



New Products.

The LBR 266.

SINGULUS TECHNOLOGIES presented the new mastering system LBR 266 for the first time at the MEDIA-TECH Expo in Las Vegas.

The LBR 266 is specifically tailored to the requirements of the new formats HD DVD and Blu-ray.



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Report of Independent Auditors

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

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to

possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the system of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

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

Ernst & Young AG

Wirtschaftsprüfungsgesellschaft

Bösser
Wirtschaftsprüfer
[German Public Auditor]

Weber
Wirtschaftsprüfer
[German Public Auditor]

Consolidated Balance Sheets as of December 31, 2004 and 2005

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

LIABILITIES

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

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

Consolidated Income Statements for 2004 and 2005

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

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

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

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

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

Consolidated Cash flow Statements for 2004 and 2005

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

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

	2005 [K€]		2004 [K€] [restated*]	
Cash flows from investing activities				
Investments in assets	-4,716		-8,126	
Disposals of assets (net)	13		5,952	
Cash paid for available-for-sale financial assets	-5,236		0	
Cash paid for the acquisition of consolidated companies net of cash and cash equivalents received	0	-9,939	-23,807	-25,981
Net cash flow from investing activities		-9,939		-25,981
Cash flows from financing activities				
Cash paid to redeem shares	-5,161		-24,290	
Cash paid to redeem loans	-3,754		-2,573	
Change in liabilities from discounted bills	-2,807		14,255	
Issue/redemption of convertible bonds	-272		-24	
Capital increase from the conversion of convertible bonds	70	-11,924	764	-11,868
Net cash flow from financing activities		-11,924		-11,868
Decrease/increase in cash and cash equivalents		-13,539		11,226
Effect of exchange rate changes		4,110		-503
Cash and cash equivalents at the beginning of the fiscal year		77,148		66,425
Cash and cash equivalents at year-end		67,719		77,148
<i>Cash paid in the fiscal year for</i>				
Interest		67		331
Taxes		3,015		13,911
<i>Cash received in the fiscal year for</i>				
Interest		712		5
Taxes		0		0

Statement of Non-current Assets in Fiscal Year 2005

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

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

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

[1] General Information

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

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

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

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

[2] Business Activities

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

[3] New Accounting Standards

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

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

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

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

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

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

Apart from the IFRSs whose application is mandatory for fiscal year 2005, the IASB has also published other IFRSs and IFRICs which have already received EU endorsement but which will only become mandatory at a later date. Below, only those standards and interpretations which could be relevant for the Company are described. Voluntary early application of these standards and interpretation is explicitly

permitted or encouraged. However, the Company does not make use of this option.

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

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

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

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

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[4] Retrospective Adjustments

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

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

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

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

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

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

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

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

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

[5] Significant Accounting Principles

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

The following subsidiaries are included in the consolidated financial statements:

- _ SINGULUS EMOULD GmbH, Würselen, Germany
- _ SINGULUS MASTERING B.V., Eindhoven, Netherlands
- _ SINGULUS MASTERING INTERNATIONAL GmbH, Schaffhausen, Switzerland
- _ SINGULUS MOLDING AG, Schaffhausen, Switzerland
- _ SINGULUS TECHNOLOGIES Inc., Windsor, USA

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

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

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

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

Acquisitions. With effect as of January 9, 2004, the Company acquired all shares in ODME B.V., Eindhoven, Netherlands, for a purchase price of € 23,813k. The purchase price was paid in full from the Company's cash and cash equivalents. The Company accounted for the acquisition

in accordance with IAS 22. € 3,818k of the purchase price was mainly allocated to intangible assets. The resulting goodwill of € 21,198k was amortized in fiscal year 2004, assuming a useful life of 15 years. From fiscal year 2005, no further amortization of goodwill will be charged due to the application of IFRS 3.

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

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

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

Management's Use of Judgment and Main Sources of Estimating Uncertainties.

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

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

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

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

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

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

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

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

Software	3 years
Patents	8 years

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The economic lives are estimated as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[6] Cash and Cash Equivalents

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

[7] Trade Receivables

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

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

[8] Other Receivables and Assets

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

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

[9] Inventories

Inventories break down as follows:

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

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

[10] Intangible Assets

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

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

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

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

[11] Available-For-Sale Financial Assets

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

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[12] Property, Plant and Equipment

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

[13] Other Current Liabilities

	2005 [K€]	2004 [K€]
Sales commissions for foreign agents	5,322	4,401
Outstanding liabilities to personnel	3,710	4,079
Outstanding invoices	2,293	2,664
Deferred interest portion of installment payment plans	1,043	1,147
Tax liabilities	1,020	1,129
Liabilities from the acquisition of patents	1,000	1,000
Financial statement, legal and consulting fees	843	1,247
Liabilities in connection with social security	788	1,113
Current portion of convertible bonds	738	779
Forward exchange contracts at fair value	739	0
Employee bonuses	559	2,921
Outstanding credit notes	42	917
Other	1,118	1,730
	19,215	23,127

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

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

[14] Advance Payments Received

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

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

[15] Other Non-Current Liabilities

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

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

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

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

On November 30, 1997, 150,000 convertible bonds with a nominal value of € 383k and an interest rate of 6 % p. a. were issued. Each DEM 5 (€ 2.56) in nominal value of the convertible bonds may be converted into six shares with a nominal value of € 1. The conversion rate for six shares with a nominal value of € 1 each equaled the placement price (€ 41.93) less the nominal value at which a share with a nominal value of DEM 5 (€ 2.56) was issued during the Company's IPO. Considering a three-for-one share split and another two-for-one share split, the current conversion rate is € 6.99. In 1998 and 1999, convertible bonds with a nominal value of € 38k were returned by employees who have left the Company. In 1999, 2000, 2001, 2002 and

2003, 114,203 of the convertible bonds with a total nominal value of € 292k were converted into shares. A further 19,415 convertible bonds with a total nominal value of € 50k were converted in 2004. A further 7.5 % were convertible on the following conversion dates (May 31 and November 30 of each year up to 2005). As of December 31, 2005, all convertible bonds issued on November 30, 1997 had been converted.

