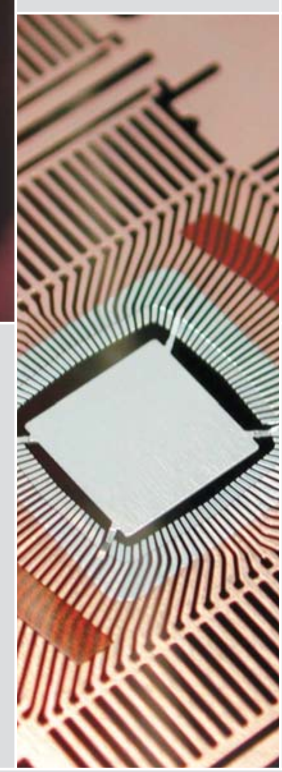
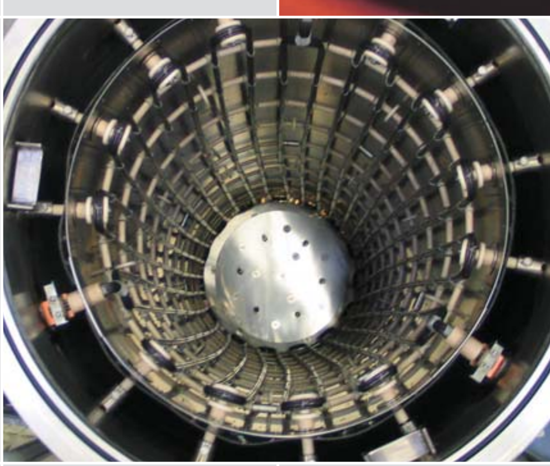
ANNUAL REPORT 2004

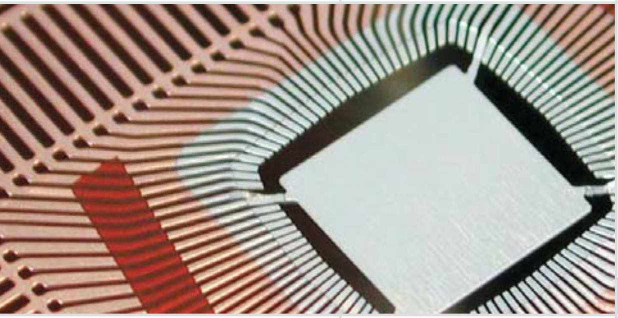




Be equipped for tomorrow's materials

PVA TePla

At a glance



In EUR '000	2004	2003
Sales Revenues	44,201	38,907
Vacuum Systems	22,772	21,208
Crystal Growing Systems	4,907	3,625
Plasma Systems	16,888	14,139
Inter-company sales	-366	-65
R&D expenses	1,466	1,715
EBIT	272	-5,470
Result from ordinary activities	95	-5,728
Net income/loss after minority interest	467	-2,868
Earnings per share (EPS), in EUR	0.02	-0.13
Capital expenditures	876	367
Total assets	42,070	41,224
Equity ratio	49.8%	50.3%
Employees as of 31.12.	239	261

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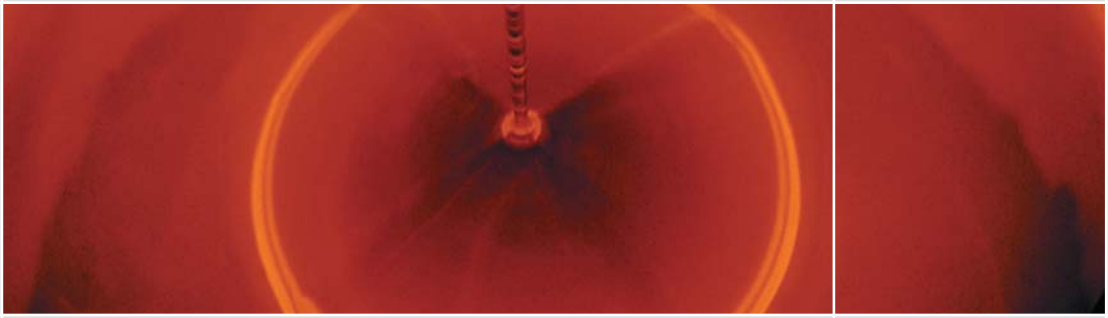


Foreword by the Board of Management

Dear PVA TePla shareholders and business partners,

In the course of the 2004 business year we reached a major goal – PVA TePla is now in the profit zone! After a weak start to the year, as so often happens in our sector of industry, we managed to improve our results continuously. In the second and third quarters we were able to boost business volume substantially and generate positive financial results. The fourth quarter saw a further increase in sales and earnings. For the year 2004 as a whole, PVA TePla recorded not only a positive operating profit of € 0.3 million, but also a net income of € 0.5 million.

There was an encouraging upswing in most of our relevant markets during 2004, with only the potential buyers of crystal growing systems remaining very restrained on account of their existing capacities. Despite the unfavourable trend in currency exchange rates – in relation to the US dollar, especially – we were able to increase our export ratio still further. Within this context, we expanded our business volume not only by vigorously developing our products, but also by intensifying our sales activities.

A key factor behind our growth in earnings was the set of restructuring measures initiated after the merger and since completed. Significant reductions were effected in all the main cost categories, in particular by cutbacks in workforce size that were painful for all concerned, by amalgamating various activities and by making our infrastructure leaner. The positive impacts on earnings are shown very clearly in the year-on-year comparison provided by the income statement.

Business development in the Crystal Growing Systems division was more restrained than expected. We used this period of weakness to relocate these operations from their previous location in Hanau to the main domicile of PVA TePla AG in Aßlar. Substantial scale effects were realised as a consequence.

Strong growth in total incoming orders gave cause for satisfaction. At around € 54 million, the figure was up by more than 40% – a considerable improvement. The strongest growth, more than 50%, was achieved by our largest division, Vacuum Systems, which also succeeded in expanding its position in markets like Russia and India. The Plasma Systems division was particularly gratified by the volume increase of about 20% achieved in the Contract Service operations of our American subsidiary. An order backlog almost double that of a year before ensures us good capacity utilisation at the start of the year.

We also succeeded last year in strengthening the strategic position of the PVA TePla Group. Acquisition of the floatzone crystal growing plant from the Danish Haldor Topsoe group has bolstered the product portfolio in the Crystal Growing Systems division. We are particularly encouraged by the fact that this new field of operation is already contributing to both revenue and earnings. Today, we are the only manufacturer worldwide that is able to supply the full range of production facilities for silicon crystals.

At the end of the year, we established the Chinese firm Xi'an Huade CGS Ltd. as a joint venture with the Technical University of Xi'an (TUX) in the field of crystal growing systems, and hold a majority interest in said company. In China, TUX is the market leader for crystal growing systems, and this partnership puts us in a good position to participate successfully in the booming photovoltaics market, especially in China.

By opening a sales and service branch in Beijing at the beginning of 2005, we have further intensified the presence of our technology enterprise in the Far East.

On the whole, therefore, we have started the new year in a strong position and with due optimism. The large order backlog volume, particularly in the Vacuum Systems division, ensures that capacity utilisation will remain high until the third quarter and beyond. Demand for our products remains vigorous. We also see good opportunities ahead for the Crystal Growing Systems division. Thanks to the newly developed products now ready for market, we can operate from a broader product base than in the past. Our optimised cost structures are fortifying the earnings power of the company in increasing measure.

In recent weeks, our share price has appreciated significantly in response to the company's improved situation and positive expectations. You, dear Shareholders, are thus sharing directly in our joint success.

I wish to thank all our employees, on behalf of my fellow managers also, for their great dedication, commitment and necessary flexibility in successfully implementing our realigned strategies.

Special thanks are due to our shareholders and business partners worldwide for the support and confidence they have shown, and for their open and trusting cooperation in what is still a difficult business environment in some respects.

I hope you will continue to support us on the successful path we are now taking in the wake of the TePla era. We will make every endeavour to make PVA TePla a global success so that you, our Shareholders, can also harvest the fruit of our efforts.

Your

Peter Abel
Chairman of the Management Board

Report of the PVA TePla AG Supervisory Board

The Supervisory Board was reconstituted in the course of the 2004 financial year. At the end of the Annual Shareholders' Meeting on 17 June 2004, all the members of the former Supervisory Board resigned from office as planned. Mr. Alexander von Witzleben, Dr. Peter Friedemann und Prof. Dr. Günter Bräuer were elected as new members of the Supervisory Board by the Shareholders' Meeting. The Supervisory Board then elected Mr. Alexander von Witzleben as its Chairman.

The Supervisory Board held four meetings in 2004. At said meetings, the Supervisory Board was informed by the Management Board in detail about the economic situation and the business development of PVA TePla AG. The Supervisory Board also informed itself routinely on the basis of the monthly reports provided by the Management Board about the progress of the key financial figures.

In the first half of the year, one of the main topics of discussion between the Supervisory Board and the Management Board concerned completion of the restructuring measures initiated in previous years and already implemented to an extensive degree. In the second half of the year, priority was attached – also in view of the evident successes and the encouraging revival in business activity – to the strategic development of the Group. The further development of the product portfolio, optimisation of the sales and organisational structures as well as important measures in respect of human resources were all the subject of discussion. Various options for participations were also reviewed and in some cases implemented. The budget drafted by the Management Board for the following years was discussed and adopted. In addition to Board meetings and reports, the Chairman of the Supervisory Board also had regular meetings with the Management Board in order to be kept informed about the current situation.

The Audit Committee, comprising the Supervisory Board members Dr. Peter Friedemann (Chairman), Hartmut Böhle and Michael Daniel, continued its work in accordance with the recommendations of the German Corporate Governance Code until the Annual Shareholders' Meeting on 17 June 2004. A Personnel Committee had also been established until said date, but due to the reduction in size of the Supervisory Board by resolutions of the Shareholders' Meeting there have been no committees since said date.

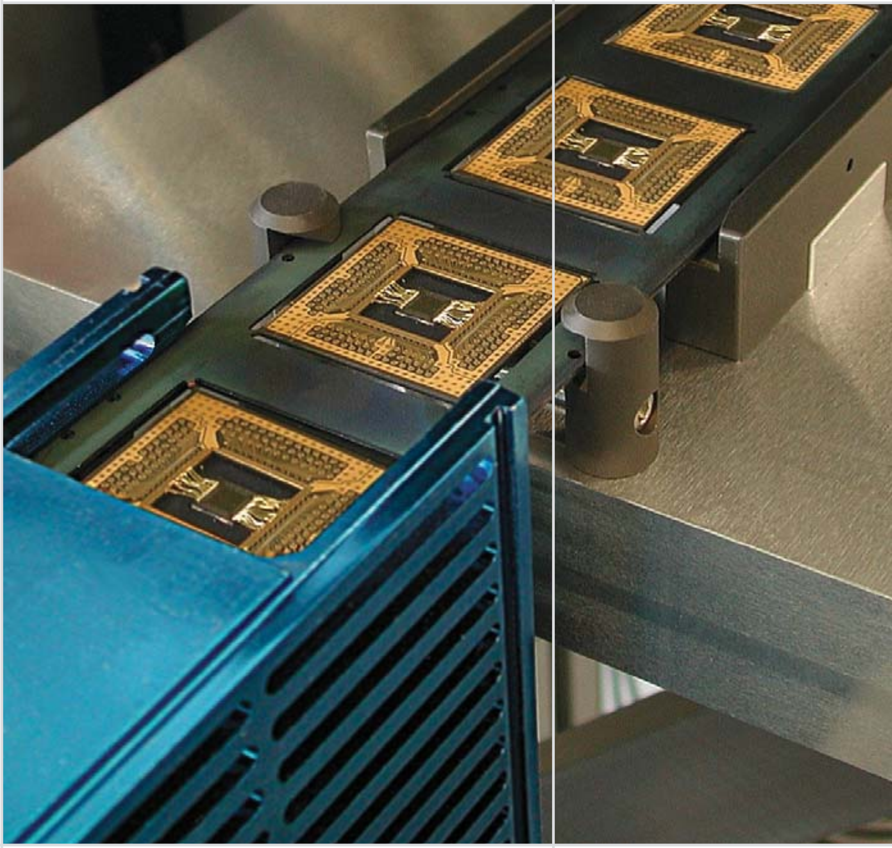
The accounting records for the year under review, the annual financial statements dated 15 March 2005, including the management report and notes, and the consolidated financial statements dated 15 March 2005, including the Group management report and the notes on the consolidated financial statements as at 31.12.04, were audited by KMPG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich, a public limited auditing firm, and were granted unqualified notes of confirmation by said auditors. The annual financial statements and management reports, together with the respective auditor's reports were circulated to all members of the Supervisory Board and discussed in detail at the Supervisory Board meeting held on 30 March 2005. At that meeting, the auditor also reported on the key findings of his audit.

The independent examination of the annual financial statements, management report and consolidated financial statements by the Supervisory Board on the basis of the audit reports and the verbal report by the auditor gave no cause for reservations. The annual financial statements of PVA TePla AG and the consolidated annual financial statements of the PVA TePla Group prepared by the Management Board, as at 31.12.04 in each case, were therefore approved by the Supervisory Board. The annual financial statements of PVA TePla AG are therefore formally adopted in accordance with Section 172, sentence 1 of the Stock Corporation Act (Aktiengesetz – AktG).

The PVA TePla Group reached the profit zone during 2004 and has thus achieved its turnaround. The Supervisory Board wishes to thank the Management Board and all employees for their dedication, commitment and the work they performed during the past financial year, without which this success would not have been possible.

Aßlar, March 30, 2005

Alexander von Witzleben
Chairman of the Supervisory Board of PVA TePla AG



PVA TePla shares

High-tech equity prices trended sideways in 2004 after a dynamic recovery the year before. An intermediate high in the Technology All Share index in early March 2004 was followed by a consolidation phase lasting months. The low for the year was not reached until mid-August, but by the end of the year the index had returned to just over the previous year's closing figure.

PVA TePla shares reached their high for the year at € 2.45 as early as mid-February. After announcement of the provisional annual figures in early March 2004, the positive share performance shown at the start of the year began to reverse. Profit-taking pushed the share price back to its lowest level of the year in mid-May, to below € 1.5. This was followed until year-end by a sideways trend in a range between € 1.5 and € 2.

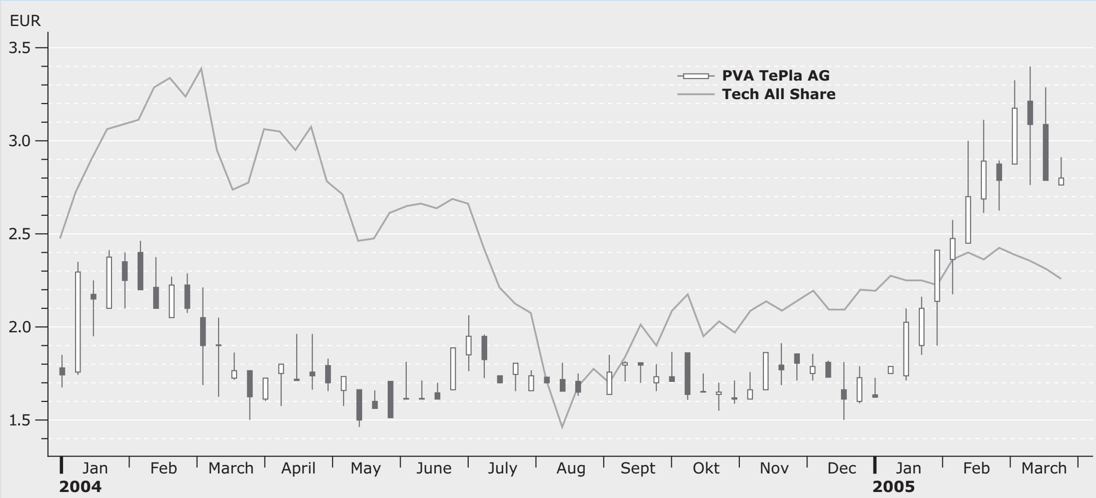
Since the start of 2005, demand for PVA TePla shares has risen substantially. Spurred by several encouraging announcements from the company, PVA TePla shares had reached a level above € 3 and high trading volume at the time this Annual Report was prepared, making them one of the German and indeed European equities with the best share price appreciation.

