

Annual Report 2004
SINGULUS TECHNOLOGIES

Focus on New Technologies



SINGULUS 



Financial Statements

Financial Statements

The Financial Statements for fiscal 2004 have been audited by Public Auditors Ernst & Young on February 22, 2005.

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Report of Independent Auditors

“We have audited the consolidated financial statements of SINGULUS TECHNOLOGIES AG, Kahl am Main, comprising the balance sheet, income statement, statement of changes in equity and cash flow statement as well as the notes to the consolidated financial statements, for the fiscal year from January 1 to December 31, 2004. The preparation and content of the consolidated financial statements are the responsibility of the Company’s management board. Our responsibility is to assess whether the consolidated financial statements comply with International Financial Reporting Standards (IFRSs) based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and the generally accepted German standards for the audit of financial statements promulgated by the IDW (“Institut der Wirtschaftsprüfer und Wirtschaftsprüfergesellschaften”):

Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and the disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the fiscal year in accordance with IFRSs.

Our audit, which also extends to the combined management report prepared by the management board for the fiscal year from January 1 to December 31, 2004, has not led to any reservations. In our opinion, the combined management report, together with the other disclosures in the consolidated financial statements, on the whole provides a suitable understanding of the Group's position and suitably presents the risks to future development. In addition, we confirm that the consolidated financial statements and the combined management report for the fiscal year from January 1 to December 31, 2004 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and a group management report in accordance with German law."

Eschborn/Frankfurt am Main, February 22, 2005

Ernst & Young AG

Wirtschaftsprüfungsgesellschaft

Bösser
Wirtschaftsprüfer
(German Public Auditor)

Weber
Wirtschaftsprüfer
(German Public Auditor)

Consolidated Balance Sheets as of December 31, 2003 und 2004

ASSETS

	Note	2004 K€	2003 K€
Cash and cash equivalents	5	77,148	66,425
Trade receivables	6	85,869	79,275
Other receivables and assets	7	9,143	10,351
Total receivables		95,012	89,626
Raw materials, consumables and supplies		30,951	27,208
Work in process		69,432	73,612
Total inventories	8	100,383	100,820
Total current assets		272,543	256,871
Non-current receivables	6	12,789	17,209
Property, plant and equipment	10	13,917	15,842
Capitalized development costs	9	33,685	19,102
Goodwill	9	31,249	12,953
Other intangible assets	9	10,275	567
Deferred tax assets	18	5,640	4,414
Total non-current assets		107,555	70,087
Total assets		380,098	326,958

LIABILITIES

	Note	2004 K€	2003 K€
Trade payables		24,312	28,957
Current bank liabilities	14	3,785	0
Other current liabilities	11	23,127	19,304
Advance payments received	12	21,255	19,116
Tax provisions	18	11,299	10,031
Other provisions	16	10,222	9,382
Total current liabilities		94,000	86,790
Non-current bank liabilities	14	10,313	0
Other non-current liabilities	13	3,826	719
Pension provisions	15	4,800	4,215
Deferred tax liabilities	18	17,583	8,180
Total non-current liabilities		36,522	13,114
Total liabilities		130,522	99,904
Share capital	17	35,392	37,064
Capital reserves	17	28,347	27,650
Other reserves		-5,518	-4,287
Accumulated profit		191,355	166,627
Total equity		249,576	227,054
Total equity and liabilities		380,098	326,958

Consolidated Income Statements for 2003 and 2004

	Note	2004		2003	
		K€	%	K€	%
Revenues (gross)	20	439,535	103.8	362,559	103.9
Sales deductions and direct selling costs	21	-15,993	-3.8	-13,771	-3.9
Revenues (net)		423,542	100.0	348,788	100.0
Cost of sales		-289,226	-68.3	-238,233	-68.3
Gross profit on sales		134,316	31.7	110,555	31.7
Research and development	23	-8,963	-2.1	-6,038	-1.7
Sales and customer service		-22,575	-5.3	-19,148	-5.5
General administration	22	-17,116	-4.0	-10,887	-3.1
Goodwill amortization		-2,905	-0.7	-1,692	-0.5
Other operating income/ (expenses)	24	-9,717	-2.3	-4,358	-1.2
Total operating expenses		-61,276	-14.5	-42,123	-12.1
EBIT		73,040	17.2	68,432	19.6
Interest income	25	4,203	1.0	4,044	1.2
Interest expense	25	-2,912	-0.7	-1,530	-0.4
EBT		74,331	17.5	70,946	20.3
Income taxes	18	-27,101	-6.4	-26,436	-7.6
Net income		47,230	11.2	44,510	12.8
Basic earnings per share (in €)		1.28		1.20	
Diluted earnings per share (in €)		1.28		1.20	
Weighted number of shares – basic		36,769,485		36,986,738	
Weighted number of shares – diluted		36,769,485		36,986,738	

