

AUDIT OPINION

We have audited the consolidated financial statements of the ALD Vacuum Technologies GmbH, Hanau, together with the balance sheet, profit and loss statement, statement of changes in equity, cash flow statement and notes to the financial statements for the short fiscal year from October 1, 2004 to December 31, 2004. The preparation and contents of the consolidated financial statements are the responsibility of the Company's management. Our responsibility is to determine if the consolidated financial statements correspond to the United States Generally Accepted Accounting Principles (US-GAAP) based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German audit regulations and the generally accepted standards for the audit of financial statements promulgated by the German Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that an assessment can be made as to whether the consolidated financial statements are free from any material misstatements with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the valuations and the disclosures in the consolidated financial statements are examined on a test basis within the framework of an audit. The audit includes assessing the accounting and consolidation 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 and results of operations as well as of the payment flows during the business year of the Group in accordance with US-GAAP.

Our audit, which also included the group management report prepared by the management for the short business year from October 1, 2004 to December 31, 2004, integrated in the Company's management report, has not led to any reservations. On the whole, the group management report included in the Company's management report together with the other disclosures contained in the consolidated financial statements provides a suitable understanding of the Group's position and suitably presents the risks of future development.

Eschborn/Frankfurt am Main, April 14, 2005

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Fluck
Wirtschaftsprüfer

Janssen
Wirtschaftsprüfer

ALD VACUUM TECHNOLOGIES GMBH
(FORMERLY: ALD VACUUM TECHNOLOGIES AG), HANAU
CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31 AND SEPTEMBER 30, 2004

ASSETS	Notes	Dec. 31, 2004		Sept. 30, 2004	
		TEUR	%	TEUR	%
Liquid funds	4d	12.583	18,2	11.712	16,7
Liquid funds not available	4d, 5	6.291	9,1	9.777	14,0
Work in process					
not yet brought to account	4m, 6	9.628	13,9	7.369	10,5
Receivables	4e, 7	6.971	10,1	7.015	10,0
Inventories	4f, 8	5.995	8,7	4.694	6,7
Prepaid expenses	9	248	0,4	459	0,7
Short-term deferred taxes	23	1.315	1,9	679	1,0
Other assets	7	8.257	11,9	9.236	13,2
Short-term restricted assets		51.288	74,2	50.941	72,8
Intangible Assets	4g, 10	3.057	4,4	3.259	4,7
Tangible Assets	4h, 11	14.104	20,4	15.102	21,5
Financial Assets	12	237	0,3	243	0,3
Long-term deferred taxes	4t, 23	476	0,7	461	0,7
Long-Term restricted assets		17.874	25,8	19.065	27,2
Total assets		69.162	100,0	70.006	100,0
LIABILITIES					
Liabilities due to banks	13	1.814	2,6	1.966	2,8
Trade accounts payable		8.197	11,9	7.097	10,1
Payments on account for					
services not yet rendered	4m, 6	3.711	5,4	3.383	4,8
Short-term accruals	4j, 4k, 14	7.248	10,5	9.302	13,3
Short-term deferred taxes	4t, 23	0	0,0	127	0,2
Other short-term liabilities	15	1.930	2,8	1.647	2,4
Short-term liabilities		22.900	33,2	23.522	33,6
Accruals for pensions	4l, 16	17.101	24,7	15.949	22,8
Other long-term liabilities	17	6.181	8,9	7.083	10,1
Long-term liabilities		23.282	33,6	23.032	32,9
Total liabilities		46.182	66,8	46.554	66,5
Minority interest		1.554	2,2	1.174	1,7
Authorized capital	18	7.862	11,4	7.862	11,2
Capital surplus	19	10.889	15,8	8.962	12,8
Retained earnings	19	5.760	8,3	7.214	10,3
Accumulated other comprehensive income		(3.085)	-4,5	(1.760)	-2,5
Equity		21.426	31,0	22.278	31,8
Total liabilities		69.162	100,0	70.006	100,0

ALD VACUUM TECHNOLOGIES GMBH
(FORMERLY: ALD VACUUM TECHNOLOGIES AG), HANAU
GROUP PROFIT AND LOSS STATEMENT
AS OF DECEMBER 31 AND SEPTEMBER 30, 2004

	Notes	Oct. 1 - Dec. 31, 2004		2003/04	
		TEUR	%	TEUR	%
Sales	4m	17.076	100,0	73.952	100,0
Cost of production of the services rendered for the realization of sales		(11.849)	(69,4)	(55.568)	(75,1)
Gross profit on sales		5.227	30,6	18.384	24,9
Marketing expenses		(2.447)	(14,3)	(10.759)	(14,6)
General administration costs		(1.142)	(6,7)	(4.336)	(5,9)
Research and development costs	4o	(287)	(1,7)	(1.954)	(2,6)
Restructuring income/expenses	20	102	0,6	(1.407)	(1,9)
Other operating income/expenses	21	(839)	(4,9)	(2.364)	(3,2)
Other taxes		0	0,0	(238)	(0,3)
Result from ordinary operations		614	3,6	(2.674)	(3,6)
Loss/income from at-equity consolidation (net)		(6)	0,0	484	0,7
Exchange rate differences		(127)	(0,8)	(843)	(1,2)
Interest and similar expenses	22	(140)	(0,8)	(613)	(0,8)
Other interest and similar income	22	143	0,8	370	0,5
Financial income and income from investments		(130)	(0,8)	(602)	(0,8)
Result before taxes on income		484	2,8	(3.276)	(4,4)
Current taxes	23	(24)	(0,1)	(948)	(1,3)
Deferred taxes	23	393	2,3	2.916	3,9
Taxes on income		369	2,2	1.968	2,6
Consolidated net income/loss for the year before minority interests		853	5,0	(1.308)	(1,8)
Minority interest in the result		(380)	(2,2)	(801)	(1,1)
Consolidated net income/loss for the year		473	2,8	(2.109)	(2,9)
Result per share (EUR)	4s, 24	5,99		(0,27)	

ALD VACUUM TECHNOLOGIES GMBH
(FORMERLY: ALD VACUUM TECHNOLOGIES AG), HANAU
DEVELOPMENT OF CONSOLIDATED EQUITY
AS OF DECEMBER 31 AND SEPTEMBER 30, 2004

	Ordinary shares/shares Piece	Capital stock/ nominal capital AG/GmbH TEUR	Capital surplus TEUR	Comprehensive Income TEUR	Accumulated other compre- hensive Income TEUR	Retained earnings TEUR	Total equity TEUR
As of September 30, 2003	7.862.500	7.862	8.962		(1.287)	9.323	24.860
Group loss for the year 03/04				(2.109)		(2.109)	(2.109)
Other comprehensive income, net							
Difference from currency translation				(473)			
Other comprehensive income				(473)	(473)		(473)
Comprehensive Income				(2.582)			
As of September 30, 2004	7.862.500	7.862	8.962		(1.760)	7.214	22.278
Consolidated earnings from 10/1-12/31/04				473		473	473
Reclassification due to reorganization			1.927			(1.927)	0
Other comprehensive income, net							
Difference from currency translation				(740)			
Minimum Pension Liability				(585)			
Other comprehensive income				(1.325)	(1.325)		(1.325)
Comprehensive income				(852)			
As of December 31, 2004	78.625	7.862	10.889		(3.085)	5.760	21.426

**ALD VACUUM TECHNOLOGIES GMBH
(FORMERLY: ALD VACUUM TECHNOLOGIES AG)
GROUP CASH FLOW STATEMENT AS OF
DECEMBER 31 AND SEPTEMBER 30, 2004**

	Oct. 1 - Dec. 31, 2004 TEUR	2003/04 TEUR
<u>Cash flow from operating activities</u>		
Group income (loss) for the year	473	(2.109)
Adjustment of the result for the year by non-cash items		
Depreciation	595	2.585
Deferred taxes	(778)	(2.916)
Losses from fixed asset disposals	(38)	(240)
Net appropriations to accruals for pensions	1.152	909
Other non-cash items	(585)	641
	346	979
Changes in working capital		
Receivables	44	3.401
Work in process not yet brought to account	(2.259)	27
Inventories	(1.301)	1.478
Other assets	979	(2.802)
Trade accounts payable	1.101	(1.120)
Payments on account for services not yet rendered	328	1.346
Short-term reserves	(2.054)	177
Other short-term liabilities	283	(1.377)
Active deferred charges	211	(59)
Change working capital	(2.668)	1.071
Net cash flow from operational activities	(1.849)	(59)
<u>Cash flow from investments</u>		
Investments in intangible assets	(50)	(34)
Income from asset disposals	59	0
Investments in fixed assets	(256)	(1.143)
Investments in financial assets	0	6.049
Net cash flow from investments	(247)	4.872
<u>Cash flow from financing activities</u>		
Minority shareholders	380	801
Change in short-term liabilities to banks	(152)	124
Reduction of loans/long-term liabilities	(902)	(1.767)
Net cash flow from financing activities	(674)	(842)
Differences from currency translation	155	48
Increase/decrease of liquid funds	(2.615)	4.019
Liquid funds at the beginning of the financial year	21.489	17.470
Increase/decrease of liquid funds	(2.615)	4.019
<u>Liquid funds at the end of the financial year</u>	<u>18.874</u>	<u>21.489</u>
Additional details regarding the cash flow		
Payments for:		
Interest	140	613
Taxes on income	79	88

ALD Vacuum Technologies GmbH
(Formerly: ALD Vacuum Technologies AG), Hanau
Notes to the Financial Statements for the Short Business Year from October 1 to December 31, 2004

(1) GROUP STRUCTURE AND BUSINESS OPERATIONS

ALD VACUUM TECHNOLOGIES GMBH, Hanau, hereinafter also referred to as "ALD" or "Company", is the parent company of eight subsidiaries.

The Company came into existence by way of the modifying conversion of ALD Vacuum Technologies AG, Hanau, according to the resolution of the shareholders' meeting dated November 22, 2004. The registration of the change of legal form with the commercial register took place on December 13, 2004.

In the following, ALD and its subsidiaries, whose activities are divided into sales activities abroad (ALD Vacuum Technologies, Inc., Enfield, USA / ALD Vacuum Technologies Ltd., Guilford, GB / ALD Thermo Technologies Far East Co. Ltd., Tokio, Japan / ALD Vakuumpyje Technologii OOO, Moscow, Russia), production (VACUHEAT GmbH, Limbach-Oberfrohna, Germany / ALD Thermal Treatment Inc., Columbia, South Carolina, USA), engineering (ALD Lindgren, Inc., Toronto, Canada) and management of investments and associated companies (ALD Own & Operate GmbH, Hanau, Germany) are collectively also referred to as "the Company". There is also an additional investment, which was acquired in the business year 2003/2004 and which is accounted for "at equity". The Company's business operations include the production, operation, sale of and the trade in plants, equipment and products, in particular in the following areas:

- Heat treatment and heat transfer, in particular for hardening, soldering, sintering, annealing and cleaning,
- metallurgic processes, in particular for cast and melting processes,
- Coating technology and surface treatment technology as well as
- The provision of services in these fields and the conduct of all other business dealings, which are related to the above-mentioned areas or which are suitable to promoting such activities.