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

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

In fiscal year 2002, 563,182 convertible bonds with a nominal value of € 563k and an interest rate of 4 % p. a. were issued. Each € 1 in nominal value of the convertible bonds may be converted into one share with a nominal value of € 1. The conversion rate for the convertible bonds was

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

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

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

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

[16] Bank Liabilities

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

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

[17] Pension Liabilities

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

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

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

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

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

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

Net pension expenses break down as follows:

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

[18] Other Provisions

Other provisions developed as follows in the fiscal year:

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

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

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

[19] Shareholders' Equity

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

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

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

Approved Capital. The management board is authorized, with the consent of the supervisory board, to increase the Company's capital stock until June 21, 2007 in one or more steps by a maximum of € 7,363k by issuing new bearer shares with a nominal value of € 1 each, against contribution in cash or in kind (Approved Capital I). Furthermore, the management board is authorized, with the consent of the supervisory board, to increase the Company's capital stock until June 21, 2007 in one or more steps by a maximum of € 1,841k by issuing new bearer shares with a nominal value of € 1 each, against contribution in cash or in kind (Approved

Capital II). For both approved capital amounts, the subscription rights of shareholders may, with the consent of the supervisory board, be excluded under certain conditions.

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

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

[20] Income Taxes

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

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

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

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

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

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

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

Deferred tax assets break down as follows:

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

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

Deferred tax liabilities break down as follows:

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

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

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

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[21] Contingent Liabilities and Other Financial Obligations

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

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

[22] Segment Reporting

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

Gross revenue by product group

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

Geographical information as of December 31, 2005

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

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

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

**[23] Sales Deductions and
Direct Selling Costs**

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

**[25] Research and
Development Costs**

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

**[24] General Administrative
Expenses**

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

**[26] Other Operating
Income/Expenses**

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

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[27] Interest Income and Finance Costs

Interest income/expenses break down as follows:

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

[28] Rentals and Leases

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

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

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

[29] Events After the Balance Sheet Date

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

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

[30] Related Party Disclosures

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

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

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

Chairman
Deputy Chairman

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

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

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

	Occupation	Membership of other supervisory boards and similar bodies
Alexander v. Engelhardt	Supervisory board member	<ul style="list-style-type: none"> _ WashTec AG (chairman) _ Dr. Schmidt AG & Co., until December 31, 2005 _ Gütermann AG, until June 30, 2005 _ Tarkett Sommer AG
William Slee	Supervisory board member	<ul style="list-style-type: none"> _ The Game Group plc, UK (non-executive director), until September 19, 2005 _ Dimon Inc., Danville, Virginia, USA (non-executive director), until May 13, 2005 _ ECOFIN Water + Power Opportunities plc., UK (non-executive director), until May 19, 2005
Thomas Geitner	Executive Director Vodafone Group plc. Managing Director Vodafone Holding GmbH, Düsseldorf Managing Director Vodafone Deutschland GmbH, Düsseldorf	<ul style="list-style-type: none"> _ Vodafone D2 GmbH, Düsseldorf, Germany _ Arcor AG & Co., Eschborn, Germany (chairman), until December 30, 2005

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

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

The following supervisory board members hold shares in the Company:

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

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Members of the management board in fiscal year 2005 were:

Roland Lacher	Chairman
Stefan A. Baustert	
Klaus Hammen	

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

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

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

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

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

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

[31] Disclosures on Shareholdings

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

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

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

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[32] Financial Risk Management

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

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

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

[33] Employees

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

[34] Auditor's Fees

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

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

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

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

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

[36] Corporate Governance

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

Kahl am Main, Germany, February 22, 2006

SINGULUS TECHNOLOGIES AG

The Management Board

R. Lacher

S. Baustert

K. Hammen

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

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

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

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SINGULUS TECHNOLOGIES AG**Balance Sheets as of December 31, 2004 and 2005**

(according to HGB)

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

EQUITY AND LIABILITIES

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

SINGULUS TECHNOLOGIES AG

Income Statements for 2004 and 2005

(according to HGB)

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

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

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Published by

SINGULUS TECHNOLOGIES AG,
Kahl/Main

Production

MetaCom Corporate
Communications GmbH

Conception and Idea

Bernhard Krause

Text

Bernhard Krause,
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SINGULUS TECHNOLOGIES

Artwork/DTP

Jens Gloger,
Michaela Schäfer

Photography

Werksfotos
SINGULUS TECHNOLOGIES
With kind permission of
Blu-ray Disc Association,
HD DVD Promotion Group,
Microsoft, Philips,
Matthias Müller

Printing

Braun & Sohn, Maintal
Printed on chlorine-free
bleached paper



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