Future High Definition TV.

# Annual Report 2005
## SINGULUS TECHNOLOGIES AG


SINGULUS

Company Profile.

## SINGULUS TECHNOLOGIES remains steadily positioned for growth and earnings

With a consistent focus on its core competencies, since the management buyout SINGULUS TECHNOLOGIES has transformed itself to the global leader of systems and equipment for optical storage media within a time span of ten years. Operating and acting according to the principles of profitability always remained in the spotlight.

SINGULUS TECHNOLOGIES is the only equipment producer in the world offering the entire value-added chain for the manufacturing of optical disc: The products range from mastering and injection molding to replication lines. With the set-up of a high degree of the depth of the value-added chain, SINGULUS TECHNOLOGIES was successful in broadening the range of products offered to customers in the past couple of years. Therefore, the positioning of SINGULUS TECHNOLOGIES in the optical disc segment is one of kind in the world.

SINGULUS TECHNOLOGIES' declared goal is to integrate the new formats HD DVD and Blu-ray into this structure as well. With the acquisition of STEAG HamaTech in January 2006, SINGULUS TECHNOLOGIES is also excellently positioned world-wide in the future for machines for recordable formats.

SINGULUS TECHNOLOGIES still considers the market for machines to produce optical disc as its core competence.

In addition, new business areas are intended to contribute to sales and earnings in the future.

## Corporate Calendar 2006

| | | | | | |
|---|---|---|---|---|---|
| March 24, 2006 | 10:00 AM | Annual Press Conference | June 23, 2006 | 10:30 AM | Annual General Meeting Hermann-Josef-Abs Hall, Frankfurt am Main |
| | 1:00 PM | Analysts' Meeting | | | |
| May 9, 2006 | | 1st Quarter Results | August 2, 2006 | | 2nd Quarter Results |
| | | | November 6, 2006 | | 3rd Quarter Results |

**Sales (in million €)**

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| Sales (gross) | 362.6 | 439.5 | 244.4 |
| Direct sales expenses | 13.8 | 16.0 | 12.1 |
| Sales (net) | 348.8 | 423.5 | 232.3 |

**Key earnings figures (in million €)**

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| EBIT | 68.4 | 72.6 | 2.1 |
| Earnings before taxes | 70.9 | 73.9 | 3.3 |
| Net profit | 44.5 | 46.8 | 7.3 |
| Earnings per share | 1.20 | 1.27 | 0.21 |

**Order intake and order backlog (in million €)**

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| Order intake | 382.7 | 417.6 | 248.7 |
| Order backlog (Dec. 31) | 90.4 | 56.7 | 60.9 |

**Cash flow (in million €)**

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| Cash flow from operating activities | 18.4 | 49.1 | 8.3 |
| Cash flow from investing activities | -5.2 | -26.0 | -9.9 |
| Cash flow from financing activities | 0.5 | -11.9 | -11.9 |
| Effect of exchange rate changes | -1.2 | -0.5 | 4.1 |
| Total cash flow | 12.5 | 10.7 | -9.4 |
| Cash & cash equivalents at the beginning of year | 53.9 | 66.4 | 77.1 |
| Cash & cash equivalents at the end of year | 66.4 | 77.1 | 67.7 |

# Key Figures

The consolidated financial statements of the years 2001 and 2002 were drawn up according to US accounting standards (US GAAP), the statements of the years 2003 to 2005 pursuant to International Financial Reporting Standards (IFRS).

| | | [US GAAP] 2001 | [US GAAP] 2002 | [IFRS] 2003 | [IFRS] 2004 | [IFRS] **2005** |
|---|---|---|---|---|---|---|
| Sales (gross) | [in mn. €] | 225.5 | 290.6 | 362.6 | 439.5 | **244.4** |
| Sales (net) | [in mn. €] | 213.3 | 278.8 | 348.8 | 423.5 | **232.3** |
| Sales Germany | [%] | *7.0* | *6.0* | *5.3* | *10.1* | ***13.3*** |
| Sales Rest of Europe | [%] | *26.0* | *31.0* | *31.4* | *30.1* | ***36.5*** |
| Sales Americas | [%] | *23.0* | *34.0* | *21.3* | *24.3* | ***20.1*** |
| Sales Asia | [%] | *44.0* | *29.0* | *40.3* | *33.7* | ***24.4*** |
| Sales Africa & Australia | [%] | – | – | *1.7* | *1.8* | ***5.7*** |
| Order intake | [in mn. €] | 212.0 | 293.3 | 382.7 | 417.6 | **248.7** |
| Order backlog | [in mn. €] | 55.7 | 58.5 | 90.4 | 56.7 | **60.9** |
| EBIT | [in mn. €] | 40.2 | 52.7 | 68.4 | 72.6 | **2.1** |
| EBIT margin | [%] | *18.9* | *18.9* | *19.6* | *17.1* | ***0.9*** |
| Earnings before taxes | [in mn. €] | 42.5 | 54.5 | 70.9 | 73.9 | **3.3** |
| Net profit | [in mn. €] | 27.9 | 36.6 | 44.5 | 46.8 | **7.3** |
| Operating cash flow | [in mn. €] | 16.3 | 20.9 | 18.4 | 49.1 | **8.3** |
| Net cash flow in % of sales | [%] | *7.6* | *7.5* | *5.3* | *11.6* | ***3.6*** |
| Tangible assets | [in mn. €] | 9.3 | 14.6 | 15.8 | 13.9 | **12.9** |
| Financial assets | [in mn. €] | 3.2 | 16.6 | 13.0 | 31.2 | **31.2** |
| Current assets | [in mn. €] | 165.6 | 207.9 | 256.9 | 284.9 | **238.8** |
| Shareholders' equity | [in mn. €] | 135.4 | 181.6 | 227.1 | 249.6 | **255.5** |
| Equity ratio | [%] | *72.2* | *69.0* | *69.4* | *63.0* | ***71.0*** |
| Balance sheet total | [in mn. €] | 187.7 | 263.3 | 327.0 | 396.0 | **359.9** |
| Research & Development | [in mn. €] | 8.3 | 16.2 | 16.3 | 22.8 | **19.4** |
| (in % of net sales) | [%] | *3.9* | *5.8* | *4.7* | *5.4* | ***8.4*** |
| Employees (as of Dec. 31) | | 367 | 502 | 599 | 736 | **636** |
| Weighted average shares outstanding, basic | | 36,361,342 | 36,792,112 | 36,986,738 | 36,769,485 | **35,065,241** |
| Weighted average shares outstanding, diluted | | 37,941,709 | 38,589,372 | 36,986,738 | 36,769,485 | **35,065,241** |
| Net profit | [€] | 31.50 | 12.52 | 16.70 | 12.90 | **14.50** |
| Earnings per share | [€] | 0.77 | 0.99 | 1.20 | 1.27 | **0.21** |

New Products.

# Key Events 2005

## 01
### January
_STREAMLINE II DVD R now also applicable for dual layer
_First ophthalmic lens coating machine OPTICUS delivered to key customer

## 02
### February
_SINGULUS TECHNOLOGIES reports preliminary figures for the business year 2004 (unaudited)

## 03
### March
_SINGULUS TECHNOLOGIES publishes final figures for the business year 2004

## 04
### April
_The share buyback program is continued

## 05
### May
_SINGULUS TECHNOLOGIES reports results for the 1st quarter of 2005
_Annual General Meeting on May 30, 2005
_SINGULUS MASTERING presents 266 LBR
_SINGULUS TECHNOLOGIES exhibits the SPACELINE II HD at the MEDIA-TECH Expo
_The first STREAMLINE II DVD R DL is installed
_Completion of the BLU-LINE
_SINGULUS TECHNOLOGIES becomes a member of the Blu-ray Disc Association (BDA)
_The share buyback program is completed. In 2005, 460,000 own shares were purchased

## 06
### June
_The Executive Board resolves the cancellation of the last tranche of repurchased shares

## 07

July

_SINGULUS TECHNOLOGIES presents the TMR technology at the SEMICON West in San Francisco

## 08

August

_SINGULUS TECHNOLOGIES report results for the 2nd quarter of 2005

## 09

September

_Sale of the 200th AM Mastering system

## 10

October

_First production machines for Blu-ray Disc are delivered

_MEDIA-TECH Showcase & Conference in Frankfurt

_SINGULUS TECHNOLOGIES receives an award for its OPTICUS technology at the Silmo in Paris

## 11

November

_SINGULUS TECHNOLOGIES signs purchase agreement to acquire the majority in competitor STEAG HamaTech AG

_SINGULUS TECHNOLOGIES reports results for the 3rd quarter of 2005

## 12

December

_Coating machine SINGULUS 3DS for three-dimensional substrates is launched

_First order for TIMARIS machine is recorded

_First installation of SPACELINE II for DVD 9 production with new MoldPro injection molding machines

# Report of the Supervisory Board

***Dear shareholders!***
The business year 2005 was a difficult year for the SINGULUS TECHNOLOGIES AG and the entire group of companies. Significant world-wide excess capacities in the market for the production of CDs and DVDs led to a situation in which our company as well as the entire sector had to record declines in sales. In addition, there were uncertainties on part of our customers with regard to their investment decisions for equipment of the third format generation due to competing formats on the market (HD DVD / Blu-ray). Since the fourth quarter 2005 we have been experiencing first signs of a market recovery.

***Activities of the Supervisory Board.***
The Supervisory Board was regularly apprised in detail of the course of business and the Group's situation during the fiscal year 2005 and provided oversight for the Executive Board's leadership of the company. The basis of the information and oversight activities of the Supervisory Board were written and verbal reports by the Executive Board and other employees as well as by auditors and consultants.

The Executive Board informed the Supervisory Board in writing on a monthly basis about the current course of business of the individual segments and their respective market environments.  The Supervisory Board was informed about important projects and measures by means of current status quo reports amongst others. Thus, the Executive Board at all times informed the Supervisory Board in detail and promptly about the preparations and the execution of the acquisition of the majority in the STEAG HamaTech AG from the SES Beteiligungs-GmbH and the public offer for the remaining shareholders of the STEAG HamaTech AG to acquire their shares. Furthermore, the planned measures to cut costs and to enhance the performance were discussed.

Owing to the close coordination and open cooperation with the Executive Board, the Supervisory Board was informed in detail at all times about all important business events and trends of the SINGULUS TECHNOLOGIES Group and was constructively involved in the strategy of the company in the course of its supervisory activities.

The company’s plans and strategy were discussed in detail during the meetings on January 20, 2005, March 11, 2005, May 3, 2005, July 28, 2005, November 6, 2005 and November 21, 2005 and addressed with the Executive Board. For each meeting the Executive Board provided the Supervisory Board with a written report of the discussed procedures.

If required, further reports of the Executive Board regarding transactions important for the development of the company were discussed in detail with the Executive Board in the course of extraordinary meetings. In particular the topics Asia strategy, acquisition opportunities and STEAG HamaTech were discussed during these meetings.

During the business year 2005 the Supervisory Board convened nine times, thereof five meetings were ordinary and four meetings extraordinary. In each quarter at least two meetings were convened. A regular topic on the agenda was the business trend of the company, in particular the development of sales and profitability, the comparison of the actual business performance with the budgets, the

company's planning as well as the respective interim reports.

The position of the SINGULUS TECHNOLOGIES Group compared with its competitors and the future strategic positioning was discussed with the Executive Board in detail several times. The Supervisory Board intensively engaged in the start-up of production at the new site in Switzerland (SINGULUS MOLDING) as well as the decision about the production in the People's Republic of China. In this context, the market potential of the Chinese market and the possibility of an acquisition were discussed in detail. The formation of a joint venture with a Chinese partner was resolved.

Additional focal points of the meetings were preparations and the execution of the acquisition of the majority in the STEAG HamaTech AG from the SES Beteiligungs-GmbH as well as the public offer to the other shareholders of the STEAG HamaTech AG to acquire their shares of the STEAG HamaTech AG. In particular, the Supervisory Board dealt intensively with the adequateness of the offered purchase price, the risk assessment of the transaction as well as issues regarding the integration into the SINGULUS Group. The Supervisory Board also obtained an opinion from the advising investment bank. The Supervisory Board concurred with the Executive Board and supported the acquisition of the shares from the SES Beteiligungs-GmbH as well as the takeover offer to the remaining shareholders of the STEAG HamaTech AG.

The matter of a potential distribution of dividend as well as the start-up of a share buyback program were extensively discussed between the Supervisory Board and the Executive Board. An additional regular topic for the meetings was the monitoring of the effectiveness of the work of the Supervisory Board by means of further developed questionnaires. The Supervisory Board concluded to continue the self-evaluation in the future as well.

The Supervisory Board dealt in detail with accounting principles and the consolidation accounting practices of the SINGULUS TECHNOLOGIES AG as well as the results of the annual audit for the business year 2004. Among the other issues were the preparation of the proposal of the Supervisory Board regarding the agenda item „Election of Auditor“ as well as the further agenda items of the ordinary Annual General Meeting 2005 of the SINGULUS TECHNOLOGIES AG. Also the determination of focus of the audit and the negotiations about the audit fees with the auditor were part of the discussions of the Supervisory Board.

Issues regarding corporate governance, in particular the declaration of conformity pursuant to Art. 161 Stock Corporation Act (Aktiengesetz) were subject matters of the Supervisory Board meetings. In addition, the Supervisory Board was also concerned with the composition and the amount of the total compensation of the members of the Executive Board.

In the course of the regular reporting the Executive Board informed the Supervisory Board also about the introduced risk monitoring system of the SINGULUS TECHNOLOGIES AG pursuant to Art. 91 Par. 2 Stock Corporate Act (Aktiengesetz) and presented the consolidated risk report. This report combines all relevant risks of the business units and functions and presents them accordingly. The Supervisory Board examined the report with respect to plausibility and concluded that there was no doubt about this matter.

The Chairman of the Supervisory Board also met with the Executive Board for numerous individual discussions held in addition to the Supervisory Board meetings to review the status and further development of the company. At all times, the Supervisory Board was informed about these meetings in detail.

There were no objections on part of the Supervisory Board regarding the conduct of business by the Executive Board of the SINGULUS TECHNOLOGIES AG at any time. Furthermore, the Executive Board and Supervisory Board agreed at all times about the assessment of the business trend, the market environment, opportunities and risks.

All the members of the Supervisory Board participated in the meetings of the Supervisory Board during the business year 2005. Two extraordinary meetings were held by means of conference calls.

***Corporate Governance, Risk Management and Compensation of the Executive Board.*** The SINGULUS TECHNOLOGIES AG and its Supervisory Board subscribe to the principles of proper and responsible corporate governance. In particular against the background of recent changes of the German Corporate Governance Code the Supervisory Board engaged in issues of corporate governance in detail.

No conflicts of interests of members of the Supervisory Board arose during the period under review. The cooperation of the Supervisory Board was characterized by efficiency, professional competence and trust.

Since inception of the company the Supervisory Board is comprised of three members. The Supervisory Board continued to refrain from forming an audit committee or other Supervisory Board committees in the fiscal year 2005, because according to its view there is neither an increase in efficiency to be expected nor an improved handling of complex issues nor a more efficient or improved execution of tasks of the Supervisory Board in connection with issues about accounting principles, risk management or the audit. Accordingly, there were no committee meetings during the business year 2005.

There are no deductibles for the D&O insurance taken out for the members of the Supervisory and Executive Boards. The D&O insurance premiums for the Supervisory and Executive Board are paid by each board member and not by the company. Responsible conduct is a self-evident obligation for the Supervisory and Executive Boards. We presume that deductibles would not heighten the motivation and engagement of the Supervisory and Executive Board members.

The Executive and Supervisory Boards filed a joint declaration of conformity pursuant to Art. 161 Stock Corporation Act (Aktiengesetz) in February 2005 (please refer to the chapter “Corporate Governance” on page 43 of the annual report 2004). In the declaration the Executive and Supervisory Boards jointly declared that the recommendations of the German Corporate Governance Code as amended by the Federal Department of Justice as of May 21, 2003 were adhered to except for the Code recommendations in Art. 3.8 Para. 2 (no deductibles for D&O insurance), Art. 5.1.2 Para. 2 (no age limit for members of the Executive Board as per articles of association), Art. 5.3.1 and 5.3.2 (no formation of committees) and Art. 5.4.1 (no age limit for members of the Supervisory Board as per articles of association) and were adhered to during the business year 2004 as well subject to the exceptions mentioned above. The by-laws of the Supervisory Board stipulate that no person may be proposed for election to the Supervisory Board for a longer term than after the age of 75. In addition, the by-laws of the Supervisory Board stipulate that the age limit for members of the Executive Board is 65.

The amendments of the German Corporate Governance Code by the Federal Department of Justice as of June 2, 2005 were discussed during the business year 2005. According to the opinion of the Supervisory Board no cause for action or change arises from these amendments. In January 2006 the Executive and Supervisory Boards filed an additional joint declaration of conformity pursuant to Art. 161 Stock Corporation Act (AktG) (please also refer to the chapter “Corporate Governance” on pages 21 to 25). In it the Executive and Supervisory Board declared that the SINGULUS TECHNOLOGIES AG adhered to the recommendations of the German Corporate Governance Code as amended by the Federal Department of Justice as of May 21, 2003 during the business year 2005 subject to the exceptions from the Code recommendations mentioned above. In addition, the Executive and Supervisory Boards declared that the SINGULUS TECHNOLOGIES AG will adhere to the recommendations of the German Corporate Governance Code as amended by the Federal Department of Justice as of June 02, 2005 during the business year 2006 subject to the exceptions from the Code recommendations mentioned above.

The sitting members of the Executive Board have signed individual employment contracts with the company. Pursuant to the legal requirements of the Stock Corporation Act, for the conclusion of the employment contracts the company was represented by the Supervisory Board. There were no changes in the composition of the Executive Board in the business year 2005. In the employment contracts only the calculation of the variable components was adjusted to the transition of accounting according to IFRS. No options were issued from the option program resolved at the Annual General Meeting in 2005. The compensation for the members of the Executive Board is comprised of fixed and variable components. The variable compensatory factors include annually recurring components that are tied to the success of the company. The Supervisory Board reviews the composition of the respective overall compensation package from different compensation components as well as the amount of the overall compensation on a regular basis. In the course of the review of the compensation the Supervisory Board concluded that the composition of the respective compensation package from the different compensation components as well as the amount of the overall compensation for the business year 2005 was appropriate.

According to relevant regulations of stock corporation and commercial law the SINGULUS TECHNOLOGIES AG is subject to special requirements with respect to company-internal risk management. The SINGULUS TECHNOLOGIES AG has introduced a respective monitoring system. The design and the results of the monitoring system is of particular interest for the Supervisory Board. The Supervisory Board considers the monitoring system of the SINGULUS TECHNOLOGIES AG efficient and concurs with the risk assessment of the Executive Board.

The by-laws of the Supervisory Board were left unchanged in the business year 2005.

The stock holdings of Supervisory Board members are published in the annual report as well as on the internet (for a detailed presentation please refer to the annotations on page 24 of this annual report).

***Financial Statements of the AG and the Group, Status Report and Proposal of Profit Appropriation.***

The financial statements of the SINGULUS TECHNOLOGIES AG as well as the consolidated financial statements and the combined status report of the SINGULUS TECHNOLOGIES AG drawn up by the Executive Board as of December 31, 2005 were audited by the Ernst & Young AG, Certified Public Accountants, Eschborn.

Pursuant to the requirements of the German Corporate Governance Code, the auditors Ernst & Young AG declared in writing to the Chairman of the Supervisory Board on May 23, 2005, that there are no circumstances possibly affecting the independence as auditors. During the meeting of the Supervisory Board on May 30, 2005 the suitability of Ernst & Young AG, Certified Public Accountants, as auditors for the business year 2005 was discussed by the Supervisory Board in detail and agreed.

Subsequently, as proposed by the Supervisory Board the Ernst & Young AG, Certified Public Accountants, was elected as auditor for the business year 2005 at the ordinary Annual General Meeting of the SINGULUS TECHNOLOGIES AG on May 30, 2005.

The financial statements and the status report of the SINGULUS TECHNOLOGIES AG for the business year 2005 were drawn up pursuant to the regulations of the German Commercial Code (HGB) and the Stock Corporation Act (AktG). The consolidated financial statements were drawn up pursuant to the International Financial Reporting Standards (IFRS). The consolidated financial statements were supplemented by a consolidated status report, which was combined with the status report of the financial results pursuant to Art. 315 Para. 3 read in conjunction with Art. 298 Para. 3 Sent. 1 HGB.

The Ernst & Young AG, Certified Public Accountants, reviewed the financial statements and the consolidated financial statements as well as the combined status report considering the accounting principles and approved them without reservation.

In the course of the review of the financial statements of the SINGULUS TECHNOLOGIES

AG the auditor also had to review whether a risk monitoring system enabling the early detection of risks threatening the continuity of the company has been implemented by the Executive Board. With respect to the monitoring system the auditor stated that the Executive Board had implemented the required measures pursuant to Art. 91 Para. 2 Stock Corporation Act and that the system is capable of an early detection of trends threatening the continuity of the company.

The audited financial statements of the SINGULUS TECHNOLOGIES AG, the audited consolidated financial statements as well as the combined status report as of December 31, 2005 were presented to all Supervisory Board members for examination in a timely manner. The audited financial statements and the combined status report were the subject of the Supervisory Board meeting on March 10, 2006. In the course of this Supervisory Board meeting the Executive Board also reported about the profitability of the company in detail. This report was discussed in detail with the Executive Board.

The approved auditor participated in this Supervisory Board meeting concerning the financial statements and presented the Supervisory Board the course and results of its audits and focal points of the audit. The results of the audit were discussed by the members of the Supervisory Board and the auditor in detail. All questions posed by Supervisory Board members were answered by the auditor in detail. The Supervisory Board took note of the results of the audit of the financial statements and consolidated financial statements by the auditor, discussed them and did not have any objections. The Supervisory Board reviewed the financial results of the AG as well as the consolidated statements and the combined status report and regards them as true, plausible and complete. As a results of its own review the Supervisory Board was thus able to agree that there are no objections to the financial statements of the SINGULUS TECHNOLOGIES AG, the consolidated financial statements and the combined status report as of December 31, 2005. In its meeting on March 10, the Supervisory Board approved the financial statements of the SINGULUS TECHNOLOGIES AG and the consolidated financial statements drawn up by the Executive Board. Thus the financial statements of the SINGULUS TECHNOLOGIES AG have been finalized.

In the course of the Supervisory Board meeting concerning the financial statements the Supervisory Board also discussed and decided upon the proposal for the resolution at the Annual General Meeting with respect to the appropriation of the net profit. The Supervisory Board agreed to the profit appropriation proposal of the Executive Board for the Annual General Meeting.

In recognition of the accomplishments achieved during the past year, the Supervisory Board extends its thanks and gratitude to the Executive Board and all employees of the company.

Kahl am Main, March 10, 2006

Alexander von Engelhardt
Chairman of the Supervisory Board

# Report of the Executive Board

***Dear Shareholders,***

Since the foundation of the company in late fall 1995 and the start-up of operations in 1996 the SINGULUS TECHNOLOGIES AG was able to present its shareholders before and after the IPO a positive consolidated net profit. This makes us proud, in particular since the global market for machines for the production of optical storage media is temporarily subject to large fluctuations in demand.

For the business year 2005 we had to record a decline in sales for the second time in our corporate history after 2001. However, we were able to finish the year with a net profit. Not only did the consistent implementation of a cost reduction program initiated in February 2005 contribute, but also the broadening of the value-added chain started in 2001 already. SINGULUS EMOULD with its injection molding technology and SINGULUS MASTERING with its mastering technology made important contributions to the stabilization of earnings.

The combination of excess capacities at producers for once-recordable discs, which are mainly produced in Asia, and a rise in cost of the raw material polycarbonate of more than 200 % led to a significant decline in demand for our products in the Asian markets in the business year 2005. But also in the US and Europe the demand was very subdued compared with the previous fiscal year due to the sharp build-up of capacity in 2004. In addition, there were uncertainties with regards to the formats of the third generation. The conflict between HD DVD on the one hand and Blu-ray on the other hand resulted in restrained new investments.