Statement of Changes in Consolidated Equity as of December 31, 2003 and 2004

	Share capital K€	Capital reserves K€	Other reserves K€	Accumulated profit K€	Equity K€
Balance on January 1, 2003	36,947	26,950	- 1,380	122,117	184,634
Capital increase	117	700			817
Exchange differences in the fiscal year			- 2,907		- 2,907
Net income				44,510	44,510
Balance on December 31, 2003	37,064	27,650	- 4,287	166,627	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
Financial instruments			- 81		- 81
Net income				47,230	47,230
Balance on December 31, 2004	35,392	28,347	- 5,518	191,355	249,576

Consolidated Cash flow Statements 2003 and 2004

	2004		2003	
	K€		K€	
Cash flows from operating activities				
Profit for the period		47,230		44,510
Adjustment to reconcile consolidated profit for the period to income/expenses				
Depreciation/amortization on non-current assets	10,814		7,310	
Net allocation to pension provisions	585		1,452	
Other non-cash expenses/income	0		-1,126	
Deferred taxes	8,177	19,576	2,029	9,665
		66,806		54,175
Decrease/increase in assets and increase/decrease in equity and liabilities				
Trade receivables	9,348		-25,813	
Other receivables and assets	8,571		3,245	
Capitalized development costs	-18,909		-12,148	
Inventories	725		-14,486	
Trade payables	-16,824		3,502	
Other liabilities	-805		1,002	
Advance payments received	2,139		7,132	
Tax provisions	-1,625		3,932	
Other provisions	-194	-17,574	-2,154	-35,788
Net cash flow from operating activities		49,232		18,387

	2004		2003	
	K€		K€	
Cash flows from investing activities				
Investments in assets	-8,126		-8,866	
Disposals of assets (net)	5,952		3,622	
Cash paid for the acquisition of consolidated companies	-23,807	-25,981	0	-5,244
Net of cash and cash equivalents acquired		-25,981		-5,244
Cash flows from financing activities				
Cash paid to redeem shares	-24,290		0	
Cash paid to redeem loans	-2,573		0	
Cash received from the raising of loans	14,098		0	
Issue/redemption of convertible bonds	-24		-250	
Capital increase	764	-12,025	769	519
Net cash flow from financing activities		-12,025		519
Increase in cash and cash equivalents		11,226		13,662
Effect of exchange rate changes		-503		-1,152
Cash and cash equivalents at the beginning of the fiscal year		66,425		53,915
Cash and cash equivalents year-end		77,148		66,425
<i>Cash paid in the fiscal year for</i>				
<i>Interest</i>		331		117
<i>Taxes</i>		13,911		14,597
<i>Cash received in the fiscal year for</i>				
<i>Interest</i>		5		0
<i>Taxes</i>		0		430

Statement of Non-current Assets in Fiscal Year 2004

	Cost				
	Jan. 1, 2004 K€	Additions K€	Disposals K€	Reclassi- fications K€	Exchange rate differences K€
Property, plant and equipment					
Land, land rights and buildings, including buildings on third-party land	11,247	1,444	5,891	235	0
Technical equipment and machines	1,155	3,067	16	0	24
Other equipment, furniture and fixtures	8,594	1,746	40	0	36
Leased assets	1,574	0	1,574	0	0
Payments on account and assets under construction	235	194	0	-235	0
	22,805	6,451	7,521	0	60
Intangible Assets					
Franchises, industrial and similar rights and assets, and licenses in such rights and assets	1,713	10,869	0	0	0
Development costs	21,629	18,909	0	0	0
Goodwill	16,539	21,200	0	0	0
	39,881	50,978	0	0	0
	62,686	57,429	7,521	0	60