The Company's business operations concentrate on engineering and plant operation. The engineering area mainly comprises sales, design, order processing, procurement, assembly and commissioning of the corresponding plants as well as the corresponding developments with regard to process and systems engineering. In the operating companies, technologies or processes of ALD with unique selling proposition are operated as a service for customers. This ensures the transfer of know-how from operating plants to the engineering unit.

The Company is headquartered in Hanau, Germany. The Company operates its business in leased premises as well as in its own premises.

(2) OWNERSHIP STRUCTURE

The Company's shares are wholly owned by Pfalz-Flugzeugwerke GmbH, Speyer (PFW). PFW is a wholly owned subsidiary of PFW Beteiligungs AG, Speyer, which in turn is a wholly owned subsidiary of PFW Acquisition GmbH, Speyer. All shares in PFW Acquisition GmbH, Speyer, are included in the portfolio of the Safeguard Fund.

(3) CHANGES IN THE GROUP STRUCTURE

There were no changes in the group structure in the period under review.

(4) SIGNIFICANT ACCOUNTING, VALUATION AND CONSOLIDATION POLICIES

ALD has prepared an individual financial statement according to the German principles of proper accounting. To adapt them to the requirements of the US-American accounting regulations, it was necessary to change some of the accounting methods applied in the financial statements as of September 30 and December 31, 2004. This mainly applies to consideration of the percentage-of-completion method, as a result of which adjustments were necessary to inventories, receivables and liabilities. In addition, adjustments were particularly made to the provisions for personnel expenses, taxes, equity and the Company's income and expenses related to changes in assets and liabilities.

All amounts are stated in Euro, the functional currency of the parent company. Receivables and liabilities in foreign currencies are recorded at the exchange rates in effect at the time of the transactions and valued as of the balance sheet date at the period-end exchange rate. The resulting exchange gains/losses are reflected in the group profit and loss statement.

Assets and liabilities of subsidiaries not denominated in Euro have been translated at the period-end exchange rate on the balance sheet date. Differences from the translation of these assets and liabilities as of the balance sheet date compared to prior years are disclosed in a separate item in equity. Income and expenses are translated at the annual average rate. Differences between the annual average exchange rates and the period-end exchange rates are included in currency translation differences.

As of December 31, 2004, distributable retained earnings of ALD amounted to TEUR 0 (prior year: TEUR 1,099).

a) New Accounting Regulations

In November 2004, the FASB issued SFAS 151 "Inventory Costs, an amendment of ARB No. 43, Chapter 4". SFAS 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs and spoilage should be expensed as incurred. SFAS 151 requires further that

allocation of fixed production overhead to conversion costs be based on normal capacity of the production facilities. The provisions in SFAS 151 must be applied prospectively to the Company's inventory costs incurred on or after June 15, 2005. The adoption of SFAS 151 is not expected to have any material effects.

In December 2003, the FASB issued Interpretation ("FIN") No. 46R, "Consolidation of Variable Interest Entities," which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN46R applies to variable interest entities created or acquired after March 15, 2004 and to all special purpose entities created or acquired after December 15, 2003. ALD holds no interest in variable interest entities nor in special purpose entities, therefore, FIN46R has no effects on the Company's financial position and results of operations.

In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This standard regulates the accounting for certain financial instruments which are often applied in share repurchase programmes and which were previously classified as equity by the issuers. According to SFAS 150, certain freestanding financial instruments with characteristics of both liabilities and equity require that those instruments be classified as liabilities. In most cases, the corresponding changes in the fair market value are required to be recorded as a liability. The application of this standard has had no impact on the consolidated financial statements.

In April 2003, the FASB issued SFAS 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS 149 amends and clarifies financial accounting for derivative instruments and hedging activities pursuant to SFAS 133 "Accounting for Derivative Instruments and Hedging Activities". This standard is effective for all contracts entered into or modified after June 30, 2003. The adoption of this standards did not have a material impact on the consolidated financial statements.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities - an interpretation of ARB No. 51", which clarifies the application of consolidation regulations relating to the so-called "Variable Interest Entity". FIN 46 adopts a new multi-level model for the consolidation of Variable Interest Entities, in which a company has a controlling financial interest either due to voting rights or variable interest. The consolidation on the basis of variable interest has to be effected by the major beneficiary, who finances the company's business operations without any additional subordinate funds from third parties, if the investors do not possess the essential characteristics of a controlling financial interest or if the liable equity is insufficient. The major beneficiary of a variable interest entity is the party, which due to its variable interest bears the majority of the expected losses of the company and/or the majority of the expected residual profits. FIN 46 also contains disclosure requirements regarding variable interest entities, which under certain circumstances are even valid if they are not consolidated. FIN 46 is applicable to variable interest entities established after January 31, 2003 and to variable interest entities in which the company acquires an interest after this date, respectively. For variable interest entities established before February 1, 2003, the regulations of FIN 46 regarding the consolidation are to be applied from July 1, 2003. The adoption of FIN 46 had no impact on the consolidated group.

In December 2002, the FASB published the accounting standard SFAS 148 "Accounting for Stock-Based Compensation - Transition and Disclosure – an amendment of FASB Statement No. 123". This standard expands SFAS 123 "Accounting for Stock-Based Compensation" by inclusion of alternative transitional regulations for the voluntary first-time inclusion of stock-based compensation in the balance sheet on the basis of time values. SFAS 148 also imposes a series of additional requirements in respect of the notes to the financial statements as regards the applied accounting method and the ensuing effects of net income in all financial statements, including interim financial statements. This had no impact on the consolidated financial statements.

In November 2002, the EITF reached an agreement regarding EITF 00-21 "Revenue Arrangements with Multiple Deliverables". Purpose of EITF 00-21 is the accounting treatment of sales transactions with multiple deliverables by the supplier. It regulates when and how a sales transaction with multiple deliverables has to be divided into individual separate accounting units. This has no impact on the consolidated financial statements.

Also in November 2002, the FASB issued Interpretation ("FIN") No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others – an Interpretation of FASB statements 5, 57 and 107 a rescission of FASB interpretation 34" which addresses the accounting principles and disclosures to be made under guarantees. FIN 45 requires a company to recognize the fair value for certain guarantee obligations on the date of issuance of the guarantee. The initial recognition and measurement provisions of FIN 45 are applicable on a prospective basis for guarantee arrangements issued or modified by the Company after December 31, 2002. The regulation was correspondingly applied to the recognition and valuation of the guarantee reserves in the consolidated financial statements.

In June 2002, the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) 146 "Accounting for Costs associated with exit or disposal activities " was issued. SFAS 146 replaces Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 regulates accounting procedures in connection with restructuring measures. SFAS 146 is to be applied to such activities started after December 31, 2002. The Company adopted SFAS 146 on January 1, 2003.

In spring 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS 145 regulates accounting of profits and losses in connection with waivers of claims and does therefore not affect the Company.

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS 144 provides a standard approach to accounting for the impairment and disposal of long-lived assets and supersedes SFAS 121 "Accounting for the Im-

pairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". The new rules also apply to discontinued operations, and thus supersede the corresponding regulations in APB Opinion 30 "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business"; however, the disclosure of discontinued operations has been retained. However, the distinction between discontinued operations and continuing operations has been revised. In the future, discontinued operations will not be recognized until they have been carried out.

SFAS 144 is effective for business years beginning after December 15, 2001 and for interim periods within those fiscal years; early adoption is recommended. The Company adopted SFAS 144 on October 1, 2002.

In June 2001, the FASB issued SFAS 143 "Accounting for Asset Retirement Obligations". The new standard regulates accounting for obligations resulting from the future retirement or disposal of tangible long-lived assets. These asset retirement obligations (ARO) are to be capitalized outside earnings at fair value and calculated as the present value for future payments. The carrying amount of the related asset is increased to the same amount. In the subsequent periods, ARO is adjusted annually to its current present value and the amount written up to the asset is allocated to expense over the asset's useful life. When the obligation is redeemed, the ARO is reversed without affecting income; any surplus or deficit arising is disclosed as a gain or loss.

SFAS 143 is applicable to business years beginning after June 15, 2001. The first application of SFAS 143 has had no material impact on the net assets, financial position and results of operations.

In July 2001, the FASB issued SFAS 141, "Business Combinations" and SFAS 142, "Goodwill and Other Intangible Assets". SFAS 141 requires that the purchase method is applied to all business combinations initiated after June 30, 2001. Intangible assets should be accounted for if they either arise from contractual or legal rights or if they are separable, i. e. if they can be sold, transferred, licensed, rented (leased), exchanged or pledged. As a result it is probable that more intangible assets will be accounted for under SFAS 141 than under the previously applicable regulation, APB Opinion 16. In some cases, however, it could be the case that intangible assets which were previously accounted for separately will now have to be disclosed as goodwill.

SFAS 142 requires that goodwill is no longer amortized on a straight-line basis over its estimated useful life, but that tests for impairment of goodwill be performed at least annually. The test for impairment of goodwill, which is carried out on the basis of fair value, has to be carried out by so-called reporting units. Pursuant to SFAS 131, a reporting unit is defined as an operating segment or one level below an operating segment. Goodwill is no longer allocated to other long-lived assets which are subject to impairment testing pursuant to SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". According to SFAS 142, intangible assets with an indeterminate useful life are no longer amortized. Instead, they are valued at the lower of cost or market and tested for impairment at least annually. All other intangible assets are still amortized by ordinary depreciation over their estimated useful lives.

SFAS 142 is applicable to business years beginning after December 15, 2001. However, goodwill resulting from acquisitions completed after June 30, 2001 will no longer be amortized. The application of this regulation has no impact on the Company's cash flow.

b) Consolidation Principles

The consolidated financial statements include the accounts of ALD Vacuum Technologies GmbH and of all companies, in which the Vacuum Technologies GmbH holds a major stake and exercises control. Investments, in which the Company exerts significant influence, but which it does not control, i. e. in the case of an ownership interest of 20 to 50 %, will be accounted for as associated companies using the equity method of accounting. All significant intragroup transactions have been eliminated. All other investments have been accounted for using the historical cost method.

The following subsidiaries are included in the consolidated financial statements:

- ALD Thermo Technologies Far East Co. Ltd, Tokio, Japan,
- ALD Vacuum Technologies Ltd., Guildford, Great Britain,
- ALD Vacuum Technologies, Inc., Enfield, USA,
- VACUHEAT GmbH, Limbach-Oberfrohna, Germany,
- ALD Lindgren Inc., Concord/Ontario, Canada,
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- ALD Own & Operate GmbH, Hanau, Germany,
- ALD Thermal Treatment, Inc, South Carolina, USA,
- ALD Vakuumpyje Technologii OOO, Moskau, Russia.

