

**BÖWE**  
SYSTEC



ANNUAL REPORT

**2006**

## BUSINESS MISSION

„The BÖWE Group is positioning itself as a one-stop supplier for every aspect of the mailroom. Our position as a global player is secured through decades of experience in the market, combined with progressive development and the expansion of our portfolio.“

## A five-year summary of BÖWE SYSTEC

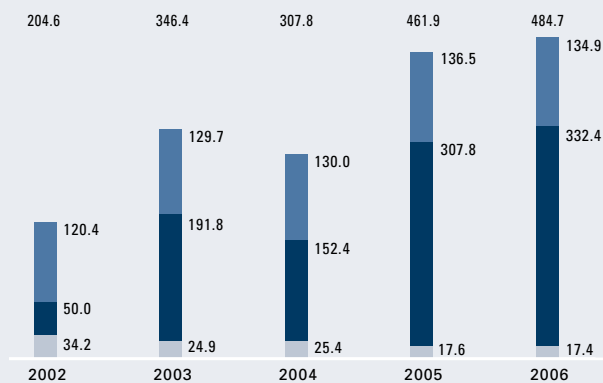
<b>BÖWE SYSTEC Group</b> in million EUR	<b>2006</b> IFRS	<b>2005</b> IFRS	<b>2004</b> IFRS	<b>2003</b> HGB	<b>2002</b> HGB
Group sales	484.7	461.9	307.8	346.4	204.6
EBITDA	63.6	55.8	42.9	46.4	34.1
EBIT	45.3	36.1	29.3	31.0	26.6
Earnings before taxes	27.6	26.0	25.4	21.6	23.8
Group net income for the year	19.3	19.0	10.9	16.2	14.0
Order intake	473.1	471.8	326.4	323.9	193.4
Order backlog products	84.0	95.6	57.4	40.0	22.4
Investments in property, plant and equipment	11.9	10.9	6.2	5.9	6.1
Investments in intangible assets	8.6	13.9	7.5	2.9	6.6
Investments in financial assets	0.0	1.3	9.8	0.4	80.4
Depreciation and amortization	18.4	19.7	13.7	15.4	7.5
Cash flow from ordinary activities	14.1	23.6	41.4	26.6	9.5
Employees without trainees (annual average)	3,541	3,578	2,621	2,674	1,847
Total net assets	581.5	621.7	437.6	421.0	295.4
Fixed assets	330.3	360.2	174.0	187.9	151.4
Current assets incl. deferred taxes	251.2	261.5	263.6	233.1	144.0
Equity including dividend distribution	135.1	143.5	109.1	94.9	82.2
Accruals	32.4	41.7	35.9	65.8	28.9
Liabilities incl. deferred taxes	414.0	420.7	292.6	260.3	184.3
<b>Figures per share:</b>	<b>2006</b> IFRS	<b>2005</b> IFRS	<b>2004</b> IFRS	<b>2003</b> HGB	<b>2002</b> HGB
Weighted number of no par value shares (million)	6.600	6.595	6.586	6.098	6.021
Earnings per share (EUR)	2.92	2.88	1.66	2.66	2.33
Cash flow from ordinary activities (EUR)	2.13	3.58	6.29	4.37	1.57
Dividends (EUR)	1.35	1.35	1.30	1.25	1.25

## BÖWE SYSTEC GROUP:

### Sales development by region

in million EUR

■ EUROPE  
■ NORTH AMERICA  
■ ASIA AND OTHER

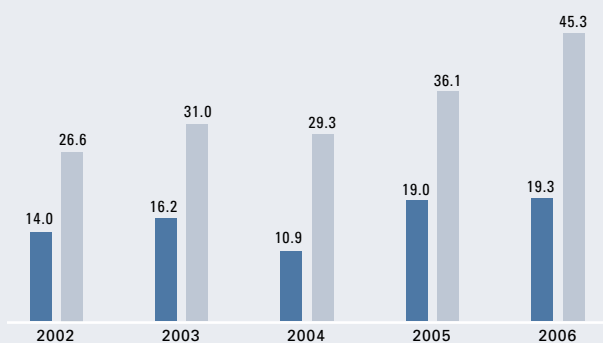


## BÖWE SYSTEC GROUP:

### Net income for the year and EBIT

in million EUR

■ NET INCOME FOR THE YEAR  
■ EBIT

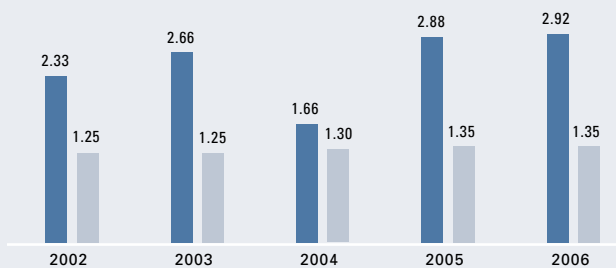


## BÖWE SYSTEC GROUP:

### Figures per share

in EUR

■ EARNINGS PER SHARE  
■ DIVIDENDS



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## FOREWORD BY THE MANAGEMENT BOARD



The management board  
of BÖWE SYSTEC:  
Dr. Claus Gerckens,  
Michael Meyer

Dear Shareholders,

In the reporting period that has just closed the upturn in the global economy continued. From the middle of 2006 Germany became the engine driving growth in the euro zone. This positive growth trend also extended to the global market for Mailroom Management Systems in which BÖWE SYSTEC plays a prominent role. With Group sales of EUR 484.7 million compared with EUR 461.9 million in the previous year, BÖWE SYSTEC posted new record figures. This 4.9% increase came exclusively from organic growth, driven in particular by the German and US business. The Group net surplus for the year in the sum of EUR 19.3 million was slightly up on the figure of EUR 19.0 million in the previous year and consequently within the forecast range announced by the management board. A proposal will be made to the Annual General Meeting to pay a dividend of EUR 1.35 per share, unchanged against the previous year.

Following the successful completion of the acquisition of the US subsidiary BÖWE BELL + HOWELL in the previous year, the focus of the Group management in 2006 was primarily on two areas of activity:

### **1. Expansion of the position as a total provider for automated mailroom solutions**

The 7th International BÖWE Open House held in May 2006 at the production location in Augsburg was an outstanding success for all the Group's business areas. More than 2000 enthusiastic clients and business partners from all over the world had the opportunity to gain first hand experience of our expertise in the mailroom area under the uniform BÖWE Group umbrella label.

## 2. Integration of the individual companies and consolidation of the business processes

In fiscal year 2006 the Enduro inserting system, developed jointly in the USA and Germany, was marketed with increasing success. Additional packages of measures were also introduced in order to bring about a sustainable improvement in the profitability of BÖWE SYSTEC and in particular of the US subsidiary BÖWE BELL + HOWELL. We see the use of the BÖWE SYSTEC Group's global resources in production, distribution and after-sales and in the Group's integrated software products for every aspect of the mailroom, including the mail services areas, as offering significant growth opportunities for BÖWE SYSTEC over the medium term.

We are convinced that our strategic approach is the right one and are looking ahead with confidence to the forthcoming fiscal year. The sector association, the VDMA, expects a continuation of the positive trend in the specialist area of paper processing machines and BÖWE SYSTEC will benefit from a slight, positive rise in mail volumes for personalized advertising and marketing mailings. The imminent opening up of the European postal markets contains significant potential for sales of mail verification and sorting systems. The ending of the letter monopoly in Germany, scheduled for the beginning of 2008, has already made a marked contribution towards the positive development of business at BÖWE SYSTEC in the fiscal year just past. The lifting of the letter post monopolies in the other European countries is also expected to take place by 2009.

Based on these positive expectations the planning for fiscal year 2007 provides for sales in excess of EUR 500 million. We anticipate an increase in the Group net income for the year compared with fiscal year 2006.

We are going into the new fiscal year with optimism and will work systematically on achieving our targets for 2007 and creating the basis for a permanent increase in profitability for the whole Group. In this context, fulfilling our client's requirements at all times will be fundamental to our success. Management board and the managements of all Group companies are simultaneously aware of the fact that we must continue to earn the confidence that you, dear shareholders, have placed in us. We will also fulfill this commitment in 2007.

Yours sincerely



Dr. Claus Gerckens

Michael Meyer

Augsburg, March 2007

## CORPORATE STRATEGY AND OBJECTIVES



### **BÖWE SYSTEC AG,**

parent company of the BÖWE Group with company headquarters in Augsburg, is one of the worldwide leaders in the manufacture of high-performance Inserting Systems and facilities for Card Mailing Systems. BÖWE SYSTEC also develops specialist software products that control and monitor the systems, connect them together and with external systems, as well as document their jobs.



### **BÖWE BELL + HOWELL**

with headquarters in Durham (North Carolina) and Chicago (Illinois) broadens the BÖWE Group product range through the addition of Sorting/Postal, Print-on-Demand solutions, products for mail dispatch and automated mail distribution, as well as high performance scanners. BÖWE BELL + HOWELL also possesses an extremely well established after-sales service network in North America.



The BÖWE SYSTEC Group has clearly positioned itself as a total provider for all aspects of the mailroom. Directed from the Group Headquarters in Augsburg, the Group has expanded on a targeted basis from a European market leader in inserting systems to a total provider for comprehensive mailroom solutions. The change in the corporate structure of the companies that operate under the Group umbrella also brought with it a significantly expanded range of products for the mailroom.

BÖWE SYSTEC offers highly automated products, services and after-sales for the modern mailroom. Over recent years the development and manufacture of intelligent, high-performance inserting systems has been expanded by the addition of the plastic card business, including personalization and inserting, software monitoring in the mailroom, through to the interconnection of several processing locations, systems for pre- and post-paper processing, sorting and mail verification systems plus scanners. The companies that operate under the BÖWE SYSTEC Group umbrella contribute their years of experience in development, distribution and after-sales in the interest of pursuing a distinctive customer oriented approach at all times. As a result of this development, with the exception of digital printing systems, the BÖWE SYSTEC Group today covers all products and services in the modern mailroom. Through close cooperation with all leading printer manufacturers the individual processing areas can be easily interconnected.

There will be no change in the pursuit of the Group's credo of producing both systems as well as software within the framework of a consistent, modular structure, providing for system expansion, securing full protection for investment and adapted to suit



## BÖWE CARDTEC GmbH,

based in Paderborn, develops and produces systems for plastic card and identity document personalization and dispatch as well as software solutions for a customized security architecture (e.g. for credit cards).



## Lasermax Roll Systems AB

with headquarters in the Swedish city of Ljungby and in Burlington (Massachusetts) is the world's leading supplier of pioneering systems in Pre- and Post-Processing as well as of solutions used in data conversion and monitoring for digital printers. The company operates as a joint venture of the BÖWE SYSTEC Group together with the Swedish Stralfors Group and manages the Lasermax and Roll Systems business units.



the requirements of the customer. The Group companies not only attach importance to production and distribution but also to advice and concept planning in the individual design of the mailroom architecture for each individual customer.

The United States, still the world's most important regional market for mailroom applications, is served by the US company BÖWE BELL + HOWELL. A range of integrative measures led to increased collaboration between the former competing companies BÖWE SYSTEC and BELL + HOWELL in the USA; the product range was successfully amalgamated. The superbly structured North American after-sales network has some 1,400 technicians and extensive, widespread coverage.

The Group's activities, positioned downstream of distribution, themselves fundamentally play a key role as they not only secure long-term sales but also maintain regular contact with the customers. It is not rare to find the impetus for technological further and new developments coming directly from the field as the result of requested applications and local conditions within the customers' day-to-day production environment. In addition to its own subsidiaries the BÖWE SYSTEC Group maintains numerous branches and general representations worldwide who are directly actively involved in distribution and, in particular, after-sales with the customer in the respective country. The strategy of focusing on local contacts with short communication channels to the customer which has been pursued for many years has proven successful and will be continued in the future. The declared aim of the Group Management remains to continue strengthening its global market presence.

## COMPANY BOARDS

### **The management board of BÖWE SYSTEC Aktiengesellschaft:**

**Dr. Claus Gerckens** Augsburg  
Chairman

**Michael Meyer** Neusäß  
Deputy Chairman

### **The supervisory board of BÖWE SYSTEC Aktiengesellschaft:**

**Johannes Beelen** Solingen  
Chairman  
Former director of  
ZWILLING J.A. Henckels AG, Solingen

**Dr. Hans-Joachim Röhler** Burgwedel  
Deputy Chairman  
(until June 1, 2006)  
Lawyer

**Prof. Dr. Günther Langenbacher** Stuttgart  
Deputy Chairman  
(since June 1, 2006)  
German Public Auditor

**Prof. Dr. Dres. h.c.  
Adolf G. Coenenberg** Stadtbergen  
Chair of business administration, audit and  
controlling at the University of Augsburg

**Prof. Dr. h.c.  
Rolf-Dieter Leister** Lucerne, Switzerland  
Business consultant

**Claus-D. Bunk** Schwabmünchen  
Employee representative  
Chairman of the works' council of  
BÖWE SYSTEC Aktiengesellschaft, Augsburg

**Alfred Seifert** Augsburg  
Employee representative  
Deputy chairman of the works' council of  
BÖWE SYSTEC Aktiengesellschaft, Augsburg

## THE BÖWE SYSTEC SHARE

Figures per share:	2006 IFRS	2005 IFRS	2004 IFRS	2003 HGB	2002 HGB
Capital stock (EUR million)	17.16	17.16	17.16	17.10	15.70
Number of shares with dividend entitlement as of Dec. 31 (million)	6.60	6.60	6.60	6.57	6.04
Earnings (EUR)	2.92	2.88	1.66	2.66	2.33
Cash flow from ordinary activities (EUR)	2.13	3.58	6.29	4.37	1.57
Dividends (EUR)	1.35	1.35	1.30	1.25	1.25
Share price at year-end (EUR)*	51.47	50.84	38.80	40.50	21.00
Annual high of the share (EUR)*	58.99	51.25	42.95	41.30	26.60
Annual low of the share (EUR)*	40.55	35.71	35.40	19.90	17.60

\* from 2006 prices on the Xetra trading system

### The BÖWE SYSTEC SHARE

The German equities market reported a further very positive development in the year just past. All the leading share indices ended the year clearly higher. The DAX, as an index of the 30 largest German blue chip companies, rose by approx. 22% during the one year period, ending up at 6,596. The SDAX, the index of small and mid-cap companies, posted an even better performance, approx. 31% higher at 5,567 points.

Whilst the BÖWE SYSTEC share has in most cases outperformed the DAX and SDAX over the past years, in the stock exchange year just past the share was unable to keep pace with the growth in the indices. The value of the BÖWE SYSTEC share remained virtually unchanged compared with the 2005 year-end. On the Xetra trading system the share rose by approx. 1.6% to EUR 51.47 last year.

Although the indices have caught up by comparison with the development of share prices on the basis of the last five years, the BÖWE SYSTEC share has continued to outperform, increasing by 138.5% compared with a rise of 27.8% on the DAX and 135.4% on the SDAX.

For part of the period the course of the BÖWE SYSTEC share price mirrored that of the market as a whole. Starting with a previous year-end price of EUR 50.67 (Xetra trading system) the share posted a relatively strong rise in the first quarter and at the end of March had already reached the year's high of EUR 58.99. Within just two weeks, with minimal turnover and without any obvious reason, the price dropped by around 20% to below EUR 47.00. Following a brief recovery, from mid May the price weakened slightly in volatile trading in parallel with the market. From mid July prices on the indices continued to rise up to the end of the year whilst the price of the BÖWE SYSTEC share initially weakened further and in mid September reached the year's low of EUR 40.55 (Xetra trading system). Over the remainder of the year the share once again clearly outperformed the market as a whole and therefore succeeded in reducing the gap in the annual performance.

With a closing price of EUR 51.47 on the Xetra, the total market capitalization as at the year-end 2006 was calculated at EUR 339.7 million.



DEVELOPMENT OF THE  
BÖWE SYSTEC SHARE 2006  
Compared to the SDAX and  
to the DAX

■ BÖWE SYSTEC SHARE PRICE  
■ SDAX INDEX  
■ DAX INDEX



### Coverage by six research institutes

In the third quarter 2006 the Frankfurt-based investment bank Dresdner Kleinwort added the BÖWE SYSTEC share to its coverage, issuing a ‚buy‘ recommendation. The share is consequently now subject to regular analysis by six institutes. In the previous year three institutes – West LB, Lampe Bank and CA Cheuvreux – began their analysis of the share with an initial study. The Berenberg Bank, Hamburg, and the London-based Cazenove & Co have already been conducting regular assessments of the BÖWE SYSTEC share for some time.

### Shareholder structure

There are currently 6.6 million BÖWE SYSTEC shares in circulation. As at the date of the last shareholder survey in the middle of the previous year, 64.4% of these are held by domestic shareholders. The proportion of foreign shareholders therefore increased by 2.5% over the previous year.

The largest individual shareholder remains WANDERER-WERKE AG with 50.1% of the shares. According to the definition from the Deutsche Börse the free-float is therefore 49.9% of the share capital, representing 3.29 million shares.

Investments held by equity funds are included in the free-float. As of the year-end the investment companies Bestinver Gestion, Spain, Financière de l’Echiquier, France as well as the US companies The Capital Group Companies Inc. and Harris Associates L.P. respectively had holdings in excess of 5%.

The addition of the US investor Harris Associates increased the proportion of shares held by US shareholders to clearly more than 10%. As at the date of the shareholder survey at the end of June last year they accounted for a shareholding of approx. 5%. According to the shareholder analysis, Spanish investors were the largest group of foreign shareholders, with an 11.1% shareholding. The second largest group of foreign shareholders was the French, whose share of the equity capital on the date of the survey totaled 8.4%.

SHAREHOLDERS  
STRUCTURE  
as of March 2007



■ 50.1% WANDERER-WERKE AG  
■ 14.3% OTHER DOMESTIC SHAREHOLDERS  
■ 5.4% BESTINVER GESTION  
■ 5.2% FINANCIÈRE DE L’ECHIQUIER  
■ 5.1% THE CAPITAL GROUP  
■ 5.0% HARRIS ASSOCIATES  
■ 14.9% OTHER FOREIGN SHAREHOLDERS



### Participation in the Prime Standard Segment, forced out of the SDAX

BÖWE SYSTEC AG was also permanently listed in the Prime Standard Segment on the Frankfurt Securities Exchange in fiscal year 2006, the segment which has the highest level of disclosure obligations. Since the adjustment in the compositions of the index carried out at the beginning of September 2006 by the Deutsche Börse the BÖWE SYSTEC share is no longer represented in the SDAX, the index of small and mid-cap companies. It was forced out of the index, which is restricted to 50 companies, as the result of a series of IPOs by larger companies during the course of the year. The BÖWE SYSTEC share continues to be included in the C-DAX.

### Investor Relations

In the year covered by the report BÖWE SYSTEC continued to maintain active communication on the financial front, focusing on analysts' conferences and roadshows. To this end the company had already given presentations in the first half of the year to numerous investors and analysts at events at the financial centers of Frankfurt, London and Paris. Another analysts' conference in Frankfurt as well as a roadshow in London were also on the agenda during the fourth quarter. Numerous potential investors obtained information on current topics and the future prospects of the BÖWE SYSTEC Group. In parallel with its participation at the above-mentioned events the company also held numerous individual discussions with potential investors and analysts.



# CORPORATE GOVERNANCE REPORT

## Corporate Governance Report

Management board and supervisory board of BÖWE SYSTEC Aktiengesellschaft both attach great importance to a responsible and transparent system of corporate management. Management board and supervisory board report on corporate governance at BÖWE SYSTEC Aktiengesellschaft as follows:

In July 2006 management board and supervisory board issued the Statement of Compliance in accordance with Sec.161 of the Joint Stock Corporation Act (AktG), the full wording of which can be viewed on the company's website. In accordance with that statement BÖWE SYSTEC Aktiengesellschaft complies with virtually all the recommendations of the German Corporate Governance Code as amended June 2, 2005.

In deviation from the recommendation of the German Corporate Governance Code the annual financial statements are not published within the required 90 days after year end but normally not until the beginning of the fourth month after the fiscal year end to prevent them being overlooked as just one of the vast number of financial statements issued by major groups. Details on directors' dealings are not published in the Corporate Governance Report; this information is published on the company's website for four weeks at a time. In addition, the company does not follow the recommendation to provide details of shareholdings in the company held by each individual member of the management board as well as by each individual member of the supervisory board if this exceeds 1% of the shares issued by the company. In this respect no corresponding reports have been submitted to the company.

Whilst the Statement of Compliance dated July 2006 specified that the recommendation on providing details of the remuneration for the individual members of the management board was not followed, BÖWE SYSTEC Aktiengesellschaft now complies with the amendments issued by the legislation on the disclosure of remuneration for management boards and lists the individual remuneration of the members of the management board in the notes to the financial statements in accordance with the statutory obligations.

### **Remuneration for the management board and supervisory board**

The information on the remuneration for the members of the supervisory board and the management board is shown and explained in detail in the notes to the financial statements under the heading “Related party disclosures” (Page 104 ff).

### **Ownership of shares by the members of the management board and supervisory board**

As at the qualifying date of December 31, 2006 the members of the supervisory board held a total of 815 shares. As at the qualifying date of December 31, 2006 the members of the management board of BÖWE SYSTEC Aktiengesellschaft held a total of 5,900 shares. Further information on share ownership can be found in the notes under Clause 18 “Subscribed capital” (Page 92 ff).

### **Details on the share option programs and similar stock-oriented incentive systems**

In addition to the members of the management board other executives of the BÖWE Group can also subscribe to convertible bonds which are offered as a stock-oriented incentive system for a specific group of executives of the BÖWE SYSTEC Group. Further details on this can be found in note 15 (Page 87 f). No convertible bonds were due in fiscal year 2006.



## REPORT OF THE SUPERVISORY BOARD

Johannes Beelen  
Chairman of the  
supervisory board



### Report of the supervisory board

Throughout the reporting period the supervisory board performed the duties required of it by law and the articles of incorporation. It continually advised and monitored the management of BÖWE SYSTEC AG and was directly included in all fundamental decisions.

To this end, as in the previous years, a total of five joint meetings plus one teleconference was held. The supervisory board established a personnel committee which held one special meeting. In order to take due account of the importance of monitoring the BÖWE BELL + HOWELL Group, one of the meetings was held for the first time at the BÖWE BELL + HOWELL offices in Chicago. The remaining meetings took place at the company's registered offices in Augsburg. The members of the supervisory board attended all the meetings during the year, although one member of the supervisory board gave his apologies for not attending one meeting.

In June 2006 Dr. Hans-Joachim Röhler, a long-serving member of the supervisory board and Vice Chairman of the supervisory board, stood down. The supervisory board would like to thank him for his many years of constructive work on the supervisory board in the interests of the company. At the Annual General Meeting on June 1, 2006 Professor Dr. Günther Langenbucher was appointed as a new member to the supervisory board and at the subsequent meeting of the supervisory board appointed Vice Chairman of the supervisory board.

At the meetings the supervisory board reviewed the reports of the management board on the order intake, order backlog, sales, development of costs and the results. The corporate planning was discussed together with the management board and subsequently approved. Deviations from the plan as well as the corresponding countermeasures were also discussed at the meetings. This provided the supervisory board of BÖWE SYSTEC AG with a full picture of the business developments within the Group. In addition, the supervisory board kept itself regularly informed about long-term corporate projects, installations at key clients as well as the general market and competitive situation so that it could properly assess the long-term strategic orientation of the BÖWE SYSTEC Group.



In addition to the monthly reports on business developments the supervisory board was kept informed throughout the year covered by the report, by the management board, of key business events and forthcoming decisions. In particular, the Chairman of the supervisory board maintained close contact with the management board.

As in previous years the efficiency audit required under the Corporate Governance Code was conducted within the supervisory board by way of a questionnaire. This produced a number of ideas or suggestions for improvement which will be taken into account for the way in which the supervisory board operates in future.

The supervisory board examined the conformity declarations of BÖWE SYSTEC Aktiengesellschaft and discussed two deviations from the Corporate Governance Code. Further information on Corporate Governance within the company as well as the details on the amount and structure of the remuneration for the individual members of the management board can be found in note 28.

The supervisory board was satisfied that the management board has provided the information in the management report or group management report required in accordance with sec. 289 (4) or 315 (4) HGB. This information which is required for the first time in the management report or group management report for fiscal year 2006 relates, amongst other things, to the disclosure of obstacles to the acquisition of listed companies, in other words in particular to compensation agreements which were concluded with the members of the management board by way of change-of-control clauses when submitting takeover bids. The information from the management board clearly shows that no such contractual arrangements exist at BÖWE SYSTEC AG.