***Cost reduction program enhances profitability.***

Worldwide the personnel and cost structures were adjusted to a lower demand. For the first time in its 10-year history of the SINGULUS TECHNOLOGIES AG redundancies, which affected headquarters in Kahl as well as the locations in Asia and the US, could not be prevented. However, they were only part of a complete package of measures, which was implemented completely until the end of the year. The costs in the divisions General & Administrative as well as Marketing & Sales and Customer Service were reduced by about € 7.5 million (-18.6%).

***The business model has proven right.***

Despite the difficult environment in 2005, SINGULUS TECHNOLOGIES was able to maintain its position as global market leader in the segment Optical Disc and to even expand it partly. For machines for the production of prerecorded CDs and DVDs we were able to achieve a market share of more than 65 % and of more than 70 % for Mastering.

_Roland Lacher
Chief Executive Officer

***Roland Lacher***
(born 1942) studied Engineering at the TU Munich. After finishing his studies Roland Lacher started his professional career as a production engineer and was a plant manager for a company in the plastic industry for several years. In 1976 he took over new tasks in the engineering of construction machines. In 1984 he joined the company LEYBOLD. In 1988/89 he was in charge of a subsidiary in the US. From 1989 Mr. Lacher was responsible for the entire vacuum coating technology at LEYBOLD.

Together with Reiner Seiler he was cofounder of SINGULUS TECHNOLOGIES. Since August 1997 Roland Lacher has been the Chief Executive Officer (CEO) of the company.

_Stefan A. Baustert
Chief Financial Officer

***Stefan A. Baustert***
(born 1956) was appointed Chief Financial Officer (CFO) of the SINGULUS TECHNOLOGIES AG on January 15, 2003.

Following his studies at the University Saarland, which he completed with a Master of Science in Management (Dipl.-Kaufmann), and an MBA from Pennsylvania State University, Stefan Baustert started his professional career in the finance division of the Thyssen AG. In 1994 he was appointed CFO of Thyssen Telecom and took over the position of Chief Financial Officer within the Executive Board of E-PLUS in 1997.

_Klaus Hammen
Vice President Marketing & Sales

***Klaus Hammen***
(born 1967) took over the departments Development, Sales and Marketing within the Executive Board on September 2, 2002. Klaus Hammen studied Engineering at the TU Munich and was a development engineer and head of engineering at the ESPE Dental AG from 1993 – 1997. From 1997 – 2000 he was in charge of mechanical engineering at Brückner Maschinenbau. After joining SINGULUS as Technical Director on February 1, 2000, Klaus Hammen was responsible for the departments Construction, Production and Logistics. Since mid-2000 he has also been Managing Director of SINGULUS EMOULD in Würselen.

During the second half of the year the pricing situation at the raw material markets eased somewhat. The continuous boom of the DVD business in the end-consumer market provided for a rising order intake in the engineering sector again starting in the summer of 2005.

***New business areas with positive trends.*** First orders were received for the TMR deposition technology and also the ophthalmic lens coating division recorded its first purchase in February 2006.

With these orders we were able to gain access to the semiconductor industry as well as to the industrial area of ophthalmic lens production. In 2005, we were able to even expand the areas of application for our vacuum coating technology. With the SINGULUS 3DS we developed a machine especially for decorative coating on three-dimensional plastic parts and delivered a prototype to a key customer. We will continue to further develop the new areas of operation in addition to our core business of Optical Disc systems and thus provide additional growth drivers for the company.

***Acquisition of STEAG HamaTech concluded.*** In November 2005, the SINGULUS TECHNOLOGIES AG concluded an agreement with the majority shareholder of the STEAG HamaTech AG, the SES Beteiligungs-GmbH / RAG, concerning the acquisition of 66.28 % of the shares of STEAG HamaTech. Through the acquisition of the STEAG HamaTech AG, SINGULUS TECHNOLOGIES will expand its international competitive position and strengthen the customer relationships in the Recordable market in particular. Both companies complement each other with their respective strengths and together we will be able to offer our customers a broader range of products and improved services.

With the acquisition of the shares in the STEAG HamaTech AG owned by the SES Beteiligungs- GmbH as well as the through the acceptance of the public takeover offer for the STEAG HamaTech shareholders and the additional purchase of shares on the stock exchange, the SINGULUS TECHNOLOGIES AG held 87.55 % of the STEAG HamaTech AG as of February 27, 2006.

***Well positioned for the future.***

Following a difficult business year 2005 we now believe that the bottom has been reached. We already recorded first signs of a slight market recovery in the 4th quarter 2005. Therefore, we once again expect the optical disc market to grow in 2006.

In particular the high-resolution television format HDTV as well as the launch of the new HD DVD and Blu-ray discs in 2006 will stimulate demand in 2006. New gaming consoles such as the XBOX 360 and the upcoming Playstation 3 by Sony should prove to become market drivers. Additionally, major events such as the Soccer World Cup and new Hollywood blockbusters will even support this trend. The demand for DVDs will continue to increase in the next couple of years. Moreover, we expect first sales and earnings contributions from our new business areas in 2006.

We see good growth potential for our industry again in the coming years. The consolidation process in our industry, which we have actively intensified with the acquisition of STEAG HamaTech, will continue.

SINGULUS TECHNOLOGIES is well positioned in this area and will come out strengthened from this process.

In the business year 2005 we once again saw that the chosen diversification strategy is important to base the company on a broader foundation. We will continue to go this way consistently without neglecting our core activities and would be happy if you followed us on this path.

Thank you for your trust.

Yours sincerely,

The Executive Board

Roland Lacher

Stefan A. Baustert

Klaus Hammen

New Products.

## The SPACELINE II HD.

The DVD replication line SPACELINE II was expanded for use for HD DVD. The SPACELINE II HD is capable of the production of DVD 9 as well as the new HD DVD with single and dual layer format. With a push of a button the SPACELINE II HD can be switched to the high density format HD DVD.

Already more than 50 % of the SPACELINE II HD machines are sold with this upgraded configuration in the meantime.


SINGULUS
SPACELINE II HD
SINGULUS

# The SINGULUS TECHNOLOGIES Stock

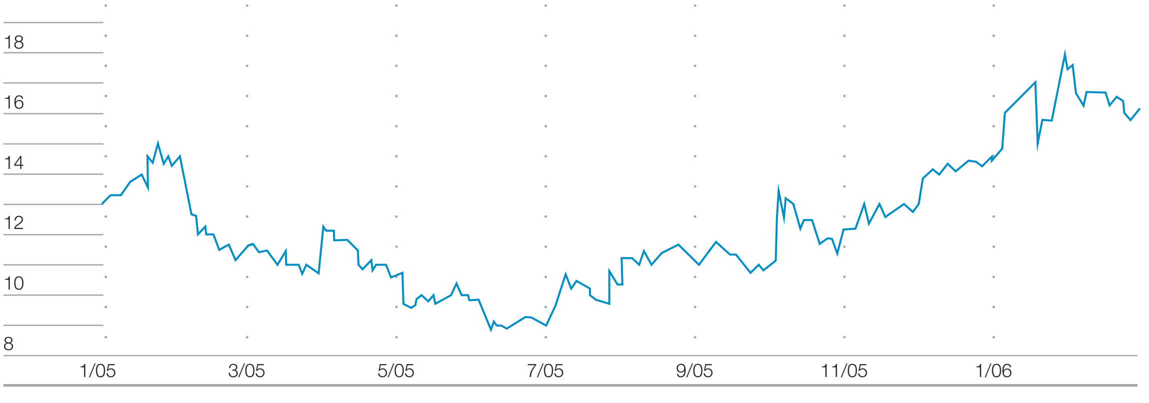
***Stock markets in an uptrend.***
Contrary to concerns in the beginning, in 2005 the DAX performed much better than expected. At the beginning of 2005 there were some doubts whether the DAX could climb above the 4,500 level. However, already in June 2005 this target was achieved and the DAX recorded an increase of 27 % during the course of the year and finished the year at 5,408 points. The trend of the TecDax was also favorable and recorded a rise of 15 %.

One aspect impacting the German stock market significantly positively was the announcement in May 2005 of early federal government elections. The new election raised hope for long-awaited reforms and once again increasingly directed the focus of international investors on the German stock market.

***SINGULUS TECHNOLOGIES shares and the TecDAX.***
SINGULUS TECHNOLOGIES shares recorded a rise from € 13.29 in January 2005 to € 16.22 (Feb. 28, 2006) in February 2006. During the previous business year the share price was mainly driven by uncertainties regarding the format conflict of the third generation of optical data storage, a further increase in the price for polycarbonate, the raw material for optical discs and the order situation in Asia. After a low of € 8.96 in the share price in June 2005 a sound uptrend developed. Therefore, the performance of the SINGULUS TECHNOLOGIES shares was able to catch up with the performance of the TecDAX again towards the end of the year.

***Share buyback program continued.***
In 2005 SINGULUS TECHNOLOGIES bought 460,000 own shares in total at an average price of € 11.22. These shares were already

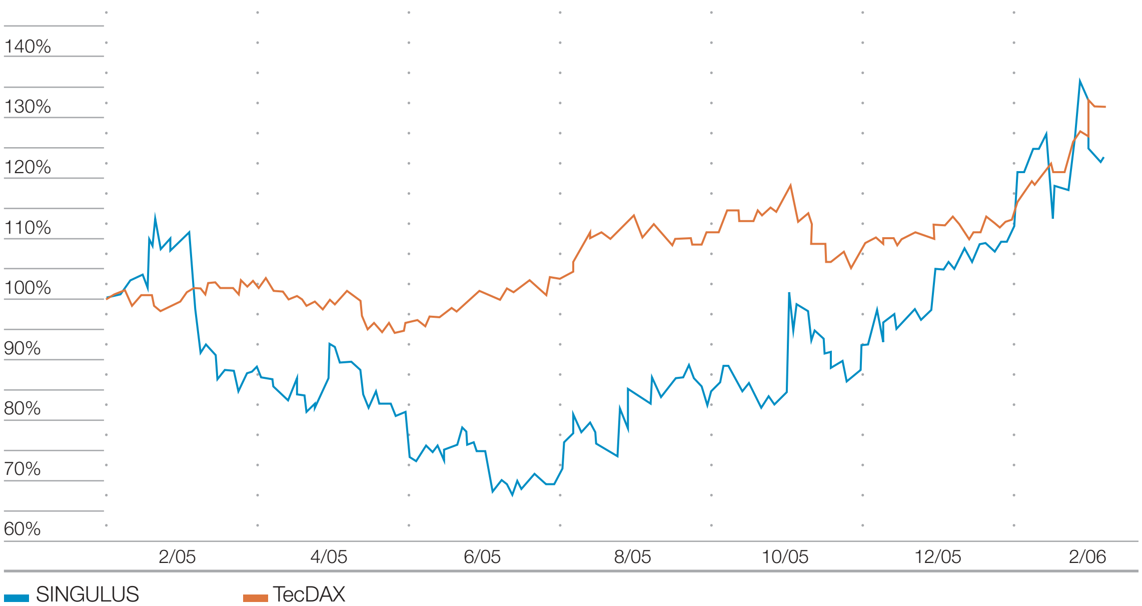
**SINGULUS shares**
[Closing price in €]



cancelled by December 31, 2005. Therefore, the nominal capital of the company was also reduced by € 460,000. Overall, 2,248,819 shares were bought within the share buyback program approved in 2004 and the nominal capital adjusted by the same amount.

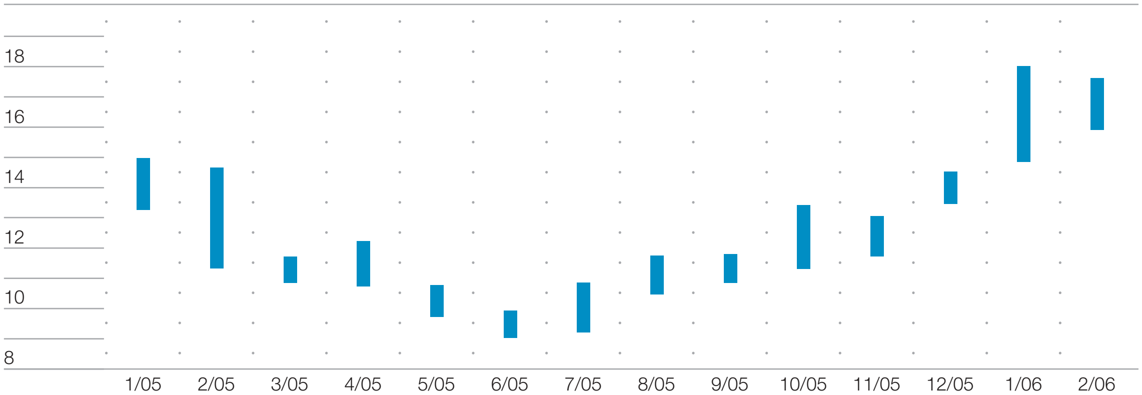
**SINGULUS shares compared with the TecDAX**

[Closing prices]




**Highs and lows of SINGULUS shares**

[Highs and lows in €]



***Detailed information at the Annual General Meeting.***

On May 30, 2005 the ordinary Annual General Meeting of the SINGULUS TECHNOLOGIES took place at the Hermann-Josef-Abs Hall in Frankfurt. The Executive Board informed the shareholders of SINGULUS TECHNOLOGIES and other guests about the business year 2004 and latest developments. In addition, the shareholders were able to see for themselves on-site the high quality of the new high-resolution television HDTV. A comparison showed the impressive differences between the generations of VHS, DVD and the new Blu-ray. Following the Annual General Meeting shareholders were able to visit the operations at the headquarters in Kahl am Main, which was accepted by many people.

***Intensive communications with the capital market.***

It is our goal to inform all capital market participants about the strategy and the business situation of SINGULUS TECHNOLOGIES by means of continuous and open communications. During the business year 2005 we increasingly held one-on-ones, conference calls as well as several road shows and conferences in order to explain the weaker business trend in particular in a timely and complete manner. This meant maintaining existing contacts as well as making new contacts. In addition, we provided publications and company presentations as well as other information for institutional and private investors on our homepage (www.singulus.de), which are also available for downloads.

_Analyst conference on January 27, 2006

Besides the annual press conference and the analysts' conference, we held additional conferences due to the acquisition of STEAG HamaTech AG on the day of the closing of the deal on January 27, 2006. Thus, the capital market was informed about the current state, the future corporate strategy as well as the future procedures with respect to the acquisition in a very timely manner. On this date SINGULUS TECHNOLOGIES held 73.1 % of the shares in STEAG HamaTech. The shareholdings increased to 87.55 % as of February 27, 2006.

***Analyst coverage.***

_ ABN Amro Bank AG
_ B. Metzler Seel. Sohn & Co.
_ Bayerische Landesbank
_ Berenberg Bank
_ Berliner Bankgesellschaft
_ BHF Bank
_ BW Bank
_ Citigroup
_ Commerzbank AG
_ CA Indosuez Chevreux
_ CSFB Credit Suisse
_ Deutsche Bank AG
_ DZ BANK
_ Dresdner Kleinwort Wasserstein
_ HSBC Trinkaus & Burkhardt KG
_ Hypo Vereinsbank
_ Independent Research
_ Kepler Equities
_ Landesbank Baden-Württemberg
_ Mainfirst Bank AG
_ Merrill Lynch
_ Metzler Equity Research
_ Morgan Stanley
_ Sal. Oppenheim
_ SG Securities
_ SEB Research
_ SES Research
_ UBS Investment Bank
_ West LB Equity Markets

## Stock profile

The SINGULUS TECHNOLOGIES AG stock is member of the TecDax and one of the heavyweights of this index comprising the most important German technology companies. As of the end of 2005 the market capitalization amounted to € 507 million. With an index weight in the TecDax in the amount of 3.3 % SINGULUS TECHNOLOGIES was ranked 12th in terms of market weight.

The average trading volume of the stock totaled 173,611 shares on Xetra in 2005. The earnings per share declined from € 1.27 to € 0.21 per no-par share in 2005. Due to the share buyback program the number of outstanding shares dropped to 34,941,929 as of December 31, 2005. All shares in circulation are considered as free float as of the beginning of March 2006.

**Stock Key Figures**

| | |
|---|---|
| ISIN: | DE0007238909 |
| WKN: | 723890 |
| Stock symbol: | SNG/Reuters SNGG.DE/Bloomberg SNG.NM |
| Type of shares: | Ordinary bearer shares at a par value of € 1 each |
| Indices: | NEMAX-All-Share, TecDAX |
| Prime Standard: | Technology |

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| Outstanding shares as of December 31 | 37,064,316 | 35,391,987 | 34,941,929 |
| Nominal capital in € | 37,064,316 | 35,391,987 | 34,941,929 |
| Market capitalization as of December 31 in million € | 619 | 457 | 507 |
| Lowest share price for the year in € | 8.93 | 10.58 | 8.96 |
| Highest share price for the year in € | 21.40 | 18.72 | 15.02 |
| Year-end share price in € | 16.70 | 12.90 | 14.50 |
| Ø daily turnover (Xetra) | 194,139 | 162,369 | 173,611 |
| Earnings per share in € | 1.20 | 1.27 | 0.21 |

# Corporate Governance

A responsible and sustainable corporate governance is very important to the SINGULUS TECHNOLOGIES AG. Except for a few deviations we are implementing the principles of the German Corporate Governance Code.

The Executive and Supervisory Boards unanimously agreed to the implementation of the rules of the Corporate Governance Code and regard it as a process integrated in the corporate development that is being continuously expanded. With a maximum of transparency the SINGULUS TECHNOLOGIES AG makes corporate processes comprehensible and promotes an open and trusting relationship with the shareholders.

***Financial statements.***
The consolidated financial statements, the financial statements of the AG and the interim reports were drawn up pursuant to the International Financial Reporting Standards (IFRS) and are internationally comparable hence. Interim reports were made public within 45 days after the end of the respective quarter and the annual financial statements within 90 days after the end of the year.

***Annual audit.***
The report of the fiscal year 2005 was presented to the Ernst & Young AG, Certified Public Accountants, for the annual audit and is available for downloading at the homepage of SINGULUS TECHNOLOGIES.

***Compensation.***
Similar to the past years SINGULUS TECHNOLOGIES individually reports the fixed as well as the variable components of the compensation of the members of the Executive Board on page 25.

***Director's Dealings.***
With coming into effect of the Fourth Financial Market Promotion Act (Viertes Finanzmarktförderungsgesetz) as of July 1, 2002 pursuant to Art. 15a Securities Trading Act (Wertpapierhandelsgesetz) the members of the Executive and Supervisory Boards of the SINGULUS TECHNOLOGIES AG have to report the purchase or disposal of the company's shares. Section 6.6 of the German Corporate Governance Code also includes a recommendation about the disclosure of such securities transactions. In addition to the buy and sell transactions in SINGULUS TECHNOLOGIES shares other securities transactions with respect to SINGULUS TECHNOLOGIES shares have to be disclosed as well. Securities transactions of spouses, common law spouses as well as first-grade relatives have to be disclosed.

All share purchases and disposals of the Executive Board were disclosed according to the regulations of the Federal Financial Supervisory Authority (Bundesamt für Finanzdienstleistungsaufsicht – BaFin) and published on the website.

***Register of insiders.***
SINGULUS TECHNOLOGIES keeps an internal register of insiders which can be provided to the Federal Financial Supervisory Authority (BaFin) upon request.

## Declaration of conformity of the SINGULUS TECHNOLOGIES AG pursuant to Art. 161 Stock Corporation Act (AktG):

The Federal Department of Justice published an amendment of the German Corporate Governance Code in 2005. During the current business year 2006 the SINGULUS TECHNOLOGIES AG will adhere to the recommendations of the German Corporate Governance Code as amended by the Federal Department of Justice as per June 2, 2005. During the previous business year 2005 the recommendations of the German Corporate Governance Code as amended by the Federal Department of Justice as of May 21, 2003 were adhered to.

This excluded – for the business year 2005 as well as for the business year 2006 – the following recommendations:

1. In connection with the conclusion of a personal liability insurance for the member of the Boards ("D&O insurance") the company agreed with them that the members of the Boards will pay their own insurance premiums for the D&O insurance (c. Sec. 3.8 Para 2 of the Code).

2. Instead of the determination of the maximum age of a member of the Executive Boards according to the by-laws, the by-laws of the Supervisory Board state that the age limit has to be considered for the succession planning (c. Sec. 5.1.2 Para. 2 of the Code).

3. As long as the Supervisory Boards is only comprised of three members, there have not been and there will be no committees (c. Sec. 5.3.1 and 5.3.2 of the Code).

4. Instead of the determination of the maximum age of a member of the Supervisory Board according to the by-laws, the by-laws of the Supervisory Board state that the age limit has to be considered for the proposal of new members to be elected (c. Sec. 5.4.1 of the Code).

Kahl, January 2006
SINGULUS TECHNOLOGIES AG

Alexander von Engelhardt
William Slee
Thomas Geitner

Roland Lacher
Stefan A. Baustert
Klaus Hammen

***Supervisory Board of the SINGULUS TECHNOLOGIES AG.***

Pursuant to the by-laws the Supervisory Board of the SINGULUS TECHNOLOGIES AG is comprised of three members. During the business year 2005 the members of the Supervisory Board included:

_Alexander von Engelhardt, Kronberg (Taunus), Chairman
_William Slee, London, Deputy Chairman
_Thomas Geitner, Newbury, Berkshire

The abovementioned members of the Supervisory Board are appointed until the completion of the Annual General Meeting which grants discharge to the Board for the business year 2005. In addition to the reimbursement of expenses, the members of the Supervisory Board receive compensations in the amount of € 15,000 for a full business year being member of the Supervisory Board. Furthermore, for its membership of the Supervisory Board during the previous business year after the decision of the profit appropriation, each member of the Supervisory Board receives a variable compensation component in the amount of € 800.00 for each cent of the consolidated net profit per share according to the International Accounting Standards / International Financial Reporting Standards (IAS / IFRS) exceeding the amount of € 0.30. The maximum amount of the assessment base equals the net profit of the company less an amount of four percent of the contributions paid for the lowest issue amount of the shares.

The Chairman receives twice this amount, the Deputy Chairman one and a half times this amount. During the period under review the Supervisory Board received a total compensation in the amount of € 65,500. This amount is split as follows:

| | **Fixed** | **Variable** | **Total** |
|---|---|---|---|
| | K€ | K€ | K€ |
| Alexander von Engelhardt | 30.0 | - | 30.0 |
| William Slee | 22.5 | - | 22.5 |
| Thomas Geitner | 15.0 | - | 15.0 |
| Gesamt | 67.5 | - | 67.5 |

The following members of the Supervisory Board are shareholders of the company:

| **Number of shares held as of December 31, 2005:** | |
|---|---|
| William Slee | 29,520 |
| Thomas Geitner | 1,500 |

The members of the Supervisory Board hold the following occupations and are members of the following Supervisory Boards and boards of comparable monitoring entities:

| | **Occupation held** | **Members of other Supervisory Boards and boards of other monitoring entities** |
|---|---|---|
| Alexander v. Engelhardt | Supervisory Board | WashTec AG (Chairman) |
| | | Dr. Schmidt AG & CO (until Dec. 31, 2005) |
| | | Gütermann AG (until June 30, 2005) |
| | | Tarkett Sommer AG |
| William Slee | Supervisory Board | The Game Group plc, Great Britain, Non executive Director (until September 19, 2005) |
| | | Dimon Inc., Danville, Virginia USA, Non executive Director (until May 13, 2005) |
| | | ECOFIN Water + Power Opportunities plc, Great Britain, Non executive Director (until May 19, 2005) |
| Thomas Geitner | Executive Director Vodafone Group plc. | Vodafone D2 GmbH, Düsseldorf |
| | Managing Director Vodafone Holding GmbH, Düsseldorf | Arcor AG & Co., Eschborn, Chairman (until Dec. 31, 2005) |
| | Managing Director Vodafone Deutschland GmbH, Düsseldorf | |

### *Executive Board of the SINGULUS TECHNOLOGIES AG.*

In the business year 2005 the Executive Board was comprised of the following members:

_Roland Lacher, Chairman
_Stefan A. Baustert
_Klaus Hammen

During the period under review the Executive Board received a total compensation in the amount of € 905,000. This amount is split as follows:

| | Fixed | Variable | Total |
|---|---|---|---|
| | K€ | K€ | K€ |
| Roland Lacher | 373 | - | 373 |
| Stefan A. Baustert | 279 | - | 279 |
| Klaus Hammen | 253 | - | 253 |
| Total | 905 | - | 905 |

| **Number of shares held be the Executive Board as of Dec. 31, 2005**<br>shares with a nominal value of € 1: | |
|---|---|
| WG Roland Lacher GbR | 141,750 shares |
| Stefan A. Baustert | 2,400 shares |

| **Granted stock options (€ 1 nominal value) through convertible:** | |
|---|---|
| Stefan A. Baustert | 160,000 shares |
| Employees | 712,682 shares |

New Products.

