekly.
- The Management Board of Beter Bed Holding has weekly meetings with the management teams of the various formulas.
- The profit and loss account, balance sheet and cash flow per formula were reported on a monthly basis in a detailed standard format. This included a comparison to the same

period in the preceding year and the budget for the specific period. These reports were discussed during the monthly meeting with the Holding's Management Board.

- Beter Bed has three distribution centres located in the Netherlands and as a result the risk of a disaster relating to the delivery of goods to customers is spread over multiple locations. In addition, a business continuity plan was formulated for the main distribution centre. This plan is designed to reduce the consequences should a disaster take place.
- Beter Bed purchased $ 3.9 million in 2006 (2005: $ 3.9 million) in order to pay dollar accounts payable. The currency risks are not covered. The exposures are periodically reassessed.
- Measures to limit the interest rate risk are not necessary in light of the current capital structure.
- The credit risk is limited to the wholesale activities and claims on suppliers connected with bonus agreements. Besides the standard accounts receivables monitoring, no specific measures are required.
- The liquidity risk is extremely limited due to the nature of the activities and the company's capital position. A description of the available credit facilities and the securities provided is provided on page 41 of this report.
- As in each preceding year, the external auditor made an assessment of the administrative organisation and internal control system.

Based on the above activities and taking into account the limitations that are necessarily connected to all internal risk management and control systems, our company's systems concerning financial risks provide us with a reasonable degree of certainty that the financial reporting does not contain any material errors. These systems functioned properly during the year under review and there are no indications that they will not continue to do so in the current financial year.
With regard to other risks, the Management Board is convinced that there is a system of risk management and control in place that is appropriate for the size of the company and that it operated effectively in the year under review.

Activities

Matratzen Concord

	2006	2005
Revenue (x € 1,000)	175,179	159,038
Number of stores	696	639
Number of employees (FTE)	1,161	1,071

Matratzen Concord achieved revenue of € 175.2 million in 2006, a 10.1% increase in comparison to the previous year. The like-for-like performance was -0.8%. Matratzen Concord achieved differing performance in the first and second halves of the year under review. It achieved disappointing results through July in comparison with the results achieved in 2005. The results did, however, begin to improve from August onwards and it appeared that, in particular, German consumer confidence was beginning to rise. The number of stores increased in the year under review from 639 to 696. The German consumers' association (Stiftung Wahrentest) once again gave a Matratzen Concord mattress a good rating in 2006. MAV is a new concept that Matratzen Concord recently launched in the German market. This concept is a hard discount concept. Five stores were opened in the autumn of 2006. Another twelve to fifteen stores will be opened in 2007. This will involve both new locations and "small stores" that Matratzen Concord will vacate in order to move into larger locations. This concept will be supported by the existing overhead structure in Germany.

Beter Bed

	2006	2005
Revenue (x € 1,000)	112,689	108,227
Number of stores	78	79
Number of employees (FTE)	495	507

Beter Bed performed extremely well in the year under review. Revenue rose by 4.1% to € 112.7 million. The like-for-like performance was +3.2%. Beter Bed also experienced a marked difference between the first half and second half of the year. The improvement that began following the release of funds that had been saved within the Dutch employee savings scheme in September 2005 continued in the first half of the year under review. The comparison was naturally more difficult in the second half of the year because the figures were compared to the excellent figures that were achieved in the second half of 2005. Beter Bed closed both a store in Rotterdam and two Junior stores in Duiven and Tilburg.

The temporary store in Oldenzaal was also closed in 2006. Stores were opened in Hengelo and Katwijk in the final months of the year. A temporary store was furthermore opened in Leeuwarden. With regard to its collection, Beter Bed continually develops new models and focuses on new technologies.

El Gigante del Colchón

	2006	2005
Revenue (x € 1,000)	13,015	3,804*
Number of stores	32	21
Number of employees (FTE)	69	58

* From 1 September 2005

The revenue of this company that was acquired in 2005 rose to € 13.0 million in the year under review. The like-for-like performance in 2006 was +4.4%. The expansion within the Catalonia region is progressing favourably. Eleven stores were opened in the year under review, which brings the total number of stores to 32. The former owner left the company in September 2006. The management team that has been put in place in the past year has proven in recent months that it is capable of successfully moving forward with the expansion of this formula. The process of implementing the IT system required to enable expansion into other regions was begun in the autumn of 2006. The same system is being implemented that is also used at Beter Bed in the Netherlands.

BeddenREUS

	2006	2005
Revenue (x € 1,000)	9,497	7,416
Number of stores	24	23
Number of employees (FTE)	45	45

BeddenDump changed its name to BeddenREUS in the year under review. As announced in 2005, BeddenREUS focused in 2006 on developing the collection and managing the existing stores. This caused the revenue to increase by 28.1% to € 9.5 million. The like-for-like performance was +17.0%. Following the completion of the implementation of the same IT system that is used at Beter Bed in 2006, this small organisation is now ready for further expansion.

Slaapgenoten/Dormaël Slaapkamers

	2006	2005
Revenue (x € 1,000)	4,725	3,149
Number of stores	9	7
Number of employees (FTE)	22	12

A great deal of the management's time was devoted to finding and renovating stores in 2006. This development is actually comparable to that of BeddenREUS in 2005.
In 2007 Slaapgenoten will consequently mainly focus on completing the collection and managing the existing stores.

