ALD Vacuum Technologies GmbH
Hanau, Germany

Consolidated Financial Statements and
Group Management Report
as of December 31, 2005

AUDIT OPINION

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

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Mannheim, Germany, November 20, 2006

Ernst & Young
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Fluck	Horn
Wirtschäftsprüfer	Wirtschäftsprüfer
[German Public Auditor]	[German Public Auditor]

ALD Vacuum Technologies GmbH
Hanau, Germany

Consolidated Financial Statements
as of
December 31, 2005

Exhibit 1

ALD Vacuum Technologies GmbH, Hanau, Germany

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Exhibit 1

ALD Vacuum Technologies GmbH, Hanau, Germany

Consolidated Income Statement for Fiscal Year 2005

	Note	2005 Jan. 1 to Dec. 31 EUR k	2004 Jan. 1 to Dec. 31 EUR k
Revenues	(11)	**102.710**	**17.669**
Cost of sales	(12)	73.035	12.629
Gross profit		**29.675**	**5.040**
Selling expenses		9.623	2.404
General and administrative expenses		4.378	1.144
Research and development costs		1.516	287
Other operating expenses	(13)	4.188	1.553
Other operating income	(13)	2.807	732
Result from operations		**12.777**	**384**
Finance costs	(14)	1.823	377
Financial income	(15)	761	143
Financial result		**(1.062)**	**(234)**
Result from companies included using the equity method		(26)	(6)
Financial and investment result		**(1.088)**	**(240)**
Profit before income taxes		**11.689**	**144**
Income taxes	(16)	4.612	139
Profit for the period		**7.077**	**5**
Thereof attributable to:			
Shareholders of the parent company		7.077	(162)
Minority interests		0	167

The explanations in the notes are an integral part of these consolidated financial statements

Exhibit 1

ALD Vacuum Technologies GmbH, Hanau, Germany

Consolidated Balance Sheet as of December 31, 2005

	Note	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Assets			
Current assets		**81.630**	**49.816**
Cash	(18)	23.597	12.583
Trade receivables	(19)	13.475	6.126
Receivables from related parties	(19)	9.592	896
Receivables from long-term construction contracts	(19)	15.885	9.647
Current tax receivables		517	391
Other receivables and assets	(20)	8.528	13.834
Inventories	(21)	10.036	6.339
Non-current assets		**31.098**	**24.562**
Goodwill	(22)	5.861	0
Other intangible assets	(23)	3.459	3.157
Property, plant and equipment	(24)	15.676	14.357
Shares in companies included using the equity method	(25)	217	237
Other financial assets	(26)	168	168
Deferred tax assets	(16)	5.717	6.643
Total assets		**112.728**	**74.378**
Liabilities and equity			
Current liabilities		**41.820**	**25.012**
Current financial liabilities	(27)	976	4.871
Trade payables	(28)	11.048	8.186
Liabilities to customers from long-term construction contracts	(29)	16.007	3.711
Current provisions	(30)	4.639	2.478
Current tax liabilities	(31)	1.525	1.115
Other current liabilities	(32)	7.625	4.651
Non-current liabilities		**41.925**	**26.101**
Non-current liabilities	(33)	13.237	3.119
Pension provisions	(36)	17.536	16.648
Other non-current provisions	(30)	3.631	637
Deferred tax liabilities	(16)	7.521	5.697
Equity		**28.983**	**23.265**
Subscribed capital	(39)	7.863	7.863
Capital reserve	(40)	10.889	9.792
Foreign currency translation differences	(41)	(1.846)	(2.132)
Accumulated net profit		12.077	6.095
Total equity without minority interests		**28.983**	**21.618**
Minority interests		0	1.647
Total liabilities and equity		**112.728**	**74.378**

The explanations in the notes are an integral part of these consolidated financial statements

ALD Vacuum Technologies GmbH, Hanau, Germany

Consolidated Statement of Changes in Equity for Fiscal Year 2005

	Equity attributable to equity holder of the parent company						
	Subscribed capital	**Capital reserve**	**Currency translation difference**	**Accumulated net profit**	**Total**	**Minority interests**	**Total equity**
Note	**(39)**	**(40)**	**(41)**	**(41)**		**(8)**	
	EUR k	**EUR K**	**EUR K**	**EUR k**	**EUR k**	**EUR k**	**EUR k**
Oct. 1, 2004	**7.863**	**9.792**	**(1.760)**	**6.257**	22.152	**1.480**	**23.632**
Consolidated profit				(162)	(162)	167	5
Exchange rate differences			(372)		(372)		(372)
Dec. 31, 2004	**7.863**	**9.792**	**(2.132)**	**6.095**	21.618	**1.647**	**23.265**
Acquisition of minority interests					0	(1.647)	(1.647)
Consolidated profit				7.077	7.077		7.077
Reclassification to capital reserve		1.097		(1.097)	0		0
Exchange rate differences			286	2	288		288
Dec. 31, 2005	**7.863**	**10.889**	**(1.846)**	**12.077**	28.983	**0**	**28.983**

The explanations in the notes are an integral part of these consolidated financial statements

ALD Vacuum Technologies GmbH, Hanau, Germany

Consolidated Cash Flow Statement for Fiscal Year 2005

	Note	Jan. 1 to Dec. 31 EUR k	Oct. 1 to Dec. 31 EUR k
Profit/(loss) for the period		**7.077**	**(162)**
Interest income		(761)	(143)
Interest expense		1.823	377
Income taxes		4.612	139
Profit before interest and income taxes		**12.751**	**211**
Income taxes paid		(1.266)	(100)
Interest received		679	135
Amortization, depreciation and impairment losses on intangible assets and plant, property and equipment		2.706	617
Profit from measurement according to the equity method		26	6
Profit from the disposal of non-current assets		175	167
Change in other provisions		5.155	(5.021)
Change in pension provisions		(9)	3
Other non-cash expenses/income		(864)	(169)
Change in inventories		(3.697)	(1.120)
Change in trade receivables and other assets		(8.883)	(264)
Change in trade payables and other liabilities		13.741	4.629
Cash flows from operating activities		**20.514**	**(906)**
Cash received from the disposal of plant, property and equipment		10	0
Cash paid for investments in plant, property and equipment		(2.335)	(386)
Cash paid from investments in intangible assets		(834)	(48)
Cash paid for investments in financial assets		(4)	0
Cash paid for the acquisition minority interests in subsidiaries		(3.500)	0
Cash paid for shares in subsidiaries (prepayments)		(5.000)	0
Cash repayments of current loans		(3.000)	0
Cash flows from investing activities		**(14.663)**	**(434)**
Cash received from the raising of participation certificates		9.600	0
Cash repayments of loans		(4.944)	(645)
Cash received from the raising of loans		1.551	0
Interest paid		(843)	(140)
Cash flows from financing activities		**5.364**	**(785)**
Net change in cash and cash equivalents		**11.215**	**(2.125)**
Cash and cash equivalents at the beginning of the period		**12.584**	**14.327**
Change in cash and cash equivalents as a result of foreign exchange rates		(201)	382
Cash and cash equivalents at the end of the period	**(18)**	**23.598**	**12.584**

The explanations in the notes are an integral part of these consolidated financial statements

ALD Vacuum Technologies GmbH, Hanau, Germany

Notes to the Consolidated Financial Statements for Fiscal Year 2005

1. General

ALD Vacuum Technologies GmbH, Wilhelm-Rohn-Strasse 35, 63450 Hanau, Germany, hereinafter also referred to as "ALD" or the "Company", is a limited liability company under German law. It is registered at the local court of Hanau under HRB No. 91278.

The consolidated financial statements are presented in euros (EUR) as most group transactions are based on this currency. Where not stated otherwise, disclosures are made in thousands of euros (EUR k). We wish to point out that rounding amounts and percentages could result in rounding differences. The consolidated income statement has been prepared in accordance with the function of expense method.

The fiscal year of ALD Vacuum Technologies GmbH and the subsidiaries included in the consolidated financial statements is the calendar year (cf. abbreviated fiscal year from October 1 to December 31, 2004).

Due to the conversion of the fiscal year in 2004 to that of the parent company and the related interim abbreviated fiscal year (October 1 to December 31, 2004), the figures of fiscal year 2005 covering a twelve-month period (January 1 to December 31, 2005) are only comparable to the prior-year figures (income statement, cash flow statement) to a limited extent.

(a) Business Activities

ALD and its subsidiaries with business activities in the engineering and own & operate (O&O) divisions are referred to collectively as the "Group".

The business activities of the Group include the manufacture, operation, sale of and trade in plant and equipment as well as products, particularly in the following areas:

- Heat treatment and transmission, in particular for the purpose of hardening, soldering, sintering, annealing and cleaning;
- Metallurgic processes, in particular casting and melting processes;
- Coating technology and surface treatment technology; and
- The provision of services in these areas and all other business relating to activities in the abovementioned areas or which are suitable for the promotion thereof.

The engineering division mainly comprises the sale, construction, order processing, procurement, assembly and commissioning of the respective plant as well as related process technology and plant engineering equipment. ALD acts as a general contractor vis-à-vis its customers. It outsources the construction of plant to third parties. The O&O division provides technical services in the area of heat treatment, in particular vacuum heat treatment for plasma and vacuum carburizing operations.

Please see the notes on the consolidated group for a breakdown of the companies included in the consolidated financial statements by activity.

The Group has its headquarters in Hanau, Germany. The Group has operations in both leased and own premises.

(2) Ownership

On December 31, 2005, the Company was wholly owned by Pfalz-Flugzeugwerke GmbH, Speyer (hereinafter also referred to as "PFW"), Germany. The consolidated financial statements of PFW are included in the consolidated financial statements of PFW Acquisition GmbH, Speyer, Germany. The ultimate parent company is Safeguard International Fund L.P., Wayne, USA.

(3) Foreign Currency Translation

Transactions which are settled in currencies other than the functional currency are recorded in the separate financial statements at the exchange rate on the date of the transaction. Foreign currency monetary items (cash, receivables, liabilities) are translated at the closing rate on the respective balance sheet date. Non-monetary assets and liabilities denominated in foreign currency which are recorded at fair value are translated at the exchange rates on the date of determining the fair value. Gains and losses on translation are recognized in profit or loss.

The Group has five subsidiaries with registered offices outside the euro zone. These financial statements are translated into euros for consolidation purposes. The financial statements are translated on the basis of the functional currency concept in accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates" using the modified closing rate method.

Assets and liabilities are thus translated at the closing rate, equity at the historical rate and income and expenses at the average annual rate, except where there are significant fluctuations in exchange rates. Any exchange differences are transferred to the translation reserve (equity) of the Group. These translation differences are recognized in profit or loss upon disposal of the subsidiary.

Translation differences on net investments in foreign operations which are included in these consolidated financial statements are also disclosed separately under equity.

(4) Use of Estimates and Assumptions

In preparing the financial statements, management must make estimates and assumptions which have an effect on the items of the financial statements and the explanations to the financial statements. The actual developments may differ from these estimates and assumptions.

Areas requiring estimates include in particular the accounting for and measurement of work in process using the percentage-of-completion method, bad debt allowances, purchase price liabilities and other provisions.

To determine whether an agreement includes or is a lease transaction, the economic substance of the agreement must be considered and an estimate must be made as to whether the fulfillment of the agreement depends on the use of one or more specific assets and whether a right to use the asset is transferred under the agreement. The Group has concluded leases for machines and has determined that the lessor is exposed to all the significant risks and opportunities related to the ownership of these machines leased under operating leases.

Estimates and assumptions are also necessary to determine the recoverable amount of the Group's plant, property and equipment and intangible assets.

(5) Basis of Preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRSs) for the first time. The International Financial Reporting Standards (IFRSs) – formerly International Accounting Standards (IASs) – and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) – formerly Standing Interpretations Commitee (SIC) - which must be applied as issued by the International Accounting Standards Board (IASB) and as adopted by the EU for fiscal year 2005 were taken into consideration.

Reporting for fiscal year 2005 follows the standards which must be applied and gives a true and fair view of the net assets, financial position and results of operations.

Since these consolidated financial statements have been published in accordance with IFRSs for the first time, all standards and interpretations have been applied in the version valid at the balance sheet date from the date of transition (October 1, 2004).

These IFRS consolidated financial statements comply with the accounting directive of the European Union (Directive 83/349/EEC) and the IFRSs.

Until December 31, 2004, the Company had prepared its consolidated financial statements in accordance with United States Generally Accepted Accounting Principles (US GAAP).

The Group has not applied the standards and IFRIC interpretations that have been issued but are not yet effective. It will apply these standards and interpretations when they become mandatory. Group management is examining the effect of the standards that have been issued but are not yet effective. There was no outcome at the time of publishing these financial statements. The standards and interpretations that have been issued but are not yet effective are differentiated as follows:

IFRSs and IFRIC interpretations adopted by the EU within the scope of the comitology procedure which are not yet effective:

Standards and interpretations for which revised versions are applicable for fiscal years beginning on or after January 1, 2006:

- Amendments to IAS 19 - Employee Benefits
- Amendments to IAS 21 - The Effects of Changes in Foreign Exchange Rates
- Amendments to IAS 39 - Fair Value Option and Cash Flow Accounting
- Amendments to IAS 39 and IFRS 4 - Financial Guarantee Contracts
- IFRIC 4 - Determining Whether an Arrangement Contains a Lease
- IFRIC 5 - Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

Standards and interpretations for which revised versions are applicable for fiscal years beginning on or after January 1, 2007:

- Amendments to IAS 1 - Presentation of Financial Statements
- IFRS 7 - Financial Instruments: Disclosures
- IFRIC 7 - Applying the Restatement Approach under IAS 29, “Financial Reporting in Hyperinflationary Economies”
- IFRIC 8 - Scope of IFRS 2
- IFRIC 9 - Reassessment of Embedded Derivatives

IFRS and IFRIC interpretations not yet effective and no yet adopted by the EU within the scope of the comitology procedure:

Standards and interpretations for which revised versions are applicable for fiscal years beginning on or after October 1, 2006:

- IFRIC 10 - Interim Reporting and Impairment Losses

Standards and interpretations for which revised versions are applicable for fiscal years beginning on or after March 1, 2007:

- IFRIC 11 – Intercompany Transactions and Transactions With Treasury Shares Pursuant to IFRS 2

[6] Consolidated Entities

Besides ALD Vacuum Technologies GmbH, these consolidated financial statements include all significant subsidiaries and two associates.