## The BLU-LINE.

At the beginning of October 2005 the production systems for Blu-ray lines were delivered to key customers. Thus, SINGULUS TECHNOLOGIES is the first European supplier of lines being able to record Blu-ray machines in test production at five major customers in Europe and the US.

SINGULUS TECHNOLOGIES extensively progresses the further development of the production systems to a dual layer production machine.


SINGULUS
SINGULUS
BLU-LINE
BLU-LINE

## HDTV – The New Dimension of Television

Just imagine: You only see through foggy glasses and all of a sudden you have a clear view. At least this is the way a commercial of a renowned German consumer electronics chain answers the question: “What is HDTV actually?”

With a five times better picture quality the new digital high-definition TV is a completely new dimension of watching television. The resolution of 1920 x 1080 pixel compared with the current devices with 720 x 575 pixel provides a significantly sharper and more detailed picture with rich colors – in a nutshell: definitely more fun watching television.

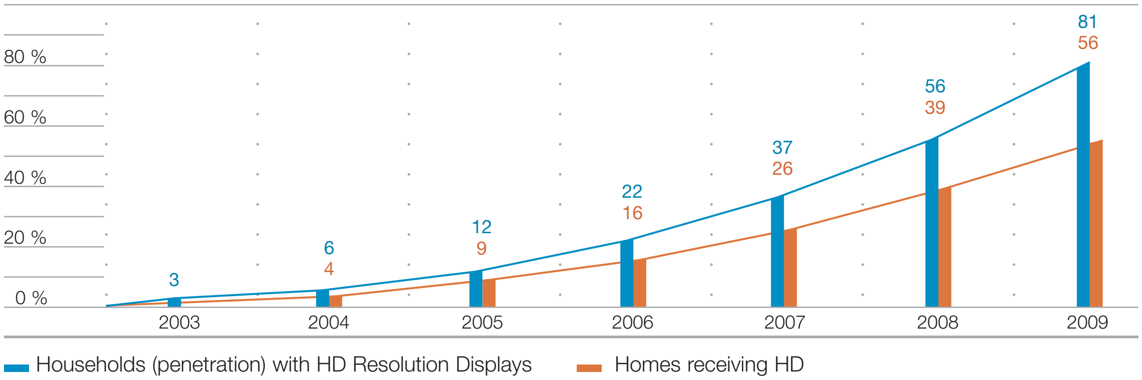
In Germany, the first digital TV programs started at the beginning of 2006. On a global scale the format was already introduced some time ago. For example, in the US the sale of HDTV capable devices already increases by about 50 % per year. The producers expect that volume sales will even continue to rise in the future (sources: Sony, American Consumer Electronic Association). And in Japan, six million households are already using the new technology and almost all the big TV station broadcast digital HDTV.

***Europe is catching up.***

Europe is starting to wake up slowly. A considerable boost in the penetration of HD capable technology is expected for 2006. In particular the broadcasting of the Soccer World Cup in HDTV will contribute to this trend. Eventually, also the Soccer World Cup in 1974 only started the transition from black-and-white TV to color TV. According to a study by the research institute Datamonitor published in mid-2004, up to 4.6 million households are expected to have HDTV displays in Europe by the year 2008 already.

**Increasing popularity of HDTV in the US**

[in %]




Source: Understanding & Solutions, December 2005

_HDTV – The new dimension

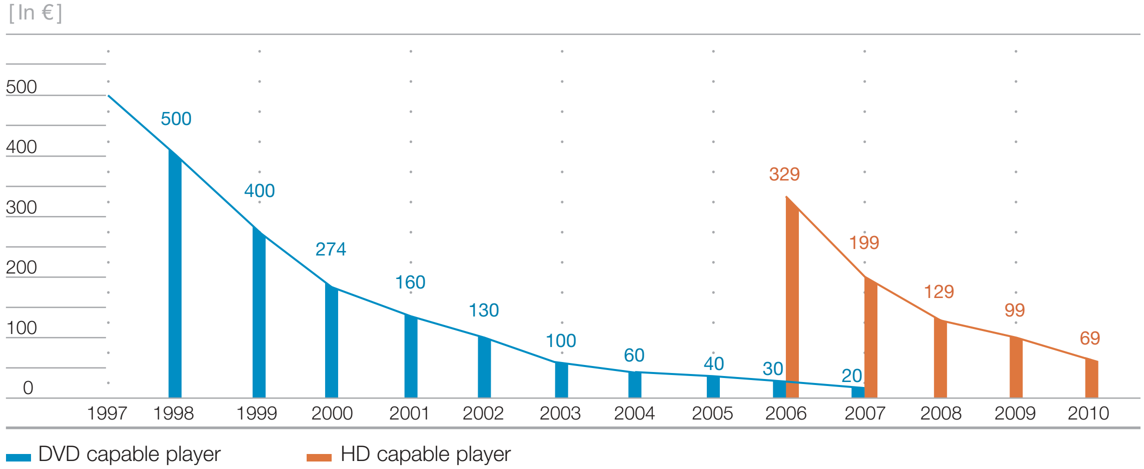
_HDTV – Up to 1920 x 1080 Pixel

However, featured programs were still scarce here in 2005. In addition to 1080, a Belgium station starting in 2004, Pro 7, Sat 1 and Premiere have been broadcasting several test programs in high-resolution quality since fall 2005. At the beginning of 2006 these stations started to broadcast in HD-quality on a regular basis. The target is to enable the reception of this completely new quality through satellite and cable as well.

In addition, according to research it is expected that HD capable players and drives will be significantly cheaper from the beginning than DVD players when they were introduced in 1997. While a DVD player cost more than € 500 at the outset, HD capable players are expected to be offered around € 300 - 400. A subsequent decline in prices and the trend towards a mass market will materialize considerably faster than experienced with the launch of the DVD.

**Comparison of starting prices of DVD / HD capable players**

[ In € ]




Source: Understanding & Solutions, December 2005

***With the clarity of the pictures comes the data surge.***

The breakthrough of the digital HD television is scheduled for the same time as the launch of the new memory intensive media HD DVD and Blu-ray. These still competing formats have something in common: necessarily, their storage capacity exceeds the capacity of regular DVDs many times. This is because the high-resolution TV-pictures require enormous amounts of data. Compared with ordinary broadcasting a HDTV channel requires four to five times the transfer rate and works with a data rate of 25 MBits compared with only 4 to 6 MBits used for the PAL standard. Of course, the recording and transfer technologies have to be adjusted for this.

***Upgrading for the television of the future.***

Not only the hardware for recording, but also the devices for the reception have to be upgraded. A HDTV capable plasma or LCD television set with high resolution or a HD capable Sat-receiver are requirements for enjoying high-resolution television quality. As an orientation for the consumers the European Information & Communications Technology Industry introduced its own seal of approval - the “HD Ready” logo. This only concerns displays and identifies devices which meet the minimum requirements of the HDTV format. Reception, playback and other player devices are expected to be awarded the protected HDTV approval of the “European HDTV Forum" as a quality feature.

***The new dimension is on its way.***

Market observers expect that more and more programs of public and private TV stations in Germany as well will broadcast in HDTV quality in addition to the standard format. The transition from today’s TV standard to HDTV is necessary if Germany wants to keep up with the technological change that is taking place all over the world.

**Storage capacity of optical discs**

| | **CD** | **DVD** | **HD DVD** | **Blu-ray Disc** |
|---|---|---|---|---|
| Capacity [GB] | | | | |
| Single Layer | 0.7 | 4.7 | 15 | 25 |
| Dual Layer | - | 8.5 | 30 | 50 |
| Laser | infrared | red | blue | blue |
| Wave length [nm] | 780 | 650 | 405 | 405 |
| Min. Pit length [nm] | 833 | 400 | 204 | 150 |
| Track Pitch [µm] | 1.6 | 0.74 | 0.40 | 0.32 |

## HD-ready: display for HDTV.

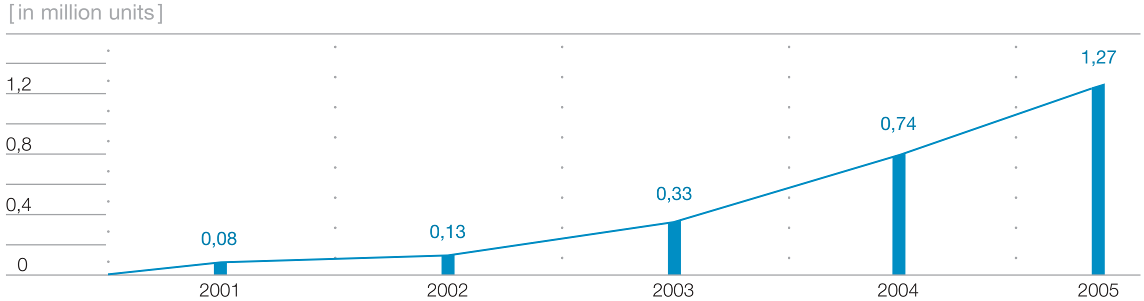
A TV-set or a projector has to meet the following specifications to be awarded the 'HD-ready' logo and therefore to be compatible with HDTV receivers:

_Resolution: minimum of 720 native lines in 16:9 format
_YUV component input (or component through VGA/DVI-I)
_HDMI input (or DVI with HDCP)
_picture signals available for analog or digital processing, including the correct formats:
1280 x 720p, @ 50 Hz and 60 Hz
1920 x 1080p, @ 50 Hz and 60 Hz


HD ready

HD TV

**Sales of LCD and plasma displays (incl. projectors), Germany**
[in million units]




Source: GfK, GfU, 2005 forecast

New Products.

## The MOLDPRO.

Together with the new Blu-ray systems the first MOLDPRO injection molding machines were delivered in October. The machine is already being tested together with our SPACELINE II HD by key DVD customers.


SINGULUS
MOLDPRO

# Status report of the SINGULUS TECHNOLOGIES Group and the SINGULUS TECHNOLOGIES AG

The company exercised its right pursuant to Art 315 Para. 3 German Commercial Code (Handelsgesetzbuch (HGB)) to prepare a combined status report for the SINGULUS TECHNOLOGIES Group and the SINGULUS TECHNOLOGIES AG.

Since the course of business, the situation of the company as well as the risks of future development of the SINGULUS TECHNOLOGIES AG and the SINGULUS TECHNOLOGIES Group broadly coincide, the following statements, in particular references to specific data, refer to the SINGULUS TECHNOLOGIES Group.

**Post Closing Events (Dec. 31, 2005)**
**Integration of the STEAG HamaTech AG**

On November 6, 2005, SINGULUS TECHNOLOGIES announced the acquisition of the majority of STEAG HamaTech AG. On January 27, 2006 the closing was successfully implemented and 66.28 % of the shares of the STEAG HamaTech AG were acquired from the previous majority shareholder, the SES Beteiligungs-GmbH / RAG. Together with the shares already acquired on the stock exchange and the tendered shares of private shareholders in the course of the public takeover offer SINGULUS TECHNOLOGIES held 87.55 % of the STEAG HamaTech shares in total as of February 27, 2006.

The combination of the two companies is being progresses as quickly as possible and implemented immediately within the scope of the legal framework. With the optimum adjustments at both companies, savings and synergies in the amount of about € 20 million are targeted. These cost advantages in procurement, production, research & development, sales & marketing and administration will significantly strengthen the international competitiveness of the SINGULUS TECHNOLOGIES Group.

With access to key customers in the segment Recordable in Asia, which STEAG HamaTech has been supplying for many years, SINGULUS TECHNOLOGIES expects a considerably improved market position in this market segment in the future as well.

Going forward SINGULUS TECHNOLOGIES will also be positioned for its core activities of equipment for the production of optical discs as well as the further development and the expansion of the new business areas TMR and Optical Coating. The focus on the business segment Prerecorded Disc will be assumed by SINGULUS TECHNOLOGIES at its location in Kahl am Main and the business division Recordable Disc at STEAG HamaTech in Sternenfels.

In Sternenfels, the Executive Board of STEAG HamaTech announced that the loss-making activities in the Prerecorded segment will be stopped. Furthermore, a portfolio optimization will be implemented. Activities not regarded as core businesses are intended to be sold if attractive offers are made or transformed into joint ventures with strategic partners. This concerns STEAG HamaTech's subsidiary Eta Optik as well as the segment of photo masking machines.

SINGULUS TECHNOLOGIES decided to discontinue the segment Recordable at its location in Kahl in the future. In addition, the cost-efficient production capacities of STEAG HamaTech in Nove Mesto, Slovakia will also be utilized henceforth. After the acquisition of STEAG HamaTech, SINGULUS TECHNOLOGIES will be able to access the capacities of this production site and utilize them increasingly for pre-assembly works in the future.

Taking into account the decision already made at STEAG HamaTech in 2005 as well as additional personnel adjustments at SINGULUS TECHNOLOGIES and STEAG HamaTech, a headcount reduction of about 200 employees in total is expected for both companies during the course of the business year 2006.

The combination of SINGULUS TECHNOLOGIES and STEAG HamaTech lays the foundation for a technological and market leadership for all optical disc formats. This should also be maintained with respect to the launch of the upcoming once-recordable Blu-ray/HD DVD for the recording of high-resolution television programs (HDTV).

In the segments Prerecorded CD and DVD/HD DVD, SINGULUS TECHNOLOGIES already occupies a leading market position. We are certain to achieve this in the Prerecorded Blu-ray segment as well. Moreover, after the combination of the companies the market position in the Recordable activities, in which SINGULUS TECHNOLOGIES has had a weaker position than in the Prerecorded Disc segment, will improve.

_SINGULUS TECHNOLOGIES AG, Kahl

_STEAG HamaTech AG, Sternenfels

## Outlook

During the business year 2005 we responded to the market's weakness with cost-cutting programs. These necessary adjustment processes will be further continued. However, the strategic decisions we made in the previous year and which implemented at the beginning of 2006 are much more important for the long-term perspective of our company.

The takeover of STEAG HamaTech was an overdue market consolidation. From our point of view it is an essential step towards strengthening our market leadership as well as securing our future earnings potential.

Our returning to growth in the next couple of years will depend to a large extent on the speed of the worldwide penetration of the new TV sets as well as the formats HD DVD and Blu-ray with players in the households. We expect further orders for the business year 2006 in addition to the already delivered machines for the production of Blu-ray Discs. This makes clear: "The era of a new generation of entertainment quality has begun." HDTV (HD ready) will find its way into our households. This trend cannot be reversed and will be a standard – similar to all technological progress in the past – within a few years.

This is the reason for our optimism with respect to the trend in our industry in the next couple of years. With the recently implemented market consolidation as well as adjustments of the cost structures, SINGULUS TECHNOLOGIES will benefit disproportionately from the positive business development at the time of a re-strengthening market.

It is our goal to take advantage of this market strength to progress the diversification activities initiated a couple of years ago more rapidly. Our own developments in the past couple of years showed that we are in a technological position to even master the biggest and most complex challenges in the segment of nano-coatings. The sales of a deposition system for the semiconductor industry as well as one for the ophthalmic lens coating industry are a proof of this.

However, we also had to realize that the market entry barriers for our own developments in other industries are remarkably high and therefore also take some time to overcome them.

It is our goal to build a broader range of products for SINGULUS TECHNOLOGIES in the medium-term and to generate part of the sales and earnings from other business areas than the Optical Disc division. Therefore, it is only consistent to acquire companies in the course of future acquisitions whose core competence is not the Optical Disc segment. After four successful acquisitions in our core activities (EMOULD, OMP, ODME Mastering and STEAG HamaTech) and the resulting integration of different corporate cultures into the culture of SINGULUS TECHNOLOGIES, we feel well equipped for this step.

## Overall Economic Situation

In 2005, the worldwide economic growth was stable. Production increased at a rate exceeding the medium-term trend. In the industrialized countries the increase in the gross domestic product accelerated in particular due to the strong rise in Japan by 2.4 % and the US by 3.6 % (OECD estimates).

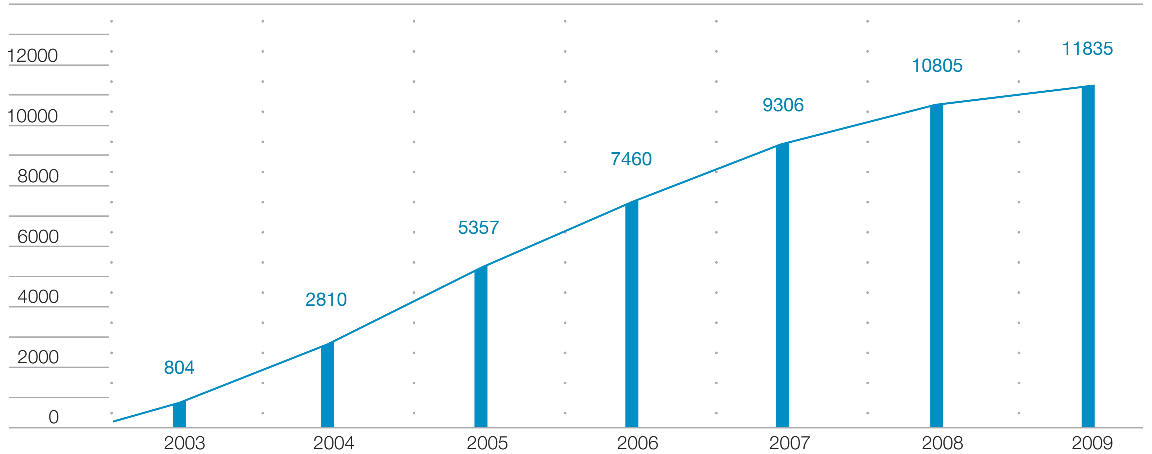
After weak months at the beginning, the economic situation in the Eurozone gained some momentum during the second half of the year and will continue to rise moderately in the next two years according to OECD-forecasts. The real gross domestic product increased slightly by 1.4 % compared with 2004. The main contributor to this recovery of the industrial sector were exports. Exports to non-EMU countries and the competitive position in terms of costs improved markedly. Also, capital investments in Europe rose slightly. In contrast, private consumption in the service and retail sectors stagnated. Here, in particular higher energy prices had a negative impact on the development.

The economic situation in Germany also picked up during the course of the year. However, private consumption remained weak so that the gross domestic product only increased slightly with a rate of 1.1 %.

The US recorded a relatively high expansion pace with a growth rate of 3.6 %. Once again the gross domestic product expanded at a higher rate than the production potential. The hurricanes Katrina and Rita only had a temporarily dampening impact on the economic trend in the US.

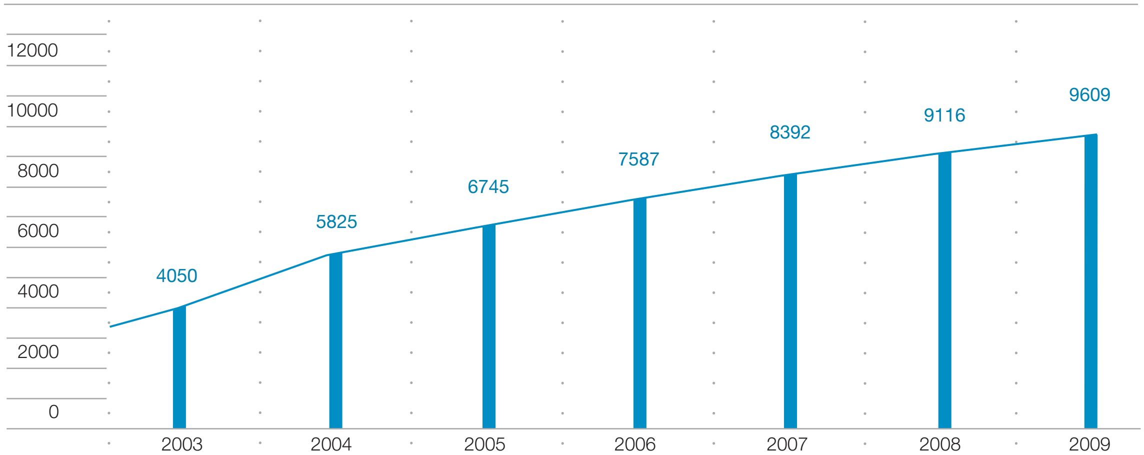
**Recordable / rewritable DVD market worldwide**

[ in million discs ]




Source: Understanding & Solutions, December 2005

**Prerecorded DVD market worldwide**
[ in million discs ]




Source: Understanding & Solutions, November 2005

## The Global Economic Outlook

Economic experts from the University Kiel expect a slight pick-up in the economic cycle in 2006. A projected depreciation of the Euro again the other major currencies should once again result in an increase in exports from the Eurozone. The Euro already depreciated against the most important trade currencies in real terms in 2005. This is also one of the reasons why the University Kiel again expects an increase in domestic demand in Europe compared with 2005. However, in the medium-term, growth prospects are rather subdued. The annual growth of the production potential in the Eurozone is not expected to exceed 1.75 % p.a.

## Optical Disc Market

Despite the weak demand for new machines, the growth of the end-consumer market for DVD continued in 2005 as well. The demand for DVDs increased so sharply that a decline in CDs was more than offset.

The market for once-recordable and rewritable DVDs experienced the highest growth rates. According to Understanding & Solutions the production rose from 2.8 billion discs in 2004 to about 5.4 billion discs in 2005.

These effects are the likely result of declining prices for once-recordable and rewritable DVDs and the trend towards larger selling units amongst others. The demand for once-recordable and rewritable DVDs was also significantly boosted by the rising market penetration of DVD recorders. Market researchers of the British institute Understanding & Solutions forecast a doubling of sales in Western Europe to 6.9 million devices in 2005, thereof one fifth equipped with a hard disc drive. In Germany, about 7 % of all households were equipped with a DVD recorder in 2005. Experts project that 41 % of all European households will already own a DVD recorder by 2008.

Additionally, the number of globally produced prerecorded DVDs increased substantially. Production rose from 5.8 billion discs in 2004 to about 6.7 billion in 2005, a growth rate of 16 %.

In contrast, the production of prerecorded CDs continued to decline similar to the trend in 2004 and the demand for CD R dropped by about 3 %. According to experts this trend will also prevail in the coming years.

## Regional Developments

***Asia.***

The development of the Asian optical disc market was negatively impacted by a substantial rise in costs for the raw material polycarbonate for the production of discs. Prices more than doubled amongst others due to the intended reduction of supply by producers. The risen production costs for the recordable discs predominantly manufactured in Taiwan and China could not be passed on to end-consumers so that many producers of recordable discs incurred losses. As a consequence the sales of DVD R machines in the targeted Asian markets declined rapidly.

However, reports from Asia indicate that some of the local disc producers are once again operating at full capacity in the meantime. Therefore, a recovery in the business activities in the Asian equipment market is expected.

***US.***

In the US the continuing format dispute regarding the introduction of the next generation of DVD challenged the optical disc industry. At the beginning of 2005 investments in new production systems were subdued. However, towards the end of the year investment activities picked up again because the demand for DVDs continues to be buoyant resulting in an expansion of production capacities. The rapid market introduction of combined machines, i.e. machines able to switch from the production of DVDs to production of HD DVDs by a simple push of a button, supported sales.

