ANNUAL REPORT 2006

IFCO

RPC | PALLET | SYSTEMS

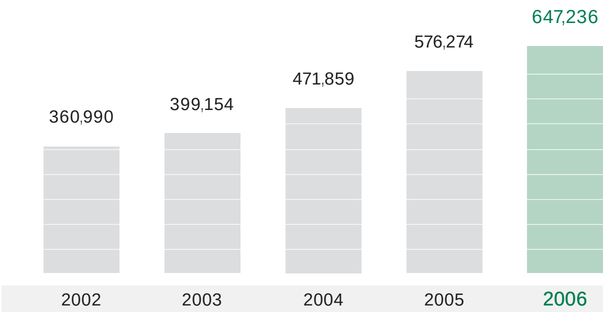
Key figures IFCO SYSTEMS

US $ in thousands (except per share data)	US GAAP			IFRS		
	2002	2003	2004	2005	2006	% Change
Revenues	360,990	399,154	471,859	576,274	647,236	12.3%
Gross profit	50,542	61,793	84,227	116,209	108,966	(6.2%)
Gross profit margin	14.0%	15.5%	17.9%	20.2%	16.8%	
EBITDA	45,955	55,816	74,897	98,407	96,274	(2.2%)
EBITDA margin	12.7%	14.0%	15.9%	17.1%	14.9%	
EBIT	16,333	25,915	43,137	70,495	62,289	(11.6%)
EBIT margin	4.5%	6.5%	9.1%	12.2%	9.6%	
Profit from continuing operations before taxes	20,689	9,609	28,921	46,562	44,437	(4.6%)
Net (loss) profit	(35,575)	10,821	32,137	40,905	37,287	(8.8%)
Profit per share from continuing operations - basic*	0.45	0.27	0.65	0.98	0.71	(27.2%)
Operating cash flows from continuing operations**	26,719	51,141	88,764	95,344	92,282	(3.2%)
Capital expenditures from continuing operations, including cash paid for acquisitions	20,691	32,699	66,068	83,947	101,300	20.7%
Return on capital employed (ROCE)***	8.0%	14.4%	20.4%	27.2%	18.4%	
Shareholders' equity	110,103	119,828	154,917	201,469	233,858	16.1%
Total assets	445,526	517,791	610,933	630,481	698,341	10.8%
Headcount of continuing operations (as of the respective balance sheet dates)	2,979	2,922	3,082	4,074	4,054	(0.5%)

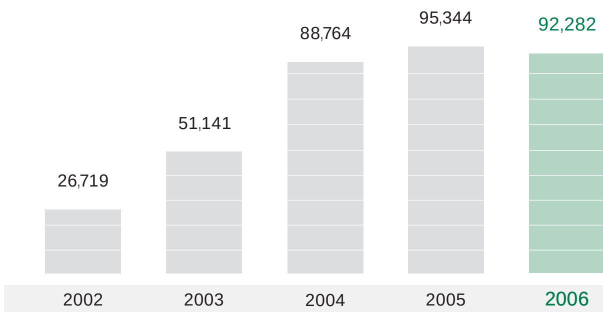
* For comparison purposes, the weighted average outstanding shares for 2002 used in the calculation of earnings per share have been restated in order to reverse the effect of (1) the 1-for-10 share consolidation and (2) the ordinary shares issues in connection with the related restructuring, both completed during 2002.
** Operating cash flows presented above as calculated under IFRS are prior to interest and income tax payments.
*** See Financial Reporting – Group Financial Highlights for explanation of this item.

IFCO SYSTEMS prepared its consolidated financial information in accordance with generally accepted accounting principles of the United States (US-GAAP) through 2004. Beginning Q1 2005, the Company adopted International Financial Reporting Standards (IFRS) as its group accounting standard and retroactively applied those standards to January 1, 2004. Consequently, the financial information included herein for the years 2002 and 2003 is based on US-GAAP, while the data for the years 2004 to 2006 is in compliance with IFRS.

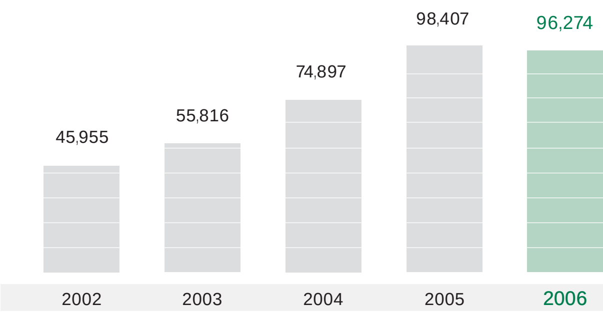
Revenues US $ in thousands



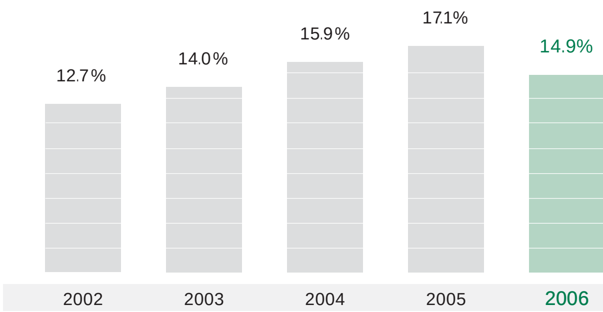
Operating cash flows US $ in thousands



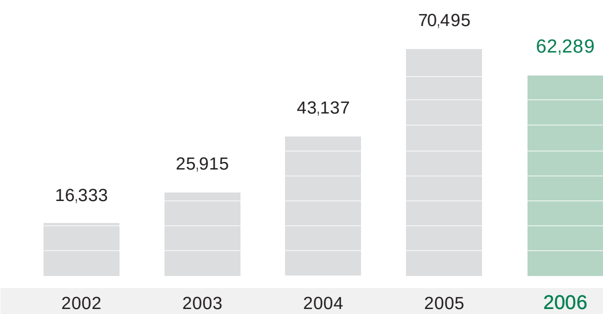
EBITDA US $ in thousands



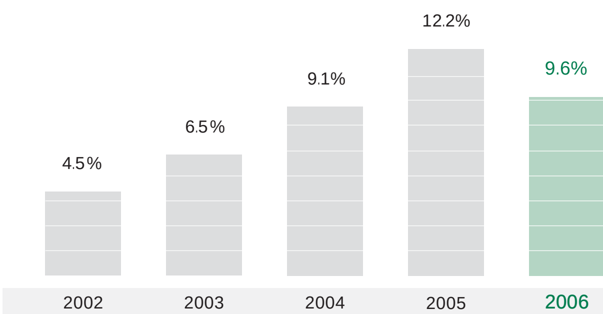
EBITDA margin



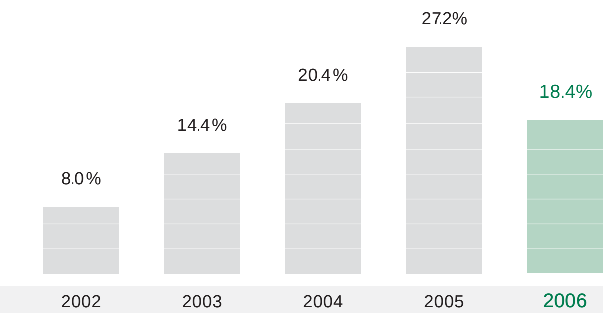
EBIT US $ in thousands



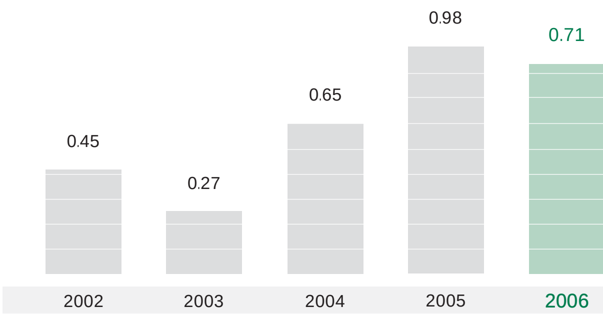
EBIT margin



ROCE



EPS – continuing operations US $



Letter to shareholders

2006 was a challenging year for IFCO SYSTEMS. After a very successful year in 2005, we continued our growth path in Q1 2006 with record results in revenues and profitability, which was a good indication that our company was on its way to another prosperous year.

On April 19, 2006, a number of sites and facilities of our U.S. Pallet-Management-Services business were visited by agents from the U.S. Immigration and Customs Enforcement ("ICE") and other agencies. ICE detained certain employees alleged to be illegal aliens not eligible for employment in the United States under U.S. immigration laws. Neither our company or subsidiaries, nor any officers or directors, were charged or named in any criminal complaint or indictment, although certain U.S. subsidiaries have become the subject of the ongoing federal investigations.

We were very disturbed by these developments and immediately initiated a thorough internal investigation executed by an independent law firm on this matter. We are cooperating with the government investigation and have undertaken significant steps to further improve our employment law compliance programs.

These developments are counter to everything we stand for at IFCO SYSTEMS. We are committed to resolving this issue as soon as possible and are confident that our Pallet-Management-Services business will continue to recover during 2007.

Even though our 2006 overall results were negatively impacted by the ICE investigation implications, we were able to grow our consolidated revenues by 12.3% compared to 2005. EBITDA decreased 2.2% as compared to 2005 as a result of declining productivity and profitability in our Pallet-Management-Services business. Although Pallet-Management-Services revenues grew by 7.6% compared to 2005, we experienced a material decline in EBITDA of 50.1%.

We were very pleased with the development of our worldwide RPC-Management-Services business.

In our European RPC-Management-Services business, we successfully developed our businesses in all of our geographic markets, with each country contributing to our revenue growth. Further increase of the RPC penetration of our existing retailer base and promising new retailer prospects give us confidence that we will see continued growth in 2007.

The successful acquisition of the RPC assets of a US competitor, together with the completed rollout of our new market leading container, led to a doubling of our US RPC revenues in 2006. This growth has strengthened IFCO SYSTEMS' market leadership and positions us as the driving force in the United States RPC market. We are excited about the tremendous RPC market potential and are committed to aggressively growing the penetration of RPCs in the United States grocery retail market.

Investments of US $101.3 million in 2006, solely funded by our continuing strong cash resources provide an excellent base to further grow our business in 2007.

We would like to express our special thanks to our employees, whose continuing commitment to IFCO SYSTEMS was the basis for our success again in 2006. We are especially thankful to our US employees, who have shown great leadership and commitment to overcoming the implications of the ICE events in April 2006. Our thanks also go out to our customers, suppliers and other business partners, who continued to place their trust in us.

Finally, we would like to thank our shareholders, who maintained their faith in our Company's capabilities and opportunities, and supported us and our strategic decisions to further increase IFCO SYSTEMS' value.

We are very excited about our opportunities and look forward to another year of growth in 2007.

Karl Pohler
Chief Executive Officer

Management

Karl Pohler
Chief Executive Officer

Michael W. Nimtsch
Chief Financial Officer

Wolfgang Orgeldinger
Chief Operating Officer

David S. Russell
President, IFCO SYSTEMS North America

→ **Our management style is target and result oriented and awards scope for entrepreneurial action to every employee.**

Corporate culture

Our corporate culture is characterized by flat organization structures, ensuring open and solution oriented communication across all levels. Our management style is target and results oriented, while providing a degree of entrepreneurial freedom to every employee. Moreover, our open door and open information policy directly involve our people in IFCO SYSTEMS' activities.

As a global corporation, it is necessary to think and communicate across language and geographical barriers, and to orient our strategies accordingly. However, as we endeavour to succeed in each of our markets, we aim to be flexible enough to adapt our global strategy to the local market conditions.

Our business model calls for close relationships with our customers and the local market conditions. To reflect this, we think globally and act locally. Therefore, our operational staff is usually recruited from the individual countries and regions in which we operate. Due to their close contacts with our customers, they are highly familiar with individual client needs and concerns, and are conversant with the different cultures characterizing the various individual markets. This close interaction with our customers and the environment in which they operate is vital for our long term success.

As a service provider, the motivation, entrepreneurial attitude and qualifications of our staff is the foundation for the present and future success of our corporation. As our managers participate in our successes via performance based cash and equity incentive programs, we are creating an incentive for our staff to take initiative and assume responsibility.

Our ongoing staff training forms the core of our human resources policy: individual training requirements are determined and implemented through regular evaluation and development reviews.

CORPORATE SOCIAL RESPONSIBILITY

IFCO SYSTEMS is a sustainable enterprise from a commercial, social and environmental perspective. We firmly believe that corporate activity and social responsibility are not mutually exclusive, but rather depend on one another. For IFCO SYSTEMS social responsibility is therefore a very important component of its corporate identity. Our values, quality, transparency, respect, and trust, drive the way we manage the impact on our employees, stakeholders, the environment and society.

We stay committed to continually improving our Corporate Social Responsibility performance.

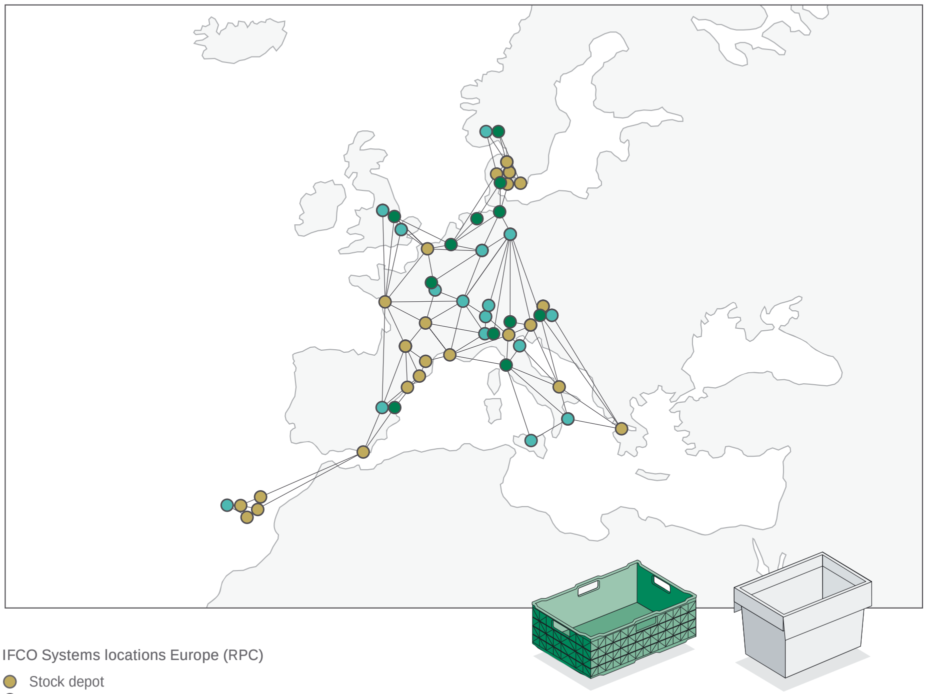
Vision

→ To be the most trusted global provider of RPC- and Pallet-Management-Services.

Mission

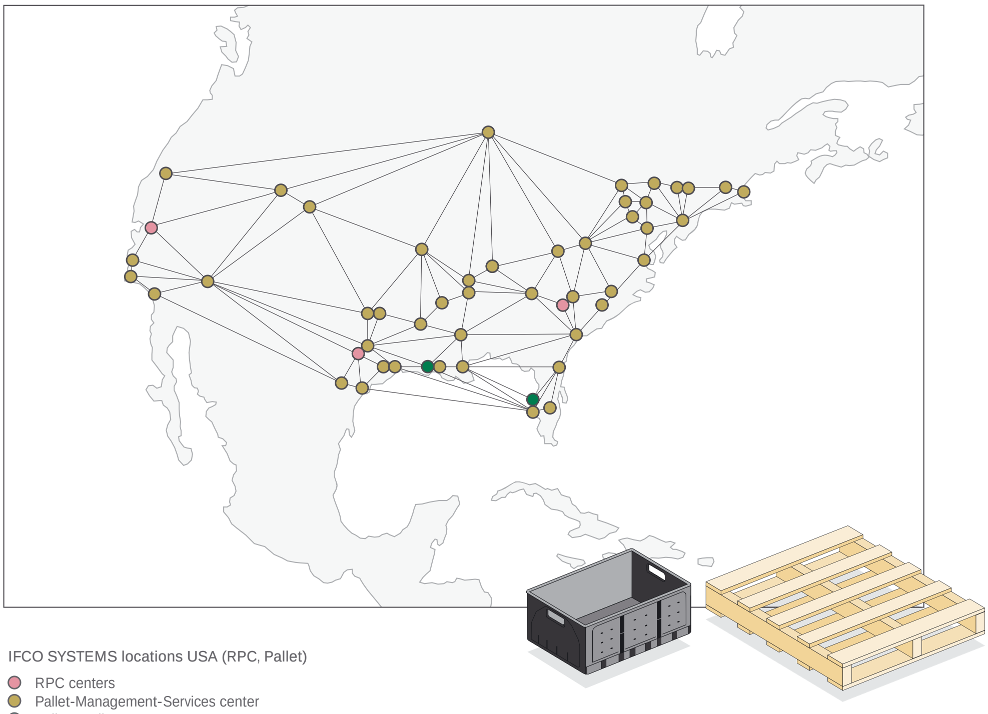
→ IFCO SYSTEMS is the worldwide leading logistics services provider of RPC- and Pallet-Management-Services. Thanks to our economical and environmentally friendly solutions, we are setting worldwide standards in connection with our geographically comprehensive network.

Our innovative system solutions optimize the flow of goods through our clients' supply chains, providing them with sustained cost reductions and enhancing their competitive strength.



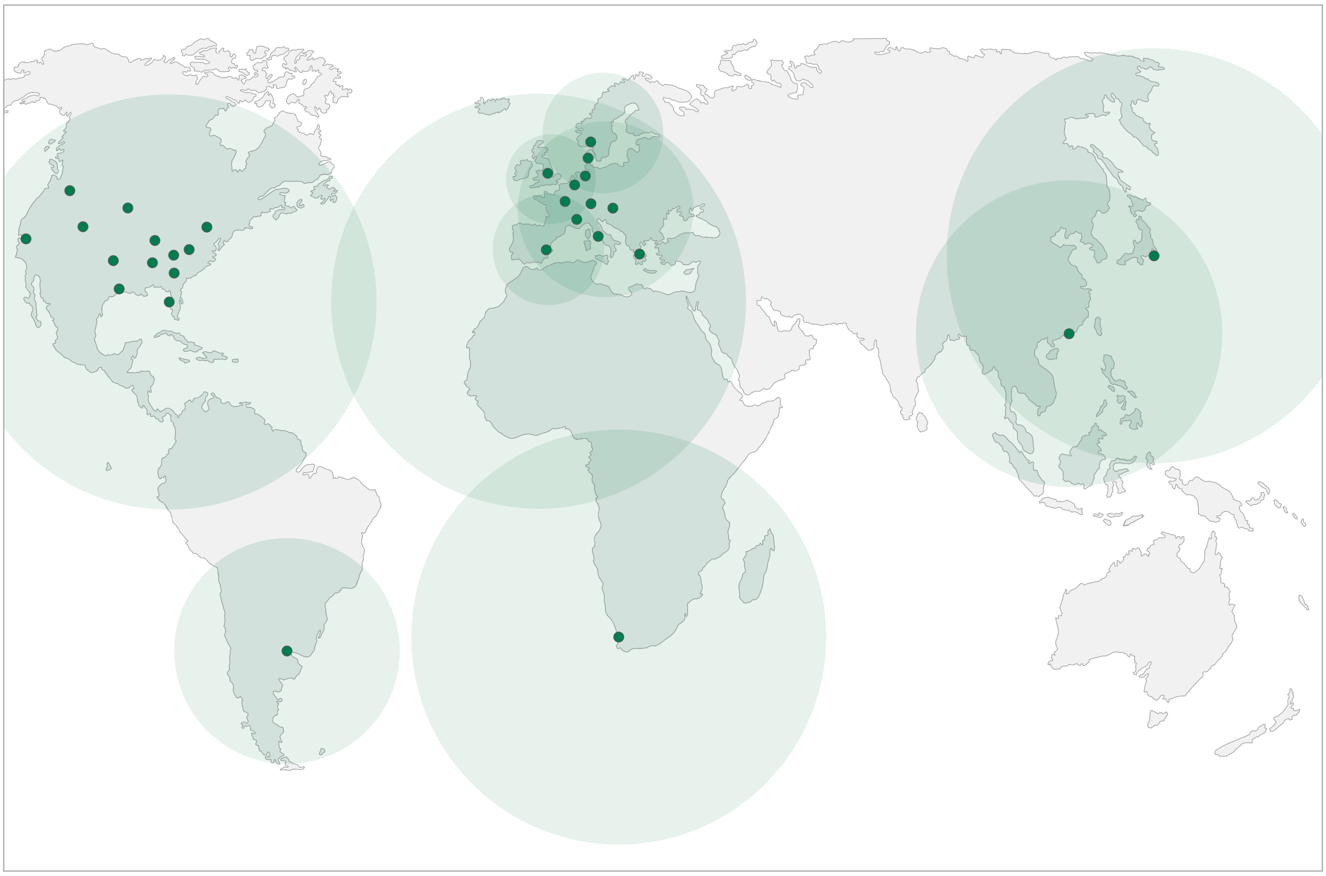
IFCO Systems locations Europe (RPC)

- Stock depot
- Sanitation and service center
- IFCO SYSTEMS offices



IFCO SYSTEMS locations USA (RPC, Pallet)

- RPC centers
- Pallet-Management-Services center
- Pallet Pooling centers
- IFCO SYSTEMS offices



Argentina	IFCO SYSTEMS Argentinia, S.A.
Asia	IFCO SYSTEMS Asia Ltd.
Austria	IFCO SYSTEMS Österreich GmbH
Belgium	IFCO SYSTEMS Benelux
Denmark	IFCO SYSTEMS Skandinavien A/S
France	IFCO SYSTEMS France S.A.S
Germany	IFCO SYSTEMS GmbH
Greece	IFCO SYSTEMS Hellas EPE
Italy	IFCO SYSTEMS Italia Sr. L.
Japan	IFCO Japan Inc.
Netherlands	IFCO SYSTEMS N.V.
Norway	IFCO SYSTEMS Norway
South Africa	IFCO SYSTEMS South Africa S.A.
Spain	IFCO SYSTEMS España Srl.
Switzerland	IFCO SYSTEMS (Schweiz) GmbH
United Kingdom	IFCO SYSTEMS UK Ltd.
USA	IFCO SYSTEMS North America, Inc.

● IFCO SYSTEMS Locations

Our business

➔ IFCO SYSTEMS is engaged in two main business segments. We operate a RPC-Management-Services business in Europe and the United States and a Pallet-Management-Services business in North America.

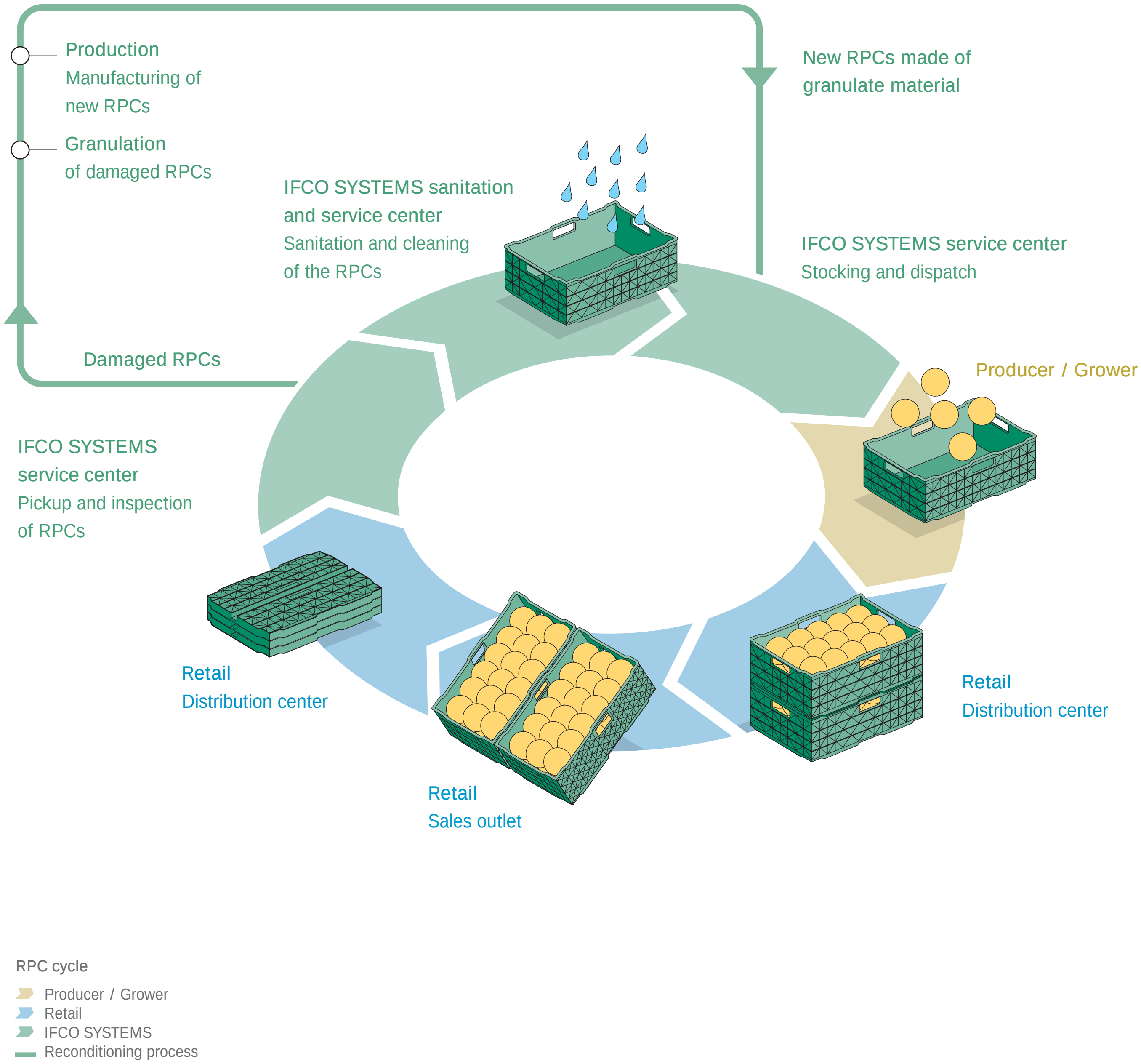
Increasing market dynamics and globalization in commerce are placing increasing demands on logistics providers. Today, products have to be transported intelligently, efficiently and above all, rapidly. While these requirements place high demands on logistics management and transport containers, this market shift also creates significant growth opportunities for well-positioned logistics service providers.

We have market leading positions in multi-billion US Dollar markets and offer significant future growth potential in our proven RPC-Management-Services business and our Pallet-Management-Services business in the United States. Thanks to our broad range of solutions we are able to meet virtually all customer requirements in an individual, client focused manner.

Barriers to entry in both businesses are very high in light of the large financial investments necessary for a comparable RPC pool and the development of a geographic network infrastructure which would be required to compete with our European and North America RPC businesses, as well as our Pallet-Management-Services business in North America. In addition, we possess extensive market knowledge and unique pool management expertise, and are proud to employ well qualified managers with in-depth industry experience.

RPC-Management-Services

IFCO SYSTEMS' core competence is the efficient management of a worldwide rental pool of over 78 million RPCs (Reusable Plastic Container) used to transport fruit and vegetables.


Production
Manufacturing of new RPCs
Granulation
of damaged RPCs
New RPCs made of granulate material
IFCO SYSTEMS sanitation and service center
Sanitation and cleaning of the RPCs
IFCO SYSTEMS service center
Stocking and dispatch
Producer / Grower
Damaged RPCs
IFCO SYSTEMS service center
Pickup and inspection of RPCs
Retail
Distribution center
Retail
Sales outlet
Retail
Distribution center
RPC cycle
Producer / Grower
Retail
IFCO SYSTEMS
Reconditioning process

RPC-Management-Services

In our core markets, Europe and the United States, some 175 million tons of fruit and vegetables are produced annually. These products must make their way quickly and without damage from producers to consumers – and often across country borders. In many instances, the period between harvest and consumption is no more than a few days.

Consequently, retailers and producers are calling for flexible, effective, cost efficient and state-of-the-art product distribution solutions. This puts stringent demands on transport containers and their utilization from producers through retailers to consumers. IFCO SYSTEMS' container and service systems are well equipped to meet these demands.

IFCO SYSTEMS' core competence is the efficient management of a worldwide rental pool of over 78 million RPCs used to transport fruit and vegetables. Offering a total of 20 different models globally, our RPCs in Europe and the United States address the packaging and transportation requirements of various types of fruit and vegetables in the goods and produce cycle.

THE CYCLE

In order to prepare the RPCs for shipment to the producers, IFCO SYSTEMS, in cooperation with retailers, handles the return transport of the empty and folded containers from the retailer's central warehouses to the IFCO SYSTEMS service centers. A quality inspection is then performed and each container is carefully sanitized and cleaned according to stringent food hygiene requirements. The RPCs are now ready for shipment to the producer.

The cycle then continues with the producers of fruits and vegetables, who order the required number of RPCs from IFCO SYSTEMS. Our services consist of providing the producers with RPCs for their products at the right time and place and in the right type and quantity. To fulfill these requirements, IFCO SYSTEMS has developed a logistics network in place that encompasses 44 service centers worldwide at strategic locations in our key markets.

The delivery of RPCs from the IFCO SYSTEMS service centers to our customers, which are coordinated by our personnel and systems, is performed by third party transport companies. Once the producers have filled the RPCs with goods, the containers are transported to retailers' central warehouses. The products then enter the retail distribution chain and are shipped from the central warehouses to the respective retail outlets where the goods are sold to consumers.

One complete pass for an RPC through this cycle is referred to as a trip. In order to ensure the prompt return of the empty RPCs and to safeguard our assets, we have introduced a deposit system in Europe and a clearing system in the United States covering the entire goods cycle from producers to the individual retailers. Every day, IFCO SYSTEMS coordinates the outbound and inbound movement of approximately 330 truckloads of RPCs. In 2006 IFCO SYSTEMS transported goods with a total weight of more than 4 million tons in its RPC-Management-Services business segment.

IFCO SYSTEMS' NEW RPC GENERATION

In close cooperation with the manufacturers of our RPCs, as well as our customers, we are continuously optimizing our RPCs in terms of their technical characteristics, stability and design. This ensures constant quality enhancement, as well as advancing the development of new applications. Examples in point are the latest RPC generation launched in Europe, the "IFCO Green Plus" line, as well as the state-of-the-art generation of RPCs which has been rolled out in the US market. The design of the new IFCO SYSTEMS RPC generations further improve the perishability and damage rates of produce through their enhanced design and markedly reduces the container damage rate. The lower folded height of the new units increases their volume per pallet significantly, further reducing our transport costs and providing labor savings for our business partners.

IFCO SYSTEMS' RPCS – HIGH QUALITY COMBINED WITH LOW COSTS

Our logistics management expertise and RPC design guarantee that the high quality of clients' goods is retained, while reducing costs throughout the entire supply chain. We provide support for the efficient organization of goods and product cycles, thereby creating further cost advantages for our customers.

The practical value to everyone lies in the benefits of the global supply chain and the satisfaction of the customer.

Our RPCs make prudent and sparing use of natural resources and represent an efficient contribution to the protection of our environment. In opting for our products, customers are also making a valuable contribution to environmental protection, while at the same time eliminating disposal costs.

Below are some of the advantages which make our Reusable Plastic Containers superior to traditional packaging:

ADVANTAGES TO THE PRODUCER:

Economic advantages
- One-off rental fee per use
- Just-in-time delivery
- Low provision of stock, short-term ordering as required
- Low capital tie-up, no investment risk
- Significant reduction of damage to goods in storage and transportation

Application advantages
- Standard packaging of Europe's leading retailers
- 20 different RPC types (9 in Europe, 11 in the US), which can cover the entire range of fruit and vegetables
- Efficient storage (256 to 512 crates per pallet)
- Simple manual or mechanical set-up
- Easy and safe stacking
- Branding with advertising inlays or inserts possible

Advantages for goods
- Open side and base structure means reduced energy for cooling and guarantees freshness in storage and transportation
- Optimum protection of products in transportation by means of stable structure and rounded inner edges
- Hygienically perfect RPCs through cleaning after every use

ADVANTAGES FOR RETAIL:

Advantages in goods procurement
- Optimum transport packaging that guarantees maximum freshness and quality of the goods across all stages of the supply chain
- Significant reduction of damage to goods in transportation and storage
- Availability throughout Europe / US
- 20 different RPC types (9 in Europe, 11 in the US), which can cover the entire range of fruit and vegetables

Advantages in goods logistics
- Standard packaging with the basic dimensions 60 x 40 cm and 30 x 40 cm
- Compatible with all current pallets (Europallets, ISO pallets)
- All RPC types are mutually compatible
- Optimum stacking properties for segregated and mixed dispatch units
- Highly suited to the use of jaw loaders as well as the use of materials handling technology and automatic storage systems
- High level of transportation safety in loader and truck transportation
- Very impressive ergonomics for manual handling (handles on all four sides, stability)

Advantages in sales
- Enhances sales through outstanding display properties
- Increased attractiveness of fruit and vegetables department through standardized containers
- Usable for chilled and humidified display counters
- Fast and easy exchange of empty RPCs in the fruit and vegetables department takes less time and reduces staff costs
- Branding with advertising inlays or inserts possible

Advantages in removal
- Fast, space-saving removal through simple folding of the empty RPCs, no waste disposal
- Protection of the environment and natural resources through multiple reuse

Economic advantages
- Significant reduction of damage to goods in storage and transportation
- Reduction of staff costs through improved handling
- Reduced costs for warehousing
- No costs for waste disposal
- Total cost savings of 18% compared with cardboard (Fraunhofer study)

ADVANTAGES FOR THE ENVIRONMENT:

- Reusable packaging system
- 100% recyclability of RPCs
- No waste disposal at retailer

The recent study, “The sustainability of packaging systems for fruit and vegetable transport in Europe based on life-cycle-analysis”, published in January 2007 by Stiftung Initiative Mehrweg, highlighted various environmental advantages in using RPCs in comparison to cardboard.

MAJOR GROWTH OPPORTUNITIES IN EUROPE AND THE UNITED STATES

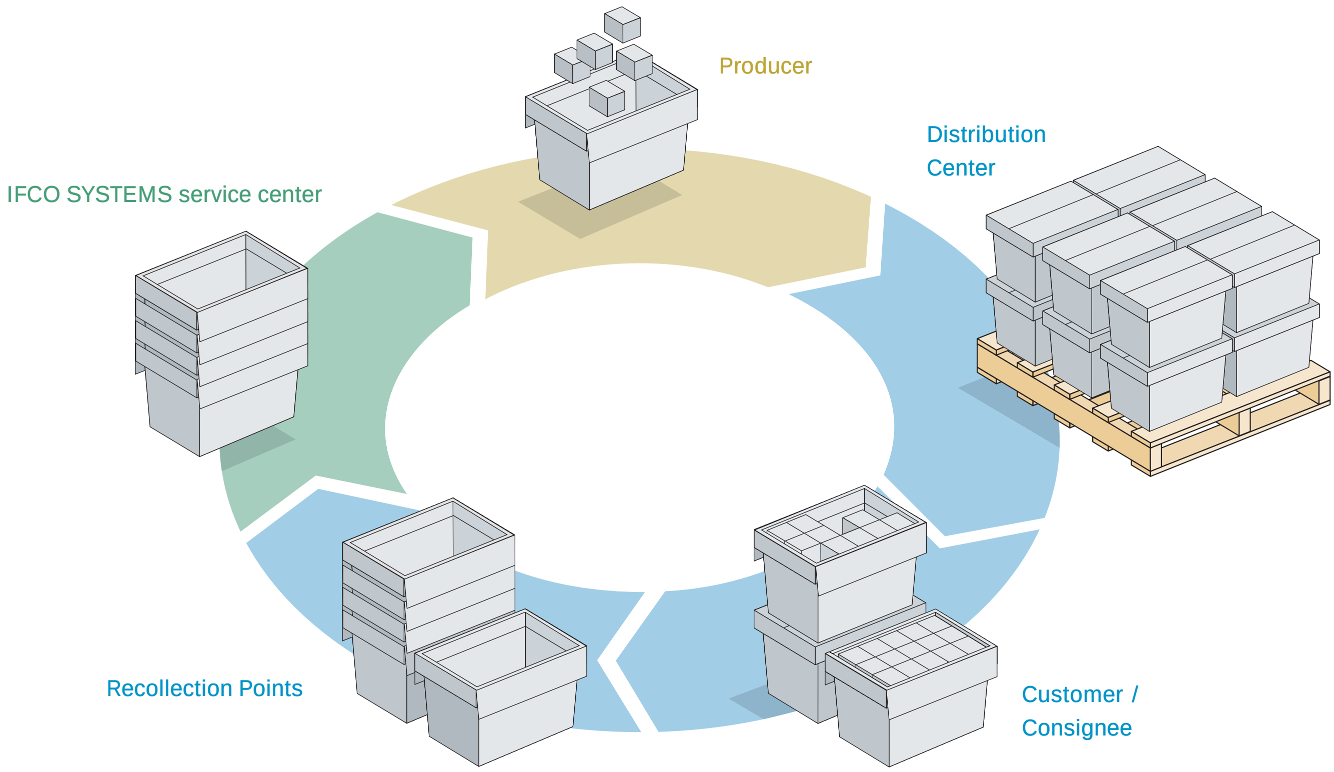
Our RPC rental business is the market leader in Europe with an estimated market share of 44% of foldable RPCs. According to our estimates based on available market data, European retailers conduct 4.8 billion fruit and vegetable packaging units annually, with approximately 2.9 billion packaging units addressable with our RPCs. However, we estimate that European pool operators only conducted approximately 570 million annual trips with foldable RPCs. IFCO SYSTEMS global RPC-Management-Services business segment generated US $285.1 million revenues in 2006. Through increasing the penetration of RPCs with our large existing customer base and by bringing new food wholesalers and retailers into the system, we will continue to develop this market potential.