Inclusion in the GEX index for medium-sized companies

The German Stock Exchange has been operating a new index since 3 January 2005, namely the GEX® (German Entrepreneurial Index) specially created for medium-sized companies. The criteria for inclusion in this index are that the company is 'owner-dominated' (members of executive organs must hold at least 25% of the voting rights), was previously listed in the Prime Standard segment, and has been listed on the exchange for less than ten years. According to studies conducted by the Deutsche Börse, the performance of owner-dominated companies has been significantly better than many companies led by external managers.

PVA TePla AG meets all these criteria and was included in the new mid-cap index from the outset. Membership of the GEX now lends greater visibility to PVA TePla shares on the equities market and will further increase its attractiveness for institutional investors.

Share price development 01/2004 to 03/2005



Data per PVA TePla share		2004	2003
Earnings per share (EPS)	EUR	+0.02*	-0.13*
Year-end price 30.12.2003/2002	EUR	1.76	1.71
Highest price	EUR	2.45	2.24
Lowest price	EUR	1.46	1.00
Year-end price 30.12.2004/2003	EUR	1.61	1.76
Price development PVA TePla share	%	-9.3	+2.9
compared to price development Technology All Share	%	0.3	+41.6
Number of shares at year end	Mio.	21.45	21.45
Freefloat	%	30.80	22.24
Market capitalization at year end	Mio. EUR	34.53	37.75
Weighting in Technology All Share	%	0.07	0.08
Weighting in Prime All Share	%	0.003	0.003

Basis: Xetra
* Basis 21.449.988 shares annual average

Freefloat increased

In June 2004, PVA Konsortialgesellschaft mbH, in which many employees of the former PVA Vakuum-Anlagenbau GmbH collated their GmbH shares and later – after the merger with TePla AG – their shares, issued around 1.75 million of the PVA TePla shares it held to the shareholders directly. As a result of this move, the proportion of shares held by the PVA Konsortialgesellschaft was reduced from 22.3% to a current figure of 13.8%. The freefloat consequently increased from 22.3% to 30.8%.

Trust generated by dependable market communication

Corporate communication in the PVA TePla Group is fundamentally based on continuous, reliable, transparent and prompt dialogue with its shareholders and with stakeholders on the equity markets.

The balance sheet and analysts' press conference took place last year as well at the DZ Bank, Frankfurt, the Designated Sponsor. At said event, held on 6 April 2004, analysts and members of the press were also introduced to the designated and current CFO, Mr. Arnd Bohle.

The Annual Shareholders' Meeting on 17 June 2004 was held for the first time in the Wetzlar Stadthalle. The successful strategy proposed by management received clear confirmation, and a new Supervisory Board, reduced in number to three, was elected with Mr. Alexander von Witzleben, the CEO of JENOPTIK AG, as its Chairman.

A roadshow presentation by PVA TePla to international investors at the 'Eigenkapitalforum' (Equity Forum) of the Deutsche Börse on 27 November 2004 met with considerable resonance.

On the company website at www.pvatepla.com, under Investor Relations, our shareholders and potential shareholders can find extensive information relating to PVA TePla shares. Those wishing personal dialogue can reach the Investor Relations department under ++49 (0)6441 / 5692-342, or by sending an eMail to ir@pvatepla.com.

PVA TePla shares

Directors' holdings and stock options

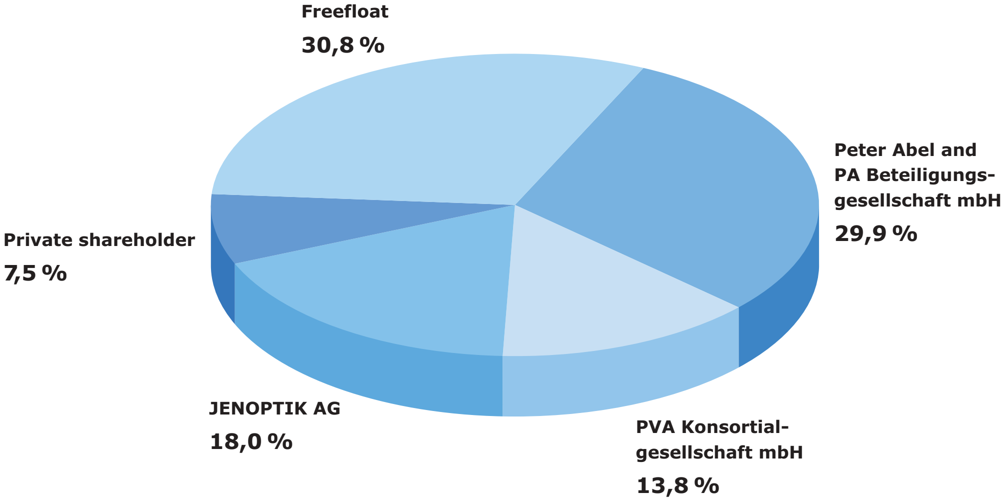
Management Board

	no. of shares held as of		options held as of	
	31.12.2004	30.09.2004	31.12.2004	30.09.2004
Peter Abel	6,432,185	6,432,185	0	0
Arnd Bohle	0	0	0	0
Martin Gier	315,227	320,227	0	0
Volker Lang	102,200	105,600	0	0

Supervisory Board

	no. of shares held as of		options held as of	
	31.12.2004	30.09.2004	31.12.2004	30.09.2004
Alexander von Witzleben	300	0	0	0
Prof. Dr. Günter Bräuer	0	0	0	0
Dr. Peter Friedemann	0	0	0	0

Shareholder's structure



Corporate Governance

Joint declaration of compliance made by the Management Board and the Supervisory Board of PVA TePla AG in accordance with Section 161 AktG (German Stock Corporation Act)

The Management Board and Supervisory Board of PVA TePla AG, domiciled in Asslar, Germany, hereby declare that the recommendations of the 'Government Commission on the German Corporate Governance Code' in the version currently published have been and are being met, with the following exceptions:

The German Corporate Governance Code recommends in item 3.8 that a reasonable own-risk share be included in liability insurance policies concluded by a company for its Management Board and Supervisory Board members (so-called Directors and Officers Liability Insurances, referred to in short as D&O insurances).

PVA TePla AG waives any own-risk share for members of executive bodies in its D&O insurance policy. However, the members of executive bodies accept the following limited amounts of personal liability towards the company:

- up to 50% of their annual Supervisory Board emoluments in the case of Supervisory Board members;
- up to 20% of their fixed annual pay in the case of Management Board members.

The recommendations concerning the publication of emoluments for executive bodies in the Notes to the consolidated financial statements as recommended in items 4.2 and 5.4 of the Code are limited to the legal requirements (pursuant, in particular, to Section 285 no. 9 and Section 314 no. 6 HGB (German Commercial Code). The Management Board and the Supervisory Board are of the unanimous opinion that these limitations are sufficient for the company in view of its size and the scope of its business activities.

Item 5.3 of the Code recommends that the Supervisory Board form committees. This recommendation was complied with by 17 June 2004 through the formation of an Audit Committee and a Personnel Committee. In view of the reduced number of Supervisory Board members, which was cut from six to three at the end of the Annual Shareholders' Meeting, this rule has been waived for PVA TePla AG as from said date.

Asslar, December 2004

On behalf of the Management Board:	On behalf of the Supervisory Board:
Peter Abel CEO	**Alexander von Witzleben** Chairman of the Supervisory Board

The current declaration on compliance with the Corporate Governance Code and any exceptions thereto can be found on our website at www.pvatepla.com.

Group Management Report 2004

1. Introduction

This management report provides an account of the business development of PVA TePla AG (hereinafter the 'company') and its subsidiaries (together referred to as 'PVA TePla' or the 'Group') in the 2004 business year.

PVA TePla operates worldwide as a supplier of systems for the production, refinement and processing of high-quality materials, such as metals, semiconductors, ceramics and glass, and for controlled surface treatment of such materials and various plastic surfaces. Such production and treatment processes require stable, reproducible conditions. For this reason, they mostly take place under vacuum conditions or inert gas atmospheres at high temperatures and/or with the support of low-pressure plasma.

PVA TePla is a systems supplier for vacuum systems that produce and treat high-tech materials and surfaces in a vacuum at high temperatures and in plasma.

The market for these system is always associated worldwide with state-of-the-art advances in materials and surface treatment technologies, for example 157 nm technology in microlithography for faster chips, 300 mm silicon (Si) wafer technology for semiconductors, mono- or multicrystal Si wafers for photovoltaics, diesel exhaust filters for cars, structural materials for telescopes in outer space, production technologies for metal powder, for example for hard metals, and production technologies for flat-panel screens. It will exist as long as high-tech materials are produced and further developed.

The markets served by PVA TePla are characterised by a limited number of suppliers, their global dimensions, and market niches for cutting-edge technologies.

The Group structures its business activities and thus its reporting in three divisions: Vacuum Systems, Crystal Growing Systems and Plasma Systems.

This management report contains forward-looking statements based on assumptions and estimates by the management of PVA TePla AG. Although we assume that the expectations in these statements are realistic, we cannot guarantee that these expectations will prove correct. The assumptions may harbour risks and uncertainties that can lead to actual results deviating substantially from the forecasts being made. Factors that can cause such deviations include: changes in the macroeconomic and business environment; exchange rate and interest rate variability; launching of competing products; lack of acceptance of new products or services, and modifications to the corporate strategy.

2. Restructuring completed

The restructuring and adjustment measures that were already implemented rigorously within the Group during the previous year were completed on schedule in the first half of 2004. A further reduction in workforce size was a key element of these measures. The company succeeded in keeping the main carriers of know-how within the Group. Combined with the Group's experience in handling major projects as well, the greater flexibility of cost structures now achieved means that we are also in a good position to exploit the encouraging growth in demand now being witnessed.

The Crystal Growing Systems GmbH subsidiary ('CGS', Crystal Growing Systems division) relocated its main management, sales, engineering and commercial activities from its previous base in Hanau to the registered domicile of PVA TePla in Aßlar. Further scale effects were achieved through better integration and coordination with the respective departments in PVA TePla AG.

At the PVA TePla America Inc. site in Corona (CA, USA), the company was able to rent out unrequired production premises, thus achieving a significant reduction in overheads. In addition to the plasma systems previously supplied, the product range in the USA was also extended to include vacuum systems.

In May 2004, the Group acquired the floatzone crystal growing operations of the Danish Haldor Topsoe group, thus rounding off its product portfolio in the Crystal Growing Systems division. These business activities were integrated as a branch of PVA TePla AG in Frederikssund, Denmark, with the company name PVA TePla Danmark.

In response to persistently low sales volume, we closed down our own sales operations in France. The opportunities presented by the French market will now be exploited by the company's bases in Germany, in cooperation with independent agents.

In December 2004, acting as a trustee for PVA TePla AG, CGS (Crystal Growing Systems division) concluded a joint venture agreement with the Technical University of Xi'an (TUX) to establish Xi'an HuaDe CGS Ltd. in Xi'an, China; PVA TePla AG holds a 51% interest in the joint venture. The new company received a state licence in December 2004. Its activities in the years ahead will be concentrated on developing and marketing crystal growing systems for solar silicon, primarily in the booming Chinese and east Asian markets.

3. Business environment

Following somewhat recessionary tendencies in the years before, 2004 saw the global economy returning to health. The main driver of growth was once again the USA, which particularly profited from the weakening dollar.

Asian markets, especially China, showed continued dynamic growth, whereas the domestic economy in Germany stagnated, and growth in the EURO zone was only moderate in scale.

4. Sectoral trends

According to a survey by the VDMA federation in mid-February 2005, production growth in the German mechanical engineering sector reached 5.2%, the second-highest rate in 15 years, making this particular industry one the main sources of growth in the German economy. Export orders, which rose 14% in real terms, were the greatest factor behind this success. The most important market in this connection is again the USA, which imported 13% more than in the year before. The most dynamic source of growth, on the other hand, are the newly-industrialising countries and China, which advanced to become the second most important country for German machinery exporters. Contrary to general trends in the domestic economy, the mechanical engineering sector enjoyed a 3% growth in demand.

Group Management Report 2004

Business trends were also encouraging in 2004 for the German machine tools industry, where production grew by 8% to a total volume of € 9.8 billion. In fact, incoming orders increased by no less than 19% in 2004.

The Association of German Machine Tools Factories (VWD) discovered that domestic orders increased by 11%, while foreign orders advanced by a full 25%. The sector is profiting from the booming Chinese market, which alone accounted for 17% of orders. Strong growth also came from the USA, Japan and western Europe.

According to the ZVEI industry association, the global semiconductor market achieved a 28% growth rate in 2004, to a record $ 213 billion. The biggest growth was opto-semiconductors, at 44%, followed by sensors/actuators (34%), ICs (28%) and discrete components, at 18%. The global market for suppliers of semiconductor equipment even grew by 53% in 2004. However, the relevant market segment for the Crystal Growing Systems division remained characterised by severe investment restraint throughout 2004, due to utilisation of existing capacities.

5. Revenues

In the 2004 business year, PVA TePla generated a total € 44.2 million in revenue (2003: € 38.9 million), an increase in sales volume of around 14%. After a relatively weak € 8.3 million in sales revenue in the first quarter, considerably higher revenues were generated in the second and third quarters of the year, namely € 11.4 and € 11.0 million. The largest amount of sales revenue, € 13.5 million, was achieved in the fourth quarter.

The sales performance of the three divisions, Vacuum Systems, Crystal Growing Systems and Plasma Systems, are described in greater detail below.

Vacuum Systems division

Sales in the Vacuum Systems division increased to € 22.8 million, compared to € 21.2 million in 2003. Share of total revenue was around 51%, making this the division with the strongest sales.

The plant construction business generated the bulk of that figure, or around 77%, while service and contract processing contributed the remaining 23% to divisional sales.

Continuous development of the key series of plant facilities led to exports expanding to more than 70% of total sales, despite the strong Euro. More than 50% of these sales were in Asia, where the focus was primarily on China. Another main focus concerned exports to European countries, which accounted for around 20% of total exports. Our market position was also strengthened in countries like Russia and India, which in the past had contributed little to revenue.

Besides penetrating regional markets and further consolidating the leadership position in the hard metal field, the Vacuum Systems division also expanded strongly in Europe in the field of sintering plant for metal (powder) injection moulding (MIM) – with three such plants being sold and billed – and in special materials for the electrical and electronics industry and automotive engineering.

Crystal Growing Systems division

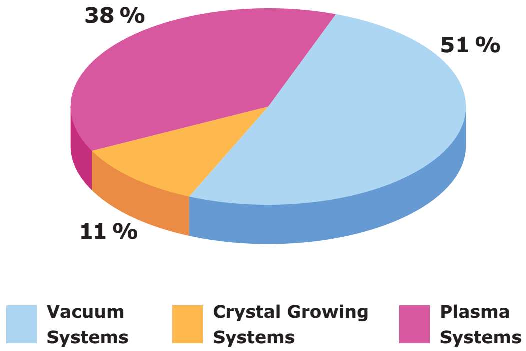
By taking over the floatzone operations of the Danish Haldor Topsoe group, the Crystal Growing Systems division enlarged its product portfolio and is now the leading supplier in all the main segments of modern-day crystal growing. Within a short period, this new section had already booked several orders and helped to boost the volume of business from € 3.6 million in 2003 to € 4.9 million in 2004. Sales stabilised on the whole, albeit at a level that remains low.

Plasma Systems division

The Plasma Systems division gained from the upturn in the semiconductor industry, booking total sales of € 16.9 million (2003: € 14.1 million).