Subsidiaries

All significant subsidiaries to which ALD Vacuum Technologies GmbH is entitled to the majority of voting rights (control) are fully consolidated. The following companies were included in the consolidated financial statements as of December 31, 2005 on the basis on full consolidation:

Name	Registered office	Dec. 31, 2005 Share in capital	Dec. 31, 2004
ALD Vacuum Technologies GmbH	Hanau, Germany	Group parent company	Group parent company
ALD Vacuum Technologies, Inc.	Enfield, USA	100%	100%
ALD Vacuum Technologies Ltd.	Guildford, UK	100%	100%
ALD Thermo Technologies Far East Co., Ltd.	Tokyo, Japan	100%	100%
ALD Lindgren, Inc.	Concord, Canada	100%	100%
ALD Own & Operate GmbH	Hanau, Germany	100%	100%
ALD Thermal Treatment, Inc.	Colombia, USA	100%	100%
VACUHEAT GmbH	Limbach-Oberfrohna, Germany	100%	50,02%
VACUHEAT Verwaltungsgesellschaft mbH	Hanau, Germany	100%	100%

The following entity was not consolidated due to immateriality:

Name	Registered office	Dec. 31, 2005 Share in capital	Dec. 31, 2004
ALD Vakuumyje Technologii OOO	Moscow, Russia	100%	------

The entity was formed at the end of the fiscal year and has not yet commenced operations.

Joint Ventures

Companies managed jointly with one or more partners without control being exercised are shown as joint ventures. Joint ventures are included in the consolidated financial statements using the equity method. The consolidated financial statements include the following two joint ventures in which ALD Vacuum Technologies GmbH has a 50% holding:

Name	Registered office	Dec. 31, 2005 Share in capital	Dec. 31, 2004
EsteR GmbH	Hanau, Germany	50%	50%
ALD Holcroft Vacuum Technologies Co., Inc.	Wixom, USA	50%	-------

Breakdown of the Entities Included in the Consolidated Financial Statements By Activity

Engineering	Own & Operate
Fully consolidated:	**Fully consolidated:**
ALD Vacuum Technologies GmbH	ALD Own & Operate GmbH
ALD Vacuum Technologies, Inc.	ALD Thermal Treatment, Inc.
ALD Vacuum Technologies Ltd.	VACUHEAT GmbH
ALD Thermo Technologies Far East Co., Ltd.	VACUHEAT Verwaltungsgesellschaft mbH
ALD Lindgren, Inc.	
Consolidated using the equity method:	**Consolidated using the equity method:**
ALD Holcroft Vacuum Technologies Co., Inc.	EsteR GmbH

(7) Principles of Consolidation

Capital consolidation is performed in accordance with IFRS 3. For capital consolidation, the acquisition costs of the investments are offset against the fair values of the acquired assets, liabilities and contingent liabilities. Any remaining debit difference is recognized as goodwill and tested for impairment at least once a year. Any remaining credit difference is recognized in profit or loss following a review of the fair values of the acquired assets and liabilities. For an acquisition of less than 100% of shares, the acquisition cost of an investment is offset against the proportionate fair values of the acquired assets and liabilities. Minority interests, including the portion of profits and losses attributable to them, are disclosed under equity in the amount of the remaining fair values.

Differences in the fair values of investments in joint ventures are offset using the same principles and are adjusted to the group-wide accounting principles. Consolidation is performed using the equity method pursuant to IAS 28.

Intercompany profits or losses, revenues, income and expenses, as well as receivables and liabilities between consolidated entities are eliminated. If a group entity executes a transaction with a joint venture, the resulting profits or losses are eliminated in accordance with the Group's investment in the joint venture.

(8) Acquisitions in the Fiscal Year

In August 2005, the Group acquired 50% in ALD Holcroft Vacuum Technologies Co., Inc., Wixom, USA, which was formed in 2005. The share in capital amounts to 50%. The purchase price was USD 5,000. The entity is carried at equity. ALD and AFC Holcroft LLC, Wixom, USA, are under joint control. The full purchase price was settled in cash.

Acquisition of Minority Interests

In March 2005, the Company increased its investment in VACUHEAT GmbH by 49.97%. The share in capital now amounts to 100%. The cost of the purchase is estimated at EUR 7,500k. This comprises a fixed component of EUR 3,500k and a variable portion, which depends on the performance of VACUHEAT in subsequent years (until 2008). EUR 3,500k of the acquisition cost was settled with cash.

(9) Transition to Accounting Under IFRSs

Until December 31, 2004, group accounting and reporting was in compliance with US GAAP. Since the beginning of fiscal year 2005, the Group's accounting and reporting follows International Financial Reporting Standards (IFRSs). The consolidated financial statements as of December 31, 2005 are therefore the first financial statements which the ALD Group has prepared in accordance with IFRSs.

Adjustments necessary for the transition from US GAAP to IFRSs were recognized directly in the item retained earnings disclosed under equity, where required by adjusting the capital reserve.

The Company used the simplifications for the following: pensions, business combinations, exchange rate differences.

The effects of the conversion of accounting from US GAAP to IFRSs on the net assets, financial position and results of operations in the consolidated financial statements will be shown as of the date of the transition to IFRSs on October 1, 2004 and December 31, 2004, as the last financial statements in accordance with GAAP were prepared on this date.

Reconciliation of Equity of the Parent Company From US GAAP to IFRSs	**Dec. 31, 2004 EUR k**	**Oct. 1, 2004 EUR k**
Equity in accordance with US GAAP	**21.426**	**22.278**
Non-current assets	355	388
Other non-current assets	168	170
Receivables	(25)	119
Pension provisions	345	(588)
Provision for phased retirement	(26)	(490)
Other current liabilities	206	426
Deferred taxes	(737)	(210)
Other	(94)	59

Reconciliation of consolidated profit/loss of the parent company for the period	**01.10.-31.12.2004 T€**
Consolidated profit/loss in accordance with US GAAP	**473**
Revenues	44
Cost of sales	-356
Selling expenses	-26
Administrative expenses	-2
Deferred taxes	-508
Minority interests in profit/loss	213
Consolidated profit/loss in accordance with IFRSs	**-162**

<u>Non-current assets</u>

The useful lives were adjusted for the transition to IFRSs as of October 1, 2004. This resulted in differences as compared to US GAAP.

<u>Other non-current financial assets</u>

The difference in other non-current financial assets relates to a write-down reversal, which could not be recognized under US GAAP.

Receivables

Differences in receivables mainly relate to receivables from long-term construction contracts.

Pension provisions

Differences in provisions mainly relate to the fact that the option had been used in the IFRS opening balance sheet as of October 1, 2004 to set all previously accumulated actuarial gains and losses to zero.

Provision for phased retirement

Differences in the provision for phased retirement were due in particular to the different treatment of the top-up amounts and the accounting treatment of expected utilization from phased retirement commitments.

Other current liabilities

Differences in other current liabilities mainly relate to two operating sale and leaseback agreements, which under US GAAP were recognized in profit or loss over the term of the lease whereas IFRSs stipulate immediate recognition.

Cash flow statement

The preparation of the cash flow statement in accordance with IFRSs did not result in any significant changes compared to US GAAP.

(10) Authorization for Issue of the Consolidated Financial Statements

Management authorized the consolidated financial statements prepared as of December 31, 2005 for issue on November 12, 2006.

2. Accounting Policies

The accounting policies used in the consolidated financial statements are presented below. These explanations provide further details on the individual items of the consolidated income statement and consolidated balance sheet including the respective figures. The consolidated financial statements have been prepared on a historical cost basis

Revenue Recognition

The Company mainly generates revenues and income from the sale of plant and equipment for vacuum heat treatment and vacuum metallurgy as well as for plant operations at operator companies.

Plant and equipment are sold on the basis of signed contracts between the Company and the respective customer. Revenues from long-term construction contracts are recognized pursuant to IAS 11 (Construction Contracts) since it is possible to reliably estimate the outcome of the contract, the products for delivery, the payment conditions and the manner of settlement is explicitly defined in the contracts and both the buyer and seller consider fulfillment of the contractual agreements to be probable. The stage of completion is calculated based on the proportion of costs incurred for the work performed to date to the estimated total cost. Anticipated losses from long-term construction contracts are posted immediately as an expense in full.

The percentage-of-completion method is based on estimates. Due to the uncertainties entailed, subsequent adjustment of the estimates of the expense required to complete, including expenses for contractual penalties and warranties, may be required. Such adjustments of expenses and income are disclosed in the period in which the adjustment requirement is identified. Provisions for potential losses are recognized in the period in which the losses become apparent.

Contract costs and proportional profits from long-term construction contracts measured using the percentage-of-completion method are disclosed under the item “Receivables from long-term construction contracts not yet billed” after deducting the prepayments received for the respective contract. They are measured at contract costs less a proportion of profit in accordance with the stage of completion. Customer prepayments in excess of receivables from long-term construction contracts incurred as of the balance sheet date and not yet recognized are disclosed under “Prepayments received”.

As part of operator business, services are rendered to customers on a contractual basis. Profits are recognized in accordance with the service rendered.

Replacement part deliveries are recognized as revenue following delivery and transfer of the risks of ownership.

Expense Recognition

The transaction costs and operating expenses are recognized when a service is used or when the costs are incurred.

Research and Development

Research costs and development costs which may not be capitalized are reported in profit or loss as they are incurred. The prerequisites for capitalizing development costs were not met when the development projects were carried out.

Trade Receivables/Receivables From Related Parties

Trade receivables are stated at nominal value. Allowances have been made for identifiable risks.

The Group reviews its debtors on a regular basis in order to reduce its credit exposure. Management is responsible for assessing whether individual debtor accounts are overdue or in arrears. The Group evaluates the recoverability of receivables using a combination of several factors. If the Group becomes aware of circumstances which could affect the ability of a specific customer to meet its financial obligations, it recognizes a specific bad debt allowance and reduces the net receivables recorded to the amount it deems recoverable. The hedging of political and economic risks to receivables is regulated by guidelines and is ensured by means of German and foreign credit insurance policies, such as Hermes AG and COFACE SA.

Income Taxes/Deferred Taxes

The income tax expense is composed of the current tax expense and deferred taxes.

The current tax expense is calculated on the basis of the taxable annual income. The Group's liability for the current tax expense is calculated using the applicable tax rates.

Deferred taxes are measured using the liability method in accordance with IAS 12, "Income Taxes". This means that, except for goodwill arising on consolidation, deferred taxes are recognized for all temporary differences between the carrying amounts of assets and liabilities in the IFRS statements and tax base regardless of the period within which the differences will balance out. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred tax assets are recognized on loss carryforwards to the extent that their utilization is probable.

Borrowing Costs

All borrowing costs are recognized as an expense in the period in which they are incurred.

Inventories

Raw materials, consumables and supplies and merchandise are recorded at the lower of cost or the net sales proceeds.

Finished goods are measured at the lower of cost or the net sales proceeds. Cost includes cost of direct materials and labor, the required materials and labor overheads, special production costs and the depreciation of non-current assets to the extent caused by the production process. It also includes expenses for welfare facilities, administrative expenses and voluntary employee benefits to the extent that they relate to materials and production.

Goodwill

The goodwill arising on consolidation represents the excess of the cost of an acquisition over the Group's interest in the fair value of the net identifiable assets, liabilities and contingent liabilities at the time of acquisition.

The carrying amount of goodwill as of December 31, 2005 was EUR 5,861 k (prior year: EUR 0k).

Other Intangible Assets

The balance sheet item "Other intangible assets" contains licenses, rights of use, contractual rights and software acquired for a consideration.

The Company uses the following amortization methods and useful lives:

Intangible assets	Amortization method	Useful lives
Software	straight-line	3 to 5 years
Rights of use	straight-line	5 years

Property, Plant and Equipment

Property, plant and equipment are carried at cost less depreciation. Disposals are recorded both under the historical cost and under the accumulated depreciation expense. Gains or losses on the disposal of fixed assets are disclosed under other operating income or expenses.

The Group tests property, plant and equipment for impairment on a regular basis (cf. "Impairment of Property, Plant and Equipment and Intangible Assets").

The Company uses the following depreciation methods and useful lives:

Property, plant and equipment	Depreciation method	Useful lives
Plant and machines	straight-line	10 to 13 years
Buildings, extensions, alterations and additions	straight-line	10 to 25 years
Other plant and equipment	straight-line	3 to 13 years

Government Grants

Government grants are recognized if there is reasonable assurance that the grants will be received and the entity will comply with all the conditions attaching to them. Government investment grants are deducted from the cost of the subsidized assets (2005: EUR 251k; prior year: EUR 0k). Grants relating to an expense item are recognized as income over the period necessary to match the grants on a systematic basis to the costs that they are intended to compensate. The grants can be withdrawn with retroactive effect if the conditions for the grant are not met over a defined period. Research grants of EUR 73k (prior year: EUR 155k) were recognized immediately in profit or loss.

Investments in Entities Accounted for Using the Equity Method

The investments in joint ventures are accounted for using the equity method. The investments are carried in the balance sheet plus post-acquisition changes in the Group's share of net assets. Goodwill relating to an entity included using the equity method is included in the carrying amount of the investment and is not amortized. Under the equity method, the Group establishes whether an additional impairment loss must be recognized on its net investment. The income statement reflects the Group's share in the profit or loss of the entity (disclosed under "Result from entities included using the equity method"). The entities included using the equity method and the Group use identical accounting policies.

Impairment of Non-Current Assets

Goodwill is recorded as an asset and is tested for impairment at least annually. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More details are given in Note (22). Any impairment loss is recognized immediately in profit or loss and may not be subsequently reversed.

A test for impairment is carried out at least annually for goodwill, and only if there is a concrete indication of impairment for other intangible assets with finite useful lives and for property, plant and equipment. An impairment loss is recognized in profit or loss if the asset's carrying amount exceeds its recoverable amount. The recoverable amount is determined individually for each asset. If this is not possible, it is determined on the basis of a group of assets which largely generate independent cash flows. The recoverable amount of an asset is the higher of its net selling price and its value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs to sell the asset. The value in use is calculated on the basis of the estimated future cash flow from the use of the asset and its disposal using the discounted cash flow method. The cash flows are derived from the long-term business plans taking current developments into account. They are discounted to the balance sheet date using risk-adjusted capitalization rates (before tax).