Today in Europe, some 6,000 fruit and vegetable producers, as well as more than 45 retailers such as Edeka, Rewe and Metro in Germany, COOP and Migros in Switzerland, ATAC and Système U in France, Rinascente and Eurospin in Italy, Consum and El Arbol in Spain, COOP and BAMA in Norway and Waitrose in Great Britain already place their trust in our logistics services.

The significant growth opportunities for RPCs are even more pronounced in the US market, with an estimated annual volume of 2.6 billion packaging units for fruit and vegetables, it is one of the world's largest individual markets. IFCO SYSTEMS is the dominant market leader in the US, with an estimated market share of approximately 60%. Although the US RPC poolers continued to pursue market development during 2006, the RPC business has not yet been widely adopted by the US grocery retail industry. However, Wal-Mart, the world's largest retailer, as well regional grocers Stater Bros Markets and HEB have adopted the RPC system in their grocery businesses and have selected IFCO SYSTEMS as one of their system providers. Finally, one of the divisions of The Kroger Co. performed a significant RPC pilot project during 2006. We are excited about the development of the RPC model within new retailers, both regional and national, in 2006 and look forward to continued growth in 2007.

We are convinced, particularly in light of the strong supply chain focus of the US retail sector, that this market will experience strong RPC penetration in the future.

The significant investments we have committed to our RPC pool and to our logistics infrastructure, along with our increased marketing and sales activities, have created a strong foundation to continue to grow our market share over the course of 2007.



RPC cycle – Industry Solutions

- Producer
- Customer / Consignee
- IFCO SYSTEMS

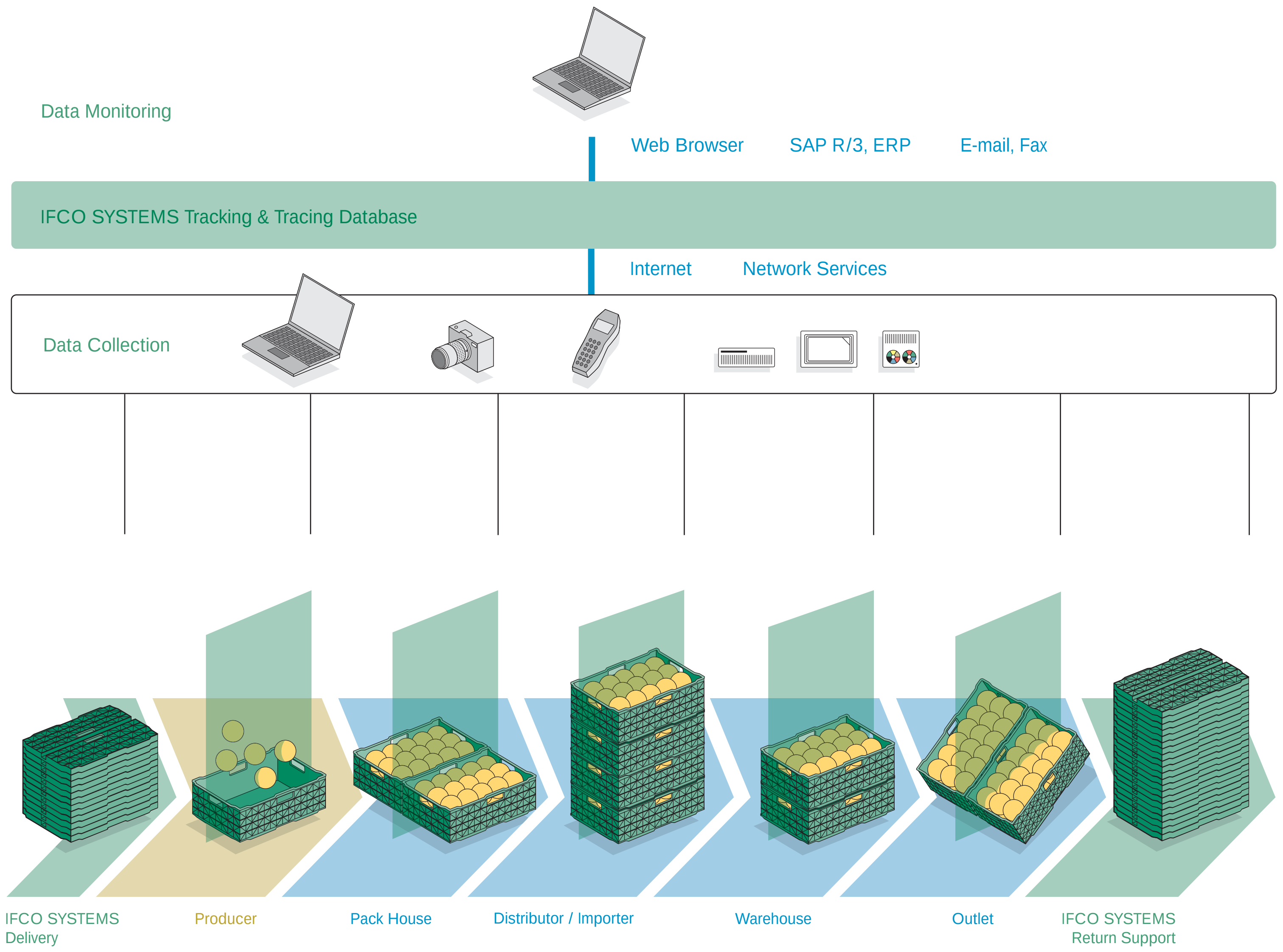
INDUSTRY SOLUTIONS

In addition to the food industry, we see strong demand for transport container management solutions in virtually all other industries.

To reflect this demand, we have begun to develop a specific Industry Solutions team in Europe to provide companies with tailored services for reusable transport packaging. Our logistics and pool management competence in the food industry represents an excellent foundation to provide our services also to other industries.

Our service offering supports the growing outsourcing trend in industrial companies and allows companies to focus on their core competencies while benefiting from the expertise of a specialized service provider for reusable packaging solutions. The service portfolio of IFCO SYSTEMS covers all aspects of pool management and supports the full cycle. We advise our customers on the selection of the optimal container, the optimal pool size for our customer to acquire and we ensure that the required containers are always provided in time and at the right place. We also provide for transportation, storage, sanitation and container repair and other administrative services. We can also manage existing container pools for our customers.

At present, we are primarily focusing on applications in transport logistics between manufacturers and retailers and on the Expedited Service Providers market offerings in the transport segment. We are already active in areas including branch distribution in the retail industry, spare parts distribution in the automotive industry, and parcel logistics.


Data Monitoring
Web Browser
SAP R/3, ERP
E-mail, Fax
IFCO SYSTEMS Tracking & Tracing Database
Internet
Network Services
Data Collection
IFCO SYSTEMS
Delivery
Producer
Pack House
Distributor / Importer
Warehouse
Outlet
IFCO SYSTEMS
Return Support

TRACKING & TRACING

With nearly 350 million RPC trips during 2006, IFCO SYSTEMS ranks as one of the world's leading providers of RPCs. Consequently, the stringent controlling and monitoring of our pool and the assurance of optimal pool utilization and capacity utilization are of key strategic importance to us. As a result, we place significant emphasis and focus on "asset control" and the ability to track and trace our RPCs. Today, we already have control and monitoring systems in place which are constantly being enhanced and automated by the deployment of new Tracking & Tracing technologies.

Tracking & Tracing technologies are becoming more important to our customers. Especially in the food sector, the ability to trace goods movements has gained increasing significance due to heightened legislative requirements. Additionally, Tracking & Tracing technologies also play a key role in the automation and optimization of logistics processes throughout the entire supply chain.

Based on these internal and external requirements, IFCO SYSTEMS developed a high performance Tracking & Tracing solution. The core of this system is based on a Web-based Tracking & Tracing software application that is capable of processing data from a wide range of different identification technologies, including one- and two dimensional barcode, color code (optical image recognition) or transponders (RFID). The identification devices are attached to individual transport containers and enable the complete Tracking & Tracing of products within the delivery chain. The choice of identification technology depends on individual Company requirements and applications.

We anticipate that RFID (Radio Frequency Identification) technology will become the leading auto identification technology in the future. However, currently there are certain applications where the costs for RFID are still too high or the technology is not yet suitable for implementation. In these situations, the IFCO SYSTEMS solution is open for the deployment of various technologies and at the same time supports the parallel utilization of different auto identification devices or a conversion at a later date. This open system solution provides the ability to implement a solution today that may be based on one- and two dimensional barcode or color code and transition to RFID at some time in the future.

After a successful limited scale pilot project with a meat container pool in Europe, IFCO SYSTEMS has implemented its' Tracking & Tracing System in our US RPC operations. During 2006, all IFCO SYSTEMS US containers were tagged with combined color code and barcode labels, allowing each RPC to be tracked individually. Our US service centers were equipped with required RPC reading equipment to support this program. IFCO SYSTEMS is now tracking inbound and outbound movements of our RPCs, improving our asset control capabilities and enhancing the management and utilization of our RPCs. The system may be utilized by our customers on request. We are currently evaluating the implementation of the system for the larger European RPC operation.


IFCO
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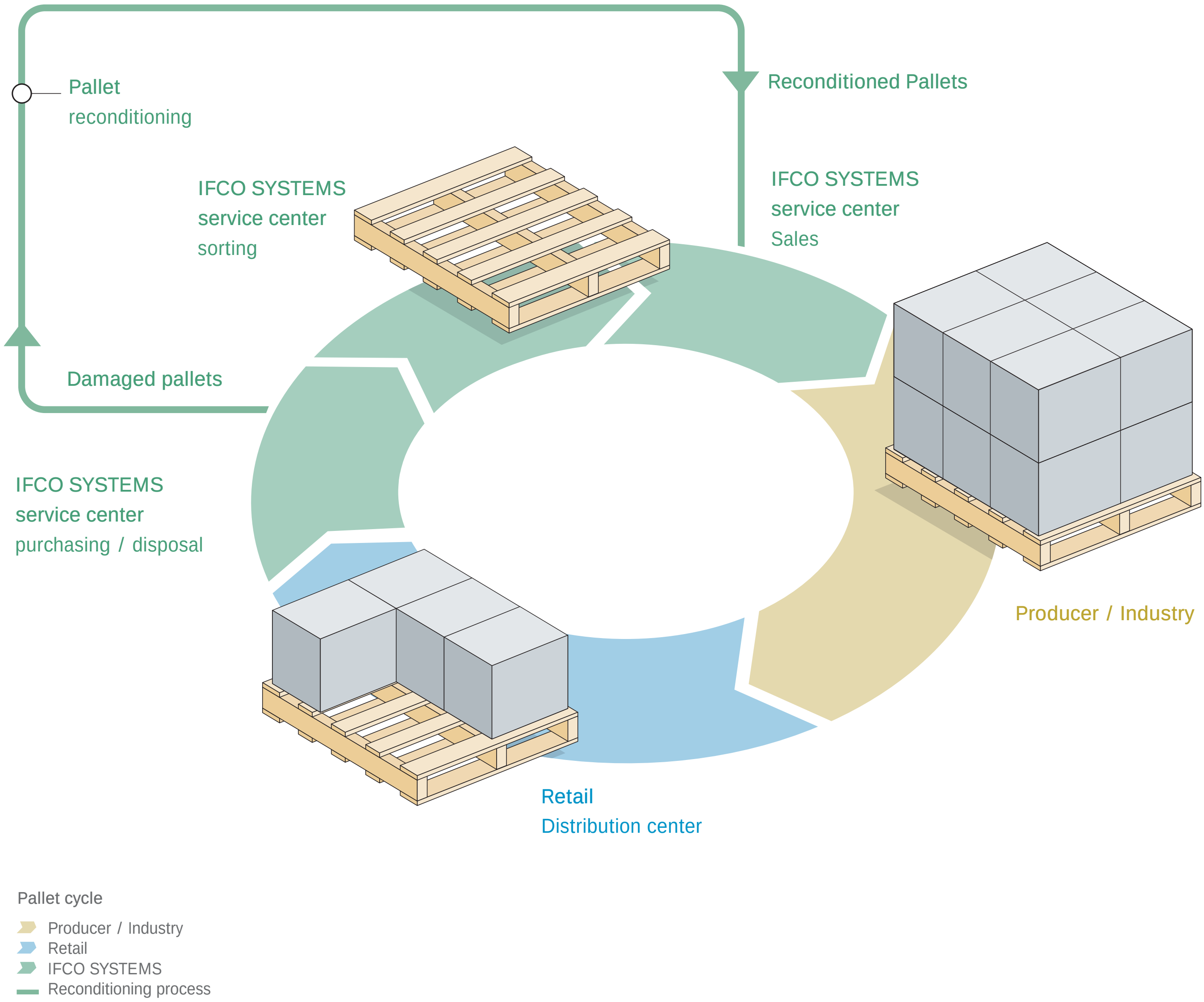
Pallet-Management-Services

IFCO SYSTEMS is North America's leading Pallet-Management-Services company, specializing in the procurement, reconditioning and distribution of wood pallets to and from the manufacturing and retail sectors.


Pallet
reconditioning
Reconditioned Pallets
IFCO SYSTEMS
service center
sorting
IFCO SYSTEMS
service center
Sales
Damaged pallets
IFCO SYSTEMS
service center
purchasing / disposal
Producer / Industry
Retail
Distribution center
Pallet cycle
Producer / Industry
Retail
IFCO SYSTEMS
Reconditioning process

Pallet-Management-Services

IFCO SYSTEMS is North America's leading Pallet-Management-Services company, specializing in the procurement, reconditioning and distribution of wood pallets to and from the manufacturing and retail sectors. IFCO SYSTEMS offers the only true, nationwide single source solution to national pallet needs. Pallets are used in virtually all industries that transport products. We estimate that approximately 2.1 billion wooden pallets are in circulation in the United States every year. In 2006, the US pallet market volume was approximately US $7.7 billion, which should continue to develop with overall industrial development in the future.

DOMINANT NUMBER ONE IN THE UNITED STATES

The US pallet market consists of the sales of new pallets, the leasing of pallets or "pooling", and the reconditioning and distribution of used pallets or "recycling". IFCO SYSTEMS focuses on pallet reconditioning and the surrounding supply chain logistics services – including pallet procurement, repair, shipping, tracking, sorting and retrieval solutions – to provide total, 360-degree Pallet-Management-Services. With the market share of new pallets in decline, the Pallet-Management-Services business is advancing significantly. Today, more than 40% of all US pallet sales are of reconditioned pallets – creating a market of approximately US $3.0 billion.

The US pallet service market is heavily fragmented with over 3,000 predominantly local providers. IFCO SYSTEMS is the largest nationwide provider of Pallet-Management-Services in the United States, supported by 137 total locations, of which 56 are our primary pallet refurbishment centers and 81 are other operating and satellite locations, many of which are located at or near retail distribution centers. We also have 127 partner companies that help complete our geographical coverage. Our North American headquarters in Houston, Texas operates as the principal back office for this business segment. As the singular national presence, IFCO SYSTEMS is the market leader for recycled pallets by a wide margin with in excess of 12% national market share. By comparison, IFCO SYSTEMS believes the second largest provider accounts for less than 1% of the national market.

Our growth opportunities in the US pallet market are equally as compelling as in the RPC sector. We are uniquely positioned as the largest nation-wide network competing in a highly fragmented market. This gives IFCO SYSTEMS decisive competitive advantages and enables us to provide single source Pallet-Management solutions to large manufacturers and retailers across a diverse range of industries and geography. Retailers such as Kmart and Target, food producers such as PepsiCo, Purina Mills, Del Monte, Tyson Foods and Pilgrims Pride, conglomerates such as Cargill, logistics group Exel Logistics, manufacturers such as General Electric, Black & Decker, Georgia Pacific and Weyerhauser and technology leader Dell are all utilizing one or several of our Pallet-Management-Services offerings, thereby optimizing their logistics processes and achieving supply chain efficiencies and cost savings.
IFCO SYSTEMS Pallet-Management-Services business segment generated US $362.1 million revenues in 2006. We believe that our unique position and value added service offerings in the Pallet-Management-Services market will allow us to profitably expand our leading market position in future.

IFCO SYSTEMS PALLETS

As in our RPC business, our Pallet-Management-Services operations combine high-value products with innovative and individual solutions for our customers. Our core business consists of acquiring used pallets, reconditioning the pallets to stringent standards and returning them to the supply chain. Pallets that cannot be repaired to our standards are dismantled into individual parts for use in other pallets or converted into useable landscape or fuel type products, thereby completing the most ecologically responsible wood product cycle.

IFCO SYSTEMS offers a broad selection of pallets in different sizes – at a far lower price than new pallets. Our comprehensive evaluation process allows us to offer customized and cost efficient solutions to meet our customers' individual needs. With a transportation fleet of over 4,500 units and a nationwide service center network, we are also able to guarantee the on-time availability of the required pallets. IFCO SYSTEMS sorted, repaired and reissued more than 100 million pallets in its Pallet-Management-Services business segment in the USA during the year 2006.

PALLET-MANAGEMENT-SERVICES SOLUTIONS

To support the core business of pallet procurement and distribution, the scalable Pallet-Management-Services model we have implemented enables us to offer a variety of value-added solutions to companies in a wide range of industries. Our solutions offer advantages for retailers, food producers or industrial companies. By outsourcing pallet management to IFCO SYSTEMS, customers can concentrate on their core business instead of pallet related issues.

In more detail, IFCO SYSTEMS offers the following portfolio of logistics and management services:

- Pallet Sort and Repair: This individualized service entails sorting customer pallets, repairing damaged units and returning them to the customer's pallet distribution cycle. We make this service available at customer locations or at one of our IFCO SYSTEMS service centers.
- Distribution Center Management Services: With distribution center management services, we provide comprehensive and individual Pallet-Management-Services solutions that include all aspects of pallet handling, sorting and tracking, as well as the handling and disposal of waste items like corrugate and shrink-wrap.
- Pallet Retrieval: Pallet retrieval services allow our customers to recover value from used pallets. Pallets can be retrieved from the customer's distribution centers or their stores – whichever best fits their business. Our customers may earn credit towards future IFCO SYSTEMS pallet purchases or choose to receive cash back for pallets retrieved.
- Buy-Sell Programs: This service is ideal for customers who have received pallets from third-parties that do not meet their specifications. IFCO SYSTEMS will purchase these pallets, providing credit to the customer towards the purchase of IFCO SYSTEMS pallets of the correct specification.

Additionally, our InXchange™ program, allows IFCO SYSTEMS' customers to deposit surplus pallets in one location and withdraw ready-to-use pallets in another – anywhere in our nationwide network. Customers can track all of their activity on our Web based PalTrax™ System – 24 hours a day.

As a packaging specialist, IFCO SYSTEMS also offers custom wood crates and other packaging material to customers in the lawn and garden, heating and cooling and the personal recreation vehicle industries, to name a few. These cost effective packaging solutions help reduce product damage as well as improve logistics and handling.

Due to our stringent quality standards, robust service network and sophisticated logistics management systems, IFCO SYSTEMS customers in North America can rely on having the right number of highest grade pallets available and on time.

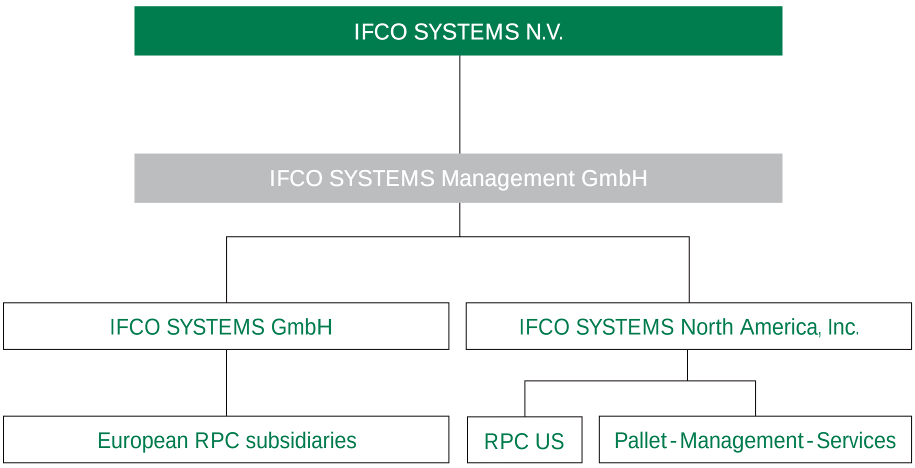
Corporate

Corporate

CORPORATE AND OPERATING STRUCTURE

Corporate information

Our registered name is IFCO SYSTEMS N.V.. We were incorporated under the laws of the Netherlands on March 31, 1999. Our registered seat is in Amsterdam, the Netherlands, at our principal executive offices located at Strawinskylaan 3051, 1077 ZX Amsterdam, the Netherlands. We also maintain operations headquarters in Pullach, Germany, and in Houston, Texas in the United States.



We are a holding company with a number of operating subsidiaries, which are shown above. This chart does not reflect the exact and entire legal structure of IFCO SYSTEMS. Our significant subsidiaries are described in the following table along with our principal indirect subsidiaries:

Subsidiary	Jurisdiction of Organization	Percentage Ownership	Direct or Indirect Ownership by IFCO SYSTEMS N.V.
IFCO SYSTEMS Management GmbH(1)	Germany	100.0%	Indirect
IFCO SYSTEMS GmbH(2)	Germany	100.0%	Indirect
IFCO SYSTEMS North America, Inc.(3)	Delaware (US)	100.0%	Indirect
Reusable Container Company LLC(4)	Delaware (US)	100.0%	Indirect

(1) This subsidiary is also a holding company and owns all of the capital stock of IFCO SYSTEMS GmbH (indirect), IFCO SYSTEMS North America, Inc. (direct) and IFCO SYSTEMS Canada Inc. (direct). The business address of IFCO SYSTEMS Management GmbH is Zugspitzstrasse 7, 82049 Pullach, Germany. Its registered seat is Munich.

(2) IFCO SYSTEMS GmbH has operating subsidiaries in Germany and in other countries mainly in Europe. Its percentage ownership in the European subsidiaries ranges from 98.0% to 100.0%. IFCO SYSTEMS GmbH also has a 99.0% interest in an Asian subsidiary, a 49.0% interest in an Argentinean company and a 33.3% interest in a Japanese joint venture. The business address of IFCO SYSTEMS GmbH is Zugspitzstrasse 7, 82049 Pullach, Germany. Its registered seat is Munich.

(3) We conduct our Pallet-Management-Services operations through direct and indirect wholly owned subsidiaries of IFCO SYSTEMS North America, Inc. The registered address for IFCO SYSTEMS North America, Inc. is 13100 Northwest Freeway, Suite 625, Houston, Texas 77040, US.

(4) The shareholder of Reusable Container Company LLC is IFCO SYSTEMS North America, Inc. The registered address of Reusable Container Company LLC, the legal entity in which we conduct our RPC related operations in the United States, is 4343 Anchor Plaza Parkway, Suite 230, Tampa, Florida 33634, US.

Report of the Supervisory Board

The Board of Managing Directors together with the Executive Management Committee have authorized the consolidated financial statements for 2006 and submitted to the Audit Committee for review. Based on the recommendation of the Audit Committee, the Supervisory Board approved the consolidated financial statements 2006. These financial statements can be found on pages 68 – 99 of this annual report. Ernst & Young Accountants have audited the consolidated financial statements. Their report appears on page 67.

CORPORATE GOVERNANCE

Sound corporate governance is a high priority to IFCO SYSTEMS. The confidence of our stakeholders is essential if they are to cooperate effectively within and with our Company. The guidelines on which our corporate governance rests are good entrepreneurship, enterprise continuity, operational and corporate control maintenance and enhancement, and decision making integrity and transparency of our Executive Management and supervision thereof.

The Company has implemented a code of ethics, which is specifically intended to provide for a number of implementing requirements in the area of avoidance of conflicts of interest by the Supervisory Board, the Board of Managing Directors, the Executive Management Committee and employees of the Company. The Company has also established arrangements in regard of a whistleblower function.

As a Dutch Company, we follow the principles and best practice statements of the Dutch Corporate Governance Code, which came into effect on January 1, 2004.

The Board of Managing Directors and the Supervisory Board are responsible for the corporate governance structure of the Company and the compliance with the Corporate Governance Code. They are accountable for this to the general meeting of shareholders.

In implementing the above mentioned Dutch Corporate Governance Code and in order to reflect the intention of the shareholders to amend the one-tier Board structure to a two-tier Board structure, certain changes to the Company's articles of association were resolved in 2005.

BOARD STRUCTURE

Articles of association

In order to comply with the Corporate Governance Code as well as to new provisions of the Dutch Civil Code with respect to public limited liability companies, on August 18, 2005, the General Meeting of Shareholders amended the Company's articles of association. Also, the existing one-tier structure (with one Board of Directors, composed of an Executive Director A and Non-Executive Directors B and C) was changed into a two-tier structure (with a Board of Managing Directors and a Supervisory Board). The new Directors of the Supervisory Board were elected on August 18, 2005 and came into effect on August 29, 2005.

Board of Managing Directors

According to the articles of association:
The Board of Managing Directors is in charge of managing the Company. It shall consist out of one or more Managing Directors. Presently, the Board of Managing Directors consists of two Managing Directors.

The Managing Directors are appointed by the General Meeting of Shareholders. They are appointed for a maximum period of four (4) years, provided that, unless a Managing Director resigns at an earlier date, his appointment term ends on the day of the next General Meeting to be held in the fourth year after the year of his appointment. A Managing Director can be reappointed for consecutive periods of not more than four (4) years and with due observance of the provisions in the preceding sentence.

The Supervisory Board can draw up a rotation schedule for the Managing Directors.

The Board of Managing Directors meets as often as a Managing Director requests a meeting. In the meeting of the Board of Managing Directors each Managing Director has a right to cast one (1) vote. All resolutions by the Board of Managing Directors shall be adopted by an absolute majority of the votes cast.

The Board of Managing Directors shall timely provide the Supervisory Board with any such information as may be necessary for the Supervisory Board to perform its duties.

Supervisory Board

According to the articles of association:
The Company has a Supervisory Board, consisting of at least three (3) natural persons, the precise number of whom is determined by the General Meeting of Shareholders. Presently the Supervisory Board consists of six (6) natural persons.

The Supervisory Board Directors are appointed by the General Meeting of Shareholders for a maximum term of four (4) years, provided that, unless a Supervisory Board Director retires earlier, his appointment term expires on the day of the next General Meeting of Shareholders to be held in the fourth year after the year of his appointment. At expiration of this term a Supervisory Board Director can be reappointed with due observance of the provisions in the previous sentence, provided always that a Supervisory Board Director may not serve more than three (3) consecutive four-year terms.

The duty of the Supervisory Board is to supervise the policies of the Board of Managing Directors and the general course of affairs of the Company and its affiliated business. It shall give advice to the Board of Managing Directors. The Supervisory Board can give instructions to the Board of Managing Directors outlining the Company's general financial, social, economic, investment, staffing and environmental policy.

The Supervisory Board shall meet as often as a Supervisory Director or the Board of Managing Directors may deem necessary. In the meeting of the Supervisory Board each Supervisory Director has a right to cast one (1) vote. All resolutions by the Supervisory Board shall be adopted by an absolute majority of the votes cast.

Members of the Board of Managing Directors

Name	Age	Position
Karl Pohler	53	Managing Director
Douwe Terpstra	48	Managing Director

Karl Pohler was Director A of the Company since December 2000. At the implementation of the two-tier board structure on August 29, 2005 he automatically became a member of the Board of Managing Directors for a period of four (4) years since that date.

Karl Pohler has also the main following functions:

- Chief Executive Officer of the Company since December 2000;
- Managing Director of IFCO SYSTEMS GmbH since September 2000;
- Director of IFCO SYSTEMS North America since January 2002.

Prior to joining IFCO SYSTEMS, Mr. Pohler was the chairman of the Board of Management of Computer 2000 AG, Munich and, at the same time, European president of Computer 2000/ Tech Data Corp.. From 1997 to 1999, he served as CEO of Sony Deutschland GmbH, Cologne. From 1993 to 1996, Mr. Pohler chaired the Board of Management of Computer 2000 Deutschland GmbH, Munich. From 1980 to 1992, he was active in executive management functions for Digital Equipment GmbH, Munich.

Douwe HJ Terpstra became member of the Board of Managing Directors on August 29, 2005 and was appointed for a period of four (4) years. Mr. Terpstra has a well established experience in international corporate structuring and management. Mr. Terpstra is an employee of Fortis Intertrust since 1993. Fortis Intertrust is a World Leader in Trust & Corporate services for private and corporate clients and is the result of the merger in 2002 of MeesPierson Trust and Intertrust Group. Within Fortis Intertrust, Mr. Terpstra is an Executive Director and member of the Management Team.

Members of the Supervisory Board

Name	Age	Position	Nationality
Dr. Bernd Malmström	65	Chairman (since September 26, 2006)	German
Michael Phillips	44	Vice Chairman I	Canadian
Christoph Schoeller	49	Vice Chairman II	Swiss
Hervé Defforey	56		French
Ralf Gruss	34		German
Dr. Philipp Gusinde	36	Chairman (up to September 26, 2006)	German

The Supervisory Board aims for an appropriate combination of knowledge and experience amongst its members:

Dr. Bernd Malmström became member of the Supervisory Board of the Company in December 2005. He was elected as Chairman of the Supervisory Board of IFCO SYSTEMS on September 26, 2006. Mr. Malmström studied law at the universities of Kiel and Freiburg (Germany) and holds a PhD in law. Mr. Malmström works as a lawyer and consultant for Deutsche Bahn AG. Prior to that, he has held various management positions at Deutsche Bahn AG, Stinnes AG, Schenker-Rhenus-Group and VEBA AG. Mr. Malmström also serves as a member of the Supervisory Board of the following companies: BLG Logistics Group AG & Co. KG (Advisory Board), Deutsche Afrika-Linien GmbH & Co. KG (Advisory Board), Petrotec AG (Chairman of the Supervisory Board), Fraport AG (Advisory Board), HHLA Intermodal GmbH, K+S Aktiengesellschaft, Lehnkering GmbH, Stinnes Corporation and Sulo GmbH (Advisory Board). Mr. Malmström was appointed for a period of four (4) years.

Michael Phillips was Director C in the Board of Directors of the Company since December 2003. He resigned as member of the Board of Directors in August 2005, and became Director and first vice chairman of the Supervisory Board of IFCO SYSTEMS in August 2005. He is a graduate in engineering chemistry from Queen‘s University in Kingston, Canada, and also holds an MBA from INSEAD, where he graduated with distinction. Upon graduating from University, Mr. Phillips worked at Ciba Geigy Canada Ltd. as a manager in the plastics additives division. He then spent three years at OTTO Holding Ltd. in Cologne, one of Germany‘s largest waste management companies, as the General Manager of an operations subsidiary. Mr. Phillips currently works for and is a director of Apax Partners. He is also a Director of Xerium Technologies Inc, Sulo GmbH, Tommy Hilfiger Sarl, Mueller Brot AG, Elmira Sarl and Anker Brot AG. Mr. Phillips was appointed for a period of four (4) years.

Christoph Schoeller was Chairman of the Board of Directors of the Company since December 2002, and a Director B as of March 2000. He resigned as member of the Board of Directors in August 2005, and became Director and second vice chairman of the Supervisory Board of the Company in August 2005. In 1992, he co-founded IFCO SYSTEMS GmbH and MTS with his brother, Martin Schoeller. Mr. Schoeller was responsible for advancing both IFCO SYSTEMS Europe’s and MTS’s market and product development and logistics network. In 1982, Mr. Schoeller joined the Schoeller group of companies and presently serves as one of its Managing Directors. From 1982 through 1984, he was involved in international sales and licensing in the Eastern hemisphere. From 1985 to 1988, Christoph Schoeller was focused on product development and build-up of the sales organization. From 1988 until 1992, Mr. Schoeller developed the sales and marketing organization of Schoeller Logistic Industries GmbH. Mr. Schoeller was a member of the Supervisory Board of Trans-o-flex Schnell-Lieferdienst AG, a logistics company, and was formerly a member of the Supervisory Board of Danzas Holding AG, a logistics company, until its merger with Deutsche Post AG. Mr. Schoeller is also Vice-Chairman of the Supervisory Board and Co-Chairman of the Executive Committee of Syntek Capital AG. Mr. Schoeller was appointed for a period of four (4) years.

Ralf Gruss was a Director C of the Board of Directors of the Company since December 2003. He resigned as member of the Board of Directors, and became Director of the Supervisory Board of the Company in August 2005. He holds a degree with distinction in financial economics and industrial engineering from the University of Karlsruhe and studied financial economics as well as business administration at the London School of Economics and the University of Massachusetts (Boston). Mr. Gruss is currently employed by and is a director of Apax Partners, focusing on leveraged transactions, financial services and business services companies. Prior to joining Apax Partners, Mr. Gruss worked as project manager for Arthur D. Little International Inc.. He also serves on the Supervisory Boards of Cable Holding S.A.r.L. (up until February 6, 2006) and LR Health & Beauty Systems GmbH. Mr. Gruss was appointed for a period of four (4) years.

Hervé Defforey became Director of the Supervisory Board of the Company in August 2005. Mr. Defforey holds a degree in Business Administration / Economics from the University of St. Gallen Switzerland. Mr. Defforey is an operating partner of GRP Ventures, USA. Prior to joining GRP Ventures, USA he has held various management positions at Carrefour S.A., Azucarrera EBRO S.A., BMW AG, Chase Manhattan Bank N.A. and Nestlé. He also serves on the Boards of Aldata, Prepay Technologies and Ulta, Inc. and X5 Retail Group (chairman of the Supervisory Board). Mr. Defforey was appointed for a period of four (4) years.

Dr. Philipp Gusinde was a Director C in the Board of Directors of the Company since December 2003. He resigned as member of the Board of Directors in August 2005, and became Director and Chairman of the Supervisory Board of the Company in August 2005. He resigned as Chairman on September 26, 2006. He studied economics at the University of St. Gallen (Switzerland) and Indiana University (USA), graduating with a first class degree in accounting and controlling, after having successfully completed a trainee program at Deutsche Bank. He wrote his doctoral thesis on IFRS accounting issues working as a research assistant at the University of St. Gallen. Dr. Gusinde joined Apax Partners in 2000 as a member of the Leveraged Transactions team. He is focusing on opportunities in the Business Services sector. Dr. Gusinde was appointed for a period of four (4) years.

Mr. Gusinde and Mr. Gruss have been employed by Apax Partners Beteiligungsberatung GmbH (“Apax Partners”) since 2000. Mr. Phillips has been employed by Apax Partners since 1999. Previously, between 1992 and 1999, Mr. Philips was employed by Apax Partners & Co Beteiligungsberatung AG. Mr. Phillips and Mr. Gruss (since July 13, 2006) are Managing Directors of Apax Partners. Mr. Phillips is also a partner and member of the executive committee of Apax Partners Worldwide LLP (“Apax Worldwide”), with whom Apax Partners has a sub-investment advisory agreement. Apax Worldwide is investment advisor to Apax Partners Europe Managers Limited (“Apax Europe”). Apax Europe is the discretionary investment manager of the assets of the Apax Europe V Fund, which is the beneficial owner of Cortese N.V.. Neither Mr. Gusinde nor Mr. Gruss nor Mr. Phillips are employed by, or are directors of, Apax Europe, the Apax Europe V Fund or Cortese N.V..

Conflict of interest of members of the Supervisory Board

Mr. Schoeller has the right to visit meetings of the Board of Schoeller Arca Systems N.V., the exclusive supplier of RPCs to the Company. Mr. Schoeller however does not take part in any discussion and/or decision on a respective subject during Supervisory Board meetings of the Company.

In the opinion of the Supervisory Board the Company complied with the BPP III.6 of the Dutch Corporate Governance Code (Conflicts of interest) and only Mr. Schoeller does have a conflict of interest as described above and as referred to in the Dutch Corporate Governance Code.

Independence of the members of the Supervisory Board

During August 2005, Schoeller Logistic Systems GmbH sold its shares in the Company to Island LP and used the proceeds from this transaction to acquire an indirect investment in Island LP. As a result of this transaction and other holdings Mr. Schoeller indirectly owns 18.2% in capital stock of the Company. Mr. Schoeller and some of his family members directly hold 0.7% in capital stock of the Company. Mr. Schoeller can therefore not be regarded as independent in application of the criteria listed in BPP III. 2.2. of the Corporate Governance Code.

In the opinion of the Supervisory Board the Company complied with the BPP III.2.1 of the Corporate Governance Code (Independency of Supervisory Board members).

EXECUTIVE MANAGEMENT COMMITTEE

The Board of Managing Directors together with the Selection and Appointment Committee has appointed Executive Managers (Executive Management Committee) to execute the management of the Company's business. The Executive Managers promote the interest of the Company and enhance the Company's value. They are also responsible for achieving the Company's aims, strategy, policy and results. The Executive Management Committee directs the preparation of the Company's quarterly and annual financial statements. The Executive Management Committee also informs the Board of Managing Directors and the Supervisory Board regularly, promptly and comprehensively regarding all issues related to Company's strategy implementation, business operational and financial budgeting and development, the structure and operation of the internal risk management and control systems, compliance with legislation and regulations and emerging risks inherent in the Company's business activities. Major decisions of the Executive Management Committee require the prior approval of the Board of Managing Directors or the Supervisory Board respectively.

The current members of the Executive Management Committee, bound to IFCO SYSTEMS by an employment agreement, are:

Name	Age	Position
Karl Pohler	53	Chief Executive Officer
Michael W. Nimtsch	49	Chief Financial Officer
Wolfgang Orgeldinger	49	Chief Operating Officer
David S. Russel	47	President, IFCO SYSTEMS North America

Karl Pohler (see above).