Once again one of the focal areas of monitoring during the course of the reporting period was the development of the BÖWE BELL + HOWELL Group within the BÖWE SYSTEC Group. To this end the supervisory board traveled to the Group's location in Chicago in October 2006. In addition to the regular meeting of the supervisory board, at the management meeting the managers of the various BÖWE BELL + HOWELL business units were asked about the day-to-day business and the medium-term plans by the supervisory board. The supervisory board was also given a tour of the plant that manufactures systems for letter sorting and visited the important US client trade fair GraphExpo. The supervisory board came away with an overall positive impression of the development of the BÖWE BELL + HOWELL Group within the BÖWE Group. The Group is determined to drive forward process integration and the implementation of strategic projects in order to achieve sustainable success for the Group.

Following intensive discussions with the management board, in June the supervisory board unanimously approved the operational closure of the Australian sales subsidiary, transferring the after-sales business, including all the personnel, to a non-group Australian company since the volume of business generated in Australia did not justify a separate subsidiary.

Throughout reporting period the supervisory board examined the progress of the deregulation of the postal market in Europe and the resultant, medium-term strategic orientation of BÖWE SYSTEC AG in the area of mail verification and sorting systems.

In addition to the monitoring of risks on a continual basis, at its December meeting the supervisory board devoted greater attention to the existing BÖWE SYSTEC AG risk management system. On the basis of its review the supervisory board is convinced that the concept of the risk management system at BÖWE SYSTEC AG is appropriate for promptly identifying potential risks within the company and taking countermeasures. Its review did not identify any risks of material importance to the continued existence of the BÖWE SYSTEC Group.

Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Hamburg, audited the annual financial statements of BÖWE SYSTEC AG as of December 31, 2006 in accordance with HGB, the management report of the company as well as the consolidated financial statements in accordance with IFRS and the group management report, including the accounts for fiscal year 2006 upon which these were based, in accordance with the basic principles of HGB and rendered an unqualified audit opinion in each case. The auditor conducted his audit in compliance with the German basic principles of proper auditing as established by the Institute of Public Auditors in Germany (IdW). The auditor of the financial statements has confirmed that the consolidated financial statements comply with the International Financial Reporting Standards (IFRS) as these are required to be applied within the EU, as well as the applicable supplementary regulations under commercial law in accordance with Sec. 315 a (1) HGB. The auditor rendered following unqualified audit opinion on the report of the management board on the relationships with affiliated companies in accordance with Sec. 312 Joint Stock Corporation Act [AktG]:

“Based on our audit and assessment, conducted in accordance with professional standards, we confirm that

1. the actual disclosures contained in the report are correct,
2. the payments made by the company in connection with transactions detailed in the report were not unreasonably high and disadvantages have not been offset.”

The audit reports, the financial statements and consolidated financial statements, management report and group management report, the report on the relationships with affiliated companies as well as the proposal from the management board for the allocation of the profits were made available to the members of the supervisory board. At the meeting of the supervisory board on March 27, 2007 the auditor reported on the audits of the annual financial statements and the key results of the audit. After giving the report he answered the questions of the supervisory board. The Chairman of the

supervisory board had held a prior individual meeting with the auditors to receive a report on the audit and the assessment of the overall business risk situation.

Following the final result of its own review the supervisory board did not raise any objections to the annual financial statements, management report, consolidated financial statements, group management report, report on the relationships with affiliated companies nor to the audit report by the auditors of the financial statements. The supervisory board therefore concurs with the result of the audit of the financial statements. The annual financial statements of BÖWE SYSTEC AG as at December 31, 2006 are expressly approved and therefore established. The supervisory board also approved the consolidated financial statements prepared by the management board. The supervisory board also concurs with the proposal from the management board to distribute KEUR 8,910 and to carry forward the balance of the profits of BÖWE SYSTEC AG in the sum of KEUR 10,718 to the new account.

*The supervisory board would like to thank the members of the management board for their efforts during the course of fiscal year 2006.*

The visit by the supervisory board to the BÖWE SYSTEC in-house trade fair, Open House 2006, once again also clearly demonstrated to the members of the supervisory board the commitment and technical expertise of the employees of the BÖWE SYSTEC Group. The supervisory board would like to express its sincere thanks to the employees from all over the world for the great success of this event as well as for their creativity and loyalty.

Augsburg, March 27, 2007

THE SUPERVISORY BOARD



**Johannes Beelen**

Chairman of the supervisory board



## THE FINANCIAL YEAR IN PERSPECTIVE



### MAY

The 7<sup>th</sup> International BÖWE Group Open House 2006 which was held at the corporate headquarters of BÖWE SYSTEC AG in Augsburg was the most important and significant client event of the year for the entire group. Under the motto of CREATING GLOBAL MAILROOMS the companies in the group staged the biggest ever showcase of the complete range of services offered by the BÖWE Group. Clients and business partners expressed great interest in taking advantage of the opportunity to learn about the numerous items on show for modern print and mail processing centers. For the BÖWE Group, which has achieved significant growth over recent years, the 2006 Open House was not just a communication platform for clients and business partners. From the internal group aspect it also made a very positive contribution towards closer harmonization between the individual areas of what is still a

young group. The success of this event had only been achieved thanks to the fruitful cooperation across all areas of the group and the uniform team approach that was evident throughout the entire event.

### JUNE

The beginning of June 2006 saw the end of the restraint of trade for BÖWE BELL + HOWELL outside the North American market, both with regard to inserting components and software as well as for supplying companies without a mail distribution license in the mail verification and sorting business. This simultaneously gave the green light for the unhindered global sale of the broad range of products and services from BÖWE BELL + HOWELL comprising high-end hardware and software with the emphasis on inserting, mail sorting and scanner systems.

### JULY

At the Nuremberg 'Mailingtage', a central platform for information and contact relating to all aspects of direct and dialogue marketing in Germany, in mid July the BÖWE Group celebrated its successful premiere as an exhibitor. The deregulation of the German mail market and the expansion of the cooperation arrangements with alternative mail service providers were the two central themes for BÖWE SYSTEC and BÖWE BELL + HOWELL at the trade fair. The Criterion mail sorting system showcased by the Group attracted a great deal of interest, particularly from trade visitors from the areas of private sector mail service providers, consolidators, computer centers and lettershops/service offices who have taken it upon themselves to deliver individual services in accordance with the criteria of the deregulation provisions. Using mail verification and sorting solutions the BÖWE Group took successful advantage of the



Mailingtage to focus on showcasing another key area from its comprehensive range of services for the mailroom.

## AUGUST

Marcus Becker and Stefan Henze, sponsored by the BÖWE Group, were the surprising silver medal winners at the 2006 Canoe Slalom World Championships in Prague, the Czech Republic. Despite the fact that Marcus Becker had missed a lengthy period of training at the beginning of the year due to a back injury, the two ambitious and competitive top athletes battled hard to secure a sensational second place.

## OCTOBER

In mid October the graphic industry gathered in Chicago, Illinois, USA for GRAPH EXPO and CONVERTING EXPO 2006, one of the

world's largest international trade fairs for printing and post-processing. BÖWE BELL + HOWELL was represented by a large stand, providing visitors with examples from its comprehensive product range covering all aspects of high-performance inserting, card mailing, mail sorting technologies and software. Lasermax Roll Systems AB also had its own stand at the trade fair, showcasing modern solutions in the print pre and post-processing area. For the BÖWE Group this sector event was one of the most important for the US and Canadian market.

## NOVEMBER

The BÖWE Group showcased itself at the CARTES trade fair in Paris, the international rendezvous for the plastic card sector. As one of the highlights in the area of card personalization, BÖWE CARDTEC presented the new "BC-alpha<sup>2</sup>" high-speed system platform, an

addition to the BÖWE CARDTEC product portfolio in the high-end personalization area. The presentation of the "BC-alpha<sup>2</sup>" system at CARTES as a GSM solution for the telecommunications market heralded the start of the worldwide market launch. BÖWE SYSTEC introduced a card mailing system in a GSM configuration which, in addition to the online document labeling and sealing, included a VEKtor camera scanner for form recognition as well as new intelligent functions for error handling.

## DECEMBER

Andreas Vogel, a trainee of BÖWE SYSTEC AG in Augsburg, won the award for the year 2006 for best German industrial electronics trainee, specializing in equipment technology, which was presented in the German capital, Berlin.





## BÖWE GROUP – CREATING GLOBAL MAILROOMS



### *Creating Global Mailrooms*

Last year the BÖWE Group was once again seen as a competent partner for every aspect of the mailroom. Intensive communication and dialogue with clients and partners, proven and pioneering technologies, market-oriented innovative capability and of course the international direction of the Group which has been actively pursued over decades, all provide the foundation for our successes.

What will tomorrow's mailroom world look like? Under the motto of CREATING GLOBAL MAILROOMS in 2006 the BÖWE Group showcased itself to potential customers and enthusiastic visitors at the 7<sup>th</sup> International BÖWE Group Open House in Augsburg and numerous international trade fairs

#### **International BÖWE Group Open House 2006 in Augsburg.**

In May 2006 the BÖWE Group issued invitations to the 7<sup>th</sup> International BÖWE Group Open House in Augsburg. An event that on the one side has become a tradition and on the other a launch pad: for the very first time the BÖWE Group exhibited its entire range of services covering inserting systems, mail verification and sorting, card personalization and mailing, pre and post-print processing as well as software all in one place. The entire theme of the in-house trade fair in 2006 was focused on the diversity of worldwide solutions under one roof. More than 2000 clients and business partners from over 65 countries took advantage of the opportunity to find out detailed and comprehensive information on the latest products and technologies from the various business units.



CREATING GLOBAL MAILROOMS – that was the motto of the 7<sup>th</sup> International BÖWE Group Open House. Extensive market experience, a strengthened global presence, wide-ranging synergies between the individual expertise providers and leading edge technology, client-oriented products; these are the special strengths of the BÖWE Group as a full-service provider for modern mailroom solutions which fully impressed the international guests in Augsburg over the two-day long event.

Intensive use was made of both days for an interchange of technical information, live demonstrations on the systems on show, as well as for personal dialogue between individuals. The concept of **one-stop shopping** that unites the individual business units, the expertise of the BÖWE Group in providing comprehensive solutions covering all areas of the automated mailroom under one roof, were reflected in the broad range of mailroom products. The highlights of the Open House were the pioneering product innovations presented live to the visitors to give them “hands-on” experience.

As the host, the BÖWE Group not only impressed the visitors with its state-of-the-art technologies but also provided an entertaining and varied framework program against the background of the 2006 Soccer World Cup as a change to the numerous technical themes. The highlight of the framework program was the traditional Bavarian Evening during which the international guests gave an enthusiastic response both to the Bavarian ‘Schmankerl’ as well as to the performances of local folk using traditional costumes. In 2006 the mixture of tradition and innovation, Bavarian hospitality and the international flavor once again provided the recipe for an eventful and successful event.



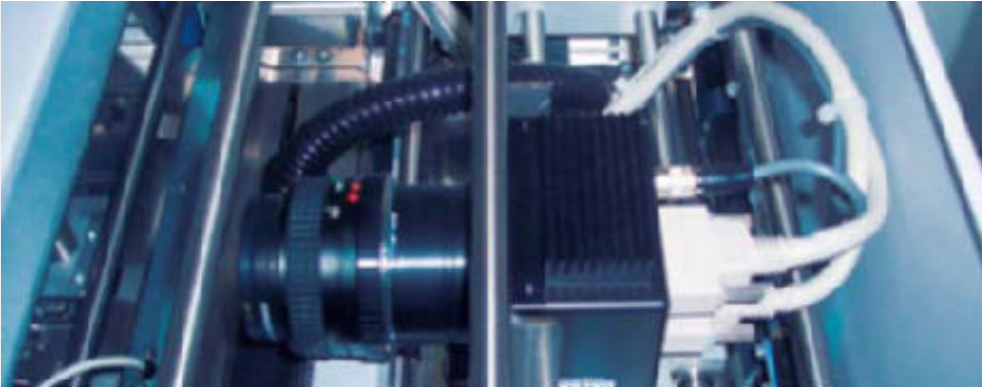
For the BÖWE Group, which has achieved significant growth over recent years, the Open House was not purely a communication platform for clients and business partners but, from the internal group aspect, also made a very positive contribution towards bringing the individual group areas closer together. Hundreds of employees from all over the world gathered in Augsburg and together ensured that the international guests were catered for superbly. They showed great commitment and effort in making the BÖWE Group Open House 2006 a unique experience that will leave all the visitors with long and happy memories of the event.

The success of this event had only been achieved thanks to the fruitful cooperation across all areas of the Group and the uniform team approach that was felt throughout the entire event.

**Increased speed, proven flexibility.  
Marathon 16 inserting system.**

As one of the innovations from the inserting systems area the Marathon 16 impressed visitors with its performance which has now been increased to 16,000 insertings per hour. It goes without saying that the flexibility achieved in the past in terms of application diversity which sets the Marathon inserting systems apart from the rest, was maintained, providing the client with numerous product features to suit his needs. The system can be equipped with three types of enclosure feeders that ensure reliable processing of enclosures in a wide range of fold types, formats and insert thicknesses, right up to brochures and CDs. This makes the Marathon 16 the ideal inserting system for high output complex applications.





VEKtor Camera Scanning

**The best of both worlds.  
Enduro inserting system.**

The proven gripper arm technology from BÖWE BELL + HOWELL, intelligent component control, computer-aided operation with BICOS 2005 and modular input channels from BÖWE SYSTEC: the result is the Enduro inserting system, the first product to be developed jointly by the two BÖWE Group companies. As a result of integration development involving a number of sites and countries, during which the mechanical systems of the US manufacturer were combined with the electronics of the Augsburg-based company in a way that ensured optimum coordination, clients now benefit from a mature system that covers the full range of processing from the classic invoice mailing right up to the diverse advertising mailings. With depending upon the format up to 11,000 insertings per hour the Enduro is used in the medium output segment.

**VEKtor-scanning technology.  
Multifunctional, fast, reliable.**

Just like the Enduro, the new multifunctional VEKtor camera scanning was developed jointly by BÖWE BELL + HOWELL and BÖWE SYSTEC. It is currently the only camera system on the market that enables not just individual sections but entire pages to be scanned using the Line-Scan technology. VEKtor is also capable of scanning every type of code (OCR, Barcode, 2D-Code, etc.) as well as any number of codes of a different type simultaneously on one page; it also recognizes incorrectly positioned codes. In addition, document line scanning can also be carried out in parallel with the operation of the inserting system so the documents do not have to be stopped in order to record the image. Thanks to its high level of flexibility and easy operation the VEKtor technology is tailor-made for use in service offices and companies which have frequent application changes.





### **BÖWE One.**

#### **Modular software for the Automated Document Factory.**

With the new BÖWE One Software Suite the Group presented a product family whose standard modules and additional parameterization designed to meet the individual needs of each and every client, goes far beyond a standard software package and so meets the requirements of a wide range of mailroom architectures. In view of the BÖWE Group's rapidly advancing expansion through acquisitions and mergers over recent years, the need arose for the creation of an all-encompassing total solution for products that use different technologies in order to provide for Group-wide system and plant integration. The various business units of the BÖWE Group are therefore working together on the optimization of existing software products and their subsequent integration into the new BÖWE One platform. In addition to BÖWE SYSTEC Mailroom Communication GmbH in Augsburg, the Software Business Solutions (SBS) of BÖWE BELL + HOWELL based in Waterloo, Ontario (Canada) and the firm of BCC, based in Rochester, New York (USA) which joined the Group in 2005, were also jointly involved in the development. All three of the Group's software companies have extensive experience in the development of mailroom software and possess numerous software patents. The portfolio also covers products which are designed for the respective local markets and precisely coordinated to meet the various market requirements.

The concept design of the BÖWE One Software Suite was significantly influenced by an earlier market analysis covering a number of countries, as well as visits to clients in the USA and Europe. The development was accompanied last but not least by numerous reciprocal visits to workplaces in order to intensify the personal contact between the individual teams and create mutual understanding of the different cultures. In the end, no less than 29 software products from throughout the BÖWE Group were combined within the BÖWE One Software Suite. Clients can therefore enhance the quality and integrity of their document processing, perform reliable documentation and increase the overall efficiency of their production.



BÖWE*One* is far more than just a global brand name for software. The term represents a view of the world: this software combines all the aspects of the BÖWE Group worldwide as well as pioneering technologies, modern equipment and committed, motivated employees to create a unique, global package of services that helps our clients to achieve success

**Card mailing systems from the Card Mailing Systems business unit.  
Bank and GSM solutions.**

In the ever changing card market the Card Mailing Systems business unit of BÖWE SYSTEC AG in Augsburg caters for the needs of its clients. Presenting two systems at the BÖWE Group Open House provided an insight into the wide range of applications for card mailing systems. The highlight of the showcased bank configuration PCS 687 was the online link to a printer with selective carrier draw-off and form identification using the VEKtor camera. The GSM configuration PCS 650 placed the emphasis on both flexibility as well as processing reliability in telephone card mailing. Two alternatives for concealing PIN and PUK on print documents were presented at the in-house trade fair: One option was for the secret numbers to be covered using a glue-based scratch-off label or for the complete document to be sealed using a sealer with an online link.



### **Mail sorting and handling.**

#### **Pilot project TABO: partial automation as an innovative solution approach.**

The event provided for the premiere of an IntelliStack type system which had been developed under the project name TABO by BÖWE BELL + HOWELL at its German Rosbach site in close cooperation with Deutsche Post AG. The purpose of the partially automated system in the so-called mail sorting center is to separate the unsorted incoming mail into post boxes of differing sizes and to align standard and compact



letters so they can be subsequently collected, sorted, placed in standard containers and passed on for the next stages in the sorting process. The system, which is customized precisely to suit the individual needs of the postal centers, reduces the volume of manual handling and thus provides for a more productive, faster processing of letterbox mail. The system can be individually configured to suit the relevant requirements.

### **WayMark – premiere in Europe.**

#### **Innovation for checking the weight of mailing items.**

In the past, the method of gauging the weights of mailing items was to a greater or lesser extent imprecise since the mailing companies were frequently only able to estimate the weights of the mailing items. If the estimated weight exceeded the actual weight then these companies were paying too much in postal charges, if they were below the actual weights then they ran the risk of a penalty payment. With the high speed WayMark weighing module from BÖWE BELL + HOWELL which celebrated its European launch at the BÖWE Group Open House 2006, the company has now provided the optimum solution.

WayMark is a module that fits in seamlessly with all Criterion high-performance sorting systems from BÖWE BELL + HOWELL and can weigh up to 36,000 items per hour at full nominal throughput. Thanks to the new WayMark system the weight of the mailing item is checked and documented with a high degree of precision, with each item being weighed at sorting speed without any delay. Using WayMark means that not only is it possible to avoid cost-intensive mistakes in estimating the weight of a mailing item when being sent but to also simultaneously achieve increases in productivity in the mail sorting.



left page: TABO  
right page: WayMark Module

## Graph Expo and Converting Expo in Chicago.

With over 630 exhibitors and a floor area of around 40,000 square meters the Graph Expo and Converting Expo in Chicago is seen as one of the world's largest and most important technical trade fairs for printing and post processing.

At the exhibition BÖWE BELL + HOWELL showcased its comprehensive range of products covering high-performance inserting systems, card mailing, mail sorting technology and software to the visitors. With the Turbo22, Marathon 16, Enduro, Quattro, Phillipsburg Mark II and BBH 250S, the company had on show a number of inserting systems in various output categories. In the Software Pavilion BÖWE BELL + HOWELL exhibited the new BÖWE One Software Suite and also gave a demonstration of JETVision Platinum, JETVision Express as well as the new VEKtor scanning technology. Separate display islands were devoted to sorting and WayMark as well as to the plastic card system. In a special Direct Mail Center BÖWE BELL + HOWELL showcased Printegrity as a document personalization and individualization system, the 310 Cutter as well as BCC software.

One of the special features of this trade fair was the presentation of the **Must See 'Em Awards**. From the more than 5,700 products on display, 15 leading sector specialists from industry and the trade press selected those which were particularly outstanding in terms of technology and therefore of special importance for the printing and process-





ing sector. These products received the Must See 'Em Awards and were specially recommended to the trade visitors to the trade fair. Two product innovations from the BÖWE Group were presented with the prestigious award: the Marathon 16 high-performance inserting system and the Printegrity inkjet solution were rated as excellent by the technical jury. As a special highlight the employees of BÖWE BELL + HOWELL offered their visitors a special event within the famous natural history Field Museum, where they were given the opportunity to dine in very special surroundings in the company of Sue, the largest Tyrannosaurus Rex fossil discovered to-date and also one

Graph Expo and  
Converting Expo in Chicago.



of the two unique, almost complete dinosaur skeletons in the world. At the end of the successful evening the guests were given the unique opportunity of personal guided tours to view the special exhibition on King Tutankhamen and his breathtaking tomb treasures and to immerse themselves in the golden age of the Egyptian Pharaohs.

### **CARTES in Paris.**

The exhibition, which is staged held annually in Paris, is seen as a rendezvous for providers and clients involved in the international plastic card market. This year the BÖWE Group once again showcased a number of innovative systems and solutions for plastic card personalization and mailing as well as the modular-structured PMP software platform for personalization management, on a joint stand operated by the Card Mailing Systems business unit of BÖWE SYSTEC AG and BÖWE CARDTEC GmbH. 18,000 guests from more than 130 countries took up the invitation from the 450 exhibitors.

The exhibition also saw the premiere of the BC-alpha<sup>2</sup> personalization platform, a new performance category in the high-speed range presented by BÖWE CARDTEC. With a throughput of up to 6,000 cards per hour – and requiring just six square meters of space – the system provides for a significant reduction in the cost per card. The system's productivity is guaranteed through simultaneous chip personalization, high magazine capacities, low maintenance diode laser technology and the user-friendly concept design. True to the logical modular structure of the system, even multifunctional SIM cards can be personalized at high speed in up to 80 stations for contact-based



CARTES in Paris

and 36 for contactless coding. The purpose of the efficient laser module for optical personalization is to provide single or double sided labeling, in which the labeling elements can also be divided between two laser modules. Two separate processing lanes for the optical and electrical personalization continue the concept of parallel processing which has been pursued to-date. In accordance with the requirements of the card market BÖWE CARDTEC offers three product lines for the GSM, banking and identification areas. The systems of the Card Mailing Systems business unit come into play once the personalization of the blank cards has been completed. In Paris the company once again demonstrated the level of application diversity available, with simultaneous emphasis on the reliability aspect. Combining personalized text, variable quantity and position of the card(s) on the base document, selective folding and addition of various enclosures gives the client the facility for individual mailing production and inserting. The Card Mailing Systems can be networked with the BÖWE *One* Software Suite to optimum effect.

## TRAINING



### **Training. Successful investment in the future.**

For many years now BÖWE SYSTEC AG has been successfully investing in employee training and consequently securing highly-trained technical personnel. Highly specialized personnel are becoming increasingly important as a result of ever more complex technologies and processes. The company therefore is strongly committed to providing training qualifications and specialist training for its own next generation of employees. For BÖWE SYSTEC sound training for young employees is an important investment in the future so that on the one side the company can be equipped to face the increasingly tough framework conditions in the outside world in order to combat the rising shortage of skilled staff in Germany and to secure its own innovative capability and competitiveness, whilst on the other hand giving young people the best possible start to a successful career future. In all areas of training the company attaches great importance to a balanced combination of technical qualifications, social and personal skills. In this context, the close interrelationship between theory and practice is an important indication of solidly-based, operational training within the company. By switching between their places of training at BÖWE SYSTEC and the theory training in the vocational training colleges, the trainees receive a solid foundation in technical skills and know-how. Both on the technical and commercial side BÖWE SYSTEC AG endeavors to conduct the training essentially within the existing business operation. For those undergoing industrial training this applies from the outset. The technical trainees receive one year basic teaching in a specially equipped training workshop in which they learn about the necessary bases of work, in line with requirements, before they spend time in the various departments such as production, development and quality assurance where they are introduced and integrated into the day to day practical work. This familiarization with the overall company is extremely important to BÖWE SYSTEC. On the one side the various training stations create insights so as to build up a meaningful overall view of the whole picture – an important aspect for the ability, as it were, to look beyond the individuals' own horizon where the young people have found their permanent place of work in a technical department after completing their training.





