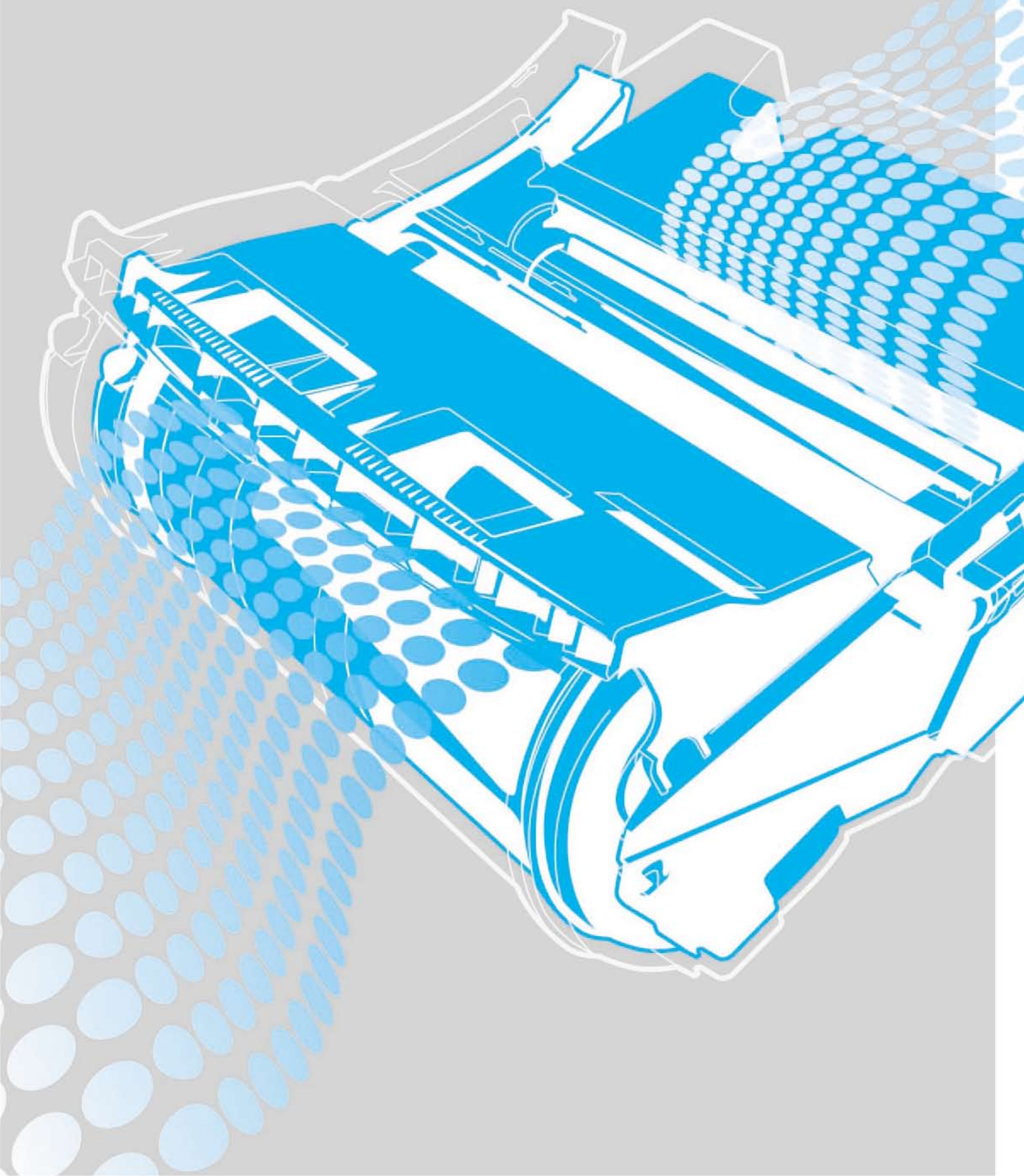
# Turbon AG

ANNUAL REPORT 2006



# Turbon AG

ANNUAL REPORT 2006

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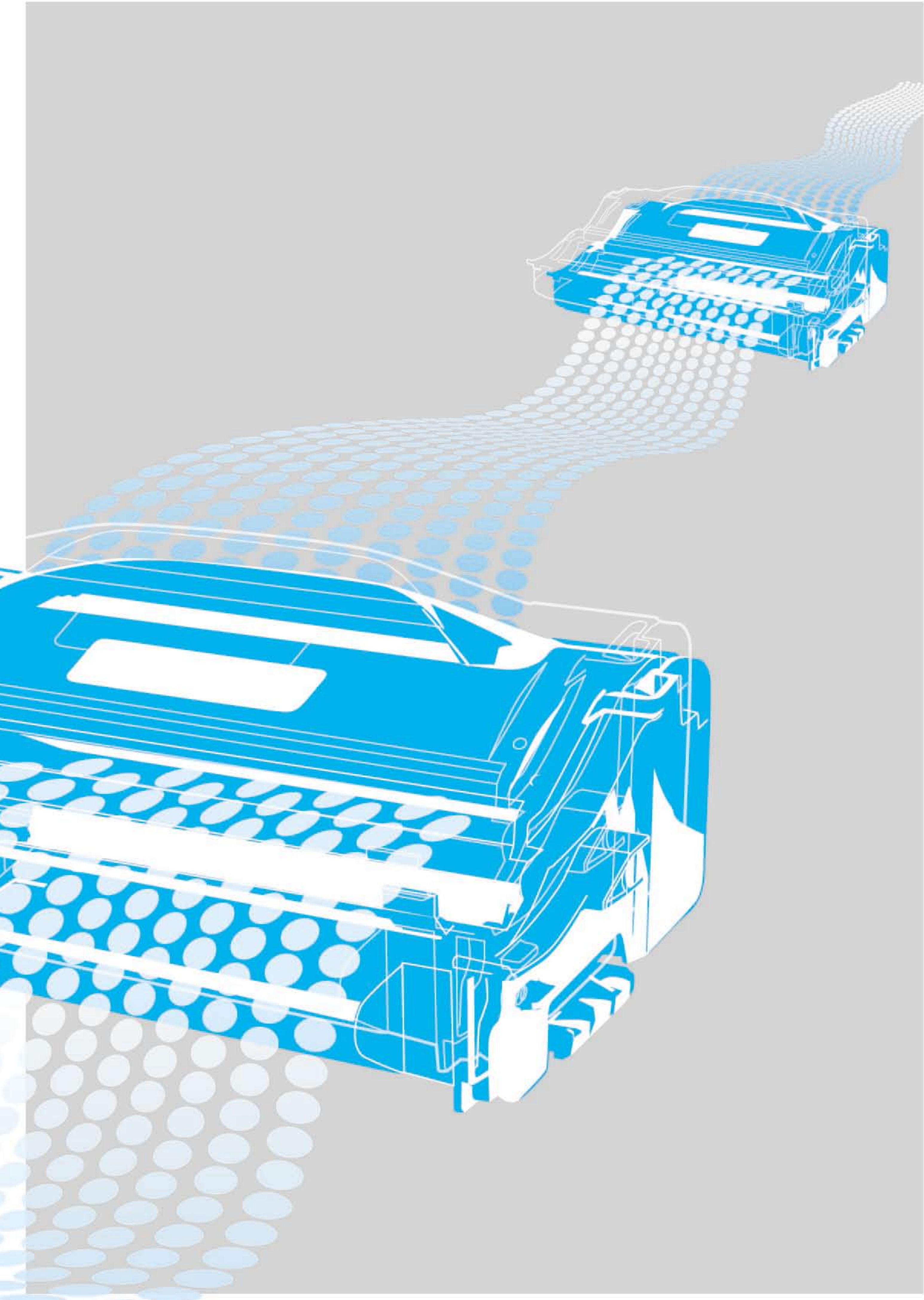


# At a glance

## TURBON GROUP

| | 2006<br>1,000 EURO | 2005<br>1,000 EURO | 2004<br>1,000 EURO |
|---|---|---|---|
| Consolidated sales | 128,820 | 117,121 | 123,554 |
| Depreciation | 2,151 | 2,176 | 2,376 |
| Earnings before interest and taxes* | 1,721 | 4,948 | 3,722 |
| Result from ordinary operations* | 228 | 3,746 | 2,634 |
| Group net earnings | -1,936 | 3,047 | 2,249 |
| Cash Flow | 727 | 5,415 | 4,974 |
| Long-term assets | 23,012 | 19,557 | 15,812 |
| Short-term assets | 62,064 | 64,968 | 54,229 |
| Shareholders' equity | 27,358 | 33,770 | 26,414 |
| Net indebtedness** | 18,792 | 19,046 | 16,669 |
| Balance sheet total | 85,076 | 84,525 | 70,041 |
| Employees on average | 1,374 | 1,158 | 1,220 |

* Excluding the provisions for restructuring measures

** Financial liabilities less liquid funds

## EXECUTIVE BOARD

**Holger Brückmann-Turbon, Cologne/Germany**
(until December 31, 2006)
- Chairman -

**Aldo C. DeLuca, Ivyland (PA)/USA**
(from January 01, 2007)
- Spokesman -

**Alan S. Howard, Hertfordshire/GB**
- Spokesman -
(from January 01, 2007)

**Klaus D. Marth, Düsseldorf/Germany**

**Michael Pages, Moers/Germany**

## SUPERVISORY BOARD

**Dr. Juno A. Nuber,**
Vice President NCR, Glattzentrum/Switzerland
- Chairman -

**Dr. Paul-Michael Günther,**
Lawyer, Auditor and Tax Consultant,
Wuppertal/Germany
- Vice Chairman -

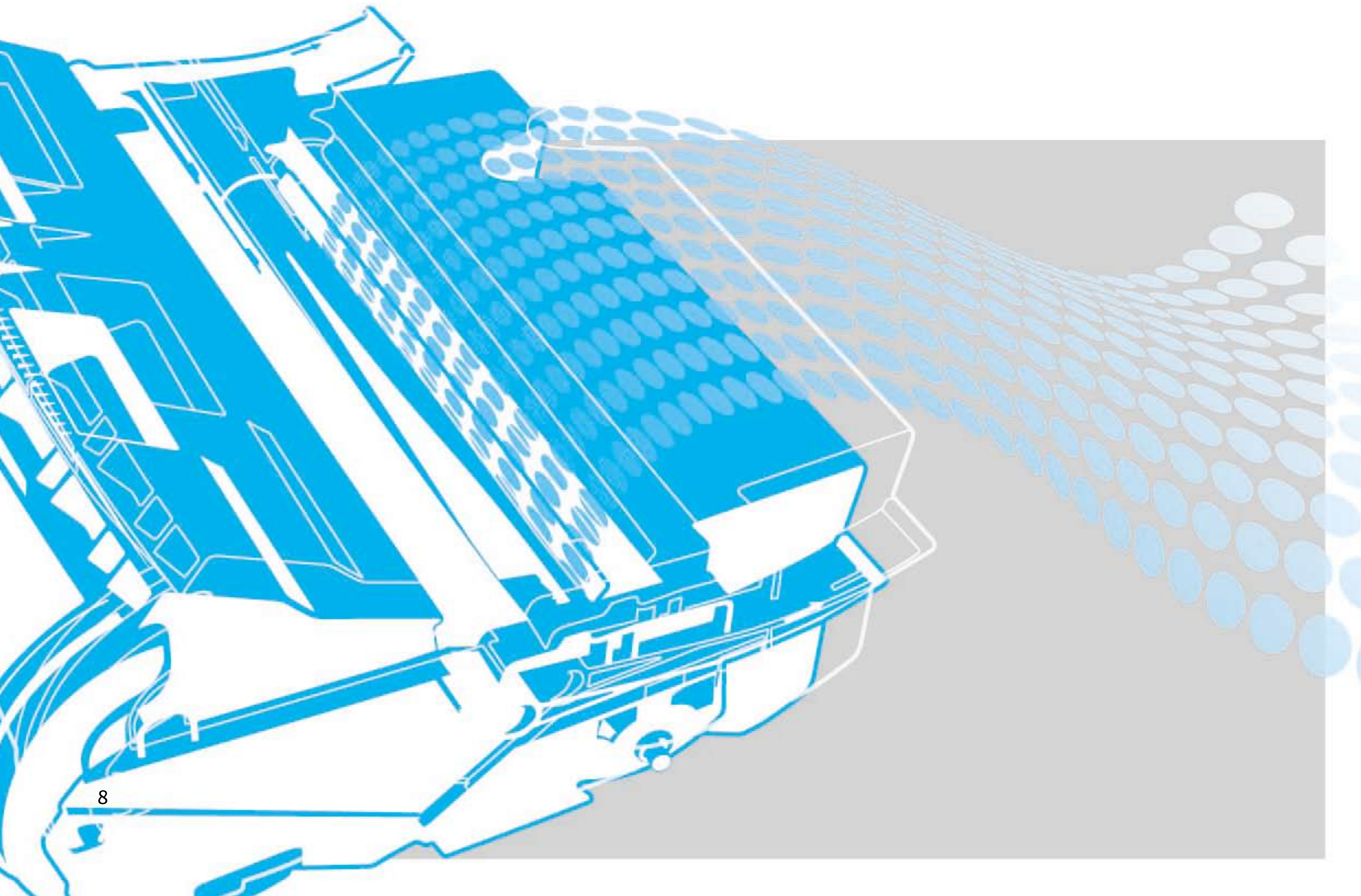
**Dr. Stefan Jansen,**
Lawyer, Wuppertal/Germany
(until September 30, 2006)

**Holger Brückmann-Turbon,**
Dipl. Kaufmann (German equivalent to an MBA),
Cologne/Germany
(from February 13, 2007; appointed by law)

**Michael J. VanDemark,**
Director NCR, Springboro (OH)/USA

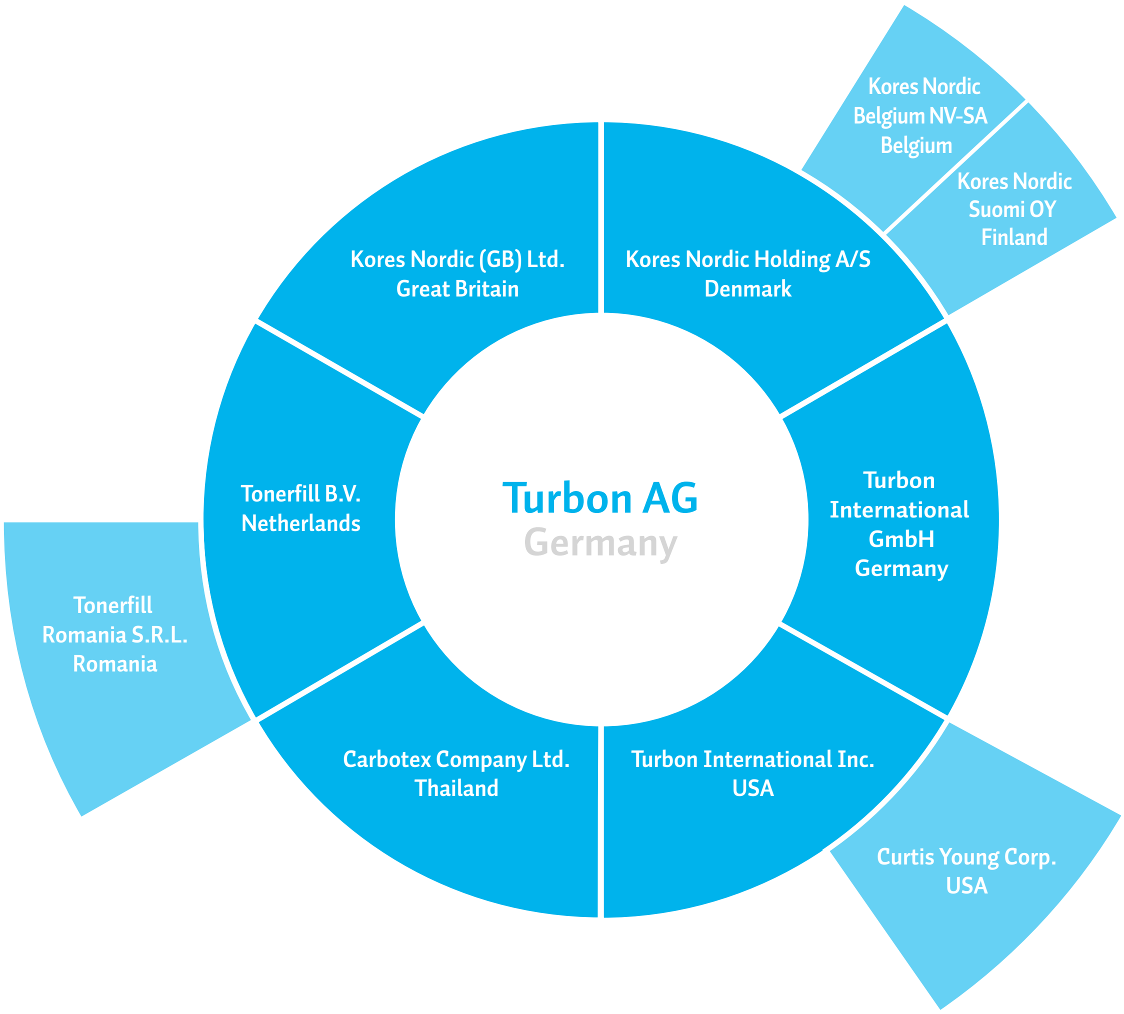
**Girolamo Cacciatore,**
Works Council Chairman, Remscheid/Germany
- Employee Representative -

**Dietmar Kirsch,**
Technical Employee, Langenfeld/Germany
- Employee Representative -

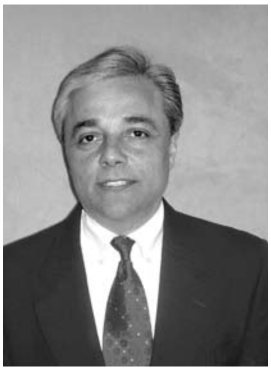


# Turbon Group

## OPERATIVE STRUCTURE OF THE GROUP




This organigram gives an overview of the operative structure of the Turbon Group.
The complete breakdown of shareholdings is shown on pages 52 and 53.