Michael W. Nimtsch became Chief Financial Officer of the Company in October 2000. Mr. Nimtsch also became a Managing Director of IFCO SYSTEMS GmbH in September 2000. He is also serving as Supervisory Board member in subsidiaries of the Company. Before joining the Company, Mr. Nimtsch served as Chief Financial Officer of Hagemeyer Deutschland GmbH (former ETG Fröschl GmbH & Co. KG), an electrical infrastructure materials supplier, and was responsible for finance, purchasing, foreign subsidiaries, retail and human resources. During Mr. Nimtsch's tenure with this company, its sales increased from €203.0 million (1991) to €1.1 billion (2000). Prior to Hagemeyer Deutschland GmbH, Mr. Nimtsch served as a Tax Advisor and Public Chartered Accountant for Deloitte & Touche and PricewaterhouseCoopers. He holds a degree in business economics from the University of Munich.

Wolfgang Orgeldinger became Chief Operating Officer of the company in January 2002 and previously served as Chief Information Officer of IFCO SYSTEMS with responsibility for e-logistics and IT since December 2000. Mr. Orgeldinger also became a Managing Director of IFCO SYSTEMS GmbH in February 2001 and is serving as Supervisory Board member in subsidiaries of the Company. Before joining IFCO SYSTEMS Mr. Orgeldinger was a member of the Executive Board of Computer 2000 AG, Europe's leading IT distributor, where he was responsible for the company's European logistics, IT, technical services, and configuration and assembly operations. From 1997 to 1999, Mr. Orgeldinger served as Managing Director of the Computer 2000 Deutschland GmbH, prior to that he worked there for 3 years as Director IT & Logistics. Before joining Computer 2000, Mr. Orgeldinger worked for nine years for Digital Equipment in various management positions in the area of marketing, sales, consulting, IT and operations.

David S. Russell became President of IFCO SYSTEMS North America Inc. (Pallet-Management-Services and RPC US) in January 2002. He joined IFCO SYSTEMS North America in May 2000 as Senior Vice President with responsibility for sales and marketing and as General Manager for the US RPC business. Prior to joining IFCO SYSTEMS, he served, beginning in March 1999, as a Director and President and Chief Executive Officer of General Rental, Inc., a privately held equipment rental company in Pompano Beach, Florida. From October 1996 to August 1998, Mr. Russell was Vice President / General Manager of Ryder TRS, Inc., a privately held company with publicly traded bond debt in Denver, Colorado. Beginning in 1982, Mr. Russell also served in various management positions, including as an Officer, at Ryder System, Inc., a publicly traded company, until the sale of its Consumer Truck Rental Division in October 1996.

ACTIVITIES OF THE SUPERVISORY BOARD

The Supervisory Board held fourteen (14) meetings in 2006, except one all were held together with both the Executive Management Committee and the Board of Managing Directors.

The items discussed included a number of recurring subjects, such as Company's strategy, the financial performance of the Company in 2006, acquisition of the CHEP US RPC business, business plan 2007, stock option issues and corporate governance issues such as Supervisory Board resignation scheme, approval of a Supervisory Board Profile and approval of the amendment of Supervisory Board Committee Charters. The Supervisory Board put special emphasis on and discussed frequently the ongoing ICE investigation and consulted with the Company's law firm Baker & McKenzie.

On February 21, 2007 the Supervisory Board conducted a meeting with the accountants and discussed the consolidated and separate financial statements. Following that discussion the Supervisory Board approved the consolidated and separate financial statements 2006.

The Supervisory Board is acting in accordance with the Company's Supervisory Board Charter.

The Supervisory Board, the Board of Managing Directors and Executive Management Committee are acting in accordance with the Company's Code of Ethics.

The Supervisory Board has established committees whose duties, responsibilities and processes are set out in separate charters (see below).

The Supervisory Board discussed on its own, without the Board of Managing Directors or the Executive Management Committee being present, both their functioning and that of their individual members as well as the competence and the composition of the Supervisory Board.

The Supervisory Board discussed the corporate strategy and the business plan of the Company as well as the risks of the business. The discussion with the Board of Managing Directors and the Executive Management Committee regarding the structure and operation of internal risk management and internal control systems was delegated to the Audit Committee.

SUPERVISORY BOARD COMMITTEES

In order to fulfil the requirements of the Dutch Corporate Governance Code and the rules of the Frankfurt Stock Exchange, the Supervisory Board has established committees whose duties, responsibilities and processes are set out in separate charters.

Audit Committee

Effective September 6, 2005 the Supervisory Board adopted a charter of the Audit Committee. This charter was amended on November 20, 2006.

Pursuant to its charter, the Audit Committee is to be composed of at least three Supervisory Board members. All members of the Audit Committee are required to be financially literate and at least one member shall be a financial expert as defined in BPP III.3.2. of the Dutch Corporate Governance Code.

The Audit Committee is currently composed of Ralf Gruss (Chairman), Hervé Defforey and Dr. Philipp Gusinde. All of them are financially literate and Mr. Defforey is qualified as the financial expert.

According to the charter, the Audit Committee shall meet as often as it determines necessary, but not less frequently than quarterly.

The Audit Committee met five (5) times in 2006. The main items discussed in these meetings were: annual and interim financial statements, earnings releases, audit findings, audit fees, external audit planning, internal audit planning and results, internal control, risk management system and tax issues.

According to the charter the responsibilities of the Audit Committee are the following:

Purpose

The Committee shall provide assistance to the Supervisory Board in fulfilling its oversight responsibility to the Company and its stakeholders as appropriate under Dutch corporate law, relating to the integrity of the Company's financial statements; the financial reporting process; the systems of internal accounting and financial controls; the performance of the Company's independent auditors; the independent auditor's qualifications and independence; the operation of the internal risk management and control systems; the system of internal auditing; the supply of financial information by the Company; compliance with recommendations by external auditors; the Company's tax planning policy; the financing of the Company; information and communication technology systems; and the Company's compliance with ethics policies, codes of conduct and legal and regulatory requirements.

Duties and Responsibilities

- The primary responsibility of the Committee is to oversee the Company's financial reporting process on behalf of the Supervisory Board and report the results of their activities to the Supervisory Board.
- The Committee should take appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behaviour.
- Amongst others, the following shall be the principal duties and responsibilities of the Committee:

Independent auditors

- The Committee shall be directly responsible for the recommendation(s) regarding the appointment, termination, and replacement (subject to shareholder appointment and/or ratification), the compensation, and the oversight of the work of the independent auditors, including resolution of disagreements between management and the auditor regarding financial reporting. The Committee shall pre-approve all audit and non-audit services provided by the independent auditors.

Plan of audit

- The committee shall discuss with the internal auditors and the independent auditors the overall scope and plans for their respective audits, including the adequacy of staffing and compensation.

Internal controls

- The Committee shall discuss with management and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including the Company's policies and procedures to assess, monitor, and manage business risk and legal and ethical compliance programs. The Committee shall meet separately periodically with management and the independent auditors to discuss issues and concerns warranting Committee attention. The Committee shall provide sufficient opportunity for the independent auditors to meet privately with the members of the Committee. The Committee shall review with the independent auditor any audit problems or difficulties and management's response.

  The Committee shall review management's assertion on its assessment of the effectiveness of internal controls as of the end of the most recent fiscal year and the independent auditors' report on management's assertion.

The Committee shall meet with internal audit or invite internal audit in the Audit Committee Meeting to discuss the adequacy and effectiveness of the internal accounting and financial controls and the management of business risks.

Review of quarterly and annual reports

- The Committee shall review the interim financial statements and disclosures with management and the independent auditors and approve them prior to the filing of each of the Company's quarterly reports.
- The Committee shall review (but not approve) the financial statements and disclosures to be included in the Company's annual financial statements and any annual report together with management and the independent auditors, and make a recommendation to the Supervisory Board of the Company, including a judgment about the quality, not just the acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements.

Earnings releases

- The Committee shall review and discuss quarterly and annual earnings press releases.

Regulatory and accounting initiatives

- The Committee shall discuss with management and the independent auditors the effect on the Company of regulatory and accounting initiatives, as well as off-balance sheet structures, if any, reflected in the Company's financial statements or affecting its financial condition or results of operations.

Risk Assessment and Management

- The Committee shall discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.

Reports

- The Committee shall review with management and the independent auditors any disclosure by the Company with respect to the Committee's policies and procedures and/or the fees paid by the Company for audit and non-audit services to the independent auditors.

REMUNERATION COMMITTEE

Effective September 6, 2005 the Supervisory Board adopted a charter of the Remuneration Committee. This charter was amended on November 20, 2006.

The Remuneration Committee is composed of Michael Phillips (Chairman), Ralf Gruss, Dr. Philipp Gusinde and Dr. Bernd Malmström (since November 20, 2006).

The Remuneration Committee shall advise the Supervisory Board and counsel and provide guidance to the Supervisory Board in the Supervisory Board's responsibility with respect to remuneration policy for the Company, including remuneration of the Company's Executive Management Committee, and shall participate in other actions related to remuneration as directed by the Supervisory Board, including the annual performance evaluation of the Executive Management Committee.

The Remuneration Committee has met four (4) times in 2006. The Committee discussed as main items the grant of stock options, the Executive Management Bonus for 2005 and appropriateness of Executive Management Committee remuneration in general.

The responsibilities of the Remuneration Committee shall include the following:

Remuneration Policy

- The Remuneration Committee shall review the objectives, structure, cost, and administration of all remuneration policies and programs regarding the Company's remuneration policy and with respect to the Company's Executive Management Committee.

Stock Option Plans

- The Remuneration Committee shall review and make recommendations to the Supervisory Board with respect to the Company's policy and plans with respect to the grant of stock options or other stock awards.
- The Remuneration Committee shall review any proposals from the Board of Managing Directors for the grant of stock awards.
- Grant of stock options by the Board of Managing Directors should require the prior approval of the Remuneration Committee, though the Remuneration Committee should have the discretion to pre-approve certain types and quantities of option issuances.

Executive Management

- The Remuneration Committee shall be responsible for negotiating and approving any employment agreements, amendments to employments, or other agreements for remuneration to be entered into between the Company and any member of the Company's Executive Management.
- The Remuneration Committee shall monitor the appropriateness of the remuneration of the Executive Management Committee, including base salaries, incentive compensation, stock options, stock awards, and other forms of compensation, including direct and indirect incentives and benefits.

Performance Evaluations

- The Remuneration Committee shall evaluate the performance of the Executive Management Committee and communicate such evaluation to the respective members of the Executive Management Committee.

Selection and Appointment Committee

The Selection and Appointment Committee is composed of Michael Phillips (Chairman), Hervé Defforey, Ralf Gruss, Dr. Philipp Gusinde and Christoph Schoeller.

The Selection and Appointment Committee shall provide assistance to and oversight of the Supervisory Board in connection with the Supervisory Board fulfilling its responsibility to the shareholders, other stakeholders, and the investment community with respect to selection and appointment of Managing Directors, other members of the Executive Management Committee and members of the Supervisory Board for the Company.

The responsibilities of the Selection and Appointment Committee shall include management succession planning and review of management development.

The Selection and Appointment Committee supported the decision of the Supervisory Board to elect Mr. Malmström as further member to the Remuneration Committee.

REMUNERATION REPORT

Remuneration of members of the Board of Managing Directors

Our Board of Managing Directors received in 2006 a total compensation of US $2.0 million.

No loans from the Company or pension schemes are provided to members of the Board of Managing Directors.

It is expected that the remuneration policy will remain unchanged during 2007.

Employment agreement with Mr. Karl Pohler

Karl Pohler is bound by an employment agreement which provides that he will serve as the Company's Chief Executive Officer and a member of our Executive Management Committee. His employment agreement provides for a comprehensive remuneration plan that includes base salary and executive bonus. If his employment is terminated without cause, he is entitled to receive one discounted installment of his remaining base salary for the remainder of the employment term.

Service agreement with Mr. Douwe Terpstra

Mr. Terpstra is compensated in accordance with a service agreement dated September 1, 2005.

Remuneration of the members of the Supervisory Board

The General Meeting of Shareholders approved on August 18, 2005 an amendment to the remuneration of the Directors of the Supervisory Board.

Effective as of the date of such General Meeting of Shareholders, no remuneration shall (and has) be(en) paid to any then appointed member of the Supervisory Board. Each member shall however be reimbursed for travel expenses reasonably incurred in connection with meetings of the Supervisory Board, meetings of any committee of the Supervisory Board, or otherwise in connection with actual Supervisory Board service.

On a General Meeting of Shareholders held on December 15, 2005, Mr. Bernd Malmström was appointed as a member of the Supervisory Board. Mr. Malmström is entitled to a quarterly remuneration of 20,000 Euro. Since his appointment as chairman to the Supervisory Board he is entitled to a quarterly remuneration of 40,000 Euro. The remuneration policy for all other members of the Supervisory Board as approved by the General Meeting of Shareholders on August 18, 2005 continues to apply.

For 2006 our Supervisory Board received the following compensation:

Name	Remuneration in USD	Out of pocket expenses in USD	Stock options outstanding
Dr. Bernd Malmström	129,030	6,295	–
Michael Phillips	–	3,111	–
Christoph Schoeller	–	21,426	–
Hervé Defforey	–	–	–
Ralf Gruss	–	8,437	–
Dr. Philipp Gusinde	–	9,757	–
Total	129,030	49,026	–

No loans from the Company or pension schemes are provided to the members of the Supervisory Board.

It is expected that the remuneration policy will remain unchanged during 2007.

APPRECIATION

The Supervisory Board would like to express its thanks to the Board of Managing Directors, the Executive Management Committee and all the employees of the Company for their continued contribution and commitment in 2006.

Amsterdam, February 21, 2007

The Supervisory Board

The IFCO SYSTEMS share

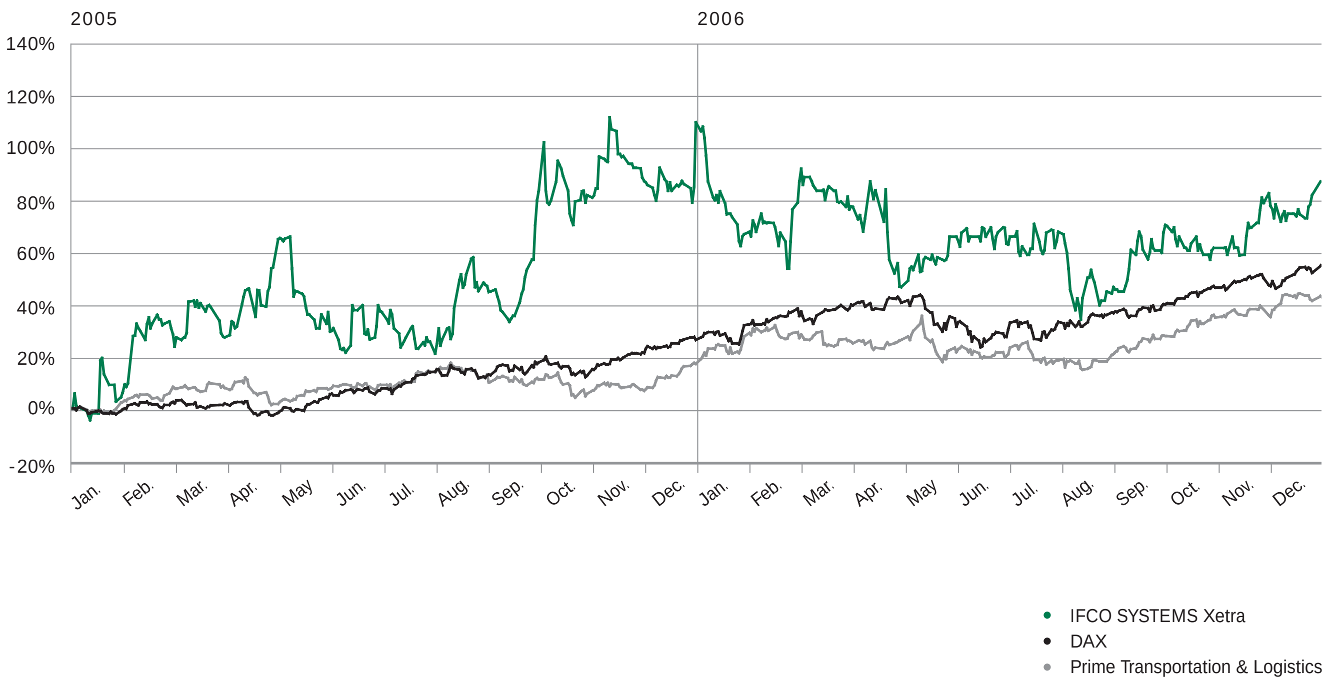
SHARE PRICE DEVELOPMENT

The shares of IFCO SYSTEMS are listed on the Prime Standard Germany as well as the industry subindex “Transportation & Logistics”. Our share price (ticker symbol: IFE1) decreased 8.3% during 2006 after a gain of 104.8% in 2005. On December 29, 2006, the IFCO SYSTEMS share closed at €11.00 at the Xetra Stock Exchange. On February 16, 2007, our shares closed at €12.12 per share.

The following tables list the historic sales prices (in €) for our ordinary shares on the Xetra Stock Exchange for the periods indicated.

IFCO Share Xetra	High	Low	Close
First Quarter 2005	€8.50	€5.50	€7.32
Second Quarter 2005	€9.80	€6.05	€7.88
Third Quarter 2005	€10.53	€6.71	€10.50
Fourth Quarter 2005	€12.10	€9.30	€12.00
First Quarter 2006	€12.25	€8.45	€10.15
Second Quarter 2006	€10.70	€7.99	€9.50
Third Quarter 2006	€10.10	€7.38	€9.73
Fourth Quarter 2006	€11.60	€8.75	€11.00

During 2006 the German Stock Index (DAX) rose by 22.0% and the “Transportation & Logistics” index increased by 21.8%



ORDINARY SHARES

Our ordinary share, which confers the right to cast one vote in the general meeting, has a nominal value of €0.01 per ordinary bearer share. As of December 31, 2006 we had 54,222,214 (45.8 million as of December 31, 2005) ordinary bearer shares outstanding (see Consolidated Statements of Shareholders' Equity). We had approximately 54.0 million ordinary bearer shares outstanding on our German share register and approximately 0.2 million registered ordinary shares outstanding on our New York share register. The Securities Identification Number of our shares is 157 670.

SHARE BUYBACK

The Board of Managing Directors resolved on November 14, 2006 to make use of the authorization of the Extraordinary Shareholders' Meeting, held on October 24, 2006, to repurchase up to 1,606,336 shares of the Company either through the Stock Exchange or from one or more individual shareholders through private transactions. The authorization for the repurchase is given until April 2008. The acquisition price shall not be lower than EUR 0.01 and shall not exceed the average stock exchange price at the Frankfurt Stock Exchange during five stock exchange days prior to the day of the acquisition by more than 10%. The repurchased shares shall be used exclusively to serve the options of the 2000 Stock Option Plan of the Company dated March 7, 2000. As the shares will be transferred to employees of the Company, the free float will not be reduced.

Bayerische Hypo- und Vereinsbank AG, Munich has been authorized to carry out the purchases from the stock market and will independently and without any influence by IFCO SYSTEMS N.V. decide upon the amount of shares to be purchased as well as the price and time of purchase.

As of February 16, 2007 IFCO SYSTEMS had repurchased 381,080 shares of the Company and records 182,746 shares as treasury shares.

WARRANTS

During 2002, 4,393,095 warrants were issued to certain investors to acquire additional ordinary shares of the Company.

Pursuant to Sec. 6 of the Terms and Conditions of the 4,393,095 warrants, each carrying the right to subscribe to new bearer ordinary shares in IFCO SYSTEMS N.V. (hereinafter referred to as "Warrants"), the Board of Managing Directors as well as the Supervisory Board of IFCO SYSTEMS N.V. determined the exchange ratio for the Warrants on December 20, 2005. The determination was based on the daily weighted average ordinary share prices of IFCO SYSTEMS N.V. during the Valuation Period from September 19, 2005 to December 12, 2005. The exchange ratio determined this way for the Warrants is 1.9231 common shares per Warrant, i.e. each Warrant – considering the rounding rules set forth – entitles to the subscription to 1.9231 ordinary shares of IFCO SYSTEMS N.V.. The exercise period for exchanging the warrants into ordinary shares of IFCO SYSTEMS N.V. started on January 9, 2006 and ended on February 7, 2006.

The warrant exchange resulted in an issuance of 8,121,517 ordinary shares of IFCO SYSTEMS N.V..

SHAREHOLDER STRUCTURE

There were no major changes to the Company's shareholder structure in 2006.

As of February 20, 2007, 88.9% of IFCO SYSTEMS ordinary shares continue to be held by Island International Investment Limited Partnership (Island LP) with Cortese N.V. (a Netherlands Antilles company) as the Managing General Partner of Island LP. Cortese N.V. is beneficially owned by the limited partnerships which collectively make up the Apax Europe V Fund. The ultimate controlling party of these limited partnerships is considered to be Apax Europe V GP Co. Limited, the General Partner of Apax Europe V GP L.P., the General Partner of the limited partnerships. Apax Europe V GP Co. Limited is a company registered in Guernsey.

Executive Management of IFCO SYSTEMS continues indirectly to own 8.4% of the share capital of IFCO SYSTEMS.

Financial reporting

Financial reporting

MANAGEMENT'S DISCUSSION AND ANALYSIS

Basis of presentation

To help the stakeholders of IFCO SYSTEMS N.V. (IFCO SYSTEMS or the Company) understand and follow the progress of our group and to comply with all International Financial Reporting Standards (IFRS) as adopted by the European Union, we present our financial results both on a group level and in business segments which match our operational structure. Our primary business segments, whose financial results are described in greater detail below, are:

- RPC-Management-Services – our reusable plastic container (RPC) services business in Europe and North America.
- Pallet-Management-Services – our pallet management, repair, and recycling services business in North America.
- Corporate – provides various financial, tax, internal audit and organizational services to the operating segments.

The Management's Discussion and Analysis that follows sets the context for fiscal 2006 with a summary of highlights for the year and in comparison to 2005. We also discuss important operational topics including cash flows, liquidity and capital resources, and risk management. The discussion concludes with our outlook for 2007.

In addition to measuring key group and segment level cash flow metrics, we measure the profitability of our segments through the use of operating EBITDA and EBIT measures. Our management uses EBITDA and EBIT as key operating measures because they measure operating profits before certain non-operating items, such as net financing costs, foreign currency gains and losses, discontinued operations, stock-based compensation expense and income taxes. We believe that the exclusion of these items from segment measurement is appropriate because (1) these items are managed centrally, not by segment members (see analysis of corporate items below), (2) these items are not necessarily indicative of the operating results of our businesses, and (3) operating results excluding these items allow investors to see our businesses as they are measured by management. Other companies may use different measures or calculate these measures differently, and their figures may not be comparable to ours. See "Other financial reconciliations" herein for further details on our calculation of EBITDA and EBIT.

The primary functional currency of the North American operations is the US Dollar and the primary functional currency of IFCO SYSTEMS N.V. and for most of the European operations is the Euro, the currency of their primary economic environment in which they operate. Those functional currencies reflect the respective regional currency influence on sales prices for goods and services, influences on labor, material and other costs and the currency in which funds from financing activities are generated.

The Company's presentation currency is the US Dollar, because the main portion of the revenues and associated expenses do occur in US Dollar. Therefore, our assets, liabilities, revenues, and expenses are subject to exchange rate fluctuations between the US Dollar, which is our group level presentation currency, and the Euro. Exchange rate fluctuations occur, to a lesser extent, as a result of certain subsidiaries operating in other countries and using other functional currencies.

Exchange rate volatility has existed from 2005 to 2006 between the Euro and the US Dollar. This exchange rate volatility has affected balance sheet and cash flow, however to a significantly lesser extent the income statement. Accordingly, we have described certain comparative information below as currency adjusted information, whereby 2005 income statement and balance sheet figures have been translated to US Dollars using applicable 2006 currency exchange rates. Unless otherwise noted, no 2005 figures in tabular form are currency adjusted.

Beginning Q1 2005, our consolidated financial statements have been prepared in accordance with IFRS.

Group financial highlights – fiscal 2006 compared to fiscal 2005

Operations data

US $ in thousands, except per share amounts	**2006**	2005	% Change
Revenues	647,236	576,274	12.3%
Gross profit	108,966	116,209	(6.2%)
Gross profit margin	16.8%	20.2%	
Selling, general and administrative expenses	56,054	48,938	14.5%
Selling, general and administrative expenses as a percentage of revenues	8.7%	8.5%	
EBITDA	96,274	98,407	(2.2%)
EBITDA margin	14.9%	17.1%	
EBIT	62,289	70,495	(11.6%)
EBIT margin	9.6%	12.2%	
Profit from continuing operations before taxes	44,437	46,562	(4.6%)
Net profit	37,287	40,905	(8.8%)
Profit per share from continuing operations – basic	0.71	0.98	(27.2%)
Profit per share from continuing operations – diluted	0.70	0.81	(13.7%)
Net profit per share – basic	0.70	0.90	(22.0%)
Net profit per share – diluted	0.69	0.75	(7.6%)
Operating cash flows from continuing operations (1)	92,282	95,344	(3.2%)
Capital expenditures from continuing operations	101,300	83,947	20.7%
Return on capital employed (ROCE)	18.4%	27.2%	

Balance sheet data

US $ in thousands	**December 31, 2006**	December 31, 2005	% Change
Cash and cash equivalents	27,337	60,968	(55.2%)
Property, plant and equipment	325,359	243,701	33.5%
Total debt (2)	177,499	153,881	15.3%
Net debt (3)	150,162	92,913	61.6%
Net debt currency adjusted	150,162	105,036	43.0%
Shareholders equity	233,858	201,469	16.1%
Headcount of continuing operations (as of the respective balance sheet dates)	4,054	4,074	(0.5%)

(1) Operating cash flows presented above are prior to interest and income tax payments.
(2) Total debt includes all interest bearing debt and current and non-current finance lease obligations.
(3) Net debt includes cash and cash equivalents, all interest bearing debt and current and non-current finance lease obligations.

Operations

- Revenues grew by 12.3% to US $647.2 million, as a result of continuing gains in both of our business segments.
- Gross profit decreased by 6.2% and gross profit margin declined 3.4 percentage points to 16.8% in 2006 from 20.2% in 2005. The gross profit margin decline is largely due to the operational effects of the investigation by U.S. Immigration and Customs Enforcement (ICE) at a number of Pallet-Management-Services facilities in mid-April 2006. This resulted in partial replacement of the US Pallet-Management-Services workforce, which has led to a temporarily lower production capacity as new personnel are being trained. Additionally, we have experienced less efficient raw material handling and increased transportation costs incurred to deliver available finished goods to customers. See Notes – Litigation for further discussion of this event. RPC-Management-Services 2006 gross profit margin slightly declined in Europe due to decreased pricing levels and temporarily in the US due to transition expenses related to the washing center consolidation which followed the acquisition of the CHEP USA RPC assets earlier in 2006. See segment information for RPC-Management-Services for further discussion of these events.
- Selling, general and administrative expenses (SG&A) increased by 14.5% to US $56.1 million, largely as a result of increases in nonrecurring legal costs associated with the ICE investigation. Higher sales and administration personnel costs in line with our business growth were offset by lower bad debt accruals and lower variable compensation accruals. Excluding the nonrecurring ICE related legal defense costs, SG&A expenses were comparable to 2005 levels and decreased as a percentage of revenue from 8.5% in 2005 to 7.6% in 2006.
- EBITDA decreased by 2.2% to US $96.3 million during 2006, and EBITDA margin declined to 14.9% in 2006 from 17.1% in 2005, primarily as a result of the reduced profitability of the Pallet-Management-Services business segment as described above.
- EBIT fell by 11.6% to US $62.3 million. The larger decline in EBIT as compared to EBITDA was mainly caused by the accelerated depreciation of the CHEP USA RPC assets acquired during 2006, partially offset by the effect of the change in estimate of the residual value of the Company's RPCs. See Notes to consolidated financial statements for further description of this change in estimate.
- Net profit decreased by 8.8% or US $3.6 million to US $37.3 million in 2006, principally because of the decrease in profit from operating activities as a result of the items discussed above, a significantly higher income tax provision related to the RPC pool adjustment in Q2 2006 in Europe (see segment information for RPC-Management-Services for further discussion of this item) and slightly higher interest expenses as a result of higher average capital lease obligation levels and the periodic usage of our working capital facility in 2006. These effects were partially offset by the net gain of the RPC pool adjustment in Q2 2006, a smaller non-cash foreign currency loss and lower losses from discontinued operations in 2006 compared to 2005.
- Excluding the effect of discontinued operations, basic profit per ordinary share decreased by 27.2% to US $0.71 in 2006 from US $0.98 in 2005.

Liquidity and Cash Flows

- In line with Company's decrease in profitability, operating cash flows before working capital consideration decreased by 9.2% to US $86.7 million in 2006. However, the cash flows attributable to changes in working capital created positive cash flows of US $5.6 million during 2006, whereas these accounts were relatively flat during 2005. Accordingly, total operating cash flows from continuing operations decreased in 2006 by only 3.2% over 2005 to US $92.3 million.
- Our capital expenditures increased 20.7% to US $101.3 million, due to the acquisition of the CHEP USA RPC assets in Q1 2006. Excluding this acquisition, capital expenditures decreased by 7.1%, or US $5.9 million, to US $78.0 million in 2006 as compared to 2005.
- Cash funds decreased by US $33.6 million to US $27.3 million at December 31, 2006. The main reason for this reduction was the funding of the acquisition of the CHEP USA RPC assets through Company's available cash resources.
- As a result of the above factors, net debt increased by US $57.2 million to US $150.2 million at the end of 2006 compared to the end of 2005. Currency adjusted net debt increased only by US $45.1 million.
- As of December 31, 2006, IFCO SYSTEMS' shareholders' equity amounted to US $233.9 million, or 33.5% of total assets, as compared to US $201.5 million, or 32.0% of total assets, as of December 31, 2005.

Profit per Share

The company's number of ordinary shares outstanding increased from 45.8 million to 54.2 million, mainly due to the warrant exchange in Q1 2006, which resulted also in a reduction of the profit per share.

Return on Capital Employed

- We measure the return on invested capital of our business segments based on Return on Capital Employed (ROCE). We calculate ROCE by dividing the last twelve months' reported EBIT by the total average book value of the capital employed which would be required to fund the measured business unit during this measurement period. We only consider our continuing operations' EBIT and average book value to calculate ROCE.
- ROCE from continuing operations decreased to 18.4% in 2006 after 27.2% in 2005, 20.4% in 2004, 14.4% in 2003, and 8.0% in 2002. ROCE was negatively affected by our lower EBIT level in 2006 and the significant increase of our Capital Employed, primarily our RPC pool, in 2006.

Segment information

RPC-Management-Services

US $ in thousands, except RPC data	2006	2005	% Change
Revenues	285,113	239,763	18.9%
Gross profit	70,762	61,879	14.4%
Gross profit margin	24.8%	25.8%	
EBITDA	83,791	71,854	16.6%
EBITDA margin	29.4%	30.0%	
EBIT	54,789	47,155	16.2%
EBIT margin	19.2%	19.7%	
Operating cash flows	92,533	77,137	20.0%
Capital expenditures			
- RPCs	70,981	73,280	(3.1%)
- Other	28,254	5,717	394.2%
	99,235	**78,997**	**25.6%**
RPCs, net	288,105	214,442	34.4%
Other property, plant and equipment, net	17,145	12,366	38.6%
	305,250	**226,808**	**34.6%**
Total RPC trips (in millions)	348.2	299.2	16.4%
RPC pool size (end of period, in millions, pro forma for 2005)	78.1	64.7	20.7%
Average RPC annualized turns (pro forma for 2006 and 2005)	4.88	5.00	(2.4%)
# of sanitation and service centers	44	45	(2.2%)
Headcount, end of year	505	526	(4.0%)
Currency Adjusted:			
Revenues	285,113	243,295	17.2%
Gross profit	70,762	63,379	11.6%
EBITDA	83,791	73,628	13.8%
EBIT	54,789	48,822	12.2%

Revenues

RPC-Management-Services' revenues in 2006 grew by 18.9% to US $285.1 million compared to 2005.

- Total trips increased 16.4% to 348.2 million in 2006, as a result of:
  - In Europe, our traditionally strong markets in Germany, Switzerland, Italy and Great Britain continued to perform in line with expectations. In addition, we have been able to significantly increase trip volume in Spain primarily as a result of higher trip volumes for the national market of this country.
  - Trip development in the United States nearly doubled during 2006, as a result of the acquisition of the CHEP USA RPC assets at the end of Q1 2006 and the higher penetration of our existing US customer base, which has resulted in our US RPC-Management-Services business being the clear leader of the US RPC services market.
  - In the United States, the rollout of the new generation container was finalized in 2006. The improved quality of the new RPCs provides considerable cost advantages for our customers and system partners and have been met with broad market acceptance.
- Our worldwide average per trip pricing levels increased slightly during 2006.
- On a pro forma basis, the annualized turns of our global RPC pool was 4.88 turns during 2006 compared to 5.00 in 2005. We report the pool size for 2005 and turn rates for 2005 on a pro forma basis in order to reflect the effects of the 2006 Europe RPC pool adjustment (pool size 2005 is adjusted for shrinkage in order to be comparable to 2006 pool size). Furthermore, the CHEP USA RPC acquisition effects were eliminated in order to calculate comparable turn rates for 2005 and 2006.

Operational expenses and profitability

- RPC-Management-Services' gross profit increased by 14.4% to US $70.8 million in 2006, resulting from gains in both of our key geographic markets. Our increased trip volumes and average pricing levels as well as logistics efficiency gains more than offset increases in unit transportation costs resulting from higher fuel prices and an increase in depreciation charges. Depreciation charges increased due to accelerated depreciation of the CHEP USA RPC assets, partially offset by the decrease resulting from the change of estimate of the residual RPC value (see Notes – Summary of significant accounting policies).
- This segments' SG&A costs increased in absolute terms by 8.9%, primarily as a result of the personnel investments we have made in our US sales organization. However, SG&A expenses as a percentage of revenues decreased to 6.0% in 2006 from 6.6% in 2005.
- As a result of the items discussed above, our RPC-Management-Services EBITDA increased by 16.6% to US $83.8 million in 2006.
- Our RPC-Management-Services EBIT increased by 16.2% to US $54.8 million in 2006. The increase of EBIT in absolute terms was lower as compared to the respective EBITDA increase. This development was mainly caused by the accelerated depreciation of the CHEP USA RPC assets acquired during 2006, partially offset by the effect of the change in estimate of the residual value of the Company's RPCs. See Notes to consolidated financial statements for further description of this change in estimate.

Liquidity and Cash Flows

- Our RPC-Management-Services segment operating cash flows before working capital consideration increased by 15.2% to US $82.4 million in 2006. Also cash flows attributable to changes in working capital created positive cash flows of US $10.1 million during 2006. Accordingly, total operating cash flows of RPC-Management-Services increased in 2006 by 20.0% over 2005 to US $92.5 million.
- Our capital expenditures increased 25.6% to US $99.2 million, due to the cash paid for the acquisition of the CHEP USA RPC assets in Q1 2006. Excluding this acquisition, capital expenditures decreased by 3.9%, or US $3.0 million to US $75.9 million, in 2006 as compared to 2005. Operating cash flows funded the Company's capital expenditures – before acquisition – in 2006.
- We believe that our future RPC-Management-Services operating cash flows will be adequate to fund the capital expenditures required to support this segments' growth plans.

RPC pool adjustment

After completing the RPC pool upgrade program and the rollout of the new IFCO Green Plus RPC generation in Europe, the Company asked all European customers and retail partners to return all old RPCs to IFCO prior to May 19, 2006. IFCO SYSTEMS informed these parties that RPCs returned subsequent to May 19, 2006 will not be refunded by deposit.

The results of this initiative resulted in a financial adjustment of the European RPC pool and to the Company's recorded RPC deposit liability for the old RPCs which were not returned. Due to the change of the crate type demand of our customers, we do not offer services for the yellow crate pool anymore. Based on IAS 36 we have impaired the net book value of this pool.

The income statement effects related to the RPC pool adjustments are as follows (in thousands of US dollars):

Reduction of RPC pool	(12,765)
Impairment of yellow pool	(1,477)
Reversal of deposit	25,638
Net gain before taxes of RPC pool adjustment	**11,396**
Income tax provision	(4,776)
Net gain of RPC pool adjustment	**6,620**

The net RPC pool adjustment is classified as a nonrecurring item for purposes of our calculation of EBITDA, is presented outside of operating income in the income statement, and is presented in a separate line in the accompanying cash flow statement.

As a further outcome of the RPC pool adjustment and in order to calculate more accurate pool turn rates, the Company has started reducing the size of its RPC pool by a shrinkage estimate on a periodical basis.

Based on further analysis during Q2 in connection with the RPC pool adjustment the Company is now able to more accurately calculate the average useful life of a purchased RPC, including breakage, pool shrinkage and commercial aspects. The RPC pool adjustment resulted in a historical per trip shrinkage rate which was in line with the Company's previous estimates, the established useful life of a purchased RPC continues to be 8 years.

Pallet-Management-Services

US $ in thousands	2006	2005	% Change
Revenues	362,123	336,511	7.6%
Gross profit	38,204	54,330	(29.7%)
Gross profit margin	10.6%	16.1%	
EBITDA	16,976	33,996	(50.1%)
EBITDA margin	4.7%	10.1%	
EBIT	11,970	30,792	(61.1%)
EBIT margin	3.3%	9.2%	
Operating cash flows	10,026	29,380	(65.9%)
Capital expenditures	1,636	4,648	(64.8%)
Property, plant and equipment	19,203	16,170	18.8%
# of service centers	137	126	8.7%
Headcount, end of year	3,545	3,544	0.0%

Revenues

Our Pallet-Management-Services segment revenues increased by 7.6% as compared to 2005, with revenues of US $362.1 million in 2006. Revenues developed at a slower rate in 2006 than in 2005 due to the impact of the ICE investigation in April 2006. This investigation has resulted in temporarily reduced revenues as our operating facilities have reacted to labor and other operational challenges and worked to regain their production capacities.