Secondly, the trainees learn about their own strengths, weaknesses and preferences, making it easier for them to select their career direction after completing the training. In addition to imparting the stipulated learning content, throughout the entire training BÖWE SYSTEC AG also attaches great importance to personal initiative, flexibility and taking on responsibility at an early stage and promotes the personal further development of the young people on a targeted basis. Through group and project work in which the trainees work together under their own responsibility, BÖWE SYSTEC provides support for these skills during the actual training itself. General qualifications such as team working and insights into the corporate culture and global corporate structures, help the trainees to gain an overall picture of the business, ensuring that there is a high level of identification with the company and promoting the understanding for both internal and group-wide aspects.

### **Training successes. BÖWE SYSTEC is on the right path.**

Proof that BÖWE SYSTEC has chosen the right path on the subject of training is demonstrated by the following successes: the average pass grades achieved in the company are well above the general level, with trainees at BÖWE SYSTEC repeatedly gaining awards for excellent work – not least thanks to the great commitment and efforts of the training managers responsible as well as the technical departments providing the training. On December 11, 2006 the German Chancellor Angela Merkel was the guest of honor at the very first presentation awards to Germany's best trainees by the German Chamber of Trade and Industry. With his excellent pass grades, Andreas Vogel, a former trainee at BÖWE SYSTEC AG in Augsburg, was there when around 200 young people were presented with the awards for Germany's best trainees in their respective specialist areas of training at the federal capital, Berlin. In September 2002 Andreas Vogel began his training at BÖWE SYSTEC as an industrial electronics engineer specializing in equipment engineering and at the beginning of 2006 gained excellent grades in passing all his subjects as the best trainee in this field in Germany.





**Training. Responsibility for society.**

As a company that provides training, BÖWE SYSTEC AG takes its social responsibility for the young generation extremely seriously, as proven in particular by the ever increasing number of trainees taken on over the last ten years. Whilst in 1997 there were just 21 trainees taught at BÖWE SYSTEC in Augsburg, in 2006 the company gave more than 40 young people the opportunity for sound and highly qualified technical training. The number of trainees exceeds BÖWE SYSTEC AG's own requirements so that as many young people as possible can be provided with the necessary tools for a successful start to their working career.

# ENVIRONMENTAL STATEMENT



## Environmental Statement

Sustainable business – this is a challenge faced by an increasing number of conscientious companies. They are actively pursuing the objective of safeguarding natural resources for the future and maintaining an intact environment in which future generations can live. This is an area in which BÖWE SYSTEC AG wishes to fulfill its responsibility through a wide range of activities aimed at safeguarding the natural bases of life. In this context the company attaches great importance to taking special account of the environmental aspects both for its products as well as in its operational processes. The company gained its first environmental certification under DIN EN ISO 14001 back in 1999 and has now continued to maintain this consistently for more than eight years. This strategy, to which the group committed itself many years ago, is therefore being implemented on a continual basis by all employees and with great commitment in their day-to-day practical work. One of the fundamental requirements for successful environmental management is well trained employees, sensitized to the needs of the environment. That is why BÖWE SYSTEC AG keeps its employees regularly informed about current environmental topics. Just as important and self evident at BÖWE SYSTEC is protection for all employees in their daily work within the company in order to improve health and strengthen employee motivation.

# BÖWE SYSTEC GROUP MANAGEMENT REPORT FOR 2006



## Business and general conditions

Creating global mailrooms – the motto of the BÖWE Group Open House held in May 2006 is synonymous with the business activity of BÖWE SYSTEC. Up to just a few years ago the company was satisfied with its position as a European market leader in high-performance inserting systems. Today, BÖWE SYSTEC has a much more comprehensive profile as a globally operating competent partner for all requirements of the automated mailroom. In this context, the modern product range covers the areas of inserting, mail verification and sorting, card personalization and mailing, print pre and post processing, scanning as well as product specific software in all the above-mentioned areas. The range of services is rounded off by comprehensive after-sales services for all products. In this context leadership in technology and orientation towards the client are the factors in BÖWE SYSTEC's success in the global competition for market shares.

As a result of the BÖWE SYSTEC Group's global business activities its financial key indicators are subject to the not inconsiderable influence of relationships between exchange rates, in particular between the euro and the US\$. During the years 2005 and 2006 the average exchange rate of the US\$ remained virtually unchanged so the effect of currency translations on the Group income statement was minimal. Consolidated sales were reduced by a total of EUR 4.2 million due to exchange rate effects. By contrast, at the end of 2006 the US\$ had weakened significantly compared with one year ago, heavily affecting the balance sheet. The consolidated shareholders' equity was reduced by EUR 19.5 million as of the qualifying date of the financial statements as a result of changes in exchange rates.

## Economic situation

The upturn in the global economy also continued in 2006. However, in this context the economic expansion in the industrialized nations lost some of its impetus during the course of the year. The pace of growth slowed particularly in the USA and Japan. In Europe by contrast the upturn had become firmly established at the year end. The economic research institutes accordingly calculated that growth in the euro zone was around 2.7% in 2006.

# BUSINESS DEVELOPMENT OF THE BÖWE SYSTEC GROUP

In the reporting year Germany recorded the second highest growth rate since reunification and so made a significant contribution towards the upturn in the European economy. By the middle of the year the German economy had once again become the engine driving growth in the euro zone. In addition to extremely dynamic exports, the economic revival in Germany was aided by increasing investment and private consumer spending.

The printing and paper technology sector within the machine construction umbrella association also reported a marked increase in sales in 2006. The focus of demand was once again in the countries of the EU, whilst the trend in domestic sales was restrained.

## Development of the sector and competitive environment

Since the acquisition of the US company BÖWE BELL + HOWELL, BÖWE SYSTEC has played a prominent role in the global market for mailroom management systems. In the key markets of North America, Europe and Japan the company occupies a market leader position and is well represented in many other countries. The main competitors, in addition to a few regional providers, are two other companies with global business operations: the listed US group Pitney Bowes, whose mailroom management products represent just one of several areas of business, as well as a privately-owned Swiss company.

The go ahead for the unrestricted global sales of the product range of the US subsidiary BÖWE BELL + HOWELL was given at the beginning of July 2006 when a previous, contractually agreed restraint of trade expired. Since that date high-end hardware and software focusing on the inserting and mail sorting area can also be marketed outside the USA.

## Business development of the BÖWE SYSTEC Group

### Sales

In the reporting period BÖWE SYSTEC posted a new record in group sales. At EUR 484.7 million these were up by 4.9% on the corresponding figure for the previous year of EUR 461.9 million. Unlike the leap in sales in the previous fiscal year, driven by acquisitions, the increase in 2006 was exclusively the result of organic growth. Exchange rate effects reduced the sales growth by EUR 4.2 million compared with 2005. The currency adjusted figure would have produced a 5.8% rise in sales.

The US American subsidiary BÖWE BELL + HOWELL accounted for by far the largest proportion of group sales. A good two thirds of total group sales were generated on the North American continent. The sub-group recorded a 10% increase in sales compared with the previous year, equivalent to EUR 348.1 million as against EUR 314.3 million in 2005.



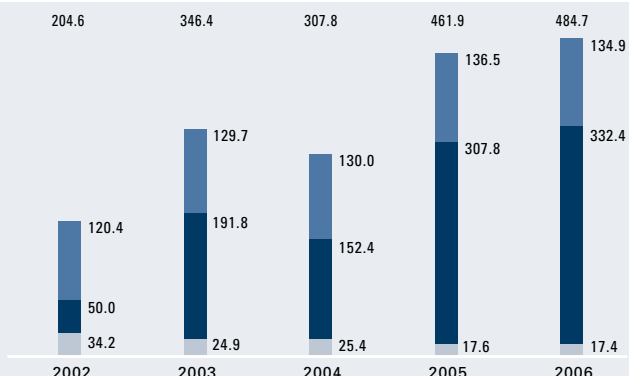


#### BÖWE SYSTEC GROUP:

Sales development  
by region

in EUR million

■ EUROPE  
■ NORTH AMERICA  
■ ASIA AND OTHER



#### Criterion sorting system

The largest European sales and service unit is the subsidiary which is responsible for the German market. It posted another marked increase in sales, up by around 35% to a total of EUR 40.2 million. In this context, the pleasing EUR 10.5 million increase compared with the previous year was primarily attributable to a marked expansion in the mail sorting systems business. Sales in the rest of Europe by contrast, particularly in France, fell.

Sales of the Rest of World segment totaled EUR 17.4 million as against EUR 17.6 million in the previous year, stemming almost entirely from the BÖWE SYSTEC subsidiary in Japan whose sales remained virtually unchanged at EUR 16.8 million compared with EUR 16.7 million in the previous year.

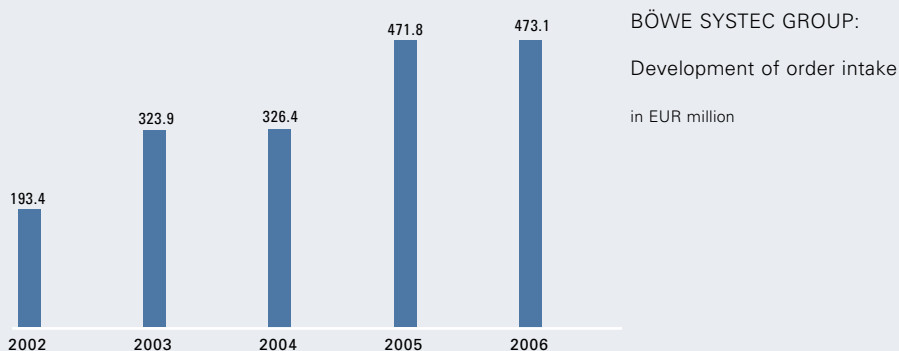
As a result of the sharp rise in demand for sorting systems in Europe the breakdown of group sales into product and service sales in the reporting period showed a slight shift in favor of product sales. With an increase of EUR 25.1 million to EUR 270.8 million, product sales accounted for approximately 56% of total group sales. Sales arising from services, on the other hand, were down by approx. 1.1% compared with the previous year, to EUR 213.9 million. The growth in product sales paves the way for a future increase in the after-sales business.

#### Order intake

The order intake of the BÖWE Group once again exceeded the high level of the previous year, albeit only slightly. At EUR 473.1 million this produced an increase in orders of EUR 1.3 million. As a result of the greater integration between the group companies there was a marked increase in inter-group order intakes, a clear sign of the convergence between the individual companies in the BÖWE Group.

As in the case of sales, the North American market also played a dominant role in the order intake. With orders equivalent to EUR 335.3 million (prior year: EUR 334.8 million) the US subsidiary BÖWE BELL + HOWELL accounted for more than two thirds of the orders won in the 2006 fiscal year.





Marked regional differences were seen in the development of the order intake in Europe. Whilst the order intake in France were nearly one quarter lower at EUR 19.3 million, a boom in orders for the mailing area of the German sales and after-sales company produced an increase in the order intake of more than 50% to EUR 51.0 million. The BÖWE SYSTEC subsidiary in Japan successfully increased its order intake by around 27% or EUR 4.0 million compared with the previous year, to EUR 18.6 million.

### Order backlog

As of the end of 2006 the order backlog of the BÖWE SYSTEC Group stood at EUR 84.0 million. This represents a fall in the last 12 months of EUR 11.6 million or approx. 12%. The main cause for the lower order backlog was two larger individual orders that were included in the order backlog at the end of 2005 and accounted for in the reporting period. The order backlog of the US subsidiary decreased accordingly from EUR 79.1 million to EUR 66.3 million. Once again the North American sub-group was responsible for more than three quarters of the total group order backlog.

A marked increase in the order backlog was posted in the same period by the domestic sales and after-sales service company which succeeded in more than tripling its order volume compared with the previous year to EUR 15.6 million. The company's order books as of the end 2006 included a major order in the rapidly expanding sorting business. The development of the order backlog in the rest of Europe showed significant regional variations. Overall, the European sales units posted an increase in order backlogs of EUR 6.8 million or approx. 47%.

In the Rest of World regional segment BÖWE SYSTEC Japan succeeded in doubling its order backlog within the one year period to EUR 3.3 million (prior year: EUR 1.6 million).

As in previous years the group order backlog does not take into account the after-sales agreements which are concluded for longer periods.



#### BÖWE SYSTEC GROUP:

Total capital expenditures and cash flow from operating activities

in EUR million

■ CASHFLOW FROM OPERATING ACTIVITIES  
 ■ TOTAL CAPITAL EXPENDITURES INCL. FINANCIAL ASSETS



### Capital expenditures

In the fiscal year just past the BÖWE Group invested EUR 20.5 million in property, plant and equipment and intangible assets. As such, investments were EUR 4.3 million below the figure for 2005. Total depreciation on assets in the reporting year was EUR 18.4 million compared with EUR 19.7 million in the previous year.

Additions to property, plant and equipment, in the sum of EUR 11.9 million, accounted for the largest proportion of capital expenditures throughout the group. They related primarily to rationalization measures and the expansion of production capacities as well as to costs for the development of a back-up center for clients in the USA. The capital expenditures were offset by depreciation on property, plant and equipment of EUR 7.6 million. In the previous fiscal year EUR 10.9 million was invested in fixed assets.

Procurements in the area of intangible assets totaled EUR 8.6 million as against EUR 13.9 million in 2005. The addition to internally generated intangible assets in the sum of EUR 6.2 million primarily relates to capitalized development projects in the USA for the purpose of improving the competitive position of inserting systems in the medium output range. New developments in system software for mailing systems represented another area of focus. Amortization on intangible assets totaled EUR 10.5 million in 2006.

### Research and development

Innovations play a key role in the competition between providers for Mailroom Management Systems. With its claim of maintaining a state-of-the-art product portfolio at all times and simultaneously meeting the specific wishes of its clients through innovative new developments, BÖWE SYSTEC has carved out a position for itself as a technology leader within the sector. The great importance attached to research and development within the BÖWE SYSTEC Group is underlined by the relatively high level of expenditure in this area compared with the average according to the sector association, the VDMA.





Inserting system Marathon 16

To the left:  
Gripper arm technology in the  
Enduro inserting system

As of the end of the fiscal year 227 employees were engaged in research and development throughout the Group. The expenditure on research and development totaled EUR 14.4 million.

Whereas the focus last year was on expanding the processing range as well as upgrading the facilities, in the reporting period the emphasis was on increasing system productivity and availability.

Production data was used to ascertain the potential for improvement particularly for the TURBO system and its input components for assembling before folding at top speed. Technical modifications were developed and successfully implemented within the framework of various client projects. The combined range of all the measures went into the development of the new TURBO 2007 system which is intended to offer the client increased productivity thanks to increased system availability.

Proven gripper arm technology of BÖWE BELL + HOWELL, plus intelligent component control, computer-aided operation and modular input channels of BÖWE SYSTEC: the result is the Enduro inserting system, the first product jointly developed between the two BÖWE Group companies. This has now also been released for marketing within Europe and Asia. Input channel components will be assembled together with inserting components from the USA at the Augsburg site and the finished systems will then be supplied to clients within Europe and Asia.

Conversely, thanks to the systems' modular construction, there is now the possibility in the plastic card system area for supplying components from Augsburg to the subsidiary BÖWE BELL + HOWELL, also a manufacturing company, for these to be assembled together in the USA to create card mailing systems for delivery to clients within the North American region.

With the new Marathon16 inserting system, an increase in output to 16,000 insertings per hour has now been achieved with the Marathon product line. It goes without saying that the level of flexibility previously achieved in terms of application diversity, one of the key distinguishing features of the Marathon inserting systems, was retained, providing the client with numerous product features designed to suit his needs.



The system can be equipped with three types of enclosure feeders which provide for the reliable processing of enclosures in a wide range of fold types, formats and thicknesses, up to brochures and CDs. This makes the Marathon 16 particularly well suited for complex applications, with high output and high level of flexibility.

In addition to the Enduro, the new multifunctional VEKtor camera scanner is another joint development by BÖWE BELL + HOWELL and BÖWE SYSTEC. It is currently the only camera system on the market to not only scan individual sections but also entire pages. VEKtor can also scan every type of code (e.g. barcode or 2D code) as well as any number of different codes simultaneously on one page. The special advantage of VEKtor for the client is the line by line scanning of documents while an inserting system is in operating mode, enabling the image to be recorded without the documents having to be stopped. The high flexibility and easy operation of the VEKtor technology make it ideal for use in service offices and companies in which applications are frequently changing.

The high-speed WayMark weighing module from BÖWE BELL + HOWELL enables BÖWE SYSTEC to offer marked cost savings for its clients in the mail sorting business. WayMark is a module that fits in seamlessly with all Criterion high-output sorters from

Mailings distributed to the destination addresses in the sorting box line of the Criterion sorting system

To the right:  
Module for embossing credit cards



BÖWE BELL + HOWELL and weighs up to 36,000 mailings per hour. In this context, every letter is verified and documented to a high level of precision at sorting speed. WayMark therefore enables clients to avoid costly mistakes in estimating the weight of a mailing when taking mailings for delivery and to simultaneously increase their mail sorting productivity.

The BC-alpha<sup>2</sup> development has enabled BÖWE CARDTEC to move successfully into a new output category in the card personalization high output range. With a throughput of up to 6,000 cards per hour the user-friendly system provides for a significant reduction in the costs per card. Simultaneous chip personalization, high magazine

capacities and low maintenance diode laser technology are key to the system's high level of productivity. True to the consistent modular construction of the system even multifunctional SIM cards can be personalized at high speed in up to 80 stations for contact-based and 36 stations for contactless coding.

The ongoing process of concentration in mailing service offices and services companies as well as in the major in-house shops is generally leading to efficient mailrooms with diverse ranges of applications including software products.

In addition, these large service providers or in-house shops are endeavoring to set themselves apart from their competitors by having an expanded portfolio. One of the key objectives, in addition to the quality, integrity and transparency of production, is to provide cover for virtually every process relating to document creation and distribution: starting from client data which is supplied via a CRM tool, to the preparation of the data up to supply of the documents in digital or printed form. This calls for versatile software solutions which are used for example in print data manipulation, document composition and data conversion or to the supply of documents in digital form. There is also a need for software tools in order to maintain an overview and transparency of the work steps within a mailroom. This includes software for production planning and



control as well as for the monitoring of the actual mailing of each individual letter or the automatic post-printing. Furthermore, the linking of the mailrooms to higher level planning and control tools is increasingly on the agenda.

The new BÖWE *One* Software Suite creates an universal total solution for products that use different technologies. To this end a whole range of existing and patented software solutions from the various areas of the BÖWE Group were collated, standardized and integrated. The resultant software platform now offers on the one side the advantages of a standard software package whilst at the same time taking account of the individual needs of each client and in this way satisfies the requirements of a wide range of mailroom architectures.

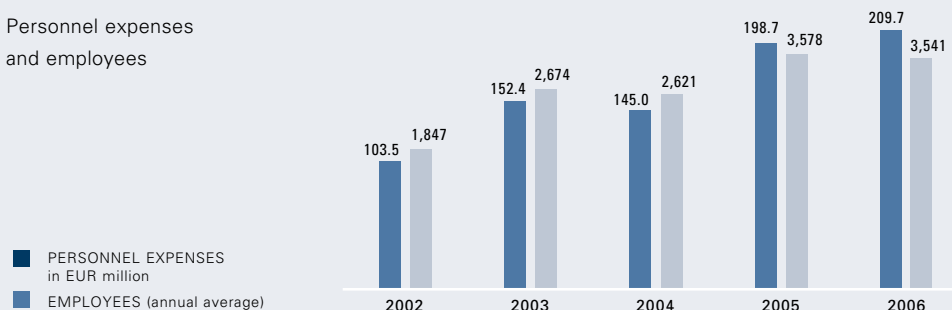




Life-long commitment:  
The employee shown here  
celebrated his 50 years' of  
service for the BÖWE Group  
in 2007

#### BÖWE SYSTEC GROUP:

Personnel expenses  
and employees



### Employees

The number of personnel employed at BÖWE SYSTEC as at the end of fiscal year 2006 totaled 3,572 compared with 3,652 at the end of the previous year. By contrast, the domestic companies were able to expand their number of permanent employees from 944 in the previous year to 953 as a result of the rapid growth in the sorting business. On average during the year the BÖWE Group employed 3,541 personnel worldwide (prior year: 3,578).

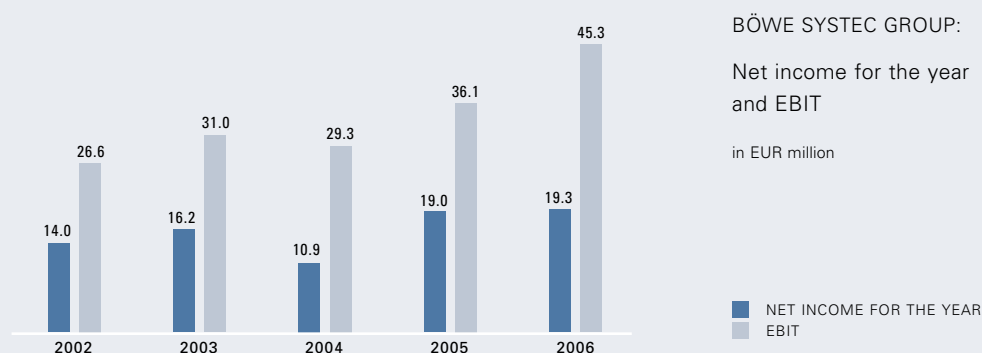
More and more importance is being attached to highly specialized personnel as a result of increasingly more complex technologies and processes. That is why the BÖWE Group companies are highly committed to qualification and specialist training for its own trainees. BÖWE SYSTEC sees a sound education for its young employees as an important investment in the future on the one side to equip the company to meet the changing, external framework conditions, to counter the increasing shortage of skilled personnel in Germany as well as to secure its own innovative capability and competitiveness and on the other side to provide young people with the best possible start to a successful career future.

#### *Thanks to all employees and employee representatives*

The management board would like to thank all employees for their commitment and their hard work in the fiscal year. Through their initiative and technical know-how they made an important contribution towards our company's success. Thanks also go to the employee representatives for a stable climate of mutual trust and their understanding of the need to work in the common interests of our company. The ability to also respond flexibly to changes in the market and fluctuations in demand remains key to our global competitiveness.

### Earnings situation

On the basis of the foreign exchange rates applicable at the start of the year the planning for the reporting period anticipated group sales of around EUR 490 million as well as an increase in the net income for the year by comparison with the previous year.



At the end of 2006 BÖWE SYSTEC Group sales totaled EUR 484.7 million. In this context the effects of exchange rates diminished sales growth by EUR 4.2 million. On the basis of the currency-adjusted group sales of EUR 488.9 million, the target sales were therefore achieved almost spot on. The net income for the year increased to EUR 19.3 million in the year covered by the report, consequently here again the forecast which had been repeatedly reaffirmed during the course of the year, was also met.

#### ***Earnings before interest and taxes (EBIT)***

EBIT increased to EUR 45.3 million in fiscal year 2006. Compared with the previous year's figure of EUR 36.1 million this represents a rise of EUR 9.1 million or 25%. Thanks to this disproportionately high increase compared with the growth in sales, the EBIT return on sales improved to 9.3% as against 7.8% in the previous year. The EBIT for the USA segment reached EUR 21.5 million (prior year: EUR 19.1 million). As in the previous year (EBIT EUR 21.1 million) the highest earnings were achieved in the regional segment of Germany with an EBIT of EUR 22.9 million. The EBIT yield here reached almost 20% as in the previous year. In the Europe segment the EBIT came in at EUR 1.6 million (prior year: EUR 4.4 million) and the return on sales fell to 1.9% (prior year: 4.7%). The Rest of World segment posted an EBIT of EUR 0.2 million as against EUR 0.3 million in fiscal year 2005.

#### ***Expenses/other operating result***

The 2.8% increase in cost of sales did not keep pace with the growth in sales of 4.9%. The gross margin on sales therefore improved by around 1.3 percentage points to 34.9%. This improvement was achieved despite service sales accounting for a lower proportion of total sales, 44.1% in 2006 compared with 46.8% in the previous year. The improvement in the margin was made possible by measures aimed at reducing costs on the manufacturing side as well as by a partial increase in the production output in the inserting business of the US company.

