

Annual Report 2004
SINGULUS TECHNOLOGIES

Focus on New Technologies





SINGULUS' leadership in the market is a result of its high innovative capabilities

It is the prevailing opinion of experts that the world economy will continue to grow. For the foreseeable future, the strongest economic impetus will continue to emanate from the Asian region and in part from North America.

Status Report for the SINGULUS TECHNOLOGIES Group and SINGULUS TECHNOLOGIES AG

The company availed itself of the opportunity afforded by §315 Par. 3 HGB to issue a combined status report for the SINGULUS TECHNOLOGIES Group and SINGULUS TECHNOLOGIES AG. Since business developments, the status of the company, and risk exposure are by and large identical for SINGULUS TECHNOLOGIES AG and SINGULUS TECHNOLOGIES Group, the following remarks and, in particular, the figures provided, refer to the SINGULUS TECHNOLOGIES Group.

General Economic Situation

General Overview.

According to economic statistics provided by the Economic Department of the Commerzbank (as of December 2004), the global economy grew in real terms by 5 % last year, making 2004 one of the strongest growth-producing years since 1976. The United States continued to fuel this global economic development in the industrialized world showing 4 per cent growth despite the drastic increase in crude oil prices.

The Euro-zone also profited from the boom in the global economy and was thus able to downplay its structural weaknesses somewhat. The region had to be satisfied with 2 % growth while Germany's growth rate of just 1.7 % clearly lowered the average value.

The Monkey Wrench: Oil Prices and the Exchange Rate of the Dollar

By the end of 2004, oil prices calculated in dollars had risen nearly 50 % over the previous year. In a 2004 year-end comparison, the value of the US Dollar had declined nearly 8 % against the Euro.

The low exchange rate of the dollar places a burden on exports from the European region. However, the effect is not as great as the nominal shift in the dollar exchange rate would suggest. Many component products are procured from the dollar region which creates corresponding procurement advantages on the import side. For the past three years, export-oriented companies have made considerable adjustments in order to reduce their dollar risk. Nevertheless, the shift in the exchange rate has resulted in trade disadvantages clearly overcompensating the Euro's previous devaluation phase.

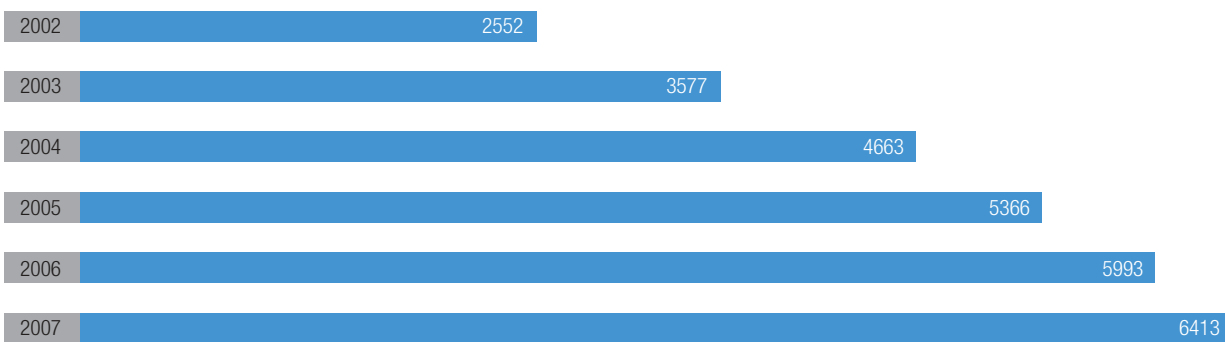
Our strategic response to the disadvantage of location is to improve our rate of innovation! This refers to not just internal process innovation rates but primarily to a concentration on new products that will permit our customers to achieve a competitive advantage when purchasing our machines. SINGULUS' leadership has always been the result of its high innovative capabilities and the speed with which it has brought optical storage replication machines to the market.

Optical Disc Market

According to the industry research firm "Understanding and Solutions", the developments that became apparent in the global optical data storage market in 2003, continued last year. The production of CDs dropped somewhat, declining to roughly 12.5 billion units (13 billion a year earlier). Consumption of CD-Rs rose slightly from 9 to over 10 billion units. The number of prerecorded DVDs produced worldwide