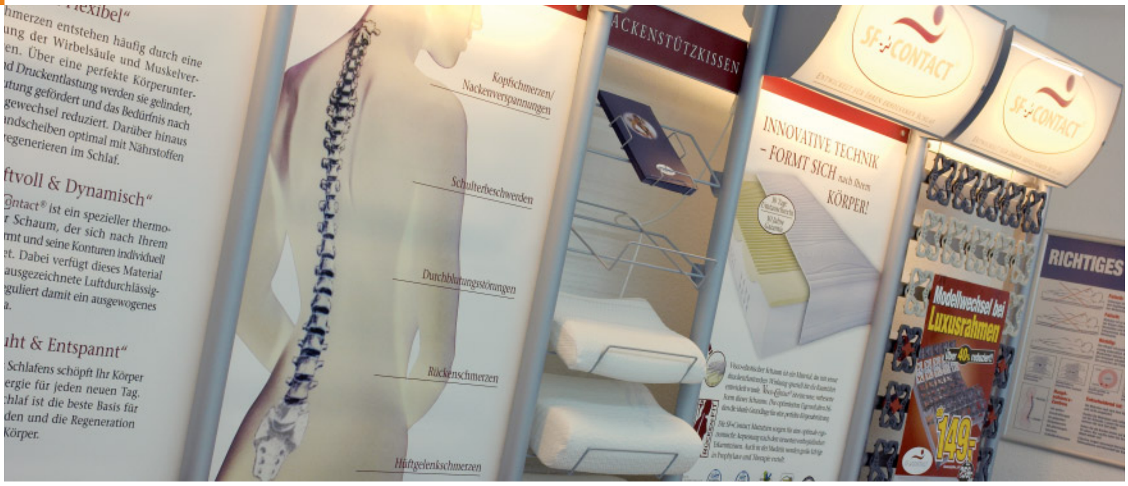
DBC

	2006	2005
Revenue (x € 1,000)	12,025	8,929
Number of employees (FTE)	13	10

The range of the successful brand M Line was expanded further in the year under review to include the Multi Motion bed base and the M Line IV Tender Touch. Revenue increased by 34.7% in 2006 to € 12.0 million including the deliveries to Beter Bed Holding formulas.

Investments, financing and cash flow

€ 7.7 million was invested in 2006 (2005: € 7.5 million). Of this amount, € 6.2 million was invested in new and existing stores (2005: € 4.9 million). The remaining amount was invested primarily in IT.
The cash flow (net profit plus depreciation) rose to € 29.9 million in 2006, compared to € 22.0 million in 2005. This is primarily the result of the increase in net profit.
The solvency percentage at the end of the year under review amounted to 51.5%, compared to 46.3% at the end of 2005.
The dividend policy is aimed at paying out at least 50% of the realised net profit, providing that the solvency remains higher than 30% and the ratio between the net interest-bearing debt and EBITDA is not higher than 2. A total of 83% and 77% of the profit was paid out in 2005 and 2004 respectively.



Employees

The quality and commitment of employees largely determine the success of every company. This is especially true for the Beter Bed formulas in view of the fact that the strength of the various formulas lies in the professionalism of the personal advice that customers receive when purchasing a bedroom system. The quality, care and customer friendliness of the employees in the stores and logistics departments also determine whether the customer regards the shopping experience with Beter Bed as positive. The Management Board of Beter Bed Holding would consequently like to take this opportunity to thank all the employees for their commitment and contribution to the growth in the company's profit.

The ongoing development and training of the employees constitutes an important factor for the growth in the company's profits. Matratzen Concord once again invested in employee training in 2006 in order to improve the sales and advisory skills of the sales employees. Particular attention was paid in 2006 to the use of "mystery shoppers" to determine whether agreements in the field of customer service are actually fulfilled in practice. This activity will once again receive special attention in 2007. The training programme that is designed to restore entrepreneurship in the stores that each Beter Bed employee is required to complete has begun to bear fruit in recent years. BeddenREUS launched the Personal Training Plan (PTP) for all its employees in 2006.

As of 31 December 2006, a total of 1,810 employees (FTE) worked at Beter Bed companies, in comparison to 1,721 employees at the end of 2005. The growing number of stores is the most important reason for this growth.

Corporate social responsibility

Beter Bed fully acknowledges its role in society. Fulfilling this role correctly will benefit both society and the company in the longer term.
It goes without saying that each and every employee and supplier of Beter Bed Holding is expected to respect the laws and regulations in every area of business.
Increasing imports from South America and the Far East means the working conditions in these regions and the origins of the wood used in the products are issues that must be given due attention when making purchasing decisions. In order to address these issues, Beter Bed has developed a code of conduct for its suppliers. This code of conduct will be introduced in 2007 and a system of compliance monitoring will be implemented.

While the direct environmental risk related to the activities of Beter Bed Holding is limited, the Management Board acknowledges the importance of environmental aspects when making business decisions. It acts accordingly and communicates this to employees and suppliers. Environmental issues also play a role when selecting manufacturers and materials. The management also devotes attention to the method of packaging and separated processing of waste flows.
Beter Bed companies are aware of their place in society and sponsor sport associations, projects for the weaker members of society and various events. These projects are usually local in nature and frequently involve employees from the various formulas of Beter Bed Holding.

Expectations and outlook

The first weeks of 2007 in Germany provided a very mixed picture following the increase in the rate of VAT that went into force on 1 January 2007. However, after these initial weeks of the year, there appears to be higher and more stable growth in revenue. The company consequently assumes that the unfavourable effect of the increased rate of VAT will be short-lived. Based on this assumption, the total company's growth in revenue in the first quarter of 2007 is expected to climb to at least around 8%. This means that, barring unforeseen circumstances, net profit is forecast to rise by at least 20% in the first quarter of 2007 in comparison to the first quarter of 2006.
Assuming a continuing positive consumer climate and barring unforeseen circumstances, a growth in revenue and net profit is forecast for the entire year 2007.

Uden, 6 March 2007

F.J.H. Geelen
E.J. van der Woude

Beter Bed Holding

Financial Statements 2006

Consolidated balance sheet

at 31 December, in € thousand
before proposed profit appropriation

	2006	2005
Fixed assets		
Tangible fixed assets [1]		
Land and buildings	9,562	9,807
Other fixed operating assets	14,858	13,082
	24,420	**22,889**
Intangible fixed assets [2]		
Goodwill	**3,811**	**3,811**
Current assets [3]		
Stocks		
Finished products and goods for resale	**40,275**	**36,789**
Debtors		
Trade accounts receivable	868	525
Other debtors	3,213	1,905
Prepayment and accrued income	826	964
	4,907	**3,394**
Cash and cash equivalents [4]	**9,544**	**5,343**
Total assets	**82,957**	**72,226**

[1] Please refer to the notes on page 39
[2] Please refer to the notes on page 40
[3] Please refer to the notes on page 40
[4] Please refer to the notes on page 40