# Dear Sharholders of Turbon AG,

2006 represented another year of restructuring of the Turbon Group to equip us for the future demands of the market. Sustained pressure on prices and margins forced us to make strategic decisions with far-reaching consequences, which firstly allow us to concentrate on our core business, and secondly to exploit the opportunities arising in our market.

Turbon Group is one of the world's leading manufacturer of compatible cartridges for laser printers. Sales of laser cartridges grew from Euro 71.7 million in 2004 to Euro 77.3 million in 2005 (7.8% increase compared to 2004) and then to Euro 95.3 million in 2006 (23.3% increase compared to 2005), which underlines the crucial importance of laser cartridges for the Turbon Group. In 2007 sales in this sector are set to significantly exceed the three-digit million mark with more than Euro 110.0 million. This is primarily due to a major improvement of our market position in the USA. Future corporate strategy will be marked by a concentration on the core sector of laser cartridges and the associated divestment of marginal areas.

The decision to close Tonerfill Holland was not easy for us. Now that we have transferred the remaining production and product development from the Netherlands to Romania, and with our existing highly developed location in Thailand, our manufacturing activities are established to a great extent in competitive low cost locations. This factor is of crucial importance for the future of our group. This enables us to realize the full potential offered by the combination of our low cost production plants and our sales outlets in the relevant markets. And this is happening at a time when some of our competitors are in financial difficulties and there is increasing polarization in our industry into small niche suppliers and major international suppliers.

The decision to close down most of the injection moulding production in Hattingen was unavoidable. Over a period of many years, injection moulding production was the cornerstone of the group activities. The change of technology in our market sector away from the ink ribbon business towards new technologies, with the consequence that most of the products are made by re-using the original cartridges, resulted in a major decline in demand for plastic parts.

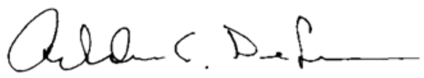
2006 brought us several new challenges, which we successfully overcame. Persistent price erosion on the market and the increasing complexity of printers and of the cartridges used in the printers (in colour laser printers especially) are the great challenges that confront our industry. However, our market sector (compatible products) is becoming increasingly established. The public's fast growing ecological awareness and interest in remanufactured products is to our advantage.

In view of the far reaching decisions made in the financial year ended, we anticipate a major improvement in the earnings results for 2007.

Given the net income for 2006 and the need to finance the restructuring measures, the Supervisory Board and the Executive Board are forced to propose to the Annual Meeting of Shareholders on 21 June 2007 that no dividend be paid for the financial year ended. The proposal is regrettable but unavoidable with regard to the importance of safeguarding the future of our company.

We would like to thank you for your continued trust and support

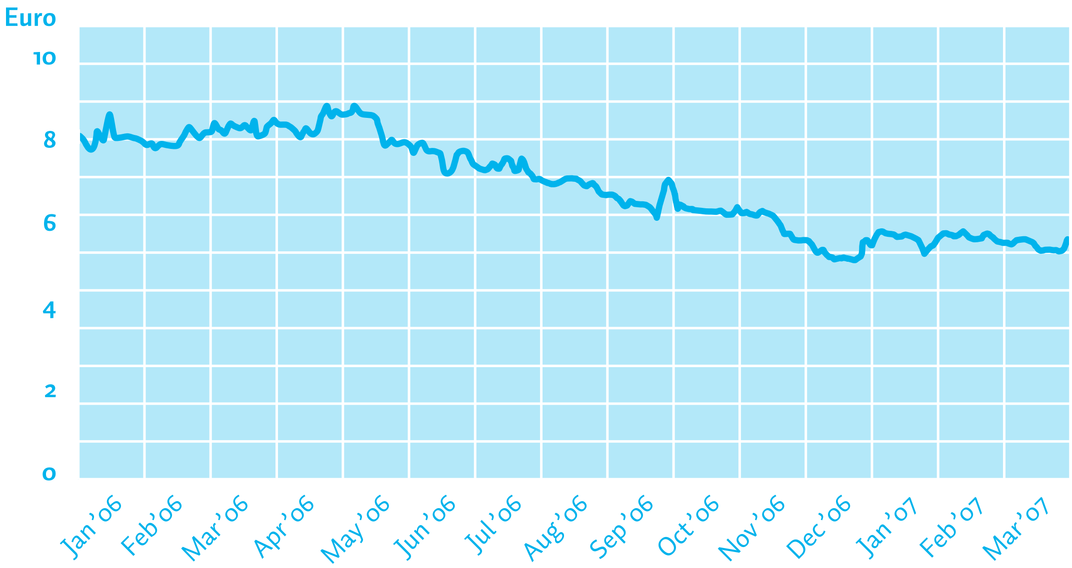
Yours sincerely,

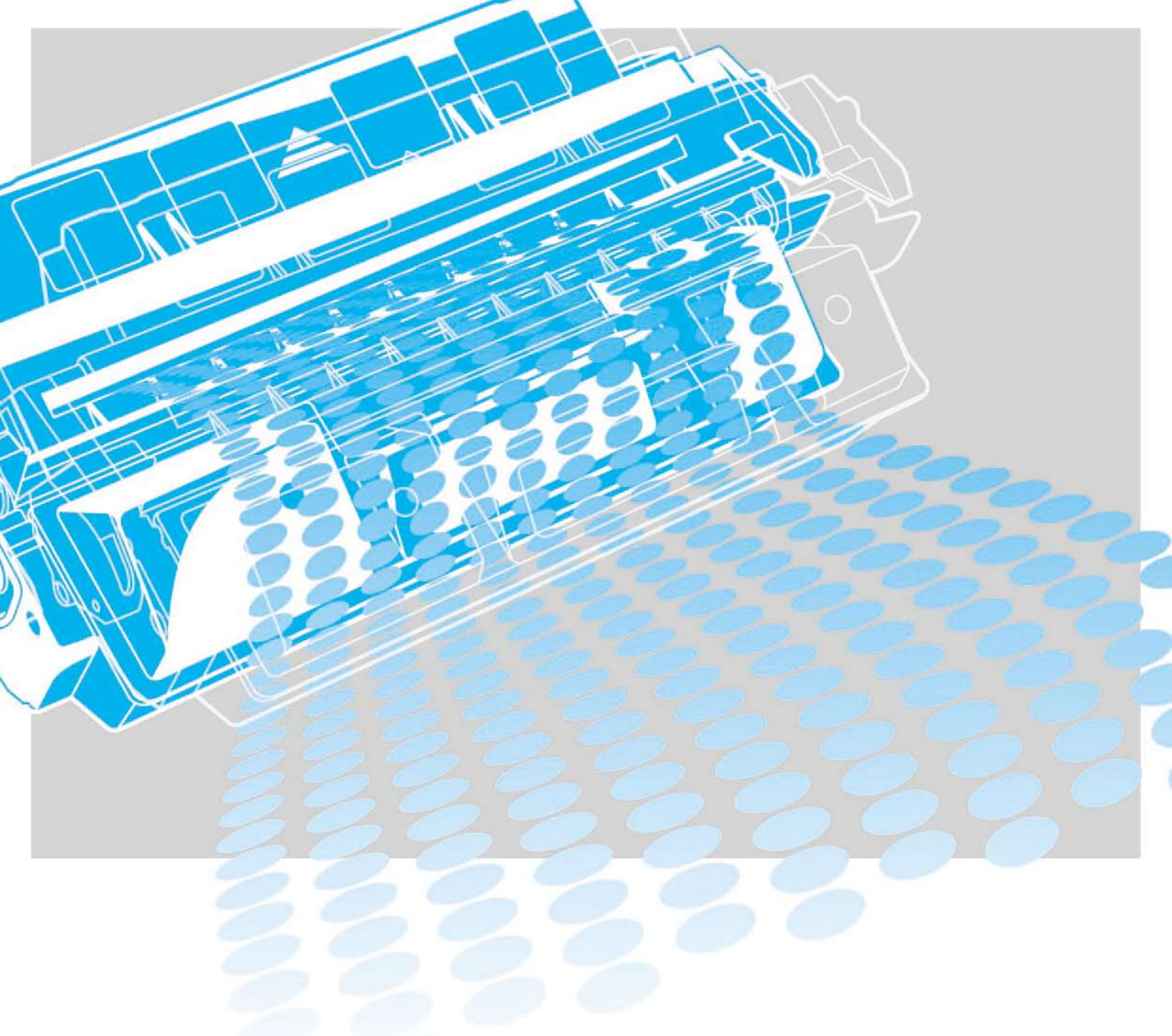


Aldo C. DeLuca (Executive Board Spokesman) Alan S. Howard (Executive Board Spokesman)

Hattingen, April 2007

## DEVELOPMENT OF THE SHARE PRICE





# Management Report of the Group and Turbon AG

Turbon AG acts as the holding company of the Turbon Group. Alongside strategic and planning activities, it's main tasks are primarily the control and coordination of the Turbon Group companies operating in the market. The position of Turbon AG is, therefore, mainly influenced by the economic and financial situation of the companies affiliated to it. For this reason, we deal primarily with the position of the Group in the explanations below.

The present Consolidated Financial Statements of Turbon AG have been prepared in accordance with the International Financial Reporting Standards (IFRS) under application of § 315 and § 315a German Commercial Code (HGB) and the provisions of the German Stock Corporation Act (AktG). The statement of income was prepared in accordance with the cost of sales accounting format.

# 2006 CONSOLIDATED FINANCIAL STATEMENTS

## Sales figures

Consolidated sales in the 2006 financial year were Euro 128.8 million compared to Euro 117.1 million in the previous year. The increase in sales by Euro 11.7 million or 10.0% is attributable solely to the core area of laser cartridges.

Sales of laser cartridges were Euro 95.3 million (previous year: Euro 77.3 million). This represents a rise of Euro 18.0 million or 23.3%. Sales of other products (mainly ink jet, TTR and impact products) totalled Euro 33.5 million (Euro 39.8 million in the previous year). The reduced sales are primarily due to the market-related decline in impact products (printer ribbon cartridges).

Based on these figures, the percentage distribution of sales is as follows: laser cartridges accounted for 73.9% (previous year: 66.0%) of aggregate sales. Other products accounted for 26.1% (previous year: 34.0%). This trend continues in the current financial year. The share of sales of laser cartridges will rise to more than 80% – with growing aggregate sales.

## Earnings figures

To safeguard the long term profitability of the Turbon Group, it was decided in the year under review to close down the greater part of injection moulding production operations at the Hattingen site in Germany and to shut down the Leeuwarden site in the Netherlands. The reduction in personnel associated with the closures necessitated considerable one-time expenses. The total value of these one-time expenses was calculated as being Euro 3.0 million, resulting in the need to allocate a further Euro 2.4 million to the provision for restructuring measures remaining from 2005. The increase in the provision was expensed in 2006.

Without taking account of the aforementioned provisions, earnings before interest and taxes (EBIT) were Euro 1.7 million compared to Euro 4.9 million in the previous year. Income from ordinary operations was around Euro 0.2 million after Euro 3.7 million in the previous year. Taking account of the provision, the result is a loss before tax of Euro -2.2 million (previous year: profit of Euro 3.7 million). After taking account of taxes on income, the consolidated loss after tax is Euro -1.9 million compared to a profit of Euro 3.0 million in the previous year. A loss per share of Euro -0.50 is calculated on the basis of the average share portfolio in contrast to earnings per share of Euro 0.82 in the previous year.

## Balance-sheet figures

The balance sheet total as of December 31, 2006 changed only slightly overall to Euro 85.1 million compared to Euro 84.5 million on the effective date of 2005.

The decline in trade receivables to Euro 18.7 million (previous year: Euro 22.0 million) was due to the sale of receivables of a subsidiary under a factoring agreement concluded in 2006. The decline in other assets to Euro 2.3 million (previous year: Euro 6.5 million) is explained by the fact that the 2005 value included receivables from sales of assets.

The separately shown fixed interest bonds in the amount of Euro 10.0 million were issued by Merrill Lynch and Advisum (PULS CDO 2006-1 plc) as part of the PULS bond program for small and medium-size companies. These bonds have a fixed maturity term of seven years.

As a result of factoring and the bond issue, liabilities due to banks have fallen to Euro 9.6 million (effective date of 2005: Euro 19.9 million). Net financial debts have risen – after allowing for factoring – to Euro 24.1 million (effective date of 2005: Euro 19.0 million).

Equity as of December 31, 2006 was Euro 27.4 million (previous year: Euro 33.8 million). Equity per share was Euro 6.77 as of December 31, 2006 (2005: Euro 8.35). The equity ratio as of December 31, 2006 was 32.2% compared to 40.0% as of December 31, 2005.

The consolidated balance sheet does not include two sale and lease back properties in Hattingen (company headquarters of Turbon AG and Turbon International GmbH) and Meerbusch (on a long-term lease). Rent payments resulting from the same, which are recognized as expenses in the statement of income, equal Euro 1,266 thousand. The lease contracts each have a residual term of 12.5 years.

## EVENTS AFTER THE BALANCE-SHEET DATE

With effect of January 31, 2007 Turbon AG has acquired a minority participation in Adsero Corp. This participation will back the existing business relationship between Turbon and Adsero and between its subsidiaries. Through a long-term supply agreement Turbon USA is the exclusive supplier for laser cartridges to Adsero's subsidiary Tecknolaser. The supply agreement also becomes valid for future subsidiaries acquired by Adsero.

No further events of particular importance with a major impact on our net worth, financial position and income position have occurred since the balance-sheet date.

## INFORMATION FROM THE GROUP COMPANIES

## DISTRIBUTION – EUROPE

### Market development

The market demand for our products continued to grow in 2006. With regards to laser cartridges, the number of laser printers in the market has further increased. At the same time, technical performance features like printing speed, resolution, etc. have been further improved. A constantly rising demand is observed especially for colour laser printers and multifunctional devices, i.e. devices which combine printing, copying and scanning functions.

Moreover, the market for remanufactured products is benefiting from the increasing public discussion of environment protection themes. This is seen particularly in our traditional "business to business" market channels with major companies eager to establish their "green" credentials. Especially as our core product laser cartridges consist of numerous reusable components.

### Market position

During 2006, Turbon has further strengthen it's position as European market leader, notably in the important "contract stationer" channel where the demand for high quality products with first class customer support and service is ideally suited to Turbon's structure and facilities.

In view of the fact that the market is increasingly open to international competitors, it is absolutely vital that we keep a high flexibility to react to changes in the market and simultaneously concentrate on our core business and core skills.

### Profitability

The Turbon Group operates in a fast moving market place and has taken major decisions during 2006 to ensure it's continued competitiveness. One of the decisions to be mentioned particularly in this respect is the closure of the Leeuwarden site in the Netherlands. The production of monochrome laser cartridges that still remains in the Netherlands and product development will be transferred to the Romanian location (S.C. Tonerfill S.R.L.) by the end of April 2007.

It was also decided to close down the greater part of injection moulding production operations at the Hattingen site. A small portion of the technical installations and machinery were transferred to Thailand (Carbotex Co. Ltd.) in order to meet the remaining demand for plastic parts from there.

Alongside the closures, progress was made in transferring the production of colour laser cartridges from the UK to the low cost manufacturing facilities in Thailand and Romania. Our site at Harlow in England will concentrate in future on new product development.

The procurement of empty cartridges as one of the most important components for the manufacture of laser cartridges remains a crucial factor for the profitability of the business. We have succeeded in concluding further supply agreements that ensure the supply of empty cartridges at competitive costs in the long term.

### Outlook

The Turbon Group has every reason to be optimistic about the future. With the successful consolidation of our production facilities in low cost locations, and our strong European customer base, the important elements are in place to take advantage of the growing demand for our products. There will, of course, always be a need to make strategic decisions based on the conditions prevailing in the market. This is where we can take advantage of our many years of experience in this sector.

## Opportunities and Risks

In spite of the good growth opportunities for Turbon Group products, the business continues to have inherent risks. Such risks exist, for example, in the fact that the original equipment manufacturers, increasingly focusing on the need to protect their intellectual property rights, try to create technical and commercial problems for manufacturers of compatible products or their component suppliers. However, these attempts are not new. The industry is well equipped to deal with this challenge. Our industry is also benefiting from the public's growing ecological awareness and interest in remanufactured products.

It is very important that the Group concentrates and builds on its core strengths at the same time as exploring new business opportunities.

# DISTRIBUTION – USA

## Market development

2006 saw a continuing high demand for monochrome laser cartridges. The generally rising demand of colour laser cartridges for already established printer models continued to rise at higher than average rates. The launch of new printers by the original equipment manufacturers in Q4/2006 will also drive up demand from the middle of 2007. In spite of the more complex requirements for their manufacture, compatible colour laser cartridges will increasingly gain market shares, because they offer customers potentially high cost savings compared to original products.

A process of consolidation is being observed among the manufacturers of printing accessories on the US market. Greater competition from Asian suppliers is putting constant pressure on market prices.

Wholesalers are becoming increasingly important on the US market (different from Europe) because retailers are increasingly making use of their wide area of services (e.g. storage function, delivery function). In 2006, this led to demand for a wider range of products.

2006 also saw an increase in the number of "facility management companies". These companies take over e.g. the entire printing equipment of their clients and offer them printing services (billing per printed page). Due to cost advantages compatible products are increasingly used for printing under these programs.