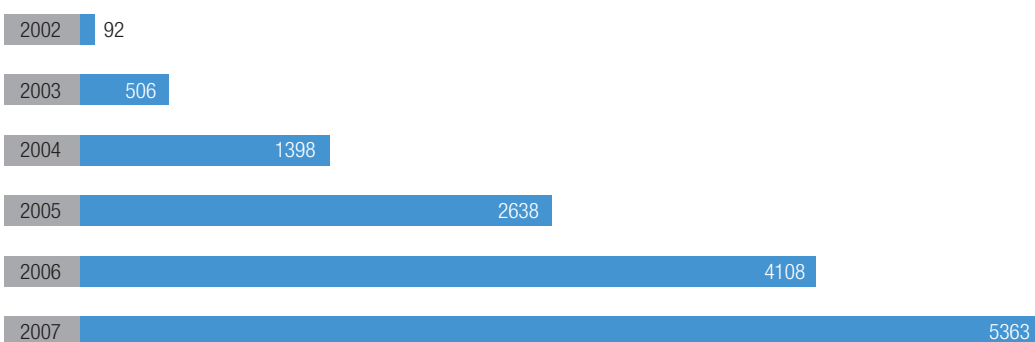
grew from 3.6 to 4.7 billion units, an increase of 30 %. The market for once- and re-recordable DVDs demonstrated similarly robust advances. It posted the comparatively strongest growth, more than doubling sales from 0.5 to 1.4 billion units. The growth trend for both DVD segments is expected to continue for several years and not level off for the mid-term.

Market development of prerecorded DVD (in million discs)



Source: Understanding & Solutions, Feb. 2005

Market development of recordable and rewritable DVD (in million discs)



Source: Understanding & Solutions, Oct. 2004

Breakdown by Region.

The strength of the growth rates for individual regions in Asia is highly variable. The economies of China, India and Indonesia in particular are characterized by high growth rates while South Korea's growth pattern has been weakened by ongoing risks. It is generally expected that Asia's growth will slow this year due to reduced stimulus from the United States and China. SINGULUS' Asian business dealings slowed considerably during the 2nd half-year, particularly in the DVD-R sector. It is widely believed that the growing use of DVD-R around the world will lead to a renewed increase in demand.

The upswing in the United States is expected to continue in 2005 and 2006. The American DVD replication market has entered a phase of consolidation and is on the threshold of an erosion of prices. Because the vigor of the major Hollywood and media organizations is unbroken and high definition television as well as the new generation of optical disc formats will generate additional momentum, this segment of the business is expected to create additional growth.

Despite the unusually strong stimulus provided by foreign trade, companies in the Euro-zone made investments hesitantly, a behaviour that was compounded by moderate growth in consumer demand.

Germany once again made up the Euro-zone's "tail lights" last year. According to the German Federal Bureau of Statistics, the nation's real GDP grew just 1.7 % in 2004. This figure clearly surpassed that of 2003 (-0.1 %), but did not contribute to a reinvigoration of personal consumption which would have in turn parlayed the dynamics of foreign trade into revitalized domestic demand.

The overall investment reluctance on the part of German companies can be explained not just by the debt reduction many businesses were forced to implement but also by the residual effects of the investment boom that occurred in the late nineties. For now, companies lack confidence in the timely return on investment needed for above-average purchases of new systems. While the German and European markets will participate in the structural growth of the DVD and in the new optical storage markets, they will trail Asia and America.

Overall Economic Forecast 2005 and 2006.

It is the prevailing opinion of experts that the world economy will continue to grow. For the foreseeable future, the strongest economic impetus will continue to emanate from the Asian region and in part from North America. The European region will continue to struggle with relatively restrained demand.

The context of the global economy is important for SINGULUS TECHNOLOGIES but not crucial. It is conceivable from today's vantage point that existing and new optical data storage markets will grow faster than the world economy. The research company "Understanding & Solutions" projects a 25 % growth rate for prerecorded DVDs in 2005, and approx. 50 % for DVD-R/RW. The entire DVD market is expected to grow approx. 25 % p.a. worldwide through 2007.

Research & Development

During the last fiscal year, SINGULUS spent 22.8 million € on Research & Development (R&D). This corresponds to 39.8 % growth over 2003. R&D expenditures for our core optical disc business were concentrated on the SPACELINE II and STREAMLINE II, the advancement of injection molding technology, and the optimization and development of mastering systems.

In 2004, the new SPACELINE II replication line was advanced to the level of mass production. While the cycle time for DVD 9 was reduced from its former speed of 3 seconds to nearly 2.5 seconds, the potential for even more improvements have been incorporated into the system. Up to 30,000 DVDs per day can now be produced on the SPACELINE II replication line, setting a new benchmark for the industry.

The STREAMLINE II for DVD-R became another focal point for development and optimization. By June, the first of these new generation machines had already been delivered to European and Asian customers. Mass production of the STREAMLINE II started in May of last year.