***Europe.***

In the Eurozone the demand for optical discs was higher than expected. For example, the DVD production jumped by 25 % compared with the previous year and amounted to 2.3 billion discs. However, the unsolved format dispute of producers also created uncertainties so that the investments in new equipment softened.

_HD DVD Booth at CES 2006


_Blu-ray Association Booth at CES 2006


***New format generation.***
At the CES in Las Vegas in January 2006 the Blu-Ray Disc Association formally announced a new era of entertainment. More than 20 companies reported the launch of Blu-ray disc products including players and recorders, high-definition computer drives, recordable media and PC applications as well as more than 100 film and music titles. The consortium around the Blu-ray technology with its 150 member companies appears to be superior. After all, they include Philips, Sony, Matsushita / Panasonic, Sharp, Samsung, Dell and Apple.

But also the developers of the alternative format HD DVD including Toshiba and NEC have established themselves on the market. In particular Microsoft's decision to use HD DVD in connection with the gaming console Xbox 360 will institute HD DVD in the market in addition to Blu-ray.

## Market impact on SINGULUS TECHNOLOGIES

In addition to the overall global economic developments, specific market factors play a decisive role for SINGULUS TECHNOLOGIES. For example, high-resolution television will be a vital growth factor in the next couple of years. The demand for optical discs with very high storage capacity, i.e. HD DVD or Blu-ray discs, will rise significantly with an increase in television programs offered in HD TV. At the same time the demand for DVD and DVD R will continue to expand.

Next to the film industry, especially the PC and gaming market is an important driver of growth for the demand for optical discs. For example, in Germany € 1.3 billion were spent on PC and gaming software alone in 2004. The latest generation of gaming consoles is about to be launched. With them the breakthrough of new storage formats (Blu-ray for Playstation 3, HD DVD for Xbox 360) will follow.

Furthermore, navigation systems increasingly establish themselves. High storage capacity is also required for the navigation software. DVD camcorders have been launched as well. The recordings can be cut directly with the camera or the DVD can be inserted in a computer drives for further processing. This trend also offers additional growth potential in the coming years.

## Research and evelopment (R&D)

***General.***
Irrespective of the decline in sales and earnings in the business year 2005 SINGULUS TECHNOLOGIES maintains its extensive research and development efforts to continuously improve and further advance its products.

Through research and development SINGULUS TECHNOLOGIES will strengthen its market position in the optical disc market in the future as well. Moreover, the company has done research to diversify in non-core activities. Following € 22.8 million in 2004 (5.4 % of sales) € 19.4 million were spent in 2005 (8.4 % of sales).

_Microsoft Xbox 360

The goals of research and development are:

- _ Maintaining the top position in the market for machines for the production of prerecorded discs,
- _ Expansion of market share in the segment of machines for recordable discs – a rise to the top spot in the future together with STEAG HamaTech
- _ Capturing the No. 1 position in the future market for machines of the third generation of optical disc (HD DVD and Blu-ray),
- _ Development of machines in growth market with high innovative characteristics in the course of the diversification strategy (OPTICUS, MRAM, SINGULUS 3 DS).

**Research and Development (in million €)**

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| R & D | 16.3 | 22.8 | 19.4 |

## Optical Disc

In its core activities, the machines for the production of optical disc, SINGULUS TECHNOLOGIES focused all its attention in 2005 on the development of machines for the production of the new disc formats HD DVD and Blu-ray.

SINGULUS TECHNOLOGIES presented new systems for the production of HD DVD as well as for Blu-ray Discs in 2005. At the same time SINGULUS MASTERING also introduced to the market a new mastering system for the third format generation. Thus, SINGULUS TECHNOLOGIES is currently the only producer able to offer all required production systems for both future formats.

_SPACELINE II HD

***SPACELINE II HD.***

In cooperation with the Japanese company Memory-Tech, which has gathered extensive know-how for HD DVD production technologies with the format developer Toshiba, the replication line SPACELINE II was expanded for use for HD DVD and brought to the market. The SPACELINE II HD is capable producing DVD 9 as well as the new HD DVD with single and dual layer format. With a push of a button the SPACELINE II HD can be switched to the high density format HD DVD. Therefore, SINGULUS TECHNOLOGIES enables disc producers to respond flexibly to the market demand for current and future formats. The machine was presented at the sector's key fair MEDIA-TECH Expo in Las Vegas, US, in May 2005. Already more than 50 % of the SPACELINE II machines are sold with this upgraded configuration in the meantime.

_BLU-LINE


_LBR 266


***BLU-LINE.***
At the end of 2004 Sony concluded an agreement with SINGULUS TECHNOLOGIES regarding a close collaboration and strategic cooperation for the development and production of equipment of the third format generation Blu-ray. Together the two companies developed inline machine technology for the mass production of Blu-ray Discs. In early April 2005 the first Inline production line for the mass production of prerecorded Blu-ray Disc (BD ROM) was commissioned. Since April 2005 the machine for the production of Blu-ray Disc, called BLU-LINE, has been tested in Kahl and presented to leading Hollywood studios together with Sony. At the beginning of October 2005 the first production systems for Blu-ray lines were delivered to key customers. In the meantime additional machines were installed. Thus, SINGULUS TECHNOLOGIES is the first European supplier of lines being able to record Blu-ray machines in test production at five major customers in Europe and the US.

Next to the pilot production of Blu-ray single layer with key customers, SINGULUS TECHNOLOGIES extensively progresses the further development of the production systems to a dual layer production machine. An additional focus is the development of the upcoming once-recordable and rewritable Blu-ray Discs, which the end-consumer needs to record high-definition television programs.

***Mastering of new formats.***
SINGULUS TECHNOLOGIES presented the new high density mastering system LBR 266 for the first time at the MEDIA-TECH Expo in Las Vegas. The new laser beam recorder was developed on the basis of the Deep UV test system for Blu-ray launched in cooperation with Philips in 1999 and the practice-proven DVD mastering systems. The LBR 266 is specifically tailored to the requirements of the new ROM formats HD DVD and Blu-ray. With the use of a solid state laser with a wave length of 266 nm, structures with a size of 150 nm can be recorded. With an additional module the LBR 266 can be upgraded for the mastering of once-recordable and rewritable HD DVD and Blu-ray Discs.

***Recordable DVD.***
In addition to the optimization of the production methods for the 4x and 8x technologies SINGULUS TECHNOLOGIES worked on the new DVD R 16x technology. Since February 2005 this technology has been marketed together with the STREAMLINE II DVD R. Because recordable equipment will only be produced and marketed by STEAG HamaTech in the future, the dual layer technology will be transferred to the STEAG HamaTech plant in the coming months.

_STREAMLINE II DVDR DL


_MOLDPRO


***MOLDPRO.***
In early July 2005 the prototype production of the new MoldPro injection molding machines was shifted from Kahl to Schaffhausen, Switzerland, so that the assembly of the first MOLDPRO machines was started at this new location at the SINGULUS MOLDING AG. Together with the new Blu-ray systems the first MOLDPRO injection molding machines were delivered in October. The machine is already being tested together with our SPACELINE II HD by key DVD customers.

## TMR Technology

Since 2002, SINGULUS TECHNOLOGIES has expanded its business activities by the development of equipment applying TMR (Tunnel Magnetic Resistance) deposition technologies for IT applications. SINGULUS TECHNOLOGIES' core competence is in the area of vacuum thin film coating. SINGULUS TECHNOLOGIES presented the TMR technology for the production of MRAM wafers and thin film heads at the semiconductor fair Semicon West in San Francisco, US, in mid-2005.

_TIMARIS oxidation module

_OPTICUS ophthalmic lens coating machine


In the process of the thin film head application, magnetic materials are deposited enabling the next generation of magnetic storage media to write information on the hard disc drive with a higher storage density. Write-read heads are thus important key elements for magnetic hard disc drives with high storage density, which are in computers as well as increasingly in the growth market of satellite digital receivers with built-in magnetic hard disc drives as well. With a key-stroke the satellite receiver records the currently broadcast television program. Subsequently, the program can be burnt on DVD and archived.

At the end of December the break-through for TIMARIS machines for TMR applications was achieved. The first order for the application area of thin film heads was recorded. With this first order, SINGULUS TECHNOLOGIES' coating technology succeeded in overcoming the high market entry barriers in new technologies.

## Optical Coatings – OPTICUS

With the OPTICUS machine SINGULUS TECHNOLOGIES expanded the application range of its machines to an additional sector and made the inline vacuum coating technologies developed for the serial production of CDs and DVDs available to the ophthalmic lens production for the first time. The automated system for the coating of individual eye glasses was developed and optimized with a key customer, the ophthalmic lens producer Rupp + Hubrach. Amongst others, the cycle time was reduced to a record low in this connection. With the complete automation of the coating of eye-glasses producer are able to reduce their current production costs significantly.

In contrast to the standardized optical disc systems, individual processes are developed for the OPTICUS machine in close cooperation with the customer meeting the respective requirements in terms of color and characteristics of the coatings. At the beginning of 2006 SINGULUS TECHNOLOGIES was able to report the first purchase order for an OPTICUS machine.

_SINGULUS 3DS


***Decorative Coatings.***
SINGULUS TECHNOLOGIES transferred the idea of the OPTICUS production technology to an additional area of application: The coating of decorative layers on three-dimensional components. In November 2005, the “SINGULUS 3DS”, an innovative machine for the decorative coating of plastic and metal parts, was introduced to the market. The first machine of this new type had already been delivered to a key customer in late summer and integrated at the site for serial production.

This machine is a revolutionary new development in the segment of PVD surface coating. By means of the sputtering used by the SINGULUS 3DS, decorative surfaces can be applied on complex, three-dimensional plastic and metal parts according to individual requirement and reproducible in a vacuum. The range of applications includes packaging in the high-quality cosmetics segments to components in the segments “Consumer Electronics and Appliances”.

The sputtering employed in the SINGULUS 3 DS has substantial technical and economic advantages compared with the traditional processes such as electroplating or vacuum vaporization. The users gain completely new areas of application, which enable them to respond more flexibly to the requirements and demands of different customer segments with lower costs at the same time.

## Marketing & Sales and Services / Activities of Subsidiaries

So far, all development and production facilities are centered in Europe. Sales & Marketing and Services are inter-nationally positioned.

SINGULUS TECHNOLOGIES is a global leader in terms of customer support for the sector of machines for the production of optical discs. Worldwide, an on-site service is implemented. Hotlines around the world safeguard availability of the production machines.

***Sales & Marketing and Services, subsidiaries:***

_SINGULUS MASTERING International GmbH, Schaffhausen, Switzerland
_SINGULUS TECHNOLOGIES UK Ltd., Swindon,
_SINGULUS TECHNOLOGIES IBERICA S.L., Sant Cugat del Vallés, Spain
_SINGULUS TECHNOLOGIES FRANCE S.a.r.l., Valence, France
_SINGULUS TECHNOLOGIES ITALIA s.r.l., Senigallia (Ancona), Italy
_SINGULUS TECHNOLOGIES Inc., Windsor, USA
_SINGULUS TECHNOLOGIES Service Group Inc., Windsor, USA
_SINGULUS TECHNOLOGIES LATIN AMERICA Ltda., Sao Paolo, Brazil
_SINGULUS TECHNOLOGIES ASIA PACIFIC Pte. Ltd., Singapore
_SINGULUS VIKA CHINA LIMITED, Wanchai, Hong Kong
_SINGULUS TECHNOLOGIES TAIWAN Ltd., Taipei, Taiwan

Except for SINGULUS VIKA CHINA LIMITED (share: 51 %) the company directly or indirectly holds all shares of the stated companies. In addition, agencies and service centers are present in 17 countries.

***Production sites:***
***SINGULUS EMOULD GmbH, Würselen, Germany***

At SINGULUS EMOULD in Würselen close to Aachen injection molding machines are produced since the acquisition of the company in December 2001. With the acquisition of EMOULD, SINGULUS TECHNOLOGIES gained control over the very important process step of injection molding for optical discs. The technological superiority of the electromechanical injection molding machines of SINGULUS EMOULD compared to competitors' products and the leading technology of the SINGULUS TECHNOLOGIES replication lines offer a significant strategic competitive advantage in all prevalent disc formats. As of December 31, 2005 SINGULUS EMOULD employed 64 people.

***SINGULUS MASTERING B.V., Eindhoven, Netherlands***

Since the first step in the segment of mastering had already been taken in 2002 with OMP, Best, Netherlands, SINGULUS TECHNOLOGIES became global leader at the beginning of 2004 with a 70 % market share through the additional acquisition of the mastering activities of ODME, Eindhoven, Netherlands. The development of the 3rd generation has the highest priority in mastering as well. For the Recordable segment the first Blu-ray mastering system was already sold and delivered in 2005. At Prerecorded (ROM) Blu-ray the development will probably be completed by summer 2006.

SINGULUS MASTERING was able to report an important selling success in its corporate history: With the mastering machine ordered by Datapulse Technology, Singapore, the 200th system of the AM production line was sold. Therefore, this machine type has become the absolute benchmark within the sector. As of December 31, 2005 SINGULUS MASTERING employed 98 people.

***SINGULUS MOLDING AG, Schaffhausen, Switzerland***

In spring 2005 SINGULUS TECHNOLOGIES started to establish an additional production site in Schaffhausen (Switzerland). Since summer 2005 the new generation of injection molding machines is built. The new production capacity is established in addition to the existing sites and has a focus especially on the production of novel injection molding machines branded MOLDPRO. The first machines were already delivered. The broad market launch started in early March 2006. As of December 31, 2005 SINGULUS MOLDING employed 33 people.

_SINGULUS EMOULD GmbH
[Würselen, Germany]

_SINGULUS MASTERING B.V.
[Eindhoven, Netherlands]

_SINGULUS MOLDING AG
[Schaffhausen, Switzerland]

## Employees

For this first time in the history of the SINGULUS TECHNOLOGIES AG a reduction of the headcount was implemented in 2005. In the course of the cost reduction program, which also included personnel measures, the number of employees worldwide was reduced by 100 full-time employees. Accordingly, the number of employees declined from 736 at the end of 2004 to 636 at the end of 2005. The majority of the staff reduction was implemented abroad. In the course of the opening of the production site in Schaffhausen, Switzerland, three employees were transferred to this site and 30 people were recruited for the site in Schaffhausen.

In 2005, the headcount at the main production site in Kahl was reduced from 378 to 329 at the end of the business year. Temporary workers were only employed in exceptional cases.

The absentee rate amounted to 2.7 % in the past business year. According to the Federal Ministry of Health and Social Security (BMGS) the German average amounted to 3.3 %.

In addition to the further technical development, the focus of professional training was set on the employees' foreign language skills. Moreover, due to the first-time formation of a workers' council there was additional demand for respective training in this area in 2005.

**Employees as of December 31**

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| Germany | 419 | 459 | 393 |
| Abroad | 180 | 277 | 243 |
| Total | 599 | 736 | 636 |

## Sales and Earnings

The declining order intake in the third and particularly in the fourth quarter of 2004 had been the first indication for a market slowdown in the business year 2005. Since there had not been an improvement at the beginning of 2005 either, a significant decline in sales had to be expected for 2005. Overall, we sold about 270 machines for the production of CDs and DVDs less than in the previous year. Only the activities of the mastering machines (+ 1 machine) remained at the previous year's level. On an individual level, for prerecorded CDs 120 machines less and for prerecorded DVDs 106 machines less were invoiced than in 2004. In the division Recordable CD (CD R) 27 machines less were sold than in 2004, the Recordable DVD (DVD R) segment experienced a decline of 17 machines compared with 2004. Accordingly, sales declined from € 439.5 million in 2004 to € 244.4 million in the business year 2005.

In terms of regional breakdown of sales there was a significant shift towards Europe. 49.8 % of sales were recorded in this region (previous year: 40.2 %). Sales realized in Asia declined to 24.4 % (previous year: 33.7 %) and also North and South America were weaker at

**Sales (in million €)**

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| Sales (gross) | 362.6 | 439.5 | 244.4 |
| Direct sales expenses | 13.8 | 16.0 | 12.1 |
| Sales (net) | 348.8 | 423.5 | 232.3 |

**Number of invoiced machines**

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| SKYLINE | 310 | 202 | 82 |
| SPACELINE | 183 | 255 | 149 |
| STREAMLINE CDR | 62 | 38 | 11 |
| STREAMLINE DVDR | 28 | 49 | 32 |
| MODULUS/SUNLINE | 3 | 2 | 0 |
| MASTERING | 14 | 41 | 42 |
| EMOULD | 379 | 555 | 336 |

20.1 % (previous year: 24.3 % ). The regions Africa and Australia accounted for 5.7 % of sales (previous year: 1.8 %).

The weak business trend in 2005 increased the pressure on the margins of our products. This affected the margins for machines for the production of recordable CDs and DVDs in particular. Overall, the gross profit margin declined to 25.7 % (previous year: 31.7 %).

The operating expenses were below previous year's level and amounted to € 4.1 million (-6.6 %). The expenses in the segments Marketing & Sales and Costumer Services (- € 3.6 million) as well as General & Administrative (- € 3.9 million) were reduced by 18.6 % in total. The other operating expenses recorded an opposite trend. With an increase of € 4.3 million to € 14.0 million overall in 2005 this expense item also reflected the weak market situation in the past business year. Accordingly, the largest part of these expenses is attributable to the return of used machines, write-downs on receivables as well as expenses for the modification of machines to adjust them to the market environment.

The earnings before interest and taxes (EBIT) declined to € 2.1 million (previous year: 72.6 million). The EBIT margin came to 0.9 % (previous year: 17.1 %). At € 1.2 million the net interest result remained close to previous year's level. The net profit amounted to € 7.3 million (previous year: 46.8 million).

**Key earnings figures (in million €)**

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| EBIT | 68.4 | 72.6 | 2.1 |
| Earnings before taxes | 70.9 | 73.9 | 3.3 |
| Net profit | 44.5 | 46.8 | 7.3 |
| Earnings per share | 1.20 | 1.27 | 0.21 |

**Breakdown of sales by region (in percent)**

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| Asia | 40.3 | 33.7 | 24.4 |
| Americas | 21.3 | 24.3 | 20.1 |
| Germany | 5.3 | 10.1 | 13.3 |
| Europe (excl. Germany) | 31.4 | 30.1 | 36.5 |
| Africa, Australia | 1.7 | 1.8 | 5.7 |

## Order Backlog and Order Intake

The order intake come to € 248.7 million in the year under review (previous year: € 417.6 million) and was 40 % below previous year's level. In particular, the order intake in Asia was affected. As of the end of 2005, the order backlog of € 60.9 million showed an improvement compared with previous year (€ 56.7 million).

## Balance Sheet and Liquidity

Overall, non-current assets excluding long-term receivables and deferred tax assets increased by € 11.6 million compared with December 31, 2004. Capitalized development expenses alone accounted for an increase in the amount of € 8.4 million. In addition, shares of STEAG HamaTech at a value of € 5.2 million were already bought on the stock market in the business year 2005, which are recorded as non-current assets.

The depreciation of property, plant and equipment and amortization of intangible assets amounted to € 14.9 million (previous year: € 10.8 million).

Current assets declined by € 46.1 million during the period under review. Accounts receivable dropped € 15.3 million, inventories declined by € 21.4 million. The overall liquidity amounted to € 67.7 million. Amongst others, the decline results from non-operating transactions such as share buybacks (- € 5.2 million) or the acquisition of shares of STEAG HamaTech (- € 5.2 million).

The short- and long-term accounts receivable were € 21.2 million (-18.5 %) below previous year’s level.

Short-term liabilities declined due to a drop in received prepayments of more than 50 %.

Similar to the previous years, cash discounts for accounts payable were used in 2005 if possible.

## Shareholders’ Equity and Profit Appropriation

As of the end of 2005 the equity of the company increased slightly to € 255.5 million from € 249.6 million as of December 31, 2004.

Accordingly, the equity ratio amounted to 71.0 % (previous year: 63.0 %). The return on equity – measured by the ratio of earnings before taxes to equity – amounted to 1.3 % (previous year: 29.8 %).

**Order intake and order backlog (in million €)**

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| Order intake | 382.7 | 417.6 | 248.7 |
| Order backlog (Dec. 31) | 90.4 | 56.7 | 60.9 |

The addition of the net profit to the reserves of the company will take place on the basis of the proposal of the company's legal bodies to the Annual General Meeting. Pursuant to Art. 16.3 of the by-laws half of the net profit of the SINGULUS TECHNOLOGIES AG under commercial law amounting to € 3,146,141.99 in total will be transferred to the item “Other revenue reserves”. The remaining balance sheet profit in the amount of € 1,573,070.99 shall be transferred to the item “Other revenue reserves” as well upon resolution of the Annual General Meeting.

## Share Buyback Program

The SINGULUS TECHNOLOGIES AG already started the buyback of own shares in October 2004 on the basis of the resolution of the Annual General Meeting as of May 13, 2004. 1,788,819 share were bought back until the end of 2004. Additional 460,000 no-par shares were acquired until the end of May 2005. Accordingly, a total volume of 2,248,819 shares were bought in the course of the share buyback program. The company is convinced that the share buybacks will make a lasting contribution to the favorable stock price performance of SINGULUS TECHNOLOGIES.

**Assets (in million €)**

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| Liquid funds | 66.4 | 77.1 | 67.7 |
| Accounts receivable | 89.6 | 107.4 | 92.1 |
| Inventories | 100.8 | 100.4 | 78.9 |
| Properties assets | 70.1 | 111.1 | 121.1 |
| Total assets | 327.0 | 396.0 | 359.9 |

**Liabilities and Equity (in million €)**

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| Short term liabilities | 86.8 | 106.4 | 68.5 |
| Long term liabilities | 13.1 | 40.0 | 35.9 |
| Total shareholders’ equity | 227.1 | 249.6 | 255.5 |
| Total assets | 327.0 | 396.0 | 359.9 |

## Capital Expenditure and Financing

The gross addition to property, plant and equipment in the SINGULUS TECHNOLOGIES Group amounted to € 4.5 million in the business year 2005. This is set against depreciation of property, plant and equipment in the amount of € 5.5 million.

The gross intangible assets increased by about € 16.7 million. This includes € 16.5 million of own work capitalized.

The capital expenditure in property, plant & equipment in the period under review was completely financed from the operating cash flow.

## Cash Flow

During the business year 2005 the cash flow from operating activities of the company declined by € 40.8 million to € 8.3 million (previous year: € 49.1 million).

## Risk Report of the SINGULUS TECHNOLOGIES AG

On a quarterly basis the different risk positions of the company are reviewed, analyzed and evaluated within the SINGULUS TECHNOLOGIES Group according to the management's best assessment. This report is also presented to the Supervisory Board once every year. Insofar there is an extensive gathering of information of the different risk categories within the company and in predefined periods of time.

Furthermore, there are regular discussions with the Supervisory Board during the Supervisory Board meetings with respect to potential risks of the further development of the company. This holds also true for the meetings of the Executive Board, which take place on a regular basis. In addition to customer and currency risks, the individual risk categories include procurement and purchasing, IT management, project management, research & development, sales markets, production and quality assurance as well as risks stemming from our three producing subsidiaries SINGULUS MASTERING, SINGULUS EMOULD and SINGULUS MOLDING.

**Cash flow (in million €)**

| | 2003 | 2004 | **2005** |
|---|---|---|---|
| Cash flow from operating activities | 18.4 | 49.1 | 8.3 |
| Cash flow from investing activities | -5.2 | -26.0 | -9.9 |
| Cash flow from financing activities | 0.5 | -11.9 | -11.9 |
| Effect of exchange rate changes | -1.2 | -0.5 | 4.1 |
| Total cash flow | 12.5 | 10.7 | -9.4 |
| Cash & cash equivalents at the beginning of year | 53.9 | 66.4 | 77.1 |
| Cash & cash equivalents at the end of year | 66.4 | 77.1 | 67.7 |

Basically, the risk management information system is built in a way to classify the individual risk categories as very low, low or high risk. This reflects that from SINGULUS TECHNOLOGIES' specific company perspective different segments also represent different risk potentials for our company.

The probability of occurrence of such risks also differs from company to company. The lowest category of probability of occurrence is set from 0 – 10 %. The following ranges are 10 – 25 % and 25 – 50 %. We do not see higher probabilities of occurrence in any risk category.