Our past experience has shown us that the development of the total pallet market is closely linked to the inflation adjusted development of the US gross domestic product (GDP), which has grown at an average rate of approximately 3.3% during the last 2 years. Although the ICE investigation temporarily slowed our overall business development during 2006, the Company believes that the key business drivers which have resulted in our Pallet-Management-Services segment outpacing the general market development in recent years have not changed during 2006. These key growth drivers are listed as follows:

- Growth of our National Sales accounts, which provide us with both pallet core supply and new pallet customers. Our extensive geographic network and industry expertise uniquely allow IFCO SYSTEMS to provide value-added offerings to certain of our customers and business partners.
- Development of our national network to provide growth opportunities in new markets. We opened 3 new pallet refurbishment facilities during 2006, bringing our total number of customer service locations to 56. Our total number of service locations increased from 126 to 137, as we also have added new reverse logistics operations at or near certain of our retail partners' distribution centers.
- Increase the breadth of our service offerings. We believe our deep industry knowledge and geographic network positions us to take advantage of new market requirements in a timely and thorough manner.
- Our average pricing levels have continued to increase moderately.

Operational expenses and profitability

- Gross profit margin of the Pallet-Management-Services business segment was significantly lower, as a result of the following:
  - Gross profit margin in our Pallet-Management-Services division, excluding our Crating-Management-Services division, dropped by 5.9 percentage points to 10.7% in 2006. As mentioned above, the ICE investigation resulted in the termination of a significant component of our operational

personnel in this division. The reduction of this key operational input and our continuing efforts to hire and train new employees and focus on customer service and other operational matters has resulted in a temporary reduction in the production capacity and labor efficiencies of many of our operating facilities, particularly our newer service locations. The labor disruption has also temporarily resulted in less efficient material utilization. The division has also incurred incremental freight costs to reposition inventory in order to serve our customers and experienced reduced margins from our decision to sell certain unprocessed pallet cores in order to maintain operating stability at our facilities in light of our lower production capacity.
  - In 2006, our Crating-Management-Services division also experienced gross profit reductions and lower gross profit margin due to higher material conversion costs, resulting primarily from unanticipated volatility in this division's customer requirements, and higher fuel and transportation costs.
- Total SG&A expenses increased during 2006 by 30.1%, primarily as a result of the material nonrecurring legal costs associated with the ICE investigation, but also due to higher infrastructure costs as we expand our customer service network. Excluding the nonrecurring ICE related legal defense costs, SG&A expenses increased moderately by 1.8% compared to 2005 levels and decreased as a percentage of revenue from 7.4% in 2005 to 7.0% in 2006.
- As a result of the items discussed above, our Pallet-Management-Services EBITDA decreased by 50.1% to US $17.0 million in 2006.
- EBIT decreased by 61.1% to US $12.0 million in 2006.

Liquidity and Cash Flows

- Our Pallet-Management-Services segment operating cash flows before working capital consideration decreased by 67.7% to US $10.4 million in 2006. Also cash flows attributable to changes in working capital resulted in a usage of US $0.4 million during 2006, mainly due to lower accounts payable and other operating liability levels. Accordingly, total operating cash flows of Pallet-Management-Services decreased in 2006 by 65.9% over 2005 to US $10.0 million. Excluding the expenses associated with the ICE investigation, our operating cash flows declined 41.8% in this segment.
- The Pallet-Management-Services segment has continued to acquire certain operating equipment which had previously been leased, some through a finance leasing program continued during 2006. We believe these investments provide better long-term economic return relative to operating leases.
- We believe this business segment will continue to be able to operate effectively in the future with relatively modest capital expenditure requirements.

Corporate

US $ in thousands	2006	2005	% Change
Selling, general and administrative expenses	4,470	7,452	(40.0%)
Net finance costs	19,121	17,881	6.9%
Foreign currency loss, net	(2)	(2,488)	(99.9%)
Income tax provision	6,485	2,006	223.3%
Loss from discontinued operations	(665)	(3,651)	(81.8%)

Selling, general and administrative expenses

Our corporate general and administrative expenses decreased by US $3.0 million in 2006, mainly because of decreased variable compensation accruals for our Managers.

Net finance costs

Our net borrowing costs increased, primarily as a result of a stronger Euro in 2006 as compared to prior year, higher capital lease obligation levels and the periodic usage of our working capital facility for the first time in 2006.

Foreign currency loss, net

Our foreign currency losses recorded during 2005 and 2006 are principally the result of the periodic non-cash revaluation of a foreign currency hedge agreement we entered into in Q4 2003. This agreement expired at December 31, 2006.

Income taxes

During 2006 and 2005, our recorded consolidated income tax provision differs from the amount which would be calculated by applying statutory rates to our profit before income taxes. This is principally a result of our legal entities in the local tax jurisdictions in which we operate being allowed to recognize certain deductions for tax purposes, principally depreciation of our RPCs at a faster rate, and amortization of goodwill than we recognize these items in our IFRS consolidated financial statements. We believe that these accelerated income tax deductions, together with other items, will result in reporting taxable losses in 2006 in many of our principal tax jurisdictions, and in minimal taxable income in other jurisdictions. Additionally, as of December 31, 2006, our European and United States operations had substantial net operating loss carryforwards. Approximately US $4.8 million of current income tax provision was accrued during 2006 as a result of the accounting gain resulting from the RPC pool adjustment in Q2 2006. See Notes to consolidated financial statements for further description and analysis of income taxes.

Discontinued operations

In February 2002, we completed the sale of a majority of the assets of our industrial container services operations to Industrial Container Services, Inc. (ICS).

During Q2 2003, two lawsuits were filed, naming as defendants the Company and certain of its subsidiaries as well as a number of the customers, ICS and certain affiliates of ICS, based upon alleged discharges of contaminants, toxic substances and chemicals from one of our drum facilities in Chicago on or before mid-2001. At this stage, the Company cannot accurately assess the potential merit or consequences of these claims. The Company intends to defend these claims vigorously. However, if these claims have a negative outcome to the Company or to parties to whom the Company owes indemnities, such claims could have a material adverse effect on the Company's business, liquidity, results of operation and financial condition. US $0.2 million in net additional provisions were accrued during 2006, based on management's best estimate of the uninsured legal costs and other costs which may be required in defending these lawsuits. US $2.6 million was accrued during 2005. During July 2006, we were notified of a lawsuit filed by the city of Chicago against one of the Company's subsidiaries requesting that it demolish or otherwise repair the Chicago drum property to a condition suitable to the city of Chicago. Although the Company is still in discussions with the city of Chicago regarding this claim, approximately US $0.5 million was accrued during 2006, representing estimated demolition and other costs which might ultimately be associated with these claims.

During Q2 2005, the Company's Board of Directors approved the Company's Executive Management to pursue a sale of its non strategic Pallet Pooling business in Canada, which was completed in June 2005. IFRS requires that the results of operations for all periods prior to the disposal be presented as a component of discontinued operations in the accompanying consolidated income statements and statements of cash flows. Accordingly, the operating income of the Pallet Pooling business during 2005 and the loss on disposal, totaling a combined US $1.5 million, and the related cash flow results, have been presented as discontinued operations throughout this report.

Summary information by continuing business segment

US $ in thousands	2006	2005	% Change
Revenues:			
RPC-Management-Services	285,113	239,763	18.9%
Pallet-Management-Services	362,123	336,511	7.6%
	647,236	576,274	12.3%
Gross profit:			
RPC-Management-Services	70,762	61,879	14.4%
Pallet-Management-Services	38,204	54,330	(29.7%)
	108,966	116,209	(6.2%)
EBITDA:			
RPC-Management-Services	83,791	71,854	16.6%
Pallet-Management-Services	16,976	33,996	(50.1%)
Operations subtotal	**100,767**	105,850	(4.8%)
Corporate	(4,493)	(7,443)	(39.6%)
	96,274	98,407	(2.2%)
EBIT:			
RPC-Management-Services	54,789	47,155	16.2%
Pallet-Management-Services	11,970	30,792	(61.1%)
Operations subtotal	**66,759**	77,947	(14.4%)
Corporate	(4,470)	(7,452)	(40.0%)
	62,289	70,495	(11.6%)
Operating cash flows: [1]			
RPC-Management-Services	92,533	77,137	20.0%
Pallet-Management-Services	10,026	29,380	(65.9%)
Operations subtotal	**102,559**	106,517	(3.7%)
Corporate	(10,277)	(11,173)	(8.0%)
	92,282	95,344	(3.2%)
Capital expenditures:			
RPC-Management-Services	99,235	78,997	25.6%
Pallet-Management-Services	1,636	4,648	(64.8%)
Operations subtotal	**100,871**	83,645	20.6%
Corporate	429	302	42.1%
	101,300	83,947	20.7%
	December 31, 2006	December 31, 2005	
Personnel:			
RPC-Management-Services	505	526	(4.0%)
Pallet-Management-Services	3,545	3,544	0.0%
Operations subtotal	**4,050**	4,070	(0.5%)
Corporate	4	4	0.0%
	4,054	4,074	(0.5%)

[1] Operating cash flows presented above are prior to interest and income tax payments.

Financial reconciliations

In addition to measuring key group and segment level cash flow metrics, we measure the profitability of our segments through the use of operating EBITDA and EBIT measures (see reconciliation of our IFRS net profit to our EBITDA and EBIT below). Our management uses EBITDA and EBIT as key operating measures because they measure operating profits before certain non-operating items, such as net financing costs, foreign currency gains and losses, discontinued operations, stock-based compensation expense and income taxes. We believe that the exclusion of these items from segment measurement is appropriate because (1) these items are managed centrally, not by segment members (see analysis of corporate items above), (2) these items are not necessarily indicative of the operating results of our businesses, and (3) operating results excluding these items allow investors to see our businesses as they are measured by management. Other companies may use different measures or calculate these measures differently, and their figures may not be comparable to ours.

Reconciliation of Net profit to EBITDA:

US $ in thousands	2006	2005
Net profit	37,287	40,905
Net finance costs	19,121	17,881
Income tax provision	6,485	2,006
Depreciation expense	33,706	27,733
Amortization of other assets	279	179
Stock-based compensation expense	667	1,545
Foreign currency loss	2	2,488
Nonrecurring items [(1)]	(1,938)	2,019
Loss from discontinued operations	665	3,651
EBITDA	**96,274**	98,407

Reconciliation of EBITDA to EBIT:

US $ in thousands	2006	2005
EBITDA	96,274	98,407
Depreciation expense	(33,706)	(27,733)
Amortization of other assets	(279)	(179)
EBIT	**62,289**	70,495

[(1)] 2005 nonrecurring items consist primarily of (1) sales tax accruals made by Pallet-Management-Services, (2) a decrease of VAT accruals for prior years in our RPC-Management-Services business, (3) restructuring and severance costs and (4) the accrual reversal recorded as the result of a final agreement in 2005 with one of our European RPC retailer partners that had been accrued in 2004. 2006 nonrecurring items consist primarily of the RPC pool adjustment, partially offset by legal costs associated with the ICE investigation.

Cash flows

US $ in thousands	2006	2005
Cash and cash equivalents, beginning of period	60,968	64,365
Operating cash flows:		
Cash generated from continuing operations, excluding the cash flow effect of changes in working capital and income tax payments	86,694	95,482
Cash flow effect of changes in working capital	5,588	(138)
Operating cash flows of continuing operations, prior to income tax payments	**92,282**	**95,344**
Income taxes paid	(3,108)	(2,739)
Operating cash flows of continuing operations	**89,174**	**92,605**
Operating cash flows of discontinued operations	(1,422)	(1,648)
	87,752	**90,957**
Investing cash flows:		
Capital expenditures of continuing businesses, including cash paid for acquired assets	(101,300)	(83,947)
Capital expenditures of discontinued operations	–	(63)
	(101,300)	**(84,010)**
Proceeds from sale of property, plant and equipment	–	190
Proceeds from sale of discontinued operations	–	8,274
	(101,300)	**(75,546)**
Financing cash flows:		
Principal payments of long-term debt	(187)	(247)
Net interest paid	(17,733)	(9,394)
Net payments of finance lease obligations	(5,204)	(3,435)
Net proceeds from use of working capital facility	3,500	–
Net payments for treasury share buyback	(3,838)	–
Proceeds from exercise of stock options	925	1,103
	(22,537)	**(11,973)**
Effect of exchange rate changes on cash and cash equivalents	2,454	(6,835)
Cash and cash equivalents, end of period	**27,337**	**60,968**

IFCO SYSTEMS' continuing operations provided US $92.3 million of cash flows during 2006, as compared to US $95.3 million during 2005. The variance is the result of several factors:

- Our continuing operations' net profit after the net effect of all non-cash adjustments, net finance costs and income tax payments, but prior to consideration of cash flow changes in working capital, generated US $86.7 million of positive cash flow in 2006, a decrease of 9.2% compared to 2005. For further explanations, see Group Financial Highlights and Segment Reporting.
- Our continuing operations' working capital accounts generated US $5.6 million in cash in 2006, as compared to a net use of cash of US $0.1 million in 2005.

Our continuing operations' capital expenditures, which are primarily for RPCs, increased to US $101.3 million from US $83.9 million in 2005, primarily the result of the acquisition of the CHEP USA RPC assets. Excluding this acquisition, capital expenditures decreased by 7.1% to US $78.0 million in 2006 as compared to 2005.

The Company's cash and cash equivalents decreased by US $33.6 million to US $27.3 million as of December 31, 2006 from US $61.0 million as of December 31, 2005, mainly due to the funding of the acquisition price of the CHEP USA RPC assets.

Liquidity and capital resources

The following table summarizes our commitments under interest-bearing debt agreements as of December 31, 2006, as well as our cash and cash equivalents and net debt as of that date.

US $ in thousands	Payments due within				
	1 year	2-3 years	4-5 years	5+ years	Total
Senior Secured Notes, net of deferred financing costs	–	–	140,091	–	140,091
Present value of finance lease obligations	14,528	18,835	421	–	33,784
Other	3,546	78	–	–	3,624
Total					177,499
Cash and cash equivalents					27,337
Net debt					150,162

See Notes to the consolidated financial statements for further discussion of our debt agreements and sources of liquidity.

Other contractual obligations and commercial commitments

The following table summarizes our commitments for future expenditures related to operating leases and our minimum purchase obligations under our European RPC supply agreements as of December 31, 2006.

US $ in thousands	Payments due within				
	1 year	2-3 years	4-5 years	5+ years	Total
Operating lease commitments	20,894	25,620	11,715	4,094	62,323
Minimum purchase obligations under RPC supply agreement	16,998	33,995	–	–	50,993
Total	37,892	59,615	11,715	4,094	113,316

See Notes to the consolidated financial statements for further discussion of these items.

Future liquidity prospects

Our sources of liquidity currently include cash from operations, cash and cash equivalents on hand, and amounts available under the working capital facility and certain factoring agreements. As of February 16, 2007, our liquidity was US $35.0 million. We believe that these sources are sufficient to finance our future capital and operational requirements in accordance with our business plans.

Risk management

Our internal risk management policies are integral parts of how we plan and execute our business strategies. We use a set of internal risk management and control systems to anticipate, measure, monitor and manage our exposure to risk. The most important of these are our enterprise-wide processes for strategic planning, management reporting and internal audit. We assess the installed control systems as adequate and effective. The coordination of these processes and procedures to ensure that our Board of Managing Directors, Executive Management Committee and Supervisory Board are informed about material risks on a timely basis.

In 2006 the Company has completed its internal audit function and has reached a full internal audit coverage of its European and USA businesses. Additionally a compliance officer function was installed, in order to oversee the Company's corporate compliance program.

Below we describe the major categories of risks that could materially affect our business, our financial condition and our results of operations. The risks we describe here are not necessarily the only ones we face. Additional risks not known to us, or that we now consider less significant, could also adversely affect our business.

Competition

We face competition in all industry sectors in which we operate. We expect aggressive competition from other reusable container providers and from the traditional packaging companies, in particular producers of cardboard boxes. In addition, there are relatively few barriers that prevent entry on a local or regional level into the traditional packaging and pallet industries. The effect of this competition could limit our ability to grow, increase pricing pressure on our products, and otherwise affect our financial results.

The market for pallet recycling services is highly fragmented and competitive, resulting in intense pricing competition. Other pallet systems may include pallets fabricated from non-wooden components like plastic as cost-effective, durable alternatives to wooden pallets. Increased competition from pallet pooling companies or providers of other alternatives to wooden pallets could make it more difficult for us to attract and retain customers and may force us to reduce prices, which may decrease our profitability.

Retail relationships

Our RPC-Management-Services business segment is dependent on our relationships with a relatively small number of large retailers. Our inability to maintain these relationships or cultivate new relationships on similar terms will impair our ability to remain competitive in the markets in which we operate.

Our Pallet-Management-Services business segment sources the majority of our pallets for reconstruction from businesses that use pallets, including large and small retailers.

The loss of one or more of these retail relationships would have a material negative impact on our revenues, profitability, and cash flows.

RPC-Management-Services' pool risks

Despite our experience with container pooling and transport, and the relative durability and reliability of RPCs, our pool of RPCs is subject to shrinkage due to unforeseen loss and damage during transport in the product distribution cycle. Increased loss of or damage to RPCs may increase our costs in maintaining our current RPC-Management-Services' pool, thus requiring additional capital investments, which could limit our profitability. We have implemented operational, logistic and analytical tools in order to reduce and minimize those risks.

Supplier risk

We procure RPCs used in our RPC-Management-Services' business exclusively from two suppliers under separate contracts for our European and US businesses. Our RPC-Management Services' operations depend upon obtaining deliveries of RPCs on a timely basis and on commercially reasonable terms. We have maintained long-term relationships with these suppliers. If these suppliers ever become unwilling or unable to supply us with RPCs at all or on conditions acceptable to us, we may be unable to find alternative suppliers on a timely or cost-effective basis. This would limit our ability to supply our customers with RPCs on a timely basis and, thus, adversely affect our results of operations.

Credit risk

We provide certain of our customers customary financing for our sales to them. We face a number of general risks in providing this financing, including delayed payments from customers or difficulties in the collection of receivables. We manage these credit risks using defined processes for assessing customer creditworthiness and through our group emphasis on collecting receivables fully and timely.

Environmental risk
Our operations are subject to various environmental laws and regulations, including those dealing with the handling and disposal of waste products, fuel storage and air quality. Failure to comply with such laws and regulations can have serious consequences, including civil and criminal fines and penalties, and orders to limit or shut down operations. We manage these risks with strict internal procedures and through our internal management reporting tools.

See Notes to the consolidated financial statements for further discussion of existing environmental matters.

Foreign currency risk
Foreign currency risk is the risk that we will incur economic losses due to adverse changes in foreign currency exchange rates.

As currency exchange rates change, translation of the financial statements of our international businesses into US Dollars and Euros affects year-to-year comparability of our results of operations. Appreciation of the US Dollar, our presentation currency, against the Euro decreases our revenues and costs as reported in our financial statements for those operations that have a functional currency other than the US Dollar. Conversely, depreciation of the US Dollar against the Euro increases our revenues and costs. The appreciation or depreciation of the US Dollar against the Euro, therefore, impacts our reported results. Our operating subsidiaries in countries other than those countries participating in the European Monetary Union and adopting the Euro as their national currency use their local currency as their functional currency.

During 2003, we entered into a forward exchange contract in order to offset the cash flow variability related to changes in exchange rates on certain intercompany transactions. The forward exchange contract expired at December 31, 2006.

Aside from the US Dollar, our reporting currency, the Euro is our other primary functional currency. The following table summarizes the value of the Euro relative to the US Dollar.

	As of December 31		Average for Fiscal Year	
	2006	2005	**2006**	2005
1 US Dollar relative to 1 Euro	**1.3197**	1.1842	**1.2560**	1.2446

We incur currency transaction risk whenever one of our operating subsidiaries enters into either a purchase or sales transaction using a currency other than its functional currency. Our currency risk arises from foreign currency receivables as well as from firm commitments to purchase services and supplies in the future in currencies other than the subsidiary's functional currency. Additionally, the intercompany financing between IFCO SYSTEMS N.V. and IFCO SYSTEMS North America is subject to currency transaction risk.

Interest rate risk
The Company's exposure to the risk of changes in market interest rates is limited and relates only to the working capital facility. The majority of the Company's interest bearing debt (Senior Secured Notes) has fixed interest rates.

Commodity price risk
We are subject to market risk with respect to commodities since granulate is a significant component of cost of goods sold for our RPCs. To the extent that we purchase new RPCs made from new, virgin material instead of recycled RPCs, any increase in the cost of new granulate will increase cost of goods sold resulting in decreased profitability unless there is a corresponding increase in the prices we charge our customers. We may be limited in how much of a cost increase, if any, we are able to pass along to customers or how quickly we are able to pass along a cost increase to customers. In addition, increases in prices may result in a decrease in revenues.

We do not enter into futures contracts on commodity markets to hedge our exposure to granulate prices.

Acquisitions and dispositions

During March 2006, a US subsidiary of IFCO SYSTEMS completed the purchase of certain assets (RPCs and related washing service center equipment) of the RPC Management Services Business of CHEP USA.

During Q2 2005, we sold our non strategic Pallet Pooling business in Canada. In accordance with IFRS and unless otherwise noted, all group level income statement and cash flow information included herein has been restated to separate the results of our continuing operations from the results of our discontinued operations, whereas balance sheet data prior to the disposal has not been restated.

Research and development

We are engaged in ongoing product improvement efforts with our RPC-Management-Services' suppliers and customers to make our RPCs more durable and handling-efficient with a lower cost per trip and to develop new products. These research and development efforts are conducted by the supplier pursuant to the terms of the applicable supply agreements and do not involve separate research and development expenditures.

We are developing tracking and tracing technology to track the location and the content of our RPCs, pallets and other conveyances. We believe that such a tracking technology can improve supply chain planning and asset utilization, automate warehousing and logistics processes, and provide more current information on new pricing strategies and implementation. With respect to any technology selected for testing and possible implementation, we will consider various factors, including field effectiveness, ease of use, and cost.

As of December 31, 2006 we capitalized hardware and with research and development associated external expenses in the amount of US $3.7 million. We have started to implement this technology in the RPC US business in October 2005.

Given the nature of the Pallet-Management-Services we do not have any material product research and development expenditures in this operation.

Legal proceedings

See Notes to the consolidated financial statements for discussion of these items.

Outlook

Our RPC-Management-Services business has developed in a manner which is largely consistent with our plans and expectations. This development is principally the result of us being able to take advantage of strengths and opportunities in our RPC businesses and markets, while managing corresponding risks. Accordingly, in our RPC-Management-Services business, in Europe we will leverage our leadership position and strong market experience to continue to realize our market development plans. In the United States, we continue to expect an increase in the overall RPC penetration in the market and expect IFCO SYSTEMS to grow in line with or in excess of the RPC penetration development during 2007.

The strong demand for our RPC services and the positive market responses we receive on our new RPC pool, give us confidence to continue to invest in our RPC pool during 2007. This growth will continue to result in substantial investment.

The Pallet-Management-Services business was significantly affected by the business consequences of the ICE investigation in 2006. The recovery of that business segment to acceptable profitability levels will be the main business target for 2007. In this business segment, we anticipate continuing year-over-year gains in business volume, although revenues earlier in 2007 are expected to be lower than the corresponding 2006 periods as the business continues to recover from the effects of the ICE investigation. We believe that the continued development of our National Sales program and our increasing range of value-added services will sustain our existing leadership position within this segment.

We do not anticipate significant changes in our overall strategies in the near term and expect that the business development which has existed in recent years to remain in place during 2007.

We expect the economies in Western Europe to grow at a similar rate as we experienced during 2006. Though we see some recent slowdown in the United States economy, we expect to outpace projected economic growth in 2007.

We believe that the above trends will result in increased revenues and operating profits during 2007 compared to 2006.

Financially, we are in a sound position and plan our businesses so that we are able to fund our capital, operational, and debt service requirements through our own operational cash flows.

Subsequent events

No subsequent events occurred between December 31, 2006 and the authorization date of our 2006 annual report which the Company believes would have a material effect on the consolidated financial statements or footnotes herein.

2002 – 2006 Financial summary

US $ in thousands	US GAAP 2002	2003	2004	IFRS 2005	2006
Statement of income data:					
Revenue	360,990	399,154	471,859	576,274	647,236
Cost of sales	310,448	337,361	387,632	460,065	538,270
Gross profit	50,542	61,793	84,227	116,209	108,966
Selling, general and administrative expenses	40,662	36,371	39,561	48,938	56,054
Stock-based compensation expense	–	–	1,857	1,545	667
Amortization of goodwill and other intangible assets	1,143	950	246	179	279
Other operating expense (income), net	1,023	1,101	550	(681)	(73)
Income from operations	7,714	23,371	42,013	66,228	52,039
Net gain of RPC pool adjustment	–	–	–	–	11,396
Net interest cost	(33,132)	(14,783)	(16,116)	(17,561)	(18,682)
Factoring charges	(447)	(372)	(232)	(320)	(439)
Gain on debt extinguishment	91,408	1,050	–	–	–
Foreign currency (loss) gain	(45,032)	(556)	2,638	(2,488)	(2)
Income (loss) from equity entities, net	(9)	914	386	977	265
Other income (expense), net	187	(15)	232	(274)	(140)
Net income from continuing operations before income taxes and cumulative effect of changes in accounting principle	20,689	9,609	28,921	46,562	44,437
Income tax (provision) benefit	(1,294)	2,157	(37)	(2,006)	(6,485)
Net income from continuing operations before cumulative effect of changes in accounting principle	19,395	11,766	28,884	44,556	37,952
Net (loss) income from discontinued operations	(15,113)	(945)	3,253	(3,651)	(665)
Cumulative effect of change in accounting principle	(39,857)	–	–	–	–
Net (loss) income	(35,575)	10,821	32,137	40,905	37,287
Other financial data:					
Capital expenditures from continuing operations, including cash paid for acquisitions	20,691	32,699	66,068	83,947	101,300
Total debt, including finance lease obligations	124,410	162,092	172,499	153,881	177,499
Net debt	104,751	105,303	108,134	92,913	150,162
Total assets	445,526	517,791	610,933	630,481	698,341
Shareholders' equity	110,103	119,828	154,917	201,469	233,858

IFCO SYSTEMS prepared its consolidated financial information in accordance with generally accepted accounting principles of the United States (US-GAAP) through 2004. Beginning Q1 2005, the Company adopted International Financial Reporting Standards (IFRS) as its group accounting standard and retroactively applied those standards to January 1, 2004. Consequently, the financial information included herein for the years 2002 and 2003 is based on US-GAAP, while the data for the years 2004 to 2006 is in compliance with IFRS.

AUDITORS' REPORT

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements 2006 which are part of the financial statements of IFCO SYSTEMS N.V., Amsterdam, which comprise the consolidated balance sheet as at December 31, 2006, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

Auditor's responsibility
Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

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

Report on other legal and regulatory requirements
Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the management's discussion and analysis is consistent with the consolidated financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Eindhoven, February 20, 2007

for Ernst & Young Accountants
W.J. Spijker

IFCO SYSTEMS N.V. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

US $ in thousands	Notes	December 31, 2006	December 31, 2005
Assets			
Non-current assets:			
Goodwill	(5)	155,699	152,920
Property, plant and equipment, net	(4)	325,359	243,701
Investment in an associate	(14)	3,312	2,745
Deferred tax asset	(9)	10,653	6,841
Other assets		1,005	547
Total non-current assets		**496,028**	406,754
Current assets:			
Receivables, net	(5)	145,635	135,386
Inventories	(5)	13,694	13,641
Other current assets	(5)	15,647	13,732
Cash and cash equivalents		27,337	60,968
Total current assets		**202,313**	223,727
Total assets		**698,341**	630,481
Equity and liabilities			
Equity attributable to equity holders of the parent:			
Ordinary share capital, €0.01 par value, 100,000,000 shares authorized; 54,222,214 and 45,756,030 issued and outstanding as of 2006 and 2005, respectively		583	482
Treasury shares		(1,798)	–
Paid in capital		525,016	524,086
Other reserves	(5)	(2,360)	1,771
Retained earnings		(287,583)	(324,870)
Total equity	(5)	**233,858**	201,469
Non-current liabilities:			
Interest bearing loans and borrowings, net of current maturities	(8)	140,170	124,330
Finance lease obligations, net of current maturities	(8)	19,256	17,998
Deferred tax liability	(9)	4,455	2,796
Total non-current liabilities		**163,881**	145,124
Current liabilities:			
Current maturities of interest bearing loans and borrowings	(8)	3,545	226
Current maturities of finance lease obligations	(8)	14,528	11,327
Provisions	(5, 11)	9,946	15,710
Refundable deposits	(5)	117,436	120,179
Trade and other payables		118,245	102,520
Income tax payable		5,714	2,589
Other liabilities	(5)	31,188	31,337
Total current liabilities		**300,602**	283,888
Total liabilities		**464,483**	429,012
Total equity and liabilities		**698,341**	630,481

IFCO SYSTEMS N.V. AND SUBSIDIARIES CONSOLIDATED INCOME STATEMENTS

US $ in thousands, except share and per share amounts	Notes	Year ended December 31, 2006	2005
Revenues:			
RPC-Management-Services		285,113	239,763
Pallet-Management-Services		362,123	336,511
Total revenues		**647,236**	**576,274**
Cost of sales:	(6)		
RPC-Management-Services		214,351	177,884
Pallet-Management-Services		323,919	282,181
Total cost of sales		**538,270**	**460,065**
Gross profit:			
RPC-Management-Services		70,762	61,879
Pallet-Management-Services		38,204	54,330
Total gross profit		**108,966**	**116,209**
Selling expenses	(6)	11,782	9,229
General and administrative expenses	(6)	44,272	39,709
Stock-based compensation expense	(6, 12)	667	1,545
Amortization of other assets	(6)	279	179
Other operating income, net		(73)	(681)
Profit from operating activities		**52,039**	**66,228**
Net gain of RPC pool adjustment		11,396	–
Interest expense		(19,332)	(18,373)
Interest income		650	812
Factoring charges		(439)	(320)
Foreign currency loss, net		(2)	(2,488)
Income from equity entities, net	(14)	265	977
Other loss, net		(140)	(274)
Result of finance activities		(18,998)	(19,666)
Profit from continuing operations before taxes		**44,437**	**46,562**
Income tax provision	(9)	(6,485)	(2,006)
Profit before discontinued operations		**37,952**	**44,556**
Loss from discontinued operations	(3)	(665)	(3,651)
Net profit		**37,287**	**40,905**

IFCO SYSTEMS N.V. AND SUBSIDIARIES CONSOLIDATED INCOME STATEMENTS (CONTINUED)

US $ in thousands, except share and per share amounts	Notes	Year ended December 31, 2006	2005
Profit per share from continuing operations – basic		0.71	0.98
Profit per share from continuing operations – diluted		0.70	0.81
Net profit per share – basic		0.70	0.90
Net profit per share – diluted		0.69	0.75
Shares on which net profit is calculated:	(7)		
Basic[(1)]		53,198,989	45,508,810
Effect of dilutive stock options and in 2005 warrant exchange		949,911	9,352,140
Diluted		**54,148,900**	**54,860,950**

[(1)] Average outstanding shares during the period.

IFCO SYSTEMS N.V. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

US $ in thousands, except share amounts	Ordinary Shares Shares	Treasury Shares Shares	Ordinary Shares Amount	Treasury Shares Amount	Paid in Capital	Retained earnings	Other reserves	Total Equity
Balance at January 1, 2005	45,321,033	–	476	–	521,444	(365,775)	(1,228)	154,917
Stock-based compensation expense	–	–	–	–	1,545	–	–	1,545
Exercise of stock options by issuance of ordinary shares	434,997	–	6	–	1,097	–	–	1,103
Currency translation differences	–	–	–	–	–	–	2,999	2,999
Net profit	–	–	–	–	–	40,905	–	40,905
Balance at December 31, 2005	45,756,030	–	482	–	524,086	(324,870)	1,771	201,469
Stock-based compensation expense	–	–	–	–	667	–	–	667
Exercise of stock options by issuance of ordinary shares	344,667	–	4		921	–	–	925
Buyback of treasury shares	–	135,924 [1]	–	(1,798)	–	–	–	(1,798)
Exercise of stock options funded by treasury shares	–	–	–		(2,040)	–	–	(2,040)
Currency translation differences	–	–	–		–	–	(4,131)	(4,131)
Exercise of warrants	8,121,517	–	97		(995) [2]	–	–	(898)
Current and future tax deduction from stock option exercise	–	–	–	–	2,377	–	–	2,377
Net profit	–	–	–		–	37,287	–	37,287
Balance at December 31, 2006	**54,222,214**	**135,924**	**583**	**(1,798)**	**525,016**	**(287,583)**	**(2,360)**	**233,858**

[1] In 2006 the Company repurchased 334,258 treasury shares in the amount of US $4.4 million. Thereof 198,334 treasury shares were transferred to employees to serve the 2000 stock option plan of the Company.

[2] The expenses associated with the warrant exchange, which were capitalized at the end of the financial year December 31, 2005, were reclassified to equity in 2006.

IFCO SYSTEMS N.V. AND SUBSIDIARIES CONSOLIDATED CASH FLOW STATEMENTS

US $ in thousands	Notes	Year ended December 31, 2006	2005
Cash flows from continuing operating activities:			
Net profit		37,287	40,905
Adjustments for:			
Depreciation and amortization expense of property, plant and equipment		33,706	27,733
Amortization of other assets	(6)	279	179
Stock-based compensation expense	(6)	667	1,545
Foreign currency loss, net		2	2,488
Income tax provision	(9)	6,485	2,006
Income from equity entities	(14)	(265)	(977)
Loss on sale of property, plant and equipment		143	71
Interest expense		19,332	18,373
Interest income		(650)	(812)
Factoring charges		439	320
Loss from discontinued operations	(3)	665	3,651
RPC pool adjustment		(11,396)	–
Cash generated from continuing operations, excluding the cash flow effect of changes in working capital		**86,694**	95,482
Changes in working capital of continuing operations:			
Receivables		(126)	(16,879)
Inventories		642	(1,413)
Trade and other payables		7,067	5,210
Refundable deposits		9,941	13,620
Other assets and liabilities		(11,936)	(676)
Cash flow effect of changes in operating assets and liabilities of continuing operations		**5,588**	(138)
Cash generated from continuing operations before income tax payments		**92,282**	95,344
Income taxes paid		(3,108)	(2,739)
Cash generated from continuing operating activities		**89,174**	92,605
Cash used in discontinued operations		(1,422)	(1,648)
Net cash generated from operating activities		**87,752**	90,957
Cash flows from investing activities:			
Purchase of RPCs		(70,981)	(73,280)
Purchase of property, plant and equipment		(7,032)	(10,527)
Capital expenditures of continuing operations		**(78,013)**	(83,807)
Capital expenditures of discontinued operations		–	(63)
Total capital expenditures		**(78,013)**	(83,870)
Cash paid for acquired assets		(23,287)	(140)
Proceeds from sale of discontinued operations		–	8,274
Proceeds from sale of property, plant and equipment		–	190
Net cash used in investing activities		**(101,300)**	(75,546)
Cash flows from financing activities:			
Principal payments of long-term debt		(187)	(247)
Interest paid		(17,733)	(9,394)
Proceeds from exercise of stock options		925	1,103
Principal payments of finance lease obligations		(13,864)	(11,789)
Proceeds from sale-leaseback transactions		8,660	8,354
Net proceeds from use of working capital facility	(8)	3,500	–
Net payments for treasury share buyback		(3,838)	–
Net cash used in financing activities		**(22,537)**	(11,973)
Effect of exchange rate changes on cash and cash equivalents		2,454	(6,835)
Net decrease in cash and cash equivalents		(33,631)	(3,397)
Cash and cash equivalents, beginning of period		60,968	64,365
Cash and cash equivalents, end of period		**27,337**	60,968

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(US $ in thousands, except per share amounts or unless otherwise stated)

1. Business, organization, and basis of presentation

The consolidated financial statements of IFCO SYSTEMS N.V. (IFCO SYSTEMS or the Company) for the year ended December 31, 2006 were authorized by the Board of Managing Directors and the Executive Management on February 16, 2007.

IFCO SYSTEMS N.V. is a Netherlands holding company for the following operating companies: IFCO SYSTEMS GmbH, its subsidiaries (IFCO SYSTEMS Europe), IFCO SYSTEMS North America, Inc. and its subsidiaries (IFCO SYSTEMS North America). The Company's headquarter is located in Strawinskylaan 3051, 1077 ZX Amsterdam, the Netherlands. Its European operations headquarters are in Munich, Germany, and its North American operations headquarters are in Houston, Texas.

IFCO SYSTEMS Europe is involved in the organization and administration of the rental, distribution and purchase of reusable plastic containers (RPC) RPC-Management-Services systems in Germany and other European countries. After the Company has collected, sanitized and cleaned the RPCs, they are rented primarily to producers of fresh fruit and vegetables in exchange for a one-time usage fee. The producers' goods are transported in the RPCs to various intermediaries and ultimately to retailers for sale to consumers. IFCO SYSTEMS Europe delivers the empty RPCs to customers' bulk warehouses and collects the empty RPCs from regional service points again. IFCO SYSTEMS North America, through one of its subsidiaries, operates the Company's RPC-Management-Services system in the United States.

Aside from the RPC-Management-Services business in the United States, IFCO SYSTEMS North America principally offers Pallet-Management-Services. The wide range of Pallet-Management-Services offerings range from consultancy services and comprehensive pallet services programs including, on or off site sort/repair of pallets, reverse logistics services to web-based tracking/data management services.

The primary functional currency of the North American operations is the US Dollar and the primary functional currency of IFCO SYSTEMS N.V. and for most of the European operations is the Euro, the currency of their primary economic environment in which they operate. Those functional currencies reflect the respective regional currency influence on sales prices for goods and services, influences on labor, material and other costs and the currency in which funds from financing activities are generated.

The Company's presentation currency is the US Dollar, because the main portion of the revenues and associated expenses do occur in US Dollar. Therefore, our assets, liabilities, revenues, and expenses are subject to exchange rate fluctuations between the US Dollar, which is our group level presentation currency, and the Euro. Exchange rate fluctuations occur, to a lesser extent, as a result of certain subsidiaries operating in other countries and using other functional currencies.

2. Summary of significant accounting policies

Statement of compliance
The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with all International Financial Reporting Standards (IFRS) as adopted by the European Union.

