Annual Report 2006

step by step – one step ahead

Manz Automation AG – Annual Report 2006

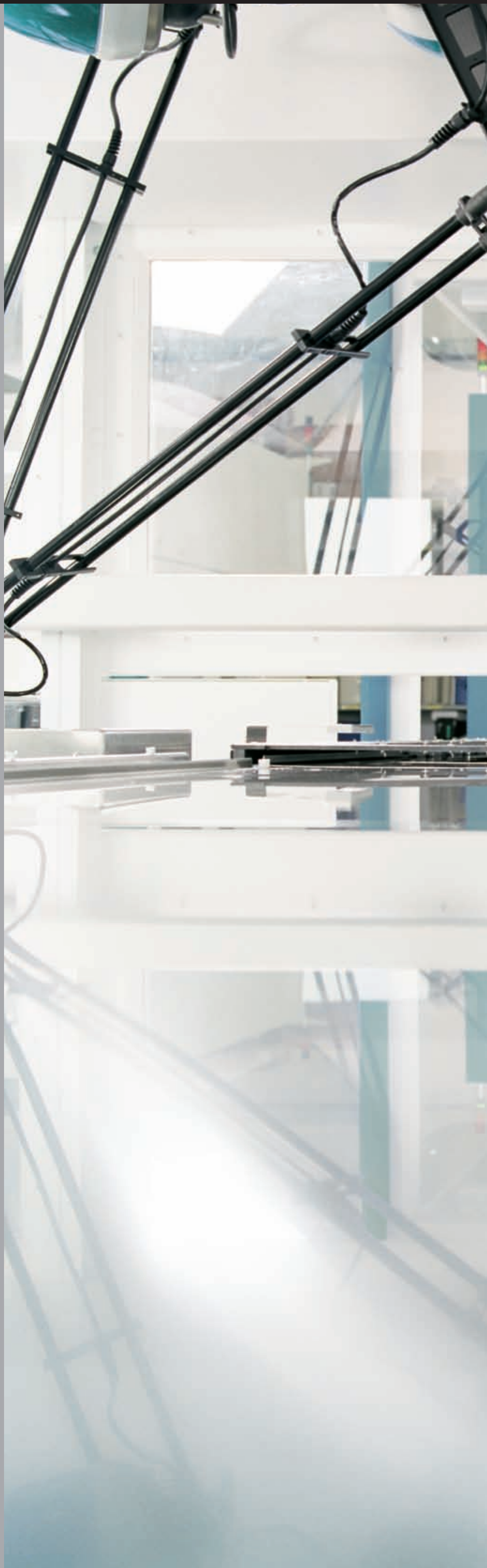
manz automation

Manz Automation AG
Steigaeckerstrasse 5
D-72768 Reutlingen
Phone +49 7121 9000-0
Fax +49 7121 9000-99
www.manz-automation.com
info@manz-automation.com

Overview of consolidated results

in EUR million	2006	2005	%
Revenues	43.81	29.33	49.4
Total operating revenue	44.24	32.09	37.8
EBIT	4.85	3.28	47.9
EBIT margin (in %)	11.1	11.2	–
EBT	4.09	2.74	49.3
Net income	2.78	1.73	60.7
Earnings per share	1.77	3.85	– 54.0
Cash flow from operating activities	2.47	3.31	– 25.4
Equity ratio (in %)	53.0	22.2	–
Net debt	– 4.81	9.38	–

TO SHAREHOLDERS



Dear shareholders,

fiscal year 2006 has been the most successful year in our company's 20-year history! It was characterized by significant increases in revenues and earnings. In addition, our successful IPO in September 2006 means that we have created a key condition for continuing our dynamic growth in the coming years.

This positive business growth was driven, in particular, by the photovoltaic market. For example, we were able to increase our revenues in fiscal year 2006 to EUR 43.8 million – up by around 50 % yea r-on-year. EBIT also increased by around 50 % from EUR 3.3 million to EUR 4.9 million, and our net profits were even up by more than 60 % from EUR 1.7 million to EUR 2.8 million. At the same time, our order book grew from approx. EUR 20 million at the start of the year to a record-breaking approx. EUR 45 million at the end of the year. As a result, we are optimistic that we will also be able to grow substantially in the coming years.

We thus enjoyed very pleasing growth in our business operations. This was also aided by the expansion of our strategic alliance with Roth & Rau. Together with Roth & Rau we acquired major orders in the high-growth Asian photovoltaic market. A further joint order from Conergy AG with a volume of more than EUR 11 million for Manz Automation AG alone will boost revenues and earnings in the current year in particular. The highlights in fiscal year 2006 included a new order from Q-Cells AG, which means that now, for the first time, all of the major German solar cell manufacturers rank among Manz Automation's customers. The order for the end-to-end automation of a solar cell line from the largest Taiwanese solar cell manufacturer Motech also means that we have been able to further reinforce our position on the Asian market. This also shows that our technology is a great competitive advantage – we're currently the only company in the world who can supply all the machines for an annual output of 50 MW per production line.

Manz Automation AG's Managing Board. Left to right: Dieter Manz, Chairman, Martin Hipp and Otto Angerhofer

Our synergies between our systems.solar and systems.lcd divisions also play a key role. These have allowed our company to rapidly enter the high-growth market for thin-film solar. As thin-film modules can be produced on large-sized glass substrates, we have been able to implement our existing LCD production system solutions almost one to one. The anticipated downturn in the LCD market – resulting from the overcapacity at LCD manufacturers that has been build up over the past few years – is an opportunity for Manz Automation. It will allow us to shift our resources to thin-film technology. And that has allowed us to acquire a major order for more than EUR 18 million at the start of 2007.
This order spans the delivery of technology-leading laser structuring equipment to be integrated in turnkey thin-film solar production lines. At the same time, the high-volume new orders offer us the opportunity to increasingly standardize our machines, thus further boosting profitability.

That is why we are forecasting revenue growth of more than 40 % to EUR 60 to EUR 63 million in the current fiscal year. Our EBIT margin is also forecast to be double-digit, with the opportunity of growing our return on sales further thanks to the synergies described above. This positive business growth should also be reflected in stable share price performance over the medium term.

The Managing Board

Dieter Manz
CEO

Otto Angerhofer

Martin Hipp

Dear shareholders,

Fiscal year 2006 was an eventful year at Manz Automation AG – characterized both by a significant expansion in our operating business as well as a successful IPO. The Supervisory Board performed its tasks conscientiously and carefully in line with the law and our articles of incorporation. The Supervisory Board's work was primarily conducted in its meetings; in addition, its members also fulfilled their duty of supervision in regular discussions outside the meetings. The Supervisory Board as a whole and its individual members regularly exchanged information with the Managing Board on current developments at the company. In fiscal year 2006, the Supervisory Board held a total of five meetings with the Managing Board. These meetings ensured that the Supervisory Board was always kept up to date on current developments and provided impulses for the company's further growth. The Managing Board informed the Supervisory Board of the company's risk management system and the Managing Board's activities to monitor risks. In addition to the IPO, the Supervisory Board's activities also focused to a great extent on expanding the company's international activities.

The annual financial statements and consolidated financial statements prepared by the Managing Board as of December 31, 2006 were audited by ALLTAX & AUDIT GmbH and were both issued with an unqualified auditor's opinion. The Supervisory Board discussed the annual financial statements and consolidated financial statements with the auditor to the extent required and was informed of the audit reports. After an in-depth review by the Supervisory Board, no objections were raised to the annual financial statements and the consolidated financial statements for fiscal year 2006. The Supervisory Board approved the management report and the group management report. It approved the annual financial statements as of December 31, 2006 prepared by the Managing Board and the consolidated financial statements as of December 31, 2006 prepared by the Managing Board with its resolutions dated April 24, 2007.

The Supervisory Board

Dr. Jan Wittig

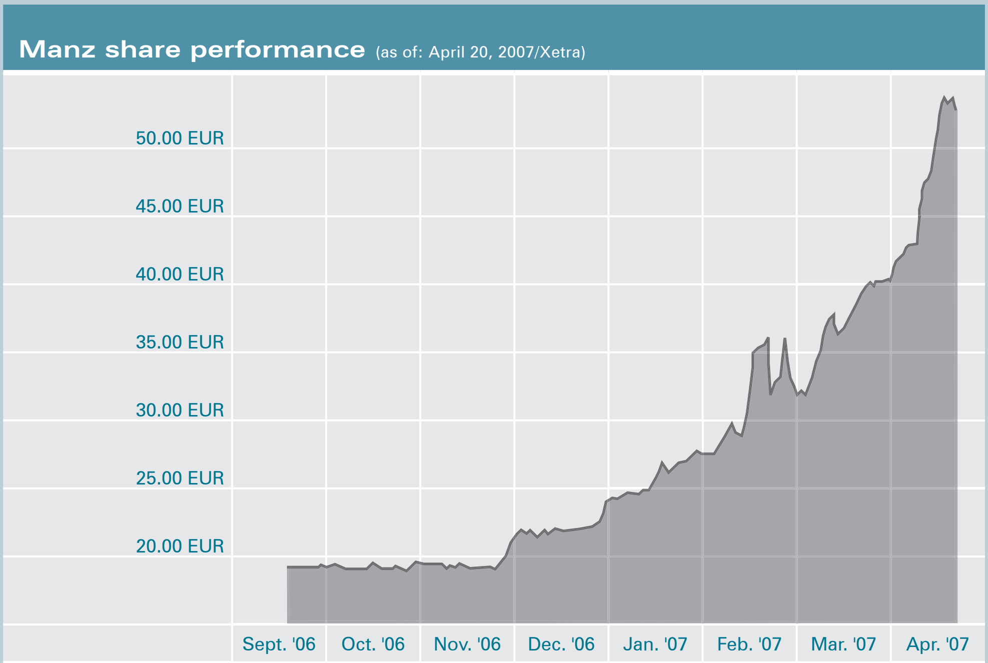
Dr. Jan Wittig, Chairman of Manz Automation AG's Supervisory Board

Manz Automation AG shares

Overview

By going public on September 22, 2006, Manz Automation AG created a key condition required for continuing the company's dynamic growth on a rapidly expanding market. As part of a capital increase, the company offered 780,000 no-par value bearer shares for sale at a price of EUR 19.00 per share. As a result, proceeds from the issue totaling EUR 14.8 million accrued to Manz Automation AG. After the deduction of transaction costs, net proceeds from the issue totaling EUR 14.3 million remained. In addition to the new shares from the capital increase, a further 84,000 shares from the holdings of existing shareholders and 113,500 shares were placed as part of an overallotment option (greenshoe). The capital increase caused the number of shares with a theoretical interest of EUR 1.00 in the share capital to increase to 3,257,250.

Key information for Manz shares	
German Securities Code Number (WKN)	A0JQ5U
ISIN	DE000A0JQ5U3
Stock exchange symbol	M5Z
Trading segment	OTC (Entry Standard)
Stock exchange	Frankfurt
Share type	No-par value bearer shares each with a proportionate interest of EUR 1.00 in the share capital
Share capital	EUR 3,257,250
Number of shares in circulation:	3,257,250



Since initial listing on September 22, 2006, shares of Manz Automation AG have enjoyed zestful performance. At the end of the year, the shares price had climbed to EUR 24.00 (Xetra), up approx. 26% compared to the first day of trading. This price was driven by factors including the constant increase in our order book as well as the positive sales and earnings growth in the second half of 2006. The share price continued to grow strongly after the balance sheet date. The shares peaked in the first quarter of 2007 at EUR 40.55. The shares were listed at EUR 40.50 on the last day of trading in Q1 – up 113% compared to the issuing price of EUR 19.00. As a result, our market capitalization on March 30, 2007 totaled EUR 131.9 million

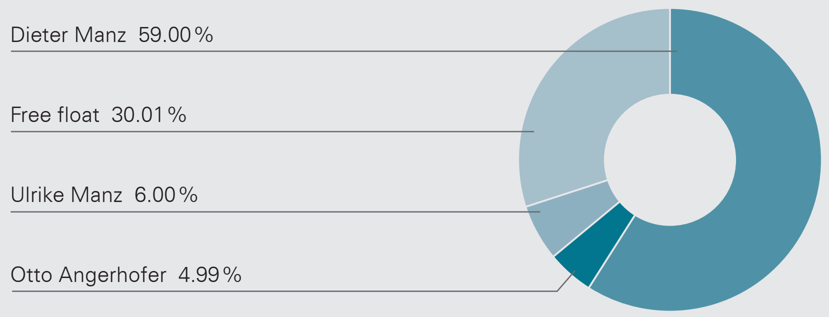
Capitalization

During fiscal year 2006, the share capital increased from EUR 450,000 at the start of the year to EUR 3,257,250. As a result of a resolution by the General Meeting on July 6, 2006, Manz Automation AG's share capital was increased from EUR 450,000 by EUR 225,000 to EUR 675,000 against cash contributions by issuing 225,000 new shares at an issuing amount of EUR 1.00 per no-par value share. The Chairman of the Managing Board Dieter Manz was authorized to subscribe for and acquire shares. In addition, the General Meeting on July 6, 2006 resolved to increase the company's share capital from EUR 675,000 by EUR 1,802,250 to EUR 2,477,250 from company funds by issuing 1,802,250 new, no-par value bearer shares to shareholders with a ratio of 100:267. The capital increase was performed by transforming the net retained profits from fiscal year 2005 into the company's share capital. Finally, the capital increase as part of the IPO led to an increase in share capital from EUR 2,477,250 by EUR 780,000 to EUR 3,257,250. The remaining income from the issue was added to the share premium.

Shareholder structure

At the end of 2006 Manz Automation AG had a stable shareholder base, with the shareholders supporting the company's long-term, sustained growth. The company's founder and CEO Dieter Manz currently holds a 59.00% interest. Otto Angerhofer, member of the Managing Board, holds a 4.99% interest, Ulrike Manz holds a 6.00% interest in the company. The company's free float thus totals 30.01%.

Manz shareholder structure



Investor Relations

After a concentrated roadshow during the IPO, the Managing Board went on to enter into regular dialog after the IPO with investors and financial journalists. An Investors' Day at the company's offices in December 2006 met with highly positive feedback. Manz Automation AG plans to report in depth on its business growth in fiscal year 2007 via an ongoing flow of information and by participating in four capital markets conferences and additional roadshows. The company plans to exceed the transparency requirements for Entry Standard companies. An in-depth six-month report, immediate publication of company disclosures and IFRS accounting will make a major contribution in this regard.