Development of the STREAMLINE II DVD-R for a new optical disc format was continued during the second half of the year. Intense efforts were concentrated on an expansion for dual layer DVD+R with an 8.5 Gbyte storage capacity. For the first time, this disc will permit the uninterrupted recording of an extended DVD-quality film. The STREAMLINE II DVD-R DL was introduced to the market in January 2005. During the 1st half of 2004, R&D activities for SINGULUS MASTERING were concentrated on the optimization of the new AM Direct mastering system. New technology allows this mastering system to produce stampers without using galvanic processes. This new innovation creates new sales opportunities. The machine's recording speeds were increased from 2R to 4R for DVD and from 6X to 10X for CD. This means that a DMS Evolution system will be able to produce 140 DVD masters per day instead of 84 and 140 CD masters per day (previously 130).

After the existing product line had been repositioned by the new machine models, the focus turned to the development of mastering and replication lines for the HD DVD and Blu-ray 3rd generation of optical storage media. SINGULUS will deliver the first machines for HD DVD in the first half of 2005. We will thus position ourselves as a global "first mover" and leading company for the development of these systems. The mastering technology for Blu-ray is still in the technical evaluation phase.

Research & Development (in million €)



SINGULUS TECHNOLOGIES will continue the development of the newly-acquired MoldPro injection molding technology until it is ready for mass production. The new injection molding technology provides unique opportunities for the manufacture of extremely thin substrates.

Together with a key customer, development of the OPTICUS inline coating system for eyeglass lenses and other substrates for refined and precision optics was advanced to the level of mass production. Intensive application efforts are currently being conducted for additional potential customers who were impressed by the economic potential this system has to offer. The first delivery took place in mid-January 2005.

Development work in the new TMR thin film coating business sector made rapid advances. Two TIMARIS prototype systems are available in our in-house application lab for qualification of the demanding coating processes for both MRAM semiconductor storage and read/write heads

for magnetic hard drives. The linear dynamic magnetron thin film coating technology has already been arrayed for up to 300 mm diameter wafers. This system offers clear cost advantages over conventional static coating methods because of its higher wafer throughput.

In January 2005 the Executive Board announced its search for a strategic partner for the further development of its TMR thin film coating systems business. This decision was made to facilitate access to potential customers in the semiconductor industry and accelerate the overall growth of the business.



Marketing & Sales and Service/ Subsidiary Activities

All development and manufacturing capacities continue to be concentrated in Germany and Europe. Marketing & sales activities in the important regions of Asia and the USA were reinforced in 2004 in order to provide closer customer contact and improve service levels. Major customers are now offered on-site service. In 2004, SINGULUS TECHNOLOGIES was still the company with the most extensive marketing & sales and service network in the industry. Speedy response to inquiries and decentralized hotlines around the world ensure that SINGULUS systems purchased by customers are in a continually high state of production readiness and represent an extremely important sales argument to the customer.

On December 31, 2004, the SINGULUS sales & marketing and service network comprised the following subsidiaries:

Europe

- SINGULUS EMOULD GmbH, Würselen, Germany
- SINGULUS MASTERING BV, Eindhoven, Netherlands
- SINGULUS MASTERING International GmbH, Schaffhausen, Switzerland
- SINGULUS MOLDING AG, Schaffhausen, Switzerland
- SINGULUS TECHNOLOGIES Ltd., Swindon, UK
- SINGULUS TECHNOLOGIES IBERICA S.L., Sant Cugat des Vallés, Spain
- SINGULUS TECHNOLOGIES FRANCE S.a.r.l., Valence, France
- SINGULUS TECHNOLOGIES ITALIA s.r.l., Senigallia (Ancona), Italy

USA/South America

- SINGULUS TECHNOLOGIES Inc., Windsor, USA
- SINGULUS TECHNOLOGIES Service Group Inc., Windsor, USA
- SINGULUS TECHNOLOGIES LATIN AMERICA Ltda., Sao Paulo, Brazil

Asia

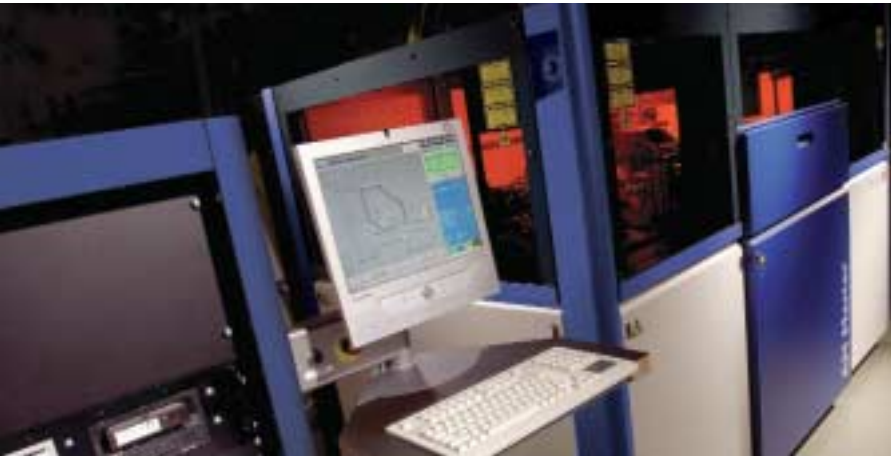
- SINGULUS TECHNOLOGIES ASIA PACIFIC Pte. Ltd., Singapore
- SINGULUS VIKA CHINA LIMITED, Wanchai, Hong Kong
- SINGULUS TECHNOLOGIES TAIWAN Ltd., Taipei, Taiwan