Selling expenses and marketing costs rose by EUR 2.0 million to EUR 54.6 million and therefore at a slightly disproportionately lower rate to sales. This increase also includes the costs of the "BÖWE OPEN HOUSE" in-house trade fair held every two years and at which the company profiled itself in May 2006 once again to numerous interested

## BÖWE SYSTEC GROUP:

### Figures per share

in EUR



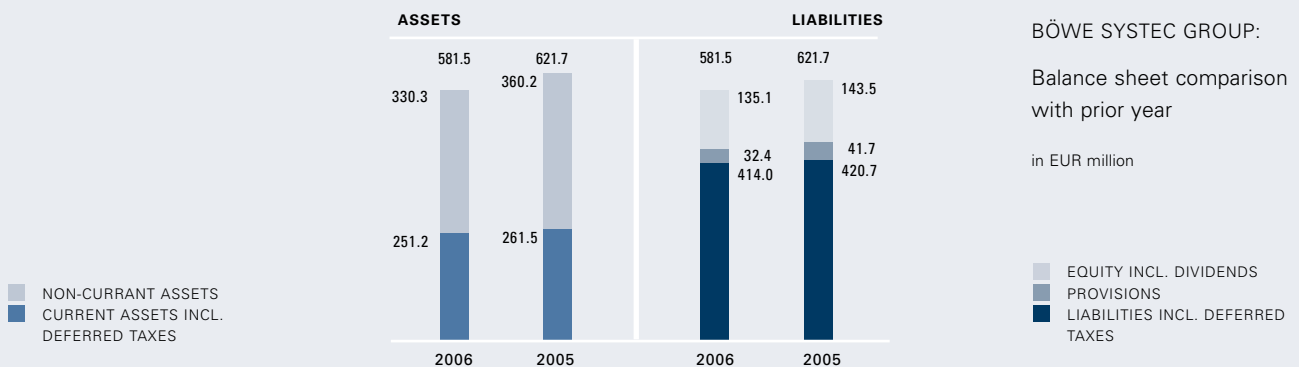
visitors from all over the world at the Augsburg site. Administration costs rose by just under EUR 3.5 million to EUR 67.3 million compared with EUR 63.8 million in the previous year. The 5.4% rise relates primarily to expenses in the USA segment and are linked to the rapidly growing sorting business. Research and development costs, at EUR 14.4 million, rose by EUR 1.9 million compared with the previous year. The total sum comprising selling expenses, administration and R&D costs was up by around EUR 7.4 million or 5.8% and consequently at a slightly higher rate in proportion to sales.

Other income and other expenses fell in comparison with the previous year by EUR 4.4 million and EUR 6.3 million respectively. The net balance arising from other expenses and other income was EUR 12.5 million in fiscal year 2006 as against EUR 10.6 million in 2005. The one-off effects included in this figure totaled EUR 5.3 million in 2006 while in 2005 the group reported net one-off earnings of EUR 7.9 million. EUR 3.2 million of this resulted from the change in the market values of the options for the acquisition of shares in a joint venture, with EUR 2.1 million coming from the revaluation of the fair value of an embedded derivative. In 2005 this mainly related to the difference between the subordinate option price and the actual purchase price for the acquisition of the shares in BÖWE BELL + HOWELL.

### *Financial result*

The contribution to earnings from investments shown at-equity improved to EUR 1.2 million compared with EUR 1.0 million in the previous year and, as in the previous year came entirely from Lasermax Roll Systems. The balance arising from other interest income and expenses resulted in an expense of EUR 19.1 million compared with EUR 15.4 million in the previous year. This increase is attributable to the marked rise in the financial liabilities associated with the acquisition of the further shares in BÖWE BELL + HOWELL in the second half of 2005. The loss of the leasing business in the USA which had been discontinued at the end of 2005 produced a reduction in the balance of interest from leasing transactions of approx. EUR 4.1 million to the new figure of EUR 0.2 million.





### Taxes on income and earnings

Tax expenses in fiscal year 2006 totaled EUR 8.3 million compared with EUR 7.0 million in the previous year. The tax quota increased in this context to approx. 30.2% by comparison with 27.0% in the previous year. The effects of the tax audit for the years 2000 to 2003, completed in fiscal year 2006, have been incorporated into this figure. In fiscal year 2005 the tax exemption of the above-mentioned one-off income had a positive effect on the group tax burden.

### Net income for the year and earnings per share

The consolidated net income for the year increased in fiscal year 2006 to EUR 19.3 million or 4.0% of sales. The comparative figure for the previous year were EUR 19.0 million, corresponding to 4.1% of sales. Earnings per share with a weighted average of 6.6 million shares in fiscal year 2006, totaled EUR 2.92 (basic and diluted) compared with EUR 2.88 in the previous year.

### Proposed dividend for 2006 of EUR 1.35 per share

Supervisory board and management board of BÖWE SYSTEC AG will propose at the Annual General Meeting to be held on May 24, 2007, that a dividend of EUR 1.35 per share be paid. The amount distributed therefore remains unchanged as against the previous year and will total EUR 8.9 million.

### Net assets and financial situation

The net assets of the BÖWE SYSTEC Group totaled EUR 581.5 million as of the end of fiscal year 2006. The EUR 40.2 million reduction compared with the corresponding figure of EUR 621.7 million in the previous year is essentially attributable to the change in the exchange rate of the US \$ against the euro on the qualifying date.



Labeler for the secure mailing of PIN and PUK for telephone cards



Short-term assets were down by approx. EUR 5.2 million compared with the previous year, to EUR 230.2 million despite the growth in sales in 2006. In this context an increase in receivables from goods and services of approx. EUR 10 million resulting from sales, was offset by a reduction of around EUR 13 million in inventories. The balance of cash equivalents as at the balance sheet qualifying date increased to EUR 17.1 million compared with EUR 15.8 million as at the qualifying date in the previous year.

Long-term committed assets fell by EUR 35.0 million to EUR 351.3 million. The conversion of the group assets produced a currency effect of approx. EUR 31 million in this respect. The biggest change compared with the previous year can be seen in intangible assets which fell from EUR 289.3 million to EUR 258.4 million. Property, plant and equipment rose by approx. EUR 1.0 million to EUR 38.8 million.

Short-term group liabilities reported a rise of EUR 2.6 million to EUR 201.8 million. While liabilities arising from goods and services as well as other liabilities showed a fall, there was a marked increase in the financial liabilities. BÖWE SYSTEC posted a reduction of EUR 34.4 million in long-term liabilities, to EUR 244.7 million. The main changes in this context came in long-term financial liabilities and provisions.

Currency translation effects in the sum of EUR 19.5 million reduced the consolidated shareholders' equity, producing a fall as at the end of the fiscal year to EUR 135.1 million compared with EUR 143.5 million in the previous year. The shareholders' equity ratio remained virtually unchanged at 23.2% (previous year 23.1%).

The net financial liabilities of the BÖWE SYSTEC Group totaled EUR 250.6 million at the end of December 2006 as against EUR 249.9 million in the previous year.

#### **Dependent company report**

We hereby declare that BÖWE SYSTEC AG received appropriate consideration in return for any legal transaction with affiliated companies in accordance with the circumstances known to us at the time the legal transactions were effected.





Module for the application of plastic cards

## Risk management

Entrepreneurial responsibility means not only exploiting opportunities but also identifying, assessing and taking counter measures against risks at an early stage. The task of identifying and actively controlling the entrepreneurial risks within the BÖWE SYSTEC Group is carried out on the basis of a well-established, tried and tested system of planning and controls. The management board utilizes this instrument in order to manage the company on a value-oriented basis. The opportunities and risks of our business activities are examined and assessed in terms of their strategic and operational importance, within the framework of a revolving planning process. The risk management system, which is a statutory legal requirement, is documented in a risk management manual which is continually further developed and adapted to meet changing framework conditions. In order to counter the strategic and operational business risks at home and abroad on the basis of uniform standards, the foreign companies have also been integrated into the existing risk management system.

The reporting system is used to keep all decision-makers continually, speedily and comprehensively informed of the extent to which targets are being achieved. As an early warning indicator it highlights for example changes in the market and the competitive environment. This enables negative developments to be identified at an early stage and prompt countermeasures to be taken. In addition to the planning, production and sales process the risk analysis also covers the areas of accounting, financing, cash management as well as hedging. Risk audits are conducted at regular intervals and used as a basis for considering preventative measures and, if necessary, opportunities for minimizing losses.

In the period covered by the report there were no risks that could have jeopardized the continuing existence of the BÖWE SYSTEC Group. From today's viewpoint there are also no identifiable risks that might jeopardize the Group's existence in the future.

### Opportunities and risks of future development

As a global enterprise the BÖWE SYSTEC Group is faced with a large number of potential risks. Despite the increasing diversification within the Group the future development of electronic data transfer and its associated applications are of fundamental importance for the continued growth of BÖWE SYSTEC. In order to be capable of identifying and exerting active control over the corporate risk arising from this area, we pay close attention to all changes and development trends.



## SUBSEQUENT EVENTS

A dynamic market and competitive environment requires marketable products and competitive solutions in order to successfully survive. By maintaining intensive and active dialog with our clients we are able to recognize developments and needs in the sector early on. The information gathered is analyzed in joint projects and, depending upon the assessment of the potential, converted into competitive and pioneering product developments.

The possibility of further increased pressure on prices in the sales markets could have a significant impact on the earnings situation. Management counters this risk by taking continual measures in order to further reduce costs, to maintain or even improve the level of profitability achieved.

The main financial risks involve foreign currency risks and fluctuations in interest rates which can be reduced with the help of corresponding hedging transactions. The company has fixed its financing costs to a significant extent through the conclusion of longer term credit agreements and corresponding interest hedging transactions. Sufficient bank credit balances or available lines of credit are kept in reserve in order to meet fluctuating cash flow requirements arising from the operational business activities. Potential claim default risks are countered by verifying clients' creditworthiness or by applying the standard export guarantee instruments.

In the medium term, inserting systems will create growth opportunities for BÖWE SYSTEC as the result of an anticipated rising demand from the increasingly developing economies of the countries of Asia and Eastern Europe. The company is also exploiting the opportunity to expand its production range to include components for mail sorting systems. The ongoing process of mail delivery deregulation in various European countries creates significant market potential in the short term.

### **Information in accordance with § 315 Clause 4 HGB (German Commercial Code)**

With regard to the bases of the remuneration system for the management board we refer to the detailed information in the note 28.

With regard to the details on the capital we refer to the detailed information in the note 18.

The appointment and dismissal of the members of the management board is governed by sec. 84, 85 AktG as well as sec. 6 of the Articles of Association, version dated July 13, 2006. In accordance with sec. 6 of the Articles of Association the management board comprises at least two persons, otherwise the supervisory board determines the number of members of the management board. The amendment to the Articles of Association is being carried out in accordance with sec. 179, 133 AktG as well as sec. 13 Articles of Association, version dated July 13, 2006; under the latter provision the supervisory board is authorized to pass resolutions on amendments and additions to the Articles of Association providing these relate only to the wording.

### **Subsequent events**

After the end of the fiscal year there have been no events of special importance which will have a major impact on the course of business for the BÖWE SYSTEC Group.

## Outlook

The economic research institutes expect the current year to produce a further weakening in US economic activity as well as a slight overall slowing of economic growth in the leading industrialized nations. For the euro zone by contrast, leading experts forecast a continuation of the robust growth, with inflation remaining low.

According to expectations the economic upturn in Germany will remain strong. These forecasts are based on, amongst other things, a continuation of the investment boom in 2006 which shows no sign of stopping. Once again however exports will provide the greatest support for economic activity. Although according to surveys in the sector there is expected to be a slowdown in US sales here, demand from Eastern Europe, Asia and the EU will be strong. As a result of the strong rise in employment numbers private consumer spending is expected to increase despite the increase in value added tax in Germany.

The sector association, the VDMA, anticipates that sales in the printing and paper technology sector will grow by approx. 6% in 2007. In this context, the association is assuming a slight fall in exports. The paper processing machine segment is also expected to see a continuation in the positive trend.

The demand for BÖWE SYSTEC products in the medium term will be primarily dependent upon three factors. First of all, on the further growth in mail volumes from companies to private individuals. This is an area in which BÖWE SYSTEC will continue to benefit from a slight rise in growth in mail volumes for personalized advertising and marketing mailings.

Of far more importance to BÖWE SYSTEC however is the imminent opening up of the European mail markets. The end of the letter delivery monopoly in Germany, scheduled for the beginning of 2008, has already made a noticeable contribution towards the positive development of business at BÖWE SYSTEC in the reporting period. By the beginning of 2009 the aim is for the monopoly in letter mail delivery to have been lifted in all other European countries.

BÖWE SYSTEC sees this area as offering significant potential for the sale of mail verification and sorting systems. Numerous private companies are already becoming established on the local mail markets. In Germany alone today there are already more than 1,050 private licensees for mail services and the number of sorting centers is continually rising. In this context the action forum "More Color in the Mail Market" anticipates capital expenditures of up to EUR 210 million in machinery and business equipment.

At the same time, the expected reduction in postal costs as part of the opening up of the letter markets is likely to provide a marked additional boost for direct marketing. This will in turn stimulate the demand for inserting systems.

Independently of the above-mentioned positive developments in the market an increasing number of companies are centralizing their mail distribution in one mailroom or outsourcing the task to external mailing centers. The result of this is a concentration of larger volumes of mail at a few centers, creating the conditions for the efficient use of high-performance systems.

The planning for the 2007 fiscal year, taking into account the current market position, current foreign exchange rates and the order backlog as at the beginning of the year, provides for sales in excess of EUR 500 million. The management board expects an increase in the consolidated net income for the year compared with fiscal year 2006.





# CONSOLIDATED FINANCIAL STATEMENTS

BÖWE SYSTEC Aktiengesellschaft, Augsburg, Germany  
Consolidated financial statements as of December 31, 2006

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## CONSOLIDATED CASH FLOW STATEMENT

	2006	2005
	KEUR	KEUR
Net income for the period before income taxes, interest income and expenses	42,979	42,776
+ Depreciation and amortization of non-current assets	18,359	19,683
+/- Increase/decrease in provisions	233	382
- Other non-cash income and expenses, net	-9,570	-7,200*)
+/- Loss/gain from disposal of non-current assets and from deconsolidation	-822	-938
-/+ Increase/decrease in inventories, trade receivables and other assets that cannot be allocated to investing or financing activities	-6,468	-15,847
+/- Increase/decrease in trade payables and other liabilities that cannot be allocated to investing or financing activities	-6,898	8,524*)
- Interest expenses	-18,811	-17,141
+ Interest income	1,680	1,699
- Income taxes	-6,597	-8,334
<b>= Cash flow from operating activities</b>	<b>14,085</b>	<b>23,604</b>
+ Cash received from disposals of property, plant and equipment	948	1,027
+ Cash received from disposals of intangible assets	106	114
- Cash paid for investments in property, plant and equipment	-11,917	-10,602
- Cash paid for investments in intangible assets	-8,587	-6,287*)
+ Cash received from disposals of financial assets	991	3,883
- Cash paid for investments in financial assets	-98	-358
+ Cash received from the sale of lease receivables	0	19,370
+ Cash received from the sale of consolidated entities and other business units	0	672
- Cash paid for the acquisition of consolidated entities and other business units	0	-32,460
<b>= Cash flow from investing activities</b>	<b>-18,557</b>	<b>-24,641</b>
+ Cash received from capital increases	0	60
+ Cash received from profit participation rights	0	8,000
- Dividends paid	-8,910	-8,570
- Change in lease liabilities	-273	-416
+/- Sale/acquisition of treasury shares	0	299
+ Cash received from the issue of bonds and from borrowings	5,000	21,425
- Cash repayment of bonds and borrowings	-22,540	-39,972
<b>= Cash flow from financing activities</b>	<b>-26,723</b>	<b>-19,174</b>
Net change in cash and cash equivalents	-31,195	-20,211
- Changes in cash and cash equivalents due to exchange rate fluctuations and changes in the consolidated group	-1,186	1,676
+ Cash and cash equivalents at the beginning of the period	569	19,104
<b>= Cash and cash equivalents at the end of the period</b>	<b>-31,812</b>	<b>569</b>
<b>Composition of cash and cash equivalents at the end of the period</b>		
+ Cash	17,139	15,809
- Liabilities to banks due on demand	-48,951	-15,240
	<b>-31,812</b>	<b>569</b>

\*) Prior-year figures were adjusted; see the explanations in note 24.

## CONSOLIDATED INCOME STATEMENT

		2006	2005
	Note	KEUR	KEUR
Sales	(1)	484,658	461,851
Cost of sales		-315,509	-306,838
Gross profit		169,149	155,013
Selling and distribution costs		-54,647	-52,645
Administrative expenses		-67,290	-63,832
Research and development costs		-14,431	-12,455
Other operating income	(2)	13,207	17,641
Other operating expenses	(4)	-709	-7,056
Impairment loss	(9)	0	-523
Earnings before investment income, interest and taxes (EBIT)		45,279	36,143
Income from joint ventures accounted for at equity		1,188	996
Other interest and similar income		1,680	1,699
Interest income from leases		164	8,333
Interest and similar expenses	(5)	-20,746	-17,141
Interest expenses from liabilities to banks from refinancing of lease transactions		0	-4,020
Earnings before taxes (EBT)		27,565	26,010
Income taxes	(6)	-8,314	-7,010
<b>Group profit for the year</b>		<b>19,251</b>	<b>19,000</b>
Earnings per share (basic and diluted)		EUR 2.92	EUR 2.88





## CONSOLIDATED BALANCE SHEET

		2006	2005
ASSETS	Note	KEUR	KEUR
A. CURRENT ASSETS			
I. Cash and cash equivalents		17,139	15,809
II. Receivables and other assets			
1. Trade receivables	(12)	96,494	86,767
2. Lease receivables	(13)	2,032	4,386
3. Income tax refund claims		1,739	5,782
4. Derivative financial instruments	(21)	4,208	717
5. Other assets		7,805	8,470
		<b>112,278</b>	<b>106,122</b>
III. Inventories	(11)	100,795	113,517
		<b>230,212</b>	<b>235,448</b>
B. NON-CURRENT ASSETS			
I. Receivables and other assets			
1. Lease receivables	(13)	4,035	7,713
2. Other assets		5,476	5,740
		<b>9,511</b>	<b>13,453</b>
II. Intangible assets			
1. Goodwill	(9)	155,792	174,142*)
2. Trademarks and patents	(9)	69,231	78,297
3. Client base		16,513	23,900
4. Capitalized development work		13,247	7,761
5. Other intangible assets		3,583	5,183
		<b>258,366</b>	<b>289,283</b>
III. Property, plant and equipment		<b>38,788</b>	<b>37,835</b>
IV. Investment property	(10)	5,387	5,694
V. Financial assets			
1. Joint ventures accounted for at equity	(8)	15,300	13,962
2. Securities		729	631
3. Loans		12,451	13,442
4. Derivative financial instruments	(21)	441	1,273
		<b>28,921</b>	<b>29,308</b>
VI. Deferred tax assets	(6)	10,317	10,724
		<b>351,290</b>	<b>386,297</b>
		<b>581,502</b>	<b>621,745</b>

\*) Prior-year figures were adjusted; see explanations in the Notes under VII.

		2006	2005
	Note	KEUR	KEUR
<b>EQUITY AND LIABILITIES</b>			
<b>A. CURRENT LIABILITIES</b>			
<b>I. Financial liabilities</b>	(14)		
1. Liabilities to banks		66,120	39,989
2. Bonds	(15)	139	0
3. Other financial liabilities		4,173	4,043
4. Lease liabilities		359	465
		<b>70,791</b>	<b>44,497</b>
<b>II. Trade payables</b>	(12)	<b>33,567</b>	<b>43,743</b>
<b>III. Current income tax liabilities</b>		<b>15,598</b>	<b>21,607*</b>
<b>IV. Other liabilities</b>			
1. Deferred revenue		31,710	32,698
2. Deferred liabilities		34,478	38,884
3. Other liabilities		7,912	8,682
		<b>74,100</b>	<b>80,264</b>
<b>V. Derivative financial instruments</b>	(21)	<b>499</b>	<b>4,488</b>
<b>VI. Provisions</b>	(16)	<b>7,218</b>	<b>4,603</b>
		<b>201,773</b>	<b>199,202</b>
<b>B. NON-CURRENT LIABILITIES</b>			
<b>I. Financial liabilities</b>	(14)		
1. Liabilities to banks		121,212	139,818
2. Profit participation rights		36,000	36,000
3. Bonds	(15)	301	290
4. Other financial liabilities		38,583	44,041
5. Lease liabilities		535	769
		<b>196,631</b>	<b>220,918</b>
<b>II. Derivative financial instruments</b>	(21)	<b>34</b>	<b>116</b>
<b>III. Provisions</b>	(16)	<b>25,171</b>	<b>37,085</b>
<b>IV. Deferred tax liabilities</b>	(6)	<b>22,838</b>	<b>20,971*</b>
		<b>244,674</b>	<b>279,090</b>
		<b>446,447</b>	<b>478,292</b>
<b>C. EQUITY</b>			
<b>I. Subscribed capital</b>	(18)	<b>17,160</b>	<b>17,160</b>
<b>II. Capital reserve</b>	(19)	<b>33,459</b>	<b>37,564</b>
<b>III. Revenue reserves</b>		<b>76,186</b>	<b>62,000</b>
<b>IV. Revaluation reserve</b>		<b>5,026</b>	<b>5,026</b>
<b>V. Income and expenses recorded directly in group equity</b>	(20)	<b>-16,027</b>	<b>2,703</b>
<b>VI. Group net profit for the year</b>		<b>19,251</b>	<b>19,000</b>
		<b>135,055</b>	<b>143,453</b>
		<b>581,502</b>	<b>621,745</b>

## SEGMENT REPORTING

Geographical segments are the primary format for the segment reporting of the Group, as the risks and equity yield of the Group is influenced by differences in the various geographical regions. The Mailroom Management segment represents the secondary Segment reporting format.

The Group's geographical segments are determined by the location of the Group's assets and operations. The Group is divided into the following geographical segments:

- Germany
- Europe (Austria, Belgium, Denmark, Finland, France, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, United Kingdom)
- USA (USA and Canada)
- Rest of World (Australia and Japan)

Sales to external customers disclosed in the geographical segments are allocated to the various territories on the basis of the location of the assets.

## Business segment

The table below presents information about the revenue and certain assets in the Mailroom Management segment for the fiscal years 2005 and 2006.

SECONDARY SEGMENTATION MAILROOM MANAGEMENT		
	2006	2005
	KEUR	KEUR
External sales	484,658	461,851
Segment assets	581,502	621,745*)
Capital expenditure	20,504	170,437

\*) Prior-year figures adjusted



## Geographical segments

The tables below present revenue and profit and certain information on assets and liabilities regarding the geographical segments of the Group for the fiscal years ended December 31, 2006 and 2005.