2007 Calendar of events	
May 2007	Publication of Q1 2007 figures
June 26, 2007	Annual General Meeting
August 2007	Publication of 2007 six-month report
November 2007	Publication of Q3 2007 figures

MANAGEMENT REPORT


manz
automation

Business Report

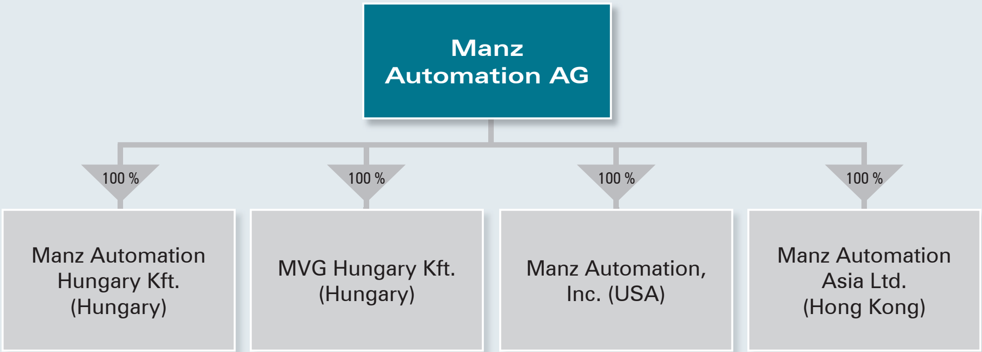
Business activities and underlying conditions

Group structure and participations

Reutlingen-based Manz Automation AG is one of the world's leading providers of system solutions for automation, quality assurance and laser process technology for the photovoltaic and LCD industry. The group's core competences are robotics, image processing, laser and control technology. The group's bundled expertise and ongoing research and development activities secure the group's technological market leadership. The company has three divisions: systems.solar (photovoltaic), systems.lcd (LCD) and systems.aico (components and OEM systems, in particular for the tooling sector). In addition, the company is in the process of setting up a fourth division, systems.lab. This focuses on automating laboratory systems for the pharmaceuticals and life science sector.

systems.solar	systems.lcd	systems.aico	systems.lab
System solutions for automation, laser process technology and quality assurance in the production of solar cells from crystalline silicon and thin-film solar modules	System solutions for automation, laser process technology and quality assurance for the production of LCD flat screens	OEM systems and components for automation in various industries	System solutions for laboratory automation in the life science area
Research and development Further development of the technology base in the engineering, robotics, control and drive technology, industrial image processing, software and laser technology segments			

As the parent company of the Manz group, Manz Automation AG had four wholly-owned foreign subsidiaries at the end of the year. Two of these companies are based in Hungary, with one subsidiary in the US and one in Hong Kong. All of the subsidiaries are included in Manz Automation's consolidated financial statements and are fully consolidated accordingly.



In fiscal year 2006, we increased our interest in the Hungarian subsidiary Manz Automation Hungary Kft, which is based in Debrecen. Manz Automation AG acquired the remaining 30 % interest from the original co-founder for a purchase price of around EUR 57 thousand by way of a purchase agreement dated June 20, 2006. The Hungarian subsidiary's activities include the production of lathed and milled parts as well as pre-assembly and the assembly of component groups for the machines produced later in Germany. As a result of the relocation to larger premises and extensive investments in the Hungarian production facility (see also the report on events after the balance sheet date), the vertical integration in Hungary is to be further expanded in future and complete standard machines are to be produced. As a result, the German facility can increasingly focus on technological further developments. This means that resources will be used even more efficiently within the group, thus further boosting profits.

The second Hungarian company, MVG Hungary Kft., focuses exclusively on renting and managing the property used by Manz Automation Hungary Kft., and was primarily founded for liability reasons. Merging the two Hungarian companies is currently being reviewed.

The US subsidiary is based in North Kingstown (Rhode Island, USA). In addition to sales, this company is responsible, in particular, for the installations and the subsequent provision of services such as repair and maintenance. Its proximity to customers means that this subsidiary ensures the fastest possible reaction times, which gives the Manz group further competitive advantages.

The fourth subsidiary, Manz Automation Asia Ltd., Hong Kong, has similar tasks. In addition for selling original products in the East Asian region (in particular Taiwan, South Korea and China), it also provides installation and services and ensures the supply of replacement parts. In addition, it coordinates the sales and service offices in Hsinchu and Tainan (both Taiwan) and Seoul in South Korea. This company also serves to improve penetration of the Asian market and ensures ongoing high-quality services for Asian customers. This structure allows the Manz group to provide excellent support to the entire Asian market. Japan is an exception. Japanese LCD and solar cell manufacturers exclusively use Japanese suppliers, however they also primarily supply the Japanese market. As a result, for strategic reasons Manz Automation does not plan to enter the Japanese market.

Products and areas of application

Manz Automation AG is one of the world's leading providers of system solutions for automation, quality assurance and laser process technology. It focuses in particular on developing and producing end-to-end systems for the photovoltaic, LCD, hard metal production and laboratory automation segments. Many of the systems are already global market leaders – both with regard to their standard of technology as well as their performance and quality. All of Manz Automation's system solutions are based on the underlying technologies of robot technology, image processing, laser technology and control technology. The company has built up far-reaching competence in these areas during the past 20 years.

Products in the systems.solar division

Crystalline solar cells segment (c-Si)

The photovoltaic sector is a future-proof technology. It will be possible to cover an increasing proportion of energy requirements with renewable energies as a result of the direct conversion of sunlight into electrical energy – thus further cutting environmental pollution. Sunlight is transformed to electrical energy in solar cells, the core element of photovoltaic systems. In particular the low production costs with the simultaneous high performance of solar cells are decisive factors for the economic efficiency of solar cells compared to standard energy sources. Thanks to Manz Automation's systems, our customers – leading global solar cell manufacturers – can meet both of these two requirements.

Crystalline solar modules (c-Si) are produced in a multi-stage process. The value chain is traditionally broken down into five stages:

Silicon producers	Wafer producers	Solar cell manufacturers	Module-ready	System providers
Production of pure silicon	Production of silicon wafers from pure silicon	Processing silicon wafers into photo-voltaic cells	Connecting solar cells and module production	Combination of modules, accessories (transformers, cables, etc) and assembly solutions; sales

Source: Ernst & Young, "Photovoltaic in Germany – Market Study 2005", January 2006

In this value chain, Manz has focused its system solutions on the key third stage in particular – manufacturing crystalline solar cells. In turn, this production process is broken down into ten key production stages, from the receipt of silicon wafers (the raw material for solar cells) through to checking the finished solar cells and packaging. Manz Automation AG's system solutions are used, in particular, to efficiently link the individual productions stages, for example, loading and unloading the various machines in the production process. In addition, Manz offers solutions for individual production stages, such as quality assessment and the necessary laser edge isolation.

Crystalline solar cells production line process stages

systems.solar –
loading and unloading
silicon solar cells

In total, solar cell manufacturers currently have to invest approx EUR 12 to 15 million to set up a fully automated and thus cost-efficient production line with an annual production capacity of 50 MW. Manz Automation can currently cover around 45 % of this order volume – this shows the company's very wide range of services. Over the medium term, Manz Automation plans to further increase its share of the value chain. In future, particular importance will be attached to integrated quality assurance and line integration and control.

Thin-film solar module segment

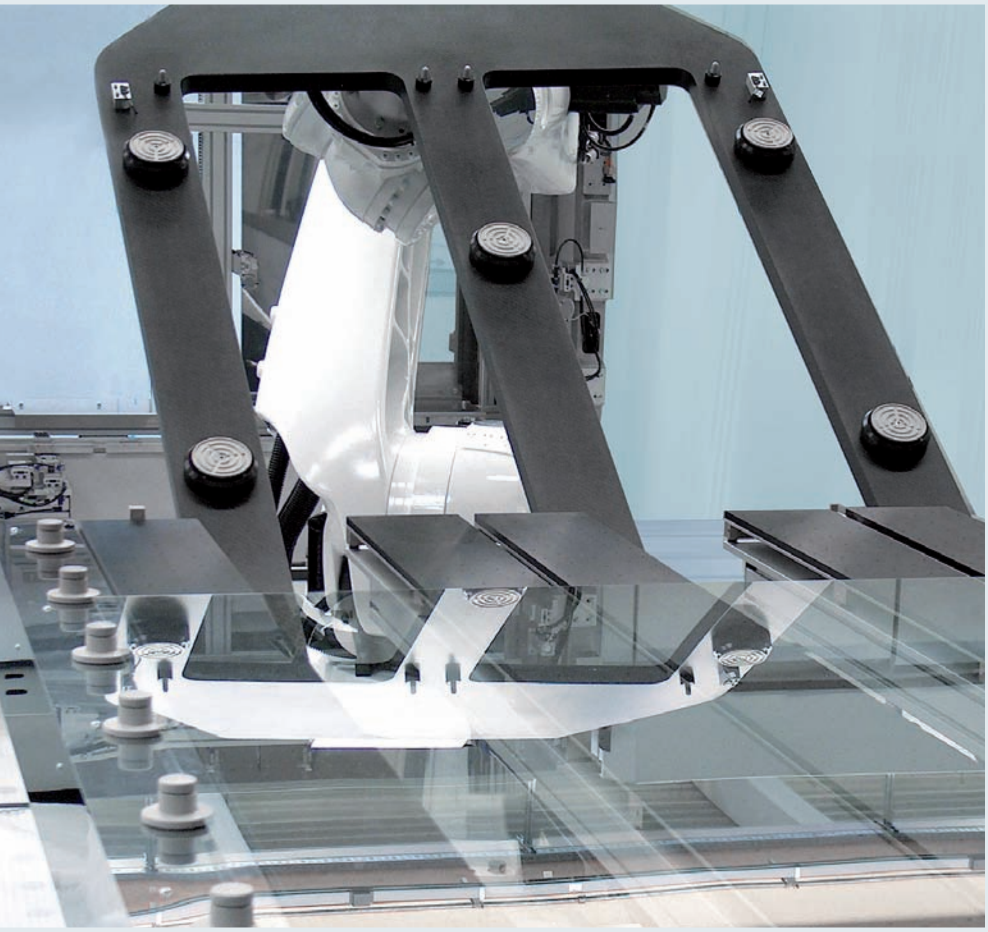
As a result of the current scarcity of silicon as a raw material, which has been caused by the rapid increase in the quantity of crystalline solar cells produced world wide, thin-film solar modules have recently been further developed. This technology is used to manufacture solar cells by adding layers of just a few micrometers of conductive and semiconductive materials, mostly to glass substrates. This technology allows manufacturers to significantly reduce the high costs of raw materials, as expensive crystalline silicon wafers are not needed. The production process for thin-film solar modules mostly comprises a multi-stage coating process for the glass substrates and subsequent laser or mechanical scribing in each case. At present, in addition to linking production stages, Manz Automation is focusing on developing and producing systems for laser scribing, mechanical scribing and laser edge deletion.

Thin-film production line process stages

In total, Manz Automation AG can currently provide approx. 15% of the total volume of a fully automated production line for thin-film solar modules. Manz Automation's percentage is lower than in the production process for crystalline solar cells, however installing these production lines is linked to a much higher volume of investment for the manufacturers: At present, an end-to-end production line for thin-film solar modules with an annual production capacity of 25 MW costs around EUR 40 million.

Products in the systems.lcd division

Products in the systems.lcd division include, above all, automation systems for handling glass substrates that are required for the production of LCD flat-screen displays. LCD flat-screen displays are produced under extreme cleanroom conditions that also apply for the automation systems provided. The majority of the Manz systems installed are used to load and unload the in-line sputter systems (vacuum coating systems for glass substrates) delivered by Applied Materials. Automated handling has become an absolute necessity over the past few years, as the glass substrates have now reached a size of more than 5 m^2 (2,200 mm x 2,600 mm) while thickness has remained at a constant 0.7 mm. This means that manual handling is no longer possible. In addition to low breakage rates, the throughput speed is also a key factor for LCD manufacturers. A new type of construction meant that it was possible to substantially reduce machine size in 2006, while simultaneously improving performance. This has again expanded the competitive advantage together with strategic alliance partners.



systems.lcd –
substrate handling

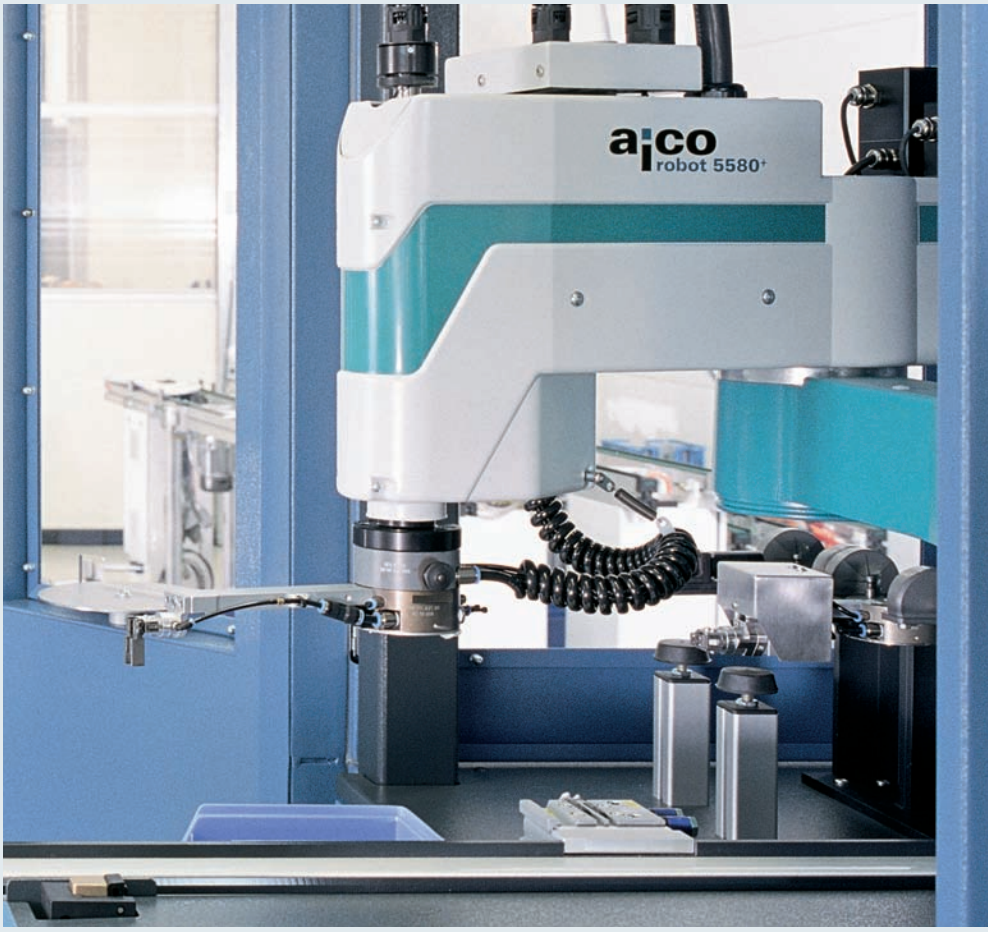
In addition to automation systems for substrate handling, the product range also includes automation systems for laser cutting equipment and systems for transport and handling in in-line inspection systems. Further innovations are currently being prepared. For further details please refer to the research and development section.

Products in the systems.aico division

The company's aico division (automation intelligence components) sells systems and components that have mostly been developed for the systems.solar and systems.lcd divisions and which are primarily used by these divisions. The sale of OEM systems and components has allowed a significant increase in the quantities of basic components, such as robots that are used as a fundamental component in all of Manz Automation AG's systems. This allows Manz Automation AG to realize economies of scale and enjoy cost advantages.

The OEM systems include an end-to-end range of robotic equipment that is used in producing hard metal tools, sintering materials and electronic products. This robotic equipment is used, for example, to load and unload machines for the production of hard metal tools.