## Market position

A large number of measures taken in 2006 have helped to position the Turbon Group for the future.

In 2006, we consolidated our leading position as supplier to one of the largest North American "contract stationers". Sales in the sector of "independent stationers" also increased, primarily as a result of the sale of products distributed under a trade license agreement concluded in 2005. We were also able to share in the growth of the wholesale market.

As reported, we took over assets from Tecknolaser Global Company, Canada, and Tecknolaser USA Inc. in August 2006. In this context a part of Tecknolaser's customer base in Canada and in the USA has been acquired. In addition Turbon and Tecknolaser have entered into a supply agreement according to which Tecknolaser will purchase the laser cartridges required to supply its remaining customer base in the coming ten years from Turbon. For 2007, Turbon anticipates due to the combination of customer take over and Tecknolaser supply agreement sales of around US$ 13 to 14 million. The acquisition has meanwhile been fully integrated in our location at Cinnaminson (NJ).

## Profitability

The Turbon Group USA increased its sales by Euro 5.2 million in 2006 compared to 2005. This growth in sales combined with huge savings in the costs of sales and administration contributed towards an improvement in earnings compared to the previous year. Cost savings were made as a result of personnel measures especially. The reduced use of services and the reduction in rental, packaging and transport expenses also contributed towards the lower costs.

Furthermore, the decision was made in Q4/2006 to cease trading in plastic parts in North America. The building previously used for this purpose in York (PA) was transformed into a collection point for empty cartridges from January 1, 2007. In future, only services directly associated with the core business in laser cartridges will take place at the York location. The establishment of the collection point and the conclusion of supply contracts for the procurement of empty cartridges ensure the long term supply of empty cartridges at competitive costs.

## Outlook

Given the acquisition of new customers in Q4/2006 especially, the Turbon Group USA is planning major sales increases for 2007. Together with continuing cost savings, the Turbon Group USA has already begun to make positive contributions to earnings.

Continuing cost management is primarily aimed at reducing or consolidating the areas required to perform business operations, rationalization of the product range and optimisation of the purchasing of product packaging and transport services.

## Opportunities and Risks

Based on the latest successes in acquiring additional volume business in the sectors of "independent stationers" and wholesalers, the Turbon Group USA now occupies a good position in these critical market segments. Further growth opportunities are offered by the sale of products under the aforementioned trade license agreement. The take over of assets from Tecknolaser has also given access to the Canadian market. Taking over distribution of products under the brand name "Evergreen" additionally gave access to various major North American purchasing companies.

Risks result from increasing competition from low cost countries and the concentration of the Turbon Group USA on a relatively small number of major customers. There are also risks associated with the wholesale trade, because changes in suppliers in connection with the distribution of own brands occur much more frequently there than in other areas.

# PRODUCTION – THAILAND AND ROMANIA

Due to the high intensity of labour in the production of our products the importance of establishing production locations in low cost countries cannot be overemphasized. We have professionally managed production companies at our disposal in Thailand and in Romania that operate with state of the art technology.

As one of the major producers and market leaders in this sector, we are able to exercise our purchasing power with our component suppliers. In addition, the international orientation with locations in all vital markets is ideally suited for implementing collection programs for empty cartridges.

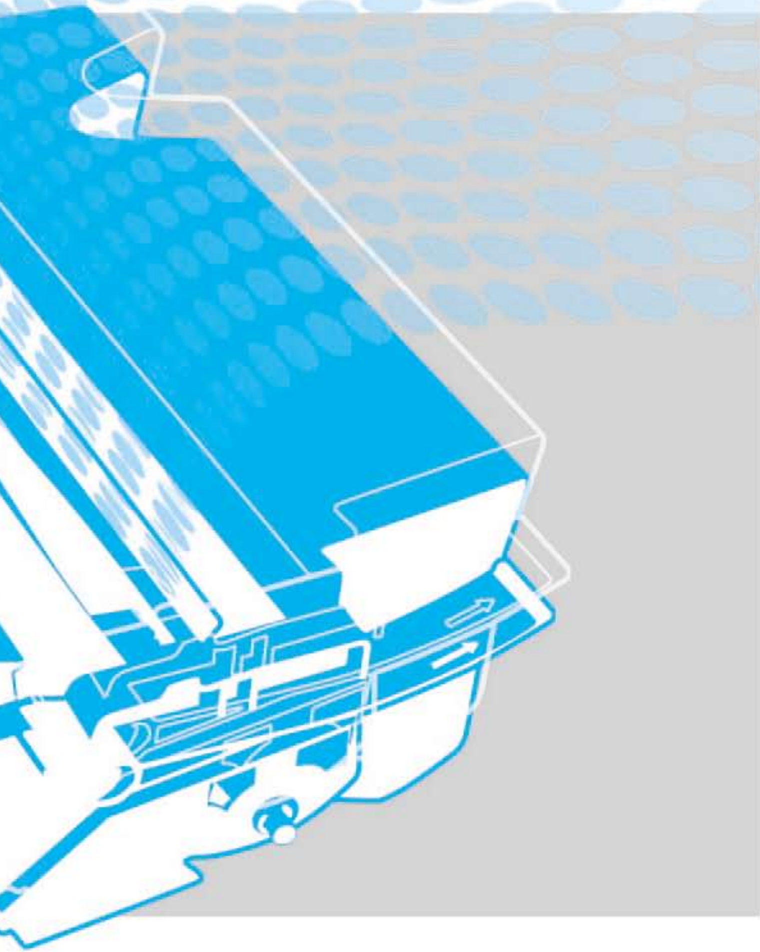
Our Thai production company continued to grow in 2006 and extended both it's capacity and it's technical expertise. It is now fully established in colour laser production and is a very cost effective plant.

Our Romanian production plant was extended again during the year under review and has assimilated the Dutch business operations, and now represents an integral part of the corporate strategy of the Turbon Group.

This strategy provides for the Thai production company to manufacture mature products in high volumes at relatively constant production levels that are easily planned whereas the Romanian production company, because of its proximity to the European sales market, will supplement Thai production volumes and be more flexible and compensate for short-term fluctuations in demand. This division of responsibilities is important in order to maintain the capital tied up at the lowest possible level. The flexibility also enables us to support the important international key accounts and puts us in a strong position to increase our market share at the expense of weaker competitors.

## PERSONNEL

The Turbon Group had an average of 1,374 employees in 2006 (1,158 in 2005). The number of employees as of December 31, 2006 was 1,349 (2005: 1,158). Added to these are temporary staff employed indirectly through a temporary employment agency in Thailand. These temporary staff numbered 610 as of December 31, 2006 (2005: 475).



The increase in the number of employees is explained by shifting production to products with higher intensity of labour. The production sites in Thailand and Romania solely account for the increase. The number of employees outside Thailand and Romania decreased as of December 31, 2006, to 678 (previous year: 752) and will, with the corresponding effect on the costs, further decrease to app. 580 employees by the end of April.

Turbon AG employed 4 members of staff on average during the year and at the end of the year.

No subscription rights from the Turbon Stock Option Plan 2003 were issued in 2006. Moreover, no subscription rights were exercised in 2006. Consequently, the total number of shares of Turbon AG currently remains unchanged at 4,042,000.

We would like to thank all Turbon Group employees for their good work in the financial year ended. We would like to express our thanks to the employee representatives in particular.

## RESEARCH AND DEVELOPMENT

Around Euro 1.8 million were spent on Research and Development in 2006. As in the previous year, these expenses concerned laser cartridges almost exclusively.

## CAPITAL EXPENDITURES

Capital expenditure on property, plant and equipment totalled Euro 1.9 million in 2006. As well as regular capital expenditure on production equipment, this mainly involved the building of an extension at the Oltenita site in Romania, which extension was completed on schedule in 2006.

Furthermore, Turbon AG exercised its right to take back the purchase rights of two properties as mentioned in the previous year. The repurchase price was around Euro 1.8 million. Since a cash flow was only to take place under the original contract of sale in the period after expiry of the repurchase right, no cash flow was involved in the repurchase either.

## OPPORTUNITIES AND RISKS

The risk management system of the Turbon Group allows company management to detect developments at an early stage that could endanger the future of the company. The risk management system, which is regarded as a group wide task, detects and evaluates risks that threaten the group's existence. A major component of operative risk monitoring is the controlling system of the holding company (Turbon AG), which was extended in the year under review. A new budgeting and target/actual analysis concept was introduced in addition to the monthly reports, which is intended to allow a fast reaction to potentially unfavourable developments. The focus is on risks to the operative business but also dangers to future business developments in particular. No risks are currently recognizable that threaten the future of the company.

For years, the laser cartridge has been the Turbon Group product with the highest sales and growth. The production of monochrome laser cartridges has already largely been transferred to the low cost locations in Thailand and Romania to preserve competitiveness in terms of costs. Laser cartridges are sold primarily by three distribution companies in Europe and North America, the sales markets of relevance to Turbon. Revenues from sales and the volume of sales of laser cartridges increased by 23.3% and 21.4% respectively in 2006.

The aforementioned risk of concentration on a relatively small number of major customers must be seen in its context. Around 40% of sales are made to the five major customers. However, this ratio has remained constant for many years and this despite the fact that earlier major customers like NCR, which at times accounted for 15% of our sales revenues (2002), are no longer important. We have succeeded in compensating for these losses. For example, sales to the current five major customers have risen by 24% in aggregate over the last two years alone.

As well as the opportunities and risks presented together with the information on group companies, other opportunities and risks arise with regard to the capital tied up, which is mainly represented by warehouse stocks because of the range of products to be kept available. This is made all the more necessary by the great distances, in some cases, between the production locations and the sales markets and the longer period of advance notice required for planning adjustments. We have introduced an integrated planning system to take account of these risks. The planning system is based on the division of labour in the production process as mentioned above. Our Thai production company manufactures mature products in high volumes. Our Romanian production company will supplement Thai production volumes and, because of its proximity to the sales market, allow for high flexibility which is needed to compensate for short-term fluctuations in demand. This flexibility contributes to a lasting reduction of the capital tied up. With the involvement of external experts, a group wide online platform is currently being made available. This basis will provide the decision makers with all relevant information in good time to allow faster responses to changed planning parameters.

## INFORMATION REQUIRED BY § 315 (4) COMMERCIAL CODE (HGB)

Turbon AG's subscribed capital of Euro 10,333 thousand is divided into 4,042,000 no-par registered shares with voting rights. There are no differing classes of stocks.

No restrictions are imposed on voting rights or the transfer of the shares.

Direct or indirect shares in the capital of Turbon AG that exceed 10% of voting rights as of December 31, 2006 are as follows: the former Executive Board Chairman and current Supervisory Board member Holger Brückmann-Turbon holds 26.20% (previous year: 26.20%) and NCR GmbH in Augsburg holds 25.98% (previous year: 25.98%) in Turbon AG.

No special shareholder rights that give controlling powers exist. Employees, after exercising their options under the existing stock-option plans, hold shares in the capital of the company. They exercise the rights of control accruing to them from the same directly.

The rules on the appointment and removal of Executive Board members of Turbon AG are derived from §§ 84 et seq. Stock-Corporation Act (AktG). The articles of association contain no further rules. According to Article 7 of the articles of association the number of members of the Executive Board is determined by the Supervisory Board. The latter can appoint a member of the Executive Board as chairman or spokesperson for the Executive Board.

Alterations of the articles of association are stipulated in §133 and § 179 AktG. The authority to change only the wording of the articles of association has been delegated to the Supervisory Board in accordance with § 179 (1) Sentence 2 AktG.

With the exception of contingent capital to grant subscription rights to members of Turbon AG Executive Board and to management executives of Turbon AG and its domestic and foreign subsidiaries, the Executive Board has no further powers to issue shares. There are no powers to buy back shares.

There are no agreements with Turbon AG subject to a change of control as a consequence of a takeover bid.

No indemnity agreements or similar have been made with employees or members of the Executive Board in the event of a takeover bid.

## COMPENSATION REPORT

The compensation of members of the Supervisory Board is determined in Article 18 of the articles of association. The compensation of the Executive Board contains fixed and variable components. The Executive Board members received as fixed compensation monthly salaries, allowance for social security, and a company car that may be used for private purposes. As short-term variable compensation, the Executive Board members receive an annual bonus which is linked to individually specified objectives. In the future the variable compensation is equally linked to profitability and a positive development of the cash flow.

## OUTLOOK

In view of the restructuring measures introduced, Turbon Management is convinced that it has taken a major step towards improving profitability, thereby securing the future of the company in the long term. In combination with this and the continued sales growth in the core area of laser cartridges (assuming stable exchange rates), taking the expected consolidated sales to app. Euro 140 million, a considerable rise in operating Group net income is planned. This in combination with the planned inventory reduction will lead to a significant positive cash flow in the area of a low double digit million number.

Hattingen, April 2007

The Executive Board

# Supervisory Board Report for the 2006 Financial Year

The Supervisory Board reviewed the economic position and strategic development of the company and its business fields in depth in the course of seven meetings in 2006 financial year.

The Executive Board informed the Supervisory Board in detail at regular intervals of the company's position, especially of developments in the business situation and financial position, the personnel situation, capital expenditure projects and general matters of corporate policy and corporate strategy. The Supervisory Board Chairman and Vice-Chairman also regularly exchanged information with the Chairman of the Executive Board.

Important decisions in which the Supervisory Board was involved were Turbon's participation in the PULS bond program for medium-size companies from Merrill Lynch and Advisum (PULS CDO 2006-1 plc) in the amount of Euro 10.0 million and a period to maturity of 7 years, and the conclusion of a factoring agreement between Turbon International GmbH and CommerzFactoring GmbH, Mainz.

Another major topic involving the Supervisory Board in the financial year was the relationship between the Turbon Group and the Adsero Corp. Turbon AG took over part of the customer base of Tecknolaser (a subsidiary of Adsero Corp.) along with inventories and production equipment at the beginning of August 2006. Furthermore, an exclusive supply agreement for a term of ten years was concluded under which Tecknolaser will purchase the laser cartridges required to supply its remaining customer base from Turbon. The Adsero Corp. also gave up its investment of 400,000 shares in Turbon AG. Under a pledge, title to the shares accrued to Turbon and is held in Turbon's possession.

Other decisions discussed and resolved were to cease the major part of injection moulding production at Hattingen and to close the Leeuwarden factory in the Netherlands .

As a result of the Executive Board Chairman leaving Turbon AG's Executive Board with effect from December 31, 2006, the Supervisory Board was involved in appointing new Executive Board members and a new Executive Board Chairman. After in-depth consultation within the committee and with the Executive Board, Mr. Aldo DeLuca (Managing Director of the US companies of the Turbon Group) was appointed as new member of the Executive Board and it was decided that Mr. DeLuca (USA) and Mr. Howard (Europe and Asia) would jointly hold the position of Executive Board spokesperson.

The Supervisory Board was also involved in the further development of the corporate governance principles for the company. In November 2006, the Executive Board and the Supervisory Board resolved to make a new declaration of conformity in accordance with § 161 Stock-Corporation Act (AktG).

The annual financial statements of Turbon AG and the combined management report and group management report were prepared in accordance with the provisions of the German Commercial Code (HGB), and the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS).

The auditors of the financial statements, BDO Deutsche Warentreuhand AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the annual financial statements of Turbon AG, the combined management report and group management report and the consolidated financial statements. The auditor explains the auditing principles applied in its auditor's report. The conclusion to be drawn is that Turbon has complied with the provisions of HGB and the International Financial Reporting Standards respectively. The auditors have given both the annual financial statements and the consolidated financial statements an unqualified mark of approval. The annual financial statements, the combined management report and group management report, the consolidated financial statements and the auditor's reports were made available to all Supervisory Board members. At the meeting of the Supervisory Board held to discuss the annual financial statements, these documents were discussed in detail, following the report by the auditor who was also present at the meeting.

We examined the annual financial statements, the combined management report and group management report, the consolidated financial statements and the proposal for the appropriation of the retained earnings. Our examination extended to the completeness of the documents and to the matters prescribed by § 289 (4) and § 315 (4) German Commercial Code (HGB). No objections were raised. For this reason, we agree to the results of the audit of the 2006 financial statements. We approve the annual financial statements and consolidated financial statements prepared by the Executive Board. The financial statements are thereby adopted. We agree with the combined management report, in particular, with the assessment of the future development of the Turbon Group. Supervisory Board and Executive Board have mutually resolved to propose, at the forthcoming annual shareholders' meeting on June 21, 2007, that a payment of dividend be waived. This is due to the negative result for the Group, due to the formation of provisions for restructuring measures in Germany and in the Netherlands. The restructuring measures result in high liquidity outflows approximately equal to the provisions as a result of indemnity payments in Q1 and Q2/2007 especially.