Furthermore, the potentially resulting impact on the operating result in case of occurrence of a risk category is analyzed. This assessment ranges from < T€ 250 (very little) to T€ 250 - T€ 1,250 (little) up to T€ 1,250 – T€ 5,000 (high).

The above mentioned risk categories, the definition of probabilities of occurrence as well as the potential impact on the results are evaluations and assessments of the company as a result of a detailed review of the business processes. An example of the process reliability of our risk management system is the early detection of changes in demand in individual markets towards the end of 2004 already and the resulting cost reduction measures immediately initiated at the beginning of 2005.

The individual risk segments are set out below.

For the segment procurement and purchasing credit assessments of our suppliers are performed on a regular basis. In addition, our suppliers' ability to supply the required quality and on time is reviewed on a continuous basis. This segment also includes the review of the inventory turnover of raw materials and supplies as well as the analysis of the age distribution of our goods. Due to the risk categorization the impact on the operating result, which could potentially arise from the above mentioned risk category, is assessed as being very small. The probability of occurrence is determined to be 0 – 10 %.

IT management risks include the evaluation of potential failures of servers, data theft or unauthorized data access. In this context relevant security systems have been implemented. The risk of a server failure as well as data theft is regarded as low and assessed with a probability of occurrence of 10 – 25 %. As a risk precaution back-ups of data are performed on magnetic tape on a daily basis, which are stored in a fireproof safe. On a weekly basis, the tapes are stored in a bank's safe deposit box. To prevent data theft the data access is controlled by a special access authorization procedure.

Project management has to make sure that the internal and external logistics can be implemented smoothly. This is important to minimize the acceptance period of our products by the customer. SINGULUS TECHNOLOGIES only recognizes sales after acceptance of the machines by the customers. In this area a low probability of occurrence (10—25 %) is expected as well. Potential delays in acceptance are prevented through active construction site management, which takes care of the preparation of machine assembly and the ongoing service during commissioning at the site.

The segment R&D is also integrated in the risk management report. An important aspect of the assessment of the R&D risk is the analysis of the market requirements and making sure that we are not missing market requirements. The risk of an erroneous trend or a delayed development is regarded as relatively high and is assessed at a probability of 25 – 50 %. Erroneous trends, i.e. development of machines missing the market requirements, have not occurred since the company was founded. However, this risk is high since similar to the past, machines will be developed in the future - amongst others following a diversification strategy - that are not only affecting the core activities.

A high risk, which is also the hardest to assess, exists amongst others in the sales and marketing segment. The segment's task is to recognize and evaluate sudden declines in demand or risks of potential faulty assessments in individual markets or products.

External data such as market research results but also close contacts with companies such as SONY or PHILIPS help to improve the evaluation of future trends. These risks are regarded as high and could also result in material effects on the company's results in case of erroneous trends. From a historic point of view it can be seen that market changes are only visible with a lead time of about 3 – 4 months and therefore immediate action is required.

In the segment production and quality in particular the processes and potential deficiencies of our machines are analyzed in the course of the risk assessment. Production interruption and process risks are regarded as low and the probability of occurrence determined to be at the second lowest level of 10 - 25 %.

With respect to currency risks resulting from invoicing in foreign currencies the principles of hedging are applied. Once again, we did not deviate from this principle in 2005.

A comparable risk assessment of the different risk groups is also performed at SINGULUS MASTERING. SINGULUS EMOULD as well as SINGULUS MOLDING are pure production operations with an exclusive supply to SINGULUS TECHNOLOGIES and are limited to construction, procurement, production and commissioning in terms risks assessments.

In conclusion, the rules and regulations of the KonTraG are met to the full extent. We reviewed the instruments used for the monitoring of the risks with our auditors and our Supervisory Board. The instruments are sufficient to identify risks endangering the survival of the company in due time. Risks endangering the survival of the company are neither identifiable for the current business year nor for the following years according to the management's opinion.

## Environment and Sustainability

SINGULUS TECHNOLOGIES is a company with future-oriented technologies. The sustainability of our work has a high priority for our company. The economic development of companies is not always positive during the course of their existence. Changing general conditions require adjustment processes. To accompany these adjustment processes in a positive manner and to change and to continuously improve things actively for the good of the company is our foremost task. In this regard we feel great responsibility for our employees. It is our self-imposed standard to secure jobs in the long-term and to conserve our environment. With high standards in terms of quality, work place safety and environmental protection we strive to live up to these standards. For SINGULUS TECHNOLOGIES economic sustainability is not a new topic. From its beginning economizing resources was one of the basic commercial principles of the company.

***Sustainable use of resources.***
In the production of the machines as well as subsequently in the operating at the customer energy, water and production material are employed effectively and economically. New technologies enable a high degree of recycling of the used raw materials. The diligent maintenance of our machines safeguards optimum functionality, safety and energy consumption.

***"Clean" processes.***
SINGULUS TECHNOLOGIES' machines for the coating of optical discs and other substrates preferably employ the sputtering technology. This dry vacuum technology is much more environmentally friendly than for example electroplating process or vaporization. In contrast to these procedures, sputtering does not release polluting chemicals or metals.

***No environmentally hazardous waste in plant construction.***
SINGULUS TECHNOLOGIES procures the components for the construction of the machines from suppliers and does not have own shape cutting production facilities. Therefore, there are no hazardous wastes for the environment or our employees resulting from the assembly of the end products.

***Recycling and waste disposal.***
During the test production of new machines large amounts of optical discs are produced. With a special recycling procedure the processed polycarbonate is recycled. Non-recyclable residual material is disposed according to strict environmental criteria through specialized companies.

***Employee promotion.***
SINGULUS TECHNOLOGIES promotes independent, entrepreneurial mindsets and according actions. The individual skills of employees are promoted through training programs such as product or foreign language training for employees with customer contacts as well as professional seminar for executives and procurement personnel.

***Employee protection/Health issues.***
In order to safeguard optimum employee protection, the safety measures are reviewed by an external safety office on a regular basis. With respect to handling hazardous materials, SINGULUS TECHNOLOGIES strictly pays attention to the compliance with legal rules and regulations. A company medical doctor is responsible for the health concerns of our employees.

Kahl am Main, March 10, 2006

Roland Lacher
Stefan A. Baustert
Klaus Hammen

New Products.

## The LBR 266.

SINGULUS TECHNOLOGIES presented the new mastering system LBR 266 for the first time at the MEDIA-TECH Expo in Las Vegas.
The LBR 266 is specifically tailored to the requirements of the new formats HD DVD and Blu-ray.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# Report of Independent Auditors

We have audited the consolidated financial statements prepared by SINGULUS TECHNOLOGIES AG, Kahl am Main, Germany, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the combined management report for the fiscal year from January 1, 2005 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] and the supplementary provisions of the articles of incorporation and bylaws are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Eschborn/Frankfurt am Main, Germany, February 22, 2006

**Ernst & Young AG**
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Bösser | Weber |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| [German Public Auditor] | [German Public Auditor] |

# Consolidated Balance Sheets as of December 31, 2004 and 2005

ASSETS

| | Note no. | Dec. 31, 2005 [K€] | Dec. 31, 2004 [K€] [restated*] |
|---|---|---|---|
| Cash and cash equivalents | (6) | 67,719 | 77,148 |
| Trade receivables | (7) | 80,964 | 98,241 |
| Other receivables and assets | (8) | 11,155 | 9,143 |
| **Total receivables** | | **92,119** | 107,384 |
| Raw materials, consumables and supplies | | 23,134 | 30,951 |
| Work in process | | 55,800 | 69,432 |
| Total inventories | (9) | 78,934 | 100,383 |
| **Total current assets** | | **238,772** | 284,915 |
| Available-for-sale financial assets | (11) | 5,236 | 0 |
| Non-current trade receivables | (7) | 12,448 | 16,325 |
| Property, plant and equipment | (12) | 12,887 | 13,917 |
| Capitalized development costs | (10) | 42,083 | 33,685 |
| Goodwill | (10) | 31,249 | 31,249 |
| Other intangible assets | (10) | 9,241 | 10,275 |
| Deferred tax assets | (20) | 8,004 | 5,640 |
| **Total non-current assets** | | **121,148** | 111,091 |
| **Total assets** | | **359,920** | 396,006 |

## LIABILITIES

| | Note no. | Dec. 31, 2005 [K€] | Dec. 31, 2004 [K€] [restated*] |
|---|---|---|---|
| Trade payables | | 18,780 | 24,312 |
| Current bank liabilities | (16) | 13,866 | 16,157 |
| Other current liabilities | (13) | 19,215 | 23,127 |
| Advance payments received | (14) | 9,666 | 21,255 |
| Tax provisions | (20) | 1,840 | 11,299 |
| Other provisions | (18) | 5,172 | 10,222 |
| **Total current liabilities** | | **68,539** | 106,372 |
| Non-current bank liabilities | (16) | 9,548 | 13,849 |
| Other non-current liabilities | (15) | 3,046 | 3,826 |
| Pension provisions | (15) | 5,242 | 4,800 |
| Deferred tax liabilities | (20) | 18,063 | 17,583 |
| **Total non-current liabilities** | | **35,899** | 40,058 |
| **Total liabilities** | | **104,438** | 146,430 |
| Share capital | (19) | 34,942 | 35,392 |
| Capital reserve | (19) | 29,398 | 28,950 |
| Other reserves | | –2,214 | –5,518 |
| Accumulated profit | | 193,356 | 190,752 |
| **Total equity** | | **255,482** | 249,576 |
| | | | |
| **Total liabilities and equity** | | **359,920** | 396,006 |

* cf. Note 4 in the Notes to the Consolidated Financial Statements as of December 31, 2005
(The accompanying notes are an integral part of the consolidated financial statements)

# Consolidated Income Statements for 2004 and 2005

| | Note no. | 2005 [K€] | 2005 [%] | 2004 [K€] | 2004 [%] [restated*] |
|---|---|---|---|---|---|
| **Revenues (gross)** | (22) | **244,438** | **105.2** | 439,535 | 103.8 |
| Sales deductions and direct selling costs | (23) | – 12,109 | – 5.2 | – 15,993 | – 3.8 |
| **Revenues (net)** | | **232,329** | **100.0** | 423,542 | 100.0 |
| Cost of sales | | – 172,652 | – 74.3 | – 289,226 | – 68.3 |
| **Gross profit on sales** | | **59,677** | **25.7** | 134,316 | 31.7 |
| Research and development | (25) | – 10,956 | – 4.7 | – 8,963 | – 2.1 |
| Selling and customer service | | – 18,975 | – 8.2 | – 22,575 | – 5.3 |
| General administration | (24) | – 13,654 | – 5.9 | – 17,527 | – 4.1 |
| Goodwill amortization | | 0 | 0.0 | – 2,905 | – 0.7 |
| Other operating expenses | (26) | – 14,176 | – 6.1 | – 10,572 | – 2.5 |
| Other operating income | (26) | 142 | 0.1 | 855 | 0.2 |
| Total operating expenses | | – 57,619 | – 24.8 | – 61,687 | – 14.6 |
| **EBIT** | | **2,058** | **0.9** | 72,629 | 17.1 |
| Interest income | (27) | 4,617 | 2.0 | 4,203 | 1.0 |
| Finance costs | (27) | – 3,380 | – 1.5 | – 2,912 | – 0.7 |
| **EBT** | | **3,295** | **1.4** | 73,920 | 17.5 |
| Tax income/expenses | (20) | 4,010 | 1.7 | – 27,101 | – 6.4 |
| **Profit for the period** | | **7,305** | **3.1** | 46,819 | 11.1 |
| *Basic earnings per share (in EUR)* | | *0.21* | | *1.27* | |
| *Diluted earnings per share (in EUR)* | | *0.21* | | *1.27* | |
| *Weighted number of shares – basic* | | *35,065,241* | | *36,769,485* | |
| *Weighted number of shares – diluted* | | *35,065,241* | | *36,769,485* | |

* cf. Note 4 in the Notes to the Consolidated Financial Statements as of December 31, 2005
(The accompanying notes are an integral part of the consolidated financial statements)

# Statement of Changes in Consolidated Equity as of December 31, 2004 and 2005

| | Share capital [K€] | Capital reserve [K€] | Other reserves [K€] | Accumulated profit [K€] | Equity [K€] |
|---|---|---|---|---|---|
| **Balance on January 1, 2004 (as reported)** | **37,064** | **27,650** | **–4,287** | **166,627** | **227,054** |
| Share-based payment (IFRS 2)* | | 192 | | –192 | 0 |
| **Balance on January 1, 2004 (restated)** | **37,064** | **27,842** | **–4,287** | **166,435** | **227,054** |
| Capital increase | 116 | 697 | | | 813 |
| Repayment of share capital | –1,788 | | | –22,502 | –24,290 |
| Exchange differences in the fiscal year | | | –1,150 | | –1,150 |
| Share-based payment (IFRS 2)* | | 411 | | | 411 |
| Derivative financial instruments | | | –81 | | –81 |
| Profit for the period | | | | 46,819 | 46,819 |
| **Balance on December 31, 2004 (restated)** | **35,392** | **28,950** | **-5,518** | **190,752** | **249,576** |
| Capital increase | 10 | 60 | | | 70 |
| Repayment of share capital | –460 | | | –4,701 | –5,161 |
| Exchange differences in the fiscal year | | | 3,343 | | 3,343 |
| Share-based payment (IFRS 2)* | | 388 | | | 388 |
| Derivative financial instruments | | | –39 | | –39 |
| Profit for the period | | | | 7,305 | 7,305 |
| **Balance on December 31, 2005** | **34,942** | **29,398** | **–2,214** | **193,356** | **255,482** |

* cf. Note 4 in the Notes to the Consolidated Financial Statements as of December 31, 2005
(The accompanying notes are an integral part of the consolidated financial statements)

# Consolidated Cash flow Statements for 2004 and 2005

| | 2005 [K€] | | 2004 [K€] [restated*] | |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit for the period | | 7,305 | | 46,819 |
| Adjustment to reconcile consolidated profit for the period to income/expenses | | | | |
| Depreciation/amortization on non-current assets | 14,869 | | 10,814 | |
| Net allocation to pension provisions | 442 | | 585 | |
| Other non-cash expenses/income | 388 | | 411 | |
| Deferred taxes | – 1,884 | 13,815 | 8,177 | 19,987 |
| | | **21,120** | | 66,806 |
| Decrease/increase in assets and increase/decrease in equity and liabilities | | | | |
| Trade receivables | 20,614 | | 9,191 | |
| Other receivables and assets | – 2,062 | | 8,571 | |
| Capitalized development costs | – 16,506 | | – 18,909 | |
| Inventories | 20,548 | | 725 | |
| Trade payables | – 5,458 | | – 16,824 | |
| Other liabilities | – 4,285 | | – 805 | |
| Advance payments received | – 11,589 | | 2,139 | |
| Tax provisions | – 9,074 | | – 1,625 | |
| Other provisions | – 4,984 | – 12,796 | – 194 | – 17,731 |
| **Net cash flow from operating activities** | | **8,324** | | 49,075 |

* cf. Note 4 in the Notes to the Consolidated Financial Statements as of December 31, 2005
(The accompanying notes are an integral part of the consolidated financial statements)

| | 2005 [K€] | | 2004 [K€] [restated*] | |
|---|---|---|---|---|
| **Cash flows from investing activities** | | | | |
| Investments in assets | –4,716 | | –8,126 | |
| Disposals of assets (net) | 13 | | 5,952 | |
| Cash paid for available-for-sale financial assets | –5,236 | | 0 | |
| Cash paid for the acquisition of consolidated companies net of cash and cash equivalents received | 0 | –9,939 | –23,807 | –25,981 |
| Net cash flow from investing activities | | **–9,939** | | –25,981 |
| **Cash flows from financing activities** | | | | |
| Cash paid to redeem shares | –5,161 | | –24,290 | |
| Cash paid to redeem loans | –3,754 | | –2,573 | |
| Change in liabilities from discounted bills | –2,807 | | 14,255 | |
| Issue/redemption of convertible bonds | –272 | | –24 | |
| Capital increase from the conversion of convertible bonds | 70 | –11,924 | 764 | –11,868 |
| Net cash flow from financing activities | | **–11,924** | | –11,868 |
| **Decrease/increase in cash and cash equivalents** | | **–13,539** | | 11,226 |
| Effect of exchange rate changes | | 4,110 | | –503 |
| **Cash and cash equivalents at the beginning of the fiscal year** | | **77,148** | | 66,425 |
| **Cash and cash equivalents at year-end** | | **67,719** | | 77,148 |

| | | |
|---|---|---|
| *Cash paid in the fiscal year for* | | |
| *Interest* | *67* | *331* |
| *Taxes* | *3,015* | *13,911* |
| *Cash received in the fiscal year for* | | |
| *Interest* | *712* | *5* |
| *Taxes* | *0* | *0* |

# Statement of Non-current Assets in Fiscal Year 2005

| | Cost | | | | |
|---|---|---|---|---|---|
| | Jan. 1, 2005 [K€] | Additions [K€] | Disposals [K€] | Reclassifications [K€] | Exchange differences [K€] |
| **Available-for-Sale Financial Assets** | | | | | |
| Shares in STEAG Hamatech AG | 0 | 5,236 | 0 | 0 | 0 |
| **Property, plant and equipment** | | | | | |
| Land, land rights and buildings, including buildings on third-party land | 7,035 | 1,397 | 0 | 0 | 0 |
| Plant and machinery | 4,230 | 1,126 | 342 | –66 | –32 |
| Other equipment, furniture and fixtures | 10,336 | 1,366 | 1,937 | 66 | –52 |
| Leased assets | 0 | 385 | 0 | 0 | 0 |
| Payments on account and assets under construction | 194 | 215 | 0 | 0 | 0 |
| | 21,795 | 4,489 | 2,279 | 0 | –84 |
| **Intangible Assets** | | | | | |
| Franchises, industrial and similar rights and assets, and licenses in such rights and assets | 12,582 | 227 | 0 | 0 | 0 |
| Development costs | 40,538 | 16,506 | 0 | 0 | 0 |
| Goodwill | 31,249 | 0 | 0 | 0 | 0 |
| | **84,369** | **16,733** | **0** | **0** | **0** |
| | **106,164** | **26,458** | **2,279** | **0** | **–84** |

| Accumulated Amortization/Depreciation | | | | | | Carrying Amounts | |
|---|---|---|---|---|---|---|---|
| Dec. 31, 2005 [K€] | Jan. 1, 2005 [K€] | Allocations [K€] | Reversals [K€] | Exchange differences [K€] | Dec. 31, 2005 [K€] | Dec. 31, 2005 [K€] | Dec. 31, 2004 [K€] |
| | | | | | | | |
| 5,236 | 0 | 0 | 0 | 0 | 0 | 5,236 | 0 |
| | | | | | | | |
| 8,432 | 817 | 1,739 | 0 | 0 | 2,556 | 5,876 | 6,218 |
| 4,916 | 850 | 1,432 | 531 | –30 | 1,721 | 3,195 | 3,380 |
| 9,779 | 6,211 | 2,287 | 1,735 | –48 | 6,715 | 3,064 | 4,125 |
| 385 | 0 | 42 | 0 | 0 | 42 | 343 | 0 |
| 409 | 0 | 0 | 0 | 0 | 0 | 409 | 194 |
| 23,921 | 7,878 | 5,500 | 2,266 | –78 | 11,034 | 12,887 | 13,917 |
| | | | | | | | |
| 12,809 | 2,307 | 1,261 | 0 | 0 | 3,568 | 9,241 | 10,275 |
| 57,044 | 6,853 | 8,108 | 0 | 0 | 14,961 | 42,083 | 33,685 |
| 31,249 | 0 | 0 | 0 | 0 | 0 | 31,249 | 31,249 |
| **101,102** | **9,160** | **9,369** | **0** | **0** | **18,529** | **82,573** | **75,209** |
| **130,259** | **17,038** | **14,869** | **2,266** | **–78** | **29,563** | **100,696** | **89,126** |

# Notes to the Consolidated Financial Statements as of December 31, 2005

## [ 1 ] General Information

The consolidated financial statements present the operations of SINGULUS TECHNOLOGIES AG, Hanauer Landstrasse 103, 63796 Kahl am Main, Germany, and its subsidiaries (hereinafter referred to as "SINGULUS" or the "Company").

The consolidated financial statements have been prepared in euros (€). Unless stated otherwise, all figures are disclosed in thousands of euros (K€).

The consolidated financial statements of SINGULUS TECHNOLOGIES AG were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted in the European Union (EU) and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code].

The Company applied all mandatory standards of the International Accounting Standards Board (IASB), London, as of the balance sheet date. The IFRSs also include the International Accounting Standards (IAS) that are still effective. All interpretations of the International Financial Reporting Interpretations Committee (IFRIC) – formerly the Standing Interpretations Committee (SIC) – that were mandatory for fiscal year 2005 were also applied.

## [ 2 ] Business Activities

The Company is engaged in the manufacture and distribution of metallizers for prerecorded, recordable and rewritable CDs and DVDs as well as replication lines for these products. Metallizers are distributed under the brand names "SINGULUS" and "MODULUS", and replication lines under the brand names "SKYLINE" (prerecorded CD and DVD), "STREAMLINE" (CD-R and DVD-R), "SPACELINE" (Video DVD) and "SUNLINE" (CD-RW and DVD-RW). Since fiscal year 2002, the Company has been involved in the manufacture and distribution of mastering systems, which complement the Company's replication lines.

## [ 3 ] New Accounting Standards

Since the end of 2003, the IASB has made various amendments to the existing IFRSs and published new IFRSs and International Financial Reporting Interpretation Committee (IFRIC) interpretations which, unless described otherwise below, are mandatory for companies for all fiscal years beginning on or after January 1, 2005. The Company decided against earlier application, although it was permitted. Below we outline the amendments and publications of relevance for the consolidated financial statements and their effects on accounting and measurement in Company's consolidated financial statements.

On December 17, 2003, the IASB published the revised IAS 32 "Financial Instruments – Disclosure and Presentation" and IAS 39 "Financial Instruments – Recognition and Measurement". The "Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Fair Value Hedge

Accounting for a Portfolio Hedge of Interest Rate Risk" was published in March 2004. The "Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Transition and Initial Recognition of Financial Assets and Liabilities" was published in December 2004. This amendment also addresses the derecognition of financial assets.

On December 18, 2003, the IASB published a number of revised accounting standards in the scope of its Improvement Project. These are the 13 standards IAS 1, IAS 2, IAS 8, IAS 10, IAS 16, IAS 17, IAS 21, IAS 24, IAS 27, IAS 28, IAS 31, IAS 33 and IAS 40. Adoption of the revised standards is compulsory for fiscal years beginning on or after January 1, 2005. The Company has not exercised the option to apply these standards in an earlier period. The revision of the above financial reporting standards has not resulted in any major accounting changes for the Company.

On February 19, 2004, the IASB published the standard IFRS 2, "Share-Based Payment", on accounting for share option plans and similar compensation based on the value of shares. This standard governs the financial reporting of transactions in which the reporting entity grants equity instruments such as its own shares, share options or convertible bonds in return for goods or services received.

On March 31, 2004, the IASB published the standard IFRS 3, "Business Combinations", and the fundamentally revised IAS 36 and IAS 38. The main changes are the abolition of the pooling of interests method and of goodwill amortization in favor of the impairment-only approach.
As a rule, adoption of IFRS 3 is compulsory for all business combinations which were closed on or after March 31, 2004. In relation to differences arising from transactions closed before this date, IFRS 3 allows the transition to the impairment-only approach for fiscal years beginning on or after March 31, 2004.

Apart from the IFRSs whose application is mandatory for fiscal year 2005, the IASB has also published other IFRSs and IFRICs which have already received EU endorsement but which will only become mandatory at a later date. Below, only those standards and interpretations which could be relevant for the Company are described. Voluntary early application of these standards and interpretation is explicitly permitted or encouraged. However, the Company does not make use of this option.

On December 16, 2004, the IASB published amendments to IAS 19 "Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures". This amendment extends the disclosure requirements in the notes and introduces the recognition of actuarial gains and losses in equity as an alternative to the existing methods.