In its components segment, Manz Automation AG offers a product range that allows solutions to be generated for a vast range of automation areas. These include, for example, industrial robots, grabbers, industrial computers, control software and image processing systems.



systems.aico –
robot-press automation

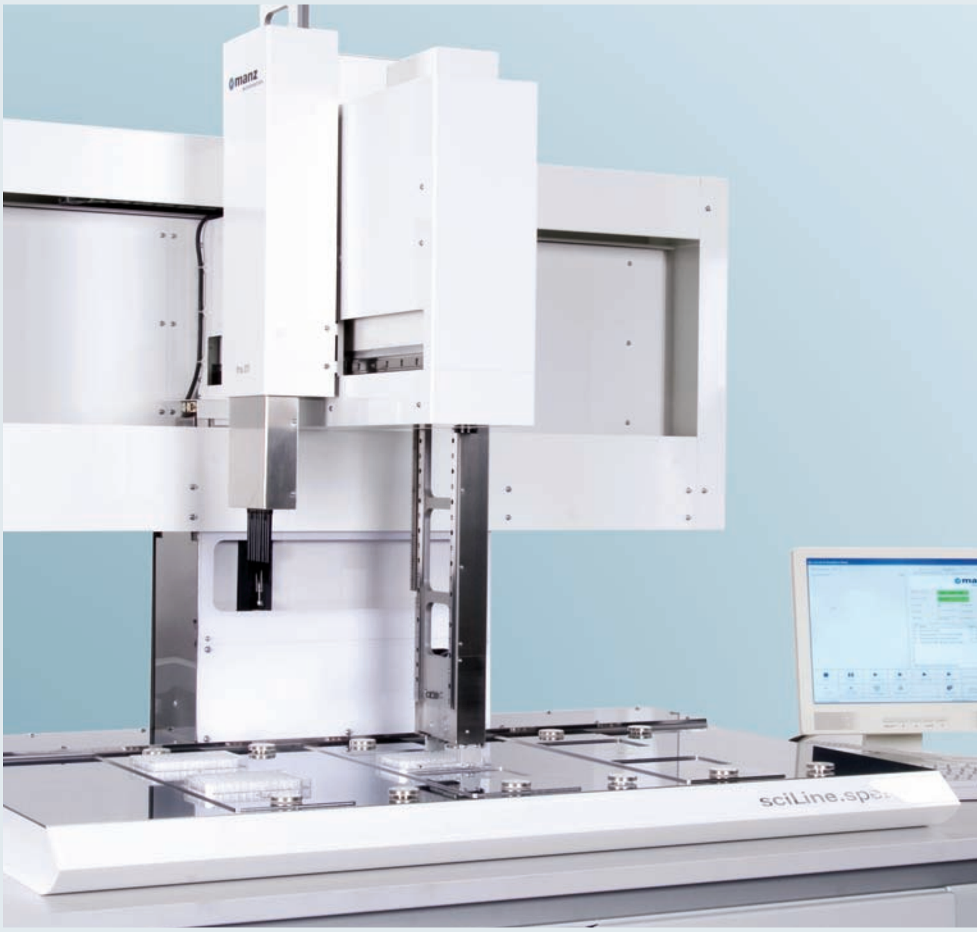
Research and development

The company made significant process in its research and development activities. For example, in the systems.solar division, the performance of all of the existing systems has been improved – taking these up to meet the requirements of a solar cell production line with annual capacity of 50 MW. This affects, for example, the throughput speed for goods-in checking for wafers or the requisite sorting of solar cells. This performance is a global USP for Manz Automation and underscores its technological market leadership. In addition to further developing the existing systems, the company also develops new machines and systems in order to further improve the vertical integration in the creation of production lines for crystalline solar cells and thin-film solar modules. This includes, in particular, laser scribing equipment and its continuous improvement.

Manz Automation has significantly improved the handling systems for vacuum coating equipment supplied by its strategic alliance partner Applied Materials in its systems.lcd division. By further developing the equipment it has been possible to cut space requirements in half, while gaining further significant improvements in performance with regard to speed and substrate sizes (generation 8: 2,200mm x 2,600mm). This so-called 2-in-1 principle has already been realized in initial projects together with Applied Materials and has led to substantial cost savings for customers together with simultaneous performance improvements. Manz is thus further expanding its market lead together with Applied Materials. In order to secure this position on the market, last fiscal year the company also drove the development of laser cutting equipment for LCD substrates.

Manz Automation has also implemented an initial development project for the high-growth OLED technology market together with Applied Materials. OLED technology, which could revolutionize the lighting and display market over the medium term, allows the production of top-quality displays. However, these have to be produced in a vacuum or a protective gas atmosphere. Handling requires innovative automation solutions. These include the likes of so-called mask position equipment, which Manz developed last fiscal year. This means that the company has set its course at an early stage to position itself successfully in this high-growth market.

systems.lab –
laboratory robot
sciLine.speed



Research and development has presented initial products for the systems.lab division, which is currently being established. These products will be used in laboratory automation for life science and pharmaceuticals companies. As a result of the complex, highly varied requirements in the field of pharmaceuticals research and development, and also in chemical analytics and diagnostics, Manz has developed a highly flexible, modular solution: sciLine.speed. Various component groups, such as grabbers, pivot axes and sensors can be combined with each other to optimally map the customers' workflows with the utmost efficiency. These also allow externally supplied components to be integrated – for example incubation or centrifuge solutions. The sciLine.speed system is also characterized by an innovative modular system which allows various basic devices to be integrated to form a system line – ensuring a top-level flow of materials and, at the same time, fulfilling the customers' workflow quality requirements.

In total, Manz Automation had a ratio of research costs to revenues of 5.2 % in fiscal year 2006 (previous year: 4.8 %). If we only consider capitalized development costs, the research cost ratio totals 3.5 %.

Customers, sales and marketing

Customers in the systems.solar division

Products in the systems.solar division are supplied to the producers of solar cells made of crystalline silicon and thin-film solar modules world wide. Outside Japan, Manz Automation's customers include all of the key manufacturers of solar cells world wide. Last fiscal year, the company acquired key strategic orders from companies including Q-Cells AG as well as the Spanish solar cell manufacturer Isofoton. In addition, Manz received an order from the largest Taiwanese manufacturer Motech for the complete automation of a production line with an order volume of around EUR 5 million. The company also bolstered its position on the Chinese market with extensive new orders from the two largest manufacturers Suntech and Yingli. Finally, Manz Automation AG also benefited from the world's fastest growing market, South Korea, where the leading South Korean manufacturer KPE placed an initial order with the company. With regard to thin-film solar modules, Manz supplied key parts of a production line for Germany's first large thin-film factory at Würth Solar. The company also received further key strategic orders for automation systems and laser scribing equipment from the Q-Cells subsidiary Brilliant. These new orders have allowed the company to further diversify its customer base and to develop new opportunities for growth.

Customers in the systems.lcd division

As a result of the excellent position of Far-Eastern manufacturers on the global market, Manz Automation AG supplies all of its systems.lcd products to countries in East Asia. The primary East Asian markets are, in particular, Taiwan and South Korea. At present, Manz Automation AG's customers include the world's five manufacturers of LCD flat-screen displays. Some orders are acquired together with the strategic alliance partner Applied Materials. However, the company is always in direct contact with the customer to provide services and to be able to market new products. As a result of the temporary downturn in demand for LCD displays which can be observed, strategic key new customers have been acquired in related areas of application. Automation systems have been supplied to a subsidiary of Balda AG for laser cutting for Apple iPhone displays. A complex system for the automated production of electronic X-Ray image sensors has been developed for a US company.

Customers in the systems.aico division

In fiscal year 2006 the company expanded the customer base in its systems.aico division, with the result that this division recorded new record-breaking results. Existing customers include, in particular, manufacturers of powder presses and grinding machines for the production of hard metal tools and sintering materials. Almost all of the leading providers of hard metal tools rank among the company's customers. Manz Automation's most recent new customers include a German subsidiary of the world's leading tool manufacturer Sandvik. A purchase agreement has been concluded with the largest US manufacturer Kennametal which covers deliveries to all of this company's global production facilities. Manz has also expanded and internationalized its customers for its component sales, for example with successful projects in China, Sweden and South Africa. The company acquired one customer – Iscar (Israel) – with the result that more than 200 robots were sold to customers in fiscal year 2006.

Customers in the systems.lab division

As this division is still being established and the products are still being developed, the company does not yet have any systems.lab customers. Potential customers include companies in the pharmaceuticals or life science sectors, as well as laboratories and research establishments.

Sales and Marketing

The company had an end-to-end marketing mix for its products in fiscal year 2006. In addition to online and print advertising and a regular customer newsletter, the company's sales and marketing activities included, in particular, participating in specialist trade fairs. The company's participation in trade fairs in Germany and abroad, such as “FDP Taiwan” in Taipei, the “European Photovoltaic Solar Energy Conference and Exhibition” in Dresden and “Automatica” in Munich allowed the company to contact customers directly.

The extensive services that Manz performs for its customers directly on location are a key sales argument. These include machine maintenance, supplying replacement parts and, in particular, fast reaction times in the event of a disruption. The company expanded its services in particular last fiscal year in order to ensure proximity to its customers. This gives the Manz ongoing contact with its customers – which makes sales easier and offers an additional advantage compared to the competition. Manz Automation AG also hired a new branch manager in Taiwan in fiscal year 2006. This manager was previously employed by the strategic alliance partner Applied Materials and has excellent knowledge of the local market. In addition, Manz also enjoyed sales success with its strategic alliance partners Roth & Rau and Applied Materials, and these will also make a key contribution to the company's growth in future.

Market and competitive environment

Competitive environment

In 2006, the stable underlying economic conditions helped to ensure that the positive growth on the market for high-tech engineering companies, such as Manz Automation, continued. For example, the overall economic development, with GDP growth of 2.7 %, was better than had originally been forecast and was up significantly on growth in 2004 (1.6 %) and 2005 (0.9 %). Although the German economy enjoyed regained strength, growth was again driven by exports. According to preliminary estimates, these were up 11 % year-on-year and are forecast to increase again in fiscal year 2007 by a further 9 %. German exports were again driven by Asia with forecast growth rates of 11.9 % in 2006 and even 14.5 % in 2007. Asia, and China in particular, are thus driving the world's dynamic economic growth – according to preliminary estimates this was up 5.1 % year-on-year. The further outlook is also positive for both economic growth in Germany and Europe as well as for the global economy – even though dynamism will slow slightly. These perspectives, which signal a continued high readiness to make investments by both companies and consumers alike, are thus signal positive further growth at Manz Automation AG.

systems.solar division

The market environment for the systems.solar division is characterized by developments in global energy prices and the political objectives for renewable energy. Surging energy prices, in particular for oil and the associated prices for natural gas, are making renewable energies more attractive for end consumers – although these are still expensive. Renewable energy already accounts for around 12% of Germany's gross electricity consumption – and this figure is set to rise. This growth is also supported by the German EEG (Renewable Energy Act), which ensures that end consumers receive remuneration for feeding electricity from renewable sources into the grid at a rate which decreases annually. The global debate on climate protection is also having a positive impact on demand for renewable energy.

Last year again the photovoltaic market in Germany – which is still the world's largest single market – again enjoyed dynamic growth. In 2006 more than 100,000 new photovoltaic systems were installed, and German solar cell manufacturers produced almost 50% more solar cells than in the previous year with around 500 Megawatt Peak (MWp). Around the world, the output produced in 2006 is expected to have increased to more than 2.0 Gigawatt Peak (GWp), and in the coming years significantly double-digit growth rates are forecast world wide. This means that solar cell manufacturers will have to install additional production lines to be able to meet the increasing demand. At the same time, the resulting forecast bottleneck for silicon, the raw material needed for crystalline solar cells, and the resulting higher module prices will force solar cell manufacturers to constantly increase production efficiency. Manufacturers also believe that Germany's EEG – which is a global pioneer and which has been introduced in a similar form in many other countries – will place them under increasing cost pressure.

This is an excellent constellation on the market for Manz Automation AG, as its quality assurance and automation systems allow significant increases in production quality and efficiency, thus allowing solar cell manufacturers world wide to combat the growing price pressure. In addition, the company benefits from the growing demand for photovoltaic systems.

The increasing proportion of thin-film modules, which currently account for less than 5% of the market, also offers an alternative for solar cell manufacturers. This technology allows significant reductions in silicon requirements and the modules' low costs offer high returns for end users. As a result, experts are forecasting an increasing market share for thin-film modules. Both the company and market experts alike are forecasting a market share of more than 25% in the coming years. Manz Automation AG also offers innovative solutions for this technology thanks to the existing synergies with the systems.lcd division, which means that the company will benefit from this trend.

systems.lcd division

Growth on the LCD market is driven, in particular, by the increasing proportion of LCD-TFT flat screen displays for TVs and desktop and notebook displays. As a result of the significant increase in production capacity at display manufacturers (e.g., Samsung, LG.Philips, AU Optronics or Sharp) and simultaneous cautious demand by end consumers, capacity uptake at the manufacturers fell, in particular in the first six months of 2006. This meant that new and replacement investments for production lines were, in part, pushed back to later dates and the increased inventories are initially being reduced. Positive impulses could already be felt on the market at the end of 2006, which means that increasing growth is forecast from the middle of 2007. As a result, sales of 81 million LCD TV screens are being forecast for 2007, with the strongest growth being seen for screen sizes of 40 – 42 inches. Manufacturers will then acquire latest-generation production systems in particular, that will allow them to produce larger glass substrates. Manz Automation AG will benefit from this investment behavior as the world's leading provider of systems for handling glass substrates.

The total market for flat screens, including TV screens, desktop monitors, notebook and mobile phone displays totaled USD 85 billion in 2006 according to estimates by DisplaySearch. Of this total, crystalline TFT-LCD displays accounted for USD 63.7 billion. Sales of displays of 10 inches and more grew by 19% to USD 52.7 billion. This growth was driven, in particular, by flat screens for TVs, which were up 85% to USD 22.5 billion in 2006. The average size of flat TV screens increased by 13%, and at the same time average prices fell by 24%. The average drop in sales prices totaled 25% over the past few years, and this is forecast to continue. In order to counter this, manufacturers will have to invest in more efficient, higher performance machines to stay competitive. Manz Automation AG will benefit from this development on the market over the medium term.

systems.aico division

Manz Automation AG's systems.aico division sells components and systems that were originally developed for the LCD and photovoltaic divisions or which were bought in as components. The higher purchasing volumes allow the company to benefit from procurement advantages and, at the same time, it can increase its returns from in-house developments. In so doing, the company serves several sub-markets, including tool manufacture or the packaging industry. It has built relationships with manufacturers such as Agathon (Switzerland) over many years, and these relationships are characterized by stable, constant revenue growth. On the whole, growth in these sub-markets is impacted by economic developments and a wide range of investment cycles in the industries. In contrast to the systems.solar and systems.lcd divisions, no significant industry and growth dynamism can be seen. As a result, this division has been recording slight growth in its contributions to sales and earnings for many years, and it will continue to make a key contribution in future.

Company targets and strategy

Manz Automation AG pursues the strategic objective of securing and expanding its leading global position for automation, quality assurance and laser process technology. By focusing on future-proof industries Manz is able to participate in its customers' dynamic growth and thus increase its sales and earnings. The target is to constantly optimize the company's sales and services in all industries in order to secure or increase its market share. In parallel, the company will build up the resources needed for this purpose (production premises, qualified employees, further development of its internal organization). The company pursues four key strategies to implement these growth targets:

- Further technological development:
  Manz Automation AG aims to secure and expand its technology leadership by constantly improving machine performance. In so doing, the company fulfills the increasing quality and technology requirements that result, for example, from the rapid increases in production output at solar cell factories.

- Increase amount of value added:
  In particular in its systems.solar division, the company aims to increase the amount of value it adds to production lines for c-Si solar cells and thin-film solar modules.

For example, it plans to develop additional processing lines. This will allow Manz Automation to reinforce its position on the market and increasingly develop to become a line integrator.

- Develop new products and penetrate new markets:
  Based on the company's own, existing technology and systems, Manz Automation AG plans to drive the transfer of technology to other industries. This will allow new markets and additional growth potential to be developed. For example, the company is currently developing a laboratory automation solution that is to be included in the new systems. lab division in the medium term. Thanks to its technological expertise in handling glass substrates, the company is currently also working on an initial development project for OLED lighting (OLED: organic light emitting diode). Experts believe that when its matures, OLED technology will revolutionize the lighting and display market. As a result, Manz Automation AG is positioning itself at an early stage in order to be able to become a leader on this high-growth market.

