

Annual Report 2004  
SINGULUS TECHNOLOGIES

# Focus on New Technologies



SINGULUS 



**Stefan A. Baustert**

Chief Financial Officer

**Roland Lacher**

Chief Executive Officer

**Klaus Hammen**

Executive Vice President Marketing & Sales

## Report of the Executive Board, Letter to Shareholders

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Dear Shareholders,

Growth in the optical data storage market progressed as expected, primarily among DVD lines. In 2004, our global market share for prerecorded CD and DVD replication lines approached 65 %. With 255 lines delivered, prerecorded DVD replication systems became the company's strongest growth category and highest revenue-generator during the past fiscal year.

Revenues for 2004 grew by 21 % with net income up 6 % over the previous year. At the turn of the year, we found 2004 to be a year in which we once again achieved sustained growth and improved the company's profitability.

We also look to a future filled with challenges and a wealth of opportunities. New formats – the „third generation“ of optical data storage – are emerging in the market. SINGULUS will introduce the first replication lines for these new formats during the first half of 2005 and again lay claim to the title “first mover” in the world of optical discs.

During the past two years, SINGULUS continued to advance its strategy. It did so first by promoting the exceptional dynamics of its core business, i.e., by providing a continued focus on the development and manufacture of high-tech optical data storage replication systems. Secondly, new products were designed to promote diversification and provide access to new growth potential.

In 2004, SINGULUS made important decisions pertaining to its core business which were designed to secure the company's future technology and market leadership. Effective January 1, 2004, the acquisition of the ODME B.V., Eindhoven, Netherlands mastering business from OTB, Netherlands was finalized. These activities were merged with our subsidiary SINGULUS OMP and the business continues worldwide under the new name SINGULUS MASTERING B.V. The new organization is the global market leader in mastering with a product portfolio superior to any competitor's. We have thus attained a key position in the development of the fundamental technology and machinery for the manufacture of third generation formats. The acquisition of the patents and rights to MoldPro injection molding technology was also finalized.

In June 2004, we introduced two new machines at the MEDIA-TECH Expo in Frankfurt, the industry's leading trade show. Industry professionals were given the opportunity to view the new SPACELINE II replication line for prerecorded DVD. This new system was not least among the machines that further strengthened our leading position in the realm of prerecorded discs. The STREAMLINE II for once-recordable DVD-R was also showcased and has enabled us to successfully reposition ourselves in the DVD-R market.

In November, we entered into a contractual agreement with SONY Japan addressing the strategic development of Blu-ray replication lines. Machines designed and built by SINGULUS to manufacture the new pre-recorded Blu-ray discs (BD-ROM), are scheduled to begin beta site production during the first half of 2005.

Just before Christmas, another cooperation agreement was signed with Memory-Tech, one of the world's largest DVD producers. This agreement addresses the development of machines to manufacture HD DVD discs. The first operational HD DVD replication systems are scheduled to be ready in the Spring of 2005. In 2005, a manufacturing facility will be built in Schaffhausen (Switzerland) for a new generation of injection molding machines based on the MoldPro concept. This manufacturing capacity will augment existing facilities and will be dedicated to the manufacture of these new injection molding machines.

In keeping with the strategic expansion of our core business, we launched a program in 2002 designed to develop additional business sectors related to our core competence in vacuum thin film technology.

Two of these new applications have since advanced to the marketing stage. The development of TMR thin film coating systems for 300 millimeter MRAM wafers for the next generation of semiconductor storage was begun in 2002. Since then, two systems have been placed in operation in our application lab. The next step is to be implemented with a strategic partner and will introduce our new product to the semiconductor industry.

Our second new business acquisition has also begun to bear fruit. Our new machine prototype for inline ophthalmic lens coating went into operation in our plant in March 2004 and the first fully functional OPTICUS machine was delivered to our key customer Rupp + Hubrach in January 2005. We will now accelerate the worldwide marketing of this revolutionary inline ophthalmic coating process.

We are convinced that these new business arenas will allow us to take advantage of growth opportunities that complement our traditional core business.

Dear shareholders. The company considers itself well-equipped for the future because of its technological core competence and the opportunities provided by the emerging generation of new HD DVD and Blu-ray optical discs. The expansion into additional business arenas will provide our organization with greater growth potential.

We will continue our systematic quest for new fields of application such as nanotechnology thin film coating processes. While we will continue to seek new avenues for external growth, the optical data storage replication line business will remain the foundation of our product line and business model.

On October 6, 2004, the SINGULUS TECHNOLOGIES Executive Board passed a resolution approved by the Supervisory Board and authorized at the May 2004 Annual Shareholders' meeting to buy back 10 % of company shares on the stock exchange. All shares acquired by the end of February 2005 have been or will be redeemed. The reduction in share capital will yield higher earnings per share.

Effective December 31, 2004, the SINGULUS TECHNOLOGIES consolidated year-end closing was first issued in accordance with the International Financial Reporting Standards (IFRS). An EU directive dated July 19, 2002, requires all corporations with securities licensed for trade in EU countries to implement the IFRS for fiscal years as of January 1, 2005. The figures for fiscal 2003 were adjusted for comparative purposes in accordance with the requirements for initial IFRS implementation.

Although the order intake for 2005 started off sluggish, we are confident that we can steer the company so as to maintain stable earnings in the future.

Sincerely,

Kahl am Main, March 11, 2005

The Executive Board



Roland Lacher



Stefan A. Baustert



Klaus Hammen