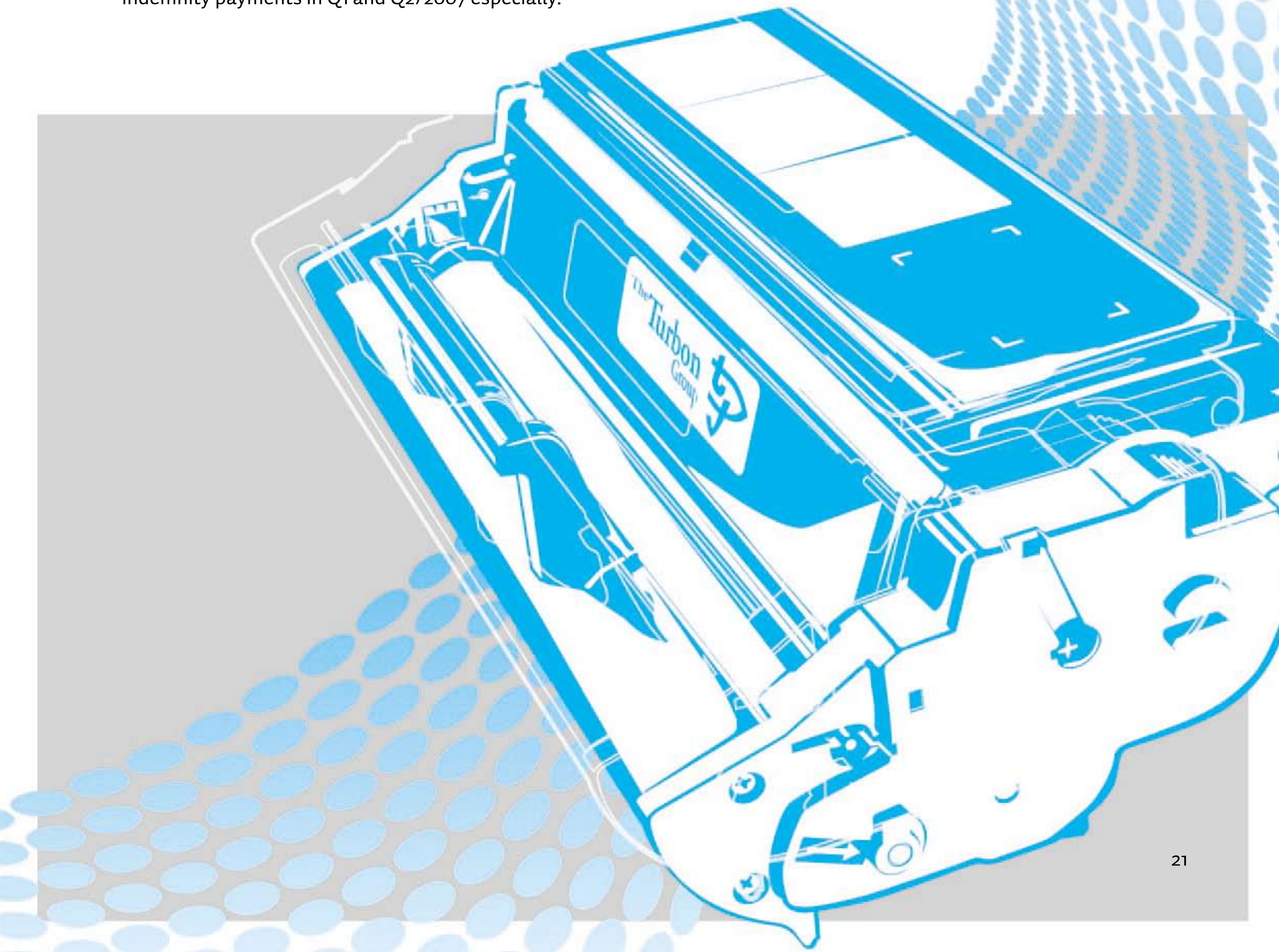
Supervisory Board and Executive Board both agree that a significantly positive cash flow in future and a major improvement in profitability take absolute priority. Accordingly, the Supervisory Board has made the variable components of Executive Board compensation equally dependent on profitability and the positive development of cash flow.

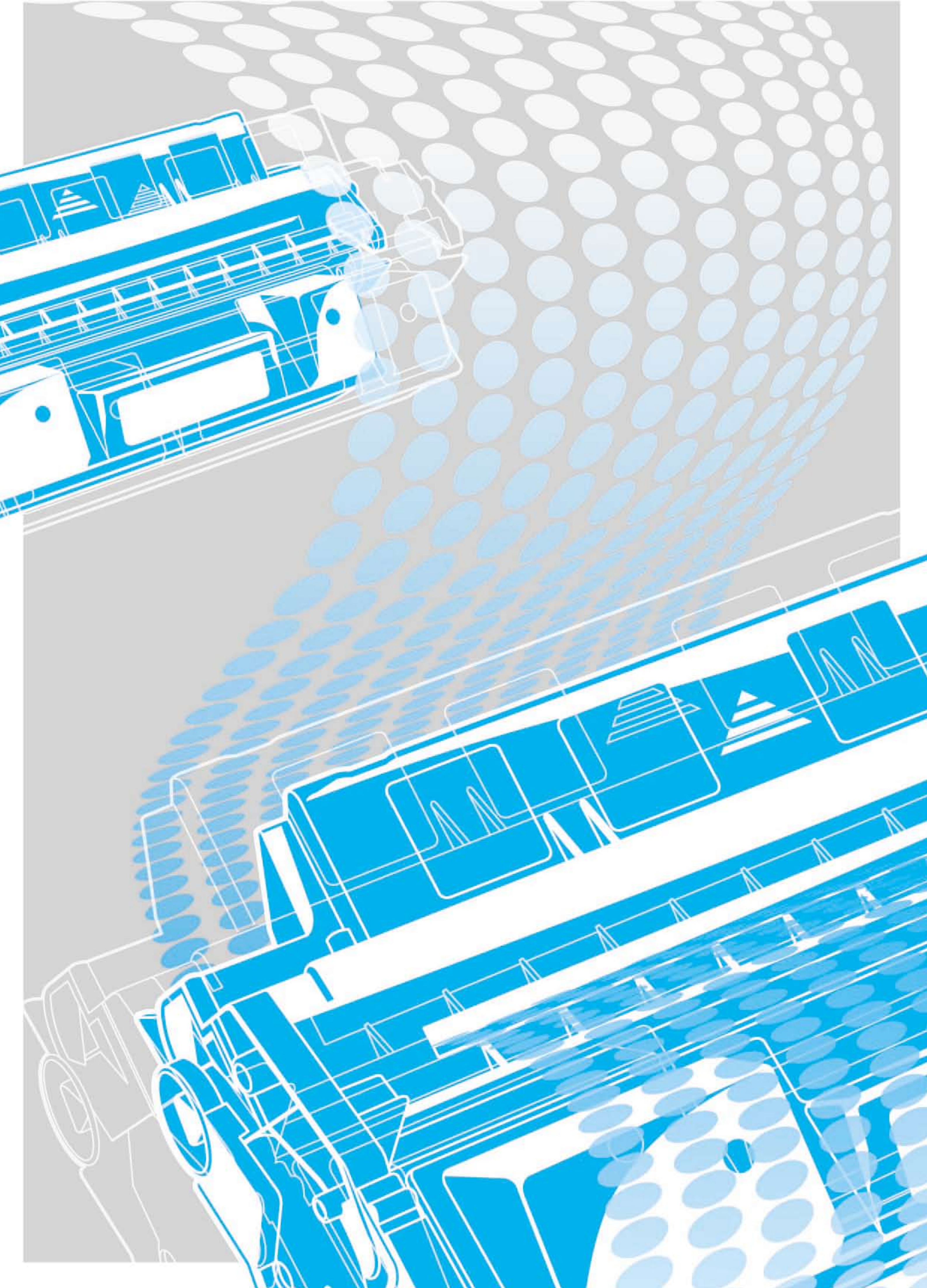
The Supervisory Board thanks company management and all employees for their hard work and commitment in the 2006 financial year.

Hattingen, April 2007

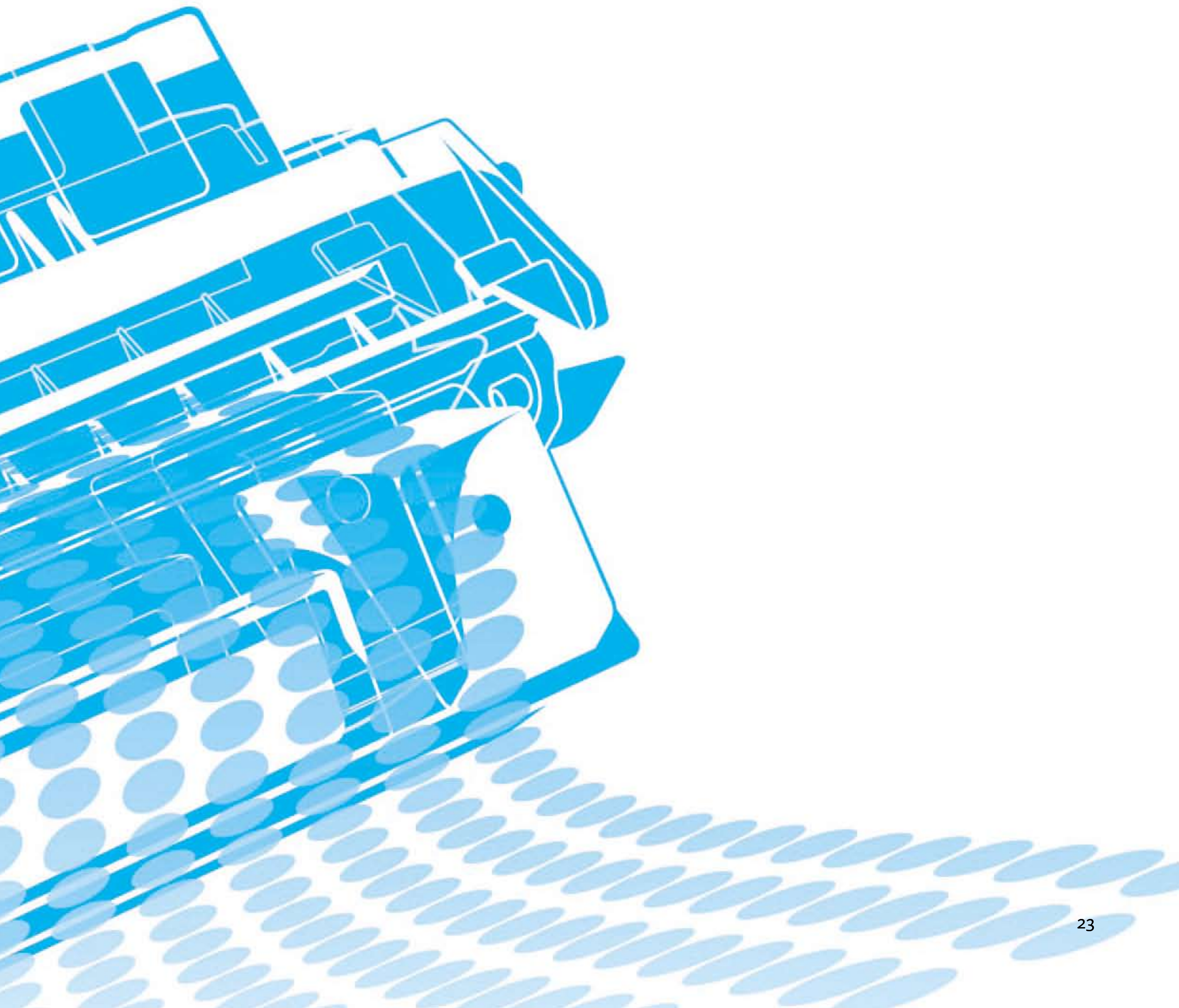
For the Supervisory Board

Dr. Juno Nuber
Chairman





# Consolidated Financial Statements
# - Turbon Group



# Consolidated Balance Sheet - Turbon Group

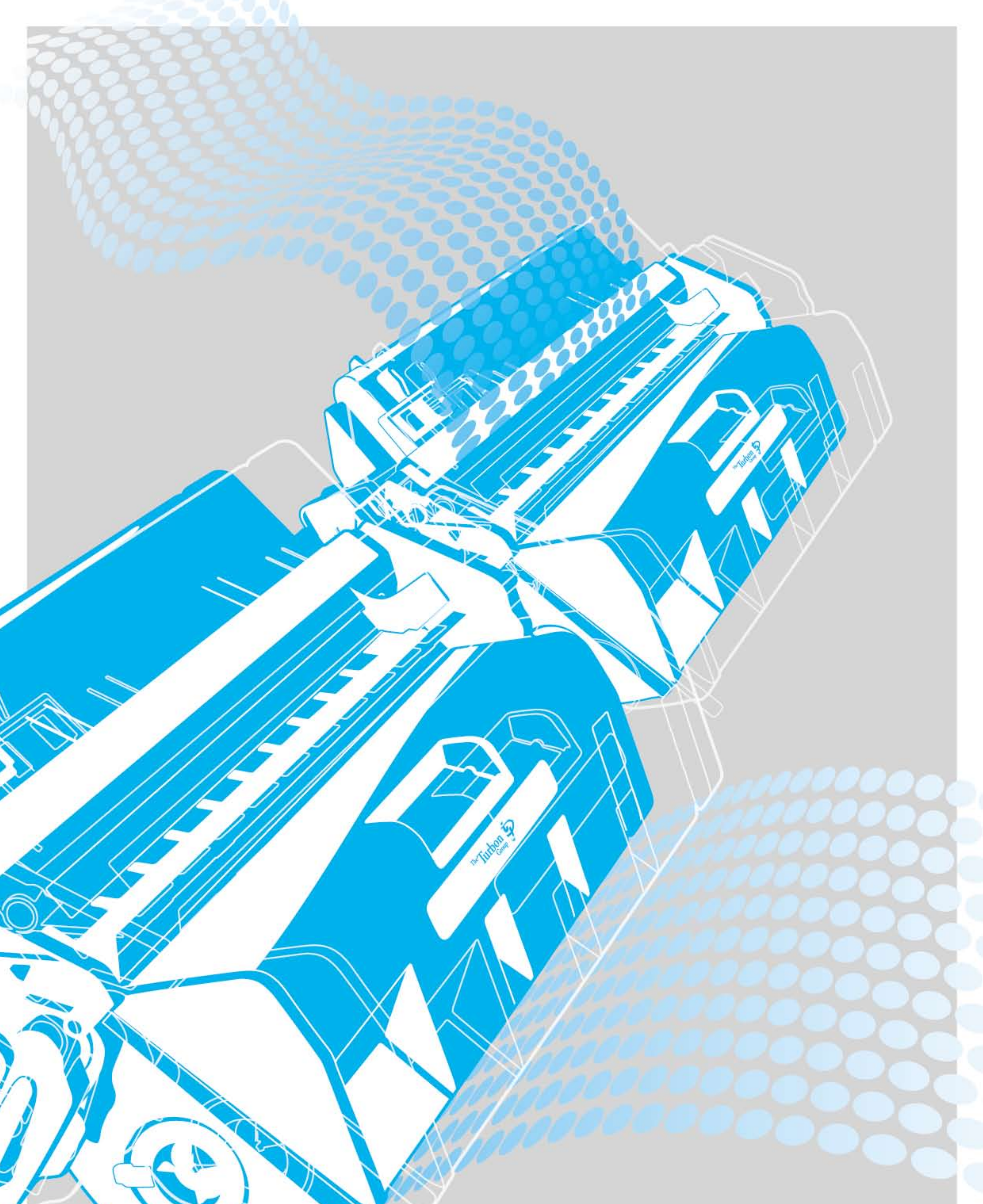
## AS OF DECEMBER 31, 2006

### Assets

| | Notes | DEC. 31, 06 1,000 EURO | DEC. 31, 05 1,000 EURO |
|---|---|---|---|
| **Long-term assets** | | | |
| Intangible assets | (1) | 3,157 | 458 |
| Tangible assets | (1) | 16,808 | 16,484 |
| Financial assets | (1) | 285 | 285 |
| | | 20,250 | 17,227 |
| Deferred tax assets | | 2,762 | 2,330 |
| | | **23,012** | **19,557** |
| **Short-term assets** | | | |
| Inventories | | | |
| Raw materials and supplies | | 14,339 | 10,801 |
| Work in progress | | 2,523 | 1,839 |
| Finished goods and trading stocks | | 21,934 | 21,368 |
| Advance payments | | 20 | 0 |
| | | 38,816 | 34,008 |
| Trade receivables | | 18,674 | 22,018 |
| Other assets | (2) | 2,291 | 6,457 |
| Deferred charges and prepaid expenses | | 1,452 | 1,582 |
| Cash and cash equivalents | (3) | 831 | 903 |
| | | **62,064** | **64,968** |
| | | **85,076** | **84,525** |

## Shareholders' Equity and Liabilities

| | Notes | DEC. 31, 06<br>1,000 EURO | DEC. 31, 05<br>1,000 EURO |
|---|---|---|---|
| **Shareholders' Equity** | **(4)** | | |
| Subscribed capital | | 10,333 | 10,333 |
| Capital reserves | | 14,956 | 14,956 |
| Revenue reserves | | 3,609 | 1,513 |
| Retained earnings | | 880 | 6,968 |
| Treasury stock | | -2,420 | 0 |
| | | **27,358** | **33,770** |
| **Long-term liabilities** | | | |
| Pension reserves | (5)+(6) | 3,210 | 2,919 |
| Deferred tax liabilities | (6) | 1,338 | 1,442 |
| Fixed interest bond | | 10,000 | 0 |
| | | **14,548** | **4,361** |
| **Short-term liabilities** | | | |
| Accrued taxes | (6) | 494 | 1,198 |
| Other reserves and accrued liabilities | (6) | 6,662 | 4,963 |
| Liabilities due to banks | | 9,623 | 19,949 |
| Trade payables | | 23,364 | 17,606 |
| Liabilities due to other group companies | | 24 | 24 |
| Other liabilities | (7) | 2,884 | 2,248 |
| Deferred items | | 119 | 406 |
| | | **43,170** | **46,394** |
| | | **85,076** | **84,525** |