Changes in accounting policies
The accounting policies adopted are consistent with those of the previous year.

The group has adopted the following amended IFRS standards and IFRIC interpretation during the year. Adoption of these revised standards and this interpretation did not have any effect on the financial statements of the Group.

- IAS 21 Amendments – The Effects of Changes in Foreign Exchange Rates
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease

Future changes in accounting policies
- IAS 1 Amendment – Presentation of Financial Statements that has been issued but is effective as of January 1, 2007 and will not be applied before that date. IAS 1 will require the Company to make new disclosures to enable users of the financial statements to evaluate objectives, policies and processes for managing capital.
- IFRS 7 Financial Instruments that has been issued but is effective as of January 1, 2007 and will not be applied before that date. IFRS 7 will require additional disclosures to enable

users to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments.

- IFRS 8 Operating Segments that has been issued however not yet endorsed. This standard will be effective as of January 1, 2009 and will not be applied before that date. IFRS 8 requires an entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.
- IFRIC 8 Scope of IFRS 2 that has been issued but is effective for fiscal years beginning on or after May 1, 2006. This IFRIC will be applied by the Company in the fiscal year 2007. The IFRIC has to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.
- IFRIC 9 Reassessment of Embedded Derivatives that has been issued but is effective for fiscal years beginning on or after June 1, 2006 and will be applied by the Company in the fiscal year 2007. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party of the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flow. The Company is still evaluating the effect of this interpretation and expects that adoption of this interpretation will have no impact on the Company's financial statements when implemented in 2007.
- IFRIC 10 Interim Financial Reporting and Impairment that has been issued however not yet endorsed. This IFRIC will be effective for fiscal years beginning on or after November 1, 2006 and will be applied by the Company in the fiscal year 2007. The IFRIC requires the Company not to reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.
- IFRIC 11 IFRS 2 Group and Treasury Share Transactions that has been issued however not yet endorsed. This IFRIC will be effective for fiscal years beginning on or after March 1, 2007 and will be applied by the Company in the fiscal year 2008. IFRIC 11 requires share-based payment transactions in which an entity receives services as consideration for its own equity instruments to be accounted for as equity-settled. Provided that the share-based arrangement is accounted for as equity-settled in the consolidated financial statements of the parent, the subsidiary shall measure the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions.
- IFRIC 12 Service Concession Arrangements that has been issued however not yet endorsed. This IFRIC will be effective for fiscal years beginning on or after January 1, 2008 and will be applied by the Company in the fiscal year 2008. Infrastructure within the scope of this interpretation shall not be recognized as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator.

The Company expects that adoption of the IFRS and IFRIC interpretations listed above will have no significant impact on the financial statements in the period of initial application. However, IFRS 7 will require the Company to make additional disclosures to enable users to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments and IAS 1 will require the Company to make new disclosures to enable users of the financial statements to evaluate objectives, policies and processes for managing capital.

Basis of consolidation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and share based payments that have been measured at fair value. The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of subsidiaries are prepared for the same reporting periods as the parent company, using consistent accounting policies. All intercompany balances and transactions have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Company has control.

Accounting principles

Goodwill

Goodwill on acquisitions is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized, but is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

Goodwill has been allocated to three cash-generating units:
- RPC-Management-Services Europe
- RPC-Management-Services United States
- Pallet-Management-Services

RPC-Management-Services Europe
The recoverable amount of this cash-generating unit has been determined based on the value in use calculation using cash flow projections approved by senior management covering a 5-year period. The pretax discount rate applied to cash flow projections is 9.5% (2005: 11.8%) and cash flows beyond the 5-year period are extrapolated using a 1.8% (2005: 1.8%) growth rate which is based on an average long term GDP (Gross Domestic Product) growth rate for the European countries in which IFCO SYSTEMS is operating.

RPC-Management-Services United States
The recoverable amount of this cash-generating unit has been determined based on the value in use calculation using cash flow projections approved by senior management covering a 5-year period. The pretax discount rate applied to cash flow projections is 12.1% (2005: 15.1%) and cash flows beyond the 5-year period are extrapolated using a 3.0% (2005: 3.1%) growth rate which is based on an average long term GDP growth rate for the United States.

Pallet-Management-Services
The recoverable amount of this cash-generating unit has been determined based on the value in use calculation using cash flow projections based on financial budgets approved by senior management covering a 5-year period. The pretax discount rate applied to cash flow projections is 12.1% (2005: 15.1%) and cash flows beyond the 5-year period are extrapolated using a 3.0% (2005: 3.1%) growth rate which is based on an average long term GDP growth rate for the United States.

	RPC-Management Services				Pallet-Management-Services		Total	
	Europe		United States					
	2006	2005	2006	2005	2006	2005	2006	2005
Carrying amount of goodwill as of December 31	27,088	24,309	9,785	9,785	118,826	118,826	155,699	152,920

Key assumptions used in the annual in use calculation:

The Company projected the cash flows for the five-year period based on detailed assumptions for every cash-generating unit and its specific markets. The model used is the same the Company used in prior years providing a profit and loss account, balance sheet and cash flow statement as well as assumptions for key performance indicators.

The calculation of value in use is sensitive to the assumptions for

- Market share – as well as using industry data for growth rates management assesses how the position of the three cash generating units, relative to its competitors, might change over the budget period.
- Gross margins – key elements for all three cash generating units are logistic costs (e.g. transportation, washing, labor) and material price development for Pallet-Management-Services. Based on average values achieved in prior periods, these costs are projected by including anticipated efficiency improvements and cost developments related to portfolio changes.
- Future investment needs in the RPC pool based on trip growth at average turn rates and maintenance to replace broken crates and shrinkage.

Management has assessed these factors and their possible future impacts very carefully to build up the projection.

The Company used for risk free interest rates 20 year EUR-Germany-Sovereigns and EUR-Composite-AAA. In order to cover the additional risks IFCO SYSTEMS used appropriate public market equity risk premiums and estimated risk premiums in relationship with the actual rating of the companies shares. The beta factor used also reflected the actual bond rating of IFCO SYSTEMS.

The Company's fourth quarter 2006 and 2005 annual testing indicated that there was no impairment of goodwill.

Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The carrying values of plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate the carrying value may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Included in property, plant and equipment is the Company's Reusable Plastic Container (RPC) pools (carrying amount US $288.1 million in 2006 and US $214.4 million in 2005). The Company takes historical information into consideration in determining an appropriate useful life for depreciating the RPC rental pools such as technical useful life, shrinkage, commercial useful life and market acceptance of crates. The limited factor for the determination is the commercial useful life and market acceptance of crates. Therefore, the Company depreciates its own RPCs of the pool for fruit and vegetables to their residual value using the straight-line method over 8 years, however other RPC pools and the acquired CHEP RPC assets over periods ranging from 2 to 8 years.

Effective October 1, 2006, the Company has adjusted its RPC pool residual value estimates, based on the development of the value of granulated RPCs. Accordingly, the estimated residual values of the RPCs have been increased, resulting in lower depreciation in Q4 2006 as compared to prior year quarter in the amount of US $2.0 million. Based on the Company's current property, plant and equipment balances, the Company estimates that this revised residual value will result in reduced depreciation expense in the amount of approximately US $7.8 million per year in future years.

As RPCs break or otherwise become unusable, the Company facilitates the conversion of the RPCs into plastic granulate inventory. As part of the Company's finalized RPC replacement and upgrade program, the Company transferred old RPCs to the supplier and only paid for production costs and other incidental acquisition costs for new RPCs.

Expenditures for maintenance and repairs are charged to expense as incurred. Additions and replacements or betterments that increase capacity or extend useful lives are added to the cost of the asset. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in other (expense) income, net, in the accompanying consolidated income statements.

Investment in Equity entities

Entities for which the Company has between 20.0% and 50.0% of voting rights and exercises significant influence are accounted for using the equity method. Entities for which the Company has greater than 50.0% of voting rights or are controlled by the Company are included within Company's consolidated financial statements.

The Company owns 33.3% of a Japanese RPC systems operation (IFCO-Japan) and owns 49.0% of an Argentine RPC systems operation (IFCO-Argentina). The business processes of these operations are generally similar to the Company's other RPC-Management-Services businesses.

The Company uses the equity method to account for its investment in IFCO-Japan and IFCO-Argentina and accordingly has recorded its proportionate share of the operating results of these businesses, which are included in income from equity entities in the accompanying consolidated income statements. The Company is not required to fund operations of IFCO-Japan or IFCO-Argentina beyond its respective cumulative investments.

Accounts receivables

Trade receivables are recorded at amortized costs or the amount the Company expects to collect on gross customer trade receivables. A reserve has been established based on historical experience, in addition to a reserve for specific receivables which may not be fully collectible. Items deemed uncollectible are written off against allowance for doubtful accounts.

Inventories

Inventories are valued at the lower of cost or net realizable value, with cost primarily determined on a weighted average basis. The cost of finished goods inventory includes direct materials, direct labor and overhead.

Investments and other financial assets and liabilities

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale investments, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction cost. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit and loss when the analysis shows that the economic characteristics and risk of embedded derivatives are not closely related to those of the host contract.

The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates the designation at each financial year end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Initial recognition and measurement

Financial assets consist with the exception of derivatives only of loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Financial liabilities are initially recognized at the fair value of the consideration received less directly attributable costs. After initial recognition, they are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Derivatives

The Company uses derivative financial instruments such as foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are stated at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. At the inception of the hedge relationship, the Company must designate the derivative instrument as either a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation. This designation is based upon the exposure being hedged.

On November 24, 2003, the Company entered into a forward exchange contract in order to offset the cash flow variability related to changes in exchange rates on certain intercompany transactions. When entered into, the forward exchange contract did not qualify for hedge accounting because the related intercompany transactions do not impact earnings. As a result, changes in the fair value of this instrument are recognized as a component of foreign currency loss in the accompanying consolidated statements of operations. The forward exchange contract expired at December 31, 2006.

The fair value of this instrument marked-to-market as the Euro to United States Dollar exchange rate changed during the term of the contract. The Company measured the fair value of its foreign currency derivative based on information provided by financial institution. The fair value of this instrument was approximately US $0.2 million as of December 31, 2005 and was reflected in other current assets within the accompanying consolidated balance sheets.

Treasury shares

The Company's reacquired ordinary shares (treasury shares) are deducted from equity. No gain or loss is recognized in the consolidated income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Cash and cash equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The accompanying consolidated statements of cash flows reflect the cash flow activity for the Company's continuing and discontinued operations.

Deferred financing costs

According to IAS 39 'Financial Instruments: Recognition and Measurement', the Company nets deferred financing costs related to the issuance of the Company's debt obligations against those obligations on the Company's consolidated balance sheets.

Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful life of the asset.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as the lease income. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Refundable deposits

The Company receives deposits from certain non United States customers upon RPC delivery that are classified as refundable deposits in the accompanying consolidated balance sheets. These deposits are refunded by the Company when the RPCs are returned.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred income tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- where the sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Revenue recognition

Revenues resulting from RPC related service fees are recognized once they can be measured reliably, the economic benefits associated with the transaction will flow to the Company, the stage of completion of the transaction at the balance sheet date can be measured reliably and the services related to prepare the RPC for a trip are complete and the RPC has been delivered to the producer.

Revenues resulting from RPC asset rental fees are recognized on a straight line basis over the average lease term of 30 calender days per RPC.

Revenues resulting from the sale of recycled pallets are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

Equity settled transactions

The cost of equity settled transactions with employees, for awards granted after November 7, 2002 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate option pricing model.

The cost of equity settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represented in movement in cumulative expense recognized as at the beginning of the period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Foreign currency transactions and translation

The consolidated financial statements are presented in USD, which is the Company's presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the European subsidiaries is the EUR. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Company at the rate of exchange ruling at the balance sheet date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement.

Profit per share

Basic net profit per share is based on the weighted average number of ordinary shares outstanding adjusted by the number of shares bought back and diluted net profit per share is based on the weighted average number of ordinary shares outstanding adjusted by the number of shares bought back plus the dilutive common equivalent shares outstanding during the period.

Use of estimates

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant estimates made by management include depreciation lives and impairment for RPCs, the service obligation period of the RPC revenue cycle, the amount of deposit to be refunded, realizability of goodwill and the future years planning horizon for deferred income tax assets. Although the Company reviews all significant estimates affecting its consolidated financial statements on a recurring basis and records the estimated effect of any necessary adjustments prior to their publication, actual results inevitably will differ from these estimates, and such differences may be material to the consolidated financial statements.

3. Discontinued operations

In February 2002, the Company completed the sale of a majority of the assets of the industrial container services operations to Industrial Container Services, LLC (the Buyer).

During 2005 and 2006, the Company accrued net provisions in the amount of US $2.6 million and US $0.2 million, respectively, primarily based on actual and estimated legal costs and other costs which may be required in defending certain claims relating to the Acme barrel facility in Chicago, Illinois. As of December 31, 2006, the Company has a remaining discontinued operations liability of approximately US $1.3 million, primarily relating to anticipated legal defense costs of these claims (see Notes – Litigation), which is included in provisions in the accompanying consolidated balance sheet.

During 2005, the Company's Board of Directors approved the Company's Executive Management to pursue a sale of its non strategic Pallet Pooling business in Canada. The sale was completed in June 2005, with proceeds totaling approximately US $8.8 million, including US $6.6 million in cash and promissory notes from the buyer totaling US $2.2 million. In accordance with the promissory note agreement, the buyer received a discount of approximately US $0.5 million when it repaid the promissory note prior to December 31, 2005. As a result of the collection of the outstanding promissory note balance, the Company received a total of approximately US $8.3 million in cash from the sale of this segment during 2005. During 2005, prior to the disposal, the Pallet Pooling business generated revenues, operating earnings, and operating cash flows of US $11.4 million, US $0.4 million and US $0.5 million.

As required under IFRS, the results of operations for all periods prior to the disposal and the accounting loss on disposal of approximately US $1.5 million recorded during 2005 are presented as a component of discontinued operations in the accompanying consolidated income statements and statements of cash flows.

4. Property, plant and equipment

Property, plant and equipment consists of the following:

US $ in thousands	Estimated Useful Lives in Years	As of December 31, 2006	2005
Land		832	832
Buildings and improvements	15-40	7,351	7,221
RPCs	2-8	400,273	323,419
Machinery and equipment	4-10	49,344	41,271
Furniture and fixtures	4-10	6,989	5,907
Tractors and trailers	5-6	18,314	12,290
		483,103	**390,940**
Less: Accumulated depreciation, amortization and impairment		(157,744)	(147,239)
		325,359	**243,701**

The movement in the Company's property, plant and equipment during 2006 is as follows:

US $ in thousands	Land	Buildings	RPCs	Machinery and Equipment	Furniture and Fixtures	Tractors and Trailers	Total
Net book value, January 1, 2006	832	3,468	214,442	16,713	1,186	7,060	243,701
Currency translation gain	–	33	20,933	1,123	91	–	22,180
Additions	–	191	55,366	7,897	971	6,246	70,671
CHEP purchase	–	–	23,287	–	–	–	23,287
Retirements	–	(79)	–	(66)	–	(20)	(165)
Transfer	–	(71)	–	(558)	(8)	(55)	(692)
Depreciation and shrinkage	–	(910)	(25,923)	(3,911)	(582)	(2,297)	(33,623)
Net book value, December 31, 2006	**832**	**2,632**	**288,105**	**21,198**	**1,658**	**10,934**	**325,359**
Historical cost	832	7,351	400,273	49,344	6,989	18,314	483,103
Accumulated depreciation, amortization and impairment	–	(4,719)	(112,168)	(28,146)	(5,331)	(7,380)	(157,744)
Net book value, December 31, 2006	**832**	**2,632**	**288,105**	**21,198**	**1,658**	**10,934**	**325,359**

The movement in the Company's property, plant and equipment during 2005 is as follows:

US $ in thousands	Land	Buildings	RPCs	Pallet Pool	Machinery and Equipment	Furniture and Fixtures	Tractors and Trailers	Total
Net book value, January 1, 2005	870	4,389	186,992	4,668	15,017	1,485	2,152	215,573
Currency translation loss	–	(67)	(23,095)	–	(1,015)	(96)	–	(24,273)
Additions	–	438	73,190	–	9,302	523	5,727	89,180
Retirements	(38)	(669)	(24)	(4,668)	(3,501)	(89)	(54)	(9,043)
Depreciation and shrinkage	–	(623)	(22,621)	–	(3,090)	(637)	(765)	(27,736)
Net book value, December 31, 2005	**832**	**3,468**	**214,442**	**–**	**16,713**	**1,186**	**7,060**	**243,701**
Historical cost	832	7,221	323,419	–	41,271	5,907	12,290	390,940
Accumulated depreciation, amortization and impairment	–	(3,753)	(108,977)	–	(24,558)	(4,721)	(5,230)	(147,239)
Net book value, December 31, 2005	**832**	**3,468**	**214,442**	**–**	**16,713**	**1,186**	**7,060**	**243,701**

In addition to the movements shown within the 2005 table there has been a reduction of historical cost and accumulated depreciation for crates of the old generation in Europe in a volume of US $31.0 million that have been disposed within the years up to 2005. Those two reductions had no impact to the net book value of the Company's RPCs.

In addition to the movements shown within the 2006 table there has been a reduction of historical cost and accumulated depreciation for crates of the old generation in North America in a volume of US $15.2 million that have been disposed through the end of 2006. Those two reductions had no impact to the net book value of the Company's RPCs.

Due to the change of the crate type demand of our customers, we do not offer services for the yellow pool anymore. Based on IAS 36 we have impaired the net book value of this pool. An amount of US $1.5 million is included in depreciation of RPCs in 2006 as a result of this impairment reducing the book value to the fair value less cost to sell, which is based on market value for granulate.

Of the RPCs above, cost of US $39.9 million and US $36.8 million and accumulated amortization of US $7.2 million and US $6.6 million are held under finance leases as of December 31, 2006 and 2005, respectively.

Of the tractors and trailers above, cost of US $12.3 million and US $5.4 million and accumulated amortization of US $2.6 million and US $0.5 million are held under finance leases as of December 31, 2006 and 2005, respectively.

5. Detail of certain balance sheet accounts

Goodwill

The changes in the carrying amount of goodwill are as follows for 2006 and 2005:

US $ in thousands	2006	2005
Beginning balance	152,920	155,874
Increase (decrease) due to foreign exchange translation	2,779	(2,954)
Ending balance	**155,699**	152,920

Receivables

The major components of receivables are as follows:

US $ in thousands	As of December 31, 2006	2005
Trade receivables	150,570	141,475
Less: Allowance for doubtful accounts	(4,935)	(6,089)
	145,635	135,386

The Company's allowance for doubtful accounts, which the Company reserves for and updates based on its best estimates of potentially uncollectible accounts, consists of the following:

US $ in thousands		Year ended December 31,
	2006	2005
Beginning balance	6,089	5,765
Write-offs	(2,543)	(1,821)
Additional provisions	782	2,705
Increase (decrease) due to foreign exchange translation	492	(641)
Other	115	81
Ending balance	**4,935**	6,089

Inventories

The major components of Pallet-Management-Services inventories are as follows:

US $ in thousands		As of December 31,
	2006	2005
Raw materials (at cost)	5,912	6,572
Finished goods (at cost)	7,782	7,069
Total inventories	13,694	13,641

Other current assets

The major component of other current assets is European value-added tax receivables, which have a balance of US $10.5 million (2005: US $7.8 million). Due to the short maturity the book value approximates the fair value.

Provisions

US $ in thousands	Employee bonus	Legal contingencies	Self- insurance reserves	Discontinued operations	Restructuring	Professional fees	Total
Beginning balance	8,141	1,629	2,975	2,249	417	299	15,710
Arising during the year	2,687	–	9,754	682	–	8,572	21,695
Utilized	(8,557)	(1,357)	(8,667)	(1,491)	–	(6,934)	(27,006)
Unused amounts reversed	(660)	–	–	–	(185)	–	(845)
Exchange adjustments	247	118	–	–	27	–	392
Ending balance	1,858	390	4,062	1,440	259	1,937	9,946

The employee bonus for 2006 will be paid during March and April 2007.

See Notes to commitments and contingencies for a brief description of provisions for legal contingencies, insurance and discontinued operations.

A provision of US $0.3 million is recognized for reconstruction of a closed washing depot in Europe.

Refundable deposit

The Company accrues Euro 1.50 for each European RPC in circulation. The carrying amount of the refundable deposit is US $117.4 million as of December 31, 2006 (US $120.2 million as of December 31, 2005) and is based on the assumption that all RPCs in circulation will be recollected.

Other current liabilities

The major components of other current liabilities are as follows:

US $ in thousands	As of December 31, 2006	2005
Interest payable	7,537	6,754
Logistic remuneration	7,403	6,201
Other	16,248	18,382
	31,188	31,337

Due to the short term maturity the book value approximates the fair value for other current liabilities as well as for trade and other payables.

Exchange warrant reserve

Article 20.3 of the Company's articles of association state, that from the profits the Board of Managing Directors shall first allocate an amount of fifty thousand euro (EUR 50,000), with respect to the payment of the issue price on the shares (EUR 0.01 per share) to be issued upon exercise of the Exchange Warrants – see also The IFCO SYSTEMS share –, to a reserve, which reserve will be used solely for the payment of the issue price on the shares to be issued upon exercise of the Exchange Warrants to the holders of the Exchange Warrants (the “Exchange Warrant Reserve”).

According to this regulation, EUR 50,000 were included in the Company's retained earnings as of December 31, 2005.

On December 20, 2005, it was resolved that the warrant exchange resulted in the issuance of up to 8,448,360 ordinary shares of IFCO SYSTEMS N.V.. Therefore, in the extraordinary General Meeting of Shareholders on January 9, 2006 the shareholders of IFCO SYSTEMS N.V. unanimously adopted the increase of the Exchange Warrant Reserve (Par Value Subscription Reserve) from EUR 50,000.- to EUR 90,000.- according to Article 20.3 of the Articles of Association of IFCO SYSTEMS N.V. by reallocation of an amount of EUR 40,000.- from the Company's free distributable share premium reserve (retained earnings) to the Exchange Warrant Reserve.

The expenses associated with the warrant exchange were capitalized in the amount of US $0.7 million in 2005. In 2006 these capitalized expenses were reclassified to equity. The total reduction of equity in 2006 resulting from the warrant exchange is US $0.9 million as shown in the accompanying statements of changes in equity.

Other reserves

Other reserves as outlined in the statement of changes in equity relate to currency related differences.

Paid in Capital

Paid in capital mainly includes capital surplus from the issuance of stock. There are no restrictions on the use of the paid in capital.

6. Detail of certain income statement accounts

US $ in thousands	Year ended December 31, 2006	2005
Included in cost of sales:		
Depreciation	32,839	26,810
Employee benefits expense	108,959	98,024
Costs of inventories recognized as an expense	160,855	142,473
Included in selling expenses:		
Employee benefits expense	8,068	7,410
Included in general and administrative expenses:		
Depreciation	867	923
Employee benefits expense	18,166	20,234

Stock based compensation expenses as outlined in the income statement mainly relate to general and administrative expenses.

Amortization of other assets as outlined in the income statement mainly relate to general and administrative expenses.

7. Earnings per share

The following reflects the income and share data used in the basic and diluted earnings per share computations:

US $ in thousands		As of December 31,
	2006	2005
Net profit attributable to ordinary equity holders of the parent from continuing operations	37,952	44,556
Loss attributable to ordinary equity holders of the parent from discontinued operations	(665)	(3,651)
Net profit attributable to ordinary equity holders of the parent	**37,287**	40,905

		As of December 31,
	2006	2005
Weighted average number of ordinary shares for basic earnings per share	53,198,989	45,508,810
Effect of dilution:		
Stock options	949,911	1,230,623
Warrant shares	–	8,121,517
Weighted average number of ordinary shares adjusted for the effect of dilution	**54,148,900**	54,860,950

The potential issuance of new shares resulting from the exercise of stock options and in prior year the exchange of warrants are considered in the above calculation of dilutive shares.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the authorization date of the Company's consolidated financial statements.

8. Debt

Senior Secured Notes

On October 10, 2003, the Company issued 10 3/8% Guaranteed Senior Secured Notes in the principal amount of €110.0 million in a private placement. The Senior Secured Notes mature on October 15, 2010, and are senior secured obligations of IFCO SYSTEMS ranking equally with other existing or future senior secured indebtedness in right of payment. Interest at the rate of 10 3/8% per year from the date of issuance is payable semi annually in arrears on each June 30 and December 31. No principal payments are due under the Senior Secured Notes until maturity on October 15, 2010. The Senior Secured Notes are secured by a first priority lien on substantially all of the Company's assets, except the assets of IFCO SYSTEMS GmbH and its subsidiaries. The Senior Secured Notes are guaranteed by most of the Company's subsidiaries. All of the subsidiary guarantees of the Senior Secured Notes (other than that of IFCO SYSTEMS GmbH, the guarantee of which is unsecured) are secured by substantially all of the assets of such subsidiary guarantors, including pledges of the stock of most of the Company's subsidiaries. The carrying amount of assets pledged is US $167.1 million.

The Senior Secured Notes became redeemable on October 15, 2006 with a redemption price equal to the principal amount thereof plus accrued and unpaid interest and a redemption premium (initially 110.4%) and certain additional amounts. The redemption price will decline to 105.2% on October 15, 2007, 102.6% on October 15, 2008 and will decline to 100.0% on October 15, 2009 and thereafter until maturity.

The indenture governing the Senior Secured Notes allows the Company to issue additional notes in an aggregate principal amount of up to €50.0 million under the same security package as the Senior Secured Notes, but only to the extent that the Company meets certain interest coverage ratios on a pro forma basis considering the issuance of the additional notes and that no default or event of default will have occurred as a consequence of the additional indebtedness being incurred.

If a change of control of greater than 50.0% of the Company's voting stock occurs, each holder of the Senior Secured Notes may individually require the Company to purchase their notes at a purchase price in cash equal to 101.0% of the principal amount of the Senior Secured Notes plus accrued and unpaid interest. A change of control, as defined, does not include a change in ownership if the sale of voting stock to an acquirer is made by holders who received this stock in connection with the conversion of the former Senior Subordinated Notes.

The indenture governing the Senior Secured Notes contains a number of covenants that, among other things, limit the Company and its subsidiaries' ability to incur additional debt, make certain restricted payments, create certain liens, dispose of assets and subsidiary capital stock, merge or consolidate, issue guarantees, pay dividends, and otherwise restrict certain corporate activities. The Senior Secured Notes also limit the Company's obligations under finance leases to €25.0 million. The Senior Secured Notes also contain customary events of default, including non-payment of principal, interest or fees, material inaccuracy of certain representations and warranties, violation of covenants, cross-default to certain other debt, certain events of bankruptcy and insolvency, material judgments, and a change of control in certain circumstances.

The Senior Secured Notes are not listed on a public market. The fair value of the Senior Secured Notes has been determined by using the fair values of comparable notes of comparable companies. These comparisons support Company's assessment that fair value is nearly equal to nominal value.

Working Capital Facility

During 2004, one of the Company's indirect European subsidiaries entered into a €20.0 million working capital facility (the Facility). The purpose of the Facility was to provide a mechanism to secure certain letters of credit which the Company had issued and to provide for liquidity as necessary for capital or working capital requirements. During 2005, the Facility was increased to €35.0 million. During 2006, the Facility was increased to €40.0 million and then to €44.0 million, respectively.

Outstanding cash borrowings, which are limited to €24.0 million (US $31.7 million based on exchange rates as of December 31, 2006), accrue interest at a variable rate of interest based on the Euro Over Night Index Average (Eonia), with interest payable quarterly. Due to the variability of this interest rate basis, the Company is exposed to interest rate fluctuations in that respect.

No principal payments are due under the Facility, which is secured by certain assets of our European operations, until its maturity in July 2007. The carrying amount of assets pledged is US $82.6 million.

The working capital facility agreement contains financial covenants as EBITDA leverage, interest coverage and magnitude of EBIT and refundable deposit.

As of December 31, 2006, there were US $3.5 million outstanding cash borrowings and approximately US $13.7 million in outstanding letters of credit under the Facility.

Maturities of debt

Long-term debt consists of the following:

US $ in thousands	As of December 31, 2006	2005
Senior secured notes	145,167	130,262
Other	3,908	602
	149,075	130,864
Less: current maturities	(3,545)	(226)
	145,530	130,638
Less: deferred financing costs	(5,360)	(6,308)
	140,170	124,330

The maturities of long-term debt are as follows as of December 31, 2006:

US $ in thousands	Amount
2007	3,545
2008	47
2009	32
2010	145,451
2011	–
	149,075

Receivable factoring

In 2006, a subsidiary of IFCO SYSTEMS Europe entered into non-recourse factoring agreement under which this European subsidiary may offer all of their trade receivables to third-party factoring companies. Under the factoring agreement, the sales price is the nominal value of the receivable less a factoring fee. The third-party factoring companies have the right to collect the receivables and bear the collection risk. Under these agreements, there is a factoring fee ranging from 0.10% to 0.25% of the nominal value of the factored receivables and the interest rate on cash advances relating to factored receivables at rates ranging from 4.73% to 5.23% as of December 31, 2006. The Company's European subsidiaries incurred factoring charges and factoring-related interest charges of US $0.4 million and US $0.3 million during 2006 and 2005, respectively, which are shown as factoring charges in the accompanying consolidated statements of income.

Finance lease obligations

The Company has entered into leases with unaffiliated third parties principally for RPCs in Europe that are accounted for as finance leases. The RPC finance leases are part of sale-leaseback transactions in which the Company has sold the RPCs to third parties, which then leases them back to the Company. The RPC finance leases cover approximately 10.2 million RPCs as of December 31, 2006. Upon termination of certain of these leases, the Company has the option to repurchase the RPCs. All of these lease agreements require the Company to repurchase the leased RPCs on the lessor's demand.

The Company has also entered in finance leases covering certain operating equipment. These contracts have bargain purchase options at the end of the lease period, which the Company intends to exercise.

The present value of minimum lease payments was as follows as of December 31, 2006:

US $ in thousands	1 year	2-3 years	4-5 years	5+ years	Total
Total future minimum lease payments	16,154	19,800	446	–	36,400
Less amounts representing interest at 4.00%-10.50%	(1,626)	(965)	(25)	–	(2,616)
	14,528	18,835	421	–	33,784

Financial risk management objectives and policies

The Company's principal financial instruments, other than derivatives, comprise senior secured notes, working capital facility, finance leases and cash and short-term deposits. The main purpose of these financial instruments is to fund the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the foreign currency risk arising from the Company's sources of finance. The forward exchange contract expired at December 31, 2006.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risk arising from the Company's financial instruments is foreign currency risk. There are no significant concentrations of credit risk within the Company.

The Company's exposure to the risk of changes in market interest rates is limited and relates only to the working capital facility. The majority of the Company's interest bearing debt (Senior Secured Notes) has fixed interest rates.

Foreign currency risk is the risk that the Company will incur economic losses due to adverse changes in foreign currency exchange rates. As currency exchange rates change, translation of the financial statements of our international businesses into US Dollars and Euros affects year-to-year comparability of our results of operations. Appreciation of the US Dollar, our presentation currency, against the Euro decreases our revenues and costs as reported in our financial statements for those operations that have a functional currency other than the US Dollar. Conversely, depreciation of the US Dollar against the Euro increases our revenues and costs. The appreciation or depreciation of the US Dollar against the Euro, therefore, impacts our reported results. Our operating subsidiaries in countries other than those countries participating in the European Monetary Union and adopting the Euro as their national currency use their local currency as their functional currency.

During 2003, the Company entered into a forward exchange contract in order to offset the cash flow variability related to changes in exchange rates on certain intercompany transactions. The forward exchange contract expired at December 31, 2006.

Aside from the US Dollar, our reporting currency, the Euro is our other primary functional currency. The following table summarizes the value of the Euro relative to the US Dollar.

	As of December 31		Average for Fiscal Year	
	2006	2005	**2006**	2005
1 US Dollar relative to 1 Euro	**1.3197**	1.1842	**1.2560**	1.2446

The Company incurs currency transaction risk whenever one of our operating subsidiaries enters into either a purchase or sales transaction using a currency other than its functional currency. Our currency risk arises from foreign currency receivables as well as from firm commitments to purchase services and supplies in the future in currencies other than the subsidiary's functional currency. Additionally, the intercompany financing between IFCO SYSTEMS N.V. and IFCO SYSTEMS North America is subject to currency transaction risk.

9. Income taxes

The major components of the Company's income tax provision for the years ended December 31, 2006 and 2005 are:

US $ in thousands	Year ended December 31, 2006	2005
Current income tax provision:		
Germany:		
Current income tax charge	2,218	556
Adjustments in respect of current income tax of previous years	(8)	(12)
	2,210	544
Foreign:		
Current income tax charge	4,629	3,152
Adjustments in respect of current income tax of previous years	–	(738)
	4,629	2,414
Net current income tax provision	**6,839**	2,958
Net deferred income tax benefit	**(354)**	(952)
Income tax provision reported in the consolidated income statement	**6,485**	2,006

The differences in income taxes provided and the amounts determined by applying the appropriate group tax rates to income from continuing operations before income taxes result from the following:

US $ in thousands	Year ended December 31, 2006	2005
Net profit before tax from continuing operations	44,438	46,562
Tax provision at group rate (38.0% for each 2006 and 2005)	16,886	17,694
Increase (decrease) resulting from:		
Unrecognized tax losses	(7,362)	(13,635)
Differences between group tax rates and local statutory tax rates	(3,001)	(2,823)
Change in tax rates	–	166
Non-income based taxes	–	587
Non-deductible expenses	604	977
Tax adjustments from prior years	(8)	(750)
Other	(634)	(210)
Income tax provision reported in the consolidated income statement	**6,485**	2,006

Components of the Company's net deferred tax assets and liabilities are as follows:

US $ in thousands	2006	At December 31, 2005
Deferred income tax assets:		
Carryforward losses	57,301	31,434
Capitalized RPC cost	9,428	9,349
Interest limitation	6,118	6,348
Stock option deductions	1,621	–
Loss from discontinued operations	477	844
Patent	144	160
Allowance for doubtful accounts	324	672
Inventory basis differences	172	365
Other accruals and reserves	2,497	3,470
Other	4,322	4,627
Subtotal deferred income tax assets	**82,404**	57,269
Netted with deferred income tax liabilities	(71,751)	(50,428)
Total deferred income tax assets	**10,653**	6,841
Deferred income tax liabilities:		
Accelerated depreciation	68,930	43,318
Loan costs	1,463	1,659
Other	5,813	8,247
Subtotal deferred income tax liabilities	**76,206**	53,224
Netted with deferred income tax assets	(71,751)	(50,428)
Total deferred income tax liabilities	**4,455**	2,796
Deferred income tax asset, net	**6,198**	4,045

The stock option deductions (US $1.6 million) and the relating effects to net operating losses (US $0.8 million) had been recorded to equity (US $2.4 million) as well as the foreign currency adjustments. All other changes are recorded in income.

At December 31, 2006, the Company has net corporate operating loss carryforwards available as follows:

US $ in thousands	Amount
Germany	212,703
United States	101,770
Other European countries	49,084
Total	**363,557**

The corporate loss carryforwards attributable to German operations, together with additional trade tax carryforwards (approximately US $166.5 million available as of December 31, 2006), do not expire. The loss carryforwards attributable to United States operations expire between 2021 and 2024. The loss carryforwards attributable to other European countries' operations expire as follows; approximately US $0.4 million expire between 2007 and 2009, approximately US $6.9 million expire between 2010 and 2015 and the remainder does not expire. All loss carryforwards are available to offset future taxable income in their respective tax jurisdiction; however, loss carryforwards attributable to the United States are subject to a limitation of use under Internal Revenue Code Section 382 and loss carryforwards attributable to Germany are subject to a limitation under German Income Tax Code Section 10d. The Company has developed certain tax planning strategies to reduce the effects of loss carryforward limitations in future years. All loss carryforwards still require final validation from the respective local taxing authorities and may be adjusted upon further review.

During 2005 and 2006, the Company capitalized certain deferred tax assets in the United States and Germany, as the Company's operating results have increased the likelihood that these deferred tax assets will be utilized over the next three (2005: two) years. The Company has a capitalized deferred tax asset based on the projected use of loss carry forwards over the next three years in amount of US $9.8 million in Germany and US $18.8 million in the United States. A positive taxable income over the next three years and the increase of the projection period from two up to three years is probable due to positive operating results already achieved in 2006 in the United States and Germany and due to the tax planning strategy in regard of the depreciation volume for RPCs in Germany. No deferred tax assets are capitalized for loss carry forwards in the total amount of US $188 million, thereof approximately US $94 million in Germany, approximately US $47 million in the United States, and approximately US $45 million in the European countries.

Deferred taxes have not been recognized for temporary differences of US $18 million relating to earnings from foreign subsidiaries, either because these profits are not subject to taxation or because they are to be reinvested for an indefinite period. If deferred taxes were recognized for these temporary differences, the liability would be based on the respective withholding tax rates only, taking into account the German tax rate of 5% on corporate dividends where applicable. The amount of these unrecognized deferred tax liabilities could not be derived with reasonable effort.

10. Related parties

Shareholders

As of February 20, 2007, 88.9% of IFCO SYSTEMS ordinary shares continue to be held by Island International Investment Limited Partnership (Island LP) with Cortese N.V. (a Netherlands Antilles company) as the Managing General Partner of Island LP. Cortese N.V. is beneficially owned by the limited partnerships which collectively make up the Apax Europe V Fund. The ultimate controlling party of these limited partnerships is considered to be Apax Europe V GP Co. Limited, the General Partner of Apax Europe V GP L.P., the General Partner of the limited partnerships. Apax Europe V GP Co. Limited is a company registered in Guernsey. Executive Management of IFCO SYSTEMS continues indirectly to own 8.4% of the share capital of IFCO SYSTEMS.