At both the Feldkirchen facility and in Corona, USA, the division succeeded in expanding its business volume. The Semiconductor segment is the largest, as in the year before, and was boosted to € 7.0 million in sales (2003: € 5.1 million) by the upswing in that industry. Business in systems for the industrial & medical market declined to a revenue figure of € 2.4 million (2003: € 4.5 million). One segment to show strong growth in 2004 was Chip Packaging Systems, with generated € 4.0 million (2003: € 2.5 million). Contract Processing and Service was another segment showing strong growth, with sales increasing from € 2.0 million in 2003 to € 3.5 million in 2004 due to vigorous trade in the US.

Sales by Divisions



6. Orders

The Group booked incoming orders worth € 54.1 million (2003: € 38.1 million) in the 2004 reporting year, thus achieving a 42% gain and a new record in the company’s history. Growth was particularly strong in the second half of the year, especially in the Vacuum Systems division. All three divisions achieved considerably higher volumes of incoming orders than a year before, although the absolute volume of incoming orders in the Crystal Growing Systems division is still low.

The book-to-bill ratio for the Group as a whole rose to the high figure of 1.22 (2003: 0.98).

The largest share of total incoming orders was generated by the Vacuum Systems division, which accounted for € 31.7 million (2003: € 21.0 million), or 59% of the total. Particularly encouraging in this regard was the sharp increase of more than 50% over the previous year’s figure. The highest quarterly figure was achieved in the fourth quarter, when € 9.6 million in orders were booked. Despite the rallying Euro, worldwide marketing efforts produced significant expansion. For example, 70% of orders for plant

Group Management Report 2004

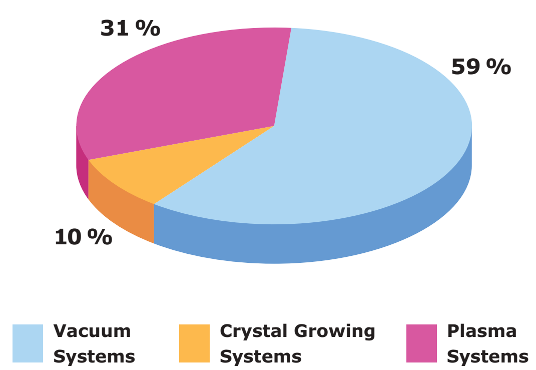
came from abroad, compared to an export ratio of about a third the year before. Asia, at 45% of the total, again plays a major role. 28% of orders were received from China alone, which drew level in order volume with the German market.

Within the Vacuum Systems division, contract processing of soldering and heat treatment exhibited encouragingly strong growth in long-term cooperation agreements tying customers to the company. Framework agreements accounted for a higher 47.1% of all incoming orders in 2004, with the result that this field of operations is now well booked and can work with a comparatively high degree of planning certainty.

With incoming orders at € 5.4 million (2003: € 2.0 million), the Crystal Growing Systems division was able to exceed its previous year's figure, although the volume levels of the successful years were not approached. Capacity expansion among semiconductor manufacturers was mainly concentrated on upgrading existing production facilities, while the adoption of next-generation production plant for 300 mm wafers is delayed still further. The new floatzone equipment operations acquired in mid-year have already contributed € 1.9 million in orders.

The Plasma Systems division generated € 17.0 million in customer orders (2003: € 15.0 million). This division profited from the general upswing in the semiconductor industry. The chip packaging business, which is very strong in the Far East, gained significantly in importance within the Plasma Systems division. The flat panel industry proved to be a stable source of plasma systems business in 2004. In the USA, greater demand for contract processing more than compensated for the sluggish pace of business in process systems for the industrial & medical field.

Incoming Orders by Divisions



The order backlog for the Group as a whole amounted to around € 20.5 million after deduction of recognised revenues for percentage completion, and was substantially increased from the prior year's figure of € 11.0 million. The largest order backlog by far is found in the Vacuum Systems division, where it amounts to € 16.2 million (2003: € 7.6 million). The order backlog in the Crystal Growing Systems division is € 1.5 million (2003: € 0.6 million), and in the Plasma Systems division € 2.8 million (2003: € 1.2 million).

7. Production

In 2004, PVA TePla again produced its systems and facilities and conducted its contract processing activities at sites in Aßlar, Feldkirchen, Hanau and Jena in Germany, as well as Corona and Marlton in the USA, and more recently in Frederikssund, Denmark, where the new floatzone facilities are located.

The depth of production continued to be kept at a low level in all divisions. While involving a relatively high percentage of consumables, this also provides the option of flexibly adjusting the required production capacities to variations in demand within the short term.

In the Vacuum Systems division, systems were produced at the sites in Aßlar and Jena, whereby production facilities were utilised to 95% on average during the year (2003: 85%). In the second half of the year, in particular, production capacity at both sites was used to the maximum. Peaks in demand were covered by buying in external assembly capacities.

The contract processing work also performed at these two sites was likewise used to a high percentage in the second half of the year, and there are plans to expand processing capacity in the next business year in response to the good capacity utilisation prospects in the medium term.

Around 85% of total output from the Vacuum Systems division was produced at the Aßlar site, and around 15% in Jena.

The depth of production in the Crystal Growing Systems division at the Hanau site was utilised during the reporting year to only a minimal extent. In the course of relocating the main sections of CGS to the site in Aßlar, production in Hanau was greatly reduced and in some cases handled at Aßlar instead.

At the newly added site in Frederikssund, Denmark, construction of a first crystal growing plant using the floatzone process was largely completed by the end of 2004, and in February 2005 was delivered on schedule after tests were successfully carried out. Due to newly established structures, production capacity at this site was utilised to the full. When the depth of production has been further reduced, the volume of business handled by this site can be increased even more in subsequent years.

In the Plasma Systems division, the production facilities in Feldkirchen were utilised to around 90% only (2003: 79%) despite increased throughput, and thus provide some additional reserves for production increases in the following business year.

Production capacity for plasma systems at the Corona site in the USA was only utilised to about 70%, but contract processing was almost fully utilised (95%). With contract processing capacity at the second US site in Marlton being utilised to around 70%, these two sites also provide some room for growth.

8. Research and development

Group expenditure on research and development amounted to € 1.5 million (2003: € 1.7 million), equivalent to 3.4% (2003: 4.4%) of revenue. This year-on-year reduction was achieved with better management and control of activities, and more efficient deployment of resources. Planned, systematic development of the product portfolio continued, thus providing a strong basis for business development in the years ahead. The R&D activities of each division are described below.

Group Management Report 2004

Vacuum Systems division

In the Vacuum Systems division, R&D operations are almost exclusively conducted in the context of paid customer orders; for this reason they are recorded as production costs relating to orders and are not separately stated. The proportion of R&D services that lead to reusable innovations and improvements to products can be estimated at around 10% of our entire design engineering output.

In the year under review, and in accordance with standard practice in this division, several optimisations and enhancements of vacuum systems and control engineering systems were achieved with and for customers according to the specific requirements of the various projects, and in the context of normal order processing.

In one internal development project, the basic concept for a VGF plant for polycrystalline solar silicon was elaborated.

In the development of our COD pressure sintering plant, operational safety was increased with a new pneumatic control unit for the rapid cooling controller. The efficiency of COV products was further enhanced by optimising the internal rapid cooling device. A subassembly was also developed for debinding metal powder blanks with special binders.

Within the COV model series, process verification was accomplished for a new prototype plant in which refractory metal powders are subjected to for special heat treatment in a new production process. An universal development plant was designed and constructed for the production of special MIM sintered parts. A heating and cooling unit was developed for the biggest ever soldering furnace for turbine vanes.

The heating element for MOV systems was optimised for longer service life, and a hot-pressing plant with high press power (up to 100 tonnes) and extreme press precision (power/stroke) was designed and delivered.

For the IOV model series, a new high-temperature carburising plant for tungsten powder was developed.

In the software and system control field, a new browser-based process control system provides greatly improved user-friendliness and independence from vendor software, as well as reduced costs. In response to increasing internationalisation, the multilingual user interface for vacuum systems now includes Chinese and Cyrillic script as well.

Crystal Growing Systems division

In the 2004 business year, the Crystal Growing Systems division spent € 0.5 million on R&D (2003: € 0.7 million).

An important milestone was the completion in 2004 of the national, government-sponsored 300 mm silicon wafer project. The Federal Ministry for Education and Research and the partners in the project were unanimous in their praise for the technological and financial success of the project. The Crystal Growing Systems division continues to support the project partners in optimising the newly-developed 300 mm crystal pulling plant. After growing 300 mm Si crystals in batches of up to 300 kg in the first half of 2004, even larger crystals with unit weights of more than 300 kg were grown in the plant in the second half of 2004. The new handling system necessary for supporting the crystals was tested for the first time in a real pulling process, and worked perfectly from the outset.

With this newly-developed 300 mm technology, the division expects to profit from the growing demand for 300 mm silicon wafers. The project partner, a leading German producer of electronics semiconductors, is integrating the new EKZ3000 facility into its revised investment planning in order to expand its 300 mm capacity.

Completion and delivery of a silicon granulate feeder (for in-process loading of fresh batches of silicon) for the new 300 mm plant will occur after acceptance in the first quarter of 2005.

Testing of the newly-developed VGF plant for indium phosphide and gallium arsenide crystals at a key customer in Germany and leader in the semiconductor industry made further progress in 2004. Semi-insulating 4” InP crystals have meanwhile been grown for the first time in this plant with a hitherto unattained degree of crystal perfection. In view of the positive results achieved in the VGF technology field, the Crystal Growing Systems division expects to receive further orders from this market segment.

A project aimed at improving process control of the EFG process for making solar wafer material was successfully completed. The quality and yield of silicon solar wafers was significantly improved. The project has led to a follow-up order to develop a new EFG multigeneration plant for 125 mm and 150 mm solar wafers with much greater capacity and productivity. Design and construction of this latter plant has now reached 50% of completion. Some of the key components are currently being tested. Delivery of the new multigeneration plant is scheduled for the beginning of September 2005. The order for this key project signifies further consolidation of our position in the rapidly expanding solar market.

Silicon carbide crystals are crucially important in the growing market for power electronics. The new HTCVD technology (high temperature chemical vapour deposition) offers considerable advantages compared to the Lely (SiC sublimation) method. In November 2004, the Federal Ministry for the Economy and Employment (BMWA) backed an application for a joint project with the University of Duisburg and the TU Bergakademie Freiberg aimed at growing silicon carbide (SiC) crystals with the HTCVD method. The notice of grant is expected at the beginning of 2005. A cooperation agreement will be concluded with a customer in early 2005 with the aim of developing and building several such systems.

There is great interest in sapphire crystals and substrates, and in the corresponding plant technology, due to their applications in the field of optoelectronics and for high-performance LEDs. A project to develop a new plant for growing oxide crystals (e.g. sapphire) resulted in an order being awarded to the division in 2004. The key components are already being tested. Delivery of the first plant is scheduled for the first quarter of 2005.

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With the takeover of the floatzone operations for silicon (FZ-Si) from the Danish Haldor Topsoe group, the Crystal Growing Systems division was able to broaden its business field as well as its expertise in silicon technology. Floatzone silicon wafers are used for electrical components in the field of power electronics, a market with considerable growth potential, especially in rapidly developing Asian countries and in China. In addition to current orders, new projects are now expected in these markets.

Plasma Systems division

At € 1.0 million, R&D expenditure in the Plasma Systems division was approximately the same as the year before (2003: € 1.0 million).

Development spending was concentrated on the main generators of revenue, namely plasma ashers for stripping photoresist masks, metrology systems, chip packaging systems, systems for the solar market, and plasma systems for the flat panel market.

For the Plasma 80 system, which is used for ashing photoresist masks on 200 mm wafers, development work focused on the software for controlling the system. A first system, in which SECS II are implemented for a customer order, will be delivered to EPCOS in the first quarter of 2005.

For the PS80 plasma system, a highly successful inline production system for treating discrete substrates and chips prior to packaging, an innovative multitrack handling system which increases the throughput by a factor of three was developed in intensive collaboration with a major chip packaging producer.

With the addition of an image recognition system, fully automatic measuring equipment is now available for the TWIN metrology system used by leading 300 mm factories. The user-friendliness was also enhanced by new measurement optics.

In both the TWIN system and the SIRD metrology system, further detailed improvements were made to increase the temperature stability and for interface control in the context of production automation.

Further development of plasma systems for the solar market, specifically for the edge isolation application in the production of solar cells, was successfully completed when final evaluation was carried out by the customer.

In the field of plasma systems for the flat panel market, a pilot plant was developed for producing larger substrates and for optimising the uniformity of the plasma process when used for polymer OLEDs. As part of a customer order, a robot-controlled system for integration into OLED series production lines was developed.

In the field of plasma activation for OLED/PLED, optimisation of simultaneous surface hydrophobisation and hydrophilisation was achieved in collaboration with a major industrial customer.

9. Investments

Group investments totalled € 0.9 million in the 2004 business year (2003: € 0.4 million). The volume of investments breaks down into investments of € 0.6 million in fixed assets, investments of € 0.2 Mio in intangible assets, and investments of € 0.1 million in financial assets. The background to these figures is the takeover of the floatzone assets of Haldor Topsoe, and the exercise of a call option to increase the interest held in the associated company PVA MIMtech in Cedar Grove (NJ, USA) from 25% to the current 50%. Another investment in fixed assets involved an experimental plant for the VGF process in the Crystal Growing Systems division.

10. Net worth and financial position

The balance sheet total as at 31 December 2004 was € 42.1 million, slightly higher than the previous year's figure (€ 41.2 million).

On the asset side, the Group discloses € 20.1 million in current assets, a higher amount than in the prior year (€ 18.6 million). The biggest changes here relate to cash and cash equivalents, at € 3.5 million (2003: € 2.3 million), and to inventories, at € 10.6 million (2003: € 9.7 million). The increase in cash and cash equivalents is attributable to the positive operating cash flow, in conjunction with large payments by customers shortly before the end of the year. The increase in inventories results from larger stocks of semi-processed products due to the greater volume of business at year-end. Inventories of raw materials and supplies declined slightly in a year-on-year comparison from € 3.2 million at the end of 2003 to € 3.0 million at the end of 2004.

Fixed assets fell slightly to € 22.0 million (2003: € 22.6 million), mainly because of the lower investment volume. The equity/assets ratio improved to 95.2% (2003: 91.8%).

The equity and liabilities side of the balance sheet shows a slight increase in short-term liabilities from € 11.4 million in 2003 to € 11.9 million. This is mainly attributable to the excellent order situation and the associated increase to € 3.6 million of downpayments received on orders (2003: € 0.8 million). On the other hand, short-term liabilities to banks were significantly reduced – due to the positive operating cash flow – to € 0.9 million, compared to € 3.9 million at the end of 2003. Long-term liabilities (including long-term provisions) have changed only marginally to € 7.8 million (2003: € 7.6 million). Long-term financial obligations were slightly reduced to € 1.8 million (2002: € 2.1 million). Provisions for pensions, on the other hand, have increased from € 5.1 million in 2003 to € 5.7 million. The respective pension plans were taken over from previous companies and include only old pension commitments. New pension commitments are no longer made.

Equity increased due to the net income for the year to € 21.0 million (2003: € 20.7 million). The somewhat higher balance sheet total results in an equity ratio of 49.8%, which is marginally lower than the previous year's figure (2003: 50.3%).

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As at the balance sheet date, cash and cash equivalents amounting to € 3.5 million (2002: € 2.3 million) were offset by € 0.9 million in current financial liabilities (2003: € 3.9 million) and € 1.8 million in non-current financial liabilities (2003: € 2.1 million). The net financial position of the Group was thus improved substantially to € +0.8 million, compared to the previous year's figure of € –3.7 million. This positive net financial position, the monthly updates to cash flow planning, the € 6.0 million in credit lines granted until further notice by the banks, and guarantee lines totalling € 10 million give PVA TePla sufficient financial scope, from today's perspective, to handle the planned volume of business.