	PRIMARY SEGMENTATION 2006				
	Germany	Europe	USA	Rest of world	Total
	KEUR	KEUR	KEUR	KEUR	KEUR
External sales	51,039	83,809	332,369	17,441	484,658
Internal sales	64,207	803	15,722	0	80,732
<b>Total sales</b>	<b>115,246</b>	<b>84,612</b>	<b>348,091</b>	<b>17,441</b>	<b>565,390</b>
<b>Segment result EBIT</b>	<b>22,864</b>	<b>1,585</b>	<b>21,517</b>	<b>229</b>	<b>46,195</b>
Unallocated expenses					
Unallocated income					
<b>Group EBIT</b>					
Interest expenses including interest expenses from leases					
Interest income including interest income from leases					
Share of profit of joint ventures accounted for at equity	1,188	0	0	0	1,188
Income taxes					
<b>Net profit of the Group for the year</b>					
Segment assets	103,611	71,057	384,655	14,463	573,786
Joint ventures accounted for at equity	15,300	0	0	0	15,300
Unallocated assets					
Segment liabilities	24,911	34,314	75,429	4,001	138,655
Unallocated liabilities					
<b>Capital expenditure</b>	<b>4,620</b>	<b>1,348</b>	<b>14,480</b>	<b>56</b>	<b>20,504</b>
<b>Capital expenditure from the enlargement of the consolidated group</b>					
Depreciation and amortization	2,629	1,334	13,801	49	17,813
Unallocated depreciation and amortization					

		PRIMARY SEGMENTATION 2005						
Consolidation	Consolidated	Germany	Europe	USA	Rest of world	Total	Consolidation	Consolidated
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
0	484,658	44,263	92,178	307,823	17,587	461,851	0	461,851
-80,732	0	61,920	313	6,451	0	68,684	-68,684	0
<b>-80,732</b>	<b>484,658</b>	<b>106,183</b>	<b>92,491</b>	<b>314,274</b>	<b>17,587</b>	<b>530,535</b>	<b>-68,684</b>	<b>461,851</b>
<b>1,557</b>	<b>47,752</b>	<b>21,083</b>	<b>4,367</b>	<b>19,084</b>	<b>297</b>	<b>44,831</b>	<b>-7,107</b>	<b>37,724</b>
	-3,215							-2,341
	742							760
	<b>45,279</b>							<b>36,143</b>
	-20,746							-21,161
	1,844							10,032
0	1,188	996	0	0	0	996	0	996
	-8,314							-7,010
	<b>19,251</b>							<b>19,000</b>
-44,274	529,512	81,329	71,617	424,206*)	12,471	589,623	-44,174	545,449 *)
0	15,300	13,962	0	0	0	13,962	0	13,962
	36,690							62,334
	<b>581,502</b>							<b>621,745 *)</b>
-29,776	108,879	26,484	36,743	99,734	2,886	165,847	-28,246	137,601
	337,568							340,691 *)
	<b>446,447</b>							<b>478,292 *)</b>
0	20,504	2,615	2,036	19,964	217	24,832	0	24,832
		0	0	145,605	0	145,605	0	145,605
239	18,052	2,701	1,858	15,075	55	19,689	-347	19,342*)
	307							308*)
	<b>18,359</b>							<b>19,650</b>

\*) prior-year figures adjusted



## STATEMENT OF CHANGES IN GROUP EQUITY

	Subscribed capital	Capital reserve	Revenue reserves	Revaluation reserve	Treasury shares
	KEUR	KEUR	KEUR	KEUR	KEUR
<b>As of January 1, 2005</b>	<b>17,160</b>	<b>37,486</b>	<b>59,661</b>	<b>0</b>	<b>-299</b>
Dividends for the prior year	0	0	0	0	0
Net profit for the year	0	0	0	0	0
Change in income and expenses recorded directly in group equity	0	0	0	0	0
Changes in consolidated group	0	0	0	5,026	0
Changes in reserves	0	-168	2,525	0	0
Sale of treasury shares	0	0	0	0	299
Stock option program	0	246	-186	0	0
<b>As of December 31, 2005</b>	<b>17,160</b>	<b>37,564</b>	<b>62,000</b>	<b>5,026</b>	<b>0</b>
<b>As of January 1, 2006</b>	<b>17,160</b>	<b>37,564</b>	<b>62,000</b>	<b>5,026</b>	<b>0</b>
Dividends for the prior year	0	0	0	0	0
Net profit for the year	0	0	0	0	0
Change in income and expenses recorded directly in group equity	0	0	0	0	0
Changes in reserves	0	-4,118	14,186	0	0
Stock option program	0	13	0	0	0
<b>As of December 31, 2006</b>	<b>17,160</b>	<b>33,459</b>	<b>76,186</b>	<b>5,026</b>	<b>0</b>

### Statement of recognized income and expenses in Group equity for 2006

Change in fair value of financial instruments used for hedging purposes and recorded in equity

Actuarial gains and losses from defined benefit obligations and other post-employment obligations

Adjustment item from currency translation of foreign subsidiaries

Income and expenses recorded directly in group equity

Earnings after tax

**Total of earnings for the period and income and expenses of the period recorded directly in equity**



## INCOME AND EXPENSES RECORDED DIRECTLY IN GROUP EQUITY

Change in fair values of financial instruments used for hedging purposes	Actuarial gains and losses from defined benefit obligations	Adjustment items from currency translation	Group net profit for the year	Group equity without minority interests	Minority interests	Group equity with minority interests
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
-26	-550	-15,269	10,927	109,090	5	109,095
0	0	0	-8,570	-8,570	0	-8,570
0	0	0	19,000	19,000	0	19,000
-261	-2,156	20,965	0	18,548	0	18,548
0	0	0	0	5,026	-5	5,021
0	0	0	-2,357	0	0	0
0	0	0	0	299	0	299
0	0	0	0	60	0	60
<b>-287</b>	<b>-2,706</b>	<b>5,696</b>	<b>19,000</b>	<b>143,453</b>	<b>0</b>	<b>143,453</b>
-287	-2,706	5,696	19,000	143,453	0	143,453
0	0	0	-8,910	-8,910	0	-8,910
0	0	0	19,251	19,251	0	19,251
533	197	-19,460	0	-18,730	0	-18,730
0	0	0	-10,090	-22	0	-22
0	0	0	0	13	0	13
<b>246</b>	<b>-2,509</b>	<b>-13,764</b>	<b>19,251</b>	<b>135,055</b>	<b>0</b>	<b>135,055</b>

2006			2005		
before taxes	Tax effect	Net	before taxes	Tax effect	Net
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
866	-333	533	-351	90	-261
152	45	197	-2,841	685	-2,156
-19,460	0	-19,460	20,965	0	20,965
-18,442	-288	-18,730	17,773	775	18,548
		19,251			19,000
		521			37,548

# BÖWE SYSTEC AKTIENGESELLSCHAFT, AUGSBURG – NOTES TO THE

## I. Presentation of consolidated financial statements

BÖWE SYSTEC Aktiengesellschaft is headquartered in Augsburg and is registered in the commercial register of the Augsburg district court under HRB 61. The address is Werner-von-Siemens-Straße 1, 86159 Augsburg.

The parent company is WANDERER-WERKE AKTIENGESELLSCHAFT with registered office in Augsburg, Germany, which at the same time is the ultimate parent in the Group.

The purpose of the Company is the development, manufacture and sale of machines and equipment for the automated processing of high volumes of mail and the provision of related services. The most important products are inserter systems, mail verification and mail sorting systems as well as up- and unwinding systems. In most cases, the products are combined to form complex systems and controlled by integrated software. All these products are used in the mailroom and are therefore combined in the Mailroom Management segment.

The consolidated financial statements of BÖWE SYSTEC Aktiengesellschaft for the year 2006 are prepared in accordance with International Financial Reporting Standards (IFRS), as required to be applied in the EU, and the provisions of German commercial law to be applied additionally pursuant to Sec. 315a (1) HGB [‘Handelsgesetzbuch’: German Commercial Code]. All pronouncements of the International Accounting Standards Board whose adoption is mandatory have been considered.

As a result of various projects, the IASB and the IFRIC have enacted a series of changes to various standards and interpretations and promulgated new standards and interpretations that are generally applicable for fiscal years beginning on or after January 1, 2007. Standards issued by the end of the fiscal year 2006 and revisions of existing standards and interpretations which were not mandatory until January 1, 2007 or later were not applied in the consolidated financial statements as of December 31, 2006. With the exception of additional disclosures in the Notes, this did not have any material impact on the consolidated financial statements.

The consolidated financial statements have been prepared in euro. Unless otherwise specified, all amounts are stated in thousands of euro (KEUR). The income statement has been prepared using the function of expense method.

All assets and liabilities are carried at historical or amortized cost, with the exception of derivative financial instruments that are carried at fair value.

The consolidated financial statements and group management report prepared by the management board as of December 31, 2006 were approved at the meeting of the management board on March 14, 2007 for submission to the supervisory board.

The financial statements of BÖWE SYSTEC Aktiengesellschaft prepared as of December 31, 2006 according to the provisions of HGB and these consolidated financial statements are filed with the commercial register of the Augsburg district court and published in the electronic Federal Gazette (Bundesanzeiger).

# CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2006

## II. Basis of consolidation

The consolidated financial statements are based on the financial statements of the subsidiaries included in the Group as of December 31, 2006, which have been prepared according to uniform accounting and measurement methods.

From January 1, 2003 capital consolidation for subsidiaries included in the consolidated financial statements for the first time is performed according to the purchase method of accounting pursuant to IFRS 3 (Business Combinations). This involves measuring the identifiable assets, liabilities and contingent liabilities in full at their fair value at the time of purchase. The purchase costs of the shares acquired are offset against pro rata equity of the subsidiary measured at fair value. Any debit difference remaining after offsetting is disclosed as goodwill under intangible assets, while any credit difference is posted to income.

As a result of the adoption of IFRS 3 and IAS 36 (revised 2003) systematic amortization of goodwill has been replaced by annual impairment tests for goodwill at the level of the cash-generating unit since January 1, 2003 (unless events take place that make it necessary to examine goodwill more frequently).

If in connection with the inclusion of a subsidiary in the consolidated financial statements not all shares of the new subsidiary were acquired by the BÖWE SYSTEC Group, but the minority shareholders have put options for the shares outstanding, the first-time capital consolidation is carried out based on the premise that these put options have already been exercised at the point in time when control was obtained over the new subsidiary. The assumed exercise price of the put options increases the acquisition cost of the purchased entity and is considered in the context of capital consolidation when determining goodwill. As a result, the assumed purchase price obligation is measured at fair value in accordance with IAS 39. Differences between the exercise price assumed at the time of first-time consolidation and the later actual purchase price when the acquisition is carried out are recorded with profit and loss effect in the position "other operating income" or "other operating expenses".

When using equity consolidation, the shares are shown in the balance sheet at acquisition cost rolled forward to reflect changes in the share of the Group in the net assets after the acquisition date and losses for impairments. Losses which exceed the group share in joint ventures recognized at equity are not recorded unless they represent an obligation.

Intercompany receivables, liabilities and provisions, intercompany profits and losses between group entities as well as intercompany sales or other income and corresponding expenses are eliminated. The income tax implications are considered in the course of consolidation by recognizing deferred taxes.



### III. Consolidated group

Besides BÖWE SYSTEC Aktiengesellschaft, the consolidated financial statements include by means of full consolidation all entities in which BÖWE SYSTEC Aktiengesellschaft has the majority of the voting rights, directly or indirectly. The entities are included in the consolidated financial statements from the date when the possibility of control was obtained

#### **Changes in the consolidated group**

There were no changes in the consolidated group in the fiscal year 2006.

As of January 5, 2005 BÖWE SYSTEC INTERNATIONAL GmbH acquired a further 10% of the shares in BÖWE BELL + HOWELL Holdings Inc. There were put options for a further 40% of the shares which meant that the purchase of these shares could be already assumed as of January 5, 2005. The assumed acquisition costs are determined on the basis of the rulings of the option agreement and on the basis of the planning available at the time of the acquisition. In addition, the fair value of the call/put options disclosed at the time of acquisition was considered as an acquisition cost component. Based on these assumptions, the acquisition costs for the shares in BÖWE BELL + HOWELL Holdings Inc. (100%) came to EUR 164 million. Goodwill arising from the acquisition totaled EUR 132 million. On the one hand the goodwill directly reflects the earning power of BÖWE BELL + HOWELL Holdings Inc., and on the other the acquisition also creates the basis for selling products of BÖWE SYSTEC Aktiengesellschaft in the USA, by far the largest single market worldwide. Moreover, the activities of BÖWE BELL + HOWELL Holdings Inc. outside the inserter area offer important potential for the future.

At the time of acquisition, the carrying amounts and the fair values of the identifiable assets and liabilities of BÖWE BELL + HOWELL Holdings Inc. break down as follows:

in millions of Euro	Carrying amount *)	Recognized fair value *)
Goodwill	0	132
Trademarks and patents	0	66
Client base	0	23
Other intangible assets	2	2
Other non-current assets	17	17
Inventories	50	50
Receivables from lease transactions	105	105
Other receivables and other assets	67	67
Cash and cash equivalents	15	15
Long-term debt	207	229
Short-term debt	104	104

\*) Prior-year figures adjusted

As of July 8, 2005, BÖWE BELL + HOWELL Company acquired 100% of the shares in BCC Software Inc., USA. In the fiscal year 2005, N.V. BÖWE SYSTEC S.A., Merchtem, Belgium, sold 75% of the shares it held in Secumail N.V., Merchtem, Belgium. The two last mentioned changes in the consolidated group in the prior year did not have any material impact on the net assets, financial position and results of operations of the Group.



## IV. Accounting policies

The financial statements of all consolidated entities are included in line with uniform accounting and measurement principles. The financial statements prepared in accordance with local principles are adjusted to the accounting and measurement policies which are in line with IFRS throughout the Group. The accounting policies used were the same as in the prior year.

The preparation of the consolidated financial statements taking the promulgations of the IASB into account requires assumptions and estimates to be made which have an effect on the carrying amounts of recognized assets and liabilities, income and expenses and contingent liabilities.

Assumptions had to be made in particular for the determination of the fair values of call/put options as well as the future exercise price for put options of minority interests in the prior year. Other assumptions and estimates relate to fixing useful lives, the recognition and measurement of provisions, the probability of future tax relief being realized as well as the determination of cash flows, growth rates and discount factors in connection with impairment testing.

The actual values may in some cases differ from the assumptions and estimates. Changes are recognized as and when better information is available.

### **Intangible assets**

This item contains franchises, industrial rights and similar rights, client base, capitalized development costs as well as goodwill.

Purchased and internally generated intangible assets are only recognized if it is probable that a future economic benefit will flow to the entity from the use of the asset and the cost of the asset can be reliably determined.

Purchased and internally generated intangible assets are initially recognized at cost. For the purpose of subsequent measurement, intangible assets with a finite useful life are measured at cost less accumulated scheduled amortization and impairments. Intangible assets with an indefinite useful life (goodwill and trademarks) are measured at cost less impairments.

Development costs are recognized immediately if and when the recognition criteria stipulated in IAS 38 are satisfied and they are developments of significant new components including software. The costs directly attributable to the development were recognized including appropriate development-related overheads. Capitalized development costs are systematically written off when the project concerned is ready for series production. As a rule, a product life cycle of five years is taken as a basis. Research costs and development charges that cannot be capitalized are expensed in the period in which they are incurred. As a rule, the development costs are recognized when the beta version has been prepared.





The net carrying amounts of the intangible assets, useful lives and amortization methods are reviewed at the end of each fiscal year and adjusted if necessary.

Intangible assets with a finite useful life are amortized over a period of three to eight years. Internally generated and purchased software is assumed to have a customary useful life of three to five years.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated scheduled depreciation and impairments in accordance with IAS 16. Depreciation is charged on a straight-line basis over the useful life.

Cost of self-constructed assets contains all costs that are directly attributable to the production process as well as pro rata overheads that support the production process. Such assets are held, for example, for exhibition and demonstration purposes or under lease agreements.

The carrying amounts of property, plant and equipment are tested for impairment as soon as there is any indication that the carrying amount of an asset exceeds its recoverable amount.

Property, plant and equipment are derecognized upon disposal or when no further economic benefits are expected from their continued use or sale. The gain or loss on derecognition is determined as the difference between the net disposal proceeds and the carrying amount and recognized in profit and loss in the period in which the item is derecognized.

The net carrying amounts of the assets, useful lives and depreciation methods are reviewed at the end of each fiscal year and adjusted if necessary.

When each major inspection is performed, the cost is recognized as a replacement in the carrying amount of the property, plant and equipment if the recognition criteria are satisfied.

The useful lives for buildings range between 20 and 40 years, for technical equipment and machines between 5 and 10 years. Furniture and fixtures are depreciated over 3 to 14 years, leasehold improvements over 10 years.

### **Borrowing costs**

All borrowing costs were recognized in profit and loss both in the fiscal year 2006 and in the comparative period.

### **Investment property**

Investment property is property held to earn rentals or for capital appreciation or both. In the BÖWE SYSTEC Group, two rented properties satisfy these criteria. They are accounted for according to the option in IAS 40 using the alternative allowed method at amortized cost.

The customary useful life of these properties is assumed to be 20 and 37 years respectively. Depreciation is charged on a straight-line basis.

### **Impairment of intangible assets, property, plant and equipment and investment property**

At each balance sheet date it is assessed whether there is any indication that the assets disclosed in the balance sheet may be impaired. If any such indication exists or when annual impairment testing for an asset is required, an estimate is made of the asset's recoverable amount in order to determine the extent of any impairment loss. The asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. To determine the value in use, the estimated future cash flows from this asset or cash-generating unit are discounted to their present value using a pre-tax discount rate that reflects the risks specific to the asset. Impairment losses are recognized in the income statement in those expense categories consistent with the function of the impaired asset. Impairments of goodwill recognized in profit and loss are shown separately in the income statement in the item "Impairment loss, goodwill".

A previously recognized impairment loss (with the exception of goodwill) is reversed to profit and loss if there is any indication that the impairment no longer exists or could have decreased. The reversal is posted as a gain to the income statement. The increase in value or the reduction of an impairment loss of an asset is, however, only recorded to the extent that it does not exceed the carrying amount that would have existed if the regular amortization or depreciation had been recorded and no impairment losses had been recognized. Write-downs on goodwill recorded as a result of impairment tests may not be reversed.

Goodwill and intangible assets with an indefinite useful life (trademarks) are reviewed for impairment at least annually as of December 31 or more frequently if there is any indication that the carrying amount may be impaired. Any impairment loss is immediately recorded as an expense.

Impairment of goodwill and intangible assets with an indefinite useful life is determined by comparing the carrying amount of the cash-generating unit to which the goodwill or the indefinite lived intangible asset is allocated with the recoverable amount of the cash-generating unit.

If a subsidiary is disposed of, the associated goodwill is included when determining the gain or loss on disposal of the subsidiary.

### **Leases in the BÖWE SYSTEC Group**

A lease is classified as a finance lease if essentially all risks and rewards incidental to ownership lie with the lessee. All other leases are classified as operating leases.



### The Group as lessee

Assets from finance leases under which all the risks and rewards incidental to ownership of the transferred asset are substantially transferred to the BÖWE SYSTEC Group are recognized at the lower of the fair value of the leased asset or the present value of minimum lease payments at the inception of the lease. The corresponding liability to the lessor is disclosed in the balance sheet as a finance lease obligation.

Lease payments are thus apportioned between the interest expenses and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expenses are charged directly against income.

Operating leases payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

### The Group as lessor

In a number of countries the Group leases products to customers under agreements, the terms of which mean that the risks and benefits of ownership are substantially transferred to the customers. In these cases the finance lease payments payable by the lessees at the inception of the lease are recognized at the present value of the minimum lease payments for the non-cancellable minimum period of the lease. At this point in time, the leased assets are therefore derecognized from group assets.

Income from operating leases is recognized in the income statement on a straight-line basis over the term of the lease and disclosed under other operating income.

### Financial instruments

Financial assets with fixed or determinable payments and fixed maturity that the entity intends and has the ability to hold to maturity other than loans and receivables originated by the entity are classified as held-to-maturity financial assets. Financial assets that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margins are classified as held-for-trading financial assets. Derivative financial instruments are also classified as held for trading unless they are designated as a hedging instrument and are effective as such. Gains or losses from financial assets held for trading are recognized in profit or loss. All other financial assets apart from loans and receivables originated by the entity are classified as available-for-sale financial assets.

Held-to-maturity financial assets are disclosed under non-current assets unless they are due within 12 months of the balance sheet date. Held-for-trading financial assets are disclosed under current assets. Available-for-sale financial assets are disclosed under current assets if management intends to sell them within 12 months of balance sheet date.

Purchases and sales of financial assets are recognized according to the accounting method as of the trading date, i.e. the date on which the entity entered into the obligation to purchase or sell the asset.

When a financial asset is recognized initially, it is measured at cost. This comprises the fair value of the consideration and – with the exception of financial assets held for trading – the transaction costs.

Changes in the fair value of held-for-trading financial assets are recorded in the net profit or loss. For this purpose, the fair value of a financial instrument is the amount that can be generated for the asset in an arm's length transaction between knowledgeable and willing parties, under current market conditions. Fair value corresponds to market price provided the financial instruments measured are traded on an active market. If there is no active market for a financial instrument, fair value is calculated using appropriate actuarial methods such as recognized option price models or discounting future cash flows with the market interest rate.

Held-to-maturity investments are measured at amortized cost using the effective interest rate method. If it is likely that the value of financial assets measured at amortized cost is impaired, the impairment is recorded against earnings. If an impairment loss recorded in a prior period decreases and the reversal of the impairment loss (or reduction of impairment loss) can be objectively related to an event occurring after the impairment loss, the write-up is included in net profit and loss. A reversal cannot however exceed the carrying amount that would have been recognized without the impairment.

Loans and receivables originated by an entity and not held for trading are measured at amortized cost less any necessary valuation allowances.

Available-for-sale financial assets are accounted for at market value. Unrealized gains and losses are disclosed under equity in the position "Income and expenses recognized directly in group equity", net of a tax portion. The position "Income and expenses recognized directly in group equity" is released to profit and loss either upon disposal or if it is impaired.



### **Non-current financial assets**

This position mainly includes a joint venture recognized at equity. It also contains securities that are classified as held-to-maturity investments and therefore measured at amortized cost.

Loans to related parties which do not belong to the BÖWE SYSTEC Aktiengesellschaft consolidated group but to the consolidated group of WANDERER-WERKE AKTIENGESELLSCHAFT are also disclosed here. The term of the loans is four years. Measurement is at amortized cost.

### **Inventories**

Inventories are measured at the lower of cost and net realizable value. Besides direct materials and labor costs, costs of conversion contain a proportion of materials and labor overheads as well as pro rata administrative expenses incurred to support the production process. Borrowing costs are not part of the costs of conversion.

Raw materials, consumables and supplies are generally measured using the moving average method. If the estimated net realizable value of the inventories falls below cost, the lower value is stated; write-downs are recorded for obsolete or excess stocks.

Payments on account by customers are recorded as liabilities; payments on account made by group entities are included in other assets.

### **Long-term construction contracts**

Future receivables from long-term construction contracts are recognized according to the percentage of completion method. The percentage of completion per contract to be recognized is calculated by comparing the accumulated costs with the total costs expected ("cost-to-cost" method).

If the total of accumulated contract costs and reported profits exceeds payments on account received, the construction contracts are recognized on the assets side as future receivables from long-term construction contracts under trade receivables. Any negative balance is reported under trade payables. Recognizable losses are expensed immediately.

### **Receivables and other assets**

Receivables and other assets are measured at their amortized cost after forming appropriate valuation allowances, if necessary.

### **Derivative financial instruments, hedges and financial risk management**

The BÖWE SYSTEC Group operates internationally and is therefore exposed to currency risks from exchange rate fluctuations of the transactions entered into in various currencies. Customary market instruments such as forward exchange contracts and currency options are used to hedge these risks. These hedge transactions cover recorded, pending and planned deliveries. The USD is the main currency hedged in this way. These agreements generally have a term of up to one year.

Derivative financial instruments such as interest swaps and interest caps are used to hedge risks associated with fluctuations in interest rates. These hedges are only entered into with contractual parties which enjoy impeccable credit ratings in order to reduce the effects of changes in interest rates on the borrowing costs of loans which are subject to floating interest rates.

The attributable fair values correspond to the price at which third parties would assume the rights or obligations from the financial instruments. The fair values are determined on the basis of quoted market prices or by means of actuarial calculations based on customary models as of the balance sheet date.

Derivative financial instruments are used exclusively to hedge financial risks and not for speculative purposes. All derivative financial instruments are recognized at fair value. If there is no hedge relationship, changes in fair value are taken to profit or loss.

For purpose of hedge accounting, hedges are classified as follows and, if the strict criteria for hedge accounting are satisfied, accounted for as follows:

■ **Fair value hedge accounting:**

To hedge the fair value, a gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item, the derivative financial instrument is revalued at its fair value and the resulting gain or loss is recognized immediately in net profit or loss.

■ **Cash flow hedge accounting:**

Changes in fair value from a hedge are recognized directly in equity, net of deferred taxes. Amounts that are recognized directly in equity are recognized in profit or loss in the period in which the hedged transaction affects the net profit or loss of the period, e.g. in which the hedged financial income or expenses are recognized or a forecast sale or purchase is carried out.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship and the risk management objective and strategy for entering into the hedge. Such hedges are considered to be highly effective in offsetting the risks from changes in the fair value or in the cash flow.

Derivative financial instruments are concluded in close cooperation with the management board. The dual control principle is applied to every trade processed. They are monitored in the monthly reporting.

### **Cash and cash equivalents**

Cash and cash equivalents recorded in the balance sheet include cash, bank deposits and short-term deposits with original terms of less than three months.

### **Deferred taxes**

Deferred taxes are accounted for using the balance sheet oriented liability method according to IAS 12 (Income Taxes).

This involves creating deferred tax items for all temporary accounting and measurement differences between the carrying amounts for IFRS purposes and the tax bases of the assets and liabilities. They are not created if the temporary difference arises from goodwill or the initial recognition of other assets and liabilities in a transaction (not a business combination) which affects neither the accounting nor the taxable profit or loss. A deferred tax liability is set up for all taxable temporary differences arising from shares in subsidiaries or associates and interests in joint ventures, unless the parent company can control the reversal of the temporary difference and the temporary difference will probably not reverse in the foreseeable future.

Further, deferred tax assets for future economic benefits from unused tax losses and unused tax credits must be taken into account if it is highly probable that they will be used.





The basic prerequisite for any recognition of deferred tax assets is that it is probable that taxable profit will be available against which deductible temporary differences and unused tax losses that have been carried forward can be utilized. Allowances on deferred tax assets are recognized if it is more likely than not that the tax benefit will be lost.

Deferred taxes are recognized on the basis of the tax rates applicable in the countries concerned and not discounted.