With the exception of SINGULUS VIKA CHINA LIMITED (51 % share), the company controls, directly or indirectly, all shares of the aforementioned companies. Agents and service facilities are also maintained in 17 other countries.



SINGULUS MASTERING B.V.

Last year SINGULUS strategically repositioned itself in the mastering systems business. After its initial foray into mastering had been concluded with the 2002 acquisition of OMP, Best, Netherlands, SINGULUS was able to expand significantly in January 2004 by acquiring the ODME, Eindhoven, Netherlands mastering business and thereby securing a key position for the emerging technologies of the future.



The new acquisition has now been merged with the existing mastering activities of SINGULUS OMP to form SINGULUS MASTERING B.V. During the course of 2004, the company successfully implemented all the steps needed to transform the two former competitors into an integrated, synergistic business. The consolidated company is global market leader with a technologically leading and comprehensive portfolio for all existing optical disc formats. The company's service and worldwide marketing & sales have been integrated into, and can now utilize, the density and global capabilities of the SINGULUS TECHNOLOGIES network.

SINGULUS MASTERING has made every effort to emerge as a lead developer and "first mover" in the race for the third generation of optical data storage.

Employees

By the end of 2004, the SINGULUS TECHNOLOGIES Group employed 736 people (December 31, 2003: 599). A company-wide staff increase of 137 full-time employees included 96 people from the initial ODME B.V. consolidation and 41 people for the rest of the organization.

A staff of 459 people was employed in Germany and 277 abroad. In addition to its permanent employees, SINGULUS had hired 15 temporary employees, 11 of whom were employed in the Netherlands. In 2004, investments made by SINGULUS in Kahl were primarily for the Commissioning and R&D departments. Employee training and continuing education programs for fiscal 2004 included weekly product training sessions (new products, cross-training on the SINGULUS product line), language training for staff with customer contacts abroad, as well as professional seminars for managers and purchasing staff. Peaks in staffing demands were handled by temporary employment agencies since the use of short-term employees permits flexible adaptation of capacities and can be adjusted to the flow of orders. By year-end, the order situation prompted us to cut virtually all temporary positions. The absentee rate in Germany for fiscal 2004 was 2.5 %. The personnel turnover rate was low at 3.4 %.

Employees (as of Dec. 31)

2003	599
2004	736

Revenues and Earnings

For the third year in a row, SINGULUS TECHNOLOGIES was able to markedly increase its revenues and earnings. At 439.5 million €, revenues rose by 21.2 % over the prior year (362.6 million €). The revenue growth can be attributed in large part to machines for prerecorded DVD as well as the initial consolidation of OMDE Mastering. The number of DVD machines rose from 183 in 2003 to 255 in 2004. This corresponds to a volume growth of approx. 40 %. Mastering machines sales rose from 14 in 2003 to 41 in 2004.

The once-recordable DVD formats also progressed favorably. With 49 machines sold in 2004, the volume rose by 75 % over the prior year. The sale of machines for

prerecorded and once-recordable CDs declined. In 2004, 202 CD/DVD 5 machines (prior year 310) and 38 CD recordable machines (prior year 62) were sold.