If the reason for an impairment loss charged in prior years no longer exists, the asset (with the exception of goodwill) is written up to the carrying amount at most.

Available-for-Sale Securities

Available-for-sale securities are measured at fair value. Unrealized gains and losses on subsequent measurement are recognized less deferred taxes as a separate component of equity until the security is sold or determined to be impaired.

Available-for-sale securities, for which there is no active market and it is not possible to reliably calculate the fair value, are measured at cost. Financial assets are subject to a regular impairment test if there are indications of permanent impairment and any impairment loss is recognized immediately in profit or loss. Any loss previously recognized in equity for available-for-sale securities is then also recognized in profit or loss. In the case of debt instruments, any reversal of this impairment at a subsequent date is accounted for through a write-up with an effect on profit or loss. Equity instruments are written up directly in equity.

Provisions

Provisions are recognized if a present obligation toward a third party as a result of a past event exists which will probably result in a future outflow of resources, and whose amount can be reasonably estimated. This means that there must be a probability of more than 50%. Provisions are only recognized for a legal or constructive obligation to the third party.

Provisions that are not expected to lead to an outflow of resources in the subsequent year are carried at their discounted settlement amount on the balance sheet date if the interest effect is significant. A pre-tax discount rate is used which reflects current market assessments with regard to the time value of money and the risks specific to the liability. The settlement amount also includes the expected cost increases.

Provisions may not be offset against contingent assets.

Pension Provisions

The actuarial measurement of pension provisions is based on the projected unit credit method prescribed by IAS 19 for benefit commitments for old-age pensions (projected unit credit method). This method takes into account the pensions known and expectancies earned by the employees as of the balance sheet date as well as the increases in salaries and pensions to be expected in the future. The pension provisions are calculated based on actuarial reports taking biometric bases of calculation into account. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the prior reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets (if any) at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans. The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

In the opening balance sheet as of October 1, 2004 the option from IFRS 1 of recognizing all actuarial gains and losses directly in equity was exercised. The interest portion contained in the pension expenses is shown in the financial result. Current service cost is determined for each individual and allocated directly to the functional areas cost of sales, research and development costs, selling expenses and general and administrative expenses.

Termination Benefits

The Group has concluded phased retirement agreements with employees on the basis of the "block model" commonly used in Germany. Under this model, the employee's remaining period of service is divided into a work phase with regular working hours and a subsequent release phase of the same length. Employee compensation during phased retirement comprises 50% of the employee's regular salary plus a top-up amount and contributions to statutory pension insurance.

The top-up amount as severance payment is measured at actuarial present value, taking into account the potential discontinuation of the obligation both prior to phased retirement and in the release phase as a result of invalidity or death of the beneficiary. Salaries that are earned during the work phase are measured at the amounts payable discounted as of the balance sheet date.

Financial Instruments

Pursuant to IAS 39, a financial instrument is any contract that gives rise to both a financial asset for one entity and a financial liability or equity instrument for another entity. If the trade date and the settlement date differ for financial assets, the settlement date is used for first-time recognition. Financial instruments are initially measured at cost. Subsequently, financial instruments are recognized at either fair value or amortized cost. For the purpose of measurement, IAS 39 classifies financial assets as follows:

- Financial instruments at fair value through profit or loss
- Held-to-maturity financial investments
- Loans and receivables
- Available-for-sale securities

Financial liabilities, in contrast, are allocated to two categories:

- Held-for-trading financial assets recognized at fair value through profit or loss; and
- Other liabilities.

Depending on how the financial instruments are categorized, they are measured at either fair value or amortized cost using the effective interest rate method. The fair value of financial instruments that are actively traded is the market price. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include, for example, recognized option pricing models or discounting cash flows using the market interest rate. Amortized cost is cost minus principal repayments, impairment and plus or minus the cumulative amortization of any difference between that initial amount and the maturity amount.

Unless otherwise stated, the fair value of current financial instruments, cash, cash equivalents, receivables from long-term construction contracts not yet billed and trade payables corresponds to the nominal values due to the their short-term nature.

The market value of other non-current liabilities largely corresponds to the nominal value as discounting is performed at capital market rates.

Derivative Financial Instruments

Derivative financial instruments (forward exchange contracts and swaps) are used for hedging purposes only in order to reduce currency and interest risks arising from operations as well as the resulting financing requirements.

In accordance with IAS 39, all derivative financial instruments are accounted for at fair value irrespective of the purpose or the intention for which they were concluded. Changes in the fair value of the derivative financial instruments for which hedge accounting is used are disclosed in profit or loss as the financial instruments are exclusively fair value hedges.

In a fair value hedge, derivatives are used to hedge balance sheet items. The gains or losses from the measurement of derivatives at fair value and the related underlying contracts are recognized in profit or loss.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased asset, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. All other leases where the lessor retains beneficial ownership are classified as operating leases.

The rent payments from the Group's operating leases are recognized in profit or loss. The Group does not account for these leased assets.

Gains and losses on sale-and-leaseback transactions which result in an operating lease and for which the transaction is performed at fair value are recognized immediately in profit or loss.

3. Notes to the Consolidated Income Statement

(11) Revenues

The Group generates its revenues mainly from the sale of plant and equipment. It also provides services, supplies replacement parts and services its own equipment for customers. Revenues break down as follows:

Revenues	2005 EUR k	2004 EUR k
Revenues from construction contracts	73.553	11.215
Sale of replacement parts	15.146	3.429
Custom manufacturing	14.011	3.025
Total	**102.710**	**17.669**

Revenues break down into domestic and foreign revenues as follows:

Revenues	2005 EUR k	2004 EUR k
Germany	19.634	5.538
Other countries	83.076	12.131
Total	**102.710**	**17.669**

(12) Cost of Sales

The cost of the goods and services sold is disclosed under cost of sales. In addition to directly allocable costs such as material, personnel and energy costs, it also includes production and material overheads, write-downs, expenses for welfare facilities and administrative expenses to the extent that relate to materials and production.

(13) Other Operating Expenses/Income

Other operating expenses/income	2005 EUR k	2004 EUR k
Other operating expenses	4.271	1.574
Other operating income	2.807	732
Total	**(1.464)**	**(842)**

Other operating expenses	2005 EUR k	2004 EUR k
Expenses for services	902	391
Expenses from the allocation to provisions	826	0
Bank charges	521	104
Cost allocations	370	190
Specific bad debt allowances	332	0
Miscellaneous other operating expenses	1.237	868
Total	**4.188**	**1.553**

The expenses for services relate to expenses for the HR and accounting departments to the extent that these are connected to the provisions of services to third parties (payroll accounting).

Other operating income	2005 EUR k	2004 EUR k
Exchange gains	1.183	0
Services	868	353
License revenues	371	0
Miscellaneous other operating income	385	379
Total	**2.807**	**732**

Income from services is generated from services (payroll accounting) provided to third parties. The miscellaneous other operating income is mainly attributable to the elimination of a liability to a related party.

(14) Finance Costs

Interest expenses	EUR k	EUR k
Interest expenses from allocations to pensions	897	216
Interest expenses to banks	504	140
Interest expenses from participation certificates	302	0
Guarantee commissions	83	21
Other interest expenses	37	0
Total	**1.823**	**377**

(15) Finance Income

Interest income	2005 EUR k	2004 EUR k
Interest income from banks	472	70
Interest income from loans	266	8
Interest income from overdraft facilities	23	65
Total	**761**	**143**

(16) Income Taxes

German trade tax on earnings is levied on an entity's taxable profit after deduction of certain income that is not liable to trade tax and addition of certain expenses that are not deductible for the purposes of trade tax on earnings. The effective trade tax rate depends on the local community in which the entity is registered. The average trade tax rate charged on corporate income is approximately 18%. Trade tax on income can be offset against corporate income tax.

Corporate income tax in Germany is charged at 25%. A solidarity surcharge of 5.5 % of the assessed corporate income tax is also charged.

Deferred taxes were calculated mainly due to differences in the accounting standards, in particular for inventories, receivables and provisions arising from application of the completed-contract method as opposed to the percentage-of-completion method (PoC) as well as different methods for measuring the pension obligations. If the realization of the deferred tax assets is not probable, an impairment loss is charged. Deferred tax assets were also recognized on tax loss carryforwards.

A combined tax rate of 39.65% was applied in the fiscal year (prior year: 39.65%).

The following table shows the carryforward period for tax loss carryforwards:

Entity	Carryforward period
Germany	unlimited
USA	15 years

In Germany there are loss carryforwards for corporate income tax of EUR 3.7m (prior year: EUR 7.1m) and loss carryforwards for trade tax of EUR 3.8m (prior year: EUR 7.0m). In the US, there are tax loss carryforwards of USD 6.6m (prior year: USD 5.1m).

Deferred tax assets and liabilities are due to accounting differences for the following items:

	Deferred tax assets		Deferred tax liabilities	
	2005	2004	2005	2004
Allocation of deferred taxes	**EUR k**	**EUR k**	**EUR k**	**EUR k**
Inventories	14.138	10.177	0	138
Tax loss carryforwards	3.328	4.460	0	0
Pension provisions	2.247	2.079	669	669
Exchange gains/losses (various items)	1.724	926	608	530
Liabilities from long-term construction contracts	1.111	1.089	0	0
Other provisions	542	280	202	34
Receivables from long-term construction contracts	0	0	21.540	15.426
Non-current assets	0	3	1.630	1.240
Other	137	117	383	148
Subtotal	**23.227**	**19.131**	**25.031**	**18.185**
Netting*	(17.510)	(12.488)	(17.510)	(12.488)
Deferred taxed according to the consolidated balance sheet	**5.717**	**6.643**	**7.521**	**5.697**

* Pursuant to IAS 12, deferred tax assets and liabilities due to /from the same tax authority are netted if certain criteria are met.

Deferred taxes and current expenses for income taxes break down as follows for the fiscal years:

Current and deferred taxes	2005 EUR k	2004 EUR k
Current tax expense	2.227	24
Deferred tax expense	2.385	115
Total	**4.612**	**139**

The following table shows the tax reconciliation of the income tax expense expected in the respective fiscal year to the current income tax income/expense disclosed. The expected tax income was calculated by multiplying the group tax rate of 39.65% (prior year: 39.65%) valid in fiscal year 2005 by the profit before taxes.

Tax reconciliation	2005 EUR k	2004 EUR k
Profit before taxes	11.689	144
Group tax rate (%)	39,65%	39,65%
Expected tax expense/(income)	4.635	57
Effects from tax rate differences	(161)	35
Non-deductible expenses	158	0
Tax-free income	(104)	(21)
Other differences	84	68
Total tax expense	**4.612**	**139**
Effective tax expense	39,45%	96,33%

4. Notes to the Consolidated Balance Sheet

(18) Cash and Cash Equivalents

Cash and cash equivalents mainly comprise time deposits (with terms of less than three months) and bank balances. Cash and cash equivalents of EUR 4,830k (prior year: EUR 6,291k) serve as collateral for guarantee credits (mainly prepayment guarantees), guarantees and forward exchange contracts. Due to the restriction on disposal, they are disclosed under the item (20) "Other receivables and assets".

(19) Receivables

Receivables	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Trade receivables	13.942	6.739
Receivables from long-term construction contracts	15.885	9.647
Receivables form related parties	9.592	896
Less bad debt allowances	(467)	(613)
Total	**38.952**	**16.669**

Receivables by region	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Receivables Germany	3.489	7.707
Receivables other countries	35.930	9.575
Less bad debt allowances	(467)	(613)
Total	**38.952**	**16.669**

Trade Receivables

	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Trade receivables	13.942	6.739
Less bad debt allowances	(467)	(613)
Total	**13.475**	**6.126**

Receivables From Related Parties

	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Associates		
Safeguard International Fund PFW, LLC	5.752	0
ALD International, LLC.	3.000	0
GfE Gesellschaft für Elektrometallurgie mbH	290	326
PFW Technologies GmbH	200	370
Safeguard International Fund, LP	158	0
	9.400	**696**
Other related parties		
ALD Holcroft Vacuum Technologies Co.	163	0
EsteR GmbH	29	200
	192	**200**
Total	**9.592**	**896**

Receivables From Long-Term Construction Contracts

The receivables from construction contracts under non-current business accounted for using the PoC method and not yet billed break down as follows:

	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Contract costs including for winning the contract	54.181	38.906
Payments received	(38.296)	(29.259)
Long-term construction contracts accounted for using the PoC method and not yet billed	**15.885**	**9.647**

Advance payments received of EUR 16,007k (prior year: EUR 3,711k) – for contracts for which the payments received exceed the contract costs incurred plus the share of profit – are disclosed under “Liabilities to customers from long-term construction contracts”.

(20) Other Receivables and Assets

Other current assets	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Time deposits (collateral)	4.830	6.291
Tax receivables	828	359
Closing rate measurement of derivatives	824	30
Advance payments for commissions	604	623
Receivables from assumption of costs	264	0
Prepayments for maintenance, insurances, etc.	244	249
Advance payments made on services	133	183
Receivables from insurers from damage claims	81	244
Receivables from employees	34	128
Receivables from the sale of shares	0	3.019
Receivable from the Federal Administration Office	0	1.882
Loans extended to third parties	0	500
Other	686	326
Total	**8.528**	**13.834**

(21) Inventories

Inventories	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Raw materials, consumables and supplies	3.364	2.942
Work in process and merchandise	3.424	2.019
Advance payments made	3.248	1.378
Total	**10.036**	**6.339**

The advance payments made exclusively comprise advance payments to suppliers.

Raw materials, consumables and supplies	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Raw materials, consumables and supplies (before impairment)	4.203	3.662
Impairment losses	(839)	(720)
Total	**3.364**	**2.942**

Work in process	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Work in process (not related to contracts)	2.984	1.198
Merchandise	483	859
Impairment losses	(43)	(38)
Total	**3.424**	**2.019**

In the fiscal year, impairment losses of EUR 218k (prior year: EUR 31k) were recognized in profit or loss.

Inventories of EUR 3,670k (prior year: EUR 3,628k) are carried at the net sales proceeds.

(22) Goodwill

The goodwill disclosed results from the sale of the remaining shares of VACUHEAT GmbH. Please see section (8) of these notes for further details.