	2006	2005
## Equity		
Attributable to equityholders of the parent [5]		
Issued share capital	433	433
Share premium account	15,596	15,596
Revaluation reserve	1,548	1,463
Other reserves	1,294	293
Retained earnings	23,830	15,637
	42,701	**33,422**
Provisions [6]		
Deferred taxation	**1,134**	**1,182**
Long-term liabilities [7]		
Credit institutions	**417**	**1,417**
Current liabilities [8]		
Credit institutions	1,000	2,224
Trade creditors	13,422	11,758
Taxes and social security contributions	10,518	8,250
Other liabilities	10,917	11,317
Accruals and deferred income	2,848	2,656
	38,705	**36,205**
Total liabilities	**82,957**	**72,226**

[5] Please refer to the notes on page 40
[6] Please refer to the notes on page 41
[7] Please refer to the notes on page 41
[8] Please refer to the notes on page 41

Consolidated profit and loss account

at 31 December, in € thousand

	2006		2005	
Revenue [9]	320,017		287,136	
Cost of sales	148,993		134,517	
Gross profit	**171,024**	53.4%	**152,619**	53.2%
Selling expenses [10]	66,168		62,396	
Depreciation of tangible fixed assets [11]	6,117		6,318	
General administrative expenses [12]	64,258		59,220	
Total operating expenses	**136,543**	42.7%	**127,934**	44.6%
Operating profit (EBIT)	**34,481**	10.8%	**24,685**	8.6%
Financial income	758		113	
Financial expenses	(1,394)		(898)	
Profit before taxation	**33,845**	10.6%	**23,900**	8.3%
Income tax expense [13]	(10,015)		(8,263)	
Net profit	**23,830**	7.4%	**15,637**	5.4%
Earnings per share in €	1.10		0.72	
Diluted earnings per share in €	1.09		0.72	

[9] Please refer to the notes on page 42
[10] Please refer to the notes on page 42
[11] Please refer to the notes on page 43
[12] Please refer to the notes on page 43
[13] Please refer to the notes on page 44

Consolidated cash flow statement

at 31 December, in € thousand

	2006	2005
Cash flow from operating activities		
Net profit	23,830	15,637
Depreciation	6,117	6,318
Movements in:		
- Stocks	(3,486)	(4,463)
- Debtors	(1,513)	2,858
- Trade creditors	3,724	4,667
- Provisions	(48)	(413)
Cash flow from operating activities	**28,624**	**24,604**
Cash flow from investing activities		
Additions to tangible fixed assets	(7,709)	(7,512)
Acquisition of subsidiary net of cash acquired	-	(3,506)
Disposals of tangible fixed assets	54	1,213
Cash flow from investing activities	**(7,655)**	**(9,805)**
Cash flow from financing activities		
Income from the issue of new shares	-	31
Movements in capital and reserves connected with employee stock options	316	230
Exchange gain/(loss) in foreign participating interest	(11)	(96)
Repayment of long-term liabilities	(1,000)	(10,797)
Dividend paid	(14,934)	(7,791)
Revaluation	85	39
Cash flow from financing activities	**(15,544)**	**(18,384)**
Movements in cash and cash equivalents	**5,425**	**(3,585)**
Cash and cash equivalents at the beginning of the financial year	3,119	6,704
Cash and cash equivalents at the end of the financial year	**8,544**	**3,119**

Consolidated overview of movements equity

	Total	Issued share capital	Share premium reserve	Legal reserve participating interests	Revaluation reserve	Other reserves	Retained earnings
Balance on 1 January 2005	**25,372**	**433**	**15,566**	**-**	**1,423**	**(366)**	**8,316**
Profit appropriation 2004	(4,329)	-	-	-	-	3,987	(8,316)
Profit 2005	15,637	-	-	-	-	-	15,637
Interim dividend 2005	(3,463)	-	-	-	-	(3,463)	-
Revaluation	40	-	-	-	40	-	-
Share issue	31	-	30	-	-	1	-
Expenses employee options	230	-	-	-	-	230	-
Movements in legal reserves							
exchange differences	(96)	-	-	(96)	-	-	-
Adjustment to legal reserve							
participating interests	-	-	-	96	-	(96)	-
Balance on 31 December 2005	**33,422**	**433**	**15,596**	**-**	**1,463**	**293**	**15,637**
Profit appropriation 2005	(9,523)	-	-	-	-	6,114	(15,637)
Profit 2006	23,830	-	-	-	-	-	23,830
Interim dividend 2006	(5,411)	-	-	-	-	(5,411)	-
Revaluation	85	-	-	-	85	-	-
Expenses employee options	316	-	-	-	-	316	-
Movements in legal reserves							
exchange differences	(18)	-	-	(18)	-	-	-
Adjustments to legal reserve							
participating interests	-	-	-	18	-	(18)	-
Balance on 31 December 2006	**42,701**	**433**	**15,596**	**-**	**1,548**	**1,294**	**23,830**

General notes

The consolidated financial statements have been compiled in accordance with the International Financial Reporting Standards (IFRS), as approved for use in the European Union and in accordance with the interpretations as adopted by the International Accounting Standards Board (IASB). Unless expressly stated otherwise, the amounts stated in these notes refer to the consolidated figures. The consolidated financial statements have been drawn up in euros and all amounts have unless stated otherwise been rounded off to thousands (€ 000).

Principles of consolidation

The consolidated annual accounts fully embody the accounts of Beter Bed Holding N.V. and all companies in which Beter Bed Holding N.V. can either directly or indirectly exercise more than 50% of the voting rights.

New group companies are included in the consolidation at the time at which the company can exercise effective control over the company. Beter Bed Holding N.V. has issued declarations of joint and several liability for all Dutch group companies for the obligations arising from all legal transactions entered into by these group companies. Pursuant to these letters of guarantees, the Dutch group companies have made use of the exemption options laid down in Article 403, paragraphs 1 and 3, of Part 9, Book 2 of the Dutch Civil Code.

The following companies are involved in the consolidation of Beter Bed Holding N.V. and its participating interests.