The Turbon Group
The Turbon Group

# Consolidated Statement of Income - Turbon Group

## FOR THE PERIOD FROM JANUARY 01 UNTIL DECEMBER 31, 2006

| | Notes | 2006<br>1,000 EURO | PREVIOUS YEAR<br>1,000 EURO |
|---|---|---|---|
| Sales | (8) | 128,820 | 117,121 |
| Cost of sales | | -104,476 | -94,332 |
| **Gross profit** | | **24,344** | **22,789** |
| Selling expenses | | -13,932 | -12,472 |
| Administrative expenses | | -7,833 | -8,411 |
| Other operating income | (9) | 961 | 4,212 |
| Other operating expenses | (10) | -1,819 | -1,170 |
| Net interest | (11) | -1,493 | -1,202 |
| **Result from ordinary operations before restructuring expenses** | | **228** | **3,746** |
| Restructuring expenses | (12) | -2,400 | 0 |
| **Result from ordinary operations after restructuring expenses** | | **-2,172** | **3,746** |
| Taxes on income | (13) | 236 | -699 |
| **Group net loss/net income** | | **-1,936** | **3,047** |
| Profit brought forward from previous year | | 5,755 | 895 |
| Change in revenue reserves | | -2,939 | 3,026 |
| **Retained earnings** | | **880** | **6,968** |
| **Undiluted earnings per share (in Euro)** | **(14)** | **-0.50** | **0.82** |
| **Diluted earnings per share (in Euro)** | **(14)** | **-0.48** | **0.80** |

# Consolidated Statement of Fixed Assets Movements

## FOR THE PERIOD FROM JANUARY 01 UNTIL DECEMBER 31, 2005

| | AT COST | | | | | |
|---|---|---|---|---|---|---|
| | Balance Jan. 01, 2005 | Additions | Transfers | Disposals | Differences from currency conversion | Balance Dec. 31, 2005 |
| | 1,000 EURO | 1,000 EURO | 1,000 EURO | 1,000 EURO | 1,000 EURO | 1,000 EURO |
| Intangible assets | | | | | | |
| Concessions, industrial-property and similar rights and assets as well as licenses thereto | 1,143 | 552 | 0 | 0 | 4 | 1,699 |
| | **1,143** | **552** | **0** | **0** | **4** | **1,699** |
| Tangible assets | | | | | | |
| Land, equivalents titles and buildings (including on leased land) | 11,000 | 339 | 290 | 132 | 839 | 12,336 |
| Production, plant and machinery | 30,585 | 767 | 225 | 375 | 1,923 | 33,125 |
| Other plant, factory and office equipment | 33,251 | 784 | 96 | 297 | 434 | 34,268 |
| Advance payments and construction in progress | 454 | 1,215 | -611 | 0 | 13 | 1.071 |
| | **75,290** | **3,105** | **0** | **804** | **3,209** | **80,800** |
| Financial assets | | | | | | |
| Participations | 49 | 0 | 0 | 0 | 0 | 49 |
| Loans due from other group companies | 236 | 0 | 0 | 0 | 0 | 236 |
| Other loans | 235 | 0 | 0 | 5 | -1 | 229 |
| | **520** | **0** | **0** | **5** | **-1** | **514** |
| | **76,953** | **3,657** | **0** | **809** | **3,212** | **83,013** |

| ACCUMULATED DEPRECIATION | | | | | | BOOK VALUES | |
|---|---|---|---|---|---|---|---|
| Balance Jan. 01, 2005 | Depreciation during financial year | Write-ups during financial year | Disposals | Differences from currency conversion | Balance Dec. 31, 2005 | Balance Dec. 31, 2005 | Balance Previous year |
| 1,000 EURO | 1,000 EURO | 1,000 EURO | 1,000 EURO | 1,000 EURO | 1,000 EURO | 1,000 EURO | 1,000 EURO |
| 1,060 | 175 | 0 | 0 | 6 | 1,241 | 458 | 83 |
| **1.060** | **175** | **0** | **0** | **6** | **1.241** | **458** | **83** |
| 1,622 | 299 | 306 | 132 | 255 | 1,738 | 10,598 | 9,378 |
| 28,392 | 781 | 0 | 295 | 1,741 | 30,619 | 2,506 | 2,193 |
| 30,976 | 842 | 41 | 200 | 382 | 31,959 | 2,309 | 2,275 |
| 0 | 0 | 0 | 0 | 0 | 0 | 1.071 | 454 |
| **60,990** | **1,922** | **347** | **627** | **2,378** | **64,316** | **16,484** | **14,300** |
| 0 | 0 | 0 | 0 | 0 | 0 | 49 | 49 |
| 0 | 0 | 0 | 0 | 0 | 0 | 236 | 236 |
| 150 | 79 | 0 | 0 | 0 | 229 | 0 | 85 |
| **150** | **79** | **0** | **0** | **0** | **229** | **285** | **370** |
| **62,200** | **2,176** | **347** | **627** | **2,384** | **65,786** | **17,227** | **14,753** |

# Consolidated Statement of Fixed Assets Movements

## FOR THE PERIOD FROM JANUARY 01 UNTIL DECEMBER 31, 2006

| | AT COST | | | | | |
|---|---|---|---|---|---|---|
| | Balance Jan. 01, 2006 | Additions | Transfers | Disposals | Differences from currency conversion | Balance Dec. 31, 2006 |
| | 1,000 EURO | 1,000 EURO | 1,000 EURO | 1,000 EURO | 1,000 EURO | 1,000 EURO |
| Intangible assets | | | | | | |
| Concessions, industrial-property and similar rights and assets as well as licenses thereto | 1,699 | 3,014 | 0 | 0 | -28 | 4,685 |
| | **1,699** | **3,014** | **0** | **0** | **-28** | **4,685** |
| Tangible assets | | | | | | |
| Land, equivalents titles and buildings (including on leased land) | 12,336 | 43 | 1,677 | 0 | 261 | 14,317 |
| Production, plant and machinery | 33,125 | 604 | 109 | 589 | -437 | 32,812 |
| Other plant, factory and office equipment | 34,268 | 459 | -39 | 382 | -8 | 34,298 |
| Advance payments and construction in progress | 1,071 | 787 | -1,747 | 0 | 46 | 157 |
| | **80,800** | **1,893** | **0** | **971** | **-138** | **81,584** |
| Financial assets | | | | | | |
| Participations | 49 | 0 | 0 | 0 | 0 | 49 |
| Loans due from other group companies | 236 | 0 | 0 | 0 | 0 | 236 |
| Other loans | 229 | 0 | 0 | 0 | 0 | 229 |
| | **514** | **0** | **0** | **0** | **0** | **514** |
| | **83,013** | **4,907** | **0** | **971** | **-166** | **86,783** |

| ACCUMULATED DEPRECIATION | | | | | BOOK VALUES | |
|---|---|---|---|---|---|---|
| Balance Jan. 01, 2006 1,000 EURO | Depreciation during financial year 1,000 EURO | Disposals 1,000 EURO | Differences from currency conversion 1,000 EURO | Balance Dec. 31, 2006 1,000 EURO | Balance Dec. 31, 2006 1,000 EURO | Balance Previous year 1,000 EURO |
| 1,241 | 282 | 0 | 5 | 1,528 | 3,157 | 458 |
| **1,241** | **282** | **0** | **5** | **1,528** | **3,157** | **458** |
| 1,738 | 272 | 0 | -15 | 1,995 | 12,322 | 10,598 |
| 30,619 | 814 | 584 | -460 | 30,389 | 2,423 | 2,506 |
| 31,959 | 783 | 316 | -34 | 32,392 | 1,906 | 2,309 |
| 0 | 0 | 0 | 0 | 0 | 157 | 1,071 |
| **64,316** | **1,869** | **900** | **-509** | **64,776** | **16,808** | **16,484** |
| 0 | 0 | 0 | 0 | 0 | 49 | 49 |
| 0 | 0 | 0 | 0 | 0 | 236 | 236 |
| 229 | 0 | 0 | 0 | 229 | 0 | 0 |
| **229** | **0** | **0** | **0** | **229** | **285** | **285** |
| **65,786** | **2,151** | **900** | **-504** | **66,533** | **20,250** | **17,227** |

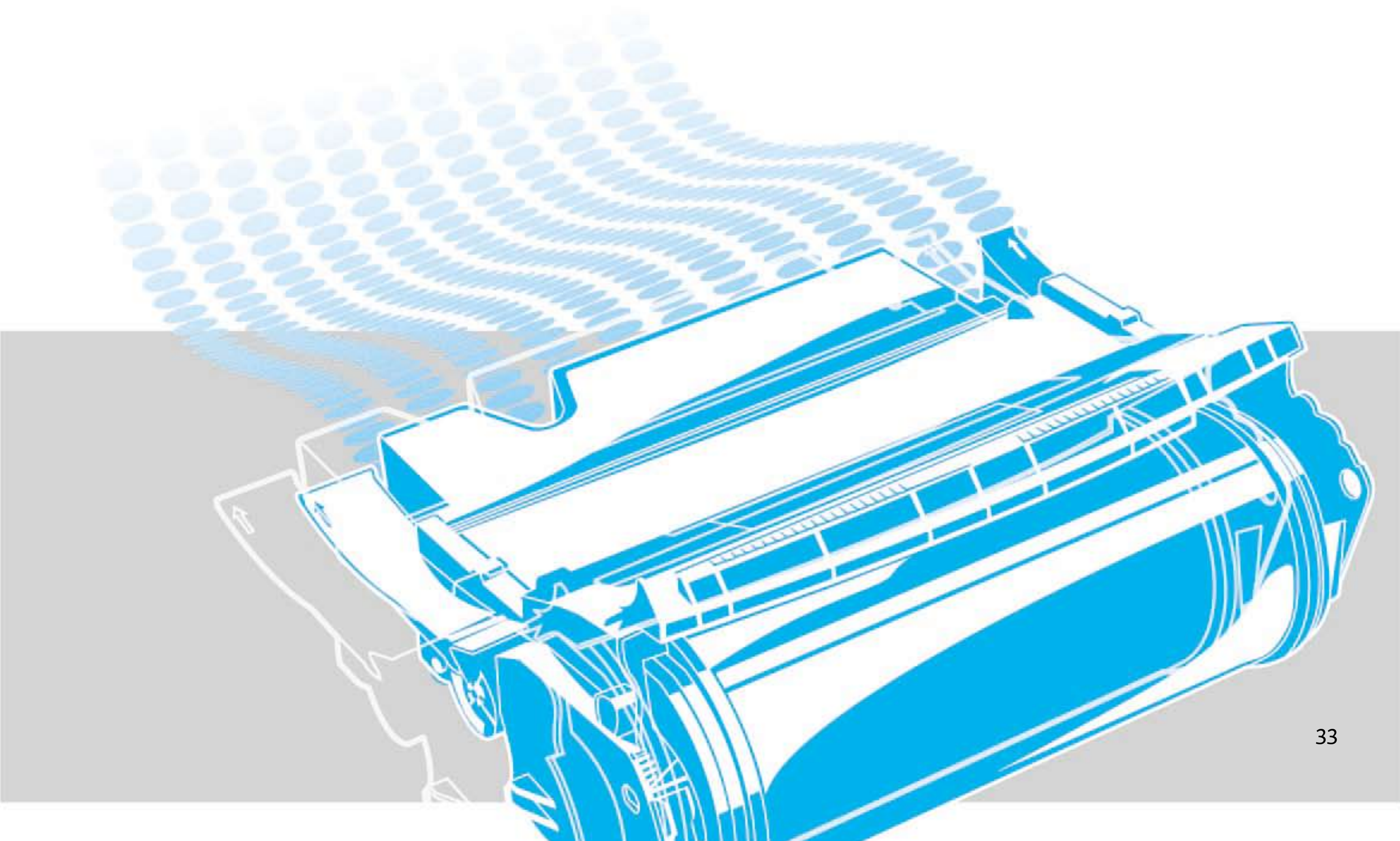
# Consolidated Statement of Changes in Shareholders' Equity - Turbon Group

## AS OF DECEMBER 31, 2006

| | SUBSCRIBED CAPITAL 1,000 EURO | CAPITAL RESERVES 1,000 EURO | REVENUE RESERVES 1,000 EURO | RETAINED EARNINGS 1,000 EURO | TREASURY STOCK 1,000 EURO | TOTAL 1,000 EURO |
|---|---|---|---|---|---|---|
| At January 01, 2005 | 10,300 | 14,917 | 1,612 | 2,005 | -2,420 | 26,414 |
| Capital increase | 33 | 39 | | | | 72 |
| 2004 dividends | | | | -1,110 | | -1,110 |
| Sale treasury stock | | | | | 2,420 | 2,420 |
| Group net income for the year | | | | 3,047 | | 3,047 |
| Change in revenue reserves | | | -3,026 | 3,026 | | 0 |
| Exchange rate differences and other changes | | | 2,927 | | | 2,927 |
| **At December 31, 2005** | **10,333** | **14,956** | **1,513** | **6,968** | **0** | **33,770** |
| 2005 dividends | | | | -1,213 | | -1,213 |
| retraction of treasury stock | | | | | -2,420 | -2,420 |
| Group net loss | | | | -1,936 | | -1,936 |
| Change in revenue reserves | | | 2,939 | -2,939 | | 0 |
| Exchange rate differences and other changes | | | -843 | | | -843 |
| **At December 31, 2006** | **10,333** | **14,956** | **3,609** | **880** | **-2,420** | **27,358** |

## Statement of recognized Income and Expenses

| | 2006<br>1,000 EURO | PREVIOUS YEAR<br>1,000 EURO |
|---|---|---|
| Exchange rate differences | -362 | 2,777 |
| Change in pension reserves | -220 | 0 |
| Change in deferred taxes | 209 | 0 |
| Other changes | -470 | 150 |
| **Income and expenses directly offset against shareholders' equity** | **-843** | **2,927** |
| Net income for the year | -1,936 | 3,047 |
| **Total income and expenses for the year** | **-2,779** | **5,974** |



# Consolidated Cash Flow Statement - Turbon Group

## FOR THE PERIOD FROM JANUARY 01 UNTIL DECEMBER 31, 2006

| | 2006<br>1,000 EURO | PREVIOUS YEAR<br>1,000 EURO |
|---|---|---|
| Group net loss/net income for the year | -1,936 | 3,047 |
| Depreciation of fixed assets | 2,151 | 2,176 |
| Write-ups of fixed assets | 0 | -347 |
| Change in pension reserves | 291 | 344 |
| Other non-cash expenses and income | 221 | 195 |
| **Cash Flow** | **727** | **5,415** |
| Result on disposals of fixed assets | -32 | -33 |
| Change in inventories | -4,808 | -5,760 |
| Change in trade receivables | 3,124 | -3,842 |
| Change in other assets | -356 | -387 |
| Change in short-term provisions | 334 | 1,499 |
| Change in trade payables | 5,761 | 3,881 |
| Change in other liabilities | 345 | -869 |
| **Cash flow from operating activities** | **5,095** | **-96** |
| **Exchange-rate-related change from consolidation** | **-633** | **-200** |
| Purchase of intangible assets | -1,214 | -552 |
| Purchase of tangible assets | -1,894 | -3,105 |
| Purchase of financial assets | 0 | 0 |
| Proceeds from disposals of fixed assets | 103 | 215 |
| **Cash flow from investing activities** | **-3,005** | **-3,442** |
| Sale of Treasury stock | 0 | 2,333 |
| Capital increase | 0 | 72 |
| Dividend payment | -1,213 | -1,110 |
| Issuance of fixed interest bond | 10,000 | 0 |
| Change in bank loans | -10,326 | 2,273 |
| **Cash flow from financing activities** | **-1,539** | **3,568** |
| Change in cash funds from cash relevant transactions | -82 | -170 |
| Exchange-rate-related change in cash funds | 10 | 66 |
| Cash funds at the beginning of the period | 903 | 1,007 |
| **Cash funds at the end of the period** | **831** | **903** |
| Cash flow from operating activities includes: | | |
| Interest payment | -1,371 | -1,003 |
| Income tax payment | -1,285 | -467 |

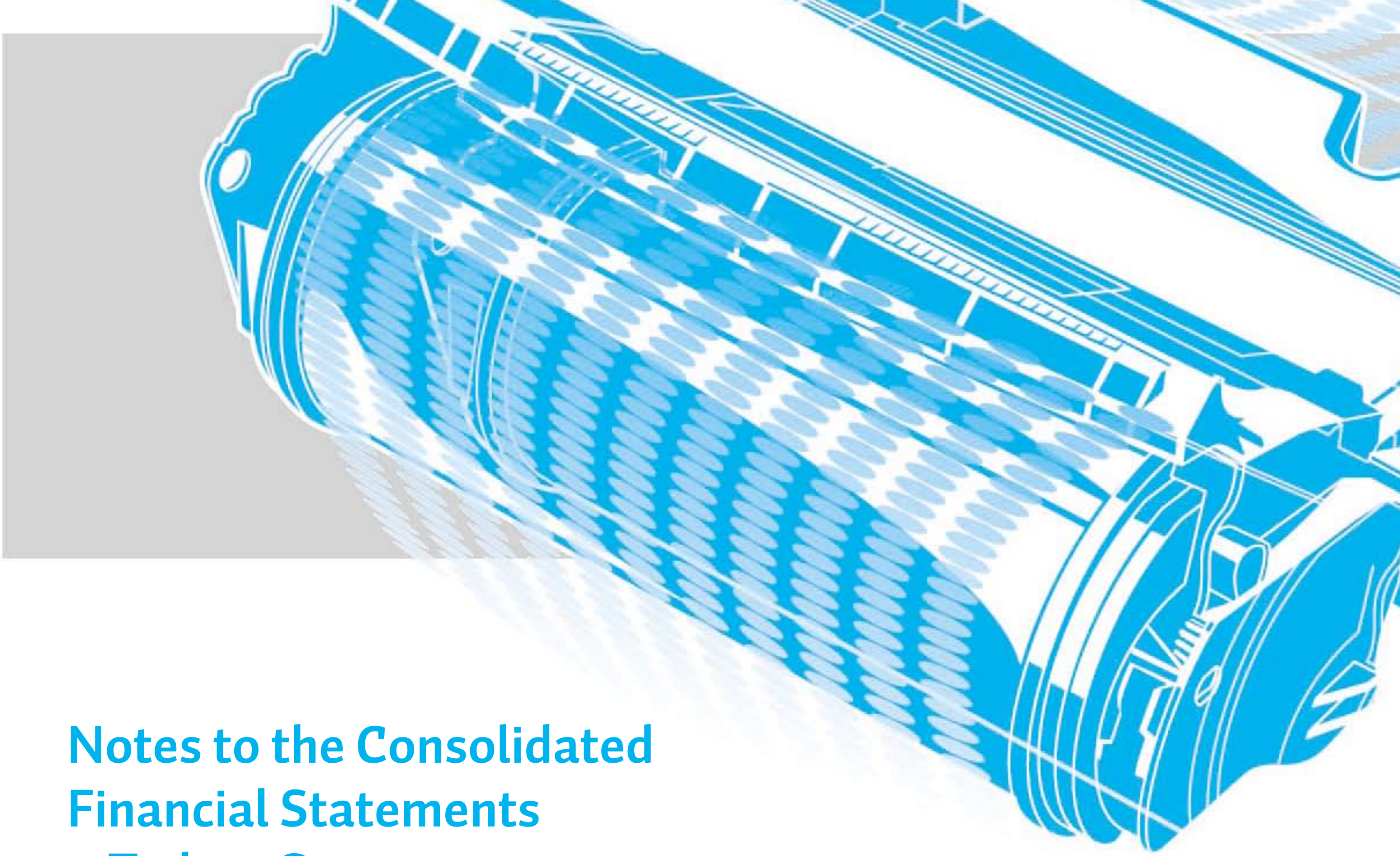
# Segment Report by Regions – Turbon Group