The following affiliated company is included on the basis of the equity method:

- EsteR GmbH, Hanau (share of equity: 50 %)

c) Use of Estimates and Assumptions

The preparation of the annual financial statements according to the US-American accounting regulations (US-GAAP), requires the management to make estimates and assumptions that affect the items in the annual financial statements and the notes to the annual financial statements. Actual developments may differ from the estimations and assumptions carried out.

Areas requiring material estimates are in particular the accounting and valuation of work in process according to the percentage of completion method, allowances for doubtful accounts receivable, contingencies and other reserves. Furthermore, basic estimates and assumptions are required for determining the value to be attributed of the Group's long-lived fixed assets and intangible assets.

d) Available and Restricted Cash and Cash Equivalents and Trading Securities

Cash and cash equivalents mainly comprise fixed-term deposits and bank balances. Restricted cash and cash equivalents relate to fixed-term deposits and bank balances which serve as collaterals for bank guarantees (mainly advance payment guarantees) and forward exchange contracts.

e) Trade Accounts Receivable

Trade accounts receivable are stated at their nominal value. All foreseeable valuation risks are provided for via adequate allowances.

The Company carries out regular assessments of accounts receivable, to reduce the credit risk. The assessment of individual accounts on the debits side as overdue or, respectively, as defaulted is carried out by the management. The Company assesses the collectibility of receivables on the basis of a combination of several factors. In case the Company knows about circumstances which could impair the ability of a certain customer to meet his financial obligations, the Company sets up a specific allowance and reduces the recorded net receivables to such an amount the Group considers as reasonably collectible. For all other customers, the Group sets up allowances for doubtful receivables based on the days overdue, the current business environment and on previous values of the Group. The protection of accounts receivable against economic and political risks is regulated by guidelines and is carried out by means of the activation of domestic and foreign bad debt insurances as well as of the intervention of commercial banks, amongs.

f) Inventories

Raw materials and supplies as well as merchandise are valued at acquisition cost or, if necessary, stated at the lower of cost or market.

The valuation of finished goods is carried out at production cost using the lower of cost or market principle. Production cost includes direct material costs and prime costs, the necessary material and production overheads, special costs of production and depreciation of assets due to wear and tear, providing that this is due to production. It also includes expenses for social facilities and for voluntary social security payments, providing that these relate to material and production.

Inventory risks due to limited usability and excess stocks are adequately provided for by valuation allowances.

g) Intangible Assets

In addition to purchased research findings, rights of use and purchased software, the balance sheet item "intangible assets" contains a contractual right, which was purchased within the framework of a purchase and license agreement in 1998/99.

The rights of use are amortized on a straight-line basis over the contract period. Purchased software is stated at acquisition cost and written off using linear depreciation over three years. The license rights from the acquisition of the turbine blade coating plant business are amortized on the basis of the estimated useful lives using linear depreciation over a term of 15 years.

h) Property, Plant and Equipment

Property, plant and equipment are valued at acquisition cost, reduced by scheduled depreciation. Maintenance expense that has no effect on the value or useful life of tangible assets is attributed to current expenses. Disposals are disclosed in historical acquisition costs as well as in accumulated depreciation, gains or losses resulting from the disposal of assets are stated in other operational income or expenses.

Low-value items (with acquisition costs below EUR 410) are fully depreciated in the year of acquisition.

The Company applies the following depreciation methods and useful lives:

<u>Assets</u>	<u>Depreciation method/period</u>
Technical equipment and machines	straight-line and declining-balance 10 to 13 years
Other equipment, operational and office equipment	straight-line and declining-balance 3 to 13 years

Property, plant and equipment includes properties encumbered by mortgages in the total amount of TEUR 5,462.

i) Impairment of Long-Lived Assets

In the business year 2001/2002, the Company reviewed whether the book value of its long-lived assets can be recovered in compliance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets to be disposed of". Since October 2002, the principles of SFAS 144 have been applied. When events or changes in the circumstances show that the book value of such assets cannot be realized during their remaining useful lives, the Company compares the undiscounted net cash flows to be expected from these assets in the future with their book value. When the book value of such assets exceeds their expected cash flows, the Company carries out an appropriate impairment of value. As of December 31, 2004 and September 30, 2004, the management believes that no such impairment existed.

j) Current Accruals

Current accruals are essentially set up for contingent liabilities and potential losses from pending transactions in the amount reasonable estimated in accordance with SFAS 5.

k) Restructuring Reserves

A restructuring reserve is recorded after a detailed and formal restructuring plan has been approved by the management and appropriately communicated before the balance sheet date (SFAS 146.8).

l) Pension Reserves

On the basis of a works agreement between ALD and the works council of ALD dated September 16, 1994, the works agreement of LDH Lenkungs- und Dienstleistungs-Holding GmbH für Thermochnik, Cologne, Germany (hereinafter also referred to as "LDH"), which came into effect prior to September 1, 1994, also apply to ALD. With regard to pensions, the regulations are as follows:

For all LDH employees who joined Leybold AG, Hanau, prior to November 1, 1980, and were transferred to ALD, the benefit plan taken over at that time from Leybold AG dated January 1, 1969, 4th edition, dated January 1, 1986 applies.

For all LDH employees who joined Leybold AG, Hanau, after October 31, 1980, and were transferred to ALD, and for all employees who joined the Company later, the benefit plan dated January 1, 1986 (at that time also taken over from Leybold AG, Hanau) applies.

Additional benefits apply to individual employees.

On the basis of the benefit plans, benefits comprise old-age, disability and survivors' pensions.

All former employees of Degussa taken over by LDH in 1991 within the scope of restructuring and then taken over by ALD in 1993 became special members of the Degussa pension fund at that time. The works agreements with regard to pension bonus and Christmas bonus for retired employees also apply.

The provisions are recorded in accordance with SFAS 87 on the basis of expected future payments, applying the projected unit credit method, and disclosed in accordance with SFAS 132.

m) Realization of Sales and Income

The Company mainly generates sales and income from the sale of systems for vacuum heat treatment, vacuum metallurgy and from the operation of such systems in its operating companies.

Systems are sold on the basis of contracts signed by the Company and its customers. Revenues relating to systems yet to be invoiced to the customers have been taken to income based on the percentage of completion (percentage-of-completion method). This means that revenues are disclosed on the basis of the incurred costs in relation to the expected costs in total.

The percentage-of-completion method is based on estimates. Due to the uncertainties prevailing in this respect, estimates of the expenses required for completion, including expenses for contractual penalties and warranties, may have to be adjusted subsequently. Such adjustments of expenses and income are shown in the period in which the need for adjustment is determined. Accruals for potential losses from pending transactions are recognized in the period in which losses are identified.

Contract costs and shares in earnings from long-term contracts valued according to the percentage-of-completion method are disclosed, after deduction of advance payments, under "unbilled receivables from long-term construction". They are valued at production cost plus a share of earnings according to the attained percentage of completion. Customer payments which exceed the costs incurred as of the balance sheet date are disclosed under "advance payments received".

In the operating companies, services are provided for customers on a contractual basis. These services are invoiced following completion based on the agreed prices. The Company discloses income when the services are invoiced, which is the time when the risks related to the products concerned pass to the customer.

n) Repair and Maintenance Expenses

Expenses for repairs and maintenance are recorded as incurred, providing that these are maintenance expenditures (TEUR 279).

o) Research and Development

Costs for research and development are expensed as and when incurred. In addition to the expenses explicitly disclosed in the income statement, further amounts were spent for order-related research and development and therefore recorded under cost of sales.

p) Derivative Financial Instruments

Derivative financial instruments serve to hedge the Company against exchange rate fluctuations connected with its operations. Forward exchange transactions are used exclusively in this respect. Derivative contracts are entered into with banks of good rating only. SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and the relevant additions require that derivative financial instrument are stated at fair value in the balance sheet, independent of their purpose. Changes in the fair value of derivatives, which meet the criteria of fair-value hedging stated in SFAS 133 and whose collateralized underlying transactions are sufficiently concretized, as well as the changes in the fair value of the collateralized underlying transactions are immediately recorded under assets or liabilities, affecting the operating result. All derivative financial instruments and the basic transactions related are subject to regular internal control. Derivative financial instruments are restricted to the hedging against economic risks arising in the course of operations. Such hedging against economic risks complies with the requirements of hedge accounting according to US-GAAP. All derivative financial instruments as well as the underlying transactions are therefore recorded at their market value as of the balance sheet date under assets or accruals, affecting the operating result. As of the balance sheet date, the Company had entered into forward exchange contracts with a nominal value of TEUR 4,824. The forward exchange contracts entered into as of the balance sheet date can be basically qualified as effective. The capitalized market value of such derivative financial instruments amounts to TEUR 30.

Currency hedging contracts concluded by ALD for hedging against exchange rate risks from anticipated payment flows, which, however, do not qualify for accounting as fair-value hedges, were not available as of the balance sheet date.

q) Financial Instruments

The fair value of all financial instruments, cash, cash equivalents, unbilled receivables from long-term construction, trade accounts receivable and trade accounts payable approximates the nominal value due to the short-term nature. The fair value of other long-term liabilities approximates their nominal value, as the variable interest rate corresponds to the market interest rate.

r) Promotion Expenses

In principle, promotion expenses are not capitalized but recorded under current expenses as sales and marketing costs. In the short business year, promotion expenses amounted to TEUR 44 and in the business year 2003/2004 to TEUR 257.

s) Earnings per Share

The earnings per share are determined in accordance with Statement of Financial Accounting Standard No. 128, "Earnings per Share" ("SFAS 128"). The earnings per share correspond to the consolidated net income divided by the weighted average number of outstanding shares during the fiscal year. The fully diluted earnings per share correspond to the earnings per share, as potential capital does not exist and consequently there will not be any dilution effects in the future.

t) Deferred Taxes

Deferred taxes are recorded according to the liability method in compliance with Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes" ("SFAS 109"). Deferred taxes refer to tax differences between the values of assets and liabilities shown in the financial statements and those of the taxable income. Deferred tax assets and liabilities are determined by means of the tax rates valid at the date of their presumable reversal. Effects of changes in tax rates are recorded during that period in which they come into effect.

Deferred tax assets apply to loss carried forward that is likely to reduce the future tax burden. In case of deferred tax assets that are unlikely to be realized, valuation reserves are recorded.

u) Comprehensive Income

The Statement of Financial Accounting Standard No. 130, "Reporting Comprehensive Income" ("SFAS 130") requires the Company to report the item of "Comprehensive Income". In addition to the consolidated net income, this item includes any other comprehensive income showing all changes in equity that do not affect the Company's net income and are not the result of transactions with shareholders.