Name statutory interest	**Registered office**		**Interest %**
BBH Beteiligungs GmbH	Cologne	Germany	100
BBH Services GmbH & Co K.G.	Cologne	Germany	100
Beter Bed B.V.	Uden	The Netherlands	100
Beter Bed Holding N.V. y Cia S.C.	Barcelona	Spain	100
Beter Beheer B.V.	Uden	The Netherlands	100
DBC International B.V.	Uden	The Netherlands	100
DBC Nederland B.V.	Uden	The Netherlands	100
DBC Deutschland GmbH	Moers	Germany	100
DFC Comfort B.V.	Heelsum	The Netherlands	100
Dormaël Slaapkamers B.V.	Soesterberg	The Netherlands	100
El Gigante del Colchón S.L.	Barcelona	Spain	100

Name statutory interest	Registered office		Interest %
Iberdescans S.L.	Barcelona	Spain	100
Linbomol S.L.	Barcelona	Spain	100
Matrassen Concord B.V.	Uden	The Netherlands	100
Matratzen Concord AG	Frauenfeld	Switzerland	100
Matratzen Concord GmbH	Cologne	Germany	100
Matratzen Concord GmbH	Vienna	Austria	100
MAV Matratzen-Abverkauf GmbH	Cologne	Germany	100
Meubelgroothandel Classic Heerlen B.V.	Kerkrade	The Netherlands	100
M-T-M Nederland B.V.	Uden	The Netherlands	100
Procomiber S.L.	Barcelona	Spain	100

Principles for the translation of foreign currencies

Assets and liabilities in foreign currencies are translated at the rate of exchange on the balance sheet date; result items are translated at the rate of exchange at the time of the transaction. The resultant exchange differences are credited to or deducted from the profit and loss account. Exchange differences in the annual accounts of foreign group companies incorporated in the consolidation are taken directly to the reserves. The results of consolidated foreign participating interests are translated into euros at the average exchange rate for the year under review.

Accounting policies

Tangible fixed assets

Tangible fixed assets other than company land are valued at the purchase price or production price less straight-line depreciation based on the expected economic life or lower realisable value. Company land is valued at the estimated current value. Land and tangible fixed assets under construction are not depreciated. The net book values of other fixed operating assets are tested for impairment should events or altered conditions suggest that the book value may not be realisable.

Lease agreements

The determination whether an arrangement forms or contains a lease agreement is based on the content of the agreement and requires an assessment to determine whether the execution of the agreement is dependent upon the use of a certain asset or certain assets and whether the agreement gives the right to actually use the asset.
Operational lease payments are recorded as expenses in the profit and loss account evenly throughout the lease period.

Financial fixed assets

Participating interests in group companies are valued at the net asset value calculated in accordance with Beter Bed Holding N.V.'s policies. When a participating interest has a negative equity the sequence is as follows: first, the valuation of the participating interest is reduced, then a provision is formed for amounts owed by the participating interest and, when so required, a provision is formed.

Intangible fixed assets

Goodwill is the difference between the acquisition price, plus the directly attributable costs, minus identifiable assets less the acquired liabilities. Goodwill is valued at cost minus any possible impairment losses. Any negative goodwill that might occur is immediately recorded in the profit and loss account. Goodwill is checked at least annually for impairment, if events or changes in circumstances indicate that the book value has possibly been impaired. To check for impairment, the goodwill that arose from a business combination is attributed from the acquisition date to the company's cash-flow generating units, or combinations of units, which are expected to profit from the synergy of the business combination, regardless of whether other assets or liabilities of the company are attributed to these units or groups of units.

Impairment of assets

The company assesses per reporting date whether there are indications that an asset has been impaired. If there is any such indication or if the annual assessment of impairment of an asset is required, the company estimates the asset's realisable value. An asset's realisable value is the higher of the fair value of an asset or the cash-flow generating unit (after deduction of the selling costs) or the value in use, unless the asset does not generate incoming cash flows that are largely independent of the flows of other assets or groups of assets. If an asset's book value exceeds the realisable value, the asset is deemed to have been impaired and its value is decreased to the realisable value. When assessing the value in use, the present value of the estimated future cash flows is determined, with the application of a discount rate before tax that takes into account the current market assessment of the time value of money and the specific risks associated with the asset. Impairment losses in continuing operations are included in the profit and loss account in the cost category that corresponds with the function of the asset concerned.

An assessment is made on each reporting date of whether there are indications that a formerly included impairment loss no longer exists or has decreased. If there is any such indication, the realisable value is estimated. A formerly included impairment loss is only reversed if a change of the last impairment loss was included in the accounts. In that case, the book value of the asset is increased to the realisable value. This increased amount cannot be higher than the book value that would have been determined (after deducting sums in depreciation) if no impairment loss had been included for the asset in previous years. Any such reversal is accounted for in the profit and loss account.

Financial assets and liabilities no longer included in the balance sheet

Financial assets

A financial asset (or, if applicable, part of a financial asset or part of the company of similar financial assets) is no longer included in the balance sheet if the entity is no longer entitled to the cash flows from that asset.

Financial obligations

A financial obligation is no longer included in the balance sheet once the obligation has been fulfilled, discontinued or has expired.

If an existing financial obligation is replaced by another from the same lender, under more or less the same conditions, or if considerable amendments are made to the conditions of the existing obligation, the replacement or change is dealt with by including the new obligation in the balance sheet and no longer including the original obligation. The difference between the relevant book values is included in the profit and loss account.

Stocks

Stocks of raw materials, finished products and goods for resale are valued at the lower of purchase price and market value. The market value is formed by the estimated sale price within normal business operations minus the estimated costs of completion and the estimated costs for settling the sale. Where necessary, the downward adjustment of the value of unmarketable goods is taken into account. Unrealised intercompany profits are eliminated from the stock valuation.

Cash and cash equivalents

Cash and cash equivalents on the balance sheet consist of bank credit and cash. For the purposes of the consolidated cash flow overview, the cash and cash equivalents are comprised of liquid assets as defined above, after deduction of the outstanding bank credits.

Other assets and liabilities

Other assets and liabilities are valued at the nominal value. Where necessary the liabilities take doubtful debts into account. The notes contain a specification of any differences between the market value of these assets and liabilities and the amounts stated in the balance sheet.

Provisions

The provisions are valued at the nominal value. The provision for deferred corporate tax incorporates the deferred tax liabilities arising from the temporary differences between the values for financial reporting and tax purposes of company land and stocks. The deferred tax liability has been included at the rate at which the deferral is expected to be settled.
A provision is included if (i) the company has a current (contractual or effective) liability as a result of an event in the past; (ii) it is probable that an outflow of revenues encompassing economic advantages will be required to settle the liability and (iii) a reliable estimation can be made of the amount of the liability.