11. Earnings situation

With an operating profit of € 0.3 million (2003: € –5.5 million) and consolidated net income for the year of € 0.5 million (2003: € –2.9 million), PVA TePla AG achieved positive results in the 2004 business year. The goal defined by the Management Board, namely to lead the Group back to operating profitability in 2004, and the ambitious forecasts released during the 2004 business year in this respect were clearly achieved, therefore.

With Group revenue rising to € 44.2 million (2003: € 38.9 million), gross profit improved to € 12.6 million (2003: € 10.4 million). The gross profit margin was thus increased to 28.6% (2003: 26.7%).

The reductions achieved in all the main cost categories by successfully implementing the restructuring measures had substantial impacts on earnings. Despite the greater volume of business, costs of sales were reduced significantly to € 5.4 million (2003: € 6.2 million), while administration expenses were trimmed to € 4.2 million (2003: € 5.6 million) and R&D expenses to € 1.5 million (2003: € 1.7 million).

The costs incurred in completing the restructuring measures amounted to € 0.4 million, which is also much less than the comparable figure for the previous year (€ 1.2 million). In total, therefore, the Group achieved a positive operating profit, of € 0.3 million (2004: € –5.5 million), for the first time since restructuring. The Vacuum Systems and Plasma Systems divisions made positive contributions to this success, whereas the Crystal Growing Systems division reduced the profit once again. The main cause for this was a low volume of business, coupled with the fact that cost reduction measures only began to take effect in the course of 2004.

The result from ordinary business operations was likewise positive, at € 0.1 million (2003: € –5.7 million). By reducing current financial liabilities, especially in the second half of 2004, the net interest result was improved from € –0.3 million in 2003 to € –0.2 million in 2004.

The net income for the year is € 0.5 million (2003: net loss of € 2.9 million) and is mainly the result of recognising € 0.2 million in deferred tax assets (2003: € 1.8 million) and € 0.2 million (2003: € 0.3 million) in minority interests.

Cash flow was considerably improved relative to the previous year. Strongly positive operative cash flow, at € +5.1 million (2003: € –4.7 million), was generated. This was primarily used to reduce current financial liabilities. The cash flow from financing activities was € –3.3 million (2003: € +0.2 million).

12. Personnel development / changes on executive bodies

As at the balance sheet date, the Group had 239 employees on its payroll (2003: 261 employees). This reduction is mainly attributable to further systematic implementation of the restructuring measures completed during the first half of 2004. In the Vacuum Systems division, the number of employees increased slightly to 140 (2003: 138) due to the good business situation. The greatest cutback occurred in the Crystal Growing Systems division, which had only 33 employees left at the end of 2004 compared to 51 at the end of 2003. Following the acquisition of the float-zone activities from Haldor Topsoe, the Group now has 6 employees in Denmark for the first time ever. In the Plasma Systems division, the number of employees declined from 81 to 66.

2004 was another business year in which PVA TePla demonstrated its sense of social responsibility by training young people. At the headquarters in Aßlar, a total of 6 trainees were employed at the end of 2004. Traineeships in commercial occupations were also provided in 2004 for the first time.

With effect from 1 April 2004, the Supervisory Board appointed Mr. Arnd Bohle as CEO of PVA TePla AG. Following the planned departure of Mrs. Nina von Wersebe as CFO at the end of the Shareholders' Meeting on 17 June 2004, Mr. Arnd Bohle also assumed responsibility for financial affairs.

At the Shareholders' Meeting on 17 June 2004, the shareholders accepted with a large majority the proposal to reduce the membership of the Supervisory Board from 6 to 3 members. Messrs. Alexander von Witzleben, Dr. Peter Friedemann and Prof. Dr. Günter Bräuer were elected to the newly constituted Supervisory Board. The Supervisory Board then elected Mr. Alexander von Witzleben as its new Chairman.

13. Risks

As a technology company with operations worldwide, the PVA TePla Group considers itself exposed to many opportunities and risks that are inseparable from the business activities of all its divisions.

The macroenvironment in which the company operates is characterised by global markets and continuously increasing complexity of technological applications. The risks of any adverse developments within the company and its environment are continuously monitored and evaluated by the company's management, and mitigated or offset wherever indicated and feasible. The evaluation of risk factors forms an integral part of corporate decision-making.

The primary objective of efficient and foresighted risk management is to exploit any opportunities and control any risks that may exist. This process requires the identification and assessment of opportunities and risks. To this end, the divisions and employees are provided with a risk management manual containing procedural directives, a list of measures to be taken, as well as internal management processes; in this way, business risks are rendered transparent and reduced.

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The risks in the particular niche markets served by PVA TePla relate in particular to unexpected variations in investment activity on the part of customers and specific industries. This risk is reduced by diversifying our range of products and services across different sectors, such as chip production, toolmaking and hard metal technology, production of high-quality metals and ceramics, automotive and aerospace industries, as well as the electrical and electronic engineering sectors. Cyclical, foreseeable fluctuations in market volume are primarily offset by outsourcing or reducing externally contracted services. The strategy of maintaining a relatively low depth of production allows rapid responses in this regard. The PVA TePla Group also supplies high-quality contracting work, such as plasma treatment or high-vacuum soldering and heat treatment of components; experience shows that when customers show little inclination to invest, demand for these services intensifies.

The semiconductor business, in particular – currently a key sector for the Group – is highly cyclical in nature and for that reason involves major opportunities as well as risks. Although the chip industry in recent decades had average annual growth rates that were well above those of most Old Economy industries, this average comprised years of both strong growth and recession. This risk situation is further affected by the high level of investment and development necessary to safeguard market positions.

The risk of declining orders due to a technology that appears unexpectedly on the market (through the backdoor) is monitored worldwide and assessed by continuous observation of new research and technology work and published results specific to the various sectors, and by talks with key customers and research institutes.

The high level of technical complexity in our products as well as rapid technological advances involve risks in our research and development operations. Our medium- and long-term success is crucially dependent on PVA TePla continuing to develop marketable products – within appropriate timeframes – that generate sufficient and timely revenues, such that the internal financing of the Group is safeguarded by cash flow.

The cash flow and credit risks involved in financing business operations are reduced in the case of major orders by means of customer/supplier financing. In most cases, multi-phase advance payment arrangements are contractually agreed, commencing with an average 30% downpayment on receipt of order. Collateral arrangements are also agreed on a case-by-case basis to protect against defaults on receivables, and intensive controlling of receivables is performed. In contrast, there are few suppliers to whom the company must make advance payments. In addition, the Group optimises its external cash flow requirements with a rolling cash flow forecast for the Group companies, and with short-term loans within the Group. Another risk concerns the guarantees that must normally be provided in the plant construction business (above all, at PVA TePla, for received downpayments); these guarantees make considerable use of the guarantee lines granted by the banks.

A major proportion of Group revenue is generated in foreign markets. Billing of orders, also outside the EU, is predominately in Euros. Otherwise, on a case-by-case basis, risks relating to currency fluctuations are hedged by means of forward foreign exchange transactions.

An additional risk relates to possible further deterioration in exchange rates, specifically in the EUR/USD exchange rate, and a resultant deterioration in our competitiveness compared to competitors from this currency zone, and ensuing downward pressure on prices. We counteract this risk by producing locally in the USA, by purchasing more intensively from that currency zone, and with our involvement in China (founding the Xi'an HuaDe CGS Ltd. joint venture).

The personnel capacity risk relates primarily to the recruitment and integration of skilled management and technical personnel in order to replace managers and skilled staff leaving the company on account of age, in particular, and to cope with business growth and the introduction of new technologies, if suitable personnel cannot be developed within the company itself. Recruiting highly qualified personnel tends to be difficult on the whole at present, due to low availability of such personnel on the employment market both in Germany and abroad. Contacts are maintained and intensified with various training centres and higher education establishments in order to find suitable personnel. In recent years, however, there has been no significant fluctuation of personnel.

All companies in which PVA TePla holds an interest of more than 50% have quality management systems that are certified in accordance with ISO 9001/2000. Maintaining a quality system tailored to each specific company within the Group is supported and monitored by a central quality department. The taking out of appropriate insurance policies in order to cover the various operational risks is also coordinated by a central department for all companies within the Group.

The risk of own machines breaking down is of subordinate importance, because there are few machine tools (production is focused on assembly and commissioning activities) and also because sufficiently suitable machines are available from associated subcontractors. Preventive maintenance of our own plasma facilities and vacuum soldering plant, as well as a rapid response to machine failure can be effected by the company itself.

The risk of IT equipment failures and the threat posed by software viruses is reduced by regular and appropriate backups, suitable protective measures against external influences (e.g. up-to-date virus protection systems and firewalls) and by suitable access control systems.

The risk of suppliers defaulting is substantially reduced by targeted selection and skilling of alternative suppliers, also in other countries. Care is taken to ensure that all major suppliers operate a suitable quality management system and have adequate liability insurance coverage.

The most recent external fiscal audit of the former PVA Vakuum-Anlagenbau GmbH in Aßlar covered the assessment periods up to and including 1999; at the former TePla AG, the most recent fiscal audit covered the assessment periods up to and including 1995. The external fiscal audit of the former TePla AG for the assessment periods 1997 to 2000 is in progress.

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In the audit report the fiscal authorities have expressed an opinion deviating from that of PVA TePla AG regarding the recognition of deducted prepaid taxes for emission expenses for the TePla AG IPO in 1999, and on the recognition of loss carryforwards for fiscal purposes. After repeated and intensive discussions with our tax consultants, we have come to the conclusion that our view is supported by the most recent legal literature and established case law. We therefore assess the risk of retrospective tax payments furthermore as being minimal.

There are no discernible risks that might jeopardise the continued existence of the company and the Group as a going concern.

14. Significant events since the end of the financial year

There have been no significant events since the end of the financial year.

15. Outlook

The mechanical engineering and plant construction industries in Germany achieved an unprecedentedly high production volume in 2004, as well as strong exports. Capacity utilisation at the end of the year was almost 88%. Although the VDMA industry federation anticipates a slight cyclical downturn in foreign business, it nonetheless expects real growth to reach 3% in 2005 as a whole. Growth in the machine tools industry is even expected to hit 4%.

Continued growth of this sector is of great relevance for the Vacuum Systems division, especially, the most important division in the Group. In the wake of the large incoming order volume in 2004, which was 50% higher than the previous year and well above the encouraging sectoral trend, demand for vacuum systems remains vigorous in early 2005 as well, with the consequence that this division can expect the good order situation to continue.

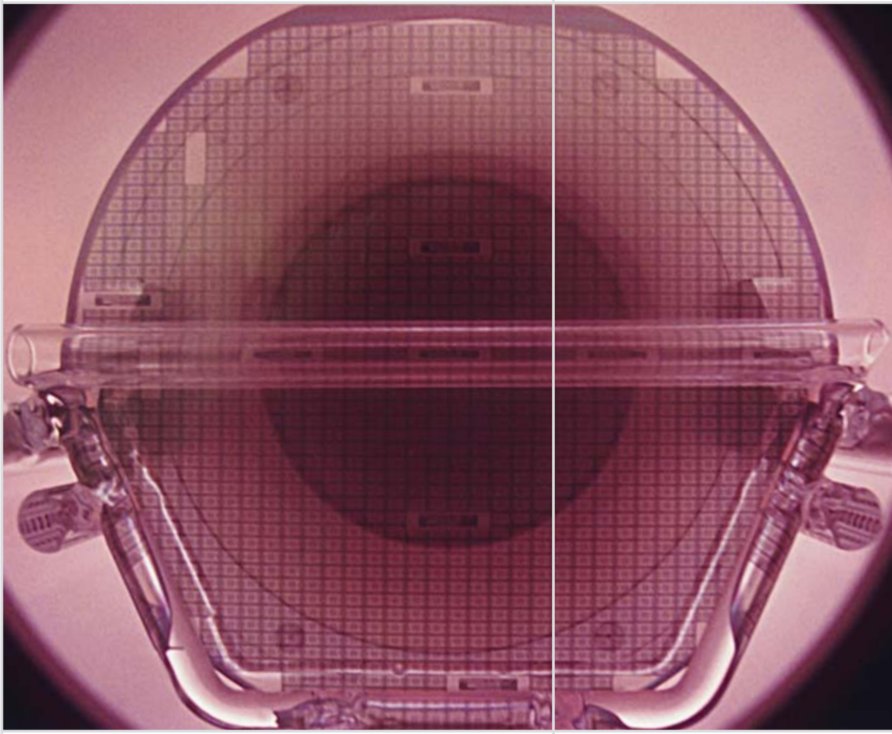
The semiconductor industry was very dynamic in 2004, although this particular trend lost energy towards the end of the year. According to a survey conducted by VLSI Research Inc., which focuses on the semiconductor industry, the book-to-bill ratio at the end of the year was down to 0.84. In the month of January, seasonally a rather weak month, the situation improved slightly to a book-to-bill ratio of 0.88. Forecasts by the most important market research institutes for 2005 as a whole are in a corridor between –5% and +5%, so one can expect demand to trend sideways at a relatively high level.

In light of this market assessment and the current health of PVA TePla, we are optimistic for the year 2005.

In the Vacuum Systems division, it is already apparent that capacity utilisation will remain high until well into the third quarter. In the Plasma Systems division, business is running at a stable level. We are also confident about the Crystal Growing Systems division. The floatzone section has already landed another order, thus ensuring a good baseline level of capacity utilisation in 2005. The new products launched by the Crystal Growing Systems division are generating some interesting market opportunities in the year just commenced. In contrast to previous years, our photovoltaic and optoelectronics activities mean that we are now present with marketable products in other fast-growing and forward-looking markets. The current situation in our project business indicates that business volume in the Crystal Growing Systems division will pick up shortly.

Based on these expectations and the cost structures now in place, a further improvement in the earnings situation can be achieved in 2005, as well as robust growth in business volume. Further opportunities are generated by our new activities in China.

With our return to operating profitability in the 2004 financial year, we have achieved our much-awaited turnaround. The Management Board expects this trend to continue in the 2005 business year, and that both revenue and earnings will increase still further.



Aßlar, March 15, 2005

PVA TePla AG
Management Board

Peter Abel **Arnd Bohle**

Martin Gier **Volker Lang**

Consolidated Balance Sheet as at 31 December 2004 and 2003

Assets	**Notes**	**31.12.2004 EUR '000**	**31.12.2003 EUR '000**
Current assets			
Liquid assets		3,456	2,267
Trade accounts receivable	(6)	4,996	5,329
Amounts due from associated companies		237	184
Other receivables		228	832
Inventories	(7)	10,593	9,660
Raw materials and supplies		3,029	3,241
Work in process		2,215	1,540
Costs of uncompleted contracts in excess of related billings		4,260	3,640
Finished products / goods		1,089	1,239
Other current assets		455	284
Prepaid expenses and accrued income		49	52
Deferred tax assets	(17)	37	27
Total current assets		**20,051**	**18,635**
Fixed assets			
Financial assets	(8)	170	142
Tangible assets	(9)	7,478	8,251
Intangible assets	(9)	8,197	8,402
Goodwill		7,584	7,584
Other intangible assets		613	818
Deferred tax assets	(17)	6,174	5,794
Total fixed assets		**22,019**	**22,589**
Total assets		**42,070**	**41,224**

The following notes are an integral part of the Group financial statements.

Liabilities	Notes	31.12.2004 EUR '000	31.12.2003 EUR '000
Current liabilities			
Bank notes payable (current)	(11)	871	3,879
Trade accounts payable		2,064	1,194
Liabilities due to associated companies		147	51
Advance payments received on orders	(12)	3,577	782
Other liabilities	(13)	1,054	1,101
Deferred tax liabilities	(17)	864	722
Tax provision	(17)	11	0
Other accrued expenses	(14)	3,280	3,684
Deferred income		4	4
Total current liabilities		**11,872**	**11,417**
Special item relating to investment grants	**(10)**	**1,096**	**1,230**
Long-term liabilities			
Bank notes payable	(15)	1,784	2,113
Other liabilities	(13)	11	12
Pension accruals	(16)	5,715	5,096
Other accrues expenses	(14)	319	344
Total long-term liabilities		**7,829**	**7,565**
Minority interest		**321**	**281**
Shareholders' equity	(4)		
Share capital		21,450	21,450
Retained earnings/Accumulated deficit		104	-363
Accumulated other comprehensive income		-602	-356
Total shareholders' equity		**20,952**	**20,731**
Total equity and liabilities		**42,070**	**41,224**

The following notes are an integral part of the Group financial statements.