Both, the other comprehensive income and the total comprehensive income are shown under changes in equity capital. The item other comprehensive income comprises differences resulting from currency conversions as well as the net effect from the adjustment of pension reserves by the "additional minimum liability" pursuant to SFAS 87.36 and 37.

v) Cash Flows

Cash flows show the fluctuations of the Group's cash and cash equivalents as a result of inflows and outflows of funds. They are determined in accordance with Statement of Financial Accounting Standard No. 95 "Statement of Cash Flows" ("SFAS 95"). In this respect, cash flows resulting from operative, investment and funding activities are to be differentiated.

w) Sectors

The Company is not managed on the basis of different sectors. Therefore, a subdivision of that kind is omitted.

(5) AVAILABLE AND RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents consist of fixed-term deposits of TEUR 4,037, of which TEUR 3,927 serve as a collateral for bank guarantees and forward exchange contracts as well as TUSD 3,225, which have been deposited as security for a guarantee and are thus restricted.

The Company does not have any notable lines of credit. The lines necessary for business investment for bank guarantees and forward exchange contracts are regulated by contracts with different banks in adequate amounts.

(6) SERVICES NOT YET COMPLETED AND INVOICED/ADVANCE PAYMENTS RECEIVED FOR SERVICES NOT YET RENDERED

Job order costs and the related invoiced amounts are as follows:

	Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
(Gross) job order costs incl. part of profits	38,887	35,819
(Gross) advance payments received	-32,970	-31,833
	<u>5,917</u>	<u>3,986</u>

Such amounts are shown in the balance sheets under the following items:

	Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
Services not yet completed and invoiced	9,628	7,369
Advance payments received for services not yet rendered	-3,711	-3,383
	<u>5,917</u>	<u>3,986</u>

(7) RECEIVABLES AND OTHER ASSETS

	Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
Domestic receivables	3,156	3,683
Foreign receivables	4,477	3,998
Less:		
Bad debt allowances	-662	-666
Receivables	6,971	7,015
Receivables from Good Energies Inc., Basel	3,019	2,978
Receivables from the Federal Administrative Office	1,882	2,325
Receivables from the tax office	901	1,457
Receivables from insurers	788	847
Commission installments	623	494
Loans HEAT	500	500
Measurements laboratory HEAT	183	196
Receivables from employees	128	130
Creditors with debit balances	41	9
Other	192	300
Other assets	8,257	9,236

The item "domestic receivables" includes receivables due from affiliated companies in the amount of TEUR 570 at the balance sheet date. This amount results from receivables due from PFW-Technologies GmbH, Speyer, in the amount of TEUR 370 (prior year: TEUR 319) as well as of TEUR 200 (prior year: TEUR 200) from EsteR GmbH, Hanau.

The receivables due from Good Energies Inc., Basel, represent its remaining purchase price obligation from the disposal of all shares in Scan Wafer ASA, Glomfjord, Norway, carried out in the previous year. The receivables were settled in January 2005.

The receivables due from the Federal Administrative Office results from a compensation within the framework of the domestic implementation of the UN compensation procedure for losses of property as a consequence of the Iraqi invasion in Kuwait on August 2, 1990. The compensation offsets the losses from two plants, which were ready for shipment to a customer in Iraq, but could not be delivered as a consequence of the invasion.

(8) INVENTORIES

	Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
<u>Raw materials and supplies</u>		
• Raw materials and supplies	3,662	3,592
• Valuation allowances	-720	-690
	<u>2,942</u>	<u>2,902</u>
<u>Finished goods and merchandise</u>		
• Plants in inventories	1,574	1,411
• Merchandise	140	141
• Valuation allowances	-38	-37
	<u>1,676</u>	<u>1,515</u>
<u>Advance prepayments</u>		
• To third parties	<u>1,377</u>	<u>277</u>
Inventories	<u>5,995</u>	<u>4,694</u>

(9) PREPAID EXPENSES

	Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
Consultation fees	115	121
Insurance premiums	83	86
Maintenance agreements	31	20
Vacation bonus	0	121
Other	<u>19</u>	<u>111</u>
Prepaid expenses	<u>248</u>	<u>459</u>

(10) INTANGIBLE ASSETS

	Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
Licenses	2,676	2,676
Purchased software	1,745	1,774
Rights of use	1,474	1,561
Other	768	858
	<u>6,663</u>	<u>6,869</u>
<u>Less:</u> accumulated amortization	<u>-3,606</u>	<u>-3,610</u>
Intangible assets, <u>net</u>	<u>3,057</u>	<u>3,259</u>
Amortization expense per year:		
	10/01 – 12/31/2004 TEUR	2003/04 TEUR
Amortization expense	<u>154</u>	<u>663</u>

The annual amortization for 2005 is estimated at TEUR 621, for 2006 at TEUR 563, for 2007 at TEUR 508, for 2008 at TEUR 396 and for 2009 at TEUR 180.

(11) PROPERTY, PLANT AND EQUIPMENT

	Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
Technical equipment and machines	12,291	13,196
Other equipment, operational and office equipment	5,668	5,824
Land/buildings	4,123	4,261
Construction in progress	68	127
	<u>22,150</u>	<u>23,408</u>
<u>Less:</u> accumulated depreciation	<u>-8,046</u>	<u>-8,306</u>
Property, plant and equipment, net	<u>14,104</u>	<u>15,102</u>
Depreciation expense per year:		
	10/01 – 12/31/2004 TEUR	2003/04 TEUR
Depreciation expense	<u>435</u>	<u>1,740</u>

(12) FINANCIAL ASSETS

	Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
Investment Z.E.R.O. Japan	167	167
Investment Technologie- und Gründer- Zentrum Hanau	5	5
Investment EsteR GmbH	261	261
	<hr/> 433	<hr/> 433
<u>Less:</u> Accumulated amortization	<hr/> -196	<hr/> -190
Financial assets, net	<hr/> 237	<hr/> 243

Amortization expense per year:

	10/01 – 12/31/2004 TEUR	2003/04 TEUR
Amortization expense	<hr/> 6	<hr/> 18

According to the agreement dated June 17, 2004, 75 % of the 40 % investment in Z.E.R.O.-Japan Co. Ltd., Iruma City, Saitama, Japan, were sold. ALD now holds an investment of 10 %. The investment was fully written off in the previous years. The remaining investment is intended to be sold on March 31, 2007 at a price of TJPY 23,320.

With the agreement dated December 16, 2003, the Company acquired a share of 50 % in the nominal capital (TEUR 25) of EsteR GmbH, Hanau at acquisition costs in the amount of TEUR 261. Within the framework of equity consolidation, the investment book value of EsteR was reduced by the pro-rata deficit for the year by TEUR 6 to TEUR 237 in the short business year.

Due to the economic situation of the Technologie- und Gründerzentrum Hanau GmbH, Hanau, the amount reported of the investment was fully written off in the previous years.

(13) SHORT-TERM BANK BORROWINGS

Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
1,814	1,966

The short-term bank borrowings as of the balance sheet date exclusively consist of the short-term part of the other long-term liabilities.

(14) CURRENT ACCRUALS

	Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
Guarantees and warranties	1,174	1,406
Provisions for taxation	1,133	1,107
Additional cost of sales	887	1,300
Restructuring/severance payments	664	968
Part-time work for employees approaching retirement	652	584
Outstanding invoices	492	340
Vacation accrued but not yet taken/accrued flexitime	388	530
Agents' commissions	338	341
Overtime pay	298	316
Occupational association	175	146
Profit sharing plan for employees	153	355
Litigation	141	122
Risks from warranties	83	83
New business projects	64	106
Accrual for potential losses	11	156
Christmas bonuses	0	624
Other	595	818
Total current accruals	7,248	9,302

The accruals for additional cost of sales comprise costs still arising for plant orders that have already been invoiced to customers. At the balance sheet date, however, the Company's sub-contractors for such plant orders had not yet presented their invoicing.

The reduction of personnel-related accruals, such as accruals for restructuring/severance payments, vacation accrued but not yet taken/accrued flexitime, overtime pay and Christmas bonuses is mainly due to the utilization carried out in the short business year, in particular in case of the accrual for Christmas bonuses, resulting from the change of the business year, which from January 1, 2005 corresponds to the calendar year.

(15) OTHER SHORT-TERM LIABILITIES

	Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
Social insurance contributions	459	478
Tax liabilities	308	347
Debtors with credit balances	472	206
Commissions	155	95
Other	536	521
Total other short-term liabilities	1,930	1,647

Other short-term liabilities contain an amount of TEUR 402 (prior year: TEUR 426) from a sale-and-lease-back transaction between ALD, Deutsche Leasing AG, Hannover, and VACUHEAT GmbH, Limbach-Oberfrohna (hereinafter also referred to as "VACUHEAT"). The margin realized in the amount of TEUR 473 from the sale of the Modultherm plant to Deutsche Leasing AG, Hannover, is charged to subsequent accounting years pursuant to US-GAAP over the term of the leasing agreement between Deutsche Leasing AG, Hannover, and VACUHEAT, i.e. over a period of five years.

(16) PENSION RESERVES

Transition of pension obligations:

	Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
Actuarial present value at the beginning of the fiscal year	16,442	15,859
Actuarial gains and losses	1,542	-328
Interest cost	110	827
Service cost	216	512
Pension payments	-143	-428
Actuarial present value at the end of the fiscal year	18,167	16,442

Transition of the funded status:

	Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
Funded status	18,167	16,442
Unrecognized actuarial net loss	-2,035	-493
Additional minimum liability	969	0
Pension obligations	17,101	15,949

The net periodic pension costs consist of the following items:

	Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
Interest cost	110	827
Service cost	216	512
Net periodic pension cost	326	1,339

The following averages were taken into account for the determination of the pension benefit obligations:

	Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
Factor used for calculating the net present value	5.00 %	5.25 %
Long-term salary increases	1.50 %	1.50 %
Rate of compensation increases	1.75 %	1.25 %

The above tables set forth the funded status of the Company's pension obligations, amounts recognized on the Company's balance sheets, and the principal assumptions used in the calculation of the pension obligations. The amounts recognized for the accumulated benefit and the projected benefit pension obligations correspond to the actuarial present values. The unrecognized net gain/loss is the difference between the amount estimated previously and the actual amount of pension expenses determined after the fact. The difference results from deviations between the assumptions forming the basis of the calculations of pension obligations and the actual development thereof. It was in particular the interest rate reduction by 0.25 percentage points with the simultaneous increase of the rate of pension progression by 0.5 percentage points which led to an actuarial loss of TEUR 1,542.

Benefit obligations are not covered by external funds. Future pension payments are payable by the Company directly.

We also refer to our notes under (4) l).