Determination of the result

Revenue

The revenue is understood as the proceeds of the sale of goods and services to third parties less discounts and similar, and sales taxes. Revenue is valued at the time the goods are delivered to consumers and other customers. Revenue also includes the rent received from third parties.

Expenses

The costs are determined in accordance with the aforementioned accounting policies, and are allocated to the financial year to which they relate.

Cost of sales
These comprise the cost of the goods and services included in sales, after deduction of any payment discounts received, increased by directly attributable purchase and supply costs.

Pensions
A variety of pension schemes are in use within the company. In the Netherlands, the majority of the employees participate in the Wonen Industrial Pension Fund. This arrangement is currently considered a defined benefit arrangement. This pension fund is not, however, presently able to provide data that enable a pure application of IAS 19. The Pension Fund has stated that any underfunding will not be recovered from participating companies by means of a premium increase. Virtually all other pension schemes are based on the defined contribution system. The premiums paid to the industrial pension fund and to insurers respectively are included as expenses in the year for which they are applicable.

Depreciation
Depreciation is calculated using the straight-line method based on the expected economic life. Additions in the year under review are depreciated from the date of purchase.

Deferred taxation
Tax liabilities for current or previous years are valued at the amount that is expected to be paid to the tax authorities. The tax amount is calculated on the basis of the tax rates set by law and the applicable tax legislation.

A provision is formed for deferred tax liabilities based on the temporary differences on the balance sheet date between the tax book value of assets and liabilities and their book value entered in these financial statements. Deferred tax liabilities are entered for all taxable temporary differences. Deferred tax liabilities are valued at the tax rates that are expected to apply to the period in which the claim will be realised or the liability will be settled based on the tax rates set by law and the applicable tax legislation.

Cash flow statement
The cash flow statement is drawn up using the indirect method. The 'cash at bank and in hand' item stated in the cash flow statement can be defined as cash and cash equivalents less short-term bank overdrafts.

Share-based transactions
Members of the Management Board and a few other employees of the company receive remuneration in the form of payment transactions based on shares, whereby these employees provide certain services in return for capital instruments (transactions settled in equity instruments).

The expenses of the transactions settled with employees in equity instruments are valued at the real value on the allotment date. The real value is determined on the basis of the Black & Scholes model. Performance conditions are taken into account when determining the value of the transactions settled in equity instruments.

The expenses of the transactions settled in equity instruments are, together with an equal increase to the capital and reserves, entered in the period in which the conditions relating to the performance and/or services are met, ending on the date on which the involved employees receive full rights to allotment (the date upon which these rights have become unconditional).
The cumulative expenses, for transactions settled in equity instruments on the reporting date, reflect the degree to which the waiting period has expired and also reflects the company's best estimation of the number of equity instruments that will ultimately be allotted unconditionally. The amount that is charged to the profit and loss account for a certain period reflects the movements in the cumulative expense that is entered at the beginning of that period.

Risks

Owing to the current financing structure of the company, interest rate risk is very limited. Credit risk is limited to the wholesale operations and trade receivables under bonus agreements. Liquidity risk is not very significant, owing to the nature of the company's operations and financial position. For an explanation of the other risks, please refer to the related section in the Report of the Management Board.

Information by segment

The company's products are delivered within one business segment and one geographic segment, namely the European bedroom furnishings market. Also, there is a comparable risk and returns profile. In view of the nature of the goods, the customers and the distribution channels, the products are in essence also comparable.

Estimates

If significant estimates are made in the financial statements, an explanation will be provided in the discussions for each item in question.

Notes to the consolidated balance sheet

at 31 December, in € thousand

Tangible fixed assets

The movements in this item in 2005 were as follows:

	Land and buildings	Plant and machinery	Other fixed operating assets	Total
Book value 1 January	**10,249**	**448**	**12,170**	**22,867**
Investments	215	-	7,297	7,512
Acquisition	-	-	41	41
Disposals	(384)	(389)	(440)	(1,213)
Depreciation	(273)	(59)	(5,986)	(6,318)
Book value 31 December	**9,807**	**-**	**13,082**	**22,889**
Accumulated depreciation	2,858	-	27,631	30,489
Accumulated revaluation	(2,078)	-	-	(2,078)
Purchase price	**10,587**	**-**	**40,713**	**51,300**

The movements in this item in 2006 were as follows:

	Land and buildings	Plant and machinery	Other fixed operating assets	Total
Book value 1 January	**9,807**	**-**	**13,082**	**22,889**
Investments	33	-	7,676	7,709
Disposals	-	-	(54)	(54)
Currency adjustment	-	-	(7)	(7)
Depreciation	(278)	-	(5,839)	(6,117)
Book value 31 December	**9,562**	**-**	**14,858**	**24,420**
Accumulated depreciation	3,135	-	40,565	43,700
Accumulated revaluation	(2,078)	-	-	(2,078)
Purchase price	**10,619**	**-**	**55,423**	**66,042**

The revaluation of € 2,078 relates to the company land at Uden. The land was reappraised on 2 December 2004 by an independent appraiser. The tangible fixed assets are intended for own use. The book value of the assets that are subject to financial lease agreements is zero (2005: € 207).

Intangible fixed assets

The goodwill relates to the acquisition of the Spanish companies. The cash flow-generating unit to which this acquired goodwill is allotted is El Gigante del Colchón. The realisable value of the goodwill is determined on the basis of the present value of the company. This is calculated on the basis of the future cash flows, based on the financial budgets and prognoses of the cash flow-generating units over a period of five years. The budgeted and prognosed cash flows are based on the net profit percentages realised in 2006. The net present value of expected cash flows (calculated using a discount rate of 15%) supports the goodwill recognised as at the balance sheet date. This goodwill has been calculated by increasing the purchase price (€ 5,000) by the start-up costs (€ 142) and the earn-out payment for 2005 (€ 75) and deducting equity at the time of acquisition (€ 1,406). Owing to the departure of the previous owner there are no longer any obligations under the earn-out arrangements.

Current assets

All the accounts receivable fall due within less than one year.