Consolidated Income Statement for the financial years ended December 31, 2004 and 2003

	Notes	31.12.2004 EUR ’000	31.12.2003 EUR ’000
Revenues	**(22)**	**44,201**	**38,907**
Cost of goods sold		-31,552	-28,520
Gross profit		**12,649**	**10,387**
Selling expenses		-5,421	-6,226
General administrative expenses		-4,246	-5,620
Research and development expenses	(18)	-1,466	-1,715
Restructuring and other non-recurring expenses	(19)	-395	-1,213
Other operating expenses and income		-849	-1,083
Operating result	**(22)**	**272**	**-5,470**
Interest income / Interest expenses		-198	-261
Equity in earnings / losses of associated companies		21	3
Net interest income and net income from associated companies		**-177**	**-258**
Result from ordinary activities		**95**	**-5,728**
Income tax	(17)	-22	279
Deferred tax	(17)	242	1,804
Extraordinary income		0	438
Net profit / loss for the year		**315**	**-3,207**
Minority interests		152	339
Net profit / loss for the year after minority interest		**467**	**-2,868**
Earnings per share (basic)		0.02	-0.13
Earnings per share (diluted)		0.02	-0.13
Weighted average shares outstanding (basic)		21,449,988	21,449,988
Weighted average shares outstanding (diluted)		21,449,988	21,449,988

The following notes are an integral part of the Group financial statements.

Consolidated Cash Flow Statement for the financial years ended December 31, 2004 and 2003

		31.12.2004 EUR '000	31.12.2003 EUR '000
	Group net profit / loss	467	-2,868
+/-	Depreciation / write-ups on fixed assets	1,644	2,212
+/-	Increase / decrease of provisions	300	117
+/-	Increase / decrease in deferred taxes	-302	-1,817
+/-	Increase/decrease of the special item relating to investment grants	-133	-6
+/-	Other expenses / income not impacting cash flow	-161	29
-/+	Gains / losses from disposals of fixed assets	7	-4
-/+	Earnings relating to minorities	-152	-339
-/+	Increase/decrease of inventories, trade receivables and other assets	-402	1,238
+/-	Increase/decrease of trade payables and other liabilities	3,839	-2,836
-	Income from final deconsolidation	-18	-438
=	**Cash flow from operating activities**	**5,089**	**-4,712**
+	Proceeds from disposals of financial assets	81	33
-	Purchases of investments in financial assets	-104	0
+	Proceeds from disposals of tangible and intangible assets	2	43
-	Purchases of tangible and intangible assets	-679	-367
=	**Outflows from investment activity**	**-700**	**-291**
+	Proceeds from issuance of bonds and borrowing	0	1,401
-	Principal repayments of bonds and other financial loans	-249	-202
+/-	Change of short-term financial liabilities	-3,096	-956
=	**In-/Outflows from financing activity**	**-3,345**	**243**
	Change of liquid assets	1,044	-4,760
+/-	Currency translation effect and other value changes of liquid assets	-23	-47
+/-	Changes to liquid assets resulting from consolidation	168	-3
+	Liquid assets at the start of period	2,267	7,077
=	**Liquid assets at the end of period**	**3,456**	**2,267**

The following notes are an integral part of the Group financial statements.

Statement of Changes in Shareholders' Equity for the financial years ended December 31, 2004 and 2003

	Shares issued		Retained earnings/Accu-mulated deficit	Accumulated other comprehensive income			Share-holders' equity
				Foreign currency difference	Valuation of pensions	Total	
	Number	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Status 01.01.2003	**21,449,988**	**21,450**	**2,505**	**-172**	**0**	**-172**	**23,783**
Foreign currency difference				-184		-184	-184
Net loss of the year			-2,868				-2,868
Status 31.12.2003	**21,449,988**	**21,450**	**-363**	**-356**	**0**	**-356**	**20,731**
Status 01.01.2004	**21,449,988**	**21,450**	**-363**	**-356**		**-356**	**20,731**
Foreign currency difference				-148		-148	-148
Valuation of pensions					-98	-98	-98
Net profit of the year			467				467
Status 31.12.2004	**21,449,988**	**21,450**	**104**	**-504**	**-98**	**-602**	**20,952**

The following notes are an integral part of the Group financial statements.

Notes to the Consolidated Financial Statements for the financial year ending on 31 December 2004

1. General disclosures and accounting principles applied

Business activities

PVA TePla AG and its subsidiaries ('PVA TePla' or the 'Group') are suppliers of systems and facilities for eco-friendly production and processing of high-quality industrial materials.

With its systems and services, PVA TePla supports key processes in industrial companies – above all in the semiconductor, hard metal, electrical/electronic and food industries, and in the fields of photovoltaic and fuel cell technologies.

The company also supplies innovative components and solutions for cleaning freshwater, wastewater and surfaces with UVC radiation.

With its locations in Germany, the USA and, since 2004, in Denmark and China, PVA TePla maintains business relationships worldwide. Operations in France were closed down in 2004.

The financial year is the calendar year.

Basis of presentation

The consolidated financial statements of PVA TePla AG were prepared in accordance with the United States Generally Accepted Accounting Principles (US GAAP). Pursuant to the regulations in the German Commercial Code (Handelsgesetzbuch – HGB), PVA TePla must prepare consolidated financial statements in accordance with the accounting legislation contained in the HGB Code. Pursuant to Section 292 a HGB, consolidated financial statements do not have to be prepared according to the laws of Germany if consolidated financial statements are submitted which comply with internationally recognised accounting principles such as US GAAP. With the present consolidated financial statements, PVA TePla is utilising the exemption option provided by Section 292 a HGB.

Estimates and assumptions

Preparation of the consolidated financial statements requires that estimations and assumptions be made by management. These have an influence on the disclosure of assets and liabilities, the disclosure of contingent liabilities as at the balance sheet date, and the disclosure of income and expenditure in the reporting year. The actual amounts may deviate significantly from the estimates made by management.

Rounding of figures

The tables and figures used in these Notes are based on precisely calculated values that are subsequently rounded to the nearest thousand Euros. Differences within the tables due to such rounding cannot always be avoided.

Notes to the Consolidated Financial Statements for the financial year ending on 31 December 2004

Consolidation principles

These consolidated financial statements for PVA TePla relate to fully consolidated subsidiaries, on the one hand, and associated companies consolidated at equity. In the consolidated financial statements, all companies that PVA TePla AG directly or indirectly controls are consolidated using the purchase accounting method. Control is deemed to be exercised over a company when PVA TePla holds the majority of shares, either directly or indirectly, and is able to exert a controlling influence. All significant intercompany balances and transactions were eliminated in the consolidated financial statements. Minority interests in the companies in which the company holds the majority of shares are disclosed under 'Minority interests'.

As at 31 December 2004, the following companies were fully consolidated in the consolidated financial statements:

The consolidated financial statements also include PVA MIMtech LLC, Cedar Grove/NJ, USA, an associated company in which PVA TePla AG now holds a 50% participating interest (2003: 25%) after exercising a call option effective on 1 January 2004. As at 31 December 2004, the shareholder equity of PVA MIMtech LLC was USD 235 thousand (2003: EUR 173 thousand), and the net income for the year 2004 was USD 52 thousand (2003: EUR 39 thousand).

With effect from 1 October 2004, PVA TePla France S.A.S., Saint Quentin en Yvelines, France is no longer included in the consolidated financial statements due to the fact that insolvency proceedings against the assets of said company were opened on 14 October 2004. For the period up to 30 September 2004, the revenues of said company totalled EUR 205 thousand, and the net income/loss for the year to date was EUR –256 thousand.

Name	Domicile	Share of capital
PVA TePla AG (parent company)	Aßlar, Germany	
PVA TePla America Inc. (formerly TePla America Inc.)	Corona/CA, USA	100.00%
UV Systec Gesellschaft für UV-Strahler und Systemtechnik mbH	Jena, Germany	100.00%
PVA Vakuum-Anlagenbau Jena GmbH	Jena, Germany	100.00%
Crystal Growing Systems GmbH	Hanau, Germany	84.70%
Xi'an HuaDe CGS Ltd.	Xi'an, P. R. of China	51.00%
PVA Löt- und Werkstofftechnik GmbH	Jena, Germany	100.00%
PVA Control GmbH	Aßlar, Germany	100.00%

2. Accounting and valuation

In preparing the consolidated financial statements, the following accounting and valuation principles were generally applied:

Reporting currency and currency translation

The consolidated financial statements are denominated in Euro (EUR). As a basic principle, the balance sheet items of foreign subsidiaries whose functional currency is not the Euro are translated using the exchange rate applying on the balance sheet date. Items in the income statement are translated using the average exchange rates for the financial year as a whole, whereas shareholders' equity is translated at the historical exchange rate. Translation differences arising from exchange rate fluctuations between different financial years are disclosed in the shareholders' equity section under 'Accumulated other profit/loss'. Business transactions executed in foreign currencies by the German companies and their subsidiaries in the USA and France were converted to the respective national currencies. Foreign currency gains and losses were taken into account when calculating the financial results.

The main exchange rates used in the consolidated financial statements for countries outside the Eurozone are as follows:

Exchange rate on closing date, 31.12. (EUR 1 =)

	2004	2003
USA (USD)	1.36400	1.25519
China (CNY)	11.27551	./.

Average exchange rate (EUR 1 =)

	2004	2003
USA (USD)	1.24386	1.12943

Liquid assets, receivables

All freely available liquid assets, such as cash in hand and bank balances, are capitalised under liquid assets. Cash and cash equivalents and receivables are stated at their nominal value. Appropriate value adjustments are made to cover potential default risks in respect of trade receivables.

Funds deposited as collateral include monetary investments deposited as collateral for financing.

Derivative financial instruments

Sales are denominated in foreign currencies in some cases. In order to hedge against concomitant exchange risks, forward exchange transactions are effected as a basic principle.

These cases are calculated in such a way that the underlying transaction is split into a supply contract denominated in Euro and an embedded derivative instrument. The derivatives are stated at their fair value on the closing date. The embedded derivatives and the forward exchange transaction are identical in respect of currency and date, resulting in these derivates being balanced in the income statement against the forward exchange transactions concluded to hedge the exchange rates.

Notes to the Consolidated Financial Statements for the financial year ending on 31 December 2004

Inventories

Raw materials and supplies, as well as inventories are valued either at purchase cost on the basis of weighted average purchase prices, or at the lower market price.

Production costs for finished goods and work in progress include directly attributable material and labour costs, as well as their proportionate share of overhead expenses.

Reductions in value due to selling prices that fail to cover production costs are taken into account by making the respective impairments.

Leasing

PVA TePla is a lessee of tangible assets. In fiscal 2004, as in the previous year, all leasing agreements concluded by PVA TePla had to be treated as operating leases, with the consequence that leasing instalments were expensed when incurred.

Tangible assets

Tangible assets are valued at purchase cost or manufacturing cost minus accumulated depreciation. Depreciation is calculated according to the straight-line or reducing balance method over the expected useful life; leasehold improvements are amortised over the remaining term of the lease, if shorter. Maintenance and repair expenses are booked as expenses in the respective period. Purchase and production costs, as well as the associated cumulative depreciation, are eliminated when assets are scrapped or sold, and any book profits or losses are disclosed in the income statement.

Depreciations are based on the following useful lives:

	Years
Buildings	25 - 30
Plant and machinery	3 - 20
Other plant, operating and office equipment	2 - 14

If the estimated fair value is less than the systematically depreciated purchase and production costs, extraordinary depreciations on the lower value are made.

Moveable assets are depreciated pro rata temporis in the year of acquisition.

Investment incentives and tax-exempted investment grants received in the reporting year and the preceding years are not deducted from purchase or production costs for the assets thus supported, but delimited as a separate balance sheet item entitled 'Special item relating to investment grants', and booked as income in the periods congruent to the corresponding expense items. Entitlement to government funding is disclosed in the balance sheet when the supported investments are actually made.

Intangible assets

Intangible assets mainly comprise goodwill generated in conjunction with corporate acquisitions as that portion of the purchase price that exceeded the market value of the net assets acquired. They result from the acquisition of TePla in November 2002 and the increase in the participating interest in Crystal Growing Systems GmbH in July 2002. In accordance with SFAS 142 ('Goodwill and other Intangible Assets'), goodwill must be subjected to an annual impairment test. This is performed on the basis of the budgetary planning adopted in the fourth quarter for subsequent years. There were no indications for impairments in 2004.

Intangible assets subject to depreciation are written off using the straight-line method. These depreciations are based on a useful life ranging from three to eight years (or between three and five years in the case of software).

Taxes on income

Deferred taxes on income are calculated using the liabilities method. Deferred tax assets and liabilities are recorded as other assets and as provisions, in order to take account of future taxation impacts due to temporary differences between the valuation of assets and liabilities for accounting purposes and valuation for fiscal purposes. In determining deferred tax assets and liabilities, the taxation rates at the time of their anticipated realisation are taken as the basis. Impacts resulting from changes in taxation rates are taken into account when the respective statutory regulations enter into force.

Impairments are made when it is necessary to reduce deferred tax assets to an amount equal to the expected tax benefit. Taxes on income include tax obligations for the respective period, plus or minus the change in deferred tax assets and liabilities during the period.

Liabilities

Liabilities are shown at the (discounted) repayment value.

Provisions

Provisions are recognised at the (discounted) amounts likely to be payable.

Provisions for pension obligations are based on actuarial principles in accordance with SFAS 87.

Recognition of revenues

Revenues are disclosed as soon as the goods or services are delivered and risk has been transferred. All revenues are booked on the date of delivery or performance, because the management views other services and sales agreements, such as training courses, as irrelevant with regard to the usability of the systems. Income from services and repair work is booked at the time the respective products are completed.

Income from long-term production orders is booked according to the percentage-of-completion method, because it is possible to make a reliable estimate of the income from orders, because the products to be delivered, the terms of payment and the manner in which the orders are to be executed are clearly defined in the relevant contracts, and because fulfilment of the contractual agreements is deemed to be likely by both the buyer and the seller. The percentage of completion is determined from the ratio of costs incurred up to the cut-off date and the estimated total costs (cost-to-cost method).

Provisions for guarantees are formed at the balance sheet date in respect of realised sales. The provisions are based on estimates and past experience.

Notes to the Consolidated Financial Statements for the financial year ending on 31 December 2004

Research and development expenses

Research and development costs as well as software engineering expenses are booked as periodic expenses. SFAS 86 requires capitalisation of some software engineering expenses that are incurred between conclusion of the technological development phase and the time at which the product is available on the market. Based on the product development process, technological development is concluded when the working model has been completed. Until now, the time interval between completion of the technological development phase and the time at which such software products are available on the market is short, and software engineering expenses requiring capitalisation were negligible. For this reason, no software engineering expenses have been capitalised as yet.

Current accounting statements

In January 2003, the FASB published Interpretation No. 46, 'Consolidation of Variable Interest Entities'. The new interpretation modifies the requirement to consolidate variable interest entities. According to the new interpretation, companies must consolidate a variable interest entity if it bears a significant proportion of the financial risks and/or opportunities affecting the company. In December 2003, the Financial Accounting Standards Board adopted Interpretation No. 46R (FIN 46R) (Consolidation of Variable Interest Entities (revised)), thus replacing the original FIN 46 (Consolidation of Variable Interest Entities). FIN 46R explains the concept of variable interest entities (VIEs) and requires that VIEs be included in the consolidated financial statements by the primary beneficiary when the VIE in question does not have sufficient equity to finance its activities without additional subordinated financial support provided by any parties, and/or when the largest equity holder lacks certain important characteristics of control over the financing of the VIE. The rules in FIN 46R were to be applied to special purpose entities as from 31 December 2003 and for all other VIEs as from 31 March 2004. Application of the new rules had no effects on the consolidated financial statements of PVA TePla AG.