(17) OTHER LONG-TERM LIABILITIES

	Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
Bank loans	6,181	7,083

On December 3, 2002, the existing loan of ALD Thermal Treatment Inc., South Carolina, USA, (hereinafter also referred to as "ALD TT") with the Bank of America in the amount of TUSD 2,232 was replaced and redeemed by two loans of General Electric Capital Corporation, Chicago, Illinois, USA, in the amount of TUSD 5,276 and TUSD 2,224. The loans have a remaining term until October 1, 2007 and bear an interest of LIBOR plus 4.25 % each. They serve for the further financing of capital investments and are redeemed in equal quarterly installments in the amounts of TUSD 264 and TUSD 37. As of the balance sheet date, the loans are remunerated at TEUR 3,998. The short-term share amounts to TEUR 879. The Company is obligated to assure the relation between debt and EBITDA of a maximum of 3.5 to 1, a fixed-cost recovery of at least 1.3 to 1 and an EBITDA of ALD TT of at least TUSD 1,500. The management of ALD Vacuum Technologies GmbH considers the breach of the

above-mentioned covenants as not impairing the development of the Group. To date, General Electric Capital Corporation, Chicago, Illinois, USA has not indicated any negative signals to ALD Thermal Treatment or ALD Vacuum Technologies GmbH. Currently, negotiations are being conducted with the aim to set off the TUSD 3,225 deposited as a security for a guarantee to General Electric Capital Corporation, Chicago, Illinois, USA against the outstanding amount of a loan of TUSD 5,093 without prepayment expenses until the end of May 2005. It is intended to redeem the outstanding remaining amount within the framework of the refinancing via the Fifth Third Bank, USA, for the new Own & Operate company in Port Huron for the heat treatment of gearbox parts of General Motors. Moreover, due to the positive development of the financial situation, ALD Vacuum Technologies GmbH would also be able to implement an internal solution.

The bank loans further include two KfW loans of VACUHEAT in the amount of TEUR 2,000 each. On one of the loans, an interest rate of 5.75 % p.a. is charged; it will be redeemed in equal semi-annual installments, beginning on December 30, 2002, ending on June 30, 2010. On the other loan, an interest rate of 6.00 % p.a. is charged; it is redeemed under consideration of a disagio in the amount of TEUR 80 in equal semi-annual installments, beginning on September 30, 2002, ending on March 31, 2010. As of the balance sheet date, the loans are remunerated at TEUR 1,375 each. The short-term share amounts to a total of TEUR 500. The loans are backed by normal banking security, by a land charge (TEUR 3,579), by a transfer of ownership of fixed assets (TEUR 3,503), by a pledging of account balances (TEUR 1,055) as well as by an assignment of receivables (TEUR 449).

By means of the loan agreement dated September 26, 2003, VACUHEAT has also taken up a loan from DIF Deutsche Investitions Finanz GmbH, Bad Homburg, in the amount of TEUR 1,262, which was used to finance the remaining liabilities due to ALD from the deliveries of plants in the previous year. The loan is to be redeemed until August 15, 2007 through the payment of monthly annuities in the amount of approx. TEUR 30. The loan is secured by transfer of ownership of two two-chamber furnaces and one multiple-chamber furnace, and is remunerated at TEUR 872 as of the balance sheet date. The short-term share amounts to TEUR 310.

On November 10, 2003, VACUHEAT has taken out a Euro Credit from the Bayerische Hypo- und Vereinsbank AG, Frankfurt am Main, in the amount of TEUR 500. The credit is secured by transfer of ownership of two manufacturing plants as well as two guarantees by the shareholders of TEUR 125 each. The credit is repaid in quarterly installments of TEUR 39 each until December 15, 2007 and is remunerated at TEUR 375 as of the balance sheet date. The short-term share amounts to TEUR 125.

(18) AUTHORIZED CAPITAL

On December 31, 2004, the authorized capital amounted to EUR 7,862,500, divided into 78,625 shares at EUR 100.00 each. We refer to the explanations under (2) "Ownership Structure".

(19) CAPITAL SURPLUS/RETAINED PROFITS

In the shareholders' meeting dated January 31, 2005, it was decided to carry the net loss for the year of the business year 2003/2004 based on the accounting principles of the German Commercial Code forward to new account. Due to the Company's change of corporate form into a GmbH, the retained earnings including the losses brought forward were netted out and allocated to capital surplus. This resulted in an increase of capital surplus by TEUR 1,927; retained earnings were reduced accordingly.

(20) RESTRUCTURING EXPENSES/INCOME

In order to maintain competitiveness and to improve the Company's result situation, it was necessary to adapt the management structure, the organization and the number of employees at the location in Hanau to the changed competitive environment.

In this context, a corresponding social compensation plan and a reconciliation of interests were agreed upon between ALD and its works council on June 7, 2004, which basically contains the following main issues:

- Reduction of management areas;
- direct management of individual product or project related work groups by board or management members;
- simplification of the personnel structure;
- the coordination of all projects and the production of goods and services from construction to commissioning is carried out in project teams.

Regarding the simplification of the personnel structure, a reduction of the employees of ALD to 243 was agreed. To achieve this, it was necessary to give a total of 71 notices of termination for operational reasons. The identification of these employees was carried out across all operating departments by considering social criteria. Within the framework of this restructuring, the Company incurred expenses in the total amount of TEUR 1,407 in the previous business year.

In the course of the short business year, the number of necessary terminations could be reduced due to terminations for other reasons, adjustments to working time, etc. by 16 to 55. Three of these employees were still employed with the Company as of the balance sheet date; they retired at the beginning of the business year 2005.

The income in the short business year mainly results from the partial retransfer of the accruals for severance payments which were set up in the previous business year in this context.

(21) OTHER OPERATING INCOME/EXPENSES

	10/1 - 12/31/ 2004 TEUR	2003/04 TEUR
Services	353	1,260
Dissolution of provisions	102	274
Correction to prepayments of commissions	0	306
Other	143	638
Other operating income	598	2,478
Other operating expenses	1,437	4,842
Other operating income/expenses, net	-839	-2,364

The income from services results from the rendering of services to third parties.

Other operating expenses mainly include expenses for services TEUR 391 (prior year: TEUR 1,195), exchange rate losses TEUR 284 (prior year: TEUR 145), financial expenses TEUR 104 (prior year: TEUR 415), expenses from cost allocations TEUR 79 (prior year: TEUR 0), writedowns on licenses TEUR 65 (prior year: TEUR 259), insurance expenses TEUR 60 (prior year: TEUR 25), warranty charges of VACUHEAT to Siemens TEUR 12 (prior year: TEUR 290) as well as cost burdens of Safeguard TEUR 8 (prior year: TEUR 356).

(22) INTEREST EXPENSES/INCOME

	10/1 - 12/31/ 2004 TEUR	2003/04 TEUR
Interest income from banks	70	280
Interest income from loans	8	39
Interest income from current accounts	65	51
Interest income	143	370
Interest expenses to banks	-140	-550
Interest expenses on loans	0	-8
Other interest expenses	0	-55
Interest expenses	-140	-613
Net interest result	3	-243

(23) INCOME TAXES AND DEFERRED TAXES

German trade tax on income is levied on a company's taxable income adjusted for certain revenues which are not taxable for trade tax purposes and adjusted for certain expenses which are not deductible for the purpose of trade tax on income. The effective trade tax rate is dependent on the municipality in which the company operates. The average trade tax rate levied on the company's income is approximately 18 %. Trade tax on income is deductible for corporate income tax purposes.

Since 2001, corporate income tax in Germany has been levied at a rate of 25 % of taxable income. For the assessment period 2003, the tax rate experienced a one-time increase to 26.5 %, again amounting to 25 % from the assessment period 2004 on. Additionally, a solidarity surcharge of 5.5 % of the assessed amount of corporate tax is levied.

Deferred taxes mainly arise due to the difference between German accounting standards and US-GAAP, especially in the area of inventories, accounts receivable and accruals due to differences between the completed contract method and the percentage-of-completion method and different assumptions in calculating future pension obligations. Where it is improbable that deferred tax assets will be realized, a valuation allowance has been made.

The legal tax rate for future years will be at about 39.7 % (prior year: approx. 38.2 %).

Due to the fact that tax claims based on the loss carryforward at ALD Inc. are not expected to be realized to the full extent, the deferred taxes on that amount have been adjusted accordingly.

The loss carryforward splits up as follows:

			Period of use
Germany, ALD	TEUR	7,115	Unrestricted
USA, ALD TT	TUSD	5,840	15 years
USA, ALD Inc.	TUSD	661	15 years

In Germany, net operating losses are not subject to expiration. The loss carryforward in the USA will expire in the business year 2019.

The deferred tax assets and liabilities and the corresponding valuation allowances result from differences in the accounting for the following items:

	Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
Tax loss carryforward	4,431	3,482
Less valuation allowances regarding tax loss carryforward	-108	-315
Intangible assets	161	177
Pension reserves	1,545	1,078
Other accruals	778	367
Liabilities	666	821
Total deferred tax assets	7,473	5,610
Accounts receivable from services not yet invoiced	-5,032	-3,776
Property, plant and equipment	-554	-753
Other	-96	-68
Total deferred tax liabilities	-5,682	-4,597
Net deferred taxes	1,791	1,013

Deferred (net) tax assets and liabilities split up according to maturities as follows:

	Dec. 31, 2004 TEUR	Sept. 30, 2004 TEUR
Short-term	1,315	679
Long-term	476	461
Total deferred tax assets	1,791	1,140
Short-term	0	-127
Total deferred tax liabilities	0	-127
Net deferred taxes	1,791	1,013

Deferred taxes and actual income tax expenses for the fiscal years are as follows:

	10/1 - 12/31/ 2004 TEUR	2003/04 TEUR
Deferred taxes	393	2,916
Current taxes	-24	-948
	369	1,968

The table below shows the transition calculation of the income taxes expected to the lower tax expenses actually reported. The calculation is based on a tax rate of 39.7%.

	10/1 - 12/31/ 2004 TEUR
Tax expenses expected	-192
Effect from the adjustment of deferred tax assets and liabilities of VACUHEAT	426
Effect from the adjustment of deferred tax assets and liabilities of ALD LIND	-12
Effects from consolidation	-3
Other (foreign tax rates differing in value)	150
Actual tax expenses	369

(24) CONSOLIDATED NET INCOME PER SHARE

	Dec. 31, 2004 in thousands	Sept. 30, 2004 in thousands
Number of shares	79	7,862
Consolidated net income in TEUR	473	-2,109
Consolidated net income per share in EUR	5.99	-0.27

According to the decision of the shareholders' meeting dated November 22, 2004, the Company changed its corporate form from a stock corporation (AG) into a limited liability company (GmbH) by way of modifying conversion. The 7,862,500 bearer shares were changed into 78,625 shares at EUR 100.00 each.

