



## Report of the Executive Board

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### *Dear Shareholders,*

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

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

The combination of excess capacities at producers for once-recordable discs, which are mainly produced in Asia, and a rise in cost of the raw material polycarbonate of more than 200 % led to a significant decline in demand for our products in the Asian markets in the business year 2005. But also in the US and in Europe the demand was very subdued compared with the

previous fiscal year due to the sharp build-up of capacity in 2004. In addition, there were uncertainties with regards to the formats of the third generation. The conflict between HD DVD on the one hand and Blu-ray on the other hand resulted in restrained new investments.

### *Cost reduction program enhances profitability.*

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

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

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

**Roland Lacher**

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

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

**Stefan A. Baustert**

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

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

**Klaus Hammen**

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

**\_Roland Lacher**

Chief Executive Officer



**\_Stefan A. Baustert**

Chief Financial Officer



**\_Klaus Hammen**

Vice President Marketing & Sales



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

***New business areas with positive trends.***

First orders were received for the TMR deposition technology and also the ophthalmic lens coating division recorded its first purchase in February 2006.

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

***Acquisition of STEAG HamaTech concluded.***

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

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

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

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

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

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

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

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

Thank you for your trust.

Yours sincerely,

The Executive Board



Roland Lacher



Stefan A. Baustert



Klaus Hammen

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