In November 2004, the FASB issued SFAS 151 'Inventory Costs, an amendment of ARB No. 43, Chapter 4'. SFAS 151 states that abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) are to be recognised as current period charges, and requires the allocation of fixed production overheads to the costs of production based on the normal capacity of the production facilities. SFAS 151 must be applied prospectively to production costs incurred in the business years following 15 June 2005. PVA TePla is currently examining the impacts of SFAS 151 on the consolidated financial statements, but does not expect there to be any significant effect.

3. Acquisitions and deconsolidations

With effect from 1 January 2004, the wholly owned subsidiary PVA USA Corp. was merged with the wholly owned subsidiary TePla America Inc. The name of the absorbing company was changed to PVA TePla America Inc. The fusion constitutes a merger of juristic persons under joint control. There is no business combination within the meaning of SFAS 141. It is merely an allocation of resources, so the consolidated carrying values of the entities involved are retained without change.

With effect from 17 May 2004, PVA TePla acquired the Floatzone Equipment division (know-how, machinery, as well as fixtures and office equipment) of the Danish Haldor Topsoe Group as part of an asset deal. The acquired floatzone equipment activities add to the range of silicon crystal growing systems sold by the PVA TePla Group. The takeover was recognised in accordance with the purchase accounting method; the purchase costs were offset against the present fair value of the net assets acquired from Haldor Topsoe. The market values are identical to the purchase costs, so no positive or negative difference arises from the acquisition.

With effect from 17 December 2004, PVA TePla acquired 51.00% of the shares in Xi'an HuaDe CGS Ltd., Xi'an, People's Republic of China when said entity was newly established. This company is a joint venture between the Crystal Growing Systems division of PVA TePla and the Technical University of Xi'an (TUX). The objects of the new company are to develop, market, install, bring online and service crystal growing systems, high-temperature facilities and plasma systems. The main focus of activity is the production and marketing of crystal growing facilities for solar silicon. The acquisition of this participating interest was valued using the purchase accounting method. At the time of the acquisition, the net assets of Xi'an HuaDe CGS Ltd. comprised cash and cash equivalents only. No difference arose between the purchase price and the present fair value of the net assets acquired.

As from 1 October 2004, PVA TePla France S.A.S. has no longer been included in the consolidated financial statements. Due to the loss of actual control over that entity following the opening of insolvency proceedings on 14 October 2004, it is prohibited to include PVA TePla France S.A.S. in consolidation from that date onwards. As at 31 December 2004, the interest held in that company is stated under financial assets with the applicable value of EUR 0.00. Due to deconsolidation, income of EUR 18 thousand (negative net assets of PVA TePla France S.A.S. as at 30 September 2004 amounting to EUR 641 thousand, less EUR 68 depreciation of the carrying amount of the participation and the derecognition of EUR 555 thousand in receivables owed to PVA TePla by PVA TePla France).

Notes to the Consolidated Financial Statements for the financial year ending on 31 December 2004

4. Equity

Share capital

As at 31 December 2004, PVA TePla has issued 21,449,988 bearer shares, each bearer share representing one Euro of the share capital.

Contingent and authorised capital

The Shareholders' Meeting of the former TePla AG, held on 6 June 2000, authorised the creation of up to EUR 100,000 in contingent capital (Contingent Capital II). The deadline for exercising the stock options expired in 2003. The options were not exercised by the beneficiaries. No additional contingent capital has subsequently been created.

By resolution of the TePla Shareholders' Meeting on 28 August 2002 (prior to the merger between PVA Vakuum-Anlagenbau GmbH and TePla AG), the Management Board was authorised, contingent on the approval of the Supervisory Board, to increase the share capital of the company on one or several occasions until 5 November 2007 by up to EUR 10,724,994.00 against cash contributions or contributions in kind (authorised capital), and to exclude shareholders from subscribing. No new shares were issued in 2004 in respect of this authorised capital.

Accumulated other profit/loss

The following changes resulted in the accumulated other profit/loss for 2004 and 2003:

	2004			2003		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Difference from pension valuation	-158	60	-98	0	0	0
Difference from currency translation	-239	91	-148	-297	113	-184
	-397	**151**	**-246**	**-297**	**113**	**-184**

5. Earnings per share

The consolidated net income for the year after deduction of minority interests amounts to EUR 467 thousand. An average of 21,449,988 no-par value bearer shares were in circulation during the financial year. In the 2003 financial year, an average of 21,449,988 no-par value bearer shares were likewise in circulation.

The earnings per share are calculated by dividing the profit/loss by the weighted average number of shares outstanding during the year.

Calculation of earnings per share for the years 2003 and 2004:

	2004	2003
Numerator		
Consolidated net income (loss) for the year (in EUR '000)	467	(2,868)
Denominator		
Weight average number of shares outstanding – undiluted	21,449,988	21,449,988
Profit (loss) per share (in EUR)	**0.02**	**(0.13)**

As at the balance sheet date, there were no stock options issued to employees that entitled them to purchase PVA TePla shares. As at 31 December 2004, there were no dilution effects in respect of the earnings per share.

6. Trade receivables

The trade receivables were comprised as follows:

	31.12.2004 EUR '000	31.12.2003 EUR '000
Trade receivables	5,091	5,493
Impairments	-95	-164
	4,996	**5,329**

Notes to the Consolidated Financial Statements for the financial year ending on 31 December 2004

Trade credit is granted to a broad range of customers in the normal course of business. The creditworthiness of customers is subjected to regular review. Value adjustments were made to cover against any bad debt risks.

Changes in value adjustments during the reporting year were as follows:

	EUR '000
Status as at 01.01.2004	164
Utilised	-27
Reversals	-100
Additions	58
Status as at 31.12.2004	**95**

All trade receivables have a residual term of less than one year.

7. Inventories

Inventories comprised the following items:

	31.12.2004 EUR '000	31.12.2003 EUR '000
Raw materials and supplies	3,029	3,241
Work in progress	2,215	1,540
Contract-related costs and proceeds minus down-payments for uncompleted plant construction	4,260	3,640
Finished products and goods	1,089	1,239
	10,593	**9,660**

8. Financial assets

The 50% participation in PVA MIMtech LLC is disclosed under financial assets as shares in associated companies. Valuation is performed in accordance with the equity method, in which the participation is initially valued at the amount invested. Profits or losses subsequently incurred are offset against the carrying value of the participation.

In September 2002, the acquisition costs for a 25% interest amounted to EUR 96 thousand. No difference arose between the acquisition costs and the underlying equity. With effect from 1 January 2004, an additional 25% were acquired for EUR 104 thousand (after currency translation). The difference after translation of EUR 66 thousand between the cost and the acquired equity is recognised as goodwill in a secondary calculation and subjected each year to an impairment test. There were no grounds for impairments in 2004. The respective share in net income/loss is allocated to the participation (profit) or deducted from it (loss) accordingly. The share in net income for 2004, at EUR 19 thousand (prior year: EUR 3 thousand), was disclosed in the income statement under 'Income/expenses from associates'. EUR 1 thousand in profits were paid out in 2004.

Financial assets comprised the following:

	31.12.2004 EUR '000	31.12.2003 EUR '000
Shares in associated companies	148	38
Loans to associated companies	0	79
Other assets	22	25
	170	**142**

9. Intangible and tangible assets

The development of intangible and tangible assets in the reporting year is shown in the consolidated statement of fixed assets attached as an Annex.
The carrying amounts of intangible and tangible assets are broken down as follows:

	31.12.2004 EUR '000	31.12.2003 EUR '000
Intangible assets		
Goodwill	7,584	7,584
Other intangible assets	613	818
	8,197	**8,402**
Tangible assets		
Land, land rights and buildings, including buildings on third-party land	4,535	4,842
Plant and machinery	2,066	2,199
Other plant and equipment	845	1,178
Downpayments and assets under construction	32	32
	7,478	**8,251**

Depreciation of tangible assets totalled EUR 1.203 million in 2004 and EUR 1.627 million in 2003.

The intangible assets subject to depreciation (EUR 613 thousand) mainly comprise software and have an average useful life of three years.

Depreciation of intangible assets amounted to EUR 435 thousand in 2004 and EUR 556 thousand in 2003.

Notes to the Consolidated Financial Statements for the financial year ending on 31 December 2004

10. Special item relating to investment grants

PVA TePla has received financial assistance under government business development programmes from various public agencies, including funding to construct production facilities.

The special item relating to investment grants developed as follows in 2004:

	Total	Land and buildings	Plant and machinery	Other plant and equipment
	EUR '000	EUR '000	EUR '000	EUR '000
Status as at 01.01.2004	1,230	660	501	69
Additions	0	0	0	0
Reversals	-134	-31	-76	-27
Status as at 31.12.2004	**1,096**	**629**	**425**	**42**

11. Current financial liabilities

Current financial liabilities relate to amounts owed to banks from taking out loans under short-term loan agreements.

Also disclosed under this item is the short-term portion of long-term loans, amounting to EUR 302 thousand (prior year: EUR 219 thousand).

12. Advance payments received on orders

Among other products, the PVA TePla Group manufactures large-scale plant on the basis of long-term contracts. The company requires, in particular, that advance payments be made before production starts; these amounts are disclosed in the balance sheet under advance payments received on orders, to the extent that they exceed the revenues based on the percentage of completion.

Advance payments received are broken down as follows:

	31.12.2004 EUR '000	31.12.2003 EUR '000
Advance payments minus contract-related costs and revenue from work in progress for contracts	3,038	477
Other advance payments received	539	305
	3,577	**782**

13. Other liabilities

Other liabilities total EUR 1.065 million (prior year: EUR 1.113 million), of which EUR 1.054 (prior year: EUR 1.101 million) are short term and EUR 11 thousand (prior year: EUR 12 thousand) are long term. Other, short-term liabilities include EUR 176 thousand in tax liabilities (PAYE/church tax, turnover tax, prior year: EUR 343 thousand) and EUR 210 thousand in social insurance liabilities (prior year: EUR 310 thousand).

14. Other provisions

Other provisions, at EUR 3.599 (prior year: EUR 4.028 million), include the following main items:

	31.12.2004 EUR '000	31.12.2003 EUR '000
Warranties	358	675
Holiday	444	502
Overtime/flexitime	270	403
Financial statements and audit	221	226
Contingent losses	898	896
Commission	365	370
Bonuses	95	20
Employer's liability insurance	98	103
Other	850	833
	3,599	**4,028**

Provisions were formed exclusively for commitments to third parties where there is a real probability of them having to be honoured. Provisions were recognised at the amount that probable claims would involve. The lower of equally probable values was recognised.

Provisions for contingent losses include provisions for properties rented on a long-term basis that have been vacated due to capacity adjustments (EUR 789 thousand) and provisions for deficit orders (EUR 109 thousand).

Provisions for contingent losses include long-term components at EUR 319 thousand (prior year: EUR 344 thousand), which are separately stated in the balance sheet.

The provisions for warranties developed as follows:

	EUR '000
Status as at 01.01.2004	675
Utilised	-304
Reversals	-143
Additions	130
Status as at 31.12.2004	**358**

Notes to the Consolidated Financial Statements for the financial year ending on 31 December 2004

15. Long-term financial liabilities

The following table shows the composition of long-term financial liabilities:

	31.12.2004 EUR '000	31.12.2003 EUR '000
KfW loan (ERP) for nominal EUR 511,291.88; repayments from 30.09.2004 in 30 semi-annual instalments of EUR 17,043.40; the term is shortened to 30.09.2018 due to EUR 30 thousand in special repayments; fixed interest rate of 3.75% p.a. until 30.09.2009; secured by transfer of ownership and certified land charges	464	511
KfW loan (ERP) for nominal EUR 818,067.00; repayments from 30.09.2001 in 16 semi-annual instalments of EUR 51,129.19; term runs to 31.03.2009; fixed interest rate of 3.5% p.a.; discount 4%; secured by transfer of ownership as collateral and by registered land charges	446	548
SPK Jena loan for nominal EUR 640,000.00; repayments from 30.03.2003 in 25 quarterly instalments of EUR 25,000 and one EUR 15,000 instalment; term runs to 30.06.2009; fixed interest rate 4.03% p.a. until 31.12.2003; 5.36% fixed rate 01.04.2004 to 28.02.2007; secured by registered land charges	440	540
KfW loan for nominal EUR 332,000.00; repayment from 30.06.2005 in 35 semi-annual instalments of EUR 9,223 and one instalment of EUR 9,195; term runs to 30.12.2022; fixed interest rate of 4.5% p.a.; discount 4%; secured by registered land charges	321	320
KfW loan for nominal EUR 429,000.00; repayment from 30.09.2005 in 15 semi-annual instalments of EUR 26,813 and one instalment of EUR 26,805; term runs to 30.03.2013; fixed interest rate at 4.05% p.a.; discount 4%; secured by transfer of ownership and registered land charges	415	413
Long-term financial liabilities	**2,086**	**2,332**
less portion of long-term financial liabilities with a term to maturity of up to one year	-302	-219
Long-term financial liabilities less current portion	**1,784**	**2,113**

Future minimum payments in respect of long-term financial liabilities are broken down as follows:

Financial year	EUR ’000
2005	281
2006	309
2007	309
2008	309
2009	197
from 2010	721
	2,126

16. Pension accruals

Pension obligations in the form of defined benefit plans have been made to beneficiary employees of PVA TePla and Crystal Growing Systems GmbH.

The projected unit credit values are calculated on the basis of assumptions regarding the expected growth of pension expectancies (2.25% p.a.; prior year: 2.5% p.a.), pension growth (1.00% p.a.; prior year: 1.25% p.a.) and interest rates (4.75% p.a.; in the case of pensioners and active employees with entitlement 5.50% p.a.; prior year: 5.75% and 5.25%, respectively).

The following table shows the changes in the projected benefit obligation (PBO) and the transition to pension provisions:

	2004 EUR ’000	2003 EUR ’000
Projected benefit obligation, 1 January	5,199	5,581
Service costs	195	191
Interest expense	293	270
Pensions paid	-56	-54
Change in scope of consolidation	0	-875
Actuarial ganis (-) / losses	-197	86
Projected benefit obligation, 31 December = Financing status	**5,434**	**5,199**
Unredeemed gains / losses (-)	123	-103
Provisions before recognition of underfunding of projected benefit obligations, excluding effect of future salary increases (Accumulated Benefit Obligation)	5,557	5,096
Additional minimum pension provisions of which accumulated other income EUR 158 thousand	158	0
Provisions for pensions as at 31 December 2004	**5,715**	**5,096**

Notes to the Consolidated Financial Statements for the financial year ending on 31 December 2004

The cash equivalent of the projected benefit obligations, but excluding future salary increases (Accumulated Benefit Obligations) amounted as at 31 December 2004 to EUR 4.830 million (prior year: EUR 4.505 million).

Pension expenditure is broken down as follows:

	2004 EUR '000	2003 EUR '000
Service cost	195	191
Interest expense	293	270
Redemption of gains (-) / losses	29	0
	517	**461**

The valuation date applied to determine the projected benefit obligations was 31 December 2004.

The following table shows the amount of pension benefits by year:

Financial year	EUR '000
2005	68
2006	130
2007	153
2008	182
2009	238
2010-2014	1,511

17. Taxes on income

In October 2000, the German federal government reduced the rate of corporation tax to a standard 25% with effect from 1 January 2001. A solidarity supplement of 5.5% on corporation tax as well as municipal trade tax at 12% is also charged, resulting in a total tax burden of 38%. The increase in corporation tax to 26.5%, adopted on 19 September 2002 under the Flood Victims Act, was confined to the year 2003.