Acquisition and production cost 2005	Jan. 1, 2005 EUR k	Additions EUR k	Disposals EUR k	Exchange differences EUR k	Dec. 31, 2005 EUR k
Goodwill	0	5.861	0	0	5.861
Total	**0**	**5.861**	**0**	**0**	**5.861**

Accumulated amortization and impairment losses for 2005	Jan. 1, 2005 EUR k	Additions EUR k	Disposals EUR k	Exchange differences EUR k	Dec. 31, 2005 EUR k
Goodwill	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**

Net carrying amounts for 2005	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Goodwill	5.861	0
Total	**5.861**	**0**

(23) Other Intangible Assets

Acquisition and production cost 2005	Jan. 1, 2005 EUR k	Additions EUR k	Disposals EUR k	Exchange differences EUR k	Dec. 31, 2005 EUR k
Franchises, industrial rights, licenses and similar rights	7.465	834	279	297	8.317
Total	**7.465**	**834**	**279**	**297**	**8.317**

Accumulated amortization and impairment losses for 2005	Jan. 1, 2005 EUR k	Additions EUR k	Disposals EUR k	Exchange differences EUR k	Dec. 31, 2005 EUR k
Franchises, industrial rights, licenses and similar rights	4.308	723	261	88	4.858
Total	**4.308**	**723**	**261**	**88**	**4.858**

Net carrying amounts 2005	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Franchises, industrial rights, licenses and similar rights	3.459	3.157
Total	**3.459**	**3.157**

Acquisition and production cost for 2004	Oct. 1, 2004 EUR k	Additions EUR k	Disposals EUR k	Exchange differences EUR k	Dec. 31, 2004 EUR k
Franchises, industrial rights, licenses and similar rights	7.584	48	73	(94)	7.465
Total	**7.584**	**48**	**73**	**(94)**	**7.465**

Accumulated amortization and impairment losses for 2004	Oct. 1, 2004 EUR k	Additions EUR k	Disposals EUR k	Exchange differences EUR k	Dec. 31, 2004 EUR k
Franchises, industrial rights, licenses and similar rights	4.229	152	52	(21)	4.308
Total	**4.229**	**152**	**52**	**(21)**	**4.308**

Net carrying amounts for 2004	Dec. 31, 2004	Oct. 1, 2004
	EUR k	EUR k
Franchises, industrial rights, licenses and similar rights	3.157	3.355
Total	**3.157**	**3.355**

Amortization and impairment losses for intangible assets are mainly part of the cost of sales, selling expenses and general and administrative expenses.

(24) Property, Plant and Equipment

Acquisition and production cost 2005	Jan. 1, 2005	Additions	Disposals	Exchange differences	Dec. 31, 2005
	EUR k	EUR k	EUR k	EUR k	EUR k
Land and buildings	4.163	77	0	251	4.491
Plant and machinery	12.563	595	0	1.041	14.199
Other plant and equipment	5.979	432	1.500	124	5.035
Advance payments and assets under construction	60	1.231	25	5	1.271
Total	**22.765**	**2.335**	**1.525**	**1.421**	**24.996**

Accumulated amortization, depreciation and impairment losses for 2005	Jan. 1, 2005	Additions	Disposals	Exchange differences	Dec. 31, 2005
	EUR k	EUR k	EUR k	EUR k	EUR k
Land and buildings	429	144	0	13	586
Plant and machinery	3.496	1.361	18	235	5.074
Other plant and equipment	4.484	478	1.340	38	3.660
Advance payments and assets under construction	0	0	0	0	0
Total	**8.409**	**1.983**	**1.358**	**286**	**9.320**

Net carrying amounts for 2005	Dec. 31, 2005	Dec. 31, 2004
	EUR k	EUR k
Land and buildings	3.905	3.735
Plant and machinery	9.125	9.067
Other plant and equipment	1.375	1.495
Advance payment and assets under construction	1.271	60
Total	**15.676**	**14.357**

Acquisition and production cost for 2004	Oct. 1, 2004	Additions	Disposals	Exchange differences	Dec. 31, 2004
	EUR k	EUR k	EUR k	EUR k	EUR k
Land and buildings	4.262	74	0	(173)	4.163
Plant and machinery	13.143	121	0	(701)	12.563
Other plant and equipment	6.043	92	117	(39)	5.979
Advance payments and assets under construction	127	99	155	(11)	60
Total	**23.575**	**386**	**272**	**(924)**	**22.765**

Accumulated amortization, depreciation and impairment losses for 2004	**Oct. 1, 2004**	**Additions**	**Disposals**	**Exchange differences**	**Dec. 31, 2004**
	EUR k	**EUR k**	**EUR k**	**EUR k**	**EUR k**
Land and buildings	404	34	0	(9)	429
Plant and machinery	3.293	282	0	(80)	3.495
Other plant and equipment	4.490	149	126	(29)	4.484
Advance payments and assets under construction	0	0	0	0	0
Total	**8.187**	**465**	**126**	**(118)**	**8.408**

Net carrying amounts for 2004	**Dec. 31, 2004**	**Oct. 1, 2004**
	EUR k	**EUR k**
Land and buildings	3.734	3.858
Plant and machinery	9.068	9.850
Other plant and equipment	1.495	1.553
Advance payments and assets under construction	60	127
Total	**14.357**	**15.388**

Plant was pledged as collateral for bank loans in connection with the financing of the Own & Operate entities VACUHEAT GmbH, Limbach-Oberfrohna, Germany, and ALD Thermal Treatment Inc., Columbia and Port Huron, USA.

VACUHEAT has collateral assignments from production facilities of EUR 3,210k and a registered land charge of EUR 3,579k to various banks.

ALD Thermal Treatment Inc. pledged all its non-current assets (EUR 9,213k) for the refinancing arrangements concluded in 2005.

There are no further restrictions on ownership or disposal for the disclosed items of property, plant and equipment.

(25) Financial Assets

Investments in Entities Accounted for Using the Equity Method

The investments include the 50% shareholdings in ALD Holcroft and EsteR GmbH.

The recognized share of losses in 2005 came to EUR 4k (prior year: EUR 0k) for ALD Holcroft and EUR 22k (prior year: EUR 6k) for EsteR GmbH. This is disclosed in the income statement under the item “Result from entities included using the equity method”. The unrecognized share of losses in the fiscal year and the accumulated unrecognized losses amount to EUR 49k (prior year: EUR 0k).

The key figures of the financial statements of ALD Holcroft for fiscal year 2005 are as follows:

Financial statements ALD Holcroft	**Dec. 31, 2005** **EUR k**	**Dec. 31, 2004** **EUR k**
Income	472	0
Profit/loss	(106)	0
Assets	820	0
Liabilities	917	0
Equity	(97)	0

The key figures of the financial statements of EsteR GmbH for the fiscal year are as follows:

Financial statements EsteR GmbH	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Income	0	0
Profit/loss	(43)	(11)
Assets	115	157
Liabilities	201	200
Equity	(86)	(43)

(26) Other Non-Current Financial Assets

Shares (10%; prior year: 10%) in Z.E.R.O.- Japan Co. Ltd., Iruma City, Saitama, Japan, are disclosed under other non-current assets. The investment will be sold on March 31, 2007. The carrying amount corresponds to the sale price.

(27) Current Financial Liabilities

The current financial liabilities break down as follows:

Current financial liabilities	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Liabilities to banks	965	4.862
Liabilities from finance leases	11	9
	976	**4.871**

The current portion of liabilities to banks is comprised as follows:

Liabilities to banks	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Overdrafts	9	0
Bank loans (current portion)	956	907
Loans (General Electric Capital Corporation)	0	3.955
	965	**4.862**

Current liabilities to banks disclosed as of the balance sheet date December 31, 2005 relate exclusively to the current portion of other non-current liabilities. As of the balance sheet date December 31, 2004, the loan described below was also classified as current.

In December 2002, ALD Thermal Treatment Inc. concluded two loan agreements for USD 5,276k and USD 2,224k with General Electric Capital Corporation, Chicago, USA. The loans matured on October 1, 2007 and bore interest at LIBOR plus 4.25%. They were repaid in regular installments of USD 264k and USD 37k. As of December 31, 2004, liabilities totaling EUR 3,955k were disclosed from these loan agreements. The Group was obliged to guarantee a ratio of not more than 3.5:1 between indebtedness and EBITDA, a fixed costs coverage ratio of at least 1.3:1 and EBITDA of at least USD 1,500k for ALD Thermal Treatment Inc. As of December 31, 2004, the Group failed to meet two of the three criteria. Subsequently, GE Electric Capital Corporation had the option of demanding immediate repayment of the loans.

GE Electric Capital Corporation did not utilize this option as interest and principal repayments were always made on time. The loan was repaid by La Salle Bank as of November 1, 2005.

Until the loan from GE Electric Capital Corporation was repaid, there was agreement between the contractual parties as to which principal repayments were limited to shareholder loans.

(28) Trade Payables

Current trade payables	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Liabilities to third parties	5.001	2.405
Liabilities to related parties	0	42
Liabilities to suppliers from long-term construction contracts	6.047	5.749
Total	**11.048**	**8.196**

(29) Liabilities to Customers From Long-Term Construction Contracts

The Group produces plant under construction contracts. The customers normally make advance payments prior to the start of production and sometimes interim payments during the production phase, which – to the extent that they exceed the revenues posted in accordance with the stage of completion – are disclosed in the balance sheet as liabilities to customers from long-term construction contracts.

Advance payments received	Dec. 31, 2005 EUR k	Dec. 31 , 2004 EUR k
Advance payments received	54.303	32.970
Contract costs incurred (incl. share of profits)	-38.296	-29.259
Total	**16.007**	**3.711**

(30) Other Provisions

Other provisions	As of Jan. 1, 2005 EUR k	Utilization EUR k	Reversal EUR k	Allocation EUR k	As of Dec. 31, 2005 T€
Provision for acquisition of shares in VACUHEAT	0	0	0	4.000	4.000
Provisions for follow-up costs	893	372	486	1.937	1.972
Provision for warranties	1.262	916	179	1.377	1.544
Provision for phased retirement	678	350	0	213	541
Miscellaneous	282	141	3	75	213
Total	**3.115**	**1.779**	**668**	**7.602**	**8.270**
Current					4.639
Non-current					3.631

Other provisions	As of Oct. 1, 2004 EUR k	Utilization EUR k	Reversal EUR k	Allocation EUR k	As of Dec. 31, 2004 EUR k
Provisions for follow-up costs	1.305	456	323	367	893
Provisions for warranties	1.341	296	171	388	1.262
Provision for phased retirement	680	54	0	52	678
Miscellaneous	317	63	2	30	282
Total	**3.643**	**869**	**496**	**837**	**3.115**
Current					2.478
Non-current					637

The non-current portion of other provisions mainly relates to provisions for purchase price liabilities in connection with the acquisition of the minority interest in VACUHEAT GmbH and to provisions for phased retirement.

The provision for the acquisition of shares in VACUHEAT is expected to be used for future payments for the minority interests in VACUHEAT GmbH. The amount payable depends on the business performance of VACUHEAT in subsequent years (until 2008).

Plan assets as of December 31, 2005 of EUR 480k (December 31, 2004: EUR 438k; October 1, 2004: EUR 394k) were netted with the provision for phased retirement.

(31) Current Tax Liabilities

Current tax liabilities comprise liabilities from income taxes.

(32) Other Current Liabilities

Other current liabilities	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Liabilities for services	1.201	494
Liabilities from VAT, wage and church tax	978	327
Liabilities from derivatives (closing date measurement)	824	30
Liabilities from special direct selling costs	720	338
Liabilities from the variable employee remuneration model	672	29
Liabilities from untaken vacation claims	621	398
Liabilities from social security contributions	441	459
Liabilties from overtime	418	298
Miscellaneous	1.750	2.278
Total	**7.625**	**4.651**

Liabilities for services relate to open invoices for incidental expenses for the Hanau location, supervisory board remuneration and other payments.

Liabilities from special direct selling costs include commission and warranty obligations.

The miscellaneous other current liabilities include severance payments of EUR 0k (prior year: EUR 664k).

(33) Non-Current Financial Liabilities

Non-current financial liabilities break down as follows:

Non-current financial liabilities	Note	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Non-current liabilities to banks	(34)	3.576	3.063
Other non-current liabilities	(35)	9.661	56
Total		**13.237**	**3.119**

(34) Non-Current Liabilities to Banks

Non-current liabilities to banks	Carrying amount Dec. 31, 2005 EUR k	Carrying amount Dec. 31, 2004 EUR k	Fair value Dec. 31, 2005 EUR k	Fair value Dec. 31, 2004 EUR k
Darlehen Dresdner Bank AG	1.717	2.251	1.703	2.251
Investitionskredit DIF Deutsche Investitions				
Finanz GmbH	232	562	232	562
Darlehen Bayerische Hypo- und Vereinsbank AG	125	250	123	244
Investitionskredit La Salle Bank Corp.	1.502	0	1.502	0
Total	**3.576**	**3.063**	**3.560**	**3.057**

Non-current liabilities to banks	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Due in one to two years	1.078	955
Due in two to three years	753	858
Due in three to four years	753	500
Due in four to five years	503	500
Due in more than five years	489	250
Total	**3.576**	**3.063**

	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Secured non-current liabilities to banks	3.576	3.063
Net carrying amounts of the pledged assets	15.246	5.431

VACUHEAT GmbH raised a loan of EUR 1,262k at DIF Deutsche Investitions Finanz GmbH, Bad Homburg, Germany, under a loan agreement dated September 26, 2003. The loan is repayable by August 15, 2007 through monthly annuities of EUR 30k. The interest rate is fixed at 3.18% for the entire term. The loan is hedged by the assignment of two twin-chamber and one multi-chamber units as security and was valued at EUR 562k (prior year: EUR 872k) as of the balance sheet date. The current portion amounted to EUR 330k (prior year: EUR 310k).

On November 10, 2003, VACUHEAT GmbH raised a loan of EUR 500k at Bayerische Hypo- und Vereinsbank AG, Frankfurt am Main, Germany, at a fixed rate of interest of 5.03%. The loan is secured by two production facilities. The loan has a term until December 15, 2007, is repaid in quarterly installments of EUR 31k each and is valued at EUR 250k (prior year: EUR 375k) as of the balance sheet date. The current portion amounts to EUR 125k (prior year: EUR 125k).