Supervisory Board

Name	Position
Dr. Bernd Malmström	Chairman
Michael Phillips	Vice Chairman I
Christoph Schoeller	Vice Chairman II
Hervé Defforey	
Ralf Gruss	
Dr. Philipp Gusinde	

Board of Managing Directors

Name	Position
Karl Pohler	Managing Director
Douwe Terpstra	Managing Director

Our Board of Managing Directors received in 2006 a compensation of US $2.0 million. However, Mr. Pohler is only compensated as member of the Executive Management Committee but not separately compensated for serving as member of the Board of Managing Directors.

Executive Management Committee

Name	Position
Karl Pohler	Chief Executive Officer
Michael W. Nimtsch	Chief Financial Officer
Wolfgang Orgeldinger	Chief Operating Officer
David S. Russell	President, IFCO SYSTEMS North America

2006 total cash compensation for our four Executive Managers will be approximately US $5.6 million (US $5.7 million in 2005), consisting of US $1.9 million (US $1.9 million in 2005) in base salaries and US $3.7 million (US $3.8 million in 2005) for variable cash incentives. In 2006 the variable component amounted to approximately 65.3% (66.6% in 2005) of total compensation, which is consistent with the Company's policy to focus on variable, performance related remuneration. For the stock option expenses for the management share incentive plan please see Notes to employee benefit plans.

Employment agreements

The Company has entered into employment agreements with the Executive Management Committee. The remaining base salary commitment under the terms of these agreements as of December 31, 2006, is payable as follows:

US $ in thousands	Amount
2007	1,979
2008	–
2009	–
Total	**1,979**

Except transactions related to service agreements and compensation of out of pocket expenses, there were no transactions between the Company and related parties during the financial year.

11. Commitments and contingencies

Litigation

During 2001 and 2002, several lawsuits were filed by Arthur Stöckli (Stöckli) and his affiliate, Asto Consulting Innovative Marketing S.A. (Asto), in the Regional Court in Munich, Germany, against IFCO SYSTEMS Europe with respect to certain contracts entered into by the Company with Stöckli and Asto. Stöckli is seeking to recover certain sales commissions, remuneration, and expenses allegedly owed to him pursuant to an agency agreement between IFCO SYSTEMS Europe and Stöckli with respect to the sale of certain products in Spain and an agreement between one of the Company's former subsidiaries and Asto for the development of the Company's operations in Latin America. During 2004 other related pending lawsuits were settled. As of December 31, 2006 a provision of US $0.4 million (2005: US $0.4 million) was recorded.

In May and June 2003, two lawsuits were filed in Illinois state court in Cook County, naming as defendants the Company and certain of its subsidiaries as well as a number of the customers, ICS and certain affiliates of ICS, based upon alleged discharges of contaminants, toxic substances and chemicals from the Acme Barrel facility on or before mid-2001. The first lawsuit was filed in May 2003 on behalf of approximately 481 plaintiffs, individually and on behalf of a putative class of people alleged to have been exposed to releases from the facility. In addition to claims of bodily injury, the suit includes wrongful death claims. The second lawsuit, filed in June 2003, is a wrongful death action alleging the cause of death as exposure to releases from the facility based on the decedent's employment in a building across the street from the facility. The plaintiffs in each lawsuit seek unspecified damages. At this stage, the Company cannot accurately assess the potential merit or consequences of these claims. Although the Company believes claims such as these are typically fact-intensive and can take years to resolve, it can provide no assurance about the timing of any resolution of these claims. Some of the other named defendants are former customers of Acme Barrel, which the Company had agreed to indemnify and hold harmless against certain environmental liabilities, and the Company cannot assess the extent to which any such customers will incur liability or become entitled to indemnification from us. The Company has agreed to assume the defense of ICS, its parent, and certain affiliates, which have been named as defendants, on the basis that the claims could give rise to a claim covered by the indemnity in the agreement for the sale of Acme Barrel. Additionally, some customer defendants have filed cross-claims against certain Acme defendants. The Company cannot predict what actions other defendants might take or whether such actions would be prejudicial to the Company. The Company intends to defend the litigation vigorously. However, if these claims are determined adversely to the Company or to parties to whom the Company owes indemnities, such claims could have a material adverse effect on the Company's business, liquidity, results of operation and financial condition. As of December 31, 2006 a provision of

US $0.8 million was recorded for estimated future legal defense costs. During July 2006, one of the Company's subsidiaries was notified of a lawsuit filed by the city of Chicago against one of the Company's subsidiaries requesting that it demolish or otherwise repair the Chicago drum property to a condition suitable to the city of Chicago. Although the Company is still in discussions with the city of Chicago regarding this claim, approximately US $0.5 million was accrued during 2006, representing estimated demolition and other costs which might ultimately be associated with these claims. See footnote on Discontinued Operations.

ING Barings Limited has claimed the reimbursement of approximately US $1.6 million in expenses incurred during the Company's financial restructuring in 2001 and 2002. During 2005 the District Court of Amsterdam awarded ING's claim and the Company paid €1.2 million (US $1.4 million). The Company filed an appeal in November 2005. The respective court hearing took place on February 7, 2007.

On April 19, 2006, a number of sites and facilities of certain U.S. subsidiaries of the Company were searched by agents from the U.S. Immigration and Customs Enforcement ('ICE'), the investigative arm of the U.S. Department of Homeland Security ('DHS'). Also on that date, certain of the facilities of these U.S. subsidiaries of the Company were searched by warrant and consent; less than 10 past and present employees were arrested; documents were seized; and ICE detained employees alleged to be illegal aliens working for affiliates of the Company. The arrests of the past and present employees were prompted by suspicion that these employees were involved in the hiring, at one facility in upstate New York, of illegal aliens not eligible for employment in the United States under U.S. immigration laws. The Company and its subsidiaries have not been named in any criminal complaint or indictment. U.S. subsidiaries of the Company are, however, the subject of an on-going investigation to determine whether these suspected hiring practices occurred elsewhere or were known to or condoned by management. The U.S. government has not indicated that any of the Company's or its subsidiaries' directors, officers or employees (other than those arrested on April 19, 2006) are targets or subjects of the investigation. The Company and its subsidiaries have indicated their willingness to cooperate fully with the U.S. government's investigation into these matters. As of December 31, 2006 a provision of US $1.6 million was recorded for legal defense costs.

The Company is a defendant in various other legal matters arising in the normal course of business. In the opinion of management, after consultation with legal counsel, the ultimate resolution of these matters is not expected to have a material effect on the accompanying consolidated financial statements.

Insurance

The Company carries a broad range of insurance, including general and business auto liability, directors and officers, commercial property, business interruption and a general umbrella policy.

IFCO SYSTEMS North America is self-insured for certain medical claims up to US $0.1 million per person per year and is self-insured for workers compensation claims up to US $0.3 million per incident per year. Provisions for expected future payments are accrued based on IFCO SYSTEMS North America's estimate of its aggregate liability for all open and unreported claims. Management has accrued US $3.8 million and US $2.8 million as of December 31, 2006 and 2005, respectively, and believes this amount is adequate to cover known and unreported medical and workers compensation claims.

Leasing arrangements

The Company leases certain facilities and machinery under noncancellable operating leases. Lease payments are expensed on a straight-line basis over the term of the lease. Minimum future rental payments under these leases as of December 31, 2006, are as follows:

US $ in thousands		Amount
	2006	2005
2006	–	16,842
2007	20,894	12,488
2008	15,450	8,298
2009	10,170	5,068
2010	6,820	3,196
2011	4,895	–
Thereafter	4,094	2,774
	62,323	**48,666**

Expenses under operating leases were approximately US $21.3 million and US $21.2 million for 2006 and 2005, respectively.

12. Employee benefit plans

Stock option plan

In March 2000, the Company's Board of Directors (the Board) approved the 2000 Stock Option Plan, (the Stock Option Plan). The Stock Option Plan provides for the granting of stock options to directors, executive officers, and other employees of the Company and terminates in March 2010. In general, the terms of the option awards are established by the Board.

During 2003, the Board granted options to purchase an aggregate of approximately 1.5 million ordinary shares of the Company to certain managers and members of the Board. The exercise price for each of these options was equal to the value of the Company's ordinary shares on the date of issuance. The options expire between 3 and 5 years from the date of their vesting.

During 2004, the Board granted options to purchase an aggregate of approximately 0.8 million ordinary shares of the Company to certain managers. The exercise price for each of these options was equal to the value of the Company's ordinary shares on the date of issuance. The options expire 5 years from the date of their vesting, which is contingent upon certain defined operational targets being met during each of 2004, 2005 and 2006.

During 2006, the Board of Managing Directors granted options to purchase an aggregate of approximately 0.1 million ordinary shares of the Company to certain managers. The exercise price for each of these options was equal to the value of the Company's ordinary shares on the date of issuance. The options expire 5 years from the date of their vesting, which is contingent upon certain defined operational targets being met during each of 2007, 2008 and 2009.

During 2006 and 2005, the Company recorded total stock based compensation expense of US $0.7 million and US $1.5 million, respectively. The portion of that expense arising from equity-settled share-based payment transactions is US $0.2 million (2005: US $0.4 million).

US $, except number of options	Year ended December 31, 2006			Year ended December 31, 2005		
	Number of Options	Exercise Price Range	Weighted Average Exercise Price	Number of Options	Exercise Price Range	Weighted Average Exercise Price
Outstanding, beginning of period	1,593,436	1.87 – 6.39	3.04	2,023,333	2.14 – 5.01	3.26
Granted	142,500	10.39 – 13.22	12.84	25,100	7.09 – 7.09	7.09
Exercised	(543,001) (2)	1.89 – 6.89	2.70	(434,997) (1)	1.86 – 4.43	2.53
Forfeited	(17,334)	1.90 – 7.13	4.62	(20,000)	2.04 – 2.07	2.06
Outstanding, end of period	1,175,601 (3)	2.09 – 13.21	4.75	1,593,436	1.87 – 6.39	3.04
Options exercisable at end of year	737,034		3.31	756,323		2.61
Weighted average fair value of options granted during year	3.78			1.84		
Weighted average remaining contractual life of options, outstanding at end of period			4.42			4.74

(1) The weighted average share price at the date of exercise for the options exercised is $10.59.
(2) The weighted average share price at the date of exercise for the options exercised is $12.20.
(3) Additional are options over 159,996 shares that have not been recognized in accordance with IFRS 2 as the options were granted on or before November 7, 2002.

Fair value of the options was estimated at the date of grant using the Black-Scholes option-pricing model using the following weighted average assumptions for 2006 and 2005:

	Q4 2006	Q1 2006	2005
Risk free interest rate	3.75%	3.79%	3.12%
Dividend yield	3.00%	3.00%	3.00%
Volatility factor	33.00%	34.40%	30.10%
Weighted average expected life	7.50 years	7.68 years	7.50 years

The expected volatility of the Company reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Management share incentive plan

In January 2003, the Board adopted the 2003 Management Share Incentive Plan (MSIP), pursuant to which IFCO SYSTEMS granted options to purchase an aggregate of 2.3 million ordinary shares of IFCO SYSTEMS to certain Executive Managers. The share awards were allocated in three tranches, each with different vesting terms. One third of these options vested immediately and the remaining options vested based upon future equity value targets of IFCO SYSTEMS. During August 2004, the Executive Managers exercised approximately 1.1 million vested MSIP options. IFCO SYSTEMS' principal shareholder, Island LP, agreed to purchase the shares resulting from this option exercise at €2.75 per share. The Executive Management team used the net proceeds from these transactions, along with private funds, to acquire an investment in Island LP, which represents an aggregate indirect shareholding of approximately 8.4% of the share capital of IFCO SYSTEMS as of December 31, 2006. The remaining unexercised 1.2 million stock options under the MSIP were cancelled. During 2006 and 2005, IFCO SYSTEMS recorded total stock based compensation expense of US $0.5 million and US $1.1 million, respectively. Fair value was estimated using the Black-Scholes option-pricing model.

Employee benefit plan

IFCO SYSTEMS North America sponsors a defined contribution profit-sharing plan (the Plan). Eligible employees may contribute up to the maximum amount permitted under Internal Revenue Service regulations to their account. The Company matches the contributions of participating employees on the basis of the percentages specified in the Plan. The employee and Company matching contributions are invested at the direction of the individual employee. Employer contributions to the plan were US $0.9 million during each of 2006 and 2005.

German annuity assurance

The Company has paid and expensed US $0.9 million during 2006 and US $0.9 million during 2005 for German annuity assurance.

13. Business segments

The Company has adopted IAS 14, 'Segment Reporting'. The Company is organized based on the products and services that it offers. Under this organization structure, the Company's continuing operations includes two primary business segments: the RPC-Management-Services operations (RPC-Management-Services) and the Pallet-Management-Services operations (Pallet-Management-Services). The RPC-Management-Services segment rent RPCs primarily for use in agricultural markets. The Pallet-Management-Services segment recycles wooden pallets in the United States. The Corporate column contains corporate related items not allocated to reportable segments. The Pallet Pooling segment, which leased pallets in Canada primarily for use in agricultural and industrial markets, is shown as a discontinued operation, as it was sold during 2005. As a result, all group level income statement and cash flow information included herein has been restated to present the results of continuing operations only. Prior period balance sheet information has not been restated to reflect the disposal of the Pallet Pooling segment.

The accounting policies for the segments are the same as those described in Notes-Summary of significant accounting policies.

US $ in thousands						Year ended December 31, 2006
	Continuing Operations		Unallocated	Total	Discontinued Operation	Total Operations
	RPC-Management-Services	Pallet-Management-Services	Corporate		Pallet Pooling	
Revenues	285,113	362,123	–	647,236	–	647,236
Results						
Income (loss) from operations	53,559	5,671	(7,191)	52,039	–	52,039
Net gain of RPC pool adjustment				11,396		11,396
Interest expense				(19,332)		(19,332)
Interest income				650		650
Factoring charges				(439)		(439)
Foreign currency loss, net				(2)		(2)
Income from equity entities, net				265		265
Other loss, net				(140)		(140)
Result of finance activities				(18,998)		(18,998)
Profit from continuing operations before taxes				44,437		44,437
Income tax provision				(6,485)		(6,485)
Profit before discontinued operations				37,952		37,952
Loss from discontinued operations				(665)		(665)
Net profit				37,287		37,287
Assets and liabilities						
Total assets	480,685	196,647	21,008	698,340	1	698,341
Total liabilities	262,480	32,227	169,776	464,483	–	464,483
Goodwill	36,873	118,826	–	155,699	–	155,699
Other segment information						
Capital expenditures	99,235	1,636	429	101,300	–	101,300
Investing cash flows	(99,235)	(1,636)	(429)	(101,300)	–	(101,300)
Financing cash flows	(15,570)	(8,425)	3,331	(20,664)	(1,873)	(22,537)

An impairment loss of US $1.5 million is recognized in the net profit of our RPC-Management-Services business segment. See Notes to property, plant and equipment for a brief description.

US $ in thousands						Year ended December 31, 2005
	Continuing Operations		Unallocated	Total	Discontinued Operation	Total Operations
	RPC-Management-Services	Pallet-Management-Services	Corporate		Pallet Pooling	
Revenues	239,763	336,511	–	576,274	–	576,274
Results						
Income (loss) from operations	46,965	29,314	(10,051)	66,228	–	66,228
Interest expense				(18,373)		(18,373)
Interest income				812		812
Factoring charges				(320)		(320)
Foreign currency loss, net				(2,488)		(2,488)
Income from equity entities, net				977		977
Other loss, net				(274)		(274)
Result of finance activities				(19,666)		(19,666)
Profit from continuing operations before taxes				46,562		46,562
Income tax provision				(2,006)		(2,006)
Profit before discontinued operations				44,556		44,556
Loss from discontinued operations				(3,651)		(3,651)
Net profit				40,905		40,905
Assets and liabilities						
Total assets	407,483	196,226	24,973	628,682	1,799	630,481
Total liabilities	249,659	31,611	147,742	429,012	–	429,012
Goodwill	34,094	118,826	–	152,920	–	152,920
Other segment information						
Capital expenditures	78,997	4,648	302	83,947	63	84,010
Investing cash flows	(78,938)	(4,517)	(302)	(83,757)	8,211	(75,546)
Financing cash flows	(6,212)	(25,009)	27,643	(3,578)	(8,395)	(11,973)

The Company's revenue by country, based on the location of the customer, is as follows:

US $ in thousands	Year ended December 31, 2006	2005
Germany	63,284	55,083
Spain	44,680	37,445
Italy	36,932	35,528
Switzerland	27,043	26,288
France	16,449	16,789
Norway	12,684	11,435
United Kingdom	12,423	12,852
Other	19,479	17,805
Europe	**232,974**	213,225
United States	414,262	363,049
Consolidated	**647,236**	576,274

The Company's total assets by geographical segments are as follows:

US $ in thousands	Year ended December 31, 2006	2005
Europe	402,646	363,079
United States	295,694	265,603
Canada	1	1,799
Consolidated	**698,341**	630,481

The Company's capital expenditures from continuing operations by geographical segments are as follows:

US $ in thousands	Year ended December 31, 2006	2005
United States (includes CHEP RPC acquisition in 2006)	53,416	32,280
Europe	47,884	51,667
Consolidated	**101,300**	83,947

14. Equity entities

The following tables list the total combined financial data of the Company's equity entities, IFCO-Japan and IFCO-Argentina of the RPC-Management-Services segment. During 2006 and 2005, the Company recognized approximately US $0.3 million and US $1.0 million, respectively, of income in the Company's consolidated statements of income related to its contractually defined portions of the respective net results of these entities. IFCO-Japan's fiscal year ended on December 31, 2006. IFCO-Argentina's fiscal year ended on June 30, 2006. The Company consolidated the respective results of IFCO-Argentina based on interim financial statements as of December 31, 2006.

US $ in thousands	As of December 31, 2006	2005
Total assets	31,246	28,658
Total liabilities	23,465	21,768
Total equity	7,781	6,890

US $ in thousands	Year ended December 31, 2006	2005
Revenue	24,244	25,727
Gross profit	8,803	12,673
Income from operations	1,315	4,716
Net income	921	2,511

Amsterdam, February 20, 2007

Karl Pohler
CEO

Michael W. Nimtsch
CFO

Cautionary note

Cautionary note regarding forward looking statements

Some of the statements contained in this report discuss future expectations, contain projections of results of operations or financial condition of IFCO SYSTEMS, or state other forward-looking information. These statements may include financial information and/or statements for periods following the period covered by this report. You can find many of these statements by looking for words like believes, expects, anticipates, estimates, or similar expressions used in this report.

These forward-looking statements may be affected by known and unknown risks, uncertainties, and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions that we believe to be reasonable. Risks and uncertainties are included in a separate section of this report.

Important factors that could cause our actual results to be materially different from the forward-looking statements are also discussed throughout this report.

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Pallet-Management-Services

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Financial calendar*

February 2007	Press and analyst's conference on annual results
March 2007	General meeting of shareholders for the fiscal year 2006
May 2007	Publication of the 1st quarterly report
August 2007	Publication of the 2nd quarterly report
November 2007	Publication of the 3rd quarterly report
February 2008	Publication of the 2007 annual report

*Preliminary dates. You will find the exact dates at:
http://www.ifcosystems.de or **http://www.ifcosystems.com**

Imprint

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In addition to an annual report at the end of each fiscal year, IFCO SYSTEMS N.V. publishes quarterly reports, supplemented by press releases. A press conference as well as an annual analysts´ conference give the journalists and analysts additional opportunities to review developments of our business. The annual report as well as quarterly reports are filed with Deutsche Börse (German Stock Exchange) and the Netherlands Authority for the Financial Markets. All of these financial reports are available on the Internet at: **http://www.ifcosystems.de or http://www.ifcosystems.com**

ANNUAL REPORT 2006

IFCO SYSTEMS N.V.

Separate Financial Statements 2006
in accordance with IFRS

Our business

IFCO SYSTEMS is engaged in two main business segments. We operate a RPC-Management-Services business in Europe and the United States and a Pallet-Management-Services business in North America.

Increasing market dynamics and globalization in commerce are placing increasing demands on logistics providers. Today, products have to be transported intelligently, efficiently and above all, rapidly. While these requirements place high demands on logistics management and transport containers, this market shift also creates significant growth opportunities for well-positioned logistics service providers.

We have market leading positions in multi-billion US Dollar markets and offer significant future growth potential in our proven RPC-Management-Services business and our Pallet-Management-Services business in the United States. Thanks to our broad range of solutions we are able to meet virtually all customer requirements in an individual, client focused manner.

RPC-Management-Services

In our core markets, Europe and the United States, some 175 million tons of fruit and vegetables are produced annually. These products must make their way quickly and without damage from producers to consumers – and often across country borders. In many instances, the period between harvest and consumption is no more than a few days.

Consequently, retailers and producers are calling for flexible, effective, cost efficient and state-of-the-art product distribution solutions. This puts stringent demands on transport containers and their utilization from producers through retailers to consumers. IFCO SYSTEMS' container and service systems are well equipped to meet these demands.

IFCO SYSTEMS' core competence is the efficient management of a worldwide rental pool of over 78 million RPCs used to transport fruit and vegetables. Offering a total of 20 different models globally, our RPCs in Europe and the United States address the packaging and transportation requirements of various types of fruit and vegetables in the goods and produce cycle.

Pallet-Management-Services

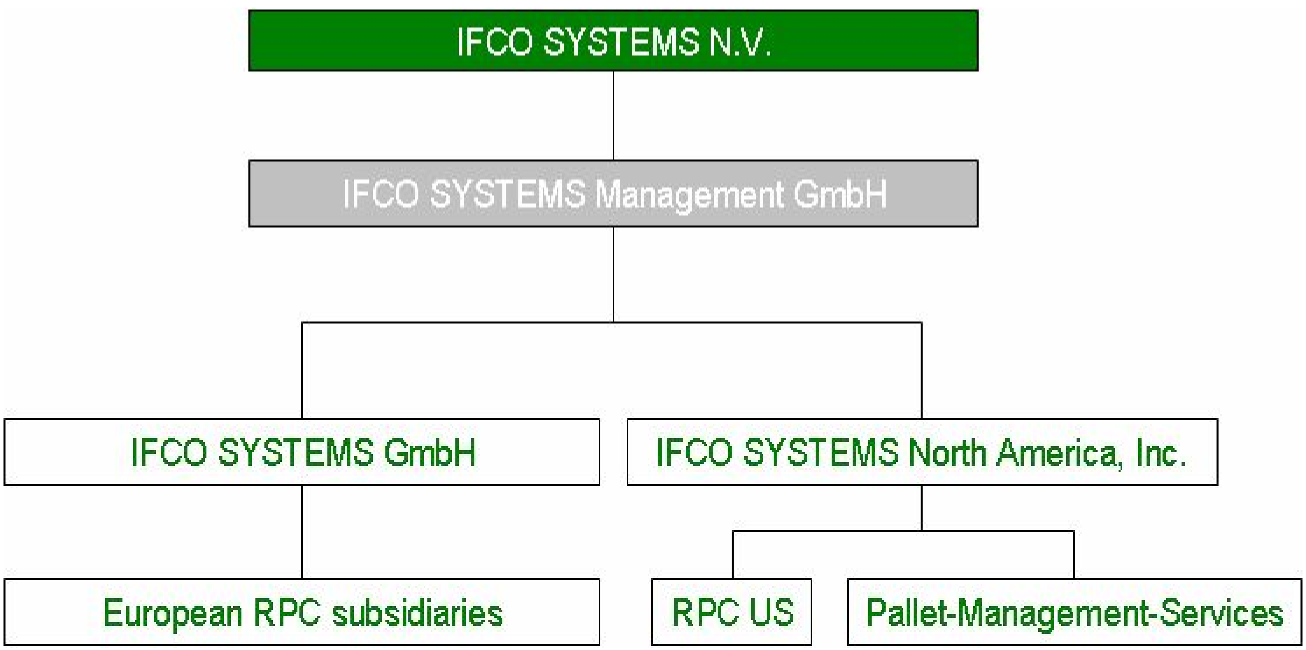
IFCO SYSTEMS is North America's leading Pallet-Management-Services company, specializing in the procurement, reconditioning and distribution of wood pallets to and from the manufacturing and retail sectors. IFCO SYSTEMS offers the only true, nationwide single source solution to national pallet needs. Pallets are used in virtually all industries that transport products. We estimate that approximately 2.1 billion wooden pallets are in circulation in the United States every year. In 2006, the US pallet market volume was approximately EUR 6.1 billion, which should continue to develop with overall industrial development in the future.

Corporate

Corporate and operating structure

Corporate information

Our registered name is IFCO SYSTEMS N.V.. We were incorporated under the laws of the Netherlands on March 31, 1999. Our registered seat is in Amsterdam, the Netherlands, at our principal executive offices located at Strawinskylaan 3051, 1077 ZX Amsterdam, the Netherlands. We also maintain operations headquarters in Pullach, Germany, and in Houston, Texas in the United States.



We are a holding company with a number of operating subsidiaries, which are shown above. This chart does not reflect the exact and entire legal structure of IFCO SYSTEMS. Our significant subsidiaries are described in the following table along with our principal indirect subsidiaries:

Subsidiary	*Jurisdiction of Organization*	*Percentage Ownership*	*Direct or Indirect Ownership by IFCO SYSTEMS N.V.*
IFCO SYSTEMS Management GmbH[(1)]	*Germany*	*100.0%*	*Indirect*
IFCO SYSTEMS GmbH[(2)]	*Germany*	*100.0%*	*Indirect*
IFCO SYSTEMS North America, Inc.[(3)]	*Delaware (US)*	*100.0%*	*Indirect*
Reusable Container Company LLC[(4)]	*Delaware (US)*	*100.0%*	*Indirect*

(1) This subsidiary is also a holding company and owns all of the capital stock of IFCO SYSTEMS GmbH (indirect), IFCO SYSTEMS North America, Inc. (direct) and IFCO SYSTEMS Canada Inc. (direct). The business address of IFCO SYSTEMS Management GmbH is Zugspitzstrasse 7, 82049 Pullach, Germany. Its registered seat is Munich.

(2) IFCO SYSTEMS GmbH has operating subsidiaries in Germany and in other countries mainly in Europe. Its percentage ownership in the European subsidiaries ranges from 98.0% to 100.0%. IFCO SYSTEMS GmbH also has a 99.0% interest in an Asian subsidiary, a 49.0% interest in an Argentinean company and a 33.3% interest in a Japanese joint venture. The business address of IFCO SYSTEMS GmbH is Zugspitzstrasse 7, 82049 Pullach, Germany. Its registered seat is Munich.

(3) We conduct our Pallet-Management-Services operations through direct and indirect wholly owned subsidiaries of IFCO SYSTEMS North America, Inc. The registered address for IFCO SYSTEMS North America, Inc. is 13100 Northwest Freeway, Suite 625, Houston, Texas 77040, US.

(4) The shareholder of Reusable Container Company LLC is IFCO SYSTEMS North America, Inc. The registered address of Reusable Container Company LLC, the legal entity in which we conduct our RPC related operations in the United States, is 4343 Anchor Plaza Parkway, Suite 230, Tampa, Florida 33634, US.

Report of the Supervisory Board

The Board of Managing Directors together with the Executive Management Committee have authorized the separate financial statements for 2006 and submitted to the Audit Committee for review. Based on the recommendation of the Audit Committee, the Supervisory Board approved the separate financial statements 2006. The Board of Managing Directors will submit the separate financial statements to the General Meeting of Shareholders. The Supervisory Board will submit to the General Meeting of Shareholders a preliminary advice on the separate financial statements 2006. These separate financial statements can be found on pages 27 - 54 of this report. Ernst & Young Accountants have audited the separate financial statements. Their report appears on page 25 and 26.

Corporate governance

Sound corporate governance is a high priority to IFCO SYSTEMS. The confidence of our stakeholders is essential if they are to cooperate effectively within and with our Company. The guidelines on which our corporate governance rests are good entrepreneurship, enterprise continuity, operational and corporate control maintenance and enhancement, and decision making integrity and transparency of our Executive Management and supervision thereof.

The Company has implemented a code of ethics, which is specifically intended to provide for a number of implementing requirements in the area of avoidance of conflicts of interest by the Supervisory Board, the Board of Managing Directors, the Executive Management Committee and employees of the Company. The Company has also established arrangements in regard of a whistleblower function.

As a Dutch Company, we follow the principles and best practice statements of the Dutch Corporate Governance Code, which came into effect on January 1, 2004.

The Board of Managing Directors and the Supervisory Board are responsible for the corporate governance structure of the Company and the compliance with the Dutch Corporate Governance Code. They are accountable for this to the General Meeting of Shareholders.

BOARD STRUCTURE

Articles of association

In order to comply with the Dutch Corporate Governance Code as well as to new provisions of the Dutch Civil Code with respect to public limited liability companies, on August 18, 2005, the General Meeting of Shareholders amended the Company’s articles of association. Also, the existing one-tier structure (with one Board of Directors, composed of an Executive Director A and Non-Executive Directors B and C) was changed into a two-tier structure (with a Board of Managing Directors and a Supervisory Board). The new Directors of the Supervisory Board were elected on August 18, 2005 and came into effect on August 29, 2005.

Board of Managing Directors

According to the articles of association:

The Board of Managing Directors is in charge of managing the Company. It shall consist out of one or more Managing Directors. Presently, the Board of Managing Directors consists of two Managing Directors.

The Managing Directors are appointed by the General Meeting of Shareholders. They are appointed for a maximum period of four (4) years, provided that, unless a Managing Director resigns at an earlier date, his appointment term ends on the day of the next General Meeting of Shareholders to be held in the fourth year after the year of his appointment. A Managing Director can be reappointed for consecutive periods of not more than four (4) years and with due observance of the provisions in the preceding sentence. The Supervisory Board can draw up a rotation schedule for the Managing Directors.

The Board of Managing Directors meets as often as a Managing Director requests a meeting. In the meeting of the Board of Managing Directors each Managing Director has a right to cast one (1) vote. All resolutions by the Board of Managing Directors shall be adopted by an absolute majority of the votes cast.

The Board of Managing Directors shall timely provide the Supervisory Board with any such information as may be necessary for the Supervisory Board to perform its duties.

Supervisory Board

According to the articles of association:

The Company has a Supervisory Board, consisting of at least three (3) natural persons, the precise number of whom is determined by the General Meeting of Shareholders. Presently the Supervisory Board consists of six (6) natural persons.

The Supervisory Board Directors are appointed by the General Meeting of Shareholders for a maximum term of four (4) years, provided that, unless a Supervisory Board Director retires earlier, his appointment term expires on the day of the next General Meeting of Shareholders to be held in the fourth year after the year of his appointment. At expiration of this term a Supervisory Board Director can be reappointed with due observance of the provisions in the previous sentence, provided always that a Supervisory Board Director may not serve more than three (3) consecutive four-year terms.

The duty of the Supervisory Board is to supervise the policies of the Board of Managing Directors and the general course of affairs of the Company and its affiliated business. It shall give advice to the Board of Managing Directors. The Supervisory Board can give instructions to the Board of Managing Directors outlining the Company's general financial, social, economic, investment, staffing and environmental policy.

The Supervisory Board shall meet as often as a Supervisory Director or the Board of Managing Directors may deem necessary. In the meeting of the Supervisory Board each Supervisory

Director has a right to cast one (1) vote. All resolutions by the Supervisory Board shall be adopted by an absolute majority of the votes casted.

Members of the Board of Managing Directors

Name	*Age*	*Position*
Karl Pohler	*53*	*Managing Director*
Douwe Terpstra	*48*	*Managing Director*

Karl Pohler was Director A of the Company since December 2000. At the implementation of the two-tier board structure on August 29, 2005 he automatically became a member of the Board of Managing Directors for a period of four (4) years since that date.

Karl Pohler has also the main following functions:

- Chief Executive Officer of the Company since December 2000;
- Managing Director of IFCO SYSTEMS GmbH since September 2000;
- Director of IFCO SYSTEMS North America since January 2002.

Prior to joining IFCO SYSTEMS, Mr. Pohler was the chairman of the Board of Management of Computer 2000 AG, Munich and, at the same time, European president of Computer 2000/Tech Data Corp.. From 1997 to 1999, he served as CEO of Sony Deutschland GmbH, Cologne. From 1993 to 1996, Mr. Pohler chaired the Board of Management of Computer 2000 Deutschland GmbH, Munich. From 1980 to 1992, he was active in executive management functions for Digital Equipment GmbH, Munich.

Douwe HJ Terpstra became member of the Board of Managing Directors on August 29, 2005 and was appointed for a period of four (4) years. Mr. Terpstra has a well established experience in international corporate structuring and management. Mr. Terpstra is an employee of Fortis Intertrust since 1993. Fortis Intertrust is a World Leader in Trust & Corporate services for private and corporate clients and is the result of the merger in 2002 of MeesPierson Trust and Intertrust Group. Within Fortis Intertrust, Mr. Terpstra is an Executive Director and member of the Management Team.

Members of the Supervisory Board

Name	*Age*	*Position*	*Nationality*
Dr. Bernd Malmström	*65*	*Chairman (since September 26, 2006)*	*German*
Michael Phillips	*44*	*Vice Chairman I*	*Canadian*
Christoph Schoeller	*49*	*Vice Chairman II*	*Swiss*
Hervé Defforey	*56*		*French*
Ralf Gruss	*34*		*German*
Dr. Philipp Gusinde	*36*	*Chairman (up to September 26, 2006)*	*German*

The Supervisory Board aims for an appropriate combination of knowledge and experience amongst its members:

Dr. Bernd Malmström became member of the Supervisory Board of the Company in December 2005. He was elected as Chairman of the Supervisory Board of IFCO SYSTEMS on September 26, 2006. Mr. Malmström studied law at the universities of Kiel and Freiburg (Germany) and holds a PhD in law. Mr. Malmström works as a lawyer and consultant for Deutsche Bahn AG. Prior to that, he has held various management positions at Deutsche Bahn AG, Stinnes AG, Schenker-Rhenus-Group and VEBA AG. Mr. Malmström also serves as a member of the Supervisory Board of the following companies: BLG Logistics Group AG & Co. KG (Advisory Board), Deutsche Afrika-Linien GmbH & Co. KG (Advisory Board), Petrotec AG (Chairman of the Supervisory Board), Fraport AG (Advisory Board), HHLA Intermodal GmbH, K+S Aktiengesellschaft, Lehnkering GmbH, Stinnes Corporation and Sulo GmbH (Advisory Board). Mr. Malmström was appointed for a period of four (4) years.

Michael Phillips was Director C in the Board of Directors of the Company since December 2003. He resigned as member of the Board of Directors in August 2005, and became Director and first vice chairman of the Supervisory Board of IFCO SYSTEMS in August 2005. He is a graduate in engineering chemistry from Queen's University in Kingston, Canada, and also holds an MBA from INSEAD, where he graduated with distinction. Upon graduating from University, Mr. Phillips worked at Ciba Geigy Canada Ltd. as a manager in the plastics additives division. He then spent three years at OTTO Holding Ltd. in Cologne, one of Germany's largest waste management companies, as the General Manager of an operations subsidiary. Mr. Phillips currently works for and is a director of Apax Partners. He is also a Director of Xerium Technologies Inc, Sulo GmbH, Tommy Hilfiger Sarl, Mueller Brot AG, Elmira Sarl and Anker Brot AG. Mr. Phillips was appointed for a period of four (4) years.

Christoph Schoeller was Chairman of the Board of Directors of the Company since December 2002, and a Director B as of March 2000. He resigned as member of the Board of Directors in August 2005, and became Director and second vice chairman of the Supervisory Board of the Company in August 2005. In 1992, he co-founded IFCO SYSTEMS GmbH and MTS with his brother, Martin Schoeller. Mr. Schoeller was responsible for advancing both IFCO SYSTEMS Europe’s and MTS’s market and product development and logistics network. In 1982, Mr. Schoeller joined the Schoeller group of companies and presently serves as one of its Managing Directors. From 1982 through 1984, he was involved in international sales and licensing in the Eastern hemisphere. From 1985 to 1988, Christoph Schoeller was focused on product development and build-up of the sales organization. From 1988 until 1992, Mr. Schoeller developed the sales and marketing organization of Schoeller Logistic Industries GmbH. Mr. Schoeller was a member of the Supervisory Board of Trans-o-flex Schnell-Lieferdienst AG, a logistics company, and was formerly a member of the Supervisory Board of Danzas Holding AG, a logistics company, until its merger with Deutsche Post AG. Mr. Schoeller is also Vice-Chairman of the Supervisory Board and Co-Chairman of the Executive Committee of Syntek Capital AG. Mr. Schoeller was appointed for a period of four (4) years.

Ralf Gruss was a Director C of the Board of Directors of the Company since December 2003. He resigned as member of the Board of Directors, and became Director of the Supervisory Board of the Company in August 2005. He holds a degree with distinction in financial economics and industrial engineering from the University of Karlsruhe and studied financial economics as well as business administration at the London School of Economics and the University of

Massachusetts (Boston). Mr. Gruss is currently employed by and is a director of Apax Partners, focusing on leveraged transactions, financial services and business services companies. Prior to joining Apax Partners, Mr. Gruss worked as project manager for Arthur D. Little International Inc.. He also serves on the Supervisory Boards of Cable Holding S.A.r.L. (up until February 6, 2006) and LR Health & Beauty Systems GmbH. Mr. Gruss was appointed for a period of four (4) years.

Hervé Defforey became Director of the Supervisory Board of the Company in August 2005. Mr. Defforey holds a degree in Business Administration/Economics from the University of St. Gallen Switzerland. Mr. Defforey is an operating partner of GRP Ventures, USA. Prior to joining GRP Ventures, USA he has held various management positions at Carrefour S.A., Azucarrera EBRO S.A., BMW AG, Chase Manhattan Bank N.A. and Nestlé. He also serves on the Boards of Aldata, Prepay Technologies and Ulta, Inc. and X5 Retail Group (chairman of the Supervisory Board). Mr. Defforey was appointed for a period of four (4) years.

Dr. Philipp Gusinde was a Director C in the Board of Directors of the Company since December 2003. He resigned as member of the Board of Directors in August 2005, and became Director and Chairman of the Supervisory Board of the Company in August 2005. He resigned as Chairman on September 26, 2006. He studied economics at the University of St. Gallen (Switzerland) and Indiana University (USA), graduating with a first class degree in accounting and controlling, after having successfully completed a trainee program at Deutsche Bank. He wrote his doctoral thesis on IFRS accounting issues working as a research assistant at the University of St. Gallen. Dr. Gusinde joined Apax Partners in 2000 as a member of the Leveraged Transactions team. He is focusing on opportunities in the Business Services sector. Dr. Gusinde was appointed for a period of four (4) years.