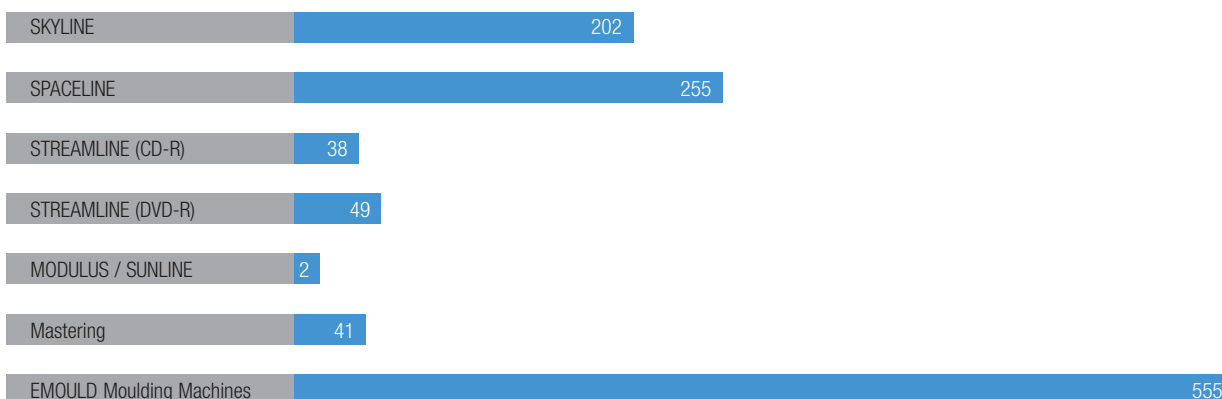
The machine inventory for once-recordable CD (CD-R) and DVD (DVD-R) was essentially depleted during the first half of the year. The order intake for these machines was restrained during the second half of the year as a result of the weak business in Asia.

SINGULUS was yet again able to expand its position in the global market based upon the excellent sale of mastering systems and pre-recorded DVD machines. The company's global market share is estimated at 65 % for pre-recorded DVD replication lines and at over 70 % for mastering systems.

Gross revenues (in million €)



Number of booked machines



Revenues for fiscal 2004 were again characterized primarily by our DVD business. Machines for the manufacture of pre-recorded DVDs as well as once-recordable DVD-Rs accounted for 58.8 % of revenues. Revenues for pre-recorded CDs and once-recordable CD-Rs totalled 21.1 %.

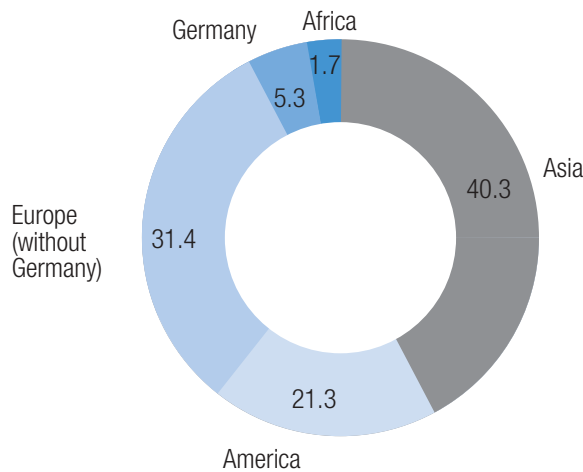
Revenues and earnings for the combined mastering business developed satisfactorily last year despite the burden caused by the merger of SINGULUS OMP Mastering and ODME Mastering to form SINGULUS MASTERING B.V. The revenue share for the Group's mastering activities nevertheless rose considerably from 4.7 % in 2003 to 10.0 % in 2004. Business prospects for 2005 are also favorable for this business.

Development of Revenues worldwide

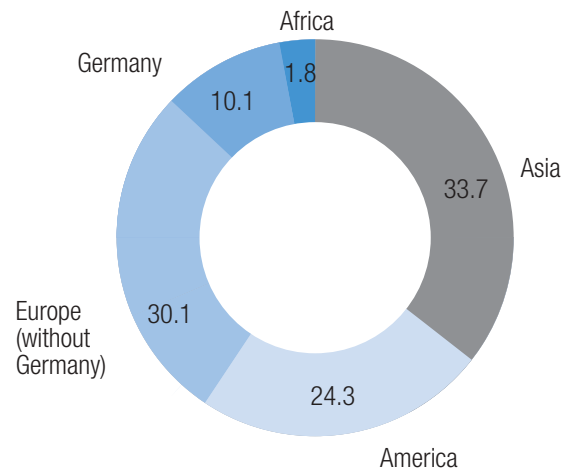
Europe (including Germany) was our most important sales region in 2004, capturing 40.2 % of total revenues (previous year 36.7 %). The decline in the Asian share to 33.7 % (previous year 40.3 %) became most evident during the second half of the year. The revenue share for North and South America totaled 24.3 % (previous year 21.3 %) and for Africa, 1.8 % (previous year 1.7 %).

Breakdown of revenues by region (in %)

2003



2004



Solid Earnings Growth Again

For the first time, the fiscal 2004 consolidated year-end closing for the SINGULUS TECHNOLOGIES Group was issued in accordance with the International Financial Reporting Standards (IFRS). Figures for fiscal 2003 were similarly adjusted to IFRS standards.

With a growth in Earnings before Interest and Taxes (EBIT) of approx 7 % to 73 million €, the EBIT ratio totals 17.2 %. The decline from last year (19.6 %) can be attributed primarily to the growth in other operating expenditures as well as the rise in administrative costs essentially due to the acquisition and integration of ODME B.V.