- External growth via possible acquisitions:
  The company constantly monitors current developments on the relevant markets. If acquisitions would allow new, attractive markets to be penetrated, or if these would accelerate further technology growth, Manz Automation AG will review the acquisition of other companies. Strategic participations in partner companies or suppliers may allow technology to be secured, and this strategic option may be reviewed in individual cases.

Financial position and results of operations

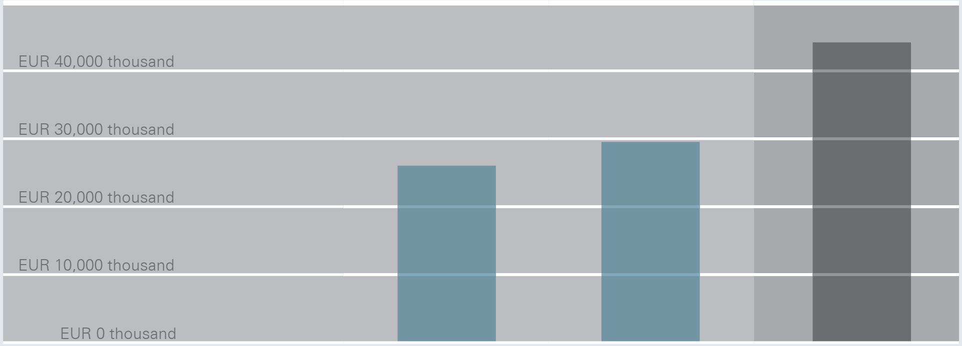
Earnings position

Manz Automation AG prepares its income statement using the total cost (type of expenditure) format. In fiscal year 2006, revenues climbed by almost 50 % from EUR 29.3 million to EUR 43.8 million. This was due, in particular, to the significant increase in order intake in the systems.solar division, which contributed approx. 42.5 % to total revenues (previous year: 33.7 %). This reflects the highly dynamic growth on the photovoltaic market around the world. The systems.lcd division accounted for around 33.2 % of revenues (previous year: 38.4 %). Revenues also grew in the systems.aico division: revenues in this division totaled EUR 10.6 million or 24.3 % of total sales (previous year: 27.9 %).

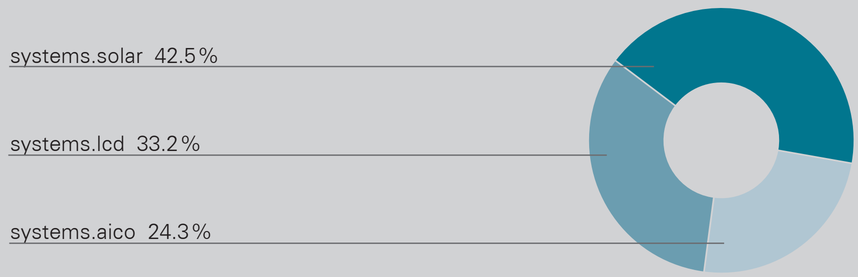
On a region-by-region basis, Manz Automation recorded substantial growth in all regions. Revenues in Germany lifted from EUR 10.7 million to EUR 15.7 million (35.9 % of total revenues). EUR 9.2 million were generated in the rest of Europe (previous year: EUR 5.5 million). As a result of the strong investment activity by Asian manufacturers, revenues in Asia climbed from EUR 12.4 million to EUR 17.4 million (39.6 % of total revenues). This means that Asia is once again Manz Automation AG's key export region. Revenues totaling around EUR 0.8 million were recorded in the USA (previous year: EUR 0.6 million) and EUR 0.7 million was recorded in other regions (previous year: EUR 0.1 million).

Revenue growth 2004 – 2006

	2004	2005	2006
in EUR thousand	25,836	29,329	43,813



Revenues by division



Revenues by region

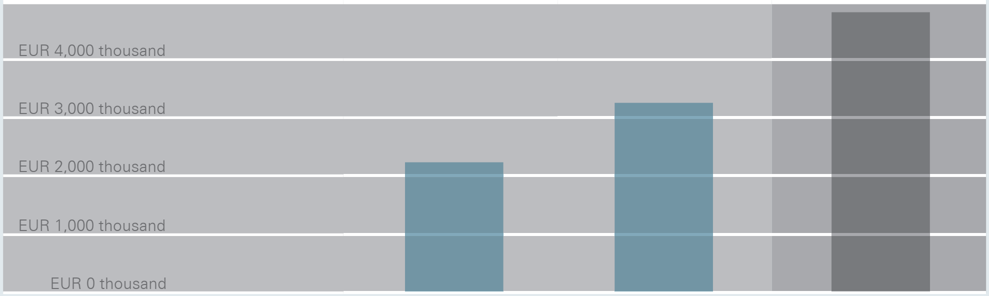
Taking into account the changes in inventories and own-work capitalized, total operating revenue increased to EUR 44.2 million in fiscal year 2006. This is an increase of EUR 12.2 million or 37.9% year-on-year.

Manz Automation AG's gross profits increased in fiscal year 2006 to EUR 22.6 million (previous year: EUR 17.2 million). In some cases higher quality materials were used, and also some of the prices for raw materials and procurement prices increased, which meant that the gross profit margin was down slightly year-on-year compared to total operating revenue to 51% (53.4%). However, the company is confident that its increasing standardization and realizing economies of scale will allow it to keep its gross profit margin at a high level.

Expanding production capacity and the increased requirements for qualified employees meant that personnel expenses were up to EUR 11.3 million (previous year: EUR 9.4 million). At the same time, the personnel expenses ratio fell from 29.1% to 25.6% in fiscal year 2006 – which indicates that Manz Automation AG's productivity has increased further. Amortization/depreciation totaled EUR 1.2 million (previous year: EUR 0.8 million). This related in particular to property, plant and equipment and to development costs capitalized in previous years. A total of EUR 0.4 million was due to the latter. Other operating expenses included, for example, sales and marketing costs, in particular logistics costs, administrative costs and consulting costs. These totaled EUR 5.2 million and were up year-on-year (EUR 3.7 million) proportionately in line with the increase in total operating revenue.

EBIT growth 2004 – 2006

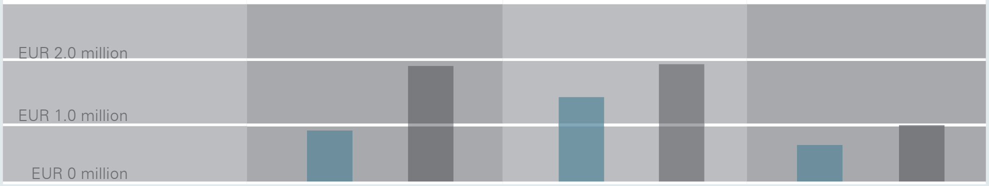
	2004	2005	2006
in EUR thousand	2,244	3,276	4,851
EBIT margin (in %)	8.7	11.2	11.1



Manz Automation AG recorded EBIT totaling EUR 4.9 million – up 48.1 % year-on-year (EUR 3.3 million). This corresponds to an EBIT margin of 11.1 %, almost identical to the previous year (11.2 %). On a segment-by-segment basis, the systems.solar division recorded EBIT totaling EUR 1.92 million. This corresponds to an EBIT margin of 10.3 %. This was topped by the systems.lcd division, where EBIT increased to EUR 1.94 million (EBIT margin: 13.4 %). The systems.aico division contributed EUR 0.99 million to consolidated earnings, or an EBIT margin of 9.3 %.

EBIT growth in divisions 2005 – 2006

	systems.solar		systems.lcd		systems.aico	
	2005	2006	2005	2006	2005	2006
in EUR million	0.94	1.92	1.56	1.94	0.78	0.99
EBIT margin (in %)	9.5	10.3	13.9	13.4	9.6	9.3



Despite the significant improvement in the company's capitalization since October 2006, the group's financial result fell from EUR – 0.52 million to EUR – 0.74 million in fiscal year 2006. This was due to the interest and rental expenses for the company's premises, which were booked as leasing expenses in the financial result. These were due in their full amount in fiscal year 2006, whereas in 2005 the leasing expenses were only due from June 1. In addition, the financial result includes a bullet premium in the amount of EUR 40 thousand which resulted from the repayment of a silent partnership in the amount of EUR 1.0 million. This is also linked to the final partial profit transfer in the amount of EUR 12.5 thousand in fiscal year 2006.

Earnings before taxes (EBT) were up to EUR 4.1 million, or 49.5 % compared to fiscal year 2005 (EUR 2.7 million). This means that the EBT margin was stable year-on-year at around 9.3 %. Net income after taxes totaled EUR 2.8 million or a return on sales of 6.3 % (previous year: EUR 1.7 million or 5.9 %). This corresponds to earnings per share of EUR 1.77, which was down year-on-year as a result of the capital increases in 2006 (previous year: EUR 3.85). Manz Automation AG booked net retained profits of EUR 4.7 million (2005: EUR 4.0 million). As a result of the further dynamic growth and the associated requirements for working capital for the advance financing of new orders, the Managing Board is proposing to the General Meeting not to pay a dividend for the past fiscal year.

Net asset position

As a result of the capital increases implemented in fiscal year 2006, total assets increased substantially as of December 31, 2006. These almost doubled from EUR 21.4 million to EUR 40.9 million. This was linked to a significant increase in balance-sheet equity from EUR 4.7 million to EUR 21.7 million. As a result of the capital increases implemented in fiscal year 2006, the share capital increased from EUR 450,000 to EUR 3,257,250. The following individual capitalization activities were conducted:

Capitalization activities 2006

Date	Pre-capital increase share capital	Issuing amount	Post-capital increase share capital
July 6, 2006	EUR 450,000	EUR 1.00	EUR 675,000
July 6, 2006	EUR 675,000	n.a.*	EUR 2,477,250
Sept. 22, 2006	EUR 2,477,250	EUR 19.00	EUR 3,257,250

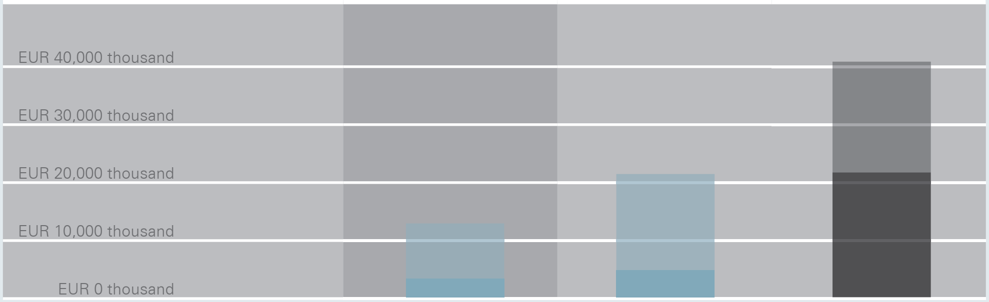
* Conversion of 2005 consolidated net retained profits to share capital

In fiscal year 2006 a total of 2,807,250 new shares each with a theoretical interest of EUR 1.00 in the share capital were issued. The premium from the capital increases was added to the share premium less listing costs; the share premium thus increased from EUR 0.15 million to EUR 13.5 million. Correspondingly, the equity ratio at the end of 2006 increased to 53.0 %, a significant improvement compared to December 31, 2005 (22.2 %). As a result, Manz Automation AG has highly stable capitalization, which will allow it to substantially optimize its financing costs in the coming years.

At the end of 2006, non-current liabilities totaled EUR 9.8 million – exactly the same as in 2005. A silent participation by MBG (*Mittelständische Beteiligungsgesellschaft*) was repaid in fiscal year 2006, and deferred taxes increased from EUR 1.2 million to EUR 2.4 million. This was primarily due to the percentage of completion method used in IFRS accounting. This method requires that orders are only carried as revenues if completion is 40 % or more, which is not the case in the tax base. Financial liabilities from leasing agreements constitute the largest item of non-current liabilities. These totaled EUR 5.7 million at the end of fiscal year 2006. As a result of the long-term lease for the company's premises in Reutlingen, rental expenses that are due within a period of more than one year are carried as finance leases. In contrast, an item of around the same amount is carried under property, plant and equipment as an asset less annual depreciation.

Total assets and equity 2004 – 2006

	2004	2005	2006
Total assets in EUR thousand	12,723	21,380	40,879
Equity in EUR thousand	3,202	4,738	21,666



Current liabilities increased in fiscal year 2006 from EUR 6.9 million to EUR 9.4 million. This was due to factors including the increase in trade accounts payable, which increased from EUR 2.4 million to EUR 3.0 million. In addition, as a result of the significant increase in its order book and the strong German business, the company also received higher advance payments. These totaled around EUR 4.2 million on December 31, 2006 (previous year: EUR 1.9 million). In order to improve financing costs, the company was able to reduce its overdrafts from EUR 0.6 million to zero.

On the assets side, non-current assets increased from EUR 10.4 million to EUR 11.3 million. This is due, in particular, to the development costs capitalized in fiscal year 2006, less scheduled amortization/depreciation. As a result, the capitalized development costs increased at the end of 2006 from EUR 2.5 million to EUR 3.6 million. In addition, the increase in our participating interest in our Hungarian subsidiary Manz Automation Hungary Kft. from 70% to 100% as part of consolidation was booked as goodwill in the amount of EUR 30 thousand. Property, plant and equipment only changed slightly year-on-year.

The key item is land and buildings, under which the future rental payments are capitalized as part of the finance lease for the company's premises. In addition, this item includes property, plant and equipment for the company's own building and land in Hungary. Current assets increased significantly compared to December 31, 2005 from EUR 11.0 million to EUR 29.6 million as of December 31, 2006. As a result of the high order book, stocks of raw materials, consumables and supplies increased. At the same time, a large number of orders were successfully concluded and invoiced in December. This meant that the stock of semi-finished products and work-in-progress was lower, down from EUR 3.9 million to EUR 2.8 million. It also meant that receivables were up from EUR 4.5 million to EUR 11.0 million on the balance sheet date.

Liquidity

During the IPO, as a result of the capital increases detailed above, the company's cash and cash equivalents increased significantly from EUR 0.2 million to EUR 12.5 million at the end of 2006. In addition to cash and cash equivalents, this item also includes fixed-term deposits and marketable securities. As a result, Manz Automation AG has a sufficiently high level of liquidity to be able to finance further growth. Manz Automation AG's cash flow in the narrower sense (net income less amortization/depreciation of non-current assets and increase/decrease in non-current provisions) in 2006 totaled EUR 4.0 million. This corresponds to an increase of 52.0% over the previous year (EUR 2.6 million). Taking the change in working capital into account, the company recorded a cash flow from operating activities of EUR 2.5 million, down EUR 0.8 million year-on-year. This was due, in particular, to the increase in receivables on the balance sheet date. The cash flow from investing activities totaled EUR –2.0 million and was primarily used for ongoing research and development projects (previous year: EUR –2.6 million). The cash flow from financing activities increased to EUR 11.9 million (previous year: EUR –1.2 million). This includes the gross proceeds from the issue from the capital increase as part of the IPO (EUR 14.8 million), whereas the IPO costs (EUR 1.0 million), the repayment of the silent partnership (EUR 1.0 million) and the overdraft facility (EUR 0.7 million) reduced the cash flow from financing activities. This resulted in an increase of cash and cash equivalents in fiscal year 2006 totaling EUR 12.3 million.

Report on key events after the end of the fiscal year

In January 2007, Manz Automation AG passed a resolution to further expand the Reutlingen facility. By September 2007 the company plans to build another production building with offices, which will house approx. 150 employees. The new facility will have a total area of approx. 11,200 m², the new building will have a usable area of approx. 4,800 m². In order to optimize the amount of capital locked up, Manz Automation AG will lease the new building, as is the case for the existing building. At the same time, the company resolved also to further expand the facility in Hungary. The Hungarian subsidiary's relocation is scheduled for April 2007. This will result in a four-fold increase in the subsidiary's production area and buildings, thus creating the conditions required to increase vertical integration. In future, in addition to the production of parts, the Hungarian facility is to be used for the first time for the end-to-end assembly of standard machines. This will free up resources at the Reutlingen facility for projects with greater development requirements.