## FOR THE PERIOD FROM JANUARY 01 UNTIL DECEMBER 31, 2005

| | EUROPE<br>1,000 EURO | AMERICA<br>1,000 EURO | ASIA<br>1,000 EURO | CONSOLI-DATION<br>1,000 EURO | GROUP<br>1,000 EURO |
|---|---|---|---|---|---|
| Sales with third parties | 72,828 | 40,868 | 3,425 | 0 | 117,121 |
| Sales with goup companies | 53,694 | 3,884 | 25,230 | -82,808 | 0 |
| Net income | 2,797 | -1,967 | 1,627 | 590 | 3,047 |
| Assets | 123,072 | 56,367 | 20,804 | -115,718 | 84,525 |
| Liabilities | 63,534 | 30,560 | 3,780 | -47,119 | 50,755 |
| Capital expenditure | 2,917 | 94 | 646 | 0 | 3,657 |
| Depreciation | 1,331 | 438 | 407 | 0 | 2,176 |

## FOR THE PERIOD FROM JANUARY 01 UNTIL DECEMBER 31, 2006

| | EUROPE<br>1,000 EURO | AMERICA<br>1,000 EURO | ASIA<br>1,000 EURO | CONSOLI-DATION<br>1,000 EURO | GROUP<br>1,000 EURO |
|---|---|---|---|---|---|
| Sales with third parties | 81,054 | 45,727 | 2,039 | 0 | 128,820 |
| Sales with group companies | 69,683 | 3,930 | 29,142 | -102,755 | 0 |
| Net income | -2,952 | -979 | 1,482 | 513 | -1,936 |
| Assets | 121,776 | 52,251 | 25,321 | -114,272 | 85,076 |
| Liabilities | 68,282 | 30,014 | 6,115 | -46,693 | 57,718 |
| Capital expenditure | 3,495 | 1,149 | 264 | 0 | 4,908 |
| Depreciation | 1,326 | 357 | 468 | 0 | 2,151 |



# Notes to the Consolidated Financial Statements – Turbon Group

## GENERAL INFORMATION

The companies of the Turbon Group develop, produce and distribute compatible imaging supplies for Laser, Inkjet, Dot Matrix and Thermal Transfer printers. Turbon operates production plants in Europe, Asia and the USA.

Turbon AG as the ultimate parent company of the Group is registered in the register of companies at the Essen District Court (HRB 15780). The company is domiciled in Hattingen under the address of Turbon AG, Ruhrdeich 10, 45525 Hattingen, Germany.

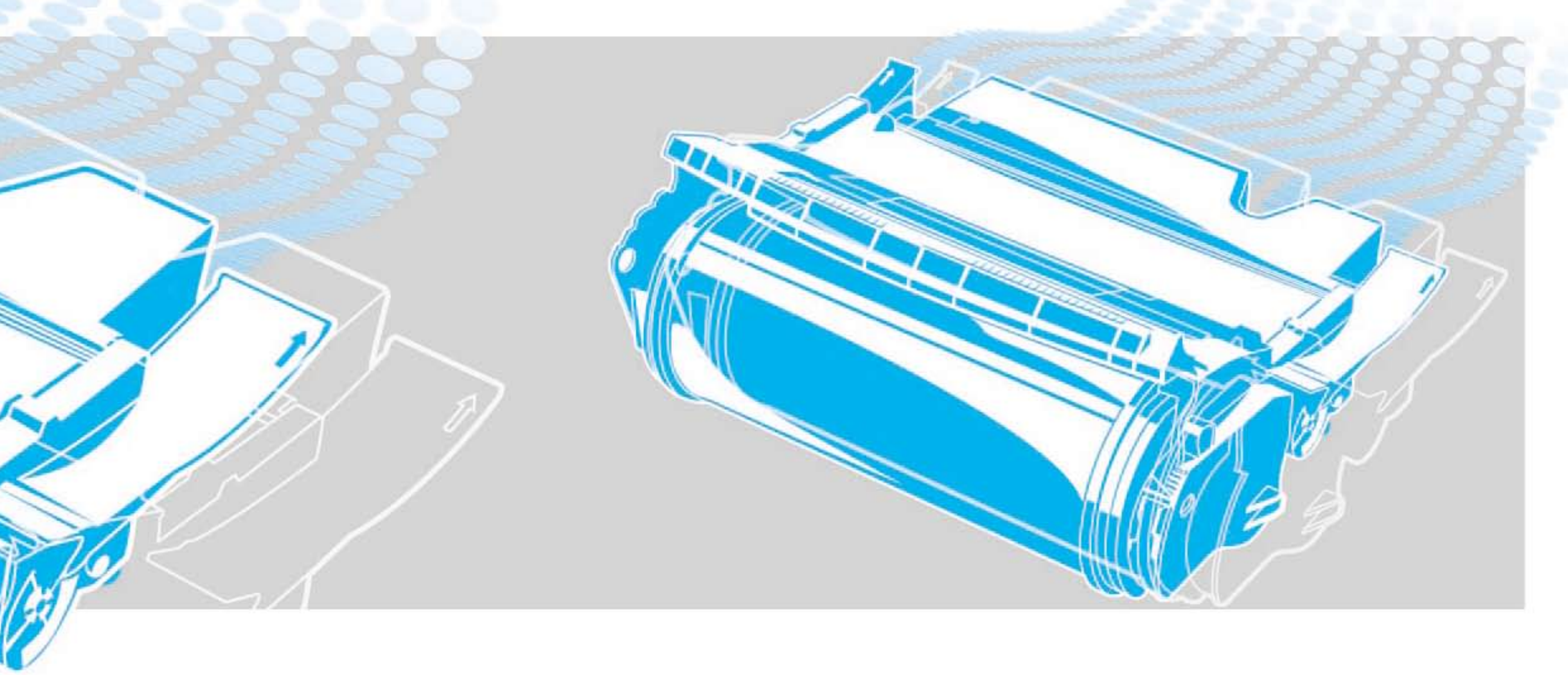
The Management Board prepared the consolidated financial statements and the consolidated management report for the period to December 31, 2006, on April 16, 2007, and approved them for presentation to the Supervisory Board.

## PRINCIPLES OF ACCOUNTING

The consolidated financial statements of Turbon AG and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) in force at the balance sheet date and to be applied in the European Union as well as the supplementary commercial regulations to be observed under § 315 German Commercial Code (HGB) and § 315a, Paragraph 1, HGB.

The IFRS comprise IFRS issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). Apart from one regulation on portfolio hedge accounting under IAS 39, all of the obligatory standards and interpretations at the balance sheet date have been adopted in EU law by the European Commission. The respective regulation is not relevant for Turbon AG in the reporting period. The consolidated financial statements of Turbon AG hence comply with IFRS.

The consolidated financial statements comprise the balance sheet, the statement of income, the statement on changes in shareholders' equity, the cash flow statement and the notes.



The consolidated financial statements were prepared in Euro. All amounts are expressed in thousand Euro unless otherwise specifically indicated. Assets and liabilities are classified as long-term and short-term assets or liabilities in accordance with their maturity. The consolidated statement of income is presented according to the cost-of-sales accounting format.

For Turbon AG and the subsidiaries included in the Group, a financial year is generally the calendar year.

In general the accounting policies applied for the consolidated financial statements of Turbon AG as of December 31, 2005, were not changed with the exception of the valuation of the Pension reserves.

The details and explanations for the consolidated financial statements have been taken into account in the notes.

### Revised or new IFRS and resulting changes

From the new binding standards and interpretations only IFRIC 6 is relevant for Turbon AG. The interpretation has been taken into account accordingly.

Further standards and interpretations which were published but not effective on the balance sheet date have not been taken into account. The Turbon Group does not anticipate that the application of standards which were published but not effective on the balance sheet date have any material effect on the consolidated financial statements for future periods.

## CONSOLIDATION METHODS

### Consolidated companies

Apart from Turbon AG, the consolidated financial statements include one domestic and 18 foreign companies in which Turbon AG directly or indirectly holds the majority of voting rights, or over which it exercises uniform control. The number of consolidated companies is unchanged compared to previous year.

Not included is one (previous year one) subsidiary that was of minor importance for the conveying of a true picture of the asset, financial and income position of the Group. The subsidiaries included in and excluded from the consolidated financial statements are listed in the breakdown of shareholdings.

The limited partnerships BIL Leasing Verwaltungs-GmbH & Co. Objekt Hattingen KG and BIL Leasing Verwaltungs-GmbH & Co. Objekt Meerbusch KG (sale and lease back objects) will not be included in the consolidated financial statements of Turbon AG, because according to IAS 27 in conjunction with SIC (Standing Interpretations Committee) 12 the two limited partnerships are neither subsidiaries of Turbon AG nor can most of the opportunities and threats inherent in the lease agreements be attributed to Turbon AG. Due to the fact that these lease agreements must be classified as “operate leases” according to IAS 17 the objects need not be included according to this accounting standard.

The fully consolidated domestic subsidiary Turbon International GmbH has fulfilled the conditions required under § 264 (3) HGB and is therefore exempted from disclosure of their financial statements.

## Principles of consolidation

The consolidated financial statements are based on the annual financial statements of Turbon AG and the subsidiaries included therein prepared on the basis of uniform corporate accounting and valuation principles and audited by certified public accountants. Valuation adjustments made for tax reasons are not reflected in the consolidated financial statements. The individual financial statements are prepared as of the closing date for the consolidated statements.

Capital consolidation was made using the book value method, offsetting the costs of acquiring these investment companies against the pro-rata equity at the time of the acquisition of the individual companies. Goodwill during first-time consolidation was capitalized as goodwill, unless it was able to be allocated to hidden reserves or hidden burdens. As regards handling of goodwill, the IFRS 1 option right will be exercised, according to which IAS 22 cannot be applied retrospectively to former company mergers. This means that the previous years offset of goodwill against revenue reserves in accordance with German Commercial Law will also be retained in the consolidated financial statements in accordance with IFRS.

Receivables and liabilities between the consolidated companies were offset against each other.

Intra-Group expenses and income were offset against each other.

Intra-group profits in inventory assets arising from intra-group deliveries and services were eliminated. The elimination of intermediate results in fixed assets was waived owing to its minor importance.

Provision is made for deferred taxes arising on consolidation from the difference in tax charges if such differences will probably be equalized in later financial years.

## Currency translation

In the financial statements of the individual companies, receivables and liabilities in foreign currencies are valued at the rate prevailing on the date of transaction. Exchange losses occurring on re-translation as of the balance sheet date are reflected in the figures.

In the consolidated financial statements, the assets and liabilities of all financial statements of subsidiaries prepared in foreign currencies are translated at the middle rate as of the balance sheet date. In the consolidated statement of income, annual average rates are used. Differences arising from currency translation of the balance sheet items compared to the conversion for the previous year were offset against the revenue reserves or allocated to the same without affecting income.

In the consolidated statement of fixed assets movements, the values at the beginning and end of the financial year were converted to the relevant rate on the balance sheet date and the other items to the average rate for the year; the difference arising from changes in exchange rates is shown separately as exchange rate differences.

The exchange rates of the currencies changed as follows:

| | RATE ON EFFECTIVE DATE | | AVERAGE RATE | |
|---|---|---|---|---|
| | DEC. 31, 06 | DEC. 31, 05 | 2006 | 2005 |
| 1 EUR = | | | | |
| USD | 1.3181 | 1.1834 | 1.2559 | 1.2451 |
| GBP | 0.6714 | 0.6870 | 0.6819 | 0.6840 |
| THB (Baht) | 46.7650 | 48.6150 | 47.5808 | 50.0860 |
| DKK | 7.4558 | 7.4603 | 7.4591 | 7.4517 |
| SEK | 9.0430 | 9.3930 | 9.2543 | 9.2795 |
| RON | 3.4110 | 3.7000 | 3.5361 | 3.6529 |

# ACCOUNTING AND VALUATION METHODS

Acquired intangible assets other than purchase rights for properties are capitalized at cost and written off using the straight-line method over their useful life of 3 to 5 years.

Movable fixed assets are valued at cost less scheduled depreciation. Costs of repair and interest on borrowed capital are shown as ongoing expense.

Tangible assets are written off using the straight-line depreciation method over the probable useful life. Low-value assets are fully written off in the year of acquisition.

Scheduled depreciation is based on uniform corporate useful lives as follows:

| | |
|---|---|
| Buildings | 20 to 50 years |
| Facilities on land | 3 to 10 years |
| Production, plant and machinery | 3 to 10 years |
| Other plant, factory and office equipment | 3 to 20 years |

Financial assets are valued at acquisition cost or market value as of the balance sheet date, whichever is lower.

Deferred taxes are recognized on all temporary differences between the tax accounts and the IFRS carrying amounts. Deferred tax assets are recognized on unused tax losses if they are likely to be used. Valuation allowances are recorded on deferred tax assets whose realization in the foreseeable future is not likely.

Deferred taxes are measured on the basis of the tax rates that apply on the current legislation in the individual countries at the time of realization. Deferred tax assets and liabilities are offset against each other, where permissible.

Raw materials and supplies as well as trading stocks are valued at acquisition cost. Stock risks resulting from longer stockholding or lack of use have been taken into account by adequate devaluations. Work in progress and finished goods are valued at cost of production, which contains appropriate amounts of material and manufacturing overhead expenses, including production-specific depreciation, but no administrative expenses. Necessary deductions were made for recognizable storage risks and selling risks.

Receivables and other assets as well as cash and cash equivalents are shown at nominal value. Individual value adjustments were made for doubtful debts, uncollectible debts were written off. The general credit risk was taken into account by flat rate value adjustments based, as a matter of principle, on values taken from past experience.

The accrued and deferred items are used for accrual-based accounting of income.

The pension reserves are calculated according to actuarial principles. The pension reserves are determined using the projected unit credit method. This method considers not only the pensions and future claims known on the balance sheet date but also future anticipated increases in salaries and pensions. If pension obligations are reinsured using plan assets they are disclosed net.

Other reserves and accrued liabilities take account of all recognizable risks and contingent liabilities at the amount likely to arise.

Liabilities are stated at the amounts repayable, which mainly correspond to the net realisable value.

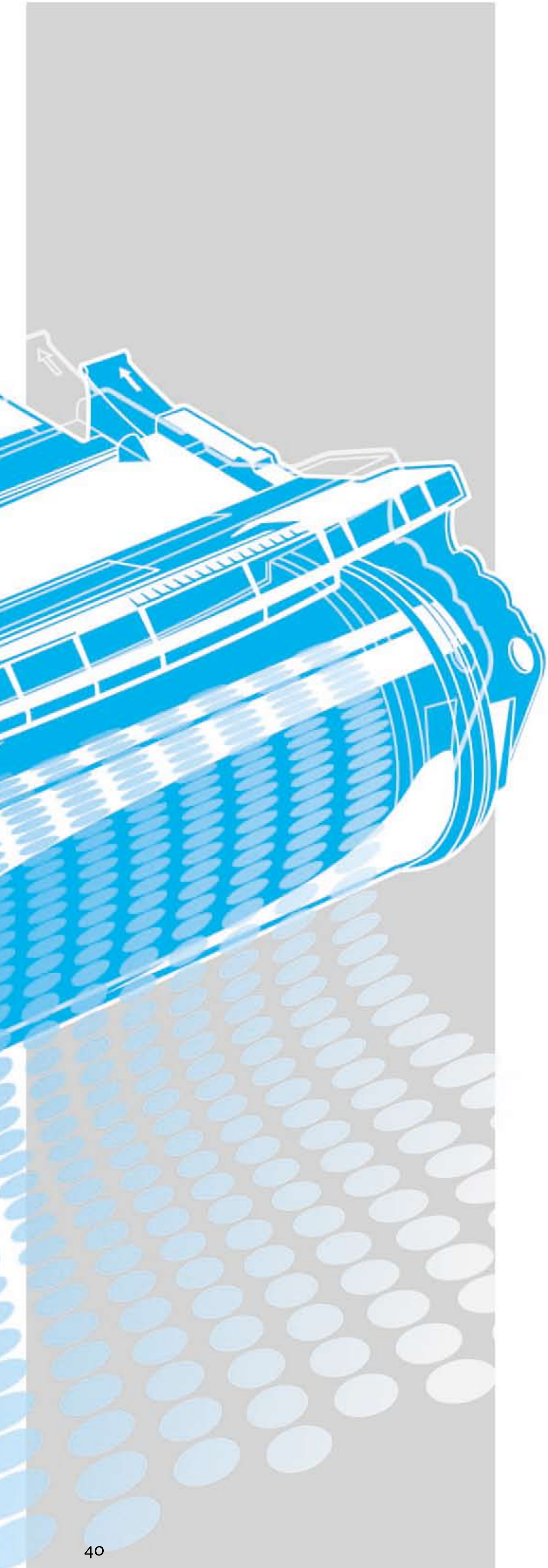
Sales are entered at the time of delivery of the products or goods, less any discounts, customer bonuses and rebates.