On June 16, 2005, the IASB published the final fair value option according to IAS 39. These amendments restrict in some cases the previously applicable provisions on full fair value measurement in IAS 39 (2004). Other amendments in IAS 32 and IFRS 1 also arose in connection with the revision of the fair value option.

On August 18, 2005, the IASB published the standard IFRS 7 "Financial Instruments: Disclosures". This standard supersedes the existing IAS 30 and adopts all provisions regarding disclosures in the notes contained in IAS 32.
In this connection, the capital disclosure requirements in IAS 1 were amended or added. This Standard has completely restructured the disclosure requirements for financial instruments. Disclosures on the objectives, methods, risks, security and management processes are now required.
The disclosure provisions of IFRS 7 and the modified capital disclosure requirements of IAS 1 shall apply to periods beginning on or after January 1, 2007; earlier application is encouraged. The new provisions of IFRS 7 do not affect measurement at the Company, but more detailed disclosures and presentations are required.

The application of the newly published IFRIC 4 and IFRIC 5, which were still in the EU endorsement process on December 31, 2005 and which were not applied voluntarily in advance by SINGULUS, is not expected to have any significant effect on the net assets, financial position and results of operations.

## [ 4 ] Retrospective Adjustments

IAS 39 (amended 2005) assumes that, in bill discounting transactions, the significant risks and rewards incidental to a bill are not transferred from the seller to the buyer. As a result, bills receivable may not be derecognized, IAS 39 (amended 2005) must be applied retrospectively to bill discounting transactions in prior reporting periods.

The retrospective adjustments had the following effect as of December 31, 2004:

| | **Change** [K€] |
|---|---|
| Current receivables | + 12,372 |
| Non-current receivables | + 3,536 |
| Current bank liabilities | + 12,372 |
| Non-current bank liabilities | + 3,536 |

IFRS 2 must be applied retrospectively to obligations arising from share-based payment granted since November 7, 2002 if they were not exercisable by January 1, 2005 and comparative figures must be restated.

The retrospective adjustments had the following effect as of December 31, 2004:

| | **Change** [K€] |
|---|---|
| Capital reserve | + 411 |
| Accumulated profit | – 411 |
| Profit/loss for the year | – 411 |

The retrospective adjustments had the following effect as of January 1, 2004:

| | **Change** [K€] |
|---|---|
| Capital reserve | + 192 |
| Accumulated profit | – 192 |

In fiscal year 2004, earnings per share decreased by € 0.01 as a result of the application of IFRS 2.

## [ 5 ] Significant Accounting Principles

***Consolidation Policies.*** Along with SINGULUS TECHNOLOGIES AG, the consolidated financial statements include all entities under the legal and/or constructive control of the Company.

The following subsidiaries are included in the consolidated financial statements:
_ SINGULUS EMOULD GmbH, Würselen, Germany
_ SINGULUS MASTERING B. V., Eindhoven, Netherlands
_ SINGULUS MASTERING INTERNATIONAL GmbH, Schaffhausen, Switzerland
_ SINGULUS MOLDING AG, Schaffhausen, Switzerland
_ SINGULUS TECHNOLOGIES Inc., Windsor, USA

_ SINGULUS TECHNOLOGIES SERVICE GROUP Inc., Windsor, USA
_ SINGULUS TECHNOLOGIES Ltd., Swindon, UK
_ SINGULUS TECHNOLOGIES ASIA PACIFIC Pte. Ltd., Singapore
_ SINGULUS TECHNOLOGIES LATIN AMERICA Ltda., Sao Paolo, Brazil
_ SINGULUS TECHNOLOGIES IBERICA S. L., Sant Cugat del Vallés, Spain
_ SINGULUS VIKA CHINA Limited, Wanchai, Hong Kong
_ SINGULUS TECHNOLOGIES FRANCE s. a. r. l., Valence, France
_ SINGULUS TECHNOLOGIES ITALIA s. r. l., Senigallia (Ancona), Italy
_ SINGULUS TECHNOLOGIES TAIWAN Limited, Taipei, Taiwan

With the exception of SINGULUS VIKA CHINA Limited (51 % share), the Company directly or indirectly holds all shares in the subsidiaries listed above.

The share of equity and profit attributable to minority interest is shown separately in the balance sheet and income statement. However, if the loss attributable to minority interest exceeds the carrying amount of their share of equity, this carrying amount is adjusted to zero and no further proportionate losses are recorded. Therefore, no share of equity or profit or loss attributable to minority interest has been disclosed for SINGULUS VIKA CHINA Limited in the consolidated statements as of December 31, 2005 and 2004. The total value of the share of losses attributable to minority interests which have not been recognized is € 0k as of December 31, 2005 and € 5k as of December 31, 2004.

The net profit/loss of acquired entities is recognized in the consolidated financial statements from the date of acquisition. All material intragroup transactions are eliminated during consolidation.

***Acquisitions.*** With effect as of January 9, 2004, the Company acquired all shares in ODME B.V., Eindhoven, Netherlands, for a purchase price of € 23,813k. The purchase price was paid in full from the Company's cash and cash equivalents. The Company accounted for the acquisition in accordance with IAS 22. € 3,818k of the purchase price was mainly allocated to intangible assets. The resulting goodwill of € 21,198k was amortized in fiscal year 2004, assuming a useful life of 15 years. From fiscal year 2005, no further amortization of goodwill will be charged due to the application of IFRS 3.

With effect as of October 1, 2004, ODME B.V., Eindhoven, Netherlands, was merged with Optical Measuring-Equipment & Projects B. V., Best, Netherlands (OMP) to form SINGULUS MASTERING B. V., Eindhoven, Netherlands.

***Currency Translation Differences.*** The financial statements of the foreign subsidiaries are prepared in the currency in which the majority of transactions are concluded (functional currency). The functional currency is the respective local currency. Balance sheet items are translated at the rate on the balance sheet date and income statement items at the average rate of the fiscal year. The capital stock of the investments is measured at the historical rate. Currency differences arising from the application of different rates are shown in other reserves.

Foreign currency monetary items are translated at the closing rate. Translation differences are recognized as income or expenses in the period in which they occurred.

***Management's Use of Judgment and Main Sources of Estimating Uncertainties.***
The preparation of financial statements in accordance with IFRSs requires estimates and assumptions to be made by management which have an effect on the amounts of the assets, liability, income, expenses and contingent assets and liabilities reported. Assumptions and estimates generally relate to the uniform determination of useful lives of assets within the Group, impairment of assets, the measurement of provisions, the recoverability of receivables, the recognition of realizable residual values for inventories and the probability of future tax benefits. The actual values may in some cases differ from the assumptions and estimates. Any changes will be recognized in profit or loss as and when better information is available.

***Revenue Recognition.*** Revenue is recognized when a contract has become effective, delivery has been made (in the case of metallizers – excluding Modulus – and injection molding machines), and accepted by the customer (in the case of replication lines) or services have been rendered, a price has been agreed and is determinable and payment thereof is probable.

Revenue is stated net of VAT, returns, sales deductions and credit notes.

***Goodwill.*** Goodwill resulting from an acquisition is initially measured at cost, that being the excess of the cost of the business combination over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Up to and including fiscal year 2004, goodwill was amortized over its expected useful life. From fiscal year 2005, no further amortization of goodwill will be charged due to the application of IFRS 3. We refer to Note 3.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. In this context, please see our comments in "Impairment of Assets".

***Research and Development Costs.*** Research costs are expensed as incurred. Pursuant to IAS 38, development costs are recognized as intangible assets at cost, provided that the conditions of IAS 38.57 are fulfilled. Cost encompasses all costs directly allocable to the production process as well as appropriate shares of development-related overheads. Amortization is charged using the straight-line method over the expected useful life of the developed products (generally assumed to be five years).

***Other Intangible Assets.*** Intangible assets acquired separately are recognized at cost and from a business combination are capitalized at fair value as of the date of acquisition. Intangible assets, excluding development costs, created within the Company are not capitalized; associated costs are expensed as incurred. Intangible assets with limited useful lives are amortized systematically. Intangible assets with indefinite useful lives are not amortized systematically, but they are tested for impairment at least once a year.

The useful lives of intangible assets with limited useful lives are:

| | |
|---|---|
| Software | 3 years |
| Patents | 8 years |

***Cash and Cash Equivalents.*** Cash and cash equivalents comprise monetary investments with a remaining maturity of up to three months at the time of acquisition as well as bills with an original maturity of up to three months.

***Receivables.*** Invoices for goods and services are mainly issued in euros.

To cover credit risks, specific bad debt allowances are recognized for trade receivables. For details on the recognition of foreign currency receivables and the related hedging transactions, we refer to our comments under "Derivative Financial Instruments".

***Inventories.*** Inventories are carried at the lower of cost and net realizable value. Raw materials, consumables and supplies including spare parts are measured using the average cost method. Work in process is measured using the full cost approach based on standard cost. The standard costs are reviewed once a year and adjusted if necessary. Appropriate allowances are made for potential losses due to obsolete or slow-moving inventories.

***Financial Assets and Liabilities.*** Financial assets, other than loans granted by the Company or receivables, or those classified as "held for trading" (derivatives) are classified as "available-for-sale financial assets".

All financial assets and liabilities are initially recognized on the trade date. They are carried at the transaction price plus all transaction costs incurred. In subsequent periods, financial assets of the category "loans and receivables" are measured at amortized cost. "Held-for-trading" and "available-for-sale" financial assets are recognized at fair value on subsequent balance sheet dates. Any changes in the value of "available-for-sale financial assets" are recorded in a separate line item in equity, except when impairment is expected to be permanent. By contrast, changes in the value of derivatives, other than those designated as hedging instruments, are recognized in profit and loss.

Financial liabilities are recorded at amortized cost. Transaction costs are capitalized and amortized over the term of the respective liability using the effective interest method.

***Hedge Accounting.*** Changes in the fair value of derivatives designated as a hedging instrument in a fair value hedge continue to be recognized in profit and loss. In this case, the hedged item relating to the hedged exposure is also carried at fair value such that, if a hedge is highly effective, the changes in value in relation to the hedged exposure more or less offset each other.

The derivative designated as a hedge in a cash flow hedge in carried in the balance sheet at fair value. However, changes in the value of the derivative are recorded in a separate line item in equity if, and to the extent that, the hedging relationship is effective. The ineffective portion of the change in fair value continues to be recognized in profit and loss. The change in fair value recorded in equity is derecognized and recorded in profit and loss as soon as the hedge item has an effect on the income statement, or, if the hedged item is reversed, as soon as the hedged item ceases to exist.

Hedge accounting is only performed as long as a hedge can be proven to be effective (effectiveness of 80 – 125 %). Effectiveness is tested retrospectively and prospectively on a regular basis.

As considerable documentation and evidencing obligations are attached to hedge accounting under IAS 39, hedging relationships are only accounted for using hedge accounting if the corresponding conditions are, or were, met.

The Company concludes forward exchange contracts and currency options to hedge foreign currency risks from trade receivables. In the case of fair value hedges for existing receivables, the hedging transaction and the risk portion of the hedged item are carried at fair value. Changes in value are recognized in profit or loss.

In the case of cash flow hedges, the hedging instruments are also carried at fair value. Forward exchange contracts are measured using the ECB reference rates for spot currency and the valid forward exchange rates of the respective commercial bank for forward currency. The exchange rate used for currency options are the end-of-day rates of the respective commercial bank or the ECB reference rates valid at month-end. Changes in value, provided that the hedges are deemed to be effective, are initially disclosed in other reserves, taking into account any deferred taxes, and only recognized in profit or loss when the cash flow is realized. The ineffective portion is reported immediately in profit or loss.

***Property, Plant and Equipment.*** Property, plant and equipment are carried at cost of purchase plus directly allocable costs, less straight-line depreciation. Finance costs are not recognized. Depreciation is charged over the economic lives of the assets. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

The economic lives are estimated as follows:

| | |
|---|---|
| Buildings | 25 years |
| Machines and technical equipment | 2 to 10 years |
| Other assets | 1 to 4 years |

Gains or losses on the disposal of assets are recognized in profit or loss.

***Leases.*** The Company leases property, plant and equipment. The criteria defined in IAS 17 for assessing, based on the risks and rewards, whether beneficial ownership of the leased asset is attributable to the lessor (operating lease) or the lessee (finance lease), are used to assess all the leases and account for them accordingly.

For leases in which the Group is lessee, beneficial ownership of the leased assets is attributable to the lessor pursuant to IAS 17 if the lessor bears all the risks and rewards incidental to ownership of those assets. The leased assets are recognized in the financial statements of the lessor. The related lease expenses are expensed in full.

***Impairment of Assets.*** At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. The recoverable amount of an asset is the higher of the fair value of the asset or cash-generating unit less costs to sell and the value in use. Recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In order to test its recoverability, the goodwill acquired in business combinations was allocated to cash-generating units which, at SINGULUS, correspond to the subsidiaries:

| | |
|---|---|
| SINGULUS EMOULD | K€ 603 |
| SINGULUS MASTERING B. V. | K€ 30,646 |

The recoverable amount of the cash-generating units was determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by senior management covering a five-year period. The discount rate applied to the cash flow projections is 9.5%.

In fiscal years 2005 and 2004, no events or changes in circumstances occurred that could indicate an impairment. The impairment test for goodwill in 2005 did not result in the recognition of impairment losses.

***Other Receivables and Assets.*** Other receivables and assets are recognized at amortized cost. Bad debt allowances are recorded for specific identifiable risks and general credit risks.

***Deferred Tax Liabilities and Assets.*** Deferred taxes are recognized using the balance sheet liability method for all temporary differences between carrying amounts in the tax balance sheet and consolidated balance sheet. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax assets, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax assets can be utilized.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable profit in the years in which these temporary differences are expected to be settled. In the event of a change in tax rate, the effects on deferred tax assets and liabilities are recognized in profit or loss in the period to which the new tax rate applies. The tax consequences of distributions are not recognized before the resolution on the appropriation of net profit has been passed.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and liabilities in the consolidated balance sheet.

***Pension Provisions.*** The actuarial measurement of pension provisions is based on the projected unit credit method prescribed by IAS 19 for benefit obligations for old-age pensions. This method takes into account both the pensions known and expectancies acquired as of the balance sheet date as well as the increases in salaries and pensions to be expected in the future.

***Other Provisions.*** Under IAS 37, provisions are recognized if a present obligation toward a third party as a result of a past event exists which will probably result in a future outflow of resources, and whose amount can be reasonably estimated. Provisions that are not expected to lead to an outflow of resources in the subsequent year are carried at their discounted settlement amount on the balance sheet date. The discount factor is based on market interest rates. The settlement amount also includes the expected cost increases.

Provisions for warranty costs are recognized as soon as the respective revenues are realized. The provision is measured on the basis of historical estimates of the costs of meeting warranty obligations, including handling and transport costs.

***Liabilities.*** Current liabilities are stated at the redemption amount or settlement amount. Non-current liabilities are recognized at amortized cost in the balance sheet. Differences between historical cost and the redemption amount are accounted for by using the effective interest rate method.

Finance lease liabilities are carried at the present value of the lease payments.

***Share-Based Payment.*** The treatment of employee ownership models is stipulated in IFRS 2 (Share-Based Payment). IFRS 2 must be applied for the first time in fiscal years beginning on or after January 1, 2005. IFRS 2 must be applied retrospectively to obligations arising from share-based payment granted since November 7, 2002 if they were not exercisable by January 1, 2005 and comparative figures must be restated. Please see Notes 3 and 4.

***Earnings Per Share.*** Basic earnings per share are calculated by dividing net profit by the weighted average number of shares outstanding. Diluted earnings per share are calculated by dividing net profit by the weighted average number of shares outstanding plus the number of convertible bonds outstanding, provided that the exercise of conversion rights is reasonably certain.

## [ 6 ] Cash and Cash Equivalents

| | **2005** [K€] | 2004 [K€] |
|---|---|---|
| Cash on hand and bank balances | 67,706 | 77,082 |
| Bills with an original maturity of up to three months | 13 | 66 |
| | **67,719** | 77,148 |

## [ 7 ] Trade Receivables

| | **2005** [K€] | 2004 [K€] |
|---|---|---|
| Trade receivables (current) | 90,783 | 104,778 |
| Trade receivables (non-current) | 12,848 | 16,473 |
| Less valuation adjustments | (10,219) | (6,685) |
| | **93,412** | 114,566 |

The non-current receivables accrue interest at normal market rates.

## [ 8 ] Other Receivables and Assets

| | **2005** [K€] | 2004 [K€] |
|---|---|---|
| Tax refund claims | 5,518 | 2,558 |
| Payments on account | 2,235 | 1,777 |
| Prepaid expenses | 2,089 | 1,540 |
| Loans to employees | 157 | 177 |
| Supplier credit notes | 69 | 220 |
| Claims against insurance companies | 2 | 0 |
| Forward exchange contracts at fair value | 0 | 1,188 |
| Accrued interest | 0 | 3 |
| Other | 1,085 | 1,680 |
| | **11,155** | 9,143 |

The tax refund claims relate to advance payments of income taxes (€ 3,522k) and VAT claims of € 1,996k.

## [ 9 ] Inventories

Inventories break down as follows:

| | **2005** [K€] | 2004 [K€] |
|---|---|---|
| Raw materials, consumables and supplies | 29,581 | 35,588 |
| Work in process | 59,278 | 72,139 |
| Less valuation adjustments | (9,925) | (7,344) |
| | **78,934** | 100,383 |

Inventories do not comprise any assets carried at net realizable value.

## [ 10 ] Intangible Assets

€ 16,506k of the development costs incurred in fiscal year 2005 qualify for recognition as an asset under IFRSs. The capitalized development costs mainly relate to expenses in the Company's core business areas, optical disc and mastering, as well as the new areas Optikus and TMR technology.

With effect as of January 9, 2004, the Company acquired all shares in ODME B.V., Eindhoven, Netherlands, for a purchase price of € 23,813k, of which € 3,818k was mainly allocated to intangible assets. The resulting goodwill of € 21,198k was amortized in fiscal year 2004, assuming a useful life of 15 years. From fiscal year 2005, no further amortization of goodwill will be charged due to the application of IFRS 3. With effect as of October 1, 2004, ODME B.V., Eindhoven, Netherlands, was merged with Optical Measuring-Equipment & Projects B.V., Best, Netherlands (hereinafter referred to as "OMP") to form SINGULUS MASTERING B.V., Eindhoven, Netherlands.

Other intangible assets primarily comprise patents and licenses acquired in connection with the takeover of ODME B.V., Eindhoven, Netherlands.

As regards the development of intangible assets, we refer to the appendix to these notes.

## [ 11 ] Available-For-Sale Financial Assets

The available-for-sale financial assets relate solely to shares in STEAG Hamatech AG, Sternenfels. For more information, please see Note 29 – Events After the Balance Sheet Date.

## [12] Property, Plant and Equipment

As regards the development of property, plant and equipment, we refer to SINGULUS' statement of changes in non-current assets.

## [13] Other Current Liabilities

| | **2005** [K€] | 2004 [K€] |
|---|---|---|
| Sales commissions for foreign agents | 5,322 | 4,401 |
| Outstanding liabilities to personnel | 4,077 | 3,710 |
| Outstanding invoices | 2,293 | 2,664 |
| Deferred interest portion of installment payment plans | 1,043 | 1,147 |
| Tax liabilities | 1,020 | 1,129 |
| Liabilities from the acquisition of patents | 1,000 | 1,000 |
| Financial statement, legal and consulting fees | 843 | 1,247 |
| Liabilities in connection with social security | 788 | 1,113 |
| Current portion of convertible bonds | 738 | 779 |
| Forward exchange contracts at fair value | 739 | 0 |
| Employee bonuses | 559 | 2,921 |
| Outstanding credit notes | 42 | 917 |
| Other | 751 | 1,730 |
| | **19,215** | 23,127 |

The Company hedges foreign currency receivables against potential exchange losses using derivative financial instruments. Forward exchange contracts and currency options are used to hedge receivables. On the balance sheet date, receivables totaling USD 8.3m (prior year: USD 16.6m) were hedged by derivatives. Due to the rising US dollar in the fiscal year, the fair value of all derivative financial instruments on the balance sheet was – € 739k, with – € 694k attributable to forward exchange contracts and – € 45 to currency options.

For details on non-current liabilities from convertible bonds, we refer to Note 15.

## [14] Advance Payments Received

| | **2005** [K€] | 2004 [K€] |
|---|---|---|
| Advance payments received from customers | **9,666** | 21,255 |

Advance payments received as of December 31, 2005 and 2004 mainly relate to advance payments for replication lines, which are disclosed in inventories under work in process.

## [15] Other Non-Current Liabilities

€ 2,424k of non-current liabilities relates to remaining purchase prices for acquisitions of intangible assets in fiscal year 2004.

The item also contains liabilities from convertible bonds as part of a stock option plan for management board members and senior employees.

| | **2005** [K€] | 2004 [K€] |
|---|---|---|
| Non-current portion of convertible bonds | **270** | 504 |

By resolution of the extraordinary shareholders' meeting on November 6, 1997 and the ordinary shareholders' meeting on May 7, 1999 and May 7, 2001, the management board was authorized, with the consent of the supervisory board, to issue convertible bonds in one or more tranches with a total nominal value of up to EUR 1,597,104 until September 2002, and to issue convertible bonds in one or more tranches with a total nominal value of up to EUR 1,800,000 and a maturity up to December 31, 2010 until September 30, 2005 to management board members and senior employees. The purpose of the stock option plan was to motivate the management board and senior employees and encourage them to contribute toward the success of the Company.

On November 30, 1997, 150,000 convertible bonds with a nominal value of € 383k and an interest rate of 6 % p. a. were issued. Each DEM 5 (€ 2.56) in nominal value of the convertible bonds may be converted into six shares with a nominal value of € 1. The conversion rate for six shares with a nominal value of € 1 each equaled the placement price (€ 41.93) less the nominal value at which a share with a nominal value of DEM 5 (€ 2.56) was issued during the Company's IPO. Considering a three-for-one share split and another two-for-one share split, the current conversion rate is € 6.99. In 1998 and 1999, convertible bonds with a nominal value of € 38k were returned by employees who have left the Company. In 1999, 2000, 2001, 2002 and 2003, 114,203 of the convertible bonds with a total nominal value of € 292k were converted into shares. A further 19,415 convertible bonds with a total nominal value of € 50k were converted in 2004. A further 7.5 % were convertible on the following conversion dates (May 31 and November 30 of each year up to 2005). As of December 31, 2005, all convertible bonds issued on November 30, 1997 had been converted.

In 2000, a further 494,181 convertible bonds with a total nominal value of € 494k were issued as part of a stock option plan. The convertible bonds also bear interest at 6 % p.a. Each € 1 in nominal value of the convertible bonds may be converted into two shares with a nominal value of € 1. In fiscal year 2002, 121,000 convertible bonds with a nominal value of € 121k were returned by employees who have left the Company. The convertible bonds were reissued to new employees in fiscal years 2000 and 2001. The conversion rate for convertible bonds with a nominal value of € 373k was fixed to the share price as of December 21, 1999 (€ 29.73 per share, considering a two-for-one share split). The conversion rate for convertible bonds with a total nominal value of € 81k was fixed to the share price as of November 30, 2000 (€ 37.50 per share). The conversion rate for the remaining convertible bonds with a nominal value of € 40k was fixed to the spot price as of January 31, 2000 (€ 42.45 per share, considering a two-for-one share split). 25 % of the convertible bonds may not be converted before May 31, 2002. A further 7.5 % may be converted on each conversion date thereafter (May 31 and November 30 of each year up to 2010). In fiscal year 2002, 153,181 convertible bonds with a total nominal value of € 153k were returned to the Company. In fiscal year 2003, 158,500 convertible bonds with a total nominal value of € 159k were returned. In fiscal year 2004, 27,500 convertible bonds with a total nominal value of € 28k were returned to the Company. As of December 31, 2004, the total nominal value of the outstanding convertible bonds of this tranche amounted to € 155k. In fiscal year 2005, convertible bonds with a nominal value of € 23k were returned to the Company. As of December 31, 2005, the total nominal value of the outstanding convertible bonds of this tranche amounted to € 132k.