On May 2, 2005, VACUHEAT GmbH raised a loan of EUR 2,500k at Dresdner Bank AG. It bears interest at 3.514% plus a variable margin. The loan is repaid in equal monthly installments of EUR 42k and matures on May 1, 2010. The interest charges are secured by an interest rate assessment notification for OTC interest and credit guarantees at a fixed rate of 4.66%. The loan is valued at EUR 2,216k (prior year: EUR 0k) as of the balance sheet date. The current portion comes to EUR 501k (prior year: EUR 472k) as of the balance sheet date.

The loan agreement between ALD Thermal Treatment Inc. and La Salle Bank for USD 5,000k includes a clause which restricts the interest payments on shareholder loans. As long as the loan liability is due to La Salle Bank, principal repayments on shareholder loans may only be made with the written approval of La Salle Bank. Repayment commences on May 1, 2007. Interest is charged at the USD Libor rate plus the margin of 2.25% to 2.75% applicable under the covenants and loan agreement. The term of the loan runs from November 1, 2005 to April 30, 2012.

(35) Other Non-Current Financial Liabilities

Other non-current financial liabilities	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Liabilities from finance leases	45	56
Liabilities from participation certificates	9.616	0
Total	**9.661**	**56**

Liabilities From Participation Certificates

Under an agreement dated June 28, 2005 and August 8, 2005, ALD concluded a participation certificate agreement with HSBC Trinkhaus & Burkhardt KGaA (HSBC T&B) in the nominal amount of EUR 10,000k. A discount of 4% (EUR 400k) was granted on the nominal amount. Under the obligation, ALD is granted creditor rights, but not shareholder rights. ALD is not granted any participation, involvement or voting rights at shareholder meetings or subscription rights to new shares. HSBC T&B is not entitled to issue instructions to the management of ALD.

The participation certificates bear interest at 7.27%.

The participation certificate was concluded for an indefinite term. It may be terminated for the first time on August 10, 2012.

The participation certificate agreement is measured at amortized cost using the effective interest rate method. The effective rate of interest is 8.038%. Amortized cost is equivalent to fair value.

Fair value largely corresponds to the carrying amount.

(36) Provisions for Pensions

Defined Contribution Plans

Defined contribution plans are only relevant to the Group in the form of statutory employer contributions to pensions. In fiscal year 2005, the related expense was EUR 1,311k (prior year: EUR 1,499k).

Defined Benefit Plans

The Group has defined benefit pension plans. They are financed internally through the systematic accrual of pension provisions. The pension obligations in Germany are calculated on the basis of the biometric bases of calculation in accordance with the 2005 G mortality tables (prior year: 1998 mortality tables) of Dr. Klaus Heubeck. There are no pension obligations for other countries.

The amount of the benefit depends on remuneration of the last two years and the length of service.

Under the pension schemes, pension benefits comprise old-age, disability and survivors' pensions.

The provisions are recognized in accordance with IAS 19, "Employee Benefits" on the basis of expected future payments using the projected unit credit method.

Reconciliation of the pension obligation	2005 EUR k	2004 EUR k
Present value of the benefit obligation at the beginning of the fiscal year	18.167	16.537
Actuarial gains and losses	2.204	1.411
Interest expense	897	216
Current service cost	475	110
Pension payments	-455	-107
Present value of the benefit obligation at the end of the fiscal year	**21.288**	**18.167**
to the pension provisions recognized	**EUR k**	**EUR k**
Present value of the pension obligation as of Dec. 31	21.288	18.167
Fair value of plan assets	-137	-108
Unredeemed actuarial gains/losses	-3.615	-1.411
Pension provision as of Dec. 31	**17.536**	**16.648**

Net pension expenses	2005 EUR k	2004 EUR k
Interest expenses	897	216
Current cost of service	475	109
Total net pension expenses	**1.372**	**325**

Development of recognized pension provisions	2005 EUR k	2004 EUR k
Pension provisions at the beginning of the fiscal year	16.648	16.431
Expenses for old-age pensions	1.372	325
Pension payments	-455	-107
Change in plan assets at fair value	-29	-1
Pension provisions at the end of the fiscal year	**17.536**	**16.648**

Development of the fair value of plan assets	2005 EUR k	2004 EUR k
At the beginning of the fiscal year	108	107
Value of plan assets	29	1
At the end of the fiscal year	**137**	**108**

Plan assets exclusively comprise a qualified pension liability insurance policy.

Factors used in calculating the pension obligations as of the respective balance sheet date	Dec. 31, 2005 in percent	Dec. 31, 2004 in percent
Discount factor	4,43%	5,00%
Long-term salary increases	1,50%	1,50%
Index-linked pensions	1,90%	1,75%

The pension commitments are not covered by external funds. The Company pays current and future pensions directly.

(39) Subscribed Capital

The fully paid-in capital stock amounts to EUR 7,862,500 (prior year: EUR 7,862,500) as of the balance sheet date. It is divided into 78,625 (prior year: 78,625) shares valued at EUR 100.00 each.

(40) Capital Reserve/Accumulated Net Profit

The shareholder meeting on January 31, 2005 resolved to carry forward the commercial accumulated loss for fiscal year 2003/2004 to new account. Due to the conversion of the Company from a stock corporation to a limited liability company on November 22, 2004, the retained earnings were netted with the loss carryforwards and transferred to the capital reserve. This resulted in a EUR 1,097k increase in the capital reserve. The retained earnings decreased accordingly. Apart from this, the capital reserve exclusively comprises other contributions from shareholders.

(41) Difference From Foreign Currency Translation

The difference from foreign currency translation includes differences from the translation of financial statements of foreign subsidiaries directly under equity.

	Dec. 31, 2005			Dec. 31, 2004		
	before tax EUR k	tax effect EUR k	net EUR k	before tax EUR k	tax effect EUR k	net EUR k
Difference from currency translation	(1.806)	(40)	(1.846)	(2.498)	365	(2.133)

5. Notes to the Consolidated Cash Flow Statement

(42) Consolidated Cash Flow Statement

The cash flow statement shows how the cash and cash equivalents of the Group have changed in the course of the year under review due to inflows and outflows of funds. In accordance with IAS 7, "Cash Flow Statements", a distinction is made between cash flows from operating, investing and financing activities.

The funds disclosed in the cash flow statement relate exclusively to the cash and cash equivalents disclosed in the balance sheet.

The changes in balance sheet items used for the development of the cash flow statement cannot be derived directly from the balance sheet since effects from currency translation do not have an effect on profit and loss and must be eliminated.

6. Other Notes

(43) Contingent Liabilities

Contingent liabilities are potential obligations which are based on past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events which are beyond the Group's control. Furthermore, present obligations are deemed contingent if fulfillment is not probable and/or no reliable estimation of the amount of the obligation is possible.

There were no contingent liabilities as of December 31, 2005 (prior year: no contingent liabilities).

The Company can become involved in legal disputes, claims for damages, investigations and court proceedings including product liability issues and business disputes within the scope of its normal business activities. As of December 31, 2005, management and its legal advisers did not believe there to be any matters of significance with respect to the Company's business, its financial position or operating result.

(44) Other Financial Obligations and Receivables

<u>Obligations From Finance Leases</u>

The Group has financial obligations from finance leases for two software applications. The carrying amount of the software is EUR 56k.

A reconciliation of future minimum lease payments under finance leases to the present value is provided below:

Minimum obligations from finance leases	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Due in less than one year	15	11
Due in one to five years	48	63
Total lease payments	**63**	**74**
Less interest expenses due to discounting	7	9
Present value of the obligations from finance leases	**56**	**65**
Thereof:		
current	11	9
non-current	45	56

Obligations From Operating Leases and Long-Term Rental Agreements

The Group has lease obligations for machines, IT equipment and vehicles and rental obligations for business premises. As of the balance sheet date, minimum lease payment obligations under non-cancellable operating leases were as follows:

Minimum obligations from operating leases	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Due in less than one year	3.131	2.631
Due in one to five years	6.907	10.042
Total	**10.038**	**12.673**

The lease expenses in the fiscal year amount to EUR 2,939k (prior year: EUR 693k).

(45) Other Collateral

As of the balance sheet date the Group utilized guarantees. Time deposits and German receivables were assigned as collateral for the provision of the guarantee facility. Foreign receivables and individual items of property, plant and equipment valued at more than EUR 250k (EB unit and a twin-chamber vacuum furnace) are also available on first demand. There were no demands as of the balance sheet date.

Utilization of guarantees	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Provisions from banks	10.601	10.959
Other provisions	5.656	1.186
Total	**16.257**	**12.145**

Collateral for guarantees (carrying amounts)	Dec. 31, 2005 EUR k	Dec. 31, 2004 EUR k
Time deposits	4.830	6.291
German receivables	1.912	2.459
Foreign receivables	7.015	2.674
Non-current assets		
EB unit	167	199
Twin-chamber vaccum furnace	289	365

(46) Financial Instruments

Pursuant to IAS 32, a financial instrument is any contract that gives rise to both a financial asset for one entity and a financial liability or equity instrument for another entity.

Financial risks, such as currency, credit, interest rate or liquidity risks may arise in connection with financial instruments.

Currency Risk

Contracts are generally concluded in US dollars or euros. In order to mitigate the currency risk, forward exchange contracts are entered into for all orders when the orders are placed. The foreign currency risk is thus hedged when an order is accepted. Material changes in exchange rates occurring in the medium and long term can influence the sales and revenue opportunities of the Group due to the competitive structure.

Credit Risk

Customer receivables are closely monitored in the Group. Credit insurance other than the policies concluded with Hermes AG and COFACE SA is not considered necessary as around 90% of the purchase price has been paid by the time of delivery. Time deposits are only made at banks that are members of the deposit protection fund. With regard to the financing of subsidiaries, a risk management system forming part of investment controlling is in place to monitor the loans extended to subsidiaries.

Interest Rate Risk

The Group is not exposed to any interest rate risk from its existing loan obligations during the terms of the obligations. Refinancing effects arising after the end of term are passed on to the market.

Liquidity Risk

There are currently no identifiable liquidity risks.

(47) Derivative Financial Instruments

Derivative financial instruments are used to mitigate the financial currency risks connected with operating activities. Only forward exchange contracts and swaps are used. Forward exchange contracts are only entered into with banks with good credit ratings. All financial derivatives as well as the underlying transaction are subject to regular internal monitoring. The use of derivative financial instruments is restricted to the hedging of currency risks from payments in connection with the sale of equipment. The forward exchange contracts concluded as of the balance sheet date are classified as effective. The following agreements were concluded to hedge currency and interest rate risks:

	up to 1 year		more than 1 year	
	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004
Nominal volumes of derivative financial instruments	**EUR k**	**EUR k**	**EUR k**	**EUR k**
Forward exchange contracts	20.213	4.113	0	0
Swaps	626	125	1.840	250

	positive		negative	
	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004
Fair values of derivative financial instruments	**EUR k**	**EUR k**	**EUR k**	**EUR k**
Forward exchange contracts	0	30	-827	0
Swaps	0	0	-16	0

The differing fair values are due to exchange rate fluctuations between the hedge rate as of the date of conclusion of the respective contract and the corresponding rate as of the balance sheet date. As of the balance sheet date, there are 40 (prior year: 8) forward exchange contracts in US dollars. The contracts have remaining terms of less than one year (prior year: less than one year).

(48) Related Party Transactions

Under IAS 24 persons and entities are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party.

PFW as owner of ALD Vacuum Technologies GmbH, Safeguard International Fund L.P, Wayne, USA, as ultimate controlling entity, and their portfolio companies as well as the associates EsteR GmbH and ALD Holcroft Co., Inc are considered to be related parties. All entities which are controlled by one of the aforementioned parties or which are significantly influenced by one of the aforementioned parties are also considered as related parties within the meaning of IAS 24.

Members of management and the supervisory board of ALD Vacuum Technologies GmbH and their close family members are also related parties.

Business transactions with related parties are settled at market rates.

The following table contains the total amounts from related party transactions for the respective fiscal year:

Related party transactions 2005	Income Jan. 1 to Dec. 31 EUR k	Expenses Jan. 1 to Dec. 31 EUR k	Receivables Dec. 31 EUR k	Liabilities Dec. 31 EUR k
Entities with a significant influence over the Group	442	140	8.910	0
Other related parties	82	0	490	0
Joint ventures	85	172	192	0
Total	**609**	**312**	**9.592**	**0**

Related party transactions 2004	Income Oct. 1 to Dec. 31 EUR k	Expenses Oct. 1 to Dec. 31 EUR k	Receivables Dec. 31 EUR k	Liabilities Dec. 31 EUR k
Entities with a significant influence over the Group	0	18	0	42
Other related parties	78	101	696	0
Joint ventures	0	0	200	0

Of receivables from entities with a significant influence over the Group, EUR 5,752k (prior year: EUR 0k) relates to Safeguard International Fund PFW LLC, EUR 3,000k (prior year: EUR 0k) to ALD International LLC and EUR 158k (prior year: EUR 0k) to Safeguard International Fund LP. Of receivables from Safeguard International Fund PFW LLC, EUR 5,000k relates to prepayments made for the acquisition of the shares in GfE Gesellschaft für Elektrometallurgie mbH. The receivables from ALD International LLC relate to a current loan which bears interest at 11% p.a. The income results mainly from interest and the expenses mainly relate to services.

Receivables from other related parties relate to receivables of EUR 200k (prior year: EUR 370k) from PFW Technologies GmbH and of EUR 290k (prior year: EUR 326k) from GfE Metalle und Materialien GmbH. The receivables from PFW Technologies GmbH mainly relate to a current loan of EUR 193k (prior year: EUR 193k) which bears interest at the 3-month EURIBOR plus 250 basis points. The remaining receivables from PFW Technologies GmbH result from trade. The receivables from GfE Metalle und Materialien result from trade.

The receivables from joint ventures relate to receivables from EsteR GmbH and ALD Holcroft Vacuum Technologies Co. They are attributable to trade.