Cash and cash equivalents

This item involves the cash and bank balances. The amount is composed as follows: cash € 348 (2005: € 335), bank balances € 6,254 (2005: € 3,219) and other items € 2,942 (2005: € 1,789).

Equity

The movement in the equity items is shown in the consolidated equity movement overview on page 32.
The company's shares were split on 8 May of the year under review in the ratio 2.5 new shares for one old share. The company's authorised share capital after the split is € 1,250 divided into 62.5 million ordinary shares with a nominal value of € 0.02 each. At the end of 2006, 21,642,617 shares had been issued and paid up in full. Except for the consequences of the share split, the number of outstanding shares was unchanged in the year under review. The entire share premium account can be distributed free of tax. The revaluation reserve relates to the legal revaluation reserve for land.

Provisions

At year-end 2006 and 2005 the provisions consisted in full of a provision for taxation. The provision for taxation relates to the differences between the valuation of stocks and land and buildings in the Netherlands for tax and financial reporting purposes. This provision is long term. The movements in the provisions in 2006 and 2005 were as follows:

	2006	2005
Balance at 1 January	**1,182**	**1,595**
Utilised for restructuring	-	(600)
To income tax payable	37	227
To equity	(85)	(40)
Balance at 31 December	**1,134**	**1,182**

Long-term liabilities

The company has € 25 million in credit facilities available for the group's financing.
In connection with the debts to credit institutions, the company and its subsidiaries have committed not to encumber their assets with any security rights without the prior permission of the credit institution.
A roll-over facility for the amount of € 10.0 million for a period of ten years (until September 2015) was concluded with ABN AMRO. This facility can be used as needed. The interest on the utilised part of this facility amounts to EURIBOR plus 0.85%; the commitment fee for the unused portion amounts to 0.34%. Mortgages on the distribution centres in Uden and Hoogeveen and on the shop premises in Den Helder have been provided as security. The company had not utilised this roll-over facility at the end of the year under review. A five-year loan was entered into with the Kreissparkasse in Cologne for an amount of € 5.0 million in June 2003. The interest rate is 4.63% for the entire life of the loan. This loan will be repaid in monthly instalments. € 1.0 million will be repaid in 2007. This amount is also listed under short-term liabilities.

Current liabilities

In general, creditors in the Netherlands are paid within 10 days. In Germany the payment conditions stipulate payment 15 days after the end of the month in which goods are delivered.

Notes to the consolidated profit and loss account

at 31 December, in € thousand

Revenue by activity

	2006	2005
Matratzen Concord	175,179	159,038
Beter Bed	112,689	108,227
El Gigante del Colchón	13,015	3,804
BeddenREUS	9,497	7,416
DBC	12,025	8,929
Slaapgenoten/Dormaël	4,725	3,149
Discontinued activities	-	2,368
Intercompany adjustment	(7,113)	(5,795)
Total	**320,017**	**287,136**

Wage and salary costs

The following wage and salary components are included in the operating expenses:

	2006	2005
Wages and salaries	53,893	51,168
Social security costs	10,559	9,512
Pension costs	1,400	1,486
Costs of employee stock options	316	230
Total	**66,168**	**62,396**

Average number of employees

All the companies included in the consolidation had an average of 1,780 employees (FTE) in 2006 (2005: 1,723), divided across the following sectors:

	2006	2005
Retail in The Netherlands	625	600
Retail outside The Netherlands	1,155	1,043
Production outside The Netherlands	-	80
Total	**1,780**	**1,723**

Option programme

The options are long-term in nature and can be exercised providing that the profit target has been met. The costs of the option programme are calculated using the Black & Scholes model. An overview of the details of the options granted, as well as the values employed in the Black & Scholes model, is provided below:

	2003*	2004*	2005*	2006
Number	162,500	175,000	177,500	212,500
Value according to Black & Scholes	€ 0.99	€ 1.72	€ 2.89	€ 3.15
Exercise from	March 2007	March 2008	28-Oct-08	March 2009
Exercise through	31-Oct-10	29-Oct-11	28-Oct-11	27-Oct-12
Profit target	€ 11.1 million	€ 12.0 million	€ 15.0 million	€ 27.5 million
Share price on the allotment date	€ 3.40	€ 5.90	€ 10.71	€ 17.08
Exercise price	€ 3.40	€ 5.90	€ 10.71	€ 17.08
Expected life	3.5 year	3.5 year	4.5 year	4.2 year
Risk-free rate of interest	3.44%	2.98%	3.02%	3.86%
Volatility	50.14%	49.33%	50.56%	41.11%
Dividend yield	4.87%	4.38%	6.54%	8.49%

* recalculated following the share split in May 2006

Depreciation

Depreciation in the year under review amounted to € 6,117 (in 2005: € 6,318).
The depreciation rates, which are based on the expected economic life, are as follows:

Land	0%
Buildings	3.33%
Plant	10%
Other	10 to 33%

Other operating expenses

Other operating expenses include € 31.3 million in rental expenses and lease expenses (2005: € 29.2 million)
The remainder of these costs relates mainly to selling and distribution costs.

Taxes

The reconciliation between the tax liability and the results of the calculation of the profit before taxes, multiplied by the local tax rate in the Netherlands, was as follows on 31 December 2006 and 2005:

	2006	2005
Profit before taxes	**33,845**	**23,900**
At the applicable legal rate of 29.6%		
in the Netherlands (2005: 31.5%)	10,018	7,529
Adjustment profits tax previous years	(119)	(67)
Non-deductible expenses	117	72
Non tax-deductible losses	-	173
Movements in provision for taxes		
based on change of tax rate	(83)	177
Effect of the tax rates outside		
the Netherlands	82	379
At an effective tax rate of 29.6%		
(2005: 34.6%)	**10,015**	**8,263**
Profit tax taken to the consolidated		
profit and loss account	10,015	8,263

The tax-deductible losses at the end of the year under review totalled € 871. A deferred tax asset is not included for these losses.