At 31.7 %, the gross margin for fiscal 2004 was identical to last year's figure. The price erosion affecting replication lines once again became quite noticeable in 2004. In this

regard, holding the gross margin at prior-year levels is satisfactory. This was achieved through a further reduction in purchase prices and by our product mix.

The average US Dollar exchange rate for SINGULUS was 1.22 US Dollars/€ in 2004. Compared to the 2003 rate of 1.11 US Dollars/€, this 10 % devaluation contributed to the price erosion in international markets.

Financial results for 2004 totaled 1.3 million € (prior year 2.5 million €). Profit before tax totaled 74.3 million €. This is a 3.4 million (+ 4.8 %) € increase compared to a year ago. The effective tax rate for the year under review totals 36.5 % (37.3 % a year ago).

EBIT (in million €)



Earnings per share (in €)



Order Backlog and Order Intake

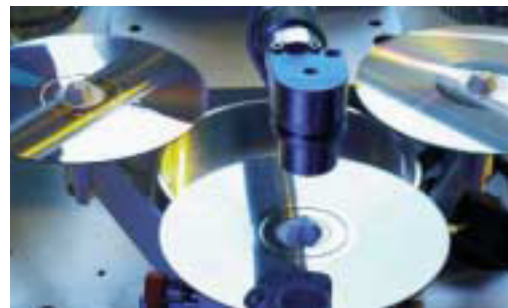
During the course of 2004, order intake totaled 417.6 million €. Approximately 31 % of these orders originated in Asia, while approx. 25 % originated in America (North and South America), and roughly 42 % in Europe. The remaining 2 % were distributed between Africa and Australia.

While the order intake for the first half of 2004 significantly surpassed that of the prior year, the 3rd and especially the 4th quarters were disappointing. Due to a significant decline in orders from Asia towards the end of fiscal 2004, the 56.7 million € order backlog on December 31, 2004 fell below the prior-year 90.4 million € order backlog.

Fixed Assets

Fixed assets (excluding long-term receivables and excluding the long-term portion of deferred tax assets) rose to 89.1 million €. Tangible assets accounted for 13.9 million € (15.8 million € last year) of this figure, 33.7 million € for development projects (previous year 19.1 million €), 31.2 million € for goodwill (previous year 13.0 million €) and 10.3 million € for other intangible assets (previous year 0.6 million €).

Depreciation of tangible assets and intangible assets totaled 10.8 million €. This includes depreciation of goodwill totaling 2.9 million €.



Balance Sheet and Liquidity

Overall, current assets (plus long-term accounts receivable) in 2004 rose by 11.3 million € (+ 4.1 %). This includes a 10.7 million € increase in liquidity.

At a 21.2 % growth in revenue for 2004, short- and long-term receivables for goods and services rose by just 2.3 %. This includes the initial consolidation of ODME. The stock value even declined slightly (- 0.4 %).

Short-term liabilities rose by 7.2 million € (+ 8.3 %). While accounts payables for goods and services declined, all other short-term liabilities increased. The increase in deferred tax liabilities is associated primarily with capitalization of development expenses as well as the realization of undisclosed reserves associated with the initial consolidation of ODME B.V.

As in previous years, cash discounts were used for trade payables in 2004 whenever possible. The increase in long-term assets resulted from the initial consolidation of the new SINGULUS MASTERING company for one and from the capitalization of development expenses in the course of adoption of the IFRS principles.

Equity and Earnings Utilization

The company's equity rose from 227.1 million € on 12/31/03 to 249.6 million € by the end of 2004. The retention of earnings from 2004 was an integral factor in this development. The equity ratio thus totals 65.7 % (previous year 69.4%). The return on equity, measured as the ratio between pre-tax earnings and equity, totaled 29.8% (previous year 31.3 %). All key financial figures for the SINGULUS Group were exceptional in 2004 again.

Assets (in million €)

Year	Total assets	Liquid funds	Inventories	Accounts receivable	Properties assets
2003	327.0	66.4	89.6	100.8	70.1
2004	380.1	77.1	95.0	100.4	107.6

- Liquid funds
- Accounts receivable
- Inventories
- Properties assets

Liabilities and Equity (in million €)

Year	Total assets	Short term liabilities	Long term liabilities	Total shareholders' equity
2003	327.0	86.8	13.1	227.1
2004	380.1	94.0	36.5	249.6

- Short term liabilities
- Long term liabilities
- Total shareholders' equity

The management of SINGULUS TECHNOLOGIES AG will recommend to the Annual Shareholders' Meeting to transfer the net earnings to the retained earnings. In accordance with Art. 16.3 of the company's statutes, half of the net earnings (22,315,581.44 €) have to be added to the retained earnings. The company's representatives will propose to the Annual Shareholders' Meeting to transfer the remaining part of the net earnings 11,157,790.72 € also to the retained earnings.