Mr. Gusinde and Mr. Gruss have been employed by Apax Partners Beteiligungsberatung GmbH (“Apax Partners”) since 2000. Mr. Phillips has been employed by Apax Partners since 1999. Previously, between 1992 and 1999, Mr. Philips was employed by Apax Partners & Co Beteiligungsberatung AG. Mr. Phillips and Mr. Gruss (since July 13, 2006) are Managing Directors of Apax Partners. Mr. Phillips is also a partner and member of the executive committee of Apax Partners Worldwide LLP (“Apax Worldwide”), with whom Apax Partners has a sub-investment advisory agreement. Apax Worldwide is investment advisor to Apax Partners Europe Managers Limited (“Apax Europe”). Apax Europe is the discretionary investment manager of the assets of the Apax Europe V Fund, which is the beneficial owner of Cortese N.V.. Neither Mr. Gusinde nor Mr. Gruss nor Mr. Phillips are employed by, or are directors of, Apax Europe, the Apax Europe V Fund or Cortese N.V..

Conflict of interest of members of the Supervisory Board

Mr. Schoeller has the right to visit meetings of the Board of Schoeller Arca Systems N.V., the exclusive supplier of RPCs to the Company. Mr. Schoeller however does not take part in any discussion and/or decision on a respective subject during Supervisory Board meetings of the Company.

In the opinion of the Supervisory Board the Company complied with the BPP III.6 of the Dutch Corporate Governance Code (Conflicts of interest) and only Mr. Schoeller does have a conflict of interest as described above and as referred to in the Dutch Corporate Governance Code.

Independence of the members of the Supervisory Board

During August 2005, Schoeller Logistic Systems GmbH sold its shares in the Company to Island LP and used the proceeds from this transaction to acquire an indirect investment in Island LP. As a result of this transaction and other holdings Mr. Schoeller indirectly owns 18.2% in capital stock of the Company. Mr. Schoeller and some of his family members directly hold 0.7% in capital stock of the Company. Mr. Schoeller can therefore not be regarded as independent in application of the criteria listed in BPP III. 2.2. of the Dutch Corporate Governance Code.

In the opinion of the Supervisory Board the Company complied with the BPP III.2.1 of the Dutch Corporate Governance Code (Independency of Supervisory Board members).

EXECUTIVE MANAGEMENT COMMITTEE

The Board of Managing Directors together with the Selection and Appointment Committee has appointed Executive Managers (Executive Management Committee) to execute the management of the Company's business. The Executive Managers promote the interest of the Company and enhance the Company's value. They are also responsible for achieving the Company's aims, strategy, policy and results. The Executive Management Committee directs the preparation of the Company's quarterly and annual financial statements. The Executive Management Committee also informs the Board of Managing Directors and the Supervisory Board regularly, promptly and comprehensively regarding all issues related to Company's strategy implementation, business operational and financial budgeting and development, the structure and operation of the internal risk management and control systems, compliance with legislation and regulations and emerging risks inherent in the Company's business activities. Major decisions of the Executive Management Committee require the prior approval of the Board of Managing Directors or the Supervisory Board respectively.

The current members of the Executive Management Committee, bound to IFCO SYSTEMS by an employment agreement, are:

Name	*Age*	*Position*
Karl Pohler	*53*	*Chief Executive Officer*
Michael W. Nimtsch	*49*	*Chief Financial Officer*
Wolfgang Orgeldinger	*49*	*Chief Operating Officer*
David S. Russell	*47*	*President, IFCO SYSTEMS North America*

Karl Pohler (see above).

Michael W. Nimtsch became Chief Financial Officer of the Company in October 2000. Mr. Nimtsch also became a Managing Director of IFCO SYSTEMS GmbH in September 2000. He is also serving as Supervisory Board member in subsidiaries of the Company. Before joining the Company, Mr. Nimtsch served as Chief Financial Officer of Hagemeyer Deutschland GmbH (former ETG Fröschl GmbH & Co. KG), an electrical infrastructure materials supplier, and was responsible for finance, purchasing, foreign subsidiaries, retail and human resources. During Mr. Nimtsch's tenure with this company, its sales increased from EUR 203.0 million (1991) to EUR 1.1 billion (2000). Prior to Hagemeyer Deutschland GmbH, Mr. Nimtsch served as a Tax Advisor and Public Chartered Accountant for Deloitte & Touche and PricewaterhouseCoopers. He holds a degree in business economics from the University of Munich.

Wolfgang Orgeldinger became Chief Operating Officer of the company in January 2002 and previously served as Chief Information Officer of IFCO SYSTEMS with responsibility for e-logistics and IT since December 2000. Mr. Orgeldinger also became a Managing Director of IFCO SYSTEMS GmbH in February 2001 and is serving as Supervisory Board member in subsidiaries of the Company. Before joining IFCO SYSTEMS Mr. Orgeldinger was a member of the Executive Board of Computer 2000 AG, Europe's leading IT distributor, where he was responsible for the company's European logistics, IT, technical services, and configuration and assembly operations. From 1997 to 1999, Mr. Orgeldinger served as Managing Director of the Computer 2000 Deutschland GmbH, prior to that he worked there for 3 years as Director IT & Logistics. Before joining Computer 2000, Mr. Orgeldinger worked for nine years for Digital Equipment in various management positions in the area of marketing, sales, consulting, IT and operations.

David S. Russell became President of IFCO SYSTEMS North America Inc. (Pallet-Management-Services and RPC US) in January 2002. He joined IFCO SYSTEMS North America in May 2000 as Senior Vice President with responsibility for sales and marketing and as General Manager for the US RPC business. Prior to joining IFCO SYSTEMS, he served, beginning in March 1999, as a Director and President and Chief Executive Officer of General Rental, Inc., a privately held equipment rental company in Pompano Beach, Florida. From October 1996 to August 1998, Mr. Russell was Vice President/ General Manager of Ryder TRS, Inc., a privately held company with publicly traded bond debt in Denver, Colorado. Beginning in 1982, Mr. Russell also served in various management positions, including as an Officer, at Ryder System, Inc., a publicly traded company, until the sale of its Consumer Truck Rental Division in October 1996.

ACTIVITIES OF THE SUPERVISORY BOARD

The Supervisory Board held fourteen (14) meetings in 2006, except one all were held together with both the Executive Management Committee and the Board of Managing Directors.

The items discussed included a number of recurring subjects, such as Company's strategy, the financial performance of the Company in 2006, acquisition of the CHEP US RPC business, business plan 2007, stock option issues and corporate governance issues such as Supervisory Board resignation scheme, approval of a Supervisory Board Profile and approval of the amendment of Supervisory Board Committee Charters. The Supervisory Board put special emphasis on and discussed frequently the ongoing ICE investigation and consulted with the Company's law firm Baker & McKenzie.

On February 21, 2007 the Supervisory Board conducted a meeting with the accountants and discussed the consolidated and separate financial statements. Following that discussion the Supervisory Board approved the consolidated and separate financial statements 2006.

The Supervisory Board is acting in accordance with the Company's Supervisory Board Charter.

The Supervisory Board, the Board of Managing Directors and Executive Management Committee are acting in accordance with the Company's Code of Ethics.

The Supervisory Board has established committees whose duties, responsibilities and processes are set out in separate charters (see below).

The Supervisory Board discussed on its own, without the Board of Managing Directors or the Executive Management Committee being present, both their functioning and that of their individual members as well as the competence and the composition of the Supervisory Board.

The Supervisory Board discussed the corporate strategy and the business plan of the Company as well as the risks of the business. The discussion with the Board of Managing Directors and the Executive Management Committee regarding the structure and operation of internal risk management and internal control systems was delegated to the Audit Committee.

SUPERVISORY BOARD COMMITTEES

In order to fulfil the requirements of the Dutch Corporate Governance Code and the rules of the Frankfurt Stock Exchange, the Supervisory Board has established committees whose duties, responsibilities and processes are set out in separate charters.

Audit Committee

Effective September 6, 2005 the Supervisory Board adopted a charter of the Audit Committee. This charter was amended on November 20, 2006.

Pursuant to its charter, the Audit Committee is to be composed of at least three Supervisory Board members. All members of the Audit Committee are required to be financially literate and at least one member shall be a financial expert as defined in BPP III.3.2. of the Dutch Corporate Governance Code.

The Audit Committee is currently composed of Ralf Gruss (Chairman), Hervé Defforey and Dr. Philipp Gusinde. All of them are financially literate and Mr. Defforey is qualified as the financial expert.

According to the charter, the Audit Committee shall meet as often as it determines necessary, but not less frequently than quarterly.

The Audit Committee met five (5) times in 2006. The main items discussed in these meetings were: annual and interim financial statements, earnings releases, audit findings, audit fees, external audit planning, internal audit planning and results, internal control, risk management system and tax issues.

According to the charter the responsibilities of the Audit Committee are the following:

Purpose

The Committee shall provide assistance to the Supervisory Board in fulfilling its oversight responsibility to the Company and its stakeholders as appropriate under Dutch corporate law, relating to the integrity of the Company's financial statements; the financial reporting process; the systems of internal accounting and financial controls; the performance of the Company's independent auditors; the independent auditor's qualifications and independence; the operation of the internal risk management and control systems; the system of internal auditing; the supply of financial information by the Company; compliance with recommendations by external auditors; the Company's tax planning policy; the financing of the Company; information and communication technology systems; and the Company's compliance with ethics policies, codes of conduct and legal and regulatory requirements.

Duties and Responsibilities

- The primary responsibility of the Committee is to oversee the Company's financial reporting process on behalf of the Supervisory Board and report the results of their activities to the Supervisory Board.
- The Committee should take appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behaviour.
- Amongst others, the following shall be the principal duties and responsibilities of the Committee:

  Independent auditors

  . The Committee shall be directly responsible for the recommendation(s) regarding the appointment, termination, and replacement (subject to shareholder appointment and/or ratification), the compensation, and the oversight of the work of the independent auditors, including resolution of disagreements between management and the auditor regarding financial reporting. The Committee shall pre-approve all audit and non-audit services provided by the independent auditors.

  Plan of audit

  . The committee shall discuss with the internal auditors and the independent auditors the overall scope and plans for their respective audits, including the adequacy of staffing and compensation.

  Internal controls

  . The Committee shall discuss with management and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including the Company's policies and procedures to assess, monitor, and manage business risk and legal and ethical compliance programs. The Committee shall meet separately periodically with management and the independent auditors to discuss issues and concerns warranting Committee attention. The Committee shall provide sufficient opportunity for the independent auditors to meet privately with the members of the Committee. The Committee shall review with the independent auditor any audit problems or difficulties and management's response.

The Committee shall review management's assertion on its assessment of the effectiveness of internal controls as of the end of the most recent fiscal year and the independent auditors' report on management's assertion.

The Committee shall meet with internal audit or invite internal audit in the Audit Committee Meeting to discuss the adequacy and effectiveness of the internal accounting and financial controls and the management of business risks.

Review of quarterly and annual reports

. The Committee shall review the interim financial statements and disclosures with management and the independent auditors and approve them prior to the filing of each of the Company's quarterly reports.

The Committee shall review (but not approve) the financial statements and disclosures to be included in the Company's annual financial statements and any annual report together with management and the independent auditors, and make a recommendation to the Supervisory Board of the Company, including a judgment about the quality, not just the acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements.

Earnings releases

. The Committee shall review and discuss quarterly and annual earnings press releases.

Regulatory and accounting initiatives

. The Committee shall discuss with management and the independent auditors the effect on the Company of regulatory and accounting initiatives, as well as off-balance sheet structures, if any, reflected in the Company's financial statements or affecting its financial condition or results of operations.

Risk Assessment and Management

The Committee shall discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.

Reports

. The Committee shall review with management and the independent auditors any disclosure by the Company with respect to the Committee's policies and procedures and/or the fees paid by the Company for audit and non-audit services to the independent auditors.

Remuneration Committee

Effective September 6, 2005 the Supervisory Board adopted a charter of the Remuneration Committee. This charter was amended on November 20, 2006.

The Remuneration Committee is composed of Michael Phillips (Chairman), Ralf Gruss, Dr. Philipp Gusinde and Dr. Bernd Malmström (since November 20, 2006).

The Remuneration Committee shall advise the Supervisory Board and counsel and provide guidance to the Supervisory Board in the Supervisory Board's responsibility with respect to remuneration policy for the Company, including remuneration of the Company's Executive Management Committee, and shall participate in other actions related to remuneration as directed by the Supervisory Board, including the annual performance evaluation of the Executive Management Committee.

The Remuneration Committee has met four (4) times in 2006. The Committee discussed as main items the grant of stock options, the Executive Management Bonus for 2005 and appropriateness of Executive Management Committee remuneration in general.

The responsibilities of the Remuneration Committee shall include the following:

Remuneration Policy

>The Remuneration Committee shall review the objectives, structure, cost, and administration of all remuneration policies and programs regarding the Company's remuneration policy and with respect to the Company's Executive Management Committee.

Stock Option Plans

> The Remuneration Committee shall review and make recommendations to the Supervisory Board with respect to the Company's policy and plans with respect to the grant of stock options or other stock awards.

> The Remuneration Committee shall review any proposals from the Board of Managing Directors for the grant of stock awards.

> Grant of stock options by the Board of Managing Directors should require the prior approval of the Remuneration Committee, though the Remuneration Committee should have the discretion to pre-approve certain types and quantities of option issuances.

Executive Management

>The Remuneration Committee shall be responsible for negotiating and approving any employment agreements, amendments to employments, or other agreements for remuneration to be entered into between the Company and any member of the Company's Executive Management.

>The Remuneration Committee shall monitor the appropriateness of the remuneration of the Executive Management Committee, including base salaries, incentive compensation, stock options, stock awards, and other forms of compensation, including direct and indirect incentives and benefits.

Performance Evaluations

>The Remuneration Committee shall evaluate the performance of the Executive Management Committee and communicate such evaluation to the respective members of the Executive Management Committee.

Selection and Appointment Committee

The Selection and Appointment Committee is composed of Michael Phillips (Chairman), Hervé Defforey, Ralf Gruss, Dr. Philipp Gusinde and Christoph Schoeller.

The Selection and Appointment Committee shall provide assistance to and oversight of the Supervisory Board in connection with the Supervisory Board fulfilling its responsibility to the shareholders, other stakeholders, and the investment community with respect to selection and appointment of Managing Directors, other members of the Executive Management Committee and members of the Supervisory Board for the Company.

The responsibilities of the Selection and Appointment Committee shall include management succession planning and review of management development.

The Selection and Appointment Committee supported the decision of the Supervisory Board to elect Mr. Malmström as further member to the Remuneration Committee.

REMUNERATION REPORT

Remuneration of members of the Board of Managing Directors

Our Board of Managing Directors received in 2006 a total compensation of EUR 1.6 million from an indirect subsidiary of the Company. However, Mr. Pohler is only compensated as member of the Executive Management Committee but not separately compensated for serving as member of the Board of Managing Directors.

Name	*Fix Remuneration in EUR*	*Variable Remuneration in EUR*	*Total Remuneration in EUR*
Karl Pohler	*614,000*	*1,014,347*	*1,628,347*
Douwe HJ Terpstra	*5,614*	*-*	*5,614*
Total	*619,614*	*1,014,347*	*1,633,961*

No loans from the Company or pension schemes are provided to members of the Board of Managing Directors.

It is expected that the remuneration policy will remain unchanged during 2007.

Employment agreement with Mr. Karl Pohler

Karl Pohler is bound by an employment agreement which provides that he will serve as the Company's Chief Executive Officer and a member of our Executive Management Committee. His employment agreement provides for a comprehensive remuneration plan that includes base salary and executive bonus. If his employment is terminated without cause, he is entitled to receive one discounted installment of his remaining base salary for the remainder of the employment term.

Service agreement with Mr. Douwe Terpstra

Mr. Terpstra is compensated in accordance with a service agreement dated September 1, 2005.

Remuneration of the members of the Supervisory Board

The General Meeting of Shareholders approved on August 18, 2005 an amendment to the remuneration of the Directors of the Supervisory Board.

Effective as of the date of such General Meeting of Shareholders, no remuneration shall (and has) be(en) paid to any then appointed member of the Supervisory Board. Each member shall however be reimbursed for travel expenses reasonably incurred in connection with meetings of the Supervisory Board, meetings of any committee of the Supervisory Board, or otherwise in connection with actual Supervisory Board service.

On a General Meeting of Shareholders held on December 15, 2005, Mr. Bernd Malmström was appointed as a member of the Supervisory Board. Mr. Malmström is entitled to a quarterly remuneration of 20,000 Euro. Since his appointment as chairman to the Supervisory Board he is entitled to a quarterly remuneration of 40,000 Euro. The remuneration policy for all other members of the Supervisory Board as approved by the General Meeting of Shareholders on August 18, 2005 continues to apply.

For 2006 our Supervisory Board received the following compensation:

Name	*Remuneration in EUR*	*Out of pocket expenses in EUR*	*Stock options outstanding*
Dr. Bernd Malmström	*100,000*	*4,879*	-
Michael. Phillips	-	*2,411*	-
Christoph Schoeller	-	*16,605*	-
Hervé Defforey	-	-	-
Ralf Gruss	-	*6,539*	-
Dr. Philipp Gusinde	-	*7,562*	-
Total	*100,000*	*37,996*	-

No loans from the Company or pension schemes are provided to the members of the Supervisory Board.

It is expected that the remuneration policy will remain unchanged during 2007.

Appreciation

The Supervisory Board would like to express its thanks to the Board of Managing Directors, the Executive Management Committee and all the employees of the Company for their continued contribution and commitment in 2006.

Amsterdam, February 21, 2007

The Supervisory Board

Financial reporting

Management's discussion and analysis

Basis of presentation

The Management's Discussion and Analysis that follows sets the context for the year ended December 31, 2006 with a summary of highlights for the year and in comparison to 2005. We also discuss important operational topics including cash flows, liquidity and capital resources, and risk management. The discussion concludes with our outlook for 2007.

Beginning 2005, our separate financial statements have been prepared in accordance with IFRS.

Within this report we only present the separate financial statements of IFCO SYSTEMS N.V.. These statements do not reflect the development of our group. Therefore we refer to our consolidated financial statements within our annual report.

Operations

> Management charge income increased significantly (by EUR 0.9 million) compared to prior year, because the chargeable expenses related to management and holding activities had grown.

> General and administrative expenses (G&A) increased slightly due to an increase of external services for legal and tax advisory. Stock compensation expenses decreased by EUR 0.8 million.

> Net loss decreased by 37% or EUR 5.7 million to EUR - 9.6 million in 2006. This decrease is caused by the above mentioned increase of management charge income, decrease of stock compensation expenses and by foreign currency gains of EUR 2.2 million. The foreign currency gains resulted with EUR 1.6 million from a restructuring and summation of liabilities with a subsidiary.

> Basic result per ordinary share increased by 47% to EUR - 0.18 in 2006 from EUR - 0.34 in 2005.

Liquidity and Cash Flows

> Cash at year end amounts to EUR 5.7 million , which was the same level as prior year. That cash amount consists mainly of the deposited interest payment to bondholders at year end. The balance sheet includes a corresponding current liability in the same amount.

> The Company’s net indebtedness decreased from EUR 125.7 million to EUR 113.5 million as a result of the above mentioned restructuring and summation.

> As of December 31, 2006, IFCO SYSTEMS’ shareholders’ equity amounted to EUR 229.8 million, or 64.3% of total assets, as compared to EUR 241.9 million, or 64.0% of total assets, as at December 31, 2005.

Risk management

Our internal risk management policies are integral parts of how we plan and execute our business strategies. We use a set of internal risk management and control systems to anticipate, measure, monitor and manage our exposure to risk. The most important of these are our enterprise-wide processes for strategic planning, management reporting and internal audit. We assess the installed control systems as adequate and effective. The coordination of these processes and procedures to ensure that our Board of Managing Directors, Executive Management Committee and Supervisory Board are informed about material risks on a timely basis.

In 2006 the Company has completed its internal audit function and has reached a full coverage of its European and USA businesses. Additionally a compliance officer function was installed, in order to oversee the Company’s corporate compliance program.

Below we describe the major categories of risks that could materially affect our business, our financial condition and our results of operations. Because IFCO SYSTEMS N.V. does not have own operations the following risks do not directly impact the separate financial statements of the Company. Therefore, the following risks are related to the operating businesses of the direct and indirect subsidiaries of the Company. These risks are not necessarily the only ones we face. Additional risks not known to us, or that we now consider less significant, could also adversely affect our business.

Competition

We face competition in all industry sectors in which we operate. We expect aggressive competition from other reusable container providers and from the traditional packaging companies, in particular producers of cardboard boxes. In addition, there are relatively few barriers that prevent entry on a local or regional level into the traditional packaging and pallet industries. The effect of this competition could limit our ability to grow, increase pricing pressure on our products, and otherwise affect our financial results.

The market for pallet recycling services is highly fragmented and competitive, resulting in intense pricing competition. Other pallet systems may include pallets fabricated from non-wooden components like plastic as cost-effective, durable alternatives to wooden pallets. Increased competition from pallet pooling companies or providers of other alternatives to wooden pallets could make it more difficult for us to attract and retain customers and may force us to reduce prices, which may decrease our profitability.

Retail relationships

Our RPC-Management-Services business segment is dependent on our relationships with a relatively small number of large retailers. Our inability to maintain these relationships or cultivate new relationships on similar terms will impair our ability to remain competitive in the markets in which we operate.

Our Pallet-Management-Services business segment sources the majority of our pallets for reconstruction from businesses that use pallets, including large and small retailers.

The loss of one or more of these retail relationships would have a material negative impact on our revenues, profitability, and cash flows.

RPC-Management-Services' pool risks

Despite our experience with container pooling and transport, and the relative durability and reliability of RPCs, our pool of RPCs is subject to shrinkage due to unforeseen loss and damage during transport in the product distribution cycle. Increased loss of or damage to RPCs may increase our costs in maintaining our current RPC-Management-Services' pool, thus requiring additional capital investments, which could limit our profitability. We have implemented operational, logistic and analytical tools in order to reduce and minimize those risks.

Supplier risk

We procure RPCs used in our RPC-Management-Services' business exclusively from two suppliers under separate contracts for our European and US businesses. Our RPC-Management Services' operations depend upon obtaining deliveries of RPCs on a timely basis and on commercially reasonable terms. We have maintained long-term relationships with these suppliers. If these suppliers ever become unwilling or unable to supply us with RPCs at all or on conditions acceptable to us, we may be unable to find alternative suppliers on a timely or cost-effective basis. This would limit our ability to supply our customers with RPCs on a timely basis and, thus, adversely affect our results of operations.

Credit risk

We provide certain of our customers customary financing for our sales to them. We face a number of general risks in providing this financing, including delayed payments from customers or difficulties in the collection of receivables. We manage these credit risks using defined processes for assessing customer creditworthiness and through our group emphasis on collecting receivables fully and timely.

Environmental risk

Our operations are subject to various environmental laws and regulations, including those dealing with the handling and disposal of waste products, fuel storage and air quality. Failure to comply with such laws and regulations can have serious consequences, including civil and criminal fines and penalties, and orders to limit or shut down operations. We manage these risks with strict internal procedures and through our internal management reporting tools.

Foreign currency risk

Foreign currency risk is the risk that we will incur economic losses due to adverse changes in foreign currency exchange rates.

Our operating subsidiaries in countries other than those countries participating in the European Monetary Union and adopting the Euro as their national currency use their local currency as their functional currency. In North America we are using the US-Dollar.

During 2003, we entered into a forward exchange contract in order to offset the cash flow variability related to changes in exchange rates on certain intercompany transactions. The forward exchange contract expired at December 31, 2006.

We incur currency transaction risk whenever one of our operating subsidiaries enters into either a purchase or sales transaction using a currency other than its functional currency. Our currency risk arises from foreign currency receivables as well as from firm commitments to purchase services and supplies in the future in currencies other than the subsidiary's functional currency. Additionally, the indirect intercompany financing from IFCO SYSTEMS N.V. via IFCO SYSTEMS Hungary Kft. to IFCO SYSTEMS North America is subject to currency transaction risk.

Interest rate risk

The Company's exposure to the risk of changes in market interest rates is limited because the majority of the Company's interest bearing debt (Senior Secured Notes) has fixed interest rates. The Subsidiary's exposure to the risk of changes in market interest rates is limited and relates only to the working capital facility.

Commodity price risk

We are subject to market risk with respect to commodities since granulate is a significant component of cost of goods sold for our RPCs. To the extent that we purchase new RPCs made from new, virgin material instead of recycled RPCs, any increase in the cost of new granulate will increase cost of goods sold resulting in decreased profitability unless there is a corresponding increase in the prices we charge our customers. We may be limited in how much of a cost increase, if any, we are able to pass along to customers or how quickly we are able to pass along a cost increase to customers. In addition, increases in prices may result in a decrease in revenues.

We do not enter into futures contracts on commodity markets to hedge our exposure to granulate prices.

Outlook

IFCO SYSTEMS N.V.

The ultimate holding of the IFCO SYSTEMS group will carry on in providing financial, consultancy and management services to its subsidiaries.

IFCO SYSTEMS Group

Our RPC-Management-Services business has developed in a manner which is largely consistent with our plans and expectations. This development is principally the result of us being able to take advantage of strengths and opportunities in our RPC businesses and markets, while managing corresponding risks. Accordingly, in our RPC-Management-Services business, in Europe we will leverage our leadership position and strong market experience to continue to realize our market development plans. In the United States, we continue to expect an increase in the overall RPC penetration in the market and expect IFCO SYSTEMS to grow in line with or in excess of the RPC penetration development during 2007.

The strong demand for our RPC services and the positive market responses we receive on our new RPC pool give us confidence to continue to invest in our RPC pool during 2007. This growth will continue to result in substantial investment.

The Pallet-Management-Services business was significantly affected by the business consequences of the ICE investigation in 2006. The recovery of that business segment to acceptable profitability levels will be the main business target for 2007. In this business segment, we anticipate continuing year-over-year gains in business volume, although revenues earlier in 2007 are expected to be lower than the corresponding 2006 periods as the business continues to recover from the effects of the ICE investigation.

We believe that the continued development of our National Sales program and our increasing range of value-added services will sustain our existing leadership position within this segment.

We do not anticipate significant changes in our overall strategies in the near term and expect that the business development which has existed in recent years to remain in place during 2007.

We expect the economies in Western Europe to grow at a similar rate as we experienced during 2006. Though we see some recent slowdown in the United States economy, we expect to outpace projected economic growth in 2007.

We believe that the above trends will result in increased revenues and operating profits during 2007 compared to 2006.

Financially, we are in a sound position and plan our businesses so that we are able to fund our capital, operational, and debt service requirements through our own operational cash flows.

Auditors' report

Report on the company separate financial statements

We have audited the accompanying company financial statements 2006 which are part of the financial statements of IFCO SYSTEMS N.V., Amsterdam, which comprise the balance sheet as at December 31, 2006, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

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

Report on other legal and regulatory requirements

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

Eindhoven, February 20, 2007

for Ernst & Young Accountants

W.J. Spijker

IFCO SYSTEMS N.V. balance sheets

EUR in thousands	Notes	**December 31, 2006**	December 31, 2005
Assets			
Non-current assets:			
Investments	(1)	333,671	333,671
Other assets	(3)	9,008	9,008
Total non-current assets		342,679	342,679
Current assets:			
Receivables	(3)	8,873	28,086
Other current assets		158	880
Cash and cash equivalents		5,710	5,747
Total current assets		**14,741**	**34,713**
Total assets		**357,420**	**377,392**
Equity and liabilities			
Equity attributable to equity holders of the parent:			
Ordinary share capital, EUR 0.01 par value, 100,000,000 shares authorized; 54,222,214 and 45,756,030 issued and outstanding as of 2006 and 2005, respectively		542	458
Treasury shares		(1,354)	-
Capital reserves		360,265	361,409
Retained earnings		(129,630)	(120,105)
Foreign currency translation adjustment		-	136
Total equity	(4)	**229,823**	**241,898**
Non-current liabilities:			
Interest bearing loans and borrowings, net of current maturities	(5)	106,514	105,526
Total non-current liabilities		**106,514**	**105,526**
Current liabilities:			
Current maturities of interest bearing loans and borrowings	(3)	12,665	25,897
Trade and other payables	(3)	8,143	3,540
Other liabilities	(3)	275	531
Total current liabilities		**21,083**	**29,968**
Total liabilities		**127,597**	**135,494**
Total equity and liabilities		**357,420**	**377,392**

IFCO SYSTEMS N.V. income statements

EUR in thousands, except share and per share amounts	Notes	Year ended December 31, 2006	2005
Management charges to subsidiaries		1,805	907
General and administrative expenses		(1,557)	(1,240)
Stock-based compensation expenses [(1)]	(9)	(528)	(1,308)
Financing related restructuring costs [(1)]		-	(165)
Other operating income, net		(135)	(146)
Profit (loss) from operating activities		(415)	(1,952)
Interest expense		(14,020)	(13,880)
Interest income		2,635	3,502
Foreign currency gain (loss), net		2,275	(3,026)
Profit (loss) of finance activities		(9,110)	(13,404)
Profit (loss) before taxes		(9,525)	(15,356)
Income tax provision	(6)	0	0
Net loss		(9,525)	(15,356)

(1) Stock based compensation expenses and financing related restructuring expenses as outlined relate to general and administrative expenses

EUR in thousands, except share and per share amounts	Notes	Year ended December 31, 2006	2005
Net loss per share – basic		(0,18)	(0,34)
Net loss per share – diluted		(0,18)	(0,34)
Shares on which net profit is calculated:	(4)		
Basic		53,198,989	45,508,810
Effect of dilutive stock options and warrant exchange		949,911	9,352,140
Diluted		54,148,900	54,860,950

IFCO SYSTEMS N.V. statements of changes in equity

EUR in thousands, except share amounts	Ordinary Shares Shares	Treasury Shares Shares	Ordinary Shares Amount	Treasury Shares Amount	Capital Reserve	Accumulated Deficit	Foreign currency translation adjustment	Total Equity
Balance at January 1, 2005	45,321,033	–	453	–	359,239	(104,749)	(213)	254,730
Stock-based compensation expense	–	–	–	–	1,280	–	28	1,308
Exercise of stock options by issuance of ordinary shares	434,997	–	5	–	890	–	–	895
Currency translation differences	–	–	–	–	–	–	321	321
Net loss	–	–	–	–	–	(15,356)	–	(15,356)
Balance at December 31, 2005	45,756,030	–	458	–	361,409	(120,105)	136	241,898
Stock-based compensation expense	–	–	–	–	528	–	–	528
Exercise of stock options by issuance of ordinary shares	344,667	–	3	–	1,146	–	–	1,149
Buyback of treasury shares	–	135,924 (1)	–	(1,354)	–	–	–	(1,354)
Exercise of stock options funded by treasury shares	–	–	–	–	(1,990)	–	–	(1,990)
Currency translation differences	–	–	–	–	–	–	(136)	(136)
Exercise of warrants	8,121,517	–	81	–	(828) (2)	–	–	(747)
Net loss	–	–	–		–	(9,525)	–	(9,525)
Balance at December 31, 2006	**54,222,214**	**135,924**	**542**	**(1,354)**	**360,265**	**(129,630)**	–	**229,823**

(1) In 2006 the Company repurchased 334,258 treasury shares in the amount of EUR 3.344 million. Thereof 198,334 treasury shares were transferred to employees to serve the 2000 stock option plan of the Company.

(2) The expenses associated with the warrant exchange, which were capitalized at the end of the financial year December 31, 2005, were reclassified to equity in 2006.

IFCO SYSTEMS N.V. cash flow statements

EUR in thousands	Year ended December 31, 2006	2005
Cash flows from continuing operating activities:		
Net loss	(9,525)	(15,356)
Adjustments for:		
Stock-based compensation expense	528	1,308
Foreign currency (income) loss, net	(1,629)	3,439
Net finance costs[(1)]	11,391	9,398
Cash generated from continuing operations, excluding the cash flow effect of changes in working capital	**765**	**(1,211)**
Changes in working capital of continuing operations:		
Receivables[(1)]	20,861	(41)
Trade and other payables[(1)]	4,193	3,341
Other assets and liabilities	370	(420)
Cash flow effect of changes in operating assets and liabilities of continuing operations	25,424	2,880
Cash generated from continuing operations before income tax payments	**26,189**	**1,669**
Cash flows from investing activities:		
Reduction of other financial assets	0	0
Net cash used in investing activities	**0**	**0**
Cash flows from financing activities:		
Principal payments of long-term debt	0	0
(Decrease)/Increase of interest bearing debt[(1)]	(12,829)	7,901
Interest paid	(11,435)	(5,730)
Interests received	980	980
Net proceeds from exercise of stock options	1,149	894
Expenses for warrant exchange program	(747)	0
Net payments for treasury share buyback	(3,344)	0
Net cash used in financing activities	**(26,226)**	**4,045**
Net increase (decrease) in cash and cash equivalents	(37)	5,714
Cash and cash equivalents, beginning of period	5,747	33
Cash and cash equivalents, end of period	**5,710**	**5,747**

(1) Net finance costs (interest income and interest expense) have been excluded

Notes to separate financial statements

(EUR in thousands, except per share amounts or unless otherwise stated)

1. Business, organization, and basis of presentation

The separate financial statements of IFCO SYSTEMS N.V. (IFCO SYSTEMS or the Company) for the year ended December 31, 2006 were authorized by the Board of Managing Directors and the Executive Management on February 16, 2007.

IFCO SYSTEMS N.V. is a Netherlands holding company with direct shares (100%) in IFCO SYSTEMS Luxembourg S.ár.l, IFCO SYSTEMS Netherlands B.V. and IFCO Online GmbH. IFCO SYSTEMS Luxembourg S.ár.l is the holding for the following operating companies: IFCO SYSTEMS GmbH and its 100.0% owned subsidiaries (IFCO SYSTEMS Europe), IFCO SYSTEMS North America, Inc. and its subsidiaries (IFCO SYSTEMS North America). The Company's headquarter is located in Strawinskylaan 3051, 1077 ZX Amsterdam, the Netherlands. Its European operations headquarters are in Munich, Germany, and its North American operations headquarters are in Houston, Texas, in the United States.

IFCO SYSTEMS Europe is involved in the organization and administration of the rental, distribution and purchase of reusable plastic containers (RPC) RPC-Management-Services systems in Germany and other European countries. After the Company has collected, sanitized and cleaned the RPCs, they are rented primarily to producers of fresh fruit and vegetables in exchange for a one-time usage fee. The producers' goods are transported in the RPCs to various intermediaries and ultimately to retailers for sale to consumers. IFCO SYSTEMS Europe delivers the empty RPCs to customers' bulk warehouses and collects the empty RPCs from regional service points again. IFCO SYSTEMS North America, through one of its subsidiaries, operates the Company's RPC-Management-Services system in the United States.

Aside from the RPC-Management-Services business in the United States, IFCO SYSTEMS North America principally offers Pallet-Management-Services. The wide range of Pallet-Management-Services offerings range from consultancy services and comprehensive pallet services programs including, on or off site sort/repair of pallets, reverse logistics services to web-based tracking/data management services.

The primary functional currency of the North American operations is the US Dollar and the primary functional currency of IFCO SYSTEMS N.V. and for most of the European operations is the Euro, the currency of their primary economic environment in which they operate. Those functional currencies reflect the respective regional currency influence on sales prices for goods and services, influences on labor, material and other costs and the currency in which funds from financing activities are generated.

The separate financial statements are prepared in Euros. Unless otherwise noted, all amounts are shown in thousands Euros.

2. Summary of significant accounting policies

Statement of compliance

The separate financial statements of the Company have been prepared in accordance with all International Financial Reporting Standards (IFRS) as adopted by the European Union.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year.

The Company has adopted the following amended IFRS standards and IFRIC interpretation during the year. Adoption of these revised standards and this interpretation did not have any effect on the financial statements of the Company.

- IAS 21 Amendments – The Effects of Changes in Foreign Exchange Rates
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease

Future changes in accounting policies

- IAS 1 Amendment – Presentation of Financial Statements that has been issued but is effective as of January 1, 2007 and will not be applied before that date. IAS 1 will require the Company to make new disclosures to enable users of the financial statements to evaluate objectives, policies and processes for managing capital.

- IFRS 7 Financial Instruments that has been issued but is effective as of January 1, 2007 and will not be applied before that date. IFRS 7 will require additional disclosures to enable users to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments.

- IFRS 8 Operating Segments that has been issued however not yet endorsed. This standard will be effective as of January 1, 2009 and will not be applied before that date. IFRS 8 requires an entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

- IFRIC 8 Scope of IFRS 2 that has been issued but is effective for fiscal years beginning on or after May 1, 2006. This IFRIC will be applied by the Company in the fiscal year 2007. The IFRIC has to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.

- IFRIC 9 Reassessment of Embedded Derivatives that has been issued but is effective for fiscal years beginning on or after June 1, 2006 and will be applied by the Company in the fiscal year 2007. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party of the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flow. The Company is still evaluating the effect of this interpretation and expects that adoption of this interpretation will have no impact on the Company's financial statements when implemented in 2007.

- IFRIC 10 Interim Financial Reporting and Impairment that has been issued however not yet endorsed. This IFRIC will be effective for fiscal years beginning on or after November 1, 2006 and will be applied by the Company in the fiscal year 2007. The IFRIC requires the Company not to reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

- IFRIC 11 IFRS 2 Group and Treasury Share Transactions that has been issued however not yet endorsed. This IFRIC will be effective for fiscal years beginning on or after March 1, 2007 and will be applied by the Company in the fiscal year 2008. IFRIC 11 requires share-based payment transactions in which an entity receives services as consideration for its own equity instruments to be accounted for as equity-settled. Provided that the share-based arrangement is accounted for as equity-settled in the consolidated financial statements of the parent, the subsidiary shall measure the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions.