Operating expenses are shown at the time of using the service, other marketing-related expenses at the time of being incurred. Interests and similar expenses are booked as expenses of the accounting period.

## USE OF ESTIMATES

The preparation of consolidated financial statements in accordance with IFRS requires estimates and assumptions that effect the presentation of assets and debts, the disclosure of contingent liabilities as of the balance sheet date, and the presentation of income and expenses. In individual cases the actual values may deviate from the assumptions and estimates made.

The assumptions and estimates relate mainly to the judgement of the recoverability of assets, the specifications of useful lives, the treatment and measurement of provisions, the parameters of the measurement of pension provisions as well as the ability to realize future tax effects.



# Explanations to the Consolidated Balance Sheet

## (1) Fixed assets

The development of intangible assets, tangible assets and financial assets is shown in the consolidated statement of fixed assets movements on pages 28 to 31.

The breakdown of shareholdings is presented on pages 52 and 53.

## (2) Other assets

Breakdown of the other assets:

| | DEC. 31, 06<br>1,000 EURO | DEC. 31, 05<br>1,000 EURO |
|---|---|---|
| Claims arising from taxes | 1,750 | 1,480 |
| Receivables arising from sale of treasury stock | 0 | 2,366 |
| Receivables arising from sale of assets | 0 | 1,800 |
| Claims arising from employer's pension liability insurance | 138 | 144 |
| Other assets | 403 | 667 |
| | **2,291** | **6,457** |

The claims arising from taxes comprise mainly taxes on income (thereof Euro 350,000 long term, previous year Euro 0).

## (3) Cash and cash equivalents

Cash and cash equivalents are primarily credit balances with banks and cash on hand.

## (4) Shareholders' equity

The subscribed capital of Turbon AG is Euro 10,333,000 (previous year: Euro 10,333,000) and divided into 4,042,000 (previous year: 4,042,000) no-par registered shares.

Effective as of December 31, 2006, total contingent capital is Euro 915,000 (previous year: Euro 915,000).

In the annual meeting of shareholders on August 12, 1999, share capital was conditionally increased by up to Euro 511,000 by the issue of up to 200,000 registered no-par shares for the granting of a maximum of 200,000 subscription rights to the members of the executive board and the management executives of Turbon AG and its domestic and foreign investment companies. The conditional increase in share capital is carried out only to the extent to which the owners of subscription rights exercise these subscription rights in accordance with the regulations specified in the Turbon Stock Option Plan 1999 and a capital increase is necessary to serve these subscription rights. Subscription rights will be issued during the first 15 working days in December. The subscription rights may not be exercised until after a holding period of two years has elapsed. The holding period begins on the first day of the year following the issue of the subscription rights. The subscription rights, each of which gives the right to buy one no-par share of Turbon AG, can be exercised within a period of three years beginning at the end of the holding period and, within these three years, from the third stock exchange day onwards following the ordinary meeting of shareholders and for a period of 21 calendar days. The shares are issued after reaching a certain barrier to exercise at the relevant base price. The base price is the average price of the Turbon share in a specific measured period.

The table below shows the basic terms of subscription rights issued under the Turbon Stock Option Plan 1999:

| Subscription rights issued in | Base price IN EURO | Subscription rights issued | Subscription rights exercised | Subscription rights outstanding DEC.31,06 |
|---|---|---|---|---|
| 1999 | 7.33 | 40,500 | - | - |
| 2000 | 5.97 | 45,000 | 19,000 | - |
| 2001 | 5.34 | 43,500 | 23,000 | - |
| 2002 | 8.11 | 42,000 | - | 36,000 |
| 2003 | 6.08 | 13,500 | - | 13,500 |

The relevant barrier to exercise the exercisable subscription rights will be newly calculated after the measuring period 2007 has elapsed.

In the annual meeting of shareholders on June 12, 2003, share capital was conditionally increased by up to a further Euro 511,000 by the issue of up to 200,000 registered no-par shares (conditional capital II). The conditional increase in share capital is carried out only to the extent to which the owners of subscription rights exercise these subscription rights in accordance with the regulations specified in the Turbon Stock Option Plan 2003 and a capital increase is necessary to serve these subscription rights. The conditions of exercise for the Turbon Stock Option Plan 2003 correspond essentially to the conditions of exercise for the Turbon Stock Option Plan 1999.

The table below shows the basic terms of subscription rights issued under the Turbon Stock Option Plan 2003:

| Subscription rights issued in | Base price IN EURO | Subscription rights issued | Subscription rights exercised | Subscription rights outstanding DEC. 31, 06 |
|---|---|---|---|---|
| 2003 | 6.08 | 19,000 | - | 18,000 |
| 2004 | 10.14 | 38,500 | - | 37,500 |
| 2005 | 8.92 | 21,500 | - | 21,500 |
| 2006 | 8.24 | - | - | - |

In the financial year ended 2006 no subscription rights have been exercised

The capital reserve comes from the premium at the time of the capital increase at Turbon AG in 1991 (Euro 14,827,000) and from the exercise of stock options issued within the scope of the Turbon Stock Option Plan 1999 (Euro 129,000).

The consolidated statement of changes in shareholders' equity is presented on page 32. The revenue reserves comprise accumulated exchange rate differences totalling Euro 2,415,000 (previous year: Euro 2,777,000; January 1st, 2005: Euro 0).

## (5) Pension reserves

The direct and indirect obligations comprise obligations arising from existing pensions, as well as future pensions and retirement obligations.

Group companies provide retirement benefits under defined contribution and defined benefit plans. The related expenses that are not offset against revenue reserves are included in the costs of the respective functions. Interest expense on obligations acquired in previous years and the return on plan assets are reported in the income statement under interest result. Unrealised actuarial results have been offset against revenue reserves.

In accordance with IAS 19 (Employee Benefits), pension obligations under defined benefit plans are calculated using the projected unit credit method. In Germany calculations are based on Heubeck's 2005 G mortality tables. The expected benefits are spread over the entire length of service of the employees.

The following assumptions were applied in measuring pension obligations:

| | DEC. 31, 06 | DEC. 31, 05 |
|---|---|---|
| Discount rate | 5.25% | 4.85 - 6.00% |
| Projected wage / salary growth | 0.00% | 0.00 - 1.00% |
| Projected pension growth | 1.00 - 3.00% | 1.00 - 3.00% |
| Fluctuation | 0.00% | 0.00% |
| Projected return on plan assets | 5.00% | 4.50% |
| Pension age | 65 | 65 |

These parameters also apply to each following year when calculating the costs of the obligations acquired, the interest expense on obligations acquired in previous years, and the expected return on plan assets.

The total expense for commitments can be broken down as follows:

| | 2006 1,000 EURO | PREVIOUS YEAR 1,000 EURO |
|---|---|---|
| Cost of obligations acquired during the year | 23 | 36 |
| Interest expenses on present value of pension obligations | 662 | 669 |
| Expected return on plan assets | -463 | -455 |
| Amortisation of unrecognised actuarial results | 0 | -1 |
| **Expense for commitments** | **222** | **250** |
| Actuarial results offset against shareholders' equity | 220 | 0 |
| **Total expense for commitments** | **442** | **250** |

The pension provision is calculated as follows:

| | DEC. 31, 06 1,000 EURO | DEC. 31, 05 1,000 EURO |
|---|---|---|
| Present value of unfunded obligations | 2,061 | 1,532 |
| Present value of funded obligations | 11,369 | 12,003 |
| Present value of pension obligations | 13,430 | 13,535 |
| Fair value of plan assets | -10,220 | -10,431 |
| Present value of pension obligations less plan assets | 3,210 | 3,104 |
| Unrecognised actuarial results | 0 | -185 |
| **Provision in accordance with IAS 19** | **3,210** | **2,919** |

Until 2005 actuarial gains and losses were recognized only to the extent that they exceeded the greater of 10% of the present value of the obligations or of the fair value of plan assets. Where this was the case, they were amortized over the average remaining working lives of the employees beginning the following year. Since 2006 the entire obligation is shown in the balance sheet.

Pension plan assets and obligations are measured at regular intervals. Actuarial valuations are performed annually for all major pension plans.

## (6) Accruals

Break down of accruals:

The other reserves and accrued liabilities consist of mainly restructuring accruals set up for the closure of the injection-moulding operation at the Hattingen location to a large extent and the closure of the whole location in Leeuwarden, Netherlands. In addition provisions for obligations in connection with personnel, provisions for outstanding invoices and credit notes and provisions for numerous individual risks are included.

## (7) Other Liabilities

Other liabilities include liabilities arising from taxes of Euro 981,000 (previous year: Euro 568,000) and social security liabilities of Euro 278,000 (previous year: Euro 318,000).

| | BALANCE JAN. 01, 2006 | WITHDRAWAL | RELEASE | ALLOCATION | BALANCE DEC. 31, 2006 |
|---|---|---|---|---|---|
| | 1,000 EURO | 1,000 EURO | 1,000 EURO | 1,000 EURO | 1,000 EURO |
| Pension reserves | 2,919 | 419 | 0 | 710 | 3,210 |
| Accrued taxes | 2,640 | 2,638 | 2 | 1,832 | 1,832 |
| Other reserves and accrued liabilities | 4,963 | 4,490 | 286 | 6,475 | 6,662 |
| Restructuring accrual | 1,050 | 863 | 0 | 2,400 | 2,587 |
| Obligations to employees | 1,033 | 1,033 | 0 | 1,134 | 1,134 |
| Business-related commitments | 2,880 | 2,594 | 286 | 2,941 | 2,941 |

# Explanations to the Consolidated Statement of Income

## (8) Sales

Sales with Laser Cartridges amounted to Euro 95,3 million (previous year: Euro 77,3 million). The total sales of all other products (i.e. Ink Jet, TTR, ink ribbon cartridges) were Euro 33,5 million (previous year: Euro 39,8 million).

## (9) Other operating income

Other operating income includes exchange rate gains as well as income from the reversal of accruals set up in the previous year.

## (10) Other operating expenses

Alongside the expenses unable to be allocated to the other functional areas, other operating expenses also include exchange rate losses and allowance of doubtful accounts.

## (11) Net interest

| | 2006<br>1,000 EURO | PREVIOUS YEAR<br>1,000 EURO |
|---|---|---|
| Other interest and similar income | 152 | 49 |
| Interest and similar expenses | -1,645 | -1,251 |
| | **-1,493** | **-1,202** |

## (12) Restructuring expenses

The restructuring expenses contain the expenses related to the closure of the injection moulding operation in Hattingen, Germany, to a large extent as well as to the closure of the whole location in Leeuwarden, Netherlands.

## (13) Taxes on income

Taxes on income comprise the taxes on income in the individual countries, as well as deferred taxes. Income tax expense including deferred taxes can be broken down as follows:

| | 2006<br>1,000 EURO | PREVIOUS YEAR<br>1,000 EURO |
|---|---|---|
| Current taxes | -335 | -1,099 |
| Deferred taxes | 571 | 400 |
| | **236** | **-699** |

Allocation of deferred taxes:

| | Deferred tax assets | | Deferred tax liabilties | |
|---|---|---|---|---|
| | DEC. 31, 06<br>1,000 EURO | DEC. 31, 05<br>1,000 EURO | DEC. 31, 06<br>1,000 EURO | DEC. 31, 05<br>1,000 EURO |
| Long-term assets | 481 | 450 | 2,219 | 2,001 |
| Inventories | 435 | 411 | 0 | 0 |
| Pension reserves | 535 | 472 | 0 | 14 |
| Tax losses carried forward | 2,192 | 1,570 | 0 | 0 |
| | **3,643** | **2,903** | **2,219** | **2,015** |
| Offsetting | -881 | -573 | -881 | -573 |
| **Balance pursuant to consolidated balance sheet** | **2,762** | **2,330** | **1,338** | **1,442** |

Deferred taxes result from temporary differences between carrying amounts in the tax accounts and the carrying amounts according to IFRS. Deferred tax assets and deferred tax liabilities are offset if they relate to the same tax authorities.

Tax losses carried forward existed on December 31, 2006 as well as December 31, 2005 mainly at the American and German group companies. Deferred tax assets are recognized on unused tax losses if they are likely to be used. The increase of deferred tax assets is related to higher tax losses carried forward as well as to an expected improvement of the earnings figures due to the resolved restructuring measurements.

The following table shows the reconciliation of expected to actual tax expense:

| | 2006<br>1,000 EURO | PREVIOUS YEAR<br>1,000 EURO |
|---|---|---|
| Expected tax expense | 864 | -1,389 |
| Deviations from taxable base | -490 | 696 |
| Tax income from capitalization of corporate tax asset | -322 | 0 |
| Other deviations | 184 | -6 |
| | **236** | **-699** |

The expected tax rate is calculated as the weighted average of the tax rates of the individual group companies and amounts to 39.8 % (previous year: 37.1 %).

Beside tax expenses and income Euro 0.2 million (previous year: Euro 0.0 million) have been offset against revenue reserves.

## (14) Earnings per share

Undiluted earnings per share were calculated by dividing consolidated net income by the average number of shares issued (3,908,667; previous year 3,731,958). To determine diluted earnings per share, the average number of shares issued was increased by the number of subscription rights still existing under the 1999 and 2003 stock option plans (4,032,667; previous year 3,873,458).

## (15) Other details of the consolidated statement of income

The costs of sales include the following material costs:

| | 2006<br>1,000 EURO | PREVIOUS YEAR<br>1,000 EURO |
|---|---|---|
| Cost of raw materials, supplies and trading stock | 67,258 | 58,615 |
| Cost of purchased services | 2,090 | 1,869 |
| | **69,348** | **60,484** |

Personnel expenses are divided up as follows:

| | 2006<br>1,000 EURO | PREVIOUS YEAR<br>1,000 EURO |
|---|---|---|
| Wages and salaries | 25,323 | 25,687 |
| Social security, pension and other benefit costs | 4,178 | 4,755 |
| (thereof for pensions) | (440) | (619) |
| | **29,501** | **30,442** |

Employed on average by the group during the year:

| | 2006 | PREVIOUS YEAR |
|---|---|---|
| Industrial employees | 967 | 785 |
| Clerical employees | 397 | 360 |
| Trainees | 10 | 13 |
| | **1,374** | **1,158** |

# Other Details

## (16) Contingencies and other financial obligations

No contingencies existed on the two balance sheet closing dates.

Other financial obligations:

Financial obligations vis-à-vis third parties arising from commenced investment projects were within the usual business limits.

Future payments of rent, lease and for leasing until expiry of the minimum term of the contracts have the following maturities:

| | DEC. 31, 06<br>1,000 EURO | DEC. 31, 06<br>1,000 EURO |
|---|---|---|
| Due within one year | 2,474 | 2,557 |
| Due after more than one year and up to five years | 7,589 | 7,695 |
| Due after more than five years | 10,587 | 13,217 |
| | **20,650** | **23,469** |

Included are the existing lease agreements concerning the properties in Hattingen (company headquarters of Turbon AG and Turbon International GmbH) and Meerbusch (on a long-term lease).

Future payments (receipts) of rent from irrevocable subletting agreements regarding Meerbusch amounted to:

| | DEC. 31, 06<br>1,000 EURO | DEC. 31, 06<br>1,000 EURO |
|---|---|---|
| Due within one year | 458 | 458 |
| Due after more than one year and up to five years | 1,161 | 1,619 |
| | **1,619** | **2,077** |

In addition Turbon realizes income from the reversal of deferred items which represent received advanced payments of rent:

| | DEC. 31, 06<br>1,000 EURO | DEC. 31, 06<br>1,000 EURO |
|---|---|---|
| Reversal within one year | 119 | 287 |
| Reversal after more than one year and up to five years | 0 | 119 |
| | **119** | **406** |

## (17) Financial instruments

Under IAS 32, financial instruments comprise generally all economic occurrences performed on a contractual basis that include a claim for cash. They include original financial instruments such as trade receivables and payables as well as financial receivables and liabilities. The financial instruments comprise also derivative instruments that are used to hedge currency risks.

### Original financial instruments

The estimated market values of the original financial instruments do not necessarily represent the values that the company would realise in an actual transaction under present market conditions.

The following methods and assumptions apply in determining the market values.

Cash and cash equivalents: On account of the short-term nature of the assets, the carrying value correspond to the market values of the instruments.

Trade receivables / payables: On account of the short-term nature of the receivables and payables, the carrying values correspond approximately to the market values of the instruments.

Financial liabilities: The fixed interest liabilities are stated at the amounts repayable. For liabilities with variable interest rates, the carrying values are approximately their market values since the interest rates are based on variable interest that is oriented on market rates.