Share Buyback

On October 6, 2004, SINGULUS TECHNOLOGIES started a share buyback program authorized at the Annual Shareholders' Meeting on May 13, 2004. By February 28, 2005, more than 5 % of own shares were acquired. The company is convinced that a long-term share buyback program designed to significantly reduce the available number of SINGULUS shares outstanding over the course of several years could have lasting positive effects on the SINGULUS stock.

Growth

Internal as well as external growth occurred during fiscal 2004. The acquisition of ODME Mastering at the beginning of 2004 already made a positive contribution to the development of earnings for fiscal 2004.

Capital Expenditures and Financing

The gross addition to tangible assets of the SINGULUS TECHNOLOGIES Group totalled 6.5 million € for fiscal 2004. Property, rights equivalent to real property, and buildings on others' properties, made up approximately 22 % of the aforementioned figure.

Intangible assets rose by roughly 51 million €. Included in these are concessions, commercial property rights, and similar rights and assets, as well as licenses for such rights and assets (10.9 million €), the capitalization of development costs (18.9 million €) as well as goodwill (21.2 million €).

Capital expenditures for the year in report were financed entirely by the cash flow.

Cash Flow

The cash flow from business operations rose by 30.8 million € from 18.4 million € to 49.2 million € in fiscal 2004.

Trade accounts receivable once again developed favorably in comparison to revenues. Even the structure of trade accounts receivable continued to improve as long-term receivables continued a marked decline. Liquid assets increased by 10.7 million €.

Cash flow from business operations (in million €)

2003	18.4
2004	49.2

Risk Report / KonTraG

The SINGULUS TECHNOLOGIES Group conducts a quarterly review, analysis, and, in management's best estimate, an assessment of the company's various risk exposures. This risk report is presented to the Supervisory Board on an annual basis. The outcome is a comprehensive inquiry and assessment of the company's various risk categories within a clearly-defined timeframe.

During the Supervisory Board meetings, discussions are held and findings made pertaining to possible risks to the company's continued development. This applies to regularly-held Executive Board meetings as well. Individual risk categories include customer and management procurement and purchasing risks, IT management, project management, R&D, worldwide markets, production and quality assurance, as well as risk exposures at both our SINGULUS MASTERING and SINGULUS EMOULD manufacturing subsidiaries.

The procurement and purchasing divisions conduct periodic supplier credit assessments. The ability of our suppliers to make timely deliveries is also regularly monitored. This includes the turnover rate for raw material, supply, and fuel inventories as well as a product aging analysis.

IT management risks refer to the evaluation of possible server failures, information theft or unauthorized data access. Appropriate security systems have been put in place to address these issues.

The project management must ensure that internal and external logistical procedures are smoothly implemented. This is important in order to minimize the acceptance periods of our products at the customer site. Revenues are not recorded by SINGULUS TECHNOLOGIES until the machines have been accepted by the customer.

Also the R&D division has been integrated into the risk management report. The analysis of market needs and the assurance that our developments do not bypass these needs are substantial aspects of the R&D risk evaluation.

Another high risk exists in our sales and marketing division and is one of the most difficult to assess. It is imperative that risks arising from potentially erroneous assessments of individual markets or products are identified and evaluated. External data such as market research results as well as intensive contacts to companies such as SONY or PHILIPS help to better assess future developments.

Risk assessments for the production and quality control operations primarily address machine processes and possible deficiencies.

The company will try to reduce the risk of losing key employees by means of a new stock option plan.

The practice of hedging currency exposure is used to address currency risks that may arise through foreign currency billing. We did not deviate from this practice in 2004.

The credit standing of our customers is yet another risk. In order to assess these risks, evaluations are conducted on an ongoing basis, compiled monthly, and assessed. If necessary, bad debt provisions are made for risks that are considered critical.

In summary, it has been determined that the regulations of KonTraG are complied with in full. The instruments with which we monitor risks have been examined by our auditors and Supervisory Board. These instruments effectively identify risks endangering the company's survival in a timely manner. The Executive Board is confident that no risks jeopardizing the survival of the company are visible for either the current fiscal year or subsequent years.

The Environment as an element of our Company Philosophy

SINGULUS TECHNOLOGIES does not perform any machining functions typical in a classic machine manufacturing plant. Individual components for our machines are procured from suppliers and these prefabricated products are used to build our end products. As such, no environmental waste is generated during the manufacture of our machines. Electrical and water consumption are comparable to the usage of average mid-sized industrial plants. Occupational safety and environmental protection issues are regularly monitored by an outside safety representative and high standards apply. A company physician attends to the health concerns of our employees.