In fiscal year 2001, 711,000 convertible bonds with a nominal value of € 711k and an interest rate of 4 % p. a. were issued. Each € 1 in nominal value of the convertible bonds may be converted into one share with a nominal value of € 1. The conversion rate for the convertible bonds was fixed at € 32.53, equaling 130 per cent of the average share price for the period from May 14 to May 18, 2001 (€ 25.02 per share). 25 % of the convertible bonds may not be converted before May 31, 2003. A further 15 % may be converted on each conversion date thereafter (May 31 and November 30 of each year up to 2006). In fiscal year 2002, 61,432 convertible bonds with a total nominal value of € 61k were returned to the Company. In fiscal year 2003, 221,000 convertible bonds with a total nominal value of € 221k were returned. In fiscal year 2004, 74,500 convertible bonds with a total nominal value of € 75k were returned to the Company. As of December 31, 2004, the total nominal value of the outstanding convertible bonds of this tranche amounted to € 354k. In fiscal year 2005, 101,568 convertible bonds with a total nominal value of € 102k were returned to the Company. As of December 31, 2005, the total nominal value of the outstanding convertible bonds of this tranche amounted to € 253k.

In fiscal year 2002, 563,182 convertible bonds with a nominal value of € 563k and an interest rate of 4 % p. a. were issued. Each € 1 in nominal value of the convertible bonds may be converted into one share with a nominal value of € 1. The conversion rate for the convertible bonds was fixed at € 19.09, equaling 130 per cent of the average share price for the period from May 9 to September 13, 2002 (€ 14.69 per share). 25 % of the convertible bonds may not be converted before November 30, 2004. A further 15 % may be converted on each conversion date thereafter (May 31 and November 30 of each year up to 2008). In fiscal year 2003, a further 130,000 convertible bonds of this tranche with a total nominal value of € 130k were issued. In fiscal year 2004, 62,500 convertible bonds of this tranche were returned to the Company. Also in fiscal year 2004, a further 140,000 convertible bonds with a total nominal value of € 140k were issued. As of December 31, 2004, the total nominal value of the outstanding convertible bonds of this tranche amounted to € 771k. In fiscal year 2005, 147,500 convertible bonds of this tranche were returned to the Company. As of December 31, 2005, the total nominal value of the outstanding convertible bonds of this tranche amounted to € 623k.

As of December 31, 2005, the total value of all four tranches of convertible bonds amounted to € 1,008k. Based on the stipulated conversion dates, the value at maturity of the convertible bonds is as follows:

| | K€ |
|---|---|
| Maturing in 2006 | 738 |
| Maturing in 2007 | 162 |
| Maturing in 2008 | 87 |
| Maturing in 2009 | 21 |
| | **1,008** |

According to the above table, the current portion of convertible bonds due within one year (€ 738k) is disclosed under other current liabilities as of the balance sheet date.

## [16] Bank Liabilities

As of December 31, 2005, there were bank liabilities of € 10,313k, which were the result of two loans granted in October 2004 in the amount of € 15,000k. The loans are repayable in equal annual installments, with the last installment payable on September 30, 2008. The interest rate on the loans is adjusted to the 3-month €IBOR rate on a quarterly basis. At year-end, the effective interest rate was 2.992 % p. a. (prior year: 2.679 % p. a.).

There were also bank liabilities of € 13,101k (prior year: € 15,908k) resulting from the discounting of bills.

## [17] Pension Liabilities

In Germany, the Company sponsors a pension plan for employees who were acquired from Leybold AG and hired by Leybold AG on behalf of the Company as well as for the management board. The pension plan is based on the benefit plan established in 1969 and the amendments thereto as of 1977, 1986 and 2001.

Consistent with German practice, the pension plan is not funded. Pension provisions are determined on the basis of an independent pension report. Pension benefits under the plan are based on a percentage of the employees' current compensation and their years of service.

The change in pension liabilities as of December 31, 2005 and 2004 is presented as follows:

| | **2005** [K€] | 2004 [K€] |
|---|---|---|
| **Change in pension liabilities:** | | |
| Projected benefit obligation at the beginning of the fiscal year | 4,800 | 4,215 |
| Service cost | 282 | 257 |
| Interest expense | 238 | 219 |
| Actuarial losses | 967 | 187 |
| Benefits paid in the fiscal year | (78) | (78) |
| Projected benefit obligation at the end of the fiscal year | 6,209 | 4,800 |
| Unrecognized actuarial gains and losses | (967) | 0 |
| Pension provisions recognized in the balance sheet | **5,242** | 4,800 |

The assumptions on which the calculation of pension liabilities are as follows:

| | **2005** | 2004 |
|---|---|---|
| Discount rate (future pensioners) | 4.50 % | 5.00 % |
| Discount rate (current pensioners) | 4.10 % | 5.00 % |
| Estimated future wage and salary increases | 2.75 % | 3.00 % |
| Estimated future pension increases | 1.90 % | 1.50 % |

Net pension expenses break down as follows:

| | **2005** [K€] | 2004 [K€] |
|---|---|---|
| Service cost | 282 | 257 |
| Interest expense | 238 | 219 |
| Actuarial gains/losses | 0 | 187 |
| | **520** | 663 |

## [18] Other Provisions

Other provisions developed as follows in the fiscal year:

| | **Jan. 1, 2005** [€] | **Utilization** [€] | **Reversal** [€] | **Allocation** [€] | **Dec. 31, 2005** [€] |
|---|---|---|---|---|---|
| Provisions for warranties | 9,937 | 5,968 | 3,399 | 4,484 | 5,054 |
| Buy-back obligations | 175 | 0 | 175 | 0 | 0 |
| Other | 110 | 0 | 0 | 8 | 118 |
| | **10,222** | **5,968** | **3,574** | **4,492** | **5,172** |

Provisions for warranty costs are recognized as a percentage of revenue as well as for individual warranty risks. The percentages are based on historical values and amount to 2 % of net sales plus 6 % of net sales for prototypes, as in the prior year.

Buy-back guarantees were given to leasing companies and relate to the sale of replication lines. Provisions for buy-back guarantees are set up if there is evidence that products will be returned.

## [19] Shareholders' Equity

***Share Capital.*** By resolution of the shareholders' meeting on May 13, 2004, the management board was authorized to acquire shares representing up to € 3,706,431.00 of capital stock in full or in part until November 13, 2005 and cancel them with the consent of the supervisory board. The share capital amounts to a total of € 34,941,929 and consists of 34,941,929 ordinary bearer shares with a par value of € 1.00 each. The year-on-year change in capital stock is chiefly attributable to a capital repayment of € 637,402.00 in connection with the acquisition and cancellation of the Company's own shares. By contrast, the increase in capital stock of € 9,942.00 was due to the conversion of convertible bonds.

As of November 21, 1997, the entire capital stock was admitted to the regulated market (Neuer Markt) of the Frankfurt Stock Exchange.

***Conditional Capital.*** By resolution of the shareholders' meeting on November 6, 1997, the management board was authorized, with the consent of the supervisory board, to issue interest-bearing convertible bonds in one or more tranches with a total nominal value of up to € 1,597k (convertible to shares with a nominal value of € 1) and a maturity up to December 31, 2010 (conditional capital I). By resolution of the shareholders' meeting on May 7, 2001, the management board was authorized, with the consent of the supervisory board, to issue interest-bearing convertible bonds in one or more tranches with a total nominal value of up to € 1,800k (convertible to shares with a nominal value of € 1) and a maturity up to December 31, 2010 (conditional capital II). On November 30, 1997, convertible bonds with a total nominal value of € 383k were issued as part of a stock option plan for management board members and other employees of the Company. In fiscal years 1999 and 2000, convertible bonds with a total nominal value of € 494k were issued as part of another stock option plan. In fiscal year 2001, convertible bonds with a total nominal value of € 711k were issued. In fiscal year 2002, convertible bonds with a total nominal value of € 563k were issued as part of a further stock option plan. In fiscal year 2003, convertible bonds with a total nominal value of € 130k were issued. In fiscal year 2004, further convertible bonds with a total nominal value of € 140k were issued. The non-current portion of the convertible bonds is disclosed under non-current liabilities and the current portion under other current liabilities. Please also see our comments in Note 15, "Other Non-Current Liabilities".

***Approved Capital.*** The management board is authorized, with the consent of the supervisory board, to increase the Company's capital stock until June 21, 2007 in one or more steps by a maximum of € 7,363k by issuing new bearer shares with a nominal value of € 1 each, against contribution in cash or in kind (Approved Capital I). Furthermore, the management board is authorized, with the consent of the supervisory board, to increase the Company's capital stock until June 21, 2007 in one or more steps by a maximum of € 1,841k by issuing new bearer shares with a nominal value of € 1 each, against contribution in cash or in kind (Approved Capital II). For both approved capital amounts, the subscription rights of shareholders may, with the consent of the supervisory board, be excluded under certain conditions.

***Capital Reserve.*** Due to the conversion of convertible bonds, the capital reserve increased by € 60k in fiscal year 2005 and by a total of € 4,300k in prior years. In addition, the capital reserve increased by € 388k in fiscal year 2005 and € 603k in prior years due to share-based payment. Please see Notes 3 and 4.

***Dividend Payments.*** Dividends may only be paid from distributable shareholders' equity as disclosed in the Company's separate HGB financial statements. As of December 31, 2005, the Company's separate financial statements show an accumulated profit of € 1,573k and revenue reserves of € 118,433k.

## [20] Income Taxes

In 1997, a provision for corporate income tax of € 5.1m was recognized as the final assessment of the tax loss carryforward of a predecessor of SINGULUS TECHNOLOGIES AG depends on the outcome of future tax field audits at former subsidiary partnerships. As the provision is no longer expected to be utilized, it was reversed in fiscal year 2005.

Furthermore, the tax field audit for the period from 1997 to 2000 led to objections in 1997 as to the use of tax loss carryforwards pursuant to Sec. 8 (4) KStG ["Körperschaftsteuergesetz": Corporate Income Tax Act]. This resulted in a tax risk of approximately € 10.6m plus interest (approximately € 4m) for 1997. However, an appeal was lodged against the tax field audit assessment and an application for the suspension of execution filed. The suspension of execution was granted as legal proceedings are currently pending before the Federal Constitutional Court with regard to the formal unconstitutionality of Sec. 12 (2) UmwStG ["Umwandlungssteuergesetz": German Reorganization Tax Act] due to failure to comply with the legislative procedure.

As the legislative procedure for Sec. 8 (4) KStG has the same deficiencies, it is possible that this regulation is formally unconstitutional as well. Due to the pending legal proceedings regarding the unconstitutionality of the respective legal norms, appeal proceedings will be suspended until a decision has been reached by the Federal Constitutional Court. There are therefore no taxes payable. As execution in respect of the loss deduction was suspended in 1997, which indicates that the tax authorities have serious doubts as to the legality of the challenged assessment notice because there are reasons relating to the uncertainty in the evaluation of the legal issues to suggest that it is unlawful, no provision was recognized for this potential tax risk.

The last tax field audit of SINGULUS TECHNOLOGIES AG was completed in 2004 and relates to the period from 1997 up to and including 2000. Additional taxes for the tax audit period including interest of € 1,684k were paid in the prior year and are disclosed under tax expenses for fiscal year 2004. For the subsequent years, tax refunds totaling € 810k were accounted for in 2004 due to the continuation of the tax field audit assessments.

As of December 31, 2005 and 2004, income tax data are presented as follows:

| | **2005** [K€] | 2004 [K€] (restated) |
|---|---|---|
| **Earnings before tax:** | | |
| Germany | 4,686 | 54,460 |
| Abroad | 5,981 | 24,148 |
| | 10,667 | 78,608 |
| Consolidation adjustments recognized in profit and loss | (7,372) | (4,688) |
| | **3,295** | 73,920 |
| **Current income tax expense:** | | |
| Germany | | |
| Corporate income tax | 1,091 | 9,434 |
| Trade tax | 902 | 5,679 |
| Abroad | | |
| Tax expenses | 1,022 | 6,990 |
| | 3,015 | 22,103 |
| Income from the reversal of tax provisions | (5,105) | 0 |
| | **(2,090)** | 22,103 |
| **Deferred taxes:** | | |
| Germany | (3,177) | 5,260 |
| Abroad | 1,257 | (262) |
| Total tax expenses/ (income) | **(4,010)** | 27,101 |

Under German tax law, taxes on income are composed of corporate income tax, trade taxes and the solidarity surcharge.

Deferred tax assets break down as follows:

| | **2005** [K€] | 2004 [K€] |
|---|---|---|
| Difference between the commercial and tax balance sheets due to | | |
| Inventory allowances | 3,061 | 2,311 |
| Bad debt allowances | 252 | 305 |
| Warranty provisions | 178 | 959 |
| Other provisions/liabilities | 118 | 232 |
| Deferred taxes on loss carryforwards | 2,372 | 0 |
| Other differences between commercial and tax balance sheets | 672 | 643 |
| Consolidation adjustments | 1,351 | 1,190 |
| | **8,004** | 5,640 |

In the fiscal year, deferred taxes were recognized for the first time in accordance with IAS 12 on a corporate income tax loss carryforward (€ 7,128k) and a trade tax loss carryforward (€ 6,522k). Under German tax law, the loss carryforwards may be utilized for an indefinite period.

Deferred tax liabilities break down as follows:

| | **2005** [K€] | 2004 [K€] |
|---|---|---|
| Capitalized development costs | 13,776 | 12,127 |
| Disclosed hidden reserves from first-time consolidation | 2,800 | 3,206 |
| Differences between the commercial and tax balance sheets | 1,487 | 2,250 |
| | **18,063** | 17,583 |

The German statutory tax rate (for corporate income tax, trade tax and solidarity surcharge) was approximately 36.0 % for 2005 and 2004. The reconciliation from the statutory tax rate to the effective tax rate is as follows:

| | **2005** | 2004 (restated) |
|---|---|---|
| Statutory tax rate | 36.0 % | 36.0 % |
| Differences in foreign tax rates | –7.3 % | –2.1 % |
| Non-tax-deductible expenses (prior year: including goodwill amortization) | 3.0 % | 2.1 % |
| Reversal of provision for tax risks | –154.9 % | 0.0 % |
| Tax refunds/backpayments for prior years | 1.5 % | 0.7 % |
| Effective tax rate | **–121.7 %** | 36.7 % |

## [21] Contingent Liabilities and Other Financial Obligations

Contingent liabilities and other financial obligations not recognized in the consolidated balance sheet amount to € 17,934k (prior year: € 33,307k) and represent buy-back guarantees given to leasing companies relating to the sale of replication lines. Any claims under the guarantees given to the leasing companies will be offset by the revenue realized from the resale of the returned machines.

Management is not aware of any other matters that would have a material adverse effect on the Company's business, financial situation or results of operations.

## [22] Segment Reporting

The product groups of the Company are comparable with regard to production processes and marketing methods. They are therefore not considered as the Company's primary segment reporting format for the purposes of IAS 14 and do not require formal segment reporting. There are likewise no geographical segments which could be defined as the Company's primary segment reporting format. However, selected information on revenue has been presented in the following table:

***Gross revenue by product group***

| | **2005** [K€] | 2004 [K€] |
|---|---|---|
| Prerecorded CDs/DVDs | 133,343 | 268,106 |
| Recordable CDs/DVDs | 32,794 | 82,998 |
| Mastering systems | 45,209 | 43,877 |
| Service and other | 33,092 | 44,554 |
| | **244,438** | 439,535 |

***Geographical information as of December 31, 2005***

| | **Germany** [K€] | **Rest of Europe** [K€] | **Americas** [K€] | **Asia** [K€] | **Africa** [K€] | **Australia** [K€] |
|---|---|---|---|---|---|---|
| Revenue by | | | | | | |
| Country of origin | 183,812 | 45,636 | 9,147 | 5,843 | 0 | 0 |
| Destination | 32,391 | 89,319 | 49,148 | 59,591 | 10,372 | 3,617 |

***Geographical information as of December 31, 2004***

| | Germany [K€] | Rest of Europe [K€] | Americas [K€] | Asia [K€] | Africa [K€] | Australia [K€] |
|---|---|---|---|---|---|---|
| Revenue by | | | | | | |
| Country of origin | 368,915 | 49,513 | 13,516 | 7,591 | 0 | 0 |
| Destination | 44,399 | 132,500 | 106,655 | 147,967 | 8,014 | 0 |

## [23] Sales Deductions and Direct Selling Costs

Sales deductions comprise all discounts granted. Direct selling costs mainly relate to packing, shipping and commission expenses.

## [24] General Administrative Expenses

Administrative expenses include management expenses, personnel expenses and finance and accounting expenses as well as the premises and vehicle expenses attributable to such areas. Ongoing IT costs, legal and consulting fees, investor relations costs as well as costs of shareholders' meetings and the financial statements are also recognized in this item.

## [25] Research and Development Costs

Research and development costs relate not only to research and non-capitalizable development costs but also to the amortization of capitalized development costs of € 8,108k (prior year: € 4,326k).

## [26] Other Operating Income/Expenses

Other operating expenses primarily comprise expenses resulting from bad debt allowances (€ 5,603k; prior year: € 3,301k) as well as maintenance costs (€ 4,704k; prior year: € 3,229k). Other operating income mainly relates to income from the reversal of bad debt allowances (€ 119k, prior year: 109k).

## [27] Interest Income and Finance Costs

Interest income/expenses break down as follows:

| | **2005** [K€] | 2004 [K€] |
|---|---|---|
| Interest income from non-current receivables from customers | 4,110 | 3,622 |
| Interest income from time/overnight deposits | 449 | 576 |
| Other interest income | 58 | 5 |
| (Finance costs) | (3,380) | (2,912) |
| | **1,237** | 1,291 |

## [28] Rentals and Leases

As of December 31, 2005, future minimum payments arising from rental agreements and operating leases are:

| | K€ |
|---|---|
| 2006 | 1,637 |
| 2007 | 1,637 |
| 2008 | 1,481 |
| 2009 | 1,481 |
| 2010 | 1,481 |
| 2011 and beyond | 9,209 |
| | **16,926** |

Lease expenses amounted to € 1,481k in 2005 and € 1,122k in 2004.

## [29] Events After the Balance Sheet Date

Events after the balance sheet date are those events, both favorable and unfavorable, that occur between the balance sheet date and the date when the financial statements are authorized for issue. Events that provide evidence of conditions that existed at the balance sheet date are reflected in the consolidated financial statements. Events that are indicative of conditions that arose after the balance sheet date are presented in the notes to the financial statements and the management report if they are significant.

With effect from January 27, 2006, the Company acquired 66.28 % of the shares in STEAG Hamatech AG, Sternenfels, Germany, from SES-Beteiligungs-GmbH. The Company also acquired shares in STEAG HamaTech AG, Sternenfels, Germany, in a public takeover bid. In fiscal year 2005, it acquired 6.82 % of the shares in this company.

## [30] Related Party Disclosures

SINGULUS TECHNOLOGIES AG renders various services for related parties in its ordinary course of business. Conversely, the various group companies also render services within the SINGULUS TECHNOLOGIES GROUP as part of their business objective. These extensive deliveries of goods and services are transacted at market prices.

In accordance with the articles of incorporation, the supervisory board of SINGULUS TECHNOLOGIES AG has three members. The members of the supervisory board in fiscal year 2005 were:

| | |
|---|---|
| Alexander von Engelhardt, Kronberg (Taunus), Germany | Chairman |
| William Slee, London, UK | Deputy Chairman |
| Thomas Geitner, Newbury, UK | |

The aforementioned members of the supervisory board have been appointed until the shareholders' meeting which is to decide on their exoneration for fiscal year 2005 closed.

In addition to compensation for expenses, each member of the supervisory board receives fixed remuneration amounting to € 15,000 for each full fiscal year of supervisory board membership. In addition, following the decision on profit appropriation, each supervisory board member receives, for membership on the supervisory board during the preceding fiscal year, performance-based remuneration of € 800.00 for each cent by which the consolidated earnings per share, pursuant to International Financial Reporting Standards, exceeds the amount of € 0.30. The basis of assessment is at most equal to the Company's accumulated profit less an amount of four percent of the capital invested in the lowest issue amount of the shares.

The chairman of the supervisory board receives twice this amount, and the deputy chairman one and a half times this amount.

The remuneration of the supervisory board of SINGULUS TECHNOLOGIES AG (including payments for supplementary services) totaled € 68k (prior year: € 353k).

The following supervisory board members hold shares in the Company:

| | Shares as of December 31 | |
|---|---|---|
| | **2005** [No.] | 2004 [No.] |
| William Slee | 29,520 | 29,520 |
| Thomas Geitner | 1,500 | 1,500 |
| | **31,020** | 31,020 |

The current occupations of supervisory board members are listed below along with any additional supervisory board positions held or memberships of similar bodies:

| | Occupation | Membership of other supervisory boards and similar bodies |
|---|---|---|
| **Alexander v. Engelhardt** | Supervisory board member | _ WashTec AG (chairman)<br>_ Dr. Schmidt AG & Co., until December 31, 2005<br>_ Gütermann AG, until June 30, 2005<br>_ Tarkett Sommer AG |
| **William Slee** | Supervisory board member | _ The Game Group plc, UK (non-executive director), until September 19, 2005<br>_ Dimon Inc., Danville, Virginia, USA (non-executive director), until May 13, 2005<br>_ ECOFIN Water + Power Opportunities plc., UK (non-executive director), until May 19, 2005 |
| **Thomas Geitner** | Executive Director Vodafone Group plc.<br>Managing Director Vodafone Holding GmbH, Düsseldorf<br>Managing Director Vodafone Deutschland GmbH, Düsseldorf | _ Vodafone D2 GmbH, Düsseldorf, Germany<br>_ Arcor AG & Co., Eschborn, Germany (chairman), until December 30, 2005 |

Members of the management board in fiscal year 2005 were:

| | |
|---|---|
| Roland Lacher | Chairman |
| Stefan A. Baustert | |
| Klaus Hammen | |

The management board received total remuneration of € 905k in the period under review. This breaks down as follows:

| | **Fixed** [K€] | **Variable** [K€] | **Total** [K€] |
|---|---|---|---|
| Roland Lacher | 373 | 0 | 373 |
| Stefan Baustert | 279 | 0 | 279 |
| Klaus Hammen | 253 | 0 | 253 |
| | 905 | 0 | 905 |

Former members of the management board received total remuneration of € 520k in the fiscal year. In addition, provisions for current pensions for former board members (€ 1,185k) were recognized.

The management board member Stefan Baustert and the former management board member Dr. Reinhard Wollermann-Windgasse hold the following numbers of convertible bonds:

| | **No. of convertible bonds as of December 31** | |
|---|---|---|
| | **2005** [No.] | 2004 [No.] |
| Stefan Baustert | 160,000 | 160,000 |
| Dr. Reinhard Wollermann-Windgasse | 110,000 | 110,000 |
| | **270,000** | 270,000 |

Furthermore, VVG Roland Lacher GbR holds 141,750 shares in the Company (prior year: 141,750). Mr. Stefan Baustert also holds 2,400 shares in the Company (prior year: 0).