In February 2007, the Supervisory Board of Manz Automation AG appointed the former commercial manager, Mr. Martin Hipp, as the new CFO as of March 1, 2007. As the third member of the Managing Board, in addition to Finance, Accounting and Financial Control, Mr. Hipp will also be responsible for IT and HR.

In March 2007 Manz Automation AG received a major order from its strategic alliance partner Applied Materials. As a provider of turnkey production lines for thin-film solar modules, Applied Materials placed an order with Manz Automation AG to supply several laser scribing lines. The order volume is more than EUR 18 million. This means that the cooperation with Applied Materials covers not only the previous systems.lcd division but now also high-growth thin-film solar technology (systems.solar). Further orders, from companies including Solarworld AG, mean that the order book increased to a record-breaking EUR 60 million at the end of March compared to EUR 45 million at the end of the year. The bulk of these orders will already generate revenues and earnings in fiscal year 2007.

There were no further events that could have had a substantial impact on the financial position and results of operations after the end of the fiscal year.

Risk report and forecast

Company risks

Manz Automation AG consciously enters into entrepreneurial risks in order to be able to gain corresponding benefits from the market's opportunities. In order to recognize, control and minimize risks at an early stage, the company has set up a comprehensive risk management system. This is documented in a risk management manual and is optimized on an ongoing basis. Risk management includes allocating each risk to a risk-owner. This risk-owner monitors and evaluates the risk at least once per year and provides details of potential activities to minimize risk. Implementation of these activities is reviewed at least once per year, and joint decisions are taken in this regard. This risk evaluation also analyzes new, potential risks and these are included in the catalog of risks for further control and monitoring.

Dependency of business operations on customers' readiness to invest

The company's business activities depend on its customers' readiness to make investments, and this in turn depends on various other factors. These include economic developments or – as is the case for photovoltaic – change in state subsidies. An economic downturn or a reduction in state subsidies could lead to a decline in demand among final customers, and thus to a lower readiness among Manz Automation AG's customer's to make investments. This would have a direct impact on the company's revenues and earnings. However, as a result Manz focuses on several attractive future-proof industries, in order to be able to compensate for growth blips within a single industry by shifting resources to a different industry. In addition, by globally diversifying its customer base the company is reducing its dependency, which is too high, on national economic developments or country-specific subsidy programs.

Risks from increasing competition

Irrespective of the insecurities surrounding growth forecasts for the photovoltaic market and the market for LCD flat screens, in future competition for automation and quality assurance systems may increase. In addition, existing competitors could expand their production capacity or engage in aggressive pricing, and they could offer customers better conditions than the company. This could have a direct impact on Manz Automation AG's margins and the company's market shares. In order to minimize these risks, Manz Automation AG makes ongoing investments in research and development projects in order to maintain and expand its technology leadership.

Risks from dependency on cooperation partners

In both its systems.solar and systems.lcd division, Manz Automation AG works closely together with its strategic alliance partners. Strategic alliances with Roth & Rau (systems. solar) and Applied Materials (systems.lcd) resulted in revenues of around EUR 6 million in fiscal year 2006. Although there are long-standing business relationships with the company's business partners, and the OEM systems that the company produces cannot be substituted by competitors' systems without great effort and expense, the sustained continued existence of the business relationships is not guaranteed. The end of one or several business relationships – for whatever reason – could thus have a negative impact on Manz Automation AGs revenues or earnings. However, the company's has its own sales activities in all of its divisions, and is thus in close contact with the world's leading manufacturers of solar cells and key manufacturers of LCD flat screen displays. Over the medium term, this will allow the company to compensate for any possible lost revenues.

Risks from rapid technology changes and the market launch of new products

Further research and development is of key importance for the company's product range. This is because of a constant technology migration – in particular in the photovoltaic and LCD sectors. There is no guarantee in this process that the company will always be able to offer the technologies that the market demands over the long term. In addition, there is also the risk that new developments may be associated with higher costs than had originally been budgeted, with the result that losses may result from individual development projects. There is also no guarantee that new products that are launched will be successful on the market, which could result in further risks for the company's revenues and earnings. This relates, in particular to the systems.lab division, which is currently being set up. This division's success on the market is currently not secured. In order to control these risks, Manz Automation AG is in close contact with its customers, and can thus recognize new trends at an early stage. In addition, the company carefully examines possible potential on the market in advance, in order to be able to estimate the returns on its development projects and thus optimally deploy its resources.

Dependency on qualified employees in key positions

The company's success depends on qualified managers and employees, in particular the members of its Managing Board and its second tier managers. The loss of executives or employees in key positions could have a negative impact on the company's development, and thus impact its financial position and results of operations. At the same time, there is no guarantee that the company will be able to hire a sufficient number of new, suitable executives or additional employees. However, as a listed company, Manz Automation AG enjoys greater attention from potential employees and can thus enhance its attractiveness as an employer. In addition, over the medium term, the listing also gives the company the opportunity of increasing employee loyalty by issuing shares and allowing its employees to participate correspondingly in its success.

Risks from penalties

Contractual penalties could also result in risks for Manz Automation AG. A fixed delivery date is agreed when orders are issued – both parties regard this date as being binding. If Manz is not able to make delivery on the agreed date, for example as a result of delivery bottlenecks or scarce resources, this could reduce income from the project. This would have a direct impact on the group's earnings. However, in order to control this risk, the available resources are monitored at an early stage and, if required, adjusted to the respective order volume. This allows the company to restrict the earnings risk to a maximum of 1 % of the volume of revenues.

Opportunities from future growth

Significant market growth in the photovoltaic sector

The photovoltaic sector has enjoyed dynamic growth over the past few years. Experts believe that growth rates will even increase in the coming years. New forecasts for market growth assume an average global production capacity of around 10,000 MWp in 2010. This would mean five-fold growth in global solar cell production compared to 2006, whereas only a three-fold increase had previously been forecast (6,000 MWp in 2010). In order to be able to achieve the forecast production capacity, more than 200 new c-Si or thin-film production lines will have to be installed world wide. Manz Automation AG offers a large number of solutions for automation, quality assurance and laser process technology in this regard, allowing it to participate in the market growth. At the same time, the successive decrease in subsidization means that the industry will have to constantly improve the efficiency of the existing production lines in order to increase quality and at the same time cut the costs per Watt. As a result, both market growth and the constant pressure to increase efficiency offer substantial potential for Manz Automation AG to grow, and open up the opportunity of realizing substantial increases in revenues and earnings in future.

Synergies in the systems.solar and systems.lcd divisions open up competitive advantages

In future, synergies between the systems.solar and systems.lcd division will make an increasing contribution to the company's growth and, at the same time, to boosting its profitability. Synergies result, in particular, from the comparable technology requirements when automating LCD production lines and thin-film solar module lines. This relates to, in particular, the handling of large-area glass substrates, where Manz Automation AG has been building up a high level of expertise for many years, and which thus give it clear competitive advantages in the high-growth market for thin-film technology. As a result, it is possible to employ technologies in new high-growth sectors (thin-film solar modules) that have already been fully developed. This reduces the costs of development projects, and an increasing level of machine standardization leads to increased profitability for Manz Automation AG. In addition, possible growth blips on the LCD market can be more than compensated for by the dynamic growth enjoyed by thin-film solar modules, allowing resources to be used even more profitably. All of these factors have a positive impact on the company's future earnings and assets.

Cross-selling effects from expanding strategic alliances

Manz Automation AG has long standing strategic alliances with companies such as Roth & Rau and Applied Materials. Whereas the cooperation with Applied Materials has only covered the LCD market to date, this company plans the strategic penetration of the photovoltaic market, opening up attractive opportunities for cross-selling. The company will supply a large number of laser scribing lines for the production of thin-film solar modules to Applied Materials as early as fiscal year 2007 in a first joint project. Assuming that this project is successful, it will be possible to also ramp up this cooperation in this market segment in the coming years. This will open up additional potential for growth for Manz Automation AG.

Value added increased with research and development projects

At present, Manz Automation AG can provide around 45 % of the order volume for the installation of production lines for the manufacture of crystalline solar cells. Manz can supply around 15 % of production lines for thin-film solar modules. In order to be able to further optimize value added, the company is working on various R&D projects to allow it to offer machines for further production stages that will be required in future. These include, for example, developing a machine for the metallization process (production stage in the manufacture of c-Si cells), which Manz would also like to be able to offer in future.

Manz AG is thus further implementing its strategy of being a line integrator, allowing it to provide the entire back-end for c-Si solar cell production lines in future. By expanding its value added, the company will be able to further improve its position on the market and also its position in its cooperation with its strategic alliance partners. Both can have a very positive impact on the company's revenues and earnings.

Outlook

The anticipated dynamic growth in the photovoltaic sector will have a positive impact on Manz Automation's business. As a result of extensive new orders at the start of fiscal year 2007, including from the strategic alliance partner Applied Materials, the Managing Board has increased its growth forecast for the current fiscal year. Manz Automation AG's Managing Board is now forecasting revenues of EUR 60 to 63 million in fiscal year 2007, up from the revenue targets of EUR 55 to 58 million announced in February 2007. This would correspond to year-on-year revenue growth of at least 36 %. As a result of the order book of more than EUR 60 million at the end of March 2007, the forecast revenue growth over the year as a whole only carries a low risk, as the order period required to produce the orders is generally between six and nine months. This means that the bulk of the order book will already be recorded in revenues and earnings this fiscal year. The revenue growth is primarily driven by the photovoltaic market, which accounts for around 70 % of the current order book. In contrast, the share from the LCD segment is lower. In this segment, the overcapacity built up over the past few years is making itself felt, resulting in manufacturers of LCD displays postponing investments. This opens up the opportunity for Manz to position and establish itself on the market segment for thin-film solar modules at an early stage, as existing resources can be shifted from the LCD segment to the high-growth, high-margin systems.solar division. As a result, the technology synergies between these two divisions will develop increasingly in fiscal year 2007.

As a result of these developments, the Managing Board believes that EBIT in the current fiscal year will total EUR 6 – 6.5 million. This corresponds to a double-digit EBIT margin. Here, the Managing Board believes that there is additional potential to improve profitability, as an increasing proportion of series machines are already being produced this year, thus allowing Manz to benefit from economies of scale.

As a result of the growth forecasts for the entire market, in particular for photovoltaic, Manz Automation AG's Managing Board is also forecasting double-digit growth rates for revenues and earnings in fiscal year 2008.

Manz Automation AG – The Managing Board

Reutlingen, April 17, 2007



Dieter Manz
CEO

Otto Angerhofer

Martin Hipp

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES


manz
automation
aico
robot 5580
manz

Consolidated income statement

	Notes	2006 in EUR	2005 in EUR
Revenues	(1)	43,812,644	29,328,916
Change in finished goods		– 1,085,585	992,497
Own work capitalized	(2)	1,516,021	1,771,657
Total operating revenue		**44,243,080**	**32,093,070**
Other operating income	(3)	211,476	163,506
Cost of materials	(4)	– 21,896,265	– 15,103,244
Gross profit		**22,558,291**	**17,153,332**
Personnel expenses	(5)	– 11,325,254	– 9,351,880
Amortization/depreciation		– 1,152,781	– 833,381
Other operating expenses	(6)	– 5,229,198	– 3,692,312
Operating result (EBIT)		**4,851,058**	**3,275,759**
Financial result	(7)	– 743,288	– 524,724
Profit transfer due to partial profit and loss transfer agreement	(8)	– 12,500	– 12,500
Pre-tax earnings (EBT)		**4,095,270**	**2,738,535**
Income taxes	(9)	– 1,316,085	– 1,007,576
Net income		**2,779,185**	**1,730,959**
Earnings per share in EUR (diluted = basic)	(10)	1.77	3.85

Consolidated balance sheet

		31.12.2006	31.12.2005
ASSETS	**Notes**	**in EUR**	**in EUR**
Intangible assets	(12)		
Licenses, software and similar rights and assets		271,263	340,273
Development costs capitalized		3,552,569	2,472,026
Goodwill		30,398	0
Property, plant and equipment	(12)		
Land and buildings including buildings on third-party land		6,459,931	6,690,666
Plant and machinery		407,080	383,337
Other equipment, operating and office equipment		498,747	468,942
Advance payments		0	24,831
Deferred taxes	(9)	34,676	34,143
Non-current assets		**11,254,664**	**10,414,218**
Inventories			
Raw materials, consumables and supplies		1,569,865	1,108,209
Unfinished goods and work in progress		2,802,983	3,891,590
Finished goods/merchandise		691,176	717,597
Advance payments		297,631	395,245
Trade accounts receivable	(13)	11,034,392	4,482,361
Tax receivables		366,600	1,245
Other current receivables	(14)	243,763	107,065
Cash and cash equivalents	(15)	12,541,616	232,917
Prepaid expenses	(16)	76,429	29,947
Current assets		**29,624,455**	**10,966,176**
TOTAL ASSETS		**40,879,119**	**21,380,394**
EQUITY AND LIABILITIES		**in EUR**	**in EUR**
Subscribed capital		3,257,250	450,000
Capital reserves		13,529,065	146,782
Retained earnings		166,605	172,236
Currency translation		26,604	4,563
Consolidated distributable profit		4,686,338	3,964,089
Equity	(17)	**21,665,862**	**4,737,670**
Silent partnership	(18)	0	1,000,000
Non-current financial debt	(19)	1,500,000	1,565,315
Financial liabilities from leases	(20)	5,650,950	5,817,960
Provisions for pensions	(21)	49,367	39,999
Other non-current provisions	(22)	221,000	160,000
Deferred taxes	(9)	2,370,879	1,186,462
Non-current liabilities		**9,792,196**	**9,769,736**
Current financial debt	(23)	0	662,150
Trade accounts payable	(24)	2,968,293	2,383,707
Advance payments received	(25)	4,185,563	1,929,359
Tax liabilities	(26)	17,106	12,252
Other current provisions	(27)	1,242,471	774,900
Other liabilities	(28)	480,704	583,689
Financial liabilities from leases	(20)	526,924	526,931
Current liabilities		**9,421,061**	**6,872,988**
TOTAL EQUITY AND LIABILITIES		**40,879,119**	**21,380,394**

Consolidated cash flow statement

	2006	2005
	EUR	EUR
Cash flow from operating activities		
Net income	2,779,185	1,730,959
Amortization/depreciation of non-current assets	1,152,780	833,381
Increase (+) / decrease (–) in provisions for pensions and other non-current provisions	70,368	68,481
Cash flow	**4,002,333**	**2,632,821**
Increase (–) / decrease (+) in inventories, trade accounts receivable and other assets	– 6,268,579	– 814,023
Increase (+) / decrease (–) in trade accounts payable and other liabilities	4,736,548	1,495,271
Cash flow from operating activities	2,470,302	3,314,069
Cash flow from investing activities		
Proceed from the disposal of assets	0	2,568
Payments for investments in intangible assets and property, plant and equipment	– 1,980,766	– 2,553,892
Payments to acquire participating interests	– 57,023	0
Cash flow from investing activities	– 2,037,789	– 2,551,324
Cash flow from financing activities		
Receipts from appropriations to equity	15,045,000	0
IPO costs (pre-tax)	– 1,039,539	0
Payments to shareholders	– 225,000	– 225,000
Proceeds from non-current borrowings	0	1,500,000
Payments for the repayment of non-current loans	– 65,315	0
Payments for the redemption of finance leases	– 161,573	– 72,942
Payments for the redemption of the silent partnership	– 1,000,000	0
Change in overdraft facilities	– 662,150	– 2,356,598
Cash flow from financing activities	11,891,423	– 1,154,540
Cash and cash equivalents – end of period		
Net change in cash and cash equivalents (sub-total 1 - 3)	12,323,936	– 391,795
Exchange rate-related changes in the value of cash and cash equivalents	– 15,237	4,252
Cash and cash equivalents on January 1	232,917	620,460
Cash and cash equivalents on December 31	12,541,616	232,917
Composition of cash and cash equivalents		
Cash and cash equivalents	12,541,616	232,917
Cash and cash equivalents on December 31	12,541,616	232,917