Notes on Management and the Supervisory Board

Total management remuneration for the fiscal year amounts to EUR 819k (prior year: EUR 166k). It comprises short-term benefits of EUR 779k (prior year: EUR 146k) and termination benefits of EUR 40k (prior year: EUR 20k). There are projected benefit obligations of EUR 485k (prior year: EUR 367k) under pension provisions for members of management. Supervisory board remuneration amounts to EUR 100k (prior year: EUR 25k) in fiscal year 2005.

In fiscal year 2005, pension payments of EUR 60k (prior year: EUR 15k) were made to former members of management. There are pension provisions of EUR 918k (prior year: EUR 871k) for former members of management.

Some members of management and the supervisory board are or were members of the supervisory board or management of other entities. The Group does not have any business relations with these entities.

(49) Personnel and Personnel Expenses

Average number of employees	2005	2004
Wage earners	5	5
Salaried employees	349	368
Interns/trainees	5	5
Total	**359**	**378**

Personnel expenses	2005 EUR k	2004 EUR k
Wages and salaries	20.891	5.024
Social securoity contributions	4.713	1.009
Total	**25.604**	**6.033**

(50) Cost of Materials

Cost of materials	2005 EUR k	2004 EUR k
Cost of raw materials, consumables and supplies and of purchased merchandise	47.555	10.357
Cost of purchased services	3.567	1.694
Total	**51.122**	**12.051**

(51) Amortization and Depreciation

Amortization and depreciation	2005 EUR k	2004 EUR k
Amortization and depreciation	2.706	617

(52) Events After The Balance Sheet Date

In 2006, the shares in the Company were transferred to ALD International LLC, Wayne, Pennsylvania, USA. All shares in ALD International LLC are held in the portfolio of Safeguard International Fund L.P.

With effect from January 1, 2006, ALD acquired 100% of the shares in GfE Gesellschaft für Elektrometallurgie mbH (GfE), Nuremberg (HRB No. 11697) from Safeguard International Fund PFW, LLC., Wayne, USA. The purchase price is EUR 10,000k, of which EUR 5,000k was paid in fiscal year 2005. The remaining EUR 5,000k plus 6% interest p.a. is payable on December 31, 2006.

All shares in GfE were sold to ALD International LLC., Wayne, USA, as of June 23, 2006. For the shares in GfE, ALD received 20,510 of its 78,625 own shares at a nominal value of EUR 100 each.

ALD Vacuum Technologies Polska Sp.z.o.o., Czosnów, Poland, was founded on March 23, 2006. The purpose of the company is the production and construction of plants. The company will be fully consolidated for the first time in fiscal year 2006. By forming this company, ALD aims to return to the low-price segment through a more economic production of simple heat treatment furnaces.

Since the end of the fiscal year, no other events of particular significance have come to our attention which would have to be reported.

Hanau, Germany, November 12, 2006

Dr. R. Walter	W. Katzschner	R. Seemann	Dr. M. Häberle

ALD Vacuum Technologies GmbH, Hanau, Germany
Group Management Report for Fiscal Year 2005

1. SCOPE OF ACTIVITIES

The ALD Vacuum Technologies GmbH Group (hereinafter also referred to as the "ALD Group" or "ALD") develops plants for the following growth markets based on vacuum process technology:

- Energy sector
- Aerospace
- Automotive industry
- Communication technology
- Materials technology

Within the scope of its Own & Operate strategy, the ALD Group operates internally generated production facilities via operator companies for applications with particular procedural advances and thus unique features.

2. BUSINESS PERFORMANCE

General Trends

The global economy coped surprisingly well with the substantial increase in crude oil prices in 2005. Despite the drastic price hike, real growth amounted to 2.5%. Although real economic growth was high in the US (3.5%) and Eastern Asia (China in particular: 9.9%), thus boosting the global economy, Europe fell behind, with economic growth of just 1.4%. At 2.7%, the trend toward recovery, which began the year before, continued in Japan.
The German Engineering Federation ["Verband Deutscher Maschinen- und Anlagenbau e.V.": VDMA] reported a 6% year-on-year increase in orders in the industry in 2005, following order growth of 10% in 2004. As expected, growth in mechanical and plant engineering continued to be high. Again in 2005, order intake was mainly fed by exports (up 9%). Domestic orders, on the other hand, were down 1%. According to the German Engineering Federation, the mechanical and plant engineering sector is expecting 5% real growth in machine production in 2006. This growth forecast is based on sound domestic demand and the positive trend of export business, which rose by 13.1% in the first quarter of 2006. Countries undergoing rapid industrialization, such as China and India, as well as producers of raw materials, continue to drive export growth.

Regional Trends

With their sustained economic growth, China and other emerging economies in Eastern Asia are increasingly the driving force behind the global economy. The current period of recovery in Japan, which began in 2002, continued in 2005, with investments increasing by a notable 4.1% in real terms. In

China, too, demand for capital goods returned to normal levels following the curbing measures and consolidation ordered by the government in the steel and energy industry. In 2005, order intake from Asian markets amounted to EUR 20.6m following EUR 17.5m in calendar year 2004. This region accounted for 20.5% of ALD GmbH's total orders and 17.4% of those of the ALD Group. The Group's strategy of servicing the market closely with group representatives in China and Japan has proven successful. The structures in place will be expanded as the market develops. The development of the USD/EUR exchange rate continues to be of significance to the Group's competitiveness in Asia.

India has an increasingly important role to play in the global economy. After impressive growth over the past ten years, the Indian economy grew to 7.2% in 2005. The speed of the country's future economic growth will depend on how quickly it improves infrastructure and resolves deficits in energy supply. This will require considerable investments in plant technology, particularly in the field of power generation and thus materials. Once export controls are relaxed, this market will be able to be tapped systematically and poses a future sales challenge and opportunity for ALD.

Economic development in North America was shaped by the recovery in the US, which continued only slightly abated in 2005. Long deferred reinvestments were made in the energy sector and steel industry. As a result, order intake from this region increased to EUR 24.9m at ALD GmbH, fives times as much as in calendar year 2004. The share of order intake in the ALD Group was EUR 35.0m or 29.6%. Assuming robust economic growth continues, the US Fed is expected to increase the base rate gradually in 2006. The anticipated base rate increases in the euro zone and no change in the very high US trade deficit will not, however, cause the euro to lose ground against the US dollar. Due to the continued decline in market shares of the US automotive industry and the associated need to implement state-of-the-art technology to reduce consumption and expand supply capacities in the aerospace segment etc., a further increase in the business volume is expected in the US in 2006.

At 1.4%, economic growth in the old EU countries, the EU 15, developed conservatively in 2005, although there was a slight recovery at the end of the year, driven by capital expenditures and exports. By contrast, the economy of the ten new member states proved to be very stable. This group of countries recorded economic growth of 4.2% in 2005. Due to the fact that the new EU countries continue to lack in economic clout, the effects of these high figures on the EU as a whole (EU 25) were limited. Economic growth in the EU 25 therefore amounted to just 1.5%. Due to sustained high demand for production facilities for special steels, nickel base alloys and solar silicon, order intake increased to EUR 20.2m at ALD GmbH in 2005, almost twice as much as in calendar year 2004. The total share of order intake in the ALD Group in 2005, including Germany, amounted to EUR 42.3m (35.8%).

Energy Sector

Global demand for energy is constantly on the up, but is only moderate at present. According to the International Energy Agency (IEA), growth in global demand for oil slowed to 1.2% in 2005 compared with 3.8% in 2004. As well as the US, the additional demand mainly comes from developing and emerging economies, especially China and India. In Europe, on the other hand, energy consumption is stagnant at the prior-year level. Oil prices increased from USD 50 per barrel in 2004 to over EUR 70 per barrel in 2005 despite the global availability of production capacities and reserves. Since this price development chiefly has its roots in geopolitical risks, global efforts are focusing on finding alternative energy sources.

Political and economic events suggest that demand for energy will continue to rise in Asia and that power plant capacity will be expanded.

This will involve creating production capacities for special alloys and special steels as well as expanding production plants for turbines and turbine components. Companies active in this market are increasingly demanding vacuum melting, remelting and investment casting plants while also requesting references from buyers in the west in order to prepare for certification in export markets.

The programs of the major market suppliers in the US and Europe set the standards for the further development of turbine technology, with the focus on improving efficiency while increasing durability. In the field of investment casting, there continues to be interest in LMC technology plants in the US and also increasingly in Asia. In addition, Middle Eastern countries with large volumes of gas and oil resources are showing interest in investment casting with the aim of supplying spare parts for installed large turbines themselves in the future. With regard to large industrial gas turbines, coatings obtained by EBPVD are not top priority at present, as turbine performance is adequate using cheaper alternative coatings. Despite selling one plant in the US in 2005, business in this product will nonetheless develop more slowly than expected.

Demand for photovoltaics continued to increase considerably – despite the 5% reduction in feed-in compensation in 2005. The price development of crude oil, which increased further from approx. USD 50 per barrel in 2004 to over USD 70 per barrel in 2005, led to increased requirements for and interest in the introduction of solar power generation in the various industrialized nations. Studies suggest the production of solar cells will double from 2005 to 2008 and triple by 2010. The main focus of production will be on polycrystalline solar cells. Demand for solar cells was not met by available production capacities, which triggered an increase in plan capacities. The major factor affecting growth in the polycrystalline solar cell segment is the current availability of silicon semi-finished products. While production capacities for semi-finished products are being expanded using conventional technology, new developments and more cost-effective procedures are being investigated, in which ALD is also involved. ALD involvement in the polycrystalline solar cell growth market is regulated via an exclusive agreement with a major manufacturer of silicon wafers.

Solar power is not yet able to compete in economic terms with electricity produced in conventional power stations. The proportion of thin-film solar cells is increasing in times of limited availability of polycrystalline solar cells. ALD'S future development in this segment will be determined by the availability of semi-finished products at competitive prices.

With energy prices on the rise alongside the promotion of renewable energy sources, in Japan and the US, there is a clear trend toward using nuclear power generation as an alternative to conventional power stations. In terms of technology, pebble-bed reactors tend to be used with plutonium in mixed-oxide fuel elements. For these technologies, ALD has supplied a number of plants for sintering such fuel elements via its predecessor companies. These references form a sound basis for future transactions in this segment.

Aerospace

Aerospace is currently the economic driving force behind special metallurgy. This is true of both the superalloy segment for thermally stressed elements and construction steels. Planned production figures for the Airbus A 380 and the Boeing Dreamliner are boosting the willingness to invest of the supply industry. Investment levels of the titanium industry, in particular, are particularly high due to the fact that, in the new generation of airplanes, the proportion of titanium is to be increased from 8% to 18%. After years of stagnation, all established companies are investing in expanding production capacity. Investments in refining plants are currently partially restricted by the limited availability of titanium sponge. They are, however, being made, which has led to a drastic increase in the production of raw titanium. Additional investments in melting plants are therefore expected.

Furthermore, market development has led to companies as yet unestablished in the market investing in production capacities for titanium as well as nickel base alloys and steel.
As the market leader in the field of melting plants, ALD considers itself competitively placed on the market as a result of modularization and standardization.
Additional capacities for engine production and thus turbine blades is required to accommodate the increasing number of aircraft. Although plants specializing in investment casting will mainly be purchased and set up in the US in the future, the production of standard components appears likely to be outsourced to partner companies outside the US. In the field of turbine blade coating, existing capacities and capacities installed in 2005 were stepped up. The increase in turbine sales and modernization or closure of, in some cases, 25-year-old production plants is creating increased demand, especially in the US. Such investments are still chiefly made by OEMs. Activities in the Maintenance Repair Overhaul (MRO) segment are developing more slowly due to the current availability of capacities at OEMs. While this is a real option for repair business, there is also pressure from the airlines to keep maintenance times to a minimum. As the market and technology leader in the field of turbine blade coating plants, ALD can cater to both requirements serve both segments using appropriate plant concepts and is thus prepared for the plant business expected in the MRO segment.

Automotive Industry

According to the German Automobile Association [“Verband der Automobilindustrie”: VDA], automobile production grew by 3.3% worldwide in 2005, compared with 4.0% in 2004. Further growth of approx. 3% is expected for 2006. It should be noted that production is being outsourced to Japanese and Korean producers and established brands, such as Ford and General Motors, are losing market shares. Within Europe, the number of new vehicles produced decreased by 1.1% in 2005, except in Germany (up 3.0%). In 2005, 54.9 million automobiles were produced worldwide.
A number of producers making first-time investments in the heat treatment of transmission components opted for new vacuum technology, which boosted orders in 2005.
Automobile manufacturers are initially expanding their eastern European locations as assembly lines. Producers in Eastern Asia producers in particular, however, also plan to establish entire production sites. In addition to the conclusion of a major order with a reputable Korean automobile manufacturer, a pilot plant was installed in Japan within the framework of an existing license agreement with a major Japanese automobile supplier. These projects further improved the market position of ALD in the Eastern Asian markets.
Despite the effeteness of a number of US producers and automotive suppliers, orders for the supply of plants to treat automobile and truck transmission components were agreed with US companies. A joint venture was entered into with a US market leader in the plant segment in order to improve the presence of ALD’s heat treatment technology in NAFTA countries.
The absolute number of new diesel vehicle registrations in the EU increased again in 2005, as did demand for diesel fuel injection systems. In the US, hikes in the price of gas affected new vehicle purchases for the first time, which also led to increased demand for diesel fuel injection systems. This gave rise to greater business volumes and the fulfillment of target expectations at the subsidiaries VACUHEAT GmbH (VACUHEAT) and ALD Thermal Treatment Inc. (ALD TT) in the US. In order to stop the decline in market share at General Motors in the US, efforts were concentrated on developing a new six-gear transmission with considerably reduced consumption. By demonstrating that its heat treatment technology has been a suitable, production-oriented solution to date, ALD succeeded in concluding a

long-term service agreement for the transmission technology segment in 2005, which led to the construction of a new plant in the US.

Development opportunities in the titanium-aluminum lightweight valve segment for the automotive industry were stuck an economic blow by restrictions imposed in motor racing. Until new engine concepts that take advantage of the weight advantages of valves are developed, the focus will be on titanium-aluminum loader tires. From a materials perspective, conventional superalloy loader tires have reached the limit in terms of the number of revolutions. If ALD succeeds in establishing a suitable casting and production process in which it works closely with recognized research institutes, implementation can begin in the automotive industry in the coming years.