Deferred tax assets and deferred tax liabilities are netted in the consolidated balance sheet if and only if the entity has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied on the same taxable entity by the same taxation authority.

### **Pensions and other post-employment benefits**

The Group operates various pension schemes. BÖWE BELL + HOWELL Holdings Inc. has also agreed to provide certain additional post-employment healthcare benefits to certain employees.

Payments for defined contribution obligations as well as contributions to statutory pension funds are recognized as an expense upon maturity.

The pension provisions for defined benefit plans are determined using the projected unit credit method taking expected pension and salary increases into account. The calculation is based on actuarial assumptions about biometric data.

Actuarial gains and losses are offset directly against equity in the year in which they occur.

The amount disclosed is the present value of the defined benefit obligation after offsetting against plan assets measured at fair value.

### **Provisions**

Other provisions contain all present obligations resulting from past events towards a third party provided it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount carried is the best estimate of the probable outflow of resources from the present obligation as of the balance sheet date. Non-current provisions are disclosed at present value, discounted at market interest rates which reflect the risk and period of time that will elapse until the obligation is settled.



## Liabilities

Liabilities are generally recorded at amortized cost. Liabilities from finance leases are recognized at the inception of the lease at the present value of future lease payments during the non-cancellable minimum period of the lease. Payments on account by customers are disclosed openly except when accounting for construction contracts.

## Share-based payments

The cost of share-based payments is measured by reference to the fair value of the equity instruments at the date on which they are granted. The fair value is calculated using a binominal model.

The cost of share-based payments is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognized for share-based payments at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of BÖWE SYSTEC Aktiengesellschaft of the number of equity instruments that will ultimately vest. The income statement considers the amount attributable to the period.

## Sales revenue/revenue recognition

The sale of goods and services is recognized upon delivery or after ownership has been transferred in another way.

Revenue is disclosed at the fair value of the consideration received or yet to be received net of discounts and other sales deductions as well as VAT.

Interest income is recognized using the effective interest method.

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms.

## Earnings per share

Pursuant to IAS 33, basic earnings per share amounts is calculated by dividing net profit of the Group by the weighted average number of ordinary shares of the parent company outstanding during the year. When determining the average number of shares, the change in the treasury shares held in the prior year is considered pro rata temporis.

	2006	2005
<b>Earnings</b>	KEUR	KEUR
Basis for the basic earnings per share (Net profit attributable to the shareholders of the parent company)	19,251	19,000
<b>Number of shares</b>	No. of shares	No. of shares
Weighted average number of ordinary shares for the basic earnings per share (excluding treasury shares)	6,600,000	6,594,763
<b>Earnings per share</b>	EUR	EUR
Earnings per share (diluted and basic)	2.92	2.88

In the reporting year and in the prior year, the convertible bonds issued in connection with the share-based payments did not have any material effect on the earnings per share; there was no dilutive effect.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these consolidated financial statements.

## V. Currency translation

The consolidated financial statements are prepared in euros, which is both the functional currency and the presentation currency of the Group. Business transactions which are settled in currencies other than the euro are recorded at the current exchange rate on the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing rate ruling at the balance sheet date and any resulting exchange gains or losses are posted to profit or loss.

To hedge against certain currency risks, the Group enters into forward exchange or option transactions, the accounting of which is presented in "Derivative financial instruments, hedges and financial risk management".

Financial statements denominated in foreign currency of the subsidiaries included in the consolidation are translated into euros on the basis of the functional currency concept pursuant to IAS 21 (The Effects of Changes in Foreign Exchange Rates). The functional currency is the local currency for all foreign subsidiaries of the Group, since these entities operate independently from a financial, economic and organizational viewpoint. According to this concept, assets and liabilities are thus translated at the closing rates as of balance sheet date, while income and expenses are generally translated at average rates. Any currency translation differences are recorded directly in equity in accumulated other comprehensive income.

The following exchange rates were applied in the consolidated financial statements as of December 31, 2006 and 2005:

Currencies	Closing rates		Average rates	
	Dec. 31, 2006	Dec. 31, 2005	2006	2005
USD	1.31780	1.18350	1.25566	1.24477
GBP	0.67140	0.68710	0.68182	0.68391
AUD	1.66850	1.61199	1.66669	1.63257
JPY	156.73981	139.0821	145.98540	136.7989
PLN	3.82995	3.85996	3.89514	3.97062
SEK	9.04323	9.39232	9.25326	9.27988
CHF	1.60800	1.55531	1.57309	1.54832
DKK	7.45600	7.46046	7.45934	7.45156
NOK	8.24266	8.00000	8.04634	8.00890

## VI. Notes to the consolidated income statement

### 1. Sales revenue

Revenue contains the amounts charged to customers for goods and services. Sales deductions such as rebates and discounts are deducted from revenue. Detailed explanations of the geographical distribution of sales revenue are contained in the Segment reporting.

This item contains revenue from long-term construction contracts of KEUR 10,512 (prior year: KEUR 8,253).

### 2. Other operating income

Besides the non-recurring effects described below, other operating income mainly comprises gains on sale, rental income from investment property (KEUR 742, prior year: KEUR 760) and exchange rate gains.

In the fiscal years 2006 and 2005, the following non-recurring effects are included (for non-recurring operating expenses we refer to note 4):

	2006	2005
	KEUR	KEUR
Change in fair value of the option to purchase shares in Lasermax Roll Systems AB	3,213 *)	717
Measurement of an embedded derivative at fair value	2,099 *)	0
Difference between the assumed exercise price and the actual purchase price for the purchase of minority shares in BÖWE BELL + HOWELL Holdings Inc.	0	12,426
	5,312	13,143

\*) The total deferred tax expense of KEUR 2,019 incurred thereon is contained in the income taxes.

At the time of the first-time consolidation of BÖWE BELL + HOWELL Holdings Inc. (January 5, 2005) the assumed exercise price for the 40% minority shares in BÖWE BELL + HOWELL Holdings Inc. was determined on the basis of the rulings governing the put options. The plans available at the time of the first-time consolidation, the possible exercise dates and the amount of the possible share purchase were used as a basis for the calculation. At the end of the fiscal year 2005, it was agreed with the previous minority shareholder to take over all shares outstanding and a divergent purchase price agreement was reached.

### 3. Personnel expenses

The expense positions of the consolidated income statement contain the following employee benefit expenses:

	2006	2005
	KEUR	KEUR
Wages and salaries	172,470	165,442
Expense of share-based payments	13	60
Social security cost and post-employment benefits	34,458	32,581
- of which old-age pensions	(4,807)	(5,299) *)
Other post-employment benefits	2,758	612
	<u>209,699</u>	<u>198,695</u>

\*) Prior-year figure adjusted

### 4. Other operating expenses

In the fiscal year 2005 this position contains the following non-recurring effect:

	2005
	KEUR
Exchange rate losses in connection with the liability from the purchase of minority interests in BÖWE BELL + HOWELL Holdings Inc.	<u>5,226</u>

There were no comparable non-recurring expenses in the fiscal year 2006. This position also contains operating expenses (including repairs and maintenance) (KEUR 94, prior year: KEUR 92) for investment property with which rental income was generated during the reporting period.

### 5. Interest and similar expenses

Interest and similar expenses contains KEUR 833 (prior year: KEUR 795) from the amortization of borrowing costs.

## 6. Income taxes

	2006	2005
	KEUR	KEUR
<b>Current taxes:</b>		
German	610	1,751
Foreign	3,476	7,974
Total current taxes	4,086	9,725
<b>Deferred taxes:</b>		
German	2,275	-1,788
Foreign	1,953	-927
Total deferred taxes	4,228	-2,715
Actual income tax expense	8,314	7,010

At the German companies, current tax expense consists of corporate income tax plus solidarity surcharge and trade tax. At the foreign companies, the comparable income-based taxes are disclosed.

At the German companies the corporate income tax rate was unchanged at 25%, the solidarity surcharge was unchanged at 5.5%. Taking the trade tax into account, the total tax burden of the German companies was unchanged at 38%.

At the foreign companies, tax rates range between 28% and 41%.

There were no major changes in tax expense due to changes in the respective local tax rates.

In the fiscal year, deferred taxes of KEUR -288 (prior year: KEUR 775) were offset directly against equity.

By using previously unused tax losses or tax credits, the current income taxes were reduced by KEUR 1,550 (prior year: KEUR 222).

As of the balance sheet date, the Group had unused tax losses of EUR 70 million (prior year: EUR 62 million) for offsetting against future profits. A deferred tax asset of EUR 24 million (prior year: EUR 16 million) was recorded on these losses. A deferred tax asset was not recorded on the remaining EUR 46 million (prior year: EUR 46 million) because future profits were not sufficiently foreseeable. The unused tax losses that have not been considered contain around EUR 2 million which will be forfeited in the next five to nine years. The other losses can be carried forward for an indefinite period of time.

The temporary differences associated with shares in subsidiaries, associates and joint ventures for which no deferred tax liabilities were recognized amount to KEUR 2,718 in total (prior year: KEUR 3,642), as no profit distributions are expected in the near future.

The tax expense for the fiscal year can be reconciled with the profit according to the consolidated income statement as follows:

	2006	2005
	KEUR	KEUR
Net income for the year before taxes	27,565	26,010
Theoretical tax expense based on the total German tax rate of 38% (prior year: 38%):	10,475	9,884
Variations in tax rates	-56	-104
Tax-free investment income	-451	-378
Capitalization of previously unrecognized unused tax losses	-1,550	-222
Use of tax losses carried forward	0	-701
Unrecognized deferred taxes on unused tax losses	1,309	749
Tax income (-) and expenses (+) for prior years	-2,113	2
Non-deductible expenses	854	815
Tax-free income from the difference between the assumed exercise price and the actual purchase price in the purchase of minority interests in BÖWE BELL + HOWELL Holdings Inc.	0	-2,736
Impairment of goodwill from capital consolidation	0	199
Other	-154	-498
Income taxes	8,314	7,010

Deferred taxes due to measurement differences relate to the following balance sheet positions:

	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	2006		2005	
	KEUR		KEUR	
Receivables and other assets	1,390	1,751	1,024	6,807
Inventories	9,160	73	8,729	73
Property, plant and equipment	1,057	7,025	1,112	568
Intangible assets	84	27,857	98	40,997
Other assets	26	0	316	0
Liabilities	5,714	1,896	1,033	632
Provisions for pensions	4,279	0	7,423	0
Other provisions	511	1,292	15,752	50
	22,221	39,894	35,487	49,127
Shares in subsidiaries, associates and joint ventures	0	570	0	570
Cash flow hedges	10	71	100	0
Unused losses	5,783	0	3,863	0
	28,014	40,535	39,450	49,697
Share of losses available for offsetting	-17,697	-17,697	-28,726	-28,726
Deferred taxes	10,317	22,838	10,724	20,971



## 7. Dividends paid and proposed

	2006	2005
	KEUR	KEUR
Dividends declared and paid during the fiscal year		
– Dividend for 2005: EUR 1.35 (2004: EUR 1.30)	8,910	8,570
Proposal for approval at AGM		
– Dividend for 2006: EUR 1.35 (2005: EUR 1.35)	8,910	8,910

The proposed dividend is subject to the approval of the shareholders at the annual general meeting (AGM) and was not recorded as a liability in the financial statements.

## VII. Notes to the consolidated balance sheet

When preparing the consolidated financial statements for the fiscal year 2006, it was found that no deferred tax liabilities had been created on the recognized fair value of the trademarks in 2003 in connection with the purchase price allocation for the purchase of the first 50% stake in BÖWE BELL + HOWELL Holdings Inc. We have now corrected this with retroactive effect pursuant to IAS 8 and increased the prior-year figures for goodwill and deferred tax liabilities by KEUR 15,805 each. In addition, the tax provisions reported separately in the prior-year financial statements (KEUR 5,303) are now combined with the position "Current income tax liabilities", which increased accordingly to KEUR 21,607. In accordance with IAS 1.76 b) the revaluation reserve is now reported as a separate position under equity. The balance sheet as of December 31, 2005 was adjusted accordingly by subtracting the figure now shown separately from the position "Revenue reserves".

## 8. At-equity joint ventures

BÖWE SYSTEC INTERNATIONAL GmbH holds 50% of the shares in Lasermax Roll Systems AB, Ljungby, Sweden, a jointly controlled operation which operates in the field of pre and post paper handling. The shares are accounted for using the equity method (IAS 31.38).

Based on the shareholding in these companies, the following assets, liabilities, income and expenses are attributable to the Group:

	2006	2005
	KEUR	KEUR
Income	23,700	23,584
Expenses	-22,512	-22,588
Earnings after taxes	1,188	996
Current assets	13,119	13,251
Non-current assets	1,543	1,850
Current liabilities	5,407	6,169
Non-current liabilities	2,884	3,328

### 9. Impairment of goodwill and indefinite-lived intangible assets

The goodwill and trademarks acquired from business combinations was allocated to the cash-generating unit for impairment testing at country level.

The future realizable amount was calculated as the present value of future cash flows (value in use).

To test the recoverability of the goodwill and the trademarks of the cash-generating unit USA, which makes up the main part of this balance sheet item, the future cash flows were derived from the detailed plan for the next five years. A growth rate of 3% was assumed for this period. The average weighted cost of capital for the discounting of the forecast cash flows is 11% (prior year: 10%).

#### Main basic assumptions for the calculation of the value in use of the business units as of December 31, 2006 and December 31, 2005

##### a) USA

**Planned gross margin** – The planned gross margin was determined using the average gross profit margins attained in previous fiscal years and raised to reflect anticipated efficiency gains.

**Average weighted cost of capital rate** – The equity costs are determined using the Capital Asset Pricing Model (CAPM). Borrowing costs were stated at the interest rate of BAA company bonds.

##### b) Other

To test the recoverability of other goodwill, the future cash flows were derived from detailed business plans for the next two years. A growth rate of 1% was assumed for this period. The cash flows thus determined were discounted with a country-specific average weighted cost of capital rate of between 7% and 9%.

In the course of the testing as of December 31, 2005, the goodwill attributable to the cash-generating unit Italy (Europe segment) was written down by KEUR 523 so that the net carrying amount is equal to the realizable value in use. No impairment loss requirement was identified in the course of the testing as of December 31, 2006.

**Significant carrying amounts of the goodwill and indefinite-lived intangible assets allocated to the respective cash-generating units:**

	USA		Germany		Japan		Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Carrying amount of goodwill	143,577	161,600	7,382	7,382	2,788	3,097	2,045	2,063	155,792	174,142
Carrying amount of trademarks	66,445	73,984	0	0	0	0	0	0	66,445	73,984

**10. Investment property**

As in the prior year, the fair value of the two properties amounts to roughly KEUR 7,700.

**11. Inventories**

	Dec. 31, 2006	Dec. 31, 2005
	KEUR	KEUR
Materials and supplies	29,437	27,195
Work in process	23,302	24,753
Finished goods	48,056	61,569
	<u>100,795</u>	<u>113,517</u>

The methods used in the fiscal year 2006 to determine impairment were the same as in the prior year. The carrying amount of inventories subject to write-downs is KEUR 22,169 (prior year: KEUR 23,731). The write-down on inventories recorded as an expense amounted to KEUR -10 (prior year: KEUR 2,775). The expense is contained in cost of sales.



## 12. Receivables/liabilities from long-term construction contracts

Before offsetting against payments on account by customers, the future amount due from customers for construction contracts comes to KEUR 10,512 (prior year: KEUR 8,253). After deducting payments on account by customers, the balance which is shown under trade receivables (prior year: trade payables) is as follows:

	2006	2005
	KEUR	KEUR
Cost incurred including recognized profits	10,512	8,253
less payments on account by customers	-8,230	-8,325
	2,282	-72

## 13. Finance lease receivables

The Group offers its customers finance lease arrangements for certain mailroom management systems. The average term of the lease agreements entered into is one to five years.

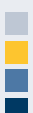
The interest rate of the lease is fixed for the whole term at the inception of the lease. The weighted average effective interest rate for finance lease receivables was 8.99% as of December 31, 2006 (prior year: 7.88%).

The table below shows the reconciliation of the total gross investment in the lease and the present value of minimum lease payments receivable at the balance sheet date:

	Minimum lease payments		Present value of Minimum lease payments	
	2006	2005	2006	2005
	KEUR	KEUR	KEUR	KEUR
Finance lease receivables:				
due not later than 1 year	2,612	4,996	2,032	4,386
due later than 1 year and not later than 5 years	4,160	8,858	4,027	7,713
due later than 5 years	8	0	8	0
	6,780	13,854	6,067	12,099
less:				
Unrealized financial income	-713	-1,755	0	0
Present value of receivables from minimum lease payments	6,067	12,099	6,067	12,099

On the balance sheet date, unguaranteed residual values amount to KEUR 1,237 (prior year: KEUR 1,916). The accumulated allowance for uncollectible minimum lease payments outstanding amounts to KEUR 629 (prior year: KEUR 1,126).

In December 2005, BÖWE BELL + HOWELL Financial Services Company, USA, (BBHFS) sold a major part of its lease receivables including residual values totaling USD 105 million. The disposal of the lease portfolio of BBHFS resulted in a cash inflow of some EUR 19.4 million in the prior year, most of which was used to repay existing bank loans. The disposal of the lease portfolio did not lead to any major effects on group profit in the prior year, as they were largely sold at carrying amounts.



## 14. Financial liabilities

This item discloses profit participation capital, convertible bonds, liabilities to banks, a loan borrowed from an insurance company and seller loans from sales of entities.

The financial liabilities are due as follows and break down by interest arrangement as follows:

As of Dec. 31, 2006		Total	up to 1 year	1 to 5 years	more than 5 years
		KEUR	KEUR	KEUR	KEUR
<i>Fixed interest rate*)</i>					
	Profit participation capital	36,000	0	28,000	8,000
	Bonds	440	139	301	0
	Liabilities to banks	75,042	8,759	65,981	302
	Other financial liabilities	17,303	4,173	13,130	0
	Lease liabilities	894	359	535	0
<i>Floating interest rate**)</i>					
	Liabilities to banks	112,290	57,361	54,929	0
	Other financial liabilities	25,453	0	25,453	0
		<u>267,422</u>	<u>70,791</u>	<u>188,329</u>	<u>8,302</u>
As of Dec. 31, 2005		Total	up to 1 year	1 to 5 years	more than 5 years
		KEUR	KEUR	KEUR	KEUR
<i>Fixed interest rate*)</i>					
	Profit participation capital	36,000	0	0	36,000
	Bonds	290	0	290	0
	Liabilities to banks	118,679	11,354	104,488	2,837
	Other financial liabilities	21,027	4,043	16,984	0
	Lease liabilities	1,234	465	769	0
<i>Floating interest rate**)</i>					
	Liabilities to banks	61,128	28,635	32,493	0
	Other financial liabilities	27,057	0	27,057	0
		<u>265,415</u>	<u>44,497</u>	<u>182,081</u>	<u>38,837</u>

\*) Loan agreements at fixed interest rates or SWAP and/or CAP derivatives concluded in connection with the underlying.

\*\*) Loan agreements which are subject to an interest rate risk.

Of these financial liabilities, the following liabilities are denominated in foreign currency:

As of Dec. 31, 2006	Total	US dollar	YEN	AUS dollar	Pound sterling	Other
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Profit participation capital	0	0	0	0	0	0
Bonds	0	0	0	0	0	0
Liabilities to banks	94,893	87,650	2,488	1,203	2,324	1,228
Other financial liabilities	30,756	30,756	0	0	0	0
Lease liabilities	787	0	787	0	0	0
	<u>126,436</u>	<u>118,406</u>	<u>3,275</u>	<u>1,203</u>	<u>2,324</u>	<u>1,228</u>

As of Dec. 31, 2005	Total	US dollar	YEN	AUS dollar	Pound sterling	Other
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Profit participation capital	0	0	0	0	0	0
Bonds	0	0	0	0	0	0
Liabilities to banks	116,906	111,305	2,013	2,113	984	491
Other financial liabilities	33,084	33,084	0	0	0	0
Lease liabilities	1,022	0	1,022	0	0	0
	<u>151,012</u>	<u>144,389</u>	<u>3,035</u>	<u>2,113</u>	<u>984</u>	<u>491</u>

### Profit participation capital

The profit participation rights mature in 2012 and are generally non-cancellable either by BÖWE SYSTEC Aktiengesellschaft or by the holder of the profit participation right before that date. Besides a basic return of 7.5% to 7.9%, the holders of the profit participation rights participate in the profit of the BÖWE SYSTEC Group if certain threshold values are exceeded, in each case dependent on the higher of the net profit or group net profit for the year adjusted for special effects in the form of a 0.5% to 2.0% increase in the interest rate. The claims of the holders of the profit participation rights are subordinated to all other creditors of the Company. Profit participation rights are accounted for at nominal value.

### Bonds

The bonds are convertible bonds subscribed to by managers in the BÖWE SYSTEC Group as part of an incentive program. In 2004 a tranche of KEUR 139 was subscribed, in 2005 a tranche of KEUR 151 was subscribed and in 2006 a tranche of KEUR 150 was subscribed. In this respect please also see the explanations under "Share-based payments/convertible bonds" in note 15.





### **Liabilities to banks**

The interest rates for fixed-interest bearing liabilities to banks range between 4.4% and 7.75%. The Company is exposed to an interest rate risk for the liabilities to banks with floating interest rates. In 2006 the interest rates ranged between 1.5% and 9.0%. The floating interest rates are adjusted at intervals of less than one year. The liabilities to banks have terms until 2012.

KEUR 2,908 (prior year: KEUR 3,854) of liabilities to banks is secured by mortgages and similar rights.

As of December 31, 2006, the Group had unused lines of credit at its disposal of around EUR 49 million (prior year: EUR 87 million).

For part of the liabilities to banks the BÖWE SYSTEC Group has agreed to comply with certain financial covenants. These financial covenants were set out in early 2005 on the basis of certain planning assumptions. A significant portion of these planning assumptions had changed by the end of 2005. As a result, the original planning from early 2005 had to be corrected for the years from 2006 and the financial covenants revised. As of December 31, 2006, one financial covenant agreed in early 2005 was complied with. Due to the contractual agreements, this breach does not have any consequences. An agreement was reached with the banks concerned to reach a new arrangement based on the consolidated financial statements as of December 31, 2006.

### **Other financial liabilities**

Other financial liabilities contain a long-term loan borrowed from an insurance company in 2000 with a term of 10 years at fixed-interest rate conditions. The loan is repaid in annual installments of EUR 3.0 million from 2006. Other financial liabilities also contain floating-rate vendor loans from purchases of entities, most of which have to be repaid at the end of 2009.

Certain covenants at the end of each fiscal year were also agreed for parts of other financial liabilities. Due to the conversion of accounting to IFRS and the full consolidation of BÖWE BELL + HOWELL Holdings Inc., USA, in fiscal 2005, the previously agreed financial covenants have to be adjusted. It was therefore agreed in 2005 with the creditors that this conversion would be carried out on the basis of the consolidated financial statements as of December 31, 2005. The new financial covenants have not yet been finally agreed.

## Lease liabilities

The BÖWE SYSTEC Group has entered into finance leases and hire-purchase agreements for various items of furniture and fixtures. The contracts do not contain prolongation options, purchase options or price-adjustment clauses.

The net carrying amounts of the assets from finance leases of KEUR 403 (prior year: KEUR 845) are wholly attributable to machines and furniture and fixtures.

The future minimum lease payments from finance leases and hire-purchase agreements can be reconciled with their present value as follows:

	Minimum lease payments		Present value of minimum lease payments	
	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
	KEUR	KEUR	KEUR	KEUR
Finance lease liabilities:				
due not later than 1 year	374	429	359	465
due later than 1 year and not later than 5 years	557	875	535	769
	931	1,304	894	1,234
less:				
Future finance costs	-37	-70		
Present value of lease obligations	894	1,234		
Amount repayable within 12 months (shown under current liabilities)			359	465
Amount repayable in more than 12 months			535	769

## 15. Share-based payments/convertible bonds

With the authorization of the annual general meeting of the Company on May 19, 2004 and the subsequent approval of the supervisory board, BÖWE SYSTEC Aktiengesellschaft grants certain senior executives of the Group the possibility to subscribe to convertible bonds of the Company. Besides a basic return of 4%, the convertible bonds contain the right to purchase shares of BÖWE SYSTEC Aktiengesellschaft provided the price of the BÖWE SYSTEC share exceeds that of the S-DAX index on the basis of two reference periods.