Statement of changes in consolidated equity for fiscal year 2006 (IFRS)

	Subscribed capital	Capital reserve	Retained earnings		Currency translation	Consolidated net retained profits	Minority interests	Total Equity
			Retained Earnings	Market valuation				
	in EUR	in EUR	in EUR	in EUR	in EUR	in EUR	in EUR	in EUR
Balance as of January 1, 2005	**450,000**	**146,782**	**172,236**		**– 29,312**	**2,458,130**	**4,445**	**3,202,281**
Disbursements for 2004						– 225,000		– 225,000
Net income						1,730,959	0	1,730,959
Consolidation-related currency losses/gains (net)					33,875			33,875
Consolidation measures							– 4,445	– 4,445
Balance as of December 31, 2005	**450,000**	**146,782**	**172,236**		**4,563**	**3,964,089**	**0**	**4,737,670**
Balance as of January 1, 2006	**450,000**	**146,782**	**172,236**		**4,563**	**3,964,089**	**0**	**4,737,670**
Disbursements for 2005						– 225,000		– 225,000
Capital increases	1,005,000	14,040,000						15,045,000
Capital increase from company funds	1,802,250					– 1,802,250		0
IPO costs (post-tax)		– 657,717						– 657,717
Net income						2,779,185		2,779,185
Consolidation-related currency losses/gains (net)					22,041			22,041
Financial instruments according to IAS 39				– 5,631				– 5,631
Disposal of loss portion Minority interests						– 29,686		– 29,686
Balance as of December 31, 2006	**3,257,250**	**13,529,065**	**172,236**	**– 5,631**	**26,604**	**4,686,338**	**0**	**21,665,862**

Statement of changes in consolidated non-current assets as of December 31, 2006

EUR	Intangible Assets				Property, plant and equipment					
	Licenses, software and similar rights and assets	Capitalized development costs	Goodwill	**Total intangible assets**	Land and buildings including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments	**Total property, plant and equipment**	**Total consolidated non-current assets**
Acquisition/ historical costs										
01.01.2006	692,782	2,825,717	0	**3,518,499**	6,820,545	658,397	1,370,015	24,831	**8,873,787**	**12,392,286**
Currency difference	– 127	0	0	**– 127**	– 320	– 454	– 2,899	0	**– 3,673**	**– 3,800**
Additions	63,776	1,516,021	30,398	**1,610,195**	0	97,851	303,118	0	**400,968**	**2,011,164**
Disposals	0	0	0	**0**	0	0	116,583	0	**116,583**	**116,583**
Reclassifications	0	0	0	**0**	0	24,831	0	– 24,831	**0**	**0**
31.12.2006	756,431	4,341,738	30,398	**5,128,567**	6,820,225	780,624	1,553,651	0	**9,154,500**	**14,283,067**
Accumulated depreciation and amortization										
01.01.2006	352,508	353,691	0	**706,199**	129,879	275,060	901,072	0	**1,306,012**	**2,012,211**
Currency difference	– 85	0	0	**– 85**	520	2,898	637	0	**4,055**	**3,970**
Additions	132,745	435,478	0	**568,223**	229,895	95,586	259,076	0	**584,557**	**1,152,781**
Disposals	0	0	0	**0**	0	0	105,881	0	**105,881**	**105,881**
31.12.2006	485,168	789,169	0	**1,274,337**	360,294	373,544	1,054,904	0	**1,788,742**	**3,063,079**
Carrying amounts										
31.12.2006	**271,263**	**3,552,569**	**30,398**	**3,854,230**	**6,459,931**	**407,080**	**498,747**	**0**	**7,365,758**	**11,219,988**
31.12.2005	**340,273**	**2,472,026**	**0**	**2,812,299**	**6,690,666**	**383,337**	**468,942**	**24,831**	**7,567,776**	**10,380,075**

Segment reporting for divisions (primary reporting format)

EUR thousand	systems.solar		systems.lcd		systems.aico		Central functions/ other		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenues with third parties	18,641	9,890	14,530	11,249	10,642	8,190	0		43,813	29,329
EBIT	4,797	2,891	4,201	3,452	1,590	1,257	– 5,737	– 4,324	4,851	3,276
EBIT (after allocation of central functions/other)	1,915	935	1,943	1,558	993	783			4,851	3,276
Segment assets	10,181	3,834	4,989	4,167	7,327	4,867	18,382	8,512	40,879	21,380
Segment liabilities	5,145	1,487	1,268	1,480	741	1,346	12,060	12,329	19,214	16,642
Net assets	5,036	2,347	3,721	2,687	6,586	3,521	6,322	– 3,817	21,665	4,738
Additions to assets	297	652	222	1,957	437	2,545	1,028	3,902	1,984	9,056
Amortization/depreciation	246	66	223	197	557	256	127	314	1,153	833
Employees (annual average)	42	26	30	28	61	43	41	46	174	143

Segment reporting for regions (secondary reporting format)

EUR thousand	Germany		Rest of Europe		Asia		America		Other regions		Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
External revenues by customer location	15,711	10,711	9,242	5,548	17,363	12,440	788	561	709	69	43,813	29,329
Carrying amount of segment assets by location of Assets	38,172	20,104	1,297	860	732	58	678	358	0	0	40,879	21,380
Investments in non-current assets by asset location	1,932	8,869	26	182	22	5	4	0	0	0	1,984	9,056

Notes

I. General explanations

Manz Automation AG ("Manz AG") has its registered office in Steigäckerstrasse 5 in 72768 Reutlingen, Germany. The business activities of Manz Automation AG and its subsidiaries ("Manz group") are the development and production of systems and components for automation and quality assurance. The systems are primarily used in the production of solar cells and LCD flat screen displays.

Manz Automation AG prepared its consolidated financial statements as of December 31, 2006 in accordance with International Financial Reporting Standards (IFRS) as these are to be applied in the EU and the supplementary provisions of the HGB as stipulated by Section 315a (1) of the Handelsgesetzbuch (HGB – German Commercial Code).
In so doing, all of the International Financial Standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that applied on December 31, 2006 were applied.

New standards, changes to standards and interpretations that are to be applied for fiscal years ending on December 31, 2006:

- IAS 19 Change (2004) "Actuarial gains and losses, group plans and disclosures"
  As a result of the changes to IAS 19 "Employee Benefits", the IASB also permits taking actuarial gains and losses directly to equity. Manz decided not to use this method initially. This change was already applied in fiscal year 2005.

- IFRIC 4 “Determining Whether an Arrangement Contains a Lease”
  IFRIC lists criteria that can be used to identify leasing elements in agreements that are not formally referred to as lease agreements. Contractual elements that fulfill the criteria of IFRIC 4 are to be carried as leases according to the provisions of IAS 17. Initial application of the interpretation did not impact Manz Automation AG's consolidated financial statements.

The following accounting standards that have been issued by the IASB but for which application is not yet mandatory were not applied ahead of time:

- Changes to IAS 1 "Presentation of Financial Statements"
  The changes will lead to increased information on equity in the notes. This change is effective for fiscal years beginning on or after January 1, 2007.

- IFRS 7 "Financial Instruments: Disclosures"
  IFRS 7 regulates the information to be provided on financial information in the notes and replaces IAS 32 "Financial Instruments: Disclosure and Presentation". IFRS 7 is effective for financial years beginning on or after January 1, 2007. This new regulation will lead to an increase on the information on financial instruments in the notes.

- IFRS 8 “Operating Segments”
  IFRS 8 includes new regulations for the presentation of segment reporting. According to IFRS, segment reports are to be prepared using the so-called management approach. This approach demands that delimitation of the segments and the notes on the segments are based on the information used by management for allocating resources and assessing the performance of the company's units. IAS 8 is effective for accounting periods beginning on or after January 1, 2009. The first-time application of IFRS 8 is not expected to have a major impact on Manz Automation's consolidated financial statements.

- IFRIC 8 "Scope of IFRS 2"
  IFRIC 8 clarifies the applicability of IFRS 2 "Share-based payment" on agreements for which the accounting company grants share-based payments against no or insufficient compensation. This interpretation is to be applied for the first time for financial years beginning on or after May 1, 2006. The first-time application of IFRIC 8 is not expected to have a major impact on Manz Automation's consolidated financial statements.

- IFRIC 10 "Interim Financial Reporting and Impairment"
  This interpretation addresses the relationship of the provisions of IAS 34 on interim financial reporting and the regulations in IAS 36 and IAS 39 for the reversal in financial statements of impairment losses on goodwill and certain financial assets. This interpretation clearly shows that impairment losses in interim reports may not be reversed. IFRIC 10 is applicable for the first time for financial years beginning on or after November 1, 2006. The first-time application of IFRIC 10 is not expected to have a major impact on Manz Automation's consolidated financial statements.

These new accounting standards are not expected to have a major impact on future consolidated financial statements.

To ease transparency, individual items are compounded in the balance sheet and income statement. These are listed and discussed separately in the notes. The Manz group's fiscal year is from January 1 to December 31. The consolidated financial statements are prepared in euros. The information in the notes is in thousands of euros (EUR thousand) if not otherwise stated. The income statement has been prepared using the total cost (type of expenditure) method.

II. Basis of presentation

Group of consolidated companies

Manz AG's consolidated financial statements include all of the companies for which Manz AG can either directly or indirectly determine the financial and business policy ("controlling" relationship).

In addition to Manz Automation AG, the group of fully consolidated companies includes the following foreign subsidiaries:

	Interest (%)	Founded	Initial consolidation
Manz Automation Inc., North Kingstown/USA	100 %	1999	2003
Manz Automation Hungary Kft., Debrecen/Hungary	100 %	2004	2004
MVG Hungary Kft., Debrecen/Hungary	100 %	2004	2004
Manz Automation Asia Ltd., Hongkong	100 %	2005	2005

All of the subsidiaries are new companies formed by Manz Automation AG. The remaining third-party interest of 30 % in Manz Automation Hungary Kft. was acquired during fiscal year 2006.

The subsidiaries' financial statements are prepared as of the date of the consolidated financial statements, Manz AG's balance sheet date.

Principles of consolidation

Capital is consolidated according to IFRS 3 ("Business Combinations") according to the purchase method. In so doing, the assets and liabilities acquired are measured at their fair values on the date of their acquisition. The acquisition costs of the interest acquired is then netted with the proportionate newly valued equity of the subsidiary. Any remaining positive differences from netting the purchase price with the identified assets and liabilities is carried under intangible assets as goodwill.

In fiscal year 2006 the acquisition of the remaining 30 % interest in Manz Automation Hungary Kft. Debrecen/Hungary resulted in goodwill totaling EUR 30 thousand.

Expenses and income as well as receivables, liabilities and provisions between consolidated companies are netted. Intra-group profits and losses from the sale of assets within the group that are not sold on to third parties are eliminated. Deferred taxes are carried for consolidations that will impact income taxes.

Currency translation

The financial statements prepared in foreign currencies of the subsidiaries included in the group are translated to euros according to IAS 21. The functional currency of the consolidated currency is the respective national currency, as these subsidiaries conduct their business activities independently in financial, economic and organizational respects. Assets, liabilities and contingent liabilities are carried at the mean rate of exchange on the balance sheet date, equity is translated at historical rates. Currencies in the income statement are translated at the annual average rate. Exchange rate differences resulting from the translation of the annual financial statements are carried under equity as a separate item until the subsidiary is no longer part of the group.

Items denominated in foreign currency in the financial statements of the companies included in the consolidated financial statements are measured at the exchange rate prevailing on their date of acquisition. Cash items are valued at the mean rate of exchange on the balance sheet date. Currency gains and losses on the balance sheet date are recognized in income.

Accounting and valuation principles

The assets and liabilities of Manz AG and the fully consolidated subsidiaries are carried and measured according to the uniform accounting and valuation methods in the Manz group as of December 31, 2006.

Comparable information for fiscal year 2005 is based on the same accounting and valuation methods that were applied in fiscal year 2006.

Estimates and assumptions are required to prepare the consolidated financial statements. These impact the carrying amounts, measurement and disclosure of assets, liabilities, income and expenses. All of the facts available at the time are considered in this regard. Major assumptions and estimates are used for the useful lives which are uniform throughout the group, as well as the recoverable amounts for assets, the ability to collect receivables, the identification of the degree of completion for non-current construction contracts and the accounting for and measurement of provisions. The values which actually occur may differ from the estimates in individual cases. The carrying amounts of the assets and liabilities affected by estimates can be seen in the classification of the individual items in the accounts.

Non-current assets

Licenses, software and similar rights and assets, capitalized development costs and goodwill with a limited useful life are carried under intangible assets. These are carried if there is a probability of a future economic benefit and to the extent that it is not clearly possible to allocate these to expenses.
Licenses, software and similar rights are capitalized at cost in line with IAS 38 and amortized over their useful lives using the straight line method, to the extent that there is no impairment. Useful lives are generally between three and five years.

Development costs for systems and system components are capitalized if the conditions of IAS 38 have been met. Costs comprise all costs that can be directly allocated to the development process as well as reasonable amounts of the development-related overheads. Capitalized development costs are written down using the straight line method from the start of production over the anticipated product life cycle. As a rule this is between four and eight years. Research costs and development costs that cannot be capitalized are recognized as expenses when they are incurred.

In line with IAS 36 and IFRS 3, goodwill is subject to an annual impairment test. There were no write-downs in 2006. Goodwill totals EUR 30 thousand.

Property, plant and equipment is measured at cost less scheduled depreciation in line with the useful lives and extraordinary write-downs due to impairment. Costs for repairs and maintenance are carried as ongoing expenses. Straight-line depreciation is performed in line with the anticipated consumption of the future economic benefit. Scheduled depreciation is mostly based on the following useful lives:

Property, plant and equipment	**Years**
Real property, equivalent rights and buildings	15 to 30
Plant and machinery	6 to 10
Other equipment, operating and office equipment	4 to 13

In finance leases, economic ownership is assigned to the lessee in the event that the lessee bears all of the opportunities and risks associated with ownership (IAS 17). If economic ownership is to be allocated to the Manz group, the assets are capitalized at their fair value or the lower cash value of the minimum lease payments on the date the lease is concluded. Depreciation is performed using the straight line method based on the useful life or the term of the lease if shorter. The payment obligations resulting from future lease installments are carried as a financial liability.

Impairment of assets

Intangible assets and property, plant and equipment are subject to non-scheduled amortization/depreciation on the balance sheet date in line with IAS 36 (Impairment of Assets) if specific events or market developments indicate a correction of the anticipated useful life or a loss of value. Assets are impairment tested by comparing their capitalized carrying amounts with their recoverable amounts. The recoverable amount is defined as being the higher of the fair value and the cash value of the anticipated future cash flows from the asset. Writing an asset down to its recoverable amount is pertinent if this is lower than the capitalized book value of the respective asset. If the reason for previous impairment no longer applies, the asset is written up to amortized cost. During fiscal year 2006 no non-scheduled write-downs and write-ups were required.

Inventories

Inventories are carried at cost or the lower net realizable value in line with IAS 2 (Inventories). Costs include unit costs and reasonable amounts of the necessary material and production overheads as well as production-related write-downs and proportionate administrative overheads that can be allocated directly to the production process. If required, averages are used to simplify valuations.

Non-current construction contracts

Non-current construction contracts are accounted for using the percentage of completion method (PoC method) in line with IAS 11. The percentage of completion used to ascertain the amount of partial profits realized is determined by the ratio of the contract costs incurred on the balance sheet date and the calculated total costs (cost-to-cost method).

If the sum of the contract costs incurred and disclosed profits are greater than the advance payments, construction contracts are carried as an asset under future receivables from non-current construction orders as a component of trade accounts receivable. A negative balance is carried under trade accounts payable. During fiscal years 2006 and 2005 no negative balances had to be carried. The principles of loss-free valuation were taken into account.

Receivables and other assets

Receivables and other assets are carried at their nominal amounts or cost. Recognizable individual risks are taken into account via reasonable write-downs. There are no non-interest bearing or low-interest receivables with terms of more than one year. Receivables in foreign currency – to the extent that these exist – are measured at the mean rate of exchange on the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and bank balances as well as securities that can be liquidated over the short term and have a maturity of no more than 90 days.

Deferred taxes

Deferred taxes are formed on all temporary differences between the carrying amounts in the tax base and the IFRS carrying amounts. Deferred taxes are capitalized for losses carried forward if it is assumed that it will be possible to use these.

When measuring deferred taxes, the tax rates on the date of realization are used that apply or are expected based on the current legal situation in the individual countries. Deferred tax assets and liabilities are netted as far as permissible.

Provisions for pensions

Provisions for pensions are calculated based on the projected unit credit method according to IAS 19. During this process, future increases in salaries and pensions are taken into account as well as the pensions and commitments known on the balance sheet date. If pension obligations are covered by plan assets, the net amount is disclosed.
Calculations are based on actuarial surveys based on biometric information. Actuarial gains and losses are recognized in income when the actuarial gains and losses not recognized at the start of the year exceed ten percent of the higher of the projected unit credit and the plan assets (corridor method). Past service cost is carried under personnel expenses, interest on the addition to provisions is carried under the financial result.

Provisions for taxes and other provisions

Provisions for taxes and other provisions are formed if there is a current legal or de facto obligation to third parties that will probably lead to an outflow of resources in future and if these resources can be reliably estimated. Provisions for warranties are formed taking into account the previous or estimated future claim history.

Income and expenses

As a rule, revenues are recorded on the date on which the products or merchandise is delivered or the service was performed and risk was transferred to the customer.
Revenues are reduced by discounts, customer bonuses and rebates. In the case of long-term construction contracts, revenues are recorded according to the percentage of completion.

Production-related expenses are recorded upon delivery or when the service is used, all other expenses are recorded as expenses when they are incurred. This also applies for development costs that cannot be capitalized. Provisions for warranties are formed when the products are sold. Interest and other borrowing costs are booked as expenses for the period.

IPO expenses

The IPO expenses, less all of the associated income tax benefits, are taken directly to equity according to IAS 32.

Contingent liabilities

Contingent liabilities are possible liabilities to third parties that result from past events and for which existence still has to be confirmed by the occurrence or non-occurrence of one or several uncertain future events that are not fully within the Manz group's control. In addition, contingent liabilities result from a current obligation that is due to past events but which, however, is not accounted for as the outflow of resources is not probable or the amount of the obligation cannot be sufficiently reliably estimated.

Key differences to accounting according to the Handelsgesetzbuch (HGB – German Commercial Code)

These financial statements include the following key accounting and valuation methods that differ from HGB accounting:

- Capitalization of development costs (IAS 38)
- Proportionate recognition of profits for construction contracts (IAS 11)
- Finance leases (IAS 17)
- Measurement of provisions for pensions using the projected unit credit method (IAS 19)
- Formation of deferred taxes according to the liability method (IAS 12)
- Presentation of equity (IAS 1)

III. Notes to the consolidated income statement

(1) Revenues

The breakdown in revenues by division and regions is included in the segment report. Please refer to our comments in the segment report in section IV

(2) Own work capitalized

Own work capitalized mostly results from the capitalization of development costs for the control system aico.control and for the laboratory robot as well as further developments in the systems.solar division and for LCD handling.

(3) Other operating income

	2006	2005
	EUR thousand	EUR thousand
Non-cash income	111	108
Exchange rate gains	90	36
Miscellaneous other operating income	10	20
	211	**164**

(4) Cost of materials

	2006	2005
	EUR thousand	EUR thousand
Cost of raw materials, consumables and supplies and purchased goods	14,711	9,625
Cost of purchased services	7,185	5,478
	21,896	**15,103**

(5) Personnel expenses

	2006	2005
	EUR thousand	EUR thousand
Wages and salaries	9,682	8,025
Social security costs and expenses for pension costs	1,643	1,327
	11,325	**9,352**

Average annual number of employees	**174**	**143**

(6) Other operating expenses

	2006	2005
	EUR thousand	EUR thousand
Sales	2,451	1,988
Operations	1,154	946
Administration	1,350	609
Other	274	149
	5,229	**3,692**

(7) Financial result

	2006	2005
	EUR thousand	EUR thousand
Other interest and similar income	108	7
Interest and similar expenses		
• Non-current liabilities	– 440	– 187
• Current liabilities	– 262	– 248
• Expenses equivalent to interest	– 149	– 97
	– 743	**– 525**

Interest income is mostly from interest on current bank balances. Non-current interest expenses primarily relates to interest from the finance lease for the new premises. Current interest expenses mostly comprise current account interest. Expenses equivalent to interest include the fixed fee and the early repayment penalty for the silent partnership (EUR 125 thousand) and the interest in the pension expenses.

(8) Partial profit transfers

The expenses from partial profit and loss transfer agreements relate to the variable profits for the silent partnership.

(9) Income taxes

Income taxes include both actual and deferred income taxes from temporary differences and existing tax losses carried forwards.

Income taxes comprise the following:

	2006	2005
	EUR thousand	EUR thousand
Actual tax expense	134	512
Deferred tax liabilities from temporary differences	1,183	530
Deferred tax income from tax loss carryforwards	– 1	– 34
	1,316	**1,008**

The income tax expense disclosed in fiscal year 2006 in the amount of EUR 1,316 thousand is EUR 188 thousand lower than the forecast income tax expense in the amount of EUR 1,504 thousand, which would theoretically have resulted if the German tax rate of 36.73 % had been used for the company's pre-tax earnings. This tax rate is a combined income tax rate comprising the uniform corporation tax rate of 25 % plus the 5.5 % solidarity surcharge, and an effective trade tax rate of 14.06 %.

The difference between the forecast and disclosed income tax expense is due to the following:

	2006	2005
	EUR thousand	EUR thousand
Earnings before income taxes	4,095	2,738
Manz Automation AG's income tax rate	36.73 %	36.73 %
Forecast income tax expense	1,504	1,006

	2006	2005
	EUR thousand	EUR thousand
Tax rate differences – rest of world	– 137	– 44
Tax impact on non-deductible operating expenses	159	46
Non-period tax expense	32	0
Tax income for the IPO expenses offset with the capital reserve	– 242	0
Disclosed income tax expense	1,316	1,008
Effective taxation	32.14 %	36.82 %

The following overview shows deferred tax assets and liabilities at an individual balance sheet item level:

	Deferred tax assets		Deferred tax liabilities	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Non-current assets			1,305	908
Current assets			1,057	269
Tax losses carried forward	35	34		
Provisions			9	9
Total (consolidated balance sheet)	**35**	**34**	**2,371**	**1,186**

Deferred taxes are only carried for tax losses carried forwards if it is sufficiently certain that these will be realized. The Managing Board believes that this is the case across the board, as the business plans, which are updated on an ongoing basis, and the group's underlying strategic orientation mean that sufficient positive future earnings can be expected. As a result, the value of the deferred tax assets has not been adjusted. Deferred tax assets relate to Manz Automation Hungary Kft. and MVG Hungary Kft., both located in Hungary. The tax loss carryforwards on the balance sheet date totaled EUR 217 thousand with no restrictions on carrying these forward.

(10) Earnings per share

		2006	2006
Earnings per share are calculated according to IAS 33.			
Consolidated earnings due to the shareholders of Manz AG	EUR	2,779,185	1,730,959
Weighted average of shares in circulation	Qty.	1,573,748	450,000
Earnings per share	EUR	1.77	3.85

Earnings per share are calculated as the consolidated earnings divided by the weighted average number of shares in circulation during the fiscal year. There were no activities that would have had a dilutive effect.

IV. Notes to the segment report

In its segment reporting, the activities of the Manz group are broken down into divisions (primary) and regions (secondary) in line with IAS 14 (Segment Reporting). This breakdown is based on the company's internal management and takes into account the various risk and earnings structures in the division. Manz Automation's primary segments are its systems.solar, systems.lcd and systems.aico divisions. systems.lab, with life science applications, is still being established and is not yet treated as an independent segment. The secondary segments are broken down according to regions.

Activities which cannot be allocated to any of the primary segments are carried as "Central functions/other". Compared to fiscal year 2005, an additional KPI (EBIT after allocation) has been introduced. In this KPI, EBIT from "Central functions/other" is allocated to the other three segments using an allocation key. The previous year has been adjusted accordingly to ease comparison.

Activities in the systems.solar division span automation solutions for the production of solar cells and system solutions for the quality assessment and sorting of solar cells. In the systems.lcd segment, the company produces end-to-end lines for handling sensitive products in clean room conditions. The focus here is on substrate handling for the production of LCD flat screen displays.

The systems.aico division deals with the handling of small parts for the production of hard metal parts and the sale of robot and control systems.

The segment reports show the income, earnings, assets and liabilities for the group's individual segments. With the exception of Central functions/other, there are only marginal delivery and performance relationships between the individual segments. The delivery and segment relationships within segments are consolidated. The exchange of performance between the segments is at the prices that would have been agreed in arm's length transactions.

V. Notes to the consolidated cash flow statement

(11) Notes on the cash flow statement

The cash flow statement shows how the Manz group's cash and cash equivalents have changed over the course of the year under review as a result of cash inflows and outflows. In line with IAS 7 (Cash Flow Statements), cash flows are broken down into operating activities, investing activities and financing activities.

The cash and cash equivalents in the cash flow statement include all of the cash and cash equivalents carried on the balance sheet, comprising cash in hand, bank balances and securities that can be liquidated short-term with a term of up to three months.

Cash flows from investing and financing activities are shown using the direct method. The cash flows from investing activities from ongoing business include, additions to intangible assets as well as additions to property, plant and equipment. Financing activities include cash outflows from dividend payments and the redemption of loans as well as cash inflows from issuing other financial liabilities.

In contrast, the cash flows from operating activities are derived based on earnings after taxes. In this regard, earnings after taxes are adjusted for non-cash expenses, mostly amortization/depreciation and changes in provisions as well as non-cash income, and the change in operating assets and liabilities is added.

The cash flows from operating activities include:

	31.12.2006	**31.12.2005**
	EUR thousand	EUR thousand
Interest paid	– 485	– 362
Interest received	108	8
Income taxes paid	– 451	– 928
Income taxes refunded	2	55

Investing and financing transactions that did not result in a change in cash or cash equivalents are not part of the cash flow statement. In fiscal year 2005, there were non-cash additions in the amount of EUR 6,502 thousand to property, plant and equipment from finance leases.

VI. Notes to the consolidated balance sheet

(12) Non-current assets

The changes in the group's acquisition and historical costs and amortization/depreciation is shown in the Statement of Changes in Non-Current Assets.

Leased assets (finance lease)

Assets that are available as part of a finance lease are carried under property, plant and equipment under the item land and buildings including buildings on third party land with carrying amounts of EUR 6,177 thousand. These relate to the leased factory and administrative building in Reutlingen. The total rental period is thirty years and includes a right to buy for Manz Automation AG or a option to sell on the part of the lessor. The underlying interest rate for the agreement is 7.7 %. In addition, there is a finance lease for a car carried under “Other equipment, operating and office equipment” with a book value of EUR 11 thousand (previous year: EUR 16 thousand). This agreement runs until July 5, 2008 and bears interest of 6.5 %. During the year under review, the lease installments were paid totaling EUR 527 thousand.

The following table shows the lease payments due in future at their cash values:

	Remaining term			
	to 1 year	2 - 5 years	more than five years	Total
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Minimum lease payments:	527	2,084	8,673	11,284
Interest	69	501	4,546	5,116
Cash value	458	1,583	4,127	6,168

(13) Trade accounts receivable

	31.12.2006	**31.12.2005**
	EUR thousand	EUR thousand
Future receivables from non-current construction contracts	5,438	2,043
Trade accounts receivable	5,596	2,439
	11,034	**4,482**

Future receivables from non-current construction orders, accounted for according to the percentage of completion, are as follows:

	31.12.2006	31.12.2005
	EUR thousand	EUR thousand
Production costs including outcome of the contract for non-current construction contracts	9,295	3,175
less advance payments received	– 3,857	– 1,132
	5,438	**2,043**

(14) Other current receivables

	31.12.2006	31.12.2005
	EUR thousand	EUR thousand
Tax receivables (not income taxes)	83	92
Receivables – staff	19	0
Interest deferrals	70	0
Rent deposits	42	0
Other	30	15
	244	**107**

(15) Cash and cash equivalents

The cash and cash equivalents comprise cash on hand and bank balances as well as securities that can be liquidated short-term. Cash on hand and bank balances are carried at their nominal values. Securities are measured at their market value.

(16) Prepaid expenses

This relates to deferred insurance premiums and costs for maintenance contracts.

(17) Equity

The changes in the group's individual equity items are shown separately in the "Statement of Changes in Consolidated Equity".

Subscribed capital

The share capital of the parent company Manz Automation AG is carried as subscribed capital.

The subscribed capital increased year-on-year to EUR 3,257,250.00 (previous year: EUR 450,000.00) and comprises 3,257,250 no-par value bearer shares. Each share has thus has a nominal value of EUR 1.00.

The extraordinary General Meeting on July 6, 2006, resolved, within the meaning of Section 182 et seq of the *Aktiengesetz* (AktG – German Public Limited Companies Act), to increase the company's share capital from EUR 450,000.00 by EUR 225,000.00 to EUR 675,000.00 against cash contributions. The shareholders' statutory subscription rights were excluded and Dieter Manz was permitted to subscribe to and acquire shares. The increase to the share capital was entered in the commercial register on July 28, 2006.

The extraordinary General Meeting on July 6, 2006, also resolved, within the meaning of Section 207 et seq of the AktG, to increase the company's share capital from EUR 675,000.00 by EUR 1,802,250.00 to EUR 2,477,250.00 from company funds. The capital increase was performed by converting the amount disclosed as an addition to revenue reserves in the amount of EUR 1,802,250.00 in the resolution by the General Meeting on the appropriation of net profits for fiscal year 2005. The capital increase was entered in the commercial register on July 28, 2006.

The extraordinary General Meeting on August 11, 2006 resolved, within the meaning of Section 182 et seq of the AktG, to increase the company's share capital from EUR 2,477,250.00 by up to EUR 780,000.00 to up to EUR 3,257,250.00 by issuing up to 780,000 new shares at an issuing amount of EUR 1.00 per share and with profit participation rights from January 1, 2006 excluding shareholders' subscription rights. The increase to the share capital was entered in the commercial register on September 21, 2006.

In the extraordinary General Meeting on August 11, 2006, the Managing Board was authorized, with the approval of the Supervisory Board, to increase the share capital up to August 10, 2011 on one or several occasions by an maximum amount of EUR 1,628,625.00 by issuing new, no-par value bearer shares against cash or non-cash contributions (authorized capital). In so doing the shareholders must be granted subscription rights. However, the Managing Board is authorized, with the approval of the Supervisory Board, to exclude shareholders' subscription rights.

The number of shares in circulation is as follows:

	Number of shares
Number of shares issued on December 31, 2005	450,000
Capital increase against cash contributions	225,000
Capital increase from company funds	1,802,250
Capital increase against cash contributions due to IPO	780,000
Number of shares issued on December 31, 2006	**3,257,250**

Share premium

In addition to added value from a merger (EUR 147 thousand) from 2001, Manz Automation AG's share premium includes receipts from shareholders within the meaning of Section 272 (2) 1 of the HGB in the amount of EUR 14,040 thousand. The expenses in connection with the IPO were offset directly against the share premium after deduction of the income tax benefit in the amount of EUR 658 thousand.

Retained earnings

Retained earnings include, in the amount of EUR 172 thousand, the impact of conversion to IFRS as of January 1, 2003.

The market valuation of financial instruments (= available-for-sale securities) led to a loss of EUR –9 thousand, which was taken directly to equity under retained earnings according to IAS 39. Deferred tax assets on this amount totaling EUR 3 thousand were also added to the retained earnings according to IAS 12.61.

The differences from the currency translation for financial statements of foreign subsidiaries in the amount of EUR 27 thousand (previous year: EUR 5 thousand) were disclosed separately under equity.

(18) Silent partnership

Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH, Stuttgart (MBG) concluded a partial profit and loss transfer agreement (agreement on establishing a silent company) by way of an agreement dated October 22/November 13, 2002. This silent partnership was terminated prematurely as of December 31, 2006.

For fiscal year 2005, MBG received remuneration independent of the annual results totaling 8.5% p.a. on its contribution. In addition, it participated in the net income in the amount of 50%, with this profit remuneration being restricted to a maximum of 1.25% of the contribution made.

(19) Non-current financial liabilities

In fiscal year 2006, non-current financial liabilities related to a promissory note with a nominal amount of EUR 1,500,000.00 and bullet redemption on June 15, 2010. The loan bears interest of 5.4% p.a.

(20) Financial liabilities from leases

The lease liabilities result from the assets to be capitalized according to IAS 17 (see Note 12).

(21) Provisions for pensions

Provisions for pensions changed as follows in fiscal year 2006:

	01.01.2006	Taken up	Additions	31.12.2006
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Provisions for pensions from direct commitments	40	0	9	49

The cash value of the obligation from two direct commitments to the Managing Board members Dieter Manz and Otto Angerhofer has been identified using the projected unit credit method according to IAS 19. The pension commitments each include a fixed monthly amount after reaching the age of 65 or as a result of professional disability. Figures were based on an interest rate of 4.6% in 2006. (previous year: 4.8%)

Provisions for pensions were calculated taking into account biometric information according to Prof. Klaus Heubeck's 2005 G mortality tables. The calculations are based on actuarial surveys. The balance-sheet date related fluctuations within the thresholds set out by IAS 19 (+/– 10 % of the higher of the projected unit credit and the plan assets) are not taken into account.

The plan assets exclusively comprise re-insurance policies. The anticipated income from the plan assets is around 3 %. The anticipated payments into the plan assets for fiscal year 2007 total EUR 9 thousand.

The projected unit credit at the end of the year is compared with the plan assets spun off in the re-insurance policies at its cash value (financing status). The provisions for pensions result after deducting the actuarial gains and losses not yet taken into account.

	2006	**2005**
	EUR thousand	EUR thousand
Change in projected unit credit		
Projected unit credit January 1	175	149
Past service cost	– 2	18
Interest expense	9	8
Projected unit credit December 31	182	175
Change in plan assets		
Plan assets at fair value January 1	123	111
Income from plan assets	3	3
Contributions by company	9	9
Plan assets at fair value December 31	135	123
Financing status	47	52
Not yet considered actuarial gains (+)/losses (–)	2	– 12
Provisions for pensions	**49**	**40**

The following table shows the breakdown of the amounts included in the income statement.

	31.12.2006	31.12.2005
	EUR thousand	EUR thousand
Past service cost	– 2	18
Interest expense	9	8

Past service cost is carried under personnel expenses, however interest expenses are carried under the financial result.

(22) Other non-current provisions

Other non-current provisions relate to provisions for warranties. These changed as follows in fiscal year 2006:

	01.01.2006	Taken up	Additions	31.12.2006
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Provisions for warranties	160	160	221	221

(23) Current financial liabilities

Current financial liabilities in the previous year related to various current lines of credit and overdrafts to finance ongoing business activities. Standard market interest rates have been agreed for the current loans.

(24) Trade accounts payable

Trade accounts payable are carried at amortized cost. Their carrying amounts are mostly in line with market values; they are due within one year.

(25) Prepayments received

In this regard, please also refer to Note (13) Future receivables from non-current construction contracts and the comments on the accounting and valuation methods.

(26) Tax liabilities

The disclosed amount include ongoing income tax liabilities. This mostly relates to Manz Automation AG's trade tax.

	01.01.2006	Taken up	Additions	31.12.2006
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Tax liabilities	12	12	17	17

(27) Other current provisions

Other current provisions changed as follows

	01.01.2006	Taken up	Additions	31.12.2006
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Human resources	738	738	1,142	1,142
Other areas	37	37	100	100
	775	**775**	**1,242**	**1,242**

Provisions for human resources mostly include obligations for vacation entitlements and overtime as well as profit participation and bonuses. Other areas include provisions for remuneration for the Supervisory Board, costs of preparing the annual financial statements and outstanding invoices for expenses.

(28) Other liabilities

Other liabilities on the balance sheet date were composed as follows:

	31.12.2006	31.12.2005
	EUR thousand	EUR thousand
Tax liabilities (not income taxes)	288	215
Social security liabilities and liabilities from wages and salaries	11	194
Other	182	175
	481	**584**

The tax liabilities (not income taxes) primarily comprise VAT liabilities and liabilities from payroll and church tax. Social security liabilities include, in particular, the contributions for social insurance still to be paid.

VII. Report on financial instruments

Financial instruments according to IAS 39 are contracts which give rise to a financial asset for one entity and a financial liability or equity instrument for another entity. A distinction is made between original and derivative financial instruments. Original financial instruments on the assets side primarily comprise cash and cash equivalents and trade accounts receivable. On the equity and liabilities side, these mostly comprise financial debt, trade accounts payable and other liabilities.

There were no derivative financial instruments.

If the trading and fulfillment dates for financial assets could differ, the fulfillment date applies for initial disclosure. Financial instruments are initially measured at acquisition costs. Transaction costs are included. As a result, financial instruments are either carried at their fair value or amortized cost.

The original financial instruments in Manz Automation AG's consolidated financial statements are in the following categories:

Loans and receivables include the financial assets not listed on an active market with fixed or determinable payments that are not derivatives and which are not held as available-for-sale. Trade accounts receivable and other current receivables fall under this category. These are valued when they are incurred at their fair value, which is, as a rule, the nominal amount of the receivable. Subsequent valuations, recognized in income, are generally at amortized cost using the effective interest rate method.

Available-for-sale financial assets include the current securities carried under the item cash and cash equivalents. These are measured at their fair values. Changes to the fair value are carried under equity taking deferred taxation into account until the security is sold or objective impairment occurs.

Financial liabilities are measured when they are first carried at their fair value, as a rule this corresponds to the amount received. Subsequent valuations are at amortized cost using the effective interest rate method.

Default risks

The amount of the financial assets gives the maximum risk of default. To the extent that default risks can be recognized for the financial assets, these risks are covered by write-downs. There is only a very slight risk from receivables, as our customers have excellent credit ratings. In addition, orders are pre-financed with advance payments. There have not been any notable defaults on receivables in the past.

Risks of interest rate changes

The company is not exposed to any risks from interest rate changes, as fixed interest rates have been agreed in all of the loan agreements. There are only variable interest rates for the overdrafts; no interest rate hedging has been undertaken in this regard. There were no overdraft liabilities on the balance sheet date.

Currency risks

The company's invoices are mostly in euros. As a result there is no currency risk in this regard. The purchasing volume is also mostly procured in the eurozone.

Liquidity risks

We use suitable financial planning instruments to control the future liquidity situation. Our current forecasts do not show any liquidity bottlenecks. On the balance sheet date, there were unused overdraft/guarantee facilities totaling EUR 5,348 thousand (previous year: EUR 1,274 thousand), which could be used as either overdrafts or guarantee facilities (use of guarantees as of December 31, 2006: EUR 9,152 thousand).

Collateral

There was no collateral for the Manz group's loans drawn down and guarantee facilities vis-a-vis banks used as of the balance sheet date .

Risk management

Manz Automation AG's risk management system is anchored in all of its business and support processes. Risk management is understood to be part of the general management responsibility. That means that the heads of the individual areas are responsible for identifying, measuring, valuing and controlling the risks entered into during business activities. Defined individual risks and early warning indicators are constantly recorded and monitored and reported to the Managing Board. The effectiveness of the risk management system is monitored by control points that are independent of the processes.

VIII. Contingent liabilities and other financial liabilities

There were no contingent liabilities on the balance sheet date.

The Manz group has concluded various rental agreements for premises and leases for operating and office equipment and cars. The minimum lease payments from operating leases and rental agreements that cannot be terminated are as follows:

	2006	2005
	EUR thousand	EUR thousand
Minimum lease payments		
• Residual term of up to 1 year	161	164
• Residual term 1 - 5 years	205	243
• Residual term of more than 5 years	0	0

In fiscal year 2006, rental and leasing payments totaling EUR 311 thousand (previous year: EUR 517 thousand) were recorded under other operating expenses.

This does not include liabilities from finance leases (see Note 12).

IX. Events after the balance sheet date

In January 2007, Manz Automation AG passed a resolution to further expand the Reutlingen facility. By September 2007 the company plans to construct another production building with offices, which will house approx. 150 employees. The new facility will have a total area of approx. 11,200 m^2, the new building will have a usable area of approx. 4,800 m^2. In order to optimize the amount of capital locked up, Manz Automation AG will lease the new building, as is the case for the existing building. At the same time, the company resolved also to further expand the facility in Hungary. The Hungarian subsidiary's relocation is scheduled for April 2007.

In March 2007 Manz Automation AG received a major order from its strategic alliance partner Applied Materials. As a provider of turnkey production lines for thin-film solar modules, Applied Materials placed an order with Manz Automation to supply several laser scribing lines. The order volume is more than EUR 18 million. This means that the cooperation with Applied Materials covers not only the previous systems.lcd division but now also high-growth thin-film technology (systems.solar).

The former commercial manager, Mr. Martin Hipp was appointed as CFO as of March 1, 2007.

There were no further events of particular importance after the end of fiscal year 2006.

X. Related parties report

Manz Automation AG's related parties are: the members of the Managing and Supervisory Boards including their family members and companies over which Manz AG, the members of the Managing and Supervisory Boards and their close family members can exercise a significant influence.

Managing Board

Dieter Manz (engineering graduate) – CEO
Otto Angerhofer (engineering graduate)
Martin Hipp (business administration graduate) (board member from March 1, 2007)

Supervisory Board

Dr. Jan Wittig (Chairman), lawyer
(law firm: Dr. Schaudt und Kollegen, Stuttgart)
Dr. Heiko Aurenz (Deputy Chairman)
(Managing Partner of Dr. Ebner, Dr. Stolz Unternehmensberatung GmbH, Stuttgart)
Prof. Rolf D. Schraft, engineer
(Head of the Fraunhofer-Institut für Produktionstechnik und Automatisierung, Stuttgart)

Rental agreement with member of the executive bodies

There is a rental agreement for parts of a building on the former company premises in Reutlingen, Steigäckerstrasse 13 between Manz Automation AG and a company solely owned by Dieter Manz. Rent totaling EUR 48,548 was paid in this regard in fiscal year 2006. The rental conditions correspond to an arms-length transaction. The rental agreement ended at the end of the year.

Guarantees by members of the executive bodies in favor of the company

There is an accession undertaking by Dieter Manz for the real estate lease as a joint and several debtor up to an amount of EUR 500 thousand.

Consulting services Ebner Stolz Mönning Unternehmensberatung GmbH

Dr. Heiko Aurenz is a member of Manz Automation AG's Supervisory Board. He supported Manz Automation AG in preparing business plans as a partner of the management consulting firm Ebner Stolz Mönning. There were no liabilities to Ebner Stolz Mönning Unternehmensberatung GmbH as of December 31, 2006. Consulting costs totaling EUR 40 thousand were incurred with Ebner Stolz Mönning management consultants in fiscal year 2006.

Remuneration for members of the Managing and Supervisory Boards

The members of the Managing Board received remuneration totaling EUR 374 thousand in fiscal year 2006. The Supervisory Board's remuneration for 2006 totaled EUR 28 thousand.

Proposal on the appropriation of profits

According to Section 58 (2) of the AktG, Manz Automation AG's dividend disbursement is geared to the net retained profits in Manz Automation AG's financial statements prepared according to HGB accounting as of December 31, 2006.

The Managing Board proposes to carry the net profits of Manz Automation AG as of December 31, 2006 forward to new account in the full amount of EUR 95,462.57

Release of the consolidated financial statements

The Managing Board of Manz Automation AG presented the IFRS consolidated financial states to the Supervisory Board. The Supervisory Board will decide on these financial statements on April 24, 2007.

Reutlingen, March 10, 2007
Manz Automation AG

The Managing Board

Auditor's opinion

We have audited the consolidated financial statements of Manz Automation AG, Reutlingen, comprising the balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement and notes to the financial statements as well as the group management report for the fiscal year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the consolidated management report in accordance with IFRSs, as they are to be applied in the EU, and the supplementary provisions of Section 315a (1) of the *Handelsgesetzbuch* (HGB – German Commercial Code) are the responsibility of the company’s legal representatives. Our responsibility is to express an opinion, based on our audit, on the annual consolidated financial statements and the consolidated management report.

We conducted our audit in accordance with Section 317 of the HGB and in compliance with the principles of proper auditing adopted by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether inaccuracies and violations are identified that could have a material effect on the view of the financial position and results of operations presented by the annual consolidated financial statements with due regard to the accounting standards to be applied and by the group management report. The process of defining the audit procedures takes account of knowledge about the business activities and the economic and legal environment of the company, as well as expectations of possible errors. An audit includes examining, largely on a test basis, the effectiveness of the internal control system and evidence supporting the amounts and disclosures in the annual consolidated financial statements and the Group management report. An audit also includes assessing the annual financial statements of the companies included in the consolidation, the definition of the scope of consolidation, the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual consolidated financial statements and the Group management report. We are confident that our audit provides a sufficiently sound basis on which to make an assessment.

Our audit led to no objections.

In our opinion, based on the results of our audit, the consolidated financial statements comply with IFRSs as these are to be applied in the EU and the supplementary provisions of the HGB as stipulated by Section 315a (1) of the HGB, and convey a true and fair view of the group's financial position and results of operations. The group management report is in line with the consolidated financial statements, provides an accurate picture of the group's situation and accurately reflects the opportunities and risks of future growth.

Reutlingen, March 20, 2007

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Wirtschaftsprüfungsgesellschaft
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Klaiber	Aigner
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Published by

Manz Automation AG
Steigaeckerstrasse 5
D-72768 Reutlingen
Phone +49 7121 9000-0
Fax +49 7121 9000-99
www.manz-automation.com
info@manz-automation.com

Edited by

cometis AG
Unter den Eichen 7 / Gebaeude D
D-65195 Wiesbaden
Phone +49 611 20 585 5-11
Fax +49 611 20 585 5-66
www.cometis.de

Translation

WordsWorking.de, Bacharach

Photos

Picture library Manz Automation AG;
Andreas Körner, Stuttgart

Printing

Leibfarth & Schwarz, Dettingen / Erms


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