Communication Technology

The collapse of the data transfer segment of the IT industry, which began in 2003, continued in 2005. Since many existing customer capacities have already been rendered inoperable, any potential demand for fiber optic technology plants could only be met by considerably improving production costs. Demand is not expected to recover in the near future due to surplus capacities. New technological developments in the electronics industry are giving rise to greater demand for high-purity raw materials. Target materials are particularly important as coating materials. Existing remelting capacities for refractory metals, such as tantalum, are no longer sufficient in terms of quality and quantity. As a manufacturer of electron beam melting and vacuum melting plants, ALD makes investments in the electronics segment.

Materials Technology

While demand for vacuum metallurgy plants has been concentrated on China for the past few years, increased demand has also been evident in Europe, the US and Japan since September 2004. This is particularly true for plants used to manufacture special steels and superalloys for chemical plant construction, vehicle construction and the aerospace industry. Although large chunks of investments currently serve to expand production capacity, there is increasing demand for investments in the modernization or replacement of available plants. In Japan, in particular, there is a great need for modernization.

In the area of refractory and reactive metals, additional investment activities are expected in the coming years, particularly due to demand for higher-quality final products, but also due to larger ingot dimensions. Following increased investments in this area by China in the past few years, established providers have had to follow suit to maintain their market positions. ALD is the leading manufacturer of electron beam melting plants for this segment.

As a leading manufacturer of high-pressure sinter plants for hard-metal construction component production, ALD expanded its market share further in 2005 as a result of orders from European and Asian customers.

With a view to expanding its product spectrum in the area of basic vacuum sinter ovens and MIM component production, a cooperation agreement was entered into with a medium-sized plant manufacturer in this area.

Operator Companies

VACUHEAT in Limbach-Oberfrohna, Germany, continues to develop well and increased its throughput of treated components by 30% in 2005. Various product mixes led to an increase in revenues of approx. 18%. As a result of tight cost management, the revenue target was achieved. To maintain competitiveness, the Company will continue to optimize production processes using automation aids. Since market analysis suggests there is an additional revenue volume VACUHEAT could tap in the vacuum soldering technology segment; in 2005, we decided to create the prerequisites for market entry by expanding plant capacities.

ALD TT, which performs the heat treatment process for mechanical components in diesel fuel injection systems for various automobile suppliers in Columbia, South Carolina, USA, recorded a positive result for the first time in fiscal year 2005. Increased demand for diesel technology in the US is a crucial factor in this positive development. Furthermore, a supplier in the aerospace industry was won as a customer for the heat treatment of mechanical components, and thus a new and promising market segment tapped.

The volume of the order placed by General Motors in 2004 for the heat treatment of mechanical components for a new 6-gear front-suspension automatic transmission system was increased considerably in 2005. An additional production site, which commenced operations on schedule in mid-2006, was therefore established under the corporate umbrella of ALD TT in Port Huron, Michigan, USA.

Further talks regarding possible operator companies for heat treatment in the transmission/fuel injection technology segments are underway in China, Canada and Mexico.

International Sales and Customer Service

The centers of technological development for vacuum metallurgy processes, aerospace, energy technology and the automotive industry are still in the US, Europe and the CIS. China, in particular, is striving to meet international standards.

The established target markets for vacuum metallurgy plants developed as expected in the US, Europe and Asia in 2005. The sales companies in the US and UK continue to be responsible for sales management, service support and the provision of replacement parts.

Headcount was increased at the Liaison Office in Shanghai to consolidate the Group’s market position in China. The focus was on expanding service support. The Chinese office also supports in individual cases the local production of componentry for the Chinese market.

The positive assessment of the Russian market continues to be justified; delays were, however, incurred as a result of the reintensification of government intervention in the economy. Our Russian subsidiary acts as a cooperation partner for potential local production.

Access to markets in Iran and India is regulated by strict export laws and the embargo on US components and is difficult. Due to the approval policy in place for exports and the general political climate, Iran in particular will continue to play a minor role in the development of the Group, despite great need for investment in the country. The announced relaxation of regulations affecting US exports to India will, in time, have a knock-on effect on German export regulations. This will give rise to additional business opportunities for the ALD Group, initially in the materials segment for aerospace and energy applications. In preparation for this development, group representation will be adapted to meet requirements, focusing on state-owned companies, on the one hand, and the increased number of privately-owned companies, on the other.

With a view to intensifying ALD's sales activities in the NAFTA region, a cooperation agreement was entered into in 2003 with the US market leader in the field of atmospheric heat treatment plants, AFC-Holcroft Inc.
After initial sales successes, the joint venture ALD-Holcroft Vacuum Technologies Co. was formed in May 2005. This company is responsible for the marketing, customer service and management of the ModulTherm, DualTherm and ChannelTherm product family in the US market.
As in the prior year, participation in trade fairs, exhibitions and symposiums is strictly geared to anticipated market opportunities.

Performance Indicators and Factors of Success

The ALD Group gears its business activities to, and measures its success on the basis of, traditional economic performance indicators. In doing so, the main focus is on stable, long-term growth. This includes a willingness to make business investments in operator companies, which make a future contribution to group targets.
Performance and success in plant construction are mainly measured using traditional indicators, such as order intake, operating result, cost development and free cash flow. Additional indicators, such as market shares and net operating margin, can also be used to assess the Group's success.
The timely processing of incoming orders is crucial to the Group's capacity utilization. Due to the fact that supply times exceed seven months and orders placed with ALD GmbH are usually financed by advance payments, the timely processing of incoming orders is also highly significant for cash flow. In order to monitor operating progress in plant construction, ALD GmbH introduced an SAP-based sales information system.
Orders are processed via a project management system that collates indicators relating to quality, time and cost.
Monthly financial statements provide timely information to the management board to aid decision-making.
For the purpose of monitoring the market and competition, the ALD Group has a database containing all information on customer contacts as well as publicly accessible data, publications by the competition and other sources.

Order Intake/Orders on Hand

Order intake in the ALD Group amounted to EUR 118.0m, an increase of 67.4% over the adjusted comparative period in 2004 (the last three quarters of fiscal year 2003/04 and abbreviated fiscal year 2004). This is the Group's highest ever order intake.
Thanks to economic development in Asia, anticipated demand for materials for the new aircraft generation and expansion of global capacity for power generation, the investment climate in the energy and aerospace segment was positive, with a number of orders placed by the US, Asia and Europe. In the automotive industry, the orders received from Europe, the US and Eastern Asia validated the decision to develop the ModulTherm plant. Capacity expansion at existing Own & Operate companies was continued on schedule based on the positive order situation. The production of basic vacuum plants to treat tools in low-wage countries enabled market reentry in this segment.
At sales companies, the service and replacement parts business returned to normal after prior-year special effects affecting the Japanese and US markets in particular.

Overall, the positive order intake trend which emerged in abbreviated fiscal year 2004 continued in fiscal year 2005.
The level of orders at the ALD Group was EUR 104.9m as of the balance sheet date compared with EUR 72.1m in the prior year. Of these orders, EUR 54.8m (57%) related to work in process and was therefore already disclosed under revenues in the fiscal year pursuant to IFRS. ALD GmbH disclosed orders on hand of EUR 96.2m compared with EUR 71.8m in the prior year.

Revenues

At EUR 102.7m, gross revenues of the ALD Group increased by 32.7% over the adjusted prior-year period, which comprised the last three quarters of fiscal year 2003/2004 and abbreviated fiscal year 2004 (EUR 77.4m). The increase is attributable to high and early order intake in 2005 as, in addition to existing orders, a larger percentage of order intake was realized via PoC (the percentage-of-completion method). The majority of revenues in the ALD Group were generated in Europe (excluding Germany) (35.2%), the US (21.9%), Asia (23.0%) and Germany (18.8%).
High revenues for ALD GmbH were generated through the commencement of production of a number of remelting plants for nickel base alloys, the successful sale of two remelting plants for refractory metals (electronic materials) and other silicon conversion plants. In the new heat treatment technology segment, four more ModulTherm plants were handed over to customers for production in Europe and the US. The Own & Operate segment has already made a substantial contribution to total revenues, accounting for EUR 14.0m.

Headcount

In order to ensure our employees remain highly qualified and expand our market position vis-à-vis international competitors, intensive training measures were once again conducted in the fiscal year. In doing so, special attention was paid to training new recruits and top performers. The aim of training continues to be to safeguard skills in the face of demographic change, thus maintaining the same high level of quality of our state-of-the-art plants.
In fiscal year 2005, personnel development measures focused on general training, such as PC courses, foreign languages, safety and quality standards, as well as specialized courses, such as 3D CAD, SPS training, project management, sales and management and the various quality systems.
Our personnel policy also focuses on expanding the performance-related variable component of compensation at ALD GmbH and of senior executives at other ALD Group companies. The average variable compensation of all employees was 11% in 2005. The top level of variable compensation for senior executives was 25%. The amount of variable compensation payable at the end of the fiscal year is dependent on the Group's success.
Positive business development in 2005 led to a sustained high level of employment. To bridge busy periods, a new, flexible working model was agreed with the works council. This work model offers senior executives a very high degree of department and workstation flexibility when planning capacities during busy periods. The Group had 359 employees as of December 31, 2005 compared with 378 in 2004.

Research and Development

In the field of vacuum metallurgy and heat treatment, competitiveness is largely dependent on meeting ever-changing material requirements with suitable plant technology. An innovation policy geared consistently to the requirements of growth markets requires adequate research and development tools. ALD continued to expand its expertise in 2005 through group development plans and in pilot projects with customers and market partners

The ALD Group invested EUR 1.5m in group development projects in fiscal year 2005. EUR 1.1m in additional expenses were incurred within the framework of order-specific pilot projects at ALD GmbH.

In the field of heat treatment, hardening processes for transmission components prone to warping were further developed with a leading automobile manufacturer using the “dynamic quenching” process in order to minimize the warping of thin-walled products.

Another focus was on “dry bainitization” within the scope of the EU’s “Carbain” research project in association with reputable steel manufacturers and end users in the field of transmission and fuel injection technology.

In order to expand the applications of the flexible ModulTherm plant system, alternative processes, such as carbonitriding, soldering and oil separation, are being developed with customers. Corresponding tests were conducted and, after the processes were perfected, production was commenced.

Within the framework of a long-term research project, ALD GmbH, along with other research partners, is developing a new procedure to cost-effectively extract titanium and titanium alloys from recycling primary products. Established melting and remelting techniques are used to extract the hard-to-handle titanium and titanium alloys. This metal is particularly important as it plays a key role in the aerospace industry, a growth market.

Use of titanium aluminide in the aerospace industry is being investigated within the scope of an EU-sponsored project with 40 partners. ALD GmbH is involved in developing the industrial casting process.

In the field of powder metallurgy, a new nozzle system promising to considerably enhance efficiency was developed and tested. This significantly increased the percentage of fine powder. Its successful implementation will allow new markets to be tapped since powder contamination is also minimized.

3. FINANCIAL POSITION AND FINANCIAL PERFORMANCE

Results of Operations

Following the prior-year profit (abbreviated fiscal year from October 1, 2004 to December 31, 2004) of EUR 0.0m, the ALD Group improved its result considerably, reporting profit for the year of EUR 7.1m.
Profit development of the ALD Group is primarily attributable to revenue increases in the vacuum technology division in the fiscal year. High order intake, coupled with corresponding work in process at overhead costs based on restructuring, led to a disproportionate increase in gross profit and thus earnings before taxes.
Due to the downsizing measures at ALD GmbH in 2004, personnel expenses fell by EUR 0.9m or 4.1% in 2005 compared with the adjusted prior-year period. Measures to enhance efficiency with respect to cost, procurement process improvements and reductions in overheads by streamlining processes were continued in the ALD Group in fiscal year 2005.
Operator companies developed well in the fiscal year. As a result of the increase in sales volumes to a key account and another long-term order in the automotive segment, revenue volumes at VACUHEAT rose further. Profit was therefore satisfactory despite the additional investments required and general cost and price development. The associate ALD TT generated an operating profit for the first time.
The sales companies in the US, UK and Japan each achieved positive results. In the US, high order intake gave rise to the highest profit in years. In the UK, the positive result is due to a special transaction in the nuclear segment, with no change in management and marketing compensation.

Net Assets

Net assets at the ALD Group rose by EUR 38.3m, from EUR 74.4m to EUR 112.7m.
Additions to assets in the ALD Group amounted to EUR 9.1m in the fiscal year compared with EUR 0.3m in the abbreviated fiscal year. In addition to the acquisition of the remaining shares in VACUHEAT GmbH (EUR 5.9m), production expansion at VACUHEAT using direct investments of EUR 0.7m and at ALD Thermal Treatment, USA, for EUR 1.4m, a number of replacement and expansion investments were made in IT at ALD GmbH.
As well as additional replacement investments at ALD GmbH, investments in business expansion are planned at Own & Operate companies for the next two years, depending on development. Potential start-ups in this segment will trigger further investments in production facilities.
The increase in trade receivables from EUR 6.1m to EUR 13.5m and receivables from long-term construction contracts from EUR 9.6m to EUR 15.9m is essentially attributable to the positive business development at ALD GmbH. The business expansion of Own & Operate companies increased assets by approx. EUR 1.1m due to the rise in receivables. Assets also record a rise in receivables from affiliated companies of EUR 8.7m to EUR 9.6m. This development is chiefly due to the following transactions. A loan was granted to ALD L.L.C, Wayne, USA, to finance GfE Gesellschaft für Elektrometallurgie mbH, Nuremberg, Germany. An advance payment of EUR 5.0m was also made for the acquisition of shares in GfE Gesellschaft für Elektrometallurgie mbH, Nuremburg, Germany. The decrease of EUR 5.3m in other assets is mainly due to the receipt of outstanding receivables from the sale of shares in ScanWafer, the settlement of receivables from the Federal Administrative Office relating to compensation claims and the decrease in time deposits set aside as collateral.
The increase in trade payables of EUR 2.9m to EUR 11.0m is the result of the high level of work in process for the increased orders at ALD GmbH. Total provisions and liabilities increased from

EUR 7.8m to EUR 15.9m, mainly due to the follow-up cost, taxes and personnel (variable compensation components, vacation, etc.) at ALD GmbH and the open purchase price liability from the acquisition of the remaining shares in VACUHEAT.
In order to finance completed and planned acquisitions or expansions of financial assets, non-current participation certificate capital with a nominal value of EUR 10.0m was raised in 2005. Existing liabilities to banks were refinanced at ALD TT.