Three tranches of the plan are current at the moment, one with a contractual life from December 2004 to July 2007, one with a contractual life from October 2005 to July 2008 and the third with a contractual life from December 2006 to July 2009. The plan set up in October 2004 can give rise to a maximum of 53,400 option rights. The plan set up in December 2005 can give rise to a maximum of 58,200 option rights and the plan set up in December 2006 can give rise to a maximum of 57,600 option rights.

The attributable value of the option is EUR 0.00 per share for the first tranche, EUR 0.05 per share for the second tranche and EUR 0.18 per share for the third tranche.

The stock options developed as follows:

	2006	2005
As of January 1	111,600	53,400
Granted	57,600	58,200
As of December 31	169,200	111,600
of which exercisable as of December 31, 2006	(0)	(0)

During the fiscal year, personnel expenses totaling KEUR 13 (prior year: KEUR 60) were incurred for all stock option plans. The capital reserve was increased by this amount.

## 16. Provisions

The provisions for pensions and other post-employment benefits disclosed in the statement of changes in provisions are explained in Notes 17 below.

	Provisions			
	Warranty	Pensions	Other	Total
	KEUR	KEUR	KEUR	KEUR
As of January 1, 2006	4,083	21,666	15,939	41,688
of which current	4,083	0	520	4,603
of which non-current	0	21,666	15,419	37,085
Added	6,031	626	1,670	8,327
Reversed	-286	-2,988	-8,310	-11,584
Utilized	-3,507	-563	-2,878	-6,948
Interest effects	0	2,644	0	2,644
Offsetting without effect on income	0	-152	0	-152
Exchange difference	-290	-628	-668	-1,586
As of December 31, 2006	6,031	20,605	5,753	32,389
of which current	6,031	0	1,187	7,218
of which non-current	0	20,605	4,566	25,171
	6,031	20,605	5,753	32,389



The provision for warranty obligations was recognized for products sold during the fiscal year. Besides known individual risks, it comprises an assessment of possible returns based on past experience. It is expected that most of these costs will be incurred within the next fiscal year. The assumptions underlying the calculations of the warranty provision are based on the current sales level and information currently available on goods returned within a fiscal year.

Other provisions mainly contain provisions for potential losses from pending transactions as well as obligations belonging to the personnel function such as phased retirement and severance payments. In the fiscal year 2006, a provision for risks from ongoing court proceedings that already existed when BÖWE BELL + HOWELL Holdings Inc. was consolidated for the first time was reversed. The majority of the resulting non-recurring income of KEUR 7,867 was used to reduce the cost of sales. After deducting the deferred income tax burden, the effect of reversing the provision on the Group's net profit for the year was KEUR 4,720. Further non-recurring income of KEUR 5,312 (prior year: KEUR 13,143) is included in other income. After deducting deferred taxes, the impact on Group result came to KEUR 3,293 (prior year: KEUR 13,143).

## 17. Pension provisions

The pension provisions are recorded for obligations from future and current post-employment benefits to current and former employees of entities in the BÖWE SYSTEC Group as well as their surviving dependants. Depending on the circumstances of the respective country in which the entity making the pension pledge is based, there are different forms of post-employment provisioning. The main points of reference of the benefit obligations are generally length of service, the function of the employee and the remuneration. In addition, BÖWE BELL + HOWELL Holdings Inc. has a healthcare plan for pensioners whose obligations are covered by provisions. BÖWE BELL + HOWELL Holdings Inc. also has a 401(k) profit-sharing plan for certain employees.

The BÖWE SYSTEC Group has both defined contribution plans and defined benefit plans.

In the case of defined contribution plans, the obligation of the entity concerned is limited to the payment of the agreed contributions. In the fiscal year 2006 the cost of defined contribution plans amounts to KEUR 37 (prior year: KEUR 41).

With defined benefit plans, the entity's obligation consists of fulfilling the commitments made to current and former employees. Such obligations exist both at German and foreign group entities. In the BÖWE SYSTEC Group, defined benefit plans are partly financed via provisions, partly via external funds.

The amount of the pension obligations was calculated using the projected unit credit method. In Germany the R 2005 G mortality tables of Dr. Klaus Heubeck were used. Besides the assumptions about life expectancy in these tables, the principal assumptions used for the actuarial calculations are shown below:

in %	Germany		Europe		USA		RoW	
	2006	2005	2006	2005	2006	2005	2006	2005
Discount rate	4.75	4.75	4.78	4.59	5.75	5.75	2.35	1.55
Future salary increases	2.00	2.00	2.58	2.38	0	0	2.56	3.55
Future pension increases	1.50	1.50	2.23	2.16	0	0	0	0
Healthcare cost increase rate	–	–	–	–	n/a	8.50	–	–
Expected rate of return on plan assets	–	–	5.22	4.90	8.50	8.50	–	–

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

Pursuant to IAS 19, detailed information is presented below for the pension plans and healthcare plans about how the plans are equipped and how they are considered in the consolidated balance sheet and in the consolidated income statement.

	2006	2005
	KEUR	KEUR
Pension plans	18,180	18,853
Healthcare plans	2,425	2,813
	<u>20,605</u>	<u>21,666</u>

The following table presents further information on these plans:

	2006	2005
	KEUR	KEUR
Present value of funded post-employment benefit obligations	46,292	47,149
Fair value of plan assets	-35,522	-35,459
	10,770	11,690
Present value of unfunded post-employment benefit obligations	9,835	9,976
Carrying amount as of Dec. 31	20,605	21,666
Present value of the benefit obligation on Jan. 1	57,125	35,584
Enlargement of the consolidated group	0	13,019
Cost of the fiscal year		
– Current service cost	626	637
– Interest cost	2,644	2,721
Employee contributions	71	0
Benefits paid	-2,455	-3,027
Unrecognized net actuarial gains/losses	1,162	3,902
Exchange differences	-3,046	4,289
Present value of the benefit obligation on Dec. 31	56,127	57,125
Fair value of plan assets on Jan. 1	35,459	19,465
Enlargement of the consolidated group	0	11,048
Return of the fiscal year		
– Expected return on plan assets	2,313	2,081
Unrecognized net actuarial gains/losses	1,314	999
Employee and employer contributions	746	378
Benefits paid	-1,892	-2,033
Exchange differences	-2,418	3,521
Fair value of plan assets on Dec. 31	35,522	35,459
Net obligations as of Dec. 31	20,605	21,666

The Group expects to contribute KEUR 357 to its defined benefit pension plans in the fiscal year 2007.



The plan assets consist of the following components:

	Dec. 31, 2006	Dec. 31, 2005
	%	%
Equity instruments	47.3	48.5
Debt instruments	40.5	41.8
Other assets	12.2	9.7
	100.0	100.0

The actual return on plan assets amounts to KEUR 3,627 (prior year: KEUR 3,015).

Net periodic pension cost from defined benefit plans breaks down into the following components (contained in the results of operations of the Group):

	2006	2005
	KEUR	KEUR
Current service cost	626	637
Interest cost	2,644	2,721
Expected return on plan assets	-2,313	-2,081
	957	1,277

Amounts for the current and previous two periods are as follows:

	2006	2005	2004
	KEUR	KEUR	KEUR
Defined benefit obligations	-56,127	-57,125	-35,584
Plan assets	35,522	35,459	19,465
Surplus/deficit	-20,605	-21,666	-16,119

## 18. Subscribed capital

The share capital of the Company is KEUR 17,160. It is divided into 6,600,000 shares without par value.

The Company only has one category of shares which do not grant a fixed profit entitlement.

Subject to the approval of the supervisory board, the management board is authorized to increase the Company's share capital once or several times until May 16, 2007 by a maximum amount of KEUR 6,240 in total by issuing up to 2,400,000 new individual bearer shares and/or preference shares without voting rights for contributions in cash (authorized capital I). The shareholders must be granted subscription rights. However, the management board is authorized, subject to the approval of the supervisory board, to preclude any fractional amounts arising from shareholders' statutory subscription rights.



Subject to the approval of the supervisory board, the management board is authorized to increase the Company's share capital once or several times until May 18, 2009 by a maximum amount of KEUR 1,560 in total by issuing up to 600,000 new individual bearer shares and/or preference shares without voting rights for contributions in cash (authorized capital II). The shareholders must be granted subscription rights. The management board is, however, authorized, with the approval of the supervisory board, to exclude fractional amounts from the subscription rights. Furthermore, the management board is authorized with the approval of the supervisory board to preclude the shareholders' subscription rights if the issue price of the new shares does not fall materially short of the market price of shares already listed in the same category at the time when issue price is finalized.

The annual general meeting on May 19, 2004 passed a resolution for a conditional increase of share capital by issuing up to 300,000 new ordinary bearer shares without par value and the corresponding addition to the articles of incorporation and bylaws (share capital, conditional capital). Accordingly, the management board is authorized subject to the approval of the supervisory board to issue interest-bearing convertible bonds, once or several times until May 18, 2009, up to a total nominal value of KEUR 780 with a maximum contractual life of five years. These entitle the purchaser to acquire shares of BÖWE SYSTEC Aktiengesellschaft in accordance with the bond conditions. The statutory subscription right of the shareholders is precluded.

The convertible bonds are offered as a stock option based incentive system for executives in the BÖWE SYSTEC Group. The terms of the bond permit the purchase of company shares at a reduced price if the price of the BÖWE SYSTEC share develops better than the SDAX during the reference period.

The number of subscription rights pursuant to Sec. 192 (2) No. 3 AktG ['Aktiengesetz': German Stock Corporation Act] from these convertible bonds amounts to 169,200 shares. Of these, 53,400 shares can be exercised by the beneficiaries in the fiscal year 2007, 58,200 in fiscal 2008 and 57,600 in fiscal 2009, provided that the corresponding prerequisites are met.

Regarding the reporting duty pursuant to Sec. 21 (1) WpHG ['Wertpapierhandelsgesetz': German Securities Trading Act] the Company received the following announcements:

WANDERER-WERKE AKTIENGESELLSCHAFT announced pursuant to Sec. 21 (1) WpHG most recently on April 5, 2002 that it holds 53.52% of the voting capital of BÖWE SYSTEC Aktiengesellschaft.

Capital Research and Management Company, Los Angeles, USA, announced pursuant to Sec. 21 (1) WpHG that on January 22, 2004 its share of the voting capital of BÖWE SYSTEC Aktiengesellschaft exceeded the 5% threshold and now amounts to 5.15% (equivalent to 336,745 votes). All these voting rights are allocated to it pursuant to Sec. 22 (1) Sentence 1 No. 6 WpHG in conjunction with Sec. 22 (1) Sentence 2 and Sentence 3 WpHG.



On October 4, 2005, Financière de L'Echiquier, Paris, France, announced pursuant to Sec. 21 (1) WpHG that on August 12, 2005 its share of the voting capital of BÖWE SYSTEC Aktiengesellschaft exceeded the 5% threshold and now amounts to 5.198%.

On October 5, 2005, Bestinver Gestion, S.A., Madrid, Spain, announced pursuant to Sec. 21 (1) WpHG that on September 26, 2005 its share of the voting capital of BÖWE SYSTEC Aktiengesellschaft exceeded the 5% threshold and now amounts to 5.396%.

On November 17, 2006, Harris Associates L.P., Chicago, USA, announced pursuant to Secs. 21 (1), 22 (1) Sentence 1 No. 6 WpHG that on November 16, 2006 its share of the voting capital of BÖWE SYSTEC Aktiengesellschaft exceeded the 5% threshold and now amounts to 5.02%. These voting rights are allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 WpHG.

### 19. Reserves

The capital reserve primarily contains premiums from the issue of shares. In addition the imputed value of the conversion rights was accounted for as an equity component and the capital reserve was increased accordingly.

The revaluation reserve includes the effect from reversing hidden reserves in the course of the purchase of further shares in BÖWE BELL + HOWELL Holdings Inc. in January 2005.

The revenue reserves primarily include the retained profits of the Group.

### 20. Income and expenses recognized directly in group equity

The table below shows the development of income and expenses recognized directly in group equity and the related tax effect:

	2006			2005		
	Before taxes	Tax effect	Net	Before taxes	Tax effect	Net
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Net gains/losses (-) from derivatives, total	479	-233	246	-387	100	-287
Change in actuarial net gains and losses from pension provisions	-3,484	975	-2,509	-3,636	930	-2,706
Exchange rate difference	-13,764	0	-13,764	5,696	0	5,696
Changes in accumulated other comprehensive income	-16,769	742	-16,027	1,673	1,030	2,703



## 21. Financial instruments

Due to its international operations, the BÖWE SYSTEC Group is generally exposed to currency risks, interest, liquidity and credit risks.

### Credit risk

The credit risk of financial assets is taken into account through adequate valuation allowances considering existing collateral. Various measures are taken to reduce the credit risk for primary financial instruments, such as requesting collateral or guarantees.

### Currency risk

Currency risks from current receivables, liabilities and debts as well as from highly likely future transactions are generally hedged with forward exchange contracts and currency options. Hedges for value fluctuations in future cash flows from anticipated highly likely transactions mainly relate to planned sales in foreign currency.

### Interest rate risk

To manage the market risk for changes in interest rates of existing and anticipated variable-rate liabilities to banks, the Company entered into interest swaps and interest caps with maturities until 2012.

### Liquidity risk

Unused lines of credit available to the Group ensure that it has sufficient funds.

### Fair values

The financial instruments of the Group not accounted for at fair value mainly consist of cash equivalents, trade receivables, trade payables and other liabilities, overdraft facilities and long-term loans.

The carrying amount of cash equivalents and overdrafts approximates fair value due to the high liquidity of the financial instruments. The cost-based carrying amount of receivables and payables subject to normal trade credit terms also approximates fair value.

The fair value of non-current liabilities is based on the current interest rate for borrowing at similar terms and conditions with the same due date and credit rating. At present the fair value of debt capital corresponds closely to the net carrying amount.

The fair value of the derivative financial instruments was estimated using the following methods and assumptions:

The fair values of currency swaps were estimated as the present value of cash flows on the basis of the difference between the contractually agreed exchange rates and forward rate prevailing on the balance sheet date. The fair values of the interest hedges are estimated as the discounted value of expected future cash flows.

Depending on their fair value on balance sheet date, derivative financial instruments are reported under other assets (positive fair value) or other liabilities (negative fair value) respectively.

The nominal and fair values of derivative financial instruments (hedges) are as follows as of the balance sheet date:

		2006			
		Nominal volume Total	Due in more than 1 year	Attributable fair value (other assets)	Attributable fair value (other liabilities)
		KEUR	KEUR	KEUR	KEUR
<b>Currency</b>					
Forward exchange transactions	USD	7,914	0	208	0
Forward exchange transactions	EUR	14,596	0	70	0
Forward exchange transactions	other	7,324	0	0	7
Foreign currency options	USD	0	0	0	0
Interest swaps	EUR	4,000	2,000	20	0
Interest swaps	USD	22,713	0	347	0
Interest caps	EUR	5,760	3,440	0	34
Interest caps	USD	7,571	0	74	0
Call/put options				3,930	0
Embedded derivative				0	492
<b>Total</b>				<b>4,649</b>	<b>533</b>
– of which short-term				4,208	499
– of which long-term				441	34
				<b>4,649</b>	<b>533</b>

The nominal volume is the imputed volume from which the related cash flows are derived. The risk stems therefore not from the nominal values but from the related changes in exchange rates and interest rates.

In the fiscal years 2005 and 2006 there was also a call option on the shares in Lasermax Roll Systems AB, Sweden, held by the joint venture partner. The call option was measured on the basis of an external appraisal by comparing the business enterprise value with the exercise price determined on the basis of the rulings of the option agreement. The calculation is based on the plans available at the valuation date.

## 2005

Nominal volume Total	Due in more than 1 year	Attributable fair value (other assets)	Attributable fair value (other liabilities)
KEUR	KEUR	KEUR	KEUR
14,441	0	0	760
14,937	1,240	0	893
3,505	0	0	18
13,681	0	0	225
6,000	4,000	0	47
46,453	25,334	1,021	0
8,080	5,760	0	70
21,115	8,446	252	0
		717	0
		0	2,591
		1,990	4,604
		717	4,488
		1,273	116
		1,990	4,604

The residual purchase price from the purchase of shares in BÖWE BELL + HOWELL Holdings Inc., USA, will be financed by the previous minority shareholder until 2009. The seller receives a fixed rate of interest and an additional yield. The additional yield is based on the percentage rate by which the BÖWE SYSTEC share price at the end of the 1st quarter of 2009 exceeds a certain threshold. Pursuant to IAS 39 the additional yield represents an embedded derivative which was initially measured at market value. Subsequently, the embedded derivative is taken to profit and loss at fair value. This is based on the calculations of an external appraiser.

# STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2006

## 22. Statement of changes in non-current assets

Group non-current assets developed as follows:

	ACCUMULATED COST					Dec. 31, 2006
	Jan. 1, 2006	Exchange differences	Additions	Disposals	Reclassifications	
	KEUR	KEUR	KEUR	KEUR	KEUR	
<b>Intangible assets</b>						
Goodwill	186,464*)	-18,691	0	0	0	167,773
Trademarks and patents	81,008	-8,256	0	0	0	72,752
Client base	39,902	-4,067	0	0	0	35,835
Capitalized development costs	8,420	-588	6,201	0	882	14,915
Other intangible assets	17,947	-1,480	2,386	726	0	18,127
	<b>333,741</b>	<b>-33,082</b>	<b>8,587</b>	<b>726</b>	<b>882</b>	<b>309,402</b>
<b>Property, plant and equipment</b>						
Land and buildings including buildings on third-party land	24,916	-690	244	296	529	24,703
Technical equipment and machines	18,918	-824	3,994	1,532	4,204	24,760
Leased assets	2,872	0	685	859	0	2,698
Other equipment, fixtures and furniture	30,910	-1,146	6,839	1,392	-2,996	32,215
Payments on account and assets under construction	3,693	-363	155	0	-2,619	866
	<b>81,309</b>	<b>-3,023</b>	<b>11,917</b>	<b>4,079</b>	<b>-882</b>	<b>85,242</b>
<b>Investment property</b>	9,507	0	0	0	0	9,507
	<b>424,557</b>	<b>-36,105</b>	<b>20,504</b>	<b>4,805</b>	<b>0</b>	<b>404,151</b>

\*) Prior-year figures adjusted

**ACCUMULATED DEPRECIATION AND IMPAIRMENTS**

Jan. 1, 2006	Exchange differences	Additions	Disposals	Reclassifications	Dec. 31, 2006
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
12,322	-341	0	0	0	11,981
2,711	-277	1,087	0	0	3,521
16,002	-1,631	4,951	0	0	19,322
659	-40	1,049	0	0	1,668
12,764	-974	3,374	620	0	14,544
<b>44,458</b>	<b>-3,263</b>	<b>10,461</b>	<b>620</b>	<b>0</b>	<b>51,036</b>
5,282	-186	1,596	101	0	6,591
12,335	-472	3,595	1,186	-11	14,261
1,039	0	459	574	0	924
24,818	-822	1,941	1,270	11	24,678
0	0	0	0	0	0
<b>43,474</b>	<b>-1,480</b>	<b>7,591</b>	<b>3,131</b>	<b>0</b>	<b>46,454</b>
3,813	0	307	0	0	4,120
91,745	-4,743	18,359	3,751	0	101,610

**CARRYING AMOUNTS**

Dec. 31, 2006	Dec. 31, 2005
KEUR	KEUR
155,792	174,142 *)
69,231	78,297
16,513	23,900
13,247	7,761
3,583	5,183
<b>258,366</b>	<b>289,283</b>
18,112	19,634
10,499	6,583
1,774	1,833
7,537	6,092
866	3,693
<b>38,788</b>	<b>37,835</b>
5,387	5,694
302,541	332,812

## STATEMENT OF CHANGES IN NON-CURRENT ASSETS 2005

	ACCUMULATED COST						
	Jan. 1, 2005	Enlargement consolidated Group	Exchange differences	Additions	Disposals	Re-classifications	Dec. 31, 2005
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
<b>Intangible assets</b>							
Goodwill *)	85,006	78,971	20,891	1,596	0	0	186,464
Trademarks and patents	25,701	41,892	10,303	3,112	0	0	81,008
Client base	15,876	15,876	4,840	3,310	0	0	39,902
Capitalized development costs	1,895	660	202	5,817	154	0	8,420
Other intangible assets	5,415	2,035	622	94	38	9,819	17,947
	<b>133,893</b>	<b>139,434</b>	<b>36,858</b>	<b>13,929</b>	<b>192</b>	<b>9,819</b>	<b>333,741</b>
<b>Property, plant and equipment</b>							
Land and buildings including buildings on third-party land	19,563	1,193	365	154	0	3,641	24,916
Technical equipment and machines	15,893	3,469	1,059	633	2,321	185	18,918
Leased assets	2,196	0	0	950	274	0	2,872
Other equipment, fixtures and furniture	28,419	8,004	2,458	1,869	1,205	-8,635	30,910
Payments on account and assets under construction	623	600	183	7,297	0	-5,010	3,693
	<b>66,694</b>	<b>13,266</b>	<b>4,065</b>	<b>10,903</b>	<b>3,800</b>	<b>-9,819</b>	<b>81,309</b>
<b>Investment property</b>	9,507	0	0	0	0	0	9,507
	<b>210,094</b>	<b>152,700</b>	<b>40,923</b>	<b>24,832</b>	<b>3,992</b>	<b>0</b>	<b>424,557</b>

\*) Prior-year figures adjusted



ACCUMULATED DEPRECIATION AND IMPAIRMENTS							CARRYING AMOUNTS	
Jan. 1, 2005	Enlargement consolidated Group	Exchange differences	Additions	Disposals	Re-classifications	Dec. 31, 2005	Dec. 31, 2005	Dec. 31, 2004
KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
11,785	0	14	523	0	0	12,322	174,142	73,221
734	735	224	1,018	0	0	2,711	78,297	24,967
4,536	4,536	1,533	5,397	0	0	16,002	23,900	11,340
104	0	0	601	46	0	659	7,761	1,791
4,828	1,594	336	91	33	5,948	12,764	5,183	587
<b>21,987</b>	<b>6,865</b>	<b>2,107</b>	<b>7,630</b>	<b>79</b>	<b>5,948</b>	<b>44,458</b>	<b>289,283</b>	<b>111,906</b>
3,581	555	170	962	0	14	5,282	19,634	15,982
9,468	1,290	394	2,646	1,449	-14	12,335	6,583	6,425
970	0	0	334	265	0	1,039	1,833	1,226
19,975	3,112	967	7,770	1,058	-5,948	24,818	6,092	8,444
0	0	0	0	0	0	0	3,693	623
<b>33,994</b>	<b>4,957</b>	<b>1,531</b>	<b>11,712</b>	<b>2,772</b>	<b>-5,948</b>	<b>43,474</b>	<b>37,835</b>	<b>32,700</b>
3,505	0	0	308	0	0	3,813	5,694	6,002
<b>59,486</b>	<b>11,822</b>	<b>3,638</b>	<b>19,650</b>	<b>2,851</b>	<b>0</b>	<b>91,745</b>	<b>332,812</b>	<b>150,608</b>

## VIII. Other Notes

### 23. Segment reporting

Geographical segments are the primary format for the Segment reporting of the Group, as the risks and equity yield of the Group is influenced by differences in the various geographical regions. The Mailroom Management segment represents the secondary Segment reporting format.

The Group's geographical segments are determined by the location of the Group's assets and operations. The Group is divided into the following geographical segments:

- Germany
- Europe (Austria, Belgium, Denmark, Finland, France, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, United Kingdom)
- USA (USA and Canada)
- Rest of World (Australia and Japan)

Sales to external customers disclosed in the geographical segments are allocated to the various territories on the basis of the location of the assets.

### 24. Notes to the consolidated cash flow statement

Cash and cash equivalents consist of liquid funds (EUR 17.1 million) as well as overdraft facilities (EUR 49.0 million).

Contrary to the prior year, additions to capitalized development costs are treated as income and expenses. The prior-year figures were thus adjusted accordingly. This change led to an increase of KEUR 5,817 in the positive cash flow from operating activities shown for the prior year, while the negative cash flow from investing activities decreased by the same amount.

To purchase the remaining shares in BÖWE BELL + HOWELL Holdings Inc., USA, payments of EUR 37.4 million were made in the prior year, and to take over an entity in the USA (BCC Software Inc.) payments of EUR 3.3 million. For information about the cash and cash equivalents and the purchased assets and liabilities we refer to the explanations in "III. Consolidated group".

## 25. Operating leases

### The Group as lessor

The Group has entered into rent agreements for the commercial rental of its investment properties. These rental agreements have a non-cancellable residual rental period of one year. All the rent agreements contain a clause according to which the rent can be adjusted annually based on the prevailing market conditions.