As potential capital does not exist, there will not be any dilution effects in the future.

(25) LITIGATION

ALD is currently not involved in any significant litigation.

(26) OTHER FINANCIAL OBLIGATIONS AND CONTINGENT LIABILITIES

Lease Commitments and Long-Term Rental Agreements

The Company has lease commitments for production machinery, parts of the IT equipment and motor vehicles, as well as long-term rental obligations for business premises. The minimum future lease and rental payments for the years 2005 – 2008 are as follows:

Year ended December 31	Machines TEUR	IT TEUR	Vehicle Leasing TEUR	Office & Warehouse TEUR	Total TEUR
2005	549	344	82	1,656	2,631
2006	549	347	62	1,617	2,575
2007	549	357	20	1,617	2,543
2008	549	357	19	1,617	2,542
thereafter	389	357	19	1,617	2,382
Total	2,585	1,762	202	8,124	12,673

The annual expenses for rents and leasing in the short business year amounted to TEUR 693 (prior year: TEUR 2,752).

Contingent Liabilities

Contingent liabilities are recorded in the financial statements when it is probable that a liability will be incurred and the amount thereof can be reasonably estimated. Aside from the risks for which accruals have already been established, the management of the Company is not aware of any matters that could give rise to any liabilities that would have a materially adverse effect on the Company's financial position or results of operations.

In the normal course of operations, the Company is occasionally party of legal proceedings and subject to claims raised. Although the outcome of such proceedings and the enforcement of such claims cannot be predicted with certainty, the Company's management board does not expect the outcome of such proceedings to have essential detrimental effects on the financial position, the results of operation or the cash flows of the Company.

Other Securities

As of the balance sheet date, ALD GmbH has used guaranteed credits in the amount of TEUR 12,145. Thereof, TEUR 10,959 are made available by a bank pool. As securities for this provision, TEUR 3,927 were pledged as fixed-term deposit, domestic receivables in the amount of TEUR 2,459 were assigned, foreign receivables in the amount of TEUR 2,674 were optionally assigned, however, this option has not yet been exercised on the part of the banks as of the balance sheet date. In addition, a transfer of ownership of fixed assets regarding an EB plant (TEUR 307) and a vacuum two-chamber furnace (TEUR 686) was covenanted, which has not been carried out as of the balance sheet date, either.

(27) TRANSACTIONS WITH RELATED PARTIES

The Company granted a loan to a board member in the amount of TEUR 120. Thereof, TEUR 0 (prior year: TEUR 0) have been paid back in the short business year. The loan carries an interest of 6 % p.a.

(28) SUBSEQUENT EVENTS

In the area of the operating companies, the acquisition of the remaining shares of HEAT GmbH group in the VACUHEAT GmbH took place in March 2005. Thus, VACUHEAT GmbH is wholly owned by the ALD Group from that time on.

In addition to this, no significant events which occurred subsequent to the balance sheet date have become known to us.

Hanau, April 14, 2005

Dr. R. Walter

W. Katzschner

R. Seemann

**ALD Vacuum Technologies GmbH
(formerly: ALD Vacuum Technologies AG), Hanau**

**Group Management Report for the Short Financial Year from October 1 to
December 31, 2004**

1. Scope of Activities

ALD designs and manufactures equipment on the basis of vacuum technology for growing markets such as:

- Aircraft and aerospace
- Utilities
- Automotive Industry
- Communications technology
- Materials engineering

Within the scope of its Own & Operate strategy, ALD further operates production plants developed by its engineers for applications, in which special process progresses and thus unique selling propositions have been achieved.

2. Business Trend

General Trends

After several years' stagnation, in 2004, the world economy shows the highest growth rate of approx. 5 % since 1976. Engineering has also achieved significant growth. According to the German Engineering Federation (VDMA), the order intake of German plant engineering exceeded last year's level by 10 % in the period from December 2003 to December 2004, with growth primarily resulting from exports (14 %) (domestic business: 3 % growth). This positive development was borne by the areas of metallurgical plants and steel-mills, in particular by a large demand for steel from China and India, as well as by drive engineering, amongst others.

The development for next year is assessed differently. On the one hand, the growth in Asian markets will flatten, as the Chinese government counteracts a threatening overheating by means of credit and import restrictions. The demand for capital goods is expected to increase considerably in the US market, whereas last year's values are rather low. In general, the world economy is expected to grow by 4.3 % in 2005. As a consequence, a continuation of the low-level growth is also expected in plant engineering.

Following a production growth of approx. 6 % in 2004 in the area of thermo process technology, a growth in the industry of approx. 5 % is also expected for 2005. All in all, the economic development remains clearly below the development of general plant engineering. According to a survey among the member companies of the VDMA, domestic business will remain low in 2005, which is already proven by the first months of 2005. However, the signs for a continued large demand from abroad are clearly recognizable. Recently, Japan has reported an economic rebound, the USA are on the path of growth, anyway, which, however, affects the capital goods industry only reluctantly. In Western Europe, the situation slowly begins to stabilize as well.

Regional Trends

The Asian markets, which are important to ALD, developed unsatisfactorily in 2004. After the share in incoming orders, especially in the growth markets of raw materials, energy production and aircraft and aerospace had been above 50 % in 2002/03, it declined to approx. 11 % in 2004, which is primarily due to short-term decisions made by the Chinese government regarding the slowdown of high growth rates. In contrast, Japan is experiencing an economic rebound, which is reflected in a significantly greater demand for plants for the processing and refinement of metals. However, the exchange rate trend benefits US-American suppliers, who are regaining ground which they had lost in previous years. In general, ALD seems to be well prepared for the future in this region with its own agencies in China and Japan, as well as several years of experience in the drafting of contracts, financial hedging and the knowledge of local business practices. The unfavorable exchange rates will, however, curtail our chances for new business significantly.

Since 2003, a slow economic rebound with an economic growth of 3.1 % in 2003 and approx. 4.4% in 2004 was noticed in the USA, which, after the activation of disused plant capacities, is now also reflected in new investment. In particular the automotive and components suppliers in the USA increase their efforts in the further development of technology, to stop the further decline of their share in new registrations. The overall volume of orders received was at 4.3 million € in 2004, following 5.1 million € in 2002/03. According to the ifo-Institut, a growth above the average of the European Economic Area of approx. 3 % is expected for 2005.

Despite the low economic growth of 1.8 % in Europe in 2004 (Germany 1.7 %), the demand for special steels and energy production on the basis of solar silicon has recovered in 2004. Following the weak financial year 2002/03 with 11.6 million €, the volume of orders received could be led

back to a more solid basis of 22.7 million € in 2004. Despite the low expectation of an economic growth of 1.5 % for 2005, a continuation of special developments is expected, e. g. in the area of solar silicon.

In Russia, the contacts which have existed for many years have been maintained. Financing issues and procurement structures remain the major reasons for the slow development of this market, despite growth rates of 6.7 % in 2004.

With the continuous development of a series of newly industrializing countries, such as India and Iran, there arises demand for the expansion of the areas of steel production and energy supply in these countries. The growth rates in these countries were already above the growth rates of the European Union in 2002, with 4.6 % in India and 6.7 % in Iran.

Energy

The worldwide demand for energy is continuously increasing, however, at the moment it is rather moderate. This growth is borne by the industrial development in Asia with the focal points being China and India. The growth rates in North America and Europe remain low, corresponding to those of industrial growth. State-aided measures for the reduction of energy demand are further slowing down demand.

The political and economic circumstances speak in favor of a further sustained increase of energy demand in Asia and for an expansion of nuclear power plant capacity.

This entails the building of production capacities for special alloys and special steels, as well as the expansion of production facilities for turbines and turbine components. The companies engaged in this market increasingly request vacuum melting plants, remelting plants and investment casting plants, requesting references from Western customer countries, to prepare the certification in export markets.

The further development of turbine technology for energy production is still taking place in North America and Europe, aiming at the improvement of the degree of efficiency with a simultaneously increased service life. Materials and coating technologies from the aerospace industry are increasingly used for this purpose. The demand for TBC (thermal barrier coatings) for industrial gas turbines is increasing as a consequence of this trend. In the area of investment casting technology there was also an increased demand for plants recorded, which make it possible to cast turbine blades of up to one meter. The production of directionally solidified blades again focuses on LMC technology (liquid metal cooling).

The demand for photovoltaic is continuously increasing on the basis of subsidies. The difference between demand and the available production capacity is further increasing. As a consequence, all

suppliers wish to build up their plant capacities. ALD has inquiries for a larger project volume at hand, too. The price development of crude oil from approx. 20 US\$/Barrel to more than 50 US\$/Barrel in the last two years has strengthened the development, which so far was mainly affected by political framework conditions. As the power generated by this means cannot yet economically compete with conventional power stations, the further development remains difficult to assess. One risk for the growth in the area of photovoltaic lies in the limitation of the current resources of silicon material. Among other things, it is necessary to resort to "waste products" from the production of semiconductors. However, new developments and procedures for the production of raw material give reason to hope for a solution which is more stable in the medium term.

Aircraft and Aerospace

First signs of a turnaround of the economic trend with investments in new production plants may be expected. After the shutdown of production plants at the beginning of 2004, almost all installed melting and refining plants are working to full capacity. So far, new investments have only been made in Europe and Japan. In the first instance, idle capacities are used, particularly in the USA. However, in case of a continued positive development, modernization projects and new investments may be expected.

After the expansion of production capacities for the national aircraft industry in China during the last years, a market slowdown has set in. While during the last years investments were focused on the production of materials, in the meantime, investments have increasingly shifted towards the area of component production. At the moment, this serves for the coverage of the spare-part demand from national production, but also for exports. This will be followed by a development program for civil aircrafts "made in China", which will result in a further increasing demand for vacuum-metallurgical equipment and coating systems in the future.

Mobility and Transport

In 2004, the number of passenger cars produced in Europe has increased by 3 % due to the building of production capacities in the former Comecon states. Within the EU, the number of newly produced vehicles has remained the same as in 2003. In the USA, the output figures further have declined to -1,9 % in 2004. In 2004, a total of approx. 52.7 million (+4.0 %) passenger cars was produced worldwide. For investments for the heat treatment of heavy-duty gearboxes, also inquiries from Eastern European locations such as Hungary, Slovenia, Romania etc. are expected in future as a consequence of the building of production capacities in those regions. It appears that the plants of the ModulTherm type delivered last year are largely regarded as reference plants in the market, due to the positive production experience. Further impulses are expected from the launch of new gearbox types, whose implementation is notably facilitated through the heat treatment technology in the development of which ALD played a decisive role. The successful tests and developments for the new 6-speed-transmission have led to General Motor's (USA) decision in favor of ALD

technology. The commencement of the pilot production on ALD plants is scheduled for 2005. This development at the world's largest automotive manufacturer will most probably lead to further inquiries from other automotive manufacturers.