Remuneration for the members of the Management Board and the Supervisory Board

In 2006 the remuneration for the members of the Management Board and the Supervisory Board was as follows:

	Salary (in €)		Bonuses (in €)		Pension (in €)	
	2006	2005	2006	2005	2006	2005
F.J.H. Geelen	280,500	275,000	210,375	192,500	98,175	65,738
E.J. van der Woude	140,000	130,000	70,000	65,000	35,000	19,500
Total, Management Board	**420,500**	**405,000**	**280,375**	**257,500**	**133,175**	**85,238**
M.J.N.M. van Seggelen	26,500	26,500				
E.F. van Veen	22,500	22,500				
J. Blokker	16,000	16,000				
C.A.S.M. Renders	22,500	22,500				
Total, Supervisory Board	**87,500**	**87,500**				

The bonuses relate to the year in which they are classified and are included in the expenses of that year. Mr Geelen and Mr Van der Woude were able to realise a bonus in 2006 of 75% and 50% of their fixed salary respectively. The following structure was applied.

- Realisation of 90% of the budgeted operating profit would entitle a bonus totalling 10% of the fixed salary.
- Realisation of 100% of the budgeted operating profit would entitle a bonus totalling 20% of the fixed salary.
- A bonus totalling 20% of the fixed salary may be awarded at the discretion of the Supervisory Board.
- Mr Geelen could earn 1.3% of the operating profit that exceeded the budget with a maximum of 25% of his fixed salary.

Options for new shares have been issued to members of the Management Board with a view to enhancing the commitment to the company in the medium term. Mr Geelen and Mr Van der Woude have the following options:

	Year of issue	Number	Exercise price	Duration
F.J.H. Geelen	2003	50,000	3.40	31-10-2010
	2004	50,000	5.90	29-10-2011
	2005	50,000	10.71	28-10-2011
	2006	50,000	17.08	27-10-2012
E.J. van der Woude	2003	25,000	3.40	31-10-2010
	2004	25,000	5.90	29-10-2011
	2005	25,000	10.71	28-10-2011
	2006	25,000	17.08	27-10-2012

The pension schemes of Mr Geelen and Mr Van der Woude are defined contribution schemes. The contribution for Mr Geelen is 35% of the fixed salary; for Mr Van der Woude the contribution is 25% of the fixed salary.
The options are long-term in nature and can be exercised providing that the profit target has been met. This target is net profit of € 11.1 million for the series awarded in 2003, net profit of € 12.0 million for the series awarded in 2004, net profit of € 15.0 million for the series awarded in 2005 and net profit of € 27.5 million for the last series. Other data on the options and their valuation are included in the notes to the wage and salary costs.

Mr Geelen has 77,500 shares.
The members of the Supervisory Board do not have any options.
Mr J. Blokker transferred his private holding to Breedinvest during the course of the year under review. Mr J. Blokker is director of the major shareholder Breedinvest B.V.

Earnings per share

The net profit of 2006, € 23,830, divided by the average number of outstanding shares totalling 21,642,617 equals earnings per share of € 1.10. The number of shares used for the calculation of the diluted earnings per share is 21,952,777. This results in diluted earnings per share of € 1.09.

Commitments not included in the balance sheet

The company has entered into long-term rental and lease obligations concerning buildings and other operating assets. The minimum obligation on the balance sheet date can be shown as follows:

Duration	**2007**	**2008**	**2009**	**2010**	**2011**	**after 2011**
Rental agreements	31,384	26,175	21,434	14,044	8,308	7,584
Lease agreements	1,829	1,287	848	370	204	46
Total	**33,213**	**27,462**	**22,282**	**14,414**	**8,512**	**7,630**

The majority of the rental agreements for the company premises required for the Beter Bed formula are long-term agreements (between five and ten years), with options for renewal. The majority of the rental agreements for the Matratzen Concord formula have been concluded for a period between five to ten years, whereby a clause has been included stipulating that the agreements can be terminated without charge after a period of two years.

In the year under review amounts of € 29.3 million arising from rental agreements for real estate and € 2.0 million arising from lease agreements have been recorded in the profit and loss account.

The company has entered into a buy-back commitment for the inventory and stocks towards the financers of the franchisees of the Dormaël formula. At the end of 2006 the maximum commitment amounted to € 0.2 million.

Company balance sheet

at 31 December, in € thousand
before proposed profit appropriation

	2006	2005
Tangible fixed assets	**28**	**43**
Intangible fixed assets [1]	**142**	**142**
Financial fixed assets [2]	**66,271**	**63,258**
Debtors [3]	**7,846**	**5,932**
Cash and cash equivalents [4]	-	-
Total assets	**74,287**	**69,375**

	2006	2005
Capital and reserves [5]		
Issued share capital	433	433
Share premium account	15,596	15,596
Legal revaluation reserve	1,548	1,463
Other reserves	1,294	293
Retained earnings	23,830	15,637
	42,701	**33,422**
Provisions [6]	**14,472**	**22,424**
Current liabilities [7]	**17,114**	**13,529**
Total liabilities	**74,287**	**69,375**

[1] Please refer to the notes on page 49
[2] Please refer to the notes on page 49
[3] Please refer to the notes on page 50
[4] Please refer to the notes on page 50
[5] Please refer to the notes on page 50
[6] Please refer to the notes on page 50
[7] Please refer to the notes on page 51

Company profit and loss account

at 31 December, in € thousand

	2006	2005
Net profit of participating interests	21,708	15,231
Other income / (expenses)	2,122	406
Net profit	23,830	15,637

Notes to the company balance sheet and profit and loss account

at 31 December

General

The financial statements of Beter Bed Holding N.V. have been compiled on the basis of Title 9, Book 2 of the Dutch Civil Code in accordance with International Financial Reporting Standards (IFRS), as adopted for use in the European Union and applied to the consolidated financial statements. The participating interests are valued at net asset value.
The company financial statements are presented in euros and all amounts are rounded to thousands (€ 000) unless stated otherwise.
The option provided by Section 402 of Book 2 of the Dutch Civil Code to include an abbreviated profit and loss account in the company financial statements has been used.

Intangible fixed assets

This involves the expenses incurred in related to the acquisition in Spain.