The actual tax burden is based on the probable future tax payments or refunds resulting from future utilisation of assets and future fulfilment of obligations.

Income tax expense and income is broken down as follows:

	31.12.2004 EUR '000	31.12.2003 EUR '000
Current (expense (-) / income (+))	-22	279
Deferred		
Income from fiscal loss carryforwards	363	1,059
Other deferred taxes	-121	745
Total tax income	**220**	**2,083**

Cash flow was affected by EUR 22 thousand in income taxes paid in 2004 (due primarily to a minimum taxation rule in the USA), and EUR 3 thousand in tax refunds received.

The following reconciliation of tax expense and income is based on a taxation rate of 38%:

	2004 EUR '000	2003 EUR '000
Expected tax expense (-) / income	-36	2,010
Tax rate differential for foreign companies	-77	68
Tax payments (-) / refunds in respect of prior years	-5	276
Reversal of fiscal loss carryforwards to prior year	0	-229
Change in value adjustment	288	8
Other factors	50	-50
Actual tax expense (-) / (income)	**220**	**2,083**

The deferred taxes from tax rate differentials for foreign subsidiaries result from the fact that companies outside Germany in the PVA TePla Group are subject to taxation at different tax rates to those applying in Germany.

Notes to the Consolidated Financial Statements for the financial year ending on 31 December 2004

Deferred tax assets and liabilities relate to:

	31.12.2004		31.12.2003	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	EUR '000	EUR '000	EUR '000	EUR '000
Inventories	35	773	27	630
Fixed assets	524	40	610	89
Fiscal loss carryforwards (gross)	4,881		5,006	
Liabilities		38		
Other provisions	2	13		
Special item relating to investment grants	112		130	
Pension accruals	562		441	
Other	4	0	4	3
	6,120	**864**	**6,218**	**722**
Addition of prior year value adjustments and value adjustment of fiscal loss carryforwards	91		-397	
	6,211	**864**	**5,821**	**722**
Net deferred tax assets	**5,347**		**5,099**	

In the consolidated financial statements as at 31 December 2004 and 2003, deferred taxes are shown as follows:

	31.12.2004		31.12.2003	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	EUR '000	EUR '000	EUR '000	EUR '000
Current				
Germany	37	824	27	633
International	0	40	0	89
	37	**864**	**27**	**722**
Non-current				
Germany	5,499	0	5,040	0
International	675	0	754	0
	6,174	**0**	**5,794**	**0**
Total deferred taxes	**6,211**	**864**	**5,821**	**722**
Net deferred tax assets	**5,347**		**5,099**	

The German companies have loss carryforwards for corporation tax purposes that amount to EUR 11.392 million and loss carryforwards for municipal trade tax purposes amounting to EUR 11.903 million. The resultant future tax relief accruing to the German companies was capitalised at EUR 4.296 million, because it is assumed that the loss carryforwards will be used in the years ahead.

In accordance with the 'law to implement the declaration of the Federal Government on the mediation recommendation on the law to dismantle tax favours' (so-called Basket II) adopted on 19 December 2003, minimum taxation levels for corporation tax and municipal trade tax were implemented with effect from 2004. For loss carryforwards up to 31 December 2004, the implementation of minimum taxation means a delay in utilising these carryforwards, since they were limited in amount for each year; however, full utilisation of the loss carryforwards remains possible for an indefinite period. Taxes on earnings must be paid on the amounts that future profits exceed the tax-deductible amounts.

The loss carryforwards of PVA TePla America Inc. (USD 2.6 million federal tax; USD 1.2 million state tax) will successively expire – unless they are used beforehand – from the year 2020 (federal tax) and from the year 2006 (state tax) onwards. An allocation of EUR 0.1 million was credited in 2004 to the value adjustments on deferred tax assets of PVA TePla America Inc. formed the previous year, because the income situation of said company improved.

The most recent external fiscal audit of the former PVA Vakuum-Anlagenbau GmbH covered the assessment periods up to and including 1999; at the former TePla AG, the most recent fiscal audit covered the assessment periods up to and including 1995. The external fiscal audit of the former TePla AG for the assessment periods 1997 to 2000 is in progress. In the audit report the fiscal authorities have expressed an opinion deviating from that of PVA TePla AG regarding the recognition of deducted prepaid taxes for emission expenses for the TePla AG IPO in 1999, and on the recognition of loss carryforwards for fiscal purposes. After repeated and intensive discussions with its tax consultants, the company has come to the conclusion that its view is supported by the most recent legal literature and established case law. The Management Board therefore assesses the risk of retrospective tax payments furthermore as being minimal.

18. Research and development expenses

When calculating the research and development expenses in 2004 and 2003, as disclosed in the income statement, received government funding of EUR 18 thousand and EUR 213 thousand, respectively, were deducted from the totals.

Notes to the Consolidated Financial Statements for the financial year ending on 31 December 2004

19. Restructuring and other non-recurring expenses

Restructuring costs incurred were separately recorded in the income statement as 'Restructuring and other non-recurring expenses'.

The latter comprises the following specific items:

	2004 EUR '000	2003 EUR '000
Settlements and other expenses relating to redundancies	193	237
Contingent losses from rental agreements	202	800
Other expenses for site remediation	0	176
	395	**1,213**

20. Contingent liabilities and obligations from guarantees to third parties

In 2000 and 2001, PVA Vakuum-Anlagenbau Jena GmbH was awarded investment grants totalling EUR 714 thousand by the European Regional Development Fund; the grants were disbursed through the Thüringer Aufbaubank.

Besides the recipient of the grants, PVA TePla AG and UV Systec Gesellschaft für UV-Strahler und Systemtechnik mbH are personally obligated to repay the approved investment grants (EUR 530 thousand and EUR 184 thousand, respectively) if the intended aim of the support (generation of more than 50% of total revenues through the development and production of high-vacuum processing plant and the vacuum soldering service) is not achieved within the period that the funds are earmarked, or if the secondary provisions governing project funding payments (Allgemeine Nebenbestimmungen für Zuwendungen zur Projektförderung – ANBest-P) are infringed against (in particular the creation of nine full-time jobs). The first tranche of EUR 530 thousand was earmarked until 31 December 2003; the monitoring period for the creation of full-time jobs ends on 31 December 2005. The earmarking period for the second tranche of EUR 184 thousand ends on 30 June 2006; the monitoring period for the creation of full-time jobs also ends on 30 June 2006.

21. Other financial commitments

PVA TePla has leased premises for production and administration in Feldkirchen, Aßlar, Berlin and Frederikssund, Denmark from third parties. The monthly leasing instalments are EUR 51 thousand for the site in Feldkirchen, EUR 52 thousand for the site in Aßlar, EUR 3 thousand for the site in Berlin and EUR 3 thousand for the site in Frederikssund.

Premises in Hanau are used on a leasing basis by Crystal Growing Systems GmbH. The monthly leasing instalments amount to EUR 37 thousand.

PVA TePla America Inc. conducts its business from leased premises in Corona, California, USA. The monthly leasing instalment is USD 27 thousand; part of the site has been sub-let to a third party since September 2003. The facilities of PVA TePla America Inc. in Marlton, New Jersey, USA are leased for USD 5 thousand per month. The monthly leasing instalment in Hurst, Texas, USA is USD 2 thousand, and USD 1 thousand in Manchester, New Hampshire.

The various companies within the PVA TePla Group have concluded rental or leasing agreements as well as service-level agreements with third parties for office equipment, factory equipment and vehicles.

Total expenses in respect of leasing and rental agreements was EUR 2.154 million in 2004.

Other financial obligations ensuing from the aforesaid agreements and from framework agreements for procurement are expected to be as follows:

Financial year	**other financial obligations**
	EUR ’000
2005	2,423
2006	1,314
2007	944
2008	927
2009	930
from 2010	1,050
	7,588

22. Segment reporting

The company develops, produces and markets products and services that are grouped into the three divisions Vacuum Systems, Crystal Growing Systems and Plasma Systems. The Vacuum Systems division includes the activities of the former PVA Group, excepting those performed by the subsidiary Crystal Growing Systems GmbH and the site in Denmark, which now form the Crystal Growing division. The Plasma Systems division covers the activities of the former TePla Group. The segment reporting matches the internal management and reporting structure.

Inter-segment sales and revenues are priced, as a basic principle, at the same prices as are agreed with companies outside the Group.

The Vacuum Systems division is engaged in the development, production and marketing of plant and systems for treating materials and workpieces under vacuum conditions, high temperatures (up to 3000°C) and in some cases overpressure (up to 100 bar). The main products here are sintering plant as well as plant for soldering and heat treatment. The division also provides maintenance and service for these services. The Löt- und Werkstofftechnik GmbH subsidiary (‘LWT’) provides the treatment of workpieces and materials in vacuum high-temperature facilities as a service for customers (contract processing). The UV Systec subsidiary develops, produces and markets high-performance UV lamps not only for treating freshwater and wastewater, but also for disinfecting food packaging.

The Crystal Growing Systems division develops, produces and markets systems for growing semiconductor crystals. The activities of the Crystal Growing Systems GmbH subsidiary (‘CGS’) have been mainly concentrated on crystal growing systems using the Czochralski process for silicon up to now. Owing to successful product development, marketable products are now also available which use other processes to make solar industry products (EFG process) and to make optical crystals and compound semiconductors (VGF process). The product range sold by the PVA TePla AG branch in Denmark comprises crystal growing systems based on the floatzone process. All sections of the Crystal Growing Systems division also offer after-sales service for their respective products.

Notes to the Consolidated Financial Statements for the financial year ending on 31 December 2004

The Plasma Systems division develops, produces and markets equipment for plasma treatment (in rarefied, ionised gas) of workpieces and materials. Activities in this division are focused primarily on cleaning and surface activation processes for the semiconductor industry, for manufacturing industry and the medical industry. Another product category comprises laser wafer measuring systems for the semiconductor industry. The facilities in Corona (CA, USA) also provide contract processing services involving plasma treatment in the manufacturing and medical industries. The division additionally provides after-sales service for its products.

Revenues by segment	**2004**	**2003**
	EUR ’000	**EUR ’000**
Vacuum Systems	22,772	21,208
Crystal Growing Systems	4,907	3,625
Plasma Systems	16,888	14,139
Inter-segment revenues	-366	-65
Group revenues	**44,201**	**38,907**

Operating profit/loss	**2004**	**2003**
	EUR ’000	**EUR ’000**
Vacuum Systems	1,075	-752
Crystal Growing Systems	-1,466	-3,416
Plasma Systems	1,370	-454
Other	-707	-848
Group operating profit/loss	**272**	**-5,470**

Depreciation	**2004**	**2003**
	EUR ’000	**EUR ’000**
Vacuum Systems	806	1,105
Crystal Growing Systems	297	481
Plasma Systems	560	626
Currency translation effects	-25	-31
Consolidated depreciation	**1,638**	**2,181**

Assets	**31.12.2004**	**31.12.2003**
	EUR ’000	**EUR ’000**
Vacuum Systems	22,623	23,020
Crystal Growing Systems	7,846	7,101
Plasma Systems	17,526	16,224
Consolidation	-5,925	-5,121
Group assets	**42,070**	**41,224**

Goodwill	31.12.2004 EUR ’000	31.12.2003 EUR ’000
Crystal Growing Systems	2,734	2,734
Plasma Systems	4,850	4,850
	7,584	7,584

Investments	2004 EUR ’000	2003 EUR ’000
Vacuum Systems	61	172
Crystal Growing Systems	612	30
Plasma Systems	219	165
Currency translation effects	-16	-13
Group investments	876	354

Long-term assets (excluding deferred taxes)	31.12.2004 EUR ’000	31.12.2003 EUR ’000
Germany	14,544	15,508
USA	1,038	1,283
France	0	4
Denmark	263	0
Group assets	15,845	16,795

Revenue by region	2004 EUR ’000	2003 EUR ’000
Germany	16,807	15,396
Europe (excluding Germany)	7,889	5,115
North America	7,282	8,927
Asia	14,846	11,082
Other	1,265	842
Consolidation	-3,888	-2,455
Group revenues	44,201	38,907

In the 2004 financial year, no single customer accounted for more than 10% of total Group revenues.

Notes to the Consolidated Financial Statements for the financial year ending on 31 December 2004

23. Financial and derivative instruments

Market value

The stated values of the financial resources, trade receivables and trade payables are equal to their fair market value.

Exchange rate hedging

Forward exchange transactions were concluded in order to hedge payments due from two future deliveries of goods. These currency futures contracts are for the probable date on which money is expected to be received. As at 31 December, the forward foreign exchange transactions have a volume of EUR 1.298 million, and the embedded derivatives of the supply contracts they hedge have present values of EUR 137 thousand (forward exchange transactions) and EUR – 144 thousand (embedded derivatives), respectively.

The currency futures contracts were recognised at market value on the basis of the current reference price on the balance sheet date.

24. Supplementary information concerning the cash flow statement

Liquid assets are stated as cash and cash equivalents.

Interest income payments amounted in the 2004 financial year to EUR 18 thousand (prior year: EUR 64 thousand); interest expense payments were EUR 217 thousand (prior year: EUR 325 thousand). Neither in the financial year nor in the prior year were dividends paid to shareholders and minority interests.

Business transactions which did not lead to a change in funds were not included in the cash flow statement.

Payments for investments in intangible and tangible assets include cash purchases only.

25. Executive bodies

The members of the Management Board are as follows:

- **Peter Abel, Wettenberg**
  (Chairman/CEO)
  Graduate engineer

  Director of the following Group companies:
  PVA Control GmbH, Aßlar
  PVA Vakuum-Anlagenbau Jena GmbH, Jena-Maua
  UV Systec Gesellschaft für UV-Strahler und Systemtechnik mbH, Jena-Maua

  and of the following non-affiliated companies:
  Messtechnik Wetzlar GmbH, Wetzlar
  PA Beteiligungsgesellschaft mbH, Wettenberg

  Memberships on supervisory bodies:
  Crystal Growing Systems GmbH, Hanau
  (Chairman of the Supervisory Board)
  PVA TePla America, Corona, USA
  (Director)
  Xi'an HuaDe CGS Ltd., Xi'an, China
  (Chairman of the Supervisory Board)
  SCHEBO Biotech AG, Gießen
  (Chairman of the Supervisory Board)
  3D Präzisionstechnik AG, Wetzlar
  (Chairman of the Supervisory Board)

- **Volker Lang, Bad Endbach**
  (Director for the Vacuum Systems division)
  Graduate engineer

  No memberships on supervisory bodies.

- **Martin Gier, Offenbach**
  (Director for the Crystal Growing and Plasma Systems divisions)
  Graduate engineer

  Director of the following Group companies:
  Crystal Growing Systems GmbH, Hanau

  No memberships on supervisory bodies.

- **Nina von Wersebe (until 17 June 2004), Berlin**
  (CFO)
  Graduate in business administration

  No memberships on supervisory bodies.

- **Arnd Bohle (from 1 April 2004), Ammersbek**
  (CFO from 17 June 2004)
  Graduate in business administration

  No memberships on supervisory bodies.

The total emoluments paid to Management Board members in the 2004 financial year amounted to EUR 786 thousand.

Stock options were not granted to members of the Management Board in the 2004 financial year.

Pension benefits totalling EUR 6 thousand were paid in 2004 to former members of the executive body. As at the balance sheet date, provisions totalling EUR 129 thousand had been formed for such pension obligations.