In addition, the Group has lease agreements for the commercial lease of BÖWE SYSTEC products. These lease agreements have a non-cancellable residual lease period of between one and five years. There are no price adjustment clauses.

As of the balance sheet date, the receivables from future minimum lease payments on account of non-cancellable operating leases break down as follows:

	2006	2005
	KEUR	KEUR
Within 1 year	888	1,371
After 1 year but not more than 5 years	2,301	3,143
More than 5 years	0	0
	<u>3,189</u>	<u>4,514</u>

### The Group as lessee

Operating leases relate in particular to rent for certain office properties of the Group. In addition, the Group has entered into leases on various vehicles and technical equipment. The leases expire at various points in time between 2007 and 2016. There are no purchase options upon expiry of the lease either for the rented buildings or the technical equipment. There are options to purchase some of the leased vehicles upon expiry of the lease.

At balance sheet date obligations from operating leases are as follows:

	2006	2005
	KEUR	KEUR
Within 1 year	9,150	9,853
After 1 year but not more than 5 years	24,967	25,938
More than 5 years	20,475	18,090
	<u>54,592</u>	<u>53,881</u>

Lease payments of KEUR 13,967 (prior year: KEUR 12,511) were recorded as an expense in fiscal 2006.

## 26. Other financial obligations

Apart from the obligations from operating leases (Group as lessee) there are no additional other financial obligations that are material.

## 27. Contingent liabilities

At balance sheet date contingent liabilities are as follows:

	2006	2005
	KEUR	KEUR
Liabilities on bills accepted and drawn	0	809
Liabilities from guarantees and warranties	363	192
Contingent liabilities from the provision of collateral for third-party liabilities	672	767
	1,035	1,768

## 28. Related party disclosures

For information regarding the financial statements of BÖWE SYSTEC Aktiengesellschaft and its subsidiaries included in the consolidated financial statements we refer to the list of shareholdings.

The parent company of BÖWE SYSTEC Aktiengesellschaft which prepares the consolidated financial statements for the largest group of companies is WANDERER-WERKE AKTIENGESELLSCHAFT, Augsburg.

### Goods and service transactions

In the course of the fiscal year, the group entities carried out the following transactions with related parties which do not belong to the Group:

		Revenue from sales and other income	Purchase of goods and other expenses	Amounts owed by related parties	Amounts owed to related parties
		KEUR	KEUR	KEUR	KEUR
<b>Ultimate parent</b>					
– WANDERER-WERKE AG, Augsburg	2006	18	3,387 <sup>2)</sup>	471 <sup>1)</sup>	0
	2005	277	3,277 <sup>2)</sup>	563 <sup>1)</sup>	64
<b>Joint venture</b>					
– Lasermax Roll Systems AB, Ljungby	2006	978	3,361	32	635
	2005	236	0	0	0
<b>Other transactions</b>					
– WANDERER-WERKE Beteiligungs- und Verwaltungs GmbH, Augsburg	2006	870	0	12,424 <sup>1)</sup>	0
	2005	870	0	12,424 <sup>1)</sup>	0
– BÖWE Garment Care Systems (Aust), PTY, Ltd., Sydney, Australia	2006	17	0	0	0
	2005	78	0	827	0

<sup>1)</sup> Loans granted at market conditions.

<sup>2)</sup> This item mainly consists of rent expenses.

## Boards of BÖWE SYSTEC Aktiengesellschaft

The members of the management board of BÖWE SYSTEC Aktiengesellschaft in fiscal year 2006 were:

**Dr. Claus Gerckens** Augsburg  
Chairman  
Spokesman of the management board of  
WANDERER-WERKE AKTIENGESELLSCHAFT

Supervisory board offices or similar offices:  
EUROKAI KGaA, Hamburg  
Waltershof Peute Hafen Betriebs-GmbH, Hamburg  
Lasermax Roll Systems AB, Ljungby, Sweden  
(Deputy Chairman)

**Michael Meyer** Neusäß  
Deputy Chairman

The remuneration of the management board breaks down as follows:

	Basic salary		Profit-based compensation		Total	
	Salary	Additional payments	Bonus	Share-based payments	2006	2005
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
Dr. C. Gerckens	256	0	251	1	508	456
M. Meyer	220	9	182	1	412	351
<b>Total</b>	<b>476</b>	<b>9</b>	<b>433</b>	<b>2</b>	<b>920</b>	<b>807</b>

Total remuneration paid to the management board is performance-based. It comprised remuneration that is not linked to profits (salary) and a profit-based component (bonus). The annual salary is paid in monthly installments and the amount is agreed for a period of five years each time. Dr. Gerckens' salary was due for revision as of January 1, 2007, while Mr. Meyer's salary was revised as of January 1, 2006. The amount of the bonus depends on the respective net profit of the Group for the year, which is reduced by an appropriate return on equity on the basic bonus using the balance as of January 1 of each fiscal year. In addition, a bonus can be paid if certain company profit targets and personal targets are met. This is subject to the approval of the personnel committee of the supervisory board.

The members of the management board can also subscribe to convertible bonds, which are offered to executives in the BÖWE SYSTEC Group as part of a stock option based incentive system. More details are included in Notes 15. No convertible bonds matured in the fiscal year 2006.

The additional payments stem from the amounts that can be recognized in accordance with tax provisions for private use of company cars and direct insurance. The remuneration in kind was subject to tax payable by the respective management board members.

The management board members were granted pension entitlements.

Dr. Gerckens, the Chairman of the management board, is entitled to pension payments amounting to 4/3 of the group amount for Group S as created in accordance with the statutes and benefit regulations of the Bochumer Verband. Dr. Gerckens will receive his full pension upon completion of his management board activities at the age of 63, or in the case of permanent invalidity, and a reduced pension under certain circumstances in the case of premature termination or if the employment agreement is not extended. In future, current payments will be adjusted in accordance with the statutes and benefit regulations of the Bochumer Verband. In addition there is an entitlement to payments to surviving dependents in the form of a life-long widow's pension of 60% of the pension and an orphan's pension of 25% of the pension for each child until the children reach a certain age. Together the surviving dependents receive a maximum of 100% of the pension.

Mr. Meyer has a pension entitlement based on his basic salary. The monthly pension corresponds to 2% of the monthly basic salary multiplied by the number of years of service up to an agreed maximum amount. Once this amount is reached, the increase then amounts to 2% each year until retirement age is reached, regardless of the development of his basic salary. Mr. Meyer will receive his pension upon completion of his management board activities at the age of 65 and/or upon receiving an old-age pension from his statutory pension insurance, as well as in the case of permanent invalidity. In addition there is an entitlement to a life-long widow's pension of 50% of the pension.

The pension provisions for the pension entitlements of the management board members total KEUR 2,001 (prior year: KEUR 1,770). The service cost for the fiscal year 2006 amounts to KEUR 76 (prior year: KEUR 71) for Dr. Gerckens and KEUR 74 (prior year: KEUR 45) for Mr. Meyer.

Former managers of the legal predecessor of BÖWE SYSTEC Aktiengesellschaft were paid KEUR 37 in 2006 (prior year: KEUR 37). Pension commitments covered by provisions for current and future pension claims of former members of the management board and former general managers of the legal predecessor amounted to KEUR 393 (prior year: KEUR 328).

In the fiscal year 2006 the supervisory board of BÖWE SYSTEC Aktiengesellschaft comprised:

<b>Johannes Beelen</b> Chairman	Solingen Former director of ZWILLING J.A. Henckels AG, Solingen <u>Other supervisory board offices or similar offices:</u> Jaguar Stahlwarenfabrik GmbH & Co. KG., Solingen RWL Verwaltungs- und Beteiligungs-AG, Bremen Rheinische Grundbesitz AG, Mülheim an der Ruhr Meridio Vermögensverwaltung AG, Cologne (Chairman)
<b>Dr. Hans-Joachim Röhler</b> Deputy Chairman (until June 1, 2006)	Burgwedel Lawyer <u>Other supervisory board offices or similar offices:</u> EUROKAI KGaA, Hamburg (Chairman) Waltershof Peute Hafen Betriebs-GmbH, Hamburg EUROGATE GmbH & Co. KGaA, Bremen J. Müller GmbH & Co. KG, Brake
<b>Prof. Dr. Günther Langenbacher</b> Deputy Chairman (since June 1, 2006)	Stuttgart German Public Auditor <u>Other supervisory board offices or similar offices:</u> DEKRA AG, Stuttgart Deutsche Beteiligungs AG, Frankfurt/Main WANDERER-WERKE AKTIENGESELLSCHAFT, Augsburg Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt/Main Klinge Paperwerke GmbH & Co. KG, Remshalden Carl Schenck AG, Darmstadt
<b>Prof. Dr. Dres. h.c.</b> <b>Adolf G. Coenenberg</b>	Stadtbergen Chair of business administration, audit and controlling at the University of Augsburg <u>Other supervisory board offices or similar offices:</u> Carl Zeiss AG, Oberkochen Forum Verlag Herkert GmbH, Merching (Chairman) MS Rio Branco GmbH & Co. KG, Hamburg

<b>Prof. Dr. h.c. Rolf-Dieter Leister</b>	Lucerne, Switzerland Business consultant <u>Other supervisory board offices or similar offices:</u> Deutsche Beteiligungs AG, Frankfurt/Main (Deputy Chairman) DaimlerChrysler Services AG, Berlin Südwestdeutsche Medien Holding GmbH, Stuttgart
<b>Claus-D. Bunk</b> Employee representative	Schwabmünchen Chairman of the works' council of BÖWE SYSTEC Aktiengesellschaft, Augsburg <u>Other supervisory board offices:</u> WANDERER-WERKE AKTIENGESELLSCHAFT, Augsburg
<b>Alfred Seifert</b> Employee representative	Augsburg Deputy Chairman of the works' council of BÖWE SYSTEC Aktiengesellschaft, Augsburg

The remuneration of the supervisory board is regulated in Art. 14 of the articles of incorporation and bylaws of BÖWE SYSTEC Aktiengesellschaft and contains two components:

- A fixed component of EUR 1,500 annually for all members of the supervisory board,
- A variable component dependent on the net dividend paid out in accordance with the dividend resolution of the annual general meeting and which amounts to EUR 12,300 for each supervisory board member in fiscal 2006. The deputy chairman and chairman receive 1.5 times or 2.0 times the remuneration described above respectively.

The statutory remuneration of the supervisory board for the past fiscal year thus totaled KEUR 104 (prior year: KEUR 104).

In addition, Mr. Beelen received a payment of KEUR 25 for consulting services rendered by him personally.



## 29. Subsequent events

There were no events after close of the fiscal year 2006 which would be significant for assessing the net assets, financial position and results of operations of the BÖWE SYSTEC Group.

## 30. Additional disclosure requirements for German parent companies in the IFRS consolidated financial statements pursuant to Sec. 315a HGB

Average headcount during the year

	Group	
	2006	2005
Wage earners	1,463	1,492
Salaried employees	2,043	2,063
Senior executives	35	23
	<u>3,541</u>	<u>3,578</u>

## Corporate Governance

The management board and supervisory board of BÖWE SYSTEC Aktiengesellschaft hereby declare that they have issued the declaration required by Sec. 161 AktG and made it available to the shareholders.

## Auditing and advisory expenses

The fee of the Group auditor recorded as an expense for the fiscal year amounts to KEUR 270 for the audits of the separate and consolidated financial statements, KEUR 0 for tax advisory services and KEUR 134 for other services provided for the parent or subsidiaries.

Augsburg, March 14, 2007

BÖWE SYSTEC Aktiengesellschaft

**MANAGEMENT BOARD**



## Audit Opinion

We have issued the following opinion on the consolidated financial statements and the Group management report:

“We have audited the consolidated financial statements prepared by BÖWE SYSTEC Aktiengesellschaft, Augsburg, comprising the consolidated balance sheet, consolidated income statement, Notes to the consolidated financial statements, consolidated cash flow statement, statement of recognized income and expenses and statement of changes in shareholders’ equity, and the group management report for the fiscal year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB [“Handelsgesetzbuch”: German Commercial Code] is the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities

included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Hamburg, March 23, 2007

**Ernst & Young AG**

Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

Ludwig

Wirtschaftsprüfer

[German Public Auditor]

Hösch

Wirtschaftsprüferin

[German Public Auditor]



## BALANCE SHEET OF BÖWE SYSTEC AG ACCORDING TO HGB

	2006	2005
	KEUR	KEUR
<b>ASSETS</b>		
<b>A. FIXED ASSETS</b>		
1. Intangible assets	1,472	354
2. Property, plant and equipment	9,670	10,119
3. Financial assets	161,895	162,118
	<b>173,037</b>	<b>172,591</b>
<b>B. CURRENT ASSETS</b>		
1. Inventories	24,701	23,296
2. Receivables and other assets	44,689	42,767
3. Cash	135	193
	<b>69,525</b>	<b>66,256</b>
<b>C. PREPAID EXPENSES</b>	<b>120</b>	<b>201</b>
	<b>242,682</b>	<b>239,048</b>

	2006	2005
	KEUR	KEUR
<b>EQUITY AND LIABILITIES</b>		
<b>A. EQUITY</b>		
1. Subscribed capital	17,160	17,160
2. Capital reserve	44,169	44,169
3. Revenue reserves	20,190	20,190
4. Retained earnings	19,628	18,774
	<b>101,147</b>	<b>100,293</b>
<b>B. ACCRUALS</b>		
1. Accruals for pensions and similar obligations	4,518	4,286
2. Other accruals	5,420	8,607
	<b>9,938</b>	<b>12,893</b>
<b>C. LIABILITIES</b>		
1. Bonds	440	290
2. Profit participation rights	36,000	36,000
3. Liabilities to banks	74,743	67,291
4. Other financial liabilities	12,000	15,000
5. Trade payables	1,710	1,457
6. Other liabilities	6,704	5,824
	<b>131,597</b>	<b>125,862</b>
	<b>242,682</b>	<b>239,048</b>



## INCOME STATEMENT OF BÖWE SYSTEC AG ACCORDING TO HGB

BÖWE SYSTEC AG	2006	2005
	KEUR	KEUR
1. Sales	79,877	77,235
2. Decrease in finished goods and work in process	-1,184	-746
3. Own work capitalized	109	376
4. Other operating income	7,447	2,904
5. Cost of materials	-25,325	-24,848
6. Personnel expenses	-33,976	-33,033
7. Amortization of intangible assets and depreciation of property, plant and equipment	-1,596	-1,616
8. Other operating expenses	-15,760	-14,090
9. Investment result	8,697	11,187
10. Amortization of financial assets	-877	-770
11. Interest result	-7,394	-6,155
12. Result from ordinary activities	10,018	10,444
13. Income taxes	-232	-686
14. Other taxes	-22	-18
15. Net income for the year	9,764	9,740
16. Profit carried forward from prior year	9,864	9,034
<b>17. Retained earnings</b>	<b>19,628</b>	<b>18,774</b>



## LIST OF SHAREHOLDINGS AS OF DECEMBER 31, 2006

Entity, location	Share %	Currency	Nominal capital in LC	Equity as of Dec. 31, 2006 KEUR <sup>1)</sup>	Net result for the year 2006 <sup>1)</sup>
<b>Direct investments</b>					
BÖWE SYSTEC Beteiligungs- und Verwaltungs GmbH, Augsburg	100	EUR	28,200,000.00	36,700 <sup>2)</sup>	530
BÖWE SYSTEC INTERNATIONAL GmbH, Augsburg	100	EUR	6,000,000.00	131,793	-2,496
BÖWE Systems GmbH, Augsburg	100	EUR	1,000,000.00	883	25
BÖWE SYSTEC AUSTRALIA PTY. Ltd., Sydney, Australia	100	AUD	5,300,000.00	-762	-844
BÖWE SYSTEC BENELUX B.V., Apeldoorn, Netherlands	100	EUR	436,000.00	4,361 <sup>2)</sup>	92
BÖWE SYSTEC S.A., Fontenay sous Bois Cedex, France	100	EUR	840,000.00	6,294	-406
BÖWE SYSTEC S.p.A., Rome, Italy	100	EUR	3,300,000.00	3,368	-27
BÖWE SYSTEC JAPAN Ltd., Tokyo, Japan	100	JPY	400,000,000.00	5,300	597
BÖWE SYSTEC AUSTRIA GmbH, Vienna, Austria	100	EUR	50,000.00	226 <sup>2)</sup>	169
BÖWE SYSTEC Polska Spolka z ograniczona odpowiedzialnoscia, Warsaw, Poland	1	PLN	50,000.00	602 <sup>2) 6)</sup>	210 <sup>6)</sup>
BÖWE SYSTEC S.A., Madrid, Spain	100	EUR	60,000.00	11,345 <sup>2)</sup>	1,174
BÖWE SYSTEC AB, Sundbyberg, Sweden	100	SEK	15,000,000.00	1,251 <sup>8)</sup>	-1,330
<b>Indirect investments</b>					
BÖWE SYSTEC Vertriebs- und Service GmbH, Oberursel	100	EUR	4,000,000.00	4,000 <sup>3)</sup>	4,300 <sup>4)</sup>
TMF Grundbesitz- und Beteiligungs-Verwaltungs-GmbH, Augsburg	100	EUR	2,045,168.00	2,688 <sup>3)</sup>	402 <sup>4)</sup>
BÖWE SYSTEC Mailroom Communication GmbH, Augsburg	100	EUR	25,565.00	26 <sup>3)</sup>	723 <sup>4)</sup>
BÖWE Cardtec GmbH, Paderborn	100	EUR	265,000.00	893	-1,959
BÖWE SYSTEC (Schweiz) AG, Volketswil, Switzerland	100	CHF	1,500,000.00	446	224
BÖWE SYSTEC (U.K.) Ltd., Bracknell, Great Britain	100	GBP	1,200,000.00	-3,327	-1,641
BÖWE SYSTEC (IR) Ltd., Dublin, Ireland	100	EUR	101.00	-97	-68
BÖWE SYSTEC AS, Oslo, Norway	100	NOK	500,000.00	30 <sup>7)</sup>	-105
Oy BÖWE SYSTEC AB, Helsinki, Finland	100	EUR	168,200.00	84 <sup>7)</sup>	-223 <sup>7)</sup>
BÖWE SYSTEC AS, Herlev, Denmark	100	DKK	600,000.00	40 <sup>7)</sup>	-958
BÖWE SYSTEC NEDERLAND B.V., Apeldoorn, Netherlands	100	EUR	169,000.00	396 <sup>7)</sup>	428
N.V. BÖWE SYSTEC S.A., Merchtem, Belgium	100	EUR	124,000.00	1,519	860
Secumail N.V., Merchtem, Belgium	25	EUR	- <sup>9)</sup>	- <sup>9)</sup>	- <sup>9)</sup>
Secuserv B.V., Apeldoorn, Netherlands	100	EUR	18,000.00	12	0
BÖWE SYSTEC CATALUNYA S.L., Barcelona, Spain	100	EUR	66,000.00	3,800	250
BÖWE SYSTEC Comércio de Equipamentos Para Escritório S.A., Lisbon, Portugal	100	EUR	225,000.00	1,378 <sup>2)</sup>	372
SAS Action + Mailing Service, Brix, France	49	EUR	250,000.00	309 <sup>5) 6)</sup>	23 <sup>5) 6)</sup>
BÖWE SYSTEC Polska Spolka z ograniczona odpowiedzialnoscia, Warsaw, Poland	99	PLN	50,000.00	602 <sup>2) 6)</sup>	210 <sup>6)</sup>
InHouseService GmbH, Oberursel	100	EUR	200,000.00	200 <sup>3)</sup>	187 <sup>4)</sup>



Entity, location	Share %	Currency	Nominal capital in LC	Equity as of Dec. 31, 2006 KEUR <sup>1)</sup>	Net result for the year 2006 <sup>1)</sup>
<b>Sub-group financial statements of</b>					
BÖWE BELL + HOWELL Holdings, Inc., Chicago, USA:	100	USD	1,000.00	178,884	7,376
BÖWE BELL + HOWELL, Inc., Chicago, USA					
BÖWE SYSTEC Inc., Hauppauge, USA					
BÖWE SYSTEC Inc., Coquitlam, Canada					
BÖWE BELL + HOWELL Company, Durham, USA					
BÖWE BELL + HOWELL International Ltd., Toronto, Canada					
BÖWE BELL + HOWELL Scanners LLC, Chicago, USA					
BCC Software Inc., Rochester, USA					
BÖWE BELL + HOWELL Postal Systems Company, Chicago, USA					
BÖWE BELL + HOWELL GmbH, Rosbach					
BÖWE BELL + HOWELL Financial Services Co., Chicago, USA					
BÖWE BELL + HOWELL Puerto Rico Inc., Puerto Rico					
<b>Sub-group financial statements of</b>					
Lasermax Roll Systems AB, Ljungby, Sweden:	50	SEK	25,000,000.00	12,741 <sup>6)</sup>	2,376 <sup>6)</sup>
Lasermax Roll Systems Inc., Chicago, USA					
Lasermax Roll Systems Pte. Ltd., Singapore, Singapore					
Lasermax Roll Systems Ltd., Dorcan, Great Britain					
Lasermax Roll Systems NV, Sint-Niklaas, Belgium					

- 1) Equity in the financial statements presented in foreign currency is translated at the EUR closing rate as of December 31, 2006 and net income at the average EUR exchange rate. IFRS values are presented for foreign subsidiaries, HGB values for German companies.
- 2) After deduction of dividend distribution.
- 3) After deduction of profit transfer pursuant to profit and loss transfer agreement.
- 4) Prior to deduction of profit transfer pursuant to profit and loss transfer agreement.
- 5) Balance sheet date March 31, 2006.
- 6) In relation to a 100% shareholding.
- 7) After profit transfer to or loss absorption by the parent company.
- 8) After deduction of loss absorption of a subsidiary.
- 9) Current financial statements are not yet available.

## GLOSSARY

<b>ANV</b>	The Account Number Verification module identifies every single document by means of a barcode, thus allowing every document to be traced from printing, inserting to dispatch.
<b>BICOS</b>	The BÖWE Interactive Control and Operating System is the operating and information system which ensures the smooth running of the whole process, thus guaranteeing that the documents are dispatched securely and reliably.
<b>BIMAS</b>	The BÖWE Integrated Mailingcenter Automation System is the brain of the BÖWE SYSTEC systems. The software enhances the efficiency and transparency of the machines and comprises three modular components: BICOS, ANV and MIS.
<b>EBIT</b>	Earnings Before Interest and Taxes.
<b>EBITDA</b>	Earnings Before Interest, Taxes, Depreciation and Amortization.
<b>HGB</b>	Handelsgesetzbuch – German Commercial Code.
<b>Mailing Centers</b>	Mailing centers are specialized service providers which use high-performance inserting systems to perform the mailing function for other companies.
<b>Mailroom</b>	The concentration of mail production of a company in a mailroom results in volumes of several thousand letters per hour and allows the use of high-performance BÖWE SYSTEC systems.
<b>Mailroom Management</b>	The umbrella term for all areas of software-supported processing of printed paper starting from the cutting into single sheets and the application of plastic cards via folding, assembling and inserting to the automatic filing of the filled envelopes in mailboxes.
<b>MIS</b>	The Management Information System is the overriding control system: it coordinates the data of all the interconnected BÖWE SYSTEC systems and forms the intelligent interface to upstream networks.
<b>OMR, OCR</b>	The reading technologies Optical Mark Recognition and Optical Character Recognition are based on industry standards and the use of state-of-the-art technologies. They allow the feeding of individual enclosures for the various customers and the process of reading and dispatching the documents recorded with the greatest precision.
<b>PIN, PUK</b>	Personal Identification Number (PIN) or secret number for authentication e.g. when using ATMs or mobile phones; Personal Unblocking Key (PUK) is used to unblock blocked PINs.
<b>Pre- and post-solutions</b>	High-performance paper handling systems such as unwinders and upwinders that are linked before and after a digital printer.
<b>VDMA</b>	Verband Deutscher Maschinen- und Anlagenbau e. V. – German mechanical engineering and plant construction association.

# IMPRINT

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# FINANCIAL CALENDAR

April 2, 2007	Press briefing on annual results in Munich
April 2, 2007	DVFA analysts' conference in Frankfurt am Main
April 3, 2007	Road show in London, Frankfurt and Paris
May 15, 2007	Interim report I/2007
May 24, 2007	Annual general meeting, Augsburg
May 25, 2007	Dividend payment for financial year 2006
August 9, 2007	Interim report II/2007
November 13, 2007	Interim report III/2007 ■
November, 2007	Analysts' conference in Frankfurt am Main
April 2008	Press briefing on annual results and analysts' conference
June 2008	Annual general meeting 2008 in Augsburg

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