- IFRIC 12 Service Concession Arrangements that has been issued however not yet endorsed. This IFRIC will be effective for fiscal years beginning on or after January 1, 2008 and will be applied by the Company in the fiscal year 2008. Infrastructure within the scope of this interpretation shall not be recognized as property, plant and equipment of the operator because the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator.

The Company expects that adoption of the IFRS and IFRIC interpretations listed above will have no significant impact on the financial statements in the period of initial application. However, IFRS 7 will require the Company to make additional disclosures to enable users to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments and IAS 1 will require the Company to make new disclosures to enable users of the financial statements to evaluate objectives, policies and processes for managing capital.

Accounting principles

Investments

The Company owns 99,99% of IFCO SYSTEMS Luxembourg S.ár.l (Luxembourg), IFCO SYSTEMS Netherlands B.V. (Netherlands) and IFCO Online GmbH (Germany). In accordance with IAS 27.37(a) these investments have been valued at cost.

All of the following indirect investments (subsidiaries and associates) are 100% interests unless otherwise stated and all entities are incorporated in their respective countries:

- IFCO SYSTEMS Hungary Kft. (Hungary)

- IFCO SYSTEMS Management GmbH (Germany)

-- IFCO SYSTEMS Holding GmbH (Germany)
--- IFCO SYSTEMS GmbH (Germany)
---- IFCO SYSTEMS Skandinavien A/S (Denmark)
---- IFCO SYSTEMS UK Ltd. (Great Britain)
---- IFCO SYSTEMS France S.A.S. (France)
---- IFCO SYSTEMS (Schweiz) GmbH (Switzerland)
---- GELOG AG (Switzerland)
---- IFCO SYSTEMS Oesterreich GmbH (Austria)
---- IFCO SYSTEMS Italia S.r.l. (Italy)
---- IFCO SYSTEMS Espana Srl. (Spain)
---- GISO Verwaltungsgesellschaft mbH & Co. Behälterleasing KG (Germany)
---- IFCO Lojistik Sistemleri Tic.Ltd.Sti (Turkey)

---- IFCO SYSTEMS Asia Ltd. (Hongkong)
---- IFCO SYSTEMS Japan Inc. (33.3%) (Japan)
---- IFCO SYSTEMS Argentina S.A. (49.0%) (Argentina)
---- IFCO do Brasil Embalagens LTDA (90.0%) (Brasil)

-- IFCO SYSTEMS Canada, Inc. (Canada)

-- IFCO SYSTEMS North America, Inc. (USA)
--- Reusable Container Company LLC (USA)
--- Pallet Companies, Inc. (USA)
---- Valley Crating and Packaging, Inc. (USA)
---- Pallet Subs, Inc. (USA)
---- California Pallet, Inc. (USA)
---- Pennsylvania Pallet, Inc. (USA)
---- Integral Pallet Holding, Inc. (USA)
---- Integral Texas Pallet Operations, LP (USA)
---- GP of Texas, Inc. (USA)
---- Texas Pallet de Mexico S.A. de C.V. (USA)
---Drum Holding Company, Inc. (USA)
---- Drum Subs, Inc. (USA)
---- Illinois Drum, Inc. (USA)
---- Zellwood Drum, Inc. (USA)
---- Chicago Drum, Inc. (USA)
---- DSF Realty I, Inc. (USA)
---- DSF Realty II, Inc. (USA)

In accordance with IAS 39.66 the Company performed an impairment test at year end 2006 and 2005. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the investment relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

The following three cash-generating units are defined:

- RPC-Management-Services Europe
- RPC-Management-Services United States
- Pallet-Management-Services

RPC-Management-Services Europe
The recoverable amount of this cash-generating unit has been determined based on the value in use calculation using cash flow projections approved by senior management covering a 5-year period. The pretax discount rate applied to cash flow projections is 9.5% (2005: 11.8%) and cash flows beyond the 5-year period are extrapolated using a 1.8% (2005: 1.8%) growth rate which is based on an average long term GDP (Gross Domestic Product) growth rate for the European countries in which IFCO SYSTEMS is operating.

RPC-Management-Services United States
The recoverable amount of this cash-generating unit has been determined based on the value in use calculation using cash flow projections approved by senior management covering a 5-year period. The pretax discount rate applied to cash flow projections is 12.1% (2005: 15.1%) and cash flows beyond the 5-year period are extrapolated using a 3.0% (2005: 3.1%) growth rate which is based on an average long term GDP growth rate for the United States.

Pallet-Management-Services
The recoverable amount of this cash-generating unit has been determined based on the value in use calculation using cash flow projections based on financial budgets approved by senior management covering a 5-year period. The pretax discount rate applied to cash flow projections is 12.1% (2005: 15.1%) and cash flows beyond the 5-year period are extrapolated using a 3.0% (2005: 3.1%) growth rate which is based on an average long term GDP growth rate for the United States.

Key assumptions used in value in use calculation:

The Company projected the cash flows for the five-year period based on detailed assumptions for every cash-generating unit and its specific markets. The model used is the same the Company used in prior years providing a profit and loss account, balance sheet and cash flow statement as well as assumptions for key performance indicators.

The calculation of value in use is sensitive to the assumptions for

- Market share – as well as using industry data for growth rates management assesses how the position of the three cash generating units, relative to its competitors, might change over the budget period.
- Gross margins – key elements for all three cash generating units are logistic costs (e.g. transportation, washing, labor) and material price development for Pallet-Management-Services. Based on average values achieved in prior periods, these costs are projected by including anticipated efficiency improvements and cost developments related to portfolio changes.
- Future investment needs in the RPC pool based on trip growth at average turn rates and maintenance to replace broken crates and shrinkage.

Management has assessed these factors and their possible future impacts very carefully to build up the projection.

The Company used for risk free interest rates 20 year EUR-Germany-Sovereigns and EUR-Composite-AAA. In order to cover the additional risks IFCO SYSTEMS used appropriate public market equity risk premiums and estimated risk premiums in relationship with the actual rating of the companies shares. The beta factor used also reflected the actual bond rating of IFCO SYSTEMS.

The Company's 2006 and 2005 annual testing indicated that there was no impairment of investments.

Accounts receivables

Trade receivables are recorded at amortized costs or the amount the Company expects to collect on gross customer trade receivables. A reserve has been established based on historical experience, in addition to a reserve for specific receivables which may not be fully collectible. Items deemed uncollectible are written off against allowance for doubtful accounts.

Investments and other financial assets and liabilities

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale investments, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction cost. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit and loss when the analysis shows that the economic characteristics and risk of embedded derivatives are not closely related to those of the host contract.

The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates the designation at each financial year end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Initial recognition and measurement

Financial assets consist with the exception of derivatives only of loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process
Financial liabilities are initially recognized at the fair value of the consideration received less directly attributable costs. After initial recognition, they are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Derivatives

The Company uses derivative financial instruments such as foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are stated at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. At the inception of the hedge relationship, the Company must designate the derivative instrument as either a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation. This designation is based upon the exposure being hedged.

On November 24, 2003, the Company entered into a forward exchange contract in order to offset the cash flow variability related to changes in exchange rates on certain intercompany transactions. When entered into, the forward exchange contract did not qualify for hedge accounting because the related intercompany transactions do not impact earnings. As a result, changes in the fair value of this instrument are recognized as a component of foreign currency loss in the accompanying consolidated statements of operations. The forward exchange contract expired at December 31, 2006.

The fair value of this instrument marked-to-market as the Euro to United States Dollar exchange rate changed during the term of the contract. The Company measured the fair value of its foreign currency derivative based on information provided by financial institution. The fair value of this instrument was approximately EUR 0.1 million as of December 31, 2005 and was reflected in other current assets within the accompanying separate balance sheets.

Treasury shares

The Company's reacquired ordinary shares (treasury shares) are deducted from equity. No gain or loss is recognized in the consolidated income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Cash and cash equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Deferred financing costs

According to IAS 39 'Financial Instruments: Recognition and Measurement', the Company nets deferred financing costs related to the issuance of the Company's debt obligations against those obligations on the Company's balance sheets.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as the lease income. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Taxes

Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred income tax
Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred income tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authoritiy.

Equity settled transactions

The cost of equity settled transactions with employees, for awards granted after November 7, 2002 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate option pricing model.

The cost of equity settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and / or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represented in movement in cumulative expense recognized as at the beginning of the period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Foreign currency transactions and translation

The functional currency of the Company is EUR. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Profit per share

Basic net profit per share is based on the weighted average number of ordinary shares outstanding adjusted by the number of shares bought back and diluted net profit per share is based on the weighted average number of ordinary shares outstanding adjusted by the number of shares bought back plus the dilutive common equivalent shares outstanding during the period.

Use of estimates

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant estimates made by management include the future years planning horizon for deferred income tax assets and the valuation analysis of investments (impairment test). Although the Company reviews all significant estimates affecting its financial statements on a recurring basis and records the estimated effect of any necessary adjustments prior to their publication, actual results inevitably will differ from these estimates, and such differences may be material to the financial statements.

Reconciliation of equity to consolidated financial statements

Both the consolidated financial statements and the separate financial statements of the Company have been prepared according to IFRS. The equity recorded in the consolidated financial statements amounts to US $233.9 million or EUR 177.2 million. The consolidated net result amounts to US $37.3 million or EUR 29.7 million. The differences of equity and net result of those two financial statements are only a result of the consolidation of the subsidiaries and their respective results. In addition the consolidated financial statements for the group are presented in US Dollar however the separate financial statements of the Company are presented in EUR.

Reconciliation of consolidated net profit

EUR in thousands	**2006**	2005
Net result of IFCO SYSTEMS N.V. separate financial statements	(9,525)	(15,356)
Plus:		
Income from subconsolidation	39,741	51,155
Less:		
Loss from discontinued operations	(529)	(2,933)
Net result of IFCO SYSTEMS N.V. consolidated financial statements	29,687	32,866

3. Detail of certain balance sheet accounts

Other non-current assets

Other non-current assets consist of a loan receivable to IFCO SYSTEMS Management GmbH (2006 and 2005: EUR 9.0 mio.). The interest rate for the loan amounts to 10.875% per year. Interests have been paid to the Company.

Receivables

The components of receivables are as follows:

EUR in thousands	As of December 31, **2006**	2005
Receivables due from group companies:		
- IFCO SYSTEMS Management GmbH	6,744	26,591
- IFCO SYSTEMS North America Inc.	2,005	1,421
- IFCO SYSTEMS Luxembourg S.ar.l.	92	64
- IFCO SYSTEMS Netherlands B.V.	32	10
	8,873	28,086

Current maturities of interest bearing loans and borrowings

Current maturities of interest bearing loans and borrowings consists of a loan from IFCO SYSTEMS Hungary Kft. (2006: EUR 7.0 million; 2005: EUR 20.2 million) and the outstanding interest payment to bondholders (2006 and 2005: EUR 5.7 million).

Trade and other payables

Trade and other payables mainly consist of payables due to IFCO SYSTEMS GmbH (2006: EUR 7.8 million; 2005: EUR 3.4 million).

Other current liabilities

The other current liabilities are as follows:

EUR in thousands	As of December 31, **2006**	2005
Accrual for tax advisory	125	108
Audit accrual	111	234
Other Accruals	39	189
	275	531

Exchange warrant reserve

Article 20.3 of the Company's articles of association state, that from the profits the Board of Managing Directors shall first allocate an amount of fifty thousand euro (EUR 50,000), with respect to the payment of the issue price on the shares (EUR 0.01 per share) to be issued upon exercise of the Exchange Warrants, to a reserve, which reserve will be used solely for the payment of the issue price on the shares to be issued upon exercise of the Exchange Warrants to the holders of the Exchange Warrants (the "Exchange Warrant Reserve").

According to this regulation, EUR 50,000 were included in the Company's retained earnings as of December 31, 2005.

On December 20, 2005 it was resolved, that the warrant exchange resulted in the issuance of up to 8,448,360 ordinary shares of IFCO SYSTEMS N.V. Therefore, in the extraordinary general meeting of shareholders on January 9, 2006 the shareholders of IFCO SYSTEMS N.V. unanimously adopted the increase of the Exchange Warrant Reserve (Par Value Subscription Reserve) from EUR 50,000.-- to EUR 90,000.-- according to Article 20.3 of the Articles of Association of IFCO SYSTEMS N.V. by reallocation of an amount of EUR 40,000.-- from the Company's free distributable share premium reserve (retained earnings) to the Exchange Warrant Reserve.

The expenses associated with the warrant exchange were capitalized in the amount of EUR 0.7 million in 2005. In 2006 these expenses were reclassified to equity. The total reduction of equity in 2006 resulting from the warrant exchange is EUR 0.7 million as shown in the accompanying statements of changes in equity.

Capital reserve

The capital reserve consists of paid in capital from the issuance of stock. There are no restrictions on the use of the capital reserve.

4. Shares and Earnings per share

Ordinary shares

Our ordinary share, which confers the right to cast one vote in the general meeting, has a nominal value of EUR 0.01 per ordinary bearer share. As of December 31, 2006 we had 54,222,214 ordinary bearer shares outstanding. We had approximately 54.0 million ordinary bearer shares outstanding on our German share register and approximately 0.2 million registered ordinary shares outstanding on our New York share register. The Securities Identification Number of our shares is 157 670.

Share buyback

The Board of Managing Directors resolved on November 14, 2006 to make use of the authorization of the Extraordinary Shareholders' Meeting, held on October 24, 2006, to repurchase up to 1,606,336 shares of the Company either through the Stock Exchange or from one or more individual shareholders through private transactions. The authorization for the repurchase is given until April 2008. The acquisition price shall not be lower than EUR 0.01 and shall not exceed the average stock exchange price at the Frankfurt Stock Exchange during five stock exchange days prior to the day of the acquisition by more than 10%. The repurchased shares shall be used exclusively to serve the options of the 2000 Stock Option Plan of the Company dated March 7, 2000. As the shares will be transferred to employees of the Company, the free float will not be reduced.

Bayerische Hypo- und Vereinsbank AG, Munich has been authorized to carry out the purchases from the stock market and will independently and without any influence by IFCO SYSTEMS N.V. decide upon the amount of shares to be purchased as well as the price and time of purchase.

As of February 16, 2007 IFCO SYSTEMS had repurchased 381,080 shares of the Company and records 182,746 shares as treasury shares.

Warrants

During 2002, 4,393,095 warrants were issued to certain investors to acquire additional ordinary shares of the Company.

Pursuant to Sec. 6 of the Terms and Conditions of the 4,393,095 warrants, each carrying the right to subscribe to new bearer ordinary shares in IFCO SYSTEMS N.V. (hereinafter referred to as “Warrants”), the Board of Managing Directors as well as the Supervisory Board of IFCO SYSTEMS N.V. determined the exchange ratio for the Warrants on December 20, 2005. The determination was based on the daily weighted average ordinary share prices of IFCO SYSTEMS N.V. during the Valuation Period from September 19, 2005 to December 12, 2005. The exchange ratio determined this way for the Warrants is 1.9231 common shares per Warrant, i.e. each Warrant - considering the rounding rules set forth - entitles to the subscription to 1.9231 ordinary shares of IFCO SYSTEMS N.V.. The exercise period for exchanging the warrants into ordinary shares of IFCO SYSTEMS N.V. started on January 9, 2006 and ended on February 7, 2006.

The warrant exchange resulted in an issuance of 8,121,517 ordinary shares of IFCO SYSTEMS N.V..

Earnings per share

The following reflects the income and share data used in the basic and diluted earnings per share computations:

EUR in thousands	As of December 31, **2006**	2005
Net loss attributable to ordinary equity holders	(9,525)	(15,356)

	As of December 31, **2006**	2005
Weighted average number of ordinary shares for basic earnings per share	53,198,989	45,508,810
Effect of dilution:		
Stock options	949,911	1,230,623
Warrant shares	_	8,121,517
Weighted average number of ordinary shares adjusted for the effect of dilution	54,148,900	54,860,950

The potential issuance of new shares resulting from the exercise of stock options and in prior year the exchange of warrants are considered in the above calculation of dilutive shares.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the authorization date of our consolidated financial statements.

5. Debt

Senior Secured Notes

On October 10, 2003, the Company issued 10 3/8% Guaranteed Senior Secured Notes in the principal amount of EUR 110.0 million in a private placement. The Senior Secured Notes mature on October 15, 2010, and are senior secured obligations of IFCO SYSTEMS ranking equally with other existing or future senior secured indebtedness in right of payment. Interest at the rate of 10 3/8% per year from the date of issuance is payable semi annually in arrears on each June 30 and December 31. No principal payments are due under the Senior Secured Notes until maturity on October 15, 2010. The Senior Secured Notes are secured by a first priority lien on substantially all of the Company’s and all direct and indirect subsidiaries’ assets, except the assets of IFCO SYSTEMS GmbH and its subsidiaries. The Senior Secured Notes are guaranteed by most of the Company’s direct and indirect subsidiaries. All of the subsidiary guarantees of the Senior Secured Notes (other than that of IFCO SYSTEMS GmbH, the guarantee of which is unsecured) are secured by substantially all of the assets of such subsidiary guarantors, including pledges of the stock of most of the Company’s subsidiaries.

The Senior Secured Notes became redeemable on October 15, 2006 with a redemption price equal to the principal amount thereof plus accrued and unpaid interest and a redemption premium (initially 110.4%) and certain additional amounts. The redemption price will decline to

105.2% on October 15, 2007, 102.6% on October 15, 2008 and will decline to 100.0% on October 15, 2009 and thereafter until maturity.

The indenture governing the Senior Secured Notes allows the Company to issue additional notes in an aggregate principal amount of up to EUR 50.0 million under the same security package as the Senior Secured Notes, but only to the extent that the Company meets certain interest coverage ratios on a pro forma basis considering the issuance of the additional notes and that no default or event of default will have occurred as a consequence of the additional indebtedness being incurred.

If a change of control of greater than 50.0% of the Company's voting stock occurs, each holder of the Senior Secured Notes may individually require the Company to purchase their notes at a purchase price in cash equal to 101.0% of the principal amount of the Senior Secured Notes plus accrued and unpaid interest. A change of control, as defined, does not include a change in ownership if the sale of voting stock to an acquirer is made by holders who received this stock in connection with the conversion of the former Senior Subordinated Notes.

The indenture governing the Senior Secured Notes contains a number of covenants that, among other things, limit the Company and its subsidiaries' ability to incur additional debt, make certain restricted payments, create certain liens, dispose of assets and subsidiary capital stock, merge or consolidate, issue guarantees, pay dividends, and otherwise restrict certain corporate activities. The Senior Secured Notes also limit the Company's obligations under finance leases to EUR 25.0 million. The Senior Secured Notes also contain customary events of default, including non-payment of principal, interest or fees, material inaccuracy of certain representations and warranties, violation of covenants, cross-default to certain other debt, certain events of bankruptcy and insolvency, material judgments, and a change of control in certain circumstances.

The Senior Secured Notes are not listed on a public market. The fair value of the Senior Secured Notes has been determined by using the fair values of comparable notes of comparable companies. These comparisons support Company's assessment that fair value is nearly equal to nominal value.

Maturities of debt

Long-term debt consists of the following:

EUR in thousands	As of December 31, **2006**	2005
Senior secured notes	110,000	110,000
Other	215	215
	110,215	110,215
Less: current maturities	(0)	(0)
	110,215	110,215
Less: deferred financing costs	**(3,701)**	(4,689)
	106,514	105,526

The complete amount of EUR 110.2 million is due in 2010.

Financial risk management objectives and policies

The Company's principal financial instruments, other than derivatives, comprise senior secured notes, working capital credit facility, finance leases, and cash and short-term deposits. The main purpose of these financial instruments is to fund the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Company also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the foreign currency risk arising from the Company's sources of finance. The forward exchange contract expired at December 31, 2006.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risk arising from the Company's financial instruments is foreign currency risk. There are no significant concentrations of credit risk within the Company.

The Company's exposure to the risk of changes in market interest rates is limited because the majority of the Company's interest bearing debt (Senior Secured Notes) is provided with a fix coupon.

Foreign currency risk is the risk that we will incur economic losses due to adverse changes in foreign currency exchange rates.

During 2003, we entered into a forward exchange contract in order to offset the cash flow variability related to changes in exchange rates on certain intercompany transactions. The forward exchange contract expired at December 31, 2006.

The Company incurs currency transaction risk whenever one of our operating subsidiaries enters into either a purchase or sales transaction using a currency other than its functional currency. Our currency risk arises from foreign currency receivables as well as from firm commitments to purchase services and supplies in the future in currencies other than the subsidiary's functional currency. Additionally, the indirect intercompany financing from IFCO SYSTEMS N.V. via IFCO SYSTEMS Hungary Kft. to IFCO SYSTEMS North America is subject to currency transaction risk.

6. Income taxes

Caused by the negative results in 2006 and 2005 the Company does not present income tax provisions for both years.

The Company is within a continuing loss situation so no deferred tax assets (DTA) were capitalized for existing net operating losses without in that volume that will be covered by temporary differences in deferred tax liabilities (DTL).

Components of the Company's net deferred tax assets and liabilities are as follows:

EUR in thousands	At December 31, **2006**	2005
Deferred income tax assets:		
Carryforward losses	**1,295**	1,627
Deferred income tax liabilities:		
Debt restructuring costs	1,109	1,401
Derivative	0	40
Other	186	186
Total deferred income tax liabilities	**1,295**	1,627
Deferred income tax asset, net	**0**	0

At December 31, 2006, the Company has net corporate operating loss carryforwards available of approx. EUR 36.7 million. No deferred tax assets are capitalized for loss carryforwards in an amount of EUR 33.2 million. The Dutch income tax rate for 2006 was 29.6%.

All loss carryforwards are available to offset future taxable income. All loss carryforwards still require final validation from the respective taxing authority and may be adjusted upon further review.

7. Related parties

Shareholders

As of February 20, 2007, 88.9% of IFCO SYSTEMS ordinary shares continue to be held by Island International Investment Limited Partnership (Island LP) with Cortese N.V. (a Netherlands Antilles company) as the Managing General Partner of Island LP. Cortese N.V. is beneficially owned by the limited partnerships which collectively make up the Apax Europe V Fund. The ultimate controlling party of these limited partnerships is considered to be Apax Europe V GP Co. Limited, the General Partner of Apax Europe V GP L.P., the General Partner of the limited partnerships. Apax Europe V GP Co. Limited is a company registered in Guernsey. Executive Management of IFCO SYSTEMS continues indirectly to own 8.4% of the share capital of IFCO SYSTEMS.

Supervisory Board

Name	*Position*
Dr. Bernd Malmström	*Chairman*
Michael Phillips	*Vice Chairman I*
Christoph Schoeller	*Vice Chairman II*
Hervé Defforey	
Ralf Gruss	
Dr. Philipp Gusinde	

The General Meeting of Shareholders approved on August 18, 2005 an amendment to the remuneration of the Directors of the Supervisory Board.

Effective as of the date of such General Meeting of Shareholders, no remuneration shall (and has) be(en) paid to any then appointed member of the Supervisory Board. Each member shall however be reimbursed for travel expenses reasonably incurred in connection with meetings of the Supervisory Board, meetings of any committee of the Supervisory Board, or otherwise in connection with actual Supervisory Board service.

On a General Meeting of Shareholders held on December 15, 2005, Mr. Bernd Malmström was appointed as a member of the Supervisory Board. Mr. Malmström is entitled to a quarterly remuneration of 20,000 Euro. Since his appointment as chairman to the Supervisory Board he is entitled to a quarterly remuneration of 40,000 Euro. The remuneration policy for all other members of the Supervisory Board as approved by the General Meeting of Shareholders on August 18, 2005 continues to apply.

For 2006 our Supervisory Board received the following compensation:

Name	*Remuneration in EUR*	*Out of pocket expenses in EUR*	*Stock options outstanding*
Dr. Bernd Malmström	*100,000*	*4,879*	-
Michael Phillips	-	*2,411*	-
Christoph Schoeller	-	*16,605*	-
Hervé Defforey	-	-	-
Ralf Gruss	-	*6,539*	-
Dr. Philipp Gusinde	-	*7,562*	-
Total	*100,000*	*37,996*	-

No loans from the Company or pension schemes are provided to the members of the Supervisory Board.

It is expected that the remuneration policy will remain unchanged during 2007.

Board of Managing Directors

Name	*Position*
Karl Pohler	*Managing Director*
Douwe Terpstra	*Managing Director*

Our Board of Managing Directors received in 2006 a total compensation of EUR 1.6 million from an indirect subsidiary of the Company. However, Mr. Pohler is only compensated as member of the Executive Management Committee but not separately compensated for serving as member of the Board of Managing Directors.

Name	*Fix Remuneration in EUR*	*Variable Remuneration in EUR*	*Total Remuneration in EUR*
Karl Pohler	*614,000*	*1,014,347*	*1,628,347*
Douwe HJ Terpstra	*5,614*	-	*5,614*
Total	*619,614*	*1,014,347*	*1,633,961*

No loans from the Company or pension schemes are provided to members of the Board of Managing Directors.

It is expected that the remuneration policy will remain unchanged during 2007.

Employment agreement with Mr. Karl Pohler

Karl Pohler is bound by an employment agreement which provides that he will serve as the Company's Chief Executive Officer and a member of our Executive Management Committee. His employment agreement provides for a comprehensive remuneration plan that includes base salary and executive bonus. If his employment is terminated without cause, he is entitled to receive one discounted installment of his remaining base salary for the remainder of the employment term.

Service agreement with Mr. Douwe Terpstra

Mr. Terpstra is compensated in accordance with a service agreement dated September 1, 2005.

Executive Management Committee

Name	*Position*
Karl Pohler	*Chief Executive Officer*
Michael W. Nimtsch	*Chief Financial Officer*
Wolfgang Orgeldinger	*Chief Operating Officer*
David S. Russell	*President, IFCO SYSTEMS North America*

2006 total cash compensation for our four Executive Managers will be approximately EUR 4.4 million (EUR 4.5 million in 2005), consisting of EUR 1.5 million (EUR 1.5 million in 2005) in base salaries and EUR 2.9 million (EUR 3.0 million in 2005) for variable cash incentives. In 2006 the variable component amounted to approximately 65.3% (66.6% in 2005) of total compensation, which is consistent with the Company's policy to focus on variable, performance related remuneration. For the stock option expenses for the management share incentive plan please see Notes to employee benefit plans.

Employment agreements

The Company has entered into employment agreements with the Executive Management Committee. The remaining base salary commitment under the terms of these agreements as of December 31, 2006, is payable as follows:

EUR in thousands	Amount
2007	1,642
2008	-
2009	-
Total	**1,642**

Except transactions related to service agreements and compensation of out of pocket expenses, there were no transactions between the Company and related parties during the financial year.

8. Commitments and contingencies

Litigation

ING Barings Limited has claimed the reimbursement of approximately US $1.6 million in expenses incurred during the Company’s financial restructuring in 2001 and 2002. During 2005 the District Court of Amsterdam awarded ING's claim and the Company paid EUR 1.2 million (US $1.4 million). The Company filed an appeal in November 2005. The respective court hearing took place on February 7, 2007.

The Company is a defendant in various other legal matters arising in the normal course of business. In the opinion of management, after consultation with legal counsel, the ultimate resolution of these matters is not expected to have a material effect on the accompanying separate financial statements.

Litigation of indirect subsidiaries in North America

In May and June 2003, two lawsuits were filed in Illinois state court in Cook County, naming as defendants an indirect subsidiary of the Company and certain of its subsidiaries as well as a number of the customers, ICS and certain affiliates of ICS, based upon alleged discharges of contaminants, toxic substances and chemicals from the Acme Barrel facility on or before mid-2001. The first lawsuit was filed in May 2003 on behalf of approximately 481 plaintiffs, individually and on behalf of a putative class of people alleged to have been exposed to releases from the facility. In addition to claims of bodily injury, the suit includes wrongful death claims. The second lawsuit, filed in June 2003, is a wrongful death action alleging the cause of death as exposure to releases from the facility based on the decedent’s employment in a building across the street from the facility. The plaintiffs in each lawsuit seek unspecified damages. At this stage, the indirect subsidiary of the Company cannot accurately assess the potential merit or consequences of these claims. Although the indirect subsidiary of the Company believes claims such as these are typically fact-intensive and can take years to resolve, it can provide no assurance about the timing of any resolution of these claims. Some of the other named defendants are former customers of Acme Barrel, which the indirect subsidiary of the Company had agreed to indemnify and hold harmless against certain environmental liabilities, and the indirect subsidiary of the Company cannot assess the extent to which any such customers will incur liability or become entitled to indemnification from us. The indirect subsidiary of the Company has agreed to assume the defense of ICS, its parent, and certain affiliates, which have been named as defendants, on the basis that the claims could give rise to a claim covered by the indemnity in the agreement for the sale of Acme Barrel. Additionally, some customer defendants have filed cross-claims against certain Acme defendants. The indirect subsidiary of the Company cannot predict what actions other defendants might take or whether such actions would be prejudicial to the indirect subsidiary of the Company. The indirect subsidiary of the Company intends to defend the litigation vigorously. However, if these claims are determined adversely to the indirect subsidiary of the Company or to parties to whom the indirect subsidiary of the Company owes indemnities, such claims could have a material adverse effect on the indirect subsidiary of the Company’s business, liquidity, results of operation and financial condition. During July 2006, one of the Company's indirect subsidiaries was notified of a lawsuit filed by the city of Chicago against one of the Company's indirect subsidiaries requesting that it demolish or otherwise repair the Chicago drum property to a condition suitable to the city of Chicago. The indirect subsidiary of the Company is still in discussions with the city of Chicago regarding this claim.

On April 19, 2006, a number of sites and facilities of certain U.S. subsidiaries of the Company were searched by agents from the U.S. Immigration and Customs Enforcement ("ICE"), the investigative arm of the U.S. Department of Homeland Security ("DHS"). Also on that date, certain of the facilities of these U.S. subsidiaries of the Company were searched by warrant and consent; less than 10 past and present employees were arrested; documents were seized; and ICE detained employees alleged to be illegal aliens working for affiliates of the Company. The arrests of the past and present employees were prompted by suspicion that these employees were involved in the hiring, at one facility in upstate New York, of illegal aliens not eligible for employment in the United States under U.S. immigration laws. The Company and its subsidiaries have not been named in any criminal complaint or indictment. U.S. subsidiaries of the Company are, however, the subject of an on-going investigation to determine whether these suspected hiring practices occurred elsewhere or were known to or condoned by management. The U.S. government has not indicated that any of the Company's or its subsidiaries' directors, officers or employees (other than those arrested on April 19, 2006) are targets or subjects of the investigation. The Company and its subsidiaries have indicated their willingness to cooperate fully with the U.S. government's investigation into these matters.

Insurance

The Company carries a broad range of insurance, including general and business auto liability, directors and officers, commercial property, business interruption and a general umbrella policy.

Leasing arrangements

The Company leases their facilities under a noncancellable operating lease. Lease payments are expensed on a straight-line basis over the term of the lease. Minimum future rental payments under this lease as of December 31, 2006, are EUR 0.032 million due in 2007 and EUR 0.005 million due in 2008.
Expenses under operating leases were EUR 0.05 million in 2006 and 2005.

Guarantees given to indirect subsidiaries

The Company has co-signed several crate leasing contracts of an indirect subsidiary of the Company. The Company guarantees the payment of the contractual leasing rates to the leasing company. The Capital Lease Obligation of those contracts amounts to EUR 4.6 million at December 31, 2006 and EUR 1.5 million at December 31, 2005.

9. Employee benefit plans

Stock option plan

In March 2000, the Company's Board of Directors (the Board) approved the 2000 Stock Option Plan, (the Stock Option Plan). The Stock Option Plan provides for the granting of stock options to directors, executive officers, and other employees of the Company and its subsidiaries and terminates in March 2010. In general, the terms of the option awards are established by the Board.

During 2003, the Board granted options to purchase an aggregate of approximately 1.5 million ordinary shares of the Company to certain managers of the Company, its subsidiaries and members of the Board. The exercise price for each of these options was equal to the value of the Company's ordinary shares on the date of issuance. The options expire between 3 and 5 years from the date of their vesting.

During 2004, the Board granted options to purchase an aggregate of approximately 0.8 million ordinary shares of the Company to certain managers of subsidiaries of the Company. The exercise price for each of these options was equal to the value of the Company's ordinary shares on the date of issuance. The options expire 5 years from the date of their vesting, which is contingent upon certain defined operational targets being met during each of 2004, 2005 and 2006.

During 2006, the Board of Managing Directors granted options to purchase an aggregate of approximately 0.1 million ordinary shares of the Company to certain managers of subsidiaries of the Company. The exercise price for each of these options was equal to the value of the Company's ordinary shares on the date of issuance. The options expire 5 years from the date of their vesting, which is contingent upon certain defined operational targets being met during each of 2007, 2008 and 2009.

During 2006 and 2005, the Company recorded total stock based compensation expense of EUR 0.5 million and EUR 1.3 million, respectively. The portion of that expense arising from equity-settled share-based payment transactions is EUR 0.1 million (2005: EUR 0.3 million).

EUR, except number of options	**Year ended December 31, 2006**			Year ended December 31, 2005		
	Number of Options	Exercise Price Range	Weighted Average Exercise Price	Number of Options	Exercise Price Range	Weighted Average Exercise Price
Outstanding, beginning of period	1,593,436	1.58 – 5.40	2.56	2,023,333	1.58 – 3.70	2.41
Granted	142,500	8.70 – 10.01	9.09	25,100	5.40 – 5.40	5.40
Exercised	(543,001)[2]	1.58 – 5.40	2.12	(434,997)[1]	1.58 – 3.60	2.05
Forfeited	(17,334)	1.58 – 5.40	3.56	(20,000)	1.58 – 1.58	1.58
Outstanding, end of period	1,175,601[3]	1.58 – 10.01	3.60	1,593,436	1.58 – 5.40	2.56
Options exercisable at end of year	737,034		2.51	756,323		2.21

	Year ended December 31, 2006	Year ended December 31, 2005
Weighted average fair value of options granted during year	2.90 EUR	1.39 EUR
Weighted average remaining contractual life of options, outstanding at end of period	4.42 years	4.74 Years

[1] The weighted average share price at the date of exercise for the options exercised is EUR 8.63.
[2] The weighted average share price at the date of exercise for the options exercised is EUR 9.58.
[3] Additional are options over 159,996 shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before November 7, 2002.

Fair value of the options was estimated at the date of grant using the Black-Scholes option-pricing model using the following weighted average assumptions for 2006 and 2005:

	Q4 2006	Q1 2006	2005
Risk free interest rate	3.75%	3.79%	3.12%
Dividend yield	3.00%	3.00%	3.00%
Volatility factor	33.00%	34.40%	30.10%
Weighted average expected life	7.50 years	7.68 years	7.50 years

The expected volatility of the Company reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Stock options of members of the Supervisory Board (since August 29, 2005):

During 2003 the Company granted 75.000 options with an exercise price of EUR 2.40 and maturity date November 10, 2008 to Christoph Schoeller. These options had been exercised in 2006. The average share price of the day of exercise had been EUR 9.28.
As of December 31, 2006 no further stock options granted to members of the Supervisory Board were outstanding.

Stock options of former members of the Board of Directors (up to August 29, 2005):

During 2003 the Company granted 75.000 options with an exercise price of EUR 2.40 to Jeremy Brade, Antonius C.M. Heijmen and Richard James Moon. These options had been terminated during 2004.
During 2003 the Company granted 75.000 options with an exercise price of EUR 2.40 to Sam W. Humphreys and Eckhard Pfeiffer. These options had been exercised in 2005. The average share price of the day of exercise had been EUR 7.66 (Mr. Humphreys) and EUR 7.49 (Mr. Pfeiffer).
As of December 31, 2006 no further stock options granted to former members of the former Board of Directors were outstanding.

Management share incentive plan

In January 2003, the Board adopted the 2003 Management Share Incentive Plan (MSIP), pursuant to which IFCO SYSTEMS granted options to purchase an aggregate of 2.3 million ordinary shares of IFCO SYSTEMS to certain Executive Managers. The share awards were allocated in three tranches, each with different vesting terms. One third of these options vested immediately and the remaining options vested based upon future equity value targets of IFCO SYSTEMS. During August 2004, the Executive Managers exercised approximately 1.1 million vested MSIP options. IFCO SYSTEMS's principal shareholder, Island LP, agreed to purchase the shares resulting from this option exercise at EUR 2.75 per share. The Executive Management team used the net proceeds from these transactions, along with private funds, to acquire an investment in Island LP, which represents an aggregate indirect shareholding of approximately 8.4% of the share capital of IFCO SYSTEMS as of December 31, 2006. The remaining unexercised 1.2 million stock options under the MSIP were cancelled. During 2006 and 2005, IFCO SYSTEMS recorded total stock based compensation expense of EUR 0.4 million and EUR 1.0 million, respectively. Fair value was estimated using the Black-Scholes option-pricing model.

10. Subsequent events

No subsequent events occurred between December 31, 2006 and the authorization date of our 2006 separate financial statements which the Company believes would have a material effect on the separate financial statements or footnotes herein.

11. Profit distribution

Articles of incorporation with respect to profit distributions

According to Article 20 of the articles of association of the Company:

1. The allocation of profits accrued in a financial year shall be determined by the General Meeting;
2. Distribution of profits shall be made after adoption of the Annual Accounts showing that making such distribution is permissible;
3. The General Meeting may resolve to make an interim distribution of profits and to make distributions at the expense of any reserve;
4. Distributions may be made only up to an amount which does not exceed the amount of Distributable Reserves and, if concerns an interim distribution, the compliance with this requirement is evidenced by an interim statement of assets and liabilities as referred to in Section 2:105 subsection 4 of the Dutch Civil Code. The Company shall deposit the statement of assets and liabilities at the office of the Trade Register within eight days after the day on which the resolution to distribute is published.

Proposed appropriation with respect to profit distributions

Prior to the decision of the General meeting the net loss of financial year 2006 has been added to accumulated deficits.

Amsterdam, February 20, 2007

Karl Pohler CEO	Michael W. Nimtsch CFO