Financial fixed assets

This item includes the participating interests in the group companies and the amounts owed by the group companies. The movement in this item was as follows:

	Participating interests in group companies	**Loans**	**Total**
Balance at 1 January 2006	**23,823**	**39,435**	**63,258**
Profit from participating interest in 2006	21,708	-	21,708
Dividend paid	(17,000)	-	(17,000)
Revaluation	85	-	85
Exchange gain	(18)	-	(18)
Acquisition of Matratzen Concord Austria	410	-	410
Acquisition of Matratzen Concord Switzerland	994	-	994
Loans granted to group companies	-	4,750	4,750
Movements in amounts owed by group companies	36	-	36
Movements in loans owed by group companies	(47)	47	-
Movements in participating interests provision	(7,952)	-	(7,952)
Balance at 31 December 2006	**22,039**	**44,232**	**66,271**

Debtors

At 31 December	2006	2005
Group companies	6,525	4,664
Other debtors	1,321	1,268
Total	**7,846**	**5,932**

All debtors fall due within one year.

Cash and cash equivalents

This item relates to the balance of cash in hand and at the bank. The cash and cash equivalents are at the full disposal of the company.

Equity

Issued capital

The company has an authorised share capital of € 1,250 in 62.5 million ordinary shares with a nominal value of € 0.02. At the end of 2006 21,642,617 shares had been issued and paid up. Except for the consequences of the share split, the number of shares outstanding was unchanged in the year under review. The movement in the equity items is explained in the consolidated equity movement overview on page 32.
The entire share premium account can be distributed tax free. The revaluation reserve relates to the legal revaluation reserve for land.

Provisions

At year-end 2006 and 2005 the provisions consisted in full of the provision for participating interests. The participating interests provision is a provision for participating interests that have negative net asset value after setting off loans provided by the company. The movements in the provisions in 2006 and 2005 were as follows:

	2006	2005
Balance at 1 January	**22,424**	**1,138**
Appropriation restructuring	-	(600)
Other movements	(7,952)	21,886
Balance at 31 December	**14,472**	**22,424**

The movements in the participating interest provision in 2005 are the result of the (re)financing of subsidiaries.

Current liabilities

The breakdown of this balance sheet item is as follows:

At 31 December	2006	2005
Credit institutions	14,133	11,635
Taxes and social security contributions	2,406	930
Other liabilities, accruals and deffered income	575	964
Total	**17,114**	**13,529**

Commitments not included in the balance sheet

The company, as the responsible company within the tax entity in the Netherlands, is liable for debts arising from corporation tax owed by the Dutch companies.

Uden, 6 March 2007

Management Board
F.J.H. Geelen
E.J. van der Woude

Supervisory Board
M.J.N.M. van Seggelen
E.F. van Veen
C.A.S.M. Renders
J. Blokker

To the Annual General Meeting
and the Supervisory Board of Beter Bed Holding N.V.

Auditor's Report

Report on the financial statements

We have audited the accompanying financial statements 2006 of Beter Bed Holding N.V., Uden. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2006, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at December 31, 2006, the company profit and loss account for the year then ended and the notes.

Management's responsibility

Management of the company is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements
In our opinion, the consolidated financial statements give a true and fair view of the financial position of Beter Bed Holding N.V. as at December 31, 2006, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements
In our opinion, the company financial statements give a true and fair view of the financial position of Beter Bed Holding N.V. as at December 31, 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

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

Eindhoven, 6 March , 2007

for Ernst & Young Accountants

was signed by W.T. Prins

Other information

Appropriation of profit pursuant to the articles of association

Article 32 of the Articles of Association states the most important provisions pertaining to the appropriation of profit:

Paragraph 1

Every year the Management Board, subject to approval from the Supervisory Board, determines the proportion of the company's profit – the positive balance of the profit and loss account – to be added to the company's reserves.

Paragraph 2

The profit remaining after the reservation pursuant to the previous paragraph shall be placed at the disposal of the Annual General Meeting of Shareholders.

Appropriation of profit in € 1,000

Profit for 2006	23,830
Interim dividend	(5,411)
Addition to the other reserves	(4,351)
Profit available for payment	**14,068**

The proposal for the appropriation of profit has not been taken into the balance sheet.

Historical summary

at 31 December

	2006	2005	2004	2003	2002	2001
Result (in € 1,000)						
Revenue	320,017	287,136	255,166	234,018	221,779	238,876
Gross profit	171,024	152,619	134,595	121,965	117,067	128,895
Operating profit (EBIT)	34,481	24,685	14,960	4,282	892	20,090
Net profit	23,830	15,637	8,316	1,751	(1,644)	11,066
Depreciation	6,117	6,318	6,316	6,883	6,140	5,006
Cash flow	29,947	21,955	14,677	8,634	4,496	16,072
Net investment	7,655	6,299	3,787	3,458	5,775	8,674
Capital (in € 1,000)						
Total assets	82,957	72,226	68,988	63,202	65,575	71,318
Equity	42,701	33,422	25,372	19,774	18,304	19,119
Figures per share						
Net profit in €	1.10	0.72	0.39	0.08	(0.08)	0.57
Cash flow in €	1.38	1.02	0.68	0.40	0.23	0.82
Dividend paid in €	0.90	0.60	0.30	0.06	-	0.20
Average number of outstanding shares (in 1,000 of shares)	21,643	21,642	21,441	21,414	19,478	19,475
Share price in € at year-end	19	13	6	4	3	5
Ratios						
Operating profit/revenue	10.8%	8.6%	5.9%	1.8%	0.4%	8.4%
Net profit/revenue	7.4%	5.4%	3.3%	0.7%	(0.7%)	4.6%
Solvency	51.5%	46.3%	36.8%	31.3%	27.9%	26.8%
Interest cover	54.2	31.4	16.2	2.6	0.4	11.1

The years up till and including 2003 are on the basis of Dutch GAAP. The other years are on the basis of IFRS.

* recalculated according to the number of shares on the basis of a nominal value of € 0.02 (after the split in May 2006)

at 31 December

	2006	2005	2004	2003	2002	2001
Other information						
Number of stores						
at year-end	839	775	682	644	618	555
Number of staff						
in The Netherlands						
at year-end	613	608	587	618	625	599
Number of staff in						
Germany, Switzerland,						
Austria, France and Italy						
at year-end	1,197	1,109	980	879	857	782
Number of staff						
in Poland at year-end	-	4	193	284	292	426
Turnover per staff						
(in € 1,000)	180	167	144	131	125	132

Colophon

This annual report is published by

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