Accumulated Amortization/Depreciation					Carrying Amounts		
Dec. 31, 2004 K€	Jan. 1, 2004 K€	Allocations K€	Reversals K€	Exchange rate differences K€	Dec. 31, 2004 K€	Dec. 31, 2004 K€	Dec. 31, 2003 K€
7,035	848	294	325	0	817	6,218	10,399
4,230	496	343	2	13	850	3,380	659
10,336	4,637	1,606	49	17	6,211	4,125	3,957
0	982	181	1,163	0	0	0	592
194	0	0	0	0	0	194	235
21,795	6,963	2,424	1,539	30	7,878	13,917	15,842
12,582	1,146	1,161	0	0	2,307	10,275	567
40,538	2,527	4,326	0	0	6,853	33,685	19,102
37,739	3,585	2,905	0	0	6,490	31,249	12,954
90,859	7,258	8,392	0	0	15,650	75,209	32,623
112,654	14,221	10,816	1,539	30	23,528	89,126	48,465

SINGULUS TECHNOLOGIES AG

Notes to the Consolidated Financial Statements as of December 31, 2004

Note 1 – General Information

The consolidated financial statements present the operations of SINGULUS TECHNOLOGIES AG, Hanauer Landstrasse 103, 63796 Kahl am Main 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 have been prepared for the first time in accordance with the International Financial Reporting Standards (IFRSs). In preparing the IFRS consolidated financial statements, IFRS 1 “First-Time Adoption of International Accounting Standards” was applied. The date of transition to IFRSs is January 1, 2003. The last US GAAP financial statements were prepared for the period ending December 31, 2003.

When preparing the opening IFRS balance sheet as of January 1, 2003, which serves as the basis for IFRS accounting, the Company carried out the following steps:

- a) Recognized all assets and liabilities whose recognition is required by the IFRSs
- b) Did not recognize items as assets or liabilities if IFRSs do not permit such recognition
- c) Reclassified items that were recognized under US GAAP as one type of asset, liability or component of equity, but qualify as a different type of asset, liability or component of equity under IFRSs
- d) Applied the IFRSs in measuring all recognized assets and liabilities

All changes resulting from the transition to IFRSs were offset against revenue reserves in the opening IFRS balance sheet.

When converting to IFRS accounting, SINGULUS made use of the exemption under IFRS 1 relating to employee benefits in that it recognized all cumulative actuarial gains and losses at the date of transition.

Along with IFRS 1, 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 2004 were likewise applied.

The consolidated financial statements are in compliance with the 7th EU Directive based on the interpretation of German Accounting Standard 1 (GAS 1), “Exempting Consolidated Financial Statements in Accordance with Sec. 292a HGB”. Since the Company is listed on a German stock exchange, it has been exempted under German commercial law from its duty to prepare and disclose consolidated financial statements according to German generally accepted accounting principles (German GAAP).

German GAAP differs in some respects from the IFRSs. As the Company maintains its books and records in accordance with German GAAP, certain adjustments were necessary in order to prepare the IFRS consolidated financial statements. These adjustments mainly relate to consolidation differences, the recognition of leases and pension liabilities, and the treatment of hedging transactions and development expenses.

Note 2 – Business Operations

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.

Note 3 – Significant Accounting Principles

Consolidation Principles

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 Paulo, 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, 2004 and 2003. The total value of the share of losses attributable to minority interest not recognized is € 5k as of December 31, 2004, and € 19k as of December 31, 2003.

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 the fiscal year, 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.

Foreign Currency Translation

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.

Use of Assumptions

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 stated in the balance sheet as well as the disclosure of contingent assets and liabilities at the balance sheet date and on the income and expenses during the reporting period. Actual results may differ from these estimates and assumptions.

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.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

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 38.45 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. After initial recognition, these intangible assets are carried at amortized cost.

Intangible assets, excluding development costs, created within the Company are not capitalized; associated costs are expensed as incurred.

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.

Property, Plant and Equipment

Property, plant and equipment are carried at cost of purchase less straight-line depreciation. Depreciation is charged over the economic lives of the assets.

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 is a lessee of property, plant and equipment and a lessor of machines (replication lines). 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 incurred lease expenses are recognized as expenses in the full amount.