## [31] Disclosures on Shareholdings

| | Currency | Shareholding [%] | Shareholders' equity in thousands [local currency] | Profit/loss in thousands [local currency] |
|---|---|---|---|---|
| **Germany:** | | | | |
| SINGULUS EMOULD GmbH, Würselen, Germany | EUR | 100 | 3,656 | 3,208 |
| **Abroad:** | | | | |
| SINGULUS TECHNOLOGIES Inc., Windsor, USA | USD | 100 | 21,099 | – 144 |
| SINGULUS TECHNOLOGIES UK Ltd., Swindon, UK | GBP | 100 | 1,617 | 440 |
| SINGULUS TECHNOLOGIES ASIA PACIFIC Pte. Ltd., Singapore | SGD | 100 | 12,137 | – 11 |
| SINGULUS TECHNOLOGIES LATIN AMERICA Ltda., Sao Paolo, Brazil | R$ | 91.5 | 1,530 | 165 |
| SINGULUS TECHNOLOGIES IBERICA S.L., Sant Cugat del Vallés, Spain | EUR | 100 | 1,372 | – 86 |
| SINGULUS VIKA CHINA Limited, Wanchai, Hong Kong | HKD | 51 | 186 | – 170 |
| SINGULUS TECHNOLOGIES FRANCE, S.A.R.L., Valence, France | EUR | 100 | 1,410 | 51 |
| SINGULUS TECHNOLOGIES Italia s.r.l., Ancona, Italy | EUR | 99.99 | 1,215 | 69 |
| SINGULUS MASTERING B.V., Eindhoven, Netherlands | EUR | 100 | 19,497 | 5,114 |
| SINGULUS TECHNOLOGIES TAIWAN Ltd., Taipei, Taiwan | TWD | 100 | 11,783 | – 6,296 |
| SINGULUS MOLDING AG, Schaffhausen, Switzerland | CHF | 100 | 8,561 | – 2,214 |

SINGULUS MASTERING B.V., Eindhoven, Netherlands, owns all the shares in Mastering International GmbH, Schaffhausen, Switzerland. Furthermore, SINGULUS TECHNOLOGIES SERVICE GROUP Inc., Windsor, USA, is wholly owned by SINGULUS TECHNOLOGIES Inc., Windsor, USA.

The remaining 8.5 % stake in SINGULUS TECHNOLOGIES LATIN AMERICA Ltda., Sao Paolo, Brazil, is held by SINGULUS TECHNOLOGIES IBERICA S.L., Sant Cugat del Vallés, Spain.

SINGULUS TECHNOLOGIES Inc., Windsor, USA, owns all the shares in SINGULUS TECHNOLOGIES SERVICE GROUP Inc., Windsor, USA.

## [32] Financial Risk Management

***Currency Risk.*** Foreign currency risks from operations abroad are assessed as part of a risk analysis. A large majority of revenues generated by the SINGULUS TECHNOLOGIES GROUP are subject to the US dollar risk. As a result, derivative financial instruments are used to hedge against US dollar exchange rate risks. Foreign currency risks are constantly assessed as part of the risk management system.

***Liquidity Risk.*** The Group has adequate cash and cash equivalents to cover all its payment obligations. No liquidity risk exists for the Group at present.

***Interest Rate Risk.*** As of December 31, 2005, bank liabilities include liabilities of € 10,313k resulting from two loans granted in October 2004 in the amount of € 15,000k. The interest rate on the loans is adjusted to the 3-month €IBOR rate on a quarterly basis. The last installment on the loan is payable on September 30, 2008. No notable interest rate risks exist as a result of these loans. Furthermore, there are no other circumstances which pose interest rate risks. Financial instruments are therefore not used to hedge against interest rate risks.

## [33] Employees

In the fiscal year, the Company had an annual average of 666 permanent employees. In the prior year, the annual average was 707.

## [34] Auditor's Fees

In the fiscal year, the following auditor's fees were invoiced to SINGULUS TECHNOLOGIES AG:

| | |
|---|---|
| a) for tax advisory services | € 188k |
| b) for audit services | € 106k |
| c) for other services | € 85k |

## [35] Announcements pursuant to Art. § 25 German Securities Trading Act (Wertpapierhandelsgesetz (WpHG))

Pursuant to Art. 25 WpHG the announcements listed below were published on the specified dates during the business year 2005 as well as in 2006:

| Date of announcement | Reporting party | Share of voting rights |
|---|---|---|
| February 10, 2006 | Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt, Germany, for subsidiary DWS Investment GmbH, Mainzer Landstraße 178 – 190, 60327 Frankfurt, Germany | 4.86 % as of February 6, 2006 |
| December 23, 2005 | Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt, Germany, for subsidiary DWS Investment GmbH, Mainzer Landstraße 178 – 190, 60327 Frankfurt, Germany | 5,22 % as of December 19, 2005 |
| December 23, 2005 | Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt, Germany, for subsidiary DWS Investment GmbH, Mainzer Landstraße 178 – 190, 60327 Frankfurt, Germany | 4,79 % as of December 16, 2005 |
| November 5, 2005 | Deutsche Bank AG, Taunusanlage 12, 60325 Frankfurt, Germany, for subsidiary DWS Investment GmbH, Mainzer Landstraße 178 – 190, 60327 Frankfurt, Germany | 5,02 % as of October 28, 2005 |

## [36] Corporate Governance

The management board and the supervisory board made the declaration for 2005 pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] in January 2006 and have made this available to shareholders on a permanent basis.

Kahl am Main, Germany, February 22, 2006

**SINGULUS TECHNOLOGIES AG**
The Management Board

R. Lacher S. Baustert K. Hammen

According to international standards our report is concentrated on SINGULUS TECHNOLOGIES GROUP.

On the following pages you will find the balance sheets and the income statement of the legal entity SINGULUS TECHNOLOGIES AG in prepared conformity with German accounting principles and translated into English.

The complete German report (HGB) is available on request:

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# SINGULUS TECHNOLOGIES AG

## Balance Sheets as of December 31, 2004 and 2005

(according to HGB)

ASSETS

| | Dec. 31, 2005 [€] | € | Dec. 31, 2004 [€] |
|---|---|---|---|
| **A. NON-CURRENT ASSETS** | | | |
| **I. Intangible assets** | | | |
| Franchises, industrial and similar rights and assets and licenses in such rights and assets | | 155,949.26 | 308,488.19 |
| **II. Property, plant and equipment** | | | |
| 1. Land, land rights and buildings including buildings on third-party land | 19,059,928.64 | | 19,885,364.73 |
| 2. Technical equipment and machines | 347,047.82 | | 430,043.43 |
| 3. Other equipment, furniture and fixtures | 2,800,742.91 | | 2,945,133.73 |
| | | **22,207,719.37** | 23,260,541.89 |
| **III. Leased assets** | | | |
| 1. Shares in affiliates | 61,484,817.50 | | 61,497,495.54 |
| 2. Loans to affiliates | 28,461.83 | | 1,075,401.10 |
| 3. Marketable securities held as long-term assets | 5,235,662.85 | | 0.00 |
| | | **66,748,942.18** | 62,572,896.64 |
| | | **89,112,610.81** | 86,141,926.72 |
| **B. CURRENT ASSETS** | | | |
| **I. Inventories** | | | |
| 1. Raw materials, consumables and supplies | 11,056,127.74 | | 19,917,866.00 |
| 2. Work in process | 46,606,703.65 | | 54,725,791.28 |
| 3. Advance payments | 1,232,609.70 | | 872,964.50 |
| 4. Advance payments received | – 8,986,192.93 | | – 16,329,235.16 |
| | | **49,909,248.16** | 59,187,386.62 |
| **II. Receivables and other assets** | | | |
| 1. Trade receivables | 61,685,097.49 | | 80,821,200.05 |
| 2. Receivables from affiliates | 7,675,578.29 | | 8,077,294.81 |
| 3. Other assets | 4,091,658.28 | | 2,144,555.99 |
| | | **73,452,334.06** | 91,043,050.85 |
| **III. Cash on hand, balances at banks** | | 58,164,920.23 | 67,053,269.46 |
| | | **181,526,502.45** | 217,283,706.93 |
| **C. PREPAID EXPENSES** | | 1,887,074.11 | 2,292,802.96 |
| **Total Assets** | | **272,526,187.37** | 305,718,436.61 |

## EQUITY AND LIABILITIES

| | Dec. 31, 2005 [€] | € | Dec. 31, 2004 [€] |
|---|---|---|---|
| **A. EQUITY** | | | |
| **I. Share capital** | 34,941,929.00 | | 35,569,389.00 |
| Repayment of share capital | 0.00 | | – 177,402.00 |
| **II. Capital reserves** | 28,406,529.62 | | 28,347,000.14 |
| **III. Revenue reserves** | 118,432,601.39 | | 110,402,591.41 |
| **IV. Accumulated profit** | 1,573,070.99 | | 11,157,790.72 |
| | | **183,354,131.00** | 185,299,369.27 |
| **B. PROVISIONS** | | | |
| 1. Pension provisions | 5,241,847.00 | | 4,799,954.00 |
| 2. Tax provisions | 123,938.77 | | 5,971,560.27 |
| 3. Other provisions | 12,830,237.81 | | 19,928,213.55 |
| | | **18,196,023.58** | 30,699,727.82 |
| **C. LIABILITIES** | | | |
| 1. Bonds | 1,007,682.00 | | 1,283,986.05 |
| 2. Liabilities to banks | 10,343,039.52 | | 14,097,209.91 |
| 3. Trade payables | 11,483,673.10 | | 17,655,477.49 |
| 4. Liabilities to affiliates | 25,237,941.64 | | 30,758,067.82 |
| 5. Other liabilities | 21,860,318.12 | | 24,777,572.78 |
| thereof taxes € 492,263.19 (prior year: € 354,786.62) | | | |
| thereof for social security € 639,827.97 (prior year: € 573,930.66) | | | |
| | | **69,932,654.38** | 88,572,314.05 |
| **D. DEFERRED INCOME** | | 1,043,378.41 | 1,147,025.47 |
| **Total liabilities and shareholders' equity** | | **272,526,187.37** | 305,718,436.61 |

# SINGULUS TECHNOLOGIES AG

## Income Statements for 2004 and 2005

(according to HGB)

| | 2005 [€] | € | 2004 [€] |
|---|---|---|---|
| 1. Revenue | 194,952,634.24 | | 382,565,988.96 |
| 2. Decrease (–) in finished goods inventories and work in process | – 8,119,087.63 | | – 9,194,320.24 |
| 3. Other operating income | 8,391,053.34 | | 2,706,175.42 |
| | | **195,224,599.95** | 376,077,844.14 |
| 4. Cost of materials | | | |
| a) Cost of raw materials, consumables and supplies and of purchased goods | – 135,808,548.77 | | – 248,871,131.74 |
| b) Cost of purchased services | – 5,934,009.56 | | – 7,927,339.01 |
| 5. Personnel expenses | | | |
| a) Wages and salaries | – 19,227,957.01 | | – 23,971,907.69 |
| b) Social security, pension and other benefit costs thereof for old-age pensions € 882,762.57 (prior year: € 603,534.23) | – 3,941,604.73 | | – 6,070,258.68 |
| 6. Amortization on intangible assets and property, plant and equipment | – 2,135,301.61 | | – 2,353,104.08 |
| 7. Other operating expenses | – 34,911,891.39 | | – 55,655,217.20 |
| | | **– 201,959,313.07** | – 344,848,958.40 |
| 8. Income from investments thereof from affiliates € 4,193,828.03 (prior year: € 4,214,403.29) | 5,017,896.04 | | 4,193,828.03 |
| 9. Other interest and similar income thereof from affiliates € 25,287.16 (prior year: € 12,439.67) | 2,986,046.46 | | 3,823,171.22 |
| 10. Interest and similar expenses | – 3,136,405.89 | | – 3,541,154.13 |
| | | **4,867,536.61** | 4,475,845.12 |
| **11. Profit/loss from ordinary operations** | | **– 1,867,176.51** | 35,704,730.86 |

| | 2005 [€] | € | 2004 [€] |
|---|---|---|---|
| 12. Income taxes | 5,055,666.96 | | – 13,295,988.28 |
| 13. Other taxes | – 42,348.46 | | – 93,161.14 |
| | | 5,013,318.50 | – 13,389,149.42 |
| **14. Profit for the period** | | **3,146,141.99** | 22,315,581.44 |
| 15. Accumulated profit of the prior year | | 11,157,790.72 | 15,169,306.76 |
| 16. Transfer to other revenue reserves | | – 12,730,861.72 | – 26,327,097.48 |
| **17. Accumulated profit** | | **1,573,070.99** | 11,157,790.72 |

## Glossary

***AM Master.*** High performance mastering system for prerecorded, once-recordable and rewritable formats CD and DVD.

***AM Direct.*** Mastering system for the direct manufacturing of stampers.

***Anti-Reflective (AR) - Coating.*** Reduction of reflection on glass surfaces. Through anti-reflective coating distracting reflections are removed.

***BLU-LINE.*** New inline coating machine for Blu-ray Disc ROM.

***Blu-ray Disc.*** New, 3rd generation optical storage medium. Storage capacity of up to 25 gigabyte per layer, works with the blue laser (405 nm), disc 120 mm diameter.

***Blu-ray Disc Dual Layer.*** Blu-ray Disc with two active layers. Storage capacity 50 gigabyte.

***Blu-ray Disc ROM.*** Blu-ray Disc Read Only Memory. Prerecorded Blu-ray, digital information can be read, but not altered

***Blu-ray Disc R.*** Blu-ray Disc Recordable. Recordable Blu-ray, optical storage medium used for personal archiving (burning) of digital information; information can be recorded only once and thereafter can only be read.

***Bonding.*** Bonding of two disc halves.

***CD.*** Compact Disc; 1st generation optical storage medium for digital information (audio, video, computer data); storage capacity 650 megabyte; laser wavelength 780 nm; polycarbonate substrate (120 mm diameter; 1.2 mm thickness).

***CD-ROM.*** Compact Disc – Read Only Memory; 1st generation optical storage medium used for prerecorded data; digital can only be read, but not altered.

***CD-R.*** Compact Disc – Recordable; 1st generation optical storage medium for archiving (burning) of digital information; information can be recorded onto a CD R only once, thereafter it can only be read like a CD ROM.

***CD-RW.*** Compact Disc – Rewritable; 1st generation optical storage medium used for archiving of digital information; the CD RW can be recorded and erased repeatedly.

***CD-Card.*** 1st generation optical storage medium with size of a credit card, which can be read by a conventional CD ROM player. Storage capacity 60 megabyte.

***Cleaning.*** Performed to prepare eyeglass lenses for additional processing / coating.

***Curing.*** Drying or curing of adhesives or lacquers through exposure to ultraviolet light.

***Digital high definition television (HDTV).*** High resolution television with a 1920 x 1080 pixel image resolution.

***DMS Evolution.*** Mastering system for prere-corded, once-recordable and rewriteable CD and DVD.

***DVD.*** Digital Versatile Disc; 2nd generation optical storage medium for digital information (audio, video, computer data); storage capacity of up to 9.4 (2 x 4.7) gigabyte; laser wavelength 650 nm; 2 polycarbonate substrates (120 mm diameter; 0.6 mm thickness), individually produced, coated and subsequently bonded together. The digital information can be read but not altered.

***DVD-Audio.*** Digital Versatile Disc Audio; 2nd generation optical storage medium for digital storage of music.

***DVD-Plus.*** 2nd generation optical storage medium combining DVD and CD technology on a single disc. A CD is bonded to the flip side of a DVD 5 disc.

***DVD-ROM.*** Digital Versatile Disc-ROM; 2nd generation optical data storage medium for digital information (data, software, games, etc.); the digital information can be read but not altered.

***DVD-Video.*** Digital Versatile Disc-Video; 2nd generation optical storage medium for digital storage of movies with multiple language options.

***DVD R.*** Digital Versatile Disc-Recordable; 2nd generation optical data storage medium for personal archiving (burning) of digital information; the DVD R can be recorded only once, and thereafter can only be read like a normal DVD. Storage capacity 4.7 gigabyte.

***DVD-R.*** Digital Versatile Disc-Recordable; (format used by Pioneer and others).

***DVD+R.*** Digital Versatile Disc-Recordable; (format used by Philips and others).

***DVD+R DL.*** Dual Layer Digital Versatile Disc-Recordable; optical data storage medium for personal archiving (burning) of digital information with 2 active layers; 8.5 gigabyte storage capacity.

***DVD 5.*** Digital Versatile Disc – storage capacity 4.7 gigabyte.

***DVD 9.*** Digital Versatile Disc – storage capacity 8.5 gigabyte.

***DVD 10.*** Digital Versatile Disc – storage capacity 9.4 gigabyte.

***DVD-RW.*** Digital Versatile Disc – Rewritable; 2nd generation optical data storage medium for repeated digital recording, used for PC and video applications. (format used by Pioneer and others).

***DVD+RW.*** Digital Versatile Disc – Rewritable; 2nd generation optical data storage medium for repeated digital recording, used for PC and video applications. (format used by Philips and others).

***DVD-RAM.*** Digital Versatile Disc – Rewritable; 2nd generation optical data storage medium for repeated digital recording, used for PC and video applications. (format used by Hitachi and others).

***Dye.*** Special dye on CD-R and DVD-R discs onto which information is recorded in a CD or DVD burner.

***EMOULD.*** Electric injection molding machine for the manufacture of disc blanks.

***Finishing.*** Refining the mechanical and optical properties of eyeglass lenses through the application of multiple functional thin coatings.

***Forming.*** Adaptation of eyeglass geometry to correct vision impairment.

***Hard Coat (Scratch-Resistant Coating).*** First layer applied to synthetic eyeglass lenses during the finishing process. Lens wear- and scratch-resistance is enhanced, thereby improving the durability of the lenses.

***HD DVD.*** High Density Digital Versatile Disc. 3rd generation optical data storage medium for storage of digital information. Storage capacity up to 15 gigabyte per layer. Operates with the blue laser (405 nm), Disc Ø 120mm.

***HD DVD Dual Layer.*** High Density Digital Versatile Disc with 2 active layers. Storage capacity 30 gigabyte.

***HD DVD ROM.*** Prerecorded High Density Digital Versatile Disc Read Only Memory; prerecorded HD DVD; the digital information can be read but not altered.

***HD DVD R.*** High Density Digital Versatile Disc Recordable; optical data storage medium for personal archiving (burning) of digital information; the disc can be recorded only once, and thereafter can only be read.

***HD Ready.*** Logo for TV displays able to display High Definition Television.

***HDTV.*** High Definition Television. The new High Definition Television (HDTV) will replace traditional TV standards. For an optimum HD-display a resolution of 1920x1080 pixels and 720 lines are required.

***HD TV.*** Logo for TV displays able to display High Definition Television.

***Hydrophobic Coat (Easy Care Coating).*** Hydrophobic (water repellent) coating to prevent the adhesion of dust and other contaminants on the lens surface. The Hydrophobic Coat layer reduces the frequency of eyeglass lens cleaning during daily use.

***Immersion Coating.*** Process by which the surface of an object is coated by immersion into a liquid.

***Injection Molding Machine.*** Machine used to manufacture and shape disc blanks.

***Laquering.*** Process by which the hard coat layer is applied during an immersion or spin coating process.

***LBR 266.*** New mastering system for HD-DVD/Blu-ray.

***Mastering.*** The mastering process converts digital music, data, or video information into pits. The disc master created during this process is the basis for the subsequent replication process.

***Metallizing.*** Application of a thin layer of metal (aluminum, gold, silver, silicon) onto a CD or DVD disc; this reflective layer serves to reflect the laser beam; the cathode technology employed is known as sputtering.

***MODULUS.*** Multiple-cathode metallizer for coating rewritable CD-RW, DVD-RW, DVD+RW and DVD-RAM media.

***MRAM (Magnetic Random Access Memory).*** Contrary to conventional technology, this non-volatile storage medium does not lose memory in the absence of power, uses less energy, and exceeds the read/write speeds and data density of other forms of storage.

***Molding.*** Injection molding process used to manufacture and shape disc blanks.

***MOLDPRO.*** New fully-electric injection molding machine.

***OPTICUS.*** A machine for coating ophthalmic lenses based on the InLine process.

***Organic Glass.*** A vitriform, entirely synthetic material characterized by its low specific weight and impact resistance.

***PECVD.*** Plasma Enhanced Chemical Vapor Deposition - process used to apply Hard Coat and Top Coat to eyeglass lenses. Plasma is used in this process to deconstruct complex gas molecules. The product of this reaction precipitates onto the surface of a substrate forming a thin, hard layer.

***Phase change.*** Process during which the composition of a material is alternately converted between an amorphous and crystalline state.

***Pit-Length.*** The pit with data on an optical disc.

***Polycarbonate.*** Raw material for all substrates of optical discs (CD, DVD, HD DVD, Blu-ray).

***SACD (Super Audio CD).*** Optical data storage medium and advancement of the Audio CD combining the advantages of analog and digital formats.

***Semiconductor Industry.*** Field engaged in research and the manufacture of microelectronic integrated circuits or transistors commonly known as microchips used in electronic devices.

***Semiconductor material.*** (e.g., silicon) good insulator at low temperatures and good conductor of electricity at high temperatures.

***SINGULUS 3 DS.*** Coating machine for decorative layers.

***SKYLINE.*** Fully automated replication line for CD, CD ROM and CD cards.

***SKYLINE II.*** Fully automated replication line for CD, CD ROM and CD cards.

***SKYLINE II Duplex.*** Fully automated replication line for CD and DVD 5.

***Smart Cathode®.*** Patented sputter cathode for coating CD and DVD discs with highly uniform reflective layers. Also specially employed for the OPTICUS.

***SPACELINE.*** Fully automated replication line for DVD 5, DVD 10 and DVD 9.

***SPACELINE II.*** Fully automated replication line for DVD 5, DVD 10 and DVD 9.

***SPACELINE II HD.*** Fully automated replication line for HD DVD and DVD 9.

***Spin-Coating.*** A coating process in which liquids such as dyes or lacquers are spun onto the surface of an object.

***Sputtering.*** The process by which a thin layer of metal or silicon is deposited onto a polycarbonate disc. Material bombarded by electrically-charged particles (ions) in a vacuum is knocked loose and in a vacuum precipitates onto the surface of a substrate forming a thin coating.

***Sputter Cathode.*** Sputtering device in a metallizer.

***STREAMLINE.*** Fully automated replication line for CD R.

***STREAMLINE DVDR/ SP-A.*** Fully automated replication line for DVD±R.

***STREAMLINE II.*** Fully automated replication line for DVD±R and CD R.

***SUNLINE.*** Fully automated replication line for rewritable discs CD RW, DVD-RW, DVD+RW and DVD-RAM.

***Target.*** Metal plate from which particle are deposited in a vacuum which subsequently condense as a thin layer on a substrate.

***Tempering.*** Heat treatment of eyeglass lenses in preparation for subsequent manufacturing steps.

***Thin Film Head.*** Read/Write-head for magnetic hard disc drives.

***TIMARIS.*** Vacuum coating system which operates in accordance with TMR principles, designed for use in the semiconductor industry. Manufactures either MRAM wafers or future read-write heads for magnetic hard disc drives.

***TMR (Tunnel Magnetic Resistance).*** Effect: Electrical resistance can be altered depending on the external magnetic field applied. The application of this external magnetic field can alter the magnetic alignment in one of the ferromagnetic portions of a three-tiered sandwich (two ferromagnetic layers and a middle, non-magnetic isolating layer). The magnetization of the second layer remains unchanged. These two alignment options, parallel or anti-parallel, can now be used to store bits of information.

***Top Coat (Easy Care Coating).*** Hydrophobic (water repellent) coating to prevent the adhesion of dust and other contaminants on the lens surface. A Top Coat layer reduces the frequency of eyeglass lens cleaning for everyday lens care.

***Uniformity.*** Consistency in the thickness of a layer applied to the surface of an object.

***UV Curing.*** Drying or curing of adhesives or lacquers through exposure to ultraviolet light.

***Vaporization.*** Vacuum coating technology, e.g. for anti-reflective coating on ophthalmic lenses, where material is melted and evaporated in a vacuum.

***Wafer.*** Extremely thin slice of silicon up to 300 mm in diameter. Serves as the substrate material for integrated circuits (also known as chips).

## Annual General Meeting 2006

Please refer to SINGULUS TECHNOLOGIES' page
http://www.SINGULUS.de/english/2_investor/index_investor.htm
for detailed information (available from April respectively June 23, 2006):

1
_Driving instruction to Hermann-Josef-Abs Hall
_Frankfurt city map
_Routing
_Your way by the German railway
_Agenda of the Annual General Meeting
_Invitation as PDF-file

2
_Counter Motions

3
_Important questions at the Annual General Meeting as HTML-document

4
About the Annual General Meeting:
_Speech of the Chief Executive Officer (CEO) Roland Lacher as text document
_Presentation for the Annual General Meeting as PDF-file

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