The members of the Supervisory Board are as follows:

- **Alexander von Witzleben (from 17 June 2004), Weimar**
  (Chairman)
  CEO of JENOPTIK AG, Jena

  Further memberships on supervisory bodies:
  Analytik Jena AG, Jena
  (Chairman of the Supervisory Board)
  Carl Zeiss Meditec AG, Jena
  (Vice-Chairman of the Supervisory Board)
  DEWB AG, Jena
  (Chairman of the Supervisory Board)
  Feintool International Holding AG, Lyss
  (Member of the Board of Directors)
  Kaefer Isoliertechnik GmbH & Co. KG, Bremen
  (Member of Supervisory Board)
  Krone GmbH, Berlin
  (Member of the Supervisory Board until 31.12.2004)
  Meissner + Wurst Zander Holding AG, Stuttgart
  (Chairman of the Supervisory Board)

- **Dr. Dietmar Kubis (until 17 June 2004), Jena**
  (Chairman)
  Spokesman of the Management Board of the Deutsche Effecten and Wechsel-Beteiligungsgesellschaft AG, Jena

  Further memberships on supervisory bodies:
  4MBO International Electronic AG, Plochingen
  (Chairman of the Supervisory Board)
  Frauenthal Keramik AG, Vienna
  (Vice-Chairman of the Supervisory Board)
  4flow AG, Berlin
  (Chairman of the Supervisory Board)
  ARANEA Computing AG, Kempten
  (Chairman of the Supervisory Board)
  nexus AG, Villingen-Schwenningen
  (Member of the Supervisory Board)

Notes to the Consolidated Financial Statements for the financial year ending on 31 December 2004

- **Prof. Dr. Heiner Ryssel (until 17 June 2004), Erlangen (Vice-Chairman)**
  Director of the Fraunhofer Institute for Integrated Systems and Component Technology, Erlangen

  Other memberships on supervisory bodies:
  West STEAG Partners GmbH, Essen (formerly: STEAG Electronic Systems GmbH, Pliezhausen) (member of the Scientific Advisory Board)

- **Hartmut Böhle (until 17 June 2004), Iffeldorf**
  Managing Director of Klaus Kleinmichel GmbH, Bernried

  No further memberships on supervisory bodies.

- **Prof. Dr. Günter Bräuer (from 17 June 2004), Wolfenbüttel**
  Director of the Fraunhofer Institut for Surface Engineering and Thin Films (IST), Brunswick, and Director of the Fraunhofer Institut for Electron Beam and Plasma Technology (FEP), Dresden

  No further memberships on supervisory bodies.

- **Michael Daniel (until 17 June 2004), Jena**
  Chief Legal Officer, JENOPTIK AG, Jena

  Further memberships on supervisory bodies:
  JENOPTIK Pension Trust e.V., Jena
  (Member of the Investment Committee)

- **Dr. Peter Friedemann, Königsbrunn**
  Spokesman at Annual Shareholders' Meetings for the Retail Shareholders' Association (SdK), Munich

  No further memberships on supervisory bodies.

- **Bernhard Zeller (until 17 June 2004), Frankfurt/Main**
  Director of HBB Capital Advisers GmbH, Frankfurt/Main

  Other memberships on supervisory bodies:
  Crystal Growing Systems GmbH, Hanau
  (Member of the Supervisory Board)
  FAGRO Preß- and Stanzwerk GmbH, Groß-Gerau
  (Member of the Supervisory Board, until spring 2004)
  FEC Consult Gesellschaft für Management- and Beteiligungsberatung mbH, Frankfurt/Main
  (Member of the Supervisory Board)

Emoluments paid to members of the Supervisory Board totalled EUR 39 thousand in the 2004 financial year.

A D&O insurance policy was taken out to cover the civil-law liabilities of executive body members. In the 2004 financial year, a premium of EUR 25 thousand was paid for said insurance.

26. Additional disclosures on operating expenditure

Personnel expenditure in the 2004 and 2003 financial years are comprised as follows:

	2004 EUR '000	2003 EUR '000
Wages and salaries	13,345	15,005
Social security	2,549	2,602
Pensions	381	410
	16,275	**18,017**

The Group employed a total of 239 people (prior year: 261) at the end of the year, and 247 (prior year: 279) on average over the year.

27. Related parties

Goods and services with a volume of around EUR 0.3 million were procured from companies in which the CEO of PVA TePla, Peter Abel, has direct or indirect holdings.

Goods and services with a volume of around EUR 0.1 million were exchanged with companies in which Alexander von Witzleben, the Chairman of the PVA TePla Supervisory Board, has direct or indirect holdings.

PVA TePla AG sells and distributes products in Europe on behalf of the associated company PVA MIMtech LLC. (Cedar Grove, NJ, USA). In 2004, products to the value of around EUR 0.9 million were obtained from PVA MIMtech and resold.

These transactions were effected at normal market conditions.

28. Declaration on Corporate Governance pursuant to Section 161 of the German Stock Corporation Act (AktG)

The prescribed declaration on compliance with the German Corporate Governance Code was made by the Management Board and the Supervisory Board in accordance with Section 161 AktG, and is permanently available to shareholders on the company's website (www.pvatepla.com).

29. Disclosure pursuant to Section 160 (1) no. 8 of the German Stock Corporation Act

Mr. Peter Abel, Wettenberg, notified us in accordance with Sections 21 (1), 22 (1) sentence 1, nos. 1 and 2 of the Securities Trading Act (WpHG) that his share of the voting rights in our company exceeded the 25% threshold on 5 November 2002 and now amounts to 29.99%. Of that figure, 29.32% of the voting rights are allocated to him in accordance with Section 22 (1) sentence 1, nos. 1 and 2 WpHG.

PVA Konsortialgesellschaft mbH, Aßlar, notified us in accordance with Section 21 (1) WpHG that its share of the voting rights in our company exceeded the 10% threshold on 5 November 2002 and now amounts to 22.31%.

Mr. Wilhelm Hofmann, Biebertal, notified us in accordance with Section 21 (1) WpHG that his share of the voting rights in our company exceeded the 5% threshold on 5 November 2002 and now amounts to 7.52%.

JENOPTIK AG, Jena, notified us in accordance with Section 21 (1) WpHG that its share of the voting rights in our company exceeded the 10% threshold on 19 December 2003 and since then has amounted to 17.95%.

DEWB AG, Jena, notified us in accordance with Section 21 (1) WpHG that, due to its selling its shares it held, its share of the voting rights in our company fell below the 5% threshold on 26 November 2003 and that it has since held no shares in our company.

No other such notifications were received by the company during the 2004 financial year.

As at 31 December 2004, PA Beteiligungsgesellschaft (a holding company domiciled in Wetterberg) holds an interest in the company that exceeds 25%.

Notes to the Consolidated Financial Statements for the financial year ending on 31 December 2004

30. Principal differences between German and US accounting

Fundamental differences

Accounting in accordance with US GAAP differs from accounting according to the legislation in the German Commercial Code (HGB) in respect of its aims and objectives. Whereas US GAAP emphasises the provision of material information of relevance for investors' decision making, HGB accounting rules are characterised by a greater emphasis on the precautionary principle.

Layout rules

The layout of financial statements pursuant to US GAAP centres on the planned liquidation of assets and the maturity of debts within the framework of normal business operations. The basic principles governing the layout of financial statements under German commercial law is defined for corporate enterprises in Section 266 HGB. The layout is based here on the planned duration that assets and sources of funding, such as debts and shareholder equity, are held in the company.

Consolidation principles

Company acquisitions are valued using the purchase method pursuant to both US GAAP and German accounting principles. Whereas under HGB rules the legal transaction must be recorded in its contractually agreed form, the financial content of the transaction may lead under US GAAP rules to the company that was taken over in the legal sense having to be viewed as the buyer in financial terms (reverse acquisition). This possibility of reverse acquisition is not yet permissible under German accounting principles.

There are also differences between German accounting principles and US GAAP in respect of currency translation.

Goodwill

According to US GAAP, SFAS No. 141 "Capital Consolidation" in combination with SFAS No. 142 "Goodwill and Other Intangible Assets" require that goodwill no longer be amortised over the planned duration of use; instead, it must be retained unchanged in the balance sheet until an impairment test, to be conducted at least once a year, requires that an extraordinary reduction in valuation be made. According to German accounting principles, systematic amortisation is performed over the prospective useful life. In accordance with US GAAP and deviating from HGB, any goodwill recorded at the time of acquisition by the company acquired is no longer recorded in the new consolidated financial statements.

Negative goodwill

If the market value of the acquired goods is greater than the purchase price, the difference is referred to as negative goodwill. According to US GAAP, such negative goodwill is attributed proportionately to the assets acquired (with some exceptions) and impairs their present value. If this impairment reduces the carrying amounts of assets to zero, the remaining amount must be booked as extraordinary income and included in the income statement. According to German accounting regulations, the treatment of negative goodwill in corporate accounts is dependent on the cause that gave rise to it.

Partial recognition of profits in the valuation of inventories

According to US GAAP, partial profits must be recognised in the case of long-term production orders (beginning and ending of a specific order are in different accounting periods) when it is possible to made reliable estimates about the total costs and the percentage of completion. According to German accounting legislation, the partial recognition of profits in the recognition of inventories is conditional on other conditions being met.

Deferred taxes

According to German accounting principles, deferred tax assets deriving from a loss carried forward for tax purposes are not stated. According to US GAAP, deferred taxes on losses (including loss carryforwards) must be recognised. Impairments must be made to deferred tax assets that are unlikely to be realised.

According to German accounting principles, deferred taxes must be formed for all timing differences between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the consolidated balance sheet (timing concept). Deferred taxes for semi-permanent differences may only be recognised if it sufficiently likely that they will later be reversed. Deferred taxes on loss carryforwards are not capitalised.

US GAAP requires recognition of deferred taxes for all temporary differences between the tax bases and the carrying amounts in the consolidated balance sheet (asset and liability concept). Deferred taxes must also be recognised for loss carryforwards. Deferred taxes are calculated on the basis of the taxation rates applicable in the future.

Deferred tax assets arising from deductible temporary differences and the carryfoward of unused tax losses that exceed taxable temporary differences are recognised only to the extent that there is sufficient likelihood that the respective company will generate sufficient taxable profit to realise the respective tax benefit. Impairments must be made to deferred tax assets that are unlikely to be realised.

Notes to the Consolidated Financial Statements for the financial year ending on 31 December 2004

Provisions for pensions

According to US GAAP, recognition of provisions for pensions must take expected salary trends into account using the projected unit credit method. This method is also possible under HGB rules.

Foreign currency translation

Pursuant to HGB rules, the carrying amounts of foreign currency receivables and liabilities are calculated using the exchange rate at the time the business transaction was recorded, or at the less favourable exchange rate on the balance sheet date, whereby any losses not realised are recorded in the income statement. According to US GAAP, receivables and liabilities denominated in foreign currencies are translated using the exchange rate applying on the balance sheet date, whereby unrealised profits and losses calculated on this basis are included in the income statement.

Derivative financial instruments

According to HGB, derivative financial instruments are recognised only if they signify anticipated losses. According to US GAAP (FAS 133), all derivative financial instruments are recognised at their fair value.

31. Transition to IFRS accounting standards

On 19 July 2002, the European Parliament and the European Council adopted Regulation (EC) No. 1606/2002 on the application of International Accounting Standards. The Regulation requires that PVA TePla prepare its financial statements in accordance with the International Accounting Standards from the year 2005 onwards.

Since the first financial statements prepared according to IFRS must also state the comparative figures for the prior year, it is necessary that PVA TePla prepare an opening balance sheet in accordance with IFRS as at 1 January 2004. Preparation of the IFRS opening balance sheet was completed in the fourth quarter of 2004. Preparations for the transition of Group accounting to IFRS are generally on schedule.

32. Appropriation of earnings / balance sheet loss

The annual financial statements of PVA TePla AG show a balance sheet loss of EUR 24.194 million as at 31 December 2004. There was therefore no proposal by the Management Board and Supervisory Board for appropriation of earnings. The balance sheet loss will be carried forward to the new account.

PVA TePla AG

Aßlar, March 15, 2005

Peter Abel Chief Executive Officer	**Arnd Bohle** Chief Financial Officer
Volker Lang	**Martin Gier**

Consolidated Statement of Changes in Fixed Assets as at 31 December 2004

	Acquisition and manufacturing costs				
	Status 01.01.2004	**Additions 2004**	**Disposals 2004**	**Foreign currency diff.**	**Status 31.12.2004**
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Intangible assets					
1. Goodwill	7,584	0	0	0	7,584
2. Other intangible assets	2,735	230	8	0	2,957
	10,319	**230**	**8**	**0**	**10,541**
Tangible assets					
1. Land and leasehold rights and buildings, including buildings on third-party land	5,723	12	8	-36	5,691
2. Technical equipment, plant and machinery	4,808	399	128	-140	4,939
3. Other equipment, operational and office equipment	4,231	131	201	-34	4,127
4. Payments in advance and work in progress	32	0	0	0	32
	14,794	**542**	**337**	**-210**	**14,789**
Financial assets					
1. Shares in associated companies	80	104	1	-15	168
2. Loans to associated companies	79	0	73	-6	0
3. Other loans	25	0	0	-3	22
	184	**104**	**74**	**-24**	**190**
	25,297	**876**	**419**	**-234**	**25,520**

Accumulated Depreciation						Book value	
Status 01.01.2004	Additions 2004	Disposals 2004	Additions	Foreign currency diff.	Status 31.12.2004	31.12.2004	31.12.2003
EUR ’000	EUR ’000	EUR ’000	EUR ’000	EUR ’000	EUR ’000	EUR ’000	EUR ’000
0	0	0	0	0	0	7,584	7,584
1,917	435	8	0	0	2,344	613	818
1,917	**435**	**8**	**0**	**0**	**2,344**	**8,197**	**8,402**
881	290	1	0	-14	1,156	4,535	4,842
2,609	465	122	0	-79	2,873	2,066	2,199
3,053	448	192	0	-27	3,282	845	1,178
0	0	0	0	0	0	32	32
6,543	**1,203**	**315**	**0**	**-120**	**7,311**	**7,478**	**8,251**
42	0	0	19	-3	20	148	38
0	0	0	0	0	0	0	79
0	0	0	0	0	0	22	25
42	**0**	**0**	**19**	**-3**	**20**	**170**	**142**
8,502	**1,638**	**323**	**19**	**-123**	**9,675**	**15,845**	**16,795**

Independent Auditors' Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by PVA TePla AG, Feldkirchen, for the business year from January 1 to December 31, 2004. The preparation and the content of the consolidated financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (US-GAAP) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). 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 disclosures in the consolidated financial statements is 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 business year in accordance with Accounting Principles Generally Accepted in the United States of America.

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

Frankfurt am Main, March 22, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wagenseil	**Wehner**
Wirtschaftsprüfer	Wirtschaftsprüfer

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PVA TePla AG

Emmeliusstr. 33
D-35614 Aßlar

Phone:	++49 (0)6441 / 5692-0
Fax:	++49 (0)6441 / 5692-111
Internet:	http://www.pvatepla.com
Investor Relations:	Peter Banholzer
Phone :	++49 (0)6441 / 5692-342
E-Mail:	ir@pvatepla.com
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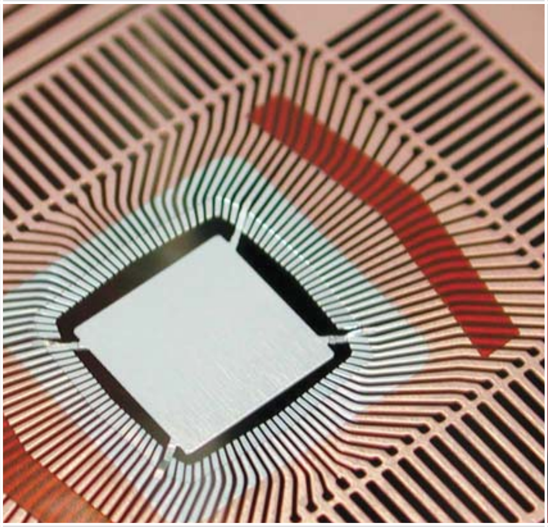
PVA TePla AG
Emmeliusstr. 33
D-35614 Aßlar
Fon ++49 (0)6441 / 5692-0
Fax ++49 (0)6441 / 5692-111
E-Mail: info@pvatepla.com

www.pvatepla.com



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