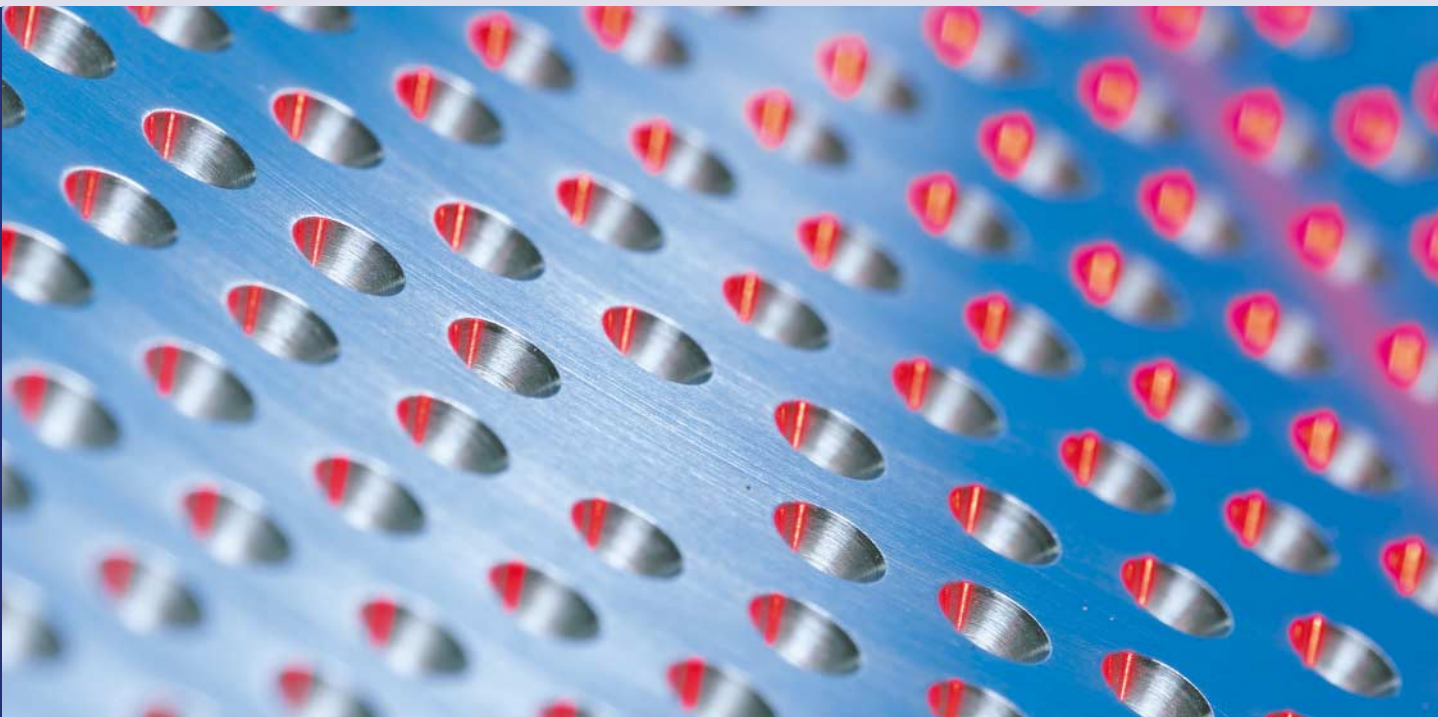


2006

annual report

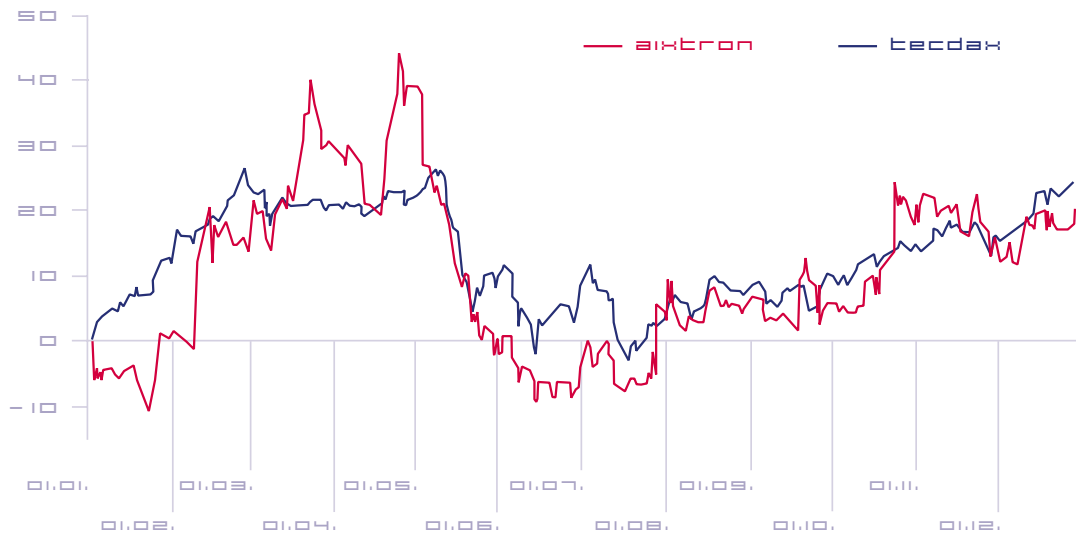
Hightech is our business.



*AIXTRON*

### Key financial figures

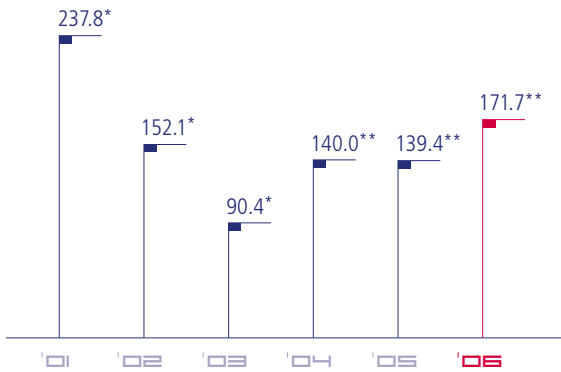
(million €)	2006	2005	2004
Sales revenues	171.7	139.4	140.0
Gross profit	63.4	34.7	52.4
Gross margin, % revenues	37%	25%	37%
Operating result	5.7	(52.7)	9.7
Operating result, % revenues	3%	(38%)	7%
Net result	5.9	(53.5)	7.7
Net result, % revenues	3%	(38%)	6%
Net result per share – basic (€)	0.07	(0.65)	0.12
Net result per share – diluted (€)	0.07	(0.65)	0.12
Equipment Order Intake	178.0	113.6	111.4
Equipment Order Backlog (End of period)	85.1	48.6	52.5



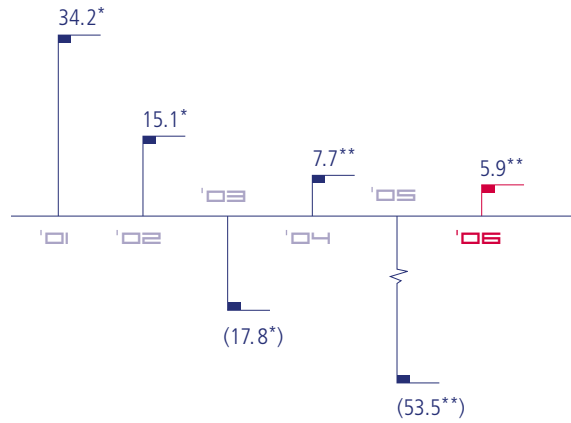
## Product portfolio

Material	Compound Semiconductors	Organic Semiconductors	Silicon Semiconductors
<b>Systems Technology</b>	MOCVD	OVPD®	CVD ALD AVD®
<b>Systems</b>	Planetary Reactor CCS Reactor SiC Reactor	Gen1 Prototype Gen1 R&D Tool Gen2 Production Tool	Lynx 3 CVD Stratagem 300 ALD Tricent® AVD®
<b>Potential Applications/ Devices</b>	LEDs	OLEDs for displays	Metal and Oxide films for CMOS gate stacks
	Optoelectronics (photo diodes, lasers, modulators for Telecom/Datacom)	OLEDs for solid state lighting	Metal and Oxide films for capacitor structures in DRAMs and FeRAMS
	Laser devices for consumer electronics (CDs, DVDs)	Organic transparent thin film solar cells	SiGe and SSi epitaxial layers for CMOS
	High-Frequency devices (HBTs, HEMTs) for wireless datacom	Electronic semiconductor structures for flexible displays and RFID	MEMS – Micro Electronic Mechanical Systems
	SiC based Schottky Diodes		TFH – Thin Film Heads for data storage hard disk drives
	Solar cells		

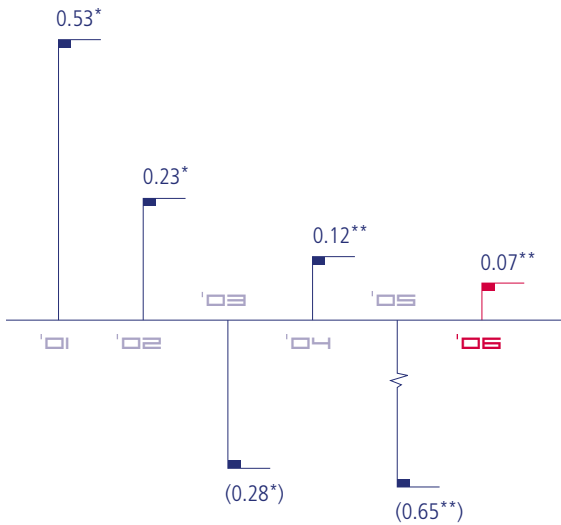
### Revenues (million Euro)



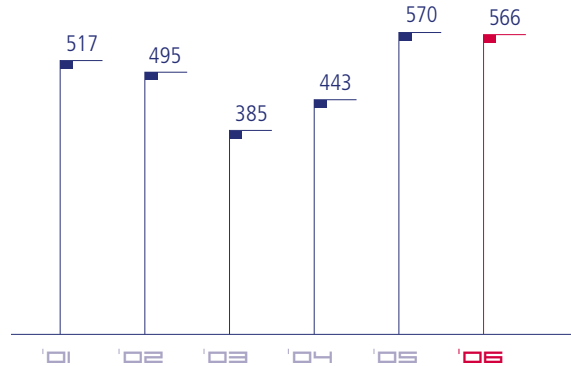
### Consolidated Earnings (million Euro)



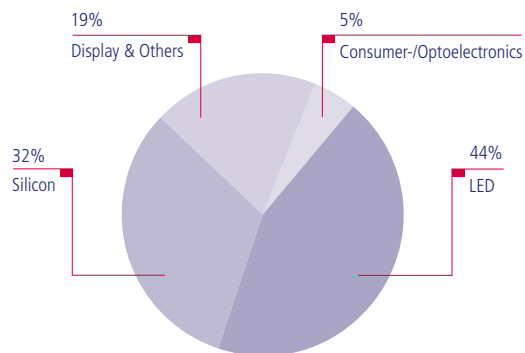
### Earnings per share (Euro)



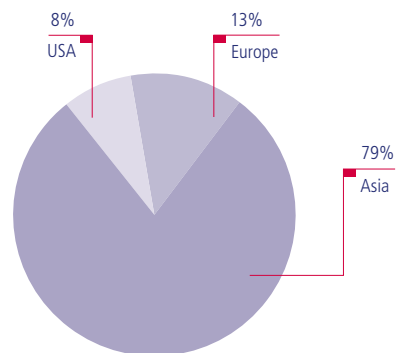
### Employees



### Revenues by Application, 2006



### Revenues by Region, 2006



\* In accordance with the restated Consolidated Financial Statements for 2001-2003, US-GAAP

\*\* IFRS

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## Dear shareholders,

I am delighted to be able to report to you that, thanks to a great effort by the whole AIXTRON team, we have achieved the top and bottom-line performance we were striving for in 2006, even exceeding our own initial breakeven 2006 target. I can confirm that, for 2006, we have delivered a Net Profit of € 5.9 million.

2006 saw some very important changes in your company. First; and most obviously, our range of customers and the products that we can offer to them have been expanded significantly with the completion of the integration of Genus, Inc. This increase in the depth and breadth of our business has been a key element in producing the 2006 financial result, and essential in laying down the foundations for future growth. Second; as we predicted this time last year, the review of costs and operating practices that we instituted in early 2005 has now begun to deliver significant beneficial effects, thus enhancing profitability.

We set out, at the beginning of 2006, determined to reduce the high degree of revenue dependency on Compound applications. This was one of the primary strategic objectives behind the acquisition of Genus, Inc. In a 3-year-comparison, the contribution to Group revenue by Compound has diminished from 82% in 2004 – before the acquisition of Genus, Inc. – over 58% in 2005 to 56% in 2006, which is reflected in the increase of Silicon revenues during the same time period. Whilst this may, of course, be different in future years, it has been very beneficial in 2006.

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Let me explain to you what exactly our performance looked like:

While Compound Semiconductor system equipment revenues increased by 19% in 2006, order intake in 2006 rose by 79% through the year, reflecting the industry's current investment confidence and customers' very positive response to the new AIXTRON products launched at the end of 2005.

One third of the orders received in 2006 were for these new products. This is a very encouraging signal at a time when new, large-volume applications, such as LED backlighting for displays, are beginning to emerge as opportunities for us.

Whilst we believe that 2007 will see a more muted level of Compound order intake, at least in the early part of the year, personally, I remain very positive about the medium and long-term health of the Compound Semiconductor industry.

Silicon applications, our second most prominent customer end market, contributed positively to Group order intake figures during 2006, representing a significant improvement by 11% compared to 2005. While demand for Silicon Semiconductor systems has been historically more volatile than for Compound, demand for our traditional CVD technology has been relatively stable for five quarters now. Although the well-documented delays in the introduction of new material applications and technologies have held up demand for ALD and AVD® production systems, we are making good progress with those evaluation units ordered and installed in 2006. Further units will be installed both in our labs and at customer locations during 2007, focusing on next-generation applications.

Finally, we are continuing to make encouraging technical progress with our development of OVPD® technology. Whilst the technical performance of those OLEDs made with our OVPD® system technology, has already demonstrated significant advantages over the current conventional VTE equipment, it should be recognized that there is still a lot of work to be done before the OLED industry fully develops and realizes its potential, a potential which we continue to believe is considerable.

Our commitment to this technology and our long-term involvement in Government and European-funded projects, reflects our conviction that OLEDs will, in the medium to long term, emerge as a competitive device technology in the lighting, display and semiconductor markets, and subsequently be revenue and profit-generating for AIXTRON.


In conclusion; we believe that the products and structure we have developed over the last year leave us better able than ever before to meet the needs of customers who are addressing newly emerging technologies. This allows us to move into the future with a more balanced and complementary product range based on our core competence; gas phase deposition technology.



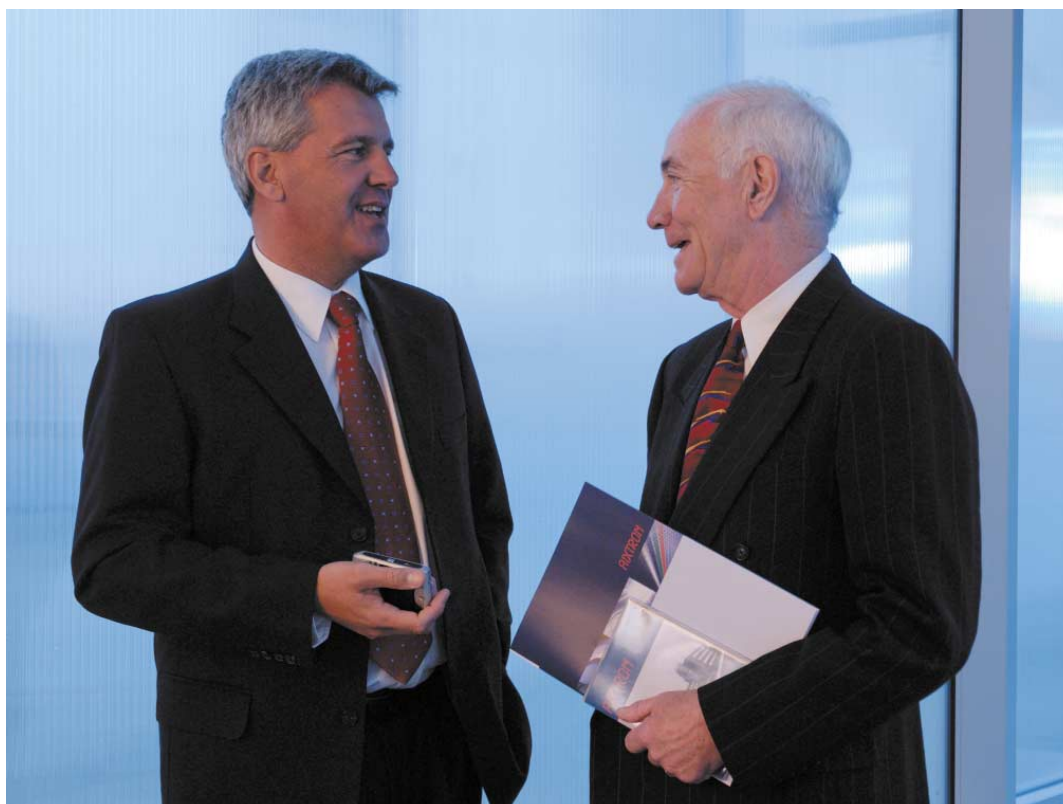
As I believe you will acknowledge, 2006 was a year of real progress for the team at AIXTRON. The market timing uncertainties and the changes brought about by our review of the business mean that we continue to demand an extraordinary level of commitment and co-operation from our employees. I would like to thank them and their families for their dedication and patience throughout the past year. I would also like to thank the Supervisory Board of AIXTRON AG for the continued support and advice they have provided to the Executive Board.

Finally, I would like to thank you, our shareholders, once again. While the market we operate in will always challenge us, I hope that the performance of the last year will have earned us your continued support as we move into our next period of necessary change. I can assure you all of the full-hearted and ongoing commitment of the AIXTRON AG Executive Board to the delivery of long-term value and profitability.

Aachen, March 2007

A handwritten signature in blue ink, appearing to read 'P. Hyland', with a horizontal line underneath.

Paul Hyland  
Chairman of the Executive Board



**Paul Hyland**  
Chairman, President and  
Chief Executive Officer

Born in 1953, married, 4 children

Education: Businessman, Engineer

2000–2002: Managing Director  
Thomas Swan

previously: Managing Director of  
various international  
technology companies

**Dr. William W. R. Elder**  
Executive Vice President

Born in 1938, married, 4 children

Education: Master in  
Engineering & Economics

1982–2005: President and  
CEO of Genus, Inc.



**Dr. Bernd Schulte**

**Executive Vice President and  
Chief Operating Officer**

Born in 1962, married, 3 children

Education: Physics Graduate and Ph.D.

Since 1993: different management  
positions at AIXTRON

**Wolfgang Breme**

**Executive Vice President and  
Chief Financial Officer**

Born in 1960, married, 2 children

Education: Business Graduate

2002-2005: Executive Board Member & CFO of  
technotrans AG

Before 2002: board member and other leading  
positions at various international  
technology companies

15,000



## 15,000 LED chips can be cut from a single 2" wafer.

When the founders of AIXTRON AG swapped the RWTH laboratory in Aachen for their own production facility in 1983, they had a clear goal in sight: they set out to develop the key expertise and equipment for producing the technology of the future – semiconductors. They recognized that the new technology would one day play a pivotal role in all important technical applications. No mobile phone, no television, no computer, no car – not even the simplest electronic device – is conceivable without semiconductors. AIXTRON builds the production equipment – thin-film deposition systems – in which these semiconductor materials are manufactured.

AIXTRON currently serves three application fields: compound semiconductors are primarily used for producing LEDs and lasers. They are used for lighting and for data transmission, etc. There continues to be a high demand for silicon semiconductor material for memory chips and next generation logic devices. Relatively new are organic semiconductors. It is hoped that these will one day generate current on thin film or possibly be used to produce low-energy lighting and displays. For these three applications fields, AIXTRON supplies very specific coating technologies: MOCVD\* for the compound semiconductors, ALD\*, AVD\*\* and CVD\* for silicon semiconductors and OVPD\*\* for organic semiconductors.

Inevitably, very different production equipment is required for the various target materials. For that very reason AIXTRON AG opted some years ago for a mix of diverse technologies, reflected in the AIXTRON, Epigress, Genus and Thomas Swan brands – ensuring that the customer always finds the right technology at AIXTRON for his specific application

\*see glossary in Annex

0.0000001



## An LED chip is just 10-15 micron thick. Rather tiny for the amount of light they generate!

PC users are well aware of the phenomenon: computers are becoming ever more powerful, while at the same time prices fall. The same can be said of most capital goods and consumer products. What's the secret? Semiconductors can be found virtually everywhere at the heart of modern technology. In line with the laws of the market and physics, semiconductors have to be continuously improved, to ensure that products remain attractive and competitive.

That brings us to the equipment used to produce these materials: AIXTRON systems utilizing Planetary Reactor®, Close Coupled Showerhead™ and Hot Wall Reactor proprietary technologies. Their purpose is to produce extremely high-grade compound, silicon or organic semiconductors to extremely close tolerances. Customers require sharper junction interfaces between layers, higher output, lower consumption of resources, maximum repeatability and process control; and international roadmaps drawn up by the industry define the route.

Working closely together with customers, research institutes and universities, AIXTRON is continuously developing its systems' engineering to ever higher levels. In the Simulations Department, computer models are used to explore whether a specific change brings any improvement in the process. The Applications Lab is where tests are carried out under stringent conditions, to confirm that the equipment meets customer requirements.

The optimization of the chosen materials results in extremely efficient, yet compact chips: Today's modern automobiles are built with vehicle electronics systems that the crew of Apollo 13 would have envied – just one example of the huge every day advances in everyday life in which AIXTRON is involved.

10 · 10 -1





## Silicon wafers are produced in a class 1 clean room. Just one particle per cubic foot is permissible.

The first impression a visitor to AIXTRON Production gains is more of an operating theater than a production shop. The production process is quiet, staff in clean-room suits deliver components and system modules to their workstations on plastic pallets. They work at the giant stainless steel cabinets measuring, assembling, adjusting, programming and testing the systems. It can take up to three months to transform the valves, gas pipes, control units, microprocessors and subassemblies into highly complex automated systems that deposit gases extremely accurately onto the renowned silver wafers for customers from around the world.

To the untrained eye, the smooth-walled boxes all look the same. And the systems are indeed becoming increasingly similar on the inside, too. Here, AIXTRON is following a familiar trend from the automotive industry: the common platform principle. The size of the wafers and the application for which they are being produced no longer have much influence on the design of the production systems. Two advantages of standardization are the ability to deliver more rapidly to customers and to reduce the cost of manufacturing. So how do we use the savings? We invest in new ideas for next generation technologies!

80/7/24

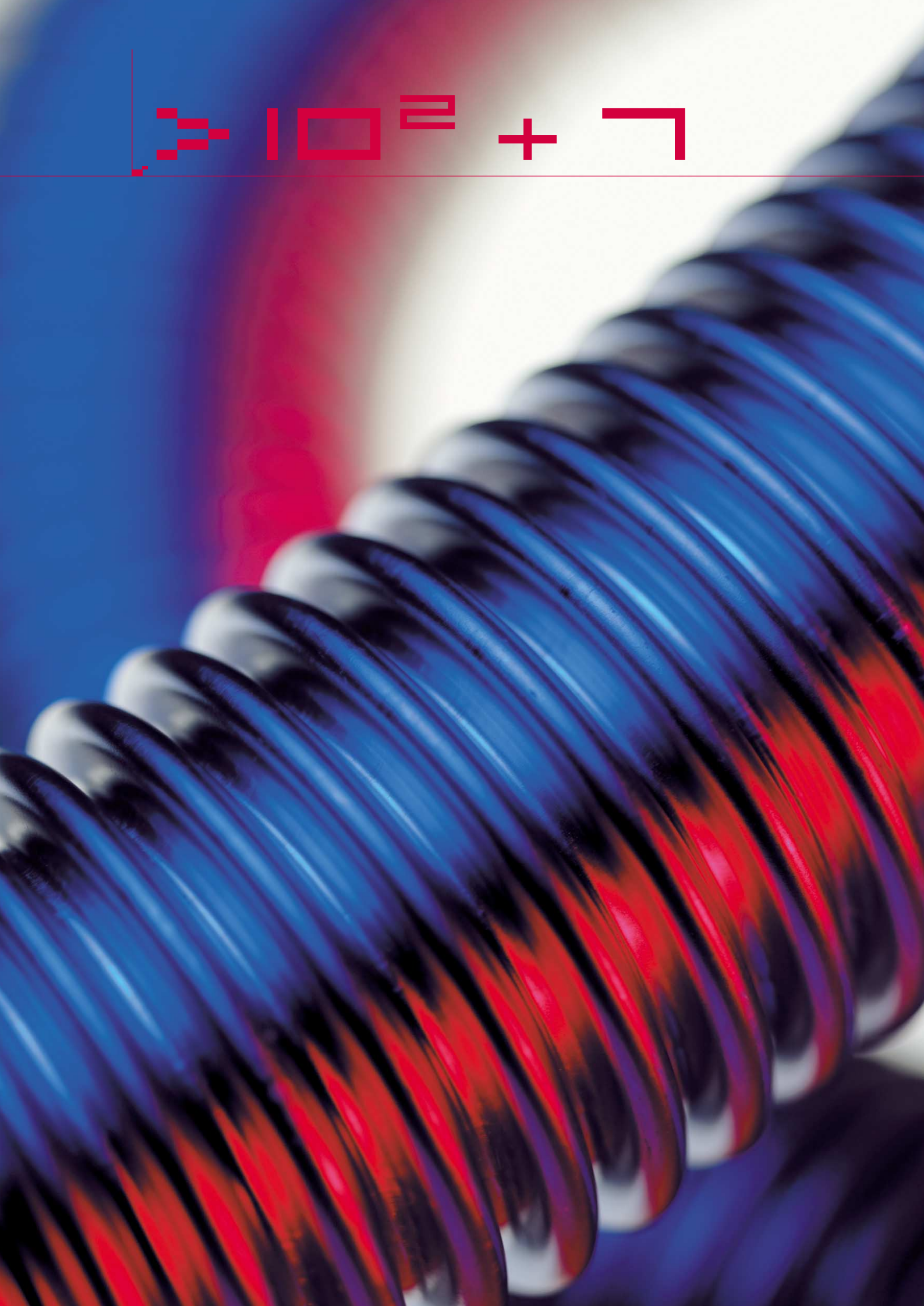
## Worldwide, we have 80 service staff in the field. Twenty four hours a day – every day.

Whatever the business area – a cafe, the garage or even plant engineering – true service is always about customer satisfaction. It sounds simple, but life can become extremely complicated if customers have very different needs, are in various locations around the world and need to keep highly complex production systems in operation around the clock!

At AIXTRON, service starts at the very initial specification development stage of every CVD system – all AIXTRON systems are tailored precisely to customer requirements; every wafer carries the customized signature of “its own” system. Service naturally also includes the installation of the production equipment on the customer’s premises and the training of the customer’s staff.

When the production equipment is up and running, it should continue to do so preferably without interruption. To ensure that this remains the case, AIXTRON has developed a system that maintains maximum capacity utilization of the deposition equipment in production. From the company production sites in Aachen, Cambridge and Sunnyvale, and the offices in China, Japan, Korea and Taiwan, 80 staff provide 24/7 service & support. Local warehousing of the most important spare parts in the different offices to provide the fastest possible delivery, local service engineers, local communication interfaces between customers and AIXTRON, service and maintenance contracts and service and sales support all contribute to ensure maximum customer service.

3102 + 7



## AIXTRON AG currently holds 107 patents. Our employees keep this figure rising.

For more than twenty years, they have been developing the ideas and concepts that nobody had before; they develop systems that produce in hitherto unimagined quality and precision; they overcome technical and scientific hurdles. The staff at AIXTRON has an instinctive feel for innovation, based on their natural talent and hard work.

How are we able to retain knowledge in the company and keep adding to it? Two of the company founders originate from RWTH Aachen, which is still arguably one of the best technical universities anywhere in the world. AIXTRON has maintained contacts with the university down the years and has developed intensive dialogues with other universities, including Cambridge, England, and other highly regarded research institutes around the world. Industry-sponsored students, undergraduates, post graduates and work-placement students also bring fresh ideas into the company. Talented people are identified at an early stage, trained and encouraged. Staff from Accounts through to the Marketing Department undergo continuous training – even in matters beyond their immediate fields. That's how we bring in new knowledge into the company – and more importantly, how we then develop it.

What else needs doing to induce promising, well educated and well trained staff to join AIXTRON – and with them the valuable knowledge needed for sophisticated deposition technology? Researchers, engineers and technicians are, by their very nature, inquisitive people, who want to develop personally, they need room to grow and want to work on new tasks and technologies. That is precisely the environment AIXTRON gives them: in our laboratories and engineering departments, our engineers are faced with new challenges every day; ideas and knowledge are much in demand to create the inventive solutions that are the hallmark of AIXTRON to meet customers' requirements. And what can be more satisfying than an idea that one day becomes a solution?

## Supervisory Board Report

Following a period of major challenges, AIXTRON's business benefited from a comparatively favorable economic and industry market environment in fiscal year 2006. Continuous technology enhancements helped improve both, the operating business and AIXTRON's market position. The cost reduction and efficiency improvement measures, introduced by the Management, are beginning to take effect. As predicted, the annual result improved, cash and cash equivalents increased and operating costs continued to fall, resulting in improved margins. The integration of Genus, now part of AIXTRON Inc., is largely complete and is bearing fruit.

In fiscal year 2006, we again focused intensively on the business status, the business strategy and the prospects of the Company. The Executive Board kept us regularly, promptly and extensively informed, and involved us in those decisions of material importance. We provided advice to the Executive Board and monitored their management activities and actions.

### Supervisory Board Meetings and Content

In fiscal year 2006, the Supervisory Board held four ordinary Supervisory Board meetings on March 9, May 10, September 21 and November 15, each of which were attended by all six Supervisory Board members. At these meetings, the Executive Board updated us on both the status of the operating business and the latest developments in the markets and competitive environments. In this context, the market response and customer acceptance of new product launches and enhancements was discussed (e.g. the "Common Platform" Integrated Concept (IC) systems, new systems with increased wafer capacity, new "Showerhead" systems, smaller development systems, systems with a new reactor design and new combined technology (ALD and AVD®) systems).

We also gained sufficient insight into the strategy and planning of the AIXTRON Group through forecast reports. For instance: in every meeting, we were given an overview of the order book status at AIXTRON AG and its subsidiaries and a comparison with the respective planned budget.

Between meetings, all Supervisory Board members received detailed written monthly and quarterly reports on the business status of the Company. Furthermore, in numerous telephone calls and face-to-face talks, both I, as Chairman, and the Chairman of the Audit Committee were promptly and extensively informed by the Executive Board about material developments and forthcoming decisions.

At the last ordinary meeting of the year, on November 15, 2006, the Supervisory Board approved the budget for 2007 submitted by the Executive Board. This includes revenue, income, financial and investment planning.

Resolutions were passed on the following topics in the ordinary Supervisory Board meetings:

- Annual General Meeting (e.g. Supervisory Board Report, agenda)
- Corporate Governance (Declaration of Conformity and Corporate Governance Report)
- Issue of stock options in 2006
- Supervisory Board rules of procedure (update)
- Dates (meetings of the Supervisory Board and Audit Committee)
- Executive Board issues (including contract extensions and schedule of responsibilities)
- Dividend payment (none for fiscal year 2006)

In addition, at the meeting on March 9, after extensive discussion, the Annual Financial Statements of AIXTRON AG were adopted and the Consolidated Financial Statements to December 31, 2005 were approved.

### **Committees**

The Audit Committee primarily deals with matters such as accounting, risk management, the control system, the auditors' mandate, identification of areas to be audited, auditors' fee arrangements, while at the same time ensuring the necessary independence of the auditors. The Chairman of the Committee regularly reports to the Supervisory Board with regard to the work performed.

At the four meetings in fiscal year 2006 (March 8, May 10, September 20 and November 14), the Audit Committee members dealt with the following special topics in addition to the financial business development and budget planning:

- Implementation of SOX 404 (internal control system pursuant to paragraph 404 of the Sarbanes-Oxley ("SOX") Act) with the following aims: clear insight into the financial processes, documentation of work processes, prompt identification of weak points and any cases of fraud)
- Risk Management (introduction of an integrated risk management system that also conforms to the SOX 404 provisions)
- Risk Report
- SEC filings and amalgamation of German and American annual reporting (project plan review)

### Monitoring of the Executive Board

In fiscal year 2006, monitoring of the management focused on the progress towards the return to profitability and increase in liquidity. We regularly examined the implementation of the various measures and discussed this topic intensively with the Executive Board.

Our critical advice and control focused on the following topics:

- Reduction of material costs and increase of average sale prices
- Increase of headcount efficiency
- Justifiable restriction of investments and, if applicable, borrowing
- Examination of R&D programs and the associated strategy
- Examination of the hedging strategy
- Amalgamation of subsidiaries
- Re-organization of Organic Semiconductor business activities

We monitored adherence to the set revenue, earnings and liquidity targets on the basis of detailed monthly reports and budget planning and corresponding discussions with the Executive Board.

Particular attention was also paid to the former Genus Inc., which is consolidated for the whole 12 months for the first time this fiscal year. We specifically monitored the development of Silicon Semiconductor business primarily attributable to the former Genus Inc. and especially the attainment of the break-even point as at the fiscal year end.

During the reporting year, the Supervisory Board did not make use of its option to inspect the books and records of the Company or to commission special experts with respect to specific assignments as provided for in § 111 (2) of the German Stock Corporation Act (AktG), as there was no identified need to do so given the regular and detailed reporting by the Executive Board and the additional monitoring measures implemented as described.

### Corporate Governance

Against the backdrop of the internal control system to be implemented in accordance with SOX, the Supervisory Board again dealt intensively with the topic of Corporate Governance in 2006. The control system implemented by AIXTRON AG relates to specific financial data and processes, and has been checked and certified by Deloitte & Touche Wirtschaftsprüfungsgesellschaft, Hannover, Germany. The Supervisory Board assumes that this measure will further increase shareholder confidence.

As in the previous year, the Executive Board and the Supervisory Board have commented on Corporate Governance at AIXTRON in a corresponding separate report. In accordance with the latest version of the Corporate Governance Code, dated June 12, 2006, an Executive Board Remuneration Report is, for the first time, included in the 2006 Corporate Governance Report. The current Declaration of Conformity dated March 2007 certifies that AIXTRON AG is again fully compliant with the Code.



## **Audit**

Following the resolution passed at the Company's Annual Shareholders' Meeting on May 11, 2006, the Supervisory Board awarded the mandate to audit the annual accounts of both AIXTRON AG and the AIXTRON Group to Deloitte & Touche Wirtschaftsprüfungsgesellschaft, Hannover, Germany. The auditors also reviewed the newly implemented internal control system in accordance with SOX, as well as measures implemented by the Executive Board to detect risks at an early stage and to avoid that such risks would jeopardize the existence of the Company.

The annual accounts of AIXTRON AG and the Company's Group accounts for 2006 have been issued with an unqualified audit opinion. The auditors have determined that the Management Report of both AIXTRON AG and the AIXTRON Group represents a true and fair view of the current and future business development of AIXTRON AG and of the AIXTRON Group.

## **Annual Financial Statements**

The Annual Financial Statement documents (Annual Financial Statements of AIXTRON AG and Consolidated Financial Statements to December 31, 2006 as well as the joint Management Reports of the Company and the Group) as well as the audit reports of the auditor were submitted to the Audit Committee and us for examination in good time. We have closely examined these documents. The Annual Financial Statements of AIXTRON AG and the Consolidated Financial Statements for the AIXTRON Group, as well as the respective Management Reports were discussed in detail in the Supervisory Board Meeting on March 13, 2007, the auditor being present at that meeting.

Following our own examination, we had no objections to the submitted single-entity and Consolidated Financial Statements as well as the respective Management Reports, and entirely concurred with the auditors' results and opinion. We approved the Annual Financial Statements of both AIXTRON AG and the Consolidated Financial Statements for the AIXTRON Group for fiscal year 2006 in a resolution passed on March 13, 2007. The Annual Financial Statements of the Company and the AIXTRON Group are, therefore, adopted.

## **Supervisory Board Appreciation**

We would like to thank the Executive Board and all employees for their great personal commitment as well as the employee representatives for their constructive cooperation with the Company's executives. Similarly, we would like to thank AIXTRON's shareholders for their continuing confidence in the Company.

Aachen, March 2007

Kim Schindelhauer  
Chairman of the Supervisory Board

## Joint Corporate Governance Report by the Executive Board and Supervisory Board of AIXTRON AG

AIXTRON is committed to observing the principles of transparent, responsible Corporate Governance aimed at maximizing value. The Executive Board, Supervisory Board and officers of AIXTRON identify with these principles. Therefore, AIXTRON considers compliance with Corporate Governance principles to constitute an important means of instilling confidence on the part of present and future shareholders, creditors, employees, business partners and the public in national and international markets. The recommendations of the German Corporate Governance Code are used to guide us in our business activity.

As a result of its NASDAQ US-listing, AIXTRON AG is subject to specific US capital market laws such as the regulations of the Sarbanes-Oxley Act of 2002. The requirements set out there, for an internal control system in terms of specific financial data and processes, were implemented for the first time in the fiscal year 2006. The implemented control system was audited and certified as at the end of the year 2006 by Deloitte & Touche Wirtschaftsprüfungsgesellschaft, Hannover, Germany. This has significantly helped to strengthen AIXTRON's Corporate Governance and will also boost shareholder confidence in the company.

This Corporate Governance Report is based on the latest version of the German Corporate Governance Code ("Code"), dated June 12, 2006. The sections referred to in this document apply to this Code. The Report (Section 3.10.) contains information which is explicitly recommended by the Code and additionally informs about specific Corporate Governance related facts which arose in the reporting year 2006.

The annual joint Declaration of Conformity issued by the Executive Board and the Supervisory Board was last updated in March 2007 and states the Company's complete compliance with the Code.

In accordance with the latest version of the Code, dated June 12, 2006, the AIXTRON Remuneration Report (see "Executive Board Remuneration") is, for the first time this year, included in the Corporate Governance Report. It is comprised of data that, in accordance with the requirements of the German Commercial Code (HGB), as amended by the Act on the Disclosure of Managing Board Remuneration (VorstOG), is an integral part of the Notes to the Annual Financial Statements pursuant to § 314 of the HGB or of the Management Report pursuant to § 315 of the HGB. Therefore, the information explained in this report is not additionally presented in detail in the Notes to the Annual Financial Statements or in the Management Report.

Both this Corporate Governance Report and the latest Declaration of Conformity are published in the Annual Report and on the AIXTRON corporate website [www.aixtron.com](http://www.aixtron.com) in German and English. According to Section 3.10. of the Code, AIXTRON also retains previous Declarations of Conformity on its website for a period of five years. The following Declarations of Conformity, according to § 161 of the German Stock Corporation Act (AktG), have been issued so far:

<b>Date</b>	<b>Code-Version</b>	<b>Deviation from the Code</b>
December 2002	February 26, 2002	None
December 2003	May 21, 2003	Deviations: 4.2.4. (Individualized reporting of the compensation of the Executive Board); 5.4.5., Para. 3 (Individualized reporting of the compensation of the Supervisory Board)
August 2004	May 21, 2003	Deviations: 4.2.4. (Individualized reporting of the compensation of the Executive Board); 5.4.5., Para. 3 (Individualized reporting of the compensation of the Supervisory Board); 2.3.1., Para. 2 and 2.3.2. (Publication of General Meeting documents on the website and notification of the convening of the General Meeting)
March 2005	May 21, 2003	Deviations: 4.2.4. (Individualized reporting of the compensation of the Executive Board); 5.4.5., Para. 3 (Individualized reporting of the compensation of the Supervisory Board)
March 2006	June 2, 2005	None
March 2007	June 12, 2006	None

### **Annual General Meeting**

The 2006 Ordinary General Meeting took place in Aachen on May 11, 2006. The agenda, as well as the reports and documents required by law, were provided at the General Meeting, were sent to shareholders upon request, and were also published on the AIXTRON website [www.aixtron.com](http://www.aixtron.com) (Section 2.3.1.). The provisions of the German Corporate Governance Code concerning the convention of the General Meeting were also complied with (Section 2.3.2.).

Seven out of eight agenda points required General Meeting approval. The agenda point approval rate was above 97%, without exception, while about 32% of AIXTRON common stock was represented at the Meeting. In compliance with the Act on Corporate Integrity and Modernization of the Right of Rescission (UMAG), which came into force on November 1, 2005, amendments to the Articles of Association were adopted under agenda points 5 and 6. These amendments related to convening of the AIXTRON General Meeting, the attendance at the AIXTRON General Meeting and the chairmanship of the AIXTRON General Meeting.

As in previous years, in the period prior to the General Meeting, AIXTRON AG offered to shareholders the option of being represented by Company proxies, who, in turn, exercised the individual shareholder voting rights as instructed (Section 2.3.3.).

### Executive Board

At the end of 2006, the AIXTRON AG's Executive Board remained unchanged and comprised of the following four members (Section 4.2.1., Para. 1):

Name	Position	First Appointment	End of Term
Paul Hyland	Chairman, President and Chief Executive Officer	April 1, 2002	March 31, 2010
Wolfgang Breme	Executive Vice President and Chief Financial Officer	April 1, 2005	March 31, 2008
Dr. Bernd Schulte	Executive Vice President and Chief Operating Officer	April 1, 2002	March 31, 2010
Dr. William W. R. Elder	Executive Vice President	July 1, 2005	June 30, 2008

### Executive Board Remuneration

The Supervisory Board is responsible for establishing the structure of the remuneration system and the remuneration of the individual members of the Executive Board. It regularly discusses and reviews the remuneration structure in terms of its appropriateness. In accordance with the Executive Board rules of procedure, new contracts for AIXTRON Executive Board members are generally concluded for 3 years, and contract extensions generally amount to 3 to 5 years.

The level of remuneration of the Executive Board members of AIXTRON AG is aligned to the size of the Company, the commercial and financial situation of the Group and the level and structure of Executive Board remuneration at comparable companies. In addition, the responsibilities, experience and contribution of each individual Executive Board member are taken into account when calculating the remuneration.

Executive Board remuneration consists of three components: fixed remuneration including allowances for private pension provision, a variable bonus, and stock-based remuneration. In the Executive Board contracts of employment, an annual income is stipulated for the fixed remuneration component. The variable bonus is aligned to the consolidated net income for the year. As far as stock-based remuneration is concerned, the Executive Board members participate in the AIXTRON stock option plans. The appropriateness of the above-mentioned payments is reviewed every 3 years.

The fixed remuneration component is non-performance-related and is paid out on a monthly basis (13 times a year) as a salary. Additional payments in kind are made, chiefly consisting of company car usage and premiums for insurance policies.

The variable remuneration is paid from an "accrued internal bonus", defined as 10% of the modified consolidated net income for the year concerned and limited to no more than EUR 6.5 million in total. In 2006, EUR 411,000 is payable. The modified consolidated net income for the year is obtained from the Company's Consolidated Financial Statements (IFRS) certified by the auditor, less a consolidated loss carryforward figure and those amounts that are to be allocated to earnings reserves in the Annual Financial Statements of AIXTRON AG by law or in accordance with the Articles of Association. The consolidated loss carryforward is obtained from consolidated net losses from previous years, less consolidated net income from subsequent fiscal years. Loss carryforwards from fiscal years before January 1, 2006 are not taken into account.

In addition, as a variable component that acts as a long-term incentive, the members of the Executive Board subscribe to the option rights arising from the stock option plans of AIXTRON AG. The number of option rights for the Executive Board is stipulated by the Supervisory Board. In fiscal year 2006, the Executive Board was granted 220,000 option rights (2005: 0) with an option value at allocation of EUR 336,600 (2005: EUR 0). After specific benchmarks are passed, each option entitles the holder to subscribe to one AIXTRON share at an exercise price of EUR 3.83 (2005: EUR 0). Further details on the stock option plans are set out further on in the Corporate Governance Report and in the Notes to the Consolidated Financial Statements.

In the past fiscal year, the cash remuneration of the Executive Board (including a premium for pension provision) totalled EUR 1,665,915 (2005: EUR 1,417,911) and, in 2006, was divided between the members of the Executive Board as per the table below. The “stock-based remuneration” of EUR 183,574 as shown in the table (2005: EUR 378,312), is not completely included as expenditure in the IFRS Financial Statements. However, it is presented in the form below to give a full picture of potential Executive Board remuneration.

in EUR

<b>Executive Board Member</b>	<b>Fixed</b>	<b>Premium for Pension Provision</b>	<b>Others/ Benefits in kind</b>	<b>Variable</b>	<b>Total Cash Remuneration</b>	<b>Stock-based Remuneration</b>	<b>Total Executive Board Remuneration</b>
Paul Hyland	310,918	40,000	9,577	176,000	536,495	52,148	588,643
Wolfgang Breme	223,200	40,000	9,259	88,000	360,459	12,678	373,137
Dr. Bernd Schulte	260,000	40,000	10,926	88,000	398,926	52,148	451,074
Dr. William W. R. Elder	286,634	8,251	16,150	59,000	370,035	66,600	436,635
<b>Total</b>	<b>1,080,752</b>	<b>128,251</b>	<b>45,912</b>	<b>411,000</b>	<b>1,665,915</b>	<b>183,574</b>	<b>1,849,489</b>

In total, as at December 31, 2006, the AIXTRON Executive Board held options to subscribe to 617,876 shares or American depositary shares (“ADS”) in the Company. The amounts of shares, underlying the options, are set out below. The realizable profits from exercising of the stock options can differ significantly from the figures shown in the table.

<b>Executive Board Member</b>	<b>Allocation</b>	<b>Outstanding (shares)</b>	<b>Exercisable (shares)</b>	<b>Option Value on Allocation (EUR)</b>	<b>Exercise Price (EUR)</b>	<b>Maturity</b>
Paul Hyland	May 2006	55,000	0	84,150	3.83	Nov. 2016
	May 2004	35,000	8,750	107,800	6.17	Nov. 2014
	May 2003	27,500	13,750	48,950	3.10	Nov. 2013
	May 2002	27,500	0	152,625	7.48	May 2017
	May 2001	5,000	0	106,500	26.93	May 2016
	May 2000	5,400	1,350	114,507	67.39	May 2015
Wolfgang Breme	May 2006	55,000	0	84,150	3.83	Nov. 2016
Dr. Bernd Schulte	May 2006	55,000	0	84,150	3.83	Nov. 2016
	May 2004	35,000	8,750	107,800	6.17	Nov. 2014
	May 2003	27,500	13,750	48,950	3.10	Nov. 2013
	May 2002	27,500	0	152,625	7.48	May 2017
	May 2001	5,000	0	106,500	26.93	May 2016
	May 2000	2,640	660	55,981	67.39	May 2015
	May 1999	2,976	2,976	35,640	18.70	May 2014
Dr. William W. R. Elder	May 2006	55,000	0	EUR 84,150	EUR 3.83	Nov. 2016
	Oct. 2003	102,000	78,625	US\$ 285,600	US\$ 8.00	Oct. 2013
	Oct. 2002	43,860	43,860	US\$ 62,281	US\$ 2.53	Oct. 2007
	June 2002	51,000	51,000	US\$ 72,420	US\$ 5.02	June 2007
<b>Total</b>		<b>617,876</b>	<b>223,471</b>			

In accordance with IFRS 2, the “option value on allocation” is also the basis for inclusion as expenses in the profit and loss account for options issued after November 7, 2002. For stock options issued before November 7, 2002, the fair value was calculated as per the Black-Scholes model. The 2006 expenditure related to the above listed stock options is included in the IFRS Consolidated Financial Statements as personnel expenses with an amount of EUR 154,728 (2005: EUR 256,078).

In the reporting year 2006, the Executive Board members did not exercise any option rights, and 25,500 expired.

The current Executive Board members have no individual pension benefits. The allowances for pension provision, paid by AIXTRON and listed above, are paid into an insurance contract with a benevolent fund allowance.

The Company’s net obligation in respect of defined benefit pension plans reflects commitments to two former members of the Executive Board of AIXTRON AG. As at the end of 2006, this resulted in pension provisions totalling EUR 983,485 (2005: 978,951). Expenditure from these pensions amounted to EUR 5,534 in the reporting year (2005: EUR 210.211).

The Executive Board members receive no loans from the Company.

## Supervisory Board

At the end of 2006, the Supervisory Board of AIXTRON AG remained unchanged and comprised of 6 members, 4 of which also serve on the Audit Committee (Sections 5.3.2., 5.4.2.).

Remuneration of the Supervisory Board is regulated by the Articles of Association of AIXTRON AG. Accordingly, the annual fixed compensation for individual members of the Supervisory Board is EUR 18,000. The Chairman's compensation is three times this amount and the Deputy Chairman's one and a half times this amount. Members of the Supervisory Board also receive, in the aggregate, a variable compensation of 1% of the Company's retained earnings, less an amount corresponding to 4% of the paid-in contributions to the share capital. The Chairman of the Supervisory Board receives 6/17, the Deputy Chairman 3/17, and each other member of the Supervisory Board 2/17 of the variable compensation. The variable compensation is limited to four times the fixed compensation per Supervisory Board member. In addition, Supervisory Board members receive an attendance fee of EUR 1,500 for attending committee meetings, with the Chairman of the committee receiving twice this amount. The total annual attendance fee per Supervisory Board member is limited to one and a half times that individual's fixed compensation.

The Supervisory Board compensation (in Euro) for the year 2006 comprised in detail (Section 5.4.7.):

<b>Supervisory Board Member</b>	<b>Fixed</b>	<b>Variable</b>	<b>Attendance Fee</b>	<b>Total</b>
Kim Schindelhauer* (Chairman of the Supervisory Board)	54,000	0	6,000	60,000
Dr. Holger Jürgensen* (Deputy Chairman of the Supervisory Board)	27,000	0	6,000	33,000
Prof. Dr. Wolfgang Blättchen* (Chairman of the Audit Committee)	18,000	0	12,000	30,000
Karl-Hermann Kuklies	18,000	0	0	18,000
Prof. Dr. Rüdiger von Rosen	18,000	0	0	18,000
Joachim Simmroß*	18,000	0	6,000	24,000

\* Member of the Audit Committee

There were no payments made to any Supervisory Board member for advisory services in the year 2006 (Section 5.4.7.). There were also no identified conflicts of interest (Section 5.5.2.).

Prior to the Supervisory Board Meeting of November 15, 2006, each Supervisory Board member received the annual questionnaire from the Chairman examining the efficiency of the Supervisory Board activities. Based on the result of this examination, the Supervisory Board resolved, that it is acting efficiently in accordance with Section 5.6. of the Code.

## Transparency

In the interest of maximum transparency, the shareholders, all capital market participants, financial analysts, shareholder associations, and the media are regularly and promptly informed of the AIXTRON Group's business performance. The internet is predominantly the communication channel used for this purpose (Sections 6.3.-6.5.)

Reporting on the business status and financial results of the AIXTRON Group is carried out in English and German, in the form of:

- The Annual Report/Form 20-F for the United States Securities and Exchange Commission ("SEC")
- Quarterly reports/Forms 6-K for the SEC
- Ad-hoc and IR releases/Forms 6-K for the SEC
- Marketing releases

The deadlines for regular financial reporting are summarized in the Financial Calendar (Section 6.7.). These and the above-mentioned reports and releases are available at [www.aixtron.com](http://www.aixtron.com) (Section 6.8.).

No publications or changes in voting rights (exceeding/shortfall of threshold levels) according to Section 6.2 of the Corporate Governance Code were initiated in the past fiscal year.

Any relevant transactions by persons with management duties according to § 15a WpHG are published without delay after receipt of the notification on the AIXTRON webpage [www.aixtron.com](http://www.aixtron.com) under the category: Corporate Governance/Directors Dealings (Section 6.6., Para. 1). In the previous year 2006, three such transactions, relating to the purchase of a total of 8,000 AIXTRON-shares, were published.

In accordance with § 10 of the German Securities Prospectus Act (WpPG), all the above-mentioned information is additionally published in an Annual Document and therefore can be found on the AIXTRON website.

By the year end 2006, the members of the AIXTRON Supervisory Board directly and indirectly owned 11,116,706 or 12.38% of the shares issued by the Company. The AIXTRON Executive Board directly and indirectly owned 121,747 or 0.14% shares or ADS (American Depositary Shares). The options of the Executive Board members arising from the stock option plans are set out and explained in the Remuneration Report (see "Executive Board Remuneration") (Section 6.6., Para. 2).

## Reporting

For the second time, the 2006 AIXTRON Group's accounts have been prepared in accordance with IFRS (International Financial Reporting Standards). The separately reported parent-company Annual Financial Statements 2006 for AIXTRON AG are prepared in accordance with German accounting standards (HGB) (Section 7.1.1.).



## Stock Option Plans

In the reporting year, under the terms of the 2002 option plan, 1,616,100 new stock options were issued at an exercise price of EUR 3.83, 1,559,900 of which were outstanding as per December 31, 2006.

AIXTRON AG currently has the following three stock option plans (Section 7.1.3.), which reserve ordinary shares or AIXTRON American Depositary Shares (ADS) for issuance to members of the Executive Board, officers and employees of the Company (more details in the Notes to the Financial Statements).

### AIXTRON Stock Option Plan 1999

<b>Underlying shares (adjusted for splits)</b>	3,000,000 ordinary shares
Maturity	15 years
Exercisable	Equal instalments of 25% p.a. after the second anniversary of the grant date
Exercise Price	Average Closing Price over the last 20 trading days on the Frankfurt Stock Exchange before the grant date
Hurdle	Performance of the AIXTRON stock must exceed the performance of the Technology AS Price Index (formerly Neuer Markt Index) by at least 5%, or the AIXTRON-turnover rises by at least 25% per year and the profit/revenue ratio is at least 12%. Regardless of fulfilment of these conditions, the stock options can be exercised when 15 years have elapsed.

Stock options as per Dec. 31, 2006	Exercise Price (EUR)	Outstanding	Exercisable	Weighted average lifeto maturity (years)
	7.48	684,005	0	10.50
	18.70	406,824	406,824	7.50
	26.93	424,600	0	9.50
	67.39	410,576	102,644	8.50
		<b>1,926,005</b>	<b>509,468</b>	

## AIXTRON Stock Option Plan 2002

<b>Underlying shares (adjusted for splits)</b>	3,511,495 ordinary shares			
<b>Maturity</b>	10 years			
<b>Exercisable</b>	Equal instalments of 25% p.a. after the second anniversary of the grant date			
<b>Reference Price</b>	Average Closing Price over the last 20 trading days on the Frankfurt Stock Exchange before the grant date			
<b>Hurdle</b>	Premium of 20% over the Average Closing Price, i.e. Reference Price plus 20% = Exercise Price			
<b>Stock options as per Dec. 31, 2006</b>	<b>Exercise Price (EUR)</b>	<b>Outstanding</b>	<b>Exercisable</b>	<b>Weighted average life to maturity (years)</b>
	3.10	681,330	340,665	6.50
	3.83	1,559,900	0	9.50
	6.17	893,330	223,333	7.50
		<b>3,134,560</b>	<b>563,998</b>	

## Genus Stock Option Plan 2000

Within the scope of the acquisition of Genus, Inc. the Company adopted the Genus Incentive Stock Option Plan 2000. Under this plan, options had been previously granted to purchase 3,948,014 Genus shares of common stock. At the date of acquisition, these options were converted into options to purchase 2,013,487 AIXTRON ADS.

Options granted before October 3, 2003, vest over a three-year-period and expire five years from the date of grant. Options granted after October 3, 2003, vest over a four-year-period and expire in ten years from the date of grant.

## Stock options as per December 31, 2005 (Genus plan)

<b>Range of Exercise Prices (USD)</b>	<b>Average Exercise Price (USD)</b>	<b>Outstanding</b>	<b>Exercisable</b>	<b>Weighted average life to maturity (years)</b>
2.10 to 3.13	2.52	106,662	106,662	0.8
3.45 to 4.84	3.63	298,565	162,140	7.5
5.00 to 6.90	5.14	233,262	220,477	1.7
7.20 to 9.41	8.01	346,290	269,451	6.9
9.90 to 12.73	11.99	9,690	7,321	6.9
		<b>994,469</b>	<b>766,051</b>	

Aachen, March 2007

For the Executive Board of AIXTRON AG

|s| Paul Hyland  
(Chairman)

For the Supervisory Board of AIXTRON AG

|s| Kim Schindelbauer  
(Chairman)

## Declaration of Conformity

In accordance with Section 161 German Stock Corporation Act (Aktiengesetz), the Executive Board and the Supervisory Board of AIXTRON AG declare:

The recommendations of the Government Commission of the German Corporate Governance Code (Regierungskommission „Deutscher Corporate Governance Kodex“), published by the Federal Ministry of Justice (Bundesministerium der Justiz) in the official section of the electronic Federal Gazette as applicable from time to time, have been complied with in full since the latest Declaration of Conformity of March 2006.

In the future, it is intended that they will continue to be fully complied with.

Aachen, March 2007

AIXTRON AG

For the Executive Board  
of AIXTRON AG

|s| Paul Hyland  
(Chairman)

For the Supervisory Board  
of AIXTRON AG

|s| Kim Schindelhauer  
(Chairman)



## Group Management Report as of December 31, 2006

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## Group Management Report as of December 31, 2006

### 1. Preliminary Remarks

This report may contain forward-looking statements about the business, financial condition, results of operations and earnings outlook of AIXTRON within the meaning of the “safe harbor” provisions of the United States Private Securities Litigation Reform Act of 1995. Words such as “may”, “will”, “expect”, “anticipate”, “contemplate”, “intend”, “plan”, “believe”, “continue” and “estimate”, and variations of these words and similar expressions, identify these forward-looking statements. The forward-looking statements reflect our current views and assumptions and are subject to risks and uncertainties. You should not place undue reliance on the forward-looking statements. The following factors, and others which are discussed in AIXTRON’s public filings and submissions with the U.S. Securities and Exchange Commission, are among those that may cause actual and future results and trends to differ materially from our forward-looking statements: actual customer orders received by AIXTRON; the extent to which chemical vapor deposition, or CVD, technology is demanded by the market place; the timing of final acceptance of products by customers; the financial climate and accessibility of financing; general conditions in the thin film equipment market and in the macro-economy; cancellations, rescheduling or delays in product shipments; manufacturing capacity constraints; lengthy sales and qualification cycles; difficulties in the production process; changes in semiconductor industry growth; increased competition; exchange rate fluctuations; availability of government funding; variability and availability of interest rates; delays in developing and commercializing new products; general economic conditions being less favorable than expected; and other factors. The forward-looking statements contained in this report are made as of the date hereof and AIXTRON does not assume any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

## 2. Business and Operating Environment

### 2.1. Corporate Structure

This management report relates to the consolidated financial statements of AIXTRON AG including the following operating subsidiaries (collectively referred to as “AIXTRON,” “the AIXTRON Group,” or “the Company”): AIXTRON, Inc., Sunnyvale, California, USA (formed upon the merger of former Genus, Inc. (“Genus”), Sunnyvale, California, USA and former AIXTRON Inc., Atlanta, Georgia, USA); Thomas Swan Scientific Equipment Ltd., Cambridge, United Kingdom; Epigress AB, Lund, Sweden; AIXTRON Korea Co. Ltd., Seoul, South Korea (resulting from the merger of former AIXTRON cshs, Seoul, South Korea with former Genus cshs, Seoul, South Korea); AIXTRON KK, Tokyo, Japan; and AIXTRON Taiwan Co. Ltd., Hsinchu-City, Taiwan.

### Significant Subsidiaries as of December 31, 2006

Name	Jurisdiction of Incorporation	Ownership Interest
Thomas Swan Scientific Equipment Ltd.	England and Wales	100%
Epigress AB	Sweden	100%
AIXTRON Korea Co. Ltd.	South Korea	100%
AIXTRON KK	Japan	100%
AIXTRON Taiwan Co. Ltd.	Taiwan	100%
AIXTRON, Inc.*	California, USA	100%

\* trading as Genus, Inc.; formed upon the merger of former Genus, Inc. (“Genus”), Sunnyvale, California, USA and former AIXTRON Inc., Atlanta, Georgia, USA.

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”). All financial information contained in this Management Report, including comparable prior-year numbers, is reported in accordance with IFRS.

### 2.2 Management and Control

#### Executive Board

As of December 31, 2006 AIXTRON’s Executive Board consisted of the following four individuals:

Name	Position	First Appointment	Term of Expiration
Paul Hyland	Chairman of the Executive Board, President and Chief Executive Officer	April 1, 2002	March 31, 2010
Wolfgang Breme	Executive Vice President and Chief Financial Officer	April 1, 2005	March 31, 2008
Dr. Bernd Schulte	Executive Vice President and Chief Operating Officer	April 1, 2002	March 31, 2010
Dr. William W. R. Elder	Executive Vice President	July 1, 2005	June 30, 2008

## Supervisory Board

As of December 31, 2006 AIXTRON's Supervisory Board consisted of the following six individuals:

Name	Position	Member since
Kim Schindelhauer	Chairman of the Supervisory Board	2002
Dr. Holger Jürgensen	Deputy Chairman of the Supervisory Board	2002
Prof. Dr. Wolfgang Blättchen	Member of the Supervisory Board	1998
Karl-Hermann Kuklies	Member of the Supervisory Board	1997
Prof. Dr. Rüdiger von Rosen	Member of the Supervisory Board	2002
Joachim Simmroß	Member of the Supervisory Board	1997

Information on other board memberships of each AIXTRON Supervisory Board and Executive Board member is contained in note 42 to the consolidated financial statements.

## Principles of Executive Board Member Compensation

The level of remuneration of the Executive Board members of AIXTRON AG is aligned to the size of the Company, the commercial and financial situation of the Group and the level and structure of Executive Board remuneration at comparable companies. In addition, the responsibilities, experience and contribution of each individual Executive Board member are taken into account when calculating the remuneration.

Executive Board remuneration consists of three components: fixed remuneration including allowances for private pension provision, a variable bonus and stock-based remuneration. In the Executive Board contracts of employment, an annual income is stipulated for the fixed remuneration component. The variable bonus is aligned to the consolidated net income for the year. As far as stock-based remuneration is concerned, the Executive Board members participate in the AIXTRON stock option plans. The appropriateness of the above-mentioned payments is reviewed every 3 years.

The fixed remuneration component is non-performance-related and is paid out on a monthly basis (13 times a year) as a salary. Additional payments in kind are made, chiefly consisting of company car usage and premiums for insurance policies.

The variable remuneration is paid from an "accrued internal bonus", defined as 10% of the modified consolidated net income for the year concerned and limited to no more than € 6.5 million in total. For 2006, the variable remuneration has been € 411,000 in total. The modified consolidated net income for the year is obtained from the Company's Consolidated Financial Statements (IFRS) certified by the auditor, less a consolidated loss carryforward figure and those amounts that are to be allocated to earnings reserves in the Annual Financial Statements of AIXTRON AG by law or in accordance with the Articles of Association. The consolidated loss carryforward is obtained from consolidated net losses from previous years, less consolidated net income from subsequent fiscal years. Loss carryforwards from fiscal years before January 1, 2006 are not taken into account.



In addition, as a variable component that acts as a long-term incentive, the members of the Executive Board subscribe to the option rights arising from the stock option plans of AIXTRON AG. The number of option rights for the Executive Board is stipulated by the Supervisory Board. In fiscal year 2006, the Executive Board was granted 220,000 option rights (2005: 0) with an option value at allocation of € 336,600 (2005: € 0). After specific benchmarks are passed, each option entitles the holder to subscribe to one AIXTRON share at an exercise price of € 3.83 (2005: € 0).

For the year ended December 31, 2006, total compensation (cash remuneration including a premium for pension provision as well as share-based remuneration) paid to the members of the Executive Board totaled € 1.9 million (2004: € 1.7 million).

Information on the compensation of each AIXTRON Supervisory Board and Executive Board member is contained in note 33 to the consolidated financial statements as well as in the Corporate Governance Report.

### **Directors and Officers Liability Insurance („D&O Insurance“)**

The Company has taken out liability insurance that covers the activities of members of the Executive Board as well as members of the Supervisory Board. The policy has a limit of indemnity of € 10.0 million per insured event and year and provides for a deductible of € 25,000 per Executive Board member per year each.

### **2.3. Products, Business Processes, Locations**

AIXTRON is a leading provider of deposition equipment to the semiconductor industry. The Company's technology solutions are used by a diverse range of customers worldwide to build advanced components for electronic and opto-electronic applications based on compound, silicon, or organic semiconductor materials. Such components are used in fiber optic communication systems, wireless and mobile telephony applications, optical and electronic storage devices, computing, signaling and lighting, displays, as well as a range of other leading-edge technologies.

The Company markets and sells its products worldwide, principally through its direct sales organization and appointed agents.

<b>Material</b>	<b>Compound Semiconductors</b>	<b>Organic Semiconductors</b>	<b>Silicon Semiconductors</b>
<b>Systems Technology</b>	MOCVD	OVPD®	CVD ALD AVD®
<b>Systems</b>	Planetary Reactor CCS Reactor SiC Reactor	Gen1 Prototype Gen1 R&D Tool Gen2 Production Tool	Lynx 3 CVD Stratagem 300 ALD Tricent® AVD®
<b>Potential Applications/ Devices</b>	LEDs	OLEDs for displays	Metal and Oxide films for CMOS gate stacks
	Optoelectronics (photo diodes, lasers, modulators for Telecom/Datacom)	OLEDs for solid state lighting	Metal and Oxide films for capacitor structures in DRAMs and FeRAMS
	Laser devices for consumer electronics (CDs, DVDs)	Organic transparent thin film solar cells	SiGe and SSi epitaxial layers for CMOS
	High-Frequency devices (HBTs, HEMTs) for wireless datacom	Electronic semiconductor structures for flexible displays and RFID	MEMS – Micro Electronic Mechanical Systems
	SiC based Schottky Diodes		TFH – Thin Film Heads for data storage hard disk drives
	Solar cells		

AIXTRON's business activities include developing and producing equipment for depositing semiconductor material films, process engineering, installing laboratory equipment, consulting and training, including ongoing customer support.

AIXTRON's products range from customized production-scale chemical vapor deposition systems capable of depositing material films on up to 95 two-inch diameter compound semiconductor wafers or 300 mm silicon semiconductor wafers per single production run, to small systems for research and development use and small-scale production. Over 400 customers worldwide use AIXTRON technology. To date, over 1,500 AIXTRON systems have been installed globally.

Demand for AIXTRON's products is driven by the sustained miniaturization, increased processing speed and efficiency, and reduced cost of ownership demands for microelectronic components. The ability of AIXTRON's products to precisely deposit thin material films and the ability to control critical surface dimensions in these components, enables semiconductor manufacturers to improve precision performance, yield, and quality in the fabrication of advanced microelectronic devices.

AIXTRON also offers a comprehensive range of peripheral equipment and services, including products capable of monitoring the concentration of gases in the air and of cleaning the exhaust gas from metal organic chemical vapor deposition processes. The Company also assists its customers in designing the production layouts of tube piping and switching devices for the gas supply to thin film deposition systems, through to a full installation service of "clean room" laboratories (laboratories with reduced particle counts per volume). Additionally, the Company offers its customers process technology, training and consulting services.

AIXTRON's Service Organization provides a full range of customer services, from the initial customized development of an AIXTRON system through to the final installation and ongoing operational support of a system. The AIXTRON Group's onsite application laboratories in Aachen, Germany and Sunnyvale, California are equipped for leading edge research and development and are utilized for the development of customized solutions for the Company's customers. AIXTRON's service managers, process engineers and service technicians also provide systems consulting as well as installation and process support.

As well as being the world's leading manufacturer of metal organic chemical vapor deposition (MOCVD) equipment for the Compound Semiconductor market, the Company has begun, in recent years, the process of diversifying into other next-generation technologies and markets. These opportunities include silicon wafer production applications, employing technologies such as: Chemical Vapor Deposition ("CVD"), Atomic Vapor Deposition (or "AVD<sup>®</sup>") and Atomic Layer Deposition ("ALD"). The potential silicon semiconductor end market applications include memory and complex logic devices as well as data storage and MEMS devices.

AIXTRON is also developing equipment for an Organic Vapor Phase Deposition (or "OVPD<sup>®</sup>") technology for organic light emitting diodes (or "OLED") applications. OLEDs are increasingly being used in new high-performance small display products and are seen to have relevance to potential future large display, lighting and solar applications in the future.

The Company is headquartered in Aachen, Germany, and has a total of 9 facilities worldwide:

#### Facilities as of December 31, 2006

Facility Location	Approximate Size (sq. m.)	Use
Aachen, Germany (owned)	7,260	Headquarters, Manufacturing, Sales, Research and Development
Herzogenrath, Germany (owned)	12,457	Manufacturing, Sales and Service, Engineering
Cambridge, UK (leased)	2,180	Manufacturing, Sales and Service, Engineering
Lund, Sweden (leased)	449	Engineering, Service
Sunnyvale, CA, USA (leased)	9,300	Manufacturing, Sales and Service, Engineering, Research and Development
Seoul, South Korea (leased)	1,032	Sales and Service
Shanghai, China (leased)	282	Representative Office
Hsinchu, Taiwan (leased)	1,000	Sales and Service
Tokyo, Japan (leased)	311	Sales and Service

#### 2.4. Manufacturing and Environmental Protection

AIXTRON has manufacturing sites in Aachen and Herzogenrath, Germany, in Cambridge, United Kingdom, and in Sunnyvale, California. The equipment for AIXTRON's international customers is developed, produced, assembled, and tested in these locations. Many of the development and production processes are computerized.

AIXTRON is principally involved in the final assembly stage of the production process as well as final equipment tuning and testing. The Company purchases most of the components required to manufacture the equipment from third-party suppliers. AIXTRON's contractors and suppliers are selected and qualified to supply source material, standard components and tested and untested sub-assemblies. There are typically several suppliers qualified for each component or sub-assembly, however AIXTRON completes the final system assembly and product testing processes in house.

Since 1994, AIXTRON has been annually qualified for unlimited DIN EN ISO 9001 certification. In 2003, the Company's process-oriented management system was successfully certified in accordance with DIN EN 9001:2000. Globally acknowledged test marks such as CE, ETL, and UL are evidence that the Company's products comply with international quality standards. AIXTRON is affiliated with a number of internationally recognised, independent certification centers.

Environmental protection and the responsible use of resources are an essential part of AIXTRON's business strategy. The Company's engineers work diligently to continuously improve AIXTRON's systems, both in terms of resource conservation and environmentally-friendly design and function.

In Research and Development, simulation techniques are important tools to reduce material and energy-intensive manufacturing and testing processes as well as reducing natural resource consumption to a minimum.

AIXTRON and its suppliers jointly use a standardized, environmentally friendly reusable packaging system which reduces waste and optimizes stock management. The Herzogenrath, Germany location has a solar cell system installed, by which the building is provided with emergency and safety lighting.

## **2.5. Strategy and Competitive Positioning**

AIXTRON is strategically positioned as one of the world's leading manufacturers of state-of-the-art deposition equipment for the production of complex materials for the semiconductor industry: Compound Semiconductors (MOCVD equipment), Silicon Semiconductors (AVD<sup>®</sup>, ALD, CVD equipment) and Organic Semiconductors (OVPD<sup>®</sup> equipment).

### **Systems for Compound Semiconductor Manufacturing**

AIXTRON's main competitor in the market for MOCVD equipment is the Process Equipment Group of Veeco Instruments Inc./USA. AIXTRON also competes with a number of Asian manufacturers including Nippon Sanso/Japan and Nippon EMC/Japan, amongst others. Based on market research by VLSI Research, Inc. it is estimated that the share of the MOCVD equipment market held by AIXTRON in 2005 was more than 60% (estimated 2005 total market value: US\$ 156 million). The Company's strongest competitor in terms of sales, Veeco Instruments Inc., had an estimated market share of approximately 18% for the same period. The Company anticipates an estimated market share in excess of 60% in the global MOCVD market for 2006, when next reported by VLSI.

### **Systems for Silicon Semiconductor Manufacturing**

In the CVD, AVD<sup>®</sup> and ALD equipment markets, AIXTRON mainly competes with a variety of other equipment companies. These include Applied Materials, Inc./USA, Tokyo Electron, Ltd./Japan, ASM International N.V./Netherlands, Veeco Instruments Inc./USA, IPS Technology/South Korea, Jusung Engineering Co., Ltd./South Korea, Aviza Technology, Inc./USA und Hitachi Kokusai Electric Co., Ltd./Japan.

Based on market research by VLSI Research, Inc. it is estimated that in 2005 AIXTRON held an approximate 13% share in the developing ALD systems market (total market value: approximately US\$ 127 million), an approximate 12% share of the established market for silicide CVD systems (total market value: approximately US\$ 210 million) and a share of approximately 48% of the tungsten silicide CVD systems specifically sold to DRAM and NAND Flash memory chip manufacturers (2005 total market value: approximately US\$ 55 million).

With the Company's currently available Silicon Semiconductor manufacturing technologies, AIXTRON is well positioned for the adoption of sub 75 nm memory and logic integrated circuits (ICs). These technologies enable extremely high precision in depositing very thin material layers and facilitate the even coating of complex three-dimensional microelectronic device structures. These technologies offer the semiconductor industry new material coating possibilities for the next generation of computer chips, and, in AIXTRON's opinion, present high development potential for the future.

### **Systems for Organic Semiconductor Manufacturing**

In the market for Organic Semiconductor equipment, AIXTRON competes with established manufacturers such as Ulvac Inc./Japan, Tokki Corporation/Japan, Applied Materials, Inc./USA, Doosan DND Co., Ltd./South Korea, and Sunic System/South Korea as well as a number of smaller companies. While these competitors use established vacuum thermal evaporation (VTE) technology to produce organic light emitting diodes (OLEDs), AIXTRON offers to OLED manufacturers its own highly innovative organic vapor phase deposition (OVPD®) technology. As AIXTRON is currently in the market entry phase, AIXTRON market share information is not meaningful at this point.

In AIXTRON's opinion, due to the superior process technology and the potential for reducing manufacturing costs, OVPD® technology has the potential to compete successfully with VTE technology. AIXTRON is positioned as a key system supplier for next generation OLEDs, to be used in innovative, self-luminous displays which have the potential to replace today's display technologies such as liquid crystal displays (LCDs) and plasma displays (PDPs) at some point in the future in addition to future lighting, solar cell and electronic OLED technologies.

### **2.6. Key Performance Indicators**

The Executive Board has implemented numerous systems and procedures to manage, monitor, analyze, and document Company risks and opportunities. For that purpose, a Key Performance Indicator (KPI) system has been implemented across the Company, addressing the areas of Management, Logistics, Production, Service, Sales, and Finance. In 2006, the areas "Market" and "Finance" continue to be the most prominent control areas AIXTRON's Executive Board focused on.

In the "Market" control area, AIXTRON is pursuing a market-led product development strategy through the careful examination of market trends and customer requirements. In order to achieve the Company's primary strategic target of diversifying AIXTRON's core deposition technology into new end user applications, the Company completed the integration of AIXTRON Inc., thereby gaining additional access to CVD and ALD equipment technology for the manufacturing of silicon semiconductors.

In the "Finance" control area, the Executive Board uses a range of internal and external key performance indicators, most importantly: total sales revenue, net result, and operating cash flow. Due to the favorable market conditions, total 2006 sales revenues increased year over year and a net income as well as an operating cash inflow was generated.

For information regarding the introduction, in fiscal year 2006, of control procedures pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, please refer to section "risk management" below.

## 2.7. Legal and Economic Factors

As an internationally active high-end technology manufacturer, AIXTRON's business has the potential to be significantly affected by the highly volatile nature of the addressed semiconductor markets, by the US\$/€ exchange rate risk and by its ability to secure innovative technologies through patenting.

### Market volatility

The general semiconductor equipment market has historically been volatile and has followed the trends set by the semiconductor device market. The entire semiconductor industry has, in the past, been heavily impacted by extreme fluctuations in availability of, and demand for, semiconductors. The global market for semiconductor equipment is characterized by rapid technological change and high customer service demands.

### Patents

AIXTRON secures its technology by patenting inventions and know-how, provided it is strategically expedient for the Company to do so. As of December 31, 2006, 107 patent-protected inventions were in use, of which 6 were registered in the reporting period. Patent protection for these inventions applies, although not exclusively, in the sales markets relevant for AIXTRON and within the regions of its main competitors' production locations, particularly in Europe as well as in Japan, South Korea, Taiwan and the United States. These patents are maintained and renewed annually and will expire between 2007 and 2026.

### Foreign Currency Exchange Risk

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates. The Company enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk, including forward exchange contracts to hedge the exchange rate risk arising on the export of equipment. The main exchange rates giving rise to the risk are those between the U.S. dollar, pound sterling, and euro.

The Company's use of derivative financial instruments is governed by the Company's policies approved by the board of directors which provide principles on foreign exchange rate risk and the use of derivative financial instruments. Exposures are reviewed on a regular basis. The Company does not enter into derivative financial instruments for speculative purposes.

Exposure to exchange rate risk is managed by the Company through sensitivity analysis. The following table details the Company's sensitivity to a 10% increase in the value of the euro against the respective foreign currencies. This represents AIXTRON's assessment of the possible change in foreign exchange rates. The sensitivity analysis of the Company's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A negative number indicates a decrease in revenue and net income or net loss where the euro strengthens against the respective currency.

(€ thousands)	U.S. Dollar Impact			Pound Sterling Impact		
	2006	2005	2004	2006	2005	2004
Revenue	(11,319)	(8,359)	(9,696)	(291)	(591)	(408)
Net Income / (Loss)	(3,651)	(206)	(2,786)	499	123	2,417

The sensitivity of the Company's net income to exchange rate risk is reduced, in comparison with the effect on revenue, by the use of foreign currency exchange contracts and by the "natural hedge" effect of costs incurred in those currencies. The sensitivity analysis for the impact of a strengthening of the euro against the U.S. dollar in 2005 includes the effect on the results of a theoretical increase in impairment of goodwill amounting to € 2.6 million in 2005.

It is the Company's policy to enter into forward foreign exchange contracts to cover specific foreign currency receipts within the range of 80 to 90% of the expected exposure. The Company also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales transactions out to 15 months within 50 to 60% of the exposure generated.

## 2.8. Research and Development

As a high-technology company, AIXTRON maintains a strong research and development (R&D) infrastructure, with significant resources devoted to R&D projects. AIXTRON's R&D activities are critical for the Company's long-term strategy to position itself as one of the world's leading provider of nano-deposition equipment for the manufacture of complex device structures for the semiconductor industry.

AIXTRON's R&D organization works closely with its own global sales and service organization to develop systems, tailored to customers' individual needs.



AIXTRON maintains its own R&D laboratories in Aachen, Germany and in Sunnyvale, California. These in-house laboratories are equipped with AIXTRON systems for researching new equipment and processes, as well as for producing reference samples of semiconductor material films. As part of the R&D efforts employed, AIXTRON regularly collaborates with well-known universities and research centers worldwide and participates in numerous government and European Union-funded development projects.

	2006	2005	2004
R&D expenses (million €)	23.9	30.5	20.4
R&D expenses, % of sales	14%	22%	15%
R&D employees (period average)	181	188	147
R&D employees, % of total headcount (period average)	32%	33%	35%

The decrease in R&D expense in 2006 compared to 2005 was largely due to the fact that € 5.3 million in impairment charges incurred in 2005 were not incurred in 2006 as well as a more focused R&D project selection and control in light of the Company's future strategy. In 2005, consolidated R&D expenses included R&D expenses from AIXTRON Inc. only for the period March 14, 2005 through December 31, 2005 while in 2006, R&D expenses included R&D expenses from AIXTRON Inc. for the entire twelve-month period. The increase in R&D expenses in 2005 compared to 2004 expenses was largely due to exceptional amortization charges totaling € 5.3 million. Additionally, in 2005 the consolidation of AIXTRON Inc. into the AIXTRON Group added € 5.6 million in R&D expenses to the AIXTRON R&D expenses since the date of acquisition (March 14, 2005).

### **Manufacturing-Oriented Research Laboratory, Taiwan**

On June 1, 2006, AIXTRON announced that its Taiwanese subsidiary successfully completed its first R&D project funded by the Taiwanese government. This project entitled "Manufacturing-Oriented Research Lab" related to LED production technology, new material films for advanced nano-electronics, such as the next generation of computer chips; transfer of nanotechnology into production; technology and process simulation tools for cost-effective semiconductor production; and OLED for display and lighting applications. As a result of the R&D project, which consisted of 17 joint research projects with local industry partners and 9 product developments, a number of important milestones were reached, including the reduction of operating costs in LED manufacturing and the development of red, blue, yellow, and white OLEDs with OVPD® production technology. AIXTRON considers the network of competence introduced by and the expertise developed on these projects as key assets for its future business in Taiwan.

AIXTRON utilizes this research activity in Taiwan to enhance its current market position.

**CHEMAPH, Europe**

On August 9, 2006 AIXTRON announced its participation in the European Commission-funded CHEMAPH (Chemical Vapor Deposition of Chalcogenide Materials for Phase-change Memories- EU IST Project) project which has a duration of two years and is aimed at the development of **chalcogenide-based** phase change materials.

The consortium carrying out this study consists of three academic and three industrial partners from five European countries, namely CNR (National Lab MDM-INFM), Italy; ST Microelectronics, Italy; Epichem, United Kingdom; Consejo Superior de Investigaciones Cientificas (CSIC), Spain; Vilnius University, Lithuania; and AIXTRON AG, Germany.

Phase-change memories (PCM) are some of the most promising candidates for next-generation non-volatile memories, having the potential to improve the device performance, compared to Flash memories, as well as being potentially scalable beyond the current generation Flash technology for which one outstanding technological issue is the phase-change layer deposition process.

The project aims at demonstrating the feasibility of a film manufacturing process based on metal-organic chemical vapor deposition (MOCVD). This technique is known to enable the production of thin films with superior quality compared to those obtained by the currently most used method known as sputtering, a physical vapor deposition (PVD) technique.

AIXTRON's participation in this project is expected to result in the more rapid development and refinement of the range of its MOCVD systems for chalcogenide materials.

**OPAL 2008, Europe**

On September 15, 2006, AIXTRON announced that it will participate in an R&D project with the Company's Organic Vapor Phase Deposition (OVPD®) technology platform in a consortium together with OSRAM Opto Semiconductors GmbH, Philips GmbH, BASF Future Business GmbH and Applied Materials, Inc. (formerly Applied Films). The final goal of this project, called OPAL 2008 (Organic Phosphorescent lights for Applications in the Lighting market 2008), is the development of an OLED production technology capable of manufacturing a high performance white OLED device at a target cost of a few euro cents per cm<sup>2</sup>. To reach this target, the individual research activities of all partners within this group will be coordinated to maximize the feasible development synergy effects.

The specialized organic materials required will be developed by BASF Future Business GmbH. The device architecture for the lighting modules and the adapted OLED processing technology will be developed by OSRAM Opto Semiconductors GmbH and Philips GmbH.

AIXTRON's contribution to the project will be to improve the production capabilities of the OVPD® process by designing equipment for large area material deposition for OLED devices. The research will be carried out in Aachen, Germany at the Philips production site in Aachen Rothe Erde where a prototype OVPD® system is already installed and running. Additional scientific support is provided by RWTH Aachen University.

### **OLED 2015, Europe**

The German Ministry of Science and Technology (BMBF) has indicated its support for the development of organic light emitting diodes (OLED) for lighting applications with € 100 million for the next 5 years (OLED 2015). The involved companies in Germany, 33 partners within the OLED initiative, including AIXTRON AG, will collectively contribute an additional € 500 million to achieve the technical targets. The stated scope of the initiative is the introduction of new OLED lighting technology into the market. The OPAL 2008 project is funded by the BMBF under the OLED 2015 initiative.

## **3. Summary of Business Development**

### **Market Trends**

In comparison to 2005, in 2006 the world real gross domestic product grew by an estimated 5.4%, semiconductor industry revenues grew by an estimated 10.0% and spending on wafer front end (WFE) equipment, such as AIXTRON's deposition equipment, increased by an estimated 25%.

### **Compound Semiconductor Market Applications**

AIXTRON's estimates indicate that overall demand in the LED manufacturing industry, which represents a significant market for AIXTRON's compound semiconductor deposition equipment, grew by 10% in 2006 as compared to the previous year.

Reflecting this feeling of optimism in the marketplace, in 2006 AIXTRON experienced increased demand for both established compound semiconductor equipment products and the more recently released new Integrated Concept (IC) common platform and high-capacity systems.

The increase in market confidence was driven largely by rising demand for LED end market applications, including an increased market-driven focus on LED backlighting for small area consumer liquid crystal display ("LCD") and commercial display products. The delay in the large scale adoption of a number of other new LED end market applications (e.g., mobile phone LED camera flash), and the delayed introduction of a new industry standard for DVD blue lasers (Blu-Ray vs. HD DVD) continue to suppress any additional potential equipment demand, but medium-term demand expectations remain promising.

AIXTRON has also recently seen a small improvement in demand for MOCVD systems from customers serving the data-communication and telecommunication market, but the Company still believes that the existing capacity of its customers in that end market area means that sustainable revenue growth is unlikely to return before late 2007 at the earliest.

### **Silicon Semiconductor Market Applications**

Generally, customer demand in the silicon market has been volatile during 2006, 2005, and 2004. However, AIXTRON continued to predominantly receive purchase orders and generated revenues from silicon semiconductor mass production CVD system orders for the production of NAND flash memory and Dynamic Random Access Memory (“DRAM”) devices throughout 2006.

The predictions for AIXTRON’s new silicon semiconductor equipment target applications, employing ALD and AVD® technology, remain fluid in the estimated timing on the introduction of new material films and technologies for the mass production of next-generation integrated circuit (“IC”) devices. This has resulted in slower-than-anticipated demand for AIXTRON’s ALD and AVD® production technologies, but the Company continues to experience active interest for Research & Development applications from major production customers.

### **Business Development**

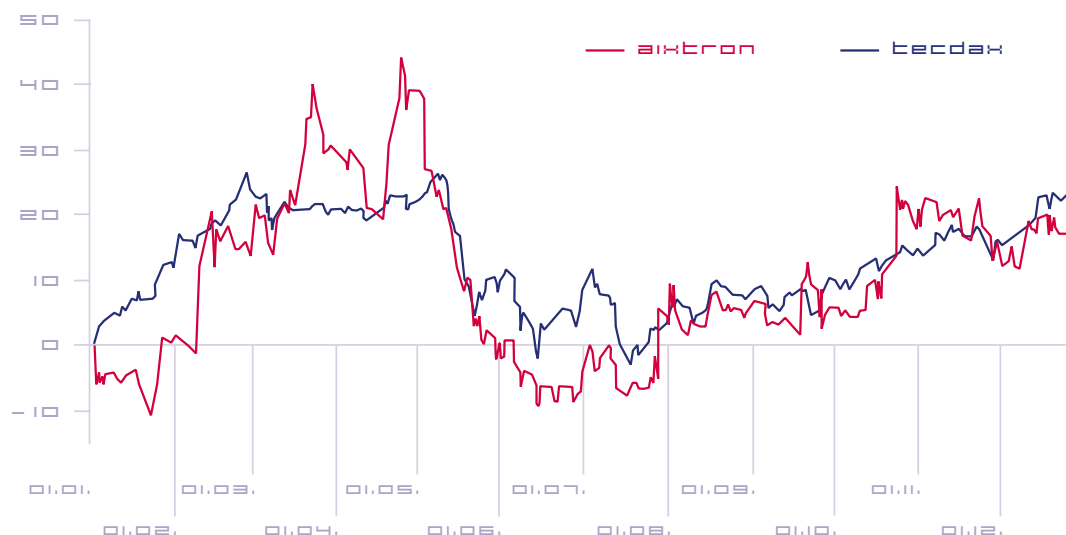
In this generally optimistic market environment, AIXTRON achieved total revenues of € 171.7 million in 2006, a 23% increase compared to € 139.4 million in 2005, when AIXTRON experienced a generally weaker customer capital spending on deposition tools (2004: € 140.0 million in revenues).

Due to increased revenues as well as lower operating costs, the Company generated a net income after tax of € 5.9 million in 2006, as compared to a net loss after tax of € 53.5 million in 2005 (2004: net income of € 7.7 million). AIXTRON’s net loss after tax in 2005 included € 30.3 million in certain asset impairments, accruals expensing and certain tax effects as well as beneficial allocations to deferred tax assets which did not occur in 2006.

The value of equipment orders, excluding spares, received by AIXTRON in 2006 rose by 57%, compared to 2005, to € 178.0 million, reflecting a significant rise in demand for compound semiconductor equipment, especially from the LED end application markets. Equipment order intake increased by 2% to € 113.6 million in 2005 compared to 2004.

## 4. Share Price and Investor Relations

Reflecting increased investor confidence in AIXTRON's business model, AIXTRON's year-end closing share price increased by 20.1% year over year. This compares to a 25.5% year-over-year increase of the TecDax. The following illustration shows the relative development of AIXTRON's share price and the TecDAX in 2006:



AIXTRON's share price started the year well, benefiting from encouraging news about a recovery trend especially in the Compound Semiconductor market and, more specifically, from an order intake increase throughout the year. Reports of a large order by EpiStar, one of the world's largest LED manufacturers, at the beginning of March, contributed to a rise in the share price to almost € 3.90. This share price movement was also helped by the cautiously optimistic guidance for 2006 which the Company gave at the presentation of full-year 2005 results at the beginning of March.

At this price level, not seen since the beginning of 2005, some analysts' recommended profit taking. This caused some investors to sell and the stock to settle to a range of € 3.20-3.40. However, shortly thereafter, market news from South Korea of an expansion of the country's DRAM production contributed to a further share price rise, crossing the € 4.00 mark, the highest price since October 2004.

The stock price then retreated to as low as € 2.50, driven not by AIXTRON-specific news but instead by worldwide fears of rising inflation and consequent interest rate hikes. These fears led to a major correction of the global equities market as a whole: for example, the DAX lost almost 14% of its value during this period, and the FTSE100 and the Dow Jones Industrial Indices lost about 10%. Not unusually for a small-cap company in a challenging sector, the stock price underperformed the TecDAX by a significant margin during this period.

However, investors recovered their confidence in AIXTRON's ability to meet their expectations ahead of the first-half results and again before the nine-month results, taking the stock price back up to the previously set € 3.20-3.40 range and largely holding it there for the remainder of the year.

	2006	2005
<b>AIXTRON Common Bearer Share</b>		
Year-end closing price (€)*	3.34	2.78
Year high (€)*	4.01	3.95
Year low (€)*	2.46	2.36
Daily trading volume**		
- €	1,121,311	888,900
- shares	367,812	301,019
Number of shares issued, year end		
Market capitalization, year end (million €)	89,799,397	89,799,397
	300.0	249.6
Net result per share (€)***		
	0.07	(0.65)
<b>AIXTRON ADS****</b>		
Year-end closing price (US\$)*	4.43	3.19
Year high (US\$)*	4.92	4.86
Year low (US\$)*	2.95	2.78
Daily trading volume*****		
- US\$	113,257	193,600
- shares	29,828	57,460

\* XETRA trading

\*\* Average, XETRA trading

\*\*\* Based on weighted average number of shares outstanding

\*\*\*\* AIXTRON common bearer shares are traded on NASDAQ in the form of ADRs.  
Each AIXTRON ADR is equivalent to one AIXTRON common bearer share.

\*\*\*\*\* Average, NASDAQ trading

## AIXTRON Basic Share Data

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<b>Subscribed capital:</b>	EUR 89,799,397
<b>Shares/securities class:</b>	89,799,397 ordinary (non-par-value) shares issued
<b>Stock exchange listing:</b>	Deutsche Börse: Prime Standard/Regulated Market NASDAQ: NASDAQ Capital Market®
<b>Index membership:</b>	CDAX, HDAX, DAX100, TecDAX, German Midcap Market Index, German Prime All Share Index, German Prime Technology Index, German Technology All Share Index, NASDAQ Composite Index, NASDAQ Computer Index, Bank of New York Europe ADR Index, MSCI World Small Cap Index, Nature Stock Index (NAI)
<b>ISIN:</b>	Ordinary shares: DE 000 506 6203 ADS: US 009 606 1041
<b>Security codes:</b>	XETRA: AIX NASDAQ: AIXG Reuters: AIXG.DE Bloomberg: AIX GY
<b>Designated sponsors:</b>	Commerzbank AG, equinet AG
<b>Trading platforms:</b>	Germany: XETRA and floor Frankfurt, Berlin-Bremen, Düsseldorf, Hamburg, München, Stuttgart USA: NASDAQ Capital Market®

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AIXTRON is committed to provide its stockholders with accurate, timely, and relevant information on strategic and financial aspects of its business. The Company provides up-to-date information about financial results, strategies, and product and market trends through investor roadshows and conferences in many of the world's important financial centers.

In 2006, the Company's Executive Board members spent approximately 58 man-days on international analyst roadshows and conferences and hosted a large number of one-on-one meetings and conference calls with leading analysts. As of year end 2005, the Company was followed by a total of 24 financial analysts of which 13 regularly publish reports on AIXTRON.

## 5. Results of Operations, Financial Position, and Net Assets

### 5.1. Results of Operations

Key financial information regarding the AIXTRON Group's results of operations is summarized in the following table:

(million €)	2006	2005	2004
Sales revenues	171.7	139.4	140.0
Gross profit	63.4	34.7	52.4
Gross margin, % revenues	37%	25%	37%
Operating result	5.7	(52.7)	9.7
Operating result, % revenues	3%	(38%)	7%
Net result	5.9	(53.5)	7.7
Net result, % revenues	3%	(38%)	6%
Net result per share – basic (€)	0.07	(0.65)	0.12
Net result per share – diluted (€)	0.07	(0.65)	0.12
Equipment Order Intake	178.0	113.6	111.4
Equipment Order Backlog (End of period)	85.1	48.6	52.5

The results of operations of the AIXTRON Group in 2005 and 2006 include the results of operations of AIXTRON Inc. (formerly Genus, Inc.) and its subsidiaries, which have been consolidated into AIXTRON's results of operations since March 14, 2005. The comparative values for 2004 do not include the results of AIXTRON Inc.

#### 5.1.1. Development of Revenues

AIXTRON recorded revenues in 2006 of € 171.7 million, an increase of € 32.3 million, or 23%, compared to € 140.0 million in 2005 (2004: € 139.4 million). The year-over-year revenue increase in 2006 was largely due to an improved customer capital spending environment, especially in the compound semiconductor equipment market. AIXTRON also benefited from additional revenues generated by AIXTRON's silicon business interests which were significantly expanded with the acquisition of AIXTRON Inc. on March 14, 2005.

The largest element of AIXTRON's revenues in 2006, 56% (2005: 58%; 2004: 82%), was generated from sales of compound semiconductor equipment, which in turn was driven by LED systems demand, especially from Asia. Sales of compound semiconductor equipment to Asia accounted for 79% of AIXTRON's total revenues in 2006 (2005: 74%; 2004: 77%).

Revenues related to sales of silicon semiconductor equipment accounted for 27% of total revenues in 2006, an increase from 23% in 2005 (2004: 1%). This increase resulted largely from the consolidation of AIXTRON Inc. in the AIXTRON Group for the entire fiscal year 2006 whereas in 2005, AIXTRON Inc. was consolidated in the AIXTRON Group only between March 14, 2005 and December 31, 2005. In 2004, and between January 1 and March 31, 2005, revenues from sales of silicon semiconductor equipment were generated solely from AIXTRON's own silicon technology AVD®.



Equipment sales generated 83% of revenues in 2006, virtually unchanged compared to 2005 and 2004 (81% and 83%, respectively). The remaining revenues were provided by spare part sales and service.

(million €)	2006		2005		2004	
<b>Revenues</b>	<b>171.7</b>		<b>139.4</b>		<b>140.0</b>	
of which from sale of silicon semiconductor equipment	46.1	27%	32.7	23%	1.5	1%
of which from sale of compound semiconductor equipment and other equipment (OVPD®, SiC)	97.0	56%	80.7	58%	115.1	82%
of which other revenues (service, spare parts, etc.)	28.6	17%	26.0	19%	23.4	17%

The Company's revenues in 2006 were largely generated in Asia, as was the case in 2005 and 2004:

### Regional Revenue Split

	2006		2005		2004	
	million €	%	million €	%	million €	%
Asia	135.2	79	103.0	74	108.1	77
Europe	22.2	13	22.1	16	13.6	10
USA	14.3	8	14.3	10	18.3	13
<b>Total</b>	<b>171.7</b>	<b>100</b>	<b>139.4</b>	<b>100</b>	<b>140.0</b>	<b>100</b>

### 5.1.2. Cost Structure

Cost Structure	2006		2005		2004	
	million €	% of Revenues	million €	% of Revenues	million €	% of Revenues
Cost of Sales	108.2	63	104.7	75	87.6	63
Operating Costs	66.2	39	93.0	63	52.6	31
Selling Expenses	23.4	14	27.8	20	18.3	13
General and Administrative Expenses	17.3	10	18.0	13	13.2	9
Research and Development Costs	23.9	14	30.5	22	20.4	15
Other Operating Expenses	1.6	1	2.9	2	0.7	1
Goodwill Impairment	0.0	0	13.8	10	0.0	0

### Cost of Sales

Driven by higher revenue, cost of sales increased by 3% from € 104.7 million in 2005 to € 108.2 million in 2006. However, cost of sales relative to revenue decreased by 12 percentage points in 2006 as compared to 2005, to 63%, i.e., to the same level as in 2004.

The relatively small increase in the absolute level of cost of sales despite a concurrent 23% increase in revenue in 2006 as compared to 2005 was due to the fact that impairment charges resulting from the AIXTRON Inc. acquisition as well as certain impairment charges on inventories and intangible assets and expenses for the creation of restructuring accruals amounting to € 7.5 million were incurred in 2005, but were not incurred in 2006.

Both due to these costs mentioned above and a change in product and regional revenue mix, in 2005, the Company's cost of sales in 2005 increased to € 104.7 million, from € 87.6 million in 2004. Accordingly, as compared to 2004, the Company sold a higher proportion of lower-margin research and development systems in 2005. Moreover, against the backdrop of a continuing consolidation process in the LED manufacturing industry, AIXTRON's production capacities were not fully utilized.

### Operating Costs

Despite the consolidation of AIXTRON Inc. into the AIXTRON Group for the entire twelve-month period in 2006 (consolidation of AIXTRON Inc. since March 14, 2005), operating costs decreased by 29% year over year, to € 66.2 million in 2006. Operating costs decreased in 2006 largely because no goodwill impairment expenses were incurred in 2006 (2005: € 13.8 million) and both research and development costs and selling, general and administrative (SG&A) costs declined significantly year over year. The increase in operating costs in 2005 as compared to 2004 resulted largely from special effects totaling € 22.2 million.

### Selling, general and administrative (SG&A) expenses

Selling, general and administrative (SG&A) expenses totaled € 40.7 million in 2006, as compared to € 45.8 million in 2005 (2004: € 31.5 million). This decrease was mainly due to both a reduction in administrative overheads and efficiency gains in the sales organization despite an expanding business. € 2.3 million in SG&A expenses 2005 were attributable to impairment charges and expenses for the creation of a reserve for pending losses. The € 14.3 million increase in SG&A expenses in 2005 as compared to 2004 was largely attributable to the consolidation of AIXTRON Inc. into the AIXTRON Group (€ 10.7 million). Due to the acquisition of AIXTRON Inc. in 2005 both the variety of products and the number of sales channels had increased, leading to an increase in the complexity of AIXTRON's sales and administrative structure.

Due to efficiency gains in the sales organization as well as a reduction in warranty costs, selling expenses in 2006 amounted to € 23.4 million, a decrease of 16% compared to € 27.8 million in 2005 (2004: € 18.3 million).

Administrative expenses in 2006 totaled € 17.3 million (2005: € 18.0 million; 2004: € 13.2 million). Administrative expenses decreased by 4% in 2006 in comparison to 2005 despite additional external expenses totaling approximately € 2.0 million, which were related to compliance with Section 404 of the Sarbanes-Oxley Act completed at the end of fiscal year 2006 (€ 0 in both 2005 and 2004).

### Research and development cost

Research and development (R&D) costs totaled € 23.9 million in 2006, a decrease of € 6.6 million, or 22%, compared to € 30.5 million in 2005 (2004: € 20.4 million). The decrease in R&D expense in 2006 compared to 2005 was largely due to the fact that € 5.3 million in impairment charges incurred in 2005 were not incurred in 2006 as well as a more focused R&D project selection and control in line with the Company's strategy. In 2005, consolidated R&D expenses included R&D expenses from AIXTRON Inc. only for the period March 14, 2005 through December 31, 2005, while in 2006 R&D expenses included R&D expenses from AIXTRON Inc. for the entire twelve-month period. The ratio of R&D costs to revenues decreased in 2006 to 14%, compared to 22% in 2005 (2004: 15%).

The increase in R&D expenses in 2005 compared to 2004 expenses was largely due to impairment charges totaling € 5.3 million on assets for the development of emerging markets technologies (of which € 3.7 million were impairment charges on other intangible assets and € 1.6 million impairment charges on property, plant, and equipment) and the consolidation of AIXTRON Inc. into the AIXTRON Group, adding € 5.6 million in R&D expenses to the AIXTRON R&D expenses since the date of acquisition on March 14, 2005.

### Personnel Costs

With the number of global employees at 566 at year end 2006, slightly reduced as compared to year end 2005 (570 employees), personnel expenses amounted to € 42.0 million in 2006, a slight increase in comparison to € 41.1 million in 2005 (2004: € 29,5 million). The increase in 2006 as compared to 2005 primarily reflected additional headcount acquired from AIXTRON Inc. Personnel costs are allocated to the cost line items of the income statement as follows:

### Personnel Costs

(million €)	2006	2005	2004
Cost of Sales	12.2	8.5	7.0
Selling, General and Administrative Expenses	16.5	18.6	12.8
Research and Development Expenses	13.3	14.0	9.7
<b>Total</b>	<b>42.0</b>	<b>41.1</b>	<b>29.5</b>

### Other operating income/expenses

Other operating income in 2006 was € 8.5 million, in comparison to € 5.6 million in 2005 and € 9.9 million in 2004. Other operating income included the receipt of external research and development funding totaling € 4.5 million in 2006, € 2.9 million in 2005 and € 2.6 million in 2004. Other operating expenses of € 1.6 million in 2006 mainly resulted from foreign currency exchange losses of € 0.9 million. Other operating expenses of € 2.9 million in 2005 mainly resulted from foreign currency exchange losses of € 2.1 million, whereas other operating expenses of € 0.7 million in 2004 mainly resulted from losses from the disposal of items of property, plant, and equipment of € 0.4 million.

### Impairment of Goodwill

No charges for the impairment of goodwill were incurred in 2006. In connection with testing goodwill for impairment at December 31, 2005, AIXTRON concluded that goodwill for its subsidiary AIXTRON Inc. was impaired in light of reduced market expectations and the Company recorded a charge of € 13.8 million in 2005. The Company did not record any goodwill impairment charges in 2004.

### Net Interest Income

Net interest income increased from € 0.5 million in 2005 to € 1.0 million in 2006 due to an increase in the amount of interest received from bank balances. In comparison, net interest income declined to € 0.5 million in 2005, from € 0.8 million in 2004. The reduction in the net interest income was the result of the reduced amount of interest received from bank balances due to lower bank balances in 2005. Interest expenses amounted to € 56 thousand in 2006, € 233 thousand in 2005, and € 2 thousand in 2004.

### Income Taxes

Despite a positive result before taxes amounting to € 6.6 million in 2006, AIXTRON recorded a tax expense in 2006 of € 0.8 million (2005: € 1.3 million; 2004: € 2.8 million), utilizing tax loss carry-forwards from previous years. The change in income taxes in 2005 in comparison to 2004 reflects profitable operations in 2004 compared to losses on operations in 2005. As of December 31, 2006, AIXTRON had deferred tax assets totaling € 5.4 million of which € 4.5 million were related to tax loss carry-forwards (December 31, 2005 and 2004: € 5.5 million and € 5.5 million, respectively).

### 5.1.3. Development and Use of Results

The Company's gross profit increased by € 28.7 million to € 63.4 million in 2006, an increase of 83% compared to 2005 (2004; gross profit of € 52.4 million). As a consequence, the Company's gross margin rose from 25% in 2005 to 37% in 2006 (2004: 37%). The increase in the Company's gross margin in 2006 as compared to 2005 was driven by a decrease in the cost of sales relative to revenue by 12 percentage points which in turn was largely due to the fact that depreciation charges resulting from the Genus acquisition, certain impairment charges on inventories and intangible assets, as well as expenses for the creation of a reserve for pending losses were incurred in 2005, but were not incurred in 2006.

Following an operating loss in 2005 of € 52.7 million, AIXTRON generated an operating income of € 5.7 million in 2006 (2004: operating income of 9.7 million €). As compared to 2005, gross profit rose by 12 percentage points and operating costs declined by 29%. This change occurred largely because of asset impairment charges totaling € 28.2 million and because of expenses for the creation of accruals totaling € 1.5 million.

At year end 2006, Genus (now: AIXTRON Inc. see section 2.1.) was fully operationally integrated into the AIXTRON Group and made a positive contribution to AIXTRON's 2006 operating result.

Following a net loss after tax in 2005 of € 53.5 million (net loss after tax per share: € 0.65), AIXTRON generated a net income after tax of € 5.9 million in 2006 (net income after tax per share: € 0.07). The improved net result after tax in 2006 was largely due to an improved operating result in 2006 compared to 2005 and was based on a relative decrease of cost of sales and lower operating expenses as well as non-recurring special effects in 2005 compared to 2006. By comparison, in 2004 the Company generated a net income after tax of € 7.7 million (net income after tax per share: € 0.12).

AIXTRON AG, the parent company of the AIXTRON Group, recorded a net accumulated income in accordance with German generally accepted accounting principles (based on the German Commercial Code (Handelsgesetzbuch, "HGB")) of € 1.4 million for 2006. Since the Company continues to focus on the development and expansion of its business, AIXTRON's Executive and Supervisory boards will propose to the shareholders' meeting that no dividend be distributed for 2006. AIXTRON recorded net accumulated results of 0 € for both 2005 and 2004, and no dividends were distributed since the requirements for distributing a dividend were not met in these years.

#### 5.1.4. Development of Order Intake and Order Backlog

(million €)	2006		2005		2004	
<b>Equipment Order Intake</b>	<b>178.0</b>		<b>113.6</b>		<b>111.4</b>	
of which Silicon Semiconductor Equipment	41.2	23%	37.1	33%	4.5	4%
of which Compound Semiconductor Equipment and other equipment (OVPD®, SiC)	136.8	77%	76.5	67%	106.9	96%
<b>Equipment Order Backlog (End of Period)</b>	<b>85.1</b>		<b>48.6</b>		<b>52.5</b>	
of which Silicon Semiconductor Equipment	11.4	13%	11.7	24%	3.7	7%
of which Compound Semiconductor Equipment and other equipment (OVPD®, SiC)	73.7	87%	36.9	76%	48.8	93%

Due to improved market confidence, the value of equipment orders received by AIXTRON in 2006 rose by 57%, compared to 2005, to € 178.0 million. Reflecting a significant rise in demand for compound semiconductor equipment, especially from the LED end application markets, order intake for compound semiconductor and other equipment rose year-over-year by 79% to € 136.8 million in 2006. Accordingly, the proportion of orders received for compound and other semiconductor equipment compared to total equipment orders received in 2006 rose to 77%, from 67% in 2005.

Based on robust demand for CVD equipment, the value of orders received for silicon semiconductor equipment in 2006 rose to € 41.2 million, an increase of 11% as compared to 2005. It must be noted, however, that AIXTRON Inc., AIXTRON's subsidiary focusing on silicon semiconductor business, was consolidated into the AIXTRON Group only from March 14, 2005 onwards; in 2006, AIXTRON's results of operations reflected the full-year financial impact of the acquisition of AIXTRON Inc..

Equipment order intake increased by 2% to € 113.6 million in 2005 compared to 2004 and included € 37.1 million in orders received for silicon semiconductor equipment of which almost all was contributed by AIXTRON's subsidiary AIXTRON Inc. The reduced demand for AIXTRON's core compound semiconductor equipment was the single largest factor contributing to the decline in order intake in 2005 as compared to 2004.

## 5.2. Financial Position

### 5.2.1. Principles and Goals of Corporate Financial Management

AIXTRON seeks to achieve profitable growth through long-term value-adding investments, but above all, through market led technical innovation. To achieve the highest returns on the capital invested, AIXTRON concentrates its resources on those business opportunities that show the greatest potential for success.

The Company's financial management follows a conservative and prudent approach. For instance, financial hedging instruments are not used for speculative purposes, but only for hedging currency exchange risks.

Furthermore, due to the potentially volatile high-tech nature of its business, AIXTRON's Executive Board believes that the business should be financed primarily by equity and not by debt.

### 5.2.2. Funding

In line with its conservative financial management principles, the Company had no recorded bank borrowings both as of December 31, 2006 and as of December 31, 2005. Due to an increase in the balance sheet total, the equity-to-balance sheet total-ratio declined to 70% as of December 31, 2006, from 77% as of December 31, 2005.

As of December 31, 2006, AIXTRON was granted advance customer payment guarantees from six banks (Deutsche Bank AG, Dresdner Bank AG, Commerzbank AG, Lloyds TSB Group plc., Seoul Guarantee Insurance Co., and Sparkasse Aachen) totaling € 17.1 million (December 31, 2005: € 11.9 million).

AIXTRON AG provides loans and other financial security to its subsidiaries where necessary to enable operations to continue efficiently. The Company has granted no security interest in its own land and buildings.

In order to support the development of future equipment technology, the Company continuously explores and assesses additional funding opportunities available in the market.

## Funding Sources

	December 31, 2006
Issued shares	89,799,397
Authorized Capital 1 – Capital increase for cash or contribution in kind with existing shareholders’ preemptive rights	35,919,751
Authorized Capital 2 – Capital increase for cash excluding existing shareholders’ preemptive rights	8,979,937
Conditional Capital 1 – Convertible Bond 1997	44,160
Conditional Capital 2 – Stock Options Program 1999	2,924,328
Conditional Capital 3 – Authorization to potentially issue convertible notes or warrants in future	25,931,452
Conditional Capital 4 – Stock Options Program 2002	3,511,495

## Share Capital

The Company’s stated share capital (Grundkapital) as of December 31, 2006 amounts to € 89,799,397.00 divided into 89,799,397 ordinary bearer shares with a proportional interest in the share capital of € 1.00 per no-par value share. Each no-par value bearer represents the proportionate share in AIXTRON’s stated share capital and carries one vote at the Company’s annual shareholders’ meeting. All ordinary bearer shares are fully paid in. The Company has issued a share certificate representing multiples of shares (global share); shareholders do not have the right to the issue of a share certificate representing his share(s).

### Authorized Capital 1

The Executive Board is authorized to increase the share capital of the Company, with the approval of the Supervisory Board, on one or several occasions until May 17, 2010 by up to € 35,919,751.00 by issuing new no-par value ordinary bearer shares with a proportional interest in the share capital of € 1.00 per no-par value share against cash and/or non-cash contributions (“Authorized Capital 1”).

### Authorized Capital 2

The Executive Board is authorized to increase the share capital of the Company, with the approval of the Supervisory Board, on one or several occasions until May 17, 2010 by up to € 8,979,937.00 by issuing new no-par value ordinary bearer shares with a proportional interest in the share capital of € 1.00 per no-par value share against cash contributions (“Authorized Capital 2”).

### **Conditional Capital 1**

The Company's share capital is conditionally increased by up to € 44,160.00, composed of up to 44,160 no-par value bearer shares. The conditional capital increase will only be implemented to the extent that the holders of convertible bonds issued by AIXTRON AG up to October 24, 2002 on the basis of the resolution authorizing the Executive Board, passed by the General Meeting on October 24, 1997, make use of their conversion rights to subscribe for no-par value shares through November 2007. ("Conditional Capital 1").

### **Conditional Capital 2**

The Company's share capital is conditionally increased by up to € 2,924,328.00, composed of up to 2,924,328 no-par value bearer shares. The conditional capital increase serves to grant options to members of the Executive Board and employees of AIXTRON AG and also to members of the management and employees of affiliated companies under the stock option plans in accordance with the General Meeting's resolution of May 26, 1999 on agenda item 5 ("Conditional Capital 2").

### **Conditional Capital 3**

The share capital is conditionally increased up to € 25,931,452.00 ("Conditional capital 3"). The conditional capital will only be implemented to the extent that the holders or creditors of conversion rights or warrants accompanying the convertible bonds or bonds with warrants to be issued by AIXTRON AG or its direct or indirect majority investees by May 21, 2007 on the basis of the authorizing resolution passed by the General Meeting on May 22, 2002 exercise their conversion rights or options, or the holders or creditors of the convertible bonds to be issued by AIXTRON AG or its direct or indirect majority investees by May 21, 2007 on the basis of the authorizing resolution passed by the General Meeting on May 22, 2002 comply with their conversion obligation. The new shares carry dividend rights as of the start of the fiscal year in which they are issued as a result of the exercise of conversion rights or warrant rights, or the compliance with conversion obligations.

### **Conditional Capital 4**

The Company's share capital is conditionally increased by up to € 3,511,495.00, composed of up to 3,511,495 no-par value bearer shares ("Conditional Capital 4"). The conditional capital increase serves to grant options to members of the Executive Board of AIXTRON AG and members of the management of affiliated companies, as well as to employees of AIXTRON AG and of affiliated companies under the stock option plans in accordance with the General Meeting's resolution of May 22, 2002 (Stock Option Plan 2002)

### **AIXTRON's Own Shares**

A total of 2.0 million AIXTRON shares, which were issued in connection with the acquisition of AIXTRON Inc. were deposited into a trust during 2005 to service the AIXTRON Inc. employee stock options program and to cover warrants issued by AIXTRON Inc. AIXTRON treats these specific shares as its own shares. Because AIXTRON's own shares are deducted from its subscribed capital, AIXTRON records shareholders' equity net of its own shares.



### **Authorization to purchase own shares**

In accordance with section 71 (1) no. 8 Aktiengesetz (AktG) (German Stock Corporation Act), the Company shall be authorized, with the approval of the Supervisory Board, to purchase own shares representing an amount of up to € 8,979,937.00 of the share capital in the period until November 10, 2007. This authorization may not be used by the Company for the purpose of trading in own shares.

The authorization may be exercised in full or in part, once or several times by the Company.

The own shares may be purchased (1) on the stock market or (2) by way of a public offer to all shareholders made by the Company.

### **Additional Information**

There are no voting or transfer restrictions on AIXTRON's ordinary bearer shares that are related to the Company's articles of association. There are no classes of securities endowed with special control rights. The Company does not have an employee share participation program that directly grants employees shares; however, the Company has a number of stock option programs in place that grant employees the right to purchase AIXTRON shares under certain conditions.

As of December 31, 2006, CAMMA GmbH owned 11.18% of AIXTRON's ordinary shares. The majority of shares of CAMMA GmbH are held, directly or indirectly, by Dr. Holger Jürgensen, Aachen, Germany. In its capacity as AIXTRON's depositary bank, as of December 31, 2006 J. P. Morgan Services Inc. owned 11.74% of AIXTRON's share capital, in the form of AIXTRON American Depositary Shares (ADS).

The Supervisory Board appoints and removes the members of the Executive Board, who may serve for a maximum term of five years before being reappointed.

Any amendment to the articles of association requires a resolution of the general shareholders' meeting with at least a majority of the share capital represented at the general meeting. However, certain amendments, in particular those related to capital measures, require a 75% majority of the share capital represented at the general shareholders' meeting.

If a change of control situation exists, Wolfgang Breme, Member of the Executive Board, is entitled to terminate the service relationship with AIXTRON with a notice period of three months to the end of the month and to resign from his post on the termination date. Mr. Breme shall then be entitled to receive a settlement in accordance with the stipulations of his service contract with AIXTRON AG. A change of control situation exists if a third party or a group of third parties who contractually combine their shares in order to act subsequently as a third party, holds more than 50% of the Company's authorized capital be it directly or indirectly.

No further material change of control agreements exist. There are no further compensation agreements with members of the Executive Board or with employees.

### 5.2.3. Investments

During 2006, AIXTRON had € 2.4 million in capital expenditures, of which € 2.2 million were related to purchases of technical equipment (including testing and laboratory equipment) and € 0.2 million were related to intangible assets. Additionally, bank deposits totaling € 2.8 million with a maturity of six months had to be recorded as cash outflow from investing activities. During 2005, AIXTRON had € 12.0 million in capital expenditures, primarily related to purchases of technical equipment built in-house totaling € 8.3 million (including testing and laboratory equipment) and costs related to the acquisition of Genus totaling € 3.6 million. During 2004, AIXTRON had € 6.4 million in capital expenditures, primarily related to the acquisition of the remaining interests of Epigress AB and AIXTRON KK totaling € 2.0 million and capital expenditures for fixed assets and intangible assets totaling € 4.4 million. All of these expenditures during 2006, 2005, and 2004 were funded out of operating cash flow and available cash resources.

### 5.2.4. Liquidity

Compared to December 31, 2005, cash and cash equivalents increased by € 15.4 million, or 49%, to € 46.8 million as of December 31, 2006. The increase in cash and cash equivalents was largely due to cash inflows from operating activities totaling € 20.8 million in 2006 and was recorded despite a € 21.4 million increase in the value of inventories as of December 31, 2006 compared with December 31, 2005. By comparison, due to cash outflows from business investments and operating activities, AIXTRON's cash and cash equivalents decreased from € 45.5 million as of December 31, 2004 to € 31.4 million as of December 31, 2005.

Due to an increase in net income in 2006 as well as a € 19.8 million increase in the amount of advanced payments from customers, AIXTRON generated € 20.8 million in cash flows from operating activities in 2006. In 2005, challenging market conditions resulted in a net loss of € 53.5 million and € 12.2 million in cash used for operating activities. In comparison, during 2004, AIXTRON generated cash flows from operating activities of € 6.8 million.

In 2006, AIXTRON recorded cash outflows from investing activities of € 5.2 million, including bank deposits with a maturity of six months which were recorded as cash outflows totaling € 2.8 million. The decline in cash outflows from investing activities in property, plant, and equipment totaling € 2.4 million was due primarily to a more focused investing policy. By comparison, in 2005 net cash used in investing activities was € 3.0 million, including purchases of fixed assets (€ 8.3 million) as well as capitalized acquisition payments related to the Genus acquisition (€ 3.6 million), less cash acquired from Genus (€ 9.0 million). In 2004, net cash used in investing activities totaled € 6.4 million, including € 3.8 million of capital expenditures in property, plant, and equipment as well as the acquisition cost of a minority interest in AIXTRON KK of € 2.0 million.

There are currently no material restrictions on the Company's use of cash resources.

## 5.3. Net Assets

### 5.3.1. Property, Plant and Equipment

Due to asset depreciation totaling € 7.4 million less fixed asset additions totaling € 2.7 million and currency exchange effects and fixed asset disposals in 2006, the value of property, plant and equipment declined from € 42.2 million as of December 31, 2005 to € 36.4 million as of December 31, 2006.

### 5.3.2. Goodwill

(million €)	December 31, 2006	December 31, 2005
AIXTRON Inc. (former: Genus, Inc.)	50.8	57.0
Thomas Swan Scientific Equipment Ltd.	12.2	12.0
Epigress AB	1.8	1.8
AIXTRON KK	0.2	0.2
	<b>65.0</b>	<b>71.0</b>

In 2006 no goodwill impairment charges were incurred.

The reduction in the value of goodwill from € 71.0 million as of December 31, 2005 to € 65.0 million as of December 31, 2006 was basically due to changes in the currency exchange rates as of the respective dates of record.

### 5.3.3. Other Intangible Assets

The reduction in the value of other intangible assets from € 19.8 million as of December 31, 2005 to € 15.1 million as of December 31, 2006 was largely due to exchange rate changes and scheduled depreciation expenses totaling € 3.4 million.

### 5.3.4. Trade Receivables

Trade receivables rose from € 24.2 million as of December 31, 2005 to € 27.7 million as of December 31, 2006. The decrease was largely due to the increase in business activity.

### 5.3.5. Human Resources and Social Commitment

The following table illustrates the division of AIXTRON's employees by category of activity and geographic region at December 31 for each of the years 2006, 2005, and 2004:

#### Employees by Function

as of December 31

	2006		2005		2004	
Sales and Service	181	32%	171	30%	112	25%
Research and Development	183	32%	187	33%	161	36%
Manufacturing	128	23%	130	23%	111	25%
Administration	74	13%	82	14%	59	14%
<b>Total</b>	<b>566</b>	<b>100%</b>	<b>570</b>	<b>100%</b>	<b>443</b>	<b>100%</b>

#### Employees by Region

as of December 31

	2006		2005		2004	
Asia	73	13%	70	12%	34	8%
Europe	364	64%	381	67%	381	86%
USA	129	23%	119	21%	28	6%
<b>Total</b>	<b>566</b>	<b>100%</b>	<b>570</b>	<b>100%</b>	<b>443</b>	<b>100%</b>

The Company's acquisition of Genus in March 2005 increased significantly both the total number of employees (from 443 employees as of December 31, 2004 to 570 employees as of December 31, 2005) and the proportion of U. S. employees (from 6% as of December 31, 2004 to 21% as of December 31, 2005). Throughout 2005 and 2006, the Company implemented a number of cost reduction measures, including terminations of employee labor contracts in the United States and closures on existing fixed-term employee labor contracts in Germany. As a result, the global number of employees decreased by 9% between March 31, 2005 (624 employees) and December 31, 2006 (566 employees). As of December 31, 2006, the majority of AIXTRON's worldwide employees was based in Europe.

Based on the Company's stock option program, a total of 39,540 AIXTRON AG American Depositary Shares (ADS) were exercised by employees in 2006 (2005: 41,226).

Under the AIXTRON stock option plan 2002, 1,616,100 stock options were issued to employees in May 2006. The options become exercisable in equal installments of 25% per year after the second anniversary of the date of grant. The options expire ten years from the date of grant.

As of December 31, 2006, AIXTRON's employees and Executive Board members held 4,379,711 (end of 2005: 3,228,865) stock options representing the right to receive 5,060,565 (end of 2005: 3,932,501) AIXTRON AG common shares. As of December 30, 2006, the employees of the AIXTRON Inc. group of companies held 1,949,939 (end of 2005: 2,676,620) stock options representing the right to receive 994,469 (end of 2005: 1,365,076) ADSs of AIXTRON AG.

As part of the Genus transaction, which was completed in March 2005, a trust for the employee stock options of the AIXTRON Inc. group employees was set up, into which an appropriate number of AIXTRON AG ADSs were deposited.

### **Employee Selection and Training**

AIXTRON's employees are recruited on the basis of professional and personal qualifications. Each employee's opportunities for participation and promotion are based on personal success as well as individual qualifications and abilities.

The Company's training center offers a number of training classes, ranging from new hire induction classes to continuous education, with topics ranging from quality assurance to environmental and workplace safety management, leadership, and labor law issues. Additionally, AIXTRON supports several students in the writing of their diploma and doctoral theses on topics of relevance to AIXTRON.

### **Social Commitment**

Reflecting AIXTRON's social commitment and its close links to its local communities, the Company outsources work to charitable organizations such as "Caritas" or to workshops for the disabled, wherever feasible. AIXTRON also promotes scientific research and discussions by sponsoring specialist conferences and commissioning research projects with universities.

## **5.4. Management Assessment of Company Situation**

In the view of AIXTRON's Executive Board, an element of the principal strategic goal of expanding AIXTRON's deposition technology portfolio has been met through the acquisition and integration of Genus in 2005 and 2006.

Both the revenue and operating income contributions from AIXTRON Inc. in 2006 reconfirm AIXTRON's successful strategy to diversify its gas phase deposition technology into a multitude of new material applications.

The Executive Board believes that both the improved market conditions and the Company's cost savings measures have assisted in the return of the Company to a net income position in 2006.

In sum, the Executive Board views 2006 as a year of successfully completing the integration of Genus and returning the Company to profitability.

## 6. Report on Post-Balance Sheet Date Events

There were no business events with a potentially significant effect on AIXTRON's results of operation, financial position, and net assets after the close of fiscal year 2006.

## 7. Risk Report

### 7.1. Risk Management

As an international technology company, AIXTRON is engaged in business operations worldwide and is, consequently, exposed to a variety of risks. The Company may also benefit from the opportunities related to the risks it is exposed to. To exploit these opportunities and to minimize risks, AIXTRON has established a flexible risk management system that is adapted to the evolving business environment and business processes.

A large number of systems and procedures for monitoring, analyzing, and documenting business risks and opportunities are deployed at several levels of the organization. Accurate and timely reporting is the core component of AIXTRON's risk and opportunity management. Risk managers, responsible for implementing risk reporting, have been appointed in different areas of the Company and at all subsidiaries. To minimize risks and to capitalize on opportunities, AIXTRON pursues a forward looking product strategy, while, at the same time, observing future market trends and customer requirements, and continuously strives to develop certain unique selling points related to its technology.

This strategy incorporates measures for honing the Company's profile in its target market, for building new partnerships and alliances, and for training third parties engaged to market, sell, and deploy AIXTRON products. In fiscal year 2006, the Company continued to monitor market trends and the activities of its competitors and evaluated market analyses and forecasts produced by leading market research companies. Project management and quality assurance systems are routinely deployed in all areas of product development where risk awareness and evaluation play a crucial role.

These measures are accompanied by a training and development program for managers and specialist employees, and by procedures to maintain and expand the necessary infrastructure when required.

AIXTRON deploys accounting, control, and forecasting software for the global monitoring and management of core enterprise information. Daily, weekly, monthly, and quarterly reporting processes ensure that information on business and market trends is regularly updated. In addition to annual budget planning, real-time forecasts are used to continuously review and update the Company's plans. As part of the Company's financial control procedures, variances between actual and budget figures are continuously identified and analyzed, and they serve as the basis for developing corrective measures.

Furthermore, the Executive Board analyzes the Company's net assets, financial position, and results of operations on a continuous basis. The frequent exchange of knowledge and experiences at all hierarchy levels worldwide ensures the constant and efficient flow of information as well as rapid decision-making. The Executive Board informs the Supervisory Board about all key decisions at least once every quarter, and normally at shorter intervals. The Audit Committee of the Supervisory Board meets regularly with the Chief Executive Officer and the Chief Financial Officer to discuss, analyze, and monitor financial issues arising in the course of the Company's business activities. Internal guidelines governing risk management, insider trading, and the disclosure of share price-sensitive information ensure compliance with all applicable laws and the implementation of the corporate governance recommendations specified in the German Corporate Governance Code.

The Company's Supervisory Board is informed about the status, plausibility, and further development of the risk management system by the Executive Board on an ongoing basis. In addition, the Company's auditors inform the Supervisory Board about the audit of the risk management early warning system.

In summary, AIXTRON continues to comply with its obligations under section 91(2) of the German Stock Corporation Act (Aktiengesetz).

### **Management Report on Internal Control Over Financial Reporting**

AIXTRON's management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 240.13a-15(f) or 15d-15(f) of the Exchange Act) to provide reasonable assurance regarding the reliability of its financial reporting and the preparation of financial statements for external purposes. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of AIXTRON; (ii) provide reasonable assurance that all transactions are recorded as necessary to permit the preparation of AIXTRON's Consolidated Financial Statements and the proper authorization of receipts and expenditures of AIXTRON are being made in accordance with authorization of AIXTRON's management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of AIXTRON's assets that could have a material effect on AIXTRON's Consolidated Financial Statements.

Management assessed AIXTRON's internal control over financial reporting as of December 31, 2006, the end of its fiscal year. Management based its assessment on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies and AIXTRON's overall control environment. This assessment is supported by testing and monitoring.

Based on the Company's assessment, management has concluded that AIXTRON's internal control over financial reporting was effective as of December 31, 2006, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes. AIXTRON management reviewed the results of management's assessment with the Audit Committee of AIXTRON's Supervisory Board.

## 7.2. Single Risk Factors

### Currency Exchange Risk

AIXTRON conducts a large part of its business in foreign currencies, i.e., in currencies other than the €. The foreign currency most relevant to AIXTRON is the US\$. Unfavorable exchange rate movements, especially the US\$/€ exchange rate, could adversely affect the Company's results of operation. In order to hedge foreign exchange risks, the Company routinely employs currency hedging instruments in the form of forward currency exchange contracts.

### Company-Specific Risk, Market, and Competition Risk

The semiconductor manufacturing equipment market is affected by semiconductor industry cycles. In the past, the semiconductor industry and its suppliers have experienced considerable fluctuations in supply and demand for semiconductors. The timing, length, and severity of these cyclical fluctuations are difficult to predict. If demand for semiconductor manufacturing equipment declines, AIXTRON must be able to quickly align its cost structures with the changed market conditions, promptly reduce its inventory levels to the extent necessary to avoid the need for inventory write-downs, and at the same time attempt to retain key employees. If demand for semiconductors rises, AIXTRON must be able to develop sufficient manufacturing capacity and inventory in the short term, and to hire a sufficient number of qualified employees.

AIXTRON invests heavily into research and development ("R&D"). If the R&D projects identified by the Company as promising R&D are not successful in the market, then this could have a significantly adverse impact on the Company's net assets, financial position, and results of operations.

Furthermore, AIXTRON's future success depends highly on its ability to translate the knowledge gained from R&D quickly and in-line with the technological and commercial market needs into production processes; to develop such knowledge into full process capability; and to turn such knowledge into industrial products with the required performance, reliability, and quality.

The potential risk from bad debt losses is significantly reduced by letters of credit. Further information on this subject is contained in the Notes to the Consolidated Financial Statements for 2006.

Because in the past there has been substantial litigation regarding patents and other intellectual property rights infringements, both in the compound semiconductor industry and the semiconductor industry as well the data storage industry, AIXTRON cannot exclude the possibility of itself infringing upon intellectual property rights or third parties or of itself being held liable for supposedly infringing upon third party intellectual property rights. The costs associated with such litigation could be substantial.

AIXTRON's business has in the past been heavily impacted by temporarily weak capital spending in the semiconductor industry. These conditions may continue to adversely affect AIXTRON's ability to generate sufficient sales revenues and may significantly harm operating results and cash flows in the future. If AIXTRON cannot quickly enough realign its business structure to such adverse conditions, the need for additional external funding may arise.



Although the Executive Board is confident that the current level of cash and cash equivalents is sufficient for financing the Company's ongoing operations and future business development, it may be necessary for AIXTRON to seek new funds in the future if unforeseen cash outflows persist. If it is not possible to acquire sufficient funding, AIXTRON could be forced to delay or reduce operations.

At the present time, the Executive Management believes that risks that could jeopardize the Company's continued existence are unlikely to occur.

## 8. Report on Expected Developments

### 8.1. Future Strategic Positioning

The development of deposition technology for highly complex materials is expected to remain the Company's core competency and competitive advantage, upon which AIXTRON plans to further establish its expanded product portfolio.

#### Systems for Compound Semiconductor Manufacturing

AIXTRON expects to maintain its market leadership and strong competitive positioning in the market for MOCVD systems over the coming years, and is aiming to continue to retain an estimated market share of at least 60%. Market research company VLSI Research, Inc. estimates this market to be valued at US\$ 218 million by the end of 2008. However, the relatively small market size and the high market concentration on just two internationally operating MOCVD system providers may be detrimental to further expansion objectives of AIXTRON's market leadership.

#### Systems for Silicon Semiconductor Manufacturing

AIXTRON expects that the principal market driver for silicon semiconductor applications will be the increasing demand for new complex material solutions, such as high-k dielectrics, that could potentially replace materials currently used in silicon semiconductor applications.

The Company believes it is well positioned to serve the silicon semiconductor industry in a number of niche market applications with customized CVD, ALD, and AVD® technology deposition systems for the production of specialized applications such as gate stacks, memory capacitors, and MEMS, amongst others. VLSI Research Inc. estimates the silicon systems market niches AIXTRON addresses (tungsten silicide CVD, ALD and AVD® systems for the production of specialized applications such as gate stacks and capacitors) to be valued at US\$ 300 million by the end of 2008.

#### Systems for Organic Semiconductor Manufacturing

AIXTRON plans to drive forward with its strategy to introduce its OVPD® technology to a broader OLED display and lighting market AIXTRON expects to achieve a share of at least 3% in the small molecule (SM) OLEDs deposition equipment market, estimated by Display Search to be US\$ 240 million by the end of 2008. As with all emerging technologies, there is an element of risk associated with the timing of AIXTRON's OVPD® technology being adopted by the market.

## 8.2. Future Economic Environment and Opportunities

With the 2007 gross domestic product (GDP) in most of the developed economies expected to further increase year over year, leading market research companies believe in 2007 both revenues generated in the semiconductor industry and spending on Wafer Front End (WFE) equipment will rise year over year, although not as large as the increase in 2006.

Despite the ongoing corporate consolidation activity in the LED manufacturing industry, AIXTRON believes that capital expenditures for compound semiconductor equipment could remain at relatively high levels in 2007 due to strong unit demand for LED end applications, especially regarding LED backlighting for small area consumer liquid crystal displays (LCD).

AIXTRON also believes that the exact timing of next-generation manufacturing technologies and material films being introduced into the silicon semiconductor industry could remain difficult to predict. While major semiconductor manufacturers are eager to fully capitalize on capital investments made on prior-generation technologies, they appear to be reluctant to significantly invest in new sub-70 nm technologies in the near term, unless competitively compelled to do so. Such competitive industry dynamics could affect the demand for AIXTRON's ALD and AVD<sup>®</sup> equipment in 2007.

AIXTRON believes the following longer-term trends in its end-user markets could potentially influence AIXTRON's future business favorably:

- An early-generation capacity build-up for high-definition laser products and LED backlighting in next-generation liquid crystal displays (LCDs);
- An increased global adoption of LEDs in automotive applications;
- Research and development activities for silicon carbide (SiC) applications, driven by basic research and emerging hybrid automotive applications;
- Increased activity in the development of new complex compound material applications as substitution materials in the silicon semiconductor industry;
- The ongoing development activities supporting a migration away from mass production passive matrix OLEDs towards active matrix OLEDs.

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### **8.3. Expected Results of Operations and Financial Position**

Based on significant demand for AIXTRON's deposition equipment in both the compound semiconductor and the silicon semiconductor industries expected for 2007, the Company believes both revenue and net result should further improve in 2007 as compared to 2006.

Due to the large portion of orders denominated in US\$, the Company realises that any weakening of the US\$/€ exchange rate could adversely affect the level of revenues and net result generated.

In 2007, the Company plans to invest largely in laboratory equipment upgrades. AIXTRON does not currently have definitively planned financial investments, acquisitions, or divestitures in 2007. The number of global employees is expected to rise slightly in 2007 as compared to the year-end 2006.

The Company believes the current levels of cash and cash equivalents will be sufficient to fund its planned operating activities as well as replacement investments.

Aachen, March 2007

AIXTRON Aktiengesellschaft, Aachen

Executive Board



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### Consolidated Income Statement

in EUR thousands	Note	2006	2005	2004
Revenues		171,685	139,402	140,004
Cost of sales		108,245	104,676	87,604
<b>Gross profit</b>		<b>63,440</b>	<b>34,726</b>	<b>52,400</b>
Selling expenses		23,366	27,766	18,297
General administration expenses		17,266	18,004	13,240
Research and development costs	5	23,942	30,514	20,407
Other operating income	6	8,468	5,565	9,939
Other operating expenses	7	1,635	2,900	721
Impairment of goodwill	13	0	13,782	0
<b>Operating result</b>		<b>5,699</b>	<b>(52,675)</b>	<b>9,674</b>
Interest income		1,003	693	786
Interest expense		56	233	2
<b>Net interest</b>	<b>9</b>	<b>947</b>	<b>460</b>	<b>784</b>
<b>Result before taxes</b>		<b>6,646</b>	<b>(52,215)</b>	<b>10,458</b>
Taxes on income	10	789	1,253	2,829
<b>Net income/loss for the year (after taxes)</b>		<b>5,857</b>	<b>(53,468)</b>	<b>7,629</b>
Loss attributable to minority interests (after taxes)		0	0	(52)
<b>Profit/loss attributable to the shareholders of the parent company (after taxes)</b>		<b>5,857</b>	<b>(53,468)</b>	<b>7,681</b>
Basic earnings per share (EUR)	23	0.07	(0.65)	0.12
Diluted earnings per share (EUR)	23	0.07	(0.65)	0.12

See accompanying notes to consolidated financial statements.

## Consolidated Balance Sheet

in EUR thousands	Note	Dec. 31, 2006	Dec. 31, 2005
<b>Assets</b>			
Property, plant and equipment	12	36,381	42,179
Goodwill	13	65,052	71,002
Other intangible assets	13	15,097	19,766
Investment property	14	4,908	4,908
Other non-current assets	15	671	499
Deferred tax assets	16	5,380	6,331
Tax assets	17	486	0
<b>Total non-current assets</b>		<b>127,975</b>	<b>144,685</b>
Inventories	18	53,149	33,113
Trade receivables			
less allowance kEUR 311 (2005: kEUR 445)	19	27,677	24,209
Current tax assets	11	699	0
Other current assets	19	4,450	3,875
Other financial assets	20	2,781	0
Cash and cash equivalents	21	46,751	31,435
<b>Total current assets</b>		<b>135,507</b>	<b>92,632</b>
<b>Total assets</b>		<b>263,482</b>	<b>237,317</b>
<b>Liabilities and shareholders' equity</b>			
Subscribed capital			
Number of shares: 87,836,154 (last year: 87,796,614)		87,836	87,797
Additional paid-in capital		97,444	95,951
Accumulated deficit		(3,406)	(9,264)
Income and expenses recognised in equity		2,068	9,115
<b>Total shareholders' equity</b>	22	<b>183,942</b>	<b>183,599</b>
Provisions for pensions	24	983	978
Other non-current liabilities		76	176
Other non-current accruals and provisions	26	2,030	3,122
<b>Total non-current liabilities</b>		<b>3,089</b>	<b>4,276</b>
Trade payables	27	29,926	17,479
Advance payments from customers		31,421	11,845
Other current accruals and provisions	26	12,591	14,032
Other current liabilities	27	1,443	3,949
Current tax liabilities	11	536	1,404
Convertible bonds	28	3	3
Deferred revenues		531	730
<b>Total current liabilities</b>		<b>76,451</b>	<b>49,442</b>
<b>Total liabilities</b>		<b>79,540</b>	<b>53,718</b>
<b>Total liabilities and shareholders' equity</b>		<b>263,482</b>	<b>237,317</b>

See accompanying notes to consolidated financial statements.

## Consolidated Cash Flow Statement

in EUR thousands	Note	2006	2005	2004
<b>Cash inflow/outflow from operating activities</b>				
Net income/loss for the year (after taxes)		5,857	(53,468)	7,681
Reconciliation between profit and cash inflow/outflow from operating activities				
Expense from share-based payments		1,450	1,801	1,041
Impairment expense		816	26,630	0
Depreciation and amortization expense		9,900	10,406	5,986
Net result from disposal of property, plant and equipment		38	484	370
Deferred income taxes		1,351	(509)	1,700
Other non-cash expenses		1,247	0	0
<b>Change in</b>				
Inventories		(21,388)	8,738	(4,265)
Trade receivables		(4,749)	(5,316)	(6,513)
Other assets		(1,640)	328	(4,624)
Trade payables		12,894	(560)	2,157
Provisions and other liabilities		(3,773)	1,138	4,130
Deferred revenues		(151)	(1,280)	(1,243)
Non-current liabilities		(924)	1,091	(20)
Advance payments from customers		19,841	(1,684)	432
<b>Cash inflow/outflow from operating activities</b>		<b>20,769</b>	<b>(12,201)</b>	<b>6,832</b>
<b>Cash inflow/outflow from investing activities</b>				
Cash from acquisition of Genus, Inc.		0	9,049	0
Cost related to the Genus acquisition		0	(3,628)	0
Capital expenditures in property, plant and equipment		(2,181)	(8,323)	(3,763)
Capital expenditures in intangible assets		(184)	(64)	(618)
Bank deposits with a maturity of 6 months	20	(2,781)	0	0
Acquisition of minority interests		0	0	(2,011)
Proceeds from the sale of property, plant and equipment		0	0	3
<b>Cash inflow/outflow from investing activities</b>		<b>(5,146)</b>	<b>(2,966)</b>	<b>(6,389)</b>
<b>Cash inflow/outflow from financing activities</b>				
Change in minorities		0	0	(52)
Exercise of stock options		83	0	0
<b>Cash inflow/outflow from financing activities</b>		<b>83</b>	<b>0</b>	<b>(52)</b>
Effect of changes of exchange rates on cash and cash equivalents		(390)	1,104	(196)
Net change in cash and cash equivalents		15,316	(14,063)	195
Cash and cash equivalents at the beginning of the period		31,435	45,498	45,303
<b>Cash and cash equivalents at the end of the period</b>	<b>21</b>	<b>46,751</b>	<b>31,435</b>	<b>45,498</b>
Interest paid		(166)	(38)	(2)
Interest received		971	691	806
Income taxes paid		(1,313)	(506)	(240)
Income taxes received		8	23	934

See accompanying notes to consolidated financial statements.



## Consolidated Statement of Changes in Equity

	Sub- scribed capital under HGB	Treasury shares	Sub- scribed capital under IFRS	Addi- tional paid-in- capital	Income and expense recognized directly in equity		Retained Earnings/ Accumu- lated deficit	Minority interests	Share- holders' equity
					Currency trans- lation	Deri- vative financial instru- ments			
in EUR thousands									<b>Total</b>
<b>Balance at January 1, 2004</b>	64,832		64,832	27,762	(2,244)	1,469	36,524	159	128,502
Net income for the period							7,680	(52)	7,628
Expense for stock options				1,041					1,041
Currency translation					48				48
Acquisition minority interests								(107)	(107)
Derivative financial instruments net of tax						-145			(145)
<b>Balance at December 31, 2004</b>	64,832		64,832	28,803	(2,196)	1,324	44,204	0	136,967
<b>Balance at January 1, 2005</b>	64,832		64,832	28,803	(2,196)	1,324	44,204	0	136,967
Net loss for the period							(53,468)		(53,468)
Capital increase against contribution in kind	24,968	(4,428)	20,540	62,161					82,701
Expense for stock options				1,801					1,801
Exercise									
- convertible bonds		2,384	2,384	3,142					5,526
- stock options		41	41	44					85
Currency translation					11,616				11,616
Derivative financial instruments net of tax						(1,629)			(1,629)
<b>Balance at December 31, 2005</b>	89,800	(2,003)	87,797	95,951	9,420	(305)	(9,264)	0	183,599
<b>Balance at January 1, 2006</b>	89,800	(2,003)	87,797	95,951	9,420	(305)	(9,264)	0	183,599
Net income for the period							5,857		5,857
Expense for stock options				1,450					1,450
Exercise stock options		40	40	43					83
Currency translation					(7,871)				(7,871)
Derivative financial instruments net of tax						824			824
<b>Balance at December 31, 2006</b>	89,800	(1,963)	87,836*	97,444	1,549	519	(3,406)*	0	183,942

\* rounded

See accompanying notes to consolidated financial statements.

**Statement of Recognised Income and Expenses**

in EUR thousands	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Net income/loss</b>	<b>5,857</b>	<b>(53,468)</b>	<b>7,680</b>
Unrealized gains/losses from derivative financial instruments before taxes	1,122	(2,493)	(308)
Currency translation adjustment	(7,871)	11,616	48
Deferred taxes	(298)	864	163
<b>Net income/loss recognized directly in equity</b>	<b>(7,047)</b>	<b>9,987</b>	<b>(97)</b>
<b>Total recognized income and expenses for the period</b>	<b>(1,190)</b>	<b>(43,481)</b>	<b>7,583</b>

See accompanying notes to consolidated financial statements.



## Notes to the consolidated financial statements

### 1. General principles

AIXTRON AG (“AIXTRON AG”) is incorporated as a stock corporation (“Aktiengesellschaft”) under the laws of the Federal Republic of Germany. The Company is domiciled at Kackertstraße 15-17, 52072 Aachen, Germany. AIXTRON AG is registered in the commercial register of the District Court (“Amtsgericht”) of Aachen under HRB 7002.

The consolidated financial statements of AIXTRON AG and its subsidiaries (“AIXTRON“ or “Company“) have been prepared in accordance with International Financial Reporting Standards (IFRS), the interpretations adopted by the International Accounting Standards Board (IASB) and Section 315a of HGB (German Commercial Law).

Information required under generally accepted accounting standards in the United States (US-GAAP) is also provided in the notes to the consolidated financial statements. Material differences in accounting standards between IFRS and US-GAAP are explained in note 40.

AIXTRON is a leading provider of deposition equipment to the semiconductor and compound-semiconductor industry. The Company’s technology solutions are used by a diverse range of customers worldwide to build advanced components for electronic and opto-electronic applications based on compound, silicon, or organic semiconductor materials. Such components are used in fibre optic communication systems, wireless and mobile telephony applications, optical and electronic storage devices, computing, signalling and lighting, displays, as well as a range of other leading-edge technologies.

These consolidated financial statements have been prepared by the Executive Board and have been submitted to the Supervisory Board for its meeting held on March 13, 2007.

## 2. Significant accounting policies

### (a) Companies included in consolidation

Companies included in consolidation are the parent company, AIXTRON AG, and 11 companies, in which AIXTRON AG has a 100% direct or indirect shareholding or which can be controlled by AIXTRON AG. The balance sheet date of all consolidated companies is December 31. A list of all consolidated companies is shown in note 34.

### (b) Basis of accounting

The consolidated financial statements are presented in Euro (EUR). The amounts are rounded to the nearest thousand Euro (kEUR). Some items in the balance sheet and income statement have been combined under one heading to improve the clarity of presentation. Such items are disclosed and commented on individually in the notes.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reported period. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if this revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the calculation of provisions assumptions and estimates were made in respect of the amount of the related transactions as well as in respect of the probability that such transactions will occur. For the calculation of the fair values of intangible assets AIXTRON assumed future revenues and cash flows to determine the respective assets. These assumptions are based on the experience of the management and on external sources, such as market studies. As to the calculation of provisions for warranties, the Company also uses estimated values derived from previous experience.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements .

The accounting policies have been applied consistently by each consolidated company.

### (c) Bases of consolidation

#### (i) Subsidiaries

Entities over which AIXTRON AG has control are treated as subsidiaries (see note 34). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that controlling influence commences.

#### (ii) Transactions eliminated on consolidation

All intercompany profits and losses, transactions and balances have been eliminated in the consolidation.

**(d) Foreign currency**

The consolidated financial statements have been prepared in Euro (EUR). In the translation of financial statements of subsidiaries outside the Euro-Zone the local currencies are used as functional currencies of these subsidiaries. Assets and liabilities of these subsidiaries are translated to EUR at the exchange rate ruling at the balance sheet date. Revenues and expenses are translated to EUR at average exchange rates for the year or at average exchange rates for the period between their inclusion in the consolidated financial statements and the balance sheet date. Net equity is translated at historical rates. The differences arising on translation are disclosed in income and expenses recognised in equity.

Exchange gains and losses resulting from fluctuations in exchange rates in the case of foreign currency transactions are recognised in the income statement in “other operating income“ or “other operating expenses“.

**(e) Derivative financial instruments**

AIXTRON uses derivative financial instruments in the form of forward exchange contracts and options to hedge fluctuations in exchange rates in respect of cash flows from forecast and agreed sales transactions denominated in foreign currencies.

AIXTRON does not apply hedge accounting to all derivative financial instruments which do not meet the documentation requirements specified in IAS 39. In accordance with the Company’s treasury policy, it does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are measured at fair value. Gains and losses resulting from the market valuations of forward exchange contracts and options at the balance sheet date to which hedge accounting is not applied, are recognised through profit and loss.

Where hedge accounting as defined in IAS 39 is applied to a derivative financial instrument to hedge the variability in cash flows from forecast transactions (cash flow hedges), the gain or loss arising on the market valuation is recognised in equity (income and expenses recognised in equity). This gain or loss is recognised in equity until the underlying transaction affects the income statement. Where a cash flow hedge does not meet the criteria of hedge accounting, the ineffective part will be recognised immediately in the income statement.

**(f) Property, plant and equipment****(i) Acquisition or manufacturing cost**

Items of property, plant and equipment are stated at cost, plus ancillary charges, less accumulated depreciation (see below) and impairment losses (see accounting policy (I)).

Costs of internally generated assets include not only costs of material and personnel, but also a share of overhead costs.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Interest is expensed as incurred.

(ii) **Subsequent costs**

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing components or enhancement of such an item when that cost is incurred if it is probable that the future economic benefits embodied in the item will flow to the Company and the cost of the item can be measured reliably. All other costs such as repairs and maintenance are expensed as incurred.

(iii) **Government grants**

Government grants related to the acquisition or manufacture of owned assets are deducted from original cost at date of capitalisation.

(iv) **Depreciation**

Depreciation is charged on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

■ Buildings	25 years
■ Machinery and equipment	3–10 years
■ Other plant, factory and office equipment	3–8 years

**(g) Intangible assets**

(i) **Goodwill**

All business combinations are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since January 1, 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. In respect of acquisitions prior to this date, goodwill was determined under the previous accounting principles (US-GAAP), applied until 2004, and was continued to be recognised at its then carrying amount.

Goodwill is stated at cost less any accumulated impairment loss. Goodwill is allocated to cash-generating units and is tested annually for impairment (see accounting policy (l)).

(ii) **Research and development**

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding using scientific methods, is recognised as an expense as incurred.

Expenditure on development comprises costs incurred with the purpose of using scientific knowledge technically and commercially. As not all criteria of IAS 38 are met or are only met at a very late point within the development process, for reasons of materiality AIXTRON did not capitalise such costs.

**(iii) Other intangible assets**

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (l)).

Intangible assets acquired through business combinations are stated at their fair value at the date of purchase (see note 4).

Expenditure on internally generated goodwill, trademarks and patents is expensed as incurred.

**(iv) Subsequent expenditure**

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

**(v) Amortisation**

Amortisation is charged on a straight-line basis over the estimated useful lives of intangible assets, except for goodwill. Goodwill is tested annually in respect of its recoverable amount. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

■ Software	2–3 years
■ Patents and similar rights	5–18 years
■ Customer base and product and technology know how	6–7 years

**(h) Investment property**

Investment properties are measured using the cost model.

**(i) Trade receivables and other receivables**

Trade receivables and other receivables are stated at their fair value. Allowance for potential risks from bad debts is estimated based on previous experience.

**(j) Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. Cost is determined using weighted average cost.

The cost includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of work in progress and finished goods, cost includes direct material and production cost, as well as an appropriate share of overheads based on normal operating capacity.

Allowance for slow moving, excess and obsolete, and otherwise unsaleable inventory is recorded based primarily on either the Company's estimated forecast of product demand and production requirement for the next twelve months or historical trailing twelve month usage. When there has been no usage of an inventory item during a period of twelve months, the Company writes down such inventories based on previous experience.



### **(k) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, current deposits with credit institutions and short-term notes with a remaining maturity of three months or less at the date of acquisition. The basis of measurement is nominal value.

### **(l) Impairment of property, plant and equipment and intangible assets**

Goodwill purchased as part of a business acquisition is tested annually for impairment, irrespective of whether there is any indication of impairment. For impairment test purposes, the goodwill is allocated to cash-generating units. Impairment losses are recognised to the extent that the carrying amount exceeds the higher of net realisable value or value in use (recoverable amount) of the cash-generating unit.

Property, plant and equipment as well as other intangible assets are tested for impairment, where there is any indication that the asset may be impaired. Impairment losses on such assets are recognised, to the extent that the carrying amount exceeds either the net realisable value that would be obtainable from a sale in an arm's length transaction, or the value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments and the risks associated with the asset.

Impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. Reversals are made only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

An impairment loss in respect of goodwill is not reversed.

### **(m) Earnings per share**

Basic earnings per share are computed by dividing net income (loss) by the weighted average number of issued common shares and AIXTRON ADS (see note 22) for the year. Diluted earnings per share reflect the potential dilution that could occur if options issued under the Company's stock option plans were exercised and convertible bonds were converted, unless such conversion had an anti-dilutive effect.

### **(n) Convertible bonds**

Convertible bonds that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible bonds is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest rate method.

**(o) Employee benefits****(i) Defined contribution plans**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

**(ii) Defined benefit plans**

The obligation from defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in prior periods; that benefit is discounted to determine its present value. The calculation is performed by a qualified actuary using the projected unit credit method.

Since January 1, 2005, actuarial gains and losses have been recognised in the income statement at each balance sheet date. The comparative figures have not been adjusted according to IAS 8 for reasons of materiality.

**(iii) Share-based payment transactions**

The stock option programs allows members of the Executive Board, management and employees of the Company to acquire shares/ADS (see note 25) of the Company. These stock option programs are accounted for by AIXTRON according to IFRS 2. The fair value of options granted after November 7, 2002 is recognised as personnel expense with a corresponding increase in the additional paid-in capital. The fair value is calculated at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial lattice model, taking into account the terms and conditions upon which the options were granted. In the calculation of the personnel expense options forfeited are taken into account.

**(p) Provisions**

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle this obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax interest rate that reflects current market assessments of the time value of money and, where appropriate, the risks associated with the liability.

**(i) Warranties**

The Company offers one to two year warranties on all of its products. Warranty expenses generally include cost of labor, material and related overhead necessary to repair a product free of charge during the warranty period. The specific terms and conditions of those warranties may vary depending on the equipment sold, the terms of the contract and the locations from which they are sold. The Company establishes the costs that may be incurred under its warranty obligations and records a liability in the amount of such costs at the time revenue is recognised. Factors that affect the Company's warranty liability include the historical and anticipated rates of warranty claims and cost per claim.

The Company accrues material and labor cost for systems shipped based upon historical experience. The Company periodically assesses the adequacy of its recorded warranty provisions and adjusts the amounts as necessary.

(ii) **Onerous contracts**

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

**(q) Trade payables and other payables**

Trade payables and other payables are stated at their repayment values. Outstanding invoices relating to other accounting periods are recognised in trade payables.

**(r) Revenue**

Revenue is generated from the sale and installation of equipment, spare parts and maintenance services. The sale of equipment involves a customer acceptance test at AIXTRON's production facility. After successful completion of this test, the equipment is dismantled and packaged for shipment. Upon arrival at the customer site the equipment is reassembled and installed, which is a service generally performed by AIXTRON engineers. AIXTRON gives no general rights of return, discounts, credits or other sales incentives within its terms of sale. However, occasionally some customers of AIXTRON have specifically negotiated to include some of these terms.

Revenues from the sale of products that have been demonstrated to meet product specification requirements are recognised upon shipment to the customer, if a full customer acceptance test has been successfully completed at the AIXTRON production facility and the risk has passed to the customer.

Revenue relating to the installation of the equipment at the customer's site is recognised when the installation is completed and the final customer acceptance has been confirmed. The portion of the contract revenue deferred until completion of the installation services is determined based on either the fair value of the installation services or the portion of the contract amount that is due and payable upon completion of the installation. Fair value of the installation services is determined based on an estimate of the materials and time required to complete the installation.

Revenue related to products where meeting the product specification requirements has not yet been demonstrated, or where specific rights of return have been negotiated, is recognised only upon final customer acceptance.

Revenue on the sale of spare parts is recognised when title and risk passes to the customer, generally upon shipment. Revenue from maintenance services is recognised as the services are provided.

**(s) Expenses****(i) Cost of sales**

Cost of sales includes such direct costs as materials, labor and related production overheads.

**(ii) Research and development**

Research and development costs are expensed as incurred. Project funding received from governments (e.g. state funding) and the European Union is recorded in other operating income, if the Research and Development costs are incurred and provided that the conditions for the funding have been met.

**(iii) Operating lease payments**

Payments made under operating leases are recognised as expense on a straight-line basis over the term of the lease.

**(t) Other operating income****Government grants**

Government grants awarded for project funding are recorded in "Other operating income" if the Research and Development costs are incurred and provided that the conditions for the funding have been met.

**(u) Deferred tax**

Deferred tax assets and liabilities are recorded for all temporary differences between tax and commercial balance sheets and for losses brought forward for tax purposes as well as for tax credits of the companies included in consolidation. The deferred taxes are calculated, based on tax rates applicable at the balance sheet date or known to be applicable in the future. Effects of changes in tax rates on the deferred tax assets and liabilities are recognised upon adoption of the amended law.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits can be set off against tax credits and tax loss carry forwards. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit can be realised.

**(v) Segment reporting**

A business segment is a distinguishable component of the Company that is engaged in providing products or services which are subject to similar risks and rewards. AIXTRON operates in worldwide markets. As the risks and rates of return are primarily affected by projects and services, the primary format for the reporting of segment information is business segments with secondary information reported geographically.

Internally reported product lines are combined for group reporting in one business segment as defined in IAS 14.34, as they show only insignificant differences as to long term profit forecasts and as they are materially similar in the assessment of the criteria used to distinguish the individual business segments as defined in IAS 14.9.

Accounting standards applied in segment reporting are in accordance with the general accounting policies as explained in this section. The disclosed revenues earned with other segments are at arm's length.

### **(w) Cash flow statement**

The cash flow statement is prepared in accordance with IAS 7. Cash flows from operating activities are prepared using the indirect method. Cash inflows and cash outflows from taxes and interest are included in cash flows from operating activities.

### **(x) Recently issued accounting standards**

The following list shows IFRS Standards and Amendments to IFRS not compulsory and not applicable for reporting periods ended on December 31, 2006. These standards were not applied earlier than required. AIXTRON is currently analysing the impact of the new standards on its consolidated financial statements. The Company does not expect the adoption of these standards to have a material impact on its consolidated financial statements with the exception that additional or revised information about financial instruments should be presented in the notes, when IFRS 7 is applied.

<b>IFRS 7</b>	<b><i>Financial Instruments: Disclosures</i></b> Issued: August 2005
<b>IFRS 8</b>	<b><i>Operating Segments</i></b> Issued: November 2006
<b>IFRIC 7</b>	<b><i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i></b> Issued: November 2005
<b>IFRIC 8</b>	<b><i>Scope of IFRS 2</i></b> Issued: January 2006
<b>IFRIC 9</b>	<b><i>Reassessment of Embedded Derivatives</i></b> Issued: March 2006
<b>IFRIC 10</b>	<b><i>Interim Financial Reporting and Impairment</i></b> Issued: July 2006
<b>IFRIC 11</b>	<b><i>IFRS 2 - Group and Treasury Share Transactions</i></b> Issued: November 2006
<b>IFRIC 12</b>	<b><i>Service Concession Arrangements</i></b> Issued: November 2006
<b>Amendment to IAS 1</b>	<b><i>Capital Disclosures</i></b> Issued: August 2005

### 3. Segment reporting

The following segment information has been prepared in accordance with IAS 14 “Segment Reporting“. As AIXTRON has only one reportable business segment (see note 2 (v)), the segment information provided relates only to the Company’s geographical segments, this being secondary segment information.

The Company markets and sells the majority of its products in Asia, Europe and the United States, mainly through its direct sales organisation and cooperation partners.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Segment capital expenditure consists of the total additions to segment assets, that are expected to be used for more than one period.

#### Geographical segments

in EUR thousands		Asia	Europe	United States	Consolidation	Group
Revenues realised with third parties	2006	135,223	22,232	14,230		171,685
	2005	103,036	22,052	14,314		139,402
	2004	108,097	13,642	18,265		140,004
Internal revenues	2006	15,671	2,642	13,101	(31,414)	
	2005	11,582	1,055	6,311	(18,948)	
	2004	4,905	1,676	11,646	(18,227)	
<b>Total segment revenues</b>	<b>2006</b>	<b>150,894</b>	<b>24,874</b>	<b>27,331</b>	<b>(31,414)</b>	<b>171,685</b>
	<b>2005</b>	<b>114,618</b>	<b>23,107</b>	<b>20,625</b>	<b>(18,948)</b>	<b>139,402</b>
	<b>2004</b>	<b>113,002</b>	<b>15,318</b>	<b>29,911</b>	<b>(18,227)</b>	<b>140,004</b>
Segment assets	2006	12,967	231,370	91,158	(132,530)	202,965
	2005	13,841	214,775	98,795	(127,862)	199,549
	2004	5,798	139,087	10,340	(30,209)	125,016
Segment capital expenditures*	2006	202	1,953	700		2,855
	2005	308	10,213	93,262		103,783
	2004	171	5,202	57		5,430

\*Segment capital expenditures for the financial year 2005 also include the additions resulting from the change in composition of the AIXTRON Group.

Revenues are shown in the following table:

in EUR thousands	2006	2005	2004
Revenues for sale of goods	169,759	137,306	138,592
Revenues for service and repair	1,926	2,096	1,412
	<b>171,685</b>	<b>139,402</b>	<b>140,004</b>

Revenues for sale of goods in 2005 include revenues from barter transactions in the amount of kEUR 3,701.

#### 4. Acquisition of subsidiaries

In 2006 there were no acquisitions.

All acquisitions described below were accounted for using the purchase method of accounting.

In 2006 the former AIXTRON, Inc., Atlanta was merged into Genus, Inc., Sunnyvale. The resulting entity was renamed AIXTRON, Inc., Sunnyvale (see note 34). All disclosures relating to the acquisition of the former Genus, Inc. are described as referring to “former Genus” or “Genus”.

On July 2, 2004, AIXTRON announced its intention to acquire Genus, Inc. Genus is a supplier of Atomic Layer Deposition technology, which is required in the production of advanced semiconductors and hard disk drives. AIXTRON acquired all issued and outstanding shares of Genus, Inc. with effect from March 14, 2005.

The United States Securities and Exchange Commission (SEC) declared the F-4 registration statement of AIXTRON AG effective on February 8, 2005. On March 10, 2005, the extraordinary meeting of shareholders of Genus, Inc. took place. The shareholders of Genus approved the merger pursuant to the laws of the State of California through the affirmative vote of holders of more than 50% of the issued and outstanding shares.

As part of the acquisition of Genus by AIXTRON all Genus, Inc. shares were exchanged for AIXTRON American Depositary Shares (ADS) in a stock-for-stock transaction. The shareholders of Genus received 0.51 AIXTRON ADS in exchange for each Genus common share. Each AIXTRON ADS represents the beneficial ownership in one AIXTRON common share.

In the context of the acquisition, AIXTRON issued additional ADS for the holders of employee stock options, other options and convertible bonds existing at the date of acquisition. These ADS were transferred to a trust at the date of acquisition that keeps the ADS until they are granted to the holders of the options and the convertible bonds. Upon consummation of the transaction, the historical shareholders of AIXTRON AG held approximately 72% and the former shareholders of Genus approximately 28% of AIXTRON AG taking into consideration all ADS issued as part of the transaction (see note 22).

The total purchase price for the acquisition of Genus comprises the following:

in EUR thousands

Fair value of an AIXTRON share of common stock as of March 14, 2005 (20,539,956 shares at 3.72 € per share)	76,409
Fair value of the stock options granted by Genus, Inc.	2,494
Fair value of the convertible bond issued by Genus, Inc.	3,799
Acquisition-related costs	9,403
	<b>92,105</b>

The fair value of shares granted by AIXTRON AG was calculated as the quoted share price at the transfer date.

The following table summarises the effect of the fair value adjustments on the assets acquired and liabilities assumed at the date of acquisition.

in EUR thousands	Carrying amount	Fair value adjustment	Acquisition cost
Current assets	28,435	(6,761)	21,674
Property, plant and equipment	9,918	(5,684)	4,234
Other intangible assets	0	24,316	24,316
Other assets	580	(412)	168
<b>Acquired assets</b>	<b>38,933</b>	<b>11,459</b>	<b>50,392</b>
Current liabilities	15,399	5,778	21,177
<b>Acquired assets less liabilities</b>	<b>23,534</b>	<b>5,681</b>	<b>29,215</b>
Goodwill arising on acquisition			62,890
Total purchase price			92,105

The intangible assets acquired were classified according to the following categories:

in EUR millions

Customer base	9.2
Product and technology know how	15.1
	<b>24.3</b>



Goodwill was recognised in the course of the transaction. The book value of the goodwill developed as follows:

in EUR thousands	<b>2006</b>	<b>2005</b>
Carrying amount at January 1	57,032	0
Additions at date of first-time consolidation	0	62,890
Subsequent fair value adjustment	(397)	0
Impairment	0	13,705
Effects from currency translation	(5,828)	7,847
<b>Carrying amount at December 31</b>	<b>50,807</b>	<b>57,032</b>

In 2006 the Genus goodwill was reduced in accordance with IAS 12.68 subsequently realising a deferred tax asset amounting to kEUR 397 which at the date of acquisition did not satisfy the criteria of IFRS 3 for separate recognition.

The following table summarises pro forma financial information assuming the Genus acquisition had occurred on January 1, 2004. This pro forma financial information does not necessarily represent what would have occurred if the transaction had taken place on the date presented and should not be taken as representative of future consolidated results of operation or financial position.

in EUR thousands	<b>01/01– 31/12/2005</b>	<b>01/01– 31/12/2004</b>
Revenues	143,381	172,552
Net loss	(60,255)	(10,292)
Earnings per share		
- basic	(0.73)	(0.12)
- diluted	(0.73)	(0.12)

The consolidated loss for the year 2005 includes a net loss of kEUR 30,722, arising in the original Genus group since the acquisition.

In May 2004, AIXTRON purchased the remaining 10% interest in AIXTRON KK, for an aggregate amount of kEUR 238 in cash including costs directly attributable to the business combination. The excess paid above the purchased net assets was accounted for as goodwill of kEUR 127. The subsidiary is a distribution and service company of AIXTRON products in Japan.

In October 2004, AIXTRON purchased the remaining 30.08% in Epigress AB for an aggregate amount of kEUR 1,773 in cash including cost directly attributable to the business combination. The excess paid above the purchased net assets was accounted for as goodwill of kEUR 551. Epigress AB focuses primarily on research and development activities and on the sale and marketing of MOCVD equipment for silicon carbide (SiC).

## 5. Research and development

Research and development costs, before deducting project funding received, were kEUR 23,942, kEUR 30,514 and kEUR 20,407 for the years ended December 31, 2006, 2005 and 2004, respectively.

After deducting project funding received and not repayable, net expenses for research and development were kEUR 19,397, kEUR 27,627 and kEUR 17,856 for the years ended December 31, 2006, 2005 and 2004 respectively.

Research and development expenses in 2006 include impairment expenses for property, plant and equipment in the amount of kEUR 816 (2005: kEUR 1,601) and for intangible assets in the amount of kEUR 0 (2005: kEUR 3,701) (see notes 12 and 13 for details).

## 6. Other operating income

in EUR thousands	2006	2005	2004
Research and development funding	4,545	2,887	2,551
Income from resolved contract obligations	548	720	2,965
Income from the reversal of provisions and the write-off of debts	1,883	837	756
Other grants, reimbursements and costs passed on	99	369	0
Compensation payments	12	69	235
Rental income	0	22	216
Foreign exchange gains	1,059	9	2,900
Other	322	652	316
	<b>8,468</b>	<b>5,565</b>	<b>9,939</b>

The amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss was kEUR 468 (2005: kEUR 9, 2004: kEUR 2,900).

## 7. Other operating expenses

in EUR thousands	2006	2005	2004
Foreign exchange losses	905	2,063	25
Losses from the disposal of property, plant and equipment	125	217	374
Additions to allowances for receivables or write-off of receivables	216	102	204
Other	389	518	118
	<b>1,635</b>	<b>2,900</b>	<b>721</b>

## 8. Personnel expenses

in EUR thousands	2006	2005	2004
Wages and salaries	35,652	34,633	24,991
Social insurance contributions	4,222	4,236	3,436
Increase in the obligation from defined benefit plans	5	276	35
Expense for defined contribution plans	701	151	0
Stock option expense	1,450	1,801	1,041
	<b>42,030</b>	<b>41,097</b>	<b>29,503</b>

## 9. Net financing costs

in EUR thousands	2006	2005	2004
Finance income	1,003	693	786
Finance expense	(56)	(233)	(2)
<b>Net finance costs</b>	<b>947</b>	<b>460</b>	<b>784</b>

## 10. Income tax expense/benefit

The following table shows income tax expenses and income recognised in the consolidated income statement

in EUR thousands	2006	2005	2004
<b>Current tax expense (+)/current tax income (-)</b>			
for current year	424	282	1,096
adjustment for prior years	(827)	433	45
<b>Total current tax expense</b>	<b>(403)</b>	<b>715</b>	<b>1,141</b>
<b>Deferred tax expense (+)/deferred tax income (-)</b>			
from temporary differences	783	(1,441)	1,325
from write-downs and reversals	409	1,979	363
<b>Total deferred tax expense</b>	<b>1,192</b>	<b>538</b>	<b>1,688</b>
<b>Total income tax expense in consolidated income statement</b>	<b>789</b>	<b>1,253</b>	<b>2,829</b>

Income before taxes on income and income tax expense relate to the following regions:

in EUR thousands	2006	2005	2004
<b>Income/(loss) before income taxes</b>			
Germany	1,389	(20,171)	9,562
Outside Germany	5,257	(32,044)	896
<b>Total</b>	<b>6,646</b>	<b>(52,215)</b>	<b>10,458</b>
<b>Income tax expense</b>			
Germany	(623)	372	2,277
Outside Germany	1,412	881	552
<b>Total</b>	<b>789</b>	<b>1,253</b>	<b>2,829</b>

The Company's effective tax rate is different from the German statutory tax rate of 39.45% (2005: 39.45%; 2004: 39.28%) which is based on the German corporate income tax rate (including solidarity surcharge and trade tax).

The following table shows the reconciliation from the expected to the reported tax expense:

in EUR thousands	2006	2005	2004
<b>Net result before taxes</b>	<b>6,646</b>	<b>(52,215)</b>	<b>10,458</b>
Income tax expense (German tax rate)	2,622	(20,599)	4,108
Effect from differences to foreign tax rates	(680)	1,494	(48)
Non-deductible expenses	528	224	78
Non-consideration of tax claims from loss carryforwards	104	10,467	33
Allowance against deferred tax assets	409	1,979	363
Effect of the use of loss carryforwards	(2,830)	(157)	(91)
Non-deductible impairment and amortisation of:			
Goodwill, acquired customer relations and product and technology know how	957	8,639	0
Effect of permanent differences	252	(1,438)	(1,537)
Other	(573)	644	(77)
<b>Income tax expense in consolidated income statement</b>	<b>789</b>	<b>1,253</b>	<b>2,829</b>
<b>Effective tax rate</b>	<b>11.9%</b>	<b>(2.4%)</b>	<b>27.1%</b>

## 11. Current tax assets and liabilities

In 2006 the current tax assets and liabilities, i.e. those actually incurred because the amount of tax paid in the current or in prior periods was either too high or too low, are kEUR 699 and kEUR 536 respectively. In the previous year current tax liabilities were kEUR 1,404.

## 12. Property, plant and equipment

### Development of property, plant and equipment

in EUR thousands	Land and buildings	Technical equipment and machinery	Other plant, factory and office equipment	Assets under construction	Total
<b>Cost</b>					
Balance at January 1, 2005	30,120	18,145	10,090	2,907	61,262
Acquisitions through business combinations	328	2,609	299	998	4,234
Acquisitions	989	2,817	745	3,846	8,397
Disposals	195	580	1,231	589	2,595
Transfers	(207)	3,347	207	(3,347)	0
Effect of movements in exchange rates	78	390	304	134	906
<b>Balance at December 31, 2005</b>	<b>31,113</b>	<b>26,728</b>	<b>10,414</b>	<b>3,949</b>	<b>72,204</b>
Balance at January 1, 2006	31,113	26,728	10,414	3,949	72,204
Acquisitions	79	1,623	614	355	2,671
Disposals	82	439	1,386	1,222	3,129
Transfers	0	2,893	(112)	(2,781)	0
Effect of movements in exchange rates	(15)	(558)	(192)	(28)	(793)
<b>Balance at December 31, 2006</b>	<b>31,095</b>	<b>30,247</b>	<b>9,338</b>	<b>273</b>	<b>70,953</b>
<b>Depreciation and impairment losses</b>					
Balance at January 1, 2005	7,218	9,794	7,180	0	24,192
Depreciation charge for the year	1,409	3,361	1,355	0	6,125
Impairment losses	0	1,012	0	589	1,601
Disposals	3	556	991	589	2,139
Transfers	(70)	0	70	0	0
Effect of movements in exchange rates	16	72	158	0	246
<b>Balance at December 31, 2005</b>	<b>8,570</b>	<b>13,683</b>	<b>7,772</b>	<b>0</b>	<b>30,025</b>
Balance at January 1, 2006	8,570	13,683	7,772	0	30,025
Depreciation charge for the year	1,518	3,702	1,317	0	6,537
Impairment losses	0	0	0	816	816
Disposals	2	279	1,371	816	2,468
Transfers	0	56	(56)	0	0
Effect of movements in exchange rates	(11)	(169)	(158)	0	(338)
<b>Balance at December 31, 2006</b>	<b>10,075</b>	<b>16,993</b>	<b>7,504</b>	<b>0</b>	<b>34,572</b>
<b>Carrying amounts</b>					
At January 1, 2005	22,902	8,351	2,910	2,907	37,070
<b>At December 31, 2005</b>	<b>22,543</b>	<b>13,045</b>	<b>2,642</b>	<b>3,949</b>	<b>42,179</b>
At January 1, 2006	22,543	13,045	2,642	3,949	42,179
<b>At December 31, 2006</b>	<b>21,020</b>	<b>13,254</b>	<b>1,834</b>	<b>273</b>	<b>36,381</b>

**Depreciation**

Depreciation expense amounted to kEUR 6,537 for 2006 and was kEUR 6,125 and kEUR 5,096 for 2005 and 2004, respectively.

**Impairments**

During 2006 an impairment loss for self-built systems of kEUR 816 was recognised. Changes in the required technical specifications and a lack of usability resulted in a write-off of capitalized materials and personnel expenses.

Impairments in 2005 amounted to kEUR 1,601 and were attributable to the complete write-down of certain assets. Such assets were constructed for the further development of AIXTRON technology in the semiconductor industry (especially silicon germanium applications for Telecom/Datacom components). Due to changed market conditions the manufacturing cost exceeded the value in use. This was the reason for the impairment.

All impairment losses recognised during 2006 and 2005 are included in research and development costs in the income statement.

**Government grants**

In 2006, the cost of machinery and equipment was reduced by kEUR 622 (2005: kEUR 1,070), because of government grants. Of that amount, kEUR 94 (2005: kEUR 648) has been accrued as receivable and kEUR 528 (2005: kEUR 422) was paid in cash.

**Construction in progress**

Construction in progress relates to self-built systems for development laboratories.

## 13. Intangible assets

### Development of intangible assets

In EUR thousands	Goodwill	Other intangible assets	Total
<b>Cost</b>			
Balance at January 1, 2005	19,928	9,236	29,164
Acquisitions through business combinations	62,890	24,316	87,206
Acquisitions	77	3,869	3,946
Disposals	0	301	301
Effect of movements in exchange rates	8,885	3,323	12,208
<b>Balance at December 31, 2005</b>	<b>91,780</b>	<b>40,443</b>	<b>132,223</b>
Balance at January 1, 2006	91,780	40,443	132,223
Acquisitions	0	184	184
Subsequent fair value adjustments from business combinations	(397)	0	(397)
Disposals	0	2	2
Effect of movements in exchange rates	(6,901)	(2,765)	(9,666)
<b>Balance at December 31, 2006</b>	<b>84,482</b>	<b>37,860</b>	<b>122,342</b>
<b>Amortisation and impairment losses</b>			
Balance at January 1, 2005	6,295	4,941	11,236
Depreciation charge for the year	0	4,281	4,281
Impairment losses	13,782	11,247	25,029
Disposals	0	273	273
Effect of movements in exchange rates	701	481	1,182
<b>Balance at December 31, 2005</b>	<b>20,778</b>	<b>20,677</b>	<b>41,455</b>
Balance at January 1, 2006	20,778	20,677	41,455
Depreciation charge for the year	0	3,363	3,363
Disposals	0	2	2
Effect of movements in exchange rates	(1,348)	(1,275)	(2,623)
<b>Balance at December 31, 2006</b>	<b>19,430</b>	<b>22,763</b>	<b>42,193</b>
<b>Carrying amounts</b>			
At January 1, 2005	13,633	4,295	17,928
<b>At December 31, 2005</b>	<b>71,002</b>	<b>19,766</b>	<b>90,768</b>
At January 1, 2006	71,002	19,766	90,768
<b>At December 31, 2006</b>	<b>65,052</b>	<b>15,097</b>	<b>80,149</b>

### Major intangible assets

In 2005 AIXTRON acquired the customer base and product and technology know how of Genus. These assets are included in additions through business combinations for 2005. The customer base and product and technology know how will be amortised over a remaining period of about five and five to six years respectively. The following table shows the development of net book values of these intangible assets at the balance sheet dates:

in EUR thousands	Customer base	Product and technology know how
Carrying amount January 1, 2005	0	0
Additions through business combinations	9,239	15,076
Amortisation	1,339	2,094
Impairment	1,866	5,680
Effect from currency translation	1,110	1,689
<b>Carrying amount December 31, 2005</b>	<b>7,144</b>	<b>8,991</b>
Carrying amount January 1, 2006	7,144	8,991
Amortisation	1,307	1,428
Effect from currency translation	(669)	(851)
<b>Carrying amount December 31, 2006</b>	<b>5,168</b>	<b>6,712</b>

### Amortisation and impairment expenses for other intangible assets

Amortisation and impairment expenses for other intangible assets are recognised in the income statement as follows:

in EUR thousands	2006		2005		2004	
	Amorti- sation	Impair- ment	Amorti- sation	Impair- ment	Amorti- sation	Impair- ment
Cost of sales	1,300	0	2,215	5,680	306	0
Selling expenses	1,445	0	1,414	1,866	10	0
General administration expenses	206	0	195	0	127	0
Research and development costs	412	0	457	3,701	447	0
	<b>3,363</b>	<b>0</b>	<b>4,281</b>	<b>11,247</b>	<b>890</b>	<b>0</b>

In 2005, an impairment loss of kEUR 3,701 was charged on intangible assets. It relates to additions to patents and production methods in 2005. Due to changed market conditions in respect of these intangible assets it was not possible to reliably determine the economic benefit to be received in future periods. As a result an impairment loss was recognised.



Furthermore during 2005, market studies showed that the sales markets for specific AIXTRON technologies will be available to the Company only at a date later than previously anticipated. Considering this fact, AIXTRON performed an impairment test for developed technologies acquired from Genus in 2005. On the basis of these tests an impairment of kEUR 5,680 to the lower value in use was recognised in 2005.

In 2005, AIXTRON also realised an impairment loss of kEUR 1,866 on the customer base acquired from Genus as the flows of economic benefit attributable to these customers at the balance sheet date no longer reflect the original planning at the date of acquisition.

No reversals were made in 2006 or 2005.

The amortisation expected to be charged on other intangible assets in the future years is as follows:

in EUR thousands

2007	3,103
2008	3,015
2009	2,990
2010	2,974
2011	1,692

The actual amortisation can differ from the expected amortisation.

### Impairment of goodwill

The carrying amount of goodwill at the balance sheet date by entity is as follows:

in EUR thousands	2006	2005
AIXTRON, Inc. (doing business as Genus)	50,807	57,032
Thomas Swan Scientific Equipment Ltd.	12,267	11,992
Epigress AB	1,791	1,791
AIXTRON KK	187	187
	<b>65,052</b>	<b>71,002</b>

The impairment test for cash generating units is based on projections of cash flows on the basis of the latest business plan. To evaluate the present value AIXTRON estimated the cash inflows for the period following the planning period of three to five years by carrying forward an estimated growth rate, which is based on individual market studies for the following years. The value in use for each cash generating unit was calculated, using a discounted cash flow. A pre-tax discount rate of 15% for Genus and 13% for other cash generating units was applied in discounting the projected cash flows. The resulting value in use was compared to the carrying amount of the cash generating unit.

In 2006 no impairment of goodwill was required.

In 2005 the comparison of the carrying amount with the value in use showed that an impairment of the Genus goodwill of kEUR 13.705 was needed. Impairments in respect of the goodwill of Thomas Swan Scientific Equipment Ltd., Epigress AB and AIXTRON KK were not necessary.

## 14. Investment property

The net book value at the balance sheet date of investment property amounted to kEUR 4,908 (2005: kEUR 4,908). Investment property relates to undeveloped land held for a purpose not yet determined. It may be used for a possible extension of production capacity. The carrying amount is determined using the cost model. The fair value is equal to the carrying amount. The fair value of the land at December 31, 2006 was determined using related standard land values.

## 15. Other non-current assets

Other non-current assets totalling kEUR 671 (2005: kEUR 499) include mainly rent deposits for buildings.

## 16. Deferred tax assets and liabilities

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

in EUR thousands	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Property, plant and equipment	149	25	(20)	0	129	25
Trade receivables	605	0	(55)	(30)	550	(30)
Inventories	1,152	763	0	0	1,152	763
Employee benefits	155	167	0	0	155	167
Deferred revenues	60	155	(144)	0	(84)	155
Currency translation differences	0	0	0	0	0	0
Provisions and other liabilities	200	0	(395)	(209)	(195)	(209)
Customer advances	0	27	(220)	0	(220)	27
Other	18	18	(348)	(150)	(330)	(132)
Tax loss carryforwards	4,503	5,481	0	0	4,503	5,481
Derivative financial instruments	0	84	(280)	0	(280)	84
<b>Deferred tax assets (+)</b>	<b>6,842</b>	<b>6,720</b>	<b>(1,462)</b>	<b>(389)</b>	<b>5,380</b>	<b>6,331</b>
<b>liabilities (-)</b>						

Deferred tax assets are recognised at the level of individual consolidated companies, in which a loss was realised in the current or preceding financial year, only to the extent that realisation in future periods is probable. The nature of the evidence used in assessing the probability of realisation includes forecasts, budgets and the recent profitability of the relevant entity. The carrying amount of deferred tax assets for entities which have made a loss in either the current or preceding year was kEUR 5,599 (2005: kEUR 5,727).

Deferred taxes for tax losses in the amount of kEUR 57,355 (2005: kEUR 72,138) and on deductible temporary differences in the amount of kEUR 11,748 (2005: kEUR 5,400) were not recognised. Tax losses in the amount of kEUR 18,761 can be used indefinitely (2005: kEUR 19,844), kEUR 8,290 expire by 2011 (2005: 11,783 by 2010) and kEUR 30,304 expire after 2011 (2005: kEUR 40,511 after 2010).

The following table shows the development of temporary differences during the financial year:

in EUR thousands	Balance at January 1, 2005	Recognised in income statement	Directly recognised in equity	Balance at December 31, 2005
Property, plant and equipment	0	25	0	25
Trade receivables	197	(227)	0	(30)
Inventories	218	545	0	763
Provisions for pensions	62	105	0	167
Deferred revenues	1,748	(1,593)	0	155
Currency adjustment	44	0	(44)	0
Provisions and other liabilities	(388)	179	0	(209)
Customer advances	(460)	487	0	27
Other	(26)	(106)	0	(132)
Derivative financial instruments	(1,031)	251	864	84
Tax loss carryforward	5,458	23	0	5,481
	<b>5,822</b>	<b>(311)</b>	<b>820</b>	<b>6,331</b>

in EUR thousands	Balance at January 1, 2006	Recognised in income statement	Directly recognised in equity	Balance at December 31, 2006
Property, plant and equipment	25	104	0	129
Trade receivables	(30)	580	0	550
Inventories	763	389	0	1,152
Provisions for pensions	167	(12)	0	155
Deferred revenues	155	(239)	0	(84)
Currency adjustment	0	0	0	0
Provisions and other liabilities	(209)	14	0	(195)
Customer advances	27	(247)	0	(220)
Other	(132)	(198)	0	(330)
Derivative financial instruments	84	(66)	(298)	(280)
Tax loss carryforwards	5,481	(978)	0	4,503
	<b>6,331</b>	<b>(653)</b>	<b>(298)</b>	<b>5,380</b>

## 17. Long-term receivables from current tax

Long-term receivables from current tax include a receivable from corporate tax which will be refunded in equal payments over a period of ten years. The payments can be claimed at the beginning of each calendar year, starting January 1, 2008. Due to change in German corporate tax law the receivable was to be recognised as an asset at December 31, 2006.

## 18. Inventories

in EUR thousands	2006	2005
Raw materials and supplies	19,993	13,075
Work in process	27,701	14,953
Finished goods and services completed	699	3,029
Inventories at customers' locations	4,756	2,056
	<b>53,149</b>	<b>33,113</b>

in EUR thousands	2006	2005
Write-down of inventories during the year	1,915	3,685
Inventories measured at net realisable value	13,023	1,308
Inventories recognised as an expense during the period	82,792	78,487
Reversals of write-downs recognised during the year	992	89

Inventories already shipped to customers but for which final customer acceptance is outstanding are presented as inventory at customers' locations.

Due to changes in the possibilities to use inventories, write-downs of kEUR 992 (2005: kEUR 89) on inventories were reversed and recognised in income in the financial year.

## 19. Trade receivables and other current receivables

in EUR thousands	2006	2005
Trade receivables	27,988	24,654
Allowances for doubtful accounts	(311)	(445)
<b>Trade receivables – net</b>	<b>27,677</b>	<b>24,209</b>
Prepaid expenses	1,005	1,067
Reimbursement of research and development costs	1,080	648
Advance payments for inventory	68	403
VAT refund claims	768	253
Other assets	674	1,499
Fair values of financial derivatives through profit and loss	142	5
Fair values of financial derivatives through equity	713	0
<b>Total other current receivables</b>	<b>4,450</b>	<b>3,875</b>
<b>Total current assets</b>	<b>32,127</b>	<b>28,084</b>

Additions to allowances on trade receivables are included in other operating expenses, releases of allowances are included in other operating income. Allowances on receivables developed as follows:

in EUR thousands	2006	2005
Allowance at January 1	445	355
Translation adjustments	(17)	0
Additions	199	147
Changes in reporting entities	0	58
Used	(262)	0
Releases	(54)	(115)
<b>Allowance at December 31</b>	<b>311</b>	<b>445</b>

## 20. Other financial assets

Other financial assets include fixed deposit with banks with a maturity of six months.

## 21. Cash and cash equivalents

in EUR thousands	2006	2005
Cash-in-hand	5	6
Short term securities	64	5,032
Bank balances	46,682	26,397
<b>Cash and cash equivalents in the consolidated cash flow statement</b>	<b>46,751</b>	<b>31,435</b>

Bank balances included kEUR 325 (2005: kEUR 214) given as security.

## 22. Shareholders' Equity

### Subscribed capital

	2006	2005
January 1	87,796,614	64,831,512
Capital increase as part of Genus acquisition	0	20,539,956
Shares for conversion of Genus convertible bonds	0	2,383,920
Shares for exercise of stock options	39,540	41,226
<b>Issued capital at December 31, under IFRS</b>	<b>87,836,154</b>	<b>87,796,614</b>
Treasury shares	1,963,243	2,002,783
<b>Stated share capital at December 31</b>	<b>89,799,397</b>	<b>89,799,397</b>

The share capital of the company consists of no-par value shares and was fully paid-up during 2006 and 2005. Each share represents a portion of the share capital in the amount of EUR 1.00.

Treasury shares were contributed into a trust, as part of the Genus acquisition for the exercise of Genus stock and other options and for conversion of bonds.

AIXTRON AG cannot dispose of the trust assets. Contrary to German Commercial Code and Company Law, IFRS (SIC 12) prescribes an allocation of the trust assets to AIXTRON AG. In the IFRS financial statements the shares held in this trust are therefore shown as treasury shares and deducted from the stated share capital.

Both the authorised capital I and the authorised capital II have remained unchanged compared to December 31, 2005.

At December 31, 2006, AIXTRON AG's Executive Board is authorised:

- to increase, with the consent of the Supervisory Board, AIXTRON's stated share capital at any time or from time to time on or before May 17, 2010 by up to EUR 35,919,751.00 by issuing against either cash contribution or contribution in kind new registered no-par value shares with a proportional amount of EUR 1.00 per share in the share capital (Authorised Capital I). In this event, the shareholders must be granted a pre-emptive right. However, the Executive Board is authorised, with the consent of the Supervisory Board, to exclude, in whole or in part, the shareholders' pre-emptive right.
- to increase, with the consent of the Supervisory Board, AIXTRON's stated share capital at any time or from time to time on or before May 17, 2010 by up to EUR 8,979,937.00 by issuing against cash contributions new registered shares without par value with a proportional amount of EUR 1.00 per share in the share capital (Authorised Capital II). In this case, the shareholders must be granted a pre-emptive right. However, the Executive Board is authorised, with the consent of the Supervisory Board, to exclude, in whole or in part, the shareholders' pre-emptive right.

The Executive Board is also authorised, with the consent of the Supervisory Board, to define the rights embodied in a share and the other conditions and terms of the issuance of shares.

### Paid-in capital

Paid-in capital mainly includes the premium on increases of subscribed capital as well as cumulative expense for share-based payments.

### Income and expenses recognised in equity

in EUR thousands	Currency translation	Derivative financial instruments	Total
<b>Balance at December 31, 2003</b>	<b>(2,244)</b>	<b>1,469</b>	<b>(775)</b>
Change in currency translation	48	0	48
Change in unrealised gains/losses before taxes	0	(308)	(308)
Deferred taxes	0	163	163
<b>Balance at December 31, 2004</b>	<b>(2,196)</b>	<b>1,324</b>	<b>(872)</b>
Change in currency translation	11,616	0	11,616
Change in unrealised gains/losses before taxes	0	(2,493)	(2,493)
Deferred taxes	0	864	864
<b>Balance at December 31, 2005</b>	<b>9,420</b>	<b>(305)</b>	<b>9,115</b>
Change in currency translation	(7,871)	0	(7,871)
Change in unrealised gains/losses before taxes	0	1,122	1,122
Deferred taxes	0	(298)	(298)
<b>Balance at December 31, 2006</b>	<b>1,549</b>	<b>519</b>	<b>2,068</b>

The foreign currency translation adjustment comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries whose functional currency is not the EUR.

The item “derivative financial instruments“ comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. The effect of forward points on currency contracts is excluded from the valuation.

## 23. Earnings per share

### Basic earnings per share

The calculation of the basic earnings per share at December 31, 2006, is based on the weighted-average number of common shares outstanding during the reporting period.

### Diluted earnings per share

The calculation of the diluted earnings per share at December 31, 2006 is based on the weighted-average number of outstanding common shares and ADS and of common shares and ADS with a possible dilutive effect resulting from share options being exercised under the share option plan and in connection with the conversion of issued convertible bonds and other options.

	2006	2005	2004
<b>Earnings per share</b>			
Net profit/loss attributable to the shareholders of AIXTRON AG in kEUR	5,857	(53,468)	7,681
Weighted average number of common shares and ADS at December 31	87,824,321	82,111,081	64,831,512
<b>Earnings per share in EUR (basic)</b>	<b>0,07</b>	<b>(0,65)</b>	<b>0,12</b>
<b>Earnings per share (diluted)</b>			
Net profit/loss attributable to the shareholders of AIXTRON AG in kEUR	5,857	(53,468)	7,681
Weighted average number of common shares and ADS at December 31	87,824,321	82,111,081	64,831,512
Dilutive effect of convertible bonds	25,440	0	25,440
Dilutive effect of share options	52,938	0	308,294
Weighted average number of common shares and ADS at December 31 (diluted)	87,902,699	82,111,081	65,165,246
<b>Earnings per share in EUR (diluted)</b>	<b>0,07</b>	<b>(0,65)</b>	<b>0,12</b>



The following securities issued were not included in the computation of the diluted earnings per share, as their effect would be anti-dilutive:

Number of shares	2006	2005	2004
Share options	5,681,172	5,357,986	3,377,161
Convertible bonds	0	25,440	0
	<b>5,681,172</b>	<b>5,383,426</b>	<b>3,377,161</b>

## 24. Employee benefits

### Defined contribution plan

The Company grants retirement benefits to qualified employees through various defined contribution pension plans. The expenses incurred for defined contribution plans mainly arise from two pension plans in subsidiaries. The contributions made do not exceed 6% or 10% of qualified employees' base salaries. In 2006 the expense recognised for defined contribution plans amounted to kEUR 701 (2005: kEUR 151, 2004: kEUR 0). This includes kEUR 4 (2005: kEUR 4, 2004: kEUR 0) contributed for a member of the executive board of the company.

In 2006 the company contributed kEUR 1,268 (2005: kEUR 1,344, 2004: kEUR 1,211) to state pension plans.

### Defined benefit plan

The Company's net obligation in respect of defined benefit pension plans reflects commitments to two former members of the Executive Board of AIXTRON AG. These are final salary plans. Provisions for pensions developed as follows:

in EUR thousands	2006	2005
Present value of net obligations at January 1	978	703
Expense recognised in consolidated income statement (see below)	5	275
<b>Present value of net obligations at December 31 = Total provisions for pensions at December 31</b>	<b>983</b>	<b>978</b>

The expense for pensions developed as follows:

in EUR thousands	2006	2005	2004
Interest expense	42	38	37
Actuarial gains and losses	(37)	237	0
	<b>5</b>	<b>275</b>	<b>37</b>

In the income statement, the expense of kEUR 5 (2005: kEUR 275; 2004: kEUR 37) is recognised in general administration expense.

**Actuarial gains and losses include:**

in EUR thousands	<b>2006</b>
Experience adjustments	(5)
Change in basis for actuarial calculations	(32)
<b>Actuarial gain</b>	<b>(37)</b>

The following table shows the principal actuarial assumptions:

Biometrical calculation assumptions	<b>2006 Heubeck tables 2005 G</b>	<b>2005 Heubeck tables 1998</b>
Interest rate at December 31	4.50%	4.35%
Expected salary increase	0.00%	0.00%
Expected pension increase	1.50%	1.50%

In the three years ending 2006 no payments were made under these plans. The Company assumes that there will be no pension payments in the next ten years. The value of the obligations from pension plans is determined annually at December 31.

**25. Share-based payment**

The Company has different fixed option plans which reserve shares of common stock and AIXTRON American Depository Shares (ADS) for issuance to members of the Executive Board, management and employees of the Company. Each AIXTRON ADS represents the beneficial ownership in one AIXTRON common share. The following is a description of these plans:

**AIXTRON stock option plan 1999**

In May 1999, options were authorized to purchase 3,000,000 shares of common stock (after giving effect to capital increases, stock splits, and the EURO conversion). The options are exercisable in equal instalments of 25% per year after the second anniversary of the date of grant, subject to certain conditions. Vested options are only permitted to be exercised when the performance of the AIXTRON stock exceeds the performance of the Technology AS Price Index (formerly the New Market Index) by at least 5% in the reference period or when the turnover reported by AIXTRON rises by at least 25% per year and the profit/revenue ratio is at least 12%. Regardless of fulfilment of these conditions, the stock options can be exercised when 15 years have elapsed. Under the terms of the 1999 plan, options are granted at prices equal to the average closing price over the last 20 trading days on the Frankfurt Stock Exchange before the grant date. All options are settled by physical delivery of shares. Upon exercise of options new shares are issued. Under this plan 1,245,151 options for the purchase of 1,926,005 common shares were outstanding as of December 31, 2006.

In 2002, options were granted with the exercise price slightly less than fair market value. Fair market value is determined based upon the closing trading price on grant date.

### **AIXTRON stock option plan 2002**

In May 2002, options were authorized to purchase 3,511,495 shares of common stock. The options are exercisable in equal instalments of 25% per year after the second anniversary of the date of grant, subject to certain conditions. Options expire ten years from date of grant. Under the terms of the 2002 plan, options are granted at prices equal to the average closing price over the last 20 trading days on the Frankfurt Stock Exchange before the grant date, plus a premium of 20% over the average closing price. No grants were issued with a strike price less than fair market value. All options are settled by physical delivery of shares. Upon exercise of options new shares are issued. A total of 3,134,560 options to purchase the same number of common stock were outstanding under this plan as of December 31, 2006.

### **Genus stock option plan 2000**

With the acquisition of Genus, Inc. the company adopted the Genus Incentive Stock Option Plan 2000. Under this plan at the date of acquisition options were authorized to purchase 3,948,014 shares of common stock. At the date of acquisition these were converted into options to purchase 2,013,487 AIXTRON ADS. Options granted before October 3, 2003 vest over a three-year-period and expire five years from the date of grant. Options granted after October 3, 2003 vest over a four-year-period and expire in ten years from the date of grant.

A total of 994,469 options to purchase AIXTRON ADS were outstanding under this plan as of December 31, 2006. Upon exercise of options new shares are issued from the trust (see note 22).

## Summary of stock option transactions

### AIXTRON share options

	Number of shares	Average exercise price (EUR)	Number of shares	Average exercise price (EUR)
	2006		2005	
Balance at January 1	3,932,501	16.46	4,254,331	16.12
Granted during the year	1,616,100	3.83	0	0.00
Exercised during the year	0	0.00	0	0.00
Expired during the year	0	0.00	0	0.00
Forfeited during the year	488,036	11.23	321,830	11.99
<b>Outstanding at December 31</b>	<b>5,060,565</b>	<b>12.93</b>	<b>3,932,501</b>	<b>16.46</b>
<b>Exercisable at December 31</b>	<b>1,073,466</b>	<b>15.80</b>	<b>716,480</b>	<b>21.85</b>

### Genus share options

	Number of shares	Average exercise price (USD)	Number of shares	Average exercise price (USD)
	2006		2005	
Balance at January 1	1,365,076	5.47	0	0.00
Addition Genus options	0	0.00	2,013,487	6.19
Granted during the year	0	0.00	0	0.00
Exercised during the year	39,540	2.61	41,226	2.53
Expired during the year	179,669	5.51	178,413	13.11
Forfeited during the year	151,398	5.98	428,772	5.95
<b>Outstanding at December 31</b>	<b>994,469</b>	<b>5.47</b>	<b>1,365,076</b>	<b>5.47</b>
<b>Exercisable at December 31</b>	<b>766,051</b>	<b>5.54</b>	<b>938,036</b>	<b>5.37</b>

The weighted-average share price of the options exercised was US\$ 4.54. The intrinsic value of options exercised amounted to kUSD 76.

The employees of Genus Inc. held 1,949,939 stock options representing the right to receive 994,469 ADS of AIXTRON AG as of December 31, 2006. As part of the Genus, Inc. transaction, a trust for the employee stock options of Genus Inc. was set up, into which ADS of AIXTRON AG were deposited after the capital increase on March 14, 2005.

**AIXTRON stock options as of December 31, 2006**

<b>Exercise price (EUR)</b>	<b>Outstanding</b>	<b>Exercisable</b>	<b>Average option life (in years)</b>
3.10	681,330	340,665	6.5
3.83	1,559,900	0	9.5
6.17	893,330	223,333	7.5
7.48	684,005	0	10.5
18.70	406,824	406,824	7.5
26.93	424,600	0	9.5
67.39	410,576	102,644	8.5
	<b>5,060,565</b>	<b>1,073,466</b>	

**Genus stock options at December 31, 2006**

<b>Range of exercise prices (USD)</b>	<b>Average exercise price (USD)</b>	<b>Outstanding</b>	<b>Exercisable</b>	<b>Average option life (in years)</b>
2.10 to 2.53	2.52	106,662	106,662	0.8
3.45 to 4.84	3.63	298,565	162,140	7.5
5.00 to 6.90	5.14	233,262	220,477	1.7
7.20 to 9.41	8.01	346,290	269,451	6.9
11.53 to 12.73	11.99	9,690	7,321	6.9
		<b>994,469</b>	<b>766,051</b>	

**Assumptions used to calculate fair values and share-based payment expenses**

The fair value of services received in return for stock options granted is measured by reference to the fair value of the stock options granted. The fair value of the stock options is determined on the basis of a binomial lattice model. In accordance with IFRS 2 the measurement includes only options which were granted after November 7, 2002. In 2006, the personnel expenses from share-based payments were kEUR 1,450 (2005: kEUR 1,801; 2004: kEUR 1,041). As at December 31, 2006 an amount of kEUR 3,126 relating to stock options granted prior to that date has not yet been recognised as a personnel expense. This amount will be charged over the period to 2011. The expected allocation of the expense is as follows: 2007: kEUR 1,404, 2008: kEUR 937, 2009: kEUR 487 and after 2009: kEUR 298.

**AIXTRON share options granted**

	<b>in 2006</b>	<b>in 2004</b>	<b>in 2003</b>
<b>Fair value on grant date</b>	<b>1.53 €</b>	<b>3.08 €</b>	<b>1.78 €</b>
Price per share	2.71 €	4.84 €	2.79 €
Exercise price	3.83 €	6.17 €	3.10 €
Expected volatility	65.59%	73.54%	73.76%
Option life	10.5 years	10.5 years	10.5 years
Expected dividend payments	0.00 €	0.00 €	0.00 €
Risk-free interest rate	3.90%	4.38%	4.40%

**Genus share options granted**

	<b>in 2005</b>	<b>in 2004</b>	<b>before 2004</b>
<b>Average fair value on grant date</b>	<b>1.30 \$</b>	<b>1.65 \$</b>	<b>2.68 \$</b>
Average price per share	2.04 \$	2.51 \$	3.97 \$
Average exercise price	2.04 \$	2.51 \$	3.97 \$
Average expected volatility	91.76%	95.38%	104.20%
Average option life	10 years	10 years	9.53 years
Average expected dividend payments	0.00 \$	0.00 \$	0.00 \$
Average risk-free interest rate	4.11%	4.27%	4.18%

The expected volatility is based on historic volatility.

## 26. Provisions

Development and breakdown of provisions:

in EUR thousands	01/01/ 2006	Exchange rate differences	Usage	Reversal	Addition	31/12/ 2006	thereof short term
Provisions for pensions	978	0	0	0	5	983	0
Provisions for personnel expenses	1,885	(73)	1,495	116	2,373	2,574	2,574
Warranties	2,195	(46)	1,390	473	1,708	1,994	1,994
Onerous contracts	3,940	(265)	1,219	0	111	2,567	605
Provisions for commissions	1,266	(31)	1,009	84	1,605	1,747	1,747
Hedges	1,567	22	1,300	289	0	0	0
Other	6,301	(383)	4,972	633	5,426	5,739	5,671
<b>Total</b>	<b>18,132</b>	<b>(776)</b>	<b>11,385</b>	<b>1,595</b>	<b>11,228</b>	<b>15,604</b>	<b>12,591</b>
						thereof long term	3,013
							15,604

### Provisions for pensions

The provisions for pensions are commented on in note 24.

### Provisions for personnel expenses

These include mainly provisions for holiday not yet taken and bonuses.

### Provisions for onerous contracts

These include provisions for contracts connected with obligations, including e.g. rent payable and contract risks.

### Provisions for hedge transactions

For further details on the provisions for hedge transactions, please see note 29.

### Other provisions

Other provisions include auditors fees in the amount of kEUR 987.

## 27. Trade payables and other current liabilities

The liabilities consist of the following:

in EUR thousands	2006	2005
<b>Trade payables</b>	<b>29,926</b>	<b>17,479</b>
Other liabilities from grants	570	1,427
Wage and church tax due, social security contributions	434	839
VAT due	221	1,329
Other liabilities	218	354
	<b>1,443</b>	<b>3,949</b>
	<b>31,369</b>	<b>21,428</b>

## 28. Convertible bonds and options

Liabilities from convertible bonds remain unchanged from the previous year and amount to kEUR 3.

In November 1997, the Company issued 6% convertible bonds to employees, due November 2007, with a principal amount of kEUR 320, interest payable annually in arrears. The bonds are not transferable and must be repurchased at par if the employee leaves the Company. The notes are convertible, at the option of the holder, into shares of common stock, initially at a conversion rate of 480 shares (after the effects of share splits) of common stock for each EUR 51.13 principal amount of notes plus payment of an additional EUR 971.45, subject to adjustment in certain circumstances. The right to convert expires at the end of the life of the bond in November 2007. The conversion feature was not deemed to be beneficial at issuance.

During 2006 and 2005 no bonds were converted into common stock.

The remaining outstanding convertible bonds as of December 31, 2006, amounting to kEUR 3 can be converted, at the option of the holders, into 25,440 shares of common stock through November 2007.

As part of the acquisition of Genus the Company assumed liabilities from convertible bonds at total par value of kEUR 4,807 (kUS\$ 6,450) and at an interest rate of 7%. The convertible bonds were issued by Genus in August 2002 and had a maturity term of three years. The interest was due every six months in February and in August and could be paid, at the option of Genus either in cash or in shares of common stock. The holder of the notes had the option to either convert the note into shares of Genus common stock at a conversion rate of one Genus share for each USD 1.42 principal amount of notes, or to demand that there be a repayment in cash at the due date in August 2005. The option of conversion into Genus stock shares was changed, at the date of the Genus acquisition, into a right to convert each Genus stock share into a 0.51 AIXTRON ADS. For this purpose the required AIXTRON ADS were contributed into the trust property as part of the acquisition (see note 22).



In August 2005, the convertible bonds and the interest incurred since March 13, 2005 were completely settled by way of conversion into AIXTRON ADS. In this conversion 2,383,920 ADS from the trust were issued to the holder of the convertible bonds. As a result no liability from the Genus convertible bond existed at December 31, 2005 or December 31, 2006.

As part of the acquisition of Genus, liabilities for additional options over 60,409 ADS were assumed. These options were still outstanding as of December 31, 2005. The options were held by unrelated third parties. Their weighted-average exercise price was US\$ 9.95 per ADS. The options expired on May 13, 2006 without being exercised.

## 29. Financial instruments

Exposure to credit risk, interest rate risks and currency risks arises in the normal course of the Company's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates.

### Credit risks

Financial assets generally exposed to a credit risk are trade receivables and cash and cash equivalents. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Due to the worldwide spread of risks, there is a diversification of the credit risk for trade receivables. Generally, the Company demands no securities for financial assets. However, a credit rating takes place for customers whose debts exceed a specific amount. In accordance with usual business practice, irrevocable letters of credit are requested from customers in Asia after award of the contract. Allowances are recognised for the risk of bad debt losses. In the opinion of the management, the risk of further bad debt losses from customer contracts is low.

In 2006, sales to AIXTRON's two largest customers accounted for 16.0% and 13.2% of revenues respectively (2005: one customer, 16.5%; 2004: one customer, 14.6%). No other customers accounted for more than 10% of sales in any of these three years.

The Company's cash and cash equivalents are kept with banks which have a good reputation.

### Interest rate risk

The Company is subject only to minor interest rate fluctuations relating to interest rate influenced cash and cash equivalents, short term investments, bank loans and convertible bonds.

### Foreign currency risk

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates. The Company enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk, including forward exchange contracts to hedge the exchange rate risk arising on the export of equipment. The main exchange rates giving rise to the risk are those between the U.S. dollar, pound sterling and Euro.

The Company's use of derivative financial instruments is governed by the Company's policies approved by the board of directors which provide principles on foreign exchange rate risk and the use of derivative financial instruments. Exposures are reviewed on a regular basis. The Company does not enter derivative financial instruments for trading purposes. Exposure to exchange rate risk is managed by the Company through sensitivity analysis.

It is the Company's policy to enter into forward foreign exchange contracts to cover specific foreign currency receipts within the range of 80 to 90 per cent of the expected exposure. The Company also enters forward foreign exchange contracts to manage the risk associated with anticipated sales transactions out to 15 months within 50 to 60 per cent of the exposure generated. All foreign exchange contracts mature before the end of 2007.

### Cash flow hedges

The criteria that AIXTRON applies when determining whether a hedge is effective and qualifies for cash flow hedge accounting under IAS 39 are, that the required documentation is in place and that the hedges are effective and continue to be effective. Effectiveness is measured both prospectively and retrospectively each quarter. The measurement of hedge effectiveness is the extent to which the fair value of the hedging instrument is effective in hedging movements in the expected values of the hedged item. This calculation is done using a simple ratio analysis. To be effective the ratio must fall within the range of 80% to 125%. The forward point element of the fair value of hedging instruments is excluded from the assessment of effectiveness and is recorded in the income statement as a financing cost. Hedge contracts and its changes in fair values that cease to qualify for cash flow hedge accounting are accounted for through profit and loss.

The amount of the gain on cash flow hedges classified as effective was kEUR 745 as of December 31, 2006 (2005: kEUR (377); 2004: kEUR 2,116) and was recognised in income and expenses recognised in equity.

The following table shows the development of the fair values, taking into account deferred taxes.

in EUR thousands	2006	2005	2004
Notional amount of forward exchange contracts	14,414	5,419	32,911
Unrealised gains/(losses) on forward exchange contracts before taxes	745	(377)	2,116
Deferred taxes	(226)	72	(792)
<b>Unrealised gains/(losses) included in income and expenses recognised in equity</b>	<b>519</b>	<b>(305)</b>	<b>1,324</b>

The unrealised losses (kEUR 377) included in income and expenses recognised in equity as of December 31, 2005 were fully reversed and recognised in income statement at maturity date of the contract in 2006. The losses actually realised in 2006 were kEUR 149.

Cash flow hedges existing at December 31, 2006 that qualified for cash flow hedge accounting were 100% effective; for these transactions no gain or loss is recognised in income statement.

In 2005 losses from ineffective cash flow hedges in the amount of kEUR 258 were recognised in income statement. The nominal value of these financial instruments were kEUR 6,325.

The nominal value of the cash flow hedges to which no hedge accounting was applied at the balance sheet date was kEUR 30,340 (2005: kEUR 12,101). The gains from the market assessment as of December 31, 2006, were kEUR 142 (2005: kEUR (522)).

### Fair value hedges

At December 31, 2006 no fair value hedges existed. At December 31, 2005 losses arising on the measurement of fair value hedges (nominal value kEUR 6,135) were kEUR 410 and were included in other operating expenses (see note 7). Furthermore, gains of kEUR 5 recognised as income arose from forward exchange contracts with a nominal value of kEUR 1,335.

### Fair values

The fair values and the carrying amounts of the financial instruments shown in the balance sheet are as follows:

	Carrying amount	Fair value	Carrying amount	Fair value
in EUR thousands	2006	2006	2005	2005
Cash and cash equivalents	46,751	46,751	31,435	31,435
Other financial assets	2,781	2,781	0	0
Other non-current assets	671	671	499	499
Trade receivables	27,677	27,677	24,209	24,209
Other current assets	1,754	1,754	2,147	2,147
Other current liabilities	76	76	176	176
Fair values of financial derivatives through profit and loss	142	142	(1,185)	(1,185)
Fair values of financial derivatives through equity	713	713	(377)	(377)
Trade payables	29,926	29,926	17,479	17,479
Current liabilities	218	218	354	354
Convertible bonds	3	3	3	3
<b>Gains/(losses) not recognised</b>		<b>0</b>		<b>0</b>

### Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

### Derivatives

The fair value is the estimated amount that a bank would receive or pay to terminate the derivative contracts at the reporting date, taking into account current exchange rates, volatility and the credit-worthiness of the counterparties (mark-to-market).

**Convertible bonds**

The fair value is based on quoted market prices, if available.

**Trade receivables/payables**

For trade receivables/payables due within less than one year, the fair value is taken to be the face value. All other receivables/payables are discounted to determine the fair value.

**30. Operating leases****Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

in EUR thousands	2006
2007	2,262
2008	2,140
2009	1,883
2010	1,932
2011	1,911
after 2011	2,180
	<b>12,308</b>

The Company leases certain office and plant facilities, office furniture and motor vehicles under various operating leases. Under most of the lease commitments for office and plant facilities the Company has options to renew the leasing contracts. The leases typically run for a period between one and fifteen years. None of the leases include contingent rentals.

The expenses for leasing contracts were kEUR 2,004, kEUR 2,075 and kEUR 746 for 2006, 2005 and 2004, respectively.

**31. Capital commitments**

As of December 31, 2006, the Company had entered into purchase commitments with suppliers in the amount of kEUR 23,377 (2005: kEUR 10,745) for purchases within the next 12 months. Commitments for capital expenditures are kEUR 44 (2005: kEUR 0) as of December 31, 2006.

**32. Contingencies**

The Company is involved in various legal proceedings or can be exposed to a threat of legal proceedings in the normal course of business. The Executive Board regularly analyses these matters, considering any possibilities of avoiding legal proceedings or of covering potential damages under insurance contracts and has recognised, where required, appropriate provisions. The Company grants to individual customers advance payment guarantees generally existing only for a limited period of time and reflecting normal business conduct. It is not expected that such matters will have a material effect on the Company's net assets, results of operations and financial position.

## 33. Related parties

### Identity of related parties

Related parties of the Company are members of the executive board and members of the supervisory board.

### Remuneration of Executive Board

Active members of the executive board are remunerated as follows:

in EUR thousands	2006	2005
Short-term employee benefits	1,538	1,078
Post-employment benefits	128	120
Other long-term benefits	0	220
<b>Total cash compensation</b>	<b>1,666</b>	<b>1,418</b>
Share-based payment	184	295
<b>Total compensation</b>	<b>1,850</b>	<b>1,713</b>

The following table shows the remuneration of the Executive Board for each individual member in 2006:

in EUR thousands	Fixed	Premium for Pension Provision	Other*	Variable	Total Cash Remuneration	Stock-based Remuneration	Total Remuneration
<b>Executive Board Member</b>							
Paul Hyland	311	40	10	176	537	52	589
Wolfgang Breme	223	40	9	88	360	13	373
Dr. Bernd Schulte	260	40	11	88	399	52	451
Dr. William W. R. Elder	287	8	16	59	370	67	437
<b>Total</b>	<b>1,081</b>	<b>128</b>	<b>46</b>	<b>411</b>	<b>1,666</b>	<b>184</b>	<b>1,850</b>

\* benefits in kind

Post-employment benefits include benefits granted for private retirement arrangements.

Furthermore members of the executive board received 220,000 stock options in 2006. The fair value at grant date was EUR 1.53.

Share-based payment as shown in the above table is based on the fair value at grant date. As set out in IFRS 2, the fair value of the options issued after November 7, 2002 is also the basis for the recognition of share-based payment expense in the income statement. For share options issued prior to November 7, 2002, the fair value was calculated using the Black-Scholes model. Share-based payment as shown in the above table is included in IFRS income statement only in the amount of kEUR 155 (2005: 190). The additional amounts of kEUR 29 (2005: 105) are not included as expense in the IFRS income statement but are included in the table to complete the presentation of Executive Board remuneration. All other forms of executive board remuneration is included as personnel expense in the IFRS income statement (see note 8).

### Remuneration of Supervisory Board

Remuneration of the members of the supervisory board consists of the following:

in EUR thousands	2006	2005
Fixed remuneration	153	153
Variable remuneration	0	0
Attendance fee	30	15
<b>Remuneration of Supervisory Board total</b>	<b>183</b>	<b>168</b>

The following table shows the remuneration of the Supervisory Board in 2006 for each individual member:

in EUR thousands	Fixed	Variable	Attendance Fee	Total
<b>Supervisory Board Member</b>				
Kim Schindelhauer* (Chairman of the Supervisory Board)	54	0	6	60
Dr. Holger Jürgensen* (Deputy Chairman of the Supervisory Board)	27	0	6	33
Prof. Dr. Wolfgang Blättchen* (Chairman of the Audit Committee)	18	0	12	30
Karl-Hermann Kuklies	18	0	0	18
Prof. Dr. Rüdiger von Rosen	18	0	0	18
Joachim Simmroß*	18	0	6	24
	<b>153</b>	<b>0</b>	<b>30</b>	<b>183</b>

\* member of the audit committee

The remuneration of the Supervisory Board is included in other operating expenses (see note 7).

The Remuneration Report which is included in the audited Corporate Governance report contains further detail regarding the remuneration of Executive Board and Supervisory Board (see pages 24 ff. of the Annual Report).

## 34. Consolidated entities

AIXTRON AG controls the following subsidiaries:

	Country	Share of capital in %	
		2006	2005
AIXTRON, Inc.*	USA	100	100
Thomas Swan Scientific Equipment Ltd.	UK	100	100
AIXTRON Korea Co. Ltd.**	South Korea	100	100
AIXTRON Taiwan Co. Ltd.	Taiwan	100	100
Dotron GmbH	Germany	100	100
Epigress AB	Sweden	100	100
AIXTRON KK	Japan	100	100
Genus Europa Ltd.	UK	100	100
Genus GmbH	Germany	100	100
Genus srl	Italy	100	100
Genus trust***	USA	0	0
Genus Korea csks**	South Korea	0	100
Genus-Japan, Inc.	Japan	0	100

\* AIXTRON Inc. resulted from the merger of the former AIXTRON Inc. and Genus Inc.

\*\* AIXTRON Korea Co. Ltd. resulted from the merger of AIXTRON Korea csks and Genus Korea csks

\*\*\* The shares in the Genus trust are attributed, as beneficial owner, to AIXTRON, as control exists due to the trust relationship with AIXTRON AG (see note 22).

## 35. Events after the balance sheet date

There are no events after the balance sheet, of which the directors have knowledge, which would result in a different assessment of the Company's net assets, results of operation and financial position.

## 36. Auditors' fees

Fees expensed in the income statement for the services of the group auditor Deloitte & Touche are as follows:

in EUR thousands	2006	2005
for audit	1,366	784
for audit 2004 and audit of the Genus opening balance sheet	0	369
for other confirmation and valuation services	41	29
for tax advisory services	54	66
for other services	12	24
	<b>1,473</b>	<b>1,272</b>

Included in the total amount of fees are fees for Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Hannover, in the amount of kEUR 750 for audit (2005 kEUR 495), kEUR 38 for other confirmation and valuation services (2005: kEUR 5), kEUR 43 for tax services (2005: kEUR 16) and kEUR 5 for other services (2005: kEUR 8).

## 37. Employees

Compared to last year, the average number of employees during the current year was as follows:

	2006	2005
Sales and service	175	163
Research & development	181	188
Production	128	129
Administration	78	88
	<b>562</b>	<b>568</b>



## 38. Additional information about the cash flow statement

### (i) Investing activity

The item “investments in property, plant and equipment“ includes government grants of kEUR 170 (2005: kEUR 422). Such grants were accounted for as a reduction of cost. Furthermore, grants of kEUR 94 (2005: kEUR 648) were accrued as receivable and included in the line item “investment in property, plant and equipment“ as a non-cash transaction.

In return for the sale of a production plant, intangible assets of kEUR 3,701 were acquired in the financial year 2005.

Additional costs of kEUR 5,775 already incurred in 2004 in connection with the acquisition of Genus in 2005 were shown as other non-current assets in 2004 and were therefore included in cash flows from operating activities. In 2005, further purchase related costs of kEUR 3,628 were capitalised. These are recognised in cash flows from investing activities.

### (ii) Financing activity

The liabilities from convertible bonds assumed as part of the acquisition of Genus Inc. were fully settled in 2005 by issuing equity instruments (ADS) (see note 28). In this context, no payments were required.

## 39. Statement of compliance with the German Corporate Governance Code

In 2006, Executive and Supervisory Boards have made the declaration of compliance in accordance with Section 161 of AktG and this is permanently available to shareholders on the Company's web site [www.AIXTRON.com](http://www.AIXTRON.com).

## 40. Reconciliation to US-GAAP

The consolidated financial statements of AIXTRON AG were prepared in accordance with International Financial Reporting Standards (IFRS) and the related interpretations. There are some accounting differences between IFRS and US-GAAP. The effect of these differences on the consolidated profit and equity is shown in the following reconciliation:

in EUR thousands	Note	2006	2005	2004
<b>Net income/(loss) under IFRS</b>		<b>5,857</b>	<b>(53,468)</b>	<b>7,681</b>
Property, plant and equipment	a	(2)	380	(380)
Inventories	a	(393)	371	(2,176)
Provisions for pensions – employee benefits	b	0	108	2
Share-based payments	c	(622)	1,769	977
Change in deferred tax assets	d	340	(902)	1,042
Impairment Genus	f	0	(44,227)	0
<b>Net income/(loss) under US-GAAP</b>		<b>5,180</b>	<b>(95,969)</b>	<b>7,146</b>

in EUR thousands	Note	December 31, 2006	December 31, 2005	December 31, 2004
<b>Shareholders' equity under IFRS</b>		<b>183,942</b>	<b>183,599</b>	<b>136,967</b>
Property, plant and equipment	a	(2)	0	(380)
Inventories	a	(2,197)	(1,804)	(2,175)
Provisions for pensions – employee benefits	b	0	0	(108)
Share-based payments	c	0	0	0
Change in deferred tax assets	d	538	198	1,100
Effects from Genus acquisition	e	0	44,227	0
Impairment of Genus	f	0	-44,227	0
<b>Shareholders' equity under US-GAAP</b>		<b>182,281</b>	<b>181,993</b>	<b>135,404</b>

The adjustment effects are attributable to the following differences in accounting policies between US-GAAP and IFRS:

**a) Property, plant and equipment and inventories**

When the circumstances that previously caused fixed assets or inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed under IFRS (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realisable value. Under US-GAAP, any reversal of impairment is prohibited. As a result expenses under US-GAAP are lower to the extent that no reversal of losses is recognised. In subsequent periods there will be higher expenses under IFRS, when the assets for which a reversal of losses had been recognised are used and expensed. In 2006 an additional reversal of losses of inventories in the amount of kEUR 393 was realised as income under IFRS. Additional expenses for inventories of kEUR 371 were booked under IFRS in 2005 due to the usage of inventories for which a reversal of losses had been recognised in prior periods. In 2004 an additional income of kEUR 2,176 was realised under IFRS for reversal of losses. In 2006 a reversal of losses of kEUR 2 was realised in income for fixed assets. In 2005 the usage of previously revalued fixed assets led to additional expenses under IFRS amounting to kEUR 380, whereas in 2004 losses of kEUR 380 were reversed under IFRS.

**(b) Provisions for pensions – employee benefits**

Since January 1, 2005, actuarial gains and losses from the measurement of provisions for pensions have been recognised directly in the income statement under both IFRS and US-GAAP. No differences arise therefore between IFRS and US-GAAP for the business years 2006 and 2005. Until the end of 2004 the corridor approach under US-GAAP was applied.

**(c) Share-based Payments**

As described in note 2(o), all share options granted since November 7, 2002 are accounted for under IFRS 2. Under US-GAAP SFAS 123 R “Stock-Based Compensation” was applied in 2006, applying the modified, prospective method. Prior to the application of SFAS 123 R the share option programs were accounted for at intrinsic value as required in APB 25. Since January 1, 2006, the rules under US-GAAP and those under IFRS have been similar. However, there remains a reconciliation item due to the fact that the options granted in 2001 and 2002 were not adjusted retrospectively under IFRS 2. Moreover, the calculation of fair values under IFRS and US-GAAP are different. Under IFRS the fair value of options have been valued using a Binomial model whereas under US-GAAP the fair values, which had already been published in prior years’ consolidated financial statements filed in the United States (Form 20-F) and which were calculated under Black-Scholes were used. For options granted in 2006 the Binomial model was used both under IFRS and US-GAAP. Under US-GAAP additional expenses of kEUR 622 were recognised in 2006. In 2005 and 2004 the expense under US-GAAP had been considerably lower than under IFRS because the expense was not measured using fair value.

**(d) Income tax effects from reconciliation to US-GAAP**

The tax expenses resulting from the above changes had the effect that there was an increase in deferred tax assets in the group under US-GAAP. At a tax rate of 39.45% (2005: 39.45%; 2004: 39.28%) the increase was kEUR 538 as of December 2006 (December 31, 2005: kEUR 198, December 31, 2004: kEUR 1,100).

**(e) Purchase price Genus acquisition**

Under IFRS the consideration paid for an acquiree is determined at the date of acquisition. The date of acquisition of Genus, Inc was March 13, 2005. Therefore a share price of 3.72 EUR was used to measure the AIXTRON shares issued to acquire Genus. The fair value of stock options included in the purchase price was 2,494 kEUR

Under US-GAAP the consideration paid for an acquiree is defined at the date the transaction is announced. The merger between Genus, Inc and AIXTRON AG was announced on July 2, 2004. The share price at that date was 5.60 EUR. This price was used to measure the shares given to the Genus shareholders. The fair value of stock options included in the purchase price was 4,499 kEUR.

Further differences result from the valuation of convertible bonds.

In total the difference in equity resulting from the Genus acquisition amounted to kEUR 44,227 as at December 31, 2005. No further differences resulted from this transaction in 2006.

**(f) Impairment of Genus Goodwill**

The differences in the valuation of the Genus acquisition between IFRS and US-GAAP as described under (e) resulted in a higher Goodwill under US-GAAP than under IFRS and therefore in a higher impairment charge at the end of 2005 in the amount of kEUR 44,227. No further differences resulted from this transaction in 2006.

**Presentation of material adjustments to the cash flow statement**

No material differences exist between the cash flow statement under IFRS and US-GAAP. In accordance with regulation S-X of the U.S. Securities and Exchange Commission no reconciliation to US-GAAP was performed.

## 41. Additional US-GAAP Information

### Accumulated other changes in equity

SFAS 130, "Reporting Comprehensive Income" prescribes the presentation of changes in the Company's equity which do not result from transactions with shareholders. Other changes in equity are stated below:

in EUR thousands	2006	2005	2004
<b>Net income/(loss) under US-GAAP</b>	<b>5,180</b>	<b>(95,969)</b>	<b>7,146</b>
Currency translation adjustment			
under IFRS	(7,871)	11,616	48
after reconciliation to US-GAAP	(37)	3,607	0
Unrecognised gains/(losses) from derivative financial instruments before taxes	1,122	(2,493)	(308)
Deferred taxes	(298)	864	163
<b>Other comprehensive income, net of tax</b>	<b>(7,084)</b>	<b>13,594</b>	<b>(97)</b>
<b>Comprehensive income, net of tax</b>	<b>(1,904)</b>	<b>(82,375)</b>	<b>7,049</b>

### Share-based payments under SFAS 123 R

As described in note 40 the Company adopted SFAS 123 R in 2006. The following tables summarises the effect on net profit after taxes and earnings per share under US-GAAP from the application of SFAS 123 R compared to APB 25:

in EUR thousands	2006
<b>Net profit under US-GAAP (as reported)</b>	<b>5,180</b>
Stock Option expense under SFAS 123 R	2,072
Stock Option expense under APB 25	(15)
<b>Net profit US-GAAP as if APB 25 had been applied</b>	<b>7,237</b>
<b>Earnings per share (basic):</b>	
as reported (EUR)	0.06
under APB 25 (EUR)	0.08
<b>Earnings per share (diluted):</b>	
as reported (EUR)	0.06
under APB 25 (EUR)	0.08

The effect of SFAS 123 R is to reduce the reported US-GAAP net profit before taxes for 2006 by kEUR 2,057. It reduces the post tax profit by the same amount. The application of SFAS 123 R has no impact on the cash flow from operating activities or from financing activities.

In 2005 and 2004 APB 25 was applied to calculate the expense from stock options (intrinsic value method). The following table summarises the effects on net income/loss and earnings per share if the fair value method had been applied:

in EUR thousands	2005	2004
<b>Net (loss)/profit under US-GAAP</b>	<b>(95.969)</b>	<b>7.146</b>
Stock option expense under APB 25	32	63
Stock Option expense under SFAS 123	(3.569)	(4.685)
<b>Pro forma net (loss)/profit under US-GAAP</b>	<b>(99.506)</b>	<b>2.524</b>
<b>Earnings per share (basic):</b>		
as reported (EUR)	(1.17)	0.11
pro forma (EUR)	(1.21)	0.04
<b>Earnings per share (diluted):</b>		
as reported (EUR)	(1.17)	0.11
pro forma (EUR)	(1.21)	0.04

### Segment reporting

The difference between segment assets of kEUR 202,965 (2005: kEUR 199,549) and total assets of kEUR 263,482 (2005: kEUR 237,317) are reconciled by assets which are not allocated to segments as operating assets in the amount of kEUR 54,440 (2005: kEUR 31,435) and tax assets in the amount of kEUR 6,077 (2005: kEUR 6,333).

### Recent accounting pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132R" (SFAS 158). SFAS 158 requires an entity to recognise in its statement of financial condition the funded status of its defined benefit post-retirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation. SFAS 158 also requires an entity to recognise changes in the funded status of a defined benefit post-retirement plan directly to accumulated other comprehensive income, net of tax, to the extent such changes are not recognised in earnings as components of periodic net benefit cost. SFAS 158 is effective for AIXTRON in fiscal 2006. AIXTRON implemented this standard in fiscal year 2006 and it did not have a material effect on its financial position or results of operations.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 becomes effective for AIXTRON in fiscal 2008. AIXTRON AG is evaluating the potential impact of the implementation of SFAS 157 on its financial position and results of operations.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" (SAB 108), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective for AIXTRON in fiscal 2006. AIXTRON implemented this staff accounting bulletin in fiscal 2006 and it did not have a material effect on its financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation 48, "Accounting for Income Tax Uncertainties" (FIN 48). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN 48 will become effective for AIXTRON beginning in fiscal 2007. Any differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative effect adjustment recorded to the beginning balance of retained earnings. AIXTRON is evaluating the potential impact of the implementation of FIN 48 on its financial position and results of operations.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140" (SFAS 155). SFAS 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS 155 also resolves issues addressed in SFAS 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets".

#### Regulation SFAS 155

- (a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation;
- (b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133;
- (c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation;
- (d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and
- (e) amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

SFAS 155 is effective for all financial instruments acquired or issued after the beginning of AIXTRON's 2007 fiscal year. AIXTRON is currently assessing the impact of SFAS 155, however, it does not anticipate that SFAS 155 will have a material impact on its financial position and results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income of the period of the change. SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for AIXTRON for accounting changes made in fiscal years beginning December 15, 2005; however, the Statement does not change the transition provisions of any existing accounting pronouncements. AIXTRON adopted SFAS in fiscal year 2006 and the adoption of SFAS No. 154 did not have a material effect on AIXTRONs consolidated financial position, results of operations or cash flows.



## 42. Supervisory Board and Executive Board

Composition of the Supervisory Board as of December 31, 2006

- Dipl.-Kfm. Kim Schindelhauer, Aachen, businessman (Chairman of the Supervisory Board since 2002)
  - Membership in Supervisory Boards and controlling bodies:
    - MEDION AG, Essen – member of the Supervisory Board – (until May 2006) –
    - Deutsches Aktieninstitut e.V., Frankfurt/Main – member of the Executive Board –
  
- Dr. Holger Jürgensen, Aachen, physicist (Deputy Chairman of the Supervisory Board since 2002)
  
- Prof. Dr. Wolfgang Blättchen, Leonberg, business consultant, Executive Board of Blättchen & Partner AG, Leonberg (member of the Supervisory Board since 1998)
  - Membership in Supervisory Boards and controlling bodies:
    - Marc O'Polo AG, Stephanskirchen – Chairman of the Supervisory Board –
    - Horváth AG, Stuttgart – Deputy Chairman of the Supervisory Board – until September 2006 –
    - HAUBROK AG, Düsseldorf – Deputy Chairman of the Supervisory Board –
    - APCOA Parking AG, Stuttgart – member of the Supervisory Board –
    - Gardena AG, Ulm – member of the Supervisory Board –
    - tec2b AG, Pliezhausen – Chairman of the Supervisory Board– until **March** 2006 –
    - Datagroup IT Services Holding AG, Pliezhausen – member of the Supervisory Board – since **July** 2006 –
  
- Karl-Hermann Kuklies, Duisburg, businessman (member of the Supervisory Board since 1997)
  
- Prof. Dr. Rüdiger von Rosen, Frankfurt/Main, businessman, Deutsches Aktieninstitut e.V., Frankfurt/Main, Managing member of the Executive Board (member of the Supervisory Board since 2002)
  - Membership in Supervisory Boards and other controlling bodies:
    - PriceWaterhouseCoopers AG, Frankfurt/Main – member of the Supervisory – Board –
  
- Dipl.-Kfm. Joachim Simmroß, Hannover, businessman (member of the Supervisory Board since 1997)
  - Membership in Supervisory Boards and controlling bodies:
    - Commerz Unternehmensbeteiligungs-Aktiengesellschaft, Frankfurt/Main – member of the Supervisory Board –
    - GBK Beteiligungen AG, Hannover – member of the Supervisory Board –
    - technotrans AG, Sassenberg – Chairman of the Supervisory Board –
    - WeHaCo Unternehmensbeteiligungs-Aktiengesellschaft, Hannover – member of the Supervisory Board –
    - BAG BiologischeAnalysensystem-GmbH, Lich – member of the Advisory Board –
    - HANNOVER Finanz GmbH, Hannover – member of the Advisory Board –
    - KAPPA opto-electronics GmbH, Gleichen – member of the Advisory Board –
    - Astyx GmbH, Ottobrunn (before: MTS Mikrowellen Technologie und Sensoren GmbH, Ottobrunn) – member of the Advisory Board –

The following gentlemen are members of the Company's Executive Board:

- Paul Hyland, Aachen, businessman, Chairman, President and Chief Executive Officer
- Dr. Bernd Schulte, Aachen, physicist, Chief Operating Officer, Compound Semiconductor Technologies
- Dipl.-Kfm. Wolfgang Breme, Aachen, businessman, Chief Financial Officer
- Dr. William W. R. Elder, Sunnyvale, Chief Operating Officer, Silicon semiconductor Technologies

## Independent Auditor's Report

“We have audited the consolidated financial statements prepared by AIXTRON Aktiengesellschaft, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement, statement of recognized income and expenses and notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2006 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a paragraph 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Hannover, March 13, 2007

**Deloitte & Touche** GmbH  
Wirtschaftsprüfungsgesellschaft

(Plath)  
German Public Auditor

(ppa. Willner)  
German Public Auditor

- ALD** Atomic Layer Deposition is a method for producing ultra thin films for semiconductor devices and new, emerging non-semiconductor applications. ALD is a technology that is capable of meeting scaling production requirements of next-generation geometries (0.13 micron and below). ALD process uses pulse and purge of two reactants to deposit films, where the purge is done using inert gases like Argon or nitrogen.
- AVD®** Atomic Vapor Deposition. A liquid delivery and evaporation technology. Liquid precursors or precursor solutions are sprayed in the form of discrete pulses directly into the flash vaporizer via injectors. Up to four injectors, one for each precursor source, can be used.
- Back-end manufacturing** The testing and assembly of chip manufacturing, which occurs after the wafer has left the clean room. This term is also used in wafer Fabs to indicate all the processing related to interconnect to Front-end transistor.
- Bond** A compound semiconductor chip is not a fully completed device. In order to construct a device, e.g. an LED a connection must be completed to an electrical source via an ultra-thin gold wire. This is the bond.
- Capacitors** A circuit element formed by placing an insulating layer between two conducting layers; its function is to store a measure of electrical charge until needed. It is a very important component of memory chips.
- Carrier gas** In the process for the production of compound semiconductor layers or silicon devices, the raw materials are converted into gases and are then transported into the reactor with a carrier gas. Principally used carrier gases are hydrogen and nitrogen. Very pure hydrogen can be produced easily and nitrogen is not highly reactive.
- Characterization** Each layer of a compound or silicon semiconductor is quality tested by complex physical measurements.
- Chip** A very small part of a semiconductor wafer which is turned into a complete device.
- Clean Room** The place where semiconductor manufacturers do all their wafer processing. Dust and particles which might fall on the wafers during processing and result in the circuits not working are kept out of the clean room by filtering the air and managing the air flow. Humans are required to wear specially designed clean room bunny suits (overalls) and booties over their street clothes, and must put on gloves and face masks (humans tend to shed skin and hair). Normal paper is not allowed in clean rooms – only clean room low particulate paper may be taken in.
- Cluster tool** A machine which contains more than one process module. This is particularly useful if there are a number of processes which have to happen in sequence. An example of this is the deposition of a multi-layer metal film with each layer being deposited in a different module (chamber). Cluster tools nevertheless represent savings in cost and space even if all the process modules are identical.
- CMOS** Complementary Metal Oxide Semiconductor is a major class of integrated circuits. CMOS technology is used in chips such as microprocessors, microcontrollers, static RAM, and other digital logic circuits. CMOS technology is also used for a wide variety of analog circuits such as image sensors, data converters, and highly integrated transceivers for many types of communication.

<b>Compound semiconductors</b>	These consist of several elements. They can be subdivided into three categories according to the groups in the periodic system to which they belong. Group II/VI consists of compounds like zinc selenide; group IV-IV of silicon germanium compounds or silicon carbide; and group III/V, widely preferred because of their numerous uses, consists of gallium arsenide, indium phosphide, gallium nitride or compounds of three or four different elements. Compound semiconductors have several advantages over simple, single element semiconductors. These components are very fast and some can also operate under very high temperatures. They also possess good opto-electronic characteristics. They convert energy into light and lasers, or they detect light and produce energy. At the same performance level, they require less energy than silicon chips.
<b>Conductor</b>	A material that allows electrical current to pass through it.
<b>CVD</b>	Chemical Vapor Deposition, Deposition of thin films (usually dielectrics/insulators) on silicon wafers by placing the wafers in a mixture of gases which react at the surface of the wafers. CVD can be done at medium to high temperature in a furnace, or in a CVD reactor in which the wafers are heated but the walls of the reactor are not. Plasma enhanced CVD avoids the need for a high temperature by exciting the reactant gases into a plasma.
<b>Deposit/Growth</b>	Semiconductor devices comprise several layers. A deposit is the correct term for the laying down of these layers on a wafer as the layers grow.
<b>Devices</b>	These are the completed products which are manufactured with the compound or silicon semiconductor chips at their core. For example LEDs and lasers, transistors, memory and logic chips, and solar cells.
<b>Detector</b>	A compound semiconductor which is able to convert incoming light of any wavelength into electrical energy. Detectors are required for optical communication systems.
<b>Dielectric</b>	See Insulator.
<b>Diodes</b>	A two-terminal electronic device which permits significant current flow in only one direction. Diodes typically function as a rectifier, i.e., converting alternating current into direct current.
<b>Display</b>	A display device, also known as an information display is a device for visual presentation of images (including text) acquired, stored, or transmitted in various forms. Most common displays are designed to present information dynamically in a visual medium.
<b>DRAM</b>	Dynamic Random Access Memory is a type of semiconductor memory. DRAMs account for a significant percent of the total semiconductor market (between 15 and 30%) and so DRAM manufacturers are big equipment buyers. DRAM manufacturing is concentrated in Japan and Korea.
<b>Epitaxy</b>	The deposition of thin single crystalline layers on a suited substrate in the form of crystal growth.
<b>FeRAM</b>	Ferro-electric Random Access Memory is a type of non-volatile computer memory. It is similar in construction to DRAM, which is currently used in the majority of a computer's main memory, but uses a ferroelectric layer to achieve non-volatility. Although the market for non-volatile memory is currently dominated by Flash RAM, FeRAM offers a number of advantages, notably lower power usage, faster write speed and a much greater maximum number (exceeding $10^{16}$ for 3.3V devices) of write-erase cycles.

- Flash** Is a form of non-volatile computer memory that can be electrically erased and reprogrammed. It is a technology that is primarily used in memory cards.
- Footprint** The area a machine takes up in the clean room. This is important because clean room space is expensive, and so minimizing the footprint of a machine is a good thing to do. There are two numbers that semiconductor manufacturers are interested in – the footprint and the linear frontage number (length of the front of the machine). The linear frontage number affects how many machines will fit into a bay since the machines are all lined up side-by-side.
- Gas foil rotation** The wafer holders in AIXTRON MOCVD equipment turn friction-free on gas cushions. This movement is powered by a directed gas flow..
- Gate** An element of a transistor to which voltage may be applied in order to turn a circuit on or off. A gate structure requires the use of insulating materials to allow the buildup of an electrical field.
- Glovebox** The hermetically sealed cabinet with arm-length gloves in which the operator can slide his hands in order to carry out internal work from outside the cabinet. These cabinets are at the core of the equipment which produce compound semiconductors. They are filled with extremely pure gas, for example, with nitrogen, and house the MOCVD reactor.
- Heating** During the MOCVD process for the production of compound semiconductor layers, the raw materials, gases, are dispersed inside the reactor across the wafers. To obtain crystal growth deposits, the wafers must be heated. Usually, this is achieved with lamps or with high-frequency induction heating systems.
- High k dielectric** An insulator which will not conduct electricity but which, when sandwiched between metal plates, will easily allow these plates to talk to each other via electric fields (this is called a capacitor structure). Silicon dioxide and silicon nitride is popular insulator. However, to increase the capacitance, hence the storing power, silicon dioxide and nitrides will be replaced by insulators which has higher dielectric constant (k). Increasing dielectric constant increases the capacitance. AIXTRON offers Aluminium oxide (k = 9), Hafnium oxide (k = 25) etc as high k dielectric films.
- Hydrogen** Can be produced to high levels of purity and is often used as a carrier gas in MOCVD technology.
- Insulator** A material which will not allow an electric current to flow through it. In semiconductor chips, commonly used insulators are silicon dioxide (glass) and silicon nitride (silicon + nitrogen). Also commonly referred to as a dielectric in the semiconductor industry.
- Integrated circuit** A complete electronic circuit with transistors and wires connecting these transistors (metal interconnects) on a semiconductor chip.
- LED** Light Emitting Diode – The main use for compound semiconductors. Compound semiconductors can emit very bright light and are energy efficient. On average, an LED has a life of more than 100,000 hours, while a normal electric lightbulb lasts for just about 8,000 hours.
- Light emitter** Light emitters, for example a laser or LED, convert electrical energy into light. The opposite of a light emitter is a detector, as used at the end of a glass fiber, or a solar cell.

<b>Logic chip</b>	A chip which does computations, makes decisions, or makes things happen. For example, the main chip in a computer is a microprocessor and does mathematical computations, amongst other things.
<b>LPE</b>	A relatively simple production method for compound semiconductors. The compounds to be deposited are liquified under normal pressure and the wafer is then bathed in the fluid. The advantage is that thick layers can be produced very quickly. The disadvantage is that such layers cannot be finely dosed. For this reason, the process is generally only used for weaker LEDs.
<b>MBE</b>	This method for compound semiconductors was for many years the first choice in basic research for scientists wishing to make very thin layers. The raw materials sit in vessels inside the equipment or reactor and evaporate under extremely low pressure, around one millionth of normal atmospheric pressure. The advantage is that, contrary to LPE, the low pressure allows for greater semiconductor purity. The disadvantage is that the creation of a vacuum makes the process the most expensive and production is limited to small volumes. In addition, not all materials can be produced with the MBE method.
<b>Memory chip</b>	A chip which retains information for logic chips to use. For example, in a computer, the memory chips will store the word processing program while it is being used, and the letters of the word processing documents which are being worked on. DRAM is the type of memory used most in computers, and is by far the most important type of memory from a total worldwide revenue standpoint.
<b>Micron</b>	One thousand microns make one millimeter. A human hair is about 100 microns thick. A transistor in an advanced semiconductor process might have an area of about 4 microns by 1.5 microns (though of course transistors vary greatly in size depending on their purpose). In general, the micron number assigned to a technology (e.g. 0.25 micron technology) refers to the width of the smallest patterned feature of a transistor which is the polysilicon transistor gate.
<b>MIM</b>	A Metal-Insulator-Metal diode is formed by sandwiching two metal layers around a thin insulator. When a voltage is applied between the two metal layers, electrons are induced to quantum mechanically tunnel from one metal to the other through the thin insulator. For this to occur at low voltages (1 volt and below), the insulator must be very thin, typically less than 50 angstroms.
<b>MOCVD</b>	With this compound semiconductor production method, the raw material "metallo-organic compounds" are transformed into gases and then, bound to a carrier gas, are fed into the reactor. This transformation also occurs under reduced pressure, around one-tenth of normal atmospheric pressure. The advantage is that the gases introduced are clean as with the MBE method and can be finely dosed. MOCVD equipment allows the processing of quite large surface areas and is therefore first choice for the production of compound semiconductors. MOCVD is also the cheapest method. AIXTRON is the global market leader in this technology.
<b>Non-volatile memory</b>	Semiconductor memory which will not forget its data once the power is switched off. This is in contrast to volatile memory (e.g. DRAMs), which lose their information when there is no power supplied to the chip.

<b>OVPD®</b>	Organic Vapor Phase Deposition is a technology for the thin film deposition of small molecular organic materials. It utilizes the advantages of gas phase deposition, where the materials are transported to the substrate by an inert carrier gas.  “OVPD® technology has been exclusively licensed to AIXTRON from Universal Display Corporation (UDC), Ewing, N.J. USA for equipment manufacture. OVPD® technology is based on an invention by Professor Stephen R. Forrest et. al. at Princeton University, USA, which was exclusively licensed to UDC. AIXTRON and UDC have jointly developed and qualified OVPD® pre-production equipment.”
<b>OLED</b>	Organic Light Emitting Diode – An OLED is a monolithic, solid-state device that typically consists of a series of organic thin films sandwiched between two thin-film conductive electrodes. The choice of organic materials and the layer structure determine the device’s performance features: emitted color, operating lifetime and power efficiency.
<b>Periodic system</b>	All natural elements are ordered according to their atomic number. Hydrogen is the first element with an atomic number of one.
<b>Planetary rotation</b>	A production process which is constituent of the MOCVD reactor, whereby a number of small discs in a large plate orbit like planets in space. The large plate also turns. This method achieves a homogeneous, even deposit of compound semiconductor layers on the wafer. AIXTRON uses this process as part of its MOCVD technology.
<b>Run</b>	A single production run for the manufacture of compound semiconductor layers.
<b>Semiconductor</b>	A material such as silicon whose conductivity is between that of a conductor and an insulator. Its conductivity can be modulated by adding impurities such as boron or phosphorus.
<b>Shunt (or, to shunt)</b>	Means to divert electrical current with conducting lines, usually made of polysilicon.
<b>Substrate</b>	The base material on which the gas mixture is deposited. The substrate is a very thin crystalline disc, also called the wafer, and consists of gallium arsenide, Sapphire or silicon.
<b>Susceptor</b>	This serves as the holder for the wafer, the substrate. Normally it consists of graphite so that even temperatures can be achieved.
<b>Transistors</b>	Transistors are miniature electronic switches. They are the building blocks of the micro-processor which is the brain of the computer. Transistors have no moving parts and are turned on and off by electrical signals. The on/off (binary) switching of transistors facilitates the work performed by microprocessors.
<b>Two-inch wafers</b>	Wafers of this size are most often used as a basis for compound semiconductors. They are large enough to produce 15,000 chips.
<b>VPE</b>	This is an older, established process for the production of compound semiconductors. In contrast to MOCVD, this gas phase process uses inorganic substances as starting materials. The method allows for clean deposits of very thick and pure layers. However, not all materials can be produced by this method. AIXTRON produces such equipment for niche applications. Recently, this method (also referred to as HVPE – Hydride VPE) has gained much attention as a way to produce high quality gallium nitride substrates or templates.
<b>Wafer</b>	The technical term for the round substrate material, a thin disc, on which the gas mixtures are deposited in the reactor. Wafers are typically 2, 4, 6, 8, 12 inch in diameter.





## Financial Calendar 2007

### **May 8, 2007**

Q1 2007 Results

### **May 22, 2007**

Annual General Meeting

### **August 2, 2007**

Q2 2007 Results

### **November 6, 2007**

Q3 2007 Results

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