In Germany and Europe, the increasing registrations for Diesel passenger cars have positively influenced the demand for Diesel fuel-injection systems. In addition to parts for the common-rail technology on the basis of the Piezo control, the unit-injector fuel-injection system will also be processed in future. The subsidiary VACUHEAT was again able to meet the earnings expectations. At another subsidiary in South Carolina, USA, which also specializes in this field, the expectations have not been met yet.

The development of the lightweight valves made of titanium aluminide for the automotive industry was successfully continued. It still remains to be seen if and when the new material will be introduced to the automotive industry. Further promising developments with the material titanium aluminide are carried out in the area of turbo charge wheels for gasoline and Diesel vehicles. However, as in other areas, the promising qualities of the new material can only have an effect if the technical advantages can be presented at an acceptable price.

Environment and Nature

As the development potentialities of ALD are unsatisfactory in the area of waste management due to the governmental rules and the low acceptance of new technology in the closed market, the management has decided to discontinue this industrial field. The joint venture operated in Japan has its plants exclusively set up by local companies, too, in order to accommodate the special requirements. For this reason, a major part of the shares was sold in 2003/04.

Information and Communication

The slump experienced by the IT industry during the previous year was going on in 2004. The demand for equipment of glass fiber and optical technologies is low. Due to the existing overcapacities, a revival of demand cannot be expected in 2005.

Materials

While in the last years the demand for vacuum-metallurgical equipment was focused on China, since September 2004, there has also been an increasing demand in Europe, North America and Japan. This applies in particular to equipment for the production of special steels and superalloys for chemical plant engineering, vehicle construction and for the aviation industry. While major parts of investments currently represent expansions of production capacity, investments in the modernization or replacement of existing plants are increasingly requested. There is a considerable demand for modernization, particularly in Japan.

In the area of refractory and reactive metals, further investments are expected for the coming years, in particular due to increased quality demands on the end product, but also due to larger block dimensions. After China has increasingly invested in this area during the last years, established suppliers have to catch up, in order to hold their market position.

Our Company is one of the market leaders in supplying equipment for the high-pressure sintering of components made of hard metal. The continuously increasing demands on tools with regard to service life, cutting speed and surface quality of the workpiece to be processed are the basis for a business volume that has been stable for years.

The business situation in Germany and Europe continues to be stable. The meanwhile increased demand in China has again declined in 2004, although more projects are expected to be realized in 2005/2006.

Order Intake/Backlog

In the short financial year, the order intake of the ALD Group including the operational companies with 17.7 million € projected on a straight-line basis to 12 months was by 8.3 % above the prior year (65.4 million €). At ALD GmbH, the order intake, including the orders from subsidiaries, amounted to 16.0 million €. Projected to 12 months, this equals an increase of 22.1 %.

In the areas of materials and aircraft and aerospace, the expected recovery due to the continued great demand for special steels from China has led to a series of orders from Europe. In the area of mobility and transport, further projects in the USA have become concrete through the successful provision of samples and the reference of ModulTherm plants already on the market. The capacity build-up of the subsidiaries due to new orders was continued according to plan. A revival of business is also present in the European tools area.

Altogether, incoming orders are reflecting ALD's stabilizing situation in plant engineering, offering optimistic prospects for the year 2005. An increasing demand is noticeable in all areas.

At the distribution companies, following special effects in the previous year in Japan and the USA with larger rebuildings, the trade for own account in the service and spare parts business has reached its normal level again. The few working days in December have had an impact on the business volume at the operational companies.

The order backlog of the ALD Group was at 72.1 million € at the end of the business year. Of the order backlog at the end of the year under review, 38.9 million € (53.6 %) were already incipiently processed and thus already reported in sales according to US-GAAP in the business year. ALD GmbH reports an order backlog of 71.8 million €, following 66.6 million € in the prior year.

Sales

Net sales for the ALD Group according to US-GAAP (percentage of completion) fell to 17.1 million € projected on a straight-line basis to 12 months by 7.6 % as compared to 74.0 million € in the previous year. The decline of 10.6 % in ALD GmbH, statistically projected on 12 months, is partly compensated by the positive development in the Own & Operate companies; it reflects the low degree of incipient processing following the late receipt of orders in 2003/04. In case of the contracts a part of which was only concluded in September, by nature, only construction works have been carried out so far; up to now, no cost of material has been incurred. Major sales of the Group were realized in Europe with 33.5%, Germany with 31.1 %, North America with 18.1% and Asia with 16.0%.

ALD AG's sales amounted to 11.0 million €, following 74.5 million € in the 12-months period 2003/04. A linear comparison does not offer any utilizable information, due to the particularity of the revenue recognition pursuant to German Commercial Code (HGB).

In the short financial year, major sales were realized in plant engineering in the area of the new technology heat treatment, with the successful delivery of the first manufacturing plant of the ModulTherm type in the North American area. In the area of sinter technology, two plants could go into production ahead of schedule and with a considerable cost underrun in Europe. Despite the few working days in December, the area of spare parts was also able to exceed expectations.

Result

Following the first loss in 2003/04 of -3.3 million €, the ALD Group once again reports a positive result before taxes according to US-GAAP of 0.5 million € for the short financial year. The loss after taxes of 2.1 million € in the previous year is contrasted by a profit of 0.5 million € in the short financial year.

In the short financial year, the operating result at ALD GmbH according to HGB amounts to -2.2 million € before taxes, following a profit of 3.5 million € before taxes in 2003/04. The result for the year in the short financial year amounts to -2.1 million € after a profit for the year of 1.8 million € in the previous year, which still contained expenses from the social compensation plan in the amount of 1.4 million € .

Despite further reduced overheads, the operating result of the AG reflects the difficulty of accounting pursuant to HGB in plant engineering. As in the three months of the short financial year due to average delivery times only sales from the orders on hand are realizable, and three months does not provide an adequate statistical basis, the result according to HGB only reflects the low sales of 11.0 million €.

Despite low sales, the development of the Group's result in the short financial year was determined by the result improvement of ALD GmbH due to improved amounts of coverage of the processed orders and reduced overheads. Due to the low order inflow, realized late in the business year 2003/04, there could only be reported a disproportionately small degree of incipient processing. Projected to 12 months, this led to a decline in sales of 7.6 % compared to 2003/04. The first effects of the reduction in staff are reflected in the declining personnel expenses. Measures for raising efficiency in production costs, improving purchasing processes as well as reducing overheads by streamlining procedures have been continued in the short financial year and are also scheduled for the next two years.

The operational companies developed differently in the business year. While VACUHEAT GmbH reports another satisfactory profit, the comparable sister company ALD Thermal Treatment Inc. in the USA could not meet the expectations with regard to service business due to continued low purchase quantities of the end customer, which remain below schedule.

The few working days in December had a negative effect on the distribution companies in the USA, Great Britain and Japan with their focus on service and the spare parts business. An aggravating factor was that during this period of three months no additional business in the form of rebuildings, dislocation of plants and re-fittings could be realized. This led to the fact that all three distribution companies reported a negative result. Positive results are expected for 2005, based on planning and forecast.

Operational Companies

VACUHEAT GmbH in Limbach-Oberfrohna has developed positively and was able to report another positive result in the short financial year, despite a declined business volume of 14 % due to a changed product mix and the few working days in December. To assure competitiveness, an analysis of production processes with external support was started, in order to reduce costs.

The development at ALD Thermal Treatment, Columbia, South Carolina, USA, was not as satisfactory, as the expected production increases, in particular with regard to the principal customer, clearly fell short of expectations. Third-party business continued positively.

The preparations for the foundation of another operational company in the Detroit area have been continued with focus on financing, selection of the location, type of building and production and quality software as well as personnel structures. At the same time, at ALD Thermal Treatment, Columbia, South Carolina, USA, the necessary tests are run according to schedule for the introduction of ALD technology for the production of the new 6-speed automatic transmission starting in 2006. After starting production with a heat treatment at ALD Thermal Treatment, production will be started in the new company in Detroit in summer 2006. In case of a positive

development, this may lead to the foundation of up to four production plants in the Detroit region in the next years.

Further negotiations regarding potential operational companies for heat treatment in the area of transmission/fuel injection technology are conducted in China and Europe.

International Sales and Customer Service

The technological development centers for vacuum metallurgical processes as well as aircraft and aerospace, energy management and the automotive area have been and still are in North America, Europe and the CIS.

The established target markets for vacuum metallurgical plants in the USA, Europe and Asia have not developed according to expectations. The subsidiaries in the USA and Great Britain have been adjusted to the business trend by cost reduction programs and are continued at a minimum level until a market upturn has set in. They concentrate on the tasks of sales service and service support as well as on the supply of spare parts for established customers. The participation in trade fairs, expositions and symposia has been reduced severely and adjusted to the market opportunities. The market position in China built up by the sales success in previous years is ensured with the expansion of the service support in Shanghai. In addition to service and marketing, the sales organization in China performs coordination tasks in local production and procurement. For the time being, this is carried out order-related and without abandoning the core competencies.

In preparation for the future local value and for the simplification of business initiation and transaction processing in Moscow, the representation in Moscow was converted into an independent GmbH. Business is currently being transferred step by step in coordination with the current representative to ALD Russland GmbH.

The access to the markets in India and Iran is governed by strict export regulations and the embargo for US components, and is thus difficult. Due to the current authorization policy for exports and the political climate, these regions will have to continue playing a minor role in corporate development. These markets will continued to be served by non-exclusive representatives.

The expansion of international partnerships was intensified, in order to be involved in projects at an early stage, and in particular to be able to build on stable customer relationships. The existing partnerships in China and the USA have been further extended. To enter into the Japanese market in the area of heat treatment, a license agreement with a local company in this line of business was concluded, on the basis of which the partner installed a pilot plant "New Technology of Heat Treatment".

Through the participation in numerous trade fairs and congresses as well as the further intensification of direct customer contacts, ALD has continued its advertising campaigns and marketing activities as is customary in the business.

Capital Expenditure

The Group's reported addition to fixed assets amounted to 0.3 million € in the short financial year, after 1.2 million € in 2003/04.

In addition to the extension of the production hall and the related technology with 0.1 million €, as well as the extension of the measurement laboratory and the goods receiving department with 0.1 million € at VACUHEAT, in the year under review, only replacement investments in the areas of IT, CAD, production material took place at the other companies, with 0.1 million € at ALD GmbH and at ALD Thermal Treatment. The expansion of production capacity at VACUHEAT by a ModulTherm plant was financed via an operating leasing agreement.