Post-Closing Events

On January 19, 2005, SINGULUS TECHNOLOGIES announced that an investment bank had been appointed to search for a partner for the company's MRAM activities. The involvement of a partner in the MRAM business is designed to increase sales prospects for our product.

Furthermore, a February 7, 2005, announcement publishing the preliminary figures for 2004 also disclosed that the SINGULUS TECHNOLOGIES Group would reduce its workforce by 120 employees worldwide. This was necessitated by projections placing 2005 revenue and earnings below those of 2004.

Forecast

Our forecast provides our assessment of the future prospects in our industry for 2005 and beyond. This mid-term view is designed to provide interested readers and investors with an impression extending beyond historical quarterly reporting.

Although the information and communication technology age began several years ago, a long-term perspective reveals that we are still in its very early stages. Optical storage media, or today's CD and DVD and tomorrow's HD DVD and Blu-ray formats, will still serve as audio and video storage media 10 years from now.

We will see a transformation in buying habits as evidenced by the transition in Asia from CD/DVD 5 to the superior-quality DVD 9, we will see a transformation of the competitive arena as evidenced by the withdrawal of some European business from CD and DVD replication line manufacturing, and we will see new competitors from Taiwan and China enter the market. Our industry must live with and is sustained by constant change. Nevertheless, the developments occur in a large, constantly growing mega-market. It is within this context that we reflect on the future of our business. Sporadic market slumps in individual regions of the world do not change our expectations for a continued positive overall development in our industry.

Positive advances were made in recent months in the important and seminal technologies for the third generation of optical storage media, HD DVD and Blu-ray, irrespective of the continual technological improvements being made to CD and DVD replication machines.

We are convinced and confident that, the HD DVD and Blu-ray formats will become an integral part of our market alongside the CD and DVD. The vastly improved playback quality of the DVD promoted its marketplace triumph over the VHS cassette years ago in much the same way HD DVD and Blu-ray, along with high-definition television, will be positioned beside the conventional DVD. The trend toward digitalization will continue in the future.

We expect that the successful introduction of third generation formats will generate additional sales and make an important contribution to safeguarding the future of our industry.

SINGULUS will achieve success as a leading supplier of replication lines for the third format generation along with its cooperation partners MEMORY-TECH and SONY, who both display a high level of commitment to HD DVD and Blu-ray, respectively.

In addition to forging alliances with development partners for new replication lines and unlike its competitors, SINGULUS has accessed the key industry of prerequisite products. The CD or DVD replication process begins with mastering. This is also true for the HD DVD and Blu-ray arena where, since 2004, we are well-positioned with SINGULUS MASTERING and where we will develop the technologies needed for third generation formats.

Optical disc, however, will not entirely determine our future. Another step was taken towards the successful diversification of our core business when the first machine for the optical coating of ophthalmic lenses was delivered in January of this year. This expansion of our fundamental business will provide significant contributions to our revenues and earnings within a few years time.

We have chosen a different path for MRAM. We are convinced that a well-positioned partner with access to the semiconductor industry will accelerate the success of our MRAM activities.

When looking at the current fiscal year 2005, numerous factors that place a burden on the market for optical storage media become apparent.

The near doubling within a year's time of the price of polycarbonate, the raw material used to produce the CD or DVD end product, means that our customers must now deal with clearly reduced margins. The outcome is a pronounced reluctance toward capital expenditures, particularly in the Asian market.

Europe and North America are not as seriously affected by this in part because these regions predominantly use machines for prerecorded discs. The margins on these content-filled discs are better than those for recordable discs. Consequently, the increase in the price of raw materials has not led to the same reluctance to invest seen in Asia.

It must be noted however that there is a lingering uncertainty with regard to the timing of the market launch of the third generation of optical discs, especially among the major DVD replicators in the USA and Canada. It is not yet

known whether both HD DVD and Blu-ray or just one of these formats will prevail in the market and when players and discs will finally be sold in larger quantities. This uncertainty could have a negative influence on the order quantities for individual machine types in 2005 regardless of the mid-term upswing these new formats are expected to provide for the business.

While we generally expect 2005 revenues and earnings to weaken compared to fiscal 2004, we are optimistic about the mid- to long-term prospects. For this reason, the company implemented a share buyback at the beginning of October 2004 and will recommend to the Annual Shareholders' Meeting in May 2005 that authorization for another share buyback be given the Executive Board. A share buyback will lead to a mathematical improvement in our earnings per share.

We are open to possible future acquisitions irrespective of a share buyback and, as in the past, will carefully weigh the prospects and risk factors involved.

Kahl, March 11, 2005

Roland Lacher Stefan A. Baustert Klaus Hammen