The interest charged for the financial liabilities range between 4.9 % and 7.5 % depending on the underlying maturities and currencies. The issue of the fixed interest bonds with a fixed maturity term of seven years is subject to various conditions. In addition to general requirements, financial conditions specify that certain debt to equity as well as interest coverage ratios may not fall below a stipulated level.

## Derivative financial instruments

Derivative financial instruments did not exist on the balance sheet date. During the year forward currency transactions are concluded in order to hedge against currency changes in the period until payment is made.

## (18) Consolidated Cash Flow Statement

The consolidated cash flow statement is presented on page 34.

The cash funds consist primarily of credit balances with banks and cash on hand.

## (19) Related parties

As of December 31, 2006 the former chairman of the Executive Board and current Supervisory Board member Mr. Brückmann-Turbon holds 26.20 % (previous year: 26.20 %) and NCR GmbH, Augsburg 25.98 % (previous year: 25.98 %) of the shares in Turbon AG.

In the financial year ended 2006, Turbon AG exercised its right to take back the purchase rights of two properties from HBT Holdings GmbH in Schwelm for a selling price of Euro 1.8 million; Mr. Brückmann-Turbon is the sole shareholder of this company.

A framework agreement was concluded between the company and Mr. Brückmann-Turbon in connection with his departure from the Executive Board. Subject matter of this contract was the agreement on a non-competition clause valid until December 31, 2008 and the conclusion of a consultancy agreement with fixed and variable compensation components until December 31, 2009. The fixed amount of compensation payable under the consultancy agreement is Euro 120 thousand p.a., whereby a sum of up to Euro 60 thousand p.a. of variable compensation will be taken into account against the fixed compensation. The variable compensation is linked to the acquisition of strategic new customers, the conclusion of acquisitions and the recruitment of management executives. Also subject matter of the framework agreement is a clause under which Mr. Brückmann-Turbon will not claim receivables due to him in the amount of Euro 1.2 million in the future. This makes a contribution towards strengthening the future financial position of the company.

With effect from January 31, 2007, Turbon AG acquired a minority share in the Adsero Corp. from HBT Holdings GmbH for a selling price of US$1.8 million. Time to pay was granted at a rate of interest of 5.0% for a part of the selling price of US$1.3 million. This investment helps to support the business relations between Turbon and Adsero and the subsidiaries. Under a long-term delivery agreement, Turbon USA is the sole supplier of laser cartridges to Tecknolaser, a subsidiary of Adsero. Furthermore, this delivery agreement also applies to any subsidiaries acquired by Adsero in the future. As a result, the company has also satisfied the requirements for the conclusion of the consultancy agreement and the agreement of the post-contractual non-competition clause with Mr. Brückmann-Turbon.

Contracts between Turbon and its major shareholder NCR exist solely within the ordinary course of business.

Contractual relations between Turbon and the members of its executive committee were in the usual business limits.

## (20) Members of the Supervisory Board and Executive Board

### Supervisory Board

Members of the Supervisory Board hold in addition to supervising functions at Turbon AG offices as members of the supervisory board or a comparable supervising body of the corporations listed (as of December 31, 2006):

**Dr. Juno A. Nuber,**
Vice President NCR, Glattzentrum/Switzerland
- Chairman -

NCR Switzerland, Wallisellen/Switzerland
- Chairman of the Board -

NCR Italia S.p.A., Milano/Italia
- Member of the Board -

NCR Finland Oy, Helsinki/Finland
- Member of the Board -

NCR Belgium & Co. SNC, Bruxelles/Belgium
- Member of the Board -

NCR International Inc., Dayton (OH)/USA
- Member of the Board -

NCR GmbH, Augsburg/Germany
- Member of the Board -

**Dr. Paul-Michael Günther,**
Lawyer, Auditor and Tax Consultant, Wuppertal/Germany
- Vice Chairman -

Fruchtimport P. van Wylick GmbH, Düsseldorf/Germany
- Member of the Board -

DRICON Managing Consultants AG, Frankfurt am Main/Germany
- Chairman of the Board -

Quada Immobilien AG, Langenfeld/Germany
- Chairman of the Board -

**Dr. Stefan Jansen,**
Lawyer, Wuppertal/Germany
(until September 30, 2006)

**Holger Brückmann-Turbon**
Dipl. Kaufmann (German equivalent to an MBA), Cologne/Germany
(from February 13, 2007; appointed by law)

**Michael J. VanDemark,**
Director NCR, Springboro (OH)/USA

**Girolamo Cacciatore,**
Works Council Chairman, Remscheid/Germany
- Employee Representative -

**Dietmar Kirsch,**
Technical Employee, Langenfeld/Germany
- Employee Representative -

### Executive Board

**Holger Brückmann-Turbon, Cologne/Germany**
(until December 31, 2006)
- Chairman -

**Aldo C. DeLuca, Ivyland (PA)/USA**
(from January 01, 2007)
- Spokesman -

**Alan S. Howard, Hertfordshire/UK**
- Spokesman -
(from January 01, 2007)

**Klaus D. Marth, Düsseldorf/Germany**

**Michael Pages, Moers/Germany**

## (21) Total compensation paid to the Supervisory Board and Executive Board

The total compensation paid to the Supervisory Board in 2006 was Euro 44,000 (previous year: Euro 46,000). In addition Turbon AG paid within the scope of a directors and officers insurance a proportionate amount of Euro 6,000 (previous year: Euro 6,000).

The compensation of the Executive Board contains fixed and variable components. The Executive Board members received as fixed compensation monthly salaries, allowance for social security, and a company car that may be used for private purposes. As short-term variable compensation, the Executive Board members receive an annual bonus which is linked to individually specified objectives.

In 2006 no stock options (previous year: 4,500) were issued to members of the Executive Board. In addition no subscription rights were exercised.

The total compensation paid to the Executive Board was Euro 817,000 (previous year: Euro 769,000) and is distributed between the different members of the Executive Board as follows:

| | HOLGER BRÜCKMANN-TURBON | ALAN S. HOWARD | KLAUS D. MARTH | MICHAEL PAGES |
|---|---|---|---|---|
| | 1,000 EURO | 1,000 EURO | 1,000 EURO | 1,000 EURO |
| Compensation | | | | |
| - Fixed | 268 | 208 | 167 | 174 |
| - Variable | 0 | 0 | 0 | 0 |
| | **268** | **208** | **167** | **174** |

## (22) Declaration on the Corporate Governance Code

The declaration by the Executive Board and Supervisory Board on the Corporate Governance Code as per § 161 AktG was published on the homepage of Turbon AG in December 2006.

## (23) Audit fees

The following fees for the services of the auditor of the financial statements as well as the consolidated financial statements, BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, were recognized as expenses in 2006: audit fees Euro 141,000 (previous year: Euro 103,000) and other services Euro 28,000 (previous year: Euro 7,000).

## (24) Events after the balance-sheet date

With effect of January 31, 2007 Turbon AG has acquired a minority participation in Adsero Corp. This participation will back the existing business relationship between Turbon and Adsero and between its subsidiaries. Through a long-term supply agreement Turbon USA is the exclusive supplier for laser cartridges to Adsero's subsidiary Tecknolaser. The supply agreement also becomes valid for future subsidiaries acquired by Adsero.

No further events of particular importance with a major impact on our net worth, financial position and income position have occurred since the balance-sheet date.

## (25) Proposal for the appropriation of retained earnings of Turbon AG

Under the statutory regulations in Germany, the potential amount for distribution is determined by the retained earnings of the annual financial statements of Turbon AG.

| | |
|---|---|
| The Annual Financial Statements for the 2006 financial year show net loss of Euro | -2,874,677.81 |
| After taking account of retained earnings brought forward from 2005 to the amount of Euro | 5,754,938.73 |
| and the allocation of the reserve for treasury stock to the amount of Euro | -2,000,000.00 |
| retained earnings of Euro | 880,260.92 |

remains.

The Executive Board proposes to the Annual Meeting of the Shareholders that the retained earnings should be carried forward to new account.

Hattingen, April 16, 2007

**The Executive Board**
Aldo C. DeLuca
Alan S. Howard
Klaus D. Marth
Michael Pages

# Turbon AG, Hattingen

## AUDITOR'S OPINION

We have audited the Consolidated Financial Statements of Turbon AG in Hattingen, comprising the balance sheet, statement of income, statement of changes in equity, cash-flow statement, and the Management Report of the Group and Turbon AG for the financial year from January 1, 2006 until December 31, 2006. The preparation of the Consolidated Financial Statements and the Management Report of the Group and Turbon AG in conformity with IFRS, as they are to be applied within the EU, and with the supplementary effects of the applicable commercial-code regulations of § 315a (1) German Commercial Code (HGB), is the responsibility of the statutory representatives of the company. Our task is to give an opinion based on our audit of the Consolidated Financial Statements and the Management Report of the Group and Turbon AG.

We have audited the Consolidated Financial Statements in accordance with § 317 Commercial Code (HGB) and in observance of the principles of proper financial-statement accounting defined by the German Institute of Qualified Accountants (IDW). These require that the audit be planned and performed in such a way as to be able to detect, with a sufficient degree of certainty, any inaccuracies and breaches that have a material effect on the presentation of the view of the net worth, financial position and income position conveyed by the Consolidated Financial Statements in accordance with the generally accepted accounting principles and the Management Report of the Group and Turbon AG. When determining the audit operations, knowledge of the business activities and legal and financial environment of the Group and expectations of potential errors were taken into account. An assessment was also made, in the course of the audit, of the efficacy of the internal accounting control system and the documentation for the statements made in the Consolidated Financial Statements and Management Report of the Group and Turbon AG primarily on the basis of random samples. The audit includes an evaluation of the annual financial statements of the companies included in the Consolidated Financial Statements, the definition of the consolidated companies, the accounting and consolidation principles applied, and the significant estimates made by the legal representatives and the assessment of the overall presentation of the Consolidated Financial Statements and Management Report of the Group and Turbon AG.
We believe that our audit constitutes a reasonable basis on which to form our audit opinion.

Our audit has not given rise to any objections.

In our opinion, based on the knowledge gained during the audit, the Consolidated Financial Statements are in conformity with IFRS, as they are to be applied within the EU, and with the supplementary effects of the commercial-code regulations of § 315a (1) Commercial Code (HGB) and present a true and fair view of the net worth, financial position and income position of the Group. The Management Report of the Group and Turbon AG is in conformity with the Consolidated Financial Statements, and gives an appropriate presentation overall of the position of the Group and appropriately presents the opportunities and risks of future development.

Düsseldorf, April 16, 2007

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Horn | ppa. Höschler |
| Wirtschaftsprüfer | Wirtschaftsprüfer |

# Shareholdings of Turbon AG

## AS OF DECEMBER 31, 2006

| | SHARE OF CAPITAL % | HELD THRU NO. | CURRENCY | EQUITY IN 1,000 CURRENCY UNITS | ANNUAL RESULT IN 1,000 CURRENCY UNITS |
|---|---|---|---|---|---|
| **Affiliated companies included in the Consolidated Financial Statements** | | | | | |
| 1 Turbon AG, Hattingen | | | EUR | 28,337 | -2,875 |
| 2 Turbon International GmbH, Hattingen* | 100.00 | 1 | EUR | 3,929 | 0 |
| 3 Turbon International, Inc., York (PA)/USA | 100.00 | 1 | USD | 36,866 | 174 |
| 4 Curtis Young Corporation, Cinnaminson (NJ)/USA | 100.00 | 3 | USD | -7,556 | -1,404 |
| 5 Carbotex Company Limited, Bangkok/Thailand | 100.00 | 1 | THB | 898,169 | 70,527 |
| 6 Kores Nordic Holding A/S, Tästrup/Denmark | 100.00 | 1 | DKK | 20,442 | -1,348 |
| 7 Kores Nordic Danmark A/S, Tästrup/Denmark | 100.00 | 6 | DKK | 1,207 | -701 |
| 8 Kores Nordic AB, Norrkøping/Sweden | 100.00 | 1 | SEK | -803 | 2,089 |
| 9 Kores Nordic (GB) Ltd. Harlow (Essex)/Great Britain | 100.00 | 1 | GBP | 6,631 | -100 |
| 10 Keymax International Ltd., Harlow (Essex)/Great Britain | 100.00 | 9 | GBP | 236 | 0 |
| 11 Kores Nordic Belgium NV-SA, Grimbergen/Belgium | 100.00 | 6 | EUR | 1,270 | 94 |
| 12 TLC Tonerfill Logistic Centre B.V., Zaandam/Netherlands | 100.00 | 6 | EUR | 430 | -4 |
| 13 Kores Nordic Suomi OY, Helsinki/Finland | 100.00 | 6 | EUR | 55 | -110 |
| 14 JetFill Holdings Inc., Cinnaminson (NJ)/USA | 100.00 | 3 | USD | 0 | 0 |

| | Share of capital | Held thru | Currency | Equity | Annual result |
|---|---|---|---|---|---|
| | % | No. | | in 1,000 currency units | in 1,000 currency units |
| 15 JetFill Inc., Cinnaminson (NJ)/USA | 100.00 | 14 | USD | 0 | 0 |
| 16 Tonerfill B.V., Leeuwarden/Netherlands | 100.00 | 1 | EUR | 1,351 | -308 |
| 17 Accutecc (UK) Ltd., Harlow (Essex) /Great Britain | 100.00 | 9 | GBP | 935 | 254 |
| 18 GEWA Ribbons Ltd., Boulder (CO)/USA | 100.00 | 4 | USD | 0 | 0 |
| 19 Kores Nordic (USA) Corporation, Summerville (SC)/USA | 100.00 | 3 | USD | 0 | 0 |
| 20 S.C. Tonerfill Romania S.R.L., Oltenita/Romania | 100.00 | 16 | RON | 172 | 1,173 |
| **Affiliated companies not included in the Consolidated Financial Statements** | | | | | |
| 21 Kores Nordic (Pensions) Ltd., Harlow (Essex)/Great Britain | 100.00 | 9 | GBP | 2 | 0 |
| **Other participations** | | | | | |
| 22 BIL Leasing Verwaltungs-GmbH & Co. Objekt Hattingen KG, Pöcking | 95.00 | 1 | EUR | -1,420 | -21 |
| 23 BIL Leasing Verwaltungs-GmbH & Co. Objekt Meerbusch KG, Pöcking | 95.00 | 1 | EUR | -241 | 41 |

*after transfer of result to Turbon AG

# Turbon AG

ANNUAL REPORT2006

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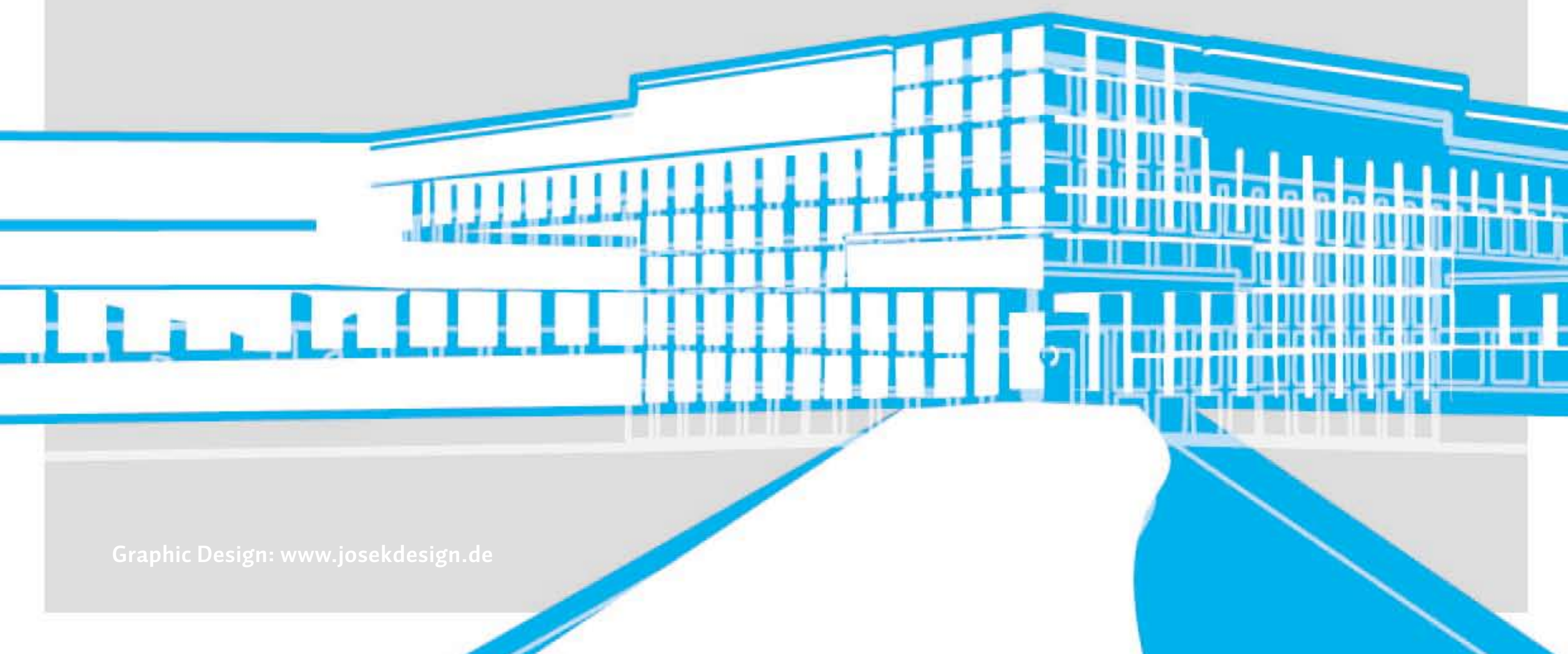

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