Financial Position

Consolidated assets fell from 70.0 million € by 0.8 million € to 69.2 million €. This decline mainly resulted from the reduction of fixed assets through a net investment which is clearly below depreciation. Due to the change in the balance sheet date, reserves have declined, in particular accruals for personnel expenditure (vacation, Christmas bonus) by approx. 2.0 million €. The expansion of production at VACUHEAT GmbH was financed with a mix of operating leasing and classic bank financing. Due to the change in credit lines by the addition of Euler Hermes to the existing consortium and the low and late order inflow, the deposit of cash for the securing of bank guarantees at ALD GmbH with 4.0 million € could be reduced considerably (prior year: 7.2 million €). The operative cash flow declined after -0.1 million € in the previous year to -1.8 million €, which mainly resulted from the increase in work in progress not yet invoiced according to PoC, together with deferred outstanding prepayments from new business at the same time. After an increase by 4.0 million € in 2003/2004, liquid assets have declined by 2.6 million €.

The results of the Group and of ALD GmbH are carried forward to new account. The equity of the Group has declined from 22.3 million € in 2003/04 to 21.4 million € (31.0 %), despite a positive result of 0.5 million €. The contrary effect results from other accumulated comprehensive income, which includes exchange rate differences as well as pension adjustments. At ALD GmbH, it declined from 18.8 million € to 16.6 million € (31.9 %).

Risk Management Systems

The management of the former ALD Vacuum Technologies AG, Hanau, installed an internal monitoring and risk management system for the early detection of any developments that might

adversely affect the assets. The systems and the internal controlling were reviewed in cooperation with the auditors in 2000/01 and their completeness was ensured by a risk inventory. Any deficiencies in the documentation were compensated by adequate procedures.

In the business year 2003/2004, the Company was affirmed of the validity of the certification according to DIN EN ISO 9001:2000 and VDA 6, Part 4, within the framework of a surveillance audit in March 2004. By means of the existing risk early warning system, restructuring measures were initiated in spring 2004, which led to an adjustment of capacity with regard to personnel and to revised organizational structures. Due to the adjustment of the Company's organizational structure, a revision of the documentation was due, which has been completed in the meantime.

Due to the Company's focus on a deliberately low-set business volume and a new organizational form, which facilitates more flexibility in the scope of processing, today there is more certainty in view of a short-term change in the market development. More business certainty is added by the acceptance of the new technology in the field of heat treatment, which is increasing in the middle and long term, and which differs from metallurgy with regard to customer base and investment cycles.

The technological leadership in the field of metallurgy and heat treatment is continuously backed by a substantial research and development program. The return of know-how from the operational companies shows first results and ensures a clear lead on its competitors for ALD and the operational companies.

The internal processes of planning, production and commissioning of plants are continuously being reviewed after the organizational adjustment, in order to improve efficiency and the customers' satisfaction.

The integration of a process-independent testing of the risk management system, together with the preparation of a risk management guideline, was postponed to the next business year and is about to be implemented.

At present, there are no signs of any risk that might endanger the substance of the Group.

Research and Development

An innovation policy consistently focused on the needs of growth markets requires substantial expenses for research and development. ALD extended its know-how base by several research and development projects in cooperation with customers and/or joint venture partners.

Over the short financial year, ALD spent 0.3 million € on its development projects. With research and development expenses totaling 0.3 million € (2003/04: 2.5 million €), the subjects raised in

2003/04 have been continued, thus bringing forward the economically necessary and possible projects, which meet our claim to technological leadership. The wide range of know-how created during the last four years enables us to defend our technological leadership and to open up new fields of activities at the same time.

In the area of turbine blade coating, the construction of a new coating plant for power plant maintenance companies was brought forward. These plants are characterized by the fact that the productivity was adapted to the typically small lot sizes of repair companies. These plants offer high flexibility with regard to the parts mix, small storing space requirements, a high degree of automation and low investment cost.

A promising study with subsequent experimental protection was carried out in the field of bondcoats of turbine blades. The aim of this project is to establish an alternative to platinum electroplating, which is technically interesting as well as interesting in terms of cost, and thus to establish a new business segment in the area of coating technology.

The cooperation with the company Sandvik-Osprey in the field of spray compaction of high-quality alloys is flanked by an EU project with renowned European engine manufacturers with regard to R&D. Within the framework of this project, tests are run on university plants in Oxford, UK, and in Bremen, to optimize systems engineering or, respectively, process engineering.

Within the framework of the cooperation with Sandvik-Osprey, a plant for the production of "Billets" for special alloys was successfully delivered.

In the expired short financial year, the research and development activities in the area of heat treatment concentrated again on the further development of processes and plants for vacuum heat treatment and high-pressure gas quenching.

The main focus was on the further development of quenching technology for hardening gearbox parts of the automotive industry which are sensible to distortion. An engineering project carried out together with GM Powertrain, using the plants at ALD Thermal Treatment and the "Dynamic Quenching" process developed by ALD, was continued. The positive results are to be valued as a breakthrough for the introduction of the new heat treatment technology in this market segment.

In order to expand the application of the flexible ModulTherm[®] systems, alternative processes such as carburizing, soldering and de-oiling have been further developed together with customers. Corresponding tests have been carried out and the processes were released for production after their optimization.

Within the scope of technology management, market observations were carried out and new plant concepts were examined for the expansion of the existing product portfolio.

In this context, further considerations were made regarding the new "ChannelTherm[®]" system, which meets the demand for a higher component quality and production flexibility as well as the desire for a higher degree of automation in an ideal way. With this modular system, the change from a heat treatment adapted to large batches towards a component-adapted heat treatment is initiated, which on the one hand is characterized by a series of new and innovative heat treatment processes, and on the other hand by short treatment cycles, synchronized with the cycle of the production channel.

Employees

The short financial year was characterized by the implementation of the reconciliation of interests adopted in July 2004. Of the scheduled staff reduction by 105 employees, 74 employees had left ALD GmbH until December 31, 2004; further jobs will be reduced by adjusting the working hours (full time/part time work). Further adjustments will be carried out within the framework of partial retirement regulations and by not filling jobs which became vacant due to age-related retirements. In the meantime, all pending proceedings before labor court, which resulted as a consequence of the capacity adjustment and the reconciliation of interests, were won by ALD GmbH, except for one. Thus, the adjustment measures could largely be completed within the scheduled time and budget frame. The remaining employees affected by this capacity adjustment will retire in 2005.

The number of employees was reduced from 289 by 33 to 266 across all areas of operation as of the balance sheet date December 31, 2004. The Group employed 361 employees, following 367 in 2003/04. The increase in employees in subsidiaries and companies in which a participation is held is mainly due to a personnel build-up at ALD Thermal Treatment, where due to the legal provisions in the USA it is easier to approach capacity issues in the short term, even in the case of employed personnel.

Due to this economically tense situation, no salary adjustment has taken place in the business year 2003/04. Negotiations were entered into with the works council with regard to a regulation concerning the tariff increase which was not passed on, which had not been completed in the period under review.

In order to maintain the high qualification of our employees and to avoid endangering our market position in international competition, it is intended to continue the very demanding and intensive further education carried out in the last years in an economically reasonable manner on a low level.

3. Outlook

Due to the consolidation of the German activities of the Safeguard International Fund via PFW Beteiligungs AG, in 2004, two adjustments were due at ALD AG pursuant to company law. First, the business year, so far beginning on October 1 and ending on September 30, was changed to the calendar year. For this purpose, a short financial year was inserted from October 1 until December 31, 2004. Furthermore, a reconversion of ALD AG into a GmbH due to fiscal considerations in the USA was scheduled by Safeguard International Fund, which took place as of December 13, 2004.

The business development of ALD GmbH is mainly determined by the investment behavior of the industry. The increasing order inflow, which became already apparent in summer 2004 as a consequence of the continued high demand for special steels and other high-purity materials in China and the market upturn in Japan and the USA, continued at the end of the year 2004 and during the first months of 2005.

Due to the adjustment of personnel capacities adopted in summer 2004 and the installation of a leaner organizational structure, ALD GmbH has taken the correct position regarding the upturn, which became apparent in the markets served by ALD. After the personnel adjustment measures, which had largely been implemented after the end of December, the leaner structure already had an effect on costs of the expired short financial year, representing a considerable improvement in the competition for future contract placing. The calculative estimations of overheads could be reduced. The models of normative budget will continue to be implemented in future personnel planning, to achieve maximized flexibility in the area of fixed personnel costs. At the same time, the working time systems are intended to be further expanded with regard to flexibility, to be able to better face future fluctuations in business trends.

The work plan accompanying the personnel adjustment initiated in 2004, which was prepared by the consultancy firm REM AG, Stuttgart, with the aim to make internal processes easier, more efficient and cost effective, was continued and is intended to be completed by summer 2005. The improvement program "Phoenix", which was initiated in 2000, will be continued, while the focus will be changed from cost reduction measures towards more strategic goals and process improvements.

While planning the business year 2005 in summer 2004, the metallurgical industry expected a market upturn in the USA after the presidential elections, and an elimination of the investment backlog which had existed for years. Experiences made during the last months do not show a general upturn, but only partial special developments in the area of energy production. In Europe, the great demand for special steels in the steel industry has led to a surge in demand, which also continued in 2005. In Russia, there is still the slowly developing demand in the field of energy production. In Asia and especially in China, a moderate growth on a low level was expected. In this

area, after the weak business in 2004, an increase in business in China and Japan can be observed due to the technical reference of ALD GmbH despite the unfavorable exchange rate conditions. The conservative expectations in metallurgy from summer 2004 will be clearly exceeded from today's point of view. Due to the upcoming introduction of new 6-speed-transmissions, an increased demand was expected in the area of heat treatment by different automotive manufacturers, which is primarily realized in the North American area, following orders of two large components suppliers. Altogether, the management expects for 2005 sales according to US-GAAP in the amount of 68.2 million € at ALD GmbH and 82.4 million € in the Group.

In the area of the operational companies, an acquisition of the shares of HEAT GmbH in VACUHEAT GmbH is scheduled, which took place in March 2005. Thus, in 2005, VACUHEAT GmbH is wholly owned by the ALD Group.

Despite these positive signals, there are also risks in the future development of plant engineering. Especially in North America and Asia, already today, the exchange rate development has a clear negative effect on ALD GmbH with regard to its competitiveness and the attainable margins. In the areas with US competition in metallurgy (approx. 30 - 40 %), in the middle term, competitiveness may only be ensured through production and procurement possibilities in the US\$ area or in China, respectively. First considerations in this regard are already being made. In heat treatment, without US competitors, the exchange rate development may limit the use of the new heat treatment technology to technically necessary applications only.

Due to the measures initiated, which amongst other things further reduce overheads, a positive result according to US-GAAP is expected in the Group within the scope of the average values of the VDMA (3.5 %) for 2005. In 2005, a positive result according to HGB is also expected for ALD GmbH.

Hanau, April 14, 2005

Dr. Reinhard Walter	Werner Katzschner	Richard Seemann
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