Financial Position

Operating cash flow amounted to EUR 20.5m in the ALD Group in the fiscal year (prior year: - EUR 0.9m) Cash and cash equivalents and time deposits rose from EUR 12.6m to EUR 23.6m, chiefly as a result of considerably higher advance payments of EUR 16.0m (prior year: EUR 3.7m), coupled with a low level of work in process as of the balance sheet date. The rise in liabilities to banks from EUR 8.0m to EUR 14.2m is attributable to the ongoing repayment of loans, the repayment of a loan at ALD TT (EUR 2.4m security deposit) and the raising of participation certificate capital with a nominal value of EUR 10.0m.
Equity increased from EUR 23.3m to EUR 29.0m. The increase in the balance sheet total resulted in a fall in the equity ratio from 25.7% to 31.3%.
Around half of asset effects are financed by participation certificate capital (nominal value: EUR 10m) and profit carryfoward as well as the increase in provisions and operating liabilities.
In accordance with group policy, order-specific and closed thus forward exchange contracts are concluded for foreign currency transactions, especially in US dollars, in order to hedge exchange rate risks. EUR 20.2m was hedged as of the balance sheet date.

Overall Picture of Business Development

Fiscal year 2005 met the expectations of management and shareholders with regard to revenues, operating result and net profit for the year in all respects. The ALD Group thus recorded its best ever result. This was attributable to the high level of orders at the start of the year. Furthermore, enhanced productivity and the resulting improvement in cost as well as the reduction in overheads had a positive effect on the result. At the start of 2006, this development continued at ALD GmbH with a disproportionately high order intake and growing business at Own & Operate companies.

4. RISKS

Risk Management System

The ALD Group mains a risk management monitoring system that meets the requirements of the German Law on Control and Transparency in Business ["Gesetz zur Kontrolle und Transparenz im Unternehmensbereich": KonTraG]. The financial control department monitors the adequacy and efficiency of the entire risk management system. Potential business risks are assessed and documented in regular reports to management. This allows negative trends to be identified at an early stage and countermeasures to be taken immediately. In the fiscal year, preparations were made at ALD for the renewal of certification in accordance with DIN EN ISO 9001:2000 and VDA 6.4 Part 4 by carrying out internal surveillance audits.
The special requirements of project business with a manageable number of orders per year are met by a number of risk management instruments. Before offers are submitted, orders are checked thoroughly by specialists from various departments. The enforcement of conditions prevents the acceptance of high-risk projects. This also applies to long-term contracts at Own & Operate companies with substantial business volumes.

Overall Risk Situation

Following a slump in 2004, specialized mechanical engineering recovered well in fiscal year 2005. Order intake and the resulting level of orders ensure all segments are working at full capacity. The flexible personnel policy applied in 2004 (fixed business volume of EUR 70m) is resulting in higher capacity utilization. According to the supply forecasts of key accounts, there are no risks likely to jeopardize the ability of the Own & Operate companies to continue as a going concern provided quality and cost targets are met. Overall, there are no existence-endangering risks at present.
There are no identifiable risks to the existence of the ALD Group. Adequate precautions have been taken for all identifiable risks relating to operating activities. Existing risks are described below.

External Risks

The price of raw materials, including copper and steel, has risen considerably for the qualities and specifications required by ALD. The resulting price hikes were largely compensated for by volume and repetition effects. For ALD products, subcontractors' handling costs are considerably higher than direct material costs. As a result of high demand in the German engineering segment, the capacity utilization of subcontractors also rose significantly. This is reflected in prices and supply times. Any negative effects were largely averted in 2005 by extending existing relationships and establishing new procurement sources.
The procurement environment is expected to remain unchanged in 2006. However, as competitors are facing a similar situation and customers are willing to accept higher prices, no major impact on the Group's result is expected.
The economic dependence of Own & Operate companies on the price development in the area of energy and supplies is countered by long-term sales agreements and alternative solutions.
Due to the fact that many of ALD GmbH's products require export approval, business development with countries such as Iran and India depends on the development of present conflicts. Despite high

business potential, only low budgets are planned for these countries. They therefore have little effect on the results of operations of the ALD Group.
With its wide range of products, the ALD Group serves a number of niche markets, some of which are subject to different demand and innovation cycles. Risks in certain industries and regions can therefore affect the result of individual product areas, but are unlikely to be of any significance to the result of the ALD Group.
The ALD Group is active in oligopolistic market segments with simple supply and demand structures. Through its wide range of products, the ALD Group considers itself superior to all relevant competitors in terms of structures, economic performance and its technological base. Competitors in the plant segment in Europe and the US are significantly smaller in terms of revenues and headcount. Market competitiveness is determined by reference plants, pricing and technology. In the reference plant segments, the ALD Group is well positioned with an average market share of at least 30%. The technology of the ALD Group plays a leading, cutting-edge role in many areas. Despite its location in Germany, ALD GmbH's prices remain competitive as a result of the cost cutting and modularization programs of recent years.
Risks to future developments in plant construction relate to exchange rate changes, especially in the US and Asia. Many emerging markets are also calling for greater domestic shares in the production process. The ALD Group is meeting this challenge by establishing country-specific procurement processes. The first, in some cases, successful projects have already been completed in China. In the US, a network of suitable suppliers is only likely to be established in the medium to long term due to a lack of availability of relevant specialist firms. In the heat treatment segment, the foreign exchange risk has been reduced by forming ALD-Holcroft.

Internal Risks

The profitability of the ALD Group hinges on capacity utilization and streamlined project management. The ALD Group's focus on a low business volume and an organization that allows greater flexibility in processing orders again proved successful in the fiscal year. Despite the rise in order intake, basic capacities in the ALD Group were not increased. Additional capacity requirements were mostly covered externally and by using a flexible working model. This maintains the ALD Group's ability to react to market changes at short notice. A sophisticated project processing system with order-specific project management and ongoing monitoring of KPIs, costs, time and quality helps limit risks.
Research and development work will continue to the extent required to secure our technological lead in the fields of metallurgy and heat treatment. The concept followed by our Own & Operate companies, i.e. of channeling operator know-how back into the continuous optimization of our plant engineering, gives ALD GmbH and operator companies a significant lead on the competition as a plant engineering company.

Financial Risks

To control financial risks, management has drawn up policies and rules of procedure for the subsidiaries based on the principles of functional segregation, transparency and system security. The hedging instruments mentioned below are concluded with reputable banks and insurance companies. Financing instruments may only be used for hedging and not for speculation.
Orders are generally concluded in US dollars or euros. In order to mitigate the foreign currency risk, forward exchange contracts are entered into for all orders when the orders are placed. Although the

foreign currency risk is hedged when an order is accepted, changes in exchange rates occurring in the medium to long term can influence the sales and revenue opportunities for ALD GmbH due to the competitive structure.
Customer receivables are closely monitored in the ALD Group. Credit insurance is not considered necessary as around 90% of the purchase price has been paid by the time the plant is delivered and most of the invoicing by the Own & Operate companies is based on credit notes. Time deposits are only made at banks that are members of the deposit protection fund.
With regard to the financing of subsidiaries, a risk management system forming part of investment controlling is in place to monitor the loans extended to subsidiaries.
Known tax risks are accounted for in preparing the financial statements.
Risks from credit facilities for bank guarantees are addressed by separate agreements with various banking and insurance partners. Liquidity management ensures that the ALD Group remains solvent.

Opportunities

Thanks to its many technologies and specific know-how the ALD Group is one of the world's leading suppliers in most of its product areas. The ALD Group is especially well positioned in the growth fields of energy and mobility.
The Asian economies, particularly China and India, as well as North America are set to see significant growth over the next few years. As a result, energy requirements will remain high, with a commensurate impact on demand and prices. In this context, the ALD Group is well positioned, as a manufacturer of production facilities, in the fields of special materials, manufacture of turbine blades for stationary gas turbines and solar silicon. Growing demand can translate into an increase in revenues if the supplier structure remains as it is.
Our credentials and know-how in the area of nuclear power generation offer the opportunity for additional business given the global renaissance of the construction of conventional nuclear power plants.
Our technological edge in the heat treatment of parts for the new six-gear automatic transmission and the credentials from our orders from General Motors provide further opportunities to expand our global Own & Operate business.

A rise in the strength of the US dollar against the euro could also offer opportunities for the ALD Group, as this would lead to a shift in the competitive situation in our favor. Other currencies are insignificant due to our international customer structure.

5. SUBSEQUENT EVENTS

In 2006, the shares in the Company were transferred to ALD International LLC, Wayne, Pennsylvania, USA. All shares in ALD International LLC are held in the portfolio of Safeguard International Fund L.P.

With effect from January 1, 2006, ALD acquired 100% of the shares in GfE Gesellschaft für Elektrometallurgie mbH (GfE), Nuremberg, Germany, (HRB No. 11697) from Safeguard International Fund PFW, LLC., Wayne, USA. The purchase price is EUR 10,000k, of which EUR 5,000k was paid in fiscal year 2005. The remaining EUR 5,000k plus 6% interest p.a. is payable on December 31, 2006.

All shares in GfE were sold to ALD International LLC., Wayne, USA, as of June 23, 2006. For the shares in GfE, ALD received 20,510 of its 78,625 own shares at a nominal value of EUR 100 each.

ALD Vacuum Technologies Polska Sp.z.o.o., Czosnów, Poland, was founded on March 23, 2006. The purpose of the company is plant production and construction. The company will be fully consolidated for the first time in fiscal year 2006. By forming this company, ALD aims to return to the low-price segment through a more economic production of simple heat treatment furnaces.

There were no other significant events relating to the Company or its business after the balance sheet date.

6. OUTLOOK

According to the OECD's "Economic Outlook", the global economy is set to grow 3.1% in 2006 and thus remain buoyant. Rising crude oil prices will have little effect as this trend is mainly attributable to strong demand from North America, China and India, economies which themselves are driving overall economic growth. Economic growth is forecast to rise year on year in almost all parts of the world in 2006. In the euro zone, real growth of 2.2% is expected. 3.6% economic growth is forecast for the US and 2.8% for Japan. 9.7% and 7.5% economic growth is expected for China and India, respectively.
Prospects in Germany have improved since the fourth quarter of 2005 according to reports by the German Engineering Federation. A marked upturn has been observed over the past six months, with a 13% increase in orders from German customers in the first quarter of 2006.
The VDMA expects engineering output to grow by 2% in 2006, with equal growth in Germany and abroad. The German engineering industry will have to continue adjusting to shorter product cycles and growing competition from copying, especially in Asian countries. Intensive R&A activities and a further increase in productivity is the only way of responding to this competition. In view of the efforts made by its members in recent years, the VDMA considers the German engineering industry to be well placed to continue its growth beyond 2006.
Strategic considerations saw Pfalz-Flugzeugwerke GmbH, Speyer, Germany, sell ALD GmbH back to ALD International L.L.C, Wayne, USA, in 2006.
The ALD Group will start fiscal year 2006 with its highest ever level of orders on hand (EUR 104.9m).

Negotiations with customers have reached an advanced stage, encouraging management to budget for greater earnings and higher order intake in 2006. Management is confident that a further improvement at this high level is still possible. The commitment of most of the workforce to working longer hours is an important prerequisite for achieving this objective. This commitment, coupled with the extended system of variable remuneration, should bring about a lasting improvement in revenues and profitability in all major business areas.

Fluctuations in demand for specific products will continue to shape business. However, the successful mix of products, to which electron-beam (EB) technology and photovoltaics make a valuable contribution, should still allow for steady growth. The aim is to have the product mix provide full coverage of the production stages of melting, remelting and heat treatment so as to remain as independent as possible of investment cycles in individual production areas.

On December 23, 2005, the acquisition of the shares in GfE Gesellschaft für Elektrometallurgie mbH, Nuremberg, Germany, (GfE) as of January 1, 2006 was notarized. Bringing together the two companies has substantially boosted the Own & Operate business, as GfE has operated 16 vacuum furnaces in Nuremberg for many years.

GfE is a leading supplier to the world market of materials for wear-resistant coatings such as titanium-aluminum, base alloys for the titanium industry, gamma titanium-aluminide for lightweight high-temperature applications, high-purity vanadium chemicals and metal powder applications used in medical technology.

The broad product range of GfE gives the company a number of unique selling points. GfE supplies its niche products to reputable and loyal customers, including a number of market leaders.

The aim of the acquisition is to successfully combine engineering skills with experience in operating such facilities, as has already proven profitable in the Own & Operate areas VACUHEAT and ALD TT.

For a number of months now, ALD and GfE have been looking into cooperation projects that will open up new opportunities for both companies. Especially worthy of mention are considerations centering on catering to the market for high-purity, high-melting and reactive materials using EB melting furnaces. Also of interest is powder metallurgy and the use of sintering furnaces of ALD GmbH.

The shares in GfE were resold within the group of companies headed by Safeguard International Fund L.P., Wayne, before the end of the first half of 2006. The synergy effects mentioned above can still be achieved.

In the metallurgy field, initial trends in 2006 show strong demand for remelting facilities for nickel base alloys, superalloys and titanium as well as coating capacities for turbine blades. Solar silicon is also expected to generate business. The photovoltaics industry is currently recording growth rates of 35% p.a.

Order intake in the area of heat treatment in 2006 is expected to be similar to 2005. Despite general recognition of the advantages offered by the new technology implemented by ALD, little is being invested in the automotive and automotive supplier industry at present. Standard facilities and sintering technology offer additional potential thanks to the general economic upturn.

Expansion continues in the Own & Operate area, with the third facility under the wing of ALD TT being opened near Detroit in Port Huron.

With a total of 1,500 transmissions daily, equivalent to an annual output of 450,000 cars, General Motors has identified great opportunities for urgently needed market success. It is hoped that the reduction in gas consumption by more than 10% will revive interest in the products of the world's biggest automotive manufacturer.

The financial basis for the current operations and expansion of ALD is provided by the requisite funds, positive cash flow and banking relationships.

Given that some of the above statements are inevitably based on assumptions, actual results could differ from expectations.
High level of orders of hand, most of which will be completed in 2006, combined with continued market demand and high order intake should lead to good earnings in 2006.

Hanau, Germany, November 12, 2006

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