Assets leased from the Company under operating leases are recognized at cost of conversion and depreciated using the straight-line method over an expected useful life of five years. The related lease income is recognized in income on a straight-line basis over the term of the leases.

Impairment of Assets

Property, plant and equipment and intangible assets (including goodwill) are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized as soon as the carrying amount exceeds the amount recoverable. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Cash flows are determined in accordance with IAS 36. The recoverable amount is estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs.

In fiscal years 2004 and 2003, no events or changes in circumstances occurred that could indicate an impairment.

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 Taxes

Deferred taxes are recognized for all temporary differences between the tax balance sheet and the consolidated balance sheet. In addition, deferred tax assets resulting from loss carryforwards are recorded if it is likely that they will be used.

Deferred taxes are recognized in the amount expected to be paid or recovered in subsequent fiscal years based on the tax rate enacted at the time of recognition. 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 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.

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 vested benefits as of the balance sheet date and the increases in salaries and pensions to be expected in the future.

Provisions for Taxes

The provisions for taxes include obligations arising from current income taxes. Deferred taxes are disclosed separately in the balance sheet.

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 may not be offset against contingent assets.

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 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. IAS 19 (Employee Benefits), which is still applicable to fiscal year 2004, does not specify recognition and measurement requirements for equity compensation benefits. The disclosures in the notes required by IAS 19 are given in Note 13.

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.

Derivative Financial Instruments

The Company concludes foreign currency forward contracts to hedge foreign currency risks from trade receivables. These financial instruments are not used for speculative purposes. The Company has detailed regulations for checking the credit ratings of its counterparties.

In order to hedge foreign currency risks from trade receivables, the Company had concluded foreign currency forward contracts of USD 16.6m as of December 31, 2004 (December 31, 2003: USD 7.9m). 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 likewise carried at fair value. 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.

Note 4 – Significant Effects of Transition to IFRSs

SINGULUS TECHNOLOGIES AG has chosen to apply the IFRSs for the first time for fiscal year 2004. The date of transition to IFRSs is January 1, 2003. The last US GAAP financial statements were prepared for the period ending December 31, 2003.

Reconciliation of equity and profit or loss:

	Jan. 1, 2003 K€	Changes 2003 K€	Dec. 31, 2003 K€
Equity under US GAAP			
Share capital	36,947	117	37,064
Reserves	26,950	700	27,650
Accumulated other comprehensive income	-1,523	-3,238	-4,761
Revenue reserves	119,257	40,257 ^{a)}	159,514
Total equity	181,631	37,836	219,467
Effects of Transition to IFRSs			
1. Goodwill	-1,893	-1,692	-3,585
2. Intangible assets – pensions	-191	63	-128
3. Development costs	8,850	10,252	19,102
4. Pension provision	-496	-161	-657
5. Deferred taxes	-3,266	-3,878	-7,144
Total effects	3,004	4,584^{b)}	7,588
Adjustment of items recorded in equity under US GAAP			
6. Difference from pension measurement	143	331	474
Total adjustments	143	331	474
Equity under IFRSs			
Share capital	36,947	117	37,064
Reserves	26,950	700	27,650
Other reserves	-1,380	-2,907	-4,287
Revenue reserves	122,117	44,510 ^{c)}	166,627
Total equity	184,634	42,420	227,054

a) Net profit for 2003 under US GAAP

b) Transition effects on net profit

c) Net profit for 2003 under IFRSs

Reconciliation Notes

1. SINGULUS has opted for full retrospective application of the IFRSs regarding business combinations and not for the simplifications specified under IFRS 1. The goodwill resulting from a business combination is amortized over an economic life of 15 years (mastering business) and five years (injection molding business), respectively. As of January 1, 2003 and December 31, 2003, this led to a reduction in goodwill of € 1,893k and € 3,585k, respectively. Goodwill amortization in fiscal year 2003 amounted to € 1,692k.

In March 2004, the IASB passed the first set of new rules for business combinations, which, akin to US GAAP, include the requirement to conduct an annual impairment test from 2005. SINGULUS will therefore only conduct an annual impairment test for goodwill resulting from business combinations dating back prior to March 31, 2004 from fiscal year 2005.

2. US GAAP statement SFAS 87, "Employee Benefits" regarding the recognition of pension liabilities requires that an additional minimum pension liability be recognized once a certain level of underfunding has been reached. In this context, an intangible pension asset must be recognized up to the amount of the unrecognized prior service cost. If no unrecognized prior service cost exists or is not sufficient, an offsetting entry is made in other comprehensive income, less the deferred tax effect.

As IAS 19, "Employee Benefits", does not provide for additional minimum pension liabilities, the intangible pension asset recognized under US GAAP in connection with the pension measurement was not recognized under IFRSs.

3. Under US GAAP, development costs were expensed as incurred. According to IAS 38, "Intangible Assets", development costs are capitalized if the conditions defined therein are met. As such, the Company capitalized development costs of € 8,850k and € 19,102k on January 1, 2003 and December 31, 2003, respectively. Taking account of the related amortization charges, this increased profit in fiscal year 2003 by € 10,252. In this regard, we also refer to our comments in Note 3.
4. The Company recognized all cumulative actuarial gains and losses resulting from the initial recognition of pension liabilities according to IAS 19, "Employee Benefits" at the date of transition to IFRSs. Taking account of the further differences arising from measurement according to SFAS 87 and IAS 19, the pension provision as of January 1, 2003 and December 31, 2003, increased by € 496k and € 657k, respectively.
5. Due to the aforementioned transition effects, deferred tax liabilities increased as of January 1, 2003 and December 31, 2003 by € 3,186k and € 6,877k, respectively. Deferred tax assets decreased on these dates by € 80k and € 267k, respectively.
6. As explained under Section 2 of the Reconciliation Notes, the "additional minimum pension liability" principle under US GAAP provides for the recognition of certain amounts in other comprehensive income. As this principle does not exist under IAS 19, corresponding adjustments were made to revenue reserves as of January 1, 2003 and to profit for fiscal year 2003.

There are no material differences between the cash flow statement prepared according to IFRSs and the cash flow statement presented under US GAAP.

Note 5 – Cash and Cash Equivalents

	2004 K€	2003 K€
Cash at bank and in hand	77,082	65,884
Bills with an original maturity of up to three months	66	541
	77,148	66,425

Note 6 – Trade Receivables

	2004 K€	2003 K€
Current trade receivables	92,406	82,169
Non-current trade receivables	12,937	17,209
Less bad debt allowances	(6,685)	(2,894)
	98,658	96,484

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

Note 7 – Other Receivables and Assets

	2004 K€	2003 K€
Tax refunds	2,558	2,772
Advance payments	1,777	1,503
Prepaid expenses	1,540	1,815
Foreign currency forward contracts at fair value	1,188	1,540
Credit with suppliers	220	1,048
Employee loans	177	171
Accrued interest	3	27
Insurance claims	0	70
Other	1,680	1,405
	9,143	10,351

With regard to the fair value of foreign currency forward contracts, we refer to “Derivative Financial Instruments” in Note 3.

Note 8 – Inventories

Inventories break down as follows:

	2004 K€	2003 K€
Raw materials, consumables and supplies	35,588	32,279
Work in process	72,139	73,612
Less allowances for potential losses	(7,344)	(5,071)
	100,383	100,820

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

Note 9 – Intangible Assets

€ 18,909k of the development costs incurred in fiscal year 2004 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. € 3,818k of the purchase price was mainly allocated to intangible assets. The resulting goodwill of € 21,198k was amortized in the fiscal year, 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.

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 the explanatory notes.

Note 10 – Property, Plant and Equipment

As regards the development of property, plant and equipment, we refer to the appendix to the explanatory notes.

Note 11 – Other Current Liabilities

	2004 K€	2003 K€
Sales commissions for foreign sales agents	4,401	4,858
Annual bonus	2,921	2,288
Outstanding invoices	2,664	1,444
Other personnel liabilities	1,793	1,405
Accrued vacation/flexitime/free time	1,548	1,415
Audit, legal and consulting fees	1,247	450
Deferred interest portion of installment arrangements	1,147	1,925
Tax liabilities	1,129	1,112
Liabilities for social security insurance	1,113	708
Patent liabilities	1,000	0
Outstanding credit notes	917	595
Current portion of convertible bonds	779	639
Outstanding wages and salaries	738	272
Other	1,730	2,193
	23,127	19,304

For details on liabilities from convertible bonds, we refer to Note 13.

Note 12 – Advance Payments Received

	2004 K€	2003 K€
Advance payments received from customers	21,255	19,116

Advance payments received as of December 31, 2004 and 2003 mainly relate to advance payments for replication lines, which are disclosed in inventories under work in process.

Note 13 – Other Non-Current Liabilities

€ 3,322k 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.

	2004 K€	2003 K€
Non-current portion of convertible bonds	504	719

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 € 1,800,000 and a maturity up to December 31, 2010 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 3 for 1 share split and another 2 for 1 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 % may be converted on each conversion date thereafter (May 31 and November 30 of each year up to 2005). As of the balance sheet date, the nominal value of the outstanding convertible bonds of this tranche is € 5k.

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 2 for 1 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 2 for 1 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 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 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 September 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.

As of December 31, 2004, the total value of all four tranches of convertible bonds amounted to € 1,284k. Based on the stipulated conversion dates, the value at maturity of the convertible bonds is as follows:

	K€
Due in 2005	779
Due in 2006	235
Due in 2007	162
Due in 2008	87
Due in 2009	21
	1,284

According to the above table, the current portion of convertible bonds due within one year (€ 779k) is disclosed under other current liabilities as of the balance sheet date.

Note 14 – Bank Liabilities

As of December 31, 2004, there are bank liabilities of € 14,063k, which are 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. As of year-end, the interest rate is 2.679 %.

Note 15 – Pension Liabilities

In Germany, the Company sponsors a pension plan for employees who were taken over 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, 2004 is presented as follows:

	2004 K€	2003 K€
Change in pension liabilities:		
Projected benefit obligation at the beginning of the fiscal year	4,215	3,260
Service cost	257	149
Interest expense	219	185
Actuarial losses	187	700
Benefits paid in the fiscal year	(78)	(79)
Projected benefit obligation at the end of the fiscal year	4,800	4,215

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

	2004	2003
Discount rate	5.00 %	5.25 %
Increase in wages and salaries	3.00 %	3.00 %
Future pension increase	1.50 %	1.50 %

Net pension expenses break down as follows:

	2004 K€	2003 K€
Service cost	257	149
Interest expense	219	185
Actuarial gains/losses	187	700
	663	1,034

Note 16 – Other Provisions

Other provisions developed as follows in the fiscal year:

	Jan. 1, 2004 €	Utilization €	Reversal €	Allocation €	Dec. 31, 2004 €
Provisions for warranties	8,739	7,857	310	9,365	9,937
Buy-back obligations	350	0	175	0	175
Other	293	183	0	0	110
	9,382	8,040	485	9,365	10,222

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 % for all sales and 6 % 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.

Note 17 – 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 capital stock amounts to a total of € 35,569,387 and consists of 35,569,387 ordinary bearer shares with a nominal value of € 1 each. 177,402 of these shares were acquired for the purpose of cancellation. As the shares in question had not been cancelled as of the balance sheet date, their nominal value of € 177,402 was disclosed separately in the balance sheet under share capital. The year-on-year change in capital stock is chiefly attributable to a capital repayment of € 1,611,417.00 in connection with the acquisition and cancellation of the Company's own shares. By contrast, the increase in capital stock of € 116,490.00 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 11, "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 1). 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 2). 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 € 697k in fiscal year 2004 and by € 4,203k in the prior years.

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, 2004, the Company's separate financial statements show an accumulated profit of € 11,158k and revenue reserves of € 110,403k.

Note 18 – 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.

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

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 an additional tax risk of approximately € 5.8m plus interest (approximately € 3.2m) 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 defects, 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. Due to the suspension of execution granted, the Company did not recognize a provision for this potential risk.

Besides this contingency, provisions for taxes (2004: € 11,299k; 2003: 10,031k) include a provision for corporate income tax set up in prior years of € 5,113k, as the acceptance of the use of the corporate income tax loss carryforward in prior years by the tax authorities is still subject to a final tax field audit.

As of December 31, 2004 and 2003, income tax data are presented as follows:

	2004 K€	2003 K€
Earnings before tax:		
Germany	54,871	56,456
Abroad	24,148	17,013
	79,019	73,469
Consolidation adjustments	(4,688)	(2,524)
	74,331	70,945
Current income tax:		
Germany:		
Corporate income tax	9,434	9,938
Trade tax	5,679	5,415
Abroad		
Tax expenses	6,990	5,363
	22,103	20,716
Deferred taxes:		
Germany	5,260	5,655
Abroad	(262)	65
Total tax expenses	27,101	26,436

Under German tax law, taxes on income are composed of corporate income tax, trade taxes and the solidarity surcharge. Deferred taxes are recorded for all major temporary differences between the commercial and tax balance sheets and for consolidation measures.

Deferred tax assets break down as follows:

	2004 K€	2003 K€
Differences between the commercial and tax balance sheets due to		
Inventory allowances	2,311	1,790
Other provisions/liabilities	232	299
Warranty provisions	959	804
Bad debt allowances	305	293
Other differences between the commercial and tax balance sheets	643	338
Consolidation adjustments	1,190	890
	5,640	4,414

Deferred tax liabilities break down as follows:

	2004 K€	2003 K€
Capitalized development costs	12,127	6,877
Disclosed hidden reserves from first-time consolidation	3,206	244
Difference between the commercial and tax balance sheets	2,250	1,059
	17,583	8,180

The German statutory tax rate (for corporate income tax, trade tax and solidarity surcharge) was approximately 36.0 % for 2004 and approximately 37.3 % for 2003. The reconciliation from the statutory tax rate to the effective tax rate is as follows:

	2004	2003
Statutory tax rate	36.0 %	37.3 %
Differences in foreign tax rates	-2.1 %	-1.9 %
Non-tax deductible items (incl. goodwill amortization)	1.9 %	1.2 %
Tax refunds/backpayments for prior years	0.7 %	0.7 %
Effective tax rate	36.5 %	37.3 %

Note 19 – Contingent Liabilities and Other Financial Obligations

Contingent liabilities and other financial obligations not recognized in the consolidated balance sheet amount to € 49,215k (prior year: € 41,208k) and represent buy-back guarantees given to leasing companies relating to the sale of replication lines (€ 33,307k; prior year: € 25,143k) and contingent liabilities in connection with the discount of bills (€ 15,908k; prior year: € 16,065k). 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.

Note 20 – Segment Reporting

The product groups of the Company are comparable with regard to both 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

	2004 K€	2003 K€
Prerecorded CDs/DVDs	268,106	229,976
Recordable CDs/DVDs	82,998	74,657
Mastering systems	43,877	16,934
Service and other	44,554	40,992
	439,535	362,559

Geographical information as of December 31, 2004

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

Geographical information as of December 31, 2003

	Germany K€	Rest of Europe K€	Americas K€	Asia K€	Africa K€
Revenue by					
Country of origin	326,850	19,195	10,082	6,432	0
Destination	19,232	113,962	77,185	145,934	6,246

**Note 21 –
Sales Deductions and Direct Selling Costs**

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

**Note 22 –
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.

**Note 23 –
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 € 4,326k (prior year: € 1,896k).

**Note 24 –
Other Operating Income/Expenses**

Other operating expenses primarily comprise expenses resulting from bad debt allowances (€ 3,301k; prior year: € 1,786k) as well as maintenance costs (€ 3,229k; prior year: € 1,628k). Other operating income mainly relates to income from the reversal of bad debt allowances (€ 109k, prior year: 4,343k).

**Note 25 –
Interest Income/Expenses**

Interest income/expenses break down as follows:

	2004 K€	2003 K€
Interest income from non-current receivables from customers	3,622	3,423
Interest income from time deposits	576	589
Other interest income	5	32
Interest expenses	(2,912)	(1,530)
	1,291	2,514

Note 26 – Rentals and Leases

As of December 31, 2004, future minimum payments arising from rental agreements and operating leases are:

	K€
2005	1,637
2006	1,637
2007	1,637
2008	1,481
2009	1,481
2010 and beyond	10,846
	18,719

Lease expenses amounted to € 1,122k in 2004 and € 1,103k in 2003.

Note 27 – Events After the Balance Sheet Date

Events after the balance sheet date which provide further evidence of conditions that existed at year-end and bring about new findings and affect the Group's financial position as of the balance sheet date are recognized in the consolidated financial statements. Events after the balance sheet date which are not recognized as of the balance sheet date in the consolidated financial statements are disclosed in the notes and management report if material.

Note 28 – 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 purpose. 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 2004 were:

Alexander von Engelhardt, Kronberg (Taunus)	Chairman
William Slee, London	Deputy Chairman
Thomas Geitner, Köln	

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 US GAAP, 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 € 353k (prior year: € 352k).

The following supervisory board members hold shares in the Company:

	No. of shares as of December 31	
	2004	2003
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	<ul style="list-style-type: none"> ■ WashTec AG (Chairman) ■ Dr. Schmidt AG & Co. (Deputy Chairman) ■ Gütermann AG ■ Tarkett Sommer AG
William Slee	Supervisory board	<ul style="list-style-type: none"> ■ The Game Group plc, UK (Non-Executive Director) ■ Dimon Inc., Danville, Virginia, USA (Non-Executive Director) ■ ECOFIN Water + Power Opportunities plc., UK (Non executive Director)
Thomas Geitner	Executive Director Vodafone Group plc.	<ul style="list-style-type: none"> ■ Vodafone D2 GmbH, Düsseldorf ■ Arcor AG & Co., Eschborn (Chairman)

Members of the management board in fiscal year 2004 were:

Roland Lacher Chairman
 Stefan A. Baustert
 Klaus Hammen
 Dr. Reinhard Wollermann-Windgasse (until June 30, 2004)

The management board received total remuneration of € 2,089k in the period under review. This breaks down as follows:

	Fixed K€	Variable K€	Total K€
Roland Lacher	360	312	672
Stefan Baustert	267	312	579
Klaus Hammen	240	312	552
Dr. Reinhard Wollermann-Windgasse	130	156	286
	997	1,092	2,089

The following convertible bonds are held by the management board members Roland Lacher (indirectly via VVG Roland Lacher GbR), Stefan Baustert and Dr. Reinhard Wollermann-Windgasse:

	No. of convertible bonds as of December 31	
	2004	2003
VVG Roland Lacher GbR	0	4,050
Stefan Baustert	160,000	80,000
Dr. Reinhard Wollermann-Windgasse	110,000	50,000
	270,000	134,050

Furthermore, VVG Roland Lacher GbR holds 141,750 shares in the Company (prior year: 117,450)

Note 29 – Disclosures on Shareholdings

	Currency	Shareholding %	Shareholders' equity in thousands	Profit in thousands
Germany:				
SINGULUS EMOULD GmbH, Würselen, Germany	€	100	862	2,782
Abroad:				
SINGULUS TECHNOLOGIES Inc., Windsor, USA	USD	100	13,938	7,161
SINGULUS TECHNOLOGIES UK Ltd., Swindon, UK	GBP	100	1,549	468
SINGULUS TECHNOLOGIES ASIA PACIFIC Pte. Ltd., Singapore	SGD	100	8,808	8,341
SINGULUS TECHNOLOGIES LATIN AMERICA Ltda., Sao Paulo, Brazil	R\$	91.5	1,980	2,759
SINGULUS TECHNOLOGIES IBERICA S. L., Sant Cugat del Vallés, Spain	€	100	1,036	671
SINGULUS VIKA CHINA Limited, Wanchai, Hong Kong	HKD	51	52	297
SINGULUS TECHNOLOGIES FRANCE S. A. R. L., Valence, France	€	100	978	1,335
SINGULUS TECHNOLOGIES ITALIA s. r. l., Ancona, Italy	€	99.99	882	351
SINGULUS MASTERING B. V., Eindhoven, Netherlands	€	100	17,007	3,290
SINGULUS TECHNOLOGIES TAIWAN Ltd., Taipei, Taiwan	TWD	100	2,475	9,308
SINGULUS MOLDING AG, Schaffhausen, Switzerland	CHF	100	13,109	0

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 Paulo, 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.

Note 30 – 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 USD 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, 2004, there are bank liabilities of € 14,063k, which are the result of two loans granted in October 2004 in the amount of € 15,000k. The interest rate on the loans is adjusted to the 3-month EURIBOR 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.

Note 31 – Employees

In the fiscal year, the Company had an annual average of 707 permanent employees. In the prior year, the annual average was 543.

Note 32 – Corporate Governance

The management board and the supervisory board have made the declaration for 2004 pursuant to Sec. 161 AktG [“Aktengesetz”: German Stock Corporation Act] and made this available to shareholders on a permanent basis.

Kahl am Main, February 22, 2005

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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