FINANCIAL REPORT 2006

NovaStor AG

Content

NOVASTOR AG, OVERVIEW

Thousand EUR

	01.-12.06 EUR	01.-12.05 EUR
Sales revenues	6'671	8'716
Gross profit	5'732	4'410
Gross profit margin	***85.9%***	***50.6%***
Operating expenses	-6'064	-4'241
EBITDA	-332	169
Depreciation	-297	-241
Goodwill amortization	-2'483	-
Deconsolidation	-90	-
Operating result	-3'202	-72
Financial revenue	70	139
Other earnings	-	-
EBT	-3'132	67
EBT-margin	***-47.0%***	***0.8%***
Period surplus/shortfall	-3'120	70
Earnings per GDR, diluted	-0.16	0.01
Average of GDRs in circulation, diluted	19'478'949	12'637'017
	31.12.06	**31.12.05**
Equity capial	6'121	8'892
Equity ratio	***63.7%***	***53.9%***
Balance sheet total	9'610	16'490
Headcount	50	73

LETTER TO SHAREHOLDER

Dear Shareholders,

as from the first quarter 2007 NovaStor AG is known as Novavisions AG (www.novavisions.com) and is positioning itself as an investment company with a clear focus on the Digital Lifestyle sector.

Over the course of the year 2006 it became increasingly evident that that no sufficiently fast growth could be realised by organic growth and M&A activities in the field of data storage, the Extraordinary Shareholders' Meeting of NovaStor AG approved the strategic realignment of the company on December 11, 2006. Resolutions were also passed approving an ordinary increase in share capital for the acquisition of Dynavisions GmbH, on renaming NovaStor AG to Novavisions AG and on changes to the company's Supervisory Board. The Dynavisions transaction will be fully completed in 2007.

The market for small storage and security providers was undergoing rapid and drastic change. In the USA in particular, a great deal of funding from Venture Capital and Private Equity investors is again being poured into companies like these, which are also competitors of NovaStor. These well funded companies are able to market themselves very aggressively, to develop products and to play an active role in market consolidation. As a German listed company NovaStor did not have these opportunities, as it was not possible to raise the necessary capital for rapid growth. This often put us in an uncomfortable position, even against smaller providers and despite having provably superior products. The public disclosure of financial information is also a drawback in dealing with customers and partners and can lead to fruitless discussions. We endeavoured to mitigate these difficulties with a dynamic M&A policy. However, it quickly became clear that interesting targets with worse metrics than our own were simply too expensive or could only have been acquired for cash. The de facto "take private" of NovaStor Software under the umbrella of Novavisions AG is therefore a logical step to enable NovaStor Software to contest the market on equal terms in future and thereby create value indirectly for the shareholders of Novavisions AG.

NovaStor Software was able to win some great prizes in 2006. The high point was a test victory for our NovaBACKUP product in the major US magazine PC World. We rapidly expanded the network of resellers in Germany and Switzerland with such top addresses as Bechtle, ARP, Trade Up and other well-known companies. As most of these partnerships became operational towards the end of the year, we expect the corresponding increase in revenues only to occur in 2007.

If you want to test the performance of the products you can do so simply and easily at www.novastor.de or www.novastor.com. We would be very pleased if our shareholders took this opportunity to learn about the benefits of NovaStor software products. We offer the right solutions for all users. Of particular interest are the data security services provided by various partners around the world based on our technology. We recommend a visit to our partner sites: (a selection:http://www.backupandrunning.co.uk/, http://www.as-T.biz, http://www.dsi-online.nl/, http://www.globaldatavault.com/, http://www.hostway.com/smb/dataprotect/, http://www.it-workgroup.com/de/outback/start.php, http://www.telefonica.com/, http://www.tietoenator.com/).

The sale of the system integration business in Dresden has been confirmed as the right decision and NovaStor's focus on the software business is now slowly paying off. Disposing of the last link with the former Mount10 business – the bunker complex in the Swiss Alps – was also an important step, and the right one to take. It resulted in a small capital gain slightly above book value.

We missed the internal revenue targets for NovaStor software products by around 15%. This meant that the targeted net earnings and positive cash flow could not be realised. Restructuring in the fourth quarter at the organisations in the USA and Germany, as well as the launch of a new ERP and CRM software in the 4^{th} quarter led to one-off EBITDA expense of €0.4 million. Thus EBITDA for 2006 was €-322,000 (previous year: €169,000). The figures are not comparable with those of the previous year due to the sale of the high-revenue system integration business in Q1 2006.

The online business is developing particularly well via its own webshop. We expect further strong growth in this area. We expect further strong growth in this area. Indirect sales channels will make a significantly larger contribution to revenue in 2007. Thus we anticipate growth and profits in Novavisions' segment "NovaStor".

With the realignment of Novavisions AG we decided to draw a clear line under the past. The financial statements for 2006 include an impairment loss for goodwill, which depress the income statement with a non-cash loss of €2.5 milliion.

The year 2007 will represent a restart and a probation period for Novavisions. We are confident that the fundamental changes made have put Novavisions AG in a very strong position for the future and that the company will fulfil its financial expectations for the current year. NovaStor with new products as well as new sales channels and Dynavisions are well positioned to generate sustainable value throughout the current year.

Dynavisions produces innovative hybrid digital set-top boxes for receiving television programs and video-on-demand services via internet (IPTV) and classic TV (DVB) in high definition quality.

We would like to express our thanks to all our shareholders and customers for their support. Our very warm thanks also go to our staff for their great commitment and professionalism. We will pursue our new strategy as an investment company with dedication, in order to deliver sustainable performance for our customers, staff and shareholders.

Adrian Knapp
CEO and Chairman

THE COMPANY

As from February 8, 2007 NovaStor AG is known as Novavisions AG (www.novavisions.com) and is positioning itself as an investment company with a focus on the Digital Lifestyle sector.

Key equity investments as at March 12, 2007

NovaStor Software stands for an international software company based in Switzerland. There are also branch offices in Germany and the USA. Additional markets are covered in collaboration with sales partners.

NovaStor develops and distributes software products for data security and compliant long-term data storage. The core products for backing-up online and network data and long-term data retention to comply with statutory regulations are aimed at companies of all sizes and enable service providers and resellers to develop scaleable business models for their clients using NovaStor products. NovaStor can be reached at www.novastor.com and www.novastor.de.

Dynavisions (www.dynavisions.com) produces innovative hybrid digital set-top boxes for receiving television programs and video-on-demand services via internet (IPTV) and classic TV (DVB) in high definition quality.

Novavisions AG's other portfolio companies are listed under www.novavisions.com.

NOVASTOR PRODUCTS

NovaNET-WEB is an online backup solution for all businesses. Bigger service providers offer you with NovaNet-WEB a backup service that generates recurring revenues. Via the Internet, the software backs up the business's critical data that is stored on mobile and internal and external Microsoft Windows workplaces. Centrally managed user profiles and policies control the data backup. NovaNet-WEB's software architecture allows all the staff to backup and restore at any time in any place: "ATAP Backup & Restore".

NovaBACKUP for smaller businesses and end users enables the user to restore data after a complete system breakdown or on other emergencies. Employing a safe, user-friendly process, the software offers automatic, reliable and cheap protection for all critical sets of data. NovaBACKUP was the winner in a backup-software-test made by the well-known US-American computer magazine PC World in June 2006.

HiBack ixT is a backup and restoration software that meets highest demands. The product is based on a modular architecture that guarantees no platform or hardware dependence, high speed, unlimited scalability, and constant availability. With active clients and passive servers, the software achieves far better performance than other products when it comes to data backup and data restoration.

NovaNET10 offers a comprehensive solution for data backup and data protection requirements within a single network (server and PC desktops) at small and medium-sized enterprises. The software supports Microsoft Windows, Linux and Netware. The version of NovaNET10 that has been on the market since the beginning of 2006 offers the growing SME market features which meet both the requirements of these firms, and the needs of bigger companies in terms of function and quality.

HiFreezer™ is storage software for selectively archiving electronic business data over a period of several years in accordance with statutory regulations. The system functions in accordance with the rules on data access and the auditing of digital documents that are laid down by the German Ministry of Finance, and meets the requirements laid down in the Sarbanes-Oxley Act (SOX), which states that data backup, documentation, auditing and restoration must be guaranteed at all times. HiFreezer™ provides businesses with cheap, efficient technology for meeting legal requirements, as well as self-defined processes for storing data. Thus for instance, the system covers functions of archiving systems that are relevant to tax inspections, and at the same time it takes precautions against data losses arising from out-dated technology, changes in equipment or defective copies. HiFreezer™ uses the existing infrastructure, is not contingent on hard- and software, meets legal requirements, and has been TÜV certified since October 2005.

HiFreezer™ Business Edition (HiFreezer™ BE) gives small and medium-sized enterprises and individual departments in big companies an “out-of-the-box” means of storing data and archiving emails over long periods in accordance with legal requirements. With the HiFreezer™ Business Edition, system integrators can realise business and earnings models that are geared towards customer needs.

MANAGEMENT, BOARD OF DIRECTORS

As per 31 December 2006, the Management and the Board of Directors at NovaStor Group comprised the following persons:

Management

Adrian Knapp (44), President and delegate of the Board of Directors, is a qualified business economist. In 1991 he founded COPE which was then incorporated in Mount10 (new: NovaStor). After basic training in the commercial field and working outside the IT branch, as well as spending some time abroad, he embarked on his career in IT in 1987.

Markus Bernhard (42), Chief Financial Officer, started working for COPE Inc. in September 1997, and he has been CFO of Mount10 Holding AG (new: NovaStor) since July 2000. After taking his degree at St. Gallen School of Commerce (*lic. oec., Handelshochschule St. Gallen*), Markus Bernhard worked for PricewaterhouseCoopers from 1991-97. During this period, he continued his training and successfully qualified as a Swiss CPA.

Board of Directors

Adrian Knapp (President).

Peter Urs Naef (Member). Mr. Naef is also a member of the board of directors at Engelberg Titlis Tourismus AG, CH-Engelberg; PMpartners Portfolio Management Services, CH-Lucerne; The Guide Company AG, CH-Zurich; and a delegate of the board of directors at Swiss Equity Medien AG, CH-Berne. Mr. Naef is the owner and partner NAEF PARTNERS AG, CH-Zurich.

Markus Stalder (Member). Mr. Stalder is a lawyer and notary at the law firm Stalder Murer, CH-Cham/ZG. Apart from this, he is also the president of the board of directors at Translex AG, CH-Cham/ZG, a company providing consultancy services in the field international law and taxation, and a delegate of the board of directors at Roter Pfeil AG, CH-Cham/ZG, Immobilien- und Unternehmens-Vermittlung (agents for real estate and businesses).

Changes in Board of Directors and Management Board

Markus Stalder announced his resignation from the Board of Directors of NovaStor AG at the Shareholders' Meeting on December 11, 2006. The Board of Directors and the Management Board express their thanks to Marcus Stalder for his professional support for NovaStor.

At the Shareholders' Meeting on 11 December 2006 **Prof. Dr. Gerold Riempp, Jürgen Stehle** and **Markus Bernhard** were elected as new members of the Board of Directors. The changes in the Board of Directors were registered in the Commercial Register of Zug canton in February 2007.

As announced in November 2006, Markus Bernhard will leave the company as CFO at the end of March 2007. Markus Bernhard was CFO of the company for nine years and made a major contribution to its development and success. The Board of Directors express their thanks to Markus Bernhard for his excellent work and his tireless commitment to the company and is looking forward to continuing to work with him in the Board of Directors.

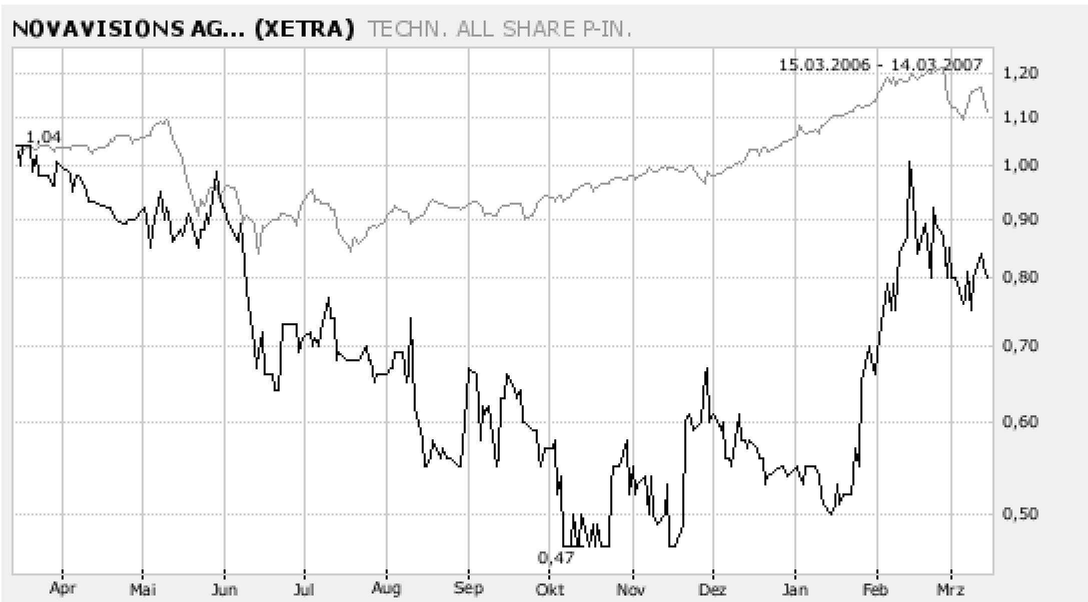
Jürgen Stehle was appointed to the Management Board of Novavisions AG as of January 2, 2007.

NovaStor Shares (new: Novavisions)

The share price of NovaStor AG has developed as follows over the last 12 months:

Highest price (Xetra) 20.03.06: Euro 1.04
Lowest price (Xetra) 06.10.06: Euro 0.47

Benchmark Prime Standard (12 months)



Shareholders and interested readers who have not yet subscribed to our Investor Relations mailing list can register on our homepage at http://www.novavisions.com/content/anmeldung_e.asp?seiid=37 or directly via e-mail to investorrelation@novavisions.com.

Comment on the Financial Year 2006

Comparability of Figures

From March 1, 2006 NovaStor is a software solutions provider. Revenues in 2005 and until the end of February 2006 were generated with both the company's own software products and with the software integration business. Due to the sale of the system integration business in the first quarter 2006, NovaStor's revenues from March 1, 2006 were generated solely with its own software products.

Revenues

In 2006 the company recorded revenues of €6.7 million. In comparison to the previous year this represents a drop of 23.5% or €2.0 million. The decrease is due to the disposal of the system integration business in the course of the first quarter 2006.

The shares of the individual NovaStor companies in the adjusted group revenues are as follows:

	2006	**2005**
Europa	54.3%	98.0%
USA	45.7%	2.0%

Gross earnings as a percentage of revenues

Gross margin for the year 2006 was 85.9% (2005: 50.6%). The earnings contribution or gross earnings were €5.7 million in 2006 (2005: €4.4 million). The increase in gross earnings by €1.3 million or 30.0% is due to the discontinuation of the system integration business.

Operating expenses

Operating expenses in 2006 totalled €6.1 million (2005: €4.2 million). The increase of 43.0% results from the first time consolidation of NovaStor USA in 2006.

EBITDA

EBITDA in 2006 was €-332k. (2005: €169k).

Depreciation

Depreciation expense in 2006 was €0.30 million. (2005: €0.24 million). The increase in depreciation is due to changes in the group of consolidated companies.

Amortization of goodwill

Amortization of goodwill amounted to €2.5 million in 2006 (2005: € 0). This amortization was recognised consistent with the realignment of NovaStor AG to the investment company Novavisions AG.

NOVASTOR

Comprehensive income
Comprehensive income for 2006 was €-3.12 million (2005: €0.07 million).

Interest bearing liabilities
Interest bearing liabilities decreased as at December 31, 2006 to €1.1 million (31.12.2005: €1.4 million).The reduction by €0.3 million resulted from an unconditional loan waiver and the partial repayment of a loan.

Liquidity
Liquidity as at December 31, 2006 amounted to €1.5 million (31.12.2005: €4.0 million). Net current assets were €0.8 million as at December 31, 2006 (31.12.2005: €1.0 million).

OUTLOOK

As from February 8, 2007 NovaStor AG is known as Novavisions AG (www.novavisions.com) and is positioning itself as an investment company with a focus on the Digital Lifestyle sector.

We are confident that the strategic changes already made have put Novavisions AG in a very strong position for the future and that the company will fulfil its financial expectations for the current year.

Dynavisions (www.dynavisions.com) produces innovative hybrid digital set-top boxes for receiving television programs and video-on-demand services via internet (IPTV) and classic TV (DVB) in high definition quality.

Dynavisions' new orders in Q4 2006 were very satisfactory at over €6 million. Shipping of the first boxes began in Q1 2007. The equipment is mainly due to be approved by the second quarter 2007.

NovaStor Software is expecting key contract extensions in the weeks ahead with long-term customers such as General Mills. The indirect sales channel with new partners such as Bechtle and Ingram Micro in Europe will generate major new revenues.

On the basis of these developments the Management Board is anticipating revenues of €20-22 million and pre-tax profits of €2-2.5 million for the financial year 2007.

CONSOLIDATED BALANCE SHEET (IFRS)

	Ref.	31.12.06	31.12.05
ASSETS		**EUR**	**EUR**
Short-Term assets			
Liquid resources		1'473'487	3'964'422
Accounts receivable from sales & services	E1	281'204	2'025'052
Intercompany accounts receivable	E1	43'577	68'636
Inventories		49'572	139'342
Accruals and other short-term assets	E2	311'930	413'390
Short-term loans	E3	300'000	0
Short-term assets, total		**2'459'770**	**6'610'842**
Long-term assets			
Tangible fixed assets	E4	171'752	270'575
Intangible assets	E4	1'655'878	1'469'329
Goodwill	E4	5'096'827	7'789'829
Associated companies	E5	148'263	311'476
Other long-term assets	E6	74'650	0
Deferred taxes	E7	2'636	37'494
Long-term assets, total		**7'150'006**	**9'878'703**
Assets, total		**9'609'776**	**16'489'545**

The notes are part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET (IFRS)

	Ref.	31.12.06	31.12.05
EQUITY & LIABILITIES		EUR	EUR
Short-term liabilities			
Short-term loans and short-term share of long-term loans	E8	0	340'000
Accounts payable for goods and services		189'577	1'715'490
Advance payments received		0	84'639
Short-term liability reserves	E9	0	338'531
Deferred revenues		892'196	1'404'610
Income tax payable		7'789	166'567
Other accounts payable	E10	362'955	649'569
Deferred income	E11	224'545	895'581
Short-term liabilities, total		**1'677'062**	**5'594'987**
Long-term liabilities			
Convertible bonds, long-term loans	E12	1'137'212	1'059'999
Long-term liability reserves	E13	674'337	890'783
Deferred taxes	E14	0	51'955
Long-term liabilities, total		**1'811'549**	**2'002'737**
Equity capital			
Subscribed capital	E15	4'763'436	4'478'155
Capital reserve		6'709'492	6'416'811
Net loss		-5'385'318	-2'265'099
Cumulative exchange rate differences		33'555	261'954
Equity capital, total		**6'121'165**	**8'891'821**
Equity and liabilities, total		**9'609'776**	**16'489'545**

The notes are part of the consolidated financial statements.

Consolidated Income Statement (IFRS)

	Ref.	01.-12.06	01.-12.05
		EUR	EUR
Sales revenues	F1	6'670'877	8'715'782
Raw materials and consumables	F1	-938'933	-4'305'577
Gross profit	F1	**5'731'944**	**4'410'205**
Staff costs	F2	-4'246'601	-3'055'491
Other operating expenditure	F2	-1'817'133	-1'382'674
Income from sale of fixed assets		0	196'858
EBITDA		-331'790	168'898
Depreciation	E4	-297'266	-240'606
Goodwill depreciation	E4	-2'483'377	0
Deconsolidation	F6	-89'454	0
Earnings before financial result and taxes		**-3'201'887**	**-71'708**
Financial revenue	F3	214'822	391'946
Financial expenditure	F4	-182'526	-220'224
Financial result for associated companies	F4	57'505	-18'640
Currency exchange result	F5	-19'348	-14'373
Earnings before taxes		**-3'131'434**	**67'001**
Income taxes	F7	11'215	2'686
Period profit (loss)		**-3'120'219**	**69'687**
Earnings per GDR	F8		
undiluted		-0.16	0.01
diluted		-0.16	0.01
Average of GDRs in circulation			
undiluted		19'478'949	11'863'630
diluted		19'478'849	12'637'017

The notes are part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT (IFRS)

	01.-12.06	01.-12.05
	EUR	EUR
Period profit (loss)	-3'120'219	69'687
Depreciation of fixed assets and amortization of intangible assets	297'266	240'606
Goodwill amortization	2'483'377	0
Financial revenue	-32'296	-171'722
Tax revenue	-11'215	-2'686
Loss / (profit) from the sale of fixed assets	0	-196'858
Loss / (profit) from the sale of associated companies	-57'505	18'640
Deconsolidation	89'454	0
Change in accounts receivable from sales and services	1'850'894	-1'195'594
Change in inventory	81'320	19'885
Change in other current assets	-589'368	3'845
Change in accounts payable for goods and services	-1'031'426	847'023
Change in other short-term borrowings	-1'384'522	-535'860
Taxes paid	-5'881	-24'468
CASH FLOW FROM OPERATING ACTIVITIES	**-1'430'121**	**-927'502**
Investment in fixed and intangible assets	-451'265	-133'847
Investment/devestment acquisition	76'234	-227'173
Loans	-292'377	0
Outflow fo funds due to deconsolidation	-675'847	0
Interest received	47'068	13'876
CASH FLOW FROM INVESTMENT ACTIVITIES	**-1'296'187**	**-347'144**
Net revenue from capital contribution	586'832	4'224'850
Repayment of loans	-170'000	-550'000
Interest paid	-84'988	-85'204
CASH FLOW FROM FINANCING ACTIVITIES	**331'844**	**3'589'646**
Currency difference	-96'471	-2'442
CHANGE IN LIQUID RESOURCES	**-2'490'935**	**2'312'557**
LIQUID RESOURCES AT BEGINNING OF PERIOD	**3'964'422**	**1'651'865**
LIQUID RESOURCES AT END OF PERIOD	**1'473'487**	**3'964'422**

CONSOLIDATED EQUITY CAPITAL (IFRS)

EUR	Subscribed capital	Capital reserves	Net profit	Cumulative exchange rate difference	TOTAL
Balance 01.01.05	**2'572'377**	**1'369'923**	**149'460**	**-2'193'916**	**1'897'844**
Adjustment			-2'492'038	2'492'038	0
Balance 01.01.05 (after adjustment)	**2'572'377**	**1'369'923**	**-2'342'578**	**298'122**	**1'897'844**
Exchange rate difference	0	0	0	-36'168	-36'168
Stock option plans	0	0	7'792	0	7'792
Net costs directly Recognised in equity	0	0	7'792	-36'168	-28'376
Result for period	0	0	69'687	0	69'687
Total net income	0	0	77'479	-36'168	41'311
Increase in capital	1'905'778	5'298'756	0	0	7'204'534
Cost of increase in capital	0	-251'868	0	0	-251'868
Balance 31.12.05	**4'478'155**	**6'416'811**	**-2'265'099**	**261'954**	**8'891'821**
Exchange rate difference	0	0	0	-228'399	-228'399
Stock option plans	0	8'081	0	0	8'081
Net costs directly Recognised in equity	0	8'081	0	-228'399	-220'318
Result for period	0	0	-3'120'219	0	-3'120'219
Total net income	0	8'081	-3'120'219	-228'399	-3'340'537
Increase in capital	285'281	361'043	0	0	646'324
Cost of increase in capital	0	-76'443	0	0	-76'443
Balance 31.12.06	**4'763'436**	**6'709'492**	**-5'385'318**	**33'555**	**6'121'165**

A capital increase in December 2006 led to a net increase in shareholders' equity of €569,881. Share capital is CHF 7,248,346 as at December 31, 2006, divided into 2,070,956 bearer shares with a par value of CHF 3.50 and has been translated at historical rates.

Capital increases in August and December 2005 raised the net amount of shareholders' equity by €6,952,666; the share of the capital increase resulting from the investment in kind of NovaStor in December 2005 was €2,727,816.

Accumulated exchange rate differences have been corrected via the balance sheet profit with an adjustment of €2,492,038.

In accordance with IAS 8 the group retrospectively corrects material errors from prior periods in the periods in which the error was made. The error occurred in the reporting periods prior to 2005 and the respective balances have been restated as at 01.01.2005.

Further information on group equity is included in the notes under item E15.

Consolidated Appendix

A Corporate Data

General

The registered offices of NovaStor AG (NovaStor) are at Grundstrasse 12 in Rotkreuz/ Zug Canton (Switzerland). The company was established and registered in the Commercial Register on December 16, 1999. As from February 8, 2007 NovaStor AG is known as Novavisions AG.

On December 31, 2006 NovaStor had 50 employees. The reporting date is December 31 and the accounting period begins on January 1 and ends on December 31.

This financial report was approved by the Board of Diretors on March 12, 2007.

B Accounting Rules

The consolidated financial statement of NovaStor AG is based on uniform accounting principles and standards of valuation. The consolidated financial statement is created and published in accordance with the International Financial Reporting Standards (IFRS).

Preparing consolidated group statements in compliance with IFRS calls for estimates, in addition to which using accounting policies that apply throughout the entity require valuations to be made by the management. Areas with greater scope for assessment or of great complexity, or areas where assumptions or estimates are of decisive significance for the consolidate group statement (further explanations are given in D25).

C Consolidation Principles

1. Consolidated Group

The consolidated group includes the following companies:

Name / Headquarters	*Country*	*Share*	*Capital stock*		*Consolidation method*
NovaStor AG, Rotkreuz	Switzerland	100%	CHF	7'248'346	Full consolidation
NovaStor Corporation, Simi Valley (CA)	USA	100%	USD	0	Full consolidation 1)
NovaStor Software AG, Rotkreuz	Switzerland	100%	CHF	100'000	Full consolidation
NovaStor GmbH, Hamburg	Germany	100%	EUR	25'565	Full consolidation
Dynavisions Schweiz AG, Rotkreuz	Switzerland	100%	CHF	600'000	Full consolidation
Mount10 GmbH, Dresden	Germany	100%	EUR	25'000	Full consolidation 2)
Mount10 Software Inc., El Segundo (CA)	USA	100%	USD	1'000	Full consolidation 3)
Multicom Software Oy, Lappeenranta	Finland	40%	EUR	166'912	Equity Method
BC Business Computers AG, Aesch	Switzerland	49%	CHF	500'000	Equity Method 4)
Mount10 PCM GmbH, Rotkreuz	Switzerland	24%	CHF	55'000	Equity Method

1) The company was consolidated for the first time on December 31, 2005. The company's businesses are consolidated for the first time from January 1, 2006.
2) In 2006 the company's businesses are consolidated in the income statement up to March 31, 2006. Balance sheet items were deconsolidated on April 1, 2006 as the company was sold in May 2006.
3) In 2006 the company's businesses are consolidated in the income statement up to March 31, 2006. Balance sheet items were deconsolidated on April 1, 2006 as the company was liquidated in May 2006.
4) The 49% stake in BC Business Computers AG was sold in December 2006.

2. Reporting Date for Consolidated Financial Statement

All consolidated companies close their annual financial statements on 31 December.

3. Consolidation Methods

The consolidated financial statements are prepared on the basis of the uniform financial statements of the individual group companies.

Acquisitions of subsidiaries are accounted for using the purchase method. The acquisition costs correspond to the fair value of the assets given, the equity instruments issued and the liabilities incurred or assumed at the time of the transaction, plus direct costs attributable to the acquisition. In the course of a business combination the identifiable assets, liabilities and contingent liabilities are recognised for the initial consolidation at fair value at the acquisition date, independently of the amount of minority interests.

The excess of the acquisition costs over the group share of the fair value of the net assets is recognised as goodwill. If the acquisition costs are lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit and loss. Goodwill with an unlimited useful life is not amortized, but tested annually for impairment.

Equity investments in associates are consolidated under the equity method. Associates are companies over which NovaStor has significant influence and which are not subsidiaries. Significant influence is the power to participate in the financial and operating policy decisions of the investee company but is not control or joint control over those policies (generally 20-50% of voting rights). Under the equity method, the investment in an associate is initially recognised at cost. Thereafter the carrying amount is increased or decreased to recognise NovaStor's share of the profit or loss of the associate.

Differences from currency translations on the group reporting date are recognised as currency differences directly in equity. Intra-group revenues, expenses and income as well as all receivables and liabilities between consolidated companies are eliminated. Any interim gains in non-current assets are eliminated.

EBITDA is calculated on the basis of gross earnings less staff expenses, other operating expenses and gains on disposals of non-current assets.

D ACCOUNTING PRINCIPLES

1. Changes to accounting principles

1.1 General

Assets and liabilities are valued according to IFRS. Any changes to the accounting principles applied are noted individually.

The following standards, amendments and interpretations are binding for years beginning on or after January 1, 2006. IAS 19 Employee benefits and IAS 21 The effects of changes in foreign exchange rates are relevant for the group. These amended standards have no effect on reporting, however. The other standards, amendments and interpretations are not currently relevant to the group's operating business.

IAS 39	Financial Instruments: Recognition and Measurement
IFRS 6	Exploration for and evaluation of Mineral Resources
IFRIC 4	Determining whether an arrangement contains a lease
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

The IASB has issued new standards as well as interpretations and amendments to existing standards, which are not yet binding for the financial year beginning on January 1, 2006. Specifically, these are the following standards:

IAS 1	Presentation of financial statements – amendment – equity disclosures
IFRS 7	Financial instruments: disclosures
IFRS 8	Operating Segments
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Reporting and impairment
IFRIC 11	Group and Treasury Share Transactions
IFRIC 12	Service concession arrangements

Based on IFRS 7 Financial Instruments: Disclosures, which is applicable for years beginning on or after January 1, 2007, the group anticipates an additional disclosure on financial instruments in the notes. However, IFRS 7 has no material effect on the presentation of the balance sheet, income statement or cash flow. IFRS 8 Operating Segments was published in November 2006 and is binding for years beginning on or after January 1, 2009. IAS 14 Segment Reporting is to be replaced by IFRS 8. IFRS 8 requires companies to define their 'operating segments' and the 'segment performance' in the financial statements for each year on the basis of the financial information used by management. These new requirements may have an effect on the segments presented, the disclosures and the corresponding valuation. The group has not yet analysed this aspect in detail, so that at present no conclusive assessment of the effect on reporting can be made.

The company has evaluated the effect of the other future standards and on current assessments does not expect any significant effects on the presentation of the results and financial position of the group.

The company has decided not to avail itself of the option to apply the standards ahead of schedule.

2. Historical Cost Concept

The annual financial statement is based on the historical cost concept. Unless otherwise indicated, assets and liabilities are posted at their nominal value minus any necessary adjustments.

3. Currency Translation

Due to the stock exchange quotation in Frankfurt the report currency of the consolidated report is the Euro.

3.1 Transactions

Foreign currency transactions are translated at the current exchange rate on the day of the transaction. At the end of the period under review, assets and liabilities in foreign currencies are translated at the reporting date exchange rate. Translation differences are taken into account in terms of net income.

3.2 Translation of Local Financial Statements

The financial statements of the companies are prepared in the currency in which the investee company carries out the majority of its business (functional currency). For the consolidated financial statements these are translated into Euro (€). The balance sheet items are translated at the rate on the reporting date and the income statement at the yearly average rate, as this gives a reasonable approximation of the cumulative effects which would have resulted from translation at the rates applicable at the times of transactions. The resulting translation difference is recognised as a currency difference direct in equity. The cash flow statement is translated at the average rate. On the disposal of a group company the relevant accumulated foreign currency differences are recognised in profit and loss as part of the proceeds from the disposal.

3.3 Exchange Rates

The respective group exchange rate tables are used for foreign currency translation.

			2005		2006	
in EUR	ISO-Code	Unit	31.12.	Average	31.12.	Average
Swiss Francs	CHF	1	1.5533	1.5483	1.6075	1.5741
US-Dollar	USD	1	1.1816	1.2396	1.3195	1.2574

4. Income Statement

The income statement has been created according to the total expenditure format.

5. Realisation of Sales

Sales proceeds from providing consultancy services are entered as turnover when the service has been rendered in full.

NovaStor realises its sales proceeds on the basis of a contract with the final customer, as soon as the license has been delivered to the customer, the sales price is fixed or determinable, there are no significant obligations vis-à-vis the customer, and the collection of the receivables is deemed probable.

Revenues from maintenance work (including up-grade service) that are attained using the company's own back-up, restore and data retention software are recurring revenues. Revenues from maintenance agreements are generated *pro rata* in a straight line over the period for which they have been calculated. Maintenance agreements are usually invoiced to the end customers in advance either once a year or once a quarter, and the revenues are thus realised in a straight line over a period of 12 months (in the case of annual invoicing) or 3 months (in the case of quarterly invoicing). If the revenues have not yet been realised, they are entered as deferred items of turnover.

6. Warranty

NovaStor only provides a warranty for its own products. Expected warranty claims are taken into account at the time when the sale is posted. No substantial warranty claims were placed in the reporting period.

7. Pension Obligations

The NovaStor group provides pension schemes for employees in accordance with national legislation. They are outsourced to establishments and foundations that are financially independent of the NovaStor group.

In Switzerland, the NovaStor group bears the costs of benefits for all employees and their surviving dependents in accordance with legal requirements. The benefit obligations and the assets used to cover them are held by legally independent collective foundations of insurance companies. The organization, management and financing of the benefit schemes are based on Swiss insurance law (BVG), the foundation instruments and the applicable pension regulations.

In the case of schemes with defined benefit plans, the present value of expectancy based on seniority, expected salary and pension development, and expected return on the capital investment is periodically calculated by independent insurance experts according to the projected unit credit method.

The differences in comparison between the benefit obligations and benefit assets, as well as between the employer contributions paid and the net pension expenses are insignificant. Employer's contributions have been recorded as expenditure.

8. Costs of Borrowed Capital

The costs of borrowed capital are charged directly to the income statement.

9. Affiliated Persons and Companies

Transactions with affiliated persons and companies (related parties) are handled on terms that conform to the market. “Related persons” is understood to mean the members of the entity’s board of directors as well as the member of group management. “Related companies” is understood to mean entities where members of the board of directors have a significant influence. Further disclosures on related parties are given in the notes E15, E16 and H7.

10. Non-Current Financial Assets

Non-current financial assets are divided into ‘Financial assets at fair value through profit and loss’, ‘Held-to-maturity financial investments’, ‘Loans and receivables’ and ‘Available-for-sale financial assets’.

Financial assets at fair value through profit and loss and liabilities are either held for trading purposes or explicitly classified as such. The financial instruments held for trading purposes are bought with the intention of realising a profit from short-term price fluctuations. Held-to-maturity financial investments are financial assets with a fixed maturity which the group intends and is able to hold to maturity.
Financial assets available for sale are those non-derivative financial instruments which are either classified in this category or do not belong to any other category.

All financial instruments are initially recognised at fair value including transaction costs. All purchases and sales are recorded on the settlement date, i.e. on the date the asset is transferred. After initial recognition the financial assets at fair value through profit and loss and liabilities are measured at fair value and changes in fair value reported in financial earnings/(expenses) for the reporting period.

The fair value of publicly listed financial instruments is derived from available listed prices. If financial instruments are not traded in an active market, alternative valuation methods are applied. This involves the use of recent arm’s-length transactions between knowledgeable, willing parties or cash flow calculations or similar.

After initial recognition held-to-maturity financial investments and loans and receivables are measured at amortised cost using the effective interest method. Available-for-sale financial assets are measured at fair value after initial recognition and changes recognised in equity. Lasting and ongoing impairments are recognised in profit and loss.

11. Liquid Resources

The liquid resources are posted at their nominal value. They include cash in hand, cash in post office and bank accounts, as well as fixed-term deposit investments up to 90 days.

12. Trade receivables

Trade receivables are classified as loans and receivables in line with IAS 39. Default risks are accounted for using impairment losses and expected recoverable amounts.

13. Inventories

Inventory is normally valued at the average acquisition costs. If the net sale value is lower, appropriate value adjustments are made.

14. Ordinary Taxes and Deferred Taxes

Ordinary taxes are calculated on taxable earnings using the applicable tax rate. Deferred taxes are calculated for temporary differences between the financial statements for tax purposes and the consolidated financial statements. In so doing the group applies the 'liability method' by which deferred taxes are calculated using the tax rates applicable at the time the taxes are likely to be due. Deferred tax assets are only recognised when their recovery can be expected.

Deferred tax liabilities arising from temporary differences in connection with investments in subsidiaries and associates are recognised unless the timing of the reversal of the temporary differences can be controlled by the group and it is likely that the temporary differences will not be reversed in the foreseeable future.

15. Recording and Depreciation of Tangible and Intangible Assets

15.1 Leased Items

A lease arrangement is classified as an operating lease if all the risks and benefits associated with proprietorship predominantly remain with the lessor. Lease payments under operating lease arrangements are recognised as expenses in a straight line over the term of the lease contract.

NovaStor's leasing arrangements mainly involve vehicles. The terms of these operating lease contracts are generally between three and five years. NovaStor has not entered into any obligation to take over the lease items at the end of the term. The lease payments are recognised as costs in the income statement.

15.2 Tangible Fixed Assets

Tangible fixed assets are valued at purchase or production costs minus scheduled and non-scheduled depreciation. The costs of borrowed capital are not applied in determining the purchase or production costs, because they cannot be directly assigned to the respective assets. Depreciation is basically linear over the expected effective life.

The following depreciation periods apply:

Tangible assets	3 to 5 years
Leasehold improvements	10 years, but at most the period of the tenancy agreements

Tangible assets include computing systems, movable property, furnishings, office equipment, communication equipment, and system software.

Low-value property items with purchase costs of EUR 500 or less are debited directly from the income statement in the purchase year. Maintenance costs are recorded directly as expenses.

15.3 Goodwill

Acquired subsidiaries are included in the accounts using the acquisition method. The acquisition costs correspond to the fair value of the expended assets, the equity instruments issued, and the debts created or assumed on the date of the transaction, plus the costs directly attributable to the acquisition. Assets, debts and contingent liabilities that are identifiable in the context of a business combination are recognised on first consolidation at their fair values on the acquisition date, irrespective of the number of minority shares.
The costs of the acquisition that exceed the group's share in the net assets recognised at fair value is posted as goodwill. If the acquisition costs are less than the fair value of the acquired subsidiary's net assets, then the difference is recognised directly in the income statement. Goodwill having an indefinite useful life is not subject to scheduled depreciation; instead, it is reviewed annually during the second half of the accounting year to establish whether any impairment has occurred.

15.4 Intangible Assets

Intangible assets are capitalised at acquisition or production cost, and are generally subject to linear depreciation over their anticipated useful life. Intangible assets capitalised on the date of acquisition when consolidation is done for the first time are measured at fair value.

The depreciation periods applying are as follows:

Licenses	5 years
Software technology on acquisition date	10 years
Trademarks on acquisition date	10 years

15.5 Impairment of Non-Current Assets

Intangible assets or goodwill which have an indefinite useful life are not subject to scheduled depreciation: they are reviewed annually to see whether any impairment has occurred. Assets that are subject to scheduled depreciation are checked to see whether a reduction in value is required if events or changes in circumstances indicate that the book value may possibly no longer be realisable. Impairment losses are recognised by posting the book value that exceeds the realisable amount. The realisable amount is the higher of the two following figures: the fair value of the asset minus sales costs, or the asset's value in use. For testing intrinsic value, assets are combined at the lowest level for which cash flows can be identified separately (cash generating units).

On the basis of an impairment test an impairment loss for goodwill was recognised in the reporting period. Impairment losses for goodwill cannot be reversed in following periods. An impairment loss through profit and loss for non-financial assets other than goodwill in prior periods is reversed if there are reasons to believe that the impairment no longer exists or could be lower.

16. Liabilities

Liabilities are initially recognised at fair value and thereafter at amortised cost. Liabilities in foreign currencies are translated at the rate on the reporting date and exchange rate differences recognised in profit and loss.

17. Advance Payments

Advance payments received are posted as advance payments within the framework of agreements, which are not accounted for in terms of current sales on the balance sheet date. They are treated as income following acceptance testing by the customer.

18. Instruments of Credit/Loans

When instruments of credit with options are issued, the loan portion is calculated on the basis of the market interest rate of comparable instruments of credit without options. After initial posting, the loan portion is reported at the amortized cost value. The issue costs are divided into a loan portion is reported at the amortized cost value. The issue costs are divided into a loan portion and an equity portion at the same ratio as the credit instrument. The amortization of the discount and issue cost share is debited from the consolidated result over the term of the credit instrument. The value assigned to exchange options on initial posting as equity capital remains unchanged during the subsequent reporting periods.

19. Liability Reserves

Liability reserves are posted at their nominal value. The value that appears most probable on careful consideration of the factual frame is set aside. Discounting is only performed if the time of outflow can be reliably determined and the effect is substantial.

20. Development

The main focus of development within the group is the development and testing of the group's own backup, restore and data retention software. Development costs for products that are already on the market are not capitalized, and are continuously debited to the income statement.

The cost of new product development are capitalized as intangible fixed assets provided future economic benefits to the group are probable. The capitalized development costs are depreciated in equal installments over their expected effective life, and check for impairment on each balance sheet date. Development costs that fail to meet the criteria for capitalization are continuously debited to the income statement.

21. Earnings per Share (GDR)

The earnings per GDR has been determined as the quotient of the net profit for the period and the weighted average of GDRs in circulation. The diluted earnings per GDR are determined in the same way as the earnings per GDR, but the weighted average of GDRs in circulation is increased by the number of GDRs that would have to be issued if the exercisable options were to be exercised whose exercise price is below the GDR's market value.

22. Estimates

In the consolidated financial statement, certain estimates and assumptions must be made, which impact the assets and liabilities reported on the balance sheet, the particulars of miscellaneous obligations on the balance sheet date, and the statement of earnings and expenditures during the period under review. The actual amounts may differ from the estimates.

23. Share Options

The fair value of share options issued to employees and executives are recognised as payment on the date of distribution. The fair value of the share options was calculated using the Black Scholes model, which is based on various assumptions that are in turn based on estimations of future uncertainties, such as the expected volatility of the GDR and the expected dividends.

24. Financial Risks

24.1 Liquidity Risk

Prudent liquidity management means ensuring sufficient liquidity reserves and realisable financial assets as well as the availability of credit facilities. Liquidity is monitored continuously.

24.2 Interest Risk

The interest change risk pertains primarily to long-term, interest-bearing loans. NovaStor used no financial instruments to protect against the interest change risk in the year under review.

24.3 Foreign Currency Risk

NovaStor buys and sells products in foreign currencies, and is, therefore, exposed to foreign currency variations. NovaStor used no financial instruments to protect against the foreign currency risk in the year under review.

24.4 Non-Payment Risk

Financial instruments that could possibly expose NovaStor to a concentration of non-payment risks are primarily cash resources and accounts receivables from sales and services. Bank affiliations are only maintained with first-rate financial institutions. NovaStor continually checks the creditworthiness of its customers and has no significant concentrations of non-payment risks.

25. Critical Estimates and Assumptions in preparing the Financial Statements

All estimates and assessments are permanently re-evaluated and are based on past experience and other factors, including expectations concerning future events which appear reasonable in the given circumstances. The group makes estimates and assumptions concerning the future. These can include provisions for current or potential litigation for example. Naturally the estimates derived from these will only rarely correspond exactly to the facts as they later occur. For estimates in connection with goodwill we refer to E4. The intangible assets include development costs for a new software product of €713,814. If this product cannot be sold in the anticipated quantities, impairment losses will be recognised.

E Notes on the Balance Sheet

	31.12.06 EUR	31.12.05 EUR

1. Accounts Receivable from Sales & Services

Accounts receivable from sales & services	281’204	2’025’052
Intercompany accounts receivable	43’577	68’636
Total	324’781	2’093’688

In the financial year 2006, the losses on receivables totaled €62’746 (2005: €3’377).

2. Accruals and Other Short-Term Assets

Tax receivables	25’035	33’239
Welfare receivables	14’299	560
Security deposits	36’112	46’387
Other accounts receivable	87’163	222’275
Accruals	149’321	110’929
Total	311’930	413’390

3. Short-Term Loans

Short-Term Loans	300’000	0
Total	300’000	0

The short-term loan of €300,000 is to a company with which NovaStor has a business relationship. The loan can be cancelled at short notice at any time and bears interest at 6%.

4. Tangible Assets, Intangible Assets, Goodwill

Acquisition costs in EUR	Tangible assets	Intangible assets	Goodwill	Total
1 January 2005	**2'715'244**	**478'347**	**15'749'233**	**18'942'824**
Reclassification according to IFRS 3	0	0	-10'653'615	-10'653'615
Changes in consolidated group	202'901	1'087'213	0	1'290'114
Additions	41'021	290'087	2'723'407	3'054'515
Disposals	-1'413'141	0	0	-1'413'141
Impairment of value	0	0	0	0
Currency difference	-2'873	-909	-29'196	-32'978
31 December 2005	**1'543'152**	**1'854'738**	**7'789'829**	**11'187'719**
Changes in consolidated group	0	0	0	0
Additions	31'208	420'057	0	451'265
Disposals	-202'242	-368'429	0	-570'671
Additional depreciation	0	0	-2'483'377	-2'483'377
Impairment of value	0	0	0	0
Transfer	1'472	-1'472	0	0
Currency difference	-38'785	-41'520	-209'625	-289'930
31 December 2006	**1'334'805**	**1'863'374**	**5'096'827**	**8'295'006**

Value adjustments in EUR	Tangible assets	Intangible assets	Goodwill	Total
1 January 2005	**2'396'830**	**226'433**	**10'653'615**	**13'276'878**
Reclassification according to IFRS 3	0	0	-10'653'615	-10'653'615
Changes in consolidated group	140'005	60'226	0	200'231
Annual depreciation	143'909	96'697	0	240'606
Additional depreciation	0	0	0	0
Disposals	-1'412'662	0	0	-1'412'662
Currency difference	4'495	2'053	0	6'548
31 December 2005	**1'272'577**	**385'409**	**0**	**1'657'986**
Changes in consolidated group	0	0	0	0
Annual depreciation	95'959	201'307	0	297'266
Additional depreciation	0	0	0	0
Disposals	-173'435	-363'462	0	-536'897
Currency difference	-32'048	-15'758	0	-47'806
31 December 2006	**1'163'053**	**207'496**	**0**	**1'370'549**

Book value in EUR	Tangible assets	Intangible assets	Goodwill	Total
1 January 2005	**318'414**	**251'914**	**5'095'618**	**5'665'946**
31 December 2005	**270'575**	**1'469'329**	**7'789'829**	**9'529'733**
31 December 2006	**171'752**	**1'655'878**	**5'096'827**	**6'924'457**

The application of IFRS 3 Business Combinations, IAS 36 (amended) and IAS 38 (amended) resulted in a change to the accounting for goodwill. Until December 31, 2004 goodwill was amortised on a straight-line basis over its expected useful life and impairment tests carried out on each reporting date if there was reason to do so. In accordance with the requirements of IFRS 3 the group is terminating the amortisation of goodwill as of December 31, 2004. The accumulated amortizations at December 1, 2005 were set off against the acquisition cost of goodwill.

Checking the Intrinsic Value of Goodwill

The impairment tests were done at the end of the reporting year on the basis of the companies' 5-year financial plan. The cash-flow forecasts are based on the relevant anticipated growth in turnover and the operating results.

The calculation is based on the following assumptions:

in EUR	Growth rate	Interest rate	Book value 31.12.06	Book value 31.12.05
Germany	7.5%	16%	1'932'628	4'516'697
Finland	6%	12%	531'190	549'725
USA	10%	16%	2'633'009	2'723'407
Total Goodwill			**5'096'827**	**7'789'829**

The company valuations calculated using the DCF method make an adjustment to the goodwill necessary in Germany. The necessary adjustments to the company valuation of the acquired NovaStor Corporation resulted in an increase in goodwill in the USA (for details see E17).

5. Associates

	31.12.06 EUR	***31.12.05 EUR***
Start of period	311'476	268'501
Exchange rate difference	-10'502	-1'478
Additions	0	63'093
Disposals	-152'711	0
Financial earnings of associates	0	-18'640
End of period	148'263	311'476
Assets, pro rata	389'758	659'072
Liabilities, pro rata	218'977	347'596
Revenues, pro rata	832'102	852'140

		31.12.06 EUR	31.12.05 EUR

6. Other long-term receivables

Other long-term receivable	74’650	0
Total	74’650	0

7. Deferred Taxes

Beginning of period	37’494	71’752
Currency difference	1	-15
Current period	-34’859	-34'243
End of period	2’636	37’494

The deferred taxes concern the following balance sheet items:

Carryover	2’636	2’816
Goodwill	0	34’678
Total	2’636	37’494

Deferred tax credit from carryovers from the years 2000 to 2006 amounting to approximately €31.9 million are not carried as assets on the balance sheet, since the respective companies reported losses in the recent past.

There is a time limit on offsetting the carryovers against future profits. The carryovers expire from the year 2007.

2007	2'642’419
2008	14'374’310
2009	6'900’844
2010	178’689
2011	2'382’103
2012	351’760
Later	5'019’886
Total	31'850’011

	31.12.06 EUR	31.12.05 EUR

8. Short-Term Loans and Short Term Share of Long-Term Loans

At December 31, 2006 there were no short-term loans (2005: €340,000).

9. Short-Term Liability Reserves

	31.12.06 EUR	31.12.05 EUR
Other liability reserves	0	338’531
Total	0	338’531

	31.12.06 EUR	31.12.05 EUR
Beginning of period	338’531	119’788
Exchange rate differences	-24’155	0
Changes in consolidated group	0	338’531
Draft	-314’376	-119’788
Dissolution	0	0
End of period	0	338’531

As at December 31, 2006 short-term provisions €75,788 were used and reclassified as other short-term liabilities pending payment.

In 2006 short-term provisions of €238,588 were used to settle an out of court settlement in connection with patent litigation in the USA. In the previous year short-term provisions of €119,788 were used for the disposal of business units in 2001/2002.

10. Other Accounts Payable

	31.12.06 EUR	31.12.05 EUR
Welfare liabilities	1’147	18’991
Other accounts payable	361’808	630’578
Total	362’955	649’569

The other accounts payable mainly include accounts payable to suppliers for other operational services.

	31.12.06 EUR	31.12.05 EUR

11. Deferred Liability Items

Wages, staff, social security benefits	119'156	203'527
Auditing & consulting	68'666	84'404
Interest expenses	17'418	20'923
Goods purchased	0	325'766
Other accruals	19'305	260'961
Total	224'545	895'581

The deferred liability items (salaries, social security, outstanding bills, audit, etc.) take into account all recognisable obligations vis-à-vis third parties. They are deferred up to the probable amount.

12. Convertible Bonds

Convertible bonds	1'137'212	1'059'999
Total	1'137'212	1'059'999

On 20 October 2004, convertible bonds having a par value of € 1.2 million that expire on 19 October 2007 were issued. Interest at a rate of 7% is paid on the bonds. The value posted in the balance sheet is discounted. The effective rate of interest is 13.2% (2005: 12.6%). In connection with the convertible bonds, 1,142,860 options for co-ownership shares (GDRs) were issued. This is equivalent to an exercise price of €1.05 per GDR. These options have been exercisable since the end of April 2005 and may be exercised until 19 October 2007.

13. Long-Term Liability Reserves

Beginning of period	890'783	1'236'175
Currency difference	-26'078	-5'417
Creation	0	177'686
Draft	-190'368	-517'661
Dissolution	0	0
End of period	674'337	890'783

In 2005 the sum of €177,686 was reclassified from other liabilities to long-term provisions.

The provisions are for potential payments in connection with various cases of litigation and cover the expected costs.

	31.12.06 EUR	31.12.05 EUR

14. Deferred Taxes

Beginning of period	51’955	100’928
Current period	-51’955	-48’973
End of period	0	51’955

The deferred taxes concern the following balance sheet items:

Intangible assets	0	24’216
Liability reserves	0	27’739
Total	0	51’955

15. Equity

Share capital

As at December 31, 2006 the share capital of CHF 7,248,346 is divided into 2,070,956 bearer shares with a par value of CHF 3.50. The translation at historical exchange rates gives an amount of €4,763,436.

Global Depositary Receipts (GDR) are listed on the Frankfurt Stock Exchange. 10 GDRs are equivalent to 1 bearer share of NovaStor AG.

Contingent Capital

The board of directors is authorised to increase the share capital by CHF 997,500 or 285,000 bearer shares. On 21 March 2005, contingent capital was used to increase the share capital by 15,000 bearer shares. The contingent capital guarantees the exercising of options to NovaStor bearer shares.

Authorised capital

The Board of Directors is authorised to increase the share capital by a maximum of CHF 2,868,950 by issuing up to 819,700 fully liberated bearer shares with a par value of CHF 3.50 at any time up to May 4, 2008. By resolution of the Extraordinary Shareholders’ Meeting on December 11, 2006 the authorised capital was reduced by CHF 456,050 or 130,000 bearer shares.

Ordinary capital increase

At the Extraordinary Shareholders’ Meeting held on December 11, 2006 a resolution was passed to increase the share capital by CHF 6,790,000 or by 1,940,000 bearer shares to CHF 13,582,296. The resolution was registered at the Commercial Register of Zug canton on February 8, 2007.

16. Sale of Shares

Mount10 GmbH

In 2006 the company's business is consolidated in the income statement up to March 31, 2006. The balance sheet items were deconsolidated as of April 1, 2006, as the company was sold in May 2006 (for further information see F6).

Mount10 Software, Inc.

In 2006 the company's business is consolidated in the income statement up to March 31, 2006. The balance sheet items were deconsolidated as of April 1, 2006, as the company was liquidated in May 2006 (for further information see F6).

17. Business Combination

On 22 December 2005, NovaStor AG (former Mount10 Holding AG) took over 100% of the American NovaStor Corporation in a share and cash transaction, whereby the acquisition method was applied.

The purchase price was made up as follows::

	EUR
Purchase price	3'523'413
Net assets (Fair Value)	-800'006
Goodwill	2'723'407

Payment of the purchase price was done as follows:

Cash payment	795'597
Payment using shares of Mount10 Holding AG	2'727'816
Purchase price	3'523'413

For the partial payment of the purchase price, the shares of the Mount10 Holding AG were created in the context of a capital increase by a contribution in kind.

The assets and liabilities emerging from the acquisition of NovaStor are as follows:

	Fair Value	Book value
	EUR	EUR
Current assets	849'703	1'048'590
Fixed assets	56'018	56'018
Trademark	198'887	0
Software	825'140	25'140
Short-term liabilities	-1'129'742	-1'129'742
Net assets	800'006	6

The following adjustments were made as necessary:

The carrying value of the net assets of NovaStor Corporation at December 22, 2005 was €6 (before adjustment €42,324). Due to the definitive Purchase Price Allocation the current assets were reduced by €198,887 from €1,048,590 to €849,703. As a result of these adjustments goodwill went up by €241,205 from €2,482,202 to €2'723'407.

In 2005 NovaStor Corporation had revenues of €3,760,940 and net profit of €70,711.

	31.12.06	***31.12.05***
	EUR	***EUR***

18. Related Parties

In the years 2006 and 2005 the following transactions were done with associated companies (equity measurement):

	2006 **EUR**	**2005** **EUR**
Revenue	570’832	647’971
Raw material	0	-64’970
Other operating expenses	0	-7’595
Profit from sale of assets	0	193’760
Financial result	0	-18’640
	31.12.06	**31.12.05**
Receivables	43’577	68’636

Group Managers’ Total Remuneration:

Salaries (incl. social security benefits):
2006: EUR 283’212
2005: EUR 319’882

Options for GDRs of the company at fair value:
2006: EUR 6’360
2005: EUR 4’659

Board of Directors’ Total Remuneration:

2006: EUR 32’208
2005: EUR 36’905

F NOTES ON THE INCOME STATEMENT

	2006 EUR	2005 EUR

1. Sales Revenues / Cost of Sales

Sales revenues	6'670'877	8'715'782
Raw material and consumables	-938'933	-4'305'577
Gross profit	5'731'944	4'410'205

2. Operating Expenses (excluding depreciation)

Staff costs	4'246'601	3'055'491
Space costs	303'530	259'838
Administrative costs	875'998	849'637
Marketing & Public relations	637'605	273'199
Total operating expenses (excluding depreciation)	6'063'734	4'438'165
Of which development expenses	*1'408'486*	*1'049'337*

Number of employees		
Average number of employees January - December	52	51
Number of employees on 31 December	50	73

Staff expenses include salaries, vacation provisions, profit sharing, external staff, training, and other staff expenses.

The administrative costs include business travel, vehicles, telecommunications, rental, leasing, consulting and other expenses.

The pension fund costs in 2006 were €29,802 (2005: €37,5834) and the costs for the stock option plans amounted to €8'081 for the reporting period (2005: €7'792).

3. Financial Income

In 2006 bank income was €214,822 (2005: €391,946), of which a loan waiver by a bank in 2006 accounted for €170,000 (2005: €378,070).

	2006 EUR	2005 EUR

4. Financial Cost

The interest costs are for using credit lines, as well as interest on the outstanding convertible bonds.

Interest expenses for banks and others	24’494	69’448
Convertible Bonds	158’032	150’776
Total	182’526	220’224

5. Currency Exchange Result

In business year 2006 a total of €19'348 in book losses on foreign currencies (2005: €14’373) were reported via the income statement. The book losses primarily reflect the influence of exchange rate variations on loan items.

6. Deconsolidation

The item comprises the following:

Mount10 GmbH	-100’954	0
Mount10 Software Inc.	11’500	0
Total	-89’454	0

Mount10 GmbH		
Elimination of assets	-1'025’225	0
Elimination of accounts payable	924’271	0
Cumulative translation differences	0	0
Total	-100’954	0

Mount10 Software Inc.		
Elimination of assets	-31’535	0
Elimination of accounts payable	43’478	0
Cumulative translation differences	-443	0
Total	11’500	0

Further details available on E16.

	2006 EUR	2005 EUR

7. Income Taxes

Ordinary taxes	-5'881	-11'990
Deferred taxes	17'096	14'676
Total	11'215	2'686

The effective tax result differs as follows from the expected tax result, which was calculated by multiplying the respective local tax rate by the earnings before taxes of each group company:

	2006	2005
Earnings before taxes	-3'131'434	67'001
Tax expenditure with tax rate at group headquarters	278'697	-5'963
Adjustment of holding company tax rate to group company tax rate	-11'407	-58'888
Deferred taxed not posted	-311'886	-28'318
Use of unrecognised tax losses	12'718	95'855
Tax neutral expenses	43'093	0
Consolidated tax expenditure	11'215	2'686

8. Earnings per GDR

The outstanding options on the company's shares have a non-dilutive effect on the loss per share.

G SEGMENT REPORTING

NovaStor comprises a single business entity. Therefore, segment reporting takes place along geographical lines.

The division of the balance sheet values and income values between the two geographical segments is based on location of the assets and liabilities, as well as the place where income is generated.

The income statement of these geographically structured business units is based on earnings before financial result, taxes and depreciation of assets (EBITDA), as well as operating result (EBIT).

EUR in thousands

	Europe		USA		Eliminatiom/ Others		TOTAL	
	2006	2005	2006	2005	2006	2005	2006	2005
Sales Revenue								
External revenue	3'619	8'538	3'052	177	0	0	6'671	8'715
Intersegment revenue	2'376	2'485	0	0	-2'376	-2'485	0	0
Total revenue	5'995	11'023	3'052	177	-2'376	-2'485	6'671	8'715
Result								
Segment result (EBITDA)	-101	139	-231	30	0	0	-332	169
Depreciation	-150	-241	-147	0	0	0	-297	-241
Additional depreciation	-2'483	0	0	0	0	0	-2'483	0
Deconsolidation loss	-102	0	12	0	0	0	-90	0
EBIT	-2'836	-102	-366	30	0	0	-3'202	-72
Other information								
Balance sheet total	10'035	19'193	4'045	4'696	-4'470	-7'400	9'610	16'489
Accounts payable	2'344	8'942	817	1'181	328	-2'525	3'489	7'598
Investments	338	134	113	0	0	0	451	134
Bad debts	60	3	3	0	0	0	63	3
Financial result associated companies	58	-19	0	0	0	0	58	-19

H OTHER PARTICULARS

	2006	***2005***
	EUR	***EUR***

1. Other Financial Obligations

Leasing and Rental Obligations

The company rents and leases office space and systems in particular. The agreements have different terms. Renewal options are available in some cases. Various agreements provide for rent increases in accordance with the development of the consumer price index and mortgage rates. Rents are treated as operating expenses.

On the balance sheet date, the following minimum payments for the future result from non-terminable rental and leasing agreements not reported on the balance sheet:

	2007	2008	2009	2010	2011
Leasing obligations	44’739	25’891	9’754	1’871	0
Rental obligations	174’157	108’701	34’720	34’720	2’893
Total	218’896	134’592	44’474	36’591	2’893

In the reporting period €326,358 were recognised as leasing and rental expense in the consolidated financial statements.

2. Pledged Assets

	2006	2005
Security deposits	36’112	46’387
Total	36’112	46’387

3. Guarantiees

As per 31 December 2006 the company had no outstanding guarantees.

4. Stock Options

The following table shows the development of the options over the past two years:

	2006		2005	
	Options	Exercise price	Options	Exercise price
Outstanding options on January 1	719'110	€1.59	818'200	€1.43
Issusd	240'000	€0.80	204'110	€1.51
Exercised	0	-	0	-
Expired	-308'000	€1.19	-303'200	€1.11
Stand 31.12.	651'110	€1.49	719'110	€1.59
31.12.	34'000	€1.00	282'000	€1.14

The exercise price is a balanced average price. In 2006, the total revenues from exercising options was €0 (2005: €0).

In 2006, a total of 240,000 options were issued with an exercise price averaging €0,80. A total of 190,000 options with an exercise price of €0,80 were issued to members of the management and the board of directors in 2006. There are no vesting conditions for the options that have been issued. All of the options grant entitlement to 1 GDR (global depository receipt).

The composition of the outstanding options on 31 December 2006 was as follows:

Exercise Price	Options	Life in years	Average exercise price
€0.80	240'000	2.83	€0.80
€1.00	34'000	0.58	€1.00
€1.60	144'110	3.00	€1.60
€2.20-€2.30	233'000	5.00	€2.20
Total	651'110	3.53	€1.49

In connection with the convertible bonds 2004/07, an additional 1,142,860 options for GDRs have been issued and may be exercised since the end of April 2004.

5. Important events after the balance sheet date

On November 15, 2006 NovaStor AG signed a purchase agreement with the shareholders of Dynavisions GmbH for 100% of the company shares of Dynavisions GmbH as of January 2, 2007.

The Extraordinary Shareholders' meeting of NovaStor AG held on December 11, 2006 approved the ordinary capital increase of CHF 6,790,000 by issuing 1,940,000 bearer shares with a par value of CHF 3.50, excluding the subscription rights of the shareholders, for the acquisition of Dynavisions GmbH. The ordinary capital increase was registered in the Commercial Register of Zug canton on February 8, 2007.

The delivery of the bearer shares to the shareholders of Dynavisions GmbH will take place in four lots up to June 30, 2008 and is subject to agreed financial and qualitative targets for Dynavisions GmbH being met. If target 1 is not met, NovaStor AG has the right to rescind the purchase of Dynavisions GmbH.

The documents necessary to calculate the purchase price allocation were not available at the time the financial reporting was prepared.

6. Major Shareholders

According to Swiss stock corporation law, the company is obliged to disclose the names of all shareholders and shareholder groups whose holding exceeds 5% of all voting rights inasmuch as they are known or must be known to the company. The disclosure is made in the annual financial statement of NovaStor and pertains to shares held at the end of the respective business year. Since the shares of NovaStor are not listed at a stock exchange in Switzerland, the obligation to make disclosure, and the regulations of the Swiss Securities and Exchange Act (BEHG) regarding public bidding are not applicable to the company.

Additionally, §26 of the German Securities Trading Act WpHG obliges the company to publish the attainment or crossing of threshold values for voting interests of 3%, 5%, 10%, 20%, 25%, 30%, 50% or 75% immediately, at the latest within 4 calendar days, in a national newspaper authorized by the stock exchanges. The time limit begins when the company becomes aware that the voting interest of the respective shareholder has reached or crossed the threshold value in either direction.

The following summary reflect the shareholder structure (<5.0%) known to the company as per 31 December 2006:

Name	Qty of global depository receipts	%
Adrian Knapp	1'780'422	8.60
Credit Suisse	3'150'000	15.21

7. Security Holdings of Executive Organs

The following table provides information on the security holdings (GDR) and options on GDRs of members of executive management and the board of directors of NovaStor AG on 31 December 2006:

Name	Position	Category of Securities	Quantity
Knapp Adrian	President and CEO	GDR Options on GDR	1'780'422 225'650
Bernhard Markus	CFO	GDR	221'231
		Options on GDR	96'500
Naef Peter Urs	Member of board of directors	GDR	0
		Options on GDR	108'720
Stalder Markus	Member of board of directors	GDR	0
		Options on GDR	35'000

8. Particulars of the Board of Directors and Group Managements

Board of Directors:	Adrian Knapp	President
	Peter Urs Naef	Member
	Markus Stalder	Member
Group Management:	Adrian Knapp	Chief Executive Officer
	Markus Bernhard